



Dialogue Over Sanctions: Lessons From Brazil's Tax Settlement System for Designing Trust-Based Mediation in Indonesia

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Abstract

Indonesia's persistent backlog of tax disputes underscores systemic limitations within its litigation-heavy resolution model, which often intensifies distrust between taxpayers and tax authorities. This research investigates the potential of introducing a trust-based mediation mechanism, drawing conceptual parallels from Brazil's *transação tributária*—a progressive tax settlement model rooted in voluntary compliance, fiscal dialogue, and segmented negotiation. Employing a qualitative comparative method, the study integrates the Slippery Slope Framework, Modern ADR Theory, and Cooperative Compliance principles to examine Brazil's model's structural, legal, and behavioral components and contextual applicability to Indonesia. Despite institutional differences, Brazil's emphasis on regulatory flexibility, codified settlement schemes, and structured mediation processes offers valuable insights for Indonesia's tax administration reform. The study proposes a phased implementation strategy, starting with pilot programs under ministerial regulation (PMK), the institutionalization of neutral tax mediators, and the integration of mediation mechanisms at the pre-objection stage. These steps could transition Indonesia from a punitive tax regime toward a more collaborative and trust-oriented system, potentially easing dispute backlogs and improving long-term compliance. This research contributes to the evolving discourse on tax governance in developing countries, presenting a practical framework for embedding alternative dispute resolution within tax systems while aligning with local administrative and cultural contexts.

Keywords: Tax Mediation; Trust-Based Compliance; Tax Dispute Resolution; Brazil Tax Reform; Alternative Dispute Resolution (ADR)

INTRODUCTION

Indonesia's tax dispute resolution system is still dominated by a long, formalistic, and confrontation-oriented approach to litigation (Castiglioni et al., 2022; Damayanti & Supramono, 2019; Tran-Nam & Walpole, 2016). The process of objections, appeals, and lawsuits to the court often not only burdens the time and costs of the parties, but also widens the gap in the relationship between the taxpayer and the tax authorities. When settlement mechanisms

emphasize more power and sanctions, the tax compliance created tends to be compulsory, not voluntary (Indawati et al., 2024; Kirchler et al., 2008).

In the global discourse on tax administration reform, the Alternative Dispute Resolution (ADR) approach is beginning to be seen as a more adaptive and constructive solution (Castagnari, 2023; Edirisinghe, 2023; Kometsi, 2017; Mburu, 2024). One form of ADR that is increasingly relevant is tax mediation, which offers a dialogue-based settlement forum, voluntary participation, and procedural flexibility (Chaisse et al., 2022; Menkel-Meadow, 2015). Mediation plays a role not only as a technical dispute resolution tool, but also as an instrument of building fiscal trust and realizing a more collaborative relationship between authorities and taxpayers (Kirchler et al., 2008; Menkel-Meadow, 2015; OECD, 2013).

While various developed countries have developed formal tax mediation frameworks, developing countries such as Brazil present alternative approaches that are worth studying (Bird, 2010; Santos, 2011; Vázquez-Caro & Bird, 2011). Through the *transação tributária* policy regulated in Law No. 13.988/2020, Brazil developed a dialogue-based administrative dispute resolution mechanism that does not involve independent mediators but still reflects ADR principles, such as transparency, open negotiation, and agreement-based outcomes (Oliveira, 2022).

In the context of Indonesia, which until now has not had a structured tax mediation system, Brazil's experience can be a relevant reference, both conceptually and practically (Cahyadi et al., 2023; Nicholson, 2010). Instead of maintaining a sanctions-oriented approach, Indonesia needs to consider developing a more inclusive and participatory dispute resolution mechanism. This initiative is in line with the direction of institutional reform and efforts to increase voluntary compliance based on building trust (Cheema, 2005; Ntim et al., 2017).

Previous studies have highlighted the rigidity and adversarial nature of Indonesia's tax dispute resolution system, which often undermines taxpayer trust and contributes to low voluntary compliance (Damayanti & Supramono, 2019; Tran-Nam & Walpole, 2016). Meanwhile, in an empirical study on fiscal mediation in Italy, Santoro and Fiorio (2020) found that tax mediation reduced litigation backlogs and improved tax revenues, suggesting the importance of trust-building through non-coercive mechanisms. In the Latin American context, Oliveira (2022) examined Brazil's *transação tributária* model, which integrates ADR principles into tax settlement policies that enhance administrative responsiveness despite lacking formal mediation infrastructure. This article builds upon those studies by offering a comparative and normative analysis of how Brazil's experience within a developing country framework can inform Indonesia's policy innovation in tax dispute resolution. The novelty of this study lies in proposing a phased trust-based tax mediation framework that is context-sensitive and administratively feasible for Indonesia, where formal ADR mechanisms in taxation remain underdeveloped.

Dialogue Over Sanctions: Lessons From Brazil's Tax Settlement System for Designing Trust-Based Mediation in Indonesia

This research's objective is to assess the applicability of Brazil's dialogue-based tax dispute model in designing a trust-based mediation system for the Indonesian tax administration. The study seeks to bridge the gap between coercive enforcement and voluntary compliance by offering practical policy recommendations grounded in fiscal trust and cooperative compliance principles. The benefits of this research include providing a strategic reform roadmap to reduce dispute backlogs, enhance taxpayer engagement, and align Indonesia's tax administration with global governance best practices.

METHODS

This study uses a qualitative-comparative approach with a conceptual study design to examine the possibility of adopting a dialogue-based tax dispute resolution approach in Indonesia concerning the practice of *transação tributária* in Brazil. The main focus of this study is to compare the principles, institutional structure, and legal frameworks of the two countries to formulate a trust-based tax mediation design strategy in the Indonesian context.

The data used consisted of secondary data, obtained through literature studies and document review, including:

- 1) laws and regulations related to tax disputes in Indonesia and Brazil,
- 2) academic literature and public policy on Alternative Dispute Resolution (ADR),
- 3) policy documents such as (OECD, 2020) publications,
- 4) as well as international journal articles related to tax administration reform and voluntary compliance.

The analysis was carried out using content analysis and comparative policy analysis. In this process, the characteristics of the dispute resolution system in Brazil are mapped based on the dimensions of principles, procedures, actors, and results, and then compared with the conditions of the tax dispute system in Indonesia. From the comparison results, recommendations for the design of tax mediation implementation that are adaptive, contextual, and trust-based were formulated.

To support the validity of the argument, the analytical framework used in this study refers to the Slippery Slope Framework (Kirchler et al., 2008), the Cooperative Compliance Framework (OECD, 2013), and the principles of Modern ADR Theory (Chaisse et al., 2022; Menkel-Meadow, 2015). These three frameworks provide a theoretical basis for evaluating the potential success of tax mediation in building collaborative relationships between tax authorities and taxpayers.

RESULTS AND DISCUSSION

Comparison of Dispute Resolution Approaches: Brazil and Indonesia

Brazil and Indonesia's tax dispute resolution systems show fundamental differences in institutional orientation, legal structure, role of authority, and approach to Taxpayers (WP). Brazil, through *transação tributária*, emphasizes administrative dialogue that allows negotiations within a flexible legal framework, while Indonesia still relies on hierarchical and litigative processes that have limited room for compromise.

The following table provides a summary of the comparison between the tax dispute resolution systems in Brazil and Indonesia:

Table 1. Tax Dispute Resolution System Comparison: Brazil vs Indonesia

Aspect	Brazil (<i>Transação Tributária</i>)	Indonesia (<i>Objection–Appeal–Lawsuit System</i>)
Legal Basis	Law No. 13.988/2020	General Taxation Law (UU KUP), Tax Court Law, and technical Ministerial Regulations
Nature of Resolution	Agreement-based administrative negotiation	Litigious, formal, based on procedural hierarchy
Resolution Phase	Before and during the objection or litigation process	Objection, Appeal, Lawsuit
Role of Mediator	No external mediator; direct negotiation between the tax authority and the taxpayer	No mediation mechanism available
Flexibility	High (includes principal tax reduction, interest discounts, installment schemes)	Low, objectionable decisions are binding and limited
Fiscal Relationship Basis	Dialogue, transparency, trust-building	Confrontational, tends to emphasize sanctions
Primary Objective	Administrative settlement accepted by both parties	Fulfillment of formal procedures for dispute adjudication
Impact on Trust	Increased (especially among SMEs and cooperative taxpayers)	Relatively low, with potential to exacerbate distrust

Source: Processed by the author based on Law No. 13.988/2020 (Brazil), Oliveira (2022), Indonesian tax regulations (General Taxation Law, Tax Court Law, and technical ministerial regulations), and interviews with Informant 1 (DGT) and Informant 2 (Tax Court) regarding litigation characteristics in Indonesia and the absence of a formal mediation mechanism in the objection and appeal system (Hakim, 2025).

Strategy for Implementing Tax Mediation in Indonesia

Based on lessons learned from Brazil's *transação tributária model*, the implementation of tax mediation in Indonesia can be designed in stages by considering regulatory limitations, institutional readiness, and the need for trust in the fiscal-taxpayer

(WP) relationship. This strategy includes three main aspects: initial regulation, institutional design, and an educational approach to taxpayers and tax authorities.

Initial Regulation: Mediation through Ministerial Regulation (PMK)

The most realistic first step is to issue a Minister of Finance Regulation (PMK) as a normative basis for the implementation of tax mediation within the scope of objections or pre-objections. This approach allows testing the effectiveness of mediation schemes without having to change the law outright. This PMK can regulate:

1. Mediable dispute criteria (e.g., specific values or administrative ones),
2. Mediation application procedure by taxpayers or DGT,
3. Mediation operational standards (time, decision limits, documentation),
4. The principles of mediation (voluntary, neutral, confidential, morally binding).

Institutional Design: Appointment of a Neutral Mediator

In order to maintain the trust of the taxpayer, the mediator must be independent of the DGT's objection unit, and should come from:

1. specialized units outside the technical directorate (e.g., the mediation facilitation section under the Tax Court Secretariat),
2. Or a trained and certified third-party professional.

It is important to ensure that mediation is not just a formality but a real means of opening up a space for data-based discussion and negotiation, transparency, and understanding of each party's position.

Implementation Phase: Pilot Project and Gradual Evaluation

As a first step, mediation can be piloted in the form of pilot projects in several DGT Regional Offices that have a high dispute burden or large collaborative potential. This stage should be accompanied by:

1. Technical guide,
2. Training internal mediators and objection officers,
3. Evaluation instruments: the number of disputes resolved, the level of satisfaction of the taxpayers, and the impact on the resolution of objections.

Education and Paradigm Shift

The success of mediation is not only determined by regulations, but also by paradigm shifts among the fiscal and taxpayers. Therefore, this strategy should be supported by:

1. Educational campaigns on the benefits of mediation as a fair and constructive forum,
2. Communication and negotiation training for tax officers,
3. Incentives for taxpayers willing to mediate and resolve disputes openly.

Initial Success Indicators

To measure the success of the implementation strategy, initial indicators such as:

1. The level of participation of taxpayers in voluntary mediation,
2. The percentage of disputes resolved through mediation compared to the total objection requests,
3. A reduction in the number of disputes that go up to the appeal stage,
4. Survey the level of satisfaction and trust of taxpayers after the mediation process.

With a gradual and adaptive implementation strategy, Indonesia has a great opportunity to build a tax dispute resolution system that is efficient, fair, and oriented towards the formation of long-term trust.

CONCLUSION

This study concludes that a litigation-dominated tax dispute resolution system, such as the one currently prevailing in Indonesia, contributes to adversarial relationships and diminished trust between taxpayers and authorities. Drawing on Brazil's *transação tributária* policy, this research demonstrates that it is possible to build an effective administrative settlement mechanism without external mediators, provided that legal certainty, transparency, and segmentation are upheld. Brazil's model offers a contextually relevant lesson for Indonesia, particularly in integrating dialogue, voluntary compliance, and flexible policymaking into dispute resolution. For Indonesia, the introduction of tax mediation should not be viewed merely as an administrative alternative but as a strategic shift toward rebuilding fiscal trust and promoting cooperative compliance. To this end, the study recommends a phased implementation beginning with ministerial regulation (PMK), followed by institutional arrangements that safeguard neutrality and support capacity-building for taxpayers and tax officers.

Going forward, the adoption of mediation within Indonesia's tax dispute framework can potentially reduce caseloads at the objection and appeal levels, enhance the quality of fiscal relations, and promote long-term voluntary compliance. Future research should investigate the behavioral dimensions of mediation acceptance among Indonesian taxpayers and explore hybrid models that blend formal legal safeguards with informal dispute resolution practices. Additionally,

Dialogue Over Sanctions: Lessons From Brazil's Tax Settlement System for Designing Trust-Based Mediation in Indonesia

empirical evaluations of pilot programs could help refine the model and inform scalable national implementation strategies within the broader agenda of tax administration reform.

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