

How Should Taxpayers Respond to the Tax Authority Supervision?

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Abstract

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The Directorate General of Taxes (DGT) has adopted a compliance risk management (CRM) approach to monitor taxpayers optimally. DGT often sends a Letter of Request for Explanation of Data and Information (SP2DK) to taxpayers to ensure their tax obligations are fulfilled in the initial supervision process. This study aims to analyze how taxpayers respond to the supervision under SP2DK to minimize disputes with tax authorities. The analysis was carried out qualitatively. This study concludes that taxpayers need to be further involved with Account Representative interactions to determine their wishes to adapt to the prevailing tax control system. Understanding how AR works can help taxpayers better prepare for the ongoing supervisory process. However, taxpayers also need a deeper understanding of tax knowledge, especially about supervision, to adjust to the data and explanation requested by AR.

Abstrak

Kata kunci:
Pengawasan Pajak;
SP2DK;
Pengetahuan Pajak;
Pemenuhan pajak

Direktorat Jenderal Pajak (DJP) menerapkan pendekatan compliance risk management (CRM) untuk memantau Wajib Pajak (WP) secara optimal. Dalam proses pengawasan awal, DJP kerap mengirimkan Surat Permintaan Penjelasan Data dan/atau Informasi (SP2DK) kepada WP untuk memastikan terpenuhinya kewajiban perpajakannya. Penelitian ini bertujuan untuk menganalisis bagaimana WP menanggapi pengawasan di bawah SP2DK untuk meminimalkan sengketa dengan otoritas pajak. Analisis dilakukan secara kualitatif. Studi ini menyimpulkan bahwa WP perlu terlibat lebih jauh dalam berinteraksi dengan Account Representative (AR) untuk mengetahui keinginan mereka sehingga WP dapat beradaptasi dengan sistem pengawasan pajak yang berlaku. Memahami bagaimana AR bekerja dapat membantu WP lebih siap untuk proses pengawasan yang sedang berlangsung. Namun wajib pajak juga membutuhkan pemahaman yang lebih dalam tentang perpajakan, khususnya tentang pengawasan, untuk menyesuaikan dengan data dan penjelasan yang diminta oleh AR.

1. Introduction

In a country that adopts a self-assessment system (SAS) such as Indonesia, taxpayers' implementation of compliance leaves homework for the tax authorities to ensure these tax obligations' performance. Tax authorities generally emphasize the aspect of supervision quite carefully to support the system running properly. A study that tried to test taxpayer compliance in the self-assessment system shows several factors that affect taxpayer compliance, including tax attitudes and transparency, knowledge of taxation, and economic and psychological factors (Wadesango et al., 2018). Research conducted by Prasetyarini et al. (2019) in the Indonesian context shows that knowledge of taxation and tax penalties positively affects SAS implementation. It is indeed difficult to argue that SAS needs to be supported by adequate knowledge of the tax system while at the same time maintaining supervision from the tax authorities.

Another research conducted by [Hutauruk et al. \(2019\)](#) on 179 medium-sized companies in East Kalimantan Province shows that tax supervision has a positive and significant effect on tax payments. In this case, tax control can strengthen SAS and tax revenue. To conduct this kind of monitoring effectively, the Directorate General of Taxes (DGT), as the tax authority in Indonesia, has adopted a compliance risk management (CRM) approach to monitor taxpayers optimally. The CRM analysis tool classifies taxpayers according to the degree of their respective compliance risks ([Saptono & Khozen, 2021](#)). The analysis is based on each taxpayer's tax compliance track record. Tighter supervision can be imposed on taxpayers with a poor track record of compliance, while looser supervision can be placed on consistently compliant ones. Thus, the implementation of CRM is expected to increase tax revenue and provide fairer treatment for taxpayers.

Data matching is one of the stages in implementing a risk-based tax audit applicable to CRM. According to [Vellutini \(2011\)](#), data matching includes examinations related to tax reporting consistency with other data from customs, bank, insurance transaction records, and other data. In the data matching process, DGT can also send a Letter of Request for Explanation of Data and Information (*Surat Permintaan Penjelasan atas Data dan/atau Keterangan*; SP2DK) to taxpayers. Based on the Director-General of Taxes Circular No. SE-39/PJ/2015, SP2DK is even interpreted as a letter requesting data and information from the Head of Tax Office to taxpayers in connection with allegations of not fulfilling tax obligations under the provisions of laws and regulations in the field of taxation. Thus, when SP2DK is issued to taxpayers, it can be interpreted that the DGT's CRM system has marked the taxpayer concerned in connection with the compliance alert from the system. However, since SP2DK received by the taxpayers does not necessarily indicate that they are categorized as non-compliant, this computerized approach could emerge a gap between regulation and implementation. At the regulatory level, this method aims to ensure the implementation of SAS runs as it should. However, at the implementation stage, the arrival of that confirmation letter is almost like an examination itself. In fact, SP2DK is only a preliminary estimate, so the tax office still needs confirmation and additional information from the taxpayer to optimize the supervisory process.

Based on SE-39/PJ/2015, taxpayers who receive SP2DK can submit responses directly, provide written responses, or not provide responses at all. Even so, taxpayers need to respond positively so that these allegations do not indicate non-compliance. For taxpayers who do not respond, the circular letter recommends the tax office follow up with a proposal for an Examination or a proposal for Preliminary Investigation following the provisions of laws and taxation regulations. In this regard, this study aims to analyze how taxpayers respond to supervision in SP2DK to minimize disputes with tax authorities. In this case, this study aims to answer questions about how taxpayers understand what the Account Representative (AR) expectations to avoid the audit risks and save the taxes. Our empirical findings in the tax consulting services show that many taxpayers lack communication with the tax authorities. Therefore, this paper is dedicated to analyzing these problems.

2. Literature Review

2.1. Tax Knowledge amid Self-Assessment System

For countries that adhere to the self-assessment system (SAS), tax knowledge topics become an important issue related to taxpayers' trust in calculating and determining their taxes. [Palil \(2010\)](#) places tax education and tax knowledge as the first issues in SAS. The basic idea is that the tax authorities' continuing tax education program follows an effective monitoring mechanism to ensure that taxpayers have adequate knowledge and understanding of taxes ([Palil, 2010](#)) to work properly. Placing tax knowledge as the leading indicator of implementing a system is acceptable since knowledge is the basis of every intended activity.

Based on the literature analysis conducted by [Bornman and Ramutumbu \(2019\)](#), until recent days, the concept of "tax knowledge" has not been well defined in the tax compliance literature and the usage, which is still on a fairly broad scale. For example, [Groenland and van Veldhoven \(1983\)](#) state that tax knowledge refers to the degree of general fiscal knowledge and the opportunity to commit fiscal fraud. Meanwhile, according to [White et al. \(1990\)](#), tax knowledge refers to education level to represent taxpayers' knowledge taxation level. However, tax researchers have no agreement regarding how to define the level of tax knowledge. Meanwhile, educational attainment has been included besides a more abstract concept ([Devos, 2016](#)). However, instead of compressing tax knowledge, [Genest-Grégoire et al. \(2017\)](#) prefer to use the term tax literacy with a more general scope. They define it as knowledge, skills, and confidence to make responsible tax decisions. In Indonesia's context of tax knowledge interpretation, [Mardiasmo \(2016\)](#) takes a broader definition by stating that tax knowledge includes everything that a person knows and understands related to tax law, both material tax law and formal tax law.

To further facilitate research related to tax knowledge, [Bornman and Ramutumbu \(2019\)](#) suggest a conceptual framework construction for tax knowledge with three elements: general, procedural, and legal tax knowledge. This framework is the essence of many works of literature on tax knowledge and secondary data from interview data analysis. On the aspect of general knowledge, there is a need to have fiscal awareness (e.g., taxpayers' financial literacy and the government's fiscal strategy). The definition refers to the need to understand tax compliance procedures from the procedural aspects. The interaction between taxpayers and tax authorities occurs here. For this legal knowledge, there are technical aspects (e.g., understanding how taxpayers are taxed) and the conceptual aspect (e.g., understanding the terms amid complex tax laws). The taxpayer's understanding of taxation procedures significantly affects taxpayer compliance ([Sudarwanto & Khanifah, 2011](#)).

2.2. Theory of Mind

According to [Meltzoff \(1999\)](#), humans are more than just a physical body and just a dynamic leather bag that can be seen, heard, and weighed. Adult humans also have beliefs, desires, and intentions subordinate to surface behaviors. One cannot directly see, taste, smell, or hear another person's mental state. However, this is an integral part of the general adult

understanding that other people also have (Meltzoff, 1999). Such fundamental understanding is what underlies the Theory of Mind.

Miller (2012) also illustrates the world of adults in all cultures who have certain beliefs about the nature of the mental world, where these beliefs then govern the social interactions in which they are involved. Although these beliefs may vary between people and cultures, certain elements are held constant. These constant elements include the core belief that there is a mental world distinct from the physical world and that (as in false beliefs) the mental and physical may not always agree.

From the theory of mind perspective, language and communication are highly dependent on reading other people's intentions (Meltzoff, 1999). The other person doesn't always say what he means. Sometimes his tongue slips, he makes mistakes or gropes. Normal adults easily grasp the intent of the speaker's communication, without which communication would be damaged. Regarding Theory of Mind, Cherry (2020) states that:

"Theory of mind is an important social-cognitive skill that involves the ability to think about mental states, both your own and those of others. It encompasses the ability to attribute mental states, including emotions, desires, beliefs, and knowledge. Not only does the theory of mind involve thinking about thinking, but it also refers to the ability to understand that other people's thoughts and beliefs may be different from your own and to consider the factors that have led to those mental states." (Cherry, 2020)

In contrast to some explanations regarding the theory of mind above, Apperly (2010) states that the term "mindreading" is more neutral and can be more linguistically acceptable than "theory of mind," which looks awkward. Apperly (2010) also mentions other terms that are of the same type as "theory of mind" or "mindreading," including "social cognition" or "social understanding," even though the term has become too broad. Thus, "theory of mind" or "mindreading" basically refers to a limited number of people. However, according to Apperly (2010), the theory of mind or mindreading is often impossible due to irrelevance or false beliefs in a person.

In the context of too much information that is considered relevant, we shall restrict it to the relevant information on taxation concerning this study. According to Hauptman et al. (2014), tax authorities' communication strategy could improve voluntary compliance. However, under the theory of mind approach, the taxpayers should have the initiative to communicate with the tax authorities. When taxpayers are identified as deliberate defaulters, notifying them by letter that they will be carefully monitored could increase compliance and become a cost-effective strategy (Hauptman et al., 2014). Because the tax administration in Indonesia has adopted this method through SP2DK (request for an explanation of data and information), it is crucial to discuss taxpayers' understanding of tax officials' theory of mind.

3. Research Method

Tax provisions are a common language that stakeholders must understand, both tax authorities and taxpayers. When such understanding is internalized, it becomes tax knowledge. At least internalization of tax knowledge connects the two stakeholders, tax

authorities and taxpayers. To understand the appropriate interaction between the stakeholders, we use a qualitative approach in conducting this study. Research with a qualitative approach emphasizes an iterative process to better understand the scientific community by producing new significant differences closer to the studied phenomenon (Aspers & Corte, 2019). Following such definition, qualitative research is a combination of (i) how to do things, namely how to analyze data so that researchers are closer to making differences, and (ii) the outcome, which is to contribute to novel understanding for the scientific community. The observations of the authors constitute the first stage in undertaking this study. This is performed by gathering data on key issues in the field.

Using secondary data as a reference, the qualitative approach employed in this study determines what degree of interaction should be in the manifestation of tax supervision. Secondary data are more accessible with the development of electronic media and the internet, in which we explore them for research purposes. The data was collected manually from (i) government publications ranging from statutory provisions to implementation guidelines, (ii) journal articles and research reports, (iii) books from various authors, handbooks, and dissertations, (iv) government and non-government official websites, and (v) public records and statistics and other published sources of information. Such data sources are real-world situations, natural and settings that are not manipulated (Mohajan, 2018). We also adapt some related cases from Kieso et al. (2020) to ascertain and illustrate how the tax authorities supervise the fulfillment of taxpayers' tax obligations. This is the next step in the research process.

This study further analyzes taxpayers' interactions related to tax authorities' supervision. We emphasize the analysis of the reconstruction of the relationship that taxpayers build with the theory of mind or mindreading approach. Borrowing the tax knowledge framework developed by Bornman and Ramutumbu (2019), this study analyzes the interaction between taxpayers and tax authorities by focusing on procedural tax knowledge combined with the theory of mind. With the lead author's background as a former tax supervisor at DGT, the analysis is also enriched with in-depth observations from the researcher's experience regarding the character of supervision in the DGT environment. Qualitative researchers are immersed in the details that define settings (Mohajan, 2018). As suggested by Aspers and Corte (2019), by staying close to the researchers' data, we are more focused on testing the collected data against the facts that occur to validate or disqualify them. The understanding generated from this study is expected to contribute to the scientific community.

4. Result and Discussion

Under the Director-General of Taxes Circular Letter SE-39/PJ/2015, the Head of the Tax Service Office (KPP) has the duty and authority to conduct guidance, research, and taxpayers' supervision. In carrying out the duties of guidance, research, and supervision of Taxpayers in the form of requests for an explanation of Data and Information to Taxpayers, the Head of KPP is assisted by an Account Representative (AR) and Officer of the Extensification and Counseling Section. Besides AR or Executor of the Extensification and

Counseling Section, the Visiting Team could also assist KPP Head. The guidance shows a one-way picture of communication from the tax authority to the taxpayer. According to [Dwianika et al. \(2018\)](#), communication and precise information delivery from the tax authorities are essential for taxpayers. They ultimately increase tax awareness, leading to taxpayer compliance with tax provisions.

When tax supervision is associated with mind adoption theory, taxpayers need to understand the Head of KPP's duties and authorities and their bottom line under SE-39/PJ/2015. In this regard, when they send a Request for Explanation of Data or Information (SP2DK), the taxpayer must respond to the SP2DK in writing by attaching the relevant supporting evidence. Taxpayer responses can be in the form of approval of the analysis results according to SP2DK by depositing underpaid taxes and reporting or correcting Tax Return, or rejection of the analysis results following SP2DK agree with AR expectations. The choice of taxpayers to answer or ignore SP2DK can indicate the extent to which taxpayers will cooperate and comply with applicable regulations.

Behind the supervision carried out by the Head of KPP and team, a human element hinders the successful implementation of taxpayer supervision. In this case, the tax officials' psychological element is involved and determines the taxpayer's interaction outcome. A very formal relationship between taxpayers and tax authorities can cause taxpayers to feel uncomfortable contacting tax authorities and decide to stay away from the tax system by not paying taxes ([Chuenjit, 2014](#)). However, in the end, taxpayers who are undergoing special supervision still need to design the best strategy to deal with the review process they are facing. By adhering to the theory of mind, taxpayers need to understand the tax officials' mindset so that communication between both interested parties can reach common ground. From this perspective, taxpayers' knowledge or tax knowledge plays an important role.

Tax knowledge can be the key to successful communication between tax officials and taxpayers. The research results conducted by [Ghani et al. \(2020\)](#) show that the lack of tax knowledge causes taxpayers not to know how to become good taxpayers. Tax knowledge plays a vital role because it can provide an overview for the broader community about a taxation system, from submitting tax returns to tax policies that apply in general. The finding becomes acceptable because whatever the taxpayer does is limited to perception when it is not based on tax knowledge. According to [Eriksen and Fallan \(1996\)](#), increasing tax knowledge strongly influences the respondents' perceptions of the tax system. From the study, respondents experienced a shift in myths and misperceptions about taxes when they understood the tax system better. They conclude that one of the successful ways to prevent tax evasion is to provide more tax knowledge to a broader segment of society to improve tax ethics and society's conception of the tax system's fairness.

One of the ways to understand tax knowledge in Indonesia is through understanding how the supervision system works. The Director-General of Taxes has launched several circular letters that are still valid until now to clarify the Directorate General of Taxes' authority in the supervision of Taxpayers and increase the transparency of monitoring the use of Taxpayers' data process. Circular letters that the Director-General of Taxes has launched are:

- (a) Director-General of Taxes Circular Letter Number SE-39/PJ/2015 concerning the supervision of the taxpayer in the form of requests for an explanation of data or information and visits;
- (b) Director-General of Taxes Circular Letter Number SE-62/PJ/2015 concerning the operational implementation of the Center for Tax Analysis Team;
- (c) Director-General of Taxes Circular Letter Number SE-49/PJ/2016 concerning taxpayer supervision through an information system
- (d) Director-General of Taxes Circular Letter Number SE-14/PJ/2018 concerning Taxpayer Supervision after the tax amnesty period;
- (e) Director-General of Taxes Regulation Number PER-01/PJ/2019 concerning the procedure for granting Tax Identification Number (NPWP) in the framework of extensification;
- (f) Director-General of Taxes Circular Letter Number SE-14/PJ/2019 concerning procedures for extensification;
- (g) Director-General of Taxes Circular Letter Number SE-24/PJ/2019 concerning the implementation of compliance risk management in extensification, supervision, inspection, and collection activities at DGT;
- (h) Director-General of Taxes Circular Letter Number SE-5/PJ/2020 concerning the procedures for implementing the assessment for tax purposes; and
- (i) Director-General of Taxes Circular Letter Number SE-07/PJ/2020 concerning the policy of supervision and inspection of taxpayers in the context of expanding the tax base.

The circular letters above provide the overview and instructions on how the supervisory system works. The following discussion delves further tax knowledge related to the supervision system to become a reference for taxpayers facing tax officials' supervision. In succession, we discuss tax knowledge that taxpayers need to know regarding the supervisory system elaborated from the regulation mentioned above and several other data.

4.1. Supervisory Process

4.1.1. Developing Approweb Apps

Director-General of Taxes Circular Letter Number SE-49/PJ/2016 explains that the DGT develops an information system to effectively, efficiently, and sustainably increase taxpayer supervision. The taxpayer supervision can be carried out comprehensively using the Taxpayer Supervision Activity Module in the Web-Based Profile Application ("Approweb"). Approweb can automatically present all the internal and external data matching for whole tax aspects and tax periods or years. This tool has been utilized since 2012 (Diamendia & Setyowati, 2021). Implementing procedures following applicable regulations will help tax officials take appropriate action on taxpayer supervision activities to maximize revenue realization after the issuance of SP2DK (Kowel et al., 2018).

Approweb uses an end-to-end approach, starting from pairing data, determining the priority of taxpayer supervision, research and its follow-up, updating potential prognosis and realization of tax revenue, monitoring (monitoring), and evaluating implementation in stages. If DGT requires a deepening of information, they will increase their monitoring

activities by visiting the taxpayers. According to SE-10/PJ/2015, internal and external data matching is carried out by comparing internal data processing and external data identified and grouped into some aspects with the same elements in the Tax Return reported by taxpayers through the tax information system support. DGT owns the Approweb application to match internal and external data used to monitor taxpayers.

According to Director-General of Taxes Circular Letter Number SE-49/PJ/2016, there are at least twelve approweb data sources for implementing the SP2DK:

- (a) Fund Disbursement Order (SP2D), Withholding evidence, and State Revenue Module (MPN).
- (b) Withholding evidence where the VAT has not been collected.
- (c) Export Declaration (PEB).
- (d) Purchase.
- (e) Increase in assets/wealth.
- (f) Use of assets. This section presents the taxpayer's assets that may be used to increase the income. For example, a taxpayer is known to have several assets (i.e., a house) and a vehicle (i.e., a car).
- (g) Transfer of Assets. This section presents the taxpayer's asset reporting data for the two reporting periods of the Annual Income Tax Return. Assets reported in the Annual Income Tax Return of last year, but not reported again in this year's Annual Income Tax Return (the year analyzed), are considered to be transferred to other parties and there is potential income from the transfer of these assets.
- (h) Income Tax and VAT equalization.
 - (i) Input Tax Invoice that should not have been credited.
 - (j) Output Tax Invoice has not been reported by the taxpayer but has been reported by the transacting partner.
 - (k) Incomplete Output Tax Invoice.
 - (l) Tax Invoice already approved but not reporting Tax Return.

The data sources above are instruments analyzed on Approweb by AR to implement SP2DK. With Approweb, AR may view the compliance status of the taxpayers they deal with, making follow-up easier for high-risk taxpayers (Diamendia & Setyowati, 2021). For example, AR obtains the "purchase" data from Form 1111, attachment A2 of the VAT periodic return of sellers (tax invoice issuers) that are not credited by the taxpayer selected by AR to be supervised. The list of input tax invoices that the taxpayer does not credit is considered an unreported purchase. The unreported purchases indicate a business turnover that is not reported by the taxpayer so that it has the potential to increase the amount of income tax payable.

4.1.2. Report on Analysis Results of the Center for Tax Analysis

According to the Director-General of Taxes Circular Number SE-62/PJ/2015, the Center for Tax Analysis (CTA) Team is a particular tax analysis unit tasked with processing, presenting, and analyzing data. Forming the CTA Team aims to measure tax compliance, calculate tax potential, and identify business processes and tax non-compliance modes

utilized by the unit of work within the DGT environment. CTA Team has a role in increasing tax revenue based on data analysis results held and obtained by DGT. The functions of the CTA Team include providing data support for extracting tax potential, enriching information on taxpayer profiles, providing recommendations to policymakers (Decision Supporting System), performance monitoring (Alert System), and assistance in the form of joint discussions on Analysis Result Report (LHA) in the economic, potential, and tax fields.

CTA team searches for data sourced from DGT internal data or other data obtained from external sources. They present their analysis results in a report, namely the LHA of the CTA team, which is then submitted to the Unit of Work within the DGT. The CTA analyzes taxation data to present information that will be followed up to determine policies, optimize tax revenue by exploring tax potential, and provide input in drafting regulations. The data used as the basis for conducting Economic Analysis is Macro Data in the form of information stating general activities or conditions during a period without specifically designating the taxpayer and certain Tax Objects' activities or conditions. The data used as the basis for conducting a Potential Analysis is microdata. In conducting a Potential Analysis, the data processing methods used include (but are not limited to) data cleaning, data identification, and data matching.

The potential analysis uses research methods on the taxpayer's business process and the mode of non-compliance that appears to look after tax findings. The findings data obtained by the CTA team will be compiled based on priorities determined based on certain assessments to determine the follow-up and recommendations to assist the decision-making process at DGT or assist the potential exploration process. Tax Analysis uses research on the taxpayer's business model and the mode of non-compliance that appears to get tax findings. The following are some indications of non-compliance related to tax regulations, which include but are not limited to (i) business processes that have not been regulated by existing tax regulations and (ii) changes to tax regulations existing to be able to manage tax imposition on taxpayers' business processes effectively

The Directorate of Potential, Compliance and Revenue formulates a work plan and focus of CTA analysis in coordination with other Directorates within the Head Office of the DGT, Regional Office of the DGT, and KPP. If the CTA analysis results on a taxpayer indicate that a tax crime has occurred, the CTA team sends the LHA to the Directorate of Intelligence and Investigation. The LHA of the CTA team will then be followed up in developing and analyzing Information, Data, Reports, and Complaints (IDLP). Suppose the taxpayer subject to LHA analysis is audited in the same tax year. In that case, the LHA is forwarded to the examining team as additional data in the audit process. However, suppose the taxpayer has already examined. In that case, the LHA is forwarded to the examination team to examine whether the LHA contains new data that has not been revealed in the examination process (*novum*).

The CTA Team carries out an adequate evaluation as a form of internal control of CTA to ensure the quality of LHA. Data quality evaluation is carried out on LHA submitted to KPP or DGT Regional Office either from potential analysis to extract potential taxation or for fulfilling requests for assistance and analysis support in the context of WP supervision,

inspection, and IDLP development and analysis. Data quality evaluation is carried out by obtaining feedback from KPP or DGT Regional Office, who received the LHA of the CTA team.

The LHA of the CTA team's feedback is receiving or collecting follow-up results process carried out by KPP or Regional Office of the DGT. Examples of feedback on the LHA of the CTA team can be in the form of data from the Request for Explanation Report on Data or Information (LHP2DK), Inspection Report (Laporan Hasil Pemeriksaan; LHP), and questionnaire results. The evaluation criteria for the LHA of the CTA team, either directly or indirectly affecting the potential for state tax revenue, include data accuracy, namely the extent to which the LHA of the CTA team is correct and reliable; the completeness of the information held, namely the extent to which the information contained in the LHA of CTA team represents information that may exist and is related to taxpayers within a certain period of time; and data consistency, namely the extent to which the information contained in the LHA of CTA team is interrelated.

4.1.3. Supervision through SP2DK

The Head of KPP has the authority to request the taxpayer's data and explanation through SP2DK. Following the Director-General of Taxes Circular Number SE-39/PJ/2015, DGT defines SP2DK as a letter issued by the Head of KPP to request an explanation of the data or information to Taxpayers regarding the suspicion that taxation obligations have not been fulfilled regarding the provisions, laws, and regulations in the field of taxation. From the research results and analysis of data or information obtained, the Head of KPP could request the data explanation, propose or carry out an examination, or propose a preliminary investigation.

Upon receiving the SP2DK, the taxpayer can submit a response directly, send a response in writing, or not provide any response at all. Suppose the taxpayer explains by telephone or other means of communication. In that case, the Account Representative (AR) or Officer of the Extensification and Counseling Section asks the taxpayer to provide an explanation in writing or through face to face. Taxpayers respond directly by acknowledging or refuting the accuracy of the data accompanied by supporting evidence or documents. Taxpayer responses must be recorded in the Minutes of Implementation of Request for Explanation.

Due to the implications of the random audit method for tax compliance (Alfiah & Mranani, 2013), SP2DK as an initial tax supervisory instrument can give a shock effect to assure taxpayer compliance. Additionally, the KPP may conduct a follow-up or preliminary examination to comply with applicable tax rules and regulations. Those who meet the following conditions are prospective subjects of the follow-up:

- (a) Taxpayer does not respond;
- (b) Taxpayer submits a direct response but refuses to sign the Minutes of Implementation of Request for Explanation;

- (c) Taxpayer provides direct or written responses, in the form of an explanation of the Data or Information following the conclusions of the research and analysis results, but does not submit Tax Return or corrected Tax Return;
- (d) Taxpayer provides direct or written responses by submitting a Tax Return or corrected Tax Return, but the calculation of the tax payable did not appropriate with the conclusions of the research and analysis results;
- (e) Taxpayer responds with an explanation that does not appropriate with the conclusion of the research and analysis results. Additionally, the taxpayer denies the validity of the data or information underlying the review and analysis findings; or
- (f) Other considerations.

4.2. Data Analysis for Determining SP2DK

Since 2018, the Directorate General of Taxes (DGT) has had the technology to record taxpayer data from social media and pair it with other data. The technology used by the DGT is Social Network Analytics (Soneta). The data recorded through Soneta are taxpayer distribution networks, share ownership networks, shareholder networks, or data cross-analysis for income tax and Value Added Tax (VAT). So far, taxpayers' data mining through social media has only been carried out by the tax authorities, commonly known as Account Representatives (AR). AR then added taxpayer profiling to the Approweb database using the data collected from Soneta. In this case, AR is updating the taxpayer data under their supervision. In addition to data analysis from Approweb, AR, in conducting supervision through SP2DK, also analyzes taxpayer financial reports.

In analyzing taxpayer financial statements, there are at least four types of analysis that are widely recognized: internal, external, vertical, and horizontal analysis. According to [Kieso et al. \(2020\)](#), internal analysis is carried out to obtain complete and detailed information about a company. This analysis is usually carried out by management in measuring business efficiency and explaining changes in financial conditions. In comparison, external analysis is carried out because there is no detailed data about a company. This analysis is usually carried out by banks, creditors, shareholders, or potential shareholders.

On the other hand, horizontal analysis analyzes the development of financial data and company operating data from year to year to examine the tendency and dynamics of changes of particular basic financial statements positions ([Zager & Zager, 2006](#)). While vertical analysis, which structural financial statements as the base, analyzes a company's financial statements with other companies of a type that is limited to one accounting period. Examples of this type of analysis include ratio analysis ([Zager & Zager, 2006](#)).

One of the common ways used by AR in monitoring taxpayers is by analyzing mutations in financial statements with significant values. An example in [Table 1](#) shows that a significant mutation is in the long-term investment account. If, for example, the financial statements are audited, the mutations must be checked where an account's movements are. As for unaudited reports, mutations are often not available. The analysis method for long-term investment in [Table 1](#) seems to decrease from 20x1 to 20x2. In this case, there are long-

term assets (usually in the form of bonds, both debt securities and shares), so a sale is possible. In general, AR may assume a sale has occurred if there is gain.

Table 1. Illustration for the Analysis of Taxpayer Financial Statements by AR

PT MBR; Comparative Balance; 31 December 20X2 and 20X1 (in thousands rupiah)

Account Name	20X2	20X1	Increase (Decrease)		20X2		20X1	
			Amount	%	Amount	%	Amount	%
Assets								
Current assets	550	533	17	3,2%	550	48,3%	533	43,3%
Long term investment	95	177.5	-82.5	(46,5%)	95	8,3%	177.5	14,4%
Fixed Asset (Net)	444.5	470	-25.5	(5,4%)	444.5	39%	470	38,2%
Intangible assets	50	50	-		50	4,4%	50	4,1%
Total assets	1.139.500	1.230.500	-91	(7,4%)	1.139.500	100%	1.230.500	100%
Liabilities								
Current liabilities	210	243	-33	(13,6%)	210	18,4%	243	19,7%
Long-term liabilities	100	200	-100	(50%)	100	8,8%	200	16,3%
Total liabilities	310	443	-133	(30%)	310	27,2%	443	36%
Equities								
Owner's equity	650	650	-	-	650	57,1%	650	52,8%
Retained earnings	179.5	137.5	42	30,5%	179.5	15,7%	137.5	11,2%
Total equity	829.5	787.5	42	5,3%	829.5	72,8%	787.5	64%
Total liabilities and Equity	1.139.500	1.230.500	-91	(7,4%)	1.139.500	100%	1.230.500	100%

Source: Adapted from [Kieso et al. \(2020\)](#)

Further analysis of the significant findings shows that a public or non-public company sells debt securities or shares certificates. For sales by publicly listed companies, the provisions in Indonesia are subject to final tax. In contrast, sales by companies not listed on the stock exchange raise the issue of capital gains. Such an example illustrates a horizontal analysis that is then compared against external data. Furthermore, from the analysis, AR will compare it with the taxpayer's Annual Tax Return to ensure whether the tax obligations are fulfilled or not. If the indication regarding the payment of final income tax or capital gain does not appear on the Annual Tax Return, AR is most likely to catch up with taxpayers by requesting data through SP2DK.

In addition to a significant decrease in the asset account, AR also marks a significant decrease in the company's liabilities. In [Table 1](#), it appears that a significant decrease occurred in long-term liabilities. There are two possibilities for long-term liabilities, between debt and bond issues. If the company's debt to the bank decreases, it is likely due to debt repayment. Meanwhile, if bonds are falling, the most likely is due to maturity. If the decrease in the two long-term liabilities is elaborated, the sale of long-term assets may be used to cover the debt (debt payment due). Another possibility is that the payment of maturing debt is made by submitting a share investment (debt to asset swap). Accounting principles are needed to explore gains from long-term investments or profits due to debt write-offs (haircuts).

Considering that the latter two possibilities are tax objects, AR is likely to ask further questions from the taxpayer concerned. As the data under [Table 1](#), it is also possible to perform a vertical analysis of the significant increase in the account percentage. For example, when current assets increase, analysis from an accounting perspective indicates the current ratio issue. AR then looks at current liabilities to ensure there are tax issues. In the case of [Table 1](#), current liabilities show a moderate number so that no issues arise, so AR has no findings.

For the analysis of profit and loss in Table 2 Column A, AR will probably be questioning the increase in sales (24.0%). In comparison, the cost of goods sale has a higher increase (27.2%), especially for selling expenses accounts where the increase is even higher (29.9%). In AR's view, this is a strong indication of promotion costs. The analysis probably fulfills the promotional cost attachment in the Annual Tax Return, whether it follows the Minister of Finance Regulation Number 02/PMK.03/2010 or not. The promotion expense attachment requires taxpayers to position promotional expenses as deductible/non-deductible expenses. The issue does not seem to cease. AR is also likely to question whether or not there is an obligation to withhold tax in providing the promotional costs. In this case, taxpayers need to explain that the increase is a standard business measure, for instance, because of the new products require more marketing costs. Along with this explanation, taxpayers need to include concrete evidence, including the withholding tax obligation.

Table 2. Illustration for the Analysis of Taxpayer Financial Statements by AR
Column A

PT MBR Comparative Income Statement					
For the years ended 31 December 20X2 and 20X1 (in thousands of rupiah)					
No	Account name	20X2	20X1	Increase (Decrease)	
				Amount	%
1	Sales	1.530.500	1.234.000	296.500	24,0%
2	Sales return	32.500	34.000	(1.500)	(4,4%)
3	Net sales [1+2]	1.498.000	1.200.000	298.000	24,8%
4	Cost of goods sold	1.043.000	820.000	223.000	27,2%
5	Gross profit [3-4]	455.000	380.000	75.000	19,7%
6	Selling expenses	191.000	147.000	44.000	29,9%
7	Administrative expenses	104.000	97.400	6.600	6,8%
8	Total operational expenses [6+7]	295.000	244.400	50.600	20,7%
9	Operating income [5-8]	160.000	135.600	24.400	18,0%
10	Other income	8.500	11.000	(2.500)	(22,7%)
11	Other expenses	6.000	12.000	(6.000)	(50,0%)
12	Profit before tax [9+10-11]	162.500	134.600	27.900	20,7%
13	Income tax	71.500	58.100	13.400	23,1%
14	Net income [12-13]	91.000	76.500	14.500	19,0%

Column B

PT MBR				
Comparative Retained Earnings Report				
For the years ended 31 December 20X2 and 20X1 (in thousands of rupiah)				
Account name	20X2	20X1	Increase (Decrease)	
			Amount	%
Retained earnings January 1	137.500	100.000	37.500	37,5%
Net profit	91.000	76.500	14.500	19,0%
Total	228.500	176.500	52.000	29,5%
Dividends: Common stock	49.000	39.000	10.000	25,64%
Total	49.000	39.000	10.000	25,64%
Retained earnings December 31	179.500	137.500	42.000	30,5%

Source: Adapted from Kieso et al. (2020)

The analysis carried out by AR sometimes includes an analysis of the equity balances (Table 2 Column B). AR typically performs equity balance analysis when the taxpayer's equity balance data is not coherent. Originally, retained earnings at the end of the period were equivalent to those at the beginning of the period in the following year. The retained earning cycle continues like this. However, sometimes, a mismatch of retained earnings between periods causes AR to capture potential tax findings. In the perspective of the theory of mind and tax knowledge, the analysis suggests that what AR means by this potential is dividend distribution. The element most likely to generate potential revenue is dividends taken from retained earnings.

5. Conclusion

Taxpayers' supervision is an essential element in ensuring tax compliance. Tax compliance has become challenging in some countries that have switched to self-assessment systems. Although this study does not measure the relationship between supervision and compliance, it indicates that tax authorities in Indonesia have been more aggressive in monitoring taxpayers using several data analysis tools. However, in contrast to the implementation in some developed countries, which have even increased transparency efforts by allowing taxpayers to see and confirm the accuracy of their online personal account

data made by the revenue body's system (OECD, 2016), the supervisory system in Indonesia still uses a traditional approach.

Account Representative (AR), as an extension of the Directorate General of Taxes (DGT), supervises with the help of a Web-Based Profile Application (Approweb). Approweb's automatic data presentation from the outcomes of data matching, both internal and external, for all sorts of taxes and tax periods or years, can then serve as the basis for requesting taxpayer data through SP2DK. Worse, if ARs are dissatisfied with the taxpayer's response to the SP2DK, they have the authority to escalate supervision to the examination stage.

Taxpayers need to get more involved with ARs dialogues to understand what they expect them to do to comply with the current tax supervisory system. Knowing how AR looks at things based on the theory of mind can help taxpayers better prepare for the ongoing supervisory process. On the other hand, taxpayers also need to know more about tax knowledge in the field of supervision to better deal with the request of data and information from ARs.

ARs analyze taxpayers' data to identify potential tax loopholes. The search for these findings may take various forms: realization of investment instrument sales; gains from debt relief; validity of cost elements (deductibility or not); dividend distribution; or other potential tax findings that ARs may review by challenging the taxpayer's application of accounting principles. At last, once taxpayers get SP2DK, they are left with no choice but to provide facts and convincing reasons to dispel any suspicions raised by AR. However, as various studies have highlighted (Alm, 2019; Alm et al., 2020; Damayanti & Supramono, 2019), tax authorities should continue to cultivate taxpayer trust as a critical component of the government's effectiveness in raising tax compliance.

A qualitative approach is used in this inquiry. As a result, the findings are inevitably influenced by the authors' perspectives and viewpoints. To ensure that the conclusions drawn from qualitative research can be applied in other contexts, they must be subjected to quantitative testing. Finally, this study demonstrates that taxes is a broad field that includes economics, business research, psychology, sociology, political science, and administrative science. Thus, experts from these fields are invited to contribute to future tax supervision studies.

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