

**EXPLORING THE EFFECTIVENESS OF TAX ADMINISTRATION
REFORM FOR IMPROVING PERFORMANCE: A CASE STUDY OF
THE INDONESIAN DIRECTORATE GENERAL OF TAXES (IDGT)**

By

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Abstract

In 2002 the Indonesian Directorate General of Taxes (IDGT) undertook massive reforms within the framework of the Structural Adjustment Program (SAP) brought in by the International Monetary Fund (IMF). It was expected that by reforming IDGT, which is the major revenue raising agency in Indonesia, the amount of tax revenue collected would increase and lead to a higher tax to gross domestic product (GDP) ratio (known as the tax ratio). Despite the steep increase in the amount of rupiah (Indonesian currency) collected after the 2002 reform by IDGT, the level of the tax ratio, as an independent performance measure for tax administration, has remained consistent at 9-11%. That means that the SAP has not improved the level of tax collection, as the rate of tax revenue collected has simply kept pace with Indonesia's economic growth. The consistent level of the tax ratio collected by IDGT contributes to the arguably low level of the Indonesian tax ratio (11-13%) when compared to G20 countries (Group of Twenty countries) and other regional peers. This indicates that IDGT has not performed well in its efforts to collect tax revenue, despite implementing significant changes during the 2002 tax administration reform.

Scholars have reported that the SAP has not been effective in stabilising the malfunctioning economies of developing countries. The key argument is that this ineffectiveness is due to the failure of the SAP to consider the contextual premise of a country before implementing major policy changes. In the context of IDGT, some scholars have tried to analyse the outcome of the 2002 reform on aspects of IDGT's operations, such as ethics management, governance and the development of income tax revenue. However, not much attention has been paid to analysing and exploring how effective the 2002 reform was in improving the performance of IDGT in terms of achieving a higher level of tax ratio. This thesis attempts to explore the effectiveness of the tax administration reform in improving the performance of IDGT through

the lens of priority goal ambiguity (PGA) and strategic human resource management (SHRM). This study was exploratory and interpretative in nature, which led to the adoption of a qualitative research methodology, with semi-structured interviews and document analysis used to investigate the effectiveness of the 2002 tax administration reform in enhancing IDGT's capacity to collect tax revenue from taxpayers.

The findings of this study suggest that the reform was ineffective in improving IDGT's performance. This was because, despite extensive changes made during the reform, IDGT's performance (in terms of the tax ratio) did not increase. This study suggests that this was due to the reform failing to recognise a key contextual element of IDGT, its goal prioritisation. Instead of focusing on the achievement of taxpayer compliance by developing the tax auditing provisions, the changes made in the reform led IDGT to place greater emphasis on the achievement of the yearly tax revenue target (the short-term tax revenue) with a focus on client service provision. This, in turn, created a misalignment in the design of IDGT's human resource policies and practices as these policies were configured towards the achievement of the narrow and less appropriate priority goal. As a result, the reform was unable to improve the level of the tax ratio. This is because the focus on achieving the yearly tax revenue target through the use of client service provisions impeded the achievement of the high level of taxpayer compliance which would have become the basis for higher tax revenue collection (a higher tax ratio). These findings support the arguments of scholars regarding the failure of the reform (SAP) brought in by the IMF to fix the malfunctioning economy of a country. The findings of this study aid practitioners' understanding of the significance of considering the key contextual requirements of an organisation. In doing so, this thesis makes a significant contribution to both practice and body of knowledge by presenting empirical evidence of why greater improvements have not occurred in IDGT's performance despite significant changes being made since the initiation of IDGT's 2002 tax administration reform. This thesis also

highlights the need for IDGT to strengthen its internal processes in order to obtain goal clarity and to enable individuals to align with those goals.

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Abbreviations

ADB	:	Asian Development Bank
APBN	:	Anggaran Pendapatan dan Belanja Negara (state budget)
ATO	:	Australian Taxation Office
AusAID	:	Australian Agency for International Development
GDP	:	gross domestic product
GNP	:	gross national product
GPF	:	Government Partnerships Fund
G20	:	Group of Twenty countries
HIWP	:	high involvement work practices
HMRC	:	Her Majesty's Revenue and Customs
HPWPs	:	high-performance work practices
HPWS	:	high-performance work system
HR	:	human resources
HRM	:	human resource management
IBRD	:	International Bank for Reconstruction and Development
IDGCE	:	Indonesian Directorate General of Customs and Excise
IDGT	:	Indonesian Directorate General of Taxes
IMF	:	International Monetary Fund
IMOF	:	Indonesian Ministry of Finance
IPK	:	imbalan prestasi kerja (performance incentive)
JICA	:	Japan International Cooperation Agency
KITSDA	:	Directorate of Internal Compliance and Apparatus Transformation
KPI	:	key performance indicator
KPK	:	Corruption Eradication Commission

KUP law	:	general provision and procedure of tax law (Ketentuan Umum dan Tata Cara Perpajakan)
LTRO	:	Large Taxpayers Regional Office
MEFP	:	Memorandum of Economic and Financial Policies
OECD	:	Organization for Economic Co-operation and Development
PGA	:	priority goal ambiguity
PPh law	:	income tax law (Undang-Undang Pajak Penghasilan)
PPN law	:	value added law (Undang-Undang Pajak Pertambahan Nilai)
SAL	:	structural adjustment loan
SAP	:	Structural Adjustment Program
SHRM	:	strategic human resource management
SIDA	:	Swedish International Development Agency
SIDJP	:	IDGT's information system (Sistem Informasi Direktorat Jenderal Pajak)
STA	:	Swedish Tax Agency
STAN	:	State College of Accountancy
TAMF	:	Technical Assistance and Management Facility
TAO	:	Tax Audit Office
THP	:	take-home pay
TII	:	Transparency International Indonesia
TIN	:	tax identification number
TKPKN	:	Tunjangan Khusus Pembinaan Keuangan Negara (special monthly allowance)
TSO	:	Tax Service Office
UNPAD	:	Padjadjaran University (Universitas Padjadjaran)
US	:	United States

USA : United States of America
WB : World Bank
WBS : whistle-blower system