Constructed interpretation of tax compliance through the historicity, rationality, and actuality of Pancasila (cases in Indonesia)

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Abstract: The purpose of this study is to construct an interpretation of the tax compliance of taxpayers participating in the Indonesian government’s tax amnesty. This research is qualitative in nature, in accordance with Latif’s thoughts on the historicity, rationality, and actuality of Pancasila (Indonesia’s five pillars of the nation). This idea is considered appropriate to be used to construct the basis of tax policy founded on the ideology of Pancasila. The results reveal that the taxpayers’ initial view on tax compliance is based on an assumption of ‘homo economicus’ (economic man), which prioritises individualism, materialism, rationalism, and atheism. The constructed interpretation of tax compliance is centralised on religiosity, humanity, and ‘gotong royong’ (mutual cooperation) in order to realise the embodiment of social justice. The basic assumption for the interpretation of tax compliance is socio-religious, being a reflection of the Indonesian human character.

Keywords: tax compliance; tax amnesty; historicity, rationality, and actuality of Pancasila; socio-religiousity; Gotong Royong.

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1 Introduction

In Indonesia, the implementation of a tax amnesty expired on 31 March 2017, which was claimed to have been successful by the Ministry of Finance of Indonesia. Soon after, the president of the Republic of Indonesia issued Government Regulation in Lieu of Law (Perpu No. 1 Tahun, 2017) No. 1 of 2017 dated 8 May 2017, regarding access to taxation-related financial information. Hidayatullah (2017) stated that the urgency in issuing this regulation was because, out of 101 countries committed to implementing the Automatic Exchange of Information for the period 2017–2018, Indonesia is one of 12 countries that have not met the requirements. The automatic exchange of information is an automated information exchange agreement for tax purposes.

Tax compliance achieved by encouraging tax reforms towards a fairer system is the next goal after the main objective of the tax amnesty that is to repatriate assets from abroad into the country (Undang-Undang No. 11 Tahun, 2016, Article 2 (2)). With reference to the implementation of the United States’ tax amnesty in 1985 that was not followed by a thorough improvement of the tax system, it will result in reduced tax compliance (Alm and Beck, 1993; Alm et al., 1990; Parle and Hirlinger, 1986). On the other hand, with reference to Russia’s tax amnesty in the 1990s, it will only increase tax revenues but not be able to increase tax compliance (Alm et al., 2009). It is, therefore, a matter of concern whether taxpayer compliance will increase following taxpayers’ participation in the tax amnesty.
Certainly, achieving voluntary compliance is not a simple task. The Ministry of Finance’s efforts in granting a tax amnesty to tax evaders through the tax amnesty policy along with the self-assessment system (taxpayers are granted the freedom to calculate, pay, and report their tax liability) raises an excessive freedom (Darmayasa, 2017). In fact, the main objective of the tax amnesty, namely repatriation, can only achieve 14.7% of the target (Prastowo, 2017). The Law of Tax Amnesty (UU PP) and its implementing regulations are part of the legislation that was made during the reform era that does not refer to the values of Pancasila (Darmayasa et al., 2016). The absence of Pancasila values in the tax amnesty policy makes the realisation of tax compliance less likely in accordance with the character of Indonesian society.

Referring to the slippery slope framework developed by Kirchler et al. (2008), the Ministry of Finance augmented its authority by opening access to financial information for taxation purposes after the tax amnesty. It should be noted that to increase the dimension of the tax authorities’ power without a corresponding increase in taxpayers’ trust would lead to enforced compliance.

Being qualitative in nature, this study offers novelties. First, a deeper understanding of the ongoing tax amnesty implementation would be enhanced by comprehending the interpretation of tax amnesty from the perspective of taxpayers; thus it may be possible to increase tax compliance post-amnesty. Second, this study incorporates Indonesia’s ideological values, namely Pancasila, which comprises a profound characterisation of Indonesia society. With Pancasila in mind, the findings represent a reference with regard to taxpayer opinions about taxation policies, in order to increase tax compliance post-amnesty.

2 Literature review

The liability to pay taxes is inevitable, but most taxpayers seem to make efforts to reduce their tax payments. In 1972, Allingham and Sandmo (1972) developed a tax compliance model of economic deterrence. The economic deterrence model consists of two factors influencing the level of tax compliance: the probability of examination (audit) and the level of sanctions to be imposed. The basic assumption of economic deterrence considers taxpayers as utility maximisers. Moreover, it assumes that no individual volunteers to pay taxes. In contrast, people will tend to always oppose the fulfilment of their tax obligations. In 1991, Ajzen (1991) developed a tax compliance model, using a psychological approach, called the theory of planned behaviour. This theory assumes that individual behaviour is influenced by behavioural intention. The intention is influenced by attitude, subjective norms, and perceived behavioural control. Perceived behavioural control is interpreted as the level of control performed by the tax authorities. The theory of planned behaviour is still situated in the area of enforced compliance.

In addition, several empirical findings indicate that such enforced compliance is induced by the tax system, ownership structure, tax knowledge, and income level. For example, the implementation of a self-assessment system in Malaysia is affected by tax knowledge (Palil and Mustapha, 2011). Whereas the tax policy in Zimbabwe negatively affected the economic growth during the period 1984–2009 (Marire and Sunde, 2012). The perceived fairness of the tax system is affected by corporate tax compliance (Puspita et al., 2016). Even the existence of family ownership structures leads to greater tax avoidance (Masri and Martani, 2014). Pratama (2017) concluded that
students, who are obviously future taxpayers, perceive tax avoidance as ethical. Furthermore, a study by Pratama (2018) concluded that the education and the income level of taxpayers affect their knowledge of the tax system.

Furthermore, in 2008, Kirchler et al. (2008) developed the slippery slope framework that describes two dimensions which influence tax compliance, that is the dimension of the power of the tax authorities and the taxpayers’ trust in the tax authorities. The greater the power of the tax authority results in increased tax compliance, but it is an enforced compliance. Some studies using a tax compliance model with spirituality or religiosity value internalisation began to be developed. The internalisation of spirituality or religiosity value is believed to be able to reduce taxpayers’ intention to commit tax evasion (Darmayasa and Aneswari, 2015; Torgler, 2003) as well as to alleviate poverty through religious means, such as Zakah (Ahmad and Mahmood, 2009).

Tax evasion practices in Indonesia have resulted in a rate of tax compliance of only 11%, which is relatively low compared to neighbouring countries (Amir et al., 2013). To achieve tax compliance, the characteristics of society and the ideology of the country should be taken into consideration. A study by Darmayasa et al. (2017) provides an initial view of the concept of tax amnesty based on the religious value of communal cooperation in Pancasila to bring about social justice.

Before the financial crisis of 1997, Indonesia experienced strong economic growth (Asteriou, 2008). Since 1983, the tax system implemented in Indonesia has been a self-assessment system, but the trust accorded to taxpayers to calculate, compensate, pay, and report their tax liabilities has not been utilised appropriately (Bawazier, 2011). In fact, there is a tendency for self-assessment to be abused by taxpayers who put forward the character of ‘homo economicus’ or ‘economic man’ (Mas’ud, 2013). The implementation of the self-assessment system has not been effective. Instead, it gives rise to a variety of tax evasion practices so that tax revenue targets are difficult to achieve. Many countries have used various reasons for the inability to increase tax revenues as a justification for applying a tax amnesty (Stella, 1991). Government efforts to achieve voluntary compliance by granting a tax amnesty do not seem to have proceeded effectively. According to the results of a study conducted by Sudarma and Darmayasa (2017), taxpayers’ compliance is actually due to their fear of higher sanctions being imposed if they do not participate in the tax amnesty program.

3 Research methodology

The paradigm used in this research was a postmodern paradigm. The postmodern school used was a constructive-affirmative postmodernism (Kamayanti, 2016, p.150; Rosenau, 1992, p.15). The postmodern paradigm is an anti-modernity perspective. Individualistic, materialistic and rationalistic characters characterise the reality of modernity (Doucouliagos, 1994). According to Mulawarman’s (2013) view, the reality of modernity even excludes God. The values of Pancasila, which had been marginalised, were focused on the realisation of tax compliance in accordance with the character of Indonesian society. The idea of Yudi Latif was extremely appropriate to be used to concentrate the values of Pancasila with the consideration that Yudi Latif became the chief of the Presidential Working Unit for the Implementation of Pancasila Ideology (UKP-PIP) based on Presidential Regulation (Perpres No. 54 Tahun, 2017) No. 54 of 2017.
The data analysis technique used was based on the idea presented by Latif (2011), which refers to the historicity, rationality, and actuality of Pancasila. The process of deconstruction of tax compliance began with the historicity of the modernity text inherent in the perspective of tax compliance. The next stage was the rationality and concentration of marginalised Pancasila values into the interpretation of tax compliance. Lastly, the final stage of deconstruction was the actuality of the tax compliance construction based on Pancasila values for the taxpayers participating in the tax amnesty.

Since the focus is tax amnesty implementation in Indonesia, the informants of this research involved Indonesian taxpayers participating in the tax amnesty, the head of the Indonesian Institute of Certified Public Accountants, the director of the Directorate General of Taxes (DGT), and a member of the House of Representatives of the Republic of Indonesia is presented in Table 1. The selection of the six informants was determined based on their relevance in terms of having adequate knowledge and experience to answer the problem of this research.

<table>
<thead>
<tr>
<th>No.</th>
<th>Informants</th>
<th>Description</th>
<th>Date of Interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mr. Adil</td>
<td>Individual taxpayer and academician</td>
<td>7 February 2017; confirmed 7 July 2017</td>
</tr>
<tr>
<td>2</td>
<td>Mr. Budi</td>
<td>Individual taxpayer and tax consultant</td>
<td>28 April 2017; confirmed 7 July 2017</td>
</tr>
<tr>
<td>3</td>
<td>Mr. Law</td>
<td>Individual taxpayer and tax law attorney</td>
<td>12 September 2017; confirmed 16 November 2017</td>
</tr>
<tr>
<td>4</td>
<td>Mr. DGT</td>
<td>Director of the DGT</td>
<td>25 August 2017</td>
</tr>
<tr>
<td>5</td>
<td>Mr. MHR</td>
<td>Member of the House of Representatives</td>
<td>25 August 2017</td>
</tr>
<tr>
<td>6</td>
<td>Mr. IICPA</td>
<td>Head of the Indonesian Institute of Certified Public Accountants</td>
<td>31 October 2017</td>
</tr>
</tbody>
</table>

Pseudonyms were adopted for the informants under Article 21 of the Law of Tax Amnesty (confidentiality of taxpayers participating in the tax amnesty is guaranteed).

4 Results and analysis

4.1 Historicity of tax compliance interpretation

The DGT issued various regulations to provide legal certainty to taxpayers. The anxiety of taxpayers gradually began to be answered with the issuance of Per-11/PJ/2016 (2016) in relation to the objective and fair value of assets disclosed in the Statement of Assets. The value of assets reported by taxpayers under the self-assessment system was not tested or corrected by the DGT. However, taxpayers who put forward the homo economicus character tended to take advantage of this opportunity to report the value of property in the Statement of Assets as low as possible. The researchers interviewed the first informant (Mr. Adil), who was an individual taxpayer and an academician, to explore his motivation in participating in the tax amnesty. He stated,
I am participating in the tax amnesty to avoid a tax audit. I am worried that my annual tax return is not in line with the real data.

The level of taxpayers’ trust in the tax authorities was one dimension that affected voluntary compliance. In this research, the researchers developed interview questions to explore this level of trust. According to Mr. Adil,

I joined the tax amnesty not because I believe the Directorate General of Taxes, but I am afraid of high sanctions imposed if eventually there is a tax audit or inspection.

Mr. Adil interpreted the amnesty policy as an incentive to turn over a new leaf. In accordance with the law of tax amnesty, each participating taxpayer obtains a privileged status in which the taxpayer’s tax liabilities for the fiscal year 2015 and previous years would not be investigated. Mr. Adil’s perception was consonant with that of Mr. Law, an individual taxpayer and a tax law attorney:

Tax authorities seem to be proud of tax amnesty participants, so taxpayers feel proud to participate in tax amnesty, not proud of doing wrong, but proud to be treated [as] privileged.

The homo economicus character dominated the interpretation of tax compliance by both Mr. Adil and Mr. Law. In other words, they intended to avoid sanctions, and it was not voluntary compliance that had begun to grow.

There are two types of tax compliance: formal and material. Formal compliance refers to the compliance of registered taxpayers who fulfil the obligation to complete the tax return. On the other hand, material compliance is related to the number of liabilities paid and reported in the taxpayer’s annual tax return. Formal compliance is the case for only 50% of registered taxpayers (Fenochietto and Pessino, 2013; InsideTax Magazine – 26, 2014, p.11). Based on DGT data presented by Prastowo (2017), the level of taxpayers’ participation in the tax amnesty did not achieve 50% of the targeted taxpayers (the target was two million taxpayers but the realisation was only 965,983 taxpayers).

An interview with Mr. Budi, an individual taxpayer and a tax consultant, was also conducted to deepen the interpretation of tax compliance after the disclosure of access to financial information. The interview focused on the dimension of the increased power of the tax authorities to access taxpayers’ bank accounts. Mr. Budi reported,

I try to adjust the earnings reports in the annual tax return with the data relating to my bank accounts.

Furthermore, to explore interpretations from representatives of the tax authority, the house of representatives of the Republic of Indonesia, and the head of the Indonesian Institute of Certified Public Accountants, we conducted interviews with Mr. DGT, Mr. MHR, and Mr. IICPA. Relevant comments include these:

Mr. DGT: If the increase in tax authority access is not matched by another dimension, it will be difficult to increase compliance. There are several dimensions to construct tax compliance, firstly society must have confidence with the act, and then taxpayers will willingly pay taxes if they have confidence in the tax authority.
Mr. MHR: The issue of voluntary tax compliance, it must be sounded, as a principle that the government carries out enforcement, the government has the legitimacy, and has made efforts to achieve voluntary compliance.

Mr. IICPA: Those who participate in tax amnesty exhibit the wrong philosophy, but the fact is not that tax amnesty’s participants should be questioned. The philosophy aspect of tax amnesty is inferior to the sociological aspect.

It can be concluded from the results of the interviews that the interpretation of tax compliance contains a modernity text. The modernity text, along with the assumption of homo economicus, tends to harm moral practice. The interpretation of tax compliance containing the modernity text is not in accordance with the character of the Indonesian nation. Therefore, it must be deconstructed.

4.2 Rationality of the centralisation of Pancasila values in the interpretation of tax compliance

This section outlines the rationality of the values of Pancasila ideology, which had been marginalised, in the interpretation of tax compliance as the second stage of the research analysis. The modernity values of the tax compliance interpretations by the informants were further deconstructed by reversing the values of modernity. The values of Pancasila constituting noble human values were further concentrated within the interpretation of tax compliance that had been marginalised. The researchers’ efforts in deconstruction were in line with the efforts of the Pancasila Ideology Formulation Team for the field of regulatory audit delivered by Soeharso in Harian Kompas (2017) on 6 July 2017, p.3, in relation to regulations that were not consistent with the values of Pancasila. The rationality process of the centralisation of Pancasila values in the interpretation of tax compliance is presented in Table 2.

<table>
<thead>
<tr>
<th>No.</th>
<th>Interview excerpt</th>
<th>Modernity text</th>
<th>Centralisation of Pancasila values</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>…to avoid a tax audit…</td>
<td>Atheism</td>
<td>The spirit of communal cooperation is based on religiosity for social justice</td>
</tr>
<tr>
<td>2</td>
<td>…afraid of high sanctions…</td>
<td>Individualism</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>…to adjust the earnings reports to my bank accounts….</td>
<td>Materialism</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>… proud to be treated as privileged</td>
<td>Rationalism</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>… philosophy is inferior to sociological aspect</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.3 Actuality of tax compliance interpretation

The final stage of the research analysis, which is the actuality of tax compliance interpretation. The interpretation of tax compliance that combines the theories of psychology, spirituality, and religiosity, as well as the ideology of the nation, uses the socio-religious assumption of man and religiosity. This assumption reflects the condition of Indonesian society. The deconstruction results for tax compliance interpretations do not completely change the interpretations by the research informants but centralise the
values of Pancasila, which had been marginalised. The concept of deconstruction of Pancasila values centralisation is a constructive deconstruction.

The deconstruction results for tax compliance interpretation, by centralising the values of Pancasila, have led to tax compliance that is motivated by the value of ‘gotong-royong’ (communal cooperation) based on religiosity. The interpretation of tax compliance with the assumption of the socio-religious man neither emphasises the taxpayer himself, nor gives priority to materialism, nor puts forward rational choices. The interpretation of tax compliance based on the spirit of gotong-royong is a reflection of the heartfelt sincerity that grows in taxpayers for the realisation of social justice in Indonesian society. The taxpayers’ sincerity is able to cultivate voluntary tax compliance as the embodiment of Pancasila man.

5 Conclusion and research limitations

The approaches of psychology, spirituality or religiosity, and the values of Pancasila, are the most appropriate approaches to consider and interpret tax compliance with the consideration that Indonesian society is a socio-religious society. The construction interpretation of tax compliance is necessary in order to achieve voluntary compliance. The former interpretation of tax compliance, according to the research informants, contains modernity texts, namely individualism, materialism, rationalism, and atheism. The modernity texts were further deconstructed by reversing its hierarchy with the centralisation of Pancasila values, including religiosity, humanity, and communal cooperation, to bring about social justice. The construction interpretation of tax compliance for taxpayers who have participated in the tax amnesty based on the spirit of ‘gotong-royong’ (communal cooperation) is a reflection of the growing sincerity in taxpayers in the realisation of social justice.

As the informants in this research are prominent figures in the formulation of Indonesian public policy, the interview process was determined by their hectic schedules. The researcher had to acquire the information in the context of national seminars, where the interviews were conducted during question and answers sessions. We suggest that scholars engage in further research to construct an interpretation based on the unity perspective, which embodies the third values of Pancasila.

References


Perpres No. 54 Tahun (2017) *Unit Kerja Presiden Pembinaan Ideologi Pancasila.*


