



The Importance of Compliance Risk Management: A Necessary Cost?

Getting to know Enterprise CRM through Tax Perspective

Monthly Newsletter

August 2022

Table of Contents

- 3 Insight**
Enterprise Compliance Risk Management
- 10 Monthly Highlights: August 2022**
 - 11** Trade Through Electronic System and Electronic System Provider Companies Face Different Outcomes
 - 12** PER-11/PJ/2022 Will Be Applicable Starting September 2022
 - 13** Tax Revenue Until July 2022: Positively Growing and Reaching More than 50% of Total Target
 - 14** Indonesia's 2023 Tax Revenue to Target IDR2,016.9 T
- 15 Tax Calendar: September 2022**

Risk Management: Mistakenly Overlooked?

by Shaheila Roeswan and Ellicia Emerliawati

Risk management should be considered an important element in managing a business. It should be used to not only assess and mitigate risks but also to innovate and create new strategies as older ones begin to expire. Risk management is important to have and develop for enterprises as well as government authorities.

An Introduction to Risk Management

One thing to note about having or developing an enterprise is that they are always in need of constant management. After the 2008 financial crisis, most enterprises now put compliance as one of their priority management goals because such lack of compliance contributed to massive losses and fines. As a result, many companies significantly raise their risk management and compliance budget (some even spend an unfeasible amount of cost) to ensure best compliance practices, hoping that by doing so, they have protected themselves against compliance risks. The takeaway of it all is no matter the industry, all enterprise needs to ensure that they have Enterprise Risk Management at the ready.

While all industries require enterprises to have a form of risk management, it should be worth noting that there is no one-size-fits-all approach to Enterprise Risk Management. No enterprise is similar to the other – different risk management approaches should be tailored to fit different enterprises, even if the issues are similar. Each enterprise aims to have different objectives from obtaining and exercising an Enterprise Risk Management, also known as ERM.

As mentioned, different industries and companies also entail different descriptions of what they consider an ERM. There are, however, common objectives pulled for an ERM. A report by McKinsey revealed that these objectives entail protecting enterprise values, ensuring compliance with regulations that could protect the enterprise from an intrusion both internally and externally, obtaining growth and profitability in the long run by following risk management and allowing room for stability and continuity. These objectives are stemmed from both external and internal levels. Trends in the last decade show that it has become a top priority for enterprises to comply with regulations in comparison to other aforementioned objectives.

Enterprise Risk Management's Potential Objectives: How Different Across Industries?

Quality and reputation risks are considered two of the biggest risks to tackle pertaining to ERM, since these are the main damages that would immediately occur when a certain business fails to meet the expectations they were set for. This can negatively affect their image. In addition, regulatory risks are one of the most probable issues for an enterprise to face during these times. The ever-changing global issues and regulations could affect the current regulation in different countries in the world. Thus, enterprises should always be aware of the changes in regulations – and one way to fight that is through having an ERM.

In the energy industry, for example, the "name protecting enterprise values" is their top objective in having an ERM. This correlates with their business and how they are potentially faced with different types of risks at once, hence the need to protect their value. Risks such as regulation and operation are common in this industry, with operations having both internal and external factors contributing to the industry's issues. The inability to meet the energy demand, failures of systems or human errors, the senescent workforce, environmental issues such as climate changes and natural disasters, and any market or political changes are some of the risks faced by the energy industry.

However, in the oil and gas industry, long-term solution is the key factor in developing an ERM. As the industry depends on stability, production quantity, and exploration of oil and gas, the development of ERM should then also pinpoint developing risk adjustments following each enterprise's portfolio of activities, such as on-shore and off-shore activities. It should be worth noting, that the oil and gas industry depends on having the financial stability to mitigate their risks, and that the industry also pays close attention to any environmental and regulatory changes as they depend on global conditions to ensure their products.

In the case of the financial services industry, the more common risks to face are in relation to innovation and quality. The growing competition in the industry calls for room for more innovation, and thus, with a high level of innovation and quality between enterprises, the need to have ERM that focuses on such risks is needed.

Preparing for Enterprise Risk Management: What Is Compliance Risk Management? How To Get Started?

With varying risk exposures unique to each enterprise, it is natural that each enterprise approach ERM in different ways. The first common step is to appoint a function (usually within the organization) and/or a party (i.e. external consultant or a third party) to handle its risk management. Depending on their organization and need, it is quite common for companies to appoint an in-house Chief Risk Officer, responsible for end-to-end risk management function, serving as the front line of the enterprise. This appointment usually entailed a whole team of risk management force, such as Risk Managers, Risk Advisors, or Risk Management Coordinators. In general, the Risk Management function is responsible for developing the enterprises' risk management framework with the enterprise's main objectives as their main product from having a framework. The range of teams to have in regard to risk management differs between companies, but they are always required to report to the higher front line in the enterprise at an organizational level.

A study conducted by PwC disclosed that the 'best' risk management in enterprises does not assume risk management as a way to only mitigate possible risks, but also to gain profit and ensure risk management also acts as a means for the enterprise to generate growth. Each enterprise shall develop an effective and established risk management framework and communication lines. They also require and receive buy-in at an organizational level, having different teams responsible for different parts of the risk management development. They would also take an available risk management plan, and then develop them further in accordance with their current objectives and goals. In addition, they do not only focus on communication but also on providing compliance training and having multiple inspectors from different levels to ensure the risk management framework would work at all levels. Weighing these factors together makes an effective ERM for each enterprise.

ERM and Tax Risks

Tax risks should be among the very first things enterprises look into when attempting to develop ERM. Why? The kind of risks that could be exposed through tax risks are innumerable. This is where all sorts of risks can mount up and get tangled with each other. In the taxation industry, the strategy to minimize these risks is called Compliance Risk Management also known as CRM, and is not only used by enterprises but also by the government.

Compliance Risk Management ("CRM") is a process of managing the compliance risks of taxpayers systematically, by choosing a treatment that can be used to increase the taxpayer's compliance effectively while simultaneously preventing any type of infringement. Taxpayer Compliance Risk is any likelihood or uncertainty that would present consequences for said taxpayers. The Directorate General of Taxes ("DGT") started to develop CRM in 2019, and what is known is that CRM serves the basic functions of the DGT in collecting the nation's revenue.

Furthermore, by referring to the Circular Letter of the Directorate General of Tax Number SE-39/PJ/2021, the updated version of Circular Letter of the Directorate General of Tax Number SE-24/PJ/2019, regarding the Implementation of Compliance Risk Management and Business Intelligence, CRM is described as a process of managing a taxpayer's compliance risk which is done systematically, measurably, objectively, and repeatedly in accordance with developing a risk engine to support the DGT's decision into being more efficient and effective.

In its application, the DGT has implemented CRM following the SE-24/PJ/2019 regarding the Implementation of Compliance Risk Management in Extensification, Supervision, Inspection, and Collection in the Directorate General of Taxes. The need to accelerate CRM usage in the entirety of the DGT business process grows, including a very-needed expansion regarding service and education of taxes, as well as an improvement in the supervision, inspection, and collection function in transfer pricing. This is also supported by having Business Intelligence ("BI"), a technique that combines architecture, information, and technology tools, with a database to collect, conserve, and manage data and cognition with analytical data tools while serving valuable information for the strategy developer and choice-maker.

Tax Compliance is commonly related to how a taxpayer carries out their tax obligations. Taxpayer Compliance is the key to executing a self-assessment system in collecting tax revenue in Indonesia, as self-assessment itself is a system based on trust – the belief that taxpayers can fulfill tax obligations by themselves. In general, there are 4 (four) tax obligations that taxpayers should do; 1) register themselves as taxpayers, 2) perform their tax report on time, 3) report their information and data as accurately as possible, and 4) fulfill tax payments on time.

A taxpayer will be considered a *non-compliant taxpayer* if they fail to fulfill one of the four aforementioned obligations. Following Law Number 6 Year 1983 regarding General Provisions and Tax Procedure, which has been updated with Law Number 16 Year 2009, there are also four obligations that must be fulfilled by all taxpayers who conduct self-assessment (registering themselves and/or their business, perform bookkeeping, perform payment, and lastly report their tax). These obligations are regulated within the General Provisions and Tax Procedures Law.

Legal Basis	Tax Obligations	Description
Article 2(1) General Provisions and Tax Procedures Law	Registration	<ul style="list-style-type: none"> • Every taxpayers that has fulfilled the subjective and objective requirements are obligated to register and will be given a Taxpayer Identification Number (TIN) • Every taxpayer that is also a VAT-able Entrepreneur will be required to report their business to be confirmed as one
Article 28(1) and (2) General Provisions and Tax Procedures Law	Bookkeeping or Recording	<ul style="list-style-type: none"> • Individual Taxpayers that does freelancing or own a business and Corporate Taxpayers in Indonesia are obligated to perform bookkeeping • Excluded from the obligation to perform bookkeeping, but should perform recording are individual taxpayers that have a business or is freelancing with the permission to calculate net income by using Net Income Calculation Norm and individual taxpayers currently not owning any business or is not freelancing
Article 12(1) General Provisions and Tax Procedures Law	Withholding	Every taxpayer is obligated to withheld payable tax in accordance with the provisions of tax laws and regulations by not depending on the availability of a tax assessment letter
Article 3(1) General Provisions and Tax Procedures Law	Filing	Every taxpayer is obligated to fill out a Tax Notification Letter with correct, truthful, and clear information. The Notification Letter should be filled out in Bahasa by using Latin Letters, Arabian Numbers, Rupiah currency form, sign, and send it to the Directorate General of Taxes office where the taxpayer is registered, or at other places confirmed by the Director General of Tax.

Taxpayer Compliance is divided into two types of obligations: formal and material obligations. Formal obligations include administrative compliance in the form of completeness and punctuality in fulfilling their obligations. On the other hand, material obligations include the validity in filing their report and any needed data in accordance with their condition. These two types of obligations help ensure and push taxpayers to comply with existing tax regulations.

Taxpayers are more than capable of ensuring compliance voluntarily. However, one's own accord does not guarantee compliance. Another way is also through enforcement done by tax authorities, by performing inspection, investigation, and extensification. Out of the previously mentioned 3 actions, we will discuss extensification as it showcases DGT's objectives through the implication of CRM.

Extensification is done to establish the improvement in providing services and increase the number of registered taxpayers in Indonesia. An example of this would be for Individual Taxpayers that receive an income of more than the standard as Non-Taxable Income to register as a taxpayer. In other words, extensification is the DGT's effort in supervising taxpayers that have fulfilled both the subjective and objective requirements to be a taxpayer but have not yet registered themselves, to then be given a Taxpayer Identification Number following the taxation law and regulations. Extensification is done by approaching the taxpayer through the employer, the government's treasurer, or by sending a letter to taxpayers.

Thus, CRM is the tool that will help the DGT in reaching the organization's strategic objective. The output from using CRM will be in the form of a compliance scheme for extensification, a compliance scheme for inspection and supervision, and a compliance scheme for collection. First, the compliance scheme for extensification is a scheme that illustrates taxpayers' compliance risk through their disobedience and contribution rate to the nation. The bigger amount of taxpayers that are not in compliance will have a direct effect on the potential of contributing to tax revenue, which calls for a higher need to do extensification. Extensification is done by providing a Taxpayer Identification Number and/or the confirmation of VAT-able Entrepreneurs. In addition, the extensification of taxpayers is divided into 3 (three) dimensions, which are 1) the registration of new taxpayers as a product of extensification through new Taxpayer Identification Numbers, 2) payment from newly registered taxpayers, and 3) tax filing done by newly registered taxpayers.

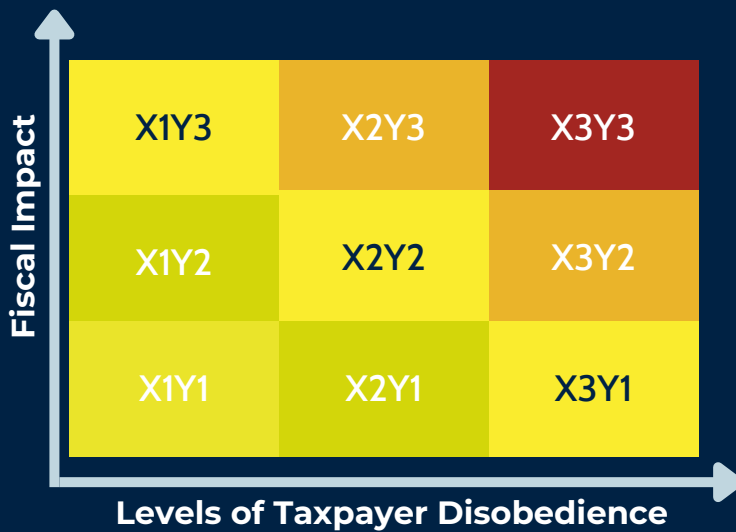
Next, the compliance scheme for inspection and supervision is a scheme that illustrates taxpayers' compliance risk in doing their withholding and filing correctly. Lastly, the compliance scheme for collection is a scheme that illustrates taxpayers' compliance risk in paying their payable tax. CRM will then produce a taxpayer risk profile that is more accurate and systematic since it could differentiate taxpayers based on their compliance rate.

Following the self-assessment system adopted by the taxation authorities in Indonesia, the need to register oneself is considered an obligation that should be fulfilled by every taxpayer which has fulfilled both subjective and objective requirements. Therefore, such obligations should be done voluntarily, without having to wait for supervisory actions through extensification, investigation, supervision, or collection. CRM is considered a helping tool that the DGT uses to identify, map, mitigate, and evaluate compliance risk from taxpayers. The implementation of CRM will hopefully increase the quality of services and actualize fairness for all taxpayers that have voluntarily followed taxation laws.

See p. 8 for CRM Schemes >

The scheme illustrates an informative CRM model as used by the DGT to further improve the quality of taxation and its concerning instruments.

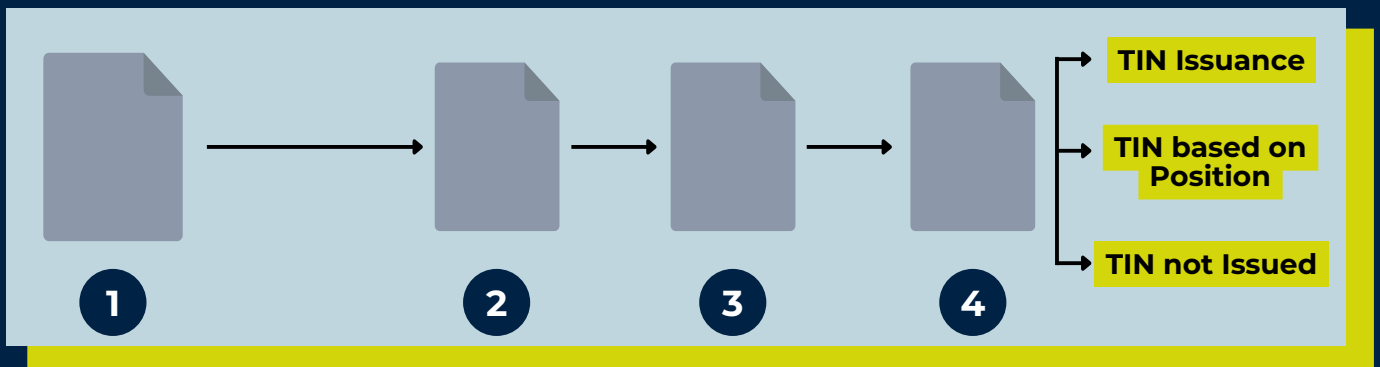
Taxpayer Compliance Risk Map Example



Remarks

- Different colors represent different levels of likelihood and impact. In addition, this may also reflect the stance of the management towards said risk.
- Levels of likelihood and impact may increase or decrease depending on each issues.

Possible Scheme of CRM Implementation Through Extensification



- 1. Extensification Target (DSE):** A list of taxpayers that have fulfilled the subjective and objective requirements, but have yet to register themselves as one
- 2. Extensification Assignment (DPE):** A list concerning taxpayers from DSE. These taxpayers will be grouped together based on extensification officers. The officers will then visit the taxpayer or do so through the employer or the government treasurer.
- 3. Letter of Request for Explanation of Data and/or Information (SP2DK):** A letter issued by the Head of Tax Office to request for information regarding tax obligations that have not yet been fulfilled based on Tax Provisions and Law
- 4. Report on the Result of Request for Explanation of Data and/or Information (LPH2DK):** A report based on the result and execution of the letter of request.

The Big Question: Mitigating Risks in The Middle of a Risk

When enterprises face risks, the entirety of it becomes prone to negative outcomes. Depending on what kind of risk the enterprise faces, different aspects of the enterprise may be affected. Reputational risks brings the enterprise's image into the play, while regulational risks may end up in lawsuits. Enterprise losses and the possibility of becoming unsuccessful are also some of the outcome that an enterprise may face.

When an ERM does not work, it affects all levels of the enterprise – not only limited to board directors but also to employees that have a say in the enterprise's performance. If an enterprise fails to accommodate to these risks, the impact would spread and would not only hurt the enterprise in one way, but also raise multiple risks that were a product of the initial risk. Thus, an enterprise should have an effective risk management strategy that are tailored to every risk that an enterprise may face.

However, as well prepared as an ERM may be, there will always be risks that come out as a 'surprise'. An enterprise can start by managing types of risks and categorizing them into low-medium-high risk categories of consequences and probability, and their impact on all levels of the organization to minimize the damage and lack of preparation if an unplanned risk comes to the surface – in which all areas of the enterprise should always be noted for. An enterprise should always try to innovate its ERM to match its needs and risks by monitoring and preparing its strategies. An enterprise should have a clear hierarchy of responsibility toward an ERM, even if all levels of the enterprise are responsible for different areas of risk management.

CRM, on the other hand, may also help not only the government in managing taxpayers but also help enterprises in being more ready to comply with external factors, such as tax provisions and laws. CRM, while assisting the government, may also provide an insight to enterprises on how the government will be as fair as possible for registered taxpayers in gaining services and accessible tax instruments.

By understanding the importance of ERM and CRM in taxation, enterprises must be ready with their own risk management, tailored to each of their needs and objectives. It is common practice for businesses to appoint third parties to assist their strategy-building, especially when it comes to regulation and compliance risks. Thus, enterprises may consider appointing third-party to assist or consult in regards to ERM and CRM in taxation. The objective is to ensure the best quality for risk management.

Each day of unmanaged risk puts your enterprise at unidentifiable risks. It is recommended to start identifying, categorizing, and manage them sooner rather than later and pay more costs due to ineffective and inefficient risk management. It is important to understand not only the basic principles but also a way of innovating available risk management as your enterprise grows and rises.

Monthly Highlights

Tax News Summary for August 2022

Monthly Highlights

Tax News Summary for August 2022



Photo by Deyvi Romero on Pexels

The blockage of unregistered Electronic System Providers leaves a hanging question: What about the companies the DGT has collected tax from?

Trade Through Electronic System and Electronic System Provider Companies Face Different Decisions

Earlier in August 2022, the Indonesian Ministry of Communication and Informatics blocked several Electronic System Providers as they fail to obey the registration regulation set.

On the other hand, the Directorate General of Taxes revealed that this action has not been discussed with them beforehand, as it is known that several of the Electronic System Providers are also part of the Trade Through Electronic System companies appointed by the DGT.



Click here (or the title) to read the full article on our website.



Monthly Highlights

Tax News Summary for August 2022

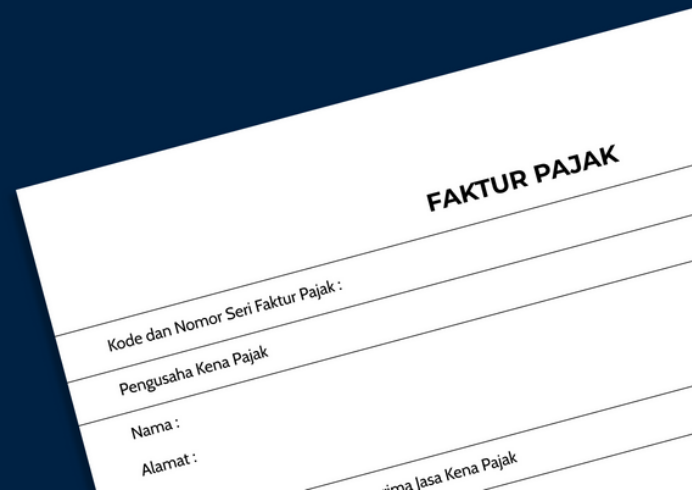


Photo property of MIB

Updated regulation regarding tax invoices will be applicable starting 1 September 2022

PER-11/PJ/2022 Will Be Applicable Starting September 2022

The latest changes on PER-03/PJ/2022 will be apparent in the PER-11/PJ/2022, which will be applicable starting from 1 September 2022. The changes include the inclusion of the name, Tax Identification Number, and address of the VAT-able entrepreneur.

In addition, there will also be an additional article pertaining to the applicability of the invoices made before the new regulation and regarding the ability to use such invoices as credits.



Click here (or the title) to read the full article on our website.

Monthly Highlights

Tax News Summary for August 2022



Photo by anyaberkut on Getty Images

Indonesia has fulfilled 69,3% of their tax revenue target and has grown compared to last year.

Tax Revenue Until July 2022: Positively Growing and Reaching More than 50% of Total Target

Until July 2022, the Minister of Finance, Sri Mulyani, disclosed that the tax revenue has reached a total of IDR1,028.5 T, which means that it has grown 58,5% in comparison to last year's revenue and has fulfilled 69,3% from this year's total target.

In addition to that, the tax revenue growth is forecasted continued to be positively growing for this year; an effect of the many tax incentives, the high commodity windfall, and the voluntary disclosure program.



Click here (or the title) to read the full article on our website.

Monthly Highlights

Tax News Summary for August 2022



Indonesia's 2023 Tax Revenue to Target IDR2,016.9 T

Through the RAPBN Press Conference, it is revealed that the tax revenue target for 2023 reached an all-time high of IDR2,016.9 T. The reason behind such a high target is due to this year's commodities windfall that is predicted to be at IDR279 T.

Indonesia will be setting a higher target – an all time record of IDR2,016.9 T.



Click here (or the title) to read the full article on our website.



Tax Calendar

September 2022

MON	TUE	WED	THU	FRI	SAT	SUN
29	30	31	1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	1	2
3	4	5	6	7	8	9

Reminders

12 September 2022 Payment Deadline : August 2022 Article 4(2), 15, 21/26, 22, and 23/26 Income Tax

15 September 2022 Payment Deadline : August 2022 Article 25 Income Tax, SME Final Income Tax, and Self-Assessed Value Added Tax

20 September 2022 Filing Deadline : August 2022 Article 4(2), 15, 21/26, 22, 23/26, and 25 Income Tax

30 September 2022 Payment and Filing Deadline : August 2022 Value Added Tax

 mib.group     [mibglobalgroup](https://mibglobalgroup.com)

www.mib.group

Contact Us

PT MIB Global Grup

Treasury Tower, 31st Floor, Jl. Jend. Sudirman Kav. 52-53
DKI Jakarta, Indonesia - 12190

www.mib.group



+62 819 1188 0099

