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Building A Foundation for Tax Compliance in The Time of The COVID-19 Pandemic

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Abstract

The COVID-19 pandemic has had a significant impact on the economy, including the taxation sector. This tumultuous period for taxpayers and the Government can be a golden opportunity to transform the system and institutional governance to create a firm foundation for increasing tax compliance and by extension, tax revenue. This paper examines strategies that are necessary to face spate of changes and uncertainty caused by the COVID-19 pandemic as well as laying the framework for post COVID-19 reality that is characterized by sustainable tax compliance. The results of this study reached the conclusion that the basic concept of the relationship between the Government and taxpayers as a social contract or fiscal contract should underpin the three phases of the formulation of changes in tax policy. For changes to have long-term and sustainable impact, there is need to strike a balance between the three pillars in tax administration, namely, enforcement, facilitation, and trust.

Keywords: *enforcement, fiscal contract, facilitation, tax compliance, trust*

INTRODUCTION

How can the Government formulate strategies to dealing with uncertainty? This is an important question that must be answered as the Government prepares itself for the future. And the most urgent time to answer this question is during a global pandemic. Prior to the COVID-19 crisis, a combination of rapid technological change, increasing economic interdependence, and the rise of political instability has heightened uncertainty about the future. Uncertainty is so pervasive that to truly know the dimensions of the problem at hand, many experts and researchers have coined such terms as the term VUCA (volatility, uncertainty, complexity, and ambiguity) and TUNA (turbulent, uncertain, novel, and ambiguous) to portray the increasingly unpredictable conditions.

Amid the COVID-19 pandemic, changes that used to take several years are now occurring in the span of a few months. Current conditions are characterized by the rise of commerce through electronic systems (e-commerce) and the use of video conferencing. Governments that would like to implement transformational changes can exploit one of the characteristics of this crisis ranging from accelerating previously slow-moving trends to implementing much-needed benefits in these challenging times.

Tax administration is one of the areas where such change can be implemented. Governments and tax authorities can use this period of uncertainty to demonstrate competence, fairness, and accountability to taxpayers. By doing so, the Government can quickly build a foundation of trust that will pay off well in the future in the form of higher tax compliance. On the contrary, if the government fails to exploit this historic moment, the damage done to the legitimacy of the Government could undermine voluntary compliance and by extension, reduce tax revenues in the long term post the pandemic.

Therefore, to answer current and future challenges, this study aims to explore the strategies that should be developed amidst rapid changes and uncertainty attributable to the COVID-19 pandemic while at the same time laying the foundation for Indonesia to achieve the 2045 vision of becoming a developed country (Indonesia Maju 2045). During the pandemic period, there is need to lay the strategic foundation for increasing tax compliance. This is because the government must increase tax revenue to meet the drastic increase in the government spending on health, social protection and financial support for key economic sectors including the small and medium sector. In future, the expectation is that Indonesia will be in position like developed countries where tax revenues make a significant contribution to state revenues, contributing more than 30 percent of GDP. Currently, Indonesia's tax-to-GDP ratio is still very low, in the range of 10-11 percent, which is far below ASEAN-5 countries, the BRICS (Brazil, Russia, India, China, South Africa) and OECD countries.

The paper is presented as follows. Section one presents statistics on Indonesia's tax revenues and comparison with ASEAN-5 countries and BRICS. Section two discusses a 3-pillar approach, which the Indonesian government can use in taking measures of increasing tax compliance to meet the challenges created by the pandemic crisis. The third section describes various projected developments in the post pandemic realities which the government should take into consideration because of the direct influence they are likely to have on taxation policies. Finally, the paper formulates steps that are based on a 3-pillar approach, which the government should take to establish a firm foundation for sustainable tax compliance. The overarching theme of the paper is the argument that tax is a form of social contract or fiscal contract between the Government and taxpayers. The following section discusses the theoretical framework of the concept of tax as both a fiscal contract and tax compliance paradigm.

THEORETICAL FRAMEWORK

Tax as a social contract

The state is the central institution that is vested with the authority and mandate to maintain social order in a large and complex society. Building an effective state that can tax, spend, and regulate the market remains a contentious debate in taxation literature including political philosophy and social science fields (Besley, 2020).

There are two broad views of an effective state. The first is often associated with the view of Hobbes (1980), which considers the inevitability of state effectiveness as a projection of coercive power. This view sees the issue of state effectiveness as an effort to build organizational structures that allow the state to expand its reach and force citizens to comply with its dictates. This means creating a formal system of enforcement of the rule of law, including tax provisions. For this reason, according to Besley and Persson (2009, 2011), state actors are required to make enormous 'investment' in collecting taxes (fiscal capacity) and the power to enforce property rights and regulate the market economy (legal capacity). Thus, Besley and Persson (2009, 2011) proposes a model that policymakers use to take into consideration costs and benefits of investing in the capacity of the state. Incentives to do so depend on the extent to which state power is used to pursue common interests, which is influenced by the existence of cohesive institutions. Nonetheless, Besley and Persson's (2009, 2011) approach somewhat runs counter to the approach proposed by Robinson and

Acemoglu (2012) and North and Weingast (1989) who consider constraints on state power as essential for building effective governance.

The second view, which emphasizes the state as a social contract, has its origins in a variety of influential thinkers. For example, Locke (2013) and Rousseau (1964) consider civil and political rights as forms of exchange in which citizens accept to fulfill obligations in return for good governance. If the Government fails to deliver good policy, citizens can legitimately withdraw from the cooperation and / or actively seek change in leadership. An important feature of these theories is that they extend the notion of reciprocity in small-scale societies to apply to the relationship between the state and citizens. The contractarian view emphasizes the central role of mutual obligation in building an effective state and is central to Levi's (1988) influential historical analysis of the power to tax. Levi (1988) argues that limiting state predation has historically played a role in encouraging "quasi-voluntary" compliance with the state.

A number of economists have studied the contractarian approach, for example Buchanan (1975) who argues that rules should be designed in such a way as to limit Government intervention in matters that require universal agreement as proposed by Wicksell (1958). This approach requires procedural and constitutional rules that can be enforced on their own, a problem that is explored in Weingast (1997); (Weingast, 2005) in the context of repeated games. Kotlikoff, Persson, and Svensson (1988) explore how social contracts can be maintained when there are issues of overlapping intergenerational commitment. Binmore (1994a, 1994b) explores social contracts in the context of repeated interactions that allow cooperation to continue, and Acemoglu (2005) uses a similar approach to characterize the presence of a "consensus strong state". In many of these approaches, reciprocity between citizens and the state is a feature that determines balance.

In local or national context, the discussion on tax compliance has been rife since the onset of the 'Reformation' Era. Baswir (1997) opines that higher tax compliance is a manifestation of people participation in local development. Nurtanzila and Kumorotomo (2015), Pratiwi (2002), and Indiahono (2015) further find empirical evidence that the links improvement in tax compliance to s higher regional income collection. Subarsono (2004) and Haning, Hamzah, and Tahili (2019) have endeavored to address the low tax compliance issue by proposing the reposition of the tax administration organization as well as promoting accountability and transparency of tax services. However, current views of tax compliance are plagued by fragmentation. Thus, a new approach is needed to address the issue of tax noncompliance in a more systematic and comprehensive manner in an emerging economy such as Indonesia.

This paper adopts Sobel (2005) approach ,referred to as intrinsic reciprocity, which is characterized by the internalization of forces that shape reciprocal behavior in preferences. Sufficient evidence exists that supports this view, especially from laboratory experiments. For example, Fehr and Fischbacher (2003), Fehr and Gächter (2000), and Dohmen, Falk, Huffman, and Sunde (2009) who argue that reciprocity exists in two main forms: positive reciprocity, where one party acts to benefit the other eliciting beneficial action in return; and negative reciprocity, where one party uses severe punishment whenever the other party commits a violation. The state social contract model utilizes these ideas to explore the relationship between the state and citizens, particularly the obligation of citizens to obey the law and comply with taxes. Empirical studies linking tax compliance with public service delivery include Fjeldstad and Semboja (2000) and Levi and Sacks (2009). Slivinski and Sussman (2019) emphasize the combination of perceptions of fairness and use of local information in tax compliance in medieval Paris. Weigel (2018) found evidence of the relevance of legitimacy in field experiments that linked tax compliance and perceived legitimacy. Feld and Frey (2007) emphasize that compliance is higher when the Government is perceived as fair, which is in line with the broader psychological literature on legitimacy and compliance (Tyler (2006)).

The three paradigms in tax administration

Alm (2019) believes that there are three “paradigms” in tax administration that bear relationships to tax compliance. These paradigms were originally strategies of compliance with the Government based on detection and punishment. However, the paradigms transcend enforcement to include a series of additional policies which now have acquired substantial theoretical and empirical support.

Based on the first paradigm - the “Enforcement Paradigm”, the emphasis is exclusively placed on the repression of illegal behavior through periodic audits and harsh penalties. This view has been the conventional paradigm in tax administration throughout history, and it fits with the standard tax avoidance portfolio model.

However, the research also advocates for a second paradigm, which recognizes both the role of enforcement and tax administration as a facilitator and service provider to both taxpayers and citizens in assisting taxpayers in every step of tax reporting and payment. This new tax administration “Service Paradigm” fits well with the perspective that emphasizes the role that public services play in influencing individual tax compliance decisions. Indeed, recent literature on tax administration reform has emphasized a new paradigm for tax administration, as a facilitator and service provider for taxpayers, and many recent administrative reforms around the world have embraced this new paradigm with great success.

Recent studies have suggested a third paradigm. New research, which considers taxpayers as members of a larger group as well as social beings whose behavior depends on their own (and other people's) moral values and on their perceptions of quality, credibility, and the reliability of tax administration. Alm (2019) calls it the "Trust Paradigm". This paradigm is consistent with the role of various behavioral economic factors such as social norms that are broadly defined in the decision to comply in fulfilling tax obligations. This assumes that individuals are more likely to respond to not only enforcement but also service if they believe that the Government in general and tax administration are honest, and if they believe that other individuals have the same motivation. In other words, "trust" in authority—and in other individuals—can have a positive impact on compliance.

METHODS

This research uses an exploratory method in formulating aspects that require consideration in determining steps to build a foundation for tax compliance during the COVID-19 pandemic. Time series data analysis was performed on Indonesia's tax-to-GDP ratio compared to other ASEAN-5 countries as well as BRICS countries. The two groups of countries are considered suitable for comparison with Indonesia because of the regional compatibility of both regional and level of state income (GDP per capita). Analysis also involves elaboration of the applicability of the conceptual framework suggested by various previous studies to formulate implementation steps for increasing tax compliance with implications for sustainable tax revenue in the long term.

FINDINGS AND DISCUSSION

Statistics of tax collection in Indonesia, ASEAN-5, and BRICS

To formulate steps to encourage increased tax compliance in response to the COVID-19 pandemic crisis, it is necessary to look at tax revenue data and its percentage of GDP (tax-to-GDP ratio). The World Development Indicators (World Bank) reports tax-to-GDP ratio data covers the period 1972-2018 (46 years), which is deemed sufficient to examine the development of the contribution of tax revenues from time to time. Based on these data, as presented in Figure 1 and 2, it is evident that Indonesia's tax-to-GDP ratio is lower than that of other ASEAN-5 countries

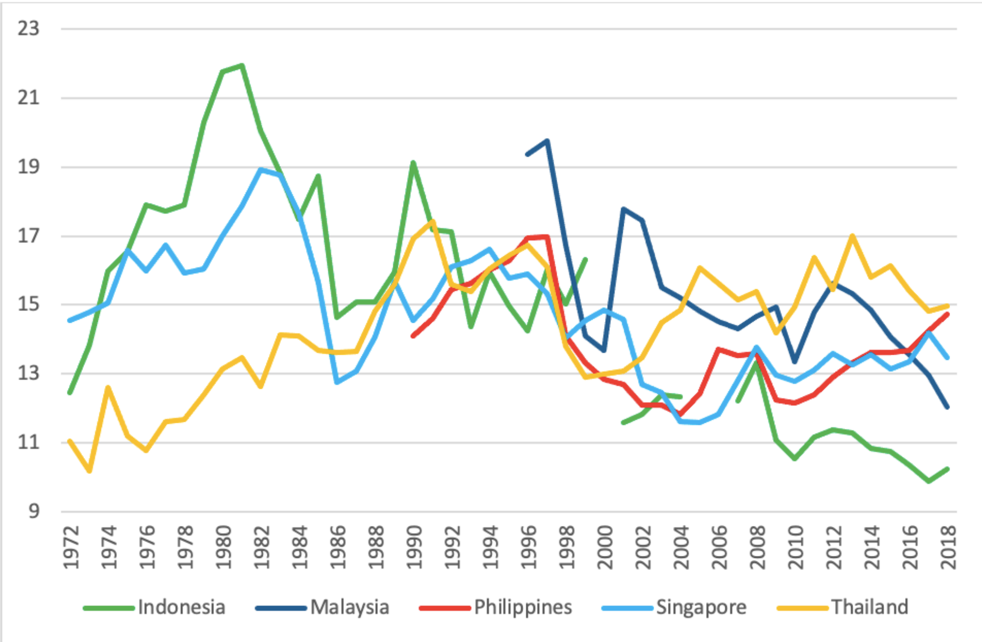

Figure 1 Tax-to-GDP Ratio ASEAN-5 (%)
Source: World Development Indicators, World Bank

and most of the BRICS countries. Considering the tax-to-GDP ratio as an indicator of the effectiveness of a country (effective state), a conclusion can be made that Indonesia still has a huge potential to increase the contribution of taxation to state revenues.

In general, Indonesia's tax-to-GDP ratio during the 1972-2018 period (46 years) can be divided into 3 periods, inter alia, the beginning of the New Order (1972-1985), the second half of the New Order (1986-1998), and the Reform Era (1999-2018). Each of these periods has its own characteristics.

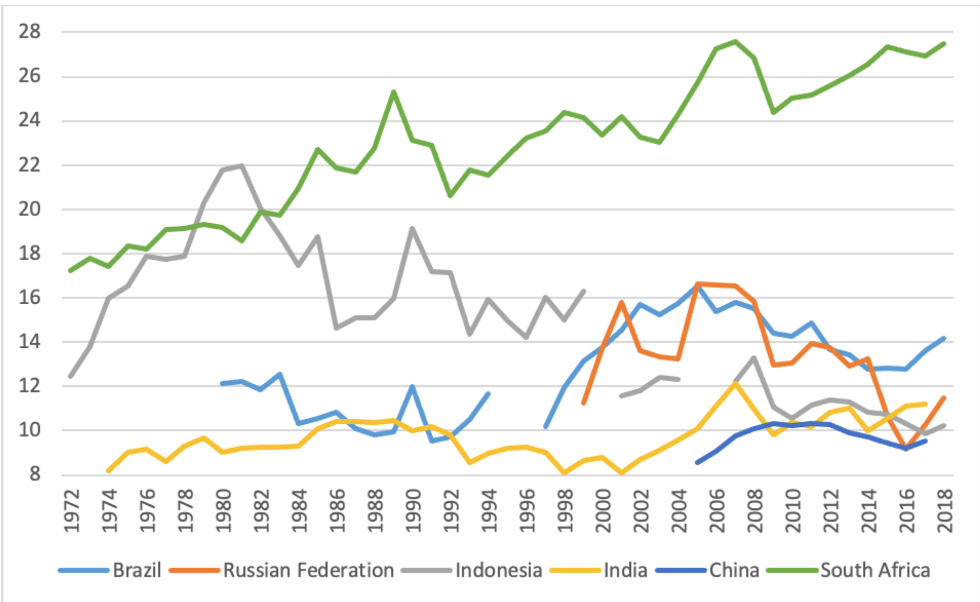

Figure 2 Tax-to-GDP Ratio BRIICS (%)
Source: World Development Indicators, World Bank

Looking at the data in Figures 1 and 2, in the early period of the New Order, Indonesia's tax-to-GDP ratio was around 20 percent. A significant increase occurred in the period 1972-1981, when Indonesia's tax-to-GDP ratio reached it peak of nearly 22 percent. This is very commendable, even when compared to other ASEAN-5 countries and most of the BRICS countries in the same period.

Meanwhile, during the second half of the New Order period, Indonesia's average tax-to-GDP ratio was about 15 percent, with significant annual fluctuations during the period. During the same period, other ASEAN-5 countries, such as Thailand, the Philippines, and Singapore, consistently increased their tax-to-GDP ratio and were able to reach Indonesian level. When compared to the BRICS countries, in the period 1986-1998, South Africa experienced a consistent and significant increase compared to the previous period, hence outperformed Indonesia with respect to the tax-to-GDP ratio. Brazil and India, on the other hand, are still below Indonesia, with tax ratio of around 10 percent.

Entering the Reform Era, Indonesia's tax-to-GDP ratio continued to decline, reaching an average of 11 percent (1998-2018). This contrasts with the condition of the other countries, which generally experienced an increase in the tax-to-GDP ratio during this period. In fact, Indonesia's tax performance was the worst in ASEAN-5 in that period and was only better than China (which incidentally is a socialist country) in the BRICS group of countries. Overall, it can be concluded that, over a period of nearly four decades, Indonesia's tax-to-GDP ratio shows stability. This means that the Government's ability to alter the effective role in taxation (effective state) has not changed significantly.

Based on Besley and Persson (2013), developments in effective tax rate in OECD member countries portray a situation that is starkly different from Indonesia's condition. In the research that covers a period of 100 years (1900-2000), the 18 countries studied showed a significant increase in the contribution of taxation to state revenues. The proportion of taxation to state revenue increased from 10 percent in 1900 to 25 percent in 2000. In addition, in terms of tax types, the contribution of income tax increased significantly during the same period. In 1900, only 5 percent of state income came from income taxes. A century later, that figure has risen to 50 percent. This sharp increase is very important to highlight considering that during that time there were two major wars, namely World War I and World War II.

The three-pillar approach towards a sustainable tax compliance

Based on the Besley's study (2020), there are three dimensions that can explain the increase in the tax-to-GDP ratio as described in the previous section, namely the economic, political, and social dimensions. On the economic side, demand-based factors include wage wars as emphasized by Tilly (1992) as well as increased demand for public services (income elastic). On the supply side, structural changes in the economy mean that the Government can more easily collect tax revenue. Thus, formal employment contracts allow cross-checking of tax obligations to the Government (Kleven, Kreiner, and Saez (2016); Jensen (2019)). The increased use of VAT and income tax places companies as lynchpin in improving compliance.

In terms of politics, previous studies emphasize the importance of centralizing the state and limiting power (Besley, Ilzetzki, & Persson, 2013; Besley & Persson, 2009, 2011; Dincecco, 2011, 2015; Stasavage, 2003, 2011). The democratic process through elections has sparked growing public demand for publicly funded social insurance and health care and education.

On the social factor side, Schumpeter (1991) emphasized taxation as an expression of the obligations of citizens, while Levi (1988) argues that building state capacity is possible by creating voluntary pseudo compliance. This is related to the idea that increase in state legitimacy correlates positively with increase in trust in state institutions. These factors are reflected in the economic model of tax compliance. Allingham and Sandmo (1972) initially adopted an approach that focused on the threat of material sanctions as the main driver of tax compliance decisions. The approach predicts stronger fiscal capacity through better detection and monitoring, coupled with higher fines, will be a key element. Specifically, Besley and Persson (2009, 2013) and Besley, Ilzetzki, and Persson (2013) model fiscal capacity building as an investment in better monitoring and compliance.

Despite the importance of enforcement in promoting tax compliance, a concept that is now widely accepted suggests a broader set of factors to support the decision to pay taxes. Collectively, this approach uses the term "moral tax" to capture the various reasons for paying taxes (Törgler, 2007; Luttmer and Singhal (2014)). Based on the concept of tax moral, which is in line with the three paradigms described earlier in the Theoretical Framework section, there are 3 approaches that must be enforced collectively, namely enforcement, facilitation, and trust (EFT) to encourage compliance. The approach has been adopted, among others, in the World Bank's Innovation program in Tax Compliance (Wilson Prichard, Custers, Dom, Davenport, & Roscitt, 2019), where EFT is suggested as a lever that the Government can use to improve tax compliance. Increased law enforcement makes it difficult for taxpayers to avoid their tax obligations, while increased facilitation make it easier to fulfill them. Meanwhile, taxpayers are more likely to comply if they believe that the tax they pay will be spent effectively and fairly (trust).

The government can use this “E-F-T” approach to implement sustainable improvements in tax compliance during each phase of the ongoing COVID-19 crisis as suggested by Custers et al. (2020).

Phase 1: Relief. During the first phase of the pandemic, tax revenues declined significantly worldwide as tax administrations provided tax deferral payments, businesses posted lower profits due to restrictions on economic activity and reduced individual income due to workplace closures. In addition, many governments provided tax breaks to households and businesses in the form of accelerating tax returns, exempted various sanctions, and reduced enforcement activities. Some countries, for example, allowed businesses to extend postponement of income tax payments or defer personal income tax for a certain period for very low-income taxpayers.

If the above steps can convince taxpayers of the readiness of Government to support them and their economic activities during a decline in income, taxpayers will be more likely to fulfill their tax obligations and may support tax increases that could be implemented after the crisis is over. On the contrary, if taxpayers consider the government unsupportive during hard times or feel cheated, they are less likely to support a higher tax burden or enforcement action in the future. Therefore, it is imperative that tax breaks are distributed fairly, which requires focusing on helping vulnerable small businesses and households, in addition to providing a stimulus to large companies.

At the same time, the tax authorities must also do all they can to ensure that the tax burden does not actually increase during this phase, especially for the most vulnerable groups in society. This is due to the risk of increasing (informal) costs of accessing public services when the national budget funding sources shift to spending in the context of the COVID-19 pandemic response. Under these conditions, some countries impose temporary taxes or levies on high- and middle-income people.

Phase 2: Restructuring. In the restructuring phase, people begin to return to work and economic activity resume, albeit with new restrictions. The government will try to tighten law enforcement to recoup lost tax income. However, the government must hold back so that the tax burden does not increase too quickly to avoid thwarting economic recovery process. Focusing on law enforcement and paying less attention to increasing facilitation or building trust could backfire. High tax revenue targets, for example, could create incentives for tax authorities to put greater pressure on an already undermined tax base, causing resistance and suppressing growth.

Instead, the Government should take a long-term perspective and seek to build on the goodwill generated in the first phase, which will be critical to achieving a higher level of compliance in the third phase. One strategy that tax administrations can use is to adopt a communication plan that explicitly links the interim support measures in Phase 1 with the need for the gradual resumption of tax collection in phases 2 and 3, emphasizing a sense of solidarity between taxpayers and the Government. In addition, the facilitation measures introduced in the first phase that save taxpayers time, such as extended e-services, should be maintained where possible even after the crisis ends.

Phase 3: Resilient Recovery. In the recovery phase, the economy will slowly start to recover. In this phase, the Government will most likely try to reduce the budget deficit by raising taxes or expanding the tax base. If the Government uses the first two phases to strengthen legitimacy and secure taxpayer trust, higher tax rates and reduced tax exemptions will receive broad support from taxpayers.

Increasing taxation will be easier if it is supported by a strategy that seeks to foster trust. The push to expand the tax base into the informal economy must be averted, as the sector will be hard hit by the crisis. On the other hand, fairness in the tax system can be increased—for example, by closing domestic and international gaps for high-income individuals and companies. Tax policies that contribute to "green recovery," such as carbon taxes, are also likely to receive broad support.

In short, difficult pandemic condition may provide lessons that can help to improve tax compliance. If the Government can take advantage of this rare opportunity to redefine fiscal contracts through "smart" and balanced taxation, it can build a more cooperative relationship with taxpayers, which supports long-term change.

The development of a new post-crisis reality

After going through a period of recovery from the crisis, the business world and all stakeholders including the Government will enter a new reality phase, where various policies and restrictions during the pandemic will have to be changed, which will impact social and economic conditions of society at large. Various developments during the pandemic will bring changes that shape new life with a new reality. KPMG (2020) predicts that there are at least 10 trends that are expected to occur and affect taxation practices around the world.

First, the taxation of non-residents on sales within the customs area will increase. This is a natural reaction to the phenomenon that occurs, especially for VAT. The pandemic has pushed countries to be more inward looking along with restrictions on the movement of people and goods. The government will provide facilities for domestic business actors to encourage consumption. On the other hand, however, non-resident business actors will face obstacles in terms of increasing VAT. Second, in the new reality era, public expectations of tax transparency will increase so that it will encourage more intensive reporting. The pandemic that has occurred has accelerated and increased the importance of transparency and reporting. Third, greater tax authority intervention to reduce the risk of under-reporting and non-payment. Fourth, the increasing dependence on indirect taxes and taxes related to the environment. From an environmental tax perspective, countries are moving from an approach that incentivizes activities with low carbon emissions to an approach that sanctions activities that generate high carbon emissions.

Fifth, innovation from the pandemic experience will give birth to new ways of working, new solutions, new approaches, with better contingency planning. From a process point of view, companies are rethinking compliance management, integrate planning and compliance and better use of technology. Sixth, transfer pricing will be the main battle in the audit area. This is not surprising given the increasing demands for transparency. In addition, countries are not necessarily competing on tax rates, but are putting pressure on other areas in terms of auditing and risk management. Seventh, no country is fully dependent on taxation as a solution to improve welfare. Tax revenues must be complementary to broader economic reforms. Eighth, increasing compliance outsourcing. Experience during the pandemic has created a new habit of working remotely that obviates the need to go to offices. This phenomenon provides an option for companies to build the most efficient sourcing model. This makes it easier for companies to work with accounting service providers or other service providers, including tax and financial matters.

Ninth, as the adage says, only two things are certain, namely death and taxes, in the age of new reality, all parties expect lower deaths and more taxes to be collected. This is of course a common expectation as economic activity rebounds after recovery from the pandemic. Lastly, the art of taxation is how to pull out as much goose feathers as possible with the least possible distraction. The government must find ways to collect revenue to cover its enormous spending in times of a pandemic, but in a way that does not cause disruption to the economy. The post-pandemic economic system is still very fragile because it has undergone significant changes during a pandemic and has adapted to a completely different situation from the conditions before the crisis. Law Number 2 of 2020[1] mandates that the budget deficit, which is given a leeway to widen beyond 3 percent in 2020-2022, will revert to the maximum of 3 percent in 2023. This means that starting in 2023, after the pandemic crisis, the government hopes that tax revenue will again become the main source of government revenue. Therefore, planning is needed from now on so that in 2023 the contribution of tax revenues will be sufficient to fill the gap in the tax revenues and government spending.

The steps to establish the foundation for sustainable tax compliance

After getting good and comprehensive understanding on impact of the COVID-19 pandemic on the business world, tax authorities can take steps to improve taxpayer compliance based on proven effective taxation principles in line with the dynamics that occur in the business world.

Prichard et al. (2019) argues that the final reform challenge in developing specific and detailed strategies to increase trust lies in identifying the right balance between enforcement, facilitation, and trust (EFT). If the main obstacle to reform is lack of technical capacity, this implies that there is a need for increased enforcement. Nonetheless, to maintain the necessary political support, a balance should be made between efforts to increase tax compliance and trust. On the contrary, if lack of political support for reform is a major obstacle, the priority should be on strengthening trust. However, the Government should determine what type of trust is most needed, and from whom, by taking into consideration the fact that strengthening enforcement and facilitation is likely to become an important element in public trust in strengthening taxation administration reform. The adoption of such a holistic approach does not mean trying to reform all aspects of the tax system at once, rather that the strategic linkages of mutually reinforcing interventions in well-defined reform areas to strengthen the reform foundation in the development of broad fiscal contracts.

Of particular importance is the need to move away from the general focus on strengthening trust, toward a set of strategies that are specific, evidence-based, and contextually appropriate. Based on existing studies, there is agreement that increasing trust is important to increase compliance and build political support for reform. However, available evidence also suggests that the importance of different aspects of trust tends to vary depending on the context and timing.

[1] Law Number 2 of 2020 concerning Stipulation of Government Regulations in Lieu of Law Number 1 of 2020 concerning State Financial Policy and Financial System Stability for Handling Corona Virus Disease 2019 (COVID-19) Pandemic and / or in the Context of Facing Threats Endanger the National Economy and / or Financial System Stability Becomes Law

Successfully strengthening the compliance foundation will likely require developing and implement a strategy to understand (a) which types of trust, from the wide variety of taxpayer categories, that is needed to support a particular type of reform; (b) certain causes of taxpayer distrust in a particular context; and (c) the potential for different types of interventions to improve outcomes. To date, many Government initiatives to increase trust are still generic and do not accurately reflect the views and special concerns of taxpayers. A study in Ghana and Sierra Leone, for example, found that although the Government often emphasized in public campaigns about the importance of paying taxes—in addition to taxpayer education programs on how to pay taxes—taxpayers were mostly interested in getting access to detailed information about the relationship between state income and state spending, in addition to interactive forums involving taxpayers and the Government (Prichard et al., 2017).

In emphasizing the important role of strengthening trust in the design of policy changes, the aim should be not only to maximize revenue, but also to develop strategies for strengthening fiscal contracts and building a sound reform support system. Research has provided a broad overview of strategies that can be used to empower taxpayers' aspirations as part of tax reform, including expanding the importance of taxation politics, increasing horizontal equity in enforcement, strengthening transparency and linkages between state revenues and expenditures, and supporting institutional space for engagement between taxpayers and the Government (Wilson Prichard, 2015; W Prichard, Beach, Mohiuddin, & van den Boogaard, 2015). All the above approaches overlap with strategies to increase trust, compliance, and political support for policy change. Thus, there is a clear argument for reformers to put more emphasis on building trust, not only to increase tax revenue collection but to support the use of tax revenue to provide broader social benefits. It is worth noting, however, that such a tax reform proposal's success will depend on the expected progression of the pandemic recovery. The proposal was developed under the assumption that the pandemic will progress in a bell-shaped curve with a single occurrence. In reality, the variation in the duration of each phase (i.e., relief, restructuring, resilient recovery) as well as how it takes place would be huge. Therefore, sound judgements based on all related factors by the policymakers are vitally required in assessing the proper timing for each phase of the strategy implementation.

CONCLUSION

Times of crisis such as the COVID-19 pandemic is never the right time to push for tax compliance. However, the current difficult times for taxpayers and the Government can be a golden opportunity for transforming (fundamental changes) taxation system and institutional governance. This is expected to be a strong basis for the Government and taxation authorities to encourage the effectiveness of future tax revenues when the economic situation returns to normal.

This paper examined strategies that are important hence should be implemented amidst changes and high uncertainty attributable to the COVID-19 pandemic as well as to prepare for a new post pandemic reality. In terms of taxation, during this pandemic, it is necessary to prepare a strategic foundation to improve sustainable tax compliance. This paper proposed the relationship between the Government and taxpayers using the concept of social contract or fiscal contract as basis for formulating steps to change tax policy in the three phases of the pandemic to a new post-pandemic reality era. Implementing reforms requires a balance between the three pillars in tax administration, namely enforcement, facilitation, and trust (EFT), for changes to have long-term and sustainable impact.

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