

Reducing Errors in Tax Return Form 1770 in Indonesia

Policy Brief

DJP project team: Puspita Wulandari / Hantriono Joko Susilo / Yon Aرسال / Iis Isnawati / Romadhaniah / Gatot Subroto / Adityawarman / Wangsit Supriyadi / Gitarani Prastuti

BIT project team: Kizzy Gandy / Janna Ter Meer / Ruth Persian / Serene Koh / James Watson / Rifki Akbari

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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 tax administration in Indonesia. This report summarises the findings of our first project together.

Policy objective

The aim of the project was to reduce common errors that self-employed taxpayers make when they complete certain sections of tax return form 1770, such as identifying their business category and declaring assets and liabilities. Taxpayers can make both intentional and unintentional errors. Our objective was to reduce unintentional errors associated with lack of knowledge.

Intervention

One potential obstacle to completing form 1770 accurately is the length and complexity of DJP's official instruction manual. It is 68 pages long and focuses on tax regulations. Therefore, our intervention was a two-page flyer which answers taxpayers' frequently asked questions (FAQs) about form 1770.

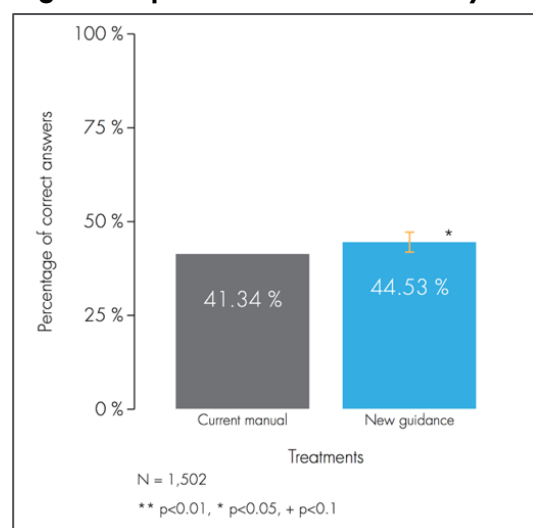
To evaluate the impact of the new flyer, we designed an online experiment using BIT's platform Predictiv (www.predictiv.co.uk). We asked a panel of 1,502 participants in Indonesia to read a hypothetical taxpayer scenario, and then use this information to complete five sections

of form 1770 (containing 15 short answer fields in total). Participants were randomly assigned to receive either the new flyer (treatment group) or excerpts from the existing instruction manual (control group). On average, participants took 14 minutes to complete the test.

Results

1. The flyer improved overall accuracy by 8 per cent and this result was statistically significant ($p < 0.05$). We found no difference in scores between respondents who said that they had previously completed form 1770 and those that had not. When we looked at the five sections of the form separately, we found that the FAQs flyer consistently increased accuracy but the effect was only statistically

Figure: Impact on overall accuracy



- significant for Question 2 (income subject to final tax) and Question 3 (assets at year-end).
2. Accuracy rates for both treatment and control groups were low. In fact, only 5 per cent of respondents answered all fields correctly. The section of the form with the lowest accuracy (Question 2) was also the most complex. Crucially, the flyer increased correct responses from 9.87 per cent to 12.78 per cent – a 29 per cent relative increase – and this was statistically significant ($p < 0.1$).
 3. Despite paying respondents a relatively high participation fee and an incentive to answer the questions accurately, the drop-out rate was around 45 per cent. Most drop-outs occurred straight after participants read the instructions. This could be because the test was perceived to be too onerous compared to other tests on the platform, or it could indicate that many Indonesians have a negative attitude towards tax and are consequently disengaged.

It should be noted that we cannot be certain that we would see the same impact in the real world. On one hand, if people are more attentive to their own tax compared to a hypothetical scenario, the benefits of the flyer might be smaller. On the other hand, if mental fatigue from reading the entire 68-page manual in real life (instead of being provided relevant excerpts under test conditions) causes taxpayers to make errors or give up, the flyer could be relatively more effective. Further evaluation of the flyer in a field trial is recommended, for both external validity and estimating the returns to tax revenue.

In general, errors arose for questions which required participants to study definitions in the guidance to interpret the form fields. This suggests that beyond improving guidance notes or the form design, a more effective solution to reduce form errors in the longer term might be to simplify the tax rules so that the form's fields can be made relatively self-explanatory.

Recommendations

- Scale the flyer by: (i) distributing it to local tax offices so they can print copies for taxpayers to take home; and (ii) putting it on DJP's website.
- Test adaptations of the flyer content by: (i) applying it to the existing instruction manual or instructions for the new core tax system; and (ii) labelling fields in tax form 1770 more clearly and cutting out irrelevant text.
- Develop new behavioural insights projects to: (i) increase tax returns from low cost email / SMS reminders to taxpayers; and (ii) improve the quality of data entry by DJP officials, to make it easy to run field trials in the future.

The results of this project show that behaviourally-informed communication can improve tax administration in Indonesia. The project also helped to transfer skills to DJP's Behavioural Insights Task Force. The next step for DJP's capacity building is to conduct a rigorous evaluation with their own data. We look forward to this collaboration.

Predictiv online experiments

Predictiv (www.predictiv.co.uk) is an online research platform that was built by the Behavioural Insights Team to run randomised controlled trials with online populations. It enables governments and other organisations to experiment with new policies and interventions before they are deployed in the real world.

Predictiv provides access to millions of individual participants in over 60 countries, and has the functionality to run a range of online experiments. This includes applied comprehension tests, as used in this report, where individuals are asked to apply information in a context that is relevant to them. Various academic studies show that the results from simulated decision environments closely match behaviour outside the test environment.

Predictiv online tests are a valuable addition to a methodological toolkit: they offer a high degree of flexibility to test different ideas; can deliver results within short timeframes; and provide quantitative, causal evidence on which ideas are most promising for changing behaviour.