

The Paradox of Effective Bureaucratic Reform in Enhancing Tax Institution Performance toward Optimal Tax Ratio: A Study on the Directorate General of Taxes

Mochamad Amaludin¹, Sumartono², Tjahjanulin³ and M. R. Khairul Muluk⁴

Abstract

Bureaucratic reform in the Directorate General of Taxes (DJP) is one of the Indonesian government's efforts to improve the performance of tax institutions and optimize the tax ratio. This study aims to examine this paradox using a qualitative approach, evaluating how the reforms implemented have affected DJP's performance, and how this contributes to the tax ratio. However, despite various reforms being implemented, the results often reveal a paradox. Reforms expected to enhance efficiency and effectiveness sometimes encounter obstacles that diminish their impact.

Keywords: Bureaucratic Reform, Directorate General of Taxes, Tax Institution Performance, Tax Ratio Optimization, Efficiency, Effectiveness, Reform Obstacles, Paradox.

INTRODUCTION

Bureaucratic reform in the Directorate General of Taxes (DJP) is a strategic step taken by the Indonesian government to enhance the performance of tax institutions and optimize the tax ratio. These reforms encompass various strategic initiatives designed to improve the performance and effectiveness of the tax institutions in Indonesia. The initiatives include the modernization of information technology, which aims to integrate and automate the taxation system, making administrative processes faster, more accurate, and transparent. Additionally, human resource capacity building is carried out through training and competency development of employees to ensure they have the necessary skills and knowledge to manage the complex and dynamic tax system. Simplification of tax administration procedures is also a primary focus, with the goal of reducing bureaucracy and making it easier for taxpayers to fulfill their tax obligations.

The main objective of these reforms is to create a more efficient, transparent, and accountable taxation system. With an efficient system, the taxation process can run faster and with minimal errors, thus increasing taxpayer satisfaction. Transparency in tax administration will build taxpayer trust in the government, which in turn is expected to enhance their compliance in paying taxes. High accountability also ensures that every tax revenue is well managed and effectively used for national development.

These reforms are expected to increase taxpayer compliance and expand the tax revenue base, which is crucial for supporting sustainable economic development. Through the implementation of modern technology, human resource development, and simplified procedures, DJP strives to create a conducive tax environment where taxpayers feel supported and empowered to meet their tax obligations more easily and efficiently (OECD, 2010; World Bank, 2019).

However, despite various reforms being carried out, the results often reveal a paradox. Reforms expected to enhance efficiency and effectiveness sometimes encounter obstacles that diminish their impact. These obstacles

¹ Doctorate Program of Administrative Science, Faculty of Administrative Science, Universitas Brawijaya, MT Haryono 163 Lowokwaru Malang, Indonesia

² Faculty of Administrative Science, Universitas Brawijaya, MT Haryono 163 Lowokwaru Malang, Indonesia

³ Faculty of Administrative Science, Universitas Brawijaya, MT Haryono 163 Lowokwaru Malang, Indonesia

⁴ Faculty of Administrative Science, Universitas Brawijaya, MT Haryono 163 Lowokwaru Malang, Indonesia

can include internal resistance from DJP employees, technical issues in the implementation of new technology, and policy inconsistencies between central and local governments. As a result, although there have been improvements in some aspects of performance, the overall impact on the tax ratio has not yet been optimal (Pollitt & Bouckaert, 2017; Heeks, 2006).

Problem

The paradox in DJP's bureaucratic reform highlights a gap between the reform objectives and the results achieved. Several key questions arise: a) What are the obstacles faced in the implementation of bureaucratic reform in DJP? b) How have the reforms affected DJP's overall performance? c) How do these reforms contribute to the optimization of the tax ratio?

Objectives

This study aims to: a) Identify and analyze the obstacles faced in the implementation of bureaucratic reform in DJP. b) Evaluate the impact of bureaucratic reform on DJP's performance. c) Examine the contribution of bureaucratic reform to the optimization of the tax ratio.

Method

This study employs a qualitative approach with a case study method. The case study is chosen to allow an in-depth exploration of the complexities and specific context of bureaucratic reform in DJP. The primary focus is on the reform process, its impact on institutional performance, and its implications for the tax ratio. Data are collected through in-depth interviews with DJP employees, document analysis, and participatory observation. This approach enables the researcher to delve deeper into the processes and challenges faced in bureaucratic reform and to understand the specific context affecting reform outcomes (Creswell, 2014).

Data Sources

Data are collected through:

In-Depth Interviews: Interviews are conducted with DJP officials and staff, as well as tax and public policy experts. These interviews aim to gain in-depth insights into the implementation of reforms, the challenges encountered, and their impacts.

Documentation: Document analysis includes DJP annual reports, reform policies, and related publications.

Observation: Direct observation of work processes at DJP to understand how reforms are applied in daily practice.

Data Analysis

Data are analyzed using thematic analysis. The analysis steps include:

Transcription: All interviews are transcribed verbatim.

Coding: Identifying main themes and sub-themes from the transcript data and documents.

Interpretation: Analyzing the emerging themes to understand how reforms affect performance and the tax ratio.

Research Novelty

The novelty of this research lies in the in-depth analysis of the paradoxes of bureaucratic reform in the DJP and the identification of key factors influencing the success of the reforms. This study also provides new insights into more effective ways to design and implement bureaucratic reforms in tax institutions.

LITERATURE REVIEW

Bureaucratic Reform in Tax Institutions Bureaucratic reform in tax institutions has been a widely discussed topic in public policy and public administration literature. According to Pollitt and Bouckaert (2017), bureaucratic reform is often expected to enhance efficiency and effectiveness in public service delivery. In

Indonesia, the Directorate General of Taxes (DJP) has undertaken various reforms to improve its performance, including the modernization of information technology, the enhancement of human resource capacities, and the simplification of administrative procedures (Alm & Martinez-Vazquez, 2007).

Paradoxes in Bureaucratic Reform Although reforms aim to improve performance, numerous studies indicate that the outcomes often reveal paradoxes. Bouckaert and Halligan (2008) argue that reforms intended to enhance efficiency and transparency can encounter obstacles that diminish their impact. These obstacles can stem from internal resistance, reliance on suboptimal technology, and policy inconsistencies between central and local governments.

Impact of Reforms on Tax Compliance Bureaucratic reforms at DJP also aim to improve taxpayer compliance. Several studies suggest that more transparent policies and efficient administrative systems can enhance compliance levels (Bird & Zolt, 2008). However, Alm and Martinez-Vazquez (2007) highlight a compliance gap, both from non-compliant taxpayers and policies that offer numerous tax incentives.

Tax Ratio and Influencing Factors The tax ratio is a crucial indicator for measuring a country's ability to collect taxes relative to its GDP. According to Gaspar et al. (2016), an optimal tax ratio is around 15% of GDP, considered the tipping point for achieving sustainable growth. In Indonesia, the tax ratio remains below this threshold, indicating room for improvement (Bird & Zolt, 2008). Factors influencing the tax ratio include a tax base predominantly in the formal sector, difficulties in reaching the informal sector, and incentive policies that reduce the tax base (Heeks, 2006).

Strategies for Optimizing the Tax Ratio

To achieve optimal tax ratio, a holistic and integrated strategy is necessary. Tax policies should be designed to broaden the tax base by integrating the informal sector and improving the tax administration system to be more efficient and transparent (Pollitt & Bouckaert, 2017). Additionally, law enforcement against tax violators must be strengthened to enhance compliance (Alm & Martinez-Vazquez, 2007).

RESULTS AND DISCUSSION

The analysis in this study was conducted using a qualitative approach. Data collected from interviews, document analysis, and participatory observation were analyzed thematically to identify key patterns and relationships between various factors influencing the outcomes of the reforms. This analysis will help identify major obstacles in implementing the reforms and evaluate their impact on DJP's performance and the tax ratio.

Bureaucratic Reform at DJP Bureaucratic reform at the Directorate General of Taxes (DJP) has been implemented across various strategic aspects, synergistically aiming to enhance efficiency, transparency, and accountability in tax management. These initiatives include the modernization of information technology, the enhancement of human resource capacities, and the simplification of administrative procedures, all of which play a crucial role in strengthening the performance of Indonesia's tax institutions.

Modernization of Information Technology One of the most significant steps in DJP's reform is the modernization of information technology. Implementing systems such as e-Filing, e-Billing, and e-Invoicing has enabled taxpayers to report and pay their taxes online. This not only reduces administrative time and costs but also improves accuracy and transparency in tax reporting. The data generated by these systems allow DJP to conduct deeper and more effective analyses of tax compliance, thereby enhancing oversight and law enforcement more efficiently (OECD, 2019).

Enhancement of Human Resource Capacity The reforms also target the enhancement of human resource capacity at DJP through continuous training and competency development programs. This step is crucial to ensure that DJP employees possess the necessary skills and knowledge to manage an increasingly complex and dynamic tax system. Besides technical training, emphasis is also placed on ethics and integrity to build public trust in the institution. Well-trained and highly ethical employees are expected to provide better and more responsive services to taxpayers (World Bank, 2019).

Simplification of Administrative Procedures The simplification of administrative procedures is an integral part of these reforms. Simpler and clearer procedures help reduce the administrative burden on taxpayers, thereby increasing compliance and efficiency in tax management. The introduced Self-Assessment System allows taxpayers to calculate, report, and pay their taxes independently, which not only reduces direct interaction with tax officers but also diminishes the potential for corruption and enhances operational efficiency (McCaffery, 2012).

Impact Overall, the bureaucratic reforms at DJP have had a significant positive impact on improving the efficiency, transparency, and accountability of the tax system in Indonesia. The modernization of information technology has increased the speed and accuracy of tax administration processes, while the enhancement of human resource capacity has strengthened the competence and integrity of DJP employees. The simplification of administrative procedures has reduced the burden on taxpayers and improved tax compliance. However, despite these advancements, challenges remain. Resistance to change and the need for continuous adaptation to economic and technological dynamics are some obstacles that need to be addressed. The analysis of reform outcomes indicates that although there have been significant improvements, there is still room for further enhancement in policy consistency and institutional capacity building (Heeks, 2006; OECD, 2010).

Paradoxes in Reform Despite the expectations that these reforms would enhance DJP's performance, several paradoxes have been identified:

Internal Resistance in Bureaucratic Reform at the Directorate General of Taxes Although the bureaucratic reforms at the Directorate General of Taxes (DJP) have been strongly promoted by the government to achieve higher efficiency, transparency, and accountability, significant challenges remain in the form of internal resistance. Rapid changes and new demands often become burdensome for some staff, who struggle to adapt to new policies and procedures. According to Pollitt & Bouckaert (2017), this resistance is one of the main obstacles in the implementation of reforms in various government organizations.

Internal resistance often stems from uncertainty and fear of change perceived by employees. Long-time employees who are accustomed to traditional methods may feel a loss of control or discomfort with the new technologies and systems being introduced. This can lead to decreased motivation and productivity, which in turn hinders the effectiveness of the reforms. Additionally, the demands for training and adopting new skills can be perceived as an added workload, increasing stress levels among employees.

To address this resistance, DJP needs to develop a comprehensive and inclusive change management strategy. This includes transparent communication about the goals and benefits of the reforms, as well as adequate support during the transition process. Involving employees in the planning and implementation processes can help reduce fear and increase a sense of ownership over the changes. Continuous training and technical support are also essential to ensure that employees feel prepared and capable of meeting new demands.

Furthermore, a cultural change within the organization that emphasizes the importance of flexibility, adaptability, and innovation can help reduce resistance. Encouraging a collaborative work environment where employees are motivated to share ideas and solutions can also enhance acceptance of the reforms. With the right approach, internal resistance can be overcome, allowing DJP to achieve its bureaucratic reform goals effectively and improve the performance of the tax institution.

Dependence on Technology in Bureaucratic Reform at the Directorate General of Taxes The modernization of information technology is considered a key solution, but in practice, technical issues and user capability limitations often hinder effective implementation (Heeks, 2006). The modernization of information technology has become one of the main pillars in the bureaucratic reforms at the Directorate General of Taxes (DJP), aimed at enhancing efficiency, transparency, and accountability in tax management. However, despite the belief that information technology is the primary solution to various administrative challenges, high dependence on technology also brings its own problems.

One of the main challenges is the technology infrastructure, which may not be fully ready or evenly distributed across all operational areas of DJP. Limitations in internet connectivity, outdated hardware, and incompatible systems can cause disruptions in daily operations and reduce efficiency. Additionally, technical problems such

as software bugs or systems vulnerable to cyber-attacks are serious concerns that require quick and effective handling.

Moreover, user capability limitations also pose significant barriers. Many employees may not be fully trained or accustomed to the new technologies being introduced. This can lead to resistance or even errors in using the systems, which in turn diminish the benefits of the technological modernization. Continuous training and adequate technical support are crucial to ensure that all users can operate the systems efficiently and effectively.

To address these issues, DJP needs to develop a comprehensive and inclusive strategy that includes upgrading technology infrastructure, providing ongoing training, and ensuring responsive technical support. Investments in technology must be balanced with investments in human resources to ensure that employees have the necessary skills and knowledge. With a holistic approach, dependence on technology can be well managed, enabling the goals of bureaucratic reform to be optimally achieved.

Policy Inconsistency Policy inconsistency is one of the main challenges in implementing bureaucratic reforms at the Directorate General of Taxes (DJP). Frequent policy changes and the lack of coordination between policies established at the central level and their implementation at the local level result in inconsistent application of reforms (Peters & Pierre, 2016). This leads to various operational issues, such as employee uncertainty about procedures to follow and taxpayer confusion about applicable regulations. This uncertainty not only hampers the effectiveness of the reforms but also undermines trust in the tax institution.

Policy inconsistency often creates a gap between the reform objectives and the results achieved on the ground. For instance, policies that appear effective on paper might not be properly implemented at the local level due to a lack of clear guidance or adequate resources. Moreover, sudden policy changes without effective communication to all stakeholders can disrupt ongoing processes and add administrative burdens. Therefore, greater efforts are needed to ensure that policies made at the central level can be consistently implemented across all operational areas of DJP. This includes improving coordination between central and local levels, as well as providing clear guidance and support for policy implementation. By doing so, bureaucratic reforms can be implemented more effectively and yield the desired outcomes.

Impact on Performance and Tax Ratio

The study's findings indicate that bureaucratic reforms have had a positive impact on several aspects of DJP's performance, such as increased administrative process efficiency and higher tax revenue from the formal sector. However, this impact has not yet significantly reflected in an increase in the tax ratio. This is due to:

Narrow Tax Base: The tax base in Indonesia is still dominated by the formal sector, while the large informal sector remains difficult for tax authorities to reach. According to Bird and Zolt (2008), the extensive informal sector poses significant challenges in efforts to broaden the tax base. The informal sector includes many economic activities that are unrecorded and unregulated by the government, making it difficult to implement effective taxation policies in this sector.

The formal sector, such as large companies and officially registered medium-sized businesses, has more organized accounting systems and better oversight, making them easier to tax. In contrast, small and micro businesses operating in the informal sector often lack clear financial records and are not officially registered. As a result, taxing this sector becomes difficult and inefficient.

The inability to reach the informal sector leads to a suboptimal tax base, which directly impacts state revenue. Taxes collected from the formal sector alone are insufficient to meet fiscal needs, especially considering that the informal sector contributes a significant portion of the country's economy. This creates an imbalance that needs to be addressed through more inclusive policies and effective strategies to integrate the informal sector into the tax system.

To address this issue, the government needs to develop a more comprehensive approach. This includes providing incentives for informal businesses to register and comply with tax regulations, as well as increasing

oversight and enforcement capacity in this sector. Additionally, education and outreach regarding the importance of tax compliance need to be enhanced among small and micro business operators.

Another approach that can be taken is to introduce digital technology and simpler, more accessible tax payment systems for small businesses. This way, the informal sector can be more easily integrated into the tax system, broadening the tax base and ultimately increasing state revenue.

Tax Compliance Gap

The existence of a tax compliance gap in Indonesia poses a significant challenge to increasing state revenue. This gap arises from two main aspects: first, from taxpayers who are not yet compliant, and second, from policies that provide numerous tax incentives. According to Alm and Martinez-Vazquez (2007), many taxpayers are still non-compliant due to various factors, including a lack of awareness of the importance of taxes, distrust of the tax system, and negative perceptions regarding the use of public funds. On the other hand, government policies that provide numerous tax incentives, although aimed at encouraging investment and economic growth, often reduce the taxable base that can be collected. Poorly regulated tax incentives can lead to a decrease in state revenue and create injustices within the tax system.

This tax compliance gap is further exacerbated by ineffective enforcement of tax violations. Many cases of tax evasion are not strictly pursued, reducing the deterrent effect on tax offenders and decreasing overall compliance. Moreover, the complexity of tax rules and cumbersome bureaucracy often make it difficult for taxpayers to fulfill their obligations, thereby increasing non-compliance.

To address this tax compliance gap, a holistic and integrated approach is needed. The government must enhance education and public awareness about the importance of taxes, and improve the transparency and accessibility of the tax administration system. Additionally, law enforcement against tax evaders must be strengthened to increase deterrence and improve overall compliance. Tax incentive policies also need to be reviewed to ensure they are more selective and do not significantly reduce the tax base. In this way, the tax compliance gap can be minimized, and state revenue can be optimally increased

CONCLUSION

Despite various reforms being implemented, the results often indicate paradoxes. These paradoxes are evident when reforms expected to enhance efficiency and effectiveness encounter various obstacles that reduce their impact. These obstacles can include internal resistance from DJP employees, technical issues in implementing new technologies, and policy inconsistencies between the central and regional levels. Consequently, although there have been improvements in some aspects of performance, the overall impact on the tax ratio remains suboptimal (Pollitt & Bouckaert, 2017; Heeks, 2006). The paradoxes in the bureaucratic reforms at DJP indicate that despite efforts to improve efficiency and performance, internal and external challenges continue to hinder the achievement of optimal tax ratio. It is crucial for DJP to continue developing strategies to address internal resistance, enhance technological capabilities, and align central policies with local implementation to achieve better outcomes.

REFERENCES

- Alm, J., & Martinez-Vazquez, J. (2007). Tax Morale and Tax Evasion in Latin America. International Studies Program Working Paper.
- Bird, R. M., & Zolt, E. M. (2008). Tax Policy in Emerging Countries. *Environment and Planning C: Government and Policy*, 26(1), 73-86.
- Brondoni, S. M. (2017). Innovation and Market Globalization. *Symphonya. Emerging Issues in Management*.
- Creswell, J. W. (2014). *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*. SAGE Publications.
- Gaspar, V., Jaramillo, L., & Wingender, P. (2016). Tax Capacity and Growth: Is there a Tipping Point? International Monetary Fund.
- Heeks, R. (2006). *Implementing and Managing eGovernment: An International Text*. SAGE Publications.
- McCaffery, E. J. (2012). *Income Tax Law: An Introduction*. Oxford University Press.
- OECD. (2010). *Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series (2010)*. Organisation for Economic Co-operation and Development.
- Peters, B. G., & Pierre, J. (2016). *The Politics of Bureaucracy: An Introduction to Comparative Public Administration*. Routledge.

The Paradox of Effective Bureaucratic Reform in Enhancing Tax Institution Performance Toward Optimal Tax Ratio: A Study on the Directorate General of Taxes

Pollitt, C., & Bouckaert, G. (2017). *Public Management Reform: A Comparative Analysis*. Oxford University Press.
World Bank. (2019). *Doing Business 2019: Training for Reform*. World Bank Publications.