Improving VAT Administration

Indonesia’s Experience

Challenge and Solution

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Directorate General of Tax (DGT) – Ministry of Finance of Republic of Indonesia

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Tokyo, 5-7 April 2016
Subject

VAT Performance & VAT Gap

Main Causes of VAT Gap

Narrowing VAT Gap

Conclusion
## Indonesia’s Tax Ratio

The tax ratio in Indonesia has been relatively stagnant at 12%.

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (Current LCU)</th>
<th>Tax Revenues (Inc. Customs &amp; Excise)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>2,296</td>
<td>281</td>
</tr>
<tr>
<td>2005</td>
<td>2,774</td>
<td>347</td>
</tr>
<tr>
<td>2006</td>
<td>3,339</td>
<td>409</td>
</tr>
<tr>
<td>2007</td>
<td>3,951</td>
<td>491</td>
</tr>
<tr>
<td>2008</td>
<td>4,949</td>
<td>659</td>
</tr>
<tr>
<td>2009</td>
<td>5,606</td>
<td>620</td>
</tr>
<tr>
<td>2010</td>
<td>6,447</td>
<td>723</td>
</tr>
<tr>
<td>2011</td>
<td>7,419</td>
<td>874</td>
</tr>
<tr>
<td>2012</td>
<td>8,229</td>
<td>981</td>
</tr>
<tr>
<td>2013</td>
<td>9,084</td>
<td>1,075</td>
</tr>
<tr>
<td>2014</td>
<td>10,543</td>
<td>1,307</td>
</tr>
</tbody>
</table>

Sources: Statistics Indonesia & Directorate General of Taxes
Indonesia’s Tax Ratio Among ASEAN Countries

Sources: World Bank
Indonesia’s Tax Structure

Share of Tax Revenue By DGT

Structure of Tax Revenue (By DGT)

Sources: Statistics Indonesia & Directorate General of Taxes
Indonesia’s VAT Structure

Share of VAT Revenue

VAT Structure

Sources: Statistics Indonesia & Directorate General of Taxes
### Indonesia’s VAT Efficiency Ratio

**VAT Efficiency Ratio**

![Graph showing VAT Efficiency Ratio from 2005 to 2014]

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (Current LCU)</th>
<th>VAT Revenues</th>
<th>VAT Efficiency Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2,774</td>
<td>101</td>
<td>37%</td>
</tr>
<tr>
<td>2006</td>
<td>3,339</td>
<td>123</td>
<td>37%</td>
</tr>
<tr>
<td>2007</td>
<td>3,951</td>
<td>155</td>
<td>39%</td>
</tr>
<tr>
<td>2008</td>
<td>4,949</td>
<td>210</td>
<td>42%</td>
</tr>
<tr>
<td>2009</td>
<td>5,606</td>
<td>193</td>
<td>34%</td>
</tr>
<tr>
<td>2010</td>
<td>6,447</td>
<td>230</td>
<td>36%</td>
</tr>
<tr>
<td>2011</td>
<td>7,419</td>
<td>278</td>
<td>37%</td>
</tr>
<tr>
<td>2012</td>
<td>8,229</td>
<td>338</td>
<td>41%</td>
</tr>
<tr>
<td>2013</td>
<td>9,084</td>
<td>385</td>
<td>47%</td>
</tr>
<tr>
<td>2014</td>
<td>10,543</td>
<td>409</td>
<td>51%</td>
</tr>
</tbody>
</table>

**Sources:** Statistics Indonesia & Directorate General of Taxes
Indonesia’s VAT Efficiency Ratio

INDONESIA & DEVELOPING COUNTRIES

Singapura
Croatia
Mongolia
Barbados
Venezuela
Thailand
Paraguay
Ghana
Bulgaria
Nigeria
Sri Lanka
Romania
Indonesia
Poland
Slovak Republic
Czech Republic
Mauritania
Togo
Burkina Faso
Uganda
Congo Republic
Guinea
Gabon
Zambia
Madagascar

Source: OECD Factbook 2010: Economic, Environmental and Social Statistics (2011), Revenue statistics: Comparative tables, OECD Tax Statistics (database) and Rate of VAT/GST from “The Modern VAT”
Indonesia's VAT Efficiency Ratio

INDONESIA & OECD COUNTRIES

Source: OECD Factbook 2010: Economic, Environmental and Social Statistics (2011); Revenue statistics: Comparative tables, OECD Tax Statistics (database) and Rate of VAT/GST from “The Modern VAT”
VAT Revenue - History

TRILLION RUPIAH


Sales Tax Regime

Tax Reform 1985

VAT Regime

DGT Modernization 2002

Revamp VAT Administration 2011

VAT Law Amendment-3 2009

Political Reform 1998

VAT Law Amendment -2 2000

2019
Shadow Economy

Size of Shadow Economy in Asia-Pacific Countries (% of GDP)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Australia</td>
<td>14.6</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>13.5</td>
</tr>
<tr>
<td>3</td>
<td>Hong Kong</td>
<td>17.2</td>
</tr>
<tr>
<td>4</td>
<td>India</td>
<td>24.0</td>
</tr>
<tr>
<td>5</td>
<td>Indonesia</td>
<td>19.9</td>
</tr>
<tr>
<td>6</td>
<td>Japan</td>
<td>11.4</td>
</tr>
<tr>
<td>7</td>
<td>Korea, Rep.</td>
<td>28.2</td>
</tr>
<tr>
<td>8</td>
<td>Malaysia</td>
<td>31.3</td>
</tr>
<tr>
<td>9</td>
<td>New Zealand</td>
<td>13.2</td>
</tr>
<tr>
<td>10</td>
<td>The Philippines</td>
<td>45.1</td>
</tr>
<tr>
<td>11</td>
<td>Singapore</td>
<td>13.3</td>
</tr>
<tr>
<td>12</td>
<td>Srilanka</td>
<td>45.3</td>
</tr>
<tr>
<td>13</td>
<td>Taiwan</td>
<td>25.8</td>
</tr>
<tr>
<td>14</td>
<td>Thailand</td>
<td>54.7</td>
</tr>
</tbody>
</table>

VAT Efficiency Ratio (Average 1999-2007)

Source: *New Estimates for the Shadow Economies all over the World*, Friedrich Schneider, Andreas Buehn, and Claudio E. Montenegro, 2010
### Estimated Shadow Economy

<table>
<thead>
<tr>
<th>(Billion Rupiah)</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>7.920.211,30</td>
<td>8.658.634,15</td>
<td>9.397.057,04</td>
</tr>
<tr>
<td>Shadow Economy (25%)</td>
<td>1.980.052,83</td>
<td>2.164.658,54</td>
<td>2.349.264,26</td>
</tr>
<tr>
<td>Shadow Economy (35%)</td>
<td>2.772.073,96</td>
<td>3.030.521,95</td>
<td>3.288.969,96</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Estimated Percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced Countries</td>
<td>14 – 16%</td>
</tr>
<tr>
<td>Emerging Countries Market</td>
<td>32 – 35%</td>
</tr>
<tr>
<td>Latin America, Central America, Africa</td>
<td>&gt; 40%</td>
</tr>
<tr>
<td>Middle East, Developing Asia</td>
<td>25 – 35%</td>
</tr>
</tbody>
</table>

- **Not all activities in an Shadow Economy/Underground Economy** is illegal, some of activities like hawkers are legal, however they are classified as **Underground Economy**.
- **Shadow Economy** consist of:
  1. **Informal Economy**: activities that aren’t monitored by the government and aren’t taxed.
  2. **Illegal Economy**: activities that are prohibited by law.
  3. **Unreported Economy**: unreported, avoiding tax, often referred to as the cause of the “tax gap”
  4. **Unrecorded Economy**: unrecorded because the government has not conducted a data collection, not because of tax evasion.

In ASEAN, Indonesia’s tax rate is considered moderate.

The tax regime and type of tax administration influence the decision of taxpayers to work in formal or informal sectors.

A distinct type of VAT evasion in Indonesia is crediting VAT from fictitious transaction.
Revamp VAT Administration System

- Improvement eSPT
- Controlled Registration Policy
- Re-registration of VAT Tax Payer (deleted 400,000 Taxable Person)

2012

- Broaden the base of eSPT
- Tax Invoice Numbering System (e-NoFa)
- E-Tax Invoice: Pilot Project
- Increase the Threshold (from 600 m to 4,8 b)

2013

- e-Tax Invoice Phase 1
  (e-Faktur)
  started July 1, 2014
- Preparation of VAT Law Amendment

2014

- e-Tax Invoice Phase 2
  (mandatory for Java-Bali)
- CRS Study & Collecting Data

2015

- E-Tax Invoice Phase 3
  (full implementation)
- Planning & Preparation of CRS

2016

- Developing CRS System And Application
- VAT Law Amendment (Parliament approval)

2017

- Cash Receipt System implementation

Source: Road Map- Revamp the VAT administration system
Directorate General of Taxes, MoF RI, Revamp the VAT administration system – sixteen key initiatives support the transformation themes- Institutional Transformation Program MoF-RI
Implementation of e-Tax Invoice

Client Application

Web Application

ERP/ASP

E-Tax Invoice Data Base Management

Manual E-NoFa

E-NoFa online via Web

Tax Invoice serial number

Selection method for taxable person obliged to use e-tax invoice

Procedures:
Regulation of MoF, Decision of DGT

Piloting / Trial Application

Test

Certain Taxable person → LTO, Jakarta Special Regional TO, Medium TO

Taxable person → Jawa, Bali

All taxable person → mandatory

Public announcement & education

2013
2014
2015
2016

Phase 1
Phase 2
Phase 3

Development
Development
Development
Taxable Person Monitoring Program is an application aimed to:

- Improve VAT Administration System
- Maintain Taxable Person Validity
- An Early Warning System of VAT Fraud
Background to implement CRS: to capture cash economy

1611, 85%

138, 7%

142, 8%

Total credit card and debit card transactions in 2012 is Rp 280 trillion

Source: Bank of Indonesia Year 2012
Summary of VAT Administration Improvement

How to increase revenue?

- Improving VAT Administration (e-administration)
- Implement Cash Register System
- Improving VAT Monitoring System (e-monitoring)
- VAT Administration (registration & Filling)
- VAT Treshold
- Underground economy (25%-35% GDP)
- Excessive VAT Incentive (exemption)
- False Invoice
- Low Compliance (52% non filler)

Increasing VAT rate?

- • Increase the threshold of Rp 4,8 b (ensure only large business with better accounting system need to register)
- • Limiting or Getting rate of exemption
- • Broadening the base (revised law and regulation)
- • Audit
- • E-Tax Invoice
Conclusion

Indonesia’s Tax Ratio is still considered low compared to other ASEAN countries.

Indonesian Government have to deal with **Shadow Economy** and **VAT Fraud** to increase tax revenue, reduce tax gap, as well as increase tax ratio.