Evaluating the Sunset Policy in Indonesia

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Abstract
This paper investigates the performance of a tax amnesty program in Indonesia (which is named by the Indonesian government as the *Sunset Policy* program). The objective of this study is to examine the hypotheses that several factors associate with the success of the Sunset Policy program. These factors are: publicity, program cost, regional revenue derived from personal income tax, regional GDP, population, and legal enforcement. This paper uses the Ordinary Least Square method with both single and multiple regression models to analyze the impact of those factors to the Sunset Policy program revenue. A statistical descriptive analysis also has been used to strengthen the arguments. The empirical results indicate that publicity, program cost, regional revenue derived from personal income tax, regional GDP, population, and legal enforcement have significant impact to the success of the Sunset Policy program performance in Indonesia.

Keywords: Sunset Policy, tax amnesty, income tax, legal enforcement.

1. Introduction

On the 1st of July, 2008 the government of Indonesia introduced a tax amnesty program named the *Sunset Policy*. The *Sunset Policy* gives an opportunity for the citizens to register voluntarily and to file their tax returns. It also facilitates the registered taxpayers to amend their previous tax returns. In exchange, the government does not impose any penalties and any tax investigations to the taxpayers related to the tax return and related to the amendment of their previous tax returns as well.

The *Sunset Policy* program which lasted six month until 31st of December 2008 was a breakthrough of Indonesian fiscal policy program. This policy has productively succeeded to generate the windfall of tax revenues amounted to 7.46 trillion rupiahs in the aggregate (the Directorate General of Taxes, 2009). The government has also successfully brought 5,635,128 of new taxpayers into the tax rolls (the Directorate General of Taxes, 2009). The program has been launched as a cheap and effective tool to increase the tax revenues in the short run.

Tax revenues have been playing a strategic role in sustaining Indonesian development process through financial contribution within the national budget (see table 1 below).

Table 1: Government Revenue Contribution (trillion rupiahs)

Revenue	2001	2002	2003	2004	2005	2006	2007	2008
Tax Revenue	185.5	210.1	242.0	280.6	347.0	409.20	490.98	658.7
Non Tax Revenue	115.1	88.4	98.9	122.5	148.2	228.74	216.74	320.6
Total Revenue	300.6	298.5	340.9	403.1	495.2	637.94	707.72	979.3
Tax Revenue (%)	61.7	70.3	70.9	69.6	70.0	64.14	69.37	67.3
Tax growth	--	13.2	15.2	15.9	23.7	17.9	20.0	34.2

(Source: the Ministry of Finance, 2009).

As we can see on table 1 above, taxes contribution to the national revenue has increased over the years. In 2001 taxes contribution was set at 185.5 trillion rupiahs or 61.7 percent of total state revenue. Seven years later, in 2008 tax revenues reached 658.7 trillion rupiahs equaled to 67.3 of total government revenues. In terms of tax growth, taxes contribution shows us a significant value. On the average, the tax growth from 2001 to 2008 was 20 percent with the highest growth was achieved in 2008.

Given the fact that the tax revenues play a very strategic role to increase fiscal capacity, the government of Indonesia has worked very hard to preserve tax revenues as a *prima donna* in funding the government expenditures. Serious efforts have been done in order to increase not only total tax revenues, but also the number of taxpayers and the number of *compliance ratio*. In the context of bureaucratic reformation, the government of Indonesia has reformed its tax administration since 2002 through the *tax administration reformation program* (In Indonesia it is popular as *tax modernization*). Indonesian tax reform has been intended to create a strategic system in maintaining and stabilizing fiscal sustainability. To achieve this goal, several strategic actions have been conducted by the government as follows: (a) Administrative reform; (b) Law and Regulation reform; (c) Governance reform.

Concerting with the ongoing tax reform, the government of Indonesia introduced a tax amnesty program named the *Sunset Policy* program on the 1st of July, 2008. The *Sunset Policy* gives an opportunity to the citizens to register voluntarily as taxpayers and to file their tax returns. It also facilitates the registered taxpayers to amend their previous tax returns. In return, the government does not impose any penalties to the taxpayers related to the tax return and to the amendment.

The government of Indonesia has worked relentlessly to carry on the *Sunset Policy* program successfully, using all resources it has. This paper tries to analyze the performance of the *Sunset Policy* program. Further, using aggregated data from 31 regional tax authorities throughout Indonesia, the research will examine the factors associated with the success of the program. The empirical evidence found in this research, the results, and the suggestions will be useful not only for *academia* to enrich the study of tax amnesties, but also for the government of Indonesia (the Directorate General of Taxes) to evaluate the Sunset Policy program.

2. Objective of the Study

The objective of this study is to examine the hypotheses that several factors associate with the success of the Sunset Policy program. These factors are: publicity, program cost, regional revenue derived from personal income tax, regional GDP, population, and legal enforcement.

3. Review of Literature

Some previous studies have been conducted in relation with the tax amnesty program. Several studies are introduced in this section which contributes to the development of the paper. Parle and Hirlinger (1986) conduct the empirical study of an amnesty program in the US by examining several factors which relate to the success of the amnesty program. Similar method with the study by Parle and Hirlinger is also used to develop this study to evaluate an amnesty program in Indonesia (the *Sunset Policy* program). The study by James Andreoni (1991) contributes to develop this paper because Andreoni (1991) discusses the tax amnesty program and its effect to tax cheating, tax revenue, welfare and equity. One of the purposes of the Sunset Policy program is also to reduce tax cheating, and to increase tax revenue. Alm and Beck (1991) analyze the individual behavior to participate on an amnesty program. The study by Alm and Beck (1991) contributes to the paper because it also investigates the individual response to the Sunset Policy program. The previous study by Dublin, Graetz, and Wilde (1992) as well as by Alm and Beck (1993) are also introduced here because even though these studies do not have direct contribution to develop the paper, but they address the long run impact of tax amnesty programs. This issue is very important to an amnesty program, and will be very useful for future research to address the long run impact of the Sunset Policy program to the tax revenue and taxpayer compliance.

Parle and Hirlinger (1986) identify major issues underlying the use of tax amnesty by state governments and empirically examine experience of states with amnesty programs (Parle and Hirlinger, 1986). Conducted in the summer and fall 1985, the study is based on a survey of thirteen fiscal state agencies within the United States of America. These states are Alabama, Arizona, Idaho, California, Illinois, Kansas, Massachusetts, Minnesota, Missouri, North Dakota, Oklahoma, Pennsylvania, and Texas. The data has been collected from those states by sending them a questionnaire about information relating to various aspects of the programs, and later on they were interviewed for more detailed information.

Parle and Hirlinger (1986) compare the performance of the tax amnesty programs within 13 amnesty states, and then analyze the factors which influence the effectiveness and the success of the performance of tax amnesties in each state. It also provides indicators of the overall utility of amnesty programs as devices for improving revenue administration (Parle and Hirlinger, 1986). In its conclusion, the study creates recommendations and suggestions for implementing amnesty programs.

James Andreoni (1991) examines how amnesty affects cheating, tax revenues, welfare, and equity. Despite the concerns that anticipated or repeated tax amnesty programs do not effectively increase tax compliance and tax revenues, Andreoni shows several cases that long term, fully anticipated forms of tax amnesty have been implemented by the governments. Using theoretical model of permanent tax amnesty, the study finds that it is possible that both efficiency and equity can be enhanced by permanent tax amnesty. The study indicates that although cheating will rise as a result of the permanent tax amnesty, it does not directly follow that tax revenues will also fall (Andreoni, 1991).

James Alm and William Beck (1991) analyze two different issue related to a tax amnesty program. First, how individuals respond to the tax amnesty program. Second, how the governments implement an amnesty program that optimizes taxpayers' participation and generates maximum tax revenues.

A standard expected utility model of individual behavior under uncertainty is developed to analyze the individual's response to an amnesty (Alm and Beck, 1991). The study uses the data from the twenty eight states that have held an amnesty. Further, the data are utilized to measure both the responses of individuals to the structural features of the amnesties and the revenue impact of these features (Alm and Beck, 1991).

The results indicate that individuals respond to changes in the tax on amnesty declarations, the penalty on unreported income, the probability of post-amnesty detection, and the interest on back taxes (Alm and Beck, 1991). Based on the results, the authors suggest that the enforcement practices in post-amnesty will encourage greater participation in amnesty program.

Jeffrey A. Dublin, Michael J. Graetz, and Louis L. Wilde (1992) conduct an empirical study to analyze for calendar and fiscal years 1980-1988 the factor that led US States with state income taxes to run tax amnesty programs. In this study, Dublin et.al (1992) uses a discrete-time duration model to describe the econometric approach. Using this model, they estimate the length of time states wait

before initiating a tax amnesty based on 360 observations (40 states over nine years). The results of this study show that many states initiated tax amnesties as part of a systematic effort to respond to the decade-long fall in federal tax enforcement activities (Dublin et.al, 1992).

A Tax amnesty can be defined as a limited-time offer by the government to a specified group of taxpayers to pay a defined amount, in exchange for forgiveness of a tax liability (including interest and penalties), relating to a previous tax period (s), as well as freedom from legal prosecution (Baer and Borgne, 2008). Some similar definitions of tax amnesty have been stated by many scholars. Here we do not need to reveal all definitions which seem to be similar to each other. Alm and Beck (1990) assert that an amnesty typically gives individuals an opportunity to pay previously unpaid taxes without being subject to the penalties and prosecution that the discovery of evasion normally brings. While the governments around the world introduce tax amnesties with the differences in terms of the length of time the amnesties are effective, the types of taxes eligible for the amnesties, and the types of penalties absolved, there is a common characteristic from this program that tax amnesty provides a grace period during which non-compliant taxpayers can correct previous violation of the tax law without incurring penalties (Uchitelle, 1989).

Adrian Sawyer (2005) asserts that the main types of tax amnesties are as follows: (1) Filing amnesty: this involves the waiving of penalties for non-filers who commence filing; (2) Record-keeping amnesty: this involves the waiving of penalties for past failure to maintain required records, provided such records are now kept; (3) Revision amnesty: this is an opportunity to revise past tax returns without penalty or with a reduced penalty. This will enable taxpayers to correct past returns (upwards) and pay any taxes that are missing or outstanding; (4) Investigation amnesty: This involves a promise not to investigate the source of incomes disclosed for specific years and may require the payment of an *amnesty fee*. It will also involve a promise in effect not to investigate the real amount or origin of the income; (5) Prosecution amnesty: This will involve immunity from prosecution for detected offenders on the basis of the payment of some compensation.

The governments around the world have introduced tax amnesty programs to overcome the problem of tax evasion for over the years. The countries like Argentina, Australia, Belgium, Colombia, Ecuador, France, Netherland, Honduras, India, Ireland, Italy, Panama, the Philippines, and the United States have all implemented some form of tax amnesties (Uchitelle, 1989).

Cordes, Ebel, and Gravelle (2005) point out that tax amnesties have three main objectives. The first is to generate revenue in the short run. Second, the governments want to increase revenue in the long run by changing the behavior of some taxpayers, inducing taxpayers who had been evaders to comply fully in the future (Cordes et.al, 2005). Third, governments hope to generate information both about amnesty participants, which could be used to enforce compliance by those individuals in the future, and about tax compliance and tax evasion in general, which could be used to improve tax collection and enforcement programs (Cordes et.al, 2005).

However, the long run implications of amnesties are amphibological. According to Cordes et.al (2005), the potential gain from identifying past evaders and improving their compliance in the long run must be weighed against three factors that might reduce compliance of others in the long run. First, some complying taxpayers might decide not to pay taxes fully in the future and to wait for an amnesty (Cordes et.al, 2005). To anticipate this potential problem, the governments must establish tax amnesties only once in a particular period of time, promising that there will be no similar tax amnesty policies in the future. Second, there is concern that some compliers might become disillusioned by the perceived unfairness of offering relief to past non-compliers, leading to less compliance overall (Cordes et.al, 2005). And third, some worry that the amnesty experience and attention might provide information about the ease of and opportunities for evasion (Cordes et.al, 2005).

Baer and Borgne (2008) provide an overview of the advantages and disadvantages of tax amnesties as a tool for raising revenue and increasing tax compliance. Using econometric evidence and case studies in selected countries and in the United States, they conclude that: (1) 'successful' tax amnesties are the exception rather than the norm, as overtime, net revenue collection and compliance are often negatively affected by amnesties; (2) the establishment of tax amnesties must be harmonized with an improvement in the administration's detection and enforcement powers in order to address the problems such as weak revenue performance and high delinquency and non-compliance rates; (3) the

most 'successful' amnesty programs lie at the improvement of the tax administration's enforcement capacity.

An often neglected effect of an amnesty is its effect on the workload of the administration, given limited administrative resources (Sawyer, 2005). Sawyer (2005) gives an example that a successful tax amnesty program with widespread participation that increases the workload of the administration massively may prevent the administration from allocating sufficient resources to enforcement in years after the amnesty. This implies, therefore, that a 'highly successful' tax amnesty may be at the cost of future revenue on account of the workload effect (Sawyer, 2005).

4. Hypotheses

The hypotheses of this research are formalized as follows:
1. The publicity performance does affect the result of the Sunset Policy program.
2. The program cost does affect the result of the Sunset Policy program.
3. The share of revenue derived from personal income tax does affect the result of the Sunset Policy program.
4. The number of population does affect the result of the Sunset Policy program.
5. The legal enforcement effort does affect the result of the Sunset Policy program.

5. Research Methodology

The research collects the aggregated data from 31 Indonesian tax regional offices. All the data and information have been officially acquired via the Central Office of the Directorate General of Taxes, the Ministry of Finance of the Republic of Indonesia, involving four departments under the Directorate General of Taxes: the Directorate of Services and Public Relations, the Directorate of Tax Information and Technology, the Directorate of Potential Revenue and Compliance, and the Directorate of Business Process Transformation. The data comprises of legal documents, official records and other documents related to the research topic. Further, the data are analyzed using *ordinary least square method* to bridge the relationship among the variables. However, the detailed data of the tax revenue resulted from the Sunset Policy program will not be displayed on this paper due to the restriction rule from the government.

6. Results and Discussion

The Sunset Policy program has succeeded to generate windfall tax revenues and has brought back (or brought in) the significant number of taxpayers to the tax roll. This chapter discusses the findings of the research, providing some analyses of each finding which lead to the conclusions and suggestions for the last chapter. First section provides the program structure, followed by the program performance and factors associated with the program performance.

6.1. Program Structure

To provide the structure of the Sunset Policy program, data has been gathered in table 2 and table 3 below which includes the amnesty period, tax coverage of the amnesty program, taxpayer coverage, and publicity performance. The publicity performance of each regional tax office has been evaluated as very weak, weak, moderate, and strong. The publicity is considered *very weak* if it is only performed by providing stickers, leaflets, and booklets. The publicity is considered *weak* when it is performed by using stickers, leaflets and booklets and also by using advertisement in printed media or newspapers. The publicity is considered *moderate* when it is performed by using stickers, leaflets and booklets as well as by using advertisement in printed media or newspapers and in electronic media such as radio or television. The publicity performance is considered *strong* when a regional office uses all devices to advertise and publicize the Sunset Policy program including leaflets, stickers, billboards, printed media and newspapers, radio, television, and web sites.

Table 2: the Sunset Policy Characteristics

Name of Regional Office	Amnesty Period	Tax Coverage[1]	Taxpayer Coverage	Publicity
Aceh	7/1/2008-12/31/2008	Income Tax	General[2]	Very Weak
North Sumatra no. 1	7/1/2008-12/31/2008	Income Tax	General	Moderate
North Sumatra no. 2	7/1/2008-12/31/2008	Income Tax	General	Moderate
Riau	7/1/2008-12/31/2008	Income Tax	General	Moderate
West Sumatra and Jambi	7/1/2008-12/31/2008	Income Tax	General	Weak
South Sumatra and Babel	7/1/2008-12/31/2008	Income Tax	General	Moderate
Bengkulu and Lampung	7/1/2008-12/31/2008	Income Tax	General	Moderate
Central Jakarta	7/1/2008-12/31/2008	Income Tax	General	Strong
West Jakarta	7/1/2008-12/31/2008	Income Tax	General	Moderate
South Jakarta	7/1/2008-12/31/2008	Income Tax	General	Strong
East Jakarta	7/1/2008-12/31/2008	Income Tax	General	Moderate
North Jakarta	7/1/2008-12/31/2008	Income Tax	General	Moderate
Special Jakarta	7/1/2008-12/31/2008	Income Tax	General	Strong
Banten	7/1/2008-12/31/2008	Income Tax	General	Moderate
West Java 1	7/1/2008-12/31/2008	Income Tax	General	Moderate
West Java 2	7/1/2008-12/31/2008	Income Tax	General	Moderate
Central Java 1	7/1/2008-12/31/2008	Income Tax	General	Weak
Central Java 2	7/1/2008-12/31/2008	Income Tax	General	Moderate
D I Y	7/1/2008-12/31/2008	Income Tax	General	Moderate
East Java 1	7/1/2008-12/31/2008	Income Tax	General	Moderate
East Java 2	7/1/2008-12/31/2008	Income Tax	General	Moderate
East Java 3	7/1/2008-12/31/2008	Income Tax	General	Moderate

[1] Tax coverage is income tax.
[2] Covering individual, corporate, filer, and non-filer taxpayers.

West Kalimantan	7/1/2008-12/31/2008	Income Tax	General	Weak
South and Central Kalimantan	7/1/2008-12/31/2008	Income Tax	General	Weak
East Kalimantan	7/1/2008-12/31/2008	Income Tax	General	Weak
South, West, and Southeast Sulawesi	7/1/2008-12/31/2008	Income Tax	General	Weak
North and Central Sulawesi, Gorontalo, and North Maluku	7/1/2008-12/31/2008	Income Tax	General	Weak
Bali	7/1/2008-12/31/2008	Income Tax	General	Moderate
Nusa Tenggara	7/1/2008-12/31/2008	Income Tax	General	Weak
Papua and Maluku	7/1/2008-12/31/2008	Income Tax	General	Weak
Large Taxpayer	7/1/2008-12/31/2008	Income Tax	General	Strong

Table 3: Publicity Performance

Name of Regional Office	Print Media Advertising	Web Media Advertising	Radio and Television	Leaflets, billboards, stickers, etc.
Aceh	X[3]	X	X	√
North Sumatra no. 1	√[4]	X	√	√
North Sumatra no. 2	√	X	√	√
Riau	√	X	√	√
West Sumatra and Jambi	√	X	X	√
South Sumatra and Babel	√	X	√	√
Bengkulu and Lampung	√	X	√	√
Central Jakarta	√	√	√	√
West Jakarta	√	X	√	√
South Jakarta	√	√	√	√
East Jakarta	X	√	√	√
North Jakarta	√	X	√	√
Special Jakarta	√	√	√	√
Banten	√	X	√	√
West Java 1	√	X	√	√
West Java 2	√	X	√	√

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[3] X = Publicity is not performed
[4] V = Publicity is performed

Central Java 1	√	X	X	√
Central Java 2	√	X	√	√
D I Y	√	X	√	√
East Java 1	√	X	√	√
East Java 2	√	X	√	√
East Java 3	√	√	√	√
West Kalimantan	√	X	X	√
South and Central Kalimantan	√	X	X	√
East Kalimantan	√	X	X	√
South, West, and Southeast Sulawesi	√	X	X	√
North and Central Sulawesi, Gorontalo, and North Maluku	√	X	X	√
Bali	√	X	√	√
Nusa Tenggara	√	X	X	√
Papua and Maluku	√	X	X	√
Large Taxpayer	√	√	√	√

Table 4: Publicity Performance of each Regional Office

Publicity Performance	Number of Regional Office	Percentage of Regional Office	Average Program Revenue
Very Weak	1	3.2%	2,106,589,426
Weak	9	29%	30,298,900,705
Moderate	17	54.8%	96,159,529,411
Strong	4	12.9%	808,499,750,000

The amnesty period of the Sunset Policy program was from 1st of July 2008 until 31st of December 2008. Because the tax administration in Indonesia uses the centralized taxation policy, the amnesty period of all of the regional tax offices is definitely the same. In fact, all the regional tax offices throughout Indonesia executed the Sunset Policy program based on the instruction from the central office of the Directorate General of Taxes in Jakarta.

The Sunset Policy program covered only income tax based on the article 37A the Law number 28 of 2007 concerning the General Provisions and Tax Procedures. The article 37A of the Law number 28/2007 stipulates that taxpayer who files an amendment to the annual income tax return for the year up to 2006 causing the tax payable amount to increase, by December 31st at the latest, will be exempted from the interest penalties related to the amendment. This article also explains that an individual who voluntarily registers for a Taxpayer Identification Number *(Nomor Pokok Wajib Pajak)* within 2008, and files all obligated annual income tax return for the years up to 2007, will be exempted from the interest penalties and tax audit related to the tax returns. From the statement in article 37A we can conclude that the Sunset Policy program generally covered large parts of taxpayers, covering all individual non-filer taxpayers and corporate taxpayers. Discussion with the public relation department in Central Office of the Directorate General of Taxes revealed that three factors have been taken into account in the preference for the general amnesty. First, the general amnesty can potentially generate huge financial windfall revenues. Second, the general amnesty may

be easier to achieve political support because all citizens are eligible to participate. Third, the cost of a general amnesty program is likely comparable to the cost of a limited amnesty program.

## 6.2. Factors Related to the Sunset Policy Program Revenue

To analyze the factors which have an impact to the result of the Sunset Policy program, several factors have been examined which involve the publicity performance, program cost, GDP per capita, population, and the regional revenue derived from personal income tax revenue. Those factors are used as independent variables while the program revenue is used as dependent variables. This research uses those certain relations or the logic between independent and dependent variables in the model because it is expected that each independent variable will have an impact on the dependent variable. For instance, it is expected that the publicity performance will have an impact on the program revenue because as a government program, the Sunset Policy program needs to be well communicated to the public, so that the citizen understand the meaning, the goal, and the importance of the program. When the publicity is well performed, the citizen must be aware of the program which leads them to participate on the program. As a result, the program revenue will be successful due to the high number of the taxpayers who participate on it. It is also expected that the program cost will have an impact on the program revenue because every public program spends the program costs to support the success of the program. The GDP per capita of each regional province is expected to have an impact on the program revenue as well as the population because the wealthier and the more populous is the region; the higher program revenue might be achieved. Finally, the research also uses the relation between the program revenue and the regional revenue derived from personal income tax. This relation is adopted because it is expected that if the regional personal income tax is high, it will have a positive impact to the program revenue. This is because the height of regional personal income tax means that the region has the high number of personal taxpayers who participate in the Sunset Policy program.

6.2.1. Publicity

The relationship between the publicity and program revenue is presented graphically in figure 1 below:
The publicity scores have been given to each regional tax office based on its publicity performance. The researcher includes the publicity performance of each regional office into four categorical performances: very weak publicity, weak publicity, moderate publicity, and strong publicity (provided in table 2 and table 3). Further, the categorical performances have been converted to the numerical scale: very weak publicity = 0-25, weak publicity = 26-50, moderate publicity = 51-75, and strong publicity = 76-100).

**Figure 1: Relationship of Publicity to Program Revenue**
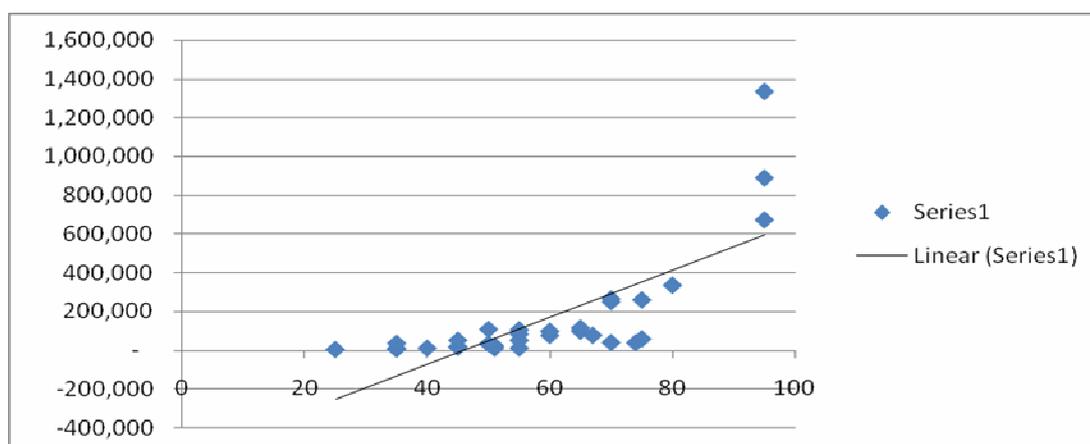
Statistical description:
(1) Correlation coefficient: 0.744
(2) Standard error: 0.00000763
(3) T statistic: 5.99
(4) Significance F: 0.00000161

The examination of publicity performance of regional tax offices as provided in Figure 1 indicates that a close relationship exists between the publicity performance and tax revenue generated. The correlation coefficient 0.744 indicates that there is a quite strong positive correlation between publicity and tax revenue generated from the Sunset Policy program. The Significant F shows the number of 0.00000161 which is much less than 0.05. This means that we can reject the hypothesis that publicity does not affect the revenue generated from the Sunset Policy program at the 5% level of significance. In other words, we are confident to say that we have strong evidence that the publicity performance does indeed influence the revenue generated from the program. However, even though the publicity performance and tax revenue generated from the program indicates a positive strong relationship, it does not necessarily mean that this correlation implies the causality. Rather, we can use this correlation in conjunction with common sense instead of establishing causality.

6.2.2. Program Costs

The relationship between the program costs and program revenue is presented graphically in figure 2 below:

Figure 2: Relationship of Program Cost to Program Revenue
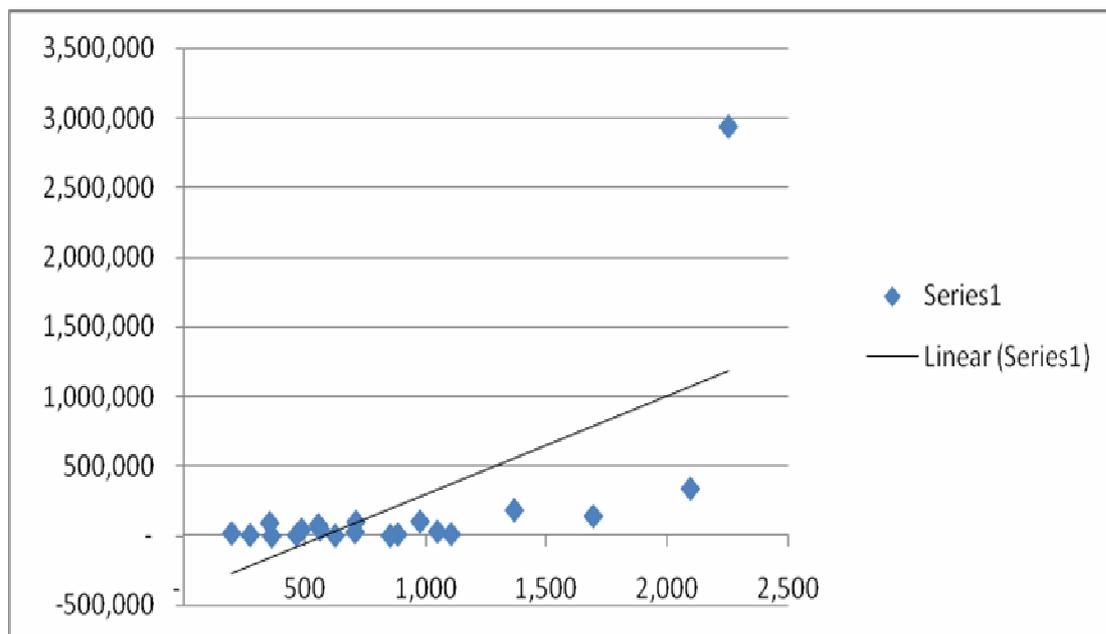
Statistical description:

(1) Correlation coefficient: 0.633
(2) Standard error: 203.28
(3) T statistic: 3.48
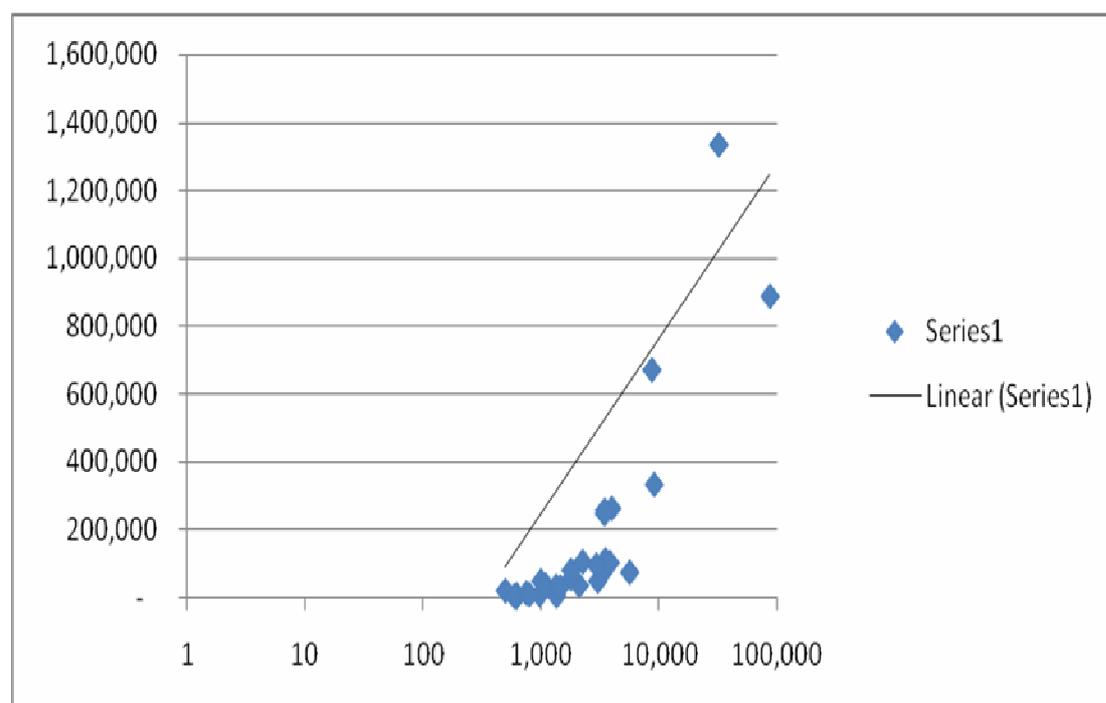(4) Significance F: 0.0026

The examination of the program cost and program revenue as provided in Figure 2 shows a close relationship between the money spent for the Sunset Policy program and the program revenue generated. The correlation coefficient 0.633 indicates that there is a quite strong positive correlation

between the program cost and revenue generated from the Sunset Policy program. The Significant F shows the number of 0.0026 which is much less than 0.05. This means that we can reject the hypothesis that program cost does not affect the revenue generated from the Sunset Policy program at the 5% level of significance. In other words, we have strong evidence that the program cost does have an impact on the revenue generated from the program.

6.2.3. Share of Regional Revenue Derived from Personal Income Tax

The relationship between the program revenue and the regional's revenue derived from personal income tax revenue is graphically provided in figure 3 below:

Figure 3: Relationship of Program Revenue to Regional's Personal Income Tax Revenue
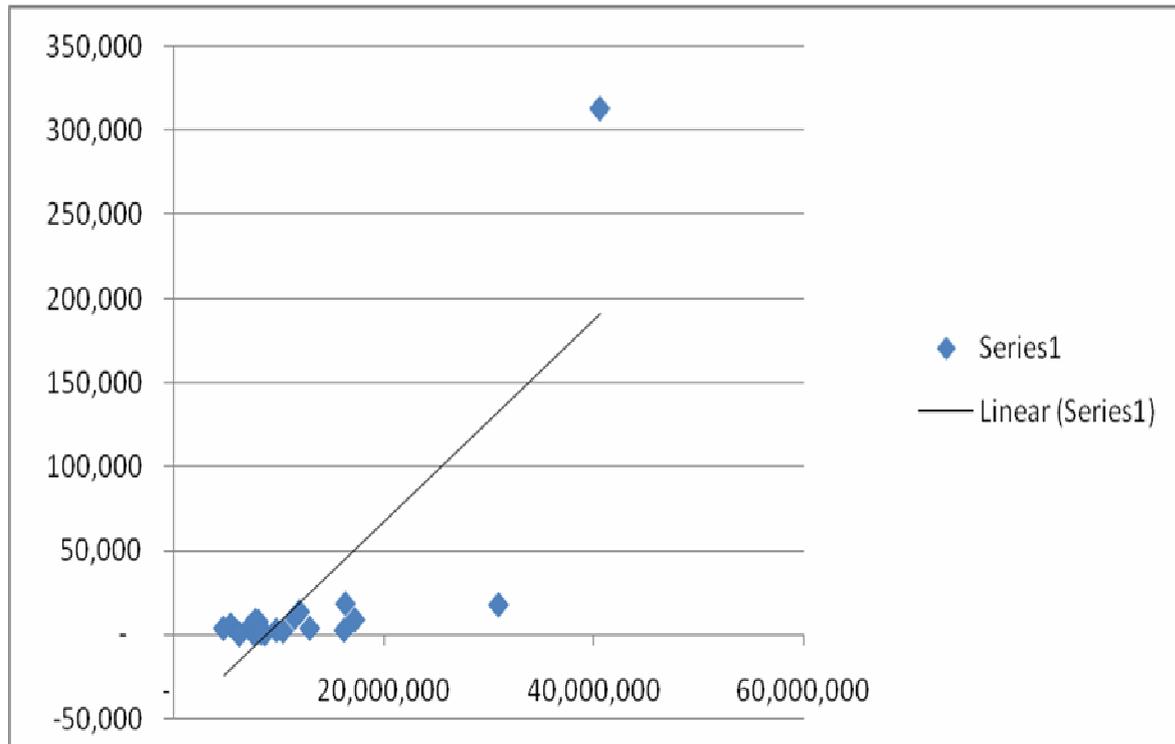

Statistical description:

(1) Correlation coefficient: 0.73
(2) Standard error: 0.0023
(3) T statistic: 5.75
(4) Significance F: 0.00000315

The examination of the program revenue and state's revenue derived from personal income tax as provided in Figure 3 shows a close relationship between the program revenue and the regional's revenue derived from personal income tax revenue. It means that the tax regional office which has higher personal income tax revenue tends to generate the amnesty revenue more. The correlation coefficient 0.73 indicates that there is a strong positive correlation between the program revenue and regional's revenue derived from personal income tax revenue. The Significant F shows the number of 0.00000315 which is much less than 0.05. This means that we can reject the null hypothesis that regional's revenue derived from personal income tax revenue does not have an impact on the Sunset Policy program revenue at the 5% level of significance. In other words, we have strong evidence that regional's revenue derived from personal income tax revenue does have an impact on the revenue generated from the amnesty program.

6.2.4. Regional Gross Domestic Product

The relationship between the program revenue and the regional gross domestic product is graphically provided in figure 4 below:

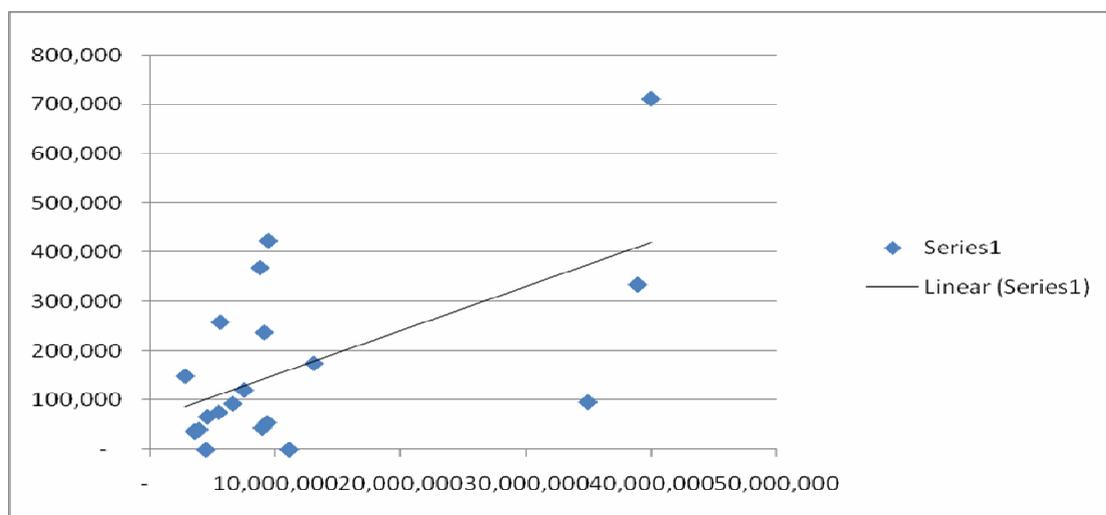**Figure 4: Relationship of Regional GDP to Program Revenue**

Statistical description:

(1) Correlation coefficient: 0.777
(2) Standard error: 0.0011
(3) T statistic: 5.24
(4) Significance F: 0.000055

The examination of the program revenue and regional GDP as provided in Figure 4 shows a close relationship between the regional GDP and the program revenue. It means that the province which has higher GDP tends to generate the more amnesty revenue. The correlation coefficient 0.777 indicates that there is a strong positive correlation between the program revenue and regional's GDP. The Significant F shows the number of 0.000055 which is much less than 0.05. This means that we can reject the null hypothesis that regional GDP does not have an impact on the Sunset Policy program revenue at the 5% level of significance. In other words, we have strong evidence that regional's GDP does have an impact on the revenue generated from the amnesty program.

6.2.5. Population and Amnesty Participation

An examination also has been conducted to explore the relationship between the populations and the number of citizens who participated in the Sunset Policy program. This relationship is provided graphically in figure 5 below:

Figure 5: Relationship of Populations to Amnesty Participants

Statistical description:

(1) Correlation coefficient: 0.587
(2) Standard error: 0.0029
(3) T statistic: 3.08
(4) Significance F: 0.0064

The examination of the program participants and the populations as provided in Figure 5 shows a fairly close relationship between the regional populations and the number of citizens participating in the amnesty program. It indicates that the province with higher populations tend to have more participant of the amnesty program. The correlation coefficient 0.587 indicates that there is a fairly strong positive correlation between the program revenue and regional's GDP. The Significant F shows the number of 0.0064 which is much less than 0.05. This means that we can reject the hypothesis that population does not have an impact on the number of participants of the Sunset Policy program at the 5% level of significance. In other words, we have evidence (even though not very strong), that the population does have an impact on the number of the participants of the Sunset Policy program. The not very close relationship between the populations and taxpayers participating in the program indicates that the government should make extra efforts to encourage the citizens' awareness of the importance of being tax compliers.

6.2.6. Multiple Regression Analysis

To learn more about the independent impact of the factors associated with the results of the Sunset Policy program as explained above, a multiple regression has been performed on the data, resulting in the statistical description below:

Table 5: Multiple Regression Summary Output

Regression Statistics	
Multiple R	0.999
R Square	0.998
Adjusted R Square	0.998
Standard Error	24634.79
Observations	20

Analysis of Variance

	df	SS	MS	F	Significance F
Regression	5	7.959E+12	1.592E+12	2622.93	2.78797E-20
Residual	14	8496226726	606873337.6		
Total	19	7.967E+12			

	Coefficients	Standard Error	t-statistic	P-Value
Intercept	-46530.815	15715.008	-2.961	0.010
Regional GDP	-9.601E-05	0.000867	-0.111	0.913
Program Cost	14.418	24.119	0.598	0.559
Population	-0.00141	0.00111	-1.262	0.227
Reg. personal Income Tax	15.342	0.957	16.034	2.101E-10
Publicity	1256.918	274.017	4.587	0.0004

The multiple regression analysis output describes the impact of five explanatory variables acting jointly on the Sunset Policy program revenue. The F-ratio in the Analysis of Variance table is 2622.93 and significant at Significance F = 2.78797E-20. This provides evidence of existence of a linear relationship between the program revenues and the five factors (regional GDP, program cost, population, regional income derived from personal income tax revenue and publicity). When all the explanatory are taken into account altogether, we look at the t-statistic ratios and the p-value (significant at the 0.05 level) to analyze whether one explanatory variable has greater effect to program revenue than other variables. The t-statistic ratios show us that the regional revenue derived from the personal income taxes has the highest effect to the Sunset Policy program revenue with the t-statistic is 16.038 at significant p-value of 2.101E-10. The second variable which gives the highest effect to the Sunset Policy program revenue is publicity performance with t-statistic ratio=4.587 at the significant p-value of 0.0004.

6.2.7. Relationship of the Sunset Policy Program to Enforcement Strategies

Amnesty theories suggest that the amnesty program must be combined with the tax administrative reform and legal enforcement efforts. This link may be an important factor in achieving fiscal benefit at the aftermath of the amnesty program. The empirical evidence shows that the government of Indonesia has preceded the Sunset Policy program with the comprehensive tax reform packages including the organization reinventing, business process improvement, information technology development, and human resource development. The legal reform in Indonesia gives stricter penalties for both the taxpayers and tax officials which do not comply with the new tax regulations. The penalties for the violations of the tax law are regulated by the article 38 to article 43 the Law number 28 of 2007 concerning the Third Amendment of the Law number 6 of 1983 concerning the General Provisions and Tax Procedures. To ascertain the establishment of legal enforcement efforts, on 23rd of February 2010, a *Memorandum of Understanding* between the Directorate General of Taxes and the Indonesian Police Department concerning the *Tax Law Enforcement* had been signed off by the respective institutions.

Conclusions

The study highlights some of the factors that are contributing to the success of the Sunset Policy program in Indonesia. As a first ever amnesty program introduced to the citizens, the Sunset Policy

program has produced respectable windfall tax revenues and has brought in the significant numbers of new taxpayers to the tax roll. Even though the amounts generated may be quite small with respect to the total state spending, they might be useful to bridge a budget short fall. In relation with the new taxpayers brought in by the Sunset Policy program, the government may expect that such new taxpayers will provide a considerable contribution to increase Indonesian tax revenue in the future as well as to improve the taxpayers' compliance with the tax regulations. As a result, the Sunset Policy program can produce not only one time financial windfall revenue, but also an improved level of tax compliance as well. In terms of the program cost, the data and analysis presented in the study show that the Sunset Policy program is relatively inexpensive compared to the benefits it produces. Result of the study indicates the lack of program planning, due to the fact that the government does not make the estimation of program cost and the estimation of program revenue. The nonexistence of estimated cost and estimated revenue makes the researcher unlikely to assess the actual performance related to the planned performance.

Analysis of the benefit and cost effectiveness present that the Sunset Policy program is highly favorable. Even though the benefit and cost ratio has considerable variations among the regional tax offices, all those regional offices show the ratio that they can generate money more than cost they spend. Perhaps, the government should magnify their investment in the program because the amount of the actual program cost is very small compared to the actual program revenue. In fact, the money which the government spends for the Sunset Policy program is closely related to the revenue they generate. It implies that the increase of the program cost does affect the increase of the program revenue.

Results of the study also demonstrate that the publicity becomes one of the considerable factors which associate with the success of the Sunset Policy program. The empirical evidence presents that the government of Indonesia has conducted the massive campaigns in order to communicate the program to the public. Through the various forms of campaign strategies, publicity does affect the behavior of large numbers of the taxpayers. Nevertheless, the government still has to make extra efforts to improve the level of publicity because the publicity performance in some regional tax offices is set at the weak level.

The program revenue is also influenced by the external factors; those are the regional wealth and the populations. A close relationship of the regional gross domestic product to the program revenue implies that the wealthier province tends to contribute more to the Sunset Policy program. Furthermore, the number of population also gives an impact to the program result in terms of the number of participant. In this context the government probably may consider to encourage the potential benefit from the participants of the Sunset Policy program to comply with the tax regime in post amnesty period.

The government of Indonesia introduces the Sunset Policy program in conjunction with the comprehensive reform packages of tax administration. These reforms include the organization reinventing, business process improvement, information technology development, and human resource development. Legal enforcement efforts have also been conducted through the amendment of the Law number 28 of 2007 concerning the General Provisions and Tax Procedures. To ascertain the implementation of law enforcement, the government has signed off a Memorandum of Understanding with Indonesian Police Department regarding the Tax Law Enforcement.

While the Sunset Policy program aims to generate the windfall tax revenue in the short run and to bring the new taxpayers into the tax system, it is expected that in the long run, the level of taxpayers' compliance will increase. Since this research has a limitation which does not examine the level of taxpayers' compliance at the post amnesty period, further study needs to be conducted to observe the long run impact of the Indonesian's Sunset Policy program on the taxpayer's compliance level.

Acknowledgement

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