

# Eradicating Inequalities in Development by Impoverishment and Social Sanction for Tax Corruption

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**Abstract.** Inequalities in development occur in almost developing countries worldwide including Indonesia. This condition is caused by powerlessness of government in fulfilling public interests because of the limitation of national budget as a result of corruption. Currently, corruption spreads to all government institutions including Directorate General of Taxes (DGT) as tax authority in Indonesia. Corruption in the area of DGT becomes an importance issue because it has a broad impact and destructive to economic development and it reduces the public trust toward this institution. In Indonesia, tax corruption is built by some patterns that have similarities between the study result and testimony from tax corruption actors, in which there is the existence of tax mafia in protecting any corruption cases related to taxes. To eradicate this practice, this study suggests the impoverishment and social sanction as a strategy to provide deterrent effect, to minimize the corruption activities in tax sectors specifically and public sectors in general, to reduce the leakage of budget, and to increase the government income. By these efforts, it is expected the equalities in development to be achieved. To apply them, it is needed the seriousness and strong commitment from government.

Keywords: **inequalities; eradication; impoverishment; social sanction; tax, corruption**

## 1 Introduction

Corruption is not new in the history of human civilization. This phenomenon has been known and discussed even since 2000 years ago when the Prime Minister of the Kingdom of India named Kautilya wrote a book titled "Arthashastra"[1,2]. Similarly, in seven centuries ago, Dante also wrote about corruption (bribery) as a crime including Shakespeare who mentioned corruption as a form of crime [3]. A well-known phrase about corruption came from British historian, namely Lord Acton in 1887. He said that "Power tends to corrupt, absolute power corrupts absolutely". This statement confirms that corruption could potentially appear anywhere without regard to race, geography, and economic capacity. Several countries in Asia have a variety of terms whose meaning is closer to the definition of corruption. In China, Hongkong and Taiwan, corruption is known as "yum cha", in India as "baksheesh", Philippines as "lagay". While in Indonesia or Malaysia has the same synonym is a bribe. Although all terms have the

meaning varied, but generally it refers to the illegal activities that apply outside the formal system[4].

Furthermore, history is also recorded that many leaders are elected by the people because of raising the issue of overcoming corruption as a central theme of their campaign. But the paradox occurs, regardless of whether they are actually anti-corruption and initially struggled to eradicate corruption, or they are just using the issue of corruption to gain the sympathy of the people, many of them are falling due to corruption. In Indonesia, for example, at the beginning of leadership, President Suharto seriously attempt to combat corruption through the establishment of various institutions, but these efforts failed. In fact, the corruption issue made he fell in 1998. In the Philippines, President Estrada, who was elected through free and open elections in 1998 and brought the issue of corruption, lost power in 2001 and even punished for his involvement in various corruption cases. In addition, prime minister of Pakistan, Benazir Bhutto and president of Nigeria, Olusegun Obasanjo are also a small part of a long line of world leaders who meet the same fate. Therefore, it not surprisingly if

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Michael Natch mentions that the high level of corruption is a valid parameter for predicting the fall of a government [5,6].

In the last two decades, Indonesia sees corruption as an important issue. Various initiatives to combat corruption were conducted, start from the national, regional until international levels. Corruption is seen not only as a moral issue, but also as a multidimensional problem (political, economic, social and cultural) [7]. Changes, in perspective and approach to overcome corruption followed by a development of cooperation between countries, emerge the optimism to fight against corruption as a possible thing to do. This optimism is also expected to exist in the taxation sector. As a sector that becomes the foundation of nearly 80% of government incomes, corruption in this sector is seen as a very painful plague for society. The purpose of taxation for the welfare of people will be hampered by the existence of corruption. Economic development and public facilities are obstructed because tax money enters to the pockets of irresponsible persons. Tax corruption itself becomes a serious concern since the existence of cases involving tax officials such as Gayus Tambunan, Dhana Widyatmika, and others. The existence of 'tax insiders' role in some cases of corruption led to allegations of tax mafia behind these cases. The question is how the actual practice of tax corruption in Indonesia? What is the relationship between tax corruption and tax mafia? What the best solution should be conducted to overcome tax corruption and tax mafia? This paper attempts to answer these questions through the study of literature and experience of some cases taxation in Indonesia. Therefore, this study comprises four parts. In the second part, I present our theoretical framework regarding tax corruption, tax mafia, impoverishment, and social sanction. Next, I discuss about tax corruption patterns, effect of tax corruption, effort to overcome tax corruption, and impoverishment & social sanction for corruptor and tax mafia. Finally, I highlight the conclusion and some recommendations.

## 2 Methodology

This study is a descriptive qualitative method by using library research based on the written data from documents, books, journals, and others supported the research. The analysis is applied by developing data and describing them comprehensively and detail in line with the subject. In this context, I collected data regarding tax corruptions and some efforts to overcome them.

For analysis data, I used the comparative method. The step for this method was initiated firstly by conducting the study of documentation. In this step, I collected all related documents regarding tax corruption in Indonesia from national and international journals and books including report from World Bank. Secondly, I completed the main data with some theories from Nye, J.S (1967), regarding type of

corruption including from Revida (2003), Pahwasono (2006), Suradika (2010), Indonesia Corruption Watch (2013), and Ardiansyah (2013) related to strategies to eradicate tax corruptions.

Corruption has a negative impact for the environment too, because if corruption always occurs in various areas of the Government, it could lead to losses that have an impact on the development of the environment.

Furthermore, Data collected was analyzed by comparing data, specifically, about the attempts to overcome tax corruption. In this context, I seek the similarities of efforts and then I formulated the innovative strategies to eradicate tax corruptions.

## 3 Discussion

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### 1. Discussion

The strategies to overcome tax corruption, absolutely, should involve all parties, all sectors and all components of policy makers in both the government and other state officials including the public as a taxpayer. This is because the corruption practice is not only a monopoly of government officials, but also a collective behavior that involves a society. Some highlights of strategies to eradicate tax corruption can be further elucidated as follow:

- 1) establishing specific commission to minimize the tax corruption;
- 2) privatization of tax auditor;
- 3) increasing role of the Supreme Audit Agency (SAA);
- 4) corporatization of Directorate General of Taxes (DGT);
- 5) movement in fulfilling tax obligation;
- 6) improving the welfare of tax apparatus;
- 7) implementation of proof reversed;
- 8) protection to witness; and
- 9) Determining corruption money as taxable object<sup>10,11,12,13,14</sup>.

Several strategies to overcome the tax corruption have been carried out and it seems that the current law enforcement has not yet provided a deterrent effect. As a result, tax corruptions still exist and provide a 'deep hurt' to the general public.

The impoverishment and social sanction are a step, a new breakthrough, and have great potential for overcoming tax corruption. This is because, humanly, no one wants to be poor and humiliated. Deprivation of wealth until under the mattress and imposing social sanction will make people to think a thousand times to do corruption because if be arrested, they could be poorer than before, be ashamed, and their family also felt consequently. Therefore, I offer a special sanction for tax corruptor without going through a prison

penalty by combining impoverishment and social sanction. These sanctions are expected to be effective in preventing tax corruption activities. In the implementation, both sanctions are applied simultaneously by following:

#### **1. Impoverishment sanction.**

This sanction is imposed through two steps: firstly, returning all the money corrupted. In this stage, confiscation of assets can be carried out. If tax corruptors come from tax official and tax mafia, then the amount returned is added by a fine at 4 times of the money corrupted. Secondly, paying tax on the amount of money corrupted. In this case, the corrupted money is determined as subject of taxable income and is imposed by the income tax with the final tariff at 500%. Because the tax is a kind of debt, the billing process will be continued until paid despite tax corruptors have died and their family will continue the debt. With this strategy, the government income from the tax sector will increase; and

#### **2) Social sanction.**

This sanction is performed by two options: Firstly, stopping totally all accesses of both tax corruptors and their family in using public facilities and in getting public services. Given unease in the form of

- 1) revoking the business license (if have a business), identification number, driving licence, and passport;
- 2) the absence in getting the government's health insurance, public schools, and government hospitals;
- 3) loss of opportunity in applying as civil servant;
- 4) revoking electricity and water services from the government;
- 5) the absence in buying a subscription card for trains and buses;
- 6) the absence to propose a loan to the bank; and
- 7) the absence in obtaining other public services in general.

Secondly, stopping totally all accesses of both corruptors and their family in using public facilities and in getting public services, as mentioned before, until the obligation to return all the money corrupted has been done and the tax payable on that money has been paid.

If this strategy is conducted, at least, the government saves costs in the side of legal process. The government does not need to spend additional costs (in fact, from taxes) to finance the court processes for tax corruption cases and to cost the prison's operations, such as feeding, training and more. Government complaints about insufficient numbers of prison at least can be resolved by decreasing prisoners from tax corruptors.

Therefore, a strong commitment and political will from the government are required. This is because the implementation of these strategies needs the special independent commission focused on supervising and examining all processes of tax collection including data integration among public service institutions and banks. Furthermore, the militant officers are required in the process of confiscation and supervision of social sanctions. When this is conducted seriously, it is not impossible, Indonesia's dream to overcome the tax corruption can be realized.

## **4 Conclusion**

Tax corruption could not be separated from the authority power. In Indonesia, power and corruption are similar like two sides of a coin, in which power tends to corrupt and absolute power corrupts absolutely. This power emerges an actor named by the tax mafia. As actor behind the tax corruption, the existence of tax mafia impairs the public interest and impedes the prosperity of society.

In terms of the pattern of corruption, obviously, there are similarities between the study result and testimony from tax corruption actor, in which there is the existence of tax official involvement in protecting any corruption cases related to taxes. This is the real tax mafia. Tax corruption is built on the basis of mutual benefit between tax authorities and taxpayers. The directorate general of taxes (DGT) is not harmed from this relationship but the center government is disadvantaged because of not 100% tax revenue enter to the budget. Consequently, the government lacked the funds to conduct maximal developments and services. As a result, the society suffers; common facilities are not available; public services are bad, and finally the tax compliance is decreased because of the absence of tangible results enjoyed by society from the tax revenue.

Tax corruption must be eliminated comprehensively. Strategies to overcome it should be preceded by a collective faith, which is a kind of willingness of all parties in working together does not give the slightest tolerance against corruption. Tax corruption should be imaged and treated as criminal behavior, as well as other crimes that require handling by law. In order to realize an effective strategy, it is needed preconditions, namely:

- 1) driven by political will, strong commitment, and emerged from own consciousness;
- 2) thorough and balanced;
- 3) accordance with the demands;
- 4) there is a target and sustainable efforts;
- 5) based on the available resources and capacities;
- 6) measurable; and
- 7) transparent and free from conflicts of interest.

Several strategies have been carried out and it seems that the current law enforcement has not yet provided a deterrent effect. As a result, tax corruptions still exist and provide a 'deep hurt' to the general public. Although the impoverishment and social sanction have not become a legal breakthrough for law enforcement in overcoming corruption cases in Indonesia, but applying these sanctions are expected to be the best solution to overcome tax corruption activities, to reduce the state expenditure, and to increase the government income from the tax sector. Again, the success of attempts to overcome the tax corruption can be achieved by strong commitment and political will from the government. If performed, it is not impossible, the Indonesia's dream to overcome the corruption can be realized.

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