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Designing Traditional and Activity-Based Costing for Tax Compliance Activities at the Sukoharjo Primary Tax Service Office

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ABSTRACT

Cost information in Indonesian tax administration is generally presented as aggregate budget and expenditure realisation, so the cost of producing a single compliance output remains unknown. This study designs a costing model for tax compliance activities at the Sukoharjo Primary Tax Service Office (KPP) by comparing traditional costing with activity-based costing (ABC). Adopting a constructivist paradigm and a single-case study strategy, the study collected primary data through semi-structured interviews with tax counsellors, Account Representatives, and tax auditors, while secondary data comprised the 2025 budget realisation report, output data, staffing data, and workspace area. The data were analysed thematically to map the business processes and quantitatively to construct both costing models. The findings show that the three compliance activities, namely tax education, supervision through SP2DK, and audit leading to the issuance of tax assessment letters, consume resources in markedly different patterns. From a total cost of IDR 2,130,781,062, traditional costing yields unit costs of IDR 3,816,899, IDR 1,171,994, and IDR 218,149, whereas ABC yields IDR 2,685,667, IDR 681,682, and IDR 400,704, respectively. Traditional costing therefore overcosts education by 42.1 percent and SP2DK by 71.9 percent, but undercosts tax assessment letters by 45.6 percent. Practically, the proposed two-pool ABC model provides tax offices with a fairer basis for evaluating the cost efficiency of each compliance service.

1. Introduction

State revenue from the tax sector depends heavily on the level of taxpayer compliance (Abdu et al., 2023; Bellon et al., 2022; Peprah et al., 2022). To foster such compliance, the Directorate General of Taxes (DGT) conducts a range of activities through its Tax Service Offices, from preventive tax education and compliance supervision to corrective measures in the form of tax audits (Wibawa et al., 2026; Maksum, 2024; Parapasan et al., 2024). These activities absorb considerable resources and therefore impose substantial cost consequences on the organisation (Anjarwi, 2025; Salahova, 2025; Vishnuhadevi, 2021). The cost information currently available, however, takes the form of aggregate budget and expenditure realisation and thus does not reveal the cost of producing a single output for each activity (Amaral et al., 2020; Quesado et al., 2021; Sánchez-Rebull et al., 2023). Consequently, the efficiency of resource use in each tax compliance activity is difficult to evaluate (Muzaki et al., 2020; Ostadi et al., 2022; Purnomolastu et al., 2025).

This condition makes the Sukoharjo Primary Tax Service Office a relevant setting for examining the costing of tax compliance activities. Activity costing matters because tax compliance activities differ in character (Ali et al., 2023; Nassou et al., 2024; Ordynskaya et al., 2021). Education, supervision, and audit each involve distinct business processes and resource requirements (Khadivar, 2024; Niñerola et al., 2021b; Salahova, 2025). These differences imply that assigning costs through an overly general allocation base risks producing cost information that does not reflect actual conditions (Adamova, 2021; Alhabeeb et al., 2022; Dewi et al., 2025). A costing approach capable of tracing resource consumption to each activity is therefore required so that the resulting cost information becomes more relevant for managerial decision making (Chirenda et al., 2021; Schmidt et al., 2023; Shakya et al., 2025).

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This need is consistent with contingency theory, which holds that no management accounting system applies universally because system design is shaped by organisational characteristics, the environment, and business processes (Al-Dhubaibi, 2025; Bui et al., 2023; Nassou et al., 2024). Within this frame, cost accounting provides the conceptual framework for identifying, measuring, and allocating costs in order to generate relevant information (Horngren et al., 2021; Muzaki et al., 2020; Ordynskaya et al., 2021). One approach within cost accounting is traditional costing, which assigns costs using a single allocation base and therefore produces a simple calculation (Amaral et al., 2020; Dewi et al., 2025; Sánchez-Rebull et al., 2023). As activities have grown more complex, activity-based costing (ABC) has emerged, assigning costs according to the resources consumed by activities (Adamova, 2021; Ali et al., 2023; Quesado et al., 2021). Together, these two approaches form the basis for designing a costing concept for tax compliance activities that fits the business process characteristics of the Sukoharjo Primary Tax Service Office.

Prior literature indicates that ABC is increasingly relevant for service organisations and the public sector because it traces costs through activities and cost drivers rather than merely assigning them through a general allocation base (Amaral et al., 2020; Khadivar, 2024; Niñerola et al., 2021b). This relevance is pronounced in tax administration because compliance activities differ in their business processes, resource requirements, and outputs (Anjarwi, 2025; Salahova, 2025; Su, 2025). Previous studies, however, have tended to discuss ABC in specific contexts or for single activities and have therefore not fully addressed the costing needs of several compliance activities at the office level (Al Askary et al., 2020; Alhabeeb et al., 2022; Shakya et al., 2025). Moreover, few studies integrate business process mapping, resource use, cost pools, and cost drivers as the basis for designing the cost of tax compliance activities (Adamova, 2021; Dewi et al., 2025; Ordynskaya et al., 2021). This gap motivates the present study, which designs a costing concept for tax compliance activities at the Sukoharjo Primary Tax Service Office.

This study offers novelty in theoretical, methodological, and empirical terms. Theoretically, it extends contingency theory and the cost accounting framework to the design of costing for tax compliance activities, a topic that remains rarely discussed (Al-Dhubaibi, 2025; Bui et al., 2023; Horngren et al., 2021). Methodologically, it integrates business process mapping, resource identification, cost pool formation, and cost driver selection as the basis for cost design using traditional costing and a proposed ABC model (Adamova, 2021; Dewi et al., 2025; Ordynskaya et al., 2021). Empirically, it focuses on three activities, namely tax education, supervision through SP2DK, and audit leading to the issuance of tax assessment documents at the Sukoharjo Primary Tax Service Office (Fadiyah et al., 2024; Parapasan et al., 2024; Wibawa et al., 2026). This novelty is expected to provide a more comprehensive picture of the relationship between resource consumption and tax compliance output.

This study adopts a constructivist paradigm, which views the costing concept as being formed through an understanding of organisational reality and of the characteristics of its business processes (Alzhrani, 2022; Chirenda et al., 2021; Dyczkowska et al., 2022; Gosselin et al., 2022). On that basis, the study addresses the question of how a costing concept for tax compliance activities can be designed in accordance with the business process characteristics of the Sukoharjo Primary Tax Service Office. To answer this question, the study aims to elaborate the business processes of tax compliance activities, identify cost components and cost pools, formulate the cost per output using traditional costing, and develop a proposed activity-based costing model while analysing the resulting differences in cost assignment. The study employs a qualitative case study approach based on interviews and documentation, supported by descriptive cost accounting computation (Al Askary et al., 2020; Khadivar, 2024; Niñerola et al., 2021a). The results are expected to serve as a reference for the Sukoharjo Primary Tax Service Office in developing activity cost information and to enrich cost accounting research in public sector organisations.

2. Literature Review

2.1. Conceptual and Theoretical Foundations

Contingency theory serves as the main lens of this study because it asserts that no management accounting system is universally applicable; the effectiveness of a system depends on its fit with situational factors such as organisational structure, technology, size, and environment (Chenhall, 2003; Diavastis, 2025; Otley, 2016). Within this framework, costing design is not a neutral technical choice but a decision that must be aligned with business process

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characteristics and management information needs (Alexopoulou et al., 2024; Daowadueng et al., 2023). Contingent factors such as output heterogeneity, activity complexity, and data availability determine which costing system is most appropriate (Alexopoulou et al., 2024). Recent studies confirm that the relevance of this theory in management accounting persists and continues to develop, particularly in linking the design of performance measurement systems to organisational context (Klink et al., 2026; Nassou et al., 2024). In a Tax Service Office, education, supervision through SP2DK, and audit involve different work stages and intensities of resource consumption, so a single assignment base is not necessarily appropriate (Alexopoulou et al., 2024). Contingency theory therefore justifies treating the choice between traditional costing and activity-based costing as a matter of contextual fit rather than of the absolute superiority of either method (Diavastis, 2025). This perspective positions organisational context as the primary determinant of the relevance of costing results.

As a derivative of the contingency lens, cost accounting functions as the conceptual framework that provides the applied basis for cost design in this study. Cost accounting aims to supply cost information for management planning, control, and decision making by identifying, measuring, and allocating costs systematically (Klink et al., 2026; Liberato et al., 2026; Roffia et al., 2023). Its central concepts comprise the cost object, that is, the item whose cost is to be determined; the cost pool, a container of homogeneous costs; and the cost driver, the basis that links resource consumption to the cost object (Ortiz-Cea et al., 2025). Direct costs can be traced unambiguously, whereas indirect costs must be allocated through a particular assignment base, and the accuracy of the resulting cost information depends on how appropriately that base is chosen (Putuhena et al., 2024; Schmidt et al., 2023). Two operational approaches emerge from this framework: traditional costing, which assigns overhead through a single volume-based measure and is therefore simple but prone to distortion; and activity-based costing, which traces costs to activities through a variety of drivers and thus better reflects actual resource consumption (Paradzal et al., 2023). The difference between the two gives rise to overcosting and undercosting in service organisations and public sector entities with a high proportion of indirect costs (Schmidt et al., 2023).

2.2. Review of Empirical Studies

A range of prior studies demonstrates the relevance of activity-based costing for service organisations and the public sector (Borges, 2024). Systematic reviews confirm that ABC has continued to develop and has been adopted across sectors in recent decades, and that it offers a clear advantage in overcoming the limitations of overhead allocation under traditional methods (Ortiz-Cea et al., 2025; Sánchez-Rebull et al., 2023). In healthcare, the application of ABC has been shown to improve the accuracy of unit service costs and thus to support performance measurement and cost efficiency (Kim et al., 2025; Koolmees et al., 2022; Shakya et al., 2025). In the public and non-profit spheres, a risk-based approach refines ABC so that it better suits the characteristics of government services (Kudanga et al., 2023; Ostadi et al., 2022), while time-driven activity-based costing simplifies cost assignment in public services by using time estimates (Busschaert et al., 2025; van den Berg et al., 2025). Cost modelling studies also show that the pattern of cross-subsidisation among outputs is strongly influenced by cost hierarchies and by the design of the assignment system (Schmidt et al., 2023). These cross-sector findings consistently conclude that activity-based methods produce more detailed cost information than traditional methods, especially in organisations with diverse activities (Molela et al., 2024; Ortiz-Cea et al., 2025). The similarity between public services and tax compliance activities makes this experience a relevant reference for the KPP context.

In the context of taxation and state financial administration, prior research remains relatively limited but points in a promising direction (Rahayu et al., 2023). The literature on tax administration and compliance costs emphasises the importance of measuring the resource burden of tax administration processes, as the cost dimension tends to receive less attention than effectiveness (Ndlovu et al., 2026). Meanwhile, studies applying activity-based approaches in Indonesia are beginning to develop, both as conceptual reviews of ABC adoption and as empirical evidence that the method can identify overcosting and undercosting in tariff setting (Ambarwati et al., 2025; Maksum, 2024; Purnomo, 2025). Such studies strengthen the argument that activity-based cost tracing can be applied to service organisations and public services in Indonesia (Muttiwijaya et al., 2025).

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Nevertheless, existing studies generally focus on a single method or a single object and have not linked the mapping of compliance business processes with a traditional costing design and a proposed activity-based costing model within one KPP unit. As a result, the comparison of the magnitude of cost distortion across compliance activities has not been adequately addressed, particularly using actual cost data. This limited coverage leaves room for a more comprehensive examination of compliance activity costs at the tax office level.

2.3. Identification of the Research Gap

The synthesis of theory and empirical evidence presented above reveals two points. First, the cost accounting framework already provides adequate instruments for modelling activity costs. Second, empirical evidence confirms the advantage of ABC in producing more representative cost information. Nevertheless, its application to tax compliance activities at the KPP level still leaves a gap, particularly in a design that links business processes with cost components, cost pools, and assignment bases as a whole, and in a direct comparison between traditional costing and ABC using the budget realisation data of a single unit. Previous studies generally focus on one method or one object, so the magnitude and direction of cost distortion across compliance activities remain inadequately addressed. This is the gap that the present study seeks to close.

2.4. Development of the Conceptual Framework

Based on that review, the conceptual framework of this study is arranged as a sequential flow. Mapping the business processes of compliance activities is the starting point because it determines which activities consume resources. The next stage is the identification of resources and cost components, which are then grouped into cost pools together with their drivers. From this grouping, two assignment designs are constructed, namely traditional costing with a single rate based on employee capacity hours, and ABC with two drivers, namely the number of outputs and workspace area. Both designs produce a cost per

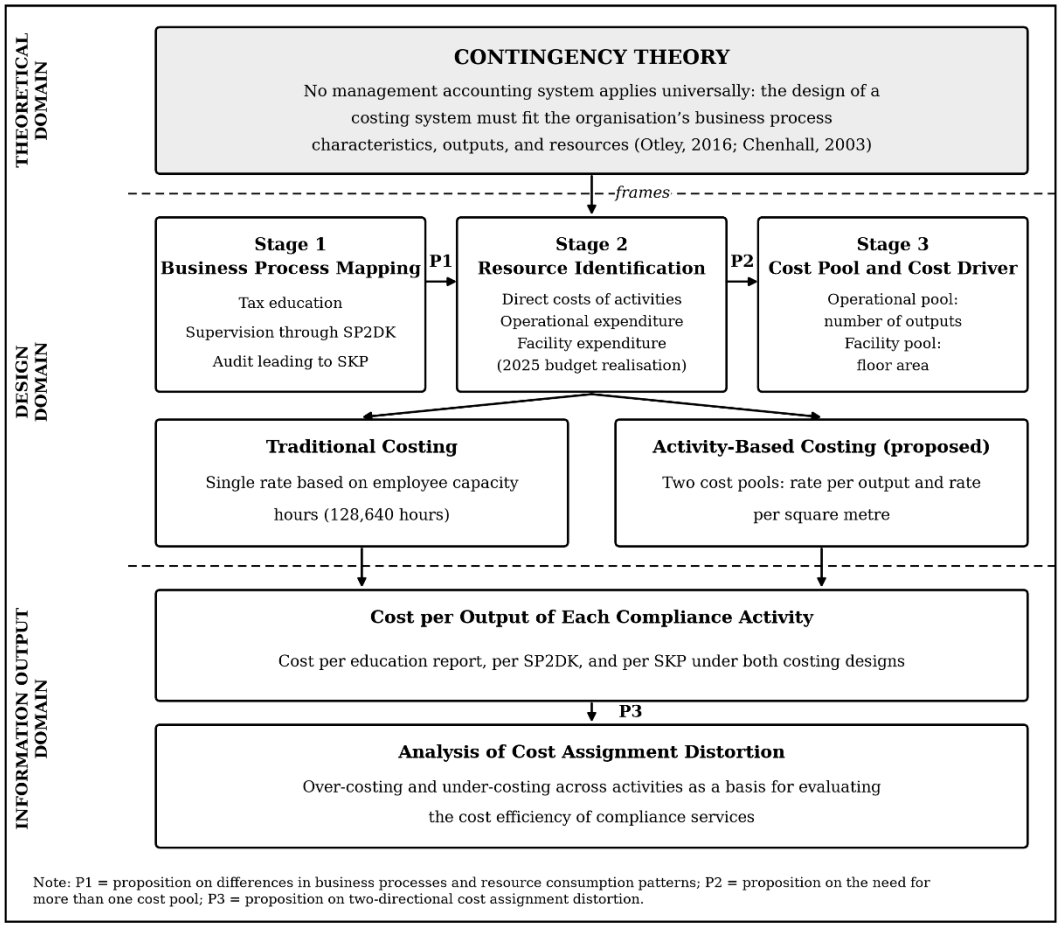


Fig. 1. Conceptual framework for designing the costing of tax compliance activities at the Sukoharjo Primary Tax Service Office.

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output, which is then compared in order to measure the magnitude and direction of the distortion. The entire flow is framed by contingency theory, which positions organisational characteristics as the determinant of costing system fit.

2.5. Research Propositions

Because the study is qualitative, the conceptual framework is formulated as propositions rather than as statistical hypotheses. The first proposition states that education, supervision through SP2DK, and audit have different business processes and resource consumption patterns and therefore cannot be represented by a single assignment base. The second proposition states that compliance cost components fall into one group driven by output volume and another driven by space utilisation, so that forming more than one cost pool better reflects cost behaviour. The third proposition states that applying traditional costing based on employee capacity hours produces two-directional assignment distortion, namely overcosting for activities with high employee intensity but low output, and undercosting for activities with high output but relatively few employee hours.

3. Research Methods

3.1. Research Design

This study rests on a constructivist paradigm with a qualitative approach and a case study strategy (Cole, 2024). The constructivist paradigm was chosen because an understanding of compliance activity costs cannot be separated from the meaning of business processes as construed and narrated by the employees who carry them out. Cost reality is regarded as being formed through interaction between the researcher and the informants rather than as figures that stand alone, so the interpretation of employee accounts becomes an essential part of the analysis. The case study strategy was adopted because the research focuses on a single unit of analysis examined in depth and in context. This choice is consistent with contingency theory, which stresses the importance of aligning costing system design with organisational context.

3.2. Research Context and Setting

The research locus is the Sukoharjo Primary Tax Service Office in the 2025 fiscal year, and the research object covers three principal compliance activities, namely tax education, supervision through SP2DK, and audit leading to the issuance of tax assessment letters (Surat Ketetapan Pajak, SKP). This context was selected because the three activities represent a continuum of compliance development, from preventive and persuasive efforts to law enforcement, and because all of them are carried out within a single work unit with a documented budget. These characteristics allow cost tracing to be conducted comprehensively within one entity.

3.3. Population and Sample / Research Participants

Participants were selected purposively on the basis of their direct involvement in carrying out compliance activities, namely tax counsellors for education, Account Representatives in the Supervision Section for SP2DK, and audit supervisors for tax audit. The selection criteria included work experience in the relevant function and an understanding of the stages of the business process and of the resources used. The number of participants was determined by informational adequacy, that is, the point at which informant accounts no longer produced new themes regarding work stages and resource consumption (Braun et al., 2021).

3.4. Data Sources and Data Collection

Primary data were collected through semi-structured interviews, discussions, and follow-up confirmation with the employees concerned. The interview guide covered the flow of the business process at each stage, the resources and facilities used, estimated working time, the most complex stages, and the factors affecting resource consumption. It should be noted that the researcher was placed in the Service Section during the internship, so the business processes under study were not observed directly; understanding of those processes was built from informant accounts and strengthened through follow-up confirmation. Secondary data comprised the Detailed Fund Availability Report, expenditure realisation details, data on the number of outputs of each activity, data on the number and composition of employees, and data on the workspace area of each function. Regulatory documents served as normative references, namely SE-13/PJ/2025 on education, SE-05/PJ/2022 and Minister of Finance Regulation Number 111 of 2025 on supervision, and Minister of Finance Regulation Number 15 of 2025 on tax audit.

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3.5. Measurement of Variables and Research Instruments

The cost objects were defined as three outputs, namely Education Activities, SP2DK, and SKP. Direct costs were operationalised as the expenditure realisation attached to the output code of each activity in the Detailed Fund Availability Report. Indirect costs were operationalised as the realisation of personnel expenditure, office operational expenditure, and shared facility expenditure, subsequently adjusted for the proportion of employees in the compliance function. Cost drivers were operationalised through three measures, namely estimated employee capacity hours for traditional costing, the number of output reports for the operational pool, and effective workspace area in square metres for the facility pool. Capital expenditure was excluded from the computation because the study rests on operational expenditure realisation and does not calculate asset depreciation.

3.6. Data Analysis Techniques

The analysis was conducted in two complementary stages. The first stage was a thematic analysis of the interview data, discussions, and regulatory documents in order to elaborate the business processes (Byrne, 2022). The analysis proceeded by reducing the data, coding key statements, and grouping them into themes reflecting the stages of planning, organising, implementing, and monitoring and evaluation (Naeem et al., 2023). The second stage was the quantitative processing of cost data to design traditional costing and to develop the proposed ABC model. Under traditional costing, all overhead was collected in a single pool and assigned using a single rate per capacity hour (Ayinla et al., 2025). Under ABC, overhead was separated into an operational pool and a facility pool and then assigned using more specific drivers. The results of the two models were compared in order to measure the magnitude and direction of the assignment difference, so that overcosting and undercosting could be quantified.

3.7. Validity, Reliability, and Trustworthiness

Data validity was maintained through four criteria. Credibility was met through source triangulation, that is, comparing accounts across informants, and through method triangulation, that is, matching the narrative of business processes with budget and regulatory documents (Schlunegger et al., 2024). Dependability was maintained by documenting the coding results systematically so that the final themes can be traced back to the original informant statements. Confirmability was met through member checking, that is, confirming the researcher's understanding with the employees concerned. Transferability was supported by a detailed description of the unit context and of the computation procedures, so that readers can assess the applicability of the design to other comparable units.

3.8. Ethical Considerations

The research was conducted with formal permission from the head of the unit and with oral consent from all informants after the purpose of the study had been explained. Informant identities are presented in limited form, namely by first name and functional position only, while budget data are presented in aggregate in accordance with public information disclosure provisions. No data covered by official secrecy and no taxpayer identity data were used in this study.

3.9. Research Procedure

The research procedure comprised five stages, namely (1) preparing the research plan and reviewing the relevant regulations; (2) collecting primary data through interviews and confirmation; (3) compiling secondary data covering budget realisation, outputs, staffing, and floor area; (4) mapping the business processes through thematic analysis and forming the cost pools; and (5) designing the two costing models, comparing the results, and drawing conclusions.

3.10. Methodological Limitations

The research design has limitations that should be acknowledged. The estimate of employee capacity hours is based on assumptions about standard working days and hours rather than on actual time records, so the traditional costing results depend on those assumptions. The proposed ABC model is limited to two cost pools with two drivers and therefore does not capture the full diversity of activities in the way that a time-based approach would. In addition, the business processes under study were not observed directly because of the placement constraint, so understanding was built entirely from informant accounts that were subsequently confirmed.

4. Results and Discussion

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This section presents the findings in the order of the three research questions and then interprets them in relation to theory and prior literature.

4.1. Research Results

4.1.1. Sample Description and Descriptive Statistics

This study examines three tax compliance activities at the Sukoharjo Primary Tax Service Office: Education Activities, SP2DK, and SKP. The units of analysis are the activities and their associated costs, rather than individual respondents. The analysis draws on interviews with officers responsible for implementing tax compliance activities, the Detailed Fund Availability Report for the 2025 fiscal year, and workspace data. These sources provide information on operational processes, expenditure components, output volumes, employee capacity hours, and the allocation of direct and indirect costs.

The three cost objects represent distinct approaches to tax compliance. Education Activities constitute a preventive approach, SP2DK represents a persuasive supervisory approach, and tax audits leading to the issuance of SKP represent law enforcement. These activities differ in their operational processes, resource requirements, and output characteristics.

The descriptive information identifies 4,231 total outputs, comprising 65 education activity sessions, 1,021 SP2DK letters, and 3,145 SKP letters. The total direct cost of these activities amounted to IDR 352,683,819. In addition, the identified overhead consisted of an operational pool of IDR 1,346,408,463 and a facility pool of IDR 431,688,779.

The analysis also identified 128,640 hours of employee capacity for the compliance function and a total effective facility area of 571 m^2. These figures constitute the principal descriptive measures used to compare traditional costing and ABC.

The research did not report respondent demographics, sample-size statistics for individual interview participants, means, or standard deviations. Accordingly, the descriptive presentation focuses on the organizational units, activity outputs, cost components, and resource measures documented in the research data.

4.1.2. Data Quality and Preliminary Analysis

The preliminary analysis focused on identifying direct costs, classifying indirect expenditures, determining appropriate cost drivers, and establishing a consistent basis for comparing traditional costing and ABC. The analysis used financial and operational records, interview evidence, and workspace data to identify the resources associated with each cost object.

The compliance function's share of personnel and office operational expenditure was adjusted to 60.91 percent, representing 67 employees out of the total workforce. The operational pool was consequently calculated at IDR 1,346,408,463. The facility pool was adjusted using the same proportion, resulting in IDR 431,688,779. Capital expenditure of IDR 447,665,784 was excluded from the facility cost calculation.

Two distinct allocation bases were established for the ABC model. The number of outputs was selected as the operational cost driver, while floor area was selected as the facility cost driver. For the traditional costing model, employee capacity hours were used as the single allocation basis. The total employee capacity was calculated by assuming that each employee worked 1,920 hours annually and that 67 employees performed compliance functions, producing 128,640 hours.

The two costing models were developed using the same underlying direct-cost and overhead data. Traditional costing assigned total costs of IDR 2,130,781,062, while ABC assigned IDR 2,130,781,061, with the difference arising from rounding in the ABC driver rates.

The source material does not report separate statistical tests of normality, multicollinearity, reliability, or model fit. These tests are not presented as findings because the study's documented analytical procedure concerns activity-level cost allocation rather than statistical hypothesis testing. The preliminary analysis instead establishes the cost classifications, allocation assumptions, and calculation bases used in the comparison.

4.1.3. Main Analytical Results

a. Business Processes of Tax Compliance Activities

The compliance improvement function at the Sukoharjo Primary Tax Service Office rests on the self-assessment principle and is carried out through three interrelated activities, namely tax education, supervision through SP2DK, and tax audit. Together, these activities form a single continuum of compliance development, moving from preventive to persuasive efforts and finally to law enforcement. Normatively,

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education is governed by SE-13/PJ/2025, SP2DK supervision by Minister of Finance Regulation Number 111 of 2025 and SE-05/PJ/2022, and tax audit by Minister of Finance Regulation Number 15 of 2025. These formal provisions were juxtaposed with the accounts of the officers who implement them in order to obtain a picture of the work stages, the resources used, and the stage that absorbs the greatest workload.

Tax education is a preventive effort aimed at building taxpayer awareness, knowledge, and voluntary compliance. The type and number of activities are determined by the head office, so the KPP adjusts the allocation of each theme in a periodic work plan that is usually completed in January. Once the themes have been set, an Education Assignment Letter is issued, after which the activity moves into the preparation and implementation stage, which requires cross-section coordination, as one tax counsellor explained.

> *"After the Education Assignment Letter is issued, implementation begins. The implementation stage covers preparation: producing invitations, compiling the list of taxpayers to be invited, determining the material, time, venue, budget, and officers, and drawing up the session plan. We coordinate with the General Affairs Section for facilities and with the Data and Information Processing Section for taxpayer data as well as assistance in sending invitations." (Tax Counsellor, personal communication, 2025; translated from Indonesian)*

This account shows that education draws on a variety of resources, ranging from the counsellors' time and the facilities provided by the General Affairs Section to data support and the distribution of invitations. The counsellor then submits the activity report within a maximum of 14 working days and closes the cycle with monitoring and evaluation.

Supervision through SP2DK accounts for the largest share of the work of the Supervision Section and functions as a persuasive effort. The issuance of an SP2DK originates from discrepancies identified among financial statements, tax returns, and taxpayer payment data, and it follows a formal sequence bound by statutory deadlines, as one informant explained.

> *"After the priority taxpayer list is determined in the first semester, there is a follow-up mechanism under Regulation Number 111. For strategic supervision, the Supervision Section must prepare a supervision implementation plan. Once the plan has been prepared, a supervision assignment letter is issued. From that letter, the Account Representative for strategic supervision must issue a research report containing the analysis and the revenue potential within no more than 22 calendar days." (Account Representative, personal communication, 2025; translated from Indonesian)*

This activity is handled by one Account Representative per taxpayer, although a single Account Representative may handle many cases simultaneously. The resources used include the Approweb and Coretax applications, research time, and the cost of field visits involving at least two officers. The informants agreed that discussion with the taxpayer and waiting for the taxpayer's response are the stages that consume the most time and effort.

Tax audit is the form of law enforcement that absorbs the most resources. The process begins after an Audit Assignment Letter has been issued; the appointed auditors then study the taxpayer's data and prepare an audit plan before moving into the testing stage, as described below.

> *"After the audit assignment letter is issued and the auditors are appointed, the auditors study the taxpayer data, namely the profile and tax return data, then prepare the audit plan and send the audit notification letter. To prepare the audit plan: once the appointment has been made, the supervisor prepares it alongside the process of studying the data, within a maximum of five working days after the official memorandum." (Audit Supervisor, personal communication, 2025; translated from Indonesian)*

The testing stage is the longest part of the process, with a maximum limit of five months for a full audit and approximately four months for preparing the working papers. A Notification of Audit Findings is subsequently issued and responded to by the taxpayer, followed by the closing conference, the Audit Report, and the issuance of the SKP by the Service Section. A salient finding is the officers' shared understanding that interaction with the taxpayer consumes the most time and effort, so that resource consumption is not evenly distributed across the stages.

b. Resource Identification and Cost Pool Formation

The cost objects were defined as three outputs, namely Education Activities, SP2DK, and SKP. Identification began with the costs that can be traced directly to each cost object. Based on the structure of the Detailed Fund Availability Report, the three outputs contain expenditure on materials, services, rental, and official travel, all of which were incurred to carry out the activity concerned and therefore do not need to pass through an allocation mechanism. The realisation of direct costs was smallest for education, followed by SKP, whereas SP2DK absorbed the largest direct cost because of the intensity of field

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activities and official travel. The total direct cost of the three activities reached IDR 352,683,819, as presented in Table 1.

Table 1. Direct costs by cost object (2025 budget realisation)

Cost Object	Output Code	Realisation (IDR)	Tracing
Education Activities	BMB.005	88,865,850	Direct to education
SP2DK	BIG.004	188,132,469	Direct to SP2DK
SKP	BIG.003	75,685,500	Direct to SKP
Total direct cost	**-**	**352,683,819**	**-**

Source: Detailed Fund Availability Report of the Sukoharjo Primary Tax Service Office, FY 2025 (processed).

Cost components that cannot be traced directly were collected as overhead and then grouped according to the driver that best explains their consumption. The first group is the operational pool, which contains personnel and office operational expenditure. These costs arise as activity outputs are produced, so the number of output reports was chosen as the driver. Because not all employees of the office perform the compliance function, the pool value was adjusted to the proportion of compliance function employees, namely 60.91 percent, or 67 of the total employees, giving an operational pool of IDR 1,346,408,463. The components and their driver are presented in Table 2.

Table 2. Cost components and driver of the operational pool (activity report)

Item	Amount
Meal allowance for civil servants	IDR 832,342,000
Overtime pay	IDR 42,820,000
Office supplies and requirements	IDR 960,501,944
Postal delivery of official correspondence	IDR 52,524,378
Operational honoraria of the work unit	IDR 85,100,000
Other operational goods	IDR 49,860,284
Consumable inventory goods	IDR 172,320,257
Telephone subscription	IDR 15,052,495
Total operational pool (100 percent of the office)	**IDR 2,210,521,358**
Operational pool (compliance function, 60.91 percent)	IDR 1,346,408,463
Cost driver - education output	65 activity sessions
Cost driver - SP2DK output	1,021 letters
Cost driver - SKP output	3,145 letters
Total output (driver)	**4,231 outputs**

Source: Detailed Fund Availability Report of the Sukoharjo Primary Tax Service Office, FY 2025 (processed).

The second group is the facility pool, which brings together the costs of rental, water subscription, maintenance of buildings and structures, maintenance of equipment and machinery, and housekeeping. These costs are driven not by the number of outputs but by the area of space occupied. After adjustment for the proportion of the compliance function, the facility pool amounts to IDR 431,688,779, with a total effective area of 571 square metres. Capital expenditure of IDR 447,665,784 was excluded from the computation, while the capacity of compliance function employees was estimated at 128,640 hours. The details of the facility pool are presented in Table 3.

Table 3. Cost components and driver of the facility pool (space)

Item	Amount
Rental expenditure	IDR 135,285,985
Water subscription	IDR 1,779,000

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Maintenance of buildings and structures	IDR 288,838,610
Maintenance of equipment and machinery	IDR 226,630,992
Housekeeping	IDR 56,208,185
Total facility pool (100 percent of the office)	**IDR 708,742,772**
Facility pool (compliance function, 60.91 percent)	IDR 431,688,779
Cost driver - education area	86 m^2
Cost driver - SP2DK area	242 m^2
Cost driver - SKP area	243 m^2
Total area (driver)	**571 m^2**

Source: Detailed Fund Availability Report and workspace data of the Sukoharjo Primary Tax Service Office, FY 2025 (processed).

The resources and cost components of compliance were therefore grouped into three containers, namely direct costs of IDR 352,683,819, an operational pool of IDR 1,346,408,463 driven by the number of outputs, and a facility pool of IDR 431,688,779 driven by floor area. This grouping shows that compliance cost behaviour is not uniform, so the use of more than one driver has a strong empirical basis. The pattern reflects the fundamental principle of ABC, namely the assignment of indirect costs through drivers that bear a causal relationship to resource consumption rather than through an arbitrary allocation base (Quesado et al., 2021) and it confirms that no single cost grouping applies universally (Chenhall, 2003; Otley, 2016).

c. Traditional Costing Design and the Proposed Activity-Based Costing

Both designs start from the same data base, namely direct costs of IDR 352,683,819 and compliance function overhead of IDR 1,778,097,243, so that the total cost assigned reaches IDR 2,130,781,062. Under traditional costing, all overhead is assigned through a single rate based on estimated employee capacity hours. Assuming that each employee works 1,920 hours per year and that 67 employees perform the compliance function, total capacity reaches 128,640 hours, which yields a single rate of IDR 13,822.27 per hour. That rate is multiplied by the hours consumed by each activity, namely 11,520 hours for education, 72,960 hours for SP2DK, and 44,160 hours for SKP. The results of the assignment are presented in Table 4.

Table 4. Costing design under traditional costing (single rate of IDR 13,822.27 per hour)

Cost Object	Capacity Hours	Overhead (IDR)	Direct Cost (IDR)	Total Cost (IDR)	Output	Cost per Unit (IDR)
Education Activities	11,520	159,232,589	88,865,850	248,098,439	65	3,816,899
SP2DK	72,960	1,008,473,063	188,132,469	1,196,605,532	1,021	1,171,994
SKP	44,160	610,391,591	75,685,500	686,077,091	3,145	218,149
Total	**128,640**	**1,778,097,243**	**352,683,819**	**2,130,781,062**	**4,231**	**-**

Source: Research data (processed). Output units: education in activity sessions; SP2DK and SKP in letter documents.

The second design is the proposed ABC model, which assigns overhead through two cost pools with different drivers. The operational pool is assigned on the basis of the number of outputs, giving a rate of IDR 318,224.64 per output, while the facility pool is assigned on the basis of floor area, at a rate of IDR 756,022.38 per square metre. As a control, the total cost assigned through the two pools remains identical to that under the traditional model, namely IDR 2,130,781,062, so that the difference lies solely in the distribution of cost across activities. The results are presented in Table 5.

Table 5. Costing design under activity-based costing (two cost pools)

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Cost Object	Operational OH (IDR)	Facility OH (IDR)	Total OH (IDR)	Direct Cost (IDR)	Total Cost (IDR)	Output	Cost per Unit (IDR)
Education Activities	20,684,602	65,017,925	85,702,527	88,865,850	174,568,377	65	2,685,667
SP2DK	324,907,360	182,957,416	507,864,776	188,132,469	695,997,245	1,021	681,682
SKP	1,000,816,501	183,713,438	1,184,529,939	75,685,500	1,260,215,439	3,145	400,704
Total	**1,346,408,463**	**431,688,779**	**1,778,097,242**	**352,683,819**	**2,130,781,061**	**4,231**	**-**

Source: Research data (processed). The rounding difference of IDR 1 in the total row arises from rounding of the driver rates. Output units: education in activity sessions; SP2DK and SKP in letter documents.

4.1.4. Hypothesis Testing Results / Key Findings

The The comparison of the two models reveals large and non-uniform differences in unit cost. The traditional model assigns approximately 42.1 percent more cost to education and 71.9 percent more to SP2DK, but approximately 45.6 percent less to the issuance of SKP. In nominal terms, the over-assignment reaches IDR 1,131,232 per unit for education and IDR 490,312 per unit for SP2DK, while SKP is under-assigned by IDR 182,555 per unit. A summary of the comparison is presented in Table 6.

Table 6. Comparison of unit costs and distortion of traditional costing relative to activity-based costing

Cost Object	Unit Cost TC (IDR)	Unit Cost ABC (IDR)	Difference (IDR)	Distortion (%)	Description
Education Activities	3,816,899	2,685,667	+1,131,232	+42.1	Over-costed
SP2DK	1,171,994	681,682	+490,312	+71.9	Over-costed
SKP	218,149	400,704	−182,555	−45.6	Under-costed

Source: Research data (processed).

The main cause of the distortion is the mismatch between the proportion of employee capacity hours and the proportion of activity outputs. The issuance of SKP produces the largest number of outputs, namely 3,145, yet absorbs relatively few employee hours, so its cost is understated when hours alone are used as the driver. Conversely, SP2DK absorbs the largest number of employee hours because of the large number of Account Representatives, so its cost is inflated disproportionately. The identification of activities and cost drivers is indeed at the heart of ABC implementation (Sánchez-Rebull et al., 2023), and it links the choice of costing system to the organisation's performance measurement needs (Nassou et al., 2024).

4.1.5. Visual Presentation of Results

The empirical findings are presented through six tables that document the cost allocation process and the comparison between traditional costing and ABC. Each table is referenced in the preceding text and serves a specific analytical purpose.

Table 1 presents direct costs by cost object. Table 2 reports the components of the operational pool and its output-based allocation driver. Table 3 presents facility costs and their allocation according to floor area. Table 4 reports the results of traditional costing using a single employee-hour-based rate. Table 5 presents the ABC allocation using separate operational and facility cost pools. Finally, Table 6 summarizes the differences in unit costs and the resulting cost distortions.

Together, these tables provide a structured presentation of the research results, enabling readers to trace the allocation process from the identification of direct costs and overhead pools to the comparison of unit costs under the two costing models. No additional figures or charts are introduced because the source material does not provide separate graphical outputs.

4.2. Research Discussion

4.2.1. Interpretation of Key Findings

The findings confirm that the diversity of business processes in compliance activities directly affects the accuracy of cost information. The three activities have distinctive legal bases, work stages, and implementing officers, and they therefore consume resources in different patterns. This diversity can be

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read through contingency theory, which holds that the design of an accounting system depends on the context, technology, and tasks of the organisation (Chenhall, 2003; Otley, 2016). Traditional costing, which applies a single rate based on capacity hours, treats all activities as though they absorbed overhead in the same pattern, which is not in fact the case. This condition is consistent with the rationale for the emergence of ABC, which was designed to overcome the weakness of traditional systems, namely the arbitrary allocation of indirect costs that gives rise to distortion (Quesado et al., 2021). Systematic reviews also confirm that ABC remains relevant and is most frequently applied through case studies (Sánchez-Rebull et al., 2023). The two-directional distortion found here is therefore not merely a technical matter of computation but a logical consequence of the mismatch between cost drivers and resource behaviour. These findings answer the three research questions in sequence: diverse business processes require different cost groupings, and such groupings ultimately determine the cost per output. This logic is consistent with the contingency view that the fit of an accounting system results from its alignment with organisational context and tasks (Diavastis, 2025; Otley, 2016).

4.2.2. Comparison with Previous Studies

The results of this study are consistent with the findings of Maksum (2024), who shows that activity-based assignment can reveal overcosting and undercosting across service units, and with those of Putuhena et al. (2024), who conclude that ABC is more accurate than traditional systems in determining unit costs. In the public sector context, Gosselin et al. (2022) demonstrate that the implementation of ABC in a local government supports tariff setting and improves accountability, while Ostadi et al. (2022) confirm that public sector organisations can compute service costs through activity-based assignment. The same pattern is found in healthcare services with a high proportion of indirect costs (Niñerola et al., 2021a; Shakya et al., 2025). The main difference of this study lies in its cost object, namely tax compliance services, which remain little researched, and in its use of the budget realisation data of a single unit as the basis for a direct comparison between two models. In addition, Busschaert et al. (2025) emphasise the importance of time-based drivers in public services, a direction for refinement that is relevant to the model proposed here. Daowadueng et al. (2023) link costing system design choices to the use of cost information for decision making and control, indicating that activity-level cost information can be used to improve service processes, while quantitative evidence shows that the adoption of activity-based approaches has a direct positive effect on organisational performance (Al-Dhubaibi, 2025).

4.2.3. Theoretical Contributions

Theoretically, this study extends the application of contingency theory to the field of tax administration by showing that contingent factors in the form of output heterogeneity and resource structure determine the fit of a costing system. The study also enriches the cost accounting literature by showing that distortion is not always one-directional: in a unit with high-volume administrative outputs but few working hours, the traditional model in fact produces undercosting. This finding complements studies linking cost hierarchies to patterns of cross-subsidisation among outputs Schmidt et al. (2023) and strengthens the argument that costing system design needs to be aligned with the organisation's performance measurement needs (Nassou et al., 2024).

4.2.4. Practical and Policy Implications

In practical terms, the proposed two-pool ABC design can be used by KPP management as supplementary information for assessing the cost burden of each compliance service without altering the prevailing budget structure, because the total cost assigned remains unchanged, as in the experience of ABC implementation in local government that supports tariff setting and accountability (Gosselin et al., 2022). Cost information per output enables unit leaders to assess the reasonableness of resource consumption, set activity priorities, and link output achievement to the cost incurred. For policy makers at the regional and head office levels, this framework can serve as an initial reference for building a uniform activity cost database across vertical units, for example through the recording of outputs and the periodic updating of floor area data. Gradual implementation is recommended so that units can understand the shift in cost assignment before the information is used in performance assessment.

4.2.5. Integration with the Research Gap

The findings directly close the gap identified in the literature review. Previous studies generally stop at

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a single method or a single activity, whereas this study links business process mapping, resource identification, cost pool formation, and cost driver selection within one design flow tested with budget realisation data. The study therefore not only shows that ABC is more accurate but also explains the mechanism that produces the difference in cost assignment in the context of tax administration (Edi Purnomo et al., 2025; Putuhena et al., 2024).

4.2.6. Acknowledgement of Study Limitations

The interpretation of the findings should take several limitations into account. The computation reflects the condition of one unit in one fiscal year and is therefore not intended for generalisation. There is also a difference in the number of employees between the staffing documents and the computation base, so the determination of the compliance function proportion may affect the final figures. In addition, the scope of the study is limited to three principal compliance activities, so other supporting activities have not been fully incorporated into the model. Refinement through time-based drivers remains open for further research (Busschaert et al., 2025).

5. Conclusion

5.1. Summary of Key Findings

This study draws three principal conclusions. First, the business processes of compliance activities at the Sukoharjo Primary Tax Service Office consist of tax education carried out by counsellors, supervision through SP2DK managed by Account Representatives, and tax audit culminating in the issuance of SKP, each of which has a distinctive legal basis, work stages, and implementing officers. Second, resources and cost components were identified by tracing direct costs to each activity and by grouping indirect costs into two cost pools, namely an operational pool driven by the number of outputs and a facility pool driven by floor area. Third, traditional costing and ABC produce different unit costs: the traditional model overcosts education and SP2DK but undercosts the issuance of SKP.

5.2. Theoretical Contributions

The study extends the application of contingency theory and of the ABC concept to the context of tax administration, which has rarely been examined, and it confirms that the fit of a costing system depends on the characteristics of organisational activities. The evidence of two-directional distortion enriches the understanding that the traditional model not only risks overstating costs but may also conceal the real burden of high-volume activities.

5.3. Practical and Policy Implications

In practical terms, the study provides a framework for resource identification, cost grouping, and unit cost computation that office management can use to assess the burden of each compliance service more fairly and accountably. This information can also serve as a basis for formulating policies on output recording and on the updating of resource data in the vertical units of the Directorate General of Taxes.

5.4. Limitations of the Study

The conclusions are limited by the scope of a single case study, a data period of one fiscal year, the use of standard working hour assumptions, and the restriction of the proposed ABC model to two cost pools. These limitations do not diminish the usefulness of the findings but provide an important context for assessing their applicability.

5.5. Directions for Future Research

Future research is encouraged to apply time-driven activity-based costing so that cost assignment becomes more sensitive to the time capacity actually used, to extend the study to several tax service offices so that the results become more comparable, and to link activity-based cost information to performance measurement systems and to the budgeting process. Testing the real-world application of the model is also needed in order to assess both the ease of implementation and the obstacles encountered in the field.

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