



# Tax Administration Strategies to Respond to Small and Medium Enterprises

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## Case of Indonesia

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# Republic of Indonesia





# Indonesian Taxation at A Glance

- ④ **Self Assessment System**
- ④ **Types of Taxes:**
  - ④ Income Tax
    - ④ Individual : progressive 5%-35%
    - ④ Corporation: progressive 10%-30% (2008: 28% Flat)
  - ④ VAT: Flat (10%)
  - ④ Property Tax: Flat 5% (effective rate 0.1%)
  - ④ Stamp Duty: 2 rates
- ④ **Tax Treaty: 57 countries**
- ④ **Organization:**
  - ④ Head Office (1)
  - ④ Regional Office (31)
  - ④ Operational Office (331)
    - ④ Large Taxpayers Office (LTO) - 3
    - ④ Medium Taxpayers Office (MTO) - 28
    - ④ Small Taxpayers Office (STO) - 300
- ④ **Human Resources**
  - ④ ± 32,000 staff



# Small and Medium Enterprises

## In Indonesia

### ROLE of SMEs

Average of GDP Table (2001-2004)

SECTOR	Average of GDP (percent)			
	Small	Medium	Large	Total
1. Agriculture	85.69	9.05	5.06	100.00
2. Mining	7.42	3.09	89.49	100.00
3. Manufacture	14.95	12.80	72.25	100.00
4. Electricity, Power Plant, Pure Water	0.54	7.34	92.12	100.00
5. Construction	43.57	22.61	33.82	100.00
6. Trading, Hotel and Restaurant	75.19	21.06	3.75	100.00
7. Transportation and Communication	35.35	26.40	38.25	100.00
8. Financial Services	16.17	46.32	37.51	100.00
9. Other Services	35.78	7.22	57.00	100.00
<b>GDP</b>	<b>40.65</b>	<b>15.39</b>	<b>43.96</b>	<b>100.00</b>
<b>GDP WITHOUT OIL &amp; GAS</b>	<b>46.00</b>	<b>17.27</b>	<b>36.73</b>	<b>100.00</b>



# Tax Administration Modernization

## @ CONCEPT :

Excellent Services and Intensive Monitoring with  
Good Governance

## @ OBJECTIVES :

- High Voluntary Tax Compliance
- High Trustworthy on Tax Administration
- High Integrity and Productivity of Tax Apparatus



# Tax Administration Modernization

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## WHAT ARE THE AREAS BEING REFORMED?

- ④ ORGANIZATION
- ④ BUSINESS PROCESS
- ④ HUMAN RESOURCES MANAGEMENT



# REFORM in Organizational Structure

## CONCEPT :

- ④ Functional-Based Organizational Structure
- ④ Taxpayer Segmentation based on size
- ④ Customer Oriented – Account Representative (Consultation and Compliance Monitoring)
- ④ Debureaucratization
- ④ Tax Audit and Objection are strictly separated
- ④ New function of Internal Audit and Change Program

## IMPLEMENTATION :

- ④ Establishment Of Large Taxpayers Office (LTO), Medium Taxpayers Office (MTO), and Small Taxpayers Office (STO)
- ④ Restructuring Of Headquarter



# Types of Modern Offices

## **LARGE TAXPAYERS OFFICE (LTO)**

- Quantity : 3 offices in Indonesia
- Taxpayers : 700 largest companies in the country
- Type of Taxes : Income tax and VAT

## **MEDIUM TAXPAYERS OFFICE (MTO)**

- Quantity : 28 offices (19 MTO and 9 in special region)
- Taxpayers : 200-500 largest companies in the region
- Type of Taxes : Income tax and VAT

## **SMALL TAXPAYERS OFFICE (STO)**

- Quantity : 300 offices (rest of tax offices in regions)
- Taxpayers : thousands (corporate and individual)
- Type of Taxes : Income Tax, VAT, and property tax

20.000 TP  
Estimated  
Revenue  
± 80%

4,4 mil TP  
Estimated  
Revenue  
± 20%



# Improvement in Business Process

## CONCEPT :

- ④ Information and Communication Technology oriented
- ④ Simple and Easy to understand
- ④ Cost Effective
- ④ Built-in Control

## IMPLEMENTATION :

- ④ e-Filing, e-Payment
- ④ IT System (SIDJP) Improvement : Merging of all different systems and database (Property Tax) - Automation
- ④ Case Management and Workflow System for field office operation
- ④ Taxpayer accounting
- ④ Tax Forms Improvement and Simplification
- ④ Improvement in SOPs and Reporting System



# REFORM in Human Resources Management

## CONCEPT :

- @ Competence-Based HR System
- @ ICT Utilization
- @ Customer Driven
- @ Performance Management

## IMPLEMENTATION :

- @ Development of HR Information System
- @ Competency Mapping
- @ Code of Conduct
- @ Additional allowance for Modern Offices
- @ Job Evaluation, Analysis, and Grading
- @ Development of Performance Management System



# Characteristics of STO

- Ⓢ Merger of 3 existing tax offices : Tax District Office, Tax Audit Office, and Property Tax Office
- Ⓢ All Taxes – administer Income Tax, VAT, and Property Tax
- Ⓢ Administer both (small) Corporate and Individual taxpayers
- Ⓢ Tax payment per taxpayer is small
- Ⓢ Territorial concept (AR is responsible for a specific area)
- Ⓢ Section of Tax Extensification – number of taxpayers is very likely to increase all the time
- Ⓢ The establishment of Service, Counseling and Consultation Tax Office:
  - Ⓢ Indonesia is the biggest archipelago in the world, scattered around in the equator
  - Ⓢ To cover vast area of Indonesia, DGT creates Service, Counseling and Consultation Tax Office (SCCTO) in remote area – a sort of tax shop (under STO)
  - Ⓢ SCCTO provide services to the taxpayers in remote area



# STO Business Approach

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- ④ A key foundation for success in self assessment system is voluntary compliance of taxpayers, then STO helps taxpayers understand their rights and obligations under the tax laws
- ④ STO should have a credible capacity to deter, detect, and deal with non compliance
- ④ The balance between service and enforcement is highly desirable
- ④ The balance may change overtime and in response to the nature of the risk profile presented by taxpayers



# Compliance Strategies Focus

- ④ Providing a wide range of informative tax publications and tax campaign
- ④ Conducting various active tax education programs
- ④ Making early contact with taxpayers who have failed to submit returns or make payment of their taxes
- ④ Introducing improved risk analysis across the region
- ④ Working on non-lodgment returns and tracing taxpayers who we have lost contact with
- ④ To ensure correct disclosure, crosschecking third party information with our database,
- ④ Building closer relationships through industry associations and tax professionals and agents



# STO Performance

- @ The growth of Tax Revenue collected by STOs is higher than the national figure

Year	STO Gambir 2 *)		15 STOs at Central Jakarta **)		National	
	Revenue	Growth	Revenue	Growth	Revenue	Growth
2004	669				215,698	
2005	956	42.9%	7,039		263,393	22.1%
2006	1,326	38.7%	9,296	32.1%	315,012	19.6%

Note :

Revenue figures exclude oil and gas taxes (in trillion rupiah)

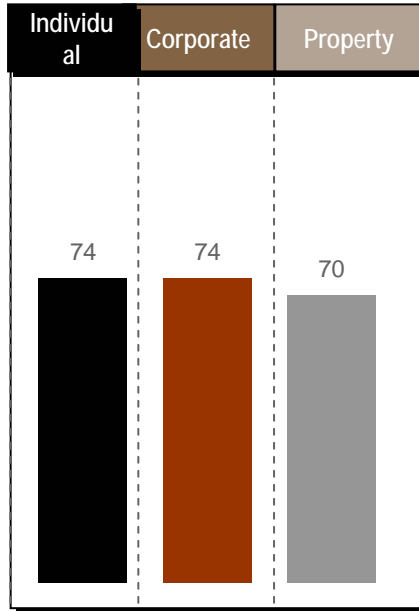
\*) STO Gambir 2 was modernized at Jan 1, 2005

\*\*\*) 14 other STOs at Central Jakarta were modernized in mid 2005

- @ Taxpayer Satisfaction Survey for STO shows satisfactory results

# STO Performance – Taxpayer Satisfaction Perception Index

## eQ Index



Offices	Total	Individual	Corporate	Property
1. STO Cempaka Putih	72	74	73	68
2. STO Gambir 1	73	76	77	65
3. STO Gambir 2	76	78	78	72
4. STO Gambir 3	73	71	70	77
5. STO Gambir 4	67	71	68	61
6. STO Kemayoran	72	73	73	69
7. STO Menteng 1	77	78	79	73
8. STO Menteng 2	74	77	78	67
9. STO Menteng 3	72	73	75	68
10. STO Tanah Abang 1	75	77	73	75
11. STO Tanah Abang 2	73	72	76	70
12. STO Tanah Abang 3	76	79	75	73
13. STO Sawah Besar 1	73	72	73	75
14. STO Sawah Besar 2	69	73	73	61
15. STO Senen	71	74	66	72

### eQ Index

Measures overall performance taking all attributes in the model into consideration, and is weighted by importance. *Simply, the WEIGHTED AVERAGE SATISFACTION SCORE*

# DGT Modernization Milestone

**July-2002**  
LTO (2)

**Agt-2004**  
Foreign Investment (2)  
PE & Expatriate (2)  
MTO Central Jakarta

**Dec-2003**  
SOE Tax Office

**Dec-2004**  
STO at Central  
Jakarta (1)

**Oct-2004**  
Foreign Investment (2)  
Foreign Investment (2)  
Listed Companies

**Dec-2005**  
MTO Batam

**Juni-2005**  
STO  
at Central  
Jakarta (14)

**Dec-2006**  
Head Office,  
MTO in province's capital cities (13)

**May-2006**  
MTO Denpasar,  
MTO Tangerang,  
MTO Bekasi,  
MTO Pekanbaru,

**2007**  
156 STO  
Java and Bali

**2008**  
129 STO  
Outside Java  
and Bali





# Efficiency by Modernization

Before Modernization		After Modernization	
District Tax Office	182	Large Taxpayer Office	3
Tax Audit Office	51	Medium Taxpayer Office	28
Property Tax Office	164	Small Taxpayer Office	300
<b>Total</b>	<b>397</b>	<b>Total</b>	<b>331</b>



# Challenges Ahead

- @ Financial constraint
- @ Information & Communication Technology development
- @ Human Resource constraint – quantitative and qualitative
- @ Changing culture and attitude is difficult and often takes long time
- @ Reform in DGT is often constrained by gov't regulations (that are applied to ALL gov't institutions)
- @ For optimal results, taxation reform should be accompanied by reform in ALL other areas, especially law enforcement



Thank You