

Joint IMF-Indonesia High Level Conference
International Taxation in Asia: Issues and the Way Forward
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Keynote Speech

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Welcome

H.E Mr. Mitsuhiro Furusawa, Deputy Managing Director of the IMF

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Assalamualaikum Warrahmatullahi Wabarrakatuh.

A very good morning to all of you and welcome to the Joint IMF-Indonesia High Level Conference.

Before starting my speech, I would like to express my sincere appreciation to the IMF and Ministry of Finance team for organizing this excellent event.

I would like to take this opportunity to share with you why I think the issues we are discussing are vitally important.

It is recognized that strong tax systems are key for enhancing state building; Good domestic revenue policy with international tax cooperation will allow us to establish and maintain sustainable revenue sources to meet the needs of our people.

It is clear that strengthening domestic resource mobilization is essential. Providing governments with sustainable revenue sources will allow them to finance the 2030 Sustainable Development Goals and through this investment, deliver opportunity and reduce poverty. Promoting growth can reduce aid dependence and improve the quality of people's lives.

However, strengthening domestic resource mobilization is not only about raising more revenue for Governments. Importantly, a well-designed tax system can promote inclusiveness, encourage better governance, promotes investment and job creation, align with society's views on appropriate income and wealth distribution and promote social justice.

This conference will provide a forum for policy-makers to come together and discuss issues including the importance of international tax reforms.

Ladies and gentlemen,

Globalization and deeper inter-regional integration means that we need new rules and cooperation around international tax challenges.

The past few decades have been a time of profound change for our economies, presenting both opportunities and challenges.

Cooperation among countries will benefit members as capital and manpower more readily flow among countries.

As a result of globalization, business activities have also changed. An increasing number of companies operate in the digital space, allowing them to manipulate their residency for tax purposes. In addition, aggressive tax planning is now a part of multinational enterprises' core business.

Gaps in domestic tax systems have created opportunities for enterprises, and even high wealth individuals, to exploit. Corporations have been able to take advantage of these loopholes to undertake aggressive tax planning and transfer pricing to minimize their tax liabilities, or in some cases pay no tax at all.

If companies do not pay tax in the country where their income was generated, government revenues are lower than they should be. We need revenue to fund hospitals, schools and basic infrastructure projects which are vitally important to our economic development

and reducing inequality. With lower than expected revenues, the burden to fund these services is either shifted to other sources of revenue, reduced spending on growth-enhancing public investment, or both.

Tax avoidance also puts our local and small businesses who do comply with their tax obligation at a competitive disadvantage. We need to encourage, not hinder, the development of small and medium enterprises (SMEs) who are the backbone of our economy.

It is important that we work together to revisit the old rules and develop new ones that are a better fit for a modern world. We need to work together to develop a solution that works for all of us.

Ladies and gentlemen,

Indonesia faces domestic resource mobilization challenges, but we are working hard to improve the outlook.

Currently, Indonesia's tax-to-GDP ratio is around 10,3 per cent and had remained relatively unchanged since 2008. The Government of Indonesia is expecting to increase the tax ratio to 16 percent of GDP by 2019. Policy and administration reforms are necessary to close the gap.

On the policy front, the government is proposing changes to a number of tax laws, including the VAT, Income Tax and General Tax Provisions and Procedures.

In addition, the government has recently completed an ambitious tax amnesty program. The aim of the tax amnesty program was to broaden the tax base, provide a comprehensive and integrated tax data base, and increase voluntary compliance. As a result of this program, there has been a large amount of financial assets declared by taxpayers, providing the government with IDR 135.23 trillion in revenue, of which IDR 114.5 trillion coming from penalties.

Implementation of the tax amnesty program is supported by the Indonesian government's commitment to AEOI. Indonesia shares the same concerns as the rest of the world in this context – we need to cooperate together to share data and level the playing field to establish international tax fairness. That is why Indonesia has signed the Convention on Mutual Administrative Assistance in Tax Matters (MAC) and Multilateral Competent Authority Agreement (MCAA) for the AEOI.

Under AEOI, Indonesia has an obligation to collect data from financial institutions and to exchange this information with partner countries starting in September 2018.

The commitment to implement AEOI requires changes in bank secrecy law to ensure that it is consistent with the AEOI standard. In

line with this commitment, the Indonesian government has issued a regulation in lieu of law (Perppu) number 1/2017.

However, the domestic reforms are not enough. We need collective actions to tackle the problem of international tax evasion and avoidance.

I have just recently returned from the G20 summit in Hamburg. A very encouraging development from the Summit is the reinforcement of international taxation cooperation.

Ten years ago, increasing state revenues by pursuing taxpayers who allegedly avoided taxes were internal affairs of each country. Currently, there are global agreements through Base Erosion and Profit Shifting (BEPS) and AEOI initiatives to improve the transparency of taxation among countries to combat tax embezzlement.

Initiatives to deal with tax evasion and tax avoidance should be conducted systematically and globally to provide concrete benefits for all of us.

The effective implementation of AEOI and BEPS requires a solid network of participating countries to ensure that it is a useful measure to tackle tax evasion and optimize revenue.

Despite having signed the MCAA, bilateral action is still needed. Therefore, Indonesia has signed Bilateral Competent Authority Agreement (BCAA) with Hong Kong and the Joint Declaration with Switzerland to enact the AEOI.

In addition, to protect and enhance tax base by preventing profit shifting as a result of differences in tax legal systems among countries, I would like to encourage you to consider the relevant BEPS Action Plan for your country.

In line with this, to put the relevant BEPS measures into treaties, Indonesia and more than 65 countries, have signed the BEPS' Multilateral Instrument (MLI) last 7th June 2017 in Paris. The MLI will modify Indonesia's tax treaties, aiming to prevent treaty abuse.

Ladies and gentlemen,

In recent times, many countries have been facing more complex problems in collecting revenue. The study on Illicit Financial Flows from Developing Countries: 2004 – 2013 calculates that illicit financial flows from developing and emerging economies exceeded US\$ 1 trillion for the 3rd year straight. Cumulatively, these flows account for US\$ 7.8 trillion over the 10 year span. Illicit financial flows can only be stopped when countries start exchanging information.

That is why the push for sharing tax information through Automatic Exchange of Information (AEOI) is so important. This may provide a good base for countries to start analyzing financial information of all their financial institutions' account holders and track capital flows.

I think we share the similar domestic resource challenges which are continuously undermined by tax avoidance and tax evasion. Indonesia believes that the way to tackle this is by implementing BEPS and Automatic Exchange of Information. This will help establish a fairer international tax environment.

Ladies and gentlemen,

It is clear that international tax policy cooperation is critical in the increasingly interconnected world we live in. Without cooperation and information sharing, we are undermining each other. Nobody wins.

I would like to encourage other countries which have not yet implemented BEPS and AEOI to start thinking of using these tools to create a fairer and more level playing field. In the end, this will optimize our domestic revenues. We can help each other build understanding and strengthen our regional tax cooperation by conducting a capacity building and knowledge sharing programs, like this event.

Ladies and gentlemen,

Please allow us to announce our commitment as host country for the 2018 IMF-World Bank Annual Meetings that will be held in Bali. Today's event eventually is a one activity of a series of activities in the Voyage of Indonesia Program. I would also like to encourage our stakeholders' awareness about the importance of the IMF-World Bank Annual Meetings 2018 and Indonesia's position as host country in which we will be hosting not least than 15,000 participants from 189 countries.

Before ending my remarks, I would like to reiterate that all of us in this room are now facing the same problem. We need revenue to deliver for our people. Importantly, the government should play its part in properly managing revenue collected. Every dollar collected is important as it can be used to provide essential public services, including investments in physical infrastructure and human capital. We need to use this revenue wisely to ensure public trust and help alleviate poverty. I look forward to the important discussions over the next two days.

Thank you.