

Analysis of Tax Structure Performance and its Ratio in Indonesia

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Authors' contributions

This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

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ABSTRACT

This study aims to determine and analyze fluctuations in tax revenues, tax structure, and factors that determine tax revenues and ratios in Indonesia. The data used are data on the structure, revenue, and tax ratios from 2001 to 2017. The results show that the tax structure in Indonesia was dominated by direct taxes (income tax and personal tax) with contributions >50% and progressive, while indirect tax contributions (Value-Added Tax, Sales Tax on Luxury Goods, etc.) are around 30%. The tax ratio is still low at 14.58 percent. The results also show that GDP influences tax revenue, while the value of exports and the number of taxpayers have no effect. The tax ratio in Indonesia is influenced by GDP and the value of exports, while the mandatory amount has no effect. From a sample of 150 SMEs in Jambi, it is known that the level of compliance, obedience, assessment of tax servants is considered very good (average value > 80). Taxpayers' confidence in the use of tax funds for the benefit of the state is still low at 40.27, and sanctions for non-negotiable tax violations are also low at 48.53.

Keywords: Tax structure; tax ratio; awareness; tax compliance.

1. INTRODUCTION

Taxes are the primary source of state revenue. From year to year, the role of tax revenues for financing state administration and economic development in Indonesia is getting bigger. To increase tax revenue, the Indonesian government has implemented amendments to the Taxation Law of 2005, which marked the fourth phase of tax reform. Tax reform in Indonesia was first launched in 1983 when the official assessment system was replaced with a self-assessment system. In this self-assessment system, taxpayers are given the trust to carry out their tax obligations, starting from calculating their income, calculating their taxes to be paid, paying their taxes, and reporting their fulfillment of tax obligations. However, this self-assessment system failed in its implementation because it was not supported by the readiness of the tax authorities and the taxpayer community.

With this self-assessment system, it is hoped that state revenues from taxes will continue to increase. However, the facts show that tax revenue is still not optimal since implementing this system in 1984. Those can be seen from a large number of potential losses in the tax sector, although in general, the amount of tax revenue increases every year.

Fig. 1. shows that tax revenue in Indonesia fluctuates, although there is an increasing trend. The average portion of tax revenue is 67.88%, and non-tax revenue is an average of 32.12% of the total state revenue. The growth of tax revenue is an average of 10.66% per year.

Furthermore, total revenue from taxes and non-taxes from 2007 to 2017 grew by an average of 8.53% per year. The growth rate of tax revenue is higher than the growth rate of total state revenue. The tax portion of 73.48% consists of income tax (PPH), Value-Added Tax (PPN), and Sales Tax on Luxury Goods (PPnBM), land and building tax (PBB), regional taxes, and regional levies. Excise duty, import duty, and export tax.

Indonesia's tax ratio (comparison of tax revenue and GDP) is still low at only 12.40%. In other developing countries such as Thailand, Pakistan, and India, the tax ratio is already 13% to 14%. Sri Lanka's tax ratio has reached 22.20%. Considering the level of the tax ratio of several countries and comparing it with Indonesia, which is still low, it indicates that the level of people's welfare and the level of compliance of the Indonesian people in paying taxes is still low.

Based on the facts above, several main problems deserve attention in taxation in Indonesia. The first thing that should be studied is why the contribution of taxes to state revenues is only around 73.48%. Second, the most significant contribution in tax revenue is from Income Tax (PPH) with around 37.18%, Excise 12.06%, Import Duties, and Export Taxes 11.42%, Value Added Tax (VAT) 10.15% and Taxes. Land and Buildings (PBB) of 3.30%. Third, what is interesting to study more profoundly is that Indonesia's tax ratio is still low, only 12.40%, even though a reasonable tax ratio for a country like Indonesia should be above 15%.

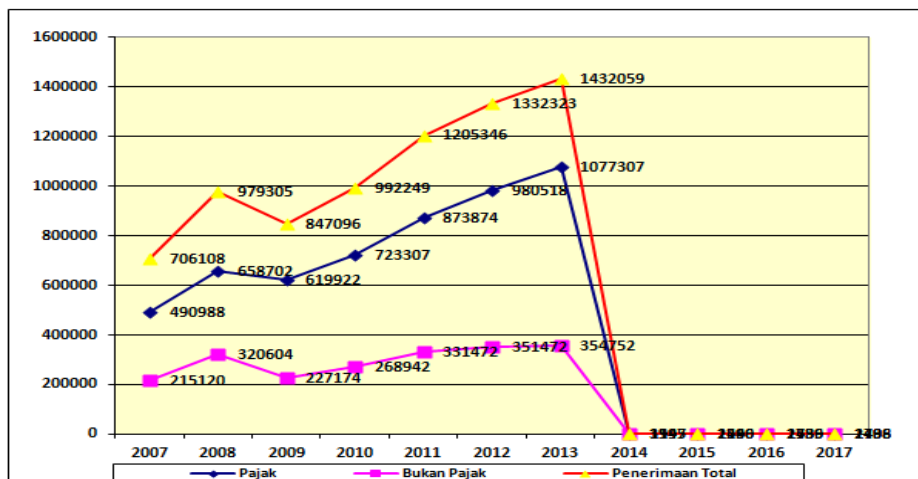


Fig. 1. Domestic state revenue sourced from tax revenue and non-tax revenue for the period of 2007-2017

Source: Data processed from the Ministry of Finance 2018 (<https://www.kemenkeu.go.id>)

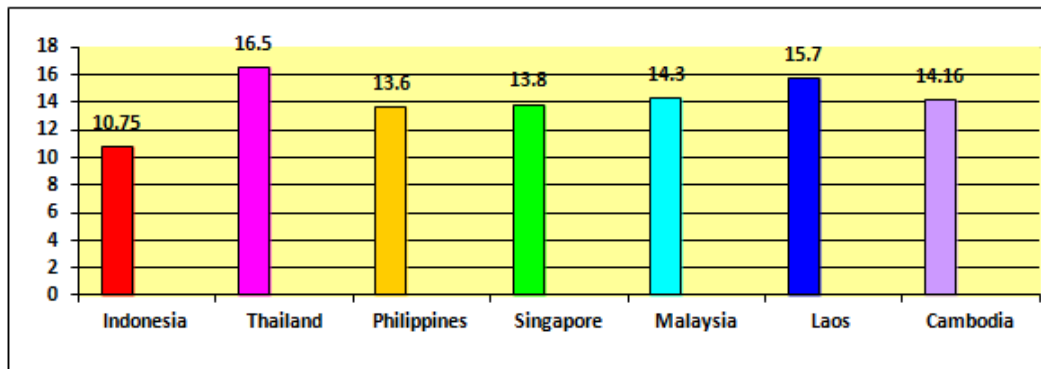


Fig. 2. ASEAN Countries Tax Ratio in 2015

Source: World bank data

The main problems in this study are: 1) How is the performance and structure of the tax in Indonesia; 2) What types of taxes make a significant contribution as a source of state revenue; 3) What factors affect the tax revenue and tax ratio in Indonesia; 4) What are the characteristics and level of awareness and obedience of SME taxpayers to taxes (the case of Jambi Province)?

1.1 Theoretical Review

1.1.1 Tax

In general, taxes can be interpreted as levies that individuals or entities must pay to the government that can be imposed by law. Individual taxpayers do not have a direct contra-achievement to the levies they pay. Taxes paid by each individual or entity are used for the general public interest. Soemitro (1998) states that taxes are "people's contributions to the state treasury (transfer of wealth from the particular sector to the government sector) based on the law (which can be enforced) without receiving reciprocal services (achievement fees) which can be directly shown and used to finance general expenses."

Taxes are collected from taxpayers based on the power of the law. Therefore taxes are defined as contributions to the state that must be paid by the people to the state and used for the benefit of the people [1]. This tax collection must be based on regulations set by the government and can be enforced, but there is no direct service from the state. Taxes have several essential aspects [2], namely: 1) Tax payments must be based on law; 2) Its nature can be forced; 3) Taxpayers can directly feel no contra-achievement; 4) the state

carries out) Tax collection, both the central and national governments area; 5) Taxes are used to finance government expenditures (routinely and development) for the benefit of the general public.

In the financial structure of the Indonesian government, in financing development, there are three sources of revenue, namely, revenues from taxes, oil, and gas and non-oil and gas. The types of taxes that exist are PPh, PBB, PPnBM, and stamp duty, excise, export tax, import duty, and other taxes.

1.2 Tax Function

Taxes in Indonesia have two functions, namely as a budgetary function and a regular end function. The tax is to collect as much tax money as possible following applicable laws as a budgetary function. In addition, taxes will also be used to finance state expenditures in due time, including routine and development expenditures. If there is a surplus, it will be used as government savings. At the same time, the regulated function is a function where these taxes can also be used to achieve specific goals.

In addition to the two functions above, taxes also have a democratic function and a redistribution function [2]. The function of democracy is the tax function as one of the manifestations of the cooperation system, including the cooperation of government and development activities for the benefit of humankind. As its implementation, taxes have the consequence of providing reciprocal rights which, although not directly received, are given to tax-paying citizens. While the tax function redistribution, its function is aimed at equity and justice in society. If taxes are

appropriately implemented, it can be ascertained that there will be several tax impacts on the economy and its various aspects.

Mardiasmo [1] explains that taxes have several functions, namely as follows:

1. Revenue or Budgeter Function. Taxes serve as a source of funds for the government intended to finance government expenditures.
2. Function set or Regular. In this case, the tax serves as a tool to regulate or implement government policies in the social and economic fields.
3. Equity or distribution function. As an equalization tool, taxes have an equalization function, meaning that they can be used to adjust and balance the distribution of income with the happiness and welfare of society as a whole.
4. Stabilization Function. In this case, taxes are used to stabilize economic conditions and conditions through government policies.

The government will always increase spending by relying on revenue from taxes. Increasing tax revenue is an effort that the people do not like. Therefore, tax increases cannot be carried out continuously, and there must be a limit. As a result of the increase in taxes, the income of entrepreneurs or company profits will be lower, and consequently, their investment will decrease. The effect of a decrease in private investment due to an increase in taxes by the government is called the displacement effect.

Taxes can be increased if people's incomes increase. With the increase in people's income due to economic development, public awareness arises to pay taxes to increase state revenue from taxes. With normal economic conditions, public awareness arises to pay higher taxes. Public awareness to pay taxes is called the infection effectively.

1.3 Previous Research

Alena [3] reported that the growth rate of the number of individual taxpayers could increase the compliance ratio of individual taxpayers from the previous year. In addition, there is also empirical evidence that there is a positive relationship between individual taxpayer compliance and the level of income tax revenue. The results of the coefficient test analysis show

that the individual taxpayer compliance ratio has a positive relationship in the direction of the level of tax revenue, which is 63 percent and has an influence of 40 percent. Setiyaji & Amir [4] mentioned that the growth rate of tax revenue in Indonesia has decreased.

Sapitri & Priyarsono [5] reported that economic growth and GDP per capita positively and significantly impact tax revenues in ASEAN countries. Furthermore, Nasution [6], who has researched North Sumatra, mentioned that income per capita, personal income tax receipts, number of taxpayers, inflation in the previous period have the most extensive and significant effect on tax revenue.

Tahir [7] also researched tax capacity in Indonesia. The results of his research obtained empirical evidence regarding the level of tax capacity, tax effort (Tax Effort), and tax performance (Tax Ratio) in 26 provinces in Indonesia, indicating that tax revenues from 26 provinces in Indonesia between 1986/1987-1998/1999 tended to increase from year to year. The economic crisis that hit Indonesia in 1997/1998-1998/1999 did not reduce the region's tax revenue. This condition illustrates that the tax sector is relatively stable as a source of revenue at the regional level. On the export tax side, there are indications of significant fluctuations. The decline in the power of tax expansion in Indonesia occurred in the 3rd year (1988/1989) and the 10th year (1995/1996). The decrease in the power of tax expansion indicates a decrease in taxation efforts, thereby reducing tax capacity. The tax ratio experienced significant fluctuations. Thus, the fluctuations above illustrate changes in the tax ratio influenced by per capita income, trade, agriculture, industry, and other donations and assistance changes.

Suardi [8] reported that GRDP per capita influenced the tax capacity of all provinces in Indonesia in 2007, the role of the mining sector in GRDP, the role of finance in GRDP, the ratio of the number of workers in all business fields to the total population. And the ratio of the number of Tax Service Offices (KPP) to the total population (the capacity of Article 21 Income Tax), and the variable GRDP per capita, the role of trade in GRDP, the role of services in GRDP, and the ratio of the number of Tax Service Offices (KPP) to the total population.

Anggraeni et al. [9] researched the factors influencing taxpayer compliance with income tax

receipts at the Semarang Pratama Tax Service Office. The study results indicate that four factors affect tax compliance: taxpayer awareness, taxpayer opinion about the weight of the income tax burden, taxpayer perception, implementation of income tax fines, and tax avoidance by taxpayers attached to individual taxpayers.

Amanah et al. [10] conducted a study at the KPP Pratama Bukit Tinggi for 2014 – 2016 about the effect of the number of taxpayers and the number of tax notifications letters. The study results show that only partially the number of taxpayers affects income tax revenues. Meanwhile, the number of tax returns (SPT) does not affect income tax receipts.

Wibowo [11] mentioned that tax revenue is influenced by per capita income, economic growth, economic structure, and tax rate to tax ratio in OECD countries and Indonesia. The results showed that the economic structure significantly influenced the tax ratio. Based on the results of Suwardi's research [8], it is known that tax capacity is influenced by per capita GRDP variables, the role of mining in GRDP, the role of finance in GRDP, the ratio of the number of workers in all business fields to the total population, the ratio of the number of Tax Service Offices (KPP) to the total population. Population (the capacity of Article 21 Income Tax), the ratio of GRDP per capita and trade to GRDP, the role of services in GRDP, and the ratio of the number of Tax Service Offices (KPP) to the total population.

Anggraeni [9] explained that tax compliance is influenced by awareness of taxpayers, taxpayers' opinions about the weight of the income tax burden, taxpayers' perceptions of implementing income tax penalties, and tax avoidance of taxpayers attached to individual taxpayers. Alena's research [3] shows that the growth rate of the number of individual taxpayers can increase the individual taxpayer compliance ratio from the previous year. The individual taxpayer compliance ratio has a positive relationship with the level of tax revenue. From the results of this study, it can be taken as an analog that the types of taxes that provide low contributions are caused by non-compliance by taxpayers.

2. RESEARCH METHODS

The study used two approaches. The first approach is the descriptive approach. A second approach is a quantitative approach using

statistical inference. The data used in this study mainly consist of secondary data obtained from several related agencies such as from the Directorate General of Taxes, Ministry of Finance of the Republic of Indonesia, Bank Indonesia, in particular, the publication of Regional Economic Studies (KER), Indonesian Economic Reports and the Central Statistics Agency (BPS). However, to find out how the opinion of taxpayers on taxation, primary data is used. To obtain this primary data, the object as the sample is taxpayers from SMEs in Jambi Province. The number of samples taken was determined to be 150 samples. To obtain primary data, a questionnaire was used using a Likert scale.

The data analysis model used in this study is static panel data regression analysis with the following model:

$$Y_1 = \beta_0 + \beta_1 GDP + \beta_2 NE + \beta_3 WP + e$$

$$Y_2 = \beta_0 + \beta_1 \ln GDP + \beta_2 \ln NE + \beta_3 \ln WP + e$$

where:

Y_1 = Total Tax Revenue

Y_2 = Tax Ratio

$\beta_{1,2,3}$ = Regression coefficient for the independent variable

β_0 = constant

GDP = Gross Domestic Product expressed in billions of rupiah

NE = The total value of exports is stated in billions of rupiah

WP = Registered Taxpayers are counted as persons or entities

e = Error term

3. RESULTS AND DISCUSSION

3.1 Tax Revenue Performance in Indonesia

From 2007 to 2017, taxes were the leading and most important source of state revenue because, on average, 67.88% of total state revenues came from taxes. Along with the period 2007 to 2017, the average tax revenue growth was 11.78%. Judging from the trend of state revenues in Fig. 1., revenues from taxes continued to show an increase, except for 2009, which fell by 5.89% percent, and in 2017. Furthermore, according to the data on state revenues from non-tax sources, the trend showed a downward trend. The decline in tax revenues and non-tax revenues has an impact on total state revenues.

In 2017 tax revenues in Indonesia decreased by 2.81% compared to 2016. The decline in tax revenues in 2017 was not in line with expectations from the tax amnesty policies issued in 2015 and 2016, which aimed to increase tax revenues. After the tax amnesty policy, the decline in tax revenue shows that the policy has not positively impacted increasing tax revenue in Indonesia. This fact follows the research results conducted by Adam et al. [12], which shows that the tax amnesty program does not significantly affect the effectiveness of tax revenues at the Pratama Tax Office (KPP) in Indonesia. Of the 341 KPPs studied, it turned out that the effectiveness of tax revenues was only achieved by 53 KPPs or 16%, while most of the other 288 KPPs or 84% had not been effective.

3.2 Indonesia Tax Structure

From 2001 - 2017, it can be seen that >50% of tax revenue comes from income tax (PPh). With the significant role of direct tax (PPh) in state revenue, the tax structure in Indonesia is progressive. Friedlaender (1984) mentioned that a progressive tax structure is dominated by direct taxes, while a regressive tax structure is when indirect tax revenues dominate state revenues. An overview of the tax structure in Indonesia is shown in Fig. 3.

3.3 Taxes and Influencing Factors

The results of many studies reported that several main variables influence tax revenue. In this study, the main factor affecting tax revenue is income (GDP). Other factors that can affect tax revenue are the number of taxpayers and the value of exports. From the time series data from 2001 to 2017, the following results are obtained:

$$Y = -860764,272 + 0,232 \text{ GDP} + 0,342 \text{ NE} - 0,002 \text{ WP}$$

$$\quad (-9,653) \quad (9,609) \quad (1,083) \quad (-0,458)$$

$$F = 933,057$$

Based on the results of the analysis, it is known that the calculated F value is 933,057. Thus, taken together, income (GDP), number of taxpayers (WP), and export value (NE) affect tax revenue in Indonesia. However, seen partially, it turns out that only income (GDP) has a significant effect on tax revenue in Indonesia. The number of taxpayers (WP) and exports (NE) values do not affect tax revenues. GDP is one of the tools to measure the level of success of

economic development [13]. In other words, the results of this study indicate that the success of economic development will directly increase tax revenues. The findings of this study are in line with those of Marliyanti & Arka [14], Mispiyanti & Kristanti [15], Yuksel et al. [16], Mossie [17], Muibi & Olatunbosun [18].

The non-influence of the value of exports on tax revenue is different from the research findings of Cheeseman & Griffiths [19] and Gnanngnon & Brun [20] which state that there is an effect of exports on tax revenues. Furthermore, the effect of taxpayers on tax revenues is in line with the findings of Putra & Hapsari [21] and Dewi et al. [22]. However, this is not in line with the research findings of Rakiman [23], Haniz and Sasana [24], Hariyanto et al. [25]. However, in line with the findings of Putra & Hapsari [21] and Dewi et al. [22] which found that there was a positive effect of taxpayers on tax revenues.

The ineffectiveness of the number of taxpayers (WP) on tax revenue can be caused because, from the number of registered taxpayers, it turns out that only about 50% to 73% of taxpayers report their taxes. In Fig. 4. it can be seen that taxpayer compliance in reporting SPT. From the SPT submission compliance data, it can be seen that the percentage of taxpayer compliance in submitting SPT continues to show an increase. However, from the number of taxpayers submitting SPT, it seems that there is not much change.

3.4 Tax Ratio

The default tax ratio threshold of a country is 15%. The tax ratio (tax ratio) in Indonesia during the period 2001 to 2017 is below the threshold (< 15%). The development of the tax ratio (tax ratio) in Indonesia during the period 2001 - 2017 is shown in Fig. 5.

The semilog model is used to determine the effect of GDP, export value, and the number of registered taxpayers on the tax ratio. Average data is used for tax ratios, while for GDP, Export Value, and Number of Taxpayers, the data is transformed in the form of natural logarithms (Ln). Using data from 2001 to 2017, the results are as below.

$$Y = -182,344 + 10,942 \text{ Ln GDP} + 2,268 \text{ Ln NE} - 0,369 \text{ Ln WP}$$

$$\quad (-10,423) \quad (6,725) \quad (4,464) \quad (-0,654)$$

$$F = 443,238$$

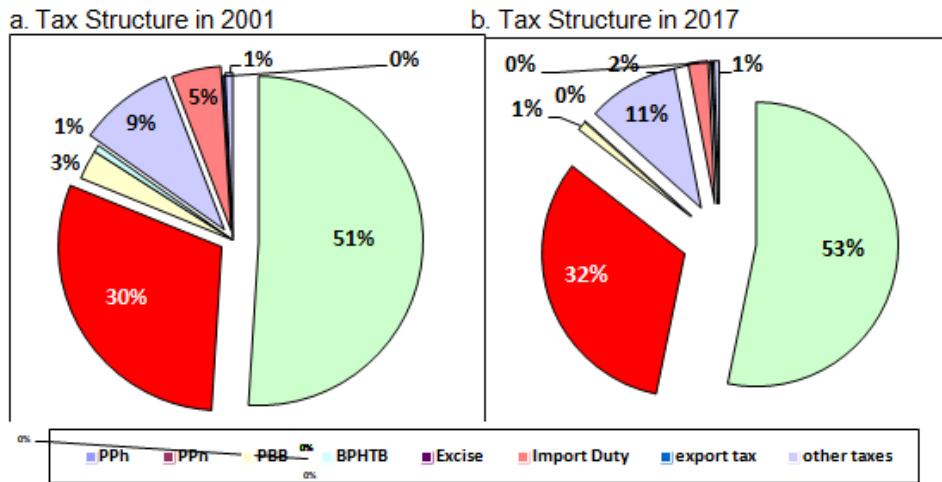


Fig. 3. Tax Structure in Indonesia 2001, 2005, 2010 and 2017

Source: Data processed from the Ministry of Finance 2001-2017(<https://www.kemenkeu.go.id>)

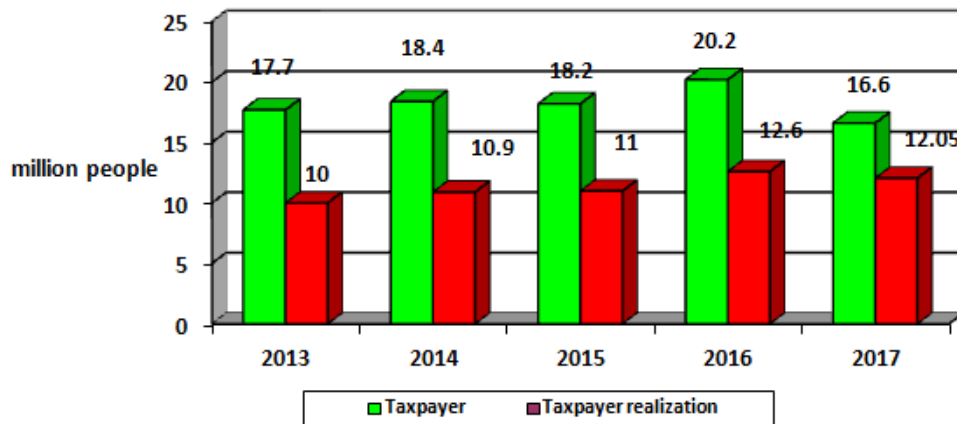


Fig. 4. Taxpayer Compliance Submitting SPT 2013 - 2016

Source: Data processed from the Ministry of Finance 2016 - 2018

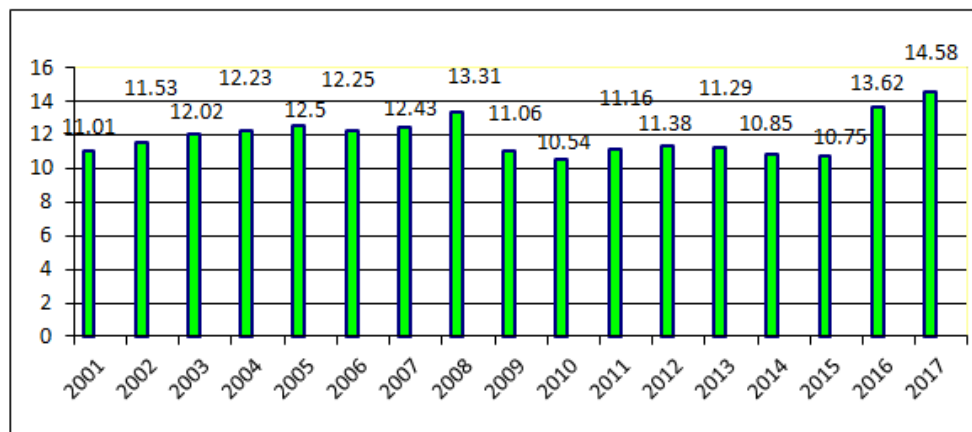


Fig. 5. The Development of Indonesia's Tax Ratio 2001-2017

Source: Processed Results

Based on the above analysis results where the calculated F value shows the amount of 443.238, statistically, the existing model can be used to analyze the variation of the tax ratio in Indonesia.

Paying attention to the t-count value, then partially, of the three variables that are thought to affect the tax ratio in Indonesia, it turns out that only the GDP and Export Value variables have a significant effect. Furthermore, the variable number of registered taxpayers does not affect the tax ratio. The facts show that the largest source of tax revenue in Indonesia is PPh and PPh 21. Furthermore, there is a significant influence of the export value on taxes because the export value is part of income or GDP. There is no effect on the number of taxpayers on the tax ratio because the number of taxpayers aware of paying taxes is still relatively low.

3.5 SME Taxpayer Compliance Level on Tax

3.5.1 Types of taxes paid by taxpayers

Of the various types of taxes that exist, only 5 (five) types of taxes are paid by SME taxpayers in Jambi Province, namely Motor Vehicle Tax (PKB), Land and Building Tax (PBB), Income Tax (PPh), Value Added Tax (VAT) and Business Tax. Of the 150 respondents, the motor vehicle tax (PKB) is the most paid tax by SME taxpayers, with as many as 146 people (97.3%).

Land and Building Tax is the second-largest type of tax paid by SME taxpayers, namely 119 people (79.3%). The third order that SME taxpayers also pay is Income Tax for as many as 48 people (32%). Furthermore, as many as 16 people pay business taxes (10.7%), and the tax that the dominant type of tax paid by SME taxpayers is Direct Value Added Tax (VAT) as

many as nine people (6%). From this fact, it can be seen that the indirect tax (VAT) is only 6%.

3.5.2 Aware and obedient to taxes

The level of tax awareness and compliance with tax obligations by SME taxpayers in Jambi can be classified in the high category. Of the 5 (five) indicators that have been submitted to taxpayers, the average response is above a score of 70. The level of tax awareness and tax compliance is above a score of 80 (very good). The average score for all indicators is 73.07. The highest value is the awareness of taxpayers about the obligation to pay taxes, with a score of 85.87. Taxpayers' confidence in using tax funds to finance state spending is 40.27, and the rest is classified as excellent and high.

3.5.3 Compliance and sanctions for taxpayers

Based on the research results on SME taxpayers in Jambi Province, the level of taxpayer compliance with taxes is in an outstanding category. Of the 7 (seven) indicators regarding taxpayer obligations, the score for SME taxpayers in Jambi Province is an average of 80.04. The highest score of 82.13 is related to the indicator "I will voluntarily register as a taxpayer." The lowest score is 78.40 on the indicator "I always pay the existing income tax deficiency before the inspection."

The assessment of sanctions given to taxpayers is classified as light by SME taxpayers in Jambi Province. This opinion is in line with the results of the taxpayer's assessment that tax violations are "non-negotiable," with a score of 48.53. The low score on the non-negotiability of tax sanctions shows that taxpayers have confidence that tax sanctions imposed on taxpayers can still be negotiated.

Table 1. Taxpayer awareness of taxes

No	Indicators	Value (Scale)	
		1 – 5	0 – 100
1	Taxes are determined by law (UU) and can be forced.	4.29	85.87
2	Paying taxes is a form of community participation in supporting the development of the country.	4.07	81.33
3	Improper tax payments (delay or reduction) will result in losses borne by the state.	3.87	77.47
4	Tax funds have been thoroughly used to finance state spending	2.01	40.27
5	I will still pay taxes even though the people around me / my environment do not pay taxes.	4.02	80.40
	Averages	3.65	73.07

Source: Research Results

Table 2. Willingness to pay tax

No	Indicators	Value (Scale)	
		1-5	0 -100
1	I prepared the necessary documents to pay taxes.	4.05	81.07
2	I am trying to find information about where and how to pay taxes.	3.98	79.60
3	I am trying to find information about deadline for payment and deposit of taxes.	3.99	79.73
4	Before making tax payments, I conduct consultations with parties who understand tax regulations.	3.95	79.07
5	I registered myself as a Taxpayer to get an NPWP.	3.97	79.47
6	I submit the SPT at the will and own desire.	3.90	78.00
7	I allocated funds to pay tax.	4.04	80.80
8	I pay taxes following applicable tax regulations.	4.08	81.60
	Averages	4.00	79.92

Source: Research Results

3.5.4 Willingness to pay tax

SME taxpayers in Jambi Province have a reasonably good willingness to pay taxes. The average value of the 8 (eight) indicators asked is 79.92. The rating of the eight indicators asked is between 78.00 to 81.60. This shows that SME taxpayers in Jambi Province have a high willingness to pay taxes. In addition to having a high willingness to pay taxes, taxpayers also have a high effort to pay taxes on time. In addition, taxpayers do not feel compelled to submit an SPT. Complete indicators of willingness to pay taxes can be seen in Table 2.

4. CONCLUSION

The performance of Indonesia's tax revenues from 2001 to 2017 shows an upward trend. In 2017 tax revenues fell. This shows that the tax amnesty policy in 2016 has not succeeded in increasing tax revenues significantly.

The tax structure in Indonesia is unequal and progressive. In addition, indirect taxes (VAT, Export Tax, and others) from the tax value and the number of taxpayers have not contributed significantly (regressive taxes) as a source of state revenue.

Tax revenue in Indonesia is only significantly affected by income as a proxy of Gross Domestic Product. At the same time, the number of registered taxpayers and the value of exports have no effect. The tax ratio in Indonesia is still below the threshold (<15 %) and is significantly

influenced by Gross Domestic Product and Export Value.

The level of awareness, obedience, compliance, knowledge of sanctions, services, system effectiveness, willingness to pay taxes, and moral obligations of SME taxpayers in Jambi is outstanding, except: 1) SME taxpayers' confidence in using tax funds for the state's interest is very low, with a score of 40.27; 2) Taxpayers are still hesitant about giving sanctions for tax violations.

5. RECOMMENDATIONS

More intensive efforts are needed to increase the number of taxpayers and the tax value of indirect taxes, such as direct reporting by taxpayers every time they make any transaction. To increase the tax ratio above the threshold of 15%, the Directorate General of Taxes/tax officials must make tax payments or tax reporting as easy and practical as possible.

To convince taxpayers of the use of taxes, it is necessary to provide continuous information regarding the use and taxation of anything. The imposition of sanctions on taxpayers who do not carry out their obligations may need to find a more aware solution to taxpayers' obligations.

CONSENT

As per international standard or university standard, respondents' written consent has been collected and preserved by the author(s).

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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