

Conference Paper

Legal Certainty and Ease of Administration to Increase Tax Compliance: Discourse on Indonesia's Tax Amnesty Program in Regional Office Area, Directorate General of Taxes East Java 1, Period 2016

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Abstract

Research Objective: This study is aimed to evaluate the appropriateness of the tax amnesty program in order to increase tax compliance

Background: Based on the research of Enste and Schneider (2002), the percentage of underground economic activity in developing country including Indonesia reaches 35-44% of GDP. This indicates that the taxes arising from such activities are not reported in tax returns. Therefore, the thought of putting on the unpaid tax through the program of tax amnesty came up. The ultimate goal of the program is to increase tax compliance in the future. However, the implementation of the program requires a guarantee of legal certainty for tax payers from being charged with crimes or other demands. Then, the rule of law must be supported with the ease of administration in running the program.

Design/Methodology/Approach: This study uses a quantitative approach where ordinary least square (OLS) is applied. Samples taken for this study are the tax payers joining tax amnesty program in Regional Office Area Directorate General of Taxes East Java 1 period 2016.

Findings: It is found out that legal certainty and the ease of administration has the influence to increase tax payer's compliance. Tax amnesty is a national reconciliation movement of taxation stipulated in Law number 11, Year 2016, to guarantee legal certainty for taxpayers. Slogan "Claim, Redeem, Relief" is a symbol that is captured by the taxpayers that the tax amnesty will provide ease of administration for taxpayers. The end of result, gives both the willingness to increase tax compliance for the future.

Originality/Value: First, this study uses Indonesia as a setting of a developing country where it has underground economic activity in large numbers whilst at the same time tax revenue is still quite vital in generating country revenue. Second, this study provides feedbacks to the authority bodies related to the appropriateness of the tax amnesty program in order to increase Tax Payer Compliance. Finally, this study adds to the current debates related to the pros and cons associated with the existence of a tax amnesty program in developing country.

Keywords: tax amnesty, legal certainty, ease of administration, tax compliance

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Received: 8 June 2018

Accepted: 17 July 2018

Published: 8 August 2018

Publishing services provided by
Knowledge E

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Selection and Peer-review under the responsibility of the 2nd ICVHE Conference Committee.

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1. Introduction

Taxpayers who have the wealth that comes from avoidance or tax evasion will make every effort to conceal or keep the wealth both within and/or abroad. These parties usually keep their wealth in various ways, among others:

1. transferred abroad (hereinafter may be deposited or stored in other forms, such as property, shares, cruise ships);
2. stored in a bank in the country, such as deposits;
3. stored in the form of property or cash in the country;
4. stored or deposited on another party who do not have a TIN (Taxpayer Identification Number); and/or
5. invested in illegal business activities.

Deposit funds in the country to avoid taxes cannot be separated from their economic activity underground (underground economy/Shadow Economy), because the underground economy is a part of the economic activity that is deliberately hidden to avoid payment of taxes. Underground economic activities generally take place in all countries, both developed and developing countries, including Indonesia.

Based on research of Enste and Schneider (2002), the percentage of underground economic activity in developing country including Indonesia reaches 35–44% of GDP. This indicates that the taxes arising from such activities are not reported in tax returns. Therefore, the thought of putting on the unpaid tax through the program of tax amnesty. The ultimate goal of the program is to increase tax compliance in the future. However, in the implementation of the program requires a guarantee of legal certainty for tax payers from being charged with crimes or other demands. Then, the rule of law must be supported with the ease of administration in running the program.

2. Literature Review and Hypothesis Development

One of the breakthroughs of policies to boost the level of tax compliance is to provide Tax Amnesty. Tax Amnesty needs for special consideration by the Government of Indonesia to give a last chance (one shot opportunity) for taxpayers who do onshore and offshore tax evasion with the primary purpose as a vehicle for national reconciliation taxation for all taxpayers and potential of the community is expected to increase state revenue

2.1. Theory of taxation

Tax is a levy that is the prerogative of the government where these charges are based on the Act, the collection can be forced to subject to tax with no direct remuneration that can be shown to the user [12]. From these definitions, it can be concluded that: first, the right to collect taxes is the state (government). Second, a tax levied under the laws and rules of procedure that may be imposed on the subject of taxes. Thirdly, in the payment of tax cannot show their individual reference from the government.

According to Musgrave (1997), tax functions in economic development can be divided into two kinds, namely the budgetary and regulatory functions. The function of the budget means that the tax is one source of revenue in the country a number of countries is increasing every year. While the function of setting means taxes can be used by governments to regulate macroeconomic variables to achieve the level of economic growth as targeted, improve the distribution pendapafan and maintain economic stability through regulation of consumption and public investment.

2.2. Tax amnesty model

Tax Amnesty has ultimate goal to improve the transparency of taxation. By joining this program, taxpayers have facilities lower tax rates and the elimination of administrative sanction to reveal the treasure inside and outside the country.

Basically, every country has at least two alternative policies to combat offshore tax evasion. First, they may negotiate to cooperate intensively with countries that are suspected as a haven of treasures hidden by his taxpayer in the form of exchange of information, especially on property. Secondly, they may provide an incentive to the taxpayer to disclose property that are outside the country as well as the amount of taxes that have been smuggled, voluntarily [8].

2.3. The problem of rational behavior

Von Neumann and Morgenstern (2007) mention the 'Robinson Crusoe' as 'economy' and 'social exchange economy'. 'Robinson Crusoe' Economy is an isolated single person driven by a 'single will' or 'single want'. It is related to given quantities of available commodities and wants. The problem of this is how to get an optimum satisfaction where personal duty is included. Some elements are common to both with a maximum problem occurs in the social exchange economy. The challenge is to obtain an optimum

result as this becomes harder as each participant makes optimal efforts to optimize his/her benefits.

Allingham and Sandmo (1972) describe a tax policy decision as a decision which is taken under uncertainty, and where loopholes are a tool in determining tax planning. In most of the cases (especially in the developing country scenario) audit from the tax authorities was unable to give direct penalty. The opportunity then becomes a way in determining tax policy where management and shareholders take a risk to maximize this loop hole. Furthermore, this can potentially drive toward bribery to tax officials as culture of tax evasion will be shaped when it becomes commonplace [7]. All is axiom as based on the rational behavior problem.

2.4. Hypothesis development

Reflecting the efforts to create a setting that deserves the 'sticks' and 'carrots' (reward and punishment) then be made to the legal form of law Number 11 year 2016. This is consistent with the problem of rational behavior discussed earlier [1].

Hypothesis 1: Taxpayers perception toward legal certainty of Tax Amnesty has an influence on the Taxpayer Compliance in the future

A program can be run properly if the taxpayer get a perception of ease of administration in implementing. This is consistent with the problem of rational behavior discussed earlier [1].

Hypothesis 2: Taxpayers perception of the ease of Administration of Tax Amnesty has an influence on the Taxpayer Compliance in the future

3. Sample and Research Design

This study uses a quantitative approach where ordinary least square (OLS) are used for the purpose of data analysis. Unit analysis is participants of seminar and socialization of tax amnesty held in the working area of the district office of Directorate General of Taxation East Java 1 due to the confidentiality of the data for those who join the tax amnesty. The OLS model was chosen in estimating parametric variables that are not explained in the regression model [6]. Taxpayers perception of legal certainty and the ease of administration were chosen as the independent variables while future tax compliance was chosen as the dependent variable.

3.1. Sample selection

Data collected for this study were taken from questionnaire data. Number of data selected is 30 respondents. The respondents are participants of seminar and socialization of tax amnesty held in the working area of the district office of Directorate General of Taxation East Java 1 due to the confidentiality of the data for those who join the tax amnesty.

3.2. Research development

This research applies a quantitative approach using ordinary least square (OLS). The model was chosen to estimate parametric variables that are not yet clear in the regression model [6]. Taxpayers perception of legal certainty and the ease of administration were chosen as the independent variables while future tax compliance was chosen as the dependent variable.

3.2.1. Independent Variable: Taxpayers perception of legal certainty

The indicators in the measurement of this perception are:

1. The certainty of process
2. The certainty of detail rules
3. The certainty of troubleshooting
4. The certainty of confidentiality of data

3.2.2. Independent Variable: Taxpayers perception of the ease of administration

The indicators in the measurement of this perception are:

1. The ease in preparing documents
2. The ease of making payments
3. The ease in reporting
4. The ease in tax audits

3.2.3. Independent Variable: Taxpayers perception for Future Tax Compliance

The indicators in the measurement of this perception are:

1. The compliance of future tax calculation
2. The compliance of future tax credit
3. The compliance of future tax payment
4. The compliance of future tax report

3.3. Research model

This study is aimed to evaluate the appropriateness of the tax amnesty program in order to increase tax compliance.

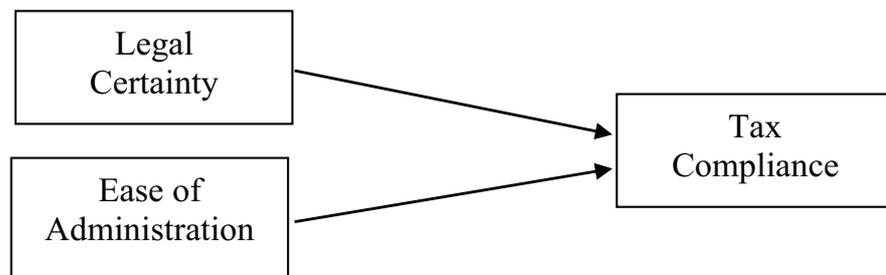


Figure 1: Research model.

4. Results and Findings

The OLS Model results where Durbin-Watson's overall score for the model is equal to 1,637; this indicates that there is no autocorrelation and linearity of the model. It has Variance Inflation Factor (VIF) lower than 10 which indicate that no serious multicollinearity problems occurred. The residual plot does not figure dispersed out which indicates there is no heteroscedasticity related to the variables. All of the variable components explain 68% of the future tax compliance reasons. Result of the model is significant.

It is found out that legal certainty and ease of administration has the influence to increase tax payer compliance. Tax amnesty as a national reconciliation movement of taxation stipulated in Law number 11 year 2016 to guarantee legal certainty for taxpayers. Slogan "Claim, Redeem, Relief" is a symbol that is captured by the taxpayers

that the tax amnesty will provide ease of administration for taxpayers. The end of result, both gives the willingness to increase tax compliance for the future.

5. Conclusion

This study uses Indonesia as a setting of a developing country where it has underground economic activity in large numbers whilst at the same time tax revenue is still quite vital in generating country revenue. Secondly, this study provides feedbacks to the authority bodies related to the appropriateness of the tax amnesty program in order to increase Tax Payer Compliance. Finally, this study adds to the current debates related to the pros and cons associated with the existence of a tax amnesty program in developing country.

It is found out that legal certainty and ease of administration has the influence to increase tax payer compliance. However the most important thing is that after this program is run. Government needs to prepare a good data management and regulation so that the program is not in vain to make the descent back the tax compliance.

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