# ORGANIZATIONAL TRANSFORMATION: INSTITUTIONAL STRUCTURE DESIGN OF DIRECTORATE GENERAL OF TAXATION TO OPTIMIZE TAX REVENUE

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***ABSTRACT:*** *Implementation of Semi-Autonomous Revenue Authority (SARA) in various countries became trend in the last two decades, due to effectiveness of tax administration and tax compliance. SARA is an autonomy or authority granted by government to the state revenue agency in managing institution, relating to status of organization, financing and budget management, policy and improvement of human resources. This study used a qualitative approach, to analyze institutional structure design of Directorate General of Taxation (DGT) in planning SARA implementation. This study provides an alternative organizational design structure of DJP, previously as a directorate under the Ministry of Finance into an institution that has more broadly authority. Using SARA models, DGT as tax authorities can stand semi-autonomous but still coordinating with the Ministry of Finance.*

**Keywords:** Authority, Tax Administration, Semi-Autonomous Revenue Authority (SARA)

## 1. INTRODUCTION

As an institution assigned with the responsibility to collect state revenue, DGT must be able to reach its annual target. During the period of 1990-2001, the realization of tax revenue was always above the target set by the government. Even in 1998, when Indonesia was under economic crisis, tax revenue reached 140,4%. The period of 2002-2014 was the first period during which the realization of tax revenue that managed to reach the annual goal only took place twice, which was in 2004 (100,8%) and 2008 (108,1%). The following years saw DGT's shortcomings in fulfilling the desired targets, which due to many factors, emerging from both internal and external aspects. Those factors influence the effectivity and efficiency of tax system, particularly DGT as an institution in terms of performing its duties.

Understanding the importance of DGT's role as tax administrator, the Ministry of Finance initiated a transformative action named "The Blueprint of Institutional Transformation 2014-2025". The blueprint produced 87 strategic initiatives which, in terms of their implementation, categorized into three different horizons, short term (2013-2014) as a period to build the reformation momentum, medium term (2015-2019) as a period to develop operational edge and large-scale services, and long term (2020-2025) as a period to institutionalize breakthrough. To name a few, the programs included in this blueprint are: a) focused on organizational affairs, human resources and information technology; b) across echelon 1 units and/or; c) across state ministries/institutions. The presence of such programs will impact the DGT's institutional system, namely a transformational plan which aims to grant larger autonomy for DGT as an institution which is responsible for collecting state revenue. The blueprint was then regulated in KMK no. 36/KMK.01/2014 as a follow up to KMK No. 426 and 427 in 2013 on the Establishment of Ministry of Finance Institutional Transformation Team. The implementation of SARA is expected to increase revenue, improve services, as well as fixing the administrative management of tax.

Tax system consists of three core elements, which are tax policy, tax law, and tax administration. One of the most important of them which will be discussed later is tax administration. As a system, the degree of human resources' quantity and quality becomes one of the performance benchmark of tax administration. Tax administration holds an important role, because not only should it assume the role of law enforcement, it should also become a service point which provides good services for society and a tax information center.

The empowerment of tax administration should focus on sectors which create changes within the structure that can lead to significant and sustainable improvements. The importance of tax administration creates the need to pay attention to the role and authority of DGT as a tax authority.

Essentially, a transformation plan may not always emerge from a condition of crisis that an institution is undergoing. The best form of transformation should instead come during its time of glory [1]. In Indonesia, GDT plan to execute a transformation in order to attain the optimal revenue target. Transformation is a continuous process to reach an organization's vision. DGT's vision to become a good tax administration institution must be followed with a transformation [2].

Institutionalization has the function of formulating a system in order to ensure an organized condition which enables agents to work optimally and not go astray from the designated corridor. It does not come as a surprise if tax transformation which takes place in many countries involves institutionalization by looking for the most ideal form of tax authority through radical changes. Understanding that, radical changes on tax authorities are highly recommended, including creating an authority which runs its administrative system professionally similar to that of a company [3].

The biggest challenge in transforming tax administration lies on its own position as an inseparable part of general public service. This leads to low wage, weak staff qualification, nepotism, and many others. As a consequence, tax authority must be restructurized in order for it to attain a form of independence which is almost similar to that owned by a central bank [4].

The transformation of system which will be conducted is the provision of a more autonomous authority granted by the Ministry of Finance to DGT, and it has been conducted by separating DGT as an institution from the Ministry of Finance. In the last two decades, separation of tax-receiving institutions and Ministry of Finance has become a rising trend. Many countries have established or transform their tax authorities to become a more autonomous institution, hence they are known as semi-autonomous revenue authorities [5]. The semi-autonomous revenue authority (SARA), according to [6] is an autonomy which is given by the government to state revenue authority in order to manage its institutional affairs, be it those related to organizational status, budget management, policy-making and capacity building of its human resource. The strongest reason for a country to implement SARA is due to its ineffective tax administration and low obedience.

According to the survey conducted by [7] in regards to the autonomy delegated to tax authorities in many countries, the types of authority that are still lacking in Indonesia's tax authority are: designing internal structure, budget allocation, promoting and terminating employment, and salary negotiation. Stemming from the types of authority which are yet to be owned by DGT and looking at the success rate of countries which have implemented SARA, for example Singapore with its 3-5% increase of tax ratio, Indonesia is motivated to also implement SARA [3].

According to the previous elaboration, an understanding about the position of DGT's institutional structure under the current Ministry of Finance's coordination needs to be established, as a consequence, the aim of this research is to analyze the alternative form of DGT's institution based on the concept of Semi-Autonomous Revenue Authority (SARA).

## THEORETICAL REVIEW

According to [8], Semi-Autonomous Revenue Authority (SARA) has the following function:

"*Under a SARA the tax administration function has been taken out of the MOF and granted to a semi-autonomous entity labeled in public finance literature as revenue authorities (RAs) or autonomous revenue authorities (ARAs)".*

[6] also defined autonomy and revenue authority as follows:

Autonomy*:* "*The degree to which a public sector organization is able to operate independently from government, in terms of legal form and status, funding and budget flexibility, and financial and human resources policies;*

*Revenue authority: "A revenue authority is simple a term to describe a governance regime for an organization engaged in revenue administration, where the regime provides for more autonomy than that afforded a normal department in a ministry".*

From those two definition, an inference that can be made concerning the definition of SARA in accordance to Crandall Maureen is that SARA is an autonomy granted by the government to state revenue authority in order to manage their institutional affairs, those which are related to the organizational status, budget management, policy-making, and capacity building of its human resources.

The difference between SARA and Non-SARA lies on their coordination line. SARA Model involves a semi-autonomous tax authority, which operates outside of the Ministry of Finance but maintains coordination with the aforementioned Ministry. Meanwhile, Non-SARA system which is still being implemented in Indonesia is a system of tax authority which operates directly under the Coordination of Ministry of Finance, otherwise known as Non SARA [9].

According to OECD, there are four variations of tax administration institution framework based on the basic difference in political structure and administrative system in each country. The variations are then classified into two main types, namely tax authority under Ministry of Finance and tax authority separated from the Ministry of Finance through the establishment of an autonomous body [10]:

a. Single directorate in ministry of finance (MOF): Tax administrative function serves as responsibility of a single organizational unit or directorate which exists within structure of the ministry.
b. Multiple directorates in MOF: Tax administrative function serves as responsibility of multiple organizational unit which exists within structure of the ministry.
c. Unified Semi-Autonomous Body: Tax administrative function serves as responsibility of a specific agency and the head of agency is expected to convey periodic reports to an appointed Minister.
d. *Unified Semi-Autonomous Body with Board*: Tax administrative function serves as a specific responsibility and that the head of agency is an assembly/board of commissioners which comprise of professionals originating from outside of governmental bodies.

## RESEARCH METHOD

Qualitative approach will be employed in this research in order to understand the alternative of DGT's institutional form in accordance with Semi-Autonomous Revenue Authority concept. To that end, this research falls under the category of descriptive research which discusses the transformation of institution which becomes an urgent problem due to the impacts that it will have on DGT and other stakeholders which are in direct contact with DGT. This cross-sectional research takes place in 2016 and it is conducted within the context of taxation system, namely the Ministry of Finance and DGT. Literature and field study serve as means of data collection. The limitation in this research involves the disposition of several sources from the initial plan. To mitigate it, triangulation was conducted using secondary data extracted from numerous valid sources.

## DISCUSSION

According to Crandall and Maureen, SARA is an autonomy granted by the government to state revenue authority in order to manage its institutional affairs, be it those related to organizational status, budget management, policy-making and capacity building of its human resource [6].

Prior to the implementation of tax administration autonomy, human resource management and organizational bureaucracy must go through Ministry of Finance and Ministry of Civil Servants and Bureaucratic Reforms. Currently, DGT has been granted larger authority in terms of assigning echelon 3 and below, namely being allowed to conduct direct assignment. After tax administration autonomy is put into effect, every bureaucratic affairs in regards to human resources and organizational management process is expected to be handled by the institution responsible for tax revenue.

In its implementation, SARA does have a number of weaknesses and strengths which must be considered. The benefits of the conception of SARA are as follows: 1) utilization of an increasingly efficient public resource through independence and financial as well as administrative autonomy; 2) increasingly competent, discipline, and qualified staffs due to the freedom to recruit, terminate, and provide higher wage; 3) de-politicization of tax administration; 4) a boost of credibility for taxation and government in general; 5) an increase of services for taxpayers and reducing the obedience cost of taxpayers; 6) an improvement of work ethics and transformation of administrative culture to a better direction; 7) comprehensive calculation for all tax revenue; and 8) integration of tax data basis and concerned taxpayers [8]

However, Mann stated that a number of entities consider SARA as a concept which will bring adverse impacts. Examples of those impacts are as follows: 1) isolating this public institution and hence rendering it less effective; 2) creating an inherent conflict with the Ministry of Finance; 3) creating conflict with other public sectors and result into competition; 4) has the tendency to emphasize on tax collection as opposed to conducting basic and broad administrative reforms, such as public expenditure and a broader financial management system; 5) disrupting the policy formulation related to taxation, which is the most essential duty of the Ministry of Finance and the legislative body; 6) creating a notion of "super entity" and 7) establishing an unnecessary and redundant organization, because it is possible to simply enhance the existing organization under the Ministry of Finance.

With the existence of benefits and weaknesses in SARA's implementation, a consideration regarding the decision which will be undertaken must be conducted. According to the status quo, DGT, which is still positioned under the coordination of the Ministry of Finance, is still limited in managing its institutional affairs. It is aligned with the statement of the Head of the Organizational and Administration Bureau of the Ministry of Finance which claimed that there are still certain flexibilities or authority which are yet to be granted to DGT. It is implied in OECD's authority best practice, in which Indonesia has yet to grant the authority in regards to management of human resource, organization, and budget. In this regard, researcher would like to emphasize on the discussion concerning DGT's authority in organizational or institutional management.

A number of reviews have found that lack of optimization of DGT's performance is suspected to be influenced by organizational management condition, such as:

1) DGT is not authorized to design its organizational structure. As a consequence, DGT constantly need to ask for permission from many institutions, such as General Secretary of Ministry of Finance, Ministry of State Apparatus and Bureaucratic Reforms, as well as State Secretariat Ministry, if they wish to conduct organizational managements. The fact that DGT as an organization is large in scale, too large span of control for leaders, in terms of organizational structure or regions.
2) DGT faces institutional problems due to overlapping and multi-interpretation of regulations that govern tax administration; tax law enforcement; data sharing and coordination with other relevant public institutions in regards to the existing requirement to make banking and other economic transactions data confidential.
3) Bureaucratic culture, comfort zone, way of thinking, norm and inheritance of problems from the past generation have led the current management practice unable to optimally become transparent, accountable, responsible, independent, and fair. The check and balance mechanism inside DGT is yet to reach its optimal level, starting from the planning process of creating a tax system based on taxpayers' and tax objects' database, determination of tax target, administrative tax collection and reporting as well as the accountability of dispute settlement.

Based on those limitations, DGT formulated chapter 95 which comprise of 6 points concerning tax administration. The points are as follows:

*(1) The execution of governmental duty in regards to taxation is conducted by the Institution in accordance with the constitution;*

*(2) The institution is under the authority of and is held responsible to the President;*

*(3) In performing its duties, function and authority, the Institution serves under the coordination of the minister that handles governmental affairs in sector of finance.*

*(4) Coordination as referred to in point (3) is conducted in the following manner:*

*a) Formulation of tax policies related to tax subjects, objects, and tariffs, as well as the determination of tax revenue target is conducted by the minister that handles governmental affairs in the financial sector, and;*

*b) Tax administration and state revenue collection from taxation is conducted by the Institution*

(5) *In order to reach the end mentioned in point (4), tax supervision must be conducted;*

(6) *Additional requirements concerning the organization, working procedure, and coordination between the Institution and the minister that handles governmental affairs in the financial sector as referred to in point (4), as well as the supervision of taxation as referred to in point (5) shall be regulated under the Presidential Regulation.*

The 6 points will be further discussed under the framework of the recognition of DGT as a separate institution, coordination with the Ministry of Finance, as well as the supervision system of institutions and coordination with other institutions.

**a. Analysis of DGT's Status as an Institution**

In accordance with Presidential Regulation No. 28/2015 on Ministry of Finance, affairs related to organization and management of Ministry of Finance need to be rearranged. Ministry of Civil Servants and Bureaucratic Reforms (PAN-RB) has granted their approval on the need to create Minister of Finance Regulation No. 234/PMK.2015 on Organization and Management of Ministry of Finance. Based on PMK No/ 234/PMK.2015, DGT under the leadership of Director General of Tax, is positioned under and answers to the Ministry of Finance. DGT is assigned with the duty to conduct formulation and execute tax-related policies in accordance with the constitution.

Point 1 Chapter 95 of the Constitutional Draft stated that governmental affairs in regards to taxation are carried out by an "institution". This implies that there is a difference of status which will be held by DGT. It means that if in the past DGT was positioned under the authority of Ministry of Finance, the current regulation will allow it to have more autonomous authority, and hence its status becomes "an institution". DGT will no longer become a unit under echelon 1 or as a Directorate in the Ministry of Finance. Instead, it will have equal position with Ministries, because in point 2 it is mentioned that DGT will be positioned under the authority of the President and that it will be held responsible to the President, meaning that its position is parallel to that of Ministries which are also directly responsible to the President. In the first point it is also mentioned that regulations governing the institution is enshrined inside the constitution. Therefore, the institution that is referred to in the constitution is Non-Ministerial Government Institution (NMGI)

NMGI used to be referred to as Non-Department Governmental Institution (NDGI) in accordance with the Presidential Decree No. 103 / 2001 concerning the Position, Function, Authority, Organizational Structure, and Working Procedure of NDGI as most recently altered in the Presidential Regulation No. 145/2015. In 2008, NDGI was changed into NMGI. There are 28 NMGIs in Indonesia. According to the Former Head of the Constitutional Court (2003-2008), starting from the 20th century to the beginning of the 21st century, the emergence of novel institutions outside of the normal governmental structure increased. The function of institutions which used to assume the exclusive role of legislative, executive and judicative is no longer able to accommodate, hence the doctrine of separation of power is considered as unideal. What is deemed as more ideal is the principle of check and balances or sharing of power. Other consideration involves the emergence of demands to prevent certain functions from political intervention or conflicts of interest, some may or may not be related to functions of executive, legislative, judicative or a mixture of those functions. In order to make it general in nature, those institutions are referred to as special agencies.

Furthermore, in Chapter 25 UU No. 39 / 2008 in regards to State Ministries, it was explained that NMGI is placed below the President and is responsible to the President through the Minister which conducts coordination. NMGI is an institution that is established to perform certain governmental duties that are delegated from the President in order to support the duties that are performed by Ministers in accordance with the existing regulations. As a consequence, despite the formation of a new institution that performs administrative and tax collection duties, governmental affairs in the realm of state financial management, including the formulation of fiscal policies and state revenue collection still lies on the hands of the Minister of Finance in accordance with UU No. 17 / 2003 in regards to State Finance. DGT must still coordinate with the Ministry of Finance in relation to its duty as tax administrator. The following is the current organizational structure:

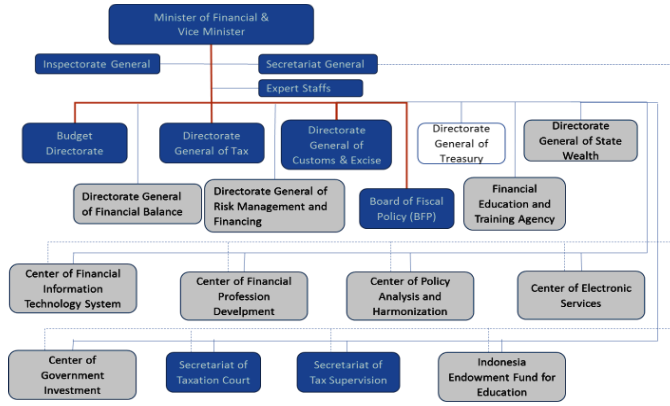


**Figure 1 DGT's Organizational Structure**

Within that structure, DGT is able to work with other directorates under the coordination of Ministry of Finance. The orange line indicates that the main coordination concerning taxation is conducted between DGT as tax collector, Directorate General of Customs which is in charge of customs, Fiscal Policy Agency as formulator of fiscal policies, Directorate of Budget which is in charge of budgeting, Tax Court Secretariat and Tax Supervision Secretariat.

**b. Analysis of DGT's Coordination with the Ministry of Finance**

Once DGT becomes an institution outside of the Ministry of Finance, the institution must remain in coordination with the Ministry of Finance. This type of institutional framework, according to OECD, is called Unified Semi-Autonomous Body. As a consequence, seen from the upcoming organizational structure, DGT's position can be described with the following scheme:

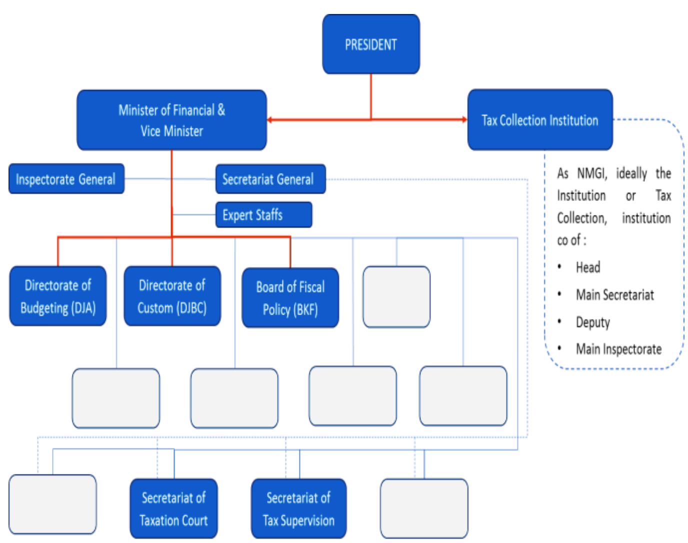


**Figure 2 Alternative Organizational Structure of the New Tax Collection Institution**

*Source: Formulated in accordance with the results gained from in-depth interviews*

From the figure above, in reference to the four variations of tax administrative institutional framework made by OECD, the autonomy granted to DGT is included in the category of the implementation of SARA which is still in coordination with the Ministry of Finance, the most possible institutional framework according to OECD is, therefore, Unified Semi-Autonomous Body. This framework contends that the tax administrative function serves as the responsibility of a specific agency and the head of the agency is expected to convey periodic reports to an appointed Minister.

Coordination between DGT and the Ministry of Finance is explained in point 4 which stated that tax policies related to tax subjects, objects, and tariffs or, referred to in tax laws as material law, is executed by the Ministry of Finance, and in this regard, the Ministry shall delegate its authority to the Fiscal Policy Agency. Meanwhile, the new tax collection institution bears the responsibility to conduct the administrative affairs of taxation and to collect state revenue or to execute formal tax laws. In performing its duties, in accordance with UU No. 39 / 2008, there is a mandatory structure of organization in NMGI, which is: Head, Head's Assistant, Secretariat, and Deputy.

**c. Supervision System Analysis**

As a new institution, which will perform the duty of managing tax administration and conduct coordination with the Ministry of Finance in managing tax policy, it is required to have a body which supervises the authority of those two institutions. The regulation governing a supervising body is enshrined in Chapter 36 C UU KUP, which explains that the Minister of Finance must establish a Taxation Supervising Committee which is regulated under the Regulation of the Minister of Finance. It is already written in the Regulation Number 54/PMK.09/2008 concerning the Taxation Supervising Committee.

The committee, since its establishment in 2008, has always been in a dilemmatic position, due to its position under the authority of Ministry of Finance according to Gunadi, however it is professional in performing its duties. The duties of Taxation Supervising Committee involve providing suggestion, opinions or considerations for the Minister of Finance regarding the execution of duties from the authority owned by taxation agencies. The Committee also has the duty to supervise the way taxation system is being run. It will perform its duties when there are complaints or tips from taxpayers who feel that they are not treated in accordance with existing regulations to the extent that they feel disadvantaged. Similar issue was raised by Bawono when he claimed that every stakeholder in both Ministry of Finance and DGT are currently determining how their positioning will look like in the future. The committee is supposed to be on equal position or above the two institutions. That is due to the fact that administrative function can never be removed from supervision. Despite the fact that the new institution will be placed below the President, there still needs to be a clear coordination line with the Ministry of Finance. When Tax Recipient Body has been established, there will be an internal supervisory body which, considering its status as NMGI, will be refered to as Main Inspectorate. Meanwhile Taxation Supervising Committee will continue to exist, and as a consequence, its position must be asserted. Considering the fact that DGT is no longer under the authority of the Ministry of Finance, the position of Taxation Supervising Committee must at least be equal or higher than the Tax Recipient Body and Ministry of Finance. This is done in order to ensure that the Committee will be able to provide optimum deliverance.

The supervising function has been inserted in one point, namely the fifth point in Chapter 95 of KUP Constitutional Draft. Researcher agrees if the Committee is placed on equal standing or above those two institutions because the Taxation Supervising Committee must assume a neutral stance. However, the next problem which arises is concerning the insufficient Resource. This issue has yet to be discussed further by DGT because they are still waiting for the legalization of KUP.

**d. Potential conflict which will arise**

DGT has undergone several hindrances during its transition process and implementation of SARA. The most significant hindrance, according to Chief Change Management Officer CTO, comes from social expectation, that when DGT is formally acknowledged as an institution below the President, there will be expectation put on the institution to become "the cure for all problems", however in his opinion, that is likely to happen. This is due to the uncertainty of the solvency of every problem through the provision of autonomous authority. The next problem involves flexibility which will be granted. There might be "jealous" from other organization or other governmental institution if DGT is given flexibility. This is something that CTO is working on; to provide understanding as to why DGT must be granted flexibility, therefore even if the status granted to DGT is ASN, it is expected that DGT will be given exclusion or flexibility.

In addition to that, Gunadi, as an academician provided his perspective concerning the provision of flexibility to DGT. In his view, the provision of a more autonomous authority should not become a priority, instead we should start with fixing the administrative function first, such as the IT system and examination. The weakness that is apparent in Indonesia's DGT is the limitation of taxpayers' online data and therefore up until now DGT conducts manual examination of data. In comparison with developed states, our tax offices should have been able to create prepopulated tax return. Therefore, every office does not need to send those documents to the taxpayers to ask for confirmation; in other words, DGT do not need to wait for prepopulated tax returns. By using prepopulated tax return, DGT is actually demanded to meet or interact and control third parties.

In regards to the limitations that DGT are faced with and his perspective concerning the provision of a more autonomous authority, he suggests DGT and Ministry of Finance that if DGT is eventually formally recognized as an institution, they must: 1) be able to provide revenue to the state while taking into consideration the equality of rights and obligations of taxpayers; 2) provide legal certainty; 3) provide benefits to the taxpayers because if it only becomes an institution which rejects objections, then DGT is not really effective yet; 4) fixing tax administration using online system; 5) be able to maintain the good reputation of the President, because once it becomes an institution, then its direct responsibility is to the President.

**CONCLUSION**

Alternative institutional form of DGT is based on Semi-Autonomous Revenue Authority (SARA) concept, which means that its status changes from being one of the directorate under the Ministry of Finance to becoming an institution of equal standing with the Ministry of Finance, something which is expected to increase DGT's authority so that it could increase tax revenue.

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