# A Study of the Indonesian's Income Tax Reforms and the Development of Income Tax Revenues

**Eureka Putra***

(Abstract)

This paper studies the Indonesian's income tax reforms and the development of Indonesian's income tax revenues in the period of 1983-2011. It points out two key features of the Indonesian's income tax reforms: 1) the tax reforms have embraced tax rates cutting and tax bases broadening approaches, and 2) the tax reforms have gradually shifted the Indonesian's income tax system from the comprehensive income tax system toward the schedular tax system. Then, regarding tax revenues, data shows that the Indonesian's nominal income tax revenues have increased considerably during that period; however they have not been able to increase Indonesian's income tax ratios significantly. This phenomenon indicates that even though the income tax reforms did have positive effects on increasing the income tax revenues, they were not the only factors for the steep increase of Indonesian's nominal income tax revenues. This paper shows that Indonesian's relatively high inflation rates and high economic growth during that period have considerably contributed to the steep increases of income tax revenues. At the end, in order to increase the Indonesian's income tax revenues further, this paper notes that, beside tax regulation reform, it is equally necessary to promote public tax awareness, tax authorities' professionalism and integrity, and the implementation of governance practices in Indonesian's bureaucracy.

Keywords: Indonesian tax reforms, income tax revenues, tax ratio, tax reforms, income tax

## 1. Introduction

After the Indonesian's oil golden era have faded away in the 1980s, tax revenues have gradually took the place of the oil as the main source of Indonesian state revenues and recently, in the fiscal year 2011, revenues derived from taxes reached Rp873.75 trillion or 72.76 percent of the total state revenues. However, the current level of tax revenues inevitably has to be increased further as the country faces the problems of staggering debts and budget deficits. One source of tax revenues that has the possibility to be increased is the income tax. In 2011, it contributed Rp431.98 trillion or 49.44 percent of the total tax revenues.

The current income tax's performance in providing funds for the government is the result of the efforts that have been taken by the government to increase income tax revenue and maintain its sustainability, including income tax reforms. A fundamental tax reform has been taken in the year 1983 in which the tax assessment system was changed from the official tax system to the self assessment system, and the income tax structure was simplified

* PhD Student at the Graduate School of East Asian Studies, Yamaguchi University.

*Journal of East Asian Studies, No.12, 2014.3. (pp.55-68)*

by abolishing several types of taxes on incomes and as a replacement, a single comprehensive income tax system was introduced. However, this big overhaul was not the end of tax reform process in Indonesia. Several further tax reforms have been conducted.

After the 1983 tax reform, the government of Indonesia has carried out several tax reforms that can be classified as tax regulation reform and tax administration reform. The income tax regulation reforms have been conducted for four times; in 1991, 1994, 2000 and 2008. Then one tax administration reform has been conducted during 2001-2008. However, despite those tax reforms and the current substantial contribution of income tax revenues in the Indonesian national budget, still there is a room to increase income tax revenues further as reflected from the Indonesian's low income tax ratios and low taxpayers' compliance rate. Therefore, the question is what measures should be taken next by Indonesian government in order to increase income tax revenues as a way to reduce the Indonesian's debt dependency problem?

Studies on Indonesian tax reforms have been sparse. Some are worth mentioning here. Bird (2004), in highlighting tax reform processes in several developing and transitional countries, points out several distinctive features of the 1980's Indonesian tax reform which influenced the course of the tax reform's processes, which includes such as; sense of belonging, enough time to preparing and evaluating policy options, and conducive political situation. Heijj (2007) studies the process and the parties which involved in the 1983 tax reform. Then, Rizal (2011) elaborates the Indonesia tax administration reform 2001-2008 from the governance point of view. He notes that governance is an essential element to improve tax administration, and the success of a tax reform is determined not only by the reform at tax offices but for a great extent also by the reform at the government as a whole. Nevertheless, thus far, studies on Indonesian tax reform which specifically focus on the "income tax" reforms during 1983-2011 cannot be found.

Therefore, based on the information above, the aims of this paper are twofold. First, it elaborates the Indonesian's income tax reforms during 1983-2011; the purposes of the tax reforms, the direction of changes on the Indonesian's income tax, and the development of income tax revenues. Second, this paper analyzes the elements of the tax system that are essential to improve Indonesian's income tax system.

Finally, the rest of paper is organized as follows. Section 2 provides literatures review and overview of Indonesian's income tax reforms. Section 3 elaborates income tax reforms and the development of income tax revenues. Section 4 discusses the measures to increase income tax revenues. Section 5 contains conclusions.

## 2. Tax Reform Literatures and Overview of Indonesian's Income Tax Reforms

There are various purposes of which a country carries out tax reforms, and the most common purpose of tax reforms is to increase tax revenues (Heijj, 2007). It is also the case for Indonesia, the need to increase tax revenues is the foremost goals of Indonesian's income tax reforms among several other reasons such as to improve the equity of a tax system, to attract investment, to accelerate economic growth, to improve tax certainty, and to simplify tax systems.

In the period of 1983-2011, Indonesian has made several tax reforms that can be classified based on its scale as fundamental tax reform and piecemeal tax reform, and they can also be classified, based on which areas of the tax system that being reformed, as tax regulation reform and tax administration reform.

A fundamental reform was taken in year 1983 in which a) the tax structure was simplified by abolishing and merging three separate taxes on income (corporate tax, personal income tax and interest, dividend and royalty tax) into a single comprehensive income tax, and b) the official assessment tax system was replaced with self assessment system. This fundamental tax reform was followed by four piecemeal income tax regulation reforms that are marked with the changes in the 1983 income tax law. The following is the list of the 1983 income tax law and its amendments:

1. The Law of the Republic of Indonesia Number 7 of 1983 concerning Income Tax, which came into force on January 1, 1984.
2. The Law of the Republic of Indonesia Number 7 of 1991 concerning the amendment of the 1983 Income Tax Law, which came into force on January 1, 1992.
3. The Law of the Republic of Indonesia Number 10 of 1994 concerning the amendment of the 1983 Income Tax Law as lastly amended by Law Number 7 of 1991, which came into force on January 1, 1995.
4. The Law of the Republic of Indonesia Number 17 of 2000 concerning the third amendment of the 1983 Income Tax Law, which came into force on January 1, 2001.
5. The Law of the Republic of Indonesia Number 36 of 2008 concerning the fourth amendment of the 1983 Income Tax Law, which came into force on January 1, 2009.

Table 1 presents the purposes of each of the income tax reforms conducted during 1983-2011. From the Table 1, it can be seen that increasing tax revenue is among the most frequent cited goals of Indonesian's income tax reforms. As an exception, only the 1991 income tax reform which did not directly target tax revenue as the goal of the tax reform as it emphasized more on attracting investments and accelerating growth particularly in remote areas. The investment-base-tax-incentives introduced in the 1991 income tax reform might sacrifice income tax revenues in the short run. However, in the long run, it is believed that the incentives will attract investments which are needed to improve Indonesian's economy and eventually will increase tax revenues.

**Table 1: The income tax reforms' purposes 1983-2011**

| Purposes | 1983 | 1991 | 1994 | 2000 | 2008 | Total |
|---|---|---|---|---|---|---|
| Tax Revenue | v | - | v | v | v | 4 |
| Equity | v | v | v | - | v | 4 |
| Certainty | v | - | v | v | v | 4 |
| Simplicity | v | - | v | - | v | 3 |
| Efficiency | - | - | - | v | - | 1 |
| Neutrality | v | - | - | - | v | 2 |
| Investment (Tax Incentive) | - | v | v | v | - | 3 |
| Total | 5 | 2 | 5 | 4 | 5 | |

Source: the 1983 income tax law and its amendments.

In order to achieve the tax reform goals, varieties of changes on the income tax law have been made which includes the changes on tax treatments on fringe benefits, assets depreciation, dividends, interests, loss carried forward, tax installment, tax incentives, bookkeeping, business reorganization, tax rates, withholding mechanism, tax subjects and many other changes. To simplify, the changes can be narrowed into four key areas: the tax rates, tax objects and tax subjects, tax incentives, and tax collection system.

In the area of tax rates, Indonesia has cut the income tax rates several times during 1983-2011. The highest tax rate for individual and corporate taxpayers for the tax year 1984 to 1994 was 35 percent, and it was reduced to 30 percent in the 1994 income tax reform. Tax rate cut also occurred in the 2008 tax reform in which the highest tax rate for corporate taxpayers was reduced from 30 percent to 28 percent. Then, once again in the tax year 2010, the tax rate for corporate taxpayers was reduced further to 25 percent, and the tax rate can go down to 20 percent for certain listed company, and 12.5 percent for small size corporate taxpayers. The tax rate cut phenomena is not particular to Indonesia; it occurred in many countries. For instance, similar situation can be found in European Union and G7 countries, the statutory rates have fallen on an average of 50 percent in the early 1980s to under 35 percent by 2001 (Devereux, et al., 2008).

Other areas of income tax law that have been amended several times are the taxable incomes and the subjects of income tax. For instance, in the 1994 income tax reform, in order to be able to tax unreported incomes, the scope of taxable incomes was widened by introducing a new provision that make possible to tax any increase of taxpayers' wealth from unreported incomes. In the 2000 income tax reform, certain inter-corporate dividends became taxable. Then, in the 2008 income tax reform, the surplus received by Indonesian's central bank became taxable. Therefore, from this fact, it can be seen that Indonesia has taken tax base broadening approach in conjunction with the tax rate cutting. This approach was popular in many countries as the approach is believed will not only increase income tax revenues but also increase tax compliance, administrative simplicity, equity and efficiency (OECD, 2010).

The next area of tax changes is tax incentives. Indonesian's tax policies regarding tax incentives have moved from the policy opposing tax incentives to the policy that supports tax incentives. In the 1983 income tax reform, policy makers choose to uphold the equity principle of the tax system rather than granting tax incentives for certain groups of taxpayers which might create unfairness to the tax system. However, starting in the 1994 tax reform, policy makers chose opposite position by providing tax incentives for certain taxpayers in a notion that the tax incentives are needed to boost economic growth, and to accelerate investment in remote areas.

Another key change that has shaped the Indonesian income tax system is the change on the tax collection system. The 1983 income tax reform significantly embraced the comprehensive income tax system as the opposite of the schedular tax system. In the 1983 income tax law, all incomes were combined altogether and were taxed as one unit. However, starting in the 1994 tax reform, the comprehensive tax system was gradually shifted to the scheduler tax system. Certain incomes such as income from shares traded in the stock exchange and income from transfer of land and buildings are taxed separately with different tax rates and mechanism. Then, in the 2008 tax reform, the lists of incomes that are taxed separately become longer. Nowadays, they include interest income paid by cooperatives to their individual members, lottery prize, venture capital funds' incomes from the transfer of partner company' shares, incomes received by construction companies and real estate companies, land and building rental income, bond interest income, and income received by certain small size businesses.

Besides the regulation reforms, Indonesia has also embarked on tax administration reform aiming to improve the effectiveness of the tax offices' operations so that tax revenues can be increased sustainably. The 2001-2008 tax administration reform has changed the organization structure of Indonesian's tax offices from the tax base to the functional base organization structure segmented with the taxpayers' size. The tax offices are segmented by; large, medium, and small taxpayers. The changes on the tax office organization structures are conducted simultaneously with changes in the organization culture, and the working procedures. These changes are not particular to Indonesia. McCarten (2006) observed that it has been a trend in the last decades that countries changed their tax organization structure from the tax base organization to the functional base organization, and he argued that changing organizational design is the key to effective tax administration reform.

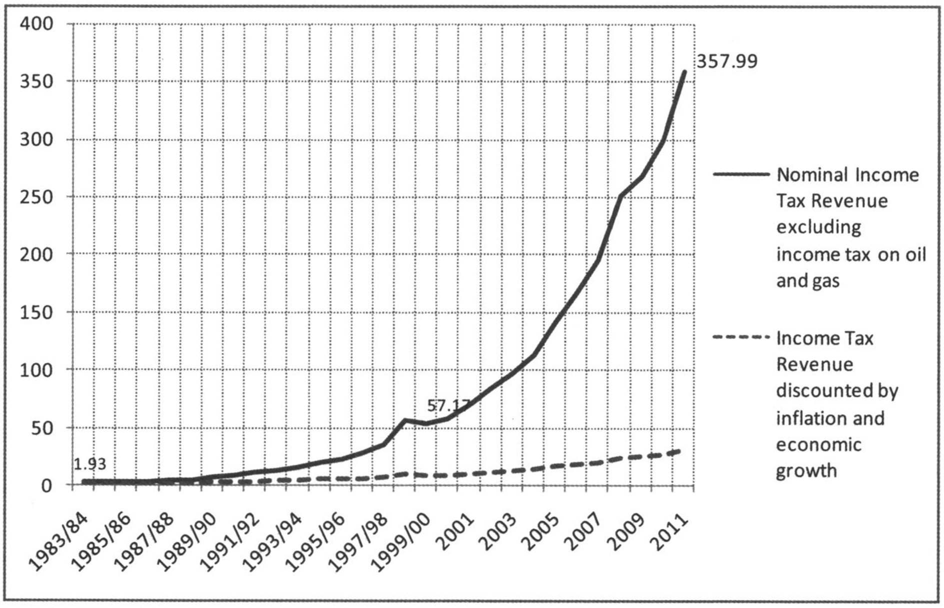
In conclusions, the government of Indonesia has conducted income tax regulation reforms several times as efforts to improve the equity, certainty, simplicity, efficiency, neutrality, economic growth and tax revenues. The tax regulation reforms have crafted the direction of the Indonesian income tax development which are 1) there was the decreasing trend of income tax rates, 2) the income tax bases became broader, and 3) the tax collection system have gradually moved from comprehensive tax system toward schedular tax system. Then, tax administration reform has changed the organization structure of Indonesian's tax offices from the tax base to the functional base organization structure segmented with the taxpayers' size.

## 3. Income tax revenues and the tax reforms

As previously mentioned, in the period of 1983-2011, Indonesia has conducted five tax regulation reforms which primarily aimed to increase income tax revenues. The fundamental one was taken in the year 1983, and the four piecemeal regulation tax reforms have been conducted in year 1991, 1994, 2000, and 2008. Beside regulation reforms, Indonesia also has embarked on tax administration reform during 2001-2008. To assess the impact of the tax reforms on the income tax revenues, this paper uses two parameters; the development of income tax revenues and income tax ratios' during 1983-2011.

To begin with, during 1983-2011 the income tax revenues have increased significantly in nominal term from Rp1.93 trillion in 1983/84 to Rp357.99 trillion in year 2011; folded more than 185 times in the last 28 years. In Figure 1, we can see that after the 1983 tax reform, income tax revenues have steadily increased year by year, except in 1999/00 in which the income tax revenue was lower than the previous year. However, in overall, in the period of 1983/84 to 2000 the income tax revenues grew substantially from Rp1.93 trillion in 1983/84 to Rp57.17 trillion in 2000 or in average it has grew 23.3 percent annually. The positive trend has continued to the current state, in the period of 2000-2011, the income tax revenues have increased considerably from Rp57.17 trillion in 2000 to 357.99 trillion in 2011.

**Figure 1 : Nominal Income Tax Revenues and Income Tax Revenues Discounted by Inflation and Economic Growth 1983/84-2011 (in trillion Rp)**




Source: Income tax revenues discounted by inflation and economic growth are writer's calculation based on:

a. Nominal income tax revenues data are from government financial notes

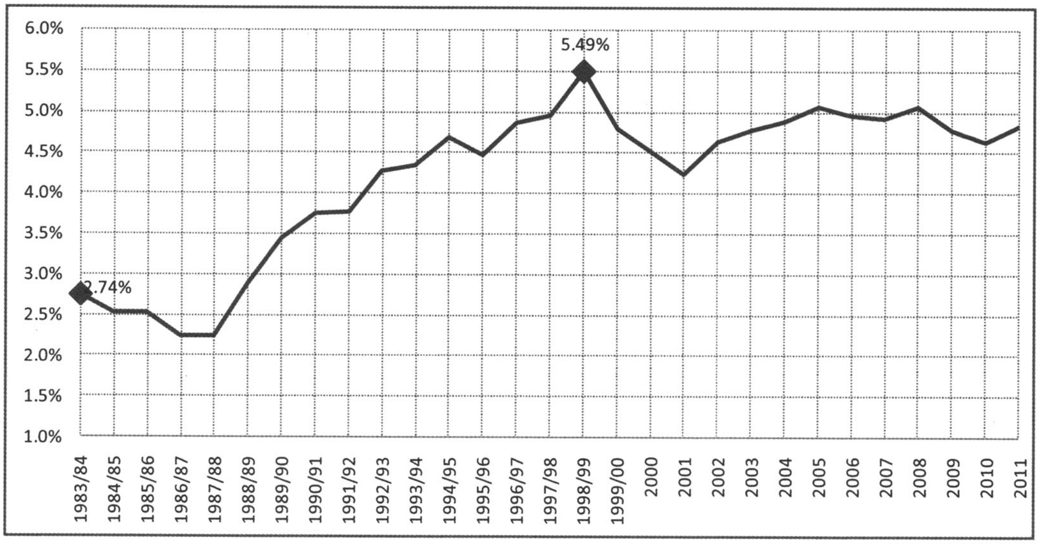
b. Inflation data and economic growth are from the World Bank

The positive trend of the Indonesian tax revenues in nominal term indicates that the income tax reforms during 1983-2011 have succeeded in achieving the goal to increase tax revenues. However, using nominal tax revenue as a parameter to assess tax reforms contains a weakness as it does not put into account the inflation and economic growth factor which also affect the amount of tax revenues collected, especially in a country with relatively high inflation rate and economic growth such as Indonesia. Therefore, in the next part, this paper elaborates the data of income tax revenues discounted by the inflation rates and economic growths.

Figure 1 shows that if the inflation and economic growth are put into consideration, the increases of the income tax revenues became much more moderate as shown by the dashed line in the Figure 1. For instance, in 2011, the nominal tax revenue was Rp357.9 trillion. However, it will reduce to Rp30.1 trillion if economic growths and inflations are put into consideration. Similarly, the annual growth of the income tax revenues on average downed to 12.11 percent compared to 22.13 percent average growth in nominal term. Likewise, the income tax revenues only folded about 19 times in the period of 1983/84-2011 compared to about 185 times in nominal term. Therefore, based on the data above, it can be argued that the tax reforms have not the only reasons for the steep increase of the tax revenues, but Indonesian's high inflation rate and high economic growth were the factors that influences why the income tax revenues increased significantly.

The second parameter that will be discussed to assess the outcome of the tax reforms is the development of income tax ratio. The income tax ratio measures the income tax system's ability to generate revenues relative to gross domestic product. Figure 2 presents the development of the Indonesian's income tax ratios. We can see that, despite the fluctuation, the tax ratios have moved in a positive trend. Based on the trend, the tax ratio movement can be divided into two periods; 1983 to 1998/99 and 1998/99 to 2011. The income tax ratios have increased higher in the first period than the second period. In the first period, the income tax ratio increased from 2.74 percent in the beginning of the 1983/84 budget year to 5.49 percent at the end of 1998/99 budget year. Then in the second period 1998/99-2011, the tax ratios tended to move flatly. On average, the tax ratio in the second period was 4.82 percent. Furthermore, in the recent years, income tax ratios were in upswing line after the decreased in year 2009 and 2010. The income tax ratios increased from 4.63 percent in 2010 to 4.82 percent in 2011.

**Figure 2 : Income Tax Ratio 1983/84-2011**




Sources: Income tax ratios are writer's calculation (excluding income tax on oil and gas);
Income tax revenues data are from Indonesian Government Financial Notes and National Budget;
GDP data are from Indonesian Government Financial Notes, National Budget and Economy and Finance Statistic of Indonesian central bank.

The movement of the Indonesian's income tax ratios affirms that the increases of the tax revenues are affected not only by the tax reforms but also by the enhancement of Indonesian's gross domestic product. Therefore, even though the tax revenues have increased significantly in nominal term, the income tax ratios do not increase accordingly. Compared to the international practice, the Indonesian's current income tax ratio (5.81 percent in 2011) was relatively low. For instance, the lowest income tax ratio in the OECD countries in 2010 was held by Mexico at 18.85 percent. In addition, five countries with the highest income tax ratio have the ratio more than 40 percent. They were Denmark with 47.6 percent, Sweden 45.52 percent, Belgium 43.51 percent, Italy 42.92 percent and Norway 42.90 percent.[i]

Furthermore, as the income tax is one of the main sources of the Indonesian tax revenues, its performance significantly determines the performance of tax revenues collection in a whole. Therefore, the low level of Indonesian's income tax revenue compared to gross domestic product eventually has brought down the Indonesian's tax ratio. In 2011, Indonesian's tax ratio was 11.77 percent, which was the lowest tax ratio among the five biggest economies in the South East Asian Countries (Indonesia, Thailand, Malaysia, Singapore, and Vietnam).

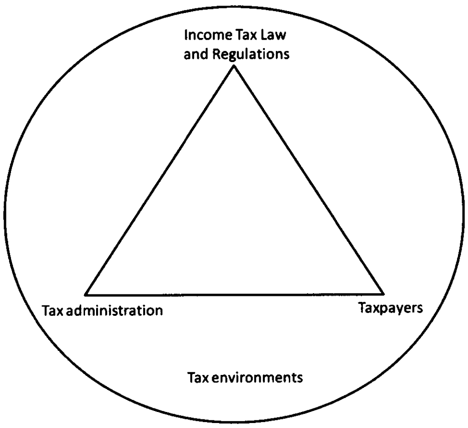
Based on the discussions above, it can be summarized that the income tax reforms have positive effects on the increase of income tax revenues. The income tax revenues in nominal term have folded more than 185 times in the period of 1983/84-2011. However, the significant increases of the nominal income tax revenues were influenced more by the Indonesian high inflation rates and economic growth. Data shows that if the income tax revenues are discounted by inflation and economic growth, the steep increase of the income tax revenues become much moderate in which the income tax revenues grew at 12.11 percent annually and folded 19 times in the period of 1983/84-2011. Furthermore, in term of income tax ratio, Indonesian income tax ratio was increased but despite its improvement it is far below the international practice.

## 4. Improving the Income Tax's Performance

The Indonesian's low income tax ratio can be interpreted from two opposite perspectives. In one perspective, it indicates that there is a need to improve the income tax system but in another perspective, low income tax ratio can be seen as a blessing in disguise for Indonesia as it gives a hope that income tax revenue has a potential to be increased further. In improving income tax system, there are wide ranges of possibilities in which area the improvements have to be made. The improvements might be needed on the tax law and regulations, law enforcement, tax services, tax authorities' professionalism, tax organization structure, tax information system, public tax awareness, public trust, government's governance, and many other options that may seem endless.

In order to map or to find out which part of income tax system, in a systematic way, that may need more attentions in efforts to raise income tax revenues, this paper introduces a model of income tax as shown in Figure 3. The model divides income tax system into four elements: income tax laws and regulations, tax administrations, taxpayers, and tax environments. As previously discussed, the income tax reforms engaged thus far have dwelled more on the efforts to tackle the problems in the element of tax law and regulations by making changes on the provisions of income law and regulations.

**Figure 3 : A model of income tax system**




Source: writer

However, taking another tax regulation reform to increase tax revenue might be not the best choice for Indonesia in the current time as the room to lift up income tax revenues significantly through regulation reform becomes limited. It is because in tax regulation reform, there are two primary approaches that can be taken to increase tax revenues: tax rate increase and tax base expansion. Both of them have their own difficulties to be implemented in Indonesia for the current time. Tax rate hike policy may not only raise resistance from the public but also may make Indonesia less attractive for foreign investments as income tax rate cut is a trend around the world. Likewise, tax base expansion become difficult to be implemented in Indonesia as almost all any potential tax subjects and tax objects were covered in the current income tax legislation.

Therefore, the efforts to increase income tax revenues have to be brought to other areas of income tax system rather than the income tax law area. Observing the current Indonesian's condition, there are two relevant issues related to the income tax revenues that are interesting to be discussed: public's tax awareness and the professionalism and integrity of tax authorities and civil servants in general.

Low public tax awareness has been a persistent problem in Indonesia as reflected from its low number of registered taxpayers. For instance, in year 2010, there were only 12.6 million registered individual taxpayers out of 108 million employment people (BPS, 2011). This figure shows that a large portion (more than 83 percent) of Indonesian society did not comply with the tax regulations which require people who earn incomes to register themselves to tax offices. This is surprising as penalty consequences for those who do not register themselves are quite severe. Tax law regulates that taxpayers who willfully do not register themselves shall be punished with 6 months up to 6 years imprisonment, and a fine of at least 2 times but no more than 4 times of the amount of tax payable that are not paid or less paid.

To improve public tax compliance and tax awareness requires the combinations of persuasive and repressive approaches over a sustained period of time. However, considering the huge number of people who do not register, persuasive approach seems to be more favorable than the repressive one. Definitely, law enforcement (repressive approach) is needed to reduce the number of people who deliberately avoid paying taxes. However, this approach has limitations in the scope of taxpayers that can be investigated, and it takes more resources, costs and efforts to increase the enforcement's coverage than the persuasive approach.

Therefore, besides repressive approach, nurturing tax awareness to the people will be essential to increase tax compliance, which eventually will increase income tax revenues. The efforts to increase public tax awareness can be done in various ways depend on the segment of people being targeted. For instance, as a starting point and foundation, the government should continuously plant the understanding about the importance, the benefits and the role of taxation to the people. Then at a higher level, a more detail tax knowledge should be spread according to the need of each segment of taxpayers in order to make them able to fulfill their obligations in accordance with tax law and regulations.

Another issue of Indonesian's tax system is related to the tax authorities' professionalism and integrity. The issues of corruption have been reiterated many times since the 1983 tax reform. However, the problem still exists though the spread of corruptions becomes narrower. In the 2001-2008 tax administration reform, several measures have been taken to improve tax employees' integrity and professionalism such as raising the remuneration, introducing code of conducts, organization values, strengthening internal control, improving the transparency of operating procedures, and establishing internal audit unit. The results are quite convincing. For instance, a survey conducted by ACNielsen in 2005 (during the tax reform process) showed that the taxpayer's satisfaction index in large tax offices reached 81 point. The achievement was encouraging because at that time tax offices were perceived as corrupted institutions and more surprisingly the achievement was able to surpass the public satisfaction level in countries that were considered have better public services such as Australia (74), Hong Kong (71), India (78), and Singapore (76). Then in 2010, Indonesian Corruption Eradication Commission gave a score 9.82 out of 10 scale for the tax offices' initiative to promote anticorruption. Recently, in 2013, the tax offices achieved the acknowledgment from one research institution as one of the most trusted government unit in Indonesia.

However, despite the improvement, several corruption scandals mostly in the form of bribery and extortion still occurred. In 2011-2012, Indonesian corruption eradication commission has arrested several tax employees on corruption cases that widely draw people's attention. These cases for some extent have spoiled the people's trust toward tax offices that some people urge taxpayers to boycott tax payments. Looking at the adverse impact of corruption cases to the public trust and the eagerness of people to pay taxes voluntarily, the efforts to curb or deter corruptions in tax offices have to be continued and strengthened.

Moreover, to gain public trust, the implementation of good governance practices should not be limited to the tax offices because public trust is a result of the action, attitude, and performance of all government units which influence people's compliance toward law (Torgler, 2007). Therefore, it will be less effective if the improvement in professionalism and integrity only limited on the tax offices as people also demand good services from other government units, and assurances that tax money are collected fairly and disbursed appropriately. Improvement in bureaucrats' services, the availability of public goods and services such as on the fields of education, transportation, and health will flourish people's eagerness to pay taxes.

Based on the discussions above, it can be concluded that in order to increase income tax revenues, it would be better for the government to improve other elements of the tax system rather than taking another tax regulation reform. Improvement in the area of public's tax awareness, tax authorities' integrity and professionalism, and the implementation of governance practice in various Indonesia's bureaucracies will be essential to increase income tax revenues.

## Conclusions

In the period of 1983-2011, Indonesia has conducted five income tax regulation reforms which primarily aimed to increase income tax revenues. The fundamental one was taken in the year 1983, and four piecemeal regulation tax reforms have been conducted in year 1991, 1994, 2000, and 2008. Beside regulation reforms, Indonesia also has embarked on tax administration reform during 2001-2008.

The above tax reforms have crafted several characteristics on the development of Indonesian's income tax system. Firstly, the tax reforms have embraced income tax rates decreased. For instance, the highest corporate income tax rate reduced from 35 percent in the tax year 1984 to 25 percent in the tax year 2010. Then, the tax reforms have widened the income tax base by expanding the incomes that fall into the categories of taxable incomes. Thirdly, the tax reforms have gradually moved the tax collection system from comprehensive income tax system toward schedular tax system.

The income tax reforms have positive effects on income tax revenues; however, they were not the main factor of the steep increase of tax revenues. This paper shows that Indonesian' s relatively high inflation rates and high economic growth during the period of 1983/84 -2011 have significantly contributed in the steep increase of the income tax revenues. As a consequence, even though there was a steep increase of nominal income tax revenues, Indonesian's tax ratio remains low.

Finally, studying from Indonesia's income tax reforms, it can be concluded that having a sound income tax law and regulations is a foundation to generate optimal income tax revenues. However, in reforming income tax system, it is also equally important to improve other elements of income tax system which are the taxpayers, tax administration, and tax environment. In the case of Indonesia, improving public tax awareness, tax authorities' professionalism and integrity, and governance practice in various Indonesia's bureaucracies will be essential to increase income tax revenues.

## Note

[i] OECD's Revenue Statistics-Comparative Tables. Retrieved from http://stats.oecd.org/Index.aspx?QueryId =21699

## References

ACNielsen Indonesia. (2005). eQ™ Satisfaction for Large Taxpayers' Office. p29.

Bird, R.M. (2004). *Managing Tax Reform*, International Bureau of Fiscal Documentation. p5. Retrieved from http://www1.worldbank.org/publicsector/LearningProgram/PracticalIssues/papers/Managing%20the%20reform/Managing%20Tax%20Reform.pdf

BPS (the Indonesian Bureau of Statistics). (2011). Statistik Indonesia 2011. p82.

Devereux, M., Lockwood, B. and Redoano, M. (2008). Do countries compete over corporate tax rates?. *Journal of Public Economics* 92 (2008) 1210–1235.

Heij, Gitte. (2007). *Who pulled the strings? A comparative study of Indonesian and Vietnamese tax reform.* (Doctoral dissertation). p 34. Retrieved from http://dissertations.ub.rug.nl/faculties/jur/2007/g.heij/

McCarten, William. (2006). *The role of organizational design in the revenue strategies of developing countries: benchmarking with VAT performance.* The challenges of tax reform in a global economy. p414 and p437.

Ministry of Finance of the Republic of Indonesia. (2011). Laporan Keuangan Pemerintah Pusat 2010 [the Central Government Financial Report]. Jakarta. p168.

OECD (2010). *Choosing a Broad Base - Low Rate Approach to Taxation*, OECD Tax Policy Studies, No. 19. Retrieved from http://dx.doi.org/10.1787/9789264091320-en

Rizal, Yond. (2011). Limits of good governance in developing countries. *Lessons from Indonesian Tax Administration Reform Phase 1 (2001-2008): Does Good Governance Matter?.* Retrieved from http://ir.nul.nagoya-u.ac.jp/jspui/handle/2237/15868

The Republic of Indonesia. *(1983). The Law of the Republic of Indonesia Number 7 of 1983 concerning Income Tax.* Jakarta.

The Republic of Indonesia. *(1991). The Law of the Republic of Indonesia Number 7 of 1991 concerning the amendment of the 1983 Income Tax Law.* Jakarta.

The Republic of Indonesia. *(1994). The Law of the Republic of Indonesia Number 10 of 1994 concerning the amendment of the 1983 Income Tax Law as lastly amended by Law Number 7 of 1991.* Jakarta.

The Republic of Indonesia. *(2000). The Law of the Republic of Indonesia Number 17 of 2000 concerning the third amendment of the 1983 Income Tax Law.* Jakarta.

The Republic of Indonesia. (2008). *The Law of the Republic of Indonesia Number 36 of 2008 concerning the Fourth Amendment of the Income Tax Law.* Jakarta.

The Republic of Indonesia. Ministry of Finance. (1983/84-2012). Nota Keuangan dan Anggaran Pendapatan dan Belanja Negara dari tahun 1983/84 sampai 2012 [Government Financial Notes and National Budgets from 1983/84 to year 2012].

The World Bank. (2013). Tax revenue (% of GDP). Retrieved from http://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS

The World Bank. (2013). Inflation, GDP deflator (annual %). Retrieved from http://data.worldbank.org/indicator/NY.GDP.DEFL.KD.ZG

Torgler, B. (2007). Tax compliance and tax morale: a theoretical and empirical analysis. Edward Elgar Publishing. p35.