Improving Tax Compliance in Indonesia through the 2022 Voluntary Disclosure Program

MPA Capstone Project

By

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Abstract

Developed or developing countries have conducted Voluntary Disclosure Programs (VDP) to increase tax revenues and taxpayers' compliance. Non-compliant taxpayers prefer this way to regular law enforcement to be more compliant. This study focuses on supporting Indonesia, the lowest tax-to-Gross Domestic Product (GDP) ratio in Asia and the Pacific, in improving its taxpayers' long-term compliance through the 2022 VDP; this amnesty had fewer participants, shorter periods, and higher rates than the first one in 2016. Using descriptive analysis, it is concluded that the 2022 VDP could reveal taxpayers' wealth known and unknown by the tax authority, increase revenue as a fraction of GDP, and improve long-term compliance.

Introduction

According to the 2022 Organization for Economic Co-operation and Development (OECD) research about revenue statistics in Asia and the Pacific, these countries' tax-to-Gross Domestic Product (GDP) ratio ranged from 9-48%. This ratio measures the amount of a country's tax revenue to its economy; a higher percentage means more opportunities for the government to run public programs.

Unfortunately, Indonesia has had the lowest ratio, around 10%, for years. The Indonesian government tried to increase it by collecting more revenue through regular audits and special programs like the 2016 Tax Amnesty (TA). Even though this initiative successfully collected $5.9 billion, 78% of the target, the Minister of Finance said the 973,426 participants were too small compared to total taxpayers, and offshore assets which could be repatriated were just $9.7 million, 14.6% of the target. These could not increase the tax revenue and improve the economy; consequently, the tax-to-GDP ratios were kept the same post-2016 TA.

Triggered by many taxpayers' assets abroad, in 2017, Indonesia agreed to tackle this tax evasion through the Automatic Exchange of Information (AEoI) with OECD-Global Forum. By utilizing AEoI data and comparing the other ones covering intergovernmental data and taxpayers' 2015-2020 tax returns, the Indonesian Directorate General of Taxes (DGT) could detect 4,337,625 taxpayers who have yet to declare their assets of $10.6 billion. I called those assets known wealth by DGT and the hidden ones unknown wealth. Based on the Tax Justice Network report, Indonesian tax evasion costs the government $4.86 billion annually, covering 6% by corporations and 94% by individuals who typically hide their assets overseas (Luib, 2020).

Research questions

DGT sent emails and letters containing the value of undeclared assets to targeted taxpayers to join the 2022 Voluntary Disclosure Program (VDP). This is the second amnesty after the first one in 2016 TA, which aimed to increase revenues and improve taxpayers' voluntary compliance by incentivizing them as the exchange of asset information reporting (OECD, 2015). However, I questioned how far better the 2022 VDP will realize both goals than the 2016 TA through these specific concerns:

- How successfully was the 2022 VDP getting taxpayers to declare known wealth? Why was the 2022 VDP have fewer participants than the 2016 TA?
- How effective was the 2022 VDP at getting taxpayers to reveal unknown wealth? Why was the 2022 VDP more effective on this than the 2016 TA?
- How effective were these amnesties at increasing revenues as a fraction of GDP?

These questions will lead to the answer to the bigger question about long-term compliance post-2022 VDP.

The overview of the literature review and findings

In the following section, I explain the context of the 2022 VDP by discussing the tax system as a cause of tax evasion, the ways to improve tax compliance, and information reporting as the principle of VDP to make taxpayers more compliant voluntarily. This knowledge helps me analyze the research questions and conclude that the 2022 VDP successfully reveals known and unknown wealth with challenges such as fewer participants, shorter duration, and higher rates than the 2016 TA. Even though it is more effective and efficient in making revenue, long-term compliance is still challenging for DGT unless they pay attention to post-program treatment and taxpayers' morale. DGT

should consider repeating amnesties as the last option because those can raise unfairness for compliant taxpayers by forgiving non-compliant taxpayers.

## Literature Review and Policy Background

Tax evasion

One of the causes of Indonesian tax evasion is its tax system. Since 1984, the Indonesian government has implemented a self-assessment system, letting taxpayers independently manage their taxes (Amanda & Pratama, 2022). Consequently, DGT should monitor their tax compliance by analyzing tax returns (Alm (1991) & Slemrod (2007)). Some taxpayers still did not comply by avoiding and evading taxes. Allingham & Sandmo (1972) argued that tax rates caused it, and income taxes offer significant opportunities than other taxes. According to the Tax Justice Network report, Indonesian tax evasion costs the government $4.86 billion annually, covering 6% by corporations and 94% by individuals who typically hide their assets overseas (Luib, 2020).

In more detail, Slemrod & Bakija (2017) explained that the tax system could be measured by how much tax burden the people are; a more rigid tax system could make the situation more complex. To address this complexity, we could measure the compliance cost covering how much time and money taxpayers gave for paying taxes. It worsened when there were graduated tax rates, a messy tax base, and taxpayers' choice to avoid and evade the taxes. More evasion would create more tax gap (inequality), reducing the government's opportunity to make revenues for public programs.

Tax compliance

To force taxpayers' compliance, DGT conducted tax audits (da Silva et al., 2019). On the other hand, DGT encouraged them voluntarily enter the tax system and pay taxes through amnesties. Both ways require trust in the tax system and fairness in the tax administration (Taing & Chang (2021); Batrancea et al. (2019); de Silva et al. (2019); Fuentes-Nieva (2021)). Ultimately, these outcomes will create political support to improve future tax compliance (Figure 1).

Figure 1: World Bank's Tax Compliance Model (2019)
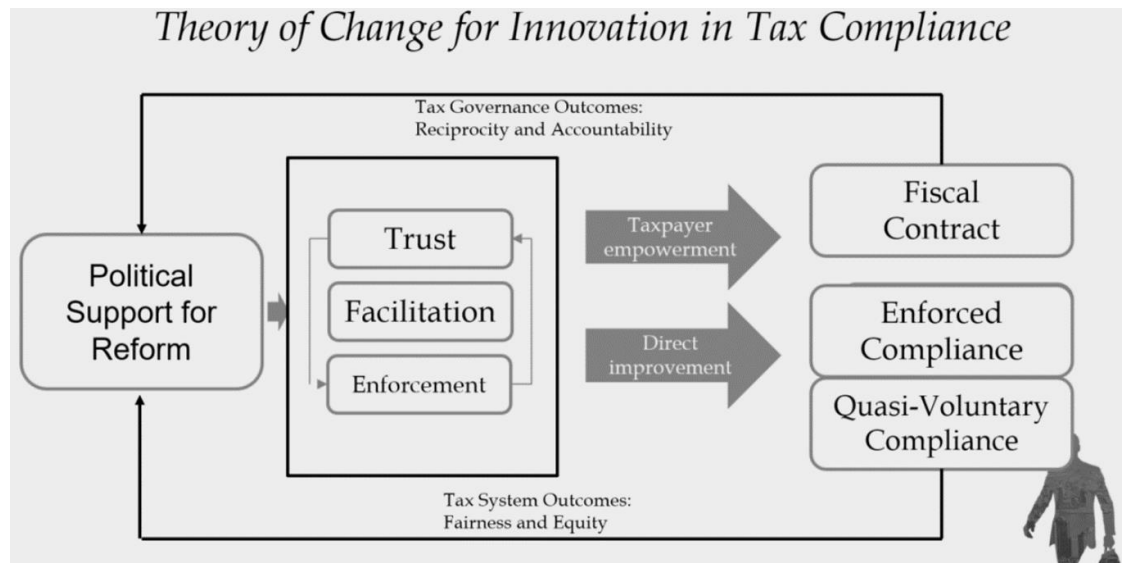
Voluntary Disclosure Program

In January-June 2022, the Indonesian government repeated amnesty, called VDP, after the first one in 2016. Figure 2 shows that VDP could improve taxpayers' voluntary compliance by incentivizing them for their asset information reporting and particular tax payment. (OECD (2015); Hoffman et al. (2008); Langemmayr (2017) & Meek et al. (1995)); examples of incentives are free tax assessment notices and protection from

future audits or investigations. Slemrod & Bakija (2017) argued that it is better than audits because of its lower administration cost. Besides, the VDP procedure represents the less progressive tax system and focuses on broadening the tax base. Alstadsaeter et al., 2019 emphasized that amnesties could reveal offshore assets that audits did not do; tax evasion is highly concentrated among the rich who conceal their assets abroad.

Figure 2: OECD's Compliance Pyramid and Voluntary Disclosure (2015)
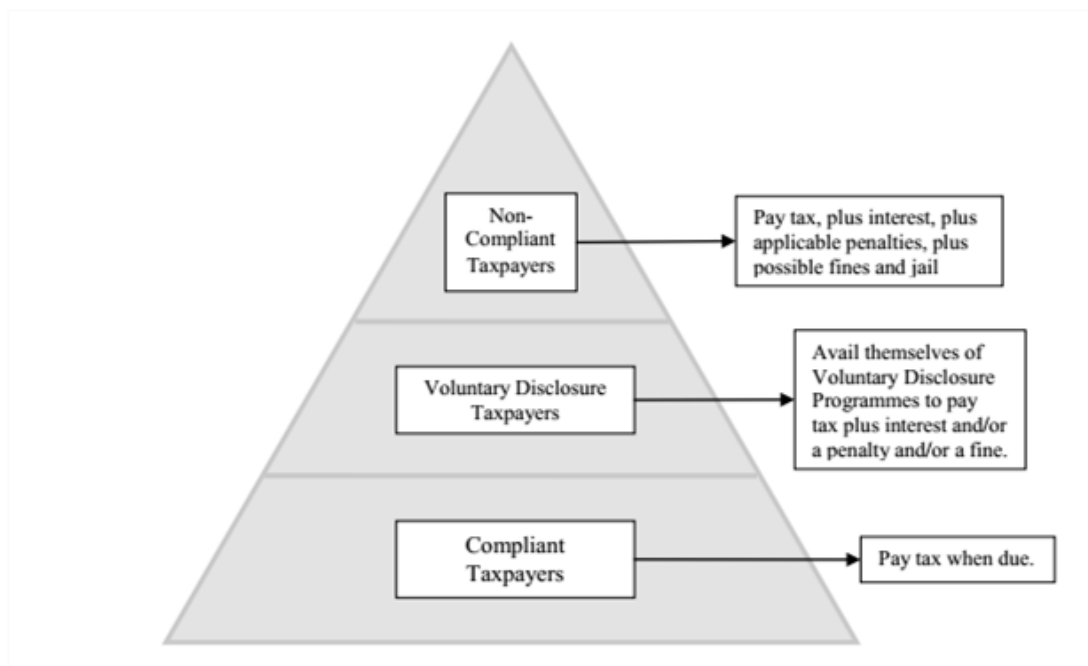
In 1952, the United States did not prosecute taxpayers who fully declared tax fraud before any law enforcement (IRS, 2018). Slemrod & Bakija (2017) explained a long history of wealthy individuals evading taxes through secret foreign accounts. Then, in 2009, the first U.S. tax amnesty drew around 15,000 disclosures of offshore accounts. Besides, the U.S. utilized Foreign Account Tax Compliance Act to order foreign financial institutions to report their taxpayers' financial accounts. Johannesen et al. (2020) explained that 90,000 individuals reported their information through the Reports of

Foreign Bank and Financial Accounts (FBARs); 15,000 were interested in participating in VDP. The participants significantly increased their reported taxable capital income; the nonparticipants were unaffected.

More countries benchmarked the United States policy. Therefore, OECD (2010 & 2011) initiated the Global Forum on Transparency and Exchange of Information to reduce tax evasion and collect tax revenue with low administration costs. In 2017, 97 countries agreed to exchange information on residents' assets and income. Some countries followed that information with amnesties to encourage their taxpayers to be more compliant. International Monetary Fund or IMF (2022) differentiated VDP focusing on undeclared assets with TA waiving tax liabilities. Even though both could increase revenue through special rates, these amnesties could raise unfairness for complied taxpayers by forgiving the non-compliant taxpayers (Appendix B). Moreover, not all taxpayers would fully reveal their assets because they hoped for another tax amnesty (Alm & Solde, 2021).

In 2022, Indonesia ran VDP by grouping participants into two: Policy 1 covers taxpayers who have participated in 2016 TA but have not fully declared their 1985-2015 assets; Policy 2 covers taxpayers who have not declared 2016-2020 assets in their tax returns. The first group got lower rates than the second one because they had participated in the previous amnesty; however, the 2022 VDP's rates were higher than the 2016 TA's because it is the second chance for taxpayers to comply—more detailed differences between both amnesties in Appendix C. Either participated or did not participate in the 2022 VDP, DGT would implement post-VDP treatment. The participants would be

audited for their wealth corrections; nonparticipants would be monitored, audited, or investigated.

The contribution of this study

So many Indonesian researchers studied the 2016 TA, but already a few have studied the 2022 VDP. Moreover, they theoretically explored the program preparation and implementation. For instance, Vientino & Galela (2022) compared the Indonesian VDP collecting income tax in six months with Malaysian and Singaporean VDPs running for all taxes in years. Hasanah et al. (2021) & Rahayu (2022) argued that program promotions affected the 2022 VDP success, but others believed that taxpayers' perceptions determined their participation (Irawan & Raras (2021); Ningtyas & Aisyaturrahmi (2022)). On the other hand, Haryadi (2022) observed the implementation uncertainties, especially for dual participation in two policies.

This study would be the first 2022 VDP research focusing on the program result and the strategies to pursue long-term outcomes. It will support DGT's post-program treatment and the future study to measure the impact of 2022 VDP as long as the data is available. I utilized the DGT's internal data (2021 & 2022), which were not available for everyone, to answer the questions about the program's effectiveness in revealing wealth and making revenue. Moreover, I benchmarked global VDP guidance covering OECD (2015), IMF (2022), and Internal Revenue Service (IRS) (Brown & Markarian, 2019) to recommend DGT strategies for improving longer-term compliance.

Research Design

Data

As mentioned earlier, DGT provided me with data covering 2016 TA and 2022 VDP statistics summaries, press releases, task force reports, and academic drafts of the laws (bills). These data complemented each other to help me understand the program background, design, implementation, result, and post-program policy. Besides, I learned global guidance published by OECD (2010 & 2015) and IMF (2022) to evaluate the 2022 VDP design. In 2022, OECD published Indonesia's tax ratio across the year, which I used to motivate the research questions; however, those revenue data included social contribution. Therefore, I collected the Ministry of Finance's ratios from their press releases in some news. I just focused on the primary information to answer the research questions; I ignored detailed data covering the kind of declared assets, detailed program implementation, and mixed results in Indonesia areas.

Method

I started the analysis by providing preliminary information about the 2022 VDP target, participation, and result. Then, to answer the first sub-question about how successful the 2022 VDP was in revealing known wealth, I compared the declaration of participants who got emails or letters to participate with the wealth data discrepancies DGT analyzed from many sources. Moreover, I explored why the 2022 VDP participants were less than the 2016 TA by comparing both program designs and analyzing the result paradoxes between Policy 1 and 2's participants.

The next question is how effectively the 2022 VDP got taxpayers to reveal unknown wealth. Contrary to the previous one, I analyzed the participants who were not mailed but participated. Moreover, I explored why the 2022 VDP was more effective in revealing unknown wealth than the 2016 TA by learning about the role of program

communication strategy and post-program treatment. In this part, I recapped the participation paradoxes between participants who were mailed but did not participate, who were not mailed but participated, and who participated but did not declare whole assets.

Then, to answer how effectively these amnesties increased revenues as a fraction of GDP, I analyzed the changes and the relevant event in the yearly tax revenue-to-GDP ratios from 2016 TA to 2022 VDP. Besides, I studied the factor of the Indonesian top personal income rate to decrease the ratio, which theory argued that the high tax rate caused tax evasion. To close this part, inspired by Slemrod & Bakija (2017), who calculated the contribution of audit on revenue, I analyzed the contribution of each amnesty wealth declaration in making revenue.

Last, to answer the bigger question about long-term compliance post-2022 VDP, I considered potential post-program problems, benchmarked the strategies from global guidance, and thought about the DGT's capacity to implement those. Therefore, I recommended three alternative actions to DGT.

Analysis

Program target, participation, and results

The 2022 VDP did not have a mandated wealth declaration and revenue target like the 2016 TA. The Minister of Finance argued that the 2022 VDP was voluntary and that every additional declared wealth data would broaden the tax base. However, DGT went the extra mile to make taxpayers participate by analyzing their wealth data discrepancies based on AEoI, intergovernmental data, and tax returns. From 19 million obliged taxpayers to file tax returns, DGT found 31,625 participants of the 2016 TA
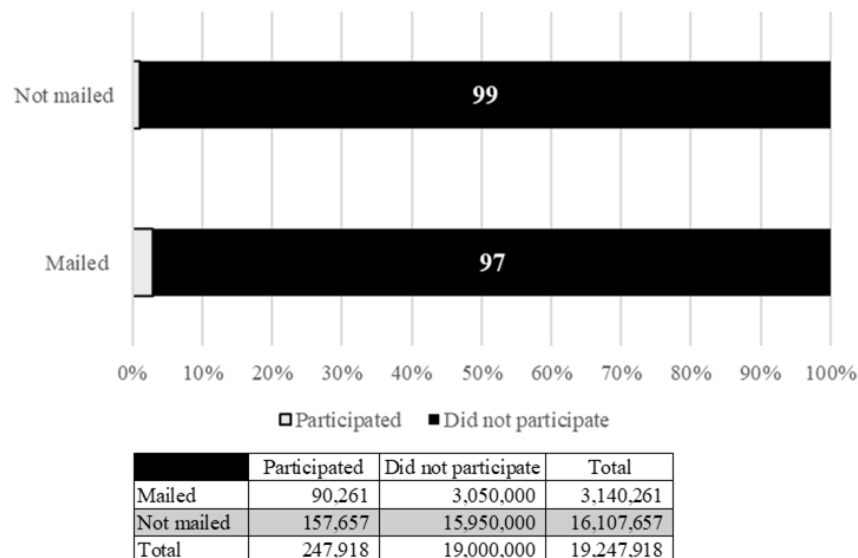
(Policy 1) did not declare 1985-2015 assets of $2.46 billion; meanwhile, 4,306,000 taxpayers did not declare 2016-2020 assets of $8.14 billion on their 2016-2020 tax returns (Policy 2) (Table 1); DGT estimated the tax revenue from those assets was $2.5 million. Both groups were targeted for participating in the 2022 VDP.

Table 1: 2016-2020 Non-compliant Taxpayers

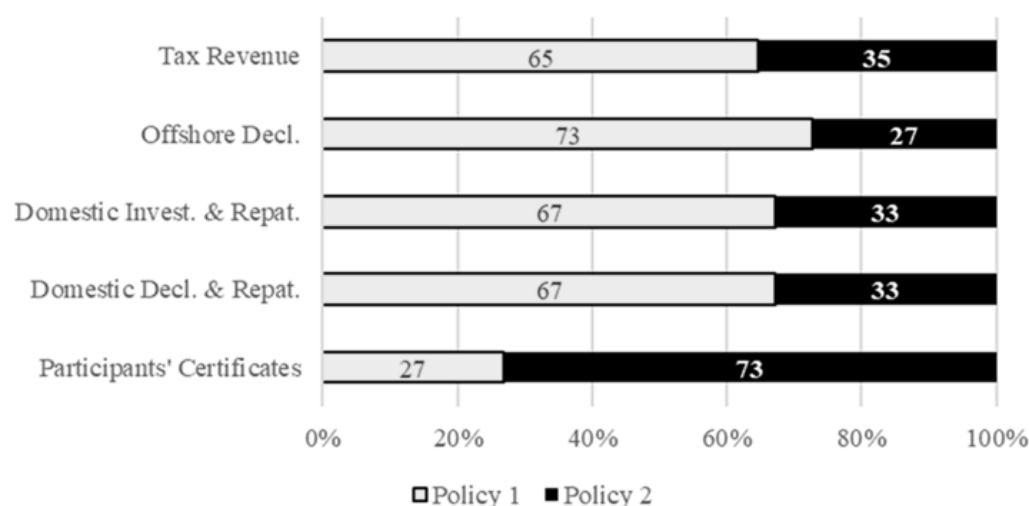|	Policy 1	Policy 2	Total
No. of Taxpayers	31,625	4,306,000	4,337,625
Undeclared Wealth ($1 Billion)	2.46	8.14	10.60

Based on the completeness of wealth data, DGT decided that three of four million non-compliant taxpayers were eligible participants for the 2022 VDP. OECD (2015) mandated taxpayer eligibility as part of the VDP design (Appendix A). Those participants got an email or letter containing their undeclared assets and a notice to participate in the 2022 VDP. 97% of mailed taxpayers did not participate; only 90,261 participated (Figure 3). Interestingly, there 157,657 taxpayers were not mailed but participated.

Figure 3. 2022 VDP Participation

	Participated	Did not participate	Total
Mailed	90,261	3,050,000	3,140,261
Not mailed	157,657	15,950,000	16,107,657
Total	247,918	19,000,000	19,247,918

The participants declared a wealth of $39.3 billion and paid a tax of $4 billion (Figure 4). Policy 1's group results were more significant than Policy 2's, except for the participant certificates, because the regulations allowed participants to declare more than once. DGT claimed their VDP system was complete, easy, and clear to help taxpayers participate. On the other hand, The Minister of Finance argued that the offshore asset declaration was lower than the domestic one because those assets were probably used for a business operation; at least DGT got additional offshore assets data.

Figure 4: 2022 VDP Results

	Policy 1	Policy 2	Total
No. of participants			247,918
No. of participants' certificates	82,456	225,603	308,059
Reported wealth ($1 Billion)	26.4	12.9	39.3
Domestic assets declaration & repatriation	22.7	11.1	33.8
Domestic investment & repatriation	1.1	0.4	1.5
Offshore assets declaration	2.6	1.4	4.0
Tax Revenue ($1 Billion)	2.2	1.9	4.0

The effectiveness of the 2022 VDP in revealing the known wealth

Again, the known wealth means the wealth that DGT detected and informed eligible taxpayers through mail or letter. Three million got it and should reveal their wealth, but only 90,261 (3%) did it. The six-month 2022 VDP could be the first reason

there were few participants; meanwhile, the 2016 TA was conducted in 1.5 years, and 973,426 participated. Second, the 2022 VDP had higher rates, 6-18%, than the 2016 TA, 2-10%. Gould & Rablen (2020) argued that low VDP rates could attract non-compliant taxpayers to yield more, and tax authorities would get their tax payments with low administration costs.

These amnesties are information reporting tools to solve tax evasion (Slemrod & Bakija, 2017). DGT conducted the 2022 VDP to complement the 2016 TA for making the tax system less progressive and aimed to broaden the tax base. Years ago, IRS proved that the explicit information reporting program called FBAR and VDP worked to encourage taxpayers to reveal their assets.

DGT stated that 90,261 participants who were noticed paid a tax of $1.68 billion, 42.2% of the total revenue of the 2022 VDP of $4 billion. I estimated their wealth with the tax revenue and the median 2022 VDP rates, 12%, and I got $14 billion. If I compared this number with the DGT's known wealth as the program target, $10.6 billion, the 2022 VDP could reveal 1.32 times. The remaining 2022 VDP participants and declared wealth will be explained in the following section about revealing the unknown wealth.

After seeing the declared known wealth from noticed taxpayers' perspective, I figured out another one from the mandated policies. Policy 1's participants declared wealth more significant than Policy 2's (Figure 5); They probably were taxpayers who wanted to comply more with another amnesty (Alm & Solde, 2021). As mentioned earlier, Policy 1 was for taxpayers who have joined the 2016 TA; Policy 2 was for those who did not join it and had 2016-2020 assets. If I compared Policy 1's declared wealth,

$26.4 billion, with the DGT's known Policy 1's $2.46 billion, the 2022 VDP could reveal 10.73 times; meanwhile, by comparing Policy 2's declared wealth, $12.9 billion, with the DGT's known Policy 2's $8.14 billion, the 2022 VDP could reveal 1.58 times. They were probably waiting for another amnesty to declare whole assets as Policy 1's participants who participated in the 2016 TA but finally declared their assets in the 2022 VDP. On the other hand, the number of Policy 2's participants were more than Policy 1's because DGT knew undeclared 2016-2020 assets more than undeclared 1985-2015 assets and showed those in their emails or letter. Once they joined the 2022 VDP, DGT incentivized them with a free tax assessment notice.

Figure 5: 2022 VDP Result Paradoxes

Policy 1: Few participants with a significant declaration	**Policy 2**: Many participants with a less significant declaration
2022 VDP is the amnesty that 2016 TA participants had been waiting for	• DGT's data triggered them to declare 2016-2020 assets • They were interested in the free notice of tax assessment • They hoped for another amnesty in the future

There are probably still tax evaders, even though DGT conducted two amnesties; they are undoubtedly wealthy individuals who hide their assets abroad (Slemrod & Bakija, 2017). Based on previous Figure 4, Policy 2's participants were more than Policy 1's, but their declared offshore assets were less than Policy 1's. DGT should consider this group post-2022 VDP to ensure fairness for compliant taxpayers.

*The effectiveness of the 2022 VDP in revealing the unknown wealth*

Contrary to the previous discussion, the unknown wealth was declared by 157,657 taxpayers who did not get DGT's email or letter but participated. I got $25.3 billion after subtracting the estimated declared-known wealth, $14 billion, from the actual wealth declaration, $39.3 billion. If I compared it with the DGT's known wealth as the program target, $10.6 billion, this unknown wealth was 2.38 times. I still used the same target number because Table 1 previously shows that DGT targeted some 2016 TA participants who have not declared whole their 1985-2015 assets (Policy 1) and taxpayers who did not join the 2016 TA and had 2016-2020 assets (Policy 2) to participate in the 2022 VDP.

On the other hand, DGT stated that 95% of 90,261 who were noticed and participated declared assets more than the number on their email, meaning other unknown wealth was reported. However, I did not get more data about how much this unknown wealth. Therefore, I previously categorized them as participants who declared known wealth.

The first reason why those taxpayers were not noticed but participated was because of DGT's regular monitoring, audit, and investigation and the 2022 VDP communication strategy. DGT promoted this program through thousands of offline and online activities to make compliant taxpayers fair, and non-compliant taxpayers fear being taxed more (Hasanah et al., 2021). There were 13,754 offline and online promotions, 3,201 pieces of training, and 54,063 consultations collaborated with many stakeholders, such as governments, companies, media, public figures, and volunteers (DGT, 2022). DGT completed the strategy by publishing program guidance and Frequently Asked Questions (FAQs).

Furthermore, one of the materials of the 2022 VDP promotion was about the post-program treatment, which possibly affected those taxpayers to participate. They will get additional final income tax, penalties, and tax assessment notices if they do not participate (Figure 6). On the other hand, DGT would treat participants by verifying their wealth correction and auditing their incomplete declarations, repatriation, and investment.

Figure 6: 2022 Post-VDP Treatment
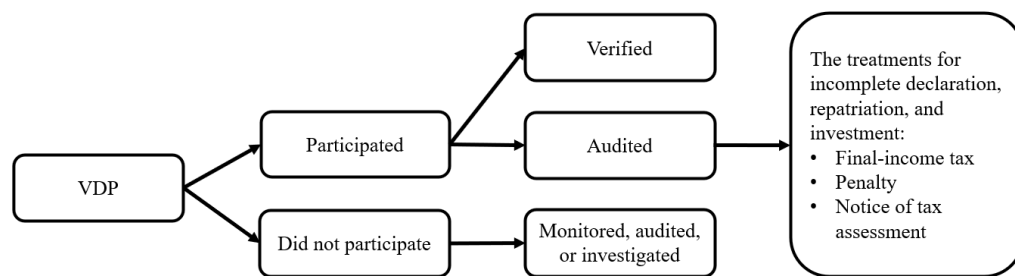
To conclude, taxpayers' perceptions of the 2022 VDP affected the disclosure of known and unknown wealth (Figure 7). Eligible taxpayers did not participate because they probably needed to trust on government's tax system (Ningtyas & Aisyaturrahmi, 2022). Taxpayers who were not noticed participated because of DGT's law enforcement and the program's communication strategy. Some participated but did not declare whole assets because they probably hoped for another amnesty and worried about being taxed.

Figure 7: 2022 VDP Participation Paradoxes

The effectiveness of amnesties at increasing revenue as a fraction of GDP

Besides the wealth declaration, the revenues indicate the effectiveness of an amnesty. Figure 8 shows Indonesia's tax revenue-to-GDP ratio around 10-15% across the years, including 2016 as the first amnesty held. However, it did not state the 2022's ratio when the VDP was held and additional information about how those ratios changed yearly with the relevant event that motivated it. Those are important to see whether the 2016 TA and the 2022 VDP could increase the 2016-2022 revenues as a fraction of GDP.

Figure 8: Indonesia's Tax Ratio 2007-2020
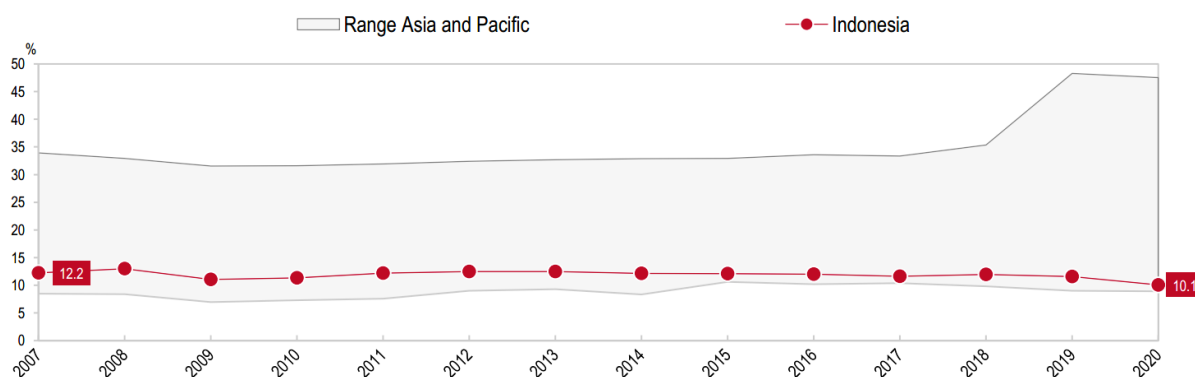
Source: OECD-2022 Revenue Statistics in Asia and the Pacific

On the other hand, Indonesia's ratio data would be useless if there were no additional information comparing its tax rate, which caused tax evasion, to other benchmarked countries. Indonesia's top personal income tax rate is 30%; meanwhile, the average developing Asia country's rate is 27% (OECD, 2022). Moreover, in the nearest neighboring country of Indonesia, Singapore's rate is 22% (Tradingeconomics.com, 2023). Their low rates attract many Indonesian taxpayers to hide their assets there. DGT stated that the highest declaration and repatriation of 2022 VDP came from Singapore, $3.7 billion, 28% of the total wealth declaration.

Then, Figure 9 shows the more relevant tax revenue-to-GDP ratios, change, and the relevant event motivating the ratio based on the Ministry of Finance's press releases. In the year post-2016 TA, the tax-to-GDP ratio decreased by 0.5%; meanwhile, the 2022 VDP was held, and the tax-to-GDP ratio increased by 1.3%. The change was positive in 2018; The Minister of Finance claimed that at that time, taxpayers' awareness of being more compliant increased when the tax reform and AEoI were already implemented. However, the change was negative again and worsened by the COVID-19 pandemic in 2020-2021. All in all, even though the 2016-2022 sum of changes was 0% and the average ratio was 9.7%, the 2022 VDP successfully reached its goal of collecting revenues to recover the economy post-COVID-19-pandemic by improving the ratio from 9.1% to 10.4%.

Figure 9: 2016-2022 Indonesia's Tax Ratios

Year	Event	Tax Ratio (%)	Change (%)
2016	Tax Amnesty	10.4	-
2017	Tax Reform	9.9	-0.5
2018	AEoI	10.2	0.4
2019		9.8	-0.5
2020	COVID-19	8.3	-1.4
2021		9.1	0.8
2022	VDP	10.4	1.3
Sum of Changes			0.0
Average Ratio			9.7

Source: Ministry of Finance Press Releases

To strengthen the role of both amnesties in increasing the revenue as a fraction of GDP, I analyzed how much each amnesty's wealth declaration to make one dollar revenue during the program year. It seems like a one-time impact on the year amnesties

run; however, I benchmarked how Slemrod & Bakija (2017) calculated the compliance

cost from every extra $1 the IRS spends on auditing returns, it could gain between $4-$7

of additional revenue. First, I attached the comparison result between the 2016 TA and

the 2022 VDP (Figure 10). Both differed in the number of participants, wealth

declaration, and tax revenue. At a glance, the 2016 TA results seem more significant than

the 2022 VDP.

Figure 10 The Result Comparison between 2022 VDP and 2016 TA

	2022 VDP	2016 TA
No. of participants	247,918	973,426
Wealth declaration ($1 Billion)	$ 39.3	$ 322.4
Tax revenue ($1 Billion)	$ 4.0	$ 7.6
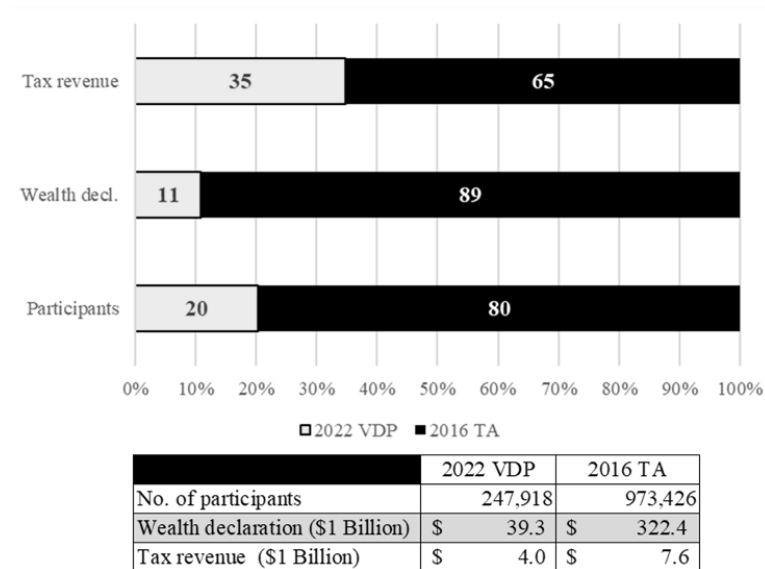
Then, I divided each amnesty's wealth declaration and tax revenue with each number of

participants to know the values per participant. The 2016 TA's wealth declaration per

participant is $331,161, and the revenue per taxpayer is $7,766; meanwhile, the 2022

VDP's wealth declaration per participant is $158,351, and the revenue per participant is

$16,241. Last, I divided each amnesty's wealth declaration with its revenue, and I got

$42.6 for the 2016 TA and $9.7 for the 2022 VDP. Those number means that the

Indonesian government got $1 in revenue for every $42.6 wealth declaration in the 2016

TA; meanwhile, they got $1 for every $9.7 wealth declaration in the 2022 VDP. The

2022 VDP made revenue more effective and efficient than the 2016 TA. The following section will explain the strategies for driving future income tax revenue as long-term compliance post-2022 VDP.

The strategies for improving longer-term compliance post-2022 VDP

After analyzing the effectiveness of the 2022 VDP in revealing known and unknown wealth to increase revenue, there were potential problems raised challenging longer-term impacts:

- How can Policy 2's participants who own 2016-2020 assets improve compliance? Based on DGT's known wealth in Table 1, it seems they targeted this group, not Policy 1, who has participated in the 2016 TA with 1985-2015 assets

- How to treat participants and nonparticipants post-2022 VDP fairly? Will the compliant taxpayers be treated fairly as well? Will the non-compliant taxpayers be punished hardly?

- How to maintain the yearly positive change of the tax-to-GDP ratio post-2022 VDP? Can we strengthen the issue of AEoI among taxpayers, like in 2018?

Those questions aligned with previous researchers' concerns about post-VDP, such as the diminishing revenue effect (Luitel, 2014), lower compliance level (IMF, 2022), and the increase in tax evasion (Langenmayr, 2015).

Improving compliant approaches

Either OECD (2015) or IMF (2022) suggested that the tax authority improve the compliance approach. Improving this overall compliance approach will make it easier for DGT to raise compliance and revenue in post-2022 VDP. First, DGT could not treat the 2022 VDP as a single program to collect revenue to recover the economy post-COVID-

19 pandemic or wealth information that year. DGT could utilize its units like the tax intelligence to validate the participants' wealth information, the extensification unit to explore nonparticipants' wealth information, the international taxation unit to request more AEoI data, and the public relation unit to educate taxpayers, especially for individual ones, to pay their taxes correctly. Moreover, DGT front liners covering the help desk, account representatives, and tax auditors would take significant roles in executing those approaches. All efforts should aim at a less complex tax system reducing the individual taxpayers' time and money for paying taxes, and finally, it could improve tax compliance (Slemrod & Bakija, 2017).

The last tax amnesties

Then, DGT should keep the promise that has been made: the 2022 VDP was the last tax amnesty for non-compliant taxpayers to report their undeclared assets. It is essential to maintain taxpayers to comply voluntarily because the relationship between the individual and the tax authority is sustained by trust (Slemrod & Bakija, 2017). VDP is a better solution than a regular audit to tackle evasion; however, if repeated, it raises unfairness for compliant taxpayers by forgiving non-compliant taxpayers (Alstadsaeter et al., 2019). They got lower tax rates and other incentives; checking their declaration through post-2022 VDP treatment is time. Besides, DGT should ensure the tax system is on track by punishing nonparticipants, incredibly the rich because they created inequality (Alstadsaeter et al., 2019).

Boosting taxpayers' morale

The morale of compliant taxpayers would take a significant role post-2022 VDP. It is a consequence of getting revenues by forgiving previously non-compliant taxpayers. DGT should ensure the new compliant taxpayers maintain their voluntary compliance not only in 2022 but post-program as well. DGT could first carefully manage 2022 VDP participants' wealth information to secure future compliance. Then DGT could fulfill other promised incentives, such as not considering their wealth to be audited or investigated. Those actions would impact all taxpayers' levels:

- For non-compliant taxpayers, DGT developed a reasonable expectation of compliance rather than reinforcing the benefit of tax evasion.

- DGT built awareness for future compliance in a supportive way for those who should have reported undeclared assets.

- For compliant taxpayers, DGT reinforced their compliance with the law's certainty.

The effort of boosting taxpayers' morale should align with law enforcement because there always be non-compliant taxpayers and compliant taxpayers; paying taxes must be a responsibility of citizens (Slemrod & Bakija, 2017).

Recommendations for DGT

I recommend that DGT continue implementing post-2022 VDP treatment as the key to law enforcement and learning evasion schemes from available VDP information, especially of Policy 2's participants with lower declaration and tax revenue than Policy 1's. These actions would require regular administration costs but will increase revenue and compliance as expected. Besides, DGT could benchmark what IRS did to maintain

their taxpayers' voluntary compliance post their VDP through threat and criminal enforcement as "sticks" and information reporting programs as "carrots," including Criminal Investigation Voluntary Disclosure Program, Streamlined Filing Compliance Procedures, Delinquent FBAR and International Information Submission Procedures, and Filing Amended Returns and FBARs with a Reasonable Cause Statement (Brown & Markarian, 2019). Those programs aimed the same goal: encouraging the taxpayers to comply voluntarily, but DGT should keep monitoring their behavior post-information reporting. Last, even though TA or VDP seems to be an option to increase revenues and voluntary compliance, DGT should be aware of the unfairness among taxpayers, as discussed earlier.

Limitations and Future Research

Because of confidentiality, DGT provided me with the VDP results, not its specific participants' wealth data. Those could help me measure the effectiveness of 2022 VDP by comparing their wealth declaration data with DGT's known wealth data and tax returns. However, I got disjunction aggregate data covering the number of eligible taxpayers with their undeclared wealth and Policy 1 and 2's participants with their declaration. I need help linking how many taxpayers of each policy who were mailed participated and how many undeclared assets were reported. Moreover, the participants who were not mailed but participated were still a big question for me; whether they were tax filers and whether their declarations were valid.

Besides, I could not precisely measure the long-term compliance of the 2016 TA participants would be benchmarked to predict the 2022 VDP's. Even though I used the tax-to-GDP ratio, I needed to find out the change in their annual tax payment and wealth

reporting from their 2017-2021 tax returns. The following studies could explore these for monitoring their long-term compliance, especially to answer Langenmayr's concern (2015) about taxpayers' moral hazard who are waiting for another amnesty to be more compliant.

Conclusion

The 2022 VDP successfully got 90,261 eligible taxpayers to declare $14 billion in known wealth, 1.32 times the program target of $10.6 billion. The 2022 VDP participants were 247,918 taxpayers, only 25.5% of the 2016 TA's at 973,426 taxpayers. It is because the 2022 VDP was held in six months; meanwhile, the 2016 TA was held in 1.5 years. Besides, the 2022 VDP's rates were higher (6-18%) than the 2016 TA's (2-10%).

Furthermore, Policy 1's participants in the 2016 TA declared wealth more significant than Policy 2's. If I compared Policy 1's declared wealth, $26.4 billion, with the DGT's known Policy 1's wealth, $2.46 billion, the 2022 VDP could reveal 10.73 times. Meanwhile, by comparing Policy 2's declared wealth, $12.9 billion, with the DGT's known Policy 2's $8.14 billion, the 2022 VDP could reveal 1.58 times. The 2016 TA or 2022 VDP are the information reporting tools to solve tax evasion.

On the other hand, the 2022 VDP successfully got 157,657 taxpayers who were not mailed to declare $25.3 unknown wealth, which means 2.38 times the program target of $10.6 billion. The 2022 VDP was better on this than the 2016 TA because those taxpayers were affected by DGT's monitoring, audit, and investigation and the 2022 VDP communication strategy. Moreover, one of the materials of the 2022 VDP promotion was about the post-program treatment, which indirectly affected those taxpayers to participate.

The 2016 TA and 2022 VDP only could maintain revenues of 9.7% of the GDP average with a total sum of changes of 0% during 2016-2022. This low ratio aligns with the high-income tax rates of Indonesia, 30%, among developing Asia countries of 27%; the high tax rates triggered tax evasion. However, the tax revenue of 2022 VDP could add to the 2022 tax revenue and finally improve the tax-to-GDP ratio from 9.1% to 10.4% in recovering the economy post-COVID-19 pandemic. In addition, the 2022 VDP was more effective and efficient in making $1 revenue from a $9.7 wealth declaration; meanwhile, the 2016 TA required a $42.6 wealth declaration. The zero changes during 2016-2022 proved the failure of the 2016 TA in increasing future tax revenues as long-term compliance (Saputro, 2021); however, the 2022 VDP, which has a better amnesty design, could be better.

The 2022 VDP could improve long-term compliance as long as DGT improves overall compliant approaches such as validating participants' wealth declaration, exploring nonparticipants' wealth information, utilizing the AEoI data, and educating taxpayers to fulfill their tax obligation. All efforts should aim at a less complex tax system reducing the individual taxpayers' time and money for paying taxes, and finally, it could improve tax compliance. Besides, DGT should refrain from repeating tax amnesty to maintain taxpayers' voluntary compliance. It is essential to show compliant taxpayers that the tax system is on track by punishing nonparticipants, incredibly the rich because they created inequality. The taxpayers' morale matters to be considered because their awareness of voluntary compliance varies. The effort of boosting taxpayers' morale should align with law enforcement because there always be non-compliant taxpayers and compliant taxpayers; paying taxes must be a responsibility of citizens.

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Appendix A: Decision Tree for Starting a VDP

Decision #1: Establish the Reason	Opportunity for voluntary disclosure available to all Taxpayers	or — Opportunity for voluntary disclosure available to specified Taxpayers, for a specific duration in order to address a specific issue

Decision #2: Determine the Scope
- Available to all Taxpayers
- Open-ended. No specific date for terminating the programme

- Available only to those who fit criteria
- Specified duration of programme

Decision #3: Establish the Terms

What is the incentive for Taxpayers to come forward?
General Programme — Specific Programme

- Tax waived — None, Some, or all
- Interest waived — None, Some, or all
- Monetary penalty waived — None, Some, or all
- Prosecution waived

Decision #4: Establish Reporting Requirements

How does the Taxpayer make the voluntary disclosure?
General Programme — Specific Programme

- How? i.e. Specified form/ Questionnaire/ letter
- When? i.e. At least 1 year late
- Who can make the disclosure? i.e. Taxpayer/ accountant/ legal representative

Decision #5: Consider the Opportunity for Intelligence Gathering

Beyond assessing taxes, is there a desire to gather further intelligence?
General Programme — Specific Programme

- Identify methodologies
- Identify schemes
- Identify promoters
- Identify information available

Decision #6: Build a Communication Strategy

- Design an appropriate communication strategy
- Attract the targeted Taxpayers and encourage them to use the program
- Communicate with the already compliant Taxpayers – to create an understanding of the programme and avoid resentment

Source: OECD's Guidance (2015)

Appendix B: The Benefits and Costs Analysis of VDP

Costs and unfairness:
- Reduce the expected cost of noncompliance and reward delinquent taxpayers
- Repeated or frequent VDPs could adversely impact future revenues, as they reduce fear of strict enforcement and may encourage ongoing evasion because taxpayers have wiped their slate clean in relation to previous tax infringements
- Post-VDP revenue effects are discouraging unless frequent audits of high-income taxpayers are not statutorily prohibited, and a tax court exists that reduces court overload and prosecution cost
- Compromise fairness, as honest taxpayers attract a higher average effective tax rate than do tax fraudsters—the offshore VDP flat tax applied to gross assets, however, partially mitigates this unfairness
- Generally, ex post VDP compliance levels are lower than before the VDP was rolled out
- Undermine effective progressivity of the tax system, since tax evaders are typically wealthier compared with the median taxpayer and a low, flat rate VDP charge as compensation for previous tax infringements eliminates the progressive rate structure of an income tax regime

NOTE: See also discussions in Baer and Le Borgne (2008); Mattiell (2005); and Mikesell and Ross (2012).

Voluntary Disclosure Programs (VDPs) are typically promoted as a quick way to close the tax gap, which is defined as the difference between taxes paid and taxes that would have been collected if taxpayers had accurately reported their tax liability.

The short-term gross revenue gains from the VDP should be balanced against (1) a reduction in taxpayer compliance due to continuing weaknesses in the tax administration and declining morale of compliant taxpayers; (2) the administrative cost of the VDP; and (3) the cost in forgone revenues from penalties and waived interest.

Claimed benefits:
- Allow taxpayers to comply with the tax laws and "come clean" about past tax-law infringements
- Permit immediate collection of outstanding taxes
- Allow "marginal" tax evaders who have dropped out of the system to become compliant again and "turn over a new leaf" (they may have missed one year of filing and the cost of such disclosure may be too high, or those who omitted to include an item once, are forced annually to repeat the same omission)
- May increase future voluntary compliance, if credibly advertised as a "last chance" and complemented with other compliance-enhancing measures
- Require low administrative costs to detect offshore funds
- May aid in improving tax authorities' records and knowledge about offshore financial structures, with an accompanying growth of the tax base
- Are appropriate if they prepare for a transition period prior to a new and stricter enforcement regime (that is, automatic exchange of information) or the introduction of new tax instruments

Source: IMF's Manuals (2022)

Appendix C: The Design of the 2016 TA And 2022 VDP

Table 1 Tax Amnesty Program Rates

No	Time Period	Repatriation of Funds	Declaration of Funds	Tax Rates	
				Taxpayers whose gross turnover is up to Rp4,8 Billion	
				Assets Value $\leq$ Rp10 Billion	Assets Value $>$ Rp10 Billion
1	1 July 2016 s.d 30 September 2016	2%	4%	0,5%	2%
2	1 October 2016 s.d 31 Desember 2016	3%	6%		
3	1 January 2017 s.d 31 March 2017	5%	10%		

Table 2
Voluntary Disclosure Program Rates

Policy I	Policy II	Description
11%	18%	offshore assets declaration
8%	14%	offshore assets repatriation and domestic declaration
6%	12%	offshore assets repatriation and domestic declaration, invested in government securities/ natural resources processing/renewable energy

Table 3 The key differences between Voluntary Disclosure Program and Tax Amnesty Program

Description	Tax Amnesty	Voluntary Disclosure Program
Definitions	Tax Amnesty is the abolition of taxes that should be owed, not subject to tax administration sanctions and taxation sanctions by disclosing assets and paying the ransom as regulated in the Law on Tax Amnesty.	The Voluntary Disclosure Program is a policy aimed at Taxpayers to disclose net assets that have not been or are not disclosed in order to avoid the imposition of administrative sanctions.
Purpose	The government wants the people who have assets whose income tax has not been paid to enter the tax system with the aim of increasing the tax base as well as bringing in assets into the country for investment funding sources.	The government provides an opportunity according to people's aspirations who voluntarily enter into the tax system and participate in improving the economy that is currently hit by a pandemic.
Investment Priority	Investment priority of all sectors in country	Investment priority in Market funding investment, downstream natural resources, and sector renewable energy.
Financial Information Access	No access to financial information yet automatically so the government gives a chance to people to participate in amnesty at low rates.	There has been accessed to financial information automatically so that the government gives a chance to Taxpayers to voluntarily disclose assets at a higher rate.
Time Period	Implementation of tax amnesty consist of 3 time period: • 1st Period: 1 July 2016 – 30 September 2016 • 2nd Periode: 1 October 2016 – December 2016 • Periode 3: 1 January 2017 – 31 March 2017	Implementation of the Voluntary Disclosure Program was held from 1 January 2022 until 30 June 2022

Source: Amanda & Pratama (2022)