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Development of Policy Instruments in an Effort to Increase *Tax-to-Gross Domestic Bruto Ratio* in Indonesia

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Abstrak

Rasio penerimaan pajak dipandang sebagai indikator yang lebih baik untuk mengetahui kontribusi penerimaan pajak dalam perekonomian suatu negara terhadap Produk Domestik Bruto. Bank Dunia mengungkapkan, rasio pajak terhadap PDB minimal 15% akan mampu menghasilkan pertumbuhan ekonomi yang positif dan dapat menjadi solusi jangka panjang dalam pengentasan kemiskinan. Namun upaya untuk meningkatkan rasio pajak terhadap PDB bukanlah tantangan yang mudah bagi negara berkembang, termasuk Indonesia. Menemukan solusi terhadap tantangan ini juga merupakan tugas berkelanjutan bagi otoritas pajak Indonesia selama hampir sepuluh tahun. Dengan menggunakan metode kualitatif, artikel ini mencoba mengidentifikasi instrumen kebijakan yang telah diterapkan dan dikembangkan oleh Direktorat Jenderal Pajak sebagai lembaga utama pengumpulan pendapatan negara di Indonesia.

Kata Kunci: *Instrumen Kebijakan, Kepatuhan Pajak, Kesadaran Pajak, Tax Ratio.*

Abstract

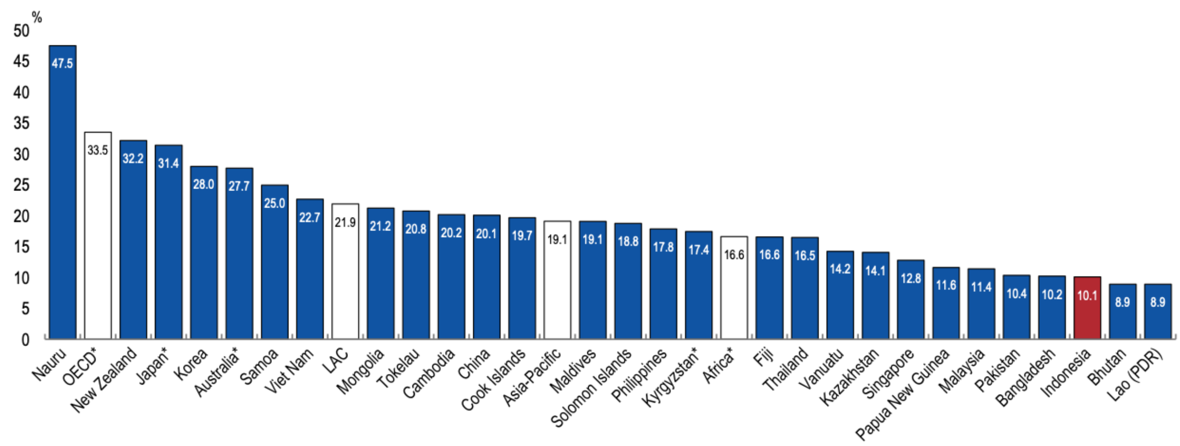
The tax revenue ratio is seen as a better indicator for determining the contribution of tax revenue in the economy of a country in low performance with Gross Domestic Product. The World Bank stated that a tax to GDP ratio of at least 15% would produce positive economic growth and could be a long-term solution to overcoming poverty. However, efforts to increase the tax to GDP ratio are not an easy challenge for developing countries, including Indonesia. Efforts to find solutions to these challenges have also been a never-ending task for the Indonesian tax authorities for almost the last ten years. Using qualitative methods, this article tries to identify policy instruments that have been implemented and developed by the Directorate General of Taxes as the main agency collecting state revenues in Indonesia.

Keywords: Policy instruments; Tax awareness; Tax compliance; Tax ratio

INTRODUCTION

Taxes are a component that has a core role in financing national development. The contribution of tax revenue in the structure of the State Budget (APBN) is very dominant every year. In 2021, tax revenue contributed 82% to the state budget. Despite its large contribution to state revenue, the *tax ratio* in Indonesia is still relatively low. According to data published by the Organisation for Economic Co-operation and Development (OECD) in the Revenue Statistics in Asia and the Pacific 2021 report, Indonesia's *tax-to-GDP ratio* in 2020 showed a figure of 10.1%. This figure is far below the average ratio of Asia Pacific countries of 19.1%, where Indonesia ranks third lowest, and the average ratio of OECD member countries, which is 33.5%. Indonesia's *tax-to-GDP ratio* position also cannot be aligned with other countries in the ASEAN region such as Malaysia (11.4%), the Philippines (17.8%) and Thailand (16.5%). According to World Bank recommendations, a tax revenue to GDP ratio of at least 15% can guarantee positive economic growth that will have an impact on reducing poverty rates in the long run. Thus, efforts to increase the *tax-to-GDP ratio* are a top priority in Indonesia's tax system policy for the medium and long term.

Figure 1.
Asia Pacific Country Tax to GDP Revenue Ratio in 2020



Source: OECD, 2021

The tax ratio is often seen as a better *proxy* for describing a country's minimum tax revenue level than other alternatives such as total tax revenue in relation to gross domestic income (Volkerink, Sturm &; De Haan, 2002). Increasing the ratio of tax revenue to GDP has become a major homework in many developing countries, including Indonesia. The main key in efforts to increase the ratio of tax revenue to GDP is to increase taxpayer compliance and improve the level of tax awareness of prospective taxpayers in the future (Tjen, 2021).

In addition to these two things, what is a challenge for the Directorate General of Taxes (DJP) as the tax authority in Indonesia in an effort to increase the ratio of tax revenue to GDP is the tax system applied in Indonesia, namely the self-assessment system where taxpayers are given the freedom to calculate, pay and report their own taxes. *The self-assessment system* has the potential for a gap between the realization of tax revenue and the amount of tax revenue that should be able to enter the state treasury, where this *gap* shows the level of tax compliance of tax payers.

When talking about the level of tax compliance, there are two indicators that are used as benchmarks by DJP, namely payment compliance and tax reporting compliance through the submission of Tax Returns (SPT). Based on DJP's annual report, during the period 2018 to 2021 the compliance ratio of both payment and tax reporting has a positive trend, even in 2022 DJP managed to record tax revenue realization exceeding the mandated target of 115.61% with a compliance rate of submitting Annual Tax Returns of 104.03%. This shows that one of the steps in efforts to increase the *tax-to-GDP ratio*, namely increasing taxpayer compliance, has been implemented well. However, the achievement of the tax compliance level has not been able to increase the ratio of tax revenue to the state budget which is still *stuck* in the range of 10%.

In addition to focusing on improving taxpayer compliance, DJP must also pay attention to the level of *tax* awareness of tax payers and prospective taxpayers. This level of tax awareness is closely related to public insight or knowledge of the tax system, ranging from theoretical to practical matters. A positive attitude towards taxes is closely related to knowledge of taxes themselves. The higher the level of knowledge about taxes, the more positive the attitude towards them, and in the end the expected result is an increase in voluntary compliance with the implementation of tax obligations (Abbas, et al., 2021). The Director General of Taxes said that currently there are only about 19 million people who actively pay their taxes, so there is inequality when compared to Indonesia's population of more than 200 million. This inequality is one of the causes of the low tax revenue ratio in Indonesia.

Several previous studies have contributed by providing results and recommendations related to the impact of tax compliance and awareness on a country's economy through improvements in tax revenue and tax revenue ratios. These studies generally focus on how a country's government improves the compliance of its taxpayers. One of them is research conducted by Cvrlje (2015), which states that tax literacy has an important role in increasing the level of tax compliance in Croatia. Sanctions for non-compliance imposed on taxpayers do not give the expected results to improve their compliance. The government should try to incentivize and motivate taxpayers to play an active role in taxation. To be able to improve tax *morale* and tax compliance, which in turn will also increase tax revenue, the state must continue to campaign for the importance of tax literacy to the public.

In line with this, tax education is considered to have a positive impact on the level of tax compliance. Through research conducted by Kwok and Yip (2018) on the relationship between tax education and the level of tax compliance in Hong Kong, it was found that the impact of tax education on the level of tax compliance can be seen through three indicators, namely the readiness of taxpayers to comply, perceptions of the fairness of the tax system and moral indicators. The results of this study also illustrate that there is a negative relationship between taxpayers' perceptions of the fairness of the tax system and the level of tax compliance, namely the lower the taxpayer's perception of the fairness of the tax system, the higher their level of tax compliance. This is allegedly due to the distrust of taxpayers towards the government, especially high-income groups where this group has a higher *risk of non-compliance*, including the imposition of tax sanctions, loss of business reputation and social *disgrace*.

The research in this article tries to analyze the policy instruments developed and used by DJP in improving tax compliance and awareness as an effort to increase the ratio of tax revenue to GDP. The results of this study are expected to complement the results of previous studies and provide practical recommendations to policy makers in an effort to increase the ratio of tax revenue to GDP.

METHODS

This research is descriptive research with qualitative methods. In qualitative research, the principles used are derived from social knowledge that is interpretive or critical (Neuman, 2014). The main focus in qualitative methods is detailed research on a specific case that arises in social life. The data used in this study are secondary data obtained from books, articles from scientific journals and annual reports of agencies or agencies that have authority in accordance with the phenomena discussed in this study. These data are then analyzed to produce outputs that can answer research questions related to the development of policy instruments in order to increase the ratio of tax revenue to GDP in Indonesia.

RESULTS AND DISCUSSION

Policy Instruments

Public policy instruments are defined as a set of tools and techniques used by government authorities in seeking support and impact on social change (Vedung, 1998). This definition focuses on the main purpose of policy instruments, namely to stimulate or avoid social change in a certain way, which is believed to stimulate innovation. Furthermore, Howlett, Ramesh & Perl (2009) suggest that a policy instrument is a tool or means or device chosen by a policy authority, in this case the government, to be used in implementing policies. The selection of policy instruments will produce effectiveness based on the identification of rational mechanisms in efforts to achieve policy objectives (Capano &; Lippi, 2017).

In general, policy instruments can be categorized into three groups (Howlett & Ramesh, 1995), namely *voluntary* policy instruments, *compulsory* instruments, and *mixed policy instruments*. Voluntary policy instruments are characterized by little government involvement in a policy. That is, the government does not act as a decision maker related to general problems because the government has an assumption that decision making in a policy can be more effective if it is done through market mechanisms (*markets*), family *(family and community*) or voluntary independent organizations (voluntary organizations). On the other hand, mandatory policy instruments are instruments that have the nature of forcing and directing the actions of individuals and business entities in the implementation of predetermined policies. The characteristic of this policy instrument is the government's authority over its citizens to carry out community life in accordance with regulations and impose sanctions on every violation that occurs (*regulations*). In addition, the government can also establish a state-controlled company (*public enterprise*) to carry out business activities in support of government duties and provide bars and services directly to the community (*direct provision*). Mixed policy instruments are a combination of compulsory and voluntary policy instruments, where there is a certain level of government involvement in the decision-making process by parties outside the government, namely the private sector, which ultimately leaves the final decision to that party. The form of government involvement in this policy instrument is found from the lowest level such as information dissemination (*information and exhortation*), subsidies (*subsidies*), *auction of property rights* to the highest level, namely the imposition of taxes and levies (*tax and charger*).

In addition to the above categories of policy instruments, there are also four types of policy instruments as proposed by McDonnel and Elmore (1987), namely *mandates,* *inducements, capacity building* and *system changing*. *Mandates* are policy instruments in the form of regulations such as laws, regulations or instructions that aim to regulate the actions of individuals or bodies or institutions so as to create compliance. *Inducements* are defined as policy instruments that focus on providing incentives in the form of rewards to individuals or institutions that are expected to encourage improved policy implementation or achievement of policy objectives more quickly. The type of policy instrument in the form of capacity *building* aims to develop policy implementers by providing assistance in the form of data sources both materially and in the form of education or training programs for the development of intellectual capacity and expertise or skills. While *system changing* is a policy instrument given to individuals and institutions in the form of authority to make changes to the bureaucratic structure so as to have an effect in encouraging the acceleration of public service delivery and increasing public satisfaction.

Tax Compliance

Tax *compliance* can be related to a form of economic behavior of the community. Based on economic deterrence theory, Allingham & Sandmo (1972) as cited by Taing & Chang (2020), defines tax compliance as the decision to disclose all actual income to tax authorities under conditions of uncertainty, in which case taxpayers can be allowed to report the amount of tax that should be owed or less than what should be owed, where the decision is based on the possibility of being revealed by tax authorities or the amount of non-compliance sanctions. Furthermore, tax compliance can also be reviewed in terms of theory and empirical in order to know what motivates a person's decision to pay or not pay taxes in accordance with what has become his legal obligation (Alm, 2018). From a theoretical point of view, tax compliance behavior is influenced by three main things, namely law enforcement, individual behavior in accordance with the economic standard approach, and external influences such as community group behavior. While from an empirical point of view, a person's level of tax compliance is motivated by financial decisions (such as the impact of tax audits and non-compliance sanctions) and non-financial (such as sympathy, empathy, shame, guilt and social morality). The level of tax compliance can also be influenced by social considerations (such as social norms and behavior of surrounding groups) and the level of understanding of public information received.

Tax Awareness

Some previous studies have stated that tax *awareness* is closely related to *tax knowledge*. According to Bomman and Ramatumbu (2019), tax awareness is one type of tax *knowledge* where in their research, they provide a framework of thinking related to tax knowledge because there is not much tax literature that provides a precise definition of the term. This framework groups tax knowledge into three categories, namely knowledge of taxation in general, knowledge of tax procedures or administration and knowledge of tax law. This research also suggests that tax education should not only provide technical and procedural knowledge, but should also be able to raise awareness to be able to create voluntary tax compliance behavior. Research conducted by Abbas, et al. (2021) indicates that the average level of tax awareness has increased after a tax education program that adds insight into the taxation of its participants. The effectiveness of tax education programs will be influenced by the level of introduction of students to taxes, so tax education programs need to continue to be carried out to increase tax awareness.

Several research results indicate that tax rates will increase in line with the increasing compliance of taxpayers in the implementation of their tax obligations and the level of awareness of prospective taxpayers in the future, so these two challenges must be focused by DJP in an effort to increase the tax ratio. These two challenges can be faced through the functions of DJP in carrying out its role as a tax authority, including education and supervision functions.

Policy Instruments and Their Development in the Education Function

DJP carries out various tax education activities with the aim of raising the level of public tax awareness through tax insight, changing the level of taxation knowledge and skills for the better and improve the level of tax compliance by changing people's behavior so that they gain understanding, awareness and concern in exercising their rights and fulfilling their tax obligations. In an effort to achieve this vision, tax education activities are carried out by taking into account the goals and *outcomes* to be achieved.

Table 1.
Themes, Objectives and Objectives of Tax Education Activities

Theme	Goal	Purpose
Improve the level of tax compliance	New Taxpayers and Registered Taxpayers	Taxpayers have adequate insight and skills in carrying out tax administration, with the hope that it will result in behavior change in the form of increased tax compliance.
Increase tax awareness among prospective taxpayers	Prospective Taxpayers	Providing education related to tax awareness included in the learning process to students from elementary school to higher education.
Improve taxation knowledge and skills	Potential Taxpayers, New Taxpayers and Registered Taxpayers	Education for the fulfillment of tax obligations.

Source: Directorate General of Taxes Annual Report

The implementation of tax education activities is carried out both by the DJP itself and by involving parties outside the DJP. The types of educational activities organized by DJP include educational classes both face-to-face and online, educational content uploaded through social media and webinars through online streaming media. The educational activities carried out by DJP are not only centralized but also carried out by work units spread throughout Indonesia as part of the functions and tasks of counseling in each of these work units.

Tax education class is one form of education that is routinely held by DJP work units. This activity is a type of education with a direct method that is held regularly where taxpayers are invited on a limited basis by the work unit to be given information related to the latest tax regulation policies. Since the Covid-19 pandemic hit and there have been restrictions on community activities, DJP has adapted to the policy by holding online educational classes using virtual meeting applications. The implementation of online education classes is considered effective and efficient so that it continues to this day.

Table 2.
Implementation of Tax Education Class 2018 – 2021

Year	Execution Volume	Number of Participants
2018	17.947	Data not available
2019	21.271	532.466
2020	13.633	306.076
2021	21.937	745.677

Source: Directorate General of Taxes Annual Report

In addition to tax education classes that focus more on tax regulation policies, DJP also develops educational activities by targeting MSME actors and involving parties outside DJP in the form of *Business Development Service* (BDS). BDS is an educational program in the form of capacity building provided by DJP related to providing tax training and guidance through MSME coaching where MSME actors can learn taxation materials, bookkeeping, financial planning, marketing or other materials according to their respective needs. BDS activities are one of DJP's strategies to increase tax awareness, especially for MSME actors, which has been implemented since 2015, which in its implementation uses a cooperation model involving agencies, institutions, associations or other parties (ILAP).

The BDS program is expected to train the skills of MSME actors in maintaining the sustainability of their business activities and will linearly increase awareness in the implementation of tax obligations. One of DJP's partners in the BDS program is Rumah Kreatif BUMN which has been working together in fostering MSMEs since 2018. The wider synergy of MSME development is expected to have a significant impact on the growth of Gross Domestic Product (GDP) accompanied by increased tax compliance and revenue.

DJP's education strategy not only targets registered taxpayers and prospective taxpayers who have not been registered, but also potential taxpayers in the future, namely generation Z who are currently still receiving education. Through the Tax Awareness Inclusion program in the field of education, DJP collaborates with stakeholders in providing an understanding of taxation and fostering tax awareness from an early age to students, teachers and lecturers from elementary school to tertiary level. The collaboration in the implementation of the tax awareness inclusion program between DJP and the ministry in charge of education is manifested in a *Memorandum of Understanding* (MoU) concerning the synergy of the implementation of tasks and functions in the fields of education, culture and state finance by focusing on the integration of tax awareness materials through the following strategies:

a. Curriculum, which is implemented through plans and arrangements regarding objectives, content and learning materials;
b. Learning, which is the integration of tax awareness materials through the process of interaction of learners with educators and learning resources;
c. Bookkeeping, which is a strategy using an integrated approach of tax awareness values in textbooks, reference books and teacher manuals;
d. Student affairs, which is carried out by instilling tax awareness values through various activities outside the educational institution environment.

These inclusion strategies are manifested in various forms of activities carried out both routinely and periodically in certain periods such as Tax Speaking, *Call For Paper* Taxation, publishing tax journals, National Conference on Taxation and others. In addition to activities, to support the implementation of this program, inclusion partners at the university level also formed a *Tax Center* as a bridge for the community and DJP that provides tax services both for the academic community and the wider community while adhering to the established guidelines. The Tax Center is also a forum for students who have an interest in directly contributing to DJP in providing services for taxpayers by acting as tax volunteers. These tax volunteers are given the opportunity to contribute to tax service offices and directly provide services to taxpayers while still being assisted by officers in these offices.

From the descriptions above, it can be concluded that the policy instruments used by DJP in its educational function consist of several forms. And from the policy instruments that have been used, DJP also develops policy instruments in the hope of increasing the potential possibility of achieving more optimal policy objectives. The form of policy instruments used in the educational function is Information and Exhortation which is developed into policy instruments in the form of capacity building and voluntary organizations. The identification of policy instruments and their development in the educational function can be seen in the table as follows:

Table 3.

Identification of Policy Instruments and Their Development in the Education Function

Forms of Policy Instruments	Policy Instrument Development	Description
Mixed Policy Instrument	*Capacity Building*	- Direct education activities to registered taxpayers both offline and online - *Business Development Service* (BDS) activities that target MSME actors to increase applicability and knowledge through taxation, bookkeeping, *financial planning, marketing* or other materials.
	Information and Exhortation	Upload educational content related to tax regulation policies, tax application video tutorials and information on forms of tax public services.
	Voluntary Organization	Tax Center at the college level.
	Family and Community	Inclusion of tax awareness in the field of education that provides an understanding of taxation and fosters tax awareness to students, teachers and lecturers.

Policy Instruments and Their Development in the Supervision Function

Taxation in Indonesia adheres to a *self-assessment system*, which means that taxpayers are given the trust to calculate and deposit taxes owed and report taxes that have been paid through a Tax Return (SPT). As mandated by the Law on General Provisions and Tax Procedures (UU KUP) as last amended by the Law on Harmonization of Tax Regulations (UU HPP), every Taxpayer is required to fill out a tax return correctly, completely and clearly, this is where DJP carries out its function in supervising and testing compliance with the implementation of taxpayers' tax obligations in terms of calculating, paying and reporting taxes to assess whether the implementation of these obligations has been according to reasonableness. One of the media for monitoring taxpayer compliance is through tax intensification activities by issuing a Request for Explanation of Data and/or Information (SP2DK) as an output product. Intensification is a series of activities in order to explore tax potential to further intensify various taxpayer information that has been registered in the tax administration system with the aim of testing formal and material compliance of taxpayers. Tax intensification activities are carried out while still guided by the provisions of legislation in the field of taxation as the legal basis for implementing tax obligations in accordance with testing or research materials on each type of tax.

SP2DK, which is one of the main *outputs* of intensification activities, is one of the performance indicators of the supervisory function, which contains potential tax revenues from indications of non-compliance of taxpayers who should be able to enter the state treasury, so that if the potential tax revenue can be realized, it will be able to help increase the tax revenue ratio. The SP2DK issuance process refers to the procedures and implementation guidelines that have been regulated in the Circular of the Director General of Taxes number SE-05/PJ/2022 as a complement to the implementation guidelines previously regulated in the Circular of the Director General of Taxes number SE-39/PJ/2015 concerning the supervision of Taxpayer compliance. This circular is intended as a guideline for the implementation of *end-to-end* business processes for monitoring Taxpayer compliance so that in its implementation there is uniformity and continuity. The guidelines in this circular aim to improve the efficiency and effectiveness of supervision in order to realize sustainable taxpayer compliance with the provisions of laws and regulations in the field of taxation and to support the achievement of optimal tax revenue.

Table 4.
Taxpayer Supervision Performance through the Issuance of SP2DK for 2018 – 2021

Description	Year of Issue			
	2018	2019	2020	2021
SP2DK Production	2.484.729	3.353.763	2.424.701	3.730.574
Number of SP2DK Beneficiary Taxpayers	1.443.036	1.887.645	1.496.513	1.583.787
SP2DK Completed	1.480.898	2.756.960	817.849	2.870.133
Realization Value of Tax Potential from SP2DK	Rp122,86T	Rp122,04T	Rp66,85T	Rp37,95T

Source: Directorate General of Taxes Annual Report 2018-2021

In optimizing supervisory performance, DJP also provides support in the form of human resource development aimed at increasing the capacity of employees, especially those who have duties and work items in the supervisory function. As an organizational asset, DJP realizes that the need for human resource capacity development needs to continue to be carried out periodically and evenly so that every year there is an agenda of employee capacity building activities both in the form of education and training (Diklat) and employee assignments to attend seminars or *short courses* both at home and abroad. The material provided in the implementation of training varies greatly according to organizational needs, ranging from technical, such as technical extracting potential in certain business sectors, technical financial statement analysis or digital forensic training to soft skills development such as *negotiation skills* training.

Not only in training, assignments to take *short courses* both at home and abroad are also given to employees who are selected through an internal selection process. *This short course* or seminar is usually held by institutions, organizations and government authorities such as the OECD, World Bank or partner country government institutions with a broader theme in the field of macroeconomics. After attending the seminar or *short course*, the employees who are given the assignment will be asked to contribute to the organization related to the theme of the activity followed in the form of activity resumes, publishing articles, modules and providing dissemination to other members of the organization so that there is a *transfer of knowledge* as a result of the assignment.

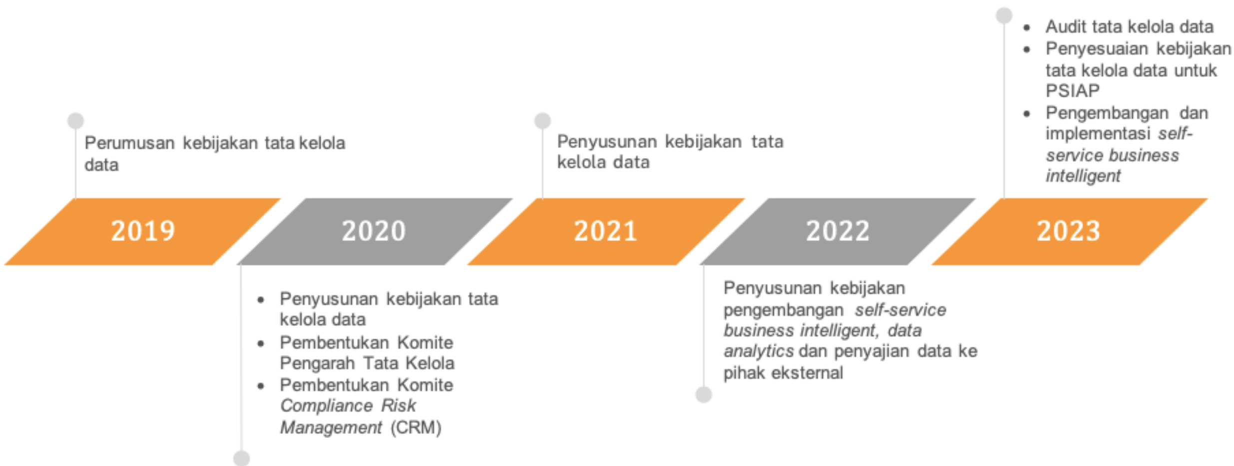
Table 5.
Employee Assignment in Capacity Development in 2018-2021

Form of Assignment	Number of employees assigned			
	2018	2019	2020	2021
Technical Training	16.550	34.107	104.108	30.304
Short Course	138	183	15	131

In addition to employee capacity development, support for supervisory performance is also provided in the form of system development and updates in the information system at DJP. Information and Communication Technology (ICT) in DJP is always developed continuously so that all tasks and functions can run optimally. In addition, ICT development also aims to improve the services provided to *stakeholders*, especially taxpayers. ICT improvements in DJP actually target all functions in the organization, but in the supervisory function, these various improvements and updates are the main needs, especially in providing data that can be used to test compliance with the implementation of tax obligations.

DJP has also begun to empower *big data* technology in processing collections collected by ICT systems into collections of factual information to formulate more targeted policies. The year 2015 is the starting point for DJP in an effort to face challenges that may arise in *big* data management by making continuous improvements and improvements in data management. This data management improvement is a manifestation of data synergism managed in DJP's *data warehouse* with the Tax Administration Core System Update (PSIAP) which has been started since 2019 and is planned to start fully operating in 2024.

Figure 2.
Stages of Improving DJP Data and Information Governance



Source: Directorate General of Taxes Annual Report 2019

One form of ICT development that is the main *tool* in the supervisory function is the implementation of *Compliance Risk Management* (CRM) which is part of the DJP's Strategic Plan (Renstra) for 2015-2019. This strategic plan has a strategic initiative in the form of preparing a risk-based Taxpayer compliance management model. The initial step of CRM development has begun in 2014 by designing a risk *engine* as an integrative and comprehensive decision-making support system in managing the risk of taxpayer non-compliance. The product of this risk *engine* is a Taxpayer risk map which is used as a tool in tax supervision and audit activities. Furthermore, in 2019 DJP also developed an *automation tool* in the form of smart business network analysis (*Smart Web*), which is an analytical graph that provides visuals of the network of Taxpayer *business* activities that enrich the CRM risk engine, especially in managing *transfer pricing risk*.

Based on the descriptions above, it can be seen that the policy instruments used by DJP in the supervisory function consist of several forms. From the policy instruments that have been used, DJP also develops policy instruments that are expected to optimize the performance of the supervisory function in minimizing the risk of non-compliance from taxpayers. The form of policy instruments used in the supervisory function is *Regulation* which is developed into a policy instrument in the form of *capacity building* and *system changing*. The identification of policy instruments and their development in the educational function can be seen in the table as follows.

Table 6.

Identification of Policy Instruments and Their Development in the Supervisory Function

Forms of Policy Instruments	Policy Instrument Development	Description
Compulsory Policy Instruments and *Mixed Policy Instruments*	*Regulations*	Law Number 6 of 1983 concerning General Provisions and Procedures for Taxation, Law Number 7 of 1983 concerning Income Tax, Law Number 8 of 1983 concerning Value Added Tax on Goods and Services and Sales Tax on Luxury Goods (all of these laws were refined into Law Number 7 of 2021 concerning Harmonization of Tax Regulations) and its implementing regulations in the form of Minister of Finance Regulations and Director General of Taxes Regulations.
	Mandates	Circular Letter of the Director General of Taxes Number SE-05/PJ/2022 as a complement to the implementation guidelines previously regulated in the Circular Letter of the Director General of Taxes number SE-39/PJ/2015
	Capacity Building	Human resource capacity development in the form of technical education and training as well as assignments in seminars or *short courses* at home and abroad
	System Changing	Improvement and development of ICT in the supervisory function in the form of data management in the form of *Compliance Risk. Management* (CRM) and *core system* development in the form of Tax Administration Core System Update (PSIAP) for all functions in DJP.

CONCLUSION

DJP as the tax authority in Indonesia already has policy instruments in facing challenges that are not easy in an effort to increase the ratio of tax to GDP. Based on the discussions above, it can be concluded that matters related to policy instruments that have been implemented and developed by DJP are as follows. First, the policy instrument owned by DJP in an effort to increase the ratio of tax to GDP is implemented through two main functions, namely the education function and the supervisory function. These policy instruments are as proposed by Howlett and Ramesh (1995), namely in the form of compulsory policy instruments and mixed policy instruments. Mixed policy instruments are more widely used in the educational function carried out by DJP, namely in the form of information and dissemination or counseling. Meanwhile, in the supervisory function, the form of mandatory policy instruments is mainly used, although some forms of mixed policy instruments are also used by DJP in carrying out this function. The mandatory policy instruments used are various regulations and regulations in the field of taxation ranging from laws to regulations of the Director General of Taxes.

Second, in order to optimize efforts to increase the ratio of taxes to GDP, it is natural for DJP to consider several developments of policy instruments as proposed by McDonnel and Elmore (1987), namely in the form of mandates, *capacity building* and *system changing*). In addition, the option of developing soft policy instruments as proposed by Howlett and Ramesh (1995) also needs to be considered, namely in the form of *voluntary organization* involvement and participation from communities in society. DJP certainly still needs to continue to consider the choice of other policy instruments to be developed so that efforts to increase the tax to GDP ratio are more optimal. Therefore, further research with a deeper focus is needed so as to produce recommendations for DJP in the development of policy instruments. Through these recommendations, it is hoped that it will enrich DJP's strategy in the form of developing more powerful policy instruments to achieve the organization's goals in its contribution as a collector of state revenue.

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