

## COMPLIANCE RISK MANAGEMENT ON INDONESIAN TAXATION: IS IT AS GOOD AS EXPECTED?

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### Abstrak

This research was conducted on the revised Compliance Risk Management (CRM) of the tax administration by the Directorate General of Taxes (DJP) in 2021 through SE-39/PJ/2021. DGT issued guidelines for implementing CRM-based and business intelligence-based supervisory activities. The new policy should be evaluated to find out whether the policy increases the level of tax compliance. This qualitative case study conducted interviews to directly obtain practitioners' data. The research was conducted at the East Jakarta DGT Regional Office, and Jakarta Pulogadung Primary Tax Service Office (KPPP). William Dunn's evaluation framework was employed to gain more comprehensive results of effectiveness, efficiency, adequacy, equity, responsiveness, and appropriateness. This study concluded that CRM is not effective to raise the tax compliance rate. In addition, this study proposed several suggestions from the supervisory function executors regarding the future improvement and development of CRM, such as cleaner data. The results of this study can be used as a reference in developing CRM. In addition, other instruments and approaches should be considered to gain wider research insights.

Keywords: Compliance Risk Management, Taxation, Supervisory Function, Public Policy Evaluation

### INTRODUCTION

Taxes are the source of state revenue that can be used by the government as a means to maintain state revenue sustainably (Rosdiana and Irianto in Andika, 2018). The Directorate General of Taxes is in charge of ensuring that the tax revenue meets the target. However, low tax compliance among taxpayers appears as a challenge. It is published on the website of DDTC news agency (2022) that the ratio of annual tax returns in 2021 reached 84% which increased from only 77.63% in 2020 (Appendix 1). Unfortunately, this higher formal compliance is not proportional to state revenue. In 2020 the tax revenue decreased by 1 trillion, while taxpayers' compliance in 2020 increased by 4.5% from 2019. A higher number of annual tax returns without high tax compliance tends to increase tax avoidance. For this reason, DGT is expected to increase material compliance testing (Prabandaru, 2019; Arief, 2021; MUC Consulting, 2021).

The DGT (Directorate General of Taxes) has issued a regulation SE-24/PJ/2019 concerning "Implementation of Compliance Risk Management in monitoring, supervision and collection activities at the Directorate General of Taxes" which includes 3 (three) functions that apply CRM. This circular letter replaced the letter SE - 02/PJ/2016 concerning the Benchmark Behavioral Model and its Follow-up. Nurdhin (2017) stated that BBM (Benchmark Behavioral Model) has several drawbacks related to its limited use for corporate taxpayers and benchmarking that applies only to companies under the same type of business category (KLU). Usually, the tax officer will compare financial ratios, for example, Gross Profit Margin,

Operating Profit Margin, and Net Profit Margin. Therefore, BBM was not regarded as successful in the risk identification of corporate taxpayers' non-compliance. Compared to BBM, CRM is better at profiling individual and corporate taxpayers without being limited by the type of business (Directorate General of Taxes, 2021). Betts (2022) also stated that CRM can encourage an increase in tax revenue by promoting voluntary compliance and overcoming high risks of non-compliance behaviors.

Regarding the aforementioned background, a question emerged regarding the extent to which CRM can assist tax officers in increasing taxpayer compliance based on taxpayer profiling through business intelligence applications. In this study, research questions were proposed as follows.

1. How is the application of CRM in for supervisory function?
2. How does DJP support the success of CRM implementation in the supervisory function?

## LITERATURE REVIEW

In Indonesia, tax has been applied ever since the royal era in the form of gifts to the king. A more modern taxation system was introduced during the Dutch colonial era that still applies today (Yusuf, 2022). Compliance is categorized into formal compliance (on-time tax returns submission) and material compliance (precise tax return content) (Zakya, 2014). OECD (2004) mentioned 2 (two) factors that affect taxpayer non-compliance that are economic factors and behavioral factors. An example of non-compliance triggered by economic factors is a large tax debt that burdens the taxpayers. Non-compliance behaviors due to behavioral factors include misunderstanding or lack of knowledge that inhibit the success of tax reporting. Darmayasa (2022) also found inadequate tax knowledge as a factor of non-compliance which inhibits the taxpayers and the community from obtaining the right information.

Compliant taxpayers need to develop both formal and material compliance as explained in PMK No. 39/PMK.03/2018 that include timely submission of tax reports; no tax arrears unless permitted; supervised financial statements get WTP (Unqualified Qualification); and have never committed a crime in the field of taxation in the last 5 (five) years.

CRM in taxation in Indonesia was first regulated SE-24/PJ/2019 and was revised in 2021 (SE-39/PJ/2021) which implementation has developed other tax functions, including extension, supervision, inspection, billing, services, tax education, and transfer pricing. The new regulation complements the previous monitoring, supervising, and billing functions, where data analytics applications such as Ability-To-Pay (ATP), SmartWeb, and Transfer Pricing Compliance Risk Map are employed in compiling a compliance risk map. (DJP, 2019; DJP, 2021). Other countries such as Malaysia and Poland have also implemented CRM in their taxation system. Mahmood (2012) examined tax administration risks related to the implementation of CRM in Malaysia while Lipniewicz (2017) examined the theme of tax risk management, including the impacts of digital business on tax evasion in Poland.

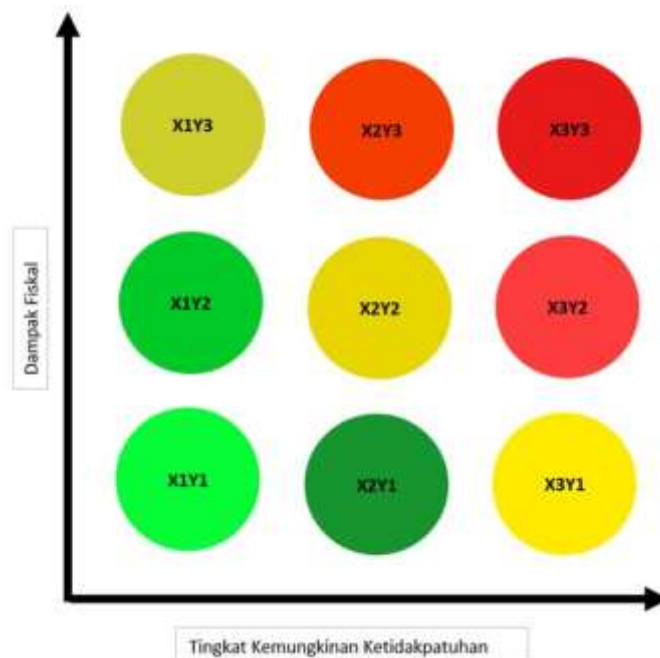
The CRM prepared by DGT refers to the CRM implementation guidelines from the OECD and ISO 31000:2018 (Romauli, 2020). The first step before carrying out risk identification is the identification of the operational context of the organization. After identifying the risks, an assessment and prioritization of risks can be carried out using a heat map (Figure 1). The next step is to investigate the factors that cause the non-compliance and how to address this problem. The final stage is to evaluate the whole process. (OECD, 2004; ISO, 2018).

Consequence	Extreme	High	High	Severe	Severe	Severe
	Very High	High	High	High	Severe	Severe
	High	Significant	High	High	High	High
	Medium	Moderate	Moderate	Significant	Significant	Significant
	Low	Low	Low	Moderate	Moderate	Significant
		Rare	Unlikely	Possible	Likely	Almost Certain
		Likelihood				

**Figure 1. Heat Map**

Source: OECD (2004)

The DGT conducted the profiling on the heat map on the approweb application based on the guidelines of OECD (2004) and ISO (2018) (Figure 2).



**Figure 2. Profiling**

Source: Regional Office of East Jakarta DJP

The map above shows risk distribution between taxpayers. Red ones have the highest risk of not complying, yellow ones have a moderate risk, and green ones have the lowest risk. Two factors considered in classifying taxpayers are Fiscal Impact and the Probability degree of non-compliance.

The distribution of this compliance map allows the tax officials to make an ordered list of taxpayers to be supervised. Another consideration in selecting taxpayers to be supervised is different levels of ability: Very High, High, Moderate, Low, and Very Low. Tax officers will target taxpayers with high to moderate ability to pay. Furthermore, the supervisory officer will carry out supervision (for example by issuing an SP2DK (Letter of Request for Explanation of Data and/or Information) or visiting relevant taxpayers. After that, follow-up supervision will be carried out (such as by proposing an examination or proposal for examining preliminary

evidence to be carried out by the tax officer carrying out the supervision function). The final stage is monitoring and evaluation. Usually, the outcome of the supervision and the collected tax from supervision are then evaluated (Direktorat Jenderal Pajak, 2022)

### **RESEARCH METHOD**

This study was performed using a case study approach which is commonly employed to investigate current phenomena that occur. This study is a single-embedded case study where it examined only 1 (one) research object involving 1 (one) / several units under the main object. This study is using qualitative method, where data collected in the form of words. (Yin, 2018; Wahyuni, 2019).

Data collection was carried out using semi-structured interviews based on guidelines, where researchers were allowed to give additional questions during the interviews (Wahyuni, 2019). Interviews were carried out at the informant's office of the East Jakarta DGT Regional Office and the Jakarta Pulogadung Primary Tax Service Office (KPP). Interviews were recorded and the data were analyzed using the descriptive analysis method.

In total, three informants help researcher collect data. Two experienced officers in supervisory functions at the East Jakarta DGT Regional Office. One informant was a staff who carried out supervisory functions at KPP Pratama Jakarta Pulogadung.

**Table 1. List of Informants**

A1	Division Head/ East Jakarta DJP Office
A2	Executor / East Jakarta DJP Office
B1	Supervisory Officer / KPP Pratama Jakarta Pulogadung

*Source:* Researcher's Data (2022)

Interviews were conducted after obtaining a research permit to be submitted through [eriset.pajak.go.id](http://eriset.pajak.go.id) page. The tax office then selected the relevant informants. The general division then arranged the meeting for researchers and informants.

### **William Dunn's Evaluation Framework**

William Dunn is a professor from the University of Pittsburgh who set a series of criteria for public policy evaluation. The evaluation criteria consist of 6 points: effectiveness; efficiency; adequacy; equity; responsiveness; and appropriateness. (Dunn, 2018)

Effectiveness is measured through direct interviews with informants if they perceive CRM effective in increasing taxpayers' compliance. Efficiency is measured based on how informants perceive CRM in reducing/increasing costs and saving time/requiring longer time. Adequacy refers to informants' satisfaction with CRM. Equity is measured using the Pareto criterion which measures the policy implementation equity and whether it creates added value without making the weaker parties weaker. Responsiveness is measured through the experience of informants regarding their preferences about the new or old control system. Appropriateness is measured through informed opinion regarding the future development of CRM. (Dunn, 2018)

## RESULTS AND DISCUSSION

Based on the research questions mentioned in point 1.1, the results and the discussions of the interviews are presented as follows.

### The Evaluation of CRM Implementation based on William Dunn's Evaluation Framework

1. Effectiveness measures whether the expected results are achieved after a new policy is implemented (Dunn, 2018). The effectiveness of CRM implementation in the supervisory function is measured based on informants' views on whether the increased compliance is the result of CRM implementation. According to the informant, it cannot be concluded that CRM is more effective in increasing taxpayers' compliance since the factors that caused their non-compliance varied. If a taxpayer is non-compliant because they could not accept the tax calculation, the taxpayers can be educated and they are likely more compliant in the long run.  
*"It cannot be concluded that compliance has increased because of CRM, but it is possible because we have succeeded in supervising the right taxpayers whom we expect to be more compliant in the next year." (A1, 2022)*
2. Efficiency was measured by informants who knew the actual conditions in the field. Efficiency can be answered briefly with the question "How much effort is needed to get the expected results?" (Dunn, 2018). The informants stated that the costs incurred were much smaller after the implementation of CRM. Before the existence of CRM, tax officers randomly selected taxpayers for supervision. This system was ineffective because many letters were not sent to taxpayers. It was also difficult to obtain data related to taxpayers prior to CRM implementation. The CRM and Business Intelligence assistance select the right taxpayers to be supervised. It can be concluded that CRM is efficient in helping tax officers improve taxpayer compliance (B1, 2022).
3. The adequacy of CRM implementation points in the supervisory function is measured through the types of problems and solutions (2018). In assessing the adequacy of public policies, there are 4 types of problems: Type I (Equal cost - Variable Effectiveness), Type II (Variable Cost - Equal Effectiveness), Type III (Variable Cost - Variable Effectiveness), and Type IV (Equal cost - Equal Effectiveness) (Dunn, 2018). Based on the distribution of the types of problems and their solutions, the supervisory function is a type 3 problem, which requires lower costs to obtain higher effectiveness or at least to maintain the effectiveness. It cannot be concluded that BI-assisted CRM increases the level of compliance. However, with lower costs, the tax potential might remain the same. Hence, CRM is not significant enough to increase taxpayers' compliance.
4. Equity is measured based on the Pareto Criterion. Dunn (2018) stated that the Pareto criterion states that a policy can be regarded as equitable if the policy can create value growth using resources from those of higher social status (better off) and protecting people of lower social status (worse off). The use of CRM in the supervisory function is considered to be evenly distributed because CRM includes the ability to pay as a consideration of whether supervision of the taxpayer will be carried out. This consideration supports the Pareto criteria which state that the transfer of resources should not be detrimental to people of lower social status. In the new tax supervision guidelines, DGT considers the ATP (ability to pay) of the taxpayer as a factor that determines whether the taxpayer will be supervised. The ability to pay should be between moderate to very high.



*"Taxpayers with high risk of non-compliance but low ability-to-pay are not prioritized. We want to take taxpayers' fruits, not kill them"* (A1, 2022).

5. The responsiveness of the application of CRM in the supervisory function is measured based on informants' preferences and whether they find it better to use CRM. Dunn (2018) asserted that policies must be able to meet the needs, preferences, and values of a group. Executors of the supervisory function find the CRM useful as it helped them find data related to the taxpayers easier. With the risk matrix and trigger data that has been compiled in the Approweb, it is easier for supervisors to choose which taxpayers to be prioritized for supervision and the data derived by the Regional Office include data on taxpayers who make transactions with certain parties that should be supervised (B1, 2022).
6. The appropriateness of CRM in the supervisory function is measured based on the perception of informants and whether they find the policy feasible and better. According to Dunn (2018), an appropriate policy is a policy that is fair and efficient. In one of the interviews conducted with one of the executors of the supervisory function, CRM made it easier for them to do research on taxpayers. The implementation is not easier, but it is significantly faster because we know the specific data to be selected (B1, 2022).  
*"After the implementation of CRM and SE-05, everything goes to the better and well-structured direction"* (A2, 2022)

### **Factors Supporting the Success of CRM in Supervisory Function**

Before the implementation (SE-24/PJ/2019), many tax officers did not understand the concept of CRM (Romauli, 2020). Currently, all tax officers assigned to the supervisory function understand CRM. One of the factors for the success of CRM is the accuracy of the selection of taxpayers to be supervised. The heat map helps officers determine which taxpayers can be supervised in easier ways. The approweb application shows taxpayers' data and helps supervisors to check and track their work on the approweb. Measuring the ability to pay also helps determine the taxpayer to gain greater potential from tax.

*"If this is done correctly, the potential estimate will reflect the real condition precisely"* (A1,2022)

According to the informant, Core tax, the business process application being developed by the DGT is an advancement in assisting the DGT and the organizations to increase tax compliance and tax revenue (A2, 2022). Core tax is also expected to increase the efficiency of taxation business processes. The latest step taken by DGT as a regulator is to combine the NPWP (taxpayers' ID) with the NIK (Indonesian ID number) on the KTP (Citizen Card).

In 2022, after the implementation of the guidelines for the new supervisory function, an evaluation has not been carried out either at the Regional Offices or the Primary Tax Service Office for the implementation of CRM. Evaluation could not be carried out because there were many letters were not yet returned by taxpayers (A2, 2022).

A system for carrying out supervision for individual taxpayers needs to be developed (A1, 2022). Other supervisors also hope that data accessibility for supervisors who deal directly with taxpayers can be improved so that they do not have to go through the long bureaucracy to obtain data that can only be accessed by certain authorized officers (B1, 2022)

### **CONCLUSIONS**

CRM does not effectively improve taxpayer compliance. Nonetheless, CRM has succeeded in making the process more efficient through the profiling process. This system is more efficient for tax officials in selecting target taxpayers to be supervised. Based on the type of problem and its solution, CRM is not significant enough to solve problems (compliance).

Based on the Pareto criteria, CRM makes the supervisory function more even because the selection of taxpayers to be supervised is fair (by considering the ATP factor). CRM has also offered approweb that makes it easier for officers in accessing the data. In the end, all informants agreed that CRM is worth developing because it is a good tool for supervisory function. It is expected that there will be improvements that can make supervision more efficient.

To support the CRM for supervision in Indonesia, DGT is trying to integrate the National Identity Number with the Tax ID. In the future, with only 1 number, the data can be more integrated. Core Tax is also being developed to make it easier for supervisors to carry out their functions.

Several challenges occurred in this study. First, it was difficult to find informants' free time. Several informants canceled the scheduled meeting as they needed to complete other work. This research is subjective. Other research that was done using the same method but at different times and research objects could draw different conclusions.

Based on the aforementioned results and conclusions, suggestions are proposed as follows.

1. Policymakers are expected to refer to the new ISO 37301:2021 guidelines to improve the implementation of CRM in the taxation system in Indonesia.
2. Future researchers are encouraged to replicate this study at other tax offices using quantitative approach. Hence, more comprehensive knowledge regarding the functions of CRM implementation can be obtained.
3. Other researchers need to examine the CRM system. Future researchers can also consider using other research instruments in conducting similar research to provide different perspectives (for example research using focus group discussions as a data collection tool).

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