# Comparative Analysis of the Tax System in ASEAN Countries (Comparative Study of Tariff Pricing Income Tax and Value Added Tax in Indonesia, Malaysia and Thailand Countries)

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**Abstract:** The existence of taxes in a country is a very important source of income in supporting national development. Developed countries are required to manage their taxes effectively and efficiently. Differences in the taxation system in each country become things that need to be studied more deeply for each country. Assessments are conducted to see the application of a good or complex system implemented in a country. A dministration of taxation as a system is a set of elements of legislation, facilities and infrastructure, and taxpayers are interrelated jointly perform the functions and duties to achieve certain goals. The rates of income tax in each country are regulated in regulations based on policies set by each country, such as Indonesia is regulated in Law no. 36 of 2008 which is one part of the tax administration. Comparison of income tax rate and value added tax in each country to be one of the reference writers to know which countries between Indonesia, Malaysia, and Thailand that have tax system and tax rate effective and efficient. Optimization of tax revenue not only on tariffs, but also through a combination of tax structures that can minimize tax evasion, and tax smuggling.
**Keywords:** Tax Administration, Optimization, Comparison.

## INTRODUCTION

The role of Tax on the development of the state cannot be avoided, because according to the principle of *democracy* where the concept of government *"from the people, by the people, and for the people* ". Developed countries also require greater taxes such as developing countries because the state cannot depend on loans. Based on it is known that to be a developed country a country must be able to manage taxes effectively and efficiently for the interests of national development.

The performance of the tax administration administration has become a public issue, especially after the implementation of tax reform, including the application of communication technology to the tax information system along with the increase of the amount of incentive given to the tax authorities. The problem becomes very vital before entering the early period of autonomization to the institution of taxation semiotonom which is often a conversation, especially among parties involved in the scope of taxation. This paper will discuss comparative tax systems in A SEAN Country by comparing the rates of income tax and value added tax and the effect of tax rates on state revenues in Indonesia, Malaysia and Thailand.

Tax administration system must run effectively and efficiently in accordance with the principles of taxation, namely; justice (*equity),* economics (*economics*) and efficient (*effiencient*). Tax policy and tax law create the potential of tax revenue, but that determines how big the potential becomes real acceptance that depends on the effectiveness and efficiency of tax administration performance [1].

Measuring the tax system and improving the performance of tax administration in developing countries is still a hot topic in the world of global taxation. International agencies also cannot simply provide an assessment of the good performance of a country simply by referring to global indicators. To quote the term Richard Bird [2], it is said that.. *in somewhat stronger term, which is the deserving poor in which they are trying hard and which are the "undeserving poor" ones that are not really doing as much for themselves as they can or should* . Measuring the performance of tax administration is intended to see how an organization achieves its goals

The measurement of taxation system and the improvement of tax administration performance in developing countries is still a hot topic in the world of global taxation. International institutions also can not simply provide an assessment of the good or bad performance of a country simply by referring to global indicators. Quoted from Richard Bird [2], it is said that ..in somewhat stronger term, which among the many poor countries which is the "deserving poor" in that they are trying hard and which are the "undeserving poor" who are not really doing as much for themselves as they can or should. But basically, the performance measurement of tax administration is intended to find out how good or bad of the organization's performance in achieving the organization's goals.

In many countries, to measure the effectiveness and efficiency of the tax system there are several indicators commonly used common indicators such as the level of compliance (filing, arrears, audits), the quality of service officers to the taxpayer, the settlement of tax burden disputes, tax collection fees and others. By using variable tax system in other countries as a comparison it is important to know whether theperformancein a country can be said to be effective even though one side can be said to meet the target. the measurementof tax administration performance with tax-to GDP ratio is the most commonly used measuring instrument because it is considered the easiest and simplest although the reliability of GDP calculation is quite crucial, although other variables such as policy options and effectiveness are also not less crucial [3].

## LITERATURE REVIEW
The function of the formulation of a state *policy* (*public policy formulation*) as an equal part of the function of the implementation of the policy of the country (*public policy implementation*). Nicholas Henry states that: " *For the letter part of the twentieth century, the public bureaucracy has been the locus of public policy formulation and the major determinant of where this country is going*" [4].

The essential principle in the collection of Taxes as known to the Four Cannons of Adam Smith is equity, certainity, convenience and economy [5], especially for certainity and convenience, is more of a good tax revenue administration prescription and is still a guideline which need to be noticed by the government in the administrative management of tax levies [6].

Implementation of tax administration in order to run effectively requires the cooperation between the Government as a tax collector and the public as taxpayers. So in order to achieve effective and fair tax administration, it should be in the tax law that there is a balance between the power of government on the one hand and the people's power in limiting the authority of the tax authorities [6].

Rehfuus [4] states that politics is a struggle to allocate values and social resources are closely aligned with administrative activities. This shows that the role of government institutions is not only to implement state policy but also to formulate the policy which gives an idea of the importance of state administration in the political process.

Bromley [7] states that there are 3 (three) levels in a policy process as an institutional hierarchy consisting of *policy level*, *organizational level*, and *operational level*.

*Tax policy* is a public view and public aspiration of taxes that are debated, screened and formulated through the legislature in a tax law as an *institutional arrangement* to be implemented by the executive body at the *organizational level* .

At this organizational level, the executive establishes various *tax* regulations as *institutional arrangements* which will be implemented by the Tax Office as the *operational level* . The tax office is a leading institution in the activities of tax administration.

The taxation system of a country consists of 3 (three) sub-systems, namely: *tax policy*, *tax law*, and *tax administration*, so the tax system can be said as a method or how to manage the tax debt indebted by the taxpayer can flow to the state treasury [8].

Nowark [9] states that the term "tax administration" can be interpreted narrowly and widely. Tax administration in the narrow sense is the administration and service of taxpayers' rights and duties, both administration and services performed in the tax office and at the place of the taxpayer. While in a broad sense, tax administration is seen as:

## Functions, including the functions of planning, organizing, moving, and tax courts
System, as a system, tax administration is a set of elements (sub-system) that is legislation, facilities and infrastructure, and taxpayers are interrelated jointly perform the functions and duties to achieve certain goals

Tax administration agencies are institutions that manage the system and implement the taxation process. Performance measurement is part of the broader processes of strategic and operational planning and is essential for accountability and transparency [10]. Performance measurement is only relevant if there are consequences and is used to support the selection of the organization's priorities. If not accompanied by both considerations, the measurement of tax administration performance will only become a routine evaluation activities that provide less value for tax administration activities. As emphasized by Crandall [10], *there are*

*two important consideration that form a backdrop for any discussion of performance measurement* :

- *First, measuring performance is only relevant if there are consequences for over and underperformance and if organization performance can influence such matters as the allocation of an organization resources and the assessment of personal performance of its managers*
- *Second, as it is commonly argued that what gets measured gets done, performance measurement must be used to support the selection of the organization's priorities so that what gets done is what should get done.*

## RESEARCH METHODS

This research uses qualitative or non-positivistic approach with interpretive paradigm in describing real condition. The interpretive paradigm is based on the researcher's step in collecting data in the field through literature study and documentation.

## RESEARCH RESULT

Quoting the opinion of Richard Bird [2] that to measure the performance of tax administration as one of the tax subsystem fairly, in addition to using indicators determined by the organization, it is necessary to do comparison with other countries. The following comparison of the performance of tax administration of Indonesia with other developing countries in the ASEAN region, namely Malaysia and Thailand.

### The ability to collect taxes

The simplest and easiest indicator to measure the performance of tax administration is the percentage approach of tax revenue to GDP informed in the table.

**Table-1: Percentage of Tax Receipts on GDP**

| Country name | % acceptance taxes from GDP |
|---|---|
| Indonesia | 10,36 |
| Malaysia | 13,77 |
| Thailand | 15,71 |

Source: Asian Development Bank, 2016

Based on Table-1 it is known that the performance of tax administration of Indonesia for the indicator of tax revenue percentage of GDP is low compared to some countries ASEAN. Indonesia is only in the range of 10.36% below Thailand which has a tax ratio of 15.71% and Malaysia of 13.77%. It should be emphasized that the above percentage is total tax revenue outside of social security for all countries

Based on the above information can be seen that the performance of tax administration of Indonesia for the indicator percentage of tax revenue to GDP is relatively low compared to some countries ASEAN. Indonesia is only in the range of 10.36% below Thailand which has a tax ratio of 15.71% and Malaysia of 13.77%. It should be emphasized that the above percentage is total tax revenue outside of social security for all countries

**Table-2: Individual Income Tax Rate (Resident) Indonesia**

| Taxable Income | Rate |
|---|---|
| Up to Rp 50,000,000 | 5% |
| Above Rp 50,000,000 up to Rp 250,000,000 | 15% |
| Above Rp 250,000,000 up to Rp 500,000,000 | 25% |
| Above Rp 500,000,000 | 30% of the relevant amount |

Sourch: PwC Indonesia, Indonesian Pocket Tax Book 2018

### Personal / Individual Income Tax

In practice, please note the percentage of tax revenue on GDP is influenced by differences in taxation system and tax rate in each country. Here is the comparative income tax information of Indonesia, Malaysia, and Thailand.

**Table-3: Malaysian Personal Income Tax Rate (Resident) Malaysia**

| | Chargeable Income RM | YA 2017 | |
|---|---|---|---|
| | | Rate % | Tax Payable RM |
| On the first | 5,000 | | 0 |
| On the next | 15,000 | 1 | 150 |
| On the first | 20,000 | | 150 |
| On the next | 15,000 | 5 | 750 |
| On the first | 35,000 | | 900 |
| On the next | 15,000 | 10 | 1,500 |
| On the first | 50,000 | | 2,400 |
| On the next | 20,000 | 16 | 3,200 |
| On the first | 70,000 | | 5,600 |
| On the next | 30,000 | 21 | 6,300 |
| On the first | 100,000 | | 11,900 |
| On the next | 150,000 | 24 | 36,000 |
| On the first | 250,000 | | 47,900 |
| On the next | 150,000 | 24.5 | 36,750 |
| On the first | 400,000 | | 84,650 |
| On the next | 200,000 | 25 | 50,000 |
| On the first | 600,000 | | 134,650 |
| On the next | 400,000 | 26 | 104,000 |
| On the first | 1,000,000 | | 238,650 |
| Above | 1,000,000 | 28 | |

Source:: Malaysian Tax Book , 2017

**Table-4: Thailand Resident Income Tax Rate**

| Net income (Baht) | Tax rates |
|---|---|
| 0 – 150,000 | Exempt |
| 150,001 – 300,000 | 5% |
| 300,001 – 500,000 | 10% |
| 500,001 – 750,000 | 15% |
| 750,001 – 1,000,000 | 20% |
| 1,000,001 – 2,000,000 | 25% |
| 2,000,001 – 5,000,000 | 30% |
| Over 5,000,000 | 35% |

Source: PwC Thailand, Thailand Pocket Tax Book 2018

Table-3 and 4 show the comparative differences in the magnitude of personal income tax tariffs in the country of Indonesia, Malaysia and Thailand per year 2017/2018. The highest rates in each country are for Indonesia 30%, Malaysia 28%, and Thailand 35%. It can not directly indicate that tariff as a

determinant of income in each country, but it is one contribution to revenue in each country.

The issue of tariffs is the most sensitive issue that many are based on justice considerations, since tariffs reflect fairness. Tariffs can be classified into Progressive tariffs, proportionally and taxively degressively [6]. According to Prof. Dr. John Hutagaol that there is no scientific validity of justice in taxation, since justice in taxes is merely a consensus between the taxpayer community

Countries with high tax rates may not necessarily result in high revenues too, as not only rates but population numbers with employment status, and the income of each taxpayer is an effect on the State's revenue.

**Corporate Income Tax**

In addition to the personal income tax, other taxes that contribute as one of the determinants of state revenues are corporate income tax or Corporate Income Tax (CIT). Here is the comparison of CIT rates in Indonesia, Malaysia and Thailand.

**Table-5: Corporate Income Tax (CIT) Tariff Indonesia, Malaysia and Thailand**

| Countries | Corporate Income Tax Tax Rate - Base on Taxable Profit |
|---|---|
| Indonesia | 25% |
| Malaysia | The first RM500,000 19% |
| | In excess of RM500,000 24% |
| Thailand | 20% |

Source: PwC Indonesia, Malayasia, Thailand 2017/2018

Based on table-5 data it can be seen that Indonesia has a higher CIT tariff compared with Malaysia and Thailand. But in reality, Indonesia's tax revenue is still relatively low compared to the percentage of Malaysia and Thailand which have lower CIT tariff than Indonesia, it means there are other things that affect other than the CIT tariff. as one of the references related to this system of tax collection in tax administration also can affect the amount of tax revenue.

Internal technical implementation of tax administration organization is divided into 3 parts, namely tax item based, function based and *segmented-based taxpayer. Tax item based* is a traditional form of organizing the implementation of tax administration, for

example the units that collect Personal Income Tax, Corporate Income and VAT. Meanwhile, the *function based* on internal structure design on the core activities of tax administration such as audit function, tax payer account management, consultation. Finally, the *tax payer* segmented model model is based on taxpayer segmentation such as units that supervise individual taxpayer, taxpayer of UMKM or corporate taxpayer

Comparisons of internal tax administration segmentation in Indonesia, Malaysia, and Thailand are listed in Table-6.

Comparison of internal tax administration segmentation in Indonesia, Malaysia, and Thailand as follows:

**Table-6: Internal Segmentation of Tax Administration**

| **Negara** | *Tax item based* | *Function based* | *Taxpayer segmented based* |
|---|---|---|---|
| Indonesia | Tidak | Ya | Tidak |
| Malaysia | Tidak | Ya | Tidak |
| Thailand | Tidak | Ya | Ya |

Source: Asian Development Bank, 2014

In order to intensify tax collection, internal segmentation becomes the choice of institutional policy. The existence of a large taxpayer unit is expected to maximize tax collection and tax revenues while providing services to taxpayers priority.

**Value Added Tax (VAT)**

Each State has its own tax collection system and policies, as well as the establishment of the value added tax rate applicable to each State. Here is the comparison of value added tax rate of Indonesia, Malaysia and Thailand.

**Table-7: Value Added Tax (VAT) Tarrif Indonesia, Malaysia, Thailand**

| Countries | Value added tax (VAT) |
|---|---|
| INDONESIA | 10% |
| MALAYSIA | 10% |
| THAILAND | 7% |

Source: PwC Indonesia, Malaysia, Thailand 2017/2018

Based on the comparison of the above data, Thailand has a 7% VAT rate, lower when compared to Indonesia and Malaysia which has a 10% VAT rate. Of course, value added tax is one of taxes that contribute to tax revenue in each country, if we compare the total tax revenue in each country by analyzing the prevailing tax system and rate.

The process of optimizing tax revenues is not necessarily achieved by imposing exorbitant tax rates, but with lower tax rates combined with tax structures that minimize tax evasion and tax smuggling, so as to achieve maximum total revenue [11-15].

Utilization rate (coverage ratio or administrative efficiency ratio) is a comparison between the realization of acceptance and the potential of theoretical acceptance. Utilization rate is said to be more important than comparing the revenue realization with the revenue plan (target system) to know whether the role of orientation is optimal or not. The collection cost ratio is one of three tools of analysis (tax effort/tax ratio, utilization rate/coverage ratio/efficiency ratio and the collection cost ratio used to measure the efficiency and effectiveness of collection [16].

**CONCLUSION**

Indonesia's taxation system cannot be said to be good, especially if measured by using the percentage indicator of state revenue to GDP. While the rate of income tax and value added tax in Indonesia compared to Malaysia and Thailand as a whole is relatively higher, but high tax rates have not been able to guarantee a large revenue as well. As Thailand has relatively low tax rates compared to Indonesia and Malaysia but has a percentage of revenue  Countries to higher GDP from Indonesia and Malaysia.

To optimize tax revenues should not be achieved by imposing high tax rates, but with the imposition of lower tax rates combined with tax structures that minimize tax evasion and tax

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