

IMPLICATIONS OF THE IMPLEMENTATION OF THE TAX ADMINISTRATIVE SANCTIONS POLICY ON TAXPAYER COMPLIANCE

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Abstract

General provisions on taxation in Indonesia have regulated tax administration sanctions. The regulation and application of tax administration sanctions is expected to encourage taxpayer compliance. Through taxpayer compliance, tax revenue can reach the target on an ongoing basis. However, in reality, tax revenues in Indonesia tend to never reach the target. This is due to the still weak taxpayer compliance. Departing from this situation, this study examines the regulation of tax administration sanctions and their effectiveness in increasing taxpayer compliance. This research is a juridical-normative research. Data was collected through a study of documents originating from legal materials, both primary, secondary and tertiary. The research finding is that changes to the provisions on tax administration sanctions based on Law Number 7 of 2021 concerning Harmonization of Tax Regulations can encourage taxpayer compliance because these changes are marked by a reduction in sanctions that are not burdensome to taxpayers and are better able to reflect proportionality, convenience, and fairness compared to provisions previously. However, the application of tax administration sanctions in encouraging tax compliance still faces obstacles, namely that there is no adequate infrastructure in supervising and examining all taxpayers who commit tax non-compliance, the quantity and quality of tax officials in supervising and examining taxpayers, and the attitude of taxpayers who commit tax avoidance rather than fulfilling tax obligations.

Keyword: *Tax Administration Sanctions; Tax Compliance; Legal Substance; Legal Structure; Legal Culture*

1. INTRODUCTION

National development is a series of sustainable development efforts covering the entire life of the people of the nation and state. In implementing national development, the participation of all elements of society is required. One form of participation is through tax payments.¹ Through tax payments, the state obtains revenue for development financing.

¹ In Indonesia, the legal basis for collecting taxes is stated in Article 23A of the 1945 Constitution which reads, "Taxes and other levies that are coercive for state purposes are regulated by law".

Taxes are the biggest source of state revenue.² As the main source of state revenue, taxpayer compliance in carrying out its obligations in the field of taxation is urgently needed. The more obedient the taxpayers carry out their obligations, the greater the state revenue. The greater the state revenue, the greater the development can be carried out so that it has an impact on the prosperity of the people.

Tax compliance is the behavior of taxpayers in fulfilling their tax obligations. There are two kinds of tax compliance.³ First, formal compliance. Formal compliance is compliance with the submission of tax reports as stipulated by the tax law. Second, material compliance. Material compliance is compliance with paying taxes according to the amount that must be paid.

In Indonesia, formal compliance tends to increase every year. Internal data from the Directorate General of Taxes regarding the submission of Income Tax Returns for example, notes that there has been an increase in the average formal compliance over the last 10 years from 2012 to 2022 (Table 1). Unlike the condition of formal compliance, material compliance does not show the same thing. The fluctuating performance of tax revenues in Indonesia and never reaching the target since 2012 (Table 2) indicates low material compliance. In 2021, tax revenues in Indonesia will indeed reach the target. However, this achievement was supported by the increase in mineral and coal prices.⁴ Ideally, the tax revenue target is achieved due to increased tax compliance so that the tax revenue target can be achieved from year to year on an ongoing basis.

Table 1 Average Level of Formal Compliance (2012-2022)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Average Level of Formal Compliance	52,31 %	56,22 %	59,13 %	60,42 %	60,75 %	72,58 %	71,10 %	72,90 %	77,63 %	84,0 %	83,2%

Source: Report from Directorate General of Taxes (2022)

² Mahdi and Windi Ardiati, "Pengaruh Kesadaran WP dan Sanksi Pajak Terhadap Kepatuhan WP Orang Pribadi Pada Kantor Pelayanan Pajak Pratama Banda Aceh," *Jurnal Ekonomi Manajemen dan Akuntansi* 3, no. 1 (2017): 22–31, <https://doi.org/10.26905/ap.v3i1.1324>.

³ T. Aryati, "Analisis Faktor-Faktor yang Mempengaruhi Tingkat Kepatuhan WP Badan," *Jurnal Media Ekonomi dan Manajemen* 25, no. 1 (2021): 13–29.

⁴ Wibi Pangestu Pratama and Novita Sari Simamora, "Chatib Basri: Penerimaan Pajak Tembus Target Karena Kenaikan Harga Komoditas," *Bisnis.com*, December 28, 2021, <https://ekonomi.bisnis.com/read/20211228/259/1482707/chatib-basri-penerimaan-pajak-tembus-target-karena-kenaikan-harga-komoditas>.

Table 2 Tax Revenue Since 2012-2022

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Target (Rp trillion)	885	995	1.072	1.294	1.355,20	1.283,60	1.424	1.577,60	1.198,8	1.229,6	1.485,9
Realization (Rp trillion)	836	921	985,1	1.055	1.105,97	1.151,03	1.313,33	1.332,60	1.019,56	1.231,87	1.717,8
Achievements	94,5 %	92,6 %	91,9 %	81,5 %	82%	90%	92%	84%	85,65 %	100,19 %	115,6 %

To encourage tax compliance, Indonesia has implemented tax administration sanctions. Indonesia adheres to a tax system with a self-assessment system.⁵ This system is implemented by giving full trust to taxpayers in fulfilling their tax obligations. The consequence of implementing this system is that tax revenue is based on the taxpayer's awareness of carrying out his obligations correctly.⁶ In addition to the need for honesty and discipline, the self-assessment system also requires the application of administrative sanctions for taxpayers who violate it so as to encourage tax compliance.

Verboon and van Dijke explain that a higher level of sanctions can increase tax compliance as long as the procedure is seen as fair by society.⁷ Reflecting on the views of Verboon and van Dijke, the application of tax administration sanctions may not work effectively to encourage tax compliance if the tax administration sanctions are deemed too burdensome or unfair by the taxpayer. Webley explains whether taxpayers comply or not are caused by several factors, namely opportunity factors, perceptions of fair and equal treatment, differences in attitudes, social norms, and knowledge of the tax system and its requirements.⁸ Reflecting on Webley's point of view, the lack of knowledge of taxpayers regarding tax administration sanctions, unfair regulation of the legal substance of tax sanctions, weak values or norms adhered

⁵ Law Number 6 of 1983 on General Provisions and Tax Procedures.

⁶ Leon Yudkin, *The Legal Structure of Effective Income Tax Administration* (Cambridge: Harvard Law School, 1973).

⁷ Peter Verboon and Marius van Dijke, "When Do Severe Sanctions Enhance Compliance? The Role of Procedural Fairness," *Journal of Economic Psychology* 32, no. 1 (February 2011): 120–130, <https://doi.org/10.1016/j.joep.2010.09.007>.

⁸ Paul Webley, "Tax Compliance by Businesses," in *New Perspectives on Economic Crime*, ed. Hans Sjögren and Göran Skogh (Cheltenham: Edward Elgar, 2004), <https://doi.org/10.4337/9781843769835.00012>.

to by taxpayers, and weak infrastructure of supervision and services can lead to the application of tax administration sanctions to encourage tax compliance is not running effectively.

Based on the background above, the researcher considers it important to examine the application of tax administration sanctions and their implications for tax compliance in Indonesia. The problems studied include (1) how to regulate the policy of imposing tax administrative sanctions in Indonesia, (2) how to implement the imposition of tax administrative sanctions in Indonesia to encourage tax compliance, and (3) how the concept of policy regulation on the imposition of tax administration sanctions in Indonesia is just and legal certainty so as to encourage tax compliance?

2. RESEARCH METHOD

This research is a juridical-normative research. The approaches applied are statutory, comparative, and case study approaches. The statutory approach is applied by examining the statutory regulations to find deficiencies or weaknesses in the tax administration sanction regulations. A comparative approach is applied by comparing tax administration sanction regulations so that advantages and disadvantages can be found and their consequences for tax compliance. The case study approach is applied by studying dispute cases in tax courts related to tax administration sanctions.⁹ Through these three approaches, it is expected to find deficiencies or weaknesses in tax administration sanctions both in terms of legal substance, legal structure, and legal culture.

Data collection was carried out through a literature study. Literature study is done by studying documents relevant to research. These documents come from primary legal materials such as laws and regulations, secondary legal materials such as articles and expert views, or tertiary legal materials such as dictionaries and news in newspapers related to tax administration sanctions in Indonesia.¹⁰ The data analysis method used in this research is qualitative analysis. The steps of data processing techniques start from data collection, data reduction, data presentation, verification, to interpretation and conclusion.¹¹

⁹ Peter Mahmud Marzuki, *Penelitian Hukum* (Jakarta: Kencana Prenada, 2010), 35–45.

¹⁰ Soerjono Soekanto and Sri Mamudji, *Penelitian Hukum Normatif: Suatu Tinjauan Singkat* (Jakarta: PT Raja Grafindo Persada, 2003), 13.

¹¹ Matthew B. Miles, *Analisis Data Kualitatif: Buku Sumber Tentang Metode-Metode Baru* (Jakarta: Universitas Indonesia, 1992), 15.

3. RESULT AND DISCUSSION

3.1. Tax Administration Sanction Setting Policy in Indonesia

Tax administrative sanctions are payments for losses to the state due to violations committed by taxpayers and payments for these losses are in the form of fines, interest, or increases.¹² Fines are imposed for violations related to reporting obligations such as late reporting of tax returns. Interest sanctions are applied for violations related to tax payment obligations such as payment or deposit of taxes made after the due date for submission of tax returns. Increased sanctions are imposed for violations of the provisions of obligations stipulated in material provisions such as submitting information or tax reports that are incorrect, causing losses to state revenues.

Arrangements for tax administration sanctions in Indonesia, whether fines, interest or increases, are regulated in Law Number 6 of 1983 concerning General Provisions and Tax Procedures. In its development, since it was implemented in 1984, the material of this law has undergone several changes, namely in 1994, 2000, 2007 and 2009. With the issuance of Law Number 11 of 2020 concerning Job Creation and Law Number 7 of 2021 concerning the Harmonization of Tax Regulations, the material of Law Number 6 of 1983 concerning General Provisions and Tax Procedures also underwent changes, including those related to the provisions on tax administration sanctions. The changes in administrative sanctions are shown in following table.

Table 3. Comparison of Fines in Law Number 6 of 1983 concerning General Provisions and Tax Procedures with Law Number 11 of 2020 concerning Job Creation and Law Number 7 of 2021 concerning Harmonization of Tax Regulations

Description	Article	Amount of Fine Sanctions in Law Number 6 of 1983 concerning General Provisions and Tax Procedures	Change in Law Number 11 of 2020 concerning Job Creation and Law Number 7 of 2021 concerning Harmonization of Tax Regulations
Notification Letter (SPT) is not submitted within the stipulated time	Article 7 paragraph (1)	IDR 500,000.00 for Periodic VAT SPT IDR 100,000.00 for other periodical SPT	There isn't any

¹² Siti Resmi, *Perpajakan Teori dan Kasus* (Jakarta: Salemba Empat, 2014), 66.

Description	Article	Amount of Fine Sanctions in Law Number 6 of 1983 concerning General Provisions and Tax Procedures	Change in Law Number 11 of 2020 concerning Job Creation and Law Number 7 of 2021 concerning Harmonization of Tax Regulations
		IDR 1,000,000.00 for SPT PPh corporate taxpayers IDR 100,000.00 for individual SPT PPh	
Taxpayers voluntarily disclose incorrect data reported in the SPT and have not been investigated	Article 8 paragraph (3)	150% of the amount of underpaid taxes	100% of the amount of underpaid tax
100% of the amount of tax underpaid Entrepreneurs who have been confirmed as Taxable Entrepreneurs, but do not make tax invoices or make tax invoices, but not on time. The Taxable Entrepreneur does not fill out the invoice completely	Article 14 paragraph (4)	2 % of tax imposition	1 % of tax imposition
The objection was rejected or partially granted	Article 25 paragraph (9)	50% of the amount of tax based on the objection decision minus the tax paid before filing an objection	30% of the amount of tax based on the objection decision minus the tax paid before filing the objection
The appeal request was rejected or partially granted	Article 27 paragraph 5 (d)	100% of the amount of tax based on the objection decision minus the tax paid before filing an objection	60% of the amount of tax based on the Appeal Decision minus the tax payments that had been paid prior to filing an objection
Termination of the criminal investigation by the attorney general at the request of the finance minister	Article 44B Paragraph 2	4 times the amount of unpaid or underpaid or non-refundable taxes	1 times the amount of loss on state revenue as referred to in Article 38

Description	Article	Amount of Fine Sanctions in Law Number 6 of 1983 concerning General Provisions and Tax Procedures	Change in Law Number 11 of 2020 concerning Job Creation and Law Number 7 of 2021 concerning Harmonization of Tax Regulations
			3 times the amount of loss in State revenue as referred to in Article 39 4 times the amount referred to in Article 39A

Table 4. Comparison of Interest Sanctions in Law Number 6 of 1983 concerning General Provisions and Tax Procedures with Law Number 11 of 2020 concerning Job Creation and Law Number 7 of 2021 concerning Harmonization of Tax Regulations

Description	Article	Interest Sanctions in Law Number 6 of 1983 concerning General Provisions and Tax Procedures	Change in Law Number 11 of 2020 concerning Job Creation and Law Number 7 of 2021 concerning Harmonization of Tax Regulations
Taxpayers correct the Annual Tax Return themselves which results in a larger tax debt	Article 8 paragraph 2	2% per month on the amount of underpaid tax	The amount of interest rate per month determined by the Minister of Finance
Periodic and annual tax payment delays	Article 9 paragraph (2a and 2b)	2% of the amount of tax payable	The amount of interest rate per month determined by the Minister of Finance
Underpayment of tax in the Underpaid Tax Assessment Letter	Article 13 paragraph 2	2% per month from the amount of goods paid, maximum 24 months	The amount of interest rate per month determined by the Minister Finance
Underpaid Tax Assessment Letters are issued after 5 years have passed due to criminal acts of taxation or other criminal acts	Article 13 paragraph 5	48% penalty of the amount of tax that is not/underpaid	Article 13 paragraph 5 deleted
Income tax for the current year is not/underpaid	Article 14 paragraph (3)	Sanction of 2% of the amount of tax not/underpaid, maximum 24 months	amounting to the interest rate per month stipulated by the Minister of Finance

Description	Article	Interest Sanctions in Law Number 6 of 1983 concerning General Provisions and Tax Procedures	Change in Law Number 11 of 2020 concerning Job Creation and Law Number 7 of 2021 concerning Harmonization of Tax Regulations
Taxable Entrepreneurs who fail to produce and have been given input tax returns	Article 14 paragraph 5	Sanction of 2% per month of the amount of tax not/underpaid, maximum 24 months	Article 14 paragraph 5 deleted
An additional underpaid tax assessment letter is issued after 5 years have passed due to a tax crime or other crime	Article 15 paragraph 4	48% penalty of the amount of tax not/underpaid	Article 15 paragraph 4 is deleted
Additional Underpaid Tax Assessment Letters, Rectification Decrees, Audit Decision Letters, Appeal Decisions that cause underpayment of late payments	Article 19 paragraph 1	Sanction of 2% per month on the amount of tax not/underpaid	amounting to the interest rate per month stipulated by the Minister of Finance for the entire term
Install or delay	Article 19 paragraph 2	Sanction of 2% per month part of the month is calculated in full 1 month	amounting to the interest rate per month stipulated by the Minister of Finance
Shortage of taxes due to delays in tax returns	Article 19 paragraph 3	2% penalty due to underpayment of taxes	amounting to the interest rate per month stipulated by the Minister of Finance

Table 5. Comparison of Sanctions Increase in Law Number 6 of 1983 concerning General Provisions and Tax Procedures with Law Number 11 of 2020 concerning Job Creation and Law Number 7 of 2021 concerning Harmonization of Tax Regulations

Description	Article	The amount of sanctions in Law Number 6 of 1983 concerning General Provisions and Tax Procedures	Changes in Law Number 11 of 2020 concerning Job Creation and Law Number 7 of 2021 concerning Harmonization of Tax Regulations
If the audit has been carried out, but the Tax Assessment Letter has not been issued, the taxpayer with his own awareness can disclose in a separate report the incorrect filling of the Tax	Article 8 paragraph 4 and 5	An increase of 50% of the underpaid tax	The interest penalty is the interest rate per month stipulated by the Minister of Finance for underpaid taxes

Description	Article	The amount of sanctions in Law Number 6 of 1983 concerning General Provisions and Tax Procedures	Changes in Law Number 11 of 2020 concerning Job Creation and Law Number 7 of 2021 concerning Harmonization of Tax Regulations
Return that has been submitted and this disclosure will result in underpayment of tax.			
Taxpayers who because of their negligence do not submit tax returns, but the contents are incorrect or incomplete or attach information whose contents are incorrect so that it can cause losses to state revenues if the negligence is the first time	Article 13A	An increase of 200% of the amount of underpaid taxes	Article 13A is deleted
Amount of tax in the Underpaid Tax Assessment: (a) if the notification letter is not delivered within the period as referred to in Article 3 paragraph (3) and after being given a written warning it is not delivered at the time specified in the warning letter; (b) if based on the results of inspection or other information regarding the Value Added Tax and Sales Tax on Luxury Goods it turns out that the excess tax difference should not be compensated or should not be subject to a 0% (zero percent) rate; (c) if the obligations referred to in Article 28 or Article 29 are not fulfilled so that the amount of tax payable cannot be known	Article 13 paragraph 3	Administrative sanctions in the form of an increase of: 50% unpaid or underpaid PPh in one Tax Year 100% PPh which is not deducted or undercollected, not or undercollected, not or underpaid, and deducted or collected but not or underpaid; or 100% of VAT on Goods and Services and Sales Tax on Luxury Goods that are not paid or underpaid	Interest from Income Tax that is not/underpaid within 1 (one) Tax Year Interest from Income Tax that is not/underdeducted or collected is 75% increase of PPh that is withheld or collected but not or underpaid is 75% increase from VAT on Goods and Services and Taxes Sales of unpaid or underpaid Luxury Goods

There are fundamental changes to the provisions on tax administration sanctions stipulated in Law Number 11 of 2020 concerning Job Creation and Law Number 7 of 2021 concerning Harmonization of Tax Regulations with the previous law. In the setting of fines there is a change in the reduction of sanctions (see Table 3). Meanwhile, the interest sanction arrangement which was previously based on a fixed rate percentage (2%), through amendments to the Law on Job Creation and Harmonization of Tax Regulations has been changed to a flexible rate, namely based on a monthly interest rate stipulated by the Minister of Finance. In the setting of increased sanctions, in addition to the abolition of Article 13A of the KUP Law, another change is the scheme of sanctions for underpaid taxes for disclosing untruths in tax returns that result in underpaid taxes after an audit has been carried out but no tax assessment has been issued. The provisions of the sanctions were changed to interest sanctions in the amount of interest rates per month stipulated by the Minister of Finance.

Changes to tax administration sanctions based on current provisions lead to improvements and can have a positive impact on encouraging tax compliance. Sanction changes namely a decrease in the amount of sanctions on fines, interest or increases. Regarding the reduction of sanctions, the OECD Managing and Improving Tax Compliance Guidance Note (2004) states that providing incentives to taxpayers can have a positive impact on taxpayer compliance. With the reduction of sanctions in the current provisions on tax administration sanctions, this can encourage taxpayers to make voluntary disclosures and encourage tax compliance.

The current changes to the provision of tax administration sanctions have also reflected the principle of proportionality. In principle, the imposition of sanctions must comply with the principle of proportionality. This aspect is needed to distinguish the degree of error committed by the taxpayer or there is also justice obtained by the taxpayer. The principle of proportionality can be seen from the amended interest sanction provisions which previously applied a fixed rate to a flexible rate. Changes in the sanction scheme based on monthly interest rates or flexible rates show the government's efforts to apply the concept of time value of money. The concept of time value of money implies that the present value of money will be different from the value of money in the future. As compensation for the uncertainty of the value, interest should be applied. In cases of tax violations, such as underpaid taxes for disclosing untruths, the amount of state tax revenue is delayed so that interest will act as compensation for the delayed receipt. In general, changes to tax administration sanctions that have been issued through the Law on Job Creation and the Harmonization of Tax Regulations can have a positive impact on encouraging tax

compliance. Nonetheless, an evaluation of the effectiveness of sanctions still needs to be carried out in order to create a more proportional and fair system of tax administration sanctions.

3.2. Evaluation of Implementation of Tax Administrative Sanctions in Indonesia

According to Lawrence Friedman, the legal system consists of components of legal substance, legal structure, and legal culture.¹³ Legal substance is a legal component in the form of a legal product or regulation that functions as a basis, guideline or legality for the implementation of the law. The legal structure is a legal component in the form of legal apparatus and infrastructure that functions to carry out and implement the contents of the law properly and appropriately. Legal culture is a legal component in the form of community habits or behavior that functions to support the law to run properly. In order to create legal effectiveness, the three legal components must be interrelated and synergistic. These three components also form the basis for the effectiveness of the application of tax administration sanctions. This section focuses on evaluating the substance, structure and legal culture of implementing tax administration sanctions in encouraging tax compliance.

3.2.1. Evaluation of Legal Substance

Prior to the enactment of the Law on Harmonization of Tax Regulations, the basis for implementing tax administration sanctions in Indonesia was regulated in the Law on General Provisions and Tax Procedures. After the Law on Harmonization of Tax Regulations was passed which changed the provisions on tax administration sanctions in the Law on General Provisions and Tax Procedures, the substance of the law on tax administration sanctions currently in effect is more able to encourage tax compliance. This is because the provisions are generally reduced compared to the previous provisions. The reduction is shown in following table.

Table 6. Taxpayer Examination Sanctions for Not Reporting SPT or Making Bookkeeping

Types of Sanctions	Law Number 6 of 1983 concerning General Provisions and Tax Procedures	Law Number 7 of 2021 concerning Harmonization of Tax Regulations
Underpaid Income Tax	50%	subject to interest per month at the reference interest rate (which applies in the market) and an uplift factor of 20%

¹³ Lawrence Friedman, *Sistem Hukum Perspektif Ilmu Sosial* (Bandung: Nusa Media, 2017), 57.

Types of Sanctions	Law Number 6 of 1983 concerning General Provisions and Tax Procedures	Law Number 7 of 2021 concerning Harmonization of Tax Regulations
Income tax less deducted	100%	subject to interest per month at the reference interest rate (which applies in the market) and an uplift factor of 20%
Income Tax is deducted but not paid	100%	75%
Underpaid Value Added Tax (VAT) and Luxury Goods Value Added Tax	100%	75%

Table 7. Sanctions after Legal Action with a Decision to Strengthen the Decision of the Directorate General of Taxes

Act	Law Number 6 of 1983 concerning General Provisions and Tax Procedures	Law Number 7 of 2021 concerning Harmonization of Tax Regulations
Objection	50%	30%
Appeal	100%	60%
Judicial review	100%	60%

Table 8. Amount of Sanctions for State Losses

Description	Law Number 6 of 1983 concerning General Provisions and Tax Procedures	Law Number 7 of 2021 concerning Harmonization of Tax Regulations
Tax penalty for negligence (Article 38)	Paid tax principal + penalty 4 times underpaid tax	Paying tax principal + sanction 1 times underpaid tax
Deliberate tax crime (Article 39)	Paid tax principal + penalty 4 times underpaid tax	Paying tax principal + sanction 3 times underpaid tax
Tax criminal making fictitious income tax invoices (Article 39 A)	Paid tax principal + penalty 4 times underpaid tax	Paying tax principal + sanction 3 times underpaid tax

Based on the data in the table above, it can be seen that the current tax administration sanction is lighter than the previous provisions. Changes to lighter sanctions provide convenience for taxpayers. The reduction in tax sanctions also provides an opportunity for taxpayers to recover state losses by paying taxes. If the taxpayer makes a mistake in calculating-reporting-tax payments, the taxpayer only needs to pay fines and state losses. Judging from several cases between the Directorate General of Taxes and taxpayers related to cases of fraudulent payment

of Value Added Tax won by the Directorate General of Taxes, taxpayers are finally subject to a 5 year sentence and a fine twice the state loss. Through the current new provisions, taxpayers are not subject to criminal penalties, but in the form of fines. This new scheme is expected to increase voluntary cooperation between taxpayers and tax authorities.

Reducing sanctions under the current provisions is also better able to provide justice for taxpayers. For example, underpayment of taxes or delays in paying taxes is subject to a penalty of 2% per month based on the previous provisions. The billing interest will continue to increase by 2% each month as long as the underpaid bill of tax has not been paid. There is no time limit for the imposition of administrative sanctions, because it is possible that interest will continue to accumulate after two or even five years after the due date of tax payments. The imposition of interest will be very burdensome for the taxpayer, especially if the taxpayer does not have the ability to immediately pay off all of his tax debt. So, instead of these tax sanctions making taxpayers deterrent or obedient, on the contrary it makes taxpayers try to avoid them because the sanctions applied are considered burdensome. In the current provisions, administrative sanctions are adjusted to the applicable interest rate divided by twelve. Much lower than the 2% per month as stated in the previous provision which is considered burdensome for taxpayers.

3.2.2. Evaluation of Legal Structure

The institution that has the function of implementing policies and technical standardization in the field of taxation in Indonesia is the Directorate General of Taxes which is under the ministry of finance. The Directorate General of Taxes is a very important institution and is the backbone for collecting state revenues through taxes which will be used to finance the State Revenue and Expenditure Budget.¹⁴

Efforts to improve taxpayer compliance is to provide good service to taxpayers. So far the Directorate General of Taxes has modernized tax administration in improving tax services. Modernization of tax administration is carried out such as building a digital-based service system, namely e-registration, e-facture, e-billing, e-SPT, e-filling.¹⁵ However, the development of modernization of tax administration at the Directorate General of Taxes still has drawbacks. The drawback is that there is no comprehensive and integrated digitization of data between all taxpayer data and the Directorate General of Taxes, between government agencies, and DGT and

¹⁴ Chaizi Nasucha, "Pengaruh Reformasi Administrasi Perpajakan Terhadap Kepatuhan Wajib Pajak" (PhD diss., Universitas Padjadjaran, Bandung, 2003).

¹⁵ Redo Alpha Hernando and Dian Wahyudin, "Modernisasi Administraasi Perpajakan Dalam Rangka Optimalisasi Pelayanan Pajak Berbasis Digital," *Jurnal Pajak Vokasi (JUPASI)* 1, no. 2 (March 2020): 119–125, <https://doi.org/10.31334/jupasi.v1i2.819>.

national Big Data that is accessed by the Tax Service Office. This causes the implementation of law enforcement to be less effective, including the implementation of tax administration sanctions because it is not supported by a complete and accurate database. In several countries that have automated or digitized tax administration in a comprehensive and integrated manner, such as America, Australia or Singapore, they can achieve material compliance of above 90%. This integrated and comprehensive data automation or digitization reduces the opportunity for non-compliant taxpayers because it increases extensification and supervision in order to expand the reach of taxpayers through a system that provides valid, comprehensive and integrated data.

In addition to the digitalization technology infrastructure that is not yet comprehensive and integrated, another weakness is the condition of the quantity and quality of tax officials. In terms of quantity, the ratio of tax officials to the total population of Indonesia has only reached 1:7000. The ideal number of tax officers in Indonesia should be 50,000-60,000 tax officers.¹⁶ The discrepancy in the ratio between tens of thousands of tax officials and millions of taxpayers has resulted in sub-optimal implementation of taxation in Indonesia. In terms of quality, there are still errors in the application of laws and tax procedures by tax officers, including the application of tax administration sanctions. This causes the quality of tax services to be not optimal, even though the quality of tax services has an impact on increasing tax compliance. As a result of these weaknesses, including the implementation of tax administration sanctions, it has not been effective in encouraging tax compliance.

3.2.3. Evaluation of Legal Culture

There are two forms of tax compliance namely formal compliance and material compliance. Formal compliance is a situation in which the taxpayer fulfills his tax obligations formally in accordance with the provisions stipulated in the Tax Law. Formal compliance indicators, namely the submission of tax reports through notification letters. Based on the report from the Directorate General of Taxes, the ratio of formal taxpayer compliance has increased, the trend has been increasing since 2016. Meanwhile, material compliance is a condition in which taxpayers comply with all material provisions on taxation, including in accordance with the content and substance of the Tax Law. The good material compliance of taxpayers is indicated by the performance of tax revenues that are on target. However, the performance of tax revenues

¹⁶ Ridho Syukro, "Jumlah Ideal Pegawai Pajak Di Indonesia Sekitar 60.000 Orang," *Beritasatu.com*, October 11, 2013, <https://www.beritasatu.com/ekonomi/143854/jumlah-ideal-pegawai-pajak-di-indonesia-sekitar-60000-orang>.

in Indonesia since 2012 has tended to fluctuate and has never reached the target except in 2021 and 2022.

The problem of tax compliance in Indonesia is material compliance.¹⁷ The level of material compliance is inversely proportional to the increasing formal compliance. For example, in 2020 when the level of formal compliance increased to 78% of the total taxpayers required to submit tax returns, the performance of tax revenues actually contracted by up to 19.71% to IDR 1,070 trillion. Based on this, awareness of taxpayers fulfilling their tax obligations, especially tax payments is still low.

The low level of tax non-compliance is not only due to ignorance of the obligations that must be fulfilled, there is also a culture of tax avoidance by taxpayers. This is reflected in the tax receivables. Tax receivables are receivables that arise as a result of accrued taxes including interest sanctions, fines and increases listed in Tax Assessment Letters and similar letters which have not been paid until the end of the financial reporting period. In Indonesia, the percentage of tax receivables compared to other countries is still quite high. Australia's tax receivables that have problems are 5.48%, while in Indonesia for 3 years it is 39.96%. This indicates that the taxpayer is avoiding his obligations.

3.3. Setting Tax Administration Sanctions in order to Encourage Tax Compliance

Taxes are the main source of state revenue. As the main source of state revenue, taxpayer compliance is important so that the role of taxes as the backbone of state revenue can run sustainably. In order to encourage tax compliance, the efforts made include applying tax administration tax sanctions both in relation to reporting, paying taxes, or submitting incorrect information that is detrimental to state revenues.

The regulation of tax administration sanctions in Indonesia has changed several times. Based on the current provisions, there is officially a reduction in sanctions compared to the previous provisions. In addition to reflecting the principle of proportionality, this reduction in sanctions is considered to reflect convenience and fairness for taxpayers. In terms of legal substance, the current provisions on tax administration sanctions have positive implications for encouraging taxpayer compliance.

¹⁷ Niru Anita Sinaga, "Pemungutan Pajak dan Permasalahannya di Indonesia," *Jurnal Ilmiah Hukum Dirgantara* 7, no. 1 (September 2016): 142–157, <https://journal.universitassuryadarma.ac.id/index.php/jihd/article/view/128>.

The dimension that needs to be addressed to encourage tax compliance is the modernization of tax administration. Modernization of tax administration is aimed at increasing the tax audit coverage ratio (ACR). ACR is calculated based on a comparison between the taxpayers who are examined and the number of taxpayers who are required to submit notification letters (SPT). From the 2017 ACR it shows a figure of 1.36 percent. This realization is still below the ideal ACR standard to become an instrument for driving taxpayer compliance, namely 3% to 5% (IMF, 2010). That is, not all taxpayers are examined or at least have not been subject to tax audits. Therefore, modernization of tax administration is needed, especially to support the coverage ratio of tax audits, namely through integrated data digitization between taxpayers and the Directorate General of Taxes and between agencies.

Other efforts need to be made to encourage tax compliance, namely expanding the tax base by increasing voluntarily compliant taxpayers by holding educational activities and improving services. Educational efforts are carried out through dissemination of the role of taxes for development which will benefit all parties so that avoidance or intentional non-paying of taxes can be reduced. Efforts to improve service are carried out by increasing the competence of tax officers, including competence in the interpretation of tax rules so that the application of the rules is carried out correctly and correctly and does not lead to disputes in the tax court.

4. CONCLUSION

The policy for setting tax administration sanctions in Indonesia is regulated in Law Number 6 of 1983 concerning General Provisions and Tax Procedures. Provisions for tax administration sanctions that are regulated include fines, interest and increases. Over time, the provisions on tax administration sanctions regulated in the Law on General Provisions and Tax Procedures have undergone changes and were finally amended with the promulgation of Law Number 11 of 2020 concerning Job Creation and Law Number 7 of 2021 concerning Harmonization of Tax Regulations. This change is marked by a reduction in sanctions that are not burdensome to taxpayers and are better able to reflect proportionality, convenience and fairness for taxpayers compared to the previous provisions.

Implementation of tax administration sanctions in order to encourage compliance besides having advantages, there are also obstacles or weaknesses. In terms of regulation or legal substance, the application of tax administration sanctions based on the current provisions with amendments through Law Number 11 of 2020 concerning Job Creation and Law Number 7 of 2021 concerning Harmonization of Tax Regulations is seen as being able to encourage taxpayer

compliance because the provisions. The regulated tax administration sanctions have reflected the convenience and fairness for taxpayers. Obstacles to the application of tax administration sanctions in encouraging tax compliance are that there is no adequate infrastructure in supervising and examining all taxpayers who commit tax non-compliance, the quantity and quality of tax officers in supervising and examining taxpayers, and the attitude of taxpayers who commit tax evasion rather than fulfill tax obligations.

Efforts to encourage tax compliance through regulation and application of tax administration sanctions, namely modernizing tax administration such as building a comprehensive, valid and integrated electronic data automation system between taxpayers and the Directorate General of Taxes and also between institutions. Another thing is conducting education to raise awareness and legal culture of the community so that they do not only have formal compliance, but also material compliance.

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