



DIRECTORATE GENERAL OF TAXES INSTITUTIONAL TRANSFORMATION PROGRAM



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Indonesian Taxation

❑ Self Assessment System

❑ Types of Tax:

❑ Income Tax

- ❖ Individual : progressive rate 5%-30%
- ❖ Corporation : flat rate 25% (starting from 2010)
- ❖ Small and Medium Enterprise : 1% from total gross profit (terms & condition applied)

❑ Value Added Tax : flat rate 10%

❑ Property Tax: flat rate 5% (effective rate 0.1%)

❑ Stamp Duty : 2 rates

❑ Tax Treaty: 65 countries

❑ Organization:

❖ Head Office (1)

❖ Regional Office (31)

❖ Operational Office (331)

➤ Large Taxpayers Office - LTO – (4)

➤ Medium Taxpayers Office - MTO – (28), including special region tax offices

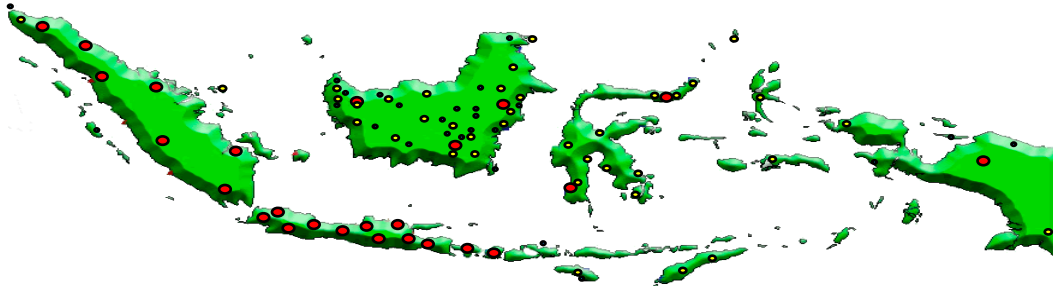
➤ Small Taxpayers Office - STO – (299)

❑ Human Resources

❖ ± 32,000 staff



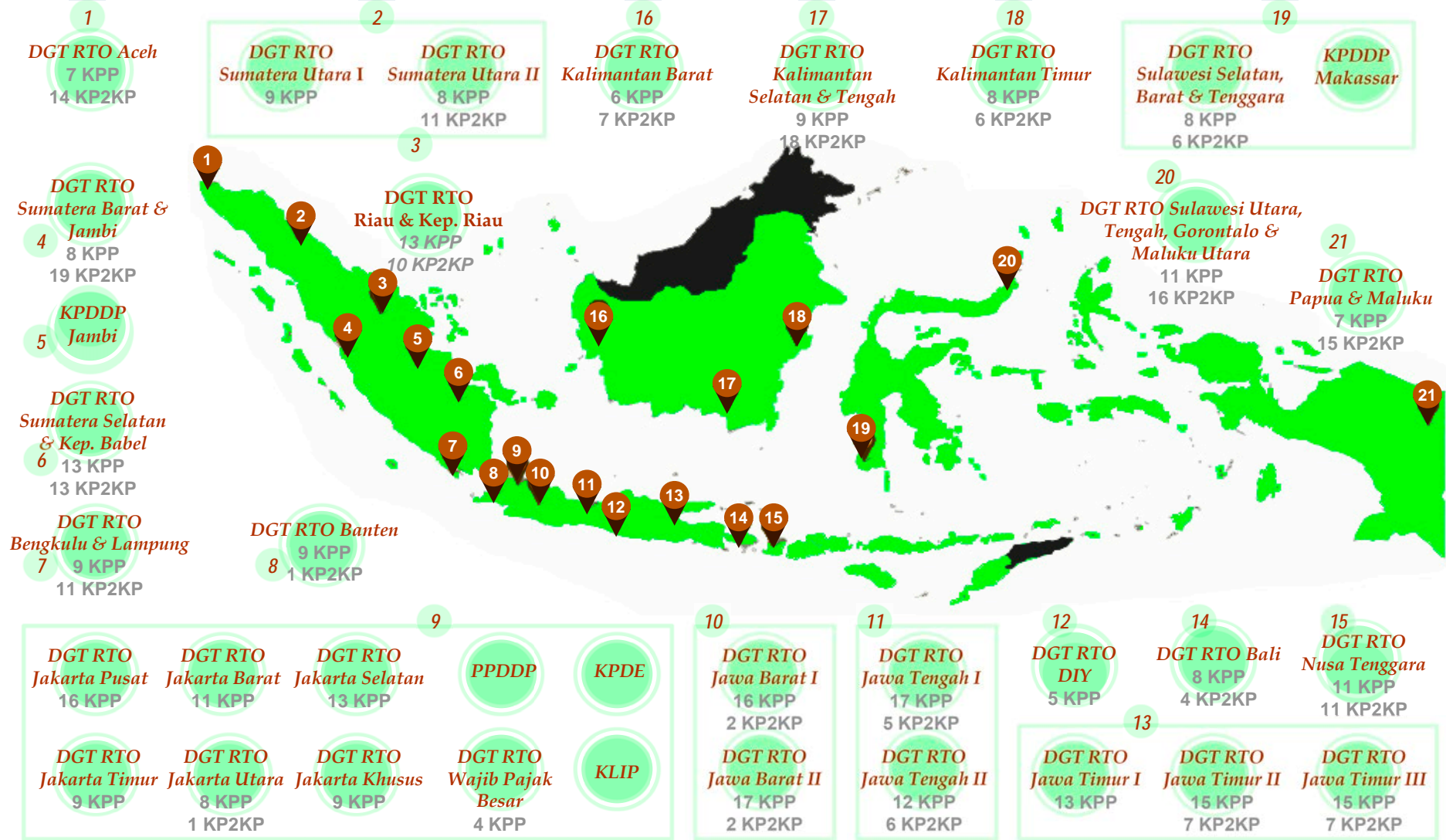
SUMMARY OF TAX OFFICES



Type of Office	No. of Offices	Taxpayers Administered
Regional Office	31	-
Large Taxpayers Office	4	± 300
Medium Taxpayers Office	19	± 1.000
Special Region Tax Office	9	± 1.000
Small Taxpayers Office	299	± 50.000
TOTAL	331	
Tax Services, Dissemination, And Consultation Office (KP2KP)	207	
Data Processing Centre	4	
Call Centre	1	



Coverage Area of 31 Tax Regional Offices



31 Tax Regional Offices (TROs) for 34 Provinces

(9 TROs with area > 1 Province)

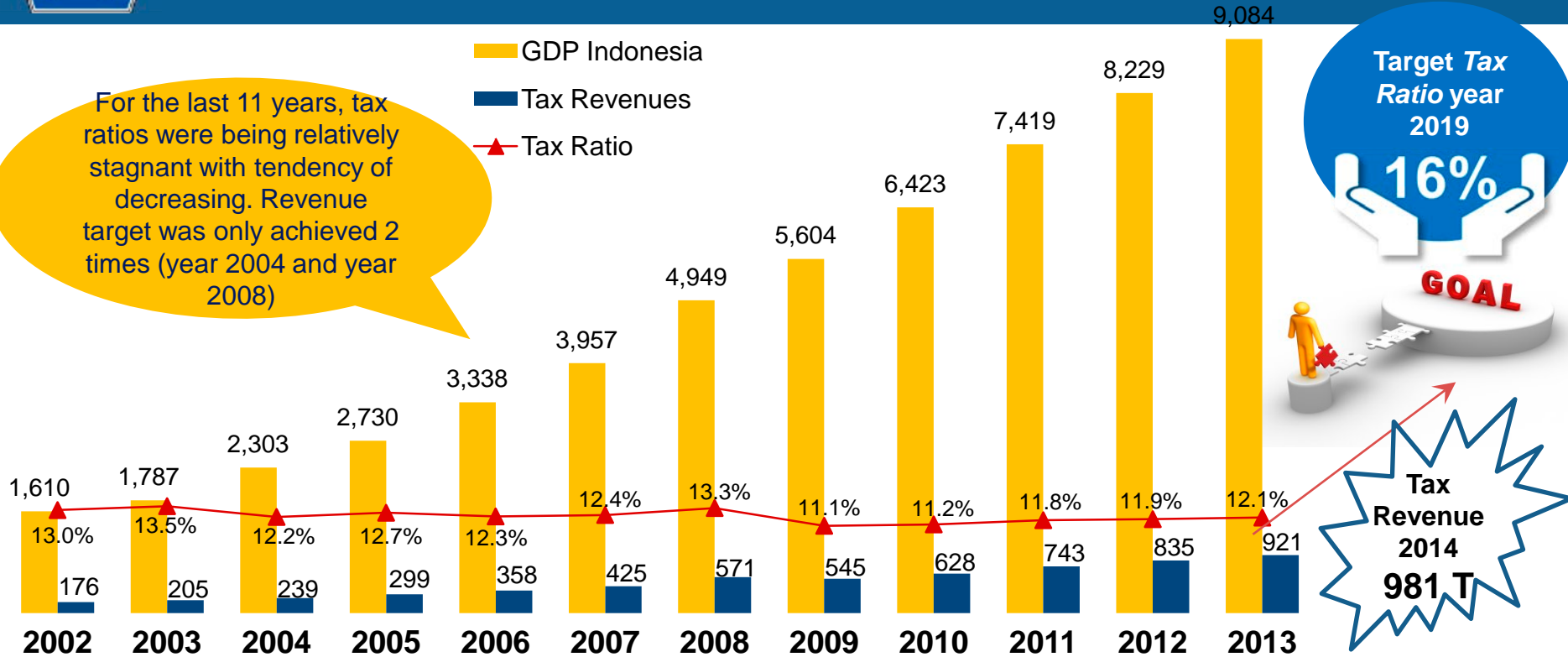
331 Tax Offices (TOs) for 511 Municipalities/Cities

(132 TOs with area > 1 Municipalities/Cities)



Challenge: Low Tax Revenue compare to GDP

For the last 11 years, tax ratios were being relatively stagnant with tendency of decreasing. Revenue target was only achieved 2 times (year 2004 and year 2008)



Description	Year											
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP Indonesia*	1.610	1.787	2.303	2.730	3.338	3.957	4.949	5.604	6.423	7.419	8.229	9.084
Tax Revenues by DGT*	176	205	239	299	358	425	571	545	628	743	835	921
Tax Ratio**	13,0%	13,5%	12,2%	12,7%	12,3%	12,4%	13,3%	11,1%	11,2%	11,8%	11,9%	12,1%
Realisation of Revenue Target	98%	97%	100%	99%	96%	98%	107%	94%	95%	97%	94%	93%

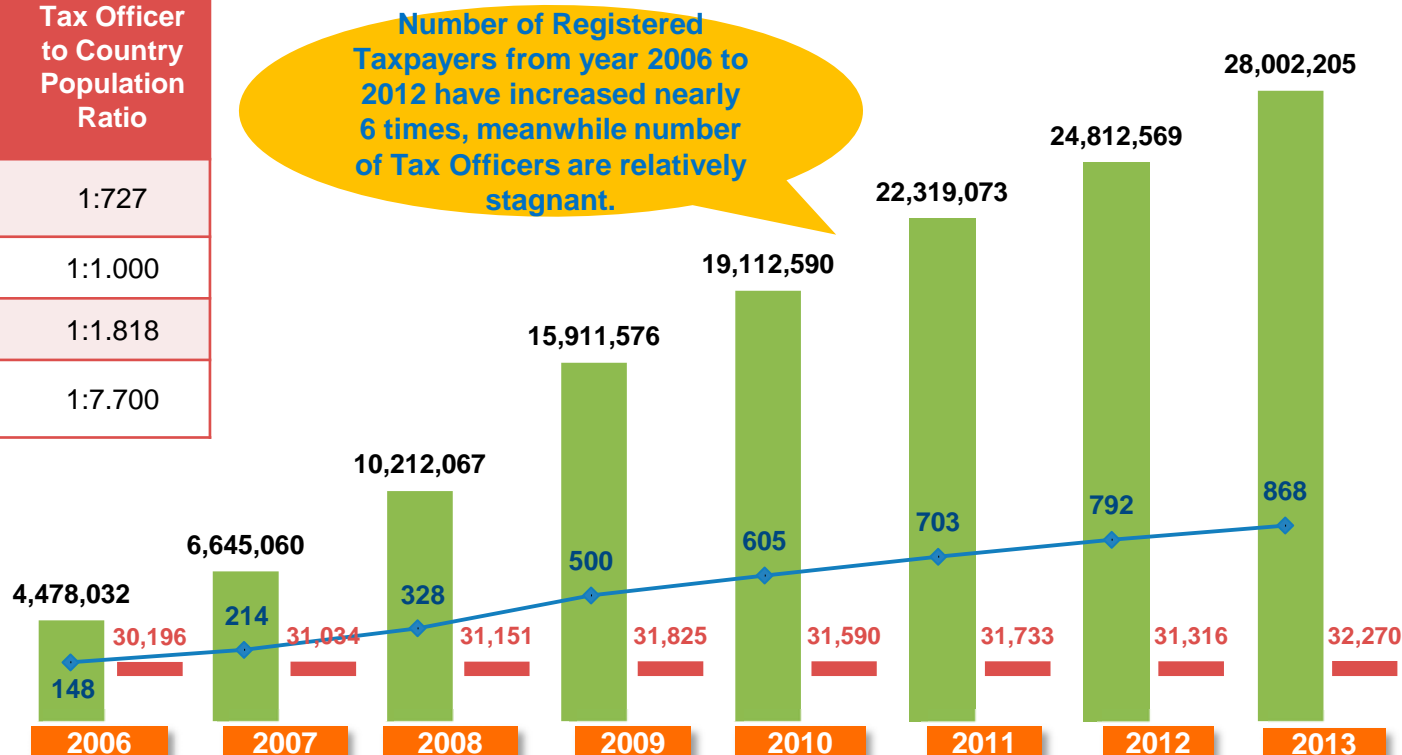
*) in Trillion Rupiah

**)including revenues from Customs and Excises. For year 2011, 2012, and 2013, Tax ratios are 10%, 10,1% and 10,13%



Not Optimal Number of Tax Officers

Country	Number of Tax Officer	Number of Country Population	Tax Officer to Country Population Ratio
Germany	110K	80 mio	1:727
Australia	25K	25 mio	1:1.000
Japan	66K	120 mio	1:1.818
Indonesia	31K	240 mio	1:7.700



Description	Year							
	2006	2007	2008	2009	2010	2011	2012	2013
Number of Registered Taxpayers	4.478.032	6.645.060	10.212.067	15.911.576	19.112.590	22.319.073	24.812.569	28.002.205
Number of Tax Officers	30.196	31.034	31.151	31.825	31.590	31.733	31.316	32.270
Registered Taxpayers to Tax Officers ratio	148	214	328	500	605	703	792	868



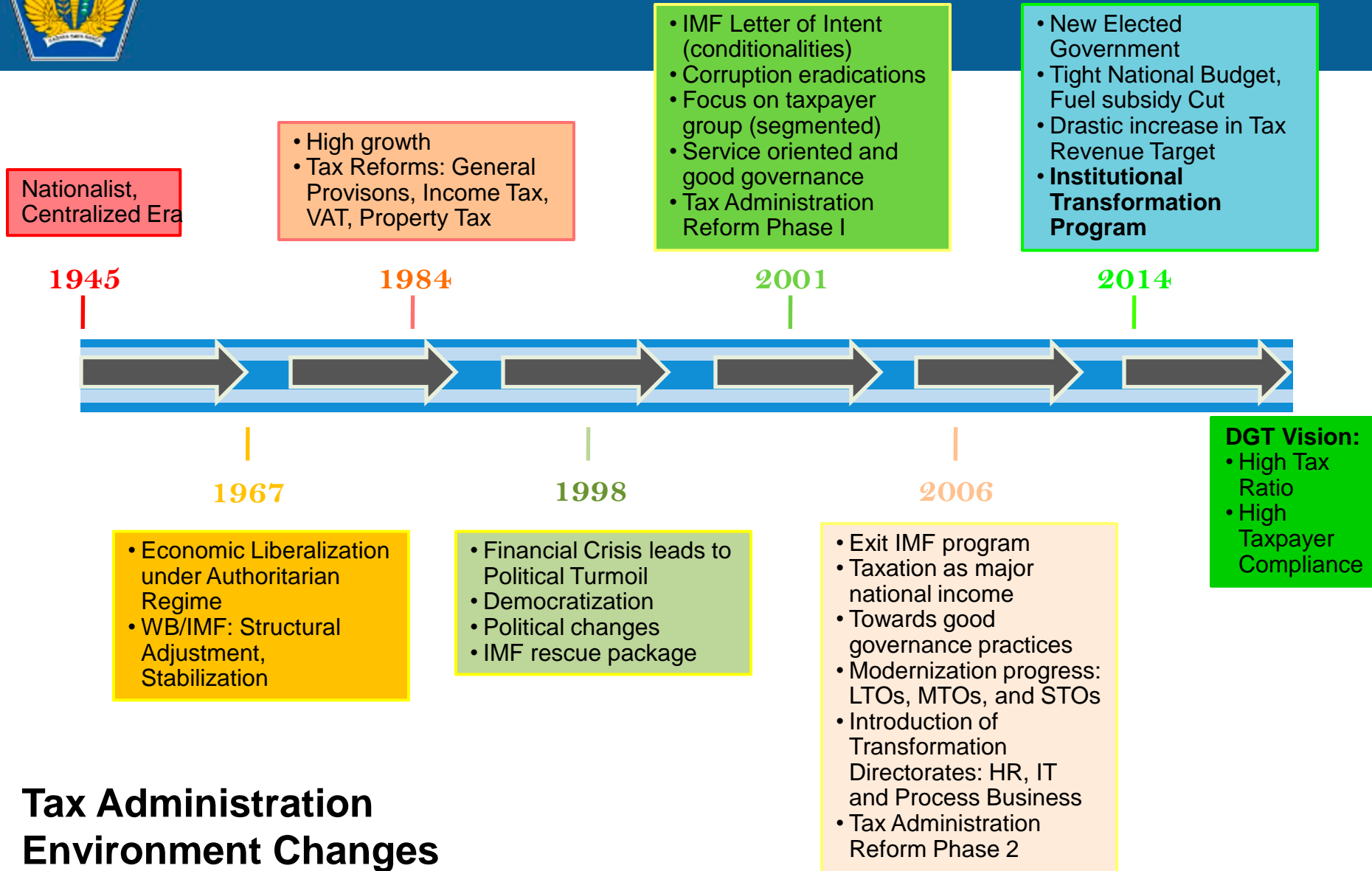
Challenges related to Administration

- ❖ Current DG Tax segmentation and tax office coverage does not cater to the diverse needs of taxpayers. There are no differentiation within SME segment;
- ❖ Criteria for assigning taxpayers to LTO, MTO and STO is not updated regularly;
- ❖ STOs have very burdensome coverage ratios, which are imbalanced across geographies:
 - Each STO serves ~250,000 potential taxpayers
 - Severe geographic imbalance
 - Revenue potency not fully captured
 - STO as the primary channel for serving individuals and SMEs
 - Format of STO is exactly the same as MTO and LTO (i.e., 8 sections with ~70-80 staffs)
- One-size-fits all regulation for audit procedures
- ❖ Access to data is limited; DGT must to follow long procedure to obtain data from other parties (eg. Banks)



Challenges related to Human Resources

- Insufficient number of auditors and Account Representatives (AR)
 - Auditors account for 14% of DG Tax workforce
 - ~4,500 auditors
 - ~6,800 ARs conduct both supervision and services function
- Challenges in Promotions and Transfers
 - Gender imbalance
 - Wide Geographic areas
- Improving on the job training system to increase skill and knowledge of staff across the nation
- Setting up employee's performance evaluation system (KPIs)

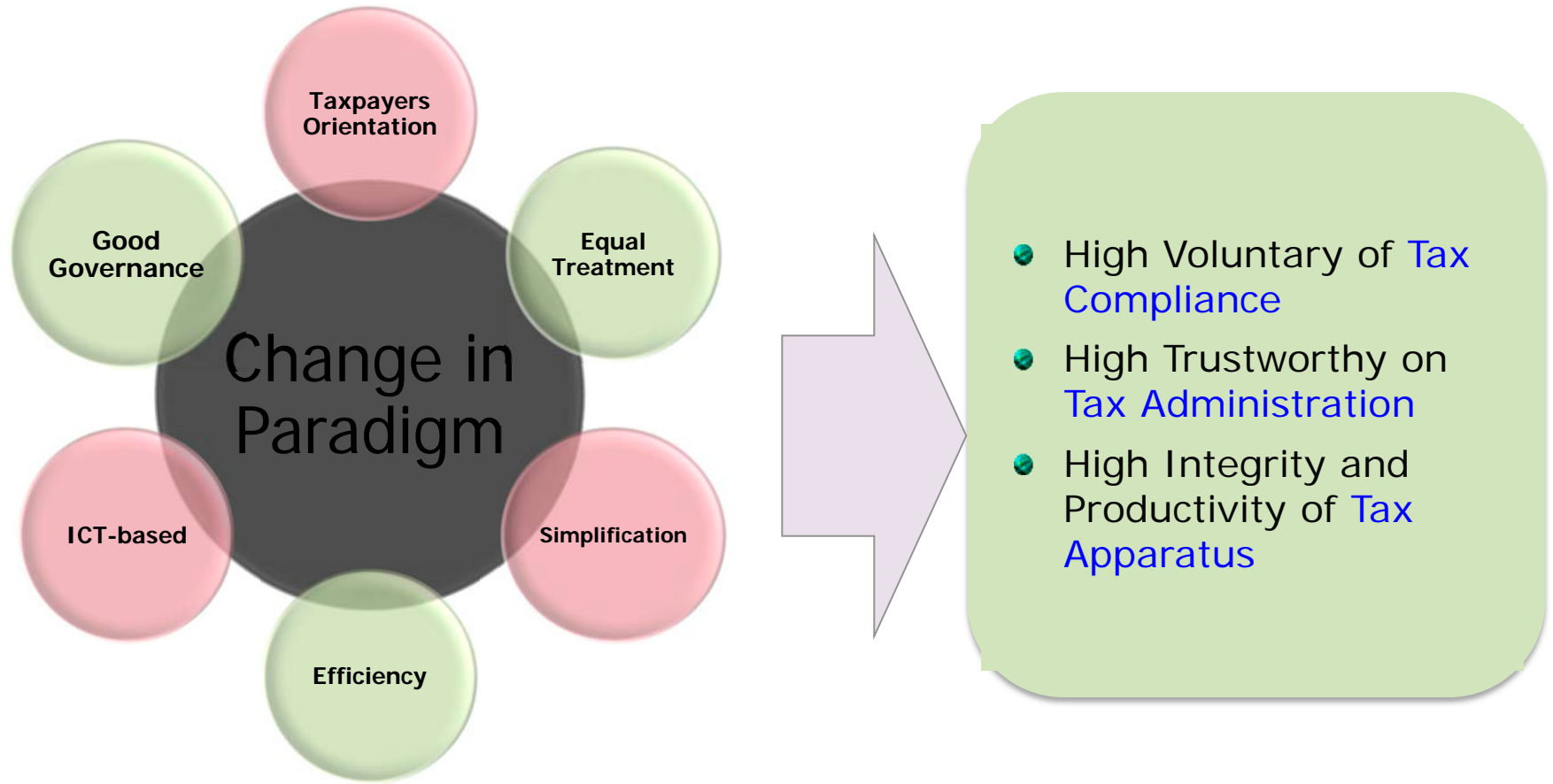


Tax Administration Environment Changes



TAX REFORM PHILOSOPHY

“Excellent Services and Intensive Monitoring with Good Governance”





Vision and mission have been refined to reflect this aspiration

Vision

To be a **trusted** tax administration institution that treats all taxpayers fairly and delivers excellent service through technology

Emphasizes 'tax fairness'

Opportunity to leapfrog to 'advanced services' through technology

Mission

Improve the **welfare of all Indonesians** by:

- **Collecting revenues and enforcing the law equally** to all taxpayers
- Making it **easy** for taxpayers to comply
- Staying at the **forefront of relevant technology**
- **Attracting and developing best-in-class talent**

Inspirational and meaningful

What it means to treat taxpayers fairly

What it means to deliver excellent service

How services will be delivered

Employees as key stakeholder



Given the vision and mission, the Transformation will emphasize tax fairness first, while investing in technology for service excellence

Quick wins (2013-2014)

Medium term (2015-2019)

Long term (2020-2025)

Initial emphasis on TAX FAIRNESS

Establish DG Tax credibility and capture the deterrent effect

- Increase audit coverage; reduce time to audit
- Improve integrity of law enforcement
- Launch integrated communications

Lay the foundation for advanced services by improving data management & investing in IT

- Clean taxpayer registry
- Process tax returns faster via improved DPC
- Drive e-filing aggressively
- Link NPWP to e-KTP
- Revamp SIDJP

Secure the flexibility to attract and develop best-in-class talent; restructure the organization

Shift towards SERVICE EXCELLENCE

Offer relevant, advanced services to taxpayers

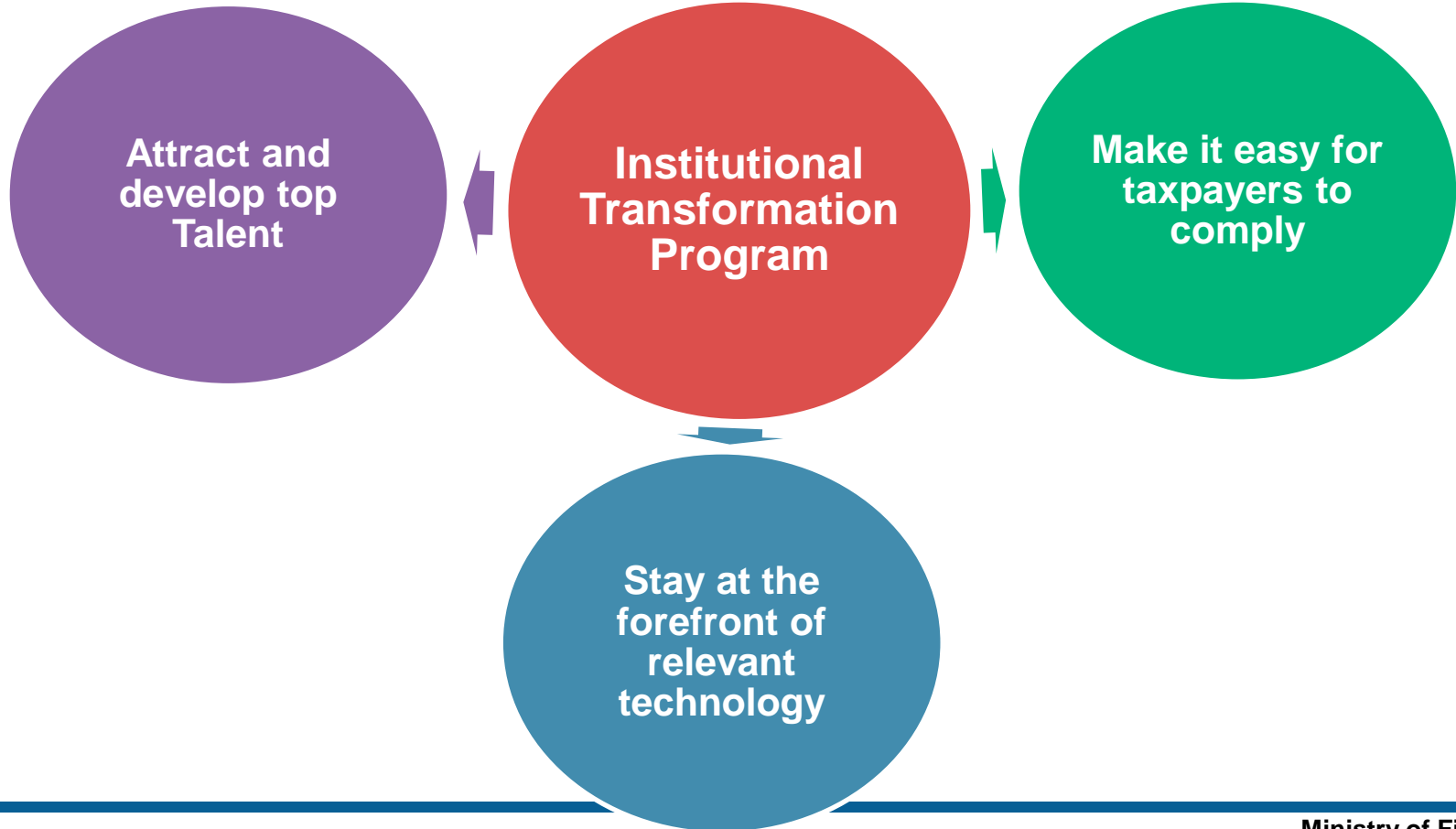
- Push for e-filing (and other e-services) at scale
- Shift aggressively to web and call centers

Data-driven taxpayer outreach and risk-based compliance

- Establish seamless access to 3rd party data for detection of the informal economy and for the compliance risk model (crm)
- Link compliance risk model to critical business processes



**The Transformation
will carry out 4
Missions ...**





Aspiration will be achieved through 10 transformation themes...

Mission	Transformation themes
Collect revenues and enforce the law fairly	<ul style="list-style-type: none">I Shift the tax mix to include <i>all</i> taxpayersII Enforce risk-based complianceIII Improve the integrity of law enforcementIV Capture the deterrent effect with integrated communicationsV Strengthen external partnerships
Make it easy for taxpayers to comply	<ul style="list-style-type: none">VI Implement 'lean operations' and electronificationVII Shift to a multi-channel service model
Stay at the fore-front of relevant technology	<ul style="list-style-type: none">VIII Revamp and integrate IT systems
Attract and develop top talent	<ul style="list-style-type: none">IX Strengthen human capitalX Empower the organization





...which are supported by 16 initiatives

Transformation themes

Key initiatives

Collect revenues and enforce the law fairly

I Shift the tax mix to include *all* taxpayers

II Enforce **risk-based compliance**

III Improve the **integrity of law enforcement**

IV Capture the 'indirect effect' via **integrated communications**

V Strengthen **external partnerships**

Make it easy for taxpayers to comply

VI Implement '**lean**' operations and end-to-end **electronification**

VII Shift to a **multi-channel service** model

Stay at the forefront of relevant technology

VIII Revamp and integrate **IT systems**

Attract and develop top talent

IX Strengthen **human capital**

X Empower the **organization**

- 1** Improve segmentation and coverage model of small taxpayers
- 2** Pursue the informal economy through an end-to-end approach
- 3** Revamp the VAT administration system
- 4** Develop a predictive, risk-based compliance model linked to business processes
- 5** Improve audit and collections effectiveness¹
- 6** Ensure quality and consistency of law enforcement

7 Launch an integrated communications strategy

8 Systematically engage 3rd parties for data, enforcement and taxpayer outreach

9 Enhance tax offices

10 Selectively increase DPC coverage and improve data capturing capabilities

11 Migrate taxpayers to e-filing

12 Drastically increase call center capacity

13 Expand functionality of website

IT initiatives are implemented in coordination with MOF; details are provided in the ICT Blueprint

14 Re-align functional staff and selectively increase capacity

Cross-cutting HR initiatives on talent and performance management are implemented in coordination with MOF

15 Restructure the organization

16 Secure flexibilities needed for the transformation



Milestones for each initiative are outlined in the detailed Institutional Transformation Roadmap...

Transformation themes	Key initiatives	QUICK WINS (2013-2014)	Medium term (2015-2019)	Long term (2020-2025)
		Gain the license to reform	Achieve operational excellence at scale	Institutionalize breakthroughs
I Shift the taxpayer mix to include all taxpayers	1 Improve segmentation and coverage model of small taxpayers	<ul style="list-style-type: none"> Segmentation of small taxpayers refined 	<ul style="list-style-type: none"> Services offered at 3rd party branch networks (e.g., post office) by 2016 Full roll-out of mobile tax units by 2017 KP2KP revamped into "KPP-B"; selective increase in rural areas 	<ul style="list-style-type: none"> Significant shift to web and call center; KPP can be rationalized in urban areas
	2 Pursue the informal economy through an end-to-end approach	<ul style="list-style-type: none"> Study on informality completed 	<ul style="list-style-type: none"> 100% of taxpayers with NPWP (linked to e-KTP) by 2017 Informal economy captured sector-by-sector, through an end-to-end approach (until <i>crm</i> is implemented in 2018) 	<ul style="list-style-type: none"> Informal economy detected through comprehensive 3rd party data
	3 Revamp VAT administration system	<ul style="list-style-type: none"> Testing of e-invoice client application 	<ul style="list-style-type: none"> Mandatory roll out of e-invoice by 2016 	<ul style="list-style-type: none"> Real-time validation for VAT e-invoice
II Enforce risk-based compliance	4 Develop a predictive, risk-based compliance model linked to business processes	<ul style="list-style-type: none"> Risk engine prototype piloted Taxpayer registry data cleaned for inconsistencies and duplicates 	<ul style="list-style-type: none"> Automated and centralized risk engine completed (by 2018) Tailored business processes implemented nationally, including audit (e.g., "lean" approach for STO), collections, service and education 	<ul style="list-style-type: none"> Intelligence-led risk identification; predictive power of risk engine enhanced with comprehensive 3rd party data
	5 Improve audit and collections effectiveness (until CRM is implemented)	<ul style="list-style-type: none"> Differentiated audit and collections approach launched (e.g. SWAT team with highly experienced and specialized skills) 	<ul style="list-style-type: none"> Simplified audit steps Improved case allocation Improved tools and worksheet template Transition to CRM 	
III Improve integrity of law enforcement	6 Ensure quality and consistency of law enforcement	<ul style="list-style-type: none"> Workload analysis of law enforcement employees completed 	<ul style="list-style-type: none"> Peer review and quality assurance process integrated with HR management system e.g., KPIs, reward & punishment Full roll-out of integrated case workflow management (potency revenue, audit, objection, appeal & investigation) 	<ul style="list-style-type: none"> Comprehensive knowledge management system across audit, objection, appeal & investigation function
	7 Launch an integrated communications strategy	<ul style="list-style-type: none"> Credible reputation established internally & among government agencies Support and commitment from top national leadership 	<ul style="list-style-type: none"> Taxpayers consider DG Tax a trusted institution, striking the balance between law enforcement and taxpayer service Tax education becomes part of structured and integrated curriculum by 2019 	<ul style="list-style-type: none"> Taxpayers are aware of their obligation to pay tax, understand the consequences of non-compliance, and believe that DG Tax is making it easy for them to comply
IV Maximize the 'deterrent effect' via integrated communications				
V Strengthen partnerships with external parties	8 Systematically engage 3 rd parties for data, enforcement and taxpayer outreach	<ul style="list-style-type: none"> Top-down mandate secured (e.g., President) & minister-level engagement Law enforcement partnerships strengthened 	<ul style="list-style-type: none"> Priority 3rd parties systems linked to DG Tax (e.g., e-KTP, BI) for the risk-based compliance model 	<ul style="list-style-type: none"> Full access to all 3rd party data; seamless inter-linkage of IT system and data exchange
	9 Enhance tax offices	<ul style="list-style-type: none"> Standardized document management system in tax offices 	<ul style="list-style-type: none"> Paper-based tax returns for single-income individuals (1770SS) can be received through any tax offices and sent directly to DPC by 2015; DPC coverage selectively expanded until 2019 	<ul style="list-style-type: none"> Universal adoption of e-filing
VI Implement 'lean' operations and end-to-end electronification	10 Selectively increase DPC coverage and improve data capturing capabilities	<ul style="list-style-type: none"> Consistent taxpayer service interaction in tax offices 	<ul style="list-style-type: none"> Universal e-filing capability platform available for all type of tax return in DG Tax by 2018 Nationwide archive digitalization by 2018 All paper-based tax return sent directly to DPC by 2019 	<ul style="list-style-type: none"> Paper based tax returns remain only in most remote areas; submission can be done directly to DPC for processing
	11 Migrate taxpayers to e-filing	<ul style="list-style-type: none"> e-filing available for single-income individuals 		
VII Shift to a multi-channel service model	12 Drastically increase call centers capacity	<ul style="list-style-type: none"> 2-3x increase in manpower; IVR system piloted 	<ul style="list-style-type: none"> Single taxpayer account, payments and select services (e.g., tax refund status) available online; service offerings integrated with call center 	<ul style="list-style-type: none"> Continued shift away from tax offices towards alternate channels
	13 Expand functionality of website	<ul style="list-style-type: none"> Website redesigned 		
VIII Revamp and integrate IT systems				
IX Secure and strengthen human capital	14 Re-align functional staff and selectively increase capacity	<ul style="list-style-type: none"> Business processes adjusted to re-align account representative (AR) role in the short term 	<ul style="list-style-type: none"> 75% of ARs transition to become auditors; remaining 25% form part of new "consultation section" within KPPs KPP enhanced to ensure separation of roles 	<ul style="list-style-type: none"> Increased automation results in reduced need for manpower in labor intensive roles
		<i>IT initiatives are implemented in coordination with MOF; details are provided in the ICT Blueprint</i>		
X Empower the organization	15 Re-structure the organization	<ul style="list-style-type: none"> Approval from MenPan, President and Parliament for DG Tax to reduce span of control, set compensation, manage performance, and set own budget 	<ul style="list-style-type: none"> Functional organization structure with dedicated offices for large taxpayers by 2019; audit becomes increasingly specialized Employee value proposition is competitive with public and private sector 	<ul style="list-style-type: none"> DG Tax is a "privately run government revenue agency" which is structured around customer segments
	16 Secure flexibilities needed for the transformation			



...that require a fundamental changes in operational model

Transformation themes

- 1 Taxpayer mix
- 2 Risk-based compliance
- 3 Integrity law enforcement
- 4 Integrated communications
- 5 External partnerships
- 6 Lean operations and electronification
- 7 Multi-channel service
- 8 Revamped IT
- 9 Human capital
- 10 Empowered organization

From...

- Corporate-focused, export-reliant
- One-to-one extensification; <50% compliance
- Time consumed by low-risk taxpayers
- One-size-fits all approach
- Perception of lack of transparency, consistency, and integrity
- Audits and investigations not publicized
- Communications driven by single directorate
- Bottom-up, one-by-one engagement
- Low cooperation
- Extremely low e-filing rate
- Paper-based and labor intensive processes
- Limited digitization capacity, low accuracy
- Tax-office centric service model (high touch, high cost)
- Extremely low call center capacity
- Data is not clean, no 'single source of truth'
- Fragmented systems and manual processes
- Insufficient manpower to cover new taxpayers
- Lack of functional staff
- No performance differentiation
- Bureaucratic processes; wide span of control
- Limited flexibilities

To...

- 100% of Indonesian taxpayers with an NPWP
- Data-driven outreach with 100% compliance
- Data-driven compliance risk model (CRM) enables business processes to be tailored to risk level (e.g., SWAT team vs "lean" approach)
- Rigorous internal controls (e.g., peer reviews), knowledge-based tools and proper incentives
- Deterrent effect captured
- Integrated governance and processes
- Top down engagement for data, enforcement and taxpayer outreach
- Intensive cooperation (e.g., stakeholder labs)
- e-filing available for all Indonesians
- Streamlined returns processing in <15 days
- Selective expansion of data processing centers
- Call center capacity expanded 10x
- Full suite of e-services offered on pajak.go.id (e.g., e-payment, single sign on)
- Systems centralized and rationalized
- Relevant technologies adopted
- Selective increase in capacity (e.g., auditors)
- End-to-end talent and performance management
- Revamped organization structure
- DG Tax as a "privately run government agency"



The Transformation is expected to deliver several high-impact outcomes (1/2)

Initial focus on **TAX FAIRNESS**

Shift towards **SERVICE EXCELLENCE**

Short term (2013-2014)
Gain the license to reform

- Highly skilled '**SWAT team**' of **auditors, lawyers and bailiffs** serve large, high-risk taxpayers
- Up to **700,000 new e-filers**
- **Tax returns processing** time reduced by 50%
- **Call center** expanded 2-3x
- Approval secured to **reduce span of control**, offer **competitive compensation** and make major investments in **IT infrastructure**

Medium term (2015-2019)

Establish operational and service excellence at scale

- **100% of Indonesians registered**, with their NPWP fully linked to e-KTP
- **25 million e-filers** for all types of taxes; incl. access to **single taxpayer account**
- Paper tax returns **sent directly to data processing centers** for digitization
- Every citizen with access to a **physical point of contact** in their district
- Access to **priority 3rd party data** aids in extensification and intensification; informality is addressed **sector-by-sector**
- **Compliance risk model** enables segmented approach for service, education and law enforcement
- DG Tax operates as a "**privately run government agency**"

Long term (2020-2025)

Institutionalize breakthroughs

- Full suite of services **available electronically** (e.g., e-payment); **removal of paper** in processing
- Seamless **access to 3rd party data** enables easier detection of the informal economy; and allows for a fully automated risk-based compliance model
- **Process automation** at scale (e.g., automation of case allocation, risk rating of refunds)
- Organization structure shifts to become **taxpayer-centric**



The Transformation is expected to deliver several high-impact outcomes (2/2)

- Up to **700,000 new e-filers**
- **100% of Indonesians registered**, with their NPWP fully linked to e-KTP
- **25 million e-filers** for all types of taxes; incl. access to **single taxpayer account**
- Paper tax returns **sent directly to data processing centers** for digitization
- **Compliance risk model** enables segmented approach for service, education and law enforcement





**End of Presentation
Thank You**