



Tax Reform to Improve Tax Compliance

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Indonesian Taxation Outlook





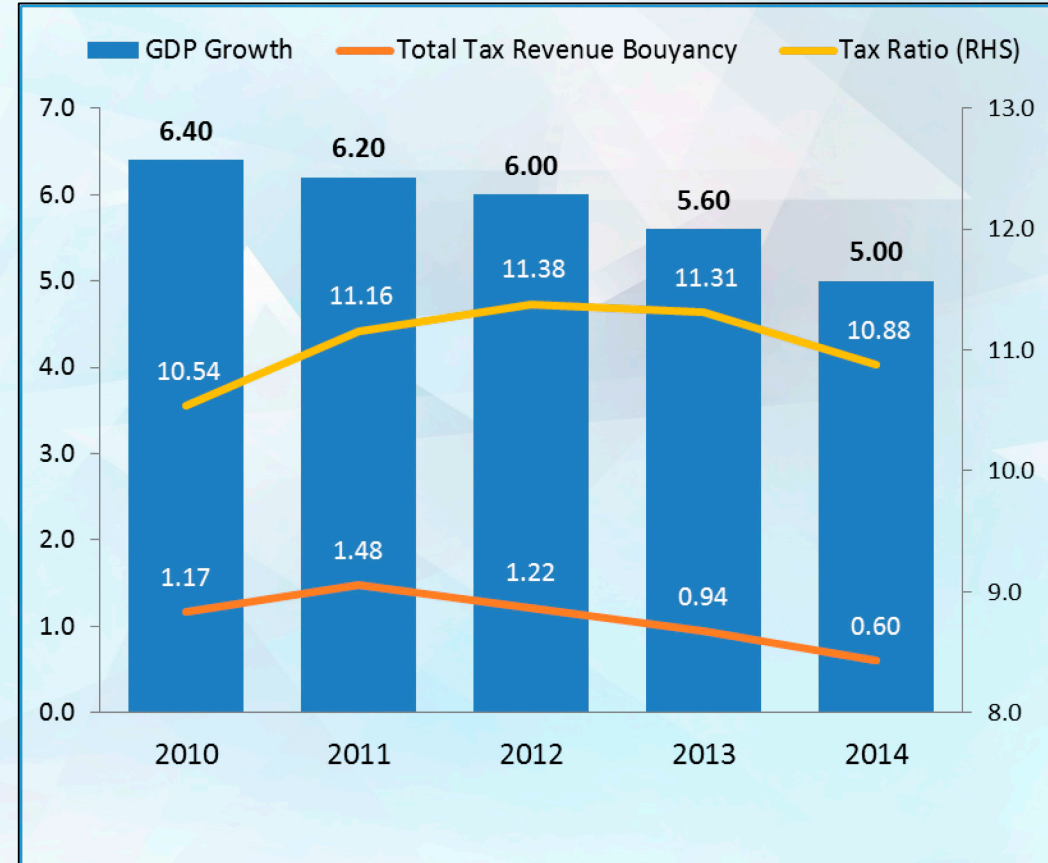
Total Taxation and Non-Taxation Revenue Performance

... its nominal is increasing, but buoyancy and Tax Ratio are decreasing...

Total Taxation and Non-Tax Revenue (Rp Trillion)



Tax Ratio & Bouyancy (%)





The Taxation Revenue Profiles



(in trillions rupiah)										
YEAR	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Tax Revenue	347,0	409,2	491,0	658,7	619,9	712,2	873,9	980,5	1077,3	1146,9
I. Domestic Tax Revenue	331,8	396,0	470,1	622,4	601,3	683,3	819,8	930,9	1029,9	1103,2
1. Income Tax	175,5	208,8	238,4	327,5	317,6	357,0	431,1	465,1	506,4	546,2
a. Oil and Gas Income Tax	35,1	43,2	44,0	77,0	50,0	58,9	73,1	83,5	88,7	87,4
b. Non-Oil and Gas Income Tax	140,4	165,6	194,4	249,8	267,5	298,2	358,0	381,6	417,7	458,7
Personal Income Tax	28,9	33,4	41,0	55,3	55,4	58,3	70,0	83,4	94,5	110,4
Corporate Income Tax	51,4	65,1	80,8	106,4	120,3	132,1	155,5	152,9	155,1	149,3
Unallocated Income Tax	60,1	67,2	72,6	88,2	91,8	107,8	132,5	145,3	168,1	199,1
2. Value Added Tax	101,3	123,0	154,5	209,6	193,1	219,5	277,8	337,6	384,7	409,2
a. VAT	94,0	118,2	147,4	198,2	184,2	207,1	264,4	318,7	365,9	393,6
b. Sales Tax on Luxury Goods	7,3	4,8	7,1	11,5	8,9	12,4	13,4	18,9	18,8	15,6
3. Land and Building Tax and Transfer Duty	19,6	24,0	29,7	30,9	30,7	36,6	29,9	29,0	25,3	23,5
4. Excises	33,3	37,8	44,7	51,3	56,7	66,2	77,0	95,0	108,5	118,1
5. Other Taxes	2,1	2,3	2,7	3,0	3,1	4,0	3,9	4,2	4,9	6,3
II. International Trade Tax	15,2	13,2	20,9	36,3	18,7	28,9	54,1	49,7	47,5	43,6
1. Import Duties	14,9	12,1	16,7	22,8	18,1	20,0	25,3	28,4	31,6	32,3
2. Export Duties	0,3	1,1	4,2	13,6	0,6	8,9	28,9	21,2	15,8	11,3

- VAT and Corporate income tax are the main source of state tax revenue
- Personal income tax contribution is relatively low



Taxation Roadmap in Indonesia





Corporate Income Tax

- The standard CIT rate of 25%.
- Reduced rate of 20% applies to publicly listed companies.
- Reduced rate of 12.5% to taxable income corresponding to gross turnover of Rp4.8 billion applies to medium sized enterprises (annual turnover up to Rp50 billion).
- Rate of 1% on gross revenue applies to SMEs below an annual turnover of Rp4.8 billion.

Personal Income Tax

- The PIT schedule is progressive: 5%, 15%, 25%, 30%.
- The income non-taxable threshold: Rp36 million.

VAT & Sales Tax on Luxury Goods

- The VAT is imposed at 10% with a registration threshold of Rp4.8 billion.
- The VAT law also includes a (non-creditable) Sales Tax on Luxury Goods on various goods, which is levied at a single-point at 6 rates (10%, 20%, 30%, 40%, 50%, and 75%).

Others

- Land and Building Tax
- Stamp duty
- Customs and excise

Tax Incentives, among others:

- Tax Allowance: Incentives for certain industries (some cases: and also in certain areas)
- Tax Holiday: Incentives for certain pioneer industries



• **Low Tax Compliance**

- Low PIT revenue contribution gives small → under reporting PIT
- “Hard to Tax sectors” → SME, profesional, entrepreneur etc.
- Harmful transfer pricing → under reporting CIT, reporting loss all the years etc.
- Excessive Tax Planning leads to International Tax Arbitrages (Avoidance/Evasion)

CHALLENGES

EXTENSIFICATION STRATEGIES:

- Enforcement of Tax Law : Strengthening of Audit
- Sunset policy
- Simplified tax regime for SME.
- Data:
 - profiling,
 - MoU on data exchange.
 - Mapping;
 - Benchmarking

- IT – Based DGTaxes:
 - Risk Management
 - Tax Administration
- (e-VAT, e-Filling tax return)
- Human Resource Development:
 - Litigation capacity
 - Internal control & transparency.
- Certainty on tax payer’s right & obligation
- Introduce penalties on internal fraud by officers

INTENSIFICATION STRATEGIES:

OBJECTIVE

- Increase tax compliance
- Increase trust between tax payer & officer
- Increase revenue



International Tax : Strategies & Cooperation

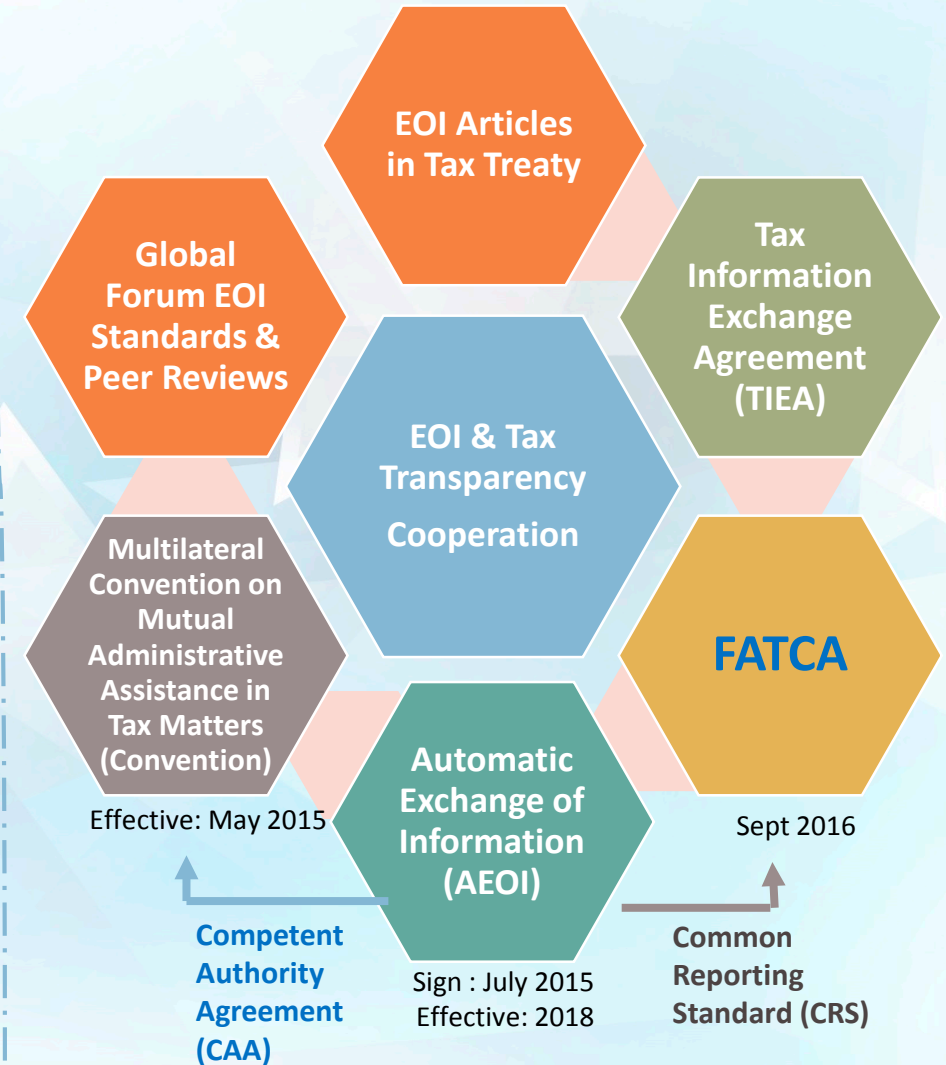


International Tax Strategies

- Support International Tax Initiatives & Agenda , in correspond to the National Interests
- Improve Tax Fairness & Mitigate tax avoidance/evasion/BEPS
 - ➔ Anti Tax Avoidance & Transfer Pricing Measures
- Encourage Level Playing Field
 - ➔ Implement international standard in EOI
 - ➔ Engage in International Tax Cooperation (ie : Multilateral/ Bilateral Tax Agreements ie, Tax Treaties (65) , TIEA (4) , MAC, MCAA/CRS
 - ➔ Participate in regional/bilateral tax-related international fora (ie Global Forum, OECD-BEPS Associate, SGATAR, ASEAN Tax Forum)
- Economic Integration, ie:
 - ➔ ASEAN Economic Community
 - ➔ Bilateral/Regional Free Trade Agreement (FTA)
 - ✓ ASEAN FTA; ASEAN-China FTA; ASEAN-Korea, ASEAN-ANZ;
 - ➔ Comprehensive Economic Partnership Agreement (CEPA)
 - ✓ Indonesia- Japan CEPA; ASEAN-Japan CEPA; Indonesia-Pakistan

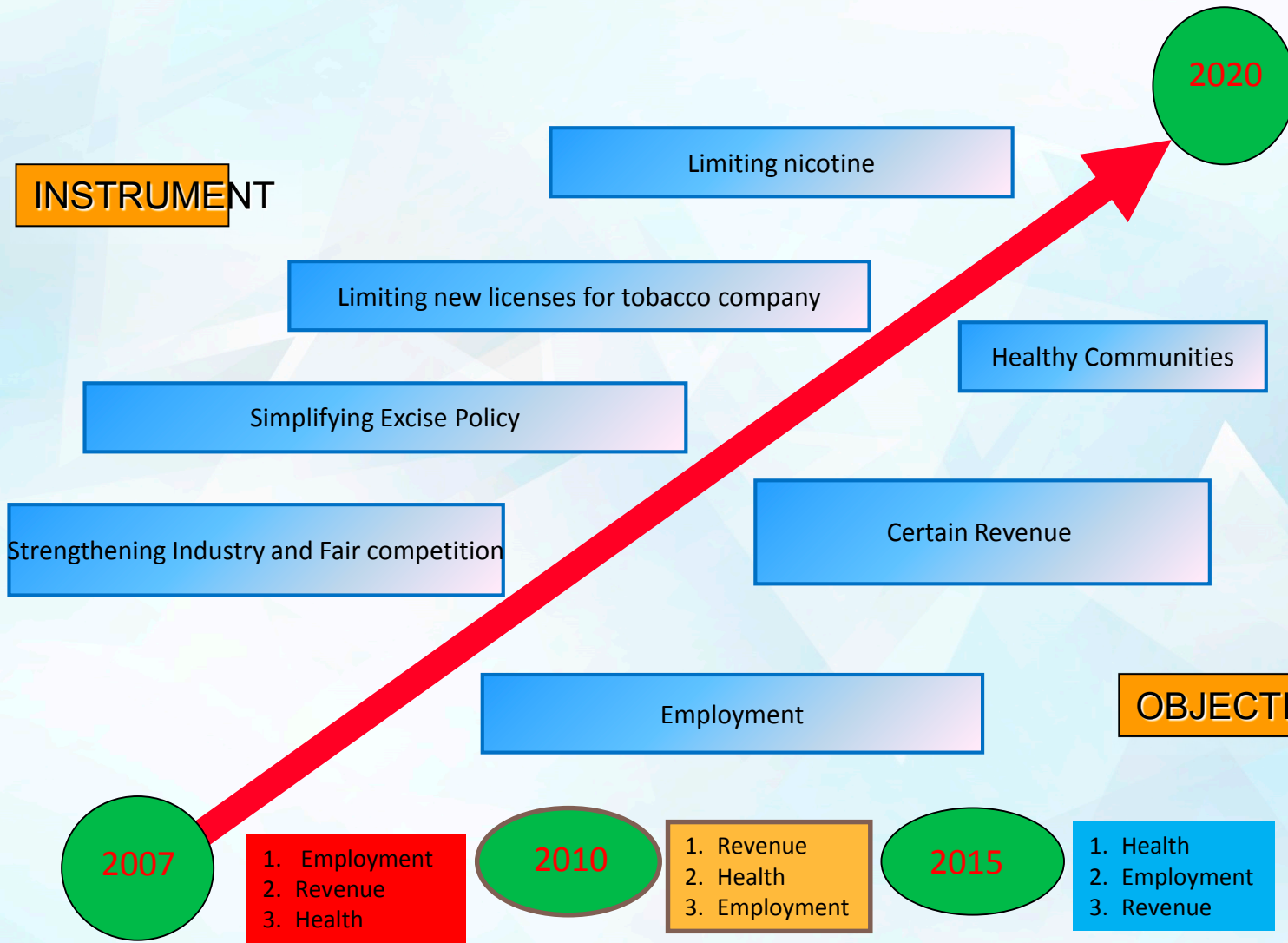


International Tax Cooperation





Strategies on Excises



Objective on Excises:

1. Control Consumption / Behaviour
2. Excises are imposed based on Specific Tax
 - ➔ Excise goods : Tobacco, Alcoholic Beverages, Ethil Alcohol

Strategy on Excises:

1. Enhance Excise Administration and Monitoring through Tariff simplification
 - ➔ Gradually reduce the layer of Excise tariff for effectivity and ease of administration and monitoring
 - ➔ Implement an automatic adjustment after the tariff structure is simplified
2. Improve Transparent & Predictability of excise policies
 - ➔ Public hearing & education
3. Minimize illegal products by enhancing the law enforcement

Minister of Finance Regulation No 198 of the year 2015

- Increase excise tariff for tobacco , effective 1 Jan 2016
 - ➔ avg increase: 11%
- Support employment
 - ➔ higher tariff increase for capital intensive industry than labor-intensive industry



2015 Taxation Stimulus Packages



A

29 Sep 2015

- VAT incentive for transportation industries (train, water shipping and air transport, including spare parts)
- Income Tax Reduction on Deposits from Export Proceeds

VAT Incentives

Non-Collected VAT for transportation industries, defense & security sectors

Reduced Tax Rate on Deposits from Export Proceeds:

Original tax rate : 20%
For USD Deposits, tax rate is reduced based on 4 deposit durations:

- ➔ 1-months : 10%
- ➔ 3-months : 7.5%
- ➔ 6-months : 2.5%
- ➔ Above 6-months : 0%

For IDR Deposits, tax rate is reduced based on 3 deposit durations:

- ➔ 1-months : 7.5%
- ➔ 3-months : 5%
- ➔ At least 6 months : 0%

Asset Revaluation Tax :

Original tax rate : 10%
Tax rate is reduced for the following 3 reporting stages:

- ➔ Up to 31 Dec 2015 : 3%
- ➔ Up to 30 June 2016 : 4%
- ➔ Up to 31 Dec 2016 : 6%

B

23 October 2015

- Reduced Tax Rate on Asset Revaluation
- Elimination of Double Taxation for REITs (Real Estate Investment Trusts)

Eliminate Double Tax on REITs:



- Suspension of Custom Duties
- Exemption of Excises cukai
- Exemption/non-collection of VAT and Sales&Luxury Tax
- Exemption of Income Tax on Import
- Provision of Passport applies

C

5 Nov 2015

- Tax Incentives for Special Economic Zones

Non Customs-Area

Customs-Area

SEZ

- Tax Facilities:
- Tax Allowance
 - Tax Holiday

Taxes Imposed:

- Import Duty
- Excises
- VAT
- Sales&Luxury Tax
- Income Tax on Import
- Exemption/non-collection of VAT and Sales&Luxury Tax



2016 Budget : Tax Ratio is 13,11 %



	2015 Budget-R	2016 Budget	Increase (Decrease)	Growth (%)
1. Tax Revenue	1.489.255,5	1.546.664,6	57.409,1	3,85
a. Domestic Tax Revenue	1.439.998,6	1.506.577,5	66.578,9	4,62
1) Income Tax	679.370,1	757.230,1	77.860,0	11,46
- Non-Oil & Gas Income Tax	629.835,3	715.788,6	85.953,3	13,65
- Oil & Gas Income Tax	49.534,8	41.441,5	(8.093,3)	(16,34)
2) VAT	576.469,2	571.732,7	(4.736,5)	(0,82)
3) Land and Building Tax	26.689,9	19.408,0	(7.281,9)	(27,28)
4) Duties	145.739,9	146.439,9	700,0	0,48
5) Other Tax	11.729,5	11.776,8	47,3	0,40
b. Tax from International Trade	49.256,9	40.087,1	(9.169,8)	(18,62)
1) Import Duty	37.203,9	37.203,9	-	-
2) Export Duty	12.053,0	2.883,2	(9.169,8)	(76,08)





2019 Tax Ratio → 16%
(including Local-Tax of 1%)

Tax Revenue Optimization Strategies

(Income Tax, VAT, Luxury Tax)

1. Increase tax coverage ratio
2. (enhance HR Capacity → Quality & Quantity)
3. Amendment of Tax Laws, including tax incentives to support sustainable re-industrialization
4. Linking tax assessment with mapping of tax potential area
5. Increase access to third party data, including banking
6. Tax administration reforms
 - Tax extensification & intensification:
 - Expand tax base in farming, mineral & other natural resources sector
7. Tax rate/tariff adjustment, if necessary
8. Enhancement of tax education effectiveness
9. Improvement of tax services
10. Tax monitoring effectiveness improvement
11. Tax law enforcement, particularly to prevent tax evasion.

Excises Revenue Optimization Strategies

1. Strengthening of Legal Framework
 - Amendment of regulations related to good and services flows
2. Quality enhancement of excises information & infrastructures
3. IT-based system and procedures:
 - Profiling
 - Indonesian National Single Window (INSW)
 - Authorized Economic Operator (AEO)
 - Temporary reservoir (Tempat Penimbunan Sementara / TPS)
4. Extensification & Intensification
5. Enhance Human Resource quality & quantity



Thank You

