

Encouraging Earlier Tax Returns in Indonesia

Policy Brief

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The Behavioural Insights Team (BIT) and the Indonesian Directorate General of Taxes (Direktorat Jenderal Pajak, or DJP) formed a partnership in February 2017 to apply behavioural insights and rigorous evaluation to improve tax administration in Indonesia. This report summarises the findings of our second project together – one of the largest randomised controlled trials (RCTs) ever conducted anywhere.

Policy objective

The aim of the project was to increase tax compliance and improve the efficiency of the tax collection system in Indonesia by encouraging personal income taxpayers to file a 2017 annual tax return at least two weeks before the deadline. In Indonesia, as in other countries around the world, a large proportion of tax returns are filed

at the last minute. This can lead to lower tax compliance because: (i) people don't have enough time to deal with new tax rules; (ii) they experience frustration when the system overloads and crashes, which erodes tax morale; and (iii) they physically can't file online or in person when too many people attempt to file at the same time. In addition, tax administrations face higher costs managing these system pressures.

Intervention

BIT and DJP tested the effectiveness of different email interventions to reduce last-minute filing. We randomly allocated all personal income taxpayers who were registered for online filing (11.2 million individuals) to one of seven trial arms listed in the table below.

Table: Trial arms and content

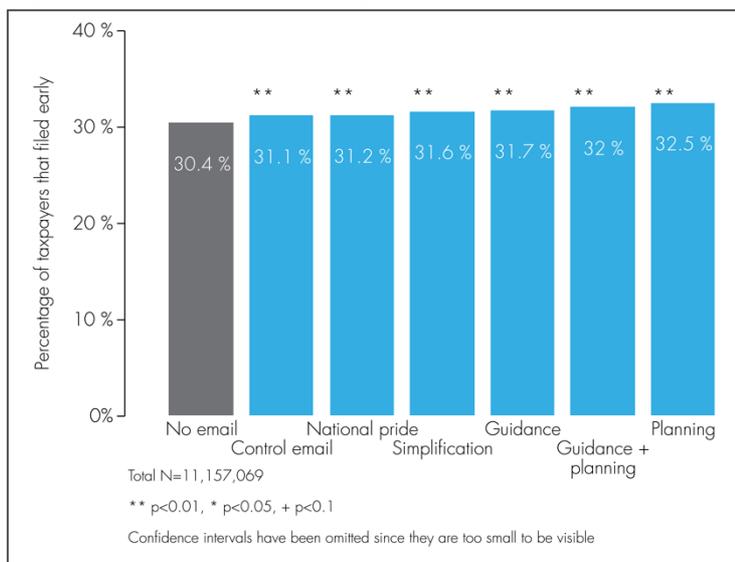
Trial arm	Email content
Pure Control	No email
Control	Style and content similar to a previous DJP email reminder to file a tax return
Simplification	Simplified version of Control email, emphasising early filing
National Pride	Appeal to help build the nation by illustrating how taxes are spent on public goods
Guidance	Highlighted that early filing avoids problems, with links to guidance documents on how to file a tax return
Planning	Highlighted that early filing avoids problems, with a link to a website to nominate a filing date and receive reminder emails two days before and on the selected date
Guidance + Planning	Combination of the above two messages

Results

Two weeks after the tax filing deadline of 31 March 2018, we evaluated the impact of the emails on: (i) the likelihood of filing a tax return early (by 16 March 2018); and (ii) the likelihood of filing a tax return at all.

We found that, while all emails improved early and overall filing rates compared to no email, the Planning email was the most effective and the Control email was the least effective. The Planning email led to a 2.1 percentage point increase in early filing and a 1.2 percentage point increase in overall filing, bringing forward IDR 27 billion (USD 1.93 million) in tax revenue.

Figure: Impact on Early Filing



As a result of the collaboration between BIT and DJP's Behavioural Insights Task Force, DJP have acquired the skills and organisational capacity to conduct further behavioural insights projects independently.

We look forward to seeing how DJP will continue to adapt their programs and services to help taxpayers make good decisions for themselves and increase tax revenue for public goods in Indonesia.

Recommendations

- **Scale** the Planning email by: (i) sending it to all personal taxpayers registered for online filing in future years; (ii) expand access to the planning website for manual filers; and (iii) incorporate planning prompts in street banners that are displayed around the country during 'tax return season'.
- **Test adaptations** of the Planning email to: (i) increase early and overall filing by corporate taxpayers; (ii) improve its cost-effectiveness, e.g., by dropping the reminder emails; and (iii) increase the impact on self-employed taxpayers, e.g., with enhancements informed by qualitative research.
- **Develop** new behavioural insights projects to: (i) increase responsiveness to audits; (ii) reduce underreporting of tax liabilities, e.g., by using third party data in communication, or adding honesty prompts to DJP's website; and (iii) transfer skills in behavioural insights to regional and local tax offices.

Planning email impact if scaled

If the Planning email had been sent to the entire trial sample, we would expect the following impacts compared to not sending any email at all:

- 233,500 tax returns submitted earlier (before 16 March);
- 134,000 extra tax returns submitted overall;
- 137,000 tax returns brought forward from the final week, and 28,000 brought forward from the final day; and
- IDR 189 billion (USD 13.53 million) extra tax collected at the point of filing.