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Boosting Revenue, Taxpayers Potentially Becomes Audit Target

Directorate General of Taxes (DGT) re-revitalizes audit process and re-adjusts tax audit priority target by issuing Circular Number SE-15/PJ/2018 on Audit Policy. This policy is made, among others, to make audit administration properly arranged, improve audit quality, and encourage tax revenue growth.

The current revitalization of audit process covers 3 (three) tax audit main activities, i.e., (1) the objective, transparent, and reliable selection of Taxpayer; (2) Tax Auditor's performance optimization; and (3) consecutive improvement in tax regulation on tax audit field.

The revitalization series of the audit process start with the preparation of compliance mapping and *Daftar Sasaran Prioritas Penggalian Potensi* (List of Potency Exploration Priority Targets/DSP3); establishment of Audit Planning Committee in Head Office and Regional Office; division of audit assignment issuance policy; audit implementation quality control; audit human resource management and allocation; VAT refund acceleration as well as audit facility and infrastructure utilization.

SE-15/PJ/2018 also affirms the audit criteria deemed effective. *First,* the audit is completed and the revenue from the audit result is optimum. *Second,* legal action taken by Taxpayers against the tax assessment of audit result is low or minimum. *Third,* refund is controlled by optimization of pre-audit refund for the tax overpayment of the Taxpayers meeting the criteria, as well as allocation of Tax Auditor to examine other Taxpayers' refund. *Fourth,* the audit shall create Taxpayer's continuous compliance seen from Tax Return continuity for post-audit years.

As an audit guideline, each Tax Office shall make DSP3 and *Daftar Sasaran Prioritas Pemeriksaan* (List of Audit Priority Targets/DSPP). DSP3 is a list of Taxpayers being the potency exploration priority targets during the current year, both through supervisory and audit activities. Meanwhile, DSPP is the list of Taxpayers who will be audited during the current year. The preparation of compliance mapping and DSP3 shall consider business or industrial nature, geographical location, Gross Regional Domestic Product (GRDP), and/or on-site facts. The compliance mapping and DSP3 shall be prepared no later than the end of January for each year, by attaching report of compliance mapping and DSP3 preparation.

There are several variables as the bases of DSP3 population preparation, i.e.: (1) high non-compliance indication; (2) the Taxpayer's non-compliance modus indication; (3) identification of tax potential value; 4) identification of the Taxpayer's ability to pay the tax assessment (collectability); and (5) the consideration of the Director General of Taxes.

The high non-compliance indication is reflected in the gap between tax profile on the Tax Return and the actual economic profile (internal and external data sources, as well as on-site observation). There are differences in non-compliance indicators that become audit guidelines in Small Tax Offices and in 35 (thirty five) Tax Auditor Units (*Unit Pelaksana Pemeriksaan/*UP2) as Revenue Determinant.

Non-compliance Indicators in 35 UP2 as Revenue Determinant

1	Analyses of Corporate Tax to Turn Over Ratio (CTTOR), Gross Profit Margin (GPM), and/or Net Profit Margin (NPM) compared to similar industries benchmarking. (The non-compliance risk is high if the analysis discrepancy with the average industries is more than 10%);
2	Performing transaction with parties having special relationship, especially with related parties domiciled in countries with lower effective tax rate than the effective tax rate in Indonesia;
3	Performing domestic related party transactions (intra-group transaction) with transaction value of more than 50% of total transaction value;
4	Performing domestic related party transactions with business group members having loss compensation;
5	Not yet subject to tax audit in all taxes within the last 3 (three) years;
6	Issuing Tax Invoices to the buyers with Tax ID No. 000 more than 25% of total Tax Invoices issued in 1 (one) Tax Period; and/or
7	The availability of analysis result of Information, Data, Report, and Complaint (*Informasi, Data, Laporan, dan Pengaduan/*IDLP) and Center for Tax Analysis (CTA).

To simplify the audit process, this regulation also describes the modus commonly used by the Taxpayer in avoiding their tax obligations, such as:

1. The actual turnover not reported by the Taxpayer;
2. Expenses that should not be deductible by the Taxpayer;
3. VAT non-compliance modus;
4. Aggressive tax planning by the Taxpayer;
5. Double Tax Avoidance Agreement/Tax Treaty abuse;
6. The actual asset transfer value in terms of liquidation, merger, dissolution, expansion, split-up, and acquisition of business not reported by the Taxpayer; or
7. The actual acquisition or sales value in terms of asset transfer not reported by the Taxpayer.

In addition to identifying non-compliance, the Tax Auditor shall also identify the tax potential value and the Taxpayer’s ability to pay the tax assessment.

Non-compliance Indicators in Small Tax Office	
Corporate Taxpayer	Individual Taxpayer

1. Non-compliance in Tax Return payment and reporting; 2. Not yet subject to audit in all taxes within the last 3 (three) years; 3. Analyses of CTTOR, GPM, NPM compared to the benchmarking results of similar industries in the related Regional Office in compliance with provisions regulating benchmarking. (The non-compliance risk is high if the analysis discrepancy with the average industries is more than 20%); 4. Non-conformity between Tax Return profile and the actual economic profile (business and assets) based on on-site facts; 5. Performing transaction with parties having special relationship, especially with related parties domiciled in countries with lower effective tax rate than the effective tax rate in Indonesia; 6. Performing domestic related party transactions (intra-group transaction) with transaction value of more than 50% of total transaction value; 7. Performing domestic related party transactions with business group members having loss compensation; 8. Issuing Tax Invoices to the buyers with Tax ID No. 000 more than 25% of total Tax Invoices issued in 1 (one) Tax Period; and/or 9. The availability of IDLP and CTA analysis result.	1. Non-compliance in Tax Return payment and reporting; 2. Not yet subject to audit in all taxes within the last 3 (three) years; 3. Non-conformity between tax Return profile and: a. The Taxpayer's business scale; b. The Taxpayer's assets (investment, share ownership, etc.); c. The Taxpayer's lifestyle; d. The Taxpayer's loan profile; 4. The availability of IDLP and CTA analysis result.

Compliance Test

To test the Taxpayer's compliance in fulfilling their obligation, a series of audit in which procedure has been established in this regulation will be conducted. The audit comprises single tax audit and all taxes audit.

There are 2 (two) criteria of the audit undertaken, i.e., routine audit and special audit. Special audit may be based on different information, such as data, or based on risk analysis. This circular also regulates other audit mechanism in detail, including the request for financial information access for tax purpose.

Generally, audit mechanism to test such compliance consists of Audit Warrants (*Surat Perintah Pemeriksaan*/SP2) issuance, technical guidance provision mechanism if the Tax Auditor Team needs specific expertise, to the issuance of notification of tax audit findings (*Surat Pemberitahuan Hasil Pemeriksaan/*SPHP).

Types of Audit

Audit Category	Scope
Routine Audit	Routine audit is conducted:

	• to the Taxpayers who are obliged by Taxation General Provisions and Procedure Law, or • in connection with the testing of the Taxpayer's tax right and/or obligation fulfillment.
Special Audit	• Other information-based audit • Risk analysis-based audit: 1. Single tax special audit; and 2. All taxes audit.
Audit for Other Purposes	1. Issuance of Tax ID Number and/or Confirmation of VAT-Registered Person ex-officio; 2. Revocation of Tax ID Number, upon the request of the Taxpayer or ex-officio; 3. Revocation of VAT-Registered Person Confirmation, upon the request of the Taxpayer or ex-officio; 4. Objection filed by the Taxpayers; 5. Data collection for Net Income Calculation Norm (*Norma Penghitungan Penghasilan Neto/*NPPN); 6. Matching of data and/or information tools; 7. Determination of Taxpayers located in remote area; 8. Determination of 1 (one) or more VAT payable places; 9. Audit in terms of tax collection; 10. Determination of production commencement time; 11. Determination of term extension of loss compensation in connection with provision of tax facilities; 12. Fulfillment of information request from Double Tax Avoidance Agreement (Tax Treaty) partner country.

Besides, this policy also regulates the audit mechanism for cooperation agreement in the form of production sharing contract, with operating cost recovery in upstream oil business and natural gas. Further, the audit shall consist of:

1. Audit on fulfillment of oil and natural gas income tax obligation, and
2. Audit on fulfillment of obligation other than oil and natural gas income tax.

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