



EX ANTE EVALUATION OF INDONESIAN DIRECTORATE GENERAL OF TAXES' 2024 COMPLIANCE IMPROVEMENT PLAN

Farid Al-Firdaus
Direktorat Jenderal Pajak

Alamat Korespondensi: alfirdaus.farid@gmail.com

INFORMASI ARTIKEL

Diterima Pertama
[23 04 2024]

Dinyatakan Diterima
[02 08 2024]

KATA KUNCI:

Compliance Risk, Risk Management, Tax
Compliance, Voluntary Compliance, Tax
Reform Ex-Ante, Evaluation

KLASIFIKASI JEL:

H20, H21

ABSTRACT

The Indonesian Directorate General of Taxes (DGT) mitigates the risks that challenge the taxpayers' voluntary compliance through the 2024 compliance improvement plan (CIP). The author evaluates it before it is implemented (ex-ante) by assessing its objectives, regulatory compliance, stakeholders' concerns, risks, strategy alternatives, and feasibility. The author documents that the CIP not only passes those assessments but also the phase of review by the stakeholders. On the other hand, the author found that the CIP is not based on the new risk management regulation ruling compliance and organizational risks that can help DGT cope with compliance risks and others, such as stakeholder resistance, political risks, and unforeseen consequences.

Direktorat Jenderal Pajak (DJP) Indonesia melakukan mitigasi risiko yang menghambat kepatuhan sukarela wajib pajak terhadap rencana peningkatan kepatuhan (CIP) tahun 2024. Penulis melakukan evaluasi sebelum diimplementasikan (ex-ante) dengan menilai tujuannya, kepatuhan terhadap peraturan, kekhawatiran pemangku kepentingan, risiko, alternatif strategi, dan kelayakan. Penulis mendokumentasikan bahwa CIP tidak hanya lolos dari penilaian tersebut tetapi juga tahap peninjauan oleh para pemangku kepentingan. Di sisi lain, penulis menemukan bahwa CIP tidak didasarkan pada peraturan manajemen risiko baru yang mengatur kepatuhan dan risiko organisasi yang dapat membantu DJP dalam mengatasi risiko kepatuhan dan lainnya, seperti resistensi pemangku kepentingan, risiko politik, dan konsekuensi yang tidak terduga.

1. INTRODUCTION

Taxpayers have different risks, from those who comply to those who do not (OECD, 2004). IMF (2022) offers tax administrations a way to analyze and mitigate compliance risks using a Compliance Improvement Plan (CIP). For taxpayers, those who comply, the tax administration facilitates them, and for those who do not comply, the tax administrations force them to obey the law. Taxpayers' compliance scope is paying and filing their taxes properly (Slemrod & Sorum, 1984). However, both actions require a certain amount of time and money, called compliance costs. The higher compliance costs will motivate taxpayers to avoid the tax. That is why the tax administrations should improve taxpayers' compliance.

No government can know the exact level of taxpayers' compliance because of different taxpayers' motivations called tax morale (Alm, 2022). In other words, it is about the perception of whether taxation is right or wrong. The government can improve taxpayers' morale and compliance by refining the tax administration. The Indonesian Directorate General of Taxes (DGT) has reformed its Core Tax Administration System (CTAS), which covers business processes such as services, supervision, audits, and collection over the years. Based on the new update documented in the CIP, DGT will launch the new CTAS around July 2024. **The author questioned ensuring CIP is the proper plan to improve 2024 taxpayers' compliance.**

The author evaluates the CIP qualitatively before it is implemented (ex-ante). Rossi et al. (2018) argue that planning is crucial because it requires costs to get the benefits. First, the author compares the CIP contents with the IMF's CIP guides. Then, the author reviews the alignment of the priority programs of CIP and the business processes of the new CTAS. The author documents that the CIP not only passes some assessments as part of ex-ante evaluation but also the phase of review by the stakeholders. On the other hand, the author found that the CIP is not based on the new risk management regulation ruling compliance and organizational risks that can help DGT cope with compliance risks and others, such as stakeholder resistance, political risks, and unforeseen consequences.

This paper contributes to ex-ante evaluation studies that were previously conducted for various purposes, such as budget planning (Irawan, 2017), the review of legislation (Nareswari & Aryani, 2021), and the health system (Putra, 2020).

2. LITERATURE REVIEW

In this section, the author explains the institutional background of the CIP and new CTAS and the relevant literature on tax compliance, compliance risk management, and tax reform.

Compliance Improvement Plan

Tax administrations enhance taxpayers' compliance by managing their compliance risks. The tax administrations need inputs, including data, information technology, human resources, risk practices, and tax gaps (Figure 1). Then, tax administrations will process all inputs in the CRM framework. Studies, Compliance Risk Register, and CIP are the process outputs. CIP consists of a plan overview, taxpayers' segment profile, risk assessment, risk treatments, workflows, monitoring, evaluation of compliance impacts, and capacity development to implement the CIP.

Figure 1 OECD CRM Framework
Source: IMF (2022)



DGT made 2024 CIP because it scored C for the IMF 2023 Tax Administration Diagnostic Assessment Tool (TADAT). The IMF's feedback includes no CIP for the financial sector and no monthly taxpayers' compliance observation. DGT set these goals in the 2024 CIP to get a better score:

1. To boost taxpayers' voluntary compliance
2. To educate taxpayers with relevant knowledge
3. To make taxpayers' perception more positive
4. To advance taxpayers' trust in DGT

Core Tax Administration System

Capacity development means the tax administration resources should be developed to implement the CIP. The explanation of DGT's low TADAT score shows a need for reliable systems to handle information and technology challenges related to the increase in the number of DGT employees (200%), offices (350%), and taxpayers (1500%) over 20 years. This situation requires DGT to adjust the business process.

On the new CTAS, the business processes will be divided into three groups: (1) the registration, tax return, payment, and services will support taxpayers in fulfilling their responsibilities; (2) the business intelligence, CRM, taxpayer account management, knowledge management, document management system, and data quality management will provide qualified taxpayers' data and information; (3) valuation, supervising, tax intelligence, audit, law enforcement, collecting, and dispute will check the taxpayers' compliance.

Furthermore, DGT has ten guides to improve those business processes: (1) streamlined process; (2) a customer-centric approach based on user experience; (3) open and integrated system; (4) data and knowledge-driven; (5) digitized and automated process; (6) enterprise-wide-integrated view of the taxpayer; (7) prudent and accountable; (8) risk-based compliance approach; (9) omni channels and borderless services; (10) centralized key capabilities in center of excellence.

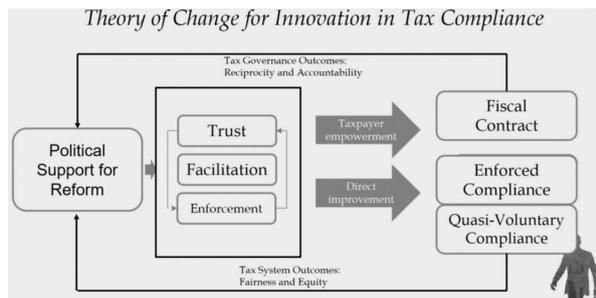
DGT benchmarks IMF's guide of succeeding CIP in treating the upgrade of CTAS as the CIP enabler. The CTAS forwarding will trigger human resource development, law-making, knowledge sharing, and reorganization to reinforce taxpayers' CRM.

Tax Compliance

Tax compliance means the degree to which taxpayers obey tax regulations, as indicated by the accuracy of income reporting, eligible deductions and credits claiming, paying the tax, and filing the tax return. They will get penalties, fines, or other legal action if they fail to do all these.

Every tax administration, including DGT, can conduct tax audits to compel taxpayers' compliance (da Silva et al., 2019). On the other hand, tax facilitation is another tool that drives them to comply voluntarily. The keys here are trust and fairness either in the tax system or administration (Taing & Chang (2020); Batrancea et al. (2019); de Silva et al. (2019); Fuentes-Nieva (2021)). These inputs will create the political support to improve future tax compliance (Figure 2).

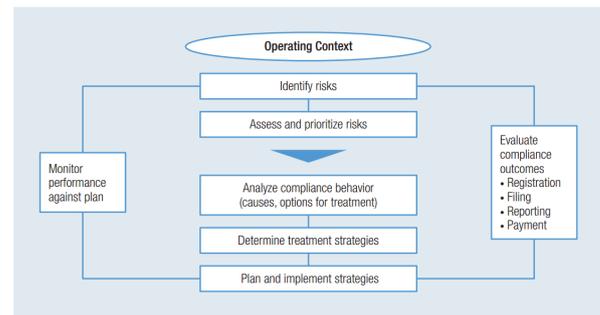
Figure 2 World Bank Tax Compliance Framework
Source: World Bank (2019)



Compliance Risk Management

CRM is a methodology used to identify taxpayers' compliance risks across all four fundamental obligations, including registration, payment, filing, and correct reporting (IMF, 2022). CRM involves determining the operating context, identifying risks, assessing and prioritizing risks, analyzing compliance behavior, deciding treatment strategies, planning and implementing strategies, monitoring performance against plan, and evaluating compliance outcomes (Figure 3).

Figure 3 OECD ERM Process
Source: OECD (2004)



Tax Reform

Taxes are essential to the country's development (Irawan, 2019). Taxation's role in developing the government is seen in two main areas: developing social contracts based on tax agreements and developing institutional capacity to gain revenue (Bautigam, 2008). There are two concepts related to tax reform from the perspective of state-building (Kopric & Hellmut, 2018): (1) tax reform can accelerate representative democracy with tax administration and policy; (2) the reform also discusses the Tax Agency's policy choices in nourishing the government's function for tax collection.

The concept of Hahn-Been Lee (1976) explains that the categories of administrative reforms are branched into three groups. First, procedural reforms aim to rally public order by designing routine government procedures for development to create and ensure a more stable society. Second, technical reforms focused on reinforcing administrative settlement techniques, which can better respond to the pressures or stimuli of the organization's environment. The motivation for external stimuli could be intellectual curiosity over the new method or the motivation for power. These more modern administrative reform techniques are used to encourage the rejuvenation process. Third, programmatic reforms that improve administrative performance are implemented through a reform strategy of government programs. In contrast to procedural and technical administrative reforms, programmed reforms focus on ameliorating the substance of administration.

In most developing countries, these are the issues of tax reform (Shirazi & Shah, 1991):

1. Complex—challenging to administer and
2. Comply with
3. Inelastic—unresponsive to growth and
4. The changing structure of economic activity
5. Inefficient—introduce severe economic
6. Distortions, while often raising relatively little
7. Revenues
8. Inequitable—treat individuals and businesses in similar circumstances differently
9. Unfair—tax administration and enforcement are selective and favor those with the

10. Ability to defeat the system

DGT's tax reform on its CTAS will impact taxpayers' compliance behavior, make it easier to fulfill the tax administration and comply more with the tax laws. The updated CTAS guarantees simplification and lowers the taxpayers' obedience cost. On the other hand, tax reform will create better law enforcement mechanisms to coerce taxpayers to feel more confident about their responsibilities. Ultimately, it will change their perception of the tax administration.

3. RESEARCH METHOD

Data

The author got the CIP draft from the Directorate of Potency, Compliance, and Revenue of DGT in December 2023 and the final document in March 2024. Its goal in delivering the draft is to collect feedback from other units; meanwhile, the final one is the primary strategy instrument to refine 2024 taxpayers' compliance in all DGT offices. Therefore, the author preferred the final file to the draft.

To detail the overview in the literature review part, CIP encompasses:

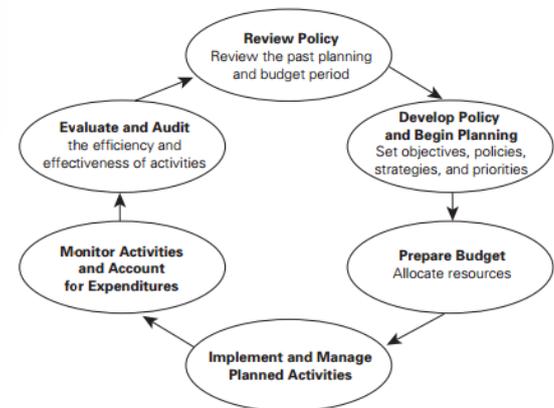
1. the introduction consists of the background and the goal of CIP
2. the detection of taxpayers' non-compliance, including
 - a. the outline of taxpayers' non-compliance risks based on compliance hierarchy and behavioral model
 - b. the application of Compliance Risk Management and Business Intelligence (CRM-BI)
 - c. the execution of risk management at the Ministry of Finance
 - d. the compliance improvement strategy incorporates priority programs, monthly payment monitoring, and substantive compliance tests
3. the matrix of CIP that has been mentioned in the literature review
4. the priority programs cover registration, filing, payment, and correct reporting
5. the evaluation of performance against the plan

Method

Because the research question focuses on the properness of CIP to boost taxpayers' compliance in 2024, generally, the author evaluated it before the plan was implemented. Reviewing the policy and setting the objectives, policies, strategies, and priorities are the parts of monitoring and evaluation that help develop effective and efficient public policies (Figure 4; World Bank, 2012). In addition, the evaluations carried out at the beginning of the program are called goal-based assessments, focusing on checking goals, strategy, design, and policies. The data and analysis required by

this evaluation is a review of existing documents like CIP, which interviews and field visits may complement.

Figure 4 World Bank Monitoring and Evaluation
Source: World Bank (2012)



On the other hand, the analyses undertaken during a program's planning and design phase with ex-ante efficiency analysis (Rossi et al., 2019). In Latin, "ex-ante" means "before the event," and this type of evaluation aims to anticipate costs and outcomes. Ex-ante evaluation is essential for programs that require extensive commitments and resources. This situation relates to CIP, which includes the implementation of a new CTAS. However, in the CIP contents, there is information on the outcomes rather than the costs. Therefore, the author assesses other points below by benchmarking IMF's Technical Notes and Manuals of Developing CIP (2022):

1. **Assessment of Objectives, Legal and Regulatory Compliance, and Stakeholder:**
 - a. To evaluate the objectives and expected aftereffects of the project or policy to ensure those are clear, realistic, and achievable
 - b. To certify that the project or policy complies with relevant laws and ethical standards
 - c. To identify stakeholders who may be affected by the project and analyze their interests, concerns, and potential impacts
2. **Risk Assessment:** to recognize potential risks and uncertainties that may influence the project's or policy's success or viability and develop strategies to mitigate them
3. **Analysis of Alternatives:** to examine alternative options or approaches to achieving the desired intentions and compare their potential benefits, costs, and risks
4. **Feasibility Analysis:** to assess the technical, financial, organizational, and environmental feasibility of the project or policy

To emphasize, the author analyzed the DGT's CIP by assessing those with the descriptive qualitative method to provide transparent information for understanding if it is a bona fide plan to advance 2024 taxpayer compliance. Explaining the hows and whys of

something satisfactory is only possible once we understand what that something is (Wolcott, 1994). The author arranged the relevant information deductively based on the analysis themes above and concluded by contrasting the content of DGT's CIP, IMF's Technical Notes and Manuals of Developing CIP, and the new CTAS' business directions and process of DGT by assessing how much different among these files (Miles & Huberman, 2014).

4. ANALYSIS

Assessment of Objectives

A CIP seeks to rocket taxpayers' compliance and revenue by spotting compliance risks, treating them to achieve the best possible outcome, and measuring the impact of the treatments (IMF, 2022). Every CIP has expected outcomes, especially in evaluating the effects of tax administrations' actions of reducing compliance risks. They benchmark OECD's focus areas for measuring tax compliance outcomes: revenue, voluntary compliance, and integrity. Concurrently, DGT's CIP specifically pursues these objectives mentioned in the literature review, comprehending the forwarding of taxpayers' voluntary compliance, skills, conception, and confidence. Moreover, DGT set Goals 1 for voluntary compliance, 2 for revenue, and 3 and 4 for integrity outcomes.

IMF (2022) set the indicators for compliance outcome:

1. **Revenue outcomes:** measuring collections, audit yield, total revenue effects, and revenue assured
2. **Voluntary compliance outcomes:** assessing core compliance obligations, registration, filing, correct reporting, and payment
3. **Integrity outcomes:** quantifying fairness, trust, confidence, and service quality

DGT focuses on voluntary complaint outcomes and indicators based on the CIP priority programs in the data section. For instance, there are indicators of tax education and the number of new large-segment taxpayers who paid and filed tax returns. Besides, DGT benchmarked some international institutions to determine the indicators: Asian Development Bank for the registration, IMF's TADAT for the payment and filing, and IMF's CRM framework for the correct reporting.

Legal and Regulatory Compulsory

Even though IMF did not highlight the legal and regulatory requirements in 2022 CIP technical notes and manuals, DGT initiatively followed the global good practice. There are two primary DGT regulations called directors' decisions of the coordination for the reorganization of the headquarters units (Number 622/PJ/2022) and the committee of CRM (Number

1/PJ/2023). On the other hand, DGT complied with Law Number 30/2014 about the good governance practice by referring to international agencies' guide.

Unluckily, DGT should not refer to outdated regulation of risk management in the Ministry of Finance: The Regulation of Minister of Finance Number 12/PMK.09/2016 and The Decision of Minister of Finance Number 577/KMK.01/2019. That is why DGT did not find an insufficient explanation of taxpayers' compliance risk. Since 2021, risk management regulations have been updated: The Regulation of Minister of Finance Number 222/PMK.01/2021 about governance and The Decision of Minister of Finance Number 105/KMK.01/2022 about manuals. There is a more explicit description of compliance risks besides the conventional organizational risks.

Stakeholders Analysis

DGT's CIP will affect the DGT organization as the tax administrators and taxpayers cumulate the state revenue. Still, the taxpayers' voluntary compliance challenges DGT. With two primary regulations mentioned before as legal stands, DGT creates The Committee of CRM at all office levels: headquarters, regional offices, and tax offices. Every level has subcommittees that follow expected voluntary compliance outcomes related to service and education, supervision, audit, valuation, and law enforcement.

Furthermore, every subcommittee has been involved in finalizing DGT's CIP. They are pleased to confirm the draft or give feedback on the contents as stated in the data section. After juxtaposing the draft and the final documents, here are the findings that meet the stakeholders' expectations:

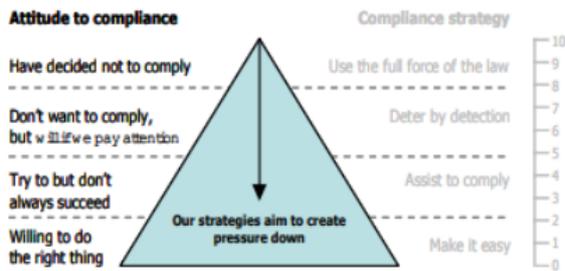
1. The regulations as legal stands were added
2. The risk categories were simplified from the technical risk level to the general-specific level
3. The taxpayers' segment was cleared from the compliance level to the most significant business sectors
4. The subcommittee activities were detailed
5. The table of evaluation of compliance impact was completed with the base and target

Risk Assessment

Besides compliance risks being the main point of CIP, others should be considered in the risk context of DGT, such as stakeholder resistance, political risks, and unforeseen consequences. First, the complex workflow among different levels of the office inevitably makes the lower level probably unable to execute the CIP. Then, the change of the Indonesian government this year will determine the reorganization of DGT as a semi-autonomous body proposed to be excluded from the Ministry of Finance. Last, the taxpayers' reaction to the new CTAS is still unpredictable because the tax ratio has been low for years.

Understanding those risk contexts is the first step to implementing risk management. Then, how correctly pinpointing the compliance and organizational risks will be the next thing DGT should do. This process will impact how DGT analyzes and evaluates the risks and the best mitigation treatment. Figure 5 shows many treatments based on compliance risk levels: taxpayers who are indicated to have committed criminal acts, those who are shown to be non-compliant, those who still need education, and those who are compliant.

Figure 5 OECD's Pyramid of Tax Compliance
Source: OECD (2004)



Furthermore, DGT should keep developing the integrated risk engine, which consists of the general risk and specific ones related to the core treatments such as monitoring, audit, and law enforcement, and prioritized business sectors such as mining, palm oil, and automotive. The specialization should be aligned with 2024 DGT's Technical Revenue Policy based on the Macroeconomy Framework and Fiscal Policy because the dynamics of global and national economies are included in the DGT's external risk contexts.

Analysis of Alternatives

To achieve the diverse goals mentioned in the assessment of objectives, IMF (2022) provides a plan overview template showing the approach to managing compliance risks by describing the taxpayers' segment, their behaviors (risk assessment), the methods to handle them (risk treatments), and the stakeholders (Figure 6).

Figure 6 IMF's CIP Overview Example
Source: IMF (2022)

<p>1. PLAN OVERVIEW: The strategy recognizes that many medium-sized businesses may not prioritize tax compliance and that they suffer disproportionate compliance costs. For these reasons, the focus is on building a taxpaying mindset and providing quality and customized e-services to increase understanding—and applying graduated enforcement measures commensurate with the level of non-compliance and egregiousness of business enforcement.</p>																																														
<p>2. SEGMENT PROFILE: 2.1. Description: Businesses with taxable unvalued tax (VAT) sales between 175 billion and 2.2 billion total company-wide. 2.2. Amount of VAT Payable: Tax Type Revenue (billions total company) Gross VAT 52.6 Net VAT 21 Net VAT 40.6 Revenue from this segment represents 20% of VAT payable and 45% of returns. 2.3. Number/Type of Taxpayers: 2,300 entities and 5,100 sole proprietors 2.4. Number/Type of Tax Returns: 4,200 medium businesses file quarterly and 3,200 use monthly VAT reporting obligations. 2.5. Key Industries: Wholesale and retail trade, construction, manufacturing 2.6. Important Intermediaries: National manufacturers association Tax professionals associations Chamber of commerce Retail traders association Ministry of Commerce Association of importers and Exporters</p>	<p>3. RISK ASSESSMENT (HIGH, MEDIUM, LOW): 3.1. Registration Risk: Low Most medium businesses are well-informed and comply with their registration requirements. 3.2. Filing Risk: Low The majority file on time; however, filing rates appear to be declining. 3.3. Regulatory Risk: High A relatively large share of collections from medium businesses puts significant revenues at risk. Some may engage in aggressive tax planning based on advice from tax professionals. 3.4. Payment Risk: High On-time payment is poor with substantial amounts of tax arrears owed by medium businesses.</p>	<p>4. RISK TREATMENTS: 4.1. Facilitate Business (Incentive focus): Assign key client managers to larger businesses in key sectors. Arrange advisory visits to high-risk businesses. Develop targeted communication initiatives. Issue short message service (SMS) or telephone reminders to businesses with a history of late compliance. Collaborate with industry associations and other intermediaries to promote their members' tax compliance. 4.2. Corrective Measures (enforcement focus): Deploy limited-scope audits to expand audit coverage. Focus comprehensive audits on high-risk cases. Apply out-of-office and telephone calls for small arrears cases. Apply asset seizure to non-compliance tax delinquents. 4.3. Changes to Law Discuss changes with Ministry of Finance to allow for differentiated penalties to reflect seriousness of offenses, including repeat offenses.</p>																																												
<p>5. EVALUATION OF COMPLIANCE IMPACTS: Revenue Registration: Total revenue impact of medium-sized businesses to increase in correct registrants to reduction in incorrect registrants. Filing: % of new and existing taxpayers filing on time. Payment: Reduction in Compliance Tax Due. Cost of Compliance: Revenue collection relative to proxy tax bases to Reduction in tax arrears. Stakeholder Perceptions: % of taxpayers paying in full and on time to reduction in compliance costs. Stakeholder Perceptions: Perceptions of tax administration: professionals, service quality, and integrity.</p>		<p>6. WORKFLOWS AND MONITORING:</p> <table border="1"> <thead> <tr> <th rowspan="2">Treatments (examples)</th> <th colspan="4">Planned and Actual Number of Treatments</th> </tr> <tr> <th>Office 1</th> <th>Office 2</th> <th>Office 3</th> <th>Office 4</th> </tr> <tr> <th></th> <th>Plan</th> <th>Actual</th> <th>Plan</th> <th>Actual</th> </tr> </thead> <tbody> <tr> <td>Auditory Visits</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Phone-based Reminders</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Letter-based Audits</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Comprehensive Audits</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Out-of-office Collector Calls</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Asset Seizure</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Treatments (examples)	Planned and Actual Number of Treatments				Office 1	Office 2	Office 3	Office 4		Plan	Actual	Plan	Actual	Auditory Visits					Phone-based Reminders					Letter-based Audits					Comprehensive Audits					Out-of-office Collector Calls					Asset Seizure				
Treatments (examples)	Planned and Actual Number of Treatments																																													
	Office 1	Office 2	Office 3	Office 4																																										
	Plan	Actual	Plan	Actual																																										
Auditory Visits																																														
Phone-based Reminders																																														
Letter-based Audits																																														
Comprehensive Audits																																														
Out-of-office Collector Calls																																														
Asset Seizure																																														
<p>7. CAPACITY DEVELOPMENT: Organizational and Management: • Formulate governance across and between headquarters and the field offices. Administrative Processes: • Develop new processes and corrective measures. • Develop new risk filters and case selection models.</p>		<p>Information Systems, Data, and Analytics: • Enhance systems as well as data and analytics methods and tools. • Acquire new sources of third-party information. Staff Development: • Develop training in auditing and new preventive and correction measures. • Strengthen staff capabilities in data and analytics.</p>																																												

For the moment, DGT's version involves:

- Segment profile:** the number and type of taxpayers
- Risk identification:** the general and specific risks
- Risk treatments:** the recommendation of each CRM subcommittee
- Compliance impact evaluation:** the indicators of core compliance obligation
- Activity focus:** the focus on core compliance obligations
- Capacity development:** the function of relevant resources, including information technology

Because the foremost goal of CIP is to enhance the taxpayers' voluntary compliance by magnifying their knowledge, perception, and trust, here are 2024 DGT's technical policy:

- Integrated-Risk-Engine Approach**
 - Optimizing the expansion of the tax base mandated in the Law on Harmonization of Tax Regulations
 - Strengthening regional-based tax extensification and supervision activities
 - Focusing on targeted and measurable revenue planning activities by implementing the priority taxpayers target list and supervising High-Wealth individuals, Group Taxpayers, affiliated transactions, and the digital economy
 - Issuing selected and quantifiable tax incentives to encourage the growth of specific sectors
- Information and Technology Optimization**
 - Maximizing the implementation of the CTAS by affirming improving tax services, risk-based data management, and follow-up on third-party data interoperability activities
 - Advancing the disclosure of wrongful acts and the use of digital forensics activities as fair law enforcement

On top of that, there are two DGT's revenue collection strategies:

- Periodic Payment Supervision (PPS):** Collecting tax revenues through periodic and annual payments related to economic activities for the current tax year (revenue due in 2024). The revenues are generally classified from Strategic Regional Taxpayers and Other Taxpayers
- Material Compliance Testing (MCT):** Assembling tax revenues from a series of compliance testing activities related to monitoring, auditing, billing, and law enforcement activities in the tax year before the current tax year (receipt due in 2023 and before)

DGT should prioritize the MCT strategy because, based on the evaluation of 2023 revenue collection, its result is only 74.3%, while the PPS is 105.1%. Additionally, the contribution of MCT for these seven years is only around 5-7% of the total annual revenue target.

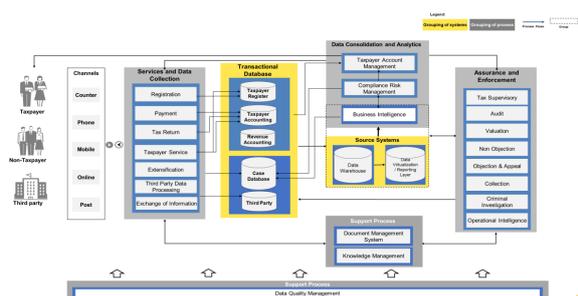
Feasibility Analysis

Feasibility analysis relates to the CIP overview's capacity development section because the application needs sound resources, capabilities, and support. The tax administrations face implementation challenges such as weak legislative frameworks, ineffective organizational and management arrangements, poorly designed tax administration processes, rigid human resource management policies, inadequate information technology systems, and data holdings (IMF, 2022). That is why it is imperative to understand the CRM as the input of CIP, from knowing the risks to monitoring and evaluating the results. These are IMF's notes related to some key challenges:

1. **Human resource management:** The high-level CRM committee, as one of the stakeholders, plays a critical role in designing and managing the implementation of CIP to face different headquarters departments and office levels covering the regional and tax offices
2. **Administrative processes:** Another stakeholder that should be considered is segmented taxpayers because they have diverse risk characteristics and need suitable treatments, as global guides recommend
3. **Information systems and analytics capabilities:** The core of delicate treatment is taxpayers' quality data management and analysis. Based on the OECD's CRM Framework, the data structure is essential to support CRM in creating an acceptable CIP

DGT advances the business process to perform the CIP as part of capacity development. IMF argued that business process upgrades are critical for ensuring the consistency of risk treatments related to service and education, supervision, audit and valuation, and law enforcement. DGT refines 21 business processes through the new CTAS to support taxpayers and employees (Figure 7).

Figure 7 DGT's To-Be Process Business
Source: DGT (2023)



Therefore, these are what DGT should do in implementing the business directions of the new CTAS:

1. **Regarding Implementing New CTAS**
 - a. Increase human resource capacity to escalate the tax base, utilize the data, and implement new CTAS
 - b. Prepare regulations and education to apply new CTAS
 - c. Execute the new CTAS
 - d. Prepare DGT reorganization plans post-new CTAS implementation
2. **Others**
 - a. **Optimize the Tax Center** to raise tax awareness
 - b. **Employ and boost Knowledge Management applications** within DGT
 - c. **Create the behavior standards in providing service level agreements** to all DGT service users for fair treatment

5. CONCLUSION

The author finds that DGT's 2024 Compliance Improvement Plan (CIP) passed ex-ante evaluation through some critical analysis that covers the assessment of objectives, legal, regulatory compliance, stakeholder, risk, alternatives, and feasibility. Even though the CIP contains voluntary compliance, revenue, and integrity goals, DGT focuses on the first outcomes, including service and education, supervision, audit, valuation, and law enforcement. Because every outcome has risks, CIP takes the legal stand on CRM regulations. Unfortunately, the stated risk management regulation, The Regulation of Minister of Finance Number 12/PMK.09/2016 and The Decision of Minister of Finance Number 577/KMK.01/2019, are outdated. It will affect how DGT manages the risks besides the compliance ones, such as stakeholder resistance, political risks, and unforeseen consequences.

On the other hand, the final CIP is far better than the draft because DGT fulfills the step of consultation and review as part of the ex-ante evaluation by seeking stakeholders' input and feedback. Besides, the author documents DGT's effort to align CIP with other strategic documents to strengthen the materials, especially for the alternatives to achieving the goals, such as IMF's Technical Notes and Manuals of Compliance Risk Management and CIP. Those guidelines help DGT make its plan, containing critical improvements related to human resource management, administrative or business processes, information systems, and analytics capabilities by implementing a new Core Tax Administration System.

This study would be better if the author could get more information about the cost of implementing CIP to conduct the Cost-Benefit Analysis and the best-worse situation to do the Scenario Analysis. Moreover, the

author recommends that the next CIP follow the updated risk management regulation because it separates organizational risk and compliance. Besides, the 2024 DGT's Technical Revenue Policy based on the Macroeconomy Framework and Fiscal Policy will support the risk treatments because the risk dynamics come from national and global sources.

REFERENCES

- Alm, J., & McClellan, C. (2012). Tax morale and tax compliance from the firm's perspective. *Kyklos*, 65(1), 1–17.
- Badan Kebijakan Fiskal. (2024). Kerangka Ekonomi Makro & Pokok Pokok Kebijakan Fiskal 2024.
- Brautigam, D.A. (2008). Introduction: Taxation and state-building in developing countries. *Taxation and State-Building in Developing Countries, Capacity and Consent* (PP. 1-33). Cambridge: Cambridge University Press.
- Batrancea, L., Nichita, A., Olsen, J., Kogler, C., Kirchler, E., Hoelzl, E. & Zukauskas, S. (2019). Trust and power as determinants of tax compliance across 44 nations. *Journal of Economic Psychology*, 74, 102191.
- Da Silva, F. P., Guerreiro, R., & Flores, E. (2019). Voluntary versus enforced tax compliance: the slippery slope framework in the Brazilian context. *International Review of Economics*, 66, 147-180.
- Direktorat Jenderal Pajak. (2024). Compliance Improvement Plan Tahun 2024.
- Direktorat Jenderal Pajak. (2024). Kebijakan Teknis Tahun 2024.
- Direktorat Jenderal Pajak. (2023). Garis Besar Konsep Operasional 21 Proses Bisnis.
- Fuentes-Nieva, R. (2023). *The way we voluntarily pay taxes*. Center on International Cooperation. Retrieved from New York University website: <https://cic.nyu.edu/resources/the-way-we-voluntarily-pay-taxes/>
- International Monetary Fund. (2022). *Revenue administration: Compliance risk management: Overarching framework to drive revenue performance*. Retrieved from International Monetary Fund website: <https://www.imf.org/en/Publications/TNM/Issues/2022/08/26/Revenue-Administration-Compliance-Risk-Management-Overarching-Framework-to-Drive-Revenue-520479>
- International Monetary Fund. (2022). *Technical notes and manuals volume 2022 issue 001: Compliance risk management: Developing compliance improvement plans*. IMF eLibrary. Retrieved from International Monetary Fund website: <https://www.elibrary.imf.org/view/journals/005/2022/001/005.2022.issue-001-en.xml>
- Irawan, B. (2014). Reformasi Administrasi dan Karakter Bangsa: Sebuah Kajian Konseptual, *Jurnal Transparansi*, Vol. 6, No. 2, 109-114.
- Irawan, B. (2019). Indonesian tax reform: Inappropriate policy choices or administrative problems. 2019 *IAPA Proceedings Conference*, 118.
- Irawan, D. (2017). *Evaluasi Ex-Ante Pada Proses Penyusunan Anggaran Pendapatan Dan Belanja Daerah Kabupaten Kota Waringin Barat Tahun 2013-2015*. Thesis, Universitas Terbuka.
- Koprić, I. Hellmut W. (2018). Evaluating Reforms of Local Public and Social Services in Europe. *Evaluating Reforms of Local Public and Social Services in Europe, More Evidence for Better Results* (PP. 1-18). Palgrave Macmillan.
- Lembaga Penyelidikan Ekonomi dan Masyarakat-Universitas Indonesia (2022). *Core Tax Administration System (CTAS)*. Retrieved from Lembaga Penyelidikan Ekonomi dan Masyarakat-Universitas Indonesia website: [https://terc.lpem.org/wp-content/uploads/2022/12/Core Tax Admin System ASY 20221130.pdf](https://terc.lpem.org/wp-content/uploads/2022/12/Core_Tax_Admin_System_ASY_20221130.pdf)
- Miles, M. B., Huberman, A. M., & Saldaña, J. (2014). *Qualitative Data Analysis: A methods sourcebook* (3rd ed.). Sage.
- Nareswari, A. P. C. J., & Aryani, N. M. (2021). Gagasan Mekanisme Ex-Ante Review sebagai Upaya Peningkatan Kualitas Legislasi di Indonesia. *Kertha Negara: Journal Ilmu Hukum*, Vol. 9, No. 4.
- Organization for Economic Co-operation and Development. (2004). *Managing and improving tax compliance*. Retrieved from Organization for Economic Co-operation and Development website: <https://www.oecd.org/tax/administration/33818656.pdf>
- Putra, F. N. (2020). Ex ante moral hazard Pada Sistem Jaminan Kesehatan nasional (JKN) di indonesia. *Jurnal Ekonomi Kesehatan Indonesia*, Vol. 5, No.1.

Rossi, P. H., Lipsey, M. W., & Freeman, H. E. (2019). Evaluation: A systematic approach (8th ed.). Sage.

Shirazi, J. K. & Shah, A. (1991). Tax reform in developing countries. Retrieved from International Monetary Fund website: <https://www.elibrary.imf.org/downloadpdf/journals/022/0028/002/article-A015-en.pdf>

Slemrod, J., & Sorum, N. (1984). The Compliance Cost of the U.S. Individual Income Tax System. Retrieved from National Bureau of Economic Research website: <https://doi.org/10.3386/w1401>

Taing, H. B., & Chang, Y. (2020). Determinants of tax compliance intention: Focus on the theory of planned behavior. *International Journal of Public Administration*, 44(1), 62–73.

Wolcott, H. F. (1994). Transforming qualitative data: Description, analysis, and interpretation. Thousand Oaks, CA: Sage.

World Bank. (2019). Innovations in tax compliance Conceptual Framework. Retrieved from World Bank website: <https://documents1.worldbank.org/curated/en/816431569957130111/pdf/Innovations-in-Tax-Compliance-Conceptual-Framework.pdf>

World Bank. (2012). Building better policies - the nuts and bolts of monitoring and evaluation system. Retrieved from World Bank website: <https://documents1.worldbank.org/curated/en/680771468183894133/pdf/Building-better-policies-the-nuts-and-bolts-of-monitoring-and-evaluation-systems.pdf>