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ISSN: 2616-4965

Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance and Accounting
Volume 6||Issue 5||Page 11-21 ||November||2022|
Email: info@stratfordjournals.org ISSN: 2616-4965

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How to cite this article: **Pasaribu, G. T., Ayu, L. M. & Pamuntjak, A. (2022), Tax Reforms and Financial Performance of the Indonesian Directorate General of Taxes between 2017 and 2021: Literature Review, *Journal of Finance and Accounting*, 6(5) pp.11-21.** https://doi.org/10.53819/81018102t4105

Abstract

Governments settle their financial obligations and pay for the public expenditures largely through finances generated from taxes and so the issue of taxation is as old as taxes itself. Formulating of new laws that govern taxation, changes in tax administration as well as minimizing loop holes of tax evasion are some of the factors that lead to improvements in tax revenue collections in Indonesia. In developing countries especially in Asia, tax reforms revolves around matters to do with economic policies while focusing particularly on the design of taxation structure and the tax management. Despite the tax reforms and increasing need to increase revenue collection and enforcement so as to provide public services, Indonesia still faces the challenges of low tax collection and tax administration. The purpose of this study was thus to assess the impact of tax reforms on the financial performance of Indonesian Directorate General of Taxes between 2017 and 2021. This study was informed by two theories; Optimal Tax Reform Theory and Open Systems Theory. The study was a literature based and the findings indicated that the implementation of the new tax systems to replace older tax systems leads to increased revenue collection compared to the past years before the implementation process. It has also been shown that the introduction of administrative tax reforms increased corporate tax compliance in several ways that included the self-assessment system and voluntary compliance which consequently reduced the number of queues at the Indonesia Directorate General of Taxes and huge savings on human resource who used to collect tax prior to the tax reforms. The study thus concluded that, electronic tax registration, and electronic tax identification number, electronic filing of tax return and electronic tax payment and administrative reforms have statistical positive significant relationship with revenue performance, implying that digitalization has a positive and a statistically significant influence on revenue performance. The study thus suggested that policy makers in Indonesia should ensure that there is stable equilibrium for the exchange rates as they adversely affect the tax collection process. Moreover, the laws governing tax collection in Indonesia should be reviewed and criminal liability for those delinquent tax payers, the government also need to offer some support with regards to tax offenders.

Keywords: *Tax reforms, Directorate General of Taxes, financial performance, revenue collection, Indonesia*

1.1 Background to the Study

Revenue collection is critical component for the functioning of the state in the areas of provisions of public goods and services, economic stabilization as fiscal tool and resource distribution which seeks to transfer wealth from the rich to the poor (World Bank, 2018). The issue of taxation is as ancient as taxes themselves because governments around the world use money earned by taxes to clear their debts and pay for public spending (Moore & Prichard, 2020). Taxes are a required but unrequited payment to the government; they are essential parts of domestic resource mobilization, which gives governments the money they need to finance development, fight poverty, and provide public services (Chongvilaivan & Chooi, 2021). A nation's capacity to fund social services like healthcare and education, vital infrastructure like roads and electricity, and other public goods depends heavily on its ability to collect taxes (World Bank, 2018).

The collection of taxes and fees is a key priority for development. It is essential to finance investments in human capital, infrastructure, and the provision of services for citizens and businesses. Additionally, it is essential to set the right price incentives for sustainable private-sector investment. Consequently, the collection of taxes and fees is a key priority (Kamara, 2021). According to Sharma (2019), resource mobilization, allocation, distribution, and stabilization can all be enabled by taxation. Revenue Authorities all around the world are tasked with the responsibility of assessing, collecting, and enforcing laws relating to a nation's tax revenues. According to a report that was published by the World Bank in 2019, a great number of nations are still having trouble gathering adequate resources to finance their own nation's growth and expansion. According to the findings of the analysis, governments in nations where tax income accounts for less than 15% of GDP have an obligation to raise the amount of money they bring in so they may satisfy the fundamental requirements of their populations and commercial enterprises. This degree of taxation is a crucial inflection point that, if reached, makes a state economically viable and sets it on the route to expansion. As of the year 2018, 48 percent of IDA and Blend countries and 69 percent of FCS nations are below this baseline of 15 percent.

A high level of tax evasion, huge informal sectors, increased levels of corruption, and decreased levels of investment are all connected with tax systems that are overly complicated (Shokrkhodaei & Salatin, 2018). The goal of modern tax systems should be to maximize revenue collection while reducing the administrative burden placed on taxpayers to ensure compliance with tax regulations (World Bank, 2020). In the majority of developing countries, the capacity to collect taxes is still inadequately low, and nowhere is the lack of tax collection capacity more apparent than in local governments, which collect a negligible fraction of local income in taxes. Developing countries have a higher poverty rate than developed countries (World Bank, 2019). Because of this, local governments provide inadequately low levels of public goods such as roads, schools, and electricity. These are crucial inputs for developing countries to achieve structural change and economic growth. As a result, local governments provide inadequately low levels of public goods. According to Karingi et al. (2015), effective tax administration is essential to the successful execution of a well-designed tax system in the context of revenue collection. The identification of tax liabilities on the basis of existing tax laws, the assessment of taxes to determine if the taxes actually paid are smaller (or large) than liabilities, and the collection, prosecution, and penalty activities that impose sanctions on tax evaders and ensure that taxes and penalties due from tax payers are actually collected are the three interrelated activities that make up tax administration (World Bank, 2018).

Governments all around the world are modernizing their revenue agencies by implementing information and communication technology to enhance the provision of public services and the public's access to information about public administration (Moore & Prichard, 2020). These reforms all share the use of automated systems for tax collection, accounting, and facilitation, which allows for rapid access to data from trustworthy databases, as well as the standardization and unification of payment processes (Indonesia Directorate General of Taxes, 2019). Tax reform is the process by which a nation alters how taxes are collected, mobilized, and used by the current administration with the aim of enhancing tax administration or bringing about social or economic advantages (Gnangnon, 2020). A few of the reasons that contribute to increases in tax revenue collections include the creation of new laws that control taxing, adjustments to tax administration, and closing loopholes for tax evasion (Bayale *et al.*, 2022). Reforms to tax administration are frequently driven by their ability to increase the collection of taxes. However, it is challenging to estimate their true effects.

Tax reforms are typically implemented to maximize the economic and social benefits that can be realized through the tax system, to increase the effectiveness of tax administration, and to improve performance (Moore, 2020). The World Bank (2019) asserts that tax changes are essential for minimizing tax evasion and avoidance and enabling more effective and equitable revenue collection that may be used to fund public goods and services. The promotion of future independence from foreign aid and natural resource earnings, as well as more sustainable revenue levels, have all been linked to tax reform (Kim & Kim, 2018). According to ITA (2015), in order to reform tax administration, one must set up a tax administration system that promotes the values of good governance.

Although scope and rate differ from one jurisdiction to the next, taxation is essentially the same across all states (World Bank, 2019). Due to treaties that allow wealthy nations to take revenue earned from underdeveloped nations, developing countries still struggle to raise enough money to cover their expenses. Tax management must first comprehend the conduct of taxpayers who frequently fail to pay their taxes as well as that of public servants who frequently fail to perform their duties (Moore, 2020). We can choose the best tax administration model by comprehending this type of behavior. Tax reform can lower revenue avoidance and evasion while enabling more effective and fair tax collection that can fund public services and goods. It could increase the sustainability of revenue levels and encourage future independence from foreign aid and natural resource earnings (Bayale *et al.*, 2022).

The failure of many tax administrations around the world to collect sufficient tax revenues, the existence of tax structures in which tax horizontal and vertical equity considerations are not integrated, as well as a general lack of government and economic stability are all problems that must be addressed (ITA, 2017). According to Melo-Becerra et al. (2021), reforming revenue administration can have a multitude of positive effects, including improved revenue performance, more equitable distribution of the tax burden across the community, more consistency and fairness for business and individuals, greater ability to implement fiscal reforms, reduced compliance costs for taxpayers, an increase in the number of registered taxpayers, a reduction in tax evasion and tax fraud, and an increase in the number of registered taxpayers (Melo-Becerra *et al.*, 2021).

The transition from manual to online tax systems in Singapore began in the early 1990s as a result of tax reforms that were implemented in the country (Ariani et al., 2022). 1998 was the year that other countries' tax administrations, such as that of Mexico, started the process of modernizing their operations and establishing online filing systems. As of the year 2019, the online system permitted online tax payments in addition to other tax transactions, which considerably enhanced tax performance (Labeaga et al., 2021). Some politicians in Germany have referred to their recent overhaul of the country's income tax system as the most significant tax overhaul of this century (Christofzik & Elstner, 2021). Other politicians have said that the reform will simply result in a redistribution of money from those with lower incomes to those with higher incomes. An economist faces a difficult challenge when tasked with investigating these statements made by politicians. To this day, the Malaysian tax system has experienced some development, albeit neither at the anticipated speed nor with the desired level of completion in a number of different areas of tax reform (Rai, 2021). The transition in the year 2000 from the official assessment system to the self-assessment system brought with it a number of important offshoot consequences, in particular with various capabilities granted to taxpayers through the utilization of technology (Rai, 2021).

In an organization, performance is realized at the levels of the organization, process, and individuals, and the relationships among these will determine the organization's viewpoints. Performance is defined as the accomplishment of something or simply functioning effectively (Nukpezah *et al.*, 2022). As a percentage of GDP, tax systems in developing nations collect far less money than those in wealthy nations. This could be because tax officers in low-income nations are sometimes paid low salaries without taking performance into account, which leaves room for corruption and leaks (Anamanjia & Maina, 2022). One potential answer to this issue is performance-based pay, which links pay to performance. However, performance-based compensation may also give tax officers more negotiating power with taxpayers, which would raise taxpayer unhappiness without raising tax revenues for the government (Nukpezah *et al.*, 2022).

1.1 Statement of the Problem

Despite the tax reforms and increasing need to increase revenue collection and enforcement so as to provide public services, Indonesia still faces the challenges of low tax collection and tax administration (Awiti, 2020). In spite of recording remarkable performance results in revenue collection in the recent past, ITA continues to face major revenue collection challenges that makes the government to lose billions of money annually. Taxpayers' resistance, underutilization and reluctance to use electronic filing system which is one of the reforms in the tax administration remain a great concern and still plagues various tax agencies which are embracing electronic tax administration systems (Eja, Idaka & John, 2018). Vivian (2021) contend that the importance of understanding and influencing taxpayer's acceptance of electronic filing system is critical, given the investment in technology and the potential for cost saving.

In Indonesia, ITA has undergone a number of restructuring exercises overtime geared towards improved performance. Despite its considerable achievements in minimizing customer compliance costs, there is need for ITA to continue enhancing its service levels. Over the past three years, various surveys and reports have exposed the weaknesses in service delivery (Anamanjia & Maina, 2022). Indonesia has continued to experience increasing budget deficits; this is despite implementing various tax reforms. To finance the deficit, the Indonesian government should either raise more tax revenue or resort to borrowing. Domestic borrowing crowds out investment while external debt specifically non-concessional loans are tied to some unpopular conditions. The study examined impact of tax reforms by the ITA on the revenue collection performance during the period of between 2017 and 2021.

https://doi.org/10.53819/81018102t4105

1.2 Research Objectives

To assess the effects of tax reforms on the financial performance of Indonesian Directorate General of Taxes between 2017 and 2021.

2.1 Theoretical Framework

2.1.1 Optimal Tax Reform Theory

Ramsey's (1927) groundbreaking work served as the basis for optimal tax theory; Mirrlees (1971). According to the conventional theory of optimum taxation, a tax system should be selected to maximize a social welfare function within a set of limitations. The social planner is often viewed as a utilitarian in the literature on optimal taxation, meaning that the social welfare function is based on the utility of people in the society (Mankiw et al., 2009). According to this idea, taxes on commodities or factors with inelastic demand or supply are the most effective way to raise money, and taxes on distribution, externalities, or market failures should focus on finding the root of the issue (Auerbach, 1985). Therefore, in order to distribute wealth, we should focus our attention on the causes of inequality (Omesi, & Nzor, 2015).

Feldstein (1976) recommended making an effort to directly tax or support the good or activity that causes the externality. Newbery and Stern (1987) used the optimal tax reform theory to investigate the effects of tax reform and assess both their administrative costs and their effects on social welfare. Newbery and Stern (1987) used the OTRT to study the tax reform process using a normative framework. According to them, the best taxation strategy highlights the necessity to assess the impact of tax reform and consider both its administrative costs and social welfare consequences.

The major problem of this approach is that it required substantial data which are difficult to source in developing countries. In addition, optimal taxation assumed the existence of perfect tax administration, which does not exist in Indonesia and several developing countries. Optimal taxation theory attempts to derive the system of taxation that will achieve the desired revenue and income distribution with the least inefficiency that is, that interferes least with market participants making Pareto optimal exchanges economic transactions that make both parties better off (Feldstein, 1976).

2.1.2 Open Systems Theory

Open Systems Theory was created by American sociologist James David Thompson in 1920. The theory sees association as a subsystem that exists inside a greater framework. As indicated by the theory, associations exist as subsystem in a greater framework in which they should assume an extraordinary part that increases the value of the greater framework (Von Bertalanffy, 1950). In like manner, all associations are frameworks and that all frameworks are a piece of a bigger framework. How a subsystem fits the requirements of a bigger framework at last decides whether the subsystem flourishes or is left to shrink (Teece *et al.,* 1997). This clarifies why a few associations fall flat where others thrive.

The idea that organizations are greatly influenced by their surroundings is known as "open systems theory" (Weber & Waeger, 2017). Other organizations that exert diverse economic, political, or social factors make up the environment. The environment also offers crucial resources that help a business survive and change. After World War II, open systems theory was created in response to earlier ideas of organizations, such as Elton Mayo's human relations theory and Henri Fayol's administrative theories, which primarily treated the organization as a self-contained unit (Mansor & Tayib, 2013). As a result, there are various varieties of open systems theories. For instance, proponents of contingency theory contend that organizations are set up in ways that best suit the environments in which they operate. Institutional theorists believe that organizations are a vehicle for social values and views to be represented through organizational transformation and organizational structure (Mansor & Tayib, 2013).

The open systems theory takes the outward-in perspective of an association. As per the theory, strategy comes through progressive investigation of the outer condition and planning frameworks to fit into the outside condition. This hypothesis was been progressed through Porter's (1995) Five Forces Framework which sees strategy formulation as relating a business to its environment. Porter (1995) distinguished five powers inside an industry that decide the businesses appeal. They incorporate entry boundaries to the business, danger of substitutes, dealing energy of purchasers, haggling energy of providers, and competition among firms in the business (Porter, 1990).This theory was considered relevant to the study as it helped in understanding organizations as systems. From the theory, organizations interact with outside world which are often referred to as systems. Sections of organizations interact amongst themselves to see a certain objective met. The theory is applicable to the current study since it explains how forces in the environment such as tax administration reforms can influence the performance of the tax administration.

2.2 Empirical Review

In order to assess the effects of revenue system modernization on revenue collection at the Indonesia Directorate General of Taxes, Muthama (2013) conducted a study in Indonesia. For four fiscal years before and after the Simba System, the study collected secondary data using ITA Customs data. The results of the study demonstrated that system modernisation improves revenue collection, hence it should be promoted. According to the report, compared to the years before to implementation, both the volume of transactions and the amount of money collected increased. According to the study's findings, the replacement of Bishops Office Freight Forwarders Integrated Network (BOFFIN) with the new Customs system (Simba 2005 System) in July 2005 had a positive impact on revenue collection when compared to the four years prior to the installation process. According to the study's findings, the amount of money collected was closely tied to the volume of transactions, operating expenses, currency exchange rates, and inflation rate. The study indicated that because exchange rates have a negative impact on the process of collecting taxes, policymakers should make sure that there is a stable equilibrium for them. Additionally, it was advised that the ITA embrace fresh approaches and programs to support the Simba system's attempts at revenue collection as technology advances.

Taliercio (2018) investigated administrative reform as a reliable commitment on the effect of autonomy on the performance of tax authorities in Latin America. The study looked at the structure and effects of ARAs in Latin America and made the case that politicians enact ARAs to signal to the public that tax administration will be more competent, fair, and successful. The study included econometric analyses and performance indicators that supported the idea that views of credibility, performance, and agency autonomy are related. The survey data came from business taxpayers and tax specialists in Bolivia, Mexico, Peru, and Venezuela. According to the report, tax administration innovations are frequently driven by the potential to increase tax revenue collection. The effects they actually have, however, are hard to measure. After a protracted period of system reform, the study found that the improvement in tax performance was outstanding. However, additional tax- and institution-related reforms were necessary to strengthen the tax system and sustainably increase tax revenue mobilization.

Yusuf (2022) conducted a study that assessed the relationship between digitalization of Tax Administration and Performance of Kwara State Internal Revenue Service. With cross-sectional research design, this study employed a quantitative research approach to obtain survey data from randomly selected 292 of both demand and supply side in Kwara State respectively. The usable questionnaire were received from 70 senior management staff of KW-

IRS and 222 of active registered taxpayers, and the quantitative data obtained was subjected Partial Least Squares-Structural Equation Model (PLS-SEM) analysis. The findings revealed that variation in performance of Kwara State Internal Revenue Service (KW-IRS) was attributed to tax digital tools: electronic tax registration, electronic tax payment, electronic tax identification number and administrative reforms. The study concluded that, all variables of study, electronic tax registration, and electronic tax identification number, electronic filing of tax return and electronic tax payment and administrative reforms had statistical positive significant relationship with revenue performance. This implies that digitalization has a positive and a statistically significant influence on revenue performance.

The impact of tax amendments on company tax compliance with Indonesian tax authorities was determined by Livoi (2017). The study's primary goal was to examine the impact of administrative, technological, and policy tax reform on company tax compliance. At ITA headquarters, a count of the domestic taxation division's employees was conducted. Self-administered surveys received a response rate of 64%. Analyses both descriptive and inferential were performed on the data. The Analysis of Variance (ANOVA) test produced a p value of 0.00, indicating that the model fit the data well. The results showed that tax reforms had the opposite impact on business tax compliance. Results show that the tax reforms did not accomplish their intended goal. According to the study, the introduction of administrative tax reforms increased corporate tax compliance in a number of ways, including the self-assessment system and voluntary compliance, which in turn resulted in fewer lines at the ITA and significant cost savings on the human resources that were previously used to collect tax. The report advised that the TOT tax regulations be revisited, and that individuals who are in default on their taxes face criminal penalties. The government was also urged to provide some assistance to tax offenders.

The legal context is important for tax administration, according to Diaz (1990). It's generally not a good idea to effectively enforce a bad tax law. A law must be both applicable to the situation and enforceable in order for it to be adequately implemented. For example, effective tax law is necessary for effective enforcement. As previously mentioned, it is simple to try to include too many social and economic policy objectives in tax policy, which leads to complexity that neither taxpayers nor tax administrations can easily handle. Self-assessment or voluntary compliance is ineffective in situations where taxpayers struggle to accurately calculate their obligations. Similar issues arise with withholding (and its verification) when the tax base is unclear or when there are numerous exclusions and deductions. Administrative law, the public sector management regulations that set the incentives that drive government employee performance, has a significant impact on tax enforcement as well. Such rules outline means for assuring financial and managerial accountability in addition to wage scales, prizes for achievement, and career paths.

In a research, Shabani, Misiri, Kilaj, and Morina (2022) looked at how the tax revenue structure affected the Republic of Kosovo's economic development. Analysis of the effect of tax revenue structure on economic growth in the Republic of Kosovo was the study's primary goal. The goal of this article was to examine how taxes affected the case of the Republic of Kosovo based on the premise that taxes are inevitable duties for both natural and legal people. The literature review section refers to studies by other authors who have looked into and analyzed issues related to taxes that are similar to those that were the subject of the study's secondary data collection from annual reports published by the Central Bank of Kosovo, the Kosovo Agency of Statistics, and the Tax Administration of Kosovo. The results showed that the Republic of Kosovo's economic growth for the studied period had been favourably impacted by the structure of tax revenues and tax policy reform at the end of 2015 (2010-2020).

Shen, Li and Wang (2021) evaluated the impacts of two tax reforms on inequality and welfare in China. The study took stock of the existing literature on taxation and presents a framework to evaluate the impacts of tax policy reforms from the perspectives of progressivity and social welfare. The study applied the framework to examine two tax reforms in China and the findings indicated that the abolition of the regressive agricultural tax in 2005 had significantly improved the social welfare of rural residents; the increase in the income tax thresholds in 2011 increased progressivity but reduced the overall income tax share of total taxation. The study concluded that when the majority of the taxpayers are in the lower tax bracket, progressivity has little real impact in improving income distribution.

3.0 Methodology

This was an empirical review study which adopted a desk study review methodology to identify main themes. A comprehensive review of empirical literature took place to expound the study topic.

4.0 Findings and Discussion

The study findings showed that, system modernization enhances revenue collection and thus it should be encouraged. It was established by the study that the number of transactions and the revenue collected increased after the implementation compared to the years before the implementation. From the findings, the implementation of the new Customs system to replace older tax systems leads contributed to increased Revenue collection compared to the past four years before the implementation process. The study concluded that the tax collected was strongly related to the number of transactions completed, operating costs, the exchange rates and the inflation rate.

Tax reforms are frequently driven by the potential to increase tax revenue collection, research has revealed. Their actual effects, however, are hard to measure. The study came to the conclusion that, following a protracted period of system reform, the increase in tax performance was noteworthy. To make the tax system more robust and sustainably increase tax revenue mobilization, more tax- and institution-related reforms were necessary. Additionally, tax digital instruments including electronic tax registration, electronic tax payment, electronic tax identity number, and administrative reforms might be blamed for performance variations. According to the study, the introduction of administrative tax reforms increased corporate tax compliance in a number of ways, including the self-assessment system and voluntary compliance, which reduced the length of lines at the ITA and resulted in significant cost savings on the human resources that were previously used to collect tax before the tax reforms.

The analysis has shown that the Republic of Kosovo's economic growth for the studied period was favourably impacted by changes to the tax revenue structure and tax policy at the end of 2015. (2010-2020). Furthermore, when the tax base is vague or when there are numerous exemptions and deductions, withholding (and its verification) also runs into issues. Administrative law, the public sector management regulations that set the incentives that drive government employee performance, has a significant impact on tax enforcement as well. Such regulations outline the pay ranges, performance-based rewards, and career trajectories in addition to the checks and balances for management and financial accountability. The social welfare of rural inhabitants in China had greatly improved when the regressive agriculture tax was abolished in 2005; the increase in income tax thresholds in 2011 strengthened progressivity while lowering the overall income tax share of total taxation. The analysis found that progressivity has little practical impact on improving income distribution when the bulk of taxpayers are in the lower tax rate.

5.0 Conclusion

According to the study's findings, the amount of money collected was closely tied to the volume of transactions, operating expenses, currency exchange rates, and inflation rate. The study indicated that because exchange rates have a negative impact on the process of collecting taxes, policymakers should make sure that there is a stable equilibrium for them. The study came to the conclusion that, following a protracted period of system reform, the increase in tax performance was noteworthy. To make the tax system more robust and sustainably increase tax revenue mobilization, more tax- and institution-related reforms were necessary. According to the study's findings, administrative reforms, electronic filing of tax returns and payments, electronic tax registration, electronic tax identification numbers, and electronic tax payments all have statistically positive significant relationships with revenue performance, suggesting that digitalization has a positive and statistically significant impact on revenue performance.

6.0 Recommendation

The study recommended that, policy makers should ensure that there is stable equilibrium for the exchange rates as they adversely affect the revenue collection process. Moreover, the improvement in tax performance is remarkable after a long period of reforming the system. However, more tax-related and institution-related reforms were crucial to make the tax system more buoyant and sustainably improved tax revenue mobilization. Moreover, the laws governing tax collection in Indonesia should be reviewed and criminal liability for those delinquent tax payers, the government also need to offer some support with regards to tax offenders.

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