



## **IMPROVING EFFECTIVENESS AND EFFICIENCY OF TAX OBJECTION PROCESS: LESSON LEARNED FROM JAPAN**

Galih Ardin

*The National Graduate Institute for Policy Studies, Tokyo*  
mef19502@grips.ac.jp

Corresponding author: mef19502@grips.ac.jp

### **ABSTRACT**

*The Directorate General of Taxes (DGT) reports that the number of tax objections and non-objection cases has increased significantly during the COVID-19 pandemic in 2020. This number is the highest in DGT's history. Nevertheless, the number of tax appeals earned by DGT was constantly under 50%. This fact sufficiently describes the ineffectiveness and inefficiency of tax objection processes. This study aims to explore the factors causing ineffectiveness and inefficiency of tax objection process in Indonesia and to seek alternative solutions for improvement. This research employed a qualitative method through literature study and comparative study with Japan. The reason of choosing Japan as country of comparison because this country experienced the same condition in 1970. This study found that the ineffectiveness and inefficiency of the objection process occur due to the tendency of the objection process to take side with the government. In other words, the objection process is not independent from the taxpayer's perspective. To overcome this problem, the government should establish an independent agency separated from the tax disposition authority.*

*Keywords: Tax, Objection, Appeal, Tribunal, Reconsideration, Lawsuit*

JEL Classification:

H2, H21, K34

How to Cite:

Ardin, G. (2023). Improving effectiveness and efficiency of tax objection process: Lesson learned from Japan. *Indonesian Treasury Review: Jurnal Perbendaharaan, Keuangan Negara dan Kebijakan Publik*, 8(1), 1-15.

## INTRODUCTION

The Directorate General of Taxes (DGT) reports that the number of tax objection and non-objection cases has increased significantly during 2020. In 2020, the number of objection and non-objection cases reached 229,580 cases (Directorate General of Taxes, 2021). However, in 2018 and 2019, the number of tax objection and non-objection cases received by DGT were 152,494 and 209,099, respectively (Directorate General of Taxes, 2021).

The increase in tax objection and non-objection cases is contrary to the number of tax appeals won by the DGT. The DGT Performance Report denotes that the percentage of tax appeals won by the DGT in the Tax Court each year is below 50%. For example, the DGT only won 40,54% and 43,10% of the appeals cases and lawsuit filled by taxpayers in 2019 and 2020 respectively (Directorate General of Taxes, 2021).

The increase in tax objection and non-objection cases and a low number of tax appeals won by the DGT describes that from the taxpayer perspective, the tax objection and non-objection processes in Indonesia are rather not effective and efficient. Palmer & Torgerson (2014) define effectiveness as a relation or ratio between resource inputs and intermediate outputs. According to Poskart (2014), the word effectiveness comes from the Latin word *effectivus*, meaning efficacy. Moreover, from economic perspective, Poskart (2014) defines effectiveness as a ratio between outputs and outcomes.

Tampubolon (2013) explains that the increasing number of tax objection and non-objection cases represents the increasing number of taxpayers' dissatisfaction with the tax audit conducted by the DGT. On the other hand, the low number of tax appeals won by the DGT signifies an un-optimal tax objection process (Aritonang, 2020).

Starting from this phenomenon, it would be necessary to investigate the factors inflicting the ineffectiveness and inefficiency of the tax objection process in Indonesia and find the solutions. This research employs a comparative study approach between Indonesian administrative with the Japan's because Japan experienced the same conditions as Indonesia in the 1970s. This comparative study has been supported with the author experience in doing practicum in National Tax Agency (NTA) during master's study in Japan. However, due to limited time and resources, the author limited the research scope only to the tax objection process.

This paper consists of five sections. The first section is introduction which discusses the background, motivation, and an overview of the research method. The second section is literature

## APPLICATIONS FOR PRACTICE

- The independence issue in tax dispute settlement system has been affected the taxpayer's compliance in developing and developed countries.
- Japan has experienced the same condition in 1970's era.
- The Ministry of Finance of Indonesia need to improve the effectiveness and efficiency of tax objection system by establishing a new independent institution that specifically handles tax objections under coordination Directorate General of Taxes.
- In our proposal, this new independent body consist of a Legal Affair Department, Regional Tax Tribunal and Administrative Department. Each of Regional Tax Tribunal Equipped with Legal Affair Division, Examiner Division and Administrative Division.

review which describes the literature used in this research. The third section is research methodology which explains research approaches used to conduct the research. The fourth section contains the research results. Finally, the conclusion section summarizes the research results, implications, and suggestions for further research on the same issue.

## LITERATURE REVIEW

A literature review is an essential part of both qualitative and quantitative research and is an integral part of a study. A literature review can identify what is known and unknown in the research area, explore areas of controversy, and formulate questions for future research (Bolderston, 2008). A good literature review depends on the author's efforts to evaluate and critically analyze the literature used as a source (Bolderston, 2008).

Basol & Dogerlioglu (2014) argue that one of the factors that affecting the organizational effectiveness is the organizational structure. Moreover, Basol & Dogerlioglu (2014) found that the organizational structural variable that affect the effectiveness consist of formalization, specialization, centralization, organizational, age and size of organization.

There have been several studies that have discussed the effectiveness and efficiency of tax dispute resolution in Indonesia. Ispiyarso (2019), for example, found several weaknesses in tax objection institutions in Indonesia. On the other hand, Aritonang (2020), identified the causes of DGT's loss in tax disputes. Although there are several studies that discuss the causes of the ineffectiveness of tax objection institutions in Indonesia, there have been no studies that conduct

deep analysis by compare tax dispute resolution institutions with other countries.

## RESEARCH METHODOLOGY

According to Neri de Souza et al. (2016), research is a series of questioning processes. Each researcher must ask questions in each research process, including what is read, how the research is designed, how the data are obtained, and how the conclusions are obtained. Meanwhile, Kross & Giust (2019) state that a good research question significantly impacts the research method, data collection method, and result interpretation.

This study focuses to answer these research questions: (1) What aspects cause the ineffectiveness and inefficiency of the objection process in Indonesia? (2) How to improve the effectiveness and efficiency of the objection process in Indonesia?

To answer these research questions, this study employed qualitative method, conducted a literature study of regulations, reports, journals, and statistical data between Indonesia and Japan tax dispute settlement systems, and interviewed tax experts in Japan. However, the literature study was conducted by comprehensive comparative analysis of business processes of the tax objection process in Indonesia and the tax reconsideration in Japan. Japan was chosen as a comparison country because it experienced a similar situation to Indonesia in 1970 (National Tax Agency, 2018). This comparative analysis was essential to find international best practices for the resolution of tax disputes.

As qualitative research, this study uses several types of data such as regulations, provisions, and policies on formal procedures and material tax objections both in Indonesia and Japan. In addition, this research also conducted a literature review on national and international journals and International Monetary Fund (IMF) guidelines to the international best practices for the objection and non-objection processes.

## RESULTS AND DISCUSSION

In a qualitative study, findings and key factors in a regulation or policy are essential parts to evaluate policy or procedure (Koro-Ljungberg et al., 2009). Therefore, before evaluating the objection procedures in Indonesia, this research conveys key factors of the objection process in Indonesia.

### Legal Basis of Indonesian Tax Objection Systems

The primary legal basis for DGT to process the applications of taxpayer objections is Law Number 6 of 1983 concerning General Provisions and Tax Procedures as updated by Law Number 7 of 2021 concerning Tax Regulation Harmonization.

Furthermore, the Regulation of the Minister of Finance Number 8 of 2013 as updated with the Regulation of the Minister of Finance Number 202 of 2015 concerning Procedure for Submitting Tax Objections regulates the details of the tax objection process.

Those regulations stipulate that the taxpayers can submit objections on tax disposition to the DGT if they do not satisfy with the tax disposition issued by DGT. Furthermore, those regulations stipulate that the objection request letter must be written in Indonesian and should state the tax owed according to the taxpayer calculation and submitted within three months after the tax disposition date. Applications that do not meet those criteria will be rejected.

In general, the key factors of the tax objection process in Indonesia can be divided into four stages: standard operating procedures, organizational structure, statistical data, and statistical problems.

### Standard Operating Procedures of Tax Objection

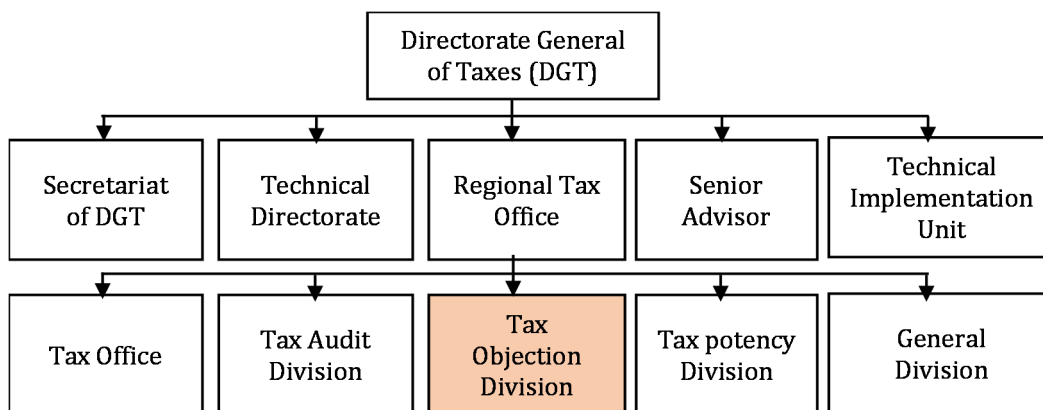
Basically, the process of tax objections in Indonesia is divided into four main stages: submission of the objection request, formal review, material review, and decisions.

The first stage of tax objection process is Submission. Taxpayers can submit the objection letter directly to Tax Office by post, courier, expedition services, or electronic filing. Before submitting the objection letter, taxpayers can request the DGT to calculate the tax basis of tax disposition.

The second stage of tax objection process is formal review. A formal review is a process conducted by the objection reviewer before the tax objection process continues to a material review process. This review aims to ensure that submitted objection letters meet requirements: (1) Objection letters should be written in Indonesian, (2) The objection letter includes taxpayers' calculations in tax disputes for calculations, (3) One objection letter is only for one tax disposition, (4) Objecting taxpayers pay their tax payables beforehand, (5) Objection letters should be submitted no later than three months after tax dispositions, and (6) Objection letters that include the calculation and copy of tax disposition, tax payment, time submission, and authorized are signed by the taxpayers.

If taxpayers failed to fulfill the formal requirements, they can resend another objection letters within three months after tax dispositions. Otherwise, the submitted objection letters are rejected and cannot be proceeded further.

Illustration 1 Organizational Structure of Directorate General of Taxes (DGT)



Source: Directorate General of Taxes (2023)

The third stage of tax objection process is substantive review. A substantive or material review is the core of the tax objection process. In this stage, a tax objection reviewer will examine whether tax objection applications meet relevant regulations. Moreover, in this stage, the tax objection reviewers will recalculate the tax. This review should be completed within 12 months after an objection letter is submitted. During the substantive or material review, objection reviewers are allowed to borrow the accounting books, notes, data, and information in hardcopy or softcopy of the tax disputes from the taxpayers regarding. The reviewers are also allowed to visit taxpayers' sites and request information from other parties related to tax disputes.

The taxpayers must fulfill the reviewers' requests within 15 days after the request letter is issued. If the taxpayers could not entirely or partially fulfill those requirements, the tax objection reviewer will process the objection without considering those previously requested books, notes, information, and data.

The fourth stage of tax objection process is decisions. According to the regulation, submitted tax objection applications should be completely reviewed by DGT and the decision should be made within 12-month period after tax objection application submissions. The decisions should be based on a formal and material or substantive review made by objection reviewers. Following the review results, DGT may decide to reject the tax objection application or increase the amount of payable taxes. Either the decision is about to reject or grant the tax objection, the taxpayer is required to pay an administrative sanction as much as 30% of the amount of tax based on the paid tax deduction prior to filing an objection.

**Organizational Structures of Tax Objection Divisions** The Minister of Finance Regulation Number 210/2017 concerning the Organizational

and Work Procedures of the Vertical Office of DGT stipulates that the tax objection division is under the Regional Tax Office (RTO). However, RTO position is under DGT and Ministry of Finance (MoF).

Furthermore, this regulation also stipulates that the Objection Division has main task to resolve the tax objection requests. In addition, the Objection Division has the responsibility to proceed the requests for tax correction, administrative sanction reduction, and tax disposition reduction or cancellation.

As mentioned before, the Tax Objection Division is under the coordination of the Regional Tax Office and is led by a Head of Division. This division consists of four sections: three sections handle the technical objections process and one section evaluates objections and appeals.

Each section is led by a section head and supported by approximately ten tax objection reviewers. While the section head has a responsibility to manage the objection reviewers, the reviewers are responsible for analyzing and completing tax objection requests. In addition, Tax objection reviewer is a structural position and receives a promotion every four years. The detailed structure of the tax objection division is presented in Illustration 1.

According to In & Lee (2017), statistical data has an important role to describe the increases, decreases, and trends of the data. In this study, statistical data play important role in describing the trend of objection and non-objection cases as well as the percentage earned by DGT against appeal cases.

**Statistical data of Objection and Non-objection Submission**

DGT annual reports for the period 2014 to 2021 show that the number of tax objection and non-objection cases increased from 2017 to 2020. The increase was dominated by non-objection cases

Table 1 Statistic of the Indonesian Tax Objection and Non-Objection Submission

Year	Objection	Non-objection	Total
2014	13.368	39.205	52.573
2015	15.873	96.165	112.038
2016	10.804	352.602	363.406
2017	9.335	90.746	100.081
2018	12.418	140.076	152.494
2019	18.985	148.454	167.439
2020	18.849	168.586	187.435

Source: Directorate General of Taxes (2015-2021)

of taxes, such as applications for tax disposition correction, administrative sanction reduction, and tax disposition cancellation as shown in Table 1. Table 1 shows the number of tax objection and non-objection cases in 2016 was very high due to the reinventing policy issued in 2015. This policy granted taxpayers an administrative sanction reduction if they paid the tax debt. However, during 2017 – 2020, there were increases in tax objection and non-objection submissions.

#### Statistical Data of Decisions of Tax Objection

According to the DGT performance reports of 2014 to 2018, the percentage of tax objection decisions that fully granted the taxpayer's requests from 2014 to 2017 were about 7% on average (Directorate General of Taxes, 2021). On the other hand, the average percentage of tax objection decisions that rejected the taxpayer's requests were 70%. Meanwhile, the percentage of tax objection decisions that partially granted the taxpayer's objection request was 13%. These findings are shown in Table 2.

Ispiyarso (2019) argues that the high percentage of decisions on rejecting tax objections indicates that the institution handling the objection is not independent of the taxpayers' perspectives.

#### Statistical Data of Tax Appeals

According to Directorate General of Taxes (2021), the percentage of tax appeals won by DGT is about 40%. However, in 2017, GDT won 50.98% of

tax appeal cases submitted by taxpayers. The detailed percentage is presented in Table 3.

#### Indonesia's Tax Objection Problems

As described in the statistical data, the level of DGT's rejection of the objection requests is very high. Moreover, the number of appeals won by the taxpayer is high. These facts indicate that there is a problem in effectivity and efficiency of the objection process in Indonesia. Supriyadi et al. (2019) found that there're three problems in Indonesian objection systems.

The first problem in Indonesian objection systems is the problem of Tax Objection Organization Independencies. Supriyadi et al. (2019) argue that independence problems become a dilemma for objection reviewers. On one side, the objection reviewers are required to make decisions fairly and independently. On the other side, they cannot make the decision independently because their position is under the internal DGT.

Tampubolon (2013) obtained two reasons why objection reviewers tend to be not independent. First, the tax examiner and tax objection reviewer are tax officers (Fiscus). Second, the tax examiner and tax objection reviewer have the same goal which is to increase tax revenues.

The second problem in Indonesian Objection Systems is the problem of Human Resources. Taxpayers may consider that a tax objection reviewer should have a higher understanding than

Table 2 Statistic of the Tax Objection Decision

Year	Tax Objection Decision				Total
	Granted in full	Rejected	Granted in Part	Increase the Tax Payable	
2014	6.70%	77.28%	14.92%	0.04%	8,050
2015	7.90%	79.46%	7.75%	1.45%	9,263
2016	7.92%	77.63%	14.42%	0.03%	9,042
2017	8.56%	71.72%	19.74%	0.00%	4,230
Total	7.68%	77.30%	13.27%	0.47%	30,585

Source: Directorate General of Taxes (2015-2021)

Table 3 Statistic of the Tax Objection and Appeal Process

	2016	2017	2018	2019	2020
Tax Appeals won by DGT	44,87%	50,98%	43,54%	40,54%	43,10%
Tax Appeals won by Taxpayers	55,13%	49,02%	56,46%	59,46%	56,90%

Source: Directorate General of Taxes (2021)

other tax officers because the main task of objection reviewer is to review tax dispositions issued by tax examiners. However, many objection reviewers have lower capacity than the tax examiners (Supriyadi et al., 2019). As a result, the objection reviewers accept all arguments from the tax examiners during the tax objection process. Supriyadi et al. (2019) find that 70% of objection reviewers have not attended the education required to improve hard-skill and soft-skill competencies.

Moreover, the pattern of the tour of duty affect the competence of objection reviewers. Every two or three years, tax auditors are posted from one to another area of working to increase their competence, network, and independence. However, this pattern did not occur to objection reviewers, who usually stay four or five years in the same area of working.

The third problem in Indonesian Objection Systems is the problem of psychological objection. In the tax dispute settlement system, there is an assumption that if the objection reviewer accepts the objection request, the state will suffer from losses because it must return the amount of money (tax revenue) collected from taxpayers (Tampubolon, 2013). Therefore, when processing objections, objection reviewers tend to secure their position by rejecting all of the objections and forwarding the objection cases to the appeal process in the tax court. As a result, the number of appeals submitted to the tax court is very high (Supriyadi et al., 2019).

Moreover, Supriyadi et al. (2019) argue that psychological pressure arises when the objection process is examined by the Supreme Audit Board

and the Inspectorate General who often consider that if tax objection a reviewer accepts the objection request, the state budget will raise potential losses to the country which then will lead to criminal prosecution.

### Japanese Tax Objection Systems

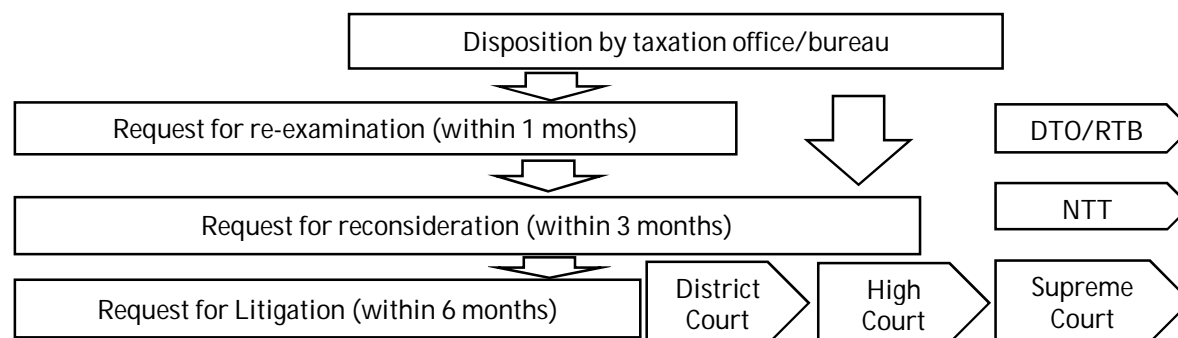
Japan is known as one of the countries with the best tax system in the world (Ishi, 1988) because the country has good tax dispute resolution systems. This section will discuss Japanese tax litigation systems.

### Overview of Japan Tax Review Systems

The appeal system in Japan comprises three-stage: tax re-examination, tax reconsideration, and request for litigation. Taxpayers can request for re-examination to the tax office of the Regional Tax Bureau if they are dissatisfied with the decision of the tax office. The taxpayers also can request a tax reconsideration from the National Tax Tribunal (NTT) if they still do not satisfy with the decision of the tax re-examination process. Finally, the taxpayers can request the litigation process from the Court if they do not satisfy with the decision of the NTT (National Tax College, 2018).

The basic rule of the appeal system in Japan is prioritizing administrative appeal before judicial appeal. In other words, taxpayers are not allowed to submit the litigation process without NTT's decisions. The reason for this principle is to make the appeal system simpler and cheaper. Besides, this principle avoids the considerable number of administrative cases in court that will make the judicial process ineffective. These stages are illustrated in Illustration 2.

Illustration 2 Japan's Tax Appeal System



Source: National Tax Agency (2022)

Table 4 Statistic of Tax Appeal System in Japan in 2018

	Request for re-examination	Request for Reconsideration	Tax Litigation
Inventory	598	2,414	199
New Cases	2,043	3,104	181
Processed	2,150	2,923	177
Approved	264	216	6
Ratio of Approval	12.2%	7.3%	3.3%

Source: National Tax Agency (2018)

In 2018, the Tax Office or Regional Taxation Bureau processed 2150 cases of re-examination requests, and The NTT processed 2923 cases of tax reconsideration requests. In the same period, the court processed 245 tax litigation cases. The detail of the requests is shown in Table 4.

As described in Table 4, it can be seen that in 2018, ratio of approval of request for re-examination was 12.2%, ratio of approval of request for reconsideration was 7.3% and ratio of approval of tax litigation was 3.3%. The decreasing number in ratio of approval in each stage shows that tax dispute settlement system in japan works effectively and efficiently. However, this chapter will only discuss the tax re-consideration process because the objection process in Indonesia will not be compared with the tax re-consideration in Japan.

### Request for Reconsideration

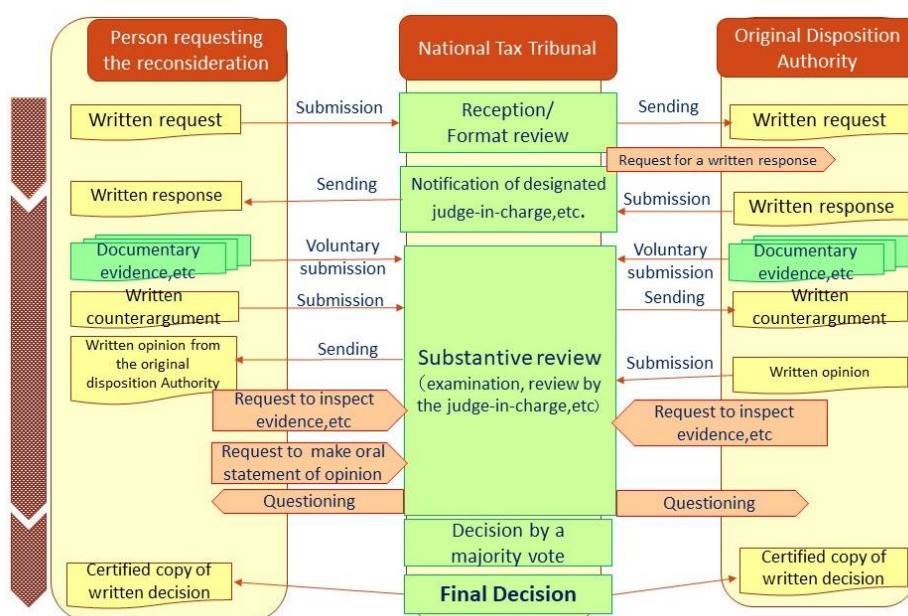
Taxpayers can submit the request for tax reconsideration if they do not satisfy with the

decision of tax re-examination. However, they also can directly submit the tax reconsideration without the re-examination process if they strongly believe that their tax disputes cannot be solved by the re-examination authority.

To request tax reconsideration, taxpayers should submit a written request to NTT within three months after the disposition letter. After receiving a request for tax reconsideration, NTT formally reviews the request and sends a written response to the original disposition authority, such as the District Tax Office or Regional Tax Bureau. The detailed tax reconsideration process is presented in Illustration 3.

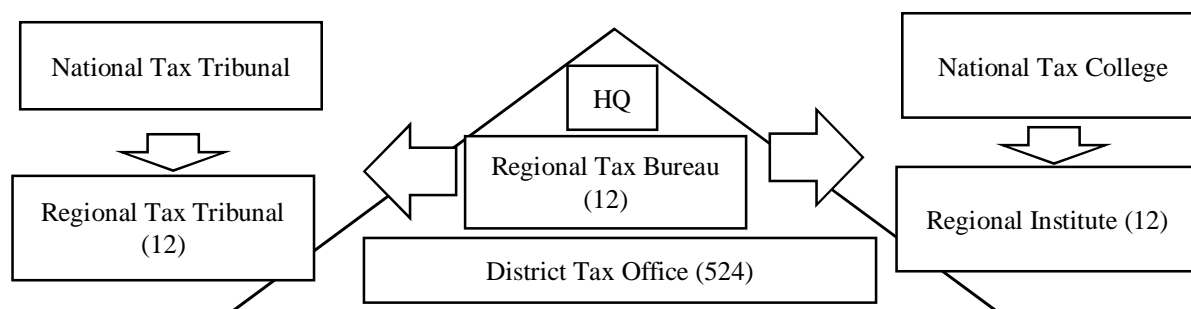
The flow of the reconsideration process consists of eleven steps. (1) A taxpayer sends two copies of written requests to NTT within three months after the date of tax disposition; (2) NTT formally examines the written request. If the written request meets the formal requirements, NTT sends a copy of the written response to the original disposition

Illustration 3 Flow of Tax Reconsideration



Source: National Tax College (2018)

Illustration 4 Structure of National Tax Agency Agency



Source: National Tax College (2018)

authority, such as the Regional Taxation Bureau or District Tax Office; (3) The Original disposition authority sends two copies of the written response as a counter to the written request from the taxpayer. The written response is sent to NTT; (4) NTT receives the written responses from the original disposition authority and sends one of them to the taxpayer. Furthermore, at this stage, NTT appoints appeal judges and tax examiners who are authorized to settle the case; (5) The taxpayer responds to the written response by sending a written counterargument along with documentary evidence, bookkeeping, checking accounts, and other necessary documents to NTT; (6) NTT conducts a substantive test of the counterarguments and supporting evidence sent by the taxpayer. Moreover, NTA sends a copy of the counter-argument to the original disposition authorities for further action; (7) After receiving the counterargument above, the original disposition authorities send written opinions along with requests to inspect the evidence sent by the taxpayer to NTT; (8) NTT conducts a substantive test of written opinions and requests to inspect the evidence sent by the original disposition authorities; (9) NTT sends a copy of the written opinion mentioned above to the taxpayer to respond to the request; (10) The taxpayer responds to written opinions sent by original disposition authorities. Afterward, the taxpayer sends requests to NTT to inspect the evidence and requests and make oral statements of opinion; and (11) After the evidence and responses are sufficient, NTT substantively examines all evidence, opinions, and arguments sent by the taxpayer and original disposition authorities. At last, NTT issues the final decision based on the majority vote made by the judge. Then, NTT sends a certified copy of the final decision to the taxpayer and the original tax authorities.

### History of the National Tax Tribunal

In 1950, the Japanese government established a conference system to resolve tax disputes. Dr. Soup suggests that the conference system is under the

coordination of the Regional Commissioner of the Tax Bureau (National Tax College, 2018).

In its development, the conference cannot resolve tax disputes effectively and efficiently because taxpayers believe that this system could not independently resolve tax disputes. Finally, the Japanese government replaced the conference system with a more independent and professional national tax tribunal in 1970 (National Tax College, 2018).

### Feature of National Tax Tribunal

The Japanese government replaced the conference system with NTT because NTT has several advantages. As a third-party body, NTT can review the tax dispute effectively because it conducts fair reviews from a third-party's perspective and makes a decision that is free from conflicts of interest. Limitations on issues mean that NTT focuses on the disputes between taxpayers and the original disposition authority.

In Japan, the decision of NTT comes from judicial panelists who consist of three or more appeal judges. The decision of NTT is fair and is not disadvantageous to the person who requests reconsiderations. Furthermore, as an independent body, NTT is not constrained by NTA directives.

In terms of decision, the decision of NTT is a final judgment within the administrative dispute. NTT hires external experts from various backgrounds, such as tax accountants, lawyers, and certified accountants, as appeals judges to make sure that their decision is fair and professional.

### Structures of National Tax Tribunal

As an independent body, NTT has been separated from the District Tax Office and Regional Taxation Bureau. Although the NTT is separated from the District Tax Office (DTO) and Regional Tax Bureau (RTB), all of them are the organs of the NTA, as shown in Illustration 4.

Illustration 4 shows that NTT consists of 472 officers in 12 Regional Tax Tribunals. The officers of NTT are divided into several positions, such as the



Director-General, Region Director, Appeal Judge, Associate Appeal Judge, Examiner, and Administrative Staff.

### **Analysis**

In order to get comprehensive understanding through tax dispute settlement system between Indonesia and Japan, the author makes deep analysis on key factor in both systems.

### **Fair Third-Party Institution**

Principally, the tax appeal system in Indonesia is similar to that in Japan because taxpayers should take administrative tax protests, such as tax re-examination or tax reconsideration, before they can file tax litigation to the court.

However, in terms of institutions that handle the tax appeal system, Japan has better administrative appeal systems than Indonesia does. As explained earlier, tax appeal system in Japan is handled by the NTT separated from the original disposition authorities, such as the Regional Tax Office or District Tax Office. This system has been adopted because of several advantages.

The first advantage is minimized conflict of interest. Separating functions of the tax appeal body from the tax disposition authorities will enable the tax appeal body to take a fairer decision. This is possible because this separation will minimize the conflict of interests of the tax appeal examiners or appeal judge.

The second advantage is the increase in taxpayers' trust. Taxpayers consider that separating the functions is essential because it will increase their trust to the tax appeal body. After all, they believe that this separation will increase the independence of the tax appeal body.

### **No Constraints from Tax Authorities Directives**

In the NTT system, the Appeal Judge and Tax Examiner are responsible for the Regional Director of NTT. Furthermore, Regional Directors are responsible to the General Director of NTT. Therefore, the decisions taken by NTT are not logically influenced by the Regional Tax Bureau or District Tax Office policies.

NTA directives do not constrain NTT decisions. It means that when NTT makes a decision based on the interpretation of the law that differs from that of the NTA, or when NTT decides to be a significant precedent in legal interpretation, there is a particular procedure to follow.

On the other hand, the tax appeal settlement process in Indonesia is carried out by the Tax Objection Division, which is literally under the Regional Tax Office. The Head of the Tax Objection Division is responsible to Head of Regional Tax

Office. Supriyadi et al. (2019) and Ispiyarso (2019) explain that this system provides several benefits.

The Tax objection division, the Regional Tax Office, and the District Tax Office are parts of DGT and have equal administrative systems. Therefore, the objection requests completed by the Tax Objection Division will provide benefits, such as ease of the administrative process.

Tax objection applications settled by Tax Objection Division will facilitate the coordination because Tax Objection Division is a part of Regional Tax Office. Therefore, if Tax Objection Division takes different decisions from Regional Tax Office to solve tax objection cases, the Regional Tax Office (RTO) can immediately make coordination and adjustments.

The request for tax objection completed by the Tax Objection Division is more economical because DGT does not necessarily spend funds and add employees to establish a new body that separately and independently to resolve tax objection problems.

The IMF has revealed that, ideally, the manager of the appeals office should not have any hierarchical relationship with the decision-making manager or become subject to any instructions of the decision-making manager (IMF, 2013). Moreover, IMF (2013) argues that the appeal office should be subordinate directly to the head of the office or a third authority, such as a national appeals office.

According to IMF (2013), an institution that handles tax protests or tax disputes is ideally separated from the institution that makes the tax disposition. Furthermore, IMF (2013) states that the quasi-judicial bodies could play a relevant role if they are well organized (well-staffed with appropriate expertise), function independently from the tax administration (a level higher than the authorities under review), are free of charge, and enjoy enough prestige. Consequently, most cases do not go to judicial review after their adjudication.

### **Review Officers in Charge of Legal Affairs**

The NTT structure consists of a department, named the Legal Affairs Department, whose responsibility is to provide legal advice on tax laws, court precedents, and evidence (NTC, 2018).

Tax officers who are assigned to the Legal Affairs Department should have expertise in the field of law to provide professional legal advice and recommendation to judges and tax examiners. The establishment of the Department of Legal Affairs is vital for NTT because this department provides several benefits.

The Department of Legal Advice can provide deeper analysis and advice on legal issues because

they are experts in this field. Based on these suggestions and analyses, the Judges and Tax Examiners can make the right decision about tax reconsideration.

The Department of Legal Affairs consists of legal experts who are not directly related to activities of the Regional Tax Office or the District Tax Office. Therefore, the legal advice provided by the Department of Legal Tax Affairs is expected to be fair and independent.

The Department of Legal Tax Affairs is a special department that consists of legal experts whose responsibility is to provide legal advice. This issue rationally gives an excellent public perception of the NTT and, finally, increases taxpayers' trust in the NTT.

On the other hand, the objection process in Indonesia is carried out by an objection reviewer. Apart from being a tax examiner, an objection reviewer acts as a judge. To get legal advice, a tax objection reviewer can ask other tax reviewers or supervisors. Though a tax objection reviewer doubles in function, such system has several good points.

By maintaining the existing system and not forming a special department that provides legal advice, DGT does not necessarily spend a certain amount of funds to establish and operate its particular institution. Besides, DGT does not necessarily allocate employees who have legal skills in a department.

The current system has enabled an objection reviewer to quickly resolve the objection process because he does not need to seek legal advice from a specific department. Moreover, when some obstacles occur, he can seek advice from other objector reviewers, supervisors, or other parties. Although the current system provides these benefits, DGT would better establish a department of legal tax affairs to increase the quality of the objection decision.

### **Decisions of Judicial Panels**

In Japan's taxation systems, the tax reconsideration decision is taken by a judicial panel that consists of three or more appeal judges. In other words, the tax reconsideration decision is not based on individual's consideration. This system provides several benefits.

Generally, decisions taken by three or more people have a better quality because it involves the considerations of several tax judges and examiners. This system will increase public trust in the NTT and NTA because taxpayers strongly believe that decisions taken by more than one judge will reflect independence and fairness.

A positive consequence of the decision made by a judicial panel is that the decision-making is the responsibility of a judicial panel. Nonetheless, tax objection decisions in Indonesia are made by the objection reviewers, the head of the objection section, and the head of the objection division who hierarchically has different positions.

The objection decision was initially drafted by the objection reviewer and submitted to the Section Head and Head of the Objection Division. The hierarchy in decision-making gives an advantage to the supervision process in decision-making. According to IMF (2013), appeal officers typically work on an individual basis on the assigned cases. For efficiency reasons, appeals officers should not work on cases as a committee. However, this prohibition does not mean that the staff could not periodically discuss technical problems and receive training. In countries without enough specialized and capable personnel, the possibility of committee work could be considered because it could allow less trained personnel to take advantage from more experienced colleagues. Finally, this policy would increase the quality of the work.

### **Staff Training Regarding Review Examination**

Sustainable training is one of the keys to success in the tax appeal process in Japan. To become a tax examiner and appellate judge in NTT, a tax official must pass a series of basic tax training in services for a national tax expert and basic training in mid-career recruitment and advance courses. This continuous training system provides several benefits.

Training on an ongoing basis enable tax examiners, judges, and other staff to receive regular updates on the provisions, rules, and best international practices of tax reconsideration cases that are useful in decision-making. Moreover, intense training will improve the quality of tax reconsideration decisions.

Receiving training enables tax examiners, judges, and staff to broaden their professional network. It is essential in the globalization era to improve their insight, skills, and knowledge.

Similar to that in Japan, to become an objection reviewer in Indonesia, a tax officer should pass an objection reviewers' training. However, the difference between these two countries is that Indonesia does not have continuing education for objection reviewers. Therefore, they have limited information and knowledge. Objection reviewers' insufficient competence certainly results in less qualified and unfair objection decisions.

### **Expert Officers**

Besides coming from the NTA Officer, Appeal Judges in NTT come from certified professionals,

such as Certified Public Tax Accountants (CPTA), lawyers, and Certified Public Accountants (CPA). Selecting appeal judges who have different backgrounds will give several good points.

The tax reconsideration cases are not only about problems of legal interpretation made by taxpayers and tax officers. The cases are also regarding accounting issues, including tax accounting, cost accounting, and management accounting. Therefore, NTT's hiring experts from different backgrounds is a perfect decision; consequently, better decisions about taxpayer disputes are made.

One strategy to increase public trust is to improve the NTT's quality of decisions made by employing private sectors, such as tax accountants, lawyers, and certified accountants.

There are no external experts in Indonesia because objection reviewers who analyze objection cases are tax officials who have expertise in the law, economy, and accounting. Such system has the several benefits

By not hiring external experts, DGT can save cost because it does not pay external experts' salary that is rationally higher than ordinary employees. Also, by not hiring an external expert, objection decisions will be easily and more quickly taken because decision-makers have the same background and understanding.

IMF (2013) argues that the independence of tax appeal bodies can also be fostered by transparent selection procedures for the staff (advertising the vacancies) who have a high specialty (meeting minimum qualification criteria). The appeals officials should be tax officials with audit experiences and good legal education. The IMF legal department does not further regulate whether staff who handle tax disputes come from tax officers or private-sector experts, such as tax accountants, lawyers, and certified accountants.

However, unlike Indonesia, Japan or the international tax system does not recognize structural or functional employees. Therefore, this study recommends that a tax system in Indonesia should adjust the types of employees.

Structural officers refer to officials who are firmly present in the organizational structure and are assessed based on performance and years of service. Structural officers include staff, echelon IV, and echelon III. Meanwhile, functional officials are professional officials who are not clearly stated in the organizational structure but have essential functions to the organization; functional officials include judges, lawyers, doctors, accountants, and auditors (Ministry of Research and High Education, 2015). Generally, functional officials work independently, and their evaluation is based on the

obtained credit scores. In contrast, structural officials assess their performance based on certain years of evaluations.

## CONCLUSION

### Conclusion

This study concludes with two major points. First, independence issue is a crucial factor causing ineffectiveness and inefficiency in Indonesia's tax dispute settlement systems. Taxpayers' perspectives consider that the position of the tax objection division which is under the regional tax office has resulted in unfair and independent decisions.

Moreover, taxpayers consider that the psychological and human resource issues make the tax dispute settlement systems ineffective and inefficient. It is assumed that if tax objection reviewers accept taxpayers' requests for the tax objection, the state will suffer from loss. Therefore, the tax objection reviewers tend to reject the request.

Second, learning Japanese tax systems aims to increase the effectiveness and efficiency of tax dispute settlement systems in Indonesia. The effectiveness and efficiency of Japanese tax settlement systems have a low number of tax litigation submitted by the taxpayers.

The effectiveness and efficiency of Japanese tax dispute settlement systems are caused by several factors. For example, the Japanese government separates its tax dispute settlement institution from the institutions that issue tax dispositions. It is believed that this system will provide some advantages, such as minimizing conflicts of interest and increasing taxpayers' trust. In the short run, the establishment of a new independent body is costly, especially when the Japanese government introduced it.

On the other hand, the Indonesian government places a tax dispute settlement institution under the DGT because this system will foster easy administration, easy coordination, cheaper cost, and efficiency. However, this system has negative impacts, such as public distrust of the objection process in Indonesia and big numbers of objection cases submitted for appeals. Hence, we may conclude that separating institutions that handle tax objections from institutions that issue tax disposition has better long-term effects, such as increasing taxpayers' trust and increasing tax revenue. However, in the short term, this system will spend a lot of funds.

Furthermore, one of the factors that enable NTT to work effectively and efficiently is the existence of the Department of Legal Affairs, which specializes in providing legal advice for legal issues.

However, the Indonesian government does not have a Department of Legal Affairs in the Tax Objection Division because of the short-run efficiency issue. However, in the long run, Indonesia's tax objection system requires a similar department. The development of similar departments in Indonesia will increase taxpayers' trust because their cases will be handled by professionals; as a result, tax revenues from DGT will ultimately increase.

However, decisions taken by the judicial panel in NTT result in more effective tax disputes because these decisions are made with more than one person's consideration. The process of peer supervision and distribution of responsibilities will also run better if the decisions are made by more than one person. However, to avoid deadlocks, the supervision team would better consist of three tax judges and is led by one tax judge who is not from the tax office. The author strongly argues that if this system is applied consistently, it would increase taxpayers' trust in the appellate tax institutions.

Moreover, staff training is a significant part of the capacity-building framework. NTA and NTT develop their talents and potential tax officers very well. Tax judges and tax examiners annually receive progressive education and training to ensure that they have excellent skills, knowledge, and networking. Consequently, they could successfully address the tax re-examination case.

DGT also has an education and training system to improve the competence and skills of objection reviewers through face-to-face education and e-learning. However, due to the limited number of training and funds, the education and training system frequently have unclear directions and patterns. As a result, the education and training are ineffective and inefficient.

Meanwhile, employing experts, such as CPTA, lawyers, and CPA, will increase the effectiveness and efficiency of tax dispute settlement. The implementation of this system requires strong commitment and integrity from an external expert officer and full support from NTT. However, this research considers that this system is not suitable for Indonesia.

### **Suggestion**

Based on the analysis above, this research recommends several aspects. To increase the taxpayers' trust in the tax objection process, the Ministry of Finance and DGT should establish a new independent institution that specifically handles tax objections. Moreover, the Ministry of Finance and DGT can learn from NTT about the organizational forms, structures, and employees.

Hierarchically, institutions that handle tax objection requests should have the same hierarchy as that of the disposition authorities. In this case,

this research proposes that the Indonesia Tax Tribunal should be equivalent to echelon two in each regional office, is led by the Regional Director, and is directly responsible to DGT.

In State of the Union address, the President of the Republic of Indonesia said that it was necessary to carry out continuous and massive simplification of the bureaucracy. This simplification will be applied by cutting the structural positions and replacing them with functional positions (Ministry of Foreign Affairs, 2019). Therefore, in order to align with the presidential instruction, this research proposes that the Indonesia Tax Tribunal should be filled by employees from functional levels, such as appeal judges, associate appeal judges, and examiners. However, employees from the structural position can occupy the regional directors or administrative positions.

This research proposes that the Indonesia Tax Tribunal consists of, at least, the legal affairs division, examination division, and administrative division. The legal affairs division has an essential function in the Indonesian Tax Tribunal because this division is responsible to provide professional legal advice to tax judges and tax examiners when conducting the formal review and substantial review of tax objection cases. In addition, the legal affairs division acts as a lawyer when taxpayers conduct a lawsuit against the decision of the Indonesian Tax Tribunal.

To reduce the psychological pressure on the Indonesian Tax Tribunal employees as referred to in chapter 2, the legal affairs division also has the responsibility to provide legal assistance to the Indonesian Tax Tribunal when it is examined by the Financial Audit Board or the Inspectorate General. This function is essential to ensure that the Financial Audit Board and the Inspectorate General carried out a professional peer audit review without legal tendencies.

The examination division is a core part of the Indonesian Tax Tribunal because this division consists of objection reviewers who will examine objection cases. The objection reviewers must be employees who have excellent competence in taxation, law, economics, accounting, and business. This study suggests that for one examination, the division consists of several teams, and one team consists of three objection reviewers. The small team is tasked to conduct tests and make decisions on complaints cases.

The administration division is also an essential part of the Indonesian Tax Tribunal. The main responsibility of this division is to carry out administrative tasks, such as personnel management, finance, payroll, and office needs. In addition, this division is also responsible for planning, implementing, and evaluating the

education and training patterns of Indonesian Tax Tribunal officials.

Finally, to improve the officials' knowledge and broaden their network, this division is also responsible for managing the mutation patterns of the Indonesian tax tribunal officials. This strategic task is expected to enable the Indonesian Tax Tribunal to have competent and equitable human resources. Detail of the proposed Indonesian Tax Tribunal can be seen at Appendix 1.

We may see in Appendix 1 that proposed Indonesia Tax Tribunal placed under the Directorate General of Tax in order to minimize the cost of establishment and maximize the performance of this new body. The Indonesia tax tribunal consist of Legal Affair Department, Administrative Department and regional tax tribunal. In addition, each of regional tax tribunal consist of Legal Affair Division, Examiner Division and Administrative Division.

## REFERENCE

- Aritonang, J. (2020). Analisis penyebab kekalahan DJP pada sengketa pajak sehubungan dengan penetapan secara jabatan. *Simposium Nasional Keuangan Negara*, 953-973.
- Basol, E & Dogerlioglu, O. (2014). Structural determinants of organizational effectiveness. *Journal of Organizational Management Studies*, 2014(2014), 1-13, doi: 10.5171/2014.273364
- Bolderston, A. (2008). Writing an effective literature review. *Journal of Medical Imaging and Radiation Science*, 39(2), 86-92. doi:10.1016/j.jmir.2008.04.009
- Directorate General of Taxes. (2015). *DGT annual report 2014*. Retrieved from DGT website: [https://www.pajak.go.id/sites/default/files/2019-03/AR%20DJP%202014-Eng\\_2.pdf](https://www.pajak.go.id/sites/default/files/2019-03/AR%20DJP%202014-Eng_2.pdf)
- Directorate General of Taxes. (2016). *DGT annual report 2015*. Retrieved from DGT website: [https://www.pajak.go.id/sites/default/files/2019-03/DJP%20AR%202015%20Fullpages%20-%20English%20%28Lowres%29\\_0.pdf](https://www.pajak.go.id/sites/default/files/2019-03/DJP%20AR%202015%20Fullpages%20-%20English%20%28Lowres%29_0.pdf)
- Directorate General of Taxes. (2017). *DGT annual report 2016*. Retrieved from DGT website: [https://www.pajak.go.id/sites/default/files/2019-03/Annual%20Report%20DJP%202016%20-%20INA\\_0.pdf](https://www.pajak.go.id/sites/default/files/2019-03/Annual%20Report%20DJP%202016%20-%20INA_0.pdf)
- Directorate General of Taxes. (2018). *DGT annual report 2017*. Retrieved from DGT website: <https://www.pajak.go.id/sites/default/files/2019-03/DJP%20AR-2017%20Fullpages%20-%20English%20%28Lowres%29.pdf>
- Directorate General of Taxes. (2019). *DGT annual report 2018*. Retrieved from DGT website: <https://www.pajak.go.id/sites/default/files/2020-03/Annual%20Report%202018-ENG.pdf>
- Directorate General of Taxes. (2020). *DGT Annual Report 2019*. Retrieved from DGT website: <https://www.pajak.go.id/sites/default/files/2020-12/Laporan%20Tahunan%20DJP%202019%20-%20ENGLISH.pdf>
- Directorate General of Taxes. (2021). *DGT annual report 2020*. Retrieved from DGT website: <https://pajak.go.id/id/laporan-tahunan-2020>
- Directorate General of Taxes. (2023). *Organization structure*. Retrieved from DGT website: <https://pajak.go.id/id/struktur-organisasi>
- IMF (2013). *How can an excessive volume of tax disputes be dealt with?* Retrieved from IMF website: <https://www.imf.org/external/np/leg/tlaw/2013/eng/t disputes.pdf>
- Ishi, H. (1988). Historical background of the Japanese tax system. *Hitotsubashi Journal of Economics*, 29(1), 1-20. <http://www.jstor.org/stable/43295869>
- Ispiyarso, B. (2019). Kelemahan lembaga keberatan pajak. *Administrative Law and Governance Journal*, 2(2), 248-258. doi:<https://doi.org/10.14710/alj.v2i2.248-258>
- Koro-Ljungberg, M., Yendol-Hoppey, D., Smith, J. J., & Hayes, S. B. (2009). Epistemological awareness, instantiation of methods, and uninformed methodological ambiguity in qualitative research projects. *Educational Researcher*, 38(9), 687-699. <https://doi.org/10.3102/0013189X09351980>
- In, J. & Lee, S. (2017). Statistical data presentation. *Korean Journal of Anesthesiology*, 70(3), 267-276. doi: 10.4097/kjae.2017.70.3.267
- Kross, J., & Giust, A. (2019). Elements of research questions in relation to qualitative inquiry. *The Qualitative Report*, 24(1), 24-30. doi:<https://doi.org/10.46743/2160-3715/2019.3426>
- Ministry of Foreign Affairs. (2019). *Speech of the President of the Republic of Indonesia at the Plenary Session for the Inauguration of the Elected President and the Vice President for the 2019-2024 Period*. Jakarta
- Ministry of Research and High Education. (2015). *The Structural and Functional Officials*. Jakarta: Ministry of Research, Technology and High

Education: Coordinating Private University  
Area XII.

National Tax College (2018). *A Textbook on Japanese Tax Administration*. Tokyo: NTC.

Palmer, S. & Torgerson, D. (2014). economic notes: Definition of efficiency. *BMJ Clinical Research*, 1136 – 1140.

Poskart, R. (2014). A definition of the concept of economic effectiveness. *Central and Eastern European Journal of Management and Economics*, 2(3), 179-187.

National Tax Agency. (2018). *National tax agency report 2018*. Retrieved from NTA website: [https://www.nta.go.jp/english/Report\\_pdf/2018e.pdf](https://www.nta.go.jp/english/Report_pdf/2018e.pdf)

National Tax Agency. (2022). *National tax agency report 2022*. Retrieved from NTA website: [https://www.nta.go.jp/english/Report\\_pdf/2022e.pdf](https://www.nta.go.jp/english/Report_pdf/2022e.pdf)

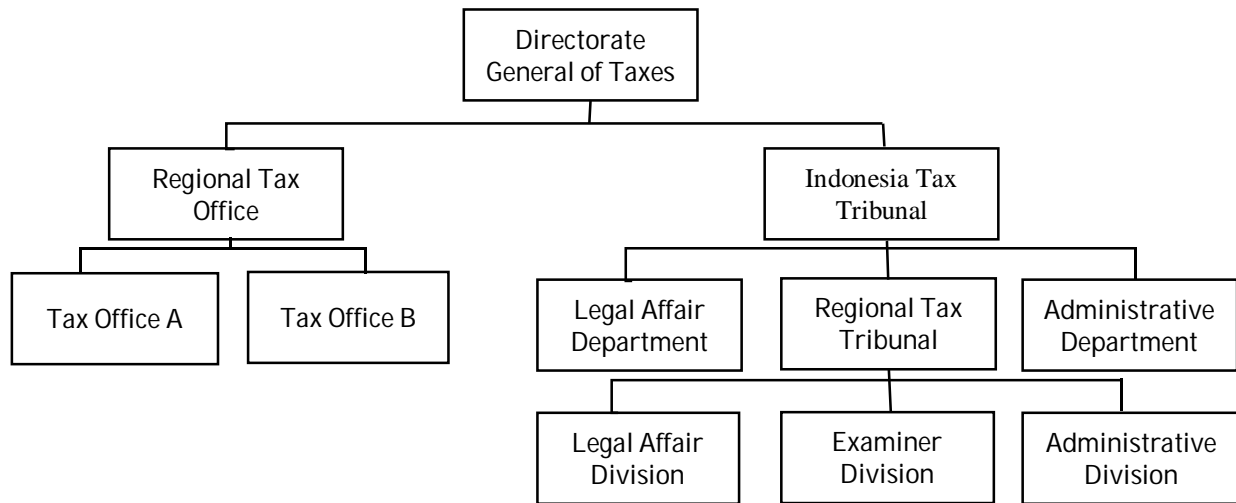
National Tax College (2018). *A textbook on japanese tax administration*. Tokyo: National Tax College

Neri de Souza, F., Neri, D. C., & Costa, A. P. (2016). Asking questions in the qualitative research context. *The Qualitative Report*, 21(13), 6-18. <https://doi.org/10.46743/2160-3715/2016.2607>

Supriyadi, S., Setiawan, B., & Bintang, R. M. (2019). Evaluasi lembaga keberatan dalam penyelesaian sengketa pajak yang adil di direktorat jenderal pajak. *Indonesian Tax Journal*, 2(2), 6-19.

Tampubolon, K. (2013). *Praktek, gugatan, dan kasus-kasus pemeriksaan pajak*. Jakarta: Indeks.

Appendix 1 Proposal on Indonesia Tax Tribunal Organization Structure



Source: Author's own processing