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Realization of 2019 State Budget & Indonesia's Position in MLI

Sets the Standards and Beyond

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DDTC is a research and knowledge based taxation institution and a center of a number of taxation activities units with high standards that serve as main references in the field of taxation.

Our firm consists of consultation services (DDTC Consulting), a center for review and research (DDTC Fiscal Research), taxation journals (DDTC Working Paper), a training center (DDTC Academy), a provider of tax law documents (DDTC Tax Engine), a library (DDTC Library), and taxation news portal (DDTC News).

ABOUT DDTC Newsletter

Published every two weeks, DDTC Newsletter provides a summary of key tax law changes, both the current modifications and changes in taxation regulations, particularly those pertaining to domestic policies.

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Realization of the 2019 State Budget

The sluggish global economy has impacted on Indonesia's revenues, in particular, from the taxation sector. This was conveyed by Minister of Finance, Sri Mulyani Indrawati, in a press conference related to the realization of the 2019 State Budget on Tuesday, 7 January 2020. Nevertheless, the implementation of the 2019 State Budget as one of the instruments to stimulate the economy is considered fairly satisfactory.

The Ministry of Finance stated that the realization of state revenues in 2019 amounted to Rp1,957.2 trillion or 90.4% of the 2019 State Budget target which was set at Rp2,165.1 trillion. This means that the realization of state revenues in 2019 experienced a growth of 0.7% (yoy) compared to that of the 2018 State Budget of Rp1,943.77 trillion.

The realization of state revenues in 2019 consisted of taxation revenues amounting to Rp1,545.3 trillion, non-tax state revenues (*penerimaan negara bukan pajak*/ PNBP) of Rp405 trillion and grants of Rp6.8 trillion. In further detail, the realization of tax revenue in 2019 reached Rp1,545.3 trillion or 86.5% of the target of Rp1,786.4 trillion. This realization was lower than that of 2018 which reached Rp1,518.8 trillion or 93.86% of the target of Rp1,618.1 trillion.

In contrast, as of the end of December 2019, excise revenue reached Rp172.3 trillion or increased by 8% from the previous year. This achievement exceeded the target of 165.5 trillion. Furthermore, in terms of customs, until the end of 2019, the revenue realization from import duties totalled Rp37.4 trillion. Such an amount is still below the 2019 State Budget target of Rp. 38.9 trillion and contracted by 4.27%.

Further, this year's revenue realization from export duties amounted to Rp3.4 trillion. The total export duty was below the 2019 State Budget target of Rp.4.4 trillion and contracted 48.5% from the same period last year. In total, revenue from customs and excise amounted to Rp.213.1 trillion and this realization exceeded the target set at Rp. 208.8 trillion.

In addition, the realization of state expenditure reached Rp2,310.2 trillion or grew by 4.4% (yoy) from the 2018 realization of Rp2,213.1 trillion. This expenditure realization comprised two sectors, i.e. central government expenditure of Rp1,498.9 trillion or rose by 3% from the 2018 realization of Rp1,455.3 trillion and transfers to regions and village funds, of which the realization added up to Rp811.3 trillion or 7.1% higher than the 2018 realization of Rp757.8 trillion.

As evident in the 2019 State Budget, the sluggish performance revenue amidst considerable state

Table 1 - The Target and Realization of 2018 dan 2019 State Budget

Description (trilion Rupiah)	2018 (AUDITED)			2019 (UNAUDITED)		
	Target	Realization	Realization against Target (%)	Target	Realization	Realization against Target (%)
State Revenue	1,894.7	1,943.67	102.58	2.165,1	1,957.2	90,4
Taxation	1,618.1	1,518.78	93.86	1.786,4	1,545.3	86.5
Customs and Excise	194.10	205.47	105.9	208,8	213.1	102.0
PNBP	275.4	403.32	148.61	378,3	405.0	107.1
Grants	1.2	15,56	1,300.47	0,4	6.8	1,560.7
State Expenditure	2,220.7	2,123.11	99.66	2,461.1	2,310.2	93.9
Central government	1,454.5	1.455,32	100,06	1.634,3	1.498,9	91.7
Transfer to Regions & Village Funds	766.2	757.79	98.91	826.8	811.3	98.1
(Deficit)/Surplus	(325.9)	(269.44)	82.67	(296.0)	(353.0)	119.3
% against GDP	(2.19)	(1.82)		(1.84)	(2.20)	
Budget Financing	325.9	305	93.79	296.0	399.5	134.9

Source: Ministry of Finance of the Republic of Indonesia Press Conference (7 January 2020).

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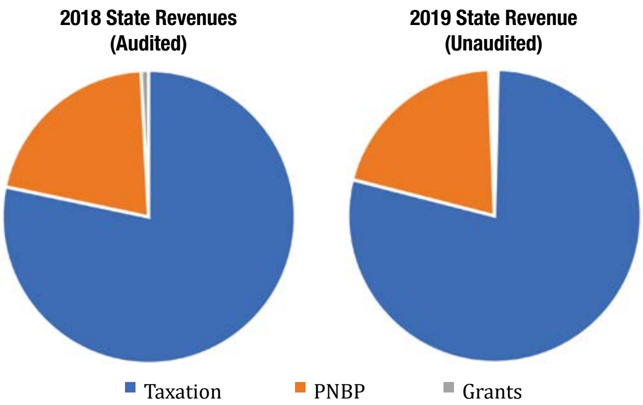
Figure 1 – Proportion of 2018 and 2019 State Revenues



Source: Ministry of Finance, processed by the author.

expenditure resulted in a budget deficit of Rp353 trillion in 2019, which is higher than the previous year. The deficit level is higher than the target of Rp296 trillion. In brief, the details of the 2019 State Budget realization can be seen in Table 1.

Table 1 indicates that the largest contributor to state revenue for both 2018 and 2019 is the taxation sector. On the other hand, revenue from the PNBP sector ranks second and grants occupy the last position as the lowest contributor. The summary of state revenues for 2018 and 2019 can be seen in Figure 1.

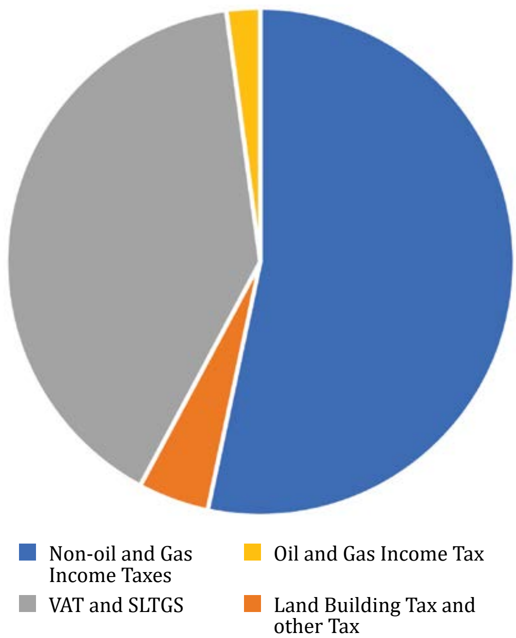
Table 2 – Realization of 2019 Oil and Gas and Non-Oil and Gas Income Taxes

POST	2018		
	Target (Rp Trillion)	Amount (Rp Trillion)	Percentage against Target (%)
Non-Oil and Gas Income Taxes	828.3	711.2	85.9
VAT and Sales Taxes on Luxury Goods (STLGs)	655.4	532.9	81.3
Land and Building Tax and Other Taxes	27.7	28.9	104.2
Oil and Gas Income Taxes	66.2	59.1	89.3
Total	1,577.6	1,332.1	84.3

Source: Ministry of Finance of the Republic of Indonesia Press Conference (7 January 2020)

Additionally, tax revenues (oil and gas and non-oil and gas) in 2019 amounted to Rp1,322.1 trillion or 84.4% of the 2019 target of Rp1,577.6 trillion. Such an achievement rose by 1.4% compared to the 2018 realization of 1,313.3 trillion. In further detail, oil and gas income taxes were approximately Rp59.1 trillion or 89.3% of the 2019 target of Rp66.2 trillion. The remaining, i.e. the realization of non-oil and gas taxes totalled Rp1,273 trillion or around 84.2% of the 2019 target of Rp1,511.4 trillion. Details of tax revenues (oil and gas and non-oil and gas) can be seen in Table 2.

Figure 2 – Realization of 2019 Oil and Gas and Non-Oil and Gas Income Taxes



Source: Processed by the author (2019)

Table 2 shows that the realization of non-oil and gas income taxes dominated and contributed the most to the state revenue. In contrast, the realization of Land and Building Tax and Other taxes contributed the least to the sate revenue. More concisely, the realization of oil and gas and non-oil and gas income taxes in 2019 can be seen in Figure 2.

Further, the main types of taxes, article 21 income tax and individual income tax, experienced positive growth. This indicates the national labour market's resilience and public consumption's robustness amid the dynamics of the global and domestic economy. Details of tax revenue based on the types of taxes can be seen in Table 3.

Table 3 indicates that based on the types of taxes, the revenue realization from the domestic VAT sector provides a substantial contribution to revenue. Revenue from the Corporate Income Tax sector and final withholding tax subsequently follow. In further detail, 2019 tax revenues based on the types of taxes can be seen in Figure 3.

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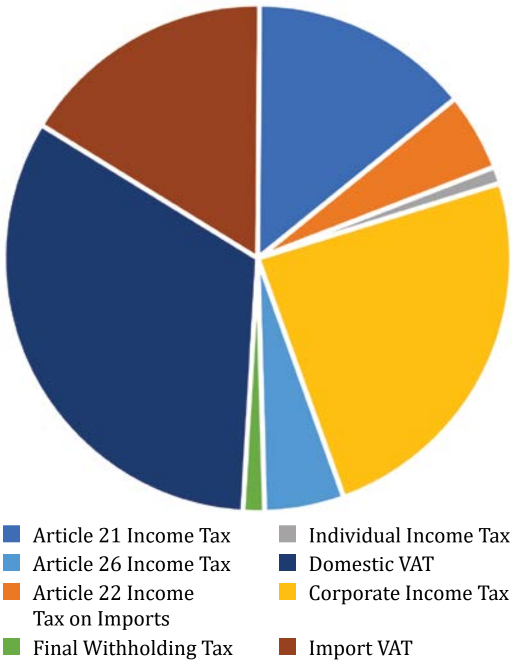
Table 3 – 2019 Tax Revenue Based on the Types of Taxes

TYPES OF TAXES	Revenue Realization (Rp Trillion)	Percentage of Contribution against Tax Revenue (%)
Article 21 Income Tax	148.63	11.2
Article 22 Income Tax on Imports	53.66	4
Individual Income Tax	11.23	0.8
Corporate Income Tax	256.74	19.3
Article 26 Income Tax	54.94	4.1
Final Withholding Tax	124.54	9.3
Domestic VAT	346.31	26
Import VAT	171.3	12.9

Source: Ministry of Finance of the Republic of Indonesia Press Conference (7 January 2020).

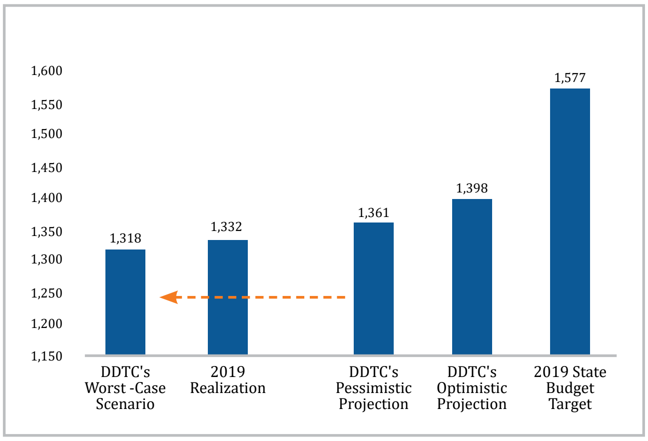
The shortfall – the difference between realization and target – of last year's tax revenue reached Rp245.5 trillion, which means this year's shortfall was higher than the achievements in 2018 and 2017. However, the realization fared better than 2016, in which the realization of tax revenue amounted Rp1,105.97 or around 81.61% of the state budget target. This implies that the 2016 shortfall added up to IDR249 trillion.

Figure 3 - 2019 Tax Receipts Based on Tax Types



Source: Processed by the author (2019).

Figure 4 – DDTC Fiscal Research's Projection of 2019 Tax Revenue



Source: DDTCNews (2019)

The realization of the 2019 tax revenue shortfall expanded from the government's previous outlook. In the prognosis in the first half of 2019, the government projected that tax revenue could reach 91% of the target or with a shortfall of only around Rp140 trillion. Further, the amount of overall tax realization in 2019 was near and within the range of DDTC Fiscal Research's projections. DDTC Fiscal Research previously projected the worst-case scenario of 2019 tax revenue of around Rp1,318 trillion or 83.6% of the target. This means that the difference between DDTC Fiscal Research's projected tax revenue and the actual tax revenue realization was approximately 0.8 percentage points. The illustration of DDTC Fiscal Research's tax revenue projection and the realization of 2019 tax revenue can be seen in Figure 4.

In keeping with DDTC Fiscal Research's experience, projections are not always accurate and sometimes misestimate the actual value of tax revenue in the year concerned. Often times, various changes in macroeconomic conditions and policies in the current year cannot be predicted precisely. This leads to more

Table 4 – Projection of Tax Revenue from DDTC Fiscal Research in 2013-2018

Year	Realization against Target (%)	Projection against Target		Comment on Result
		Pessimistic	Optimistic	
2013	92.6%	92.2%		Differs by -0.4%
2014	91.9%	92.5%	94.0%	Differs by +0.6%
2015	82.0%	82.7%	85.6%	Differs by +0.7%
2016	81.6%	80.6%	84.2%	Within the range
2017	89.7%	87.8%	89.2%	Differs by -0.5%
2018	92.4%	90.7%	92.9%	Within the range

Source: DDTCNews (2019)

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difficulties in estimating the patterns of tax revenue and affects the revenue projections. Not only in 2019, DDTC Fiscal Research has also established revenue projections consecutively from 2013 to 2019. During this period, at least two DDTC Fiscal Research's projections are aligned with the realization of tax revenue, namely projections in 2016 and 2018. DDTC Fiscal Research's tax revenue projections and the difference in accuracy with tax revenue realization from 2013 to 2018 can be seen in Table 4.

In contrast, none of the realization of the basic macroeconomic assumptions was precise against the 2019 State Budget targets. Economic growth is estimated to be lower than the assumption of 5.3%. The same applies to inflation as well, of which the realization was also lower. Additionally, the rupiah exchange rate was recorded to be stronger than the assumption in the 2019 State Budget. Oil price was lower than the target. The breakdown of basic macro assumptions can be seen in Table 5.

Table 5 – Realization of 2019 Macroeconomic Basic Assumptions

Basic Assumption	2019 State Budget	Realization
Economic Growth (%) (the government's estimation)	5.3	5.05
Inflation (%, yoy)	3.5	2.72
Exchange Rate (%, year-on-year)	15,000	14,146
Government Treasury Bill Interest Rate (%)	5.3	5.6
Oil Price (US$/barrel)	70	62
Oil Lifting (thousand barrel/ day) (temporary realization as of November)	775	741
Gas Lifting (thousand barrel/day) (realization as of November)	70	62

Source: Source: Ministry of Finance Press Conference regarding the 2019 State Budget Realization.

Indonesia's Position in Multilateral Instrument (MLI)

As part of the efforts to prevent base erosion and profit shifting (BEPS) in a simultaneous, synchronized, and efficient manner, the Indonesian government has officially ratified the multilateral instrument on tax treaty (MLI). This ratification was marked by the issuance of Presidential Regulation No. 77 of 2019 concerning Ratification of the Multilateral Convention To Implement Tax Treaty Related Measures To Prevent Base Erosion and Profit Shifting (Presidential Reg. No.77 / 2019)

The Indonesian government signed the convention on 7 June 2017 in Paris, France. The Indonesian Government, has thus, finally ratified the instrument as a basis for domestic law hence the articles adopted in the convention can be applied to the tax treaty (*persetujuan penghindaran pajak berganda*/P3B) covered in the reservations.

Furthermore, the Presidential Regulation which was enacted and entered into force on 12 November 2019 contains an attachment of the copy of the original text of the convention in French and English with reservations. Therefore, in the event of any difference in interpretation between the translated manuscript and the original manuscript, the original convention text in English and French applies.

In further detail, the attachment of the Presidential Regulation contains a list of 47 countries whose tax treaties are included in this convention. These countries comprise Australia, Brunei Darussalam, Canada, China, France, India, Belgium, Croatia, and Russia. In addition, the attachment of Presidential Reg. No.77/2019 outlines Indonesia's position in MLI.

MLI itself is a simultaneous modification of tax treaties without a bilateral negotiation process. The tax treaties to be modified through MLI are referred to as the Covered Tax Agreement (CTA) which covers 39 tax treaties out of a total of 70 tax treaties in Indonesia per December 2019. Based on the MLI Convention signed in 2017, modification is only possible if both parties take the same position (match) to adopt substantive clauses in MLI.

Further, Presidential Reg. No. 77/2019 set forths two main clauses in MLI, namely reservation and notification. Reservation is an optional clause in which one party may decide not to adopt the provisions partially or wholly refer to it hence affecting the subsequent modification process.

In contrast, notification is an identification and information clause. This clause is related to the selection of Indonesia's position on the optional provisions or in the form of an explanation in the event of any modification to the currently applicable tax treaties. A summary of Indonesia's position to be deposited with the OECD Secretariat based on this Presidential Regulation can be seen in Table 1. Furthermore, related to the application of MLI, the DGT is planned to provide synthesized text for every impacted tax treaty after matching the provisions.

Table 6 – Indonesia's Position in MLI

MLI Provisions	Indonesia's Position
Article 3: Transparent Entities	Reservation (does not fully adopt).
Article 4: Dual Resident Entities	Adoption, but for Indonesia's tax treaties with Turkey, the United States, Armenia, and Mexico, the government makes reservations.
Article 5: Elimination of Double Taxation	Reservation (does not fully adopt).
Article 6: Purpose of a Covered Tax Agreement	Adoption and provides notification to the 47 jurisdictions included in the convention.
Article 7: Prevention of Treaty Abuse	Adoption of principal purpose test (PPT). The government also provides notification to Hong Kong, India, Laos, United Kingdom, Mexico, Russia, and Serbia.
Article 8: Dividend Transfer Transactions	Adoption and provides notification to Canada, France, Japan, the Netherlands, Belgium, Poland, South Africa, Armenia, Romania, and Spain.
Article 9: Capital Gains from Alienation of Shares or Interests of Entities Deriving their Value Principally from Immovable Property	Adoption of Article 9(4). The government provides notification to Australia, Canada, the People's Republic of China, France, Hong Kong, India, Laos, Malaysia, the Philippines, Vietnam, Croatia, Finland, Egypt, Mexico, and Serbia.
Article 10: Anti-abuse Rule for Permanent Establishments (PE) Situated in Third Jurisdictions	Reservation (does not fully adopt).
Article 11: Application of Tax Agreements to Restrict a Part5r's Right to Tax its Own Residents (Saving Clause)	Adoption and provides notification to Luxembourg, United Kingdom, Italy, Bulgaria, Czech Republic, Egypt, Romania, and Sweden.
Article 12: Artificial Avoidance of Permanent Establishment Status through Commissionaire Arrangements and Similar Strategies	Adoption and provides notification to the 47 jurisdictions included in the convention.
Article 13: Artificial Avoidance of PE Status through the Specific Activity Exemptions	Adoption of Option A and provides notification to the 47 jurisdictions included in the convention.
Article 14: Avoidance of PE Status through Splitting-up of Contracts	Adoption and provides notification for New Zealand, the Netherlands, and Norway.
Article 15: Definition of a Person Closely Related to an Enterprise	Does not state the position.
Article 16: Mutual Agreement Procedure (MAP)	Reservation by modifying the first sentence of Article 16(1) based on the current Covered Tax Agreement conditions. Indonesia also provides notifications for 47 other contracting jurisdictions.
Article 17: Corresponding Adjustments	Adoption, but makes reservation for Australia, Brunei Darussalam, the People's Republic of China, Hong Kong, India, Laos, Luxembourg, Netherlands, Seychelles, South Korea, United Kingdom, United Arab Emirates, United States, Vietnam, Croatia, Finland, Poland, Qatar, Slovakia, South Africa, Turkey, Armenia, Bulgaria, Denmark, Egypt, Mexico, Pakistan, Portugal, Serbia, and Sweden.
Article 18-26: Arbitration	Does not state the position.
Article 27-34: Final Provisions	Does not state the position.
Article 35: Entry into Effect	For substantive provisions, the modification of entry into effect is reservation with reference to Article 28, Article 29, and Article 36. For optional provisions based on the types of taxes listed in Article 35(1)b and 35(5)b, the phrase entry into effect is taxable periods beginning on or after 1 January of the next year beginning on or after the expiration of a period".

Source: OECD and Presidential Reg. No. 77/2019.

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