



BADAN KEBIJAKAN FISKAL
KEMENTERIAN KEUANGAN RI

INDONESIA'S EXPERIENCE

DEVELOPING MEDIUM TERM REVENUE STRATEGY

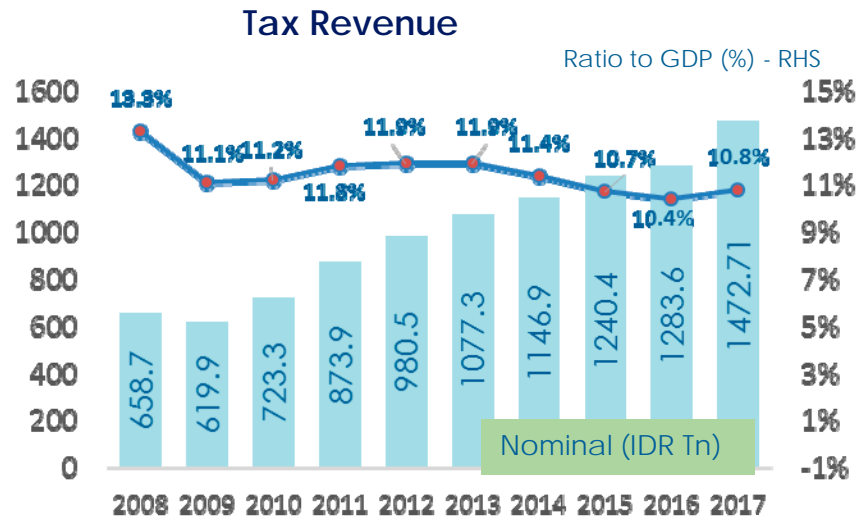
Manila, 1 December 2017
Ministry of Finance of Indonesia



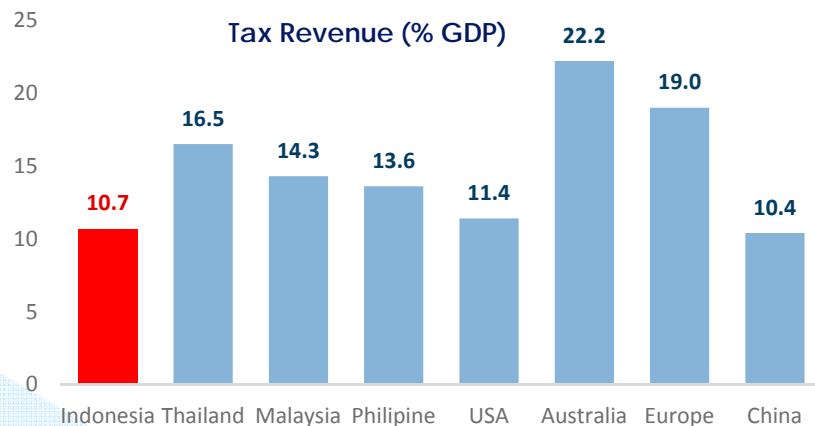
Why Indonesia Need MTRS?



Low Tax to GDP ratio and Future Challenges



Source: Indonesia MoF



Source: World Bank, 2015

Challenges

Rising Globalization

- Increasing recognition of the importance of FDI to create jobs and economic development
- Increasing investment/transactions between countries
- Increasing tax tariff competition

Shifting Business Model

- Transfer pricing
- Intangible goods and services
- Increasing multinational e-commerce
- Simplicity in doing business such as no "Permanent Establishment" requirement in a country.

Structurally Declining Commodity Price

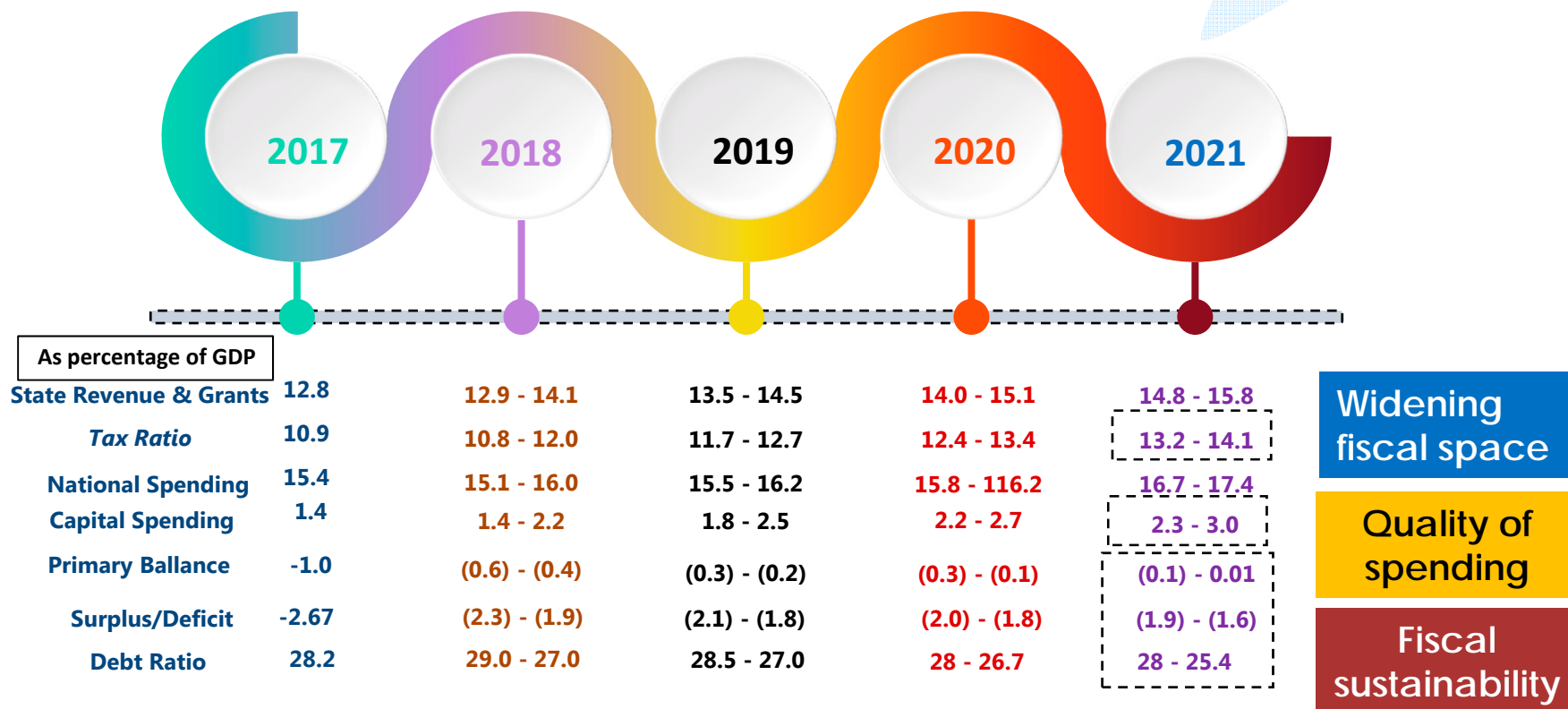
- Declining global economic growth, particularly BRICS.
- Increasing fuel efficiency and green technology innovation, such as electric vehicle, will keep pushing down oil and gas price.

Aggressive Tax Planning

- Indonesia heavily relies on Corporate Income Tax.
- Various techniques have been used to divert business function and risk to jurisdiction with lower tax.
- The increase of financial innovation use to decrease tax obligation by changing type and source of income.

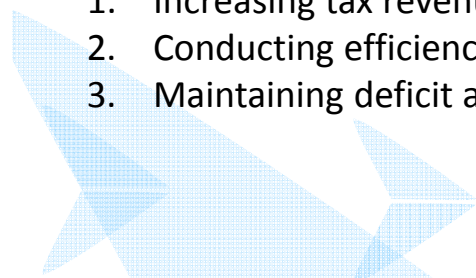
Medium Term Fiscal Policy Framework

need to expand fiscal space by increasing revenue and enhance spending efficiency



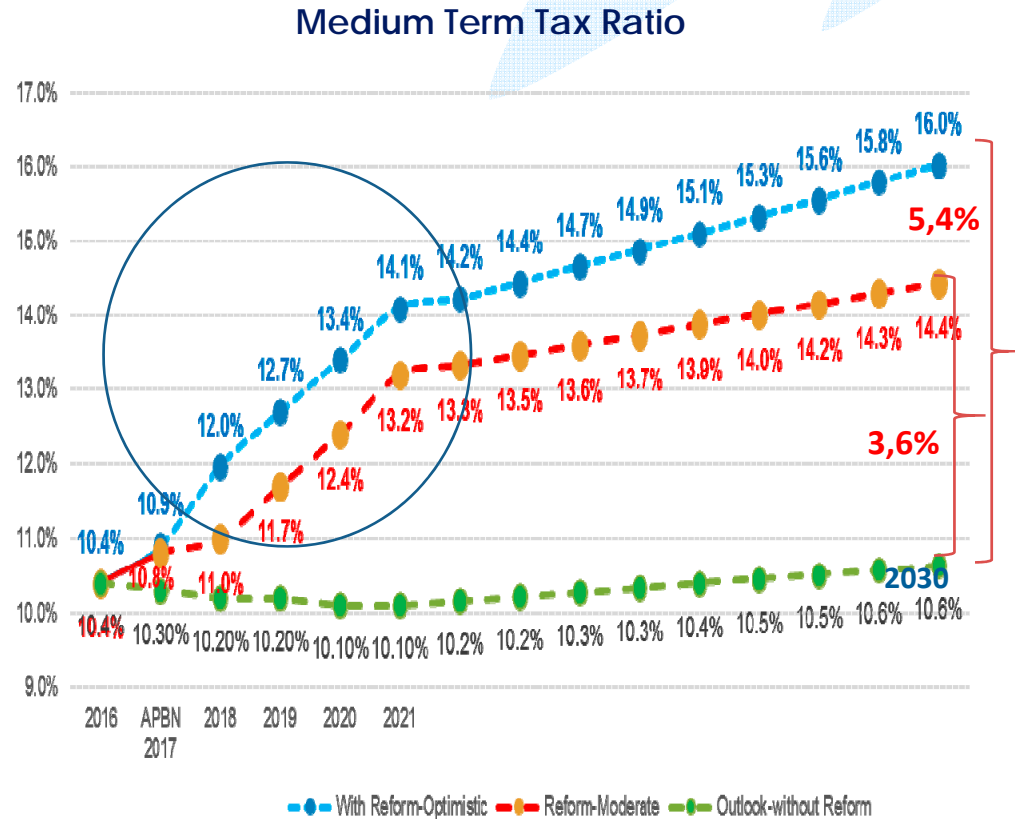
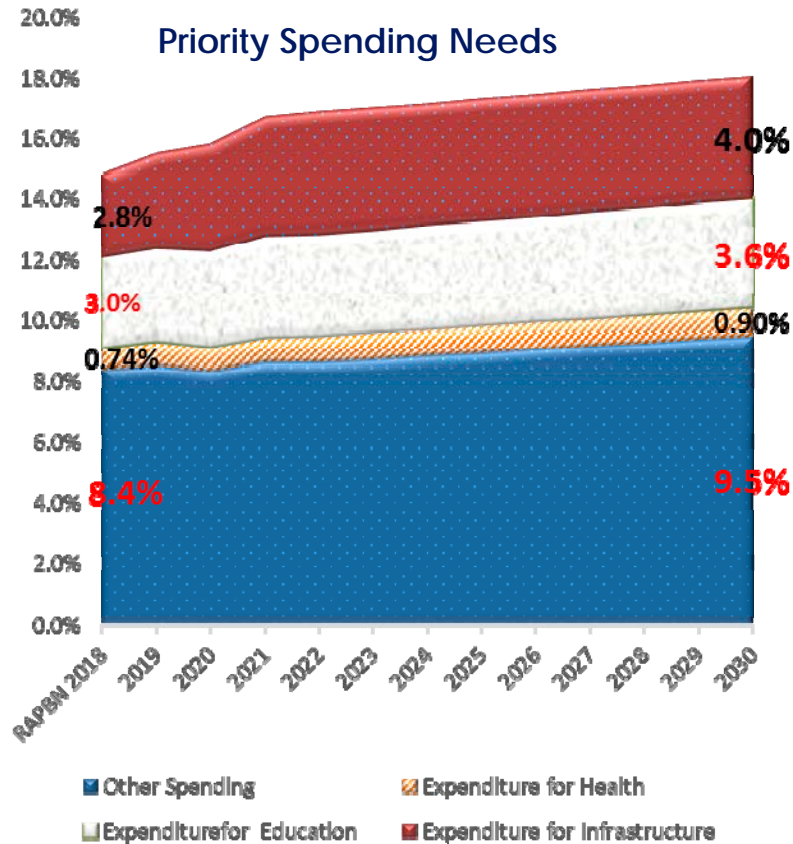
To ensure fiscal sustainability and support development, medium-term policies are directed to:

1. Increasing tax revenue
2. Conducting efficiency and expenditure priorities
3. Maintaining deficit and debt rate



Future Budget Figure

To support ideal budget tax ratio need to increase by 3-6%



1. In medium term (2018-2021), with tax reform, Indonesia tax ratio hopefully improved significantly to 13,2-14,1% of GDP.

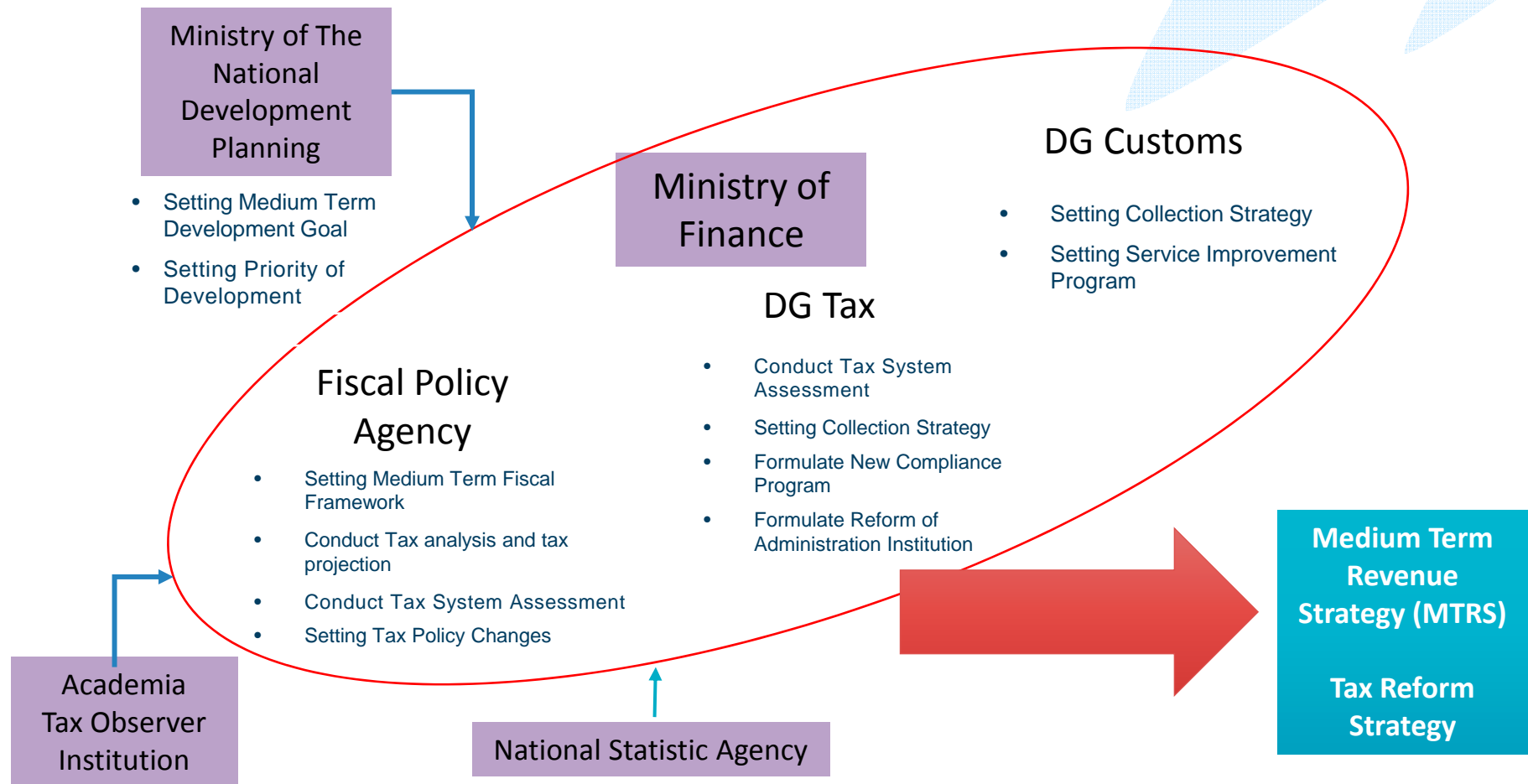
2. Ideal of budget spending to GDP ratio at 18% and tax revenue to GDP ratio at 16% can be reach in the 10-15 years



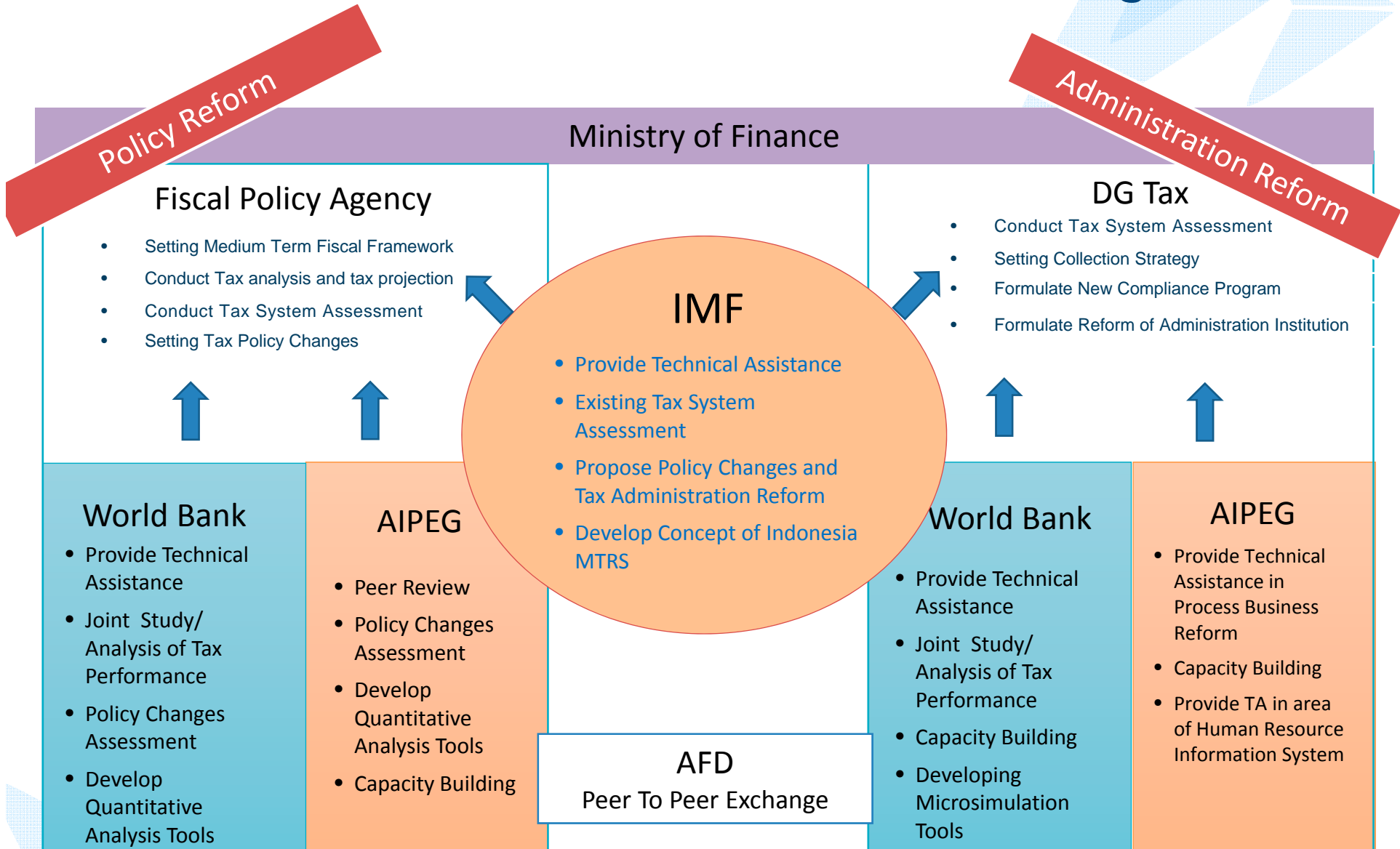
Developing Indonesia's MTRS



Ministry of Finance Has Central Role in Formulating MTRS

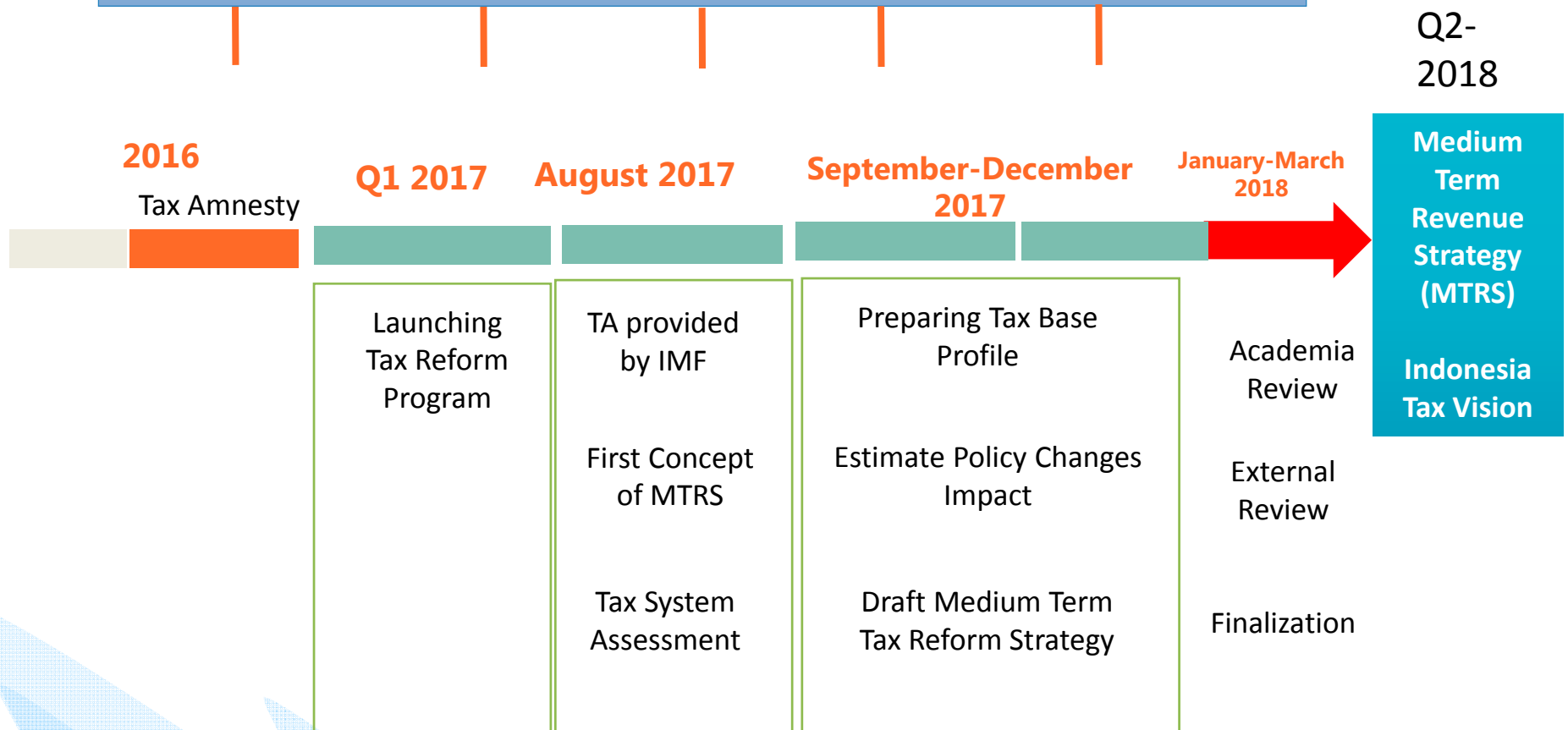


The Role of External Stakeholder in Formulating MTRS



Time Line For Preparing Medium Term Tax Reform Strategy

- Building Analysis Tools
- Tax System Assessment
- Tax Performance Analysis
- Tax Projection
- Update Database
- Simulation of Policy Changes





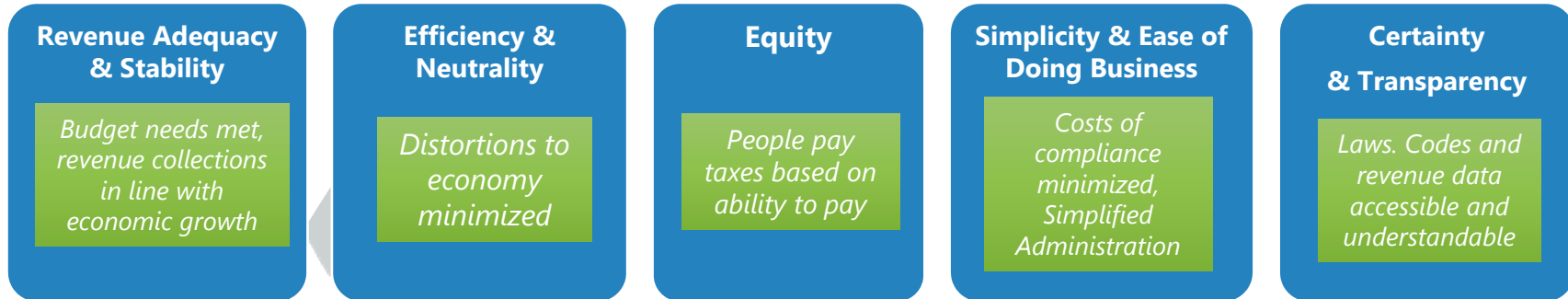
What are the reforms contained in the MTRS?



Guiding principles: The Framework

Growth and Investment

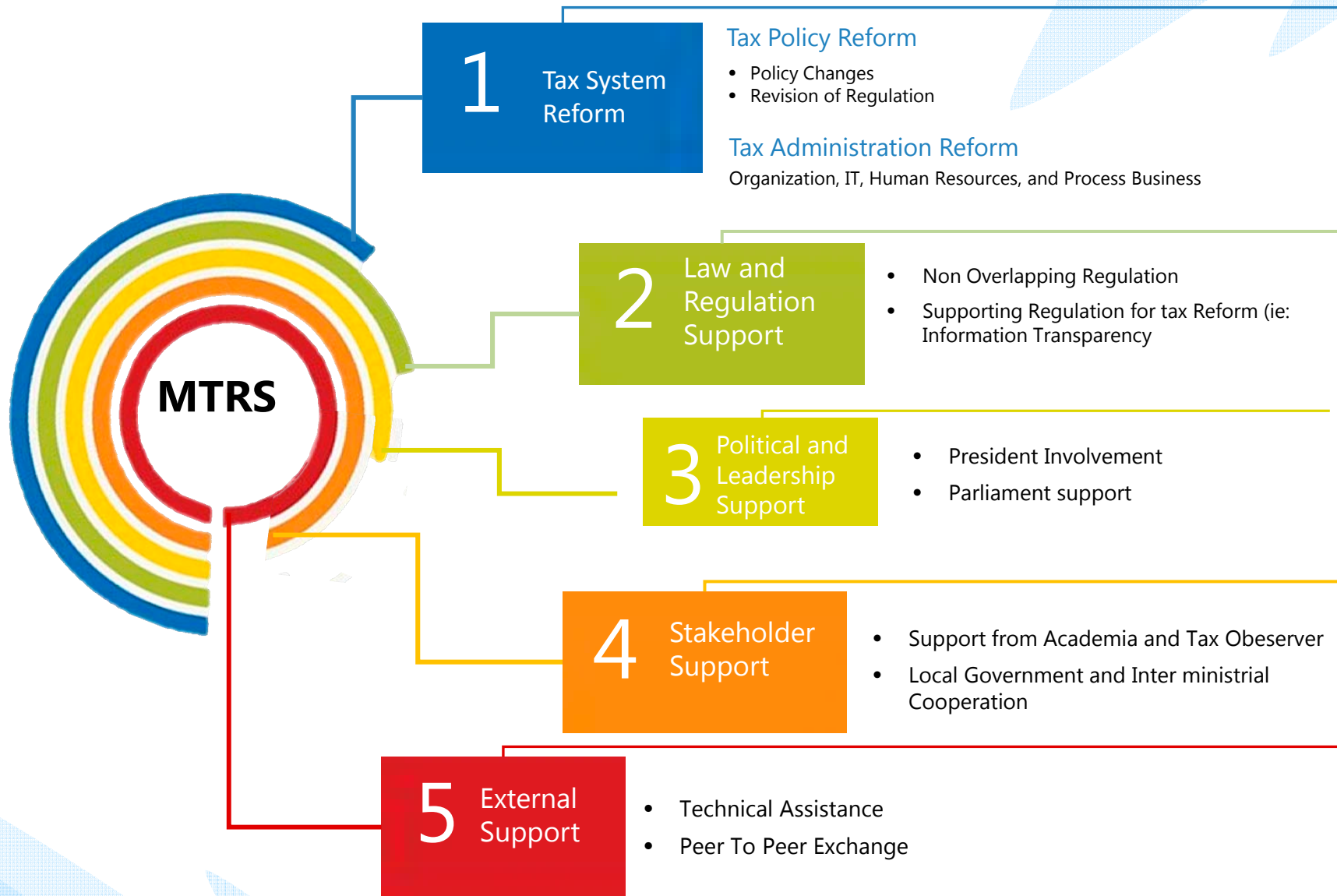
Inequality and Poverty



	Revenue Adequacy and Stability	Efficiency & neutrality	Equity	Simplicity & Ease of Doing Business	Certainty & Transparency
Goods-Services Tax/VAT	✓✓	✓	✗	~	✗
Personal Income Tax	✓✓	✗	✓✗	✗	✗
Property Taxes	✓✓	✓✓	✓	✓	✓
Corporate Income Tax	✓	✗✗	~	✗	✓
Excise/Sales Tax/Royalty*	✓	✓	✗	✓	✗
CIT Incentives	✗	~✗	✗	✗	✗
Customs Duty	~	✓	✗	✓	✗
Export Tax	✗		✗		✗

- There is no instrument that can be used to achieve all goals
- Revenue adequacy and stability is most likely the highest priority of goals
- However, MRTS should be formulate by considering economic efficiency and equity

Components of MTRS

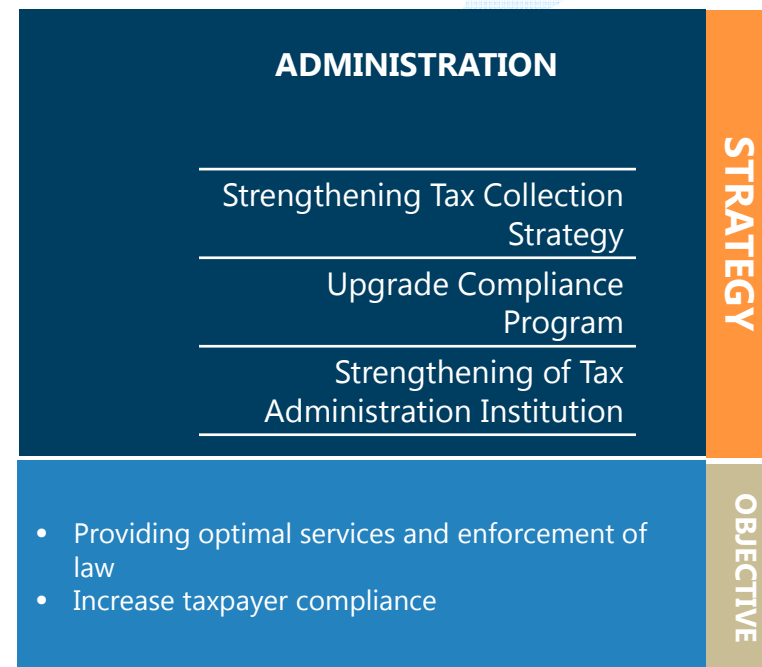


Tax System Reform



Areas to be focused: (1) Income tax, (2) VAT, and (3) excise

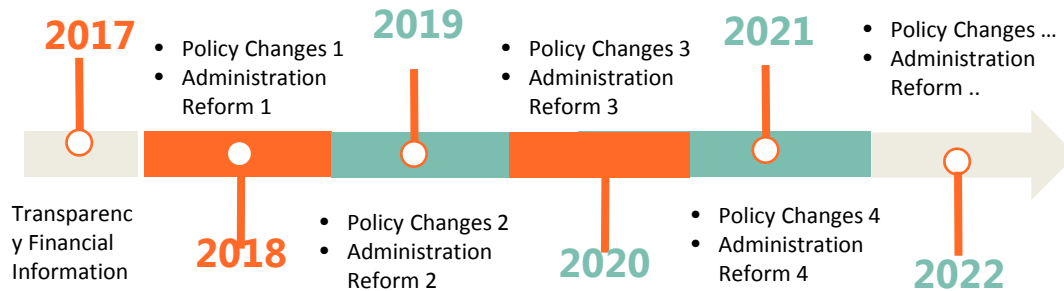
Tax base expansion, incentives, tariff changes, anti tax avoidance. phasing out Luxury VAT in vehicles into excise, tariff simplification, extensification



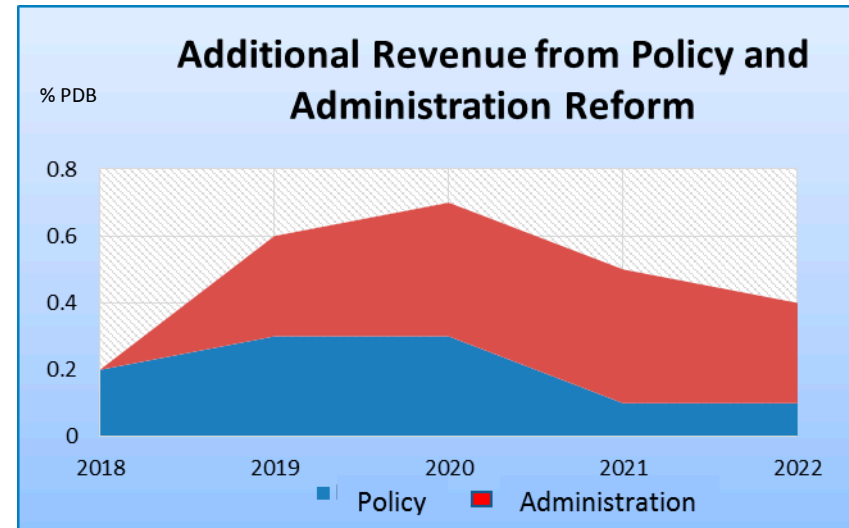
Areas to be focused : (1) collection strategy, (2) tax compliance, (3) institutional reform

Risk based analysis, IT based approach, Sectoral Targeting, Data Based Target Setting, HR capacity building, database system improvement, risk management system, organization reform

Phasing of Reforms and Expected Outcome



- In 5 years with reform applied, additional tax revenue at least around 2% - 3% is expected.
- In 5 years, tax ratio is expected to be more than 13% PDB



**Preliminary estimation



Thank You

