

# INDONESIA TAXATION QUARTERLY REPORT

## Q1-2019

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**Tax and Digital Economy:  
Threats and Opportunities**



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**Tax and Digital Economy: Threats and Opportunities**

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#### **About DDTC Fiscal Research**

DDTC Fiscal Research constantly provides objective, clear, and quality fiscal system analyses for stakeholders in the taxation sector, including business associations, multinational companies, and government agencies (central and regional). In addition, we effectively voice and advocate for the development and results of research. With our experience and expertise supported by complete literature and database, DDTC Fiscal Research is able to provide benefits in the process of formulating the tax system and business decision making.

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# Forewords

DDTC continues to stand at the top of developments in tax arena and provides most-updated guidance for tax stakeholders – including investors, business associates, policy makers, academicians, media and society as a whole.

This way, we put our relentless effort to realize two of our noble missions. First, eliminating asymmetric information in the Indonesian tax society. Reaching this objective is very crucial, since the importance of taxation is continuously having wider reach to many people with various backgrounds. Not only because taxation is relevant to the decision-making process of economic activities, but it also gives clear idea on how fiscal contract between government and society is built up and developed.

In addition, the dynamicity of taxation requires tax society to keep close eye to the changing environment and how it affects the lives of many people in many aspects. In this respect, we believe that a vast-updating report written with a constructive thought would enable us to keep alert and critical to the changing of fiscal landscape, nationally and globally.

Secondly, influencing and contributing in tax policy making process in order to ensure a balanced tax system transformation that serves the interests of all stakeholders. An ideal tax system should be one that is always adaptable to the economic changes in a way that accommodates the need of every related parties appropriately. To achieve this, the presence of think-tank institutions is essential in bringing fresh and innovative ideas to be adopted in our tax system.

Therefore, in order to put these missions into practice and move forward, we sincerely present DDTC's first "Indonesia Taxation Quarterly Report" to provide clear picture on how the world of taxation is shifting, both in domestic sphere and global stage.

In this report, we draw close attention to how our tax system and its surroundings are moving; and to which direction they are heading. We also give our strategic view on both specific issues and broad important taxation areas.

We do hope, with this insight, valuable readers will benefit the most from grasping the knowledge and information and utilizing them as reference either for business purpose, academic interest, policy study and all taxation-related activities.

Jakarta, April 2019

**Darussalam**  
Managing Partner DDTC

# Table of Contents

Forewords	i
Table of Contents	ii
Executive Summary	iii
Ringkasan Eksekutif	vii
<b>Chapter I. Survey of Recent Developments</b>	<b>1</b>
A. Macro-Fiscal Framework	2
B. Revenue Performance	4
C. Domestic Tax	9
D. Custom and Excise	13
E. Local Tax and Fiscal Decentralization	15
F. Non-Tax Revenue	19
G. International Aspects	20
H. Global Taxation Trends	21
<b>Chapter II. Topical Analysis: Tax and Digital Economy</b>	<b>25</b>
A. Rising Tax Challenges	26
B. Domestic Challenge	27
C. Global Agenda: The Progress into Reaching Consensus	29
D. Towards A Fairer and More Efficient International Tax System	30
E. Opportunities from Digitalization in Increasing the Tax Authority's Performance	31
<b>Chapter III. Tax Reform Agenda: Encouraging Competitiveness</b>	<b>35</b>
A. Comparative Tax Reform: Lessons Learned	36
1. Key Elements of Tax Reform	36
2. Changing Landscape, Motives and Considerations	38
3. Tax Reform Trends	41
B. Increasing Competitiveness through Tax Reform	46
1. Tax Reform, Economic Growth, and Competitiveness: Some Comments	46
2. Options for Tax Policy Reform	47
3. Options for Tax Administration Reform	49
4. Conclusion	50
References	52
Appendix	57

# Executive Summary

## Current Developments

Departing from last year, Indonesia's economic fundamentals remain robust to enter 2019 which is a year full of uncertainty in light of the Presidential Election and global economic turmoils. Until the first quarter this year, the economy has indicated a slowdown due to weakening demand and investors' tendency to wait for the election results. This results in unsatisfactory tax revenue performance.

During the first quarter of 2019, the realization of non-oil and gas taxes reached 15.5% of the State Budget target. This result is basically a usual monthly distribution pattern that is prevalent at the beginning of the year, which is around 4.5-6% per month. However, attention must be given to the growth which only reached 0.6% which was mainly due to the negative Value Added Tax (VAT) performance. This is clearly far below the growth target of tax revenues of 19% in 2019. In the next quarter, however, the performance of VAT is expected to increase and will improve the growth of tax revenue in general. Imports of auxiliary raw materials and capital goods and domestic consumption are likely to improve in line with the certainty resulting after the election and the upcoming Eid.

Despite the low revenue performance, the government has provided 'relaxation' through expanding the scope of service exports subject to 0% VAT regulated through Minister of Finance Regulation (MoF Regulation) Number 32/PMK/010/2019 concerning the Limitations of Activities and Types of

Taxable Services of which the Exports are Subject to VAT (PMK 32/2019). This certainly adds to the list of relaxation given by the government in the previous year, such as tax holiday incentives, provision of accelerated refunds, or discounted tax rates for Small Medium Enterprises (SMEs). The discourse on reducing the tax burden was also frequently discussed prior to the election, such as the reduction in rates for corporate and employee income taxes.

Nevertheless, efforts to expand the tax base and enforce compliance are still carried out by the government. This is realized through the implementation of Automatic Exchange of Information (AEOI) and the establishment of criteria for Permanent Establishment (PEs) through MoF Regulation Number 35/PMK.03/2019 concerning the Determination of Permanent Establishments (PMK 35/2019). Other efforts are carried out through regional tax coordination at the ASEAN level to combat illegal economic activities and expanding the tax treaty network. This shows that even though the government seeks to build a tax system that supports economic competitiveness, the expansion of the tax base and enforcement of compliance to encourage revenue performance remain priorities.

Meanwhile, the customs and excise sector has shown far improved revenue performance in terms of revenue and growth. However, the increase in the performance of excise tax is worried to cause a saturation for business players who are subject to excise tax since there is no addition of new excise objects.

In terms of regional fiscal, several reforms have been carried out, both in terms of administration and policy. This is conducted in order to increase local taxing power and reduce the level of regional dependency on the central government. Furthermore, Non-Tax State Revenue showed unsatisfactory results in the first quarter especially due to the influence of commodity prices.

At the global level, discussions about changing international tax architecture are currently being brought forth. This was triggered by a proposal from the OECD on the global consensus on taxation of the digital economy that 'deviates' from the current international tax system. In the same period, the European Union launched the Anti-Tax Avoidance Directive (ATAD) while the IMF issued a Policy Paper on various alternatives of international tax systems aimed at reducing tax competition, tax avoidance, and implying partiality for developing countries.

### **Taxes and Digital Economy**

The developments of the digital economy have resulted in the complexity of its taxation. In essence, digital economy is a process of digitalization of real economy. Therefore, the taxation of the digital economy should not require special treatment or separation from the real economy. This is to ensure a level playing field of economic activities carried out both conventionally and digitally. In general, administrative breakthroughs are required to ensure compliance from players in the digital economy ecosystem.

Nonetheless, digitalization has also increased the risk of base erosion and profit shifting (BEPS), especially from digital economy giants who are able to obtain income from a jurisdiction without paying taxes fairly to those source jurisdiction. In brief, there are at least 4 challenges in taxing the digital economy and those related to BEPS. First, we are faced with technical difficulties in designing policies that can provide a fair allocation of taxing rights and tax payments from the activities of

the digital economy. The main issue is to change the physical presence-based international tax system in categorizing PEs and allocate profits that take into account the contribution of the value creation resulting from digitalization. Second, the rule-making processes must keep up with the times as the nature of digital economy businesses is full of rapid changes. Third, the number of unilateral action initiatives from various countries in taxing the digital economy must be in accordance with its fiscal sovereignty. These unilateral actions produce the fourth challenge, namely the difficulty of consensus at the global level.

At present, the options to tax digital economy are being discussed at the international level. The proposal submitted by the OECD contains 2 main pillars. The first pillar aims to regulate tax allocation more equitably by extending taxing rights to market jurisdictions through 3 alternative approaches: user participation, marketing intangibles, and sufficient economic presence. The second pillar focuses on the global availability of anti-base erosion rules. All of these options will essentially benefit Indonesia as a market jurisdiction that has many users. However, each of these options has different degrees of advantages and difficulties in implementation.

In Indonesia, the issue of taxing the digital economy is also reflected in the MoF Regulation Number 210/PMK.010/2018 concerning the Taxation on Trade Transactions through Electronic Systems (E-Commerce) (PMK 210/2018) which was revoked at the end of March. Basically, it does not provide specific new policies, but only in the form of administrative breakthroughs and taxation procedures for the e-commerce ecosystem. The regulation is not without shortcomings, namely the inability to guarantee a level playing field between domestic and foreign electronic commerce as well as other online platforms, not formulated in a participatory manner, and results in compliance costs. However, the revocation is regrettable especially as it will be more difficult for the government

to obtain data and information to map tax compliance while in fact, data and information are crucial specifically in the context of digital economy often referred to by the OECD (2017) as the new shadow economy.

The absence of the obligation to collect transaction and identity information may lead to difficulties for the government to expand the tax base whereas we know for a fact that e-commerce transactions in Indonesia are of great value and are predicted to continue to escalate. OECD (2019) also argues that digital platforms can play a crucial role in tax compliance, specifically VAT, in terms of cooperation in providing information to the tax authorities, tax collectors and depositors, as well as those who educate merchants on their platforms.

On the other hand, digitalization should not always be viewed negatively in the tax area. In terms of tax administration, the application of technology and digitalization is generally carried out through electronic-based reporting, more efficient data collection and processing, information services, reduced errors, and improved fraud detection. The digitization process has resulted in efficiency, real-time communication and interaction, and transparency. These three elements will indirectly result in increased tax compliance.

### **Tax Reform Agenda**

The direction of tax reform in a country may not necessarily be interrelated to solve problems in other countries. However, the knowledge of the tax system in other countries is crucial. This is due to the fact that the interactions between tax systems are increasingly inevitable in the context of globalization. However, tax reform must be understood as a means to bring the system as close as possible to the most ideal and balanced direction (second best policy).

It must at least be understood that the trend of tax reform in various countries in the last five years have been triggered by a number of factors. First, the collection of revenue. Second, driving

competitiveness amidst economic uncertainty. Third, the protection of the tax base and the era of transparency. Fourth, the protection of taxpayers' rights and certainty. Fifth, increasing compliance through simplification. Sixth, a new paradigm to ensure compliance. Seventh, digital economy.

Tax reform in various countries covers several aspects. First, the corporate income tax. In this area, there exists a trend of decreasing corporate income tax rates, special SME tax treatment, provision of tax incentives, changes to the hybrid territorial tax system, special taxation for multinational companies, and taxation of the digital economy.

Second, individual income tax. In this aspect, there is an overhaul of the personal income tax structure through rate adjustments and tax brackets, provision of reliefs for low-income residents, provision of incentives for human resources (HR), and adjustment of income tax on passive income from capital.

Third, value added tax (VAT). There are several tax reform trends concerning VAT, such as the increase in standard rates, expansion of bases, administrative reform to prevent leakage, and improvement of VAT compliance on international trade transactions. Fourth, excise and other taxes. This aspect includes the increase in excise rates for products that are hazardous to health, extensification of the objects of excise, imposition of environmental and wealth taxes.

To ensure the success of tax reform, the government needs to establish a design and framework for a rational tax reform that has strong political support. As it is carried out systematically and gradually, administrative feasibility determines the effectiveness of the tax reform implementation. As such, the reform must also be transparent and participatory.

Interestingly, the majority of tax reform in various countries is more focused on efforts to improve competitiveness.



The underlying reason is quite rational given the global economic situation that is overwhelmed with uncertainty and sluggish Gross Domestic Product (GDP) growth in many countries. The obsession to increase competitiveness is primarily aimed at attracting capital and highly-skilled workforce that are believed to be the component of domestic productivity.

In terms of policies, encouraging competitiveness can be done through various options related to subjects, objects, and rate. However, one thing that is often overlooked is that the competitiveness of a country is also influenced by how the tax system in a country can guarantee certainty. Certainty in the tax system is also influenced by simple, low-cost and clear tax administration that guarantees the taxpayers' rights. In addition, certainty is closely related to the design and implementation of efforts to prevent and resolve tax disputes.

For Indonesia, tax reform that considers the efforts to improve competitiveness is a must. The trend of global tax competition, the need to drive the domestic economy, and the middle-income trap threat are issues that become cautions. The tax system that supports the investment climate and economy as a whole is also believed to increase revenue for two reasons. First, such a system will increase the economic base and the ability to pay taxes. Second, the system will improve taxpayer compliance due to the better quality of their relationships and communication with the government. The national third tax reform from 2017 until 2020 tax reform agenda can certainly be a momentum to thoroughly review these matters in order to strengthen the Indonesian economy in the future.

# Ringkasan Eksekutif

## Perkembangan Terkini

Berangkat dari tahun lalu, fundamental ekonomi Indonesia masih cukup kuat memasuki 2019, yaitu tahun dengan ketidakpastian terkait dengan Pemilu dan gejolak ekonomi global. Hingga triwulan pertama tahun ini, perekonomian terindikasi melesu akibat melemahnya permintaan dan sikap investor yang cenderung menunggu hingga kepastian Pemilu. Hal ini berdampak pada kinerja penerimaan pajak yang kurang memuaskan.

Selama triwulan pertama 2019, realisasi pajak non-migas yang mencapai 15,5% dari target APBN pada dasarnya merupakan pola distribusi bulanan yang umum terjadi di pada awal tahun, yaitu sekitar 4,5-6% per bulan. Namun, pertumbuhan yang hanya mencapai 0,6% terutama karena kinerja Pajak Pertambahan Nilai (PPN) yang negatif perlu diwaspadai. Hal ini jelas sangat jauh dari target pertumbuhan penerimaan pajak yang mencapai 19% pada 2019 ini. Pada triwulan selanjutnya kinerja PPN diperkirakan akan meningkat dan memperbaiki pertumbuhan penerimaan pajak secara umum. Impor bahan baku penolong dan barang modal serta konsumsi dalam negeri sepertinya akan membaik sejalan dengan kepastian pasca-pemilu dan menyambut lebaran.

Di tengah rendahnya kinerja penerimaan tersebut, pemerintah memberikan 'relaksasi' melalui perluasan cakupan ekspor jasa yang dikenakan PPN dengan tarif 0% yang diatur melalui Peraturan Menteri Keuangan (PMK) Nomor 32 Tahun 2019 (PMK 32/2019). Hal ini tentu menambah daftar relaksasi yang sudah

diberikan oleh pemerintah pada tahun sebelumnya, seperti insentif *tax holiday*, pemberian restitusi dipercepat, atau diskon tarif pajak untuk Usaha Kecil, Mikro dan Menengah (UMKM). Wacana mengenai pengurangan beban pajak juga salah satu yang kerap dibicarakan menjelang pemilu seperti penurunan tarif baik atas PPh badan maupun karyawan.

Meski demikian, upaya perluasan basis pajak dan penegakan kepatuhan tetap dilakukan pemerintah. Hal ini diwujudkan melalui implementasi pertukaran informasi secara otomatis (AEoI) dan penetapan kriteria Bentuk Usaha Tetap (BUT) melalui PMK Nomor 35/PMK.03/2019 tentang Penentuan Bentuk Usaha Tetap (PMK 35/2019). Upaya lainnya dilakukan melalui koordinasi pajak regional di tingkat ASEAN dalam memerangi aktivitas ekonomi ilegal dan perluasan jaringan Perjanjian Penghindaran Pajak Berganda (P3B). Hal ini menunjukkan bahwa meskipun pemerintah ingin membangun sistem pajak yang mendukung daya saing ekonomi, perluasan basis pajak dan penegakan kepatuhan untuk mendorong penerimaan tetap menjadi prioritas.

Sementara itu, sektor kepabeanan dan cukai menunjukkan kinerja penerimaan yang jauh membaik dari segi penerimaan dan pertumbuhan. Walau demikian, meningkatnya kinerja penerimaan cukai diperkirakan akan semakin jenuh selama tidak ada penambahan objek cukai baru. Pada sisi fiskal daerah, terdapat beberapa upaya pembenahan yang dilakukan, baik dari segi administrasi maupun kebijakan. Hal ini dilakukan

dalam rangka meningkatkan *local taxing power* dan menurunkan tingkat ketergantungan daerah kepada pusat. Lebih lanjut, Penerimaan Negara Bukan Pajak (PNBP) menunjukkan hasil yang kurang memuaskan pada triwulan I ini khususnya karena pengaruh harga komoditas.

Pada tingkat global, diskusi mengenai perubahan arsitektur pajak internasional juga sedang mengemuka. Hal ini dipicu oleh adanya proposal dari Organisation for Economic Co-operation and Development (OECD) atas konsensus global mengenai pemajakan atas ekonomi digital yang sifatnya 'melenceng' dari sistem pajak internasional saat ini. Pada periode yang bersamaan, Uni Eropa meluncurkan Anti-Tax Avoidance Directive (ATAD), sedangkan International Monetary Fund (IMF) menerbitkan *Policy Paper* tentang berbagai alternatif sistem pajak internasional yang bertujuan untuk mengurangi kompetisi pajak, penghindaran pajak, dan menyiratkan keberpihakan bagi negara-negara berkembang.

### Pajak dan Ekonomi Digital

Perkembangan ekonomi digital telah menciptakan adanya kerumitan aspek pemajakannya. Pada dasarnya, ekonomi digital adalah proses digitalisasi dari ekonomi nyata. Oleh karena itu, pemajakan atas ekonomi digital seharusnya tidak memerlukan perlakuan secara khusus atau dipisahkan dari ekonomi nyata. Hal ini guna menjamin *level playing field* dari aktivitas ekonomi yang dilakukan baik secara konvensional maupun digital. Pada umumnya hanya diperlukan suatu terobosan administrasi untuk menjamin kepatuhan dari pelaku yang berada dalam ekosistem ekonomi digital.

Walau demikian, digitalisasi juga telah meningkatkan risiko *base erosion and profit shifting* (BEPS) terutama dari raksasa ekonomi digital yang bisa memperoleh penghasilan dari suatu yurisdiksi tanpa membayar pajak secara adil kepada yurisdiksi tersebut. Secara singkat, setidaknya terdapat 4

tantangan dalam memajukan ekonomi digital dan yang berkaitan dengan BEPS. *Pertama*, kita menghadapi kesulitan teknis dalam mendesain kebijakan yang mampu memberikan alokasi hak dan pembayaran pajak yang adil dari ekonomi digital. Utamanya adalah mengubah sistem pajak internasional yang berbasis pada kehadiran fisik dalam mengategorikan BUT dan pengalokasian laba yang mempertimbangkan kontribusi pembentukan nilai dampak digitalisasi. *Kedua*, penyusunan aturan berkejaran dengan waktu karena sifat bisnis ekonomi digital sarat dengan perubahan yang cepat. *Ketiga*, banyaknya inisiatif aksi sepihak dari berbagai negara dalam memajukan ekonomi digital sesuai dengan kedaulatan fiskalnya. Berbagai aksi unilateral tersebut tentu membuat tantangan *keempat*, yaitu sulitnya mencapai konsensus di tingkat global.

Saat ini, opsi untuk memajukan ekonomi digital sedang dibicarakan di tingkat internasional. Proposal yang diajukan oleh OECD tersebut berisi 2 pilar utama. Pilar pertama bertujuan untuk mengatur alokasi pemajakan secara lebih adil dengan memperluas hak pemajakan bagi yurisdiksi pasar melalui 3 alternatif pendekatan: *user participation*, *marketing intangibles*, dan *sufficient economic presence*. Pilar kedua fokus atas ketersediaan *global anti-base erosion rule*. Seluruh opsi tersebut pada dasarnya akan menguntungkan Indonesia sebagai yurisdiksi pasar yang memiliki banyak pengguna. Walau demikian, tiap opsi itu memiliki derajat keuntungan dan tingkat kesulitan implementasi yang berbeda-beda pula.

Di Indonesia, persoalan mengenai pemajakan ekonomi digital juga tecermin dalam (PMK 210/2018) yang dicabut akhir Maret lalu. PMK tersebut pada dasarnya tidak memberikan kebijakan baru yang bersifat khusus, tetapi hanya berupa terobosan administrasi serta tatacara pemajakan bagi pelaku *e-commerce*. Memang benar bahwa beleid tersebut masih memiliki kekurangan, yaitu belum bisa menjamin *level playing field* antara perdagangan elektronik domestik dengan asing maupun juga platform online lainnya, kurang disusun secara partisipatif,

serta menimbulkan biaya kepatuhan. Namun demikian, pencabutannya sangat disayangkan terutama karena kemampuan pemerintah dalam memperoleh data dan informasi untuk memetakan kepatuhan pajak akan lebih sulit. Padahal, data dan informasi sangat krusial terutama dalam konteks ekonomi digital yang oleh OECD (2017) sering disebut sebagai *new shadow economy*.

Ketiadaan kewajiban untuk mengumpulkan informasi transaksi dan identitas tersebut bisa menyulitkan pemerintah untuk memperluas basis pajak. Padahal kita tahu transaksi *e-commerce* di Indonesia nilainya besar dan diprediksi akan terus meningkat. OECD (2019) juga berpendapat bahwa platform digital berperan krusial dalam kepatuhan pajak, khususnya PPN, baik dalam hal kerja sama pemberian informasi kepada otoritas pajak, pemungut dan penyetor pajak, maupun sebagai pihak yang mengedukasi *merchants* di platform mereka.

Di sisi lain, kehadiran digitalisasi harusnya tidak selalu dipandang secara negatif bagi arena pajak. Dari sisi administrasi pajak, penerapan teknologi dan digitalisasi umumnya dilakukan melalui pelaporan berbasis elektronik, pengumpulan dan pengolahan data dengan lebih efisien, layanan informasi, mengurangi *error*, dan mendeteksi adanya kecurangan. Adanya proses digitalisasi telah menciptakan kemudahan (efisiensi), komunikasi dan interaksi secara *real time*, serta transparansi. Ketiga elemen tersebut secara tidak langsung akan berakibat bagi meningkatnya kepatuhan pajak.

### Agenda Reformasi Pajak

Arah reformasi pajak di suatu negara belum tentu sesuai untuk menyelesaikan permasalahan di negara lain. Namun, pengetahuan mengenai sistem pajak di negara lain menjadi krusial. Hal ini dikarenakan interaksi antarsistem pajak makin tidak terhindarkan dalam konteks globalisasi. Bagaimanapun, reformasi pajak harus dipahami sebagai cara untuk membawa sedekat mungkin ke

arah yang paling ideal dan seimbang (*second best policy*).

Setidaknya harus dipahami, tren reformasi pajak di berbagai negara dalam 5 tahun terakhir dipicu oleh beberapa hal. *Pertama*, pengumpulan penerimaan. *Kedua*, pendorongan daya saing di tengah ketidakpastian ekonomi. *Ketiga*, perlindungan basis pajak dan era transparansi. *Keempat*, perlindungan hak wajib pajak dan kepastian. *Kelima*, peningkatan kepatuhan melalui simplifikasi. *Keenam*, paradigma baru untuk menjamin kepatuhan. *Ketujuh*, ekonomi digital.

Reformasi pajak di berbagai negara itu mencakup beberapa aspek. *Pertama*, pajak penghasilan (PPH) badan. Dalam aspek ini, ada tren penurunan tarif PPh badan, perlakuan pajak khusus UMKM, pemberian insentif pajak, perubahan ke arah *hybrid territorial tax system*, pengenaan pajak khusus untuk perusahaan multinasional, serta pemajakan ekonomi digital.

*Kedua*, PPh orang pribadi (OP). Dalam aspek ini, ada perombakan struktur PPh OP melalui penyesuaian tarif dan *tax bracket*, pemberian keringanan untuk penduduk berpenghasilan rendah, pemberian insentif untuk sumber daya manusia (SDM), dan penyesuaian PPh atas penghasilan pasif dari modal.

*Ketiga*, pajak pertambahan nilai (PPN). Ada beberapa tren reformasi pajak yang menyangkut PPN, seperti kenaikan tarif standar, perluasan basis, pembenahan administrasi untuk mencegah kebocoran, dan pembenahan kepatuhan PPN atas transaksi perdagangan internasional. *Keempat*, cukai dan pajak lain. Aspek ini mencakup kenaikan tarif cukai bagi produk yang berbahaya bagi kesehatan, perluasan objek cukai, pengenaan pajak lingkungan dan kekayaan.

Untuk memastikan reformasi pajak berhasil, pemerintah perlu menetapkan desain dan kerangka reformasi pajak yang rasional dan mendapat dukungan politik yang kuat. Karena dilakukan secara sistematis dan bertahap, *administrative feasibility* menentukan

efektivitas terlaksananya reformasi pajak. Dalam konteks ini, reformasi juga harus transparan dan partisipatif.

Menariknya, mayoritas reformasi pajak di berbagai negara lebih dititikberatkan pada upaya meningkatkan daya saing. Alasan tersebut cukup rasional mengingat situasi ekonomi global yang penuh ketidakpastian dan lesunya pertumbuhan produk domestik bruto (PDB) di banyak negara. Obsesi untuk meningkatkan daya saing terutama ditujukan untuk menarik modal dan tenaga kerja berkeahlian tinggi, yang dipercaya menjadi komponen produktivitas domestik.

Dari sisi kebijakan, upaya mendorong daya saing dapat dilakukan melalui berbagai opsi terkait dengan subjek, objek, dan tarif. Akan tetapi, satu hal yang kerap dilupakan adalah bahwa daya saing suatu negara juga dipengaruhi oleh bagaimana sistem pajak di suatu negara juga bisa menjamin kepastian. Kepastian dalam sistem pajak juga dipengaruhi oleh administrasi pajak yang mudah, berbiaya rendah, jelas, serta menjamin hak-hak wajib pajak. Selain itu, kepastian

juga berkaitan erat dengan desain dan implementasi upaya mencegah dan menyelesaikan sengketa pajak.

Bagi Indonesia, reformasi pajak dengan mempertimbangkan upaya meningkatkan daya saing merupakan sesuatu yang diperlukan. Tren kompetisi pajak secara global, kebutuhan menggerakkan ekonomi domestik, dan ancaman *middle income trap* adalah hal-hal yang—suka tidak suka—perlu diwaspadai. Sistem pajak yang pro terhadap iklim investasi dan perekonomian juga dipercaya akan meningkatkan penerimaan karena dua hal. *Pertama*, sistem tersebut akan meningkatkan basis ekonomi dan kemampuan membayar pajak. *Kedua*, sistem tersebut akan meningkatkan kepatuhan wajib pajak karena kualitas hubungan dan komunikasi mereka dengan pemerintah yang semakin membaik. Agenda reformasi pajak 2017-2020 tentu bisa menjadi momentum untuk mengkaji hal-hal tersebut secara matang dalam rangka memperkuat ekonomi Indonesia pada masa mendatang. \*

# Survey of Recent Developments

This chapter describes the taxation circumstances during the last quarter. Recent developments include highlights and key trends on policy, administration, and law on macro-fiscal situations, revenue performance, issues on the sector of domestic tax, customs and excise, non-tax, and local taxes, international aspects of Indonesian taxation and global trends. Elucidation on the latest developments is expected to provide future predictions regarding the direction and risks in the taxation sector.

# 1 Chapter

## Survey of Recent Developments

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Domestic demand and infrastructure development will continue their role as the engines for the economy amidst this year's global economic uncertainty.

### A. Macro-Fiscal Framework

Moving onward, the Indonesian economy departs from 5.17% growth in 2018. Domestic demand and infrastructure development will continue their role as the engines for the economy amidst this year's global economic uncertainty. The external risk mainly originates from the trade tension between the United States (US) and China, which could weaken the external sector and dampen commodity prices.

Internally, uncertainty lies in the rising political tensions prior to the general election. Pre-election might result in less predictable economic climate, increase the possibility to postpone the investment until the election. The business sector needs to be convinced of the continuity of the existing regulation and the direction of governments' future acts in regulating the economy and anticipating the upcoming economic challenges.

Nevertheless, the government is optimistic about accomplishing economic growth of between 5.2% to 5.6% in 2019. International institutions like IMF, World Bank, and ADB forecast such growth to be 5.2%, unchanged despite the revision of world economic growth projection from 3.5% to 3.3% in 2019 (WEO). Inflation is set to reach 2.5-4.5% with the Rupiah exchange rate assumed to be at IDR14,500/US\$.

Last year, in terms of household consumption, the highest growth was found in hotel and restaurant sector (5.74%), followed by transportation and communication sector (5.47%). Meanwhile, the highest investment growth was attained by machine and equipment sector (19.54%).

For the first quarter of this year itself, Bank Indonesia (BI) expects the economy to increase by 5.13% (yoy), higher than the first quarter of 2018, which amounted to 5.06%. The strengthening of the economic growth is sustained

Meanwhile, inflation has been relatively low, reaching 2.87%, 2.57% and 2.48% (yoy) in January, February and March 2019 respectively, approaching the lower bound BI's target band of 2.5 to 4.5%.

by domestic demand through the increasing consumption and purchasing power as indicated by escalating retail sales, in particular, food, beverage and clothing products, as well as the increase in motorcycle sales. On the government side, spending also increased to hold the election.

Meanwhile, inflation has been relatively low, reaching 2.87%, 2.57% and 2.48% (yoy) in January, February and March 2019 respectively, approaching the lower bound BI's target band of 2.5 to 4.5%. In terms of month to month, price inflated by 0.32% in January, deflated by 0.08% in February and inflated again by 0.11% in March. Thus, in the first quarter, inflation has so far reached 0.35%. The inflation was mainly contributed by food products, cigarettes, garlic and red onion, cayenne pepper, and air transportation. On the contrary, lower prices may be found in certain groceries, such as meat, egg, and rice.

On the fiscal ground, it seems clear that the policies will remain supportive. The government's 2019 budget sets the deficit equal to 1.8% of GDP, unchanged from 2018. It sets public infrastructure expenditure 17% higher, prioritizing on investments with high returns. Moreover, an additional allocation is given to disaster risk management and mitigation. In turn, it depends on the government's effort in collecting revenue – particularly tax – to ensure timely implementation.

Onwards, Indonesia still offers strong economic fundamentals with robust spending growth from the middle-income population. The upcoming General Election might cause short-term instability but afterward, investments could continue to spur if structural reforms remain as the government's agenda.

Taking our external transactions into consideration, our trade balance in February and March 2019 seemed positive, the highest since September 2018. However, it is noteworthy that this resulted from a downward movement in both export and import performance, where higher decrease came from the latter. The export itself only reached US\$40.51 billion in the first quarter of 2019, 8.5% lower compared to the first quarter of 2018. As a result, our trade balance in the first quarter of 2019 showed a deficit of US\$190 million, worse compared to the first quarter of 2018, which produced a surplus US\$280 million.

Internationally, global confidence in the Indonesian economy seems to have grown this quarter. On Thursday, 14 March 2019, Indonesia received a sovereign credit rating on BBB from Fitch Ratings. The rating was based on relatively good economic growth prospect and manageably low government debt expense. Domestic demand is expected to be stable amidst unstable export performance caused by lower global demand.

Monetarily, based on the Governor Council Meeting (Rapat Dewan Gubernur/RDG) of BI, the benchmark interest rate is set to remain at 6% to preserve external stability. Meanwhile, the deposit facility rate and lending facility rate are also set to remain at 5.25% and 6.75% consecutively.<sup>1</sup>

Macroprudential policy is preserved to accommodate economic activity and strengthen the financing capacity of the economic actors. In addition, Bank of Indonesia also continues to step up the coordination with the government and related institutions.

Regarding our exchange rate, Rupiah slowly depreciated again in March after enjoying uprising period in the previous quarter until February 2019. By the end of March 2019, it had briefly reached IDR14,173/US\$, which was 1.64% stronger compared to the end of 2018 (IDR14,409/US\$).

Onwards, Indonesia still offers strong economic fundamentals with robust spending growth from the middle-income population. The upcoming General Election might cause short-term instability but afterward, investments could continue to spur if structural reforms remain as the government's agenda. In order to maintain sustainable and inclusive growth in the long run, strengthening of competitiveness, human capital development, and economic resilience preservation will be required.

1 LPEM FEB UI, "Macroeconomic Analysis Series: BI Board of Governor Meeting" (2019).



Thus, these developments show that there is room for the government to expand the tax base resulting from the growth of economic activities. This is possible, given our tax buoyancy is in a positive trend (see Appendix). Undoubtedly, extra effort is required to ensure that the growth does not enlarge the shadow economy which is undetected by the tax system.

Furthermore, as stated in the 2019 Government Work Plan, macroeconomic policies are directed at maintaining economic stability amidst the political year, one of which is by balancing the achievement of tax revenue targets and tax revenue efforts.<sup>2</sup> It can be seen that this effort materialized in the form of accelerating refund for the industrial sector so as not to reduce the distortion against business players' smooth flow of cash.

More specifically, in the context of fiscal policy, the government seeks to encourage investments and competitiveness in order to realize quality growth.

More specifically, in the context of fiscal policy, the government seeks to encourage investments and competitiveness in order to realize quality growth.<sup>3</sup> The implementation is carried out by improving tax regulations. Consequently, the government has issued several new rules, such as PMK 32/2019 to strengthen the competitiveness of service exports and PMK 35/2019 to provide absolute certainty regarding the criteria of permanent establishments. However, the government still has numerous tasks pertaining to the formulation of legislation, such as e-commerce tax rules, revisions to tax laws, and the strengthening of local taxes.<sup>4</sup>

## B. Revenue Performance

### Revenue Performance from Taxation Sector

As of March 2019, state revenue from taxation sector has reached IDR279.94 trillion. The taxation revenue components consist of revenue from tax, customs, and excise sectors managed by the Directorate General of Taxes (DGT), the Directorate General of Customs and Excise (DGCE), and their collaboration.<sup>5</sup> Taxation revenue itself reached 15.67% of the State Budget (*Anggaran Pendapatan dan Belanja Negara/ APBN*) 2019 target, reaching growth of 6.68% compared to the realization in the same period last year. Comparison of the performance of the taxation sector is shown in Figure 1.

### Revenue Performance from Tax Sector

In January 2019, the realization of tax revenue reached IDR86.00 trillion or 5.45% of the 2019 State Budget target with 8.82% of growth compared to January 2018. Furthermore, as of March 2019, the realization of national revenue from the tax sector contributed as much as 15.78% of the 2019 APBN target with revenue of IDR248.98 trillion. The comparison of the performance of tax revenue in these three months and that of the same period in the previous five years is shown in Figure 2.

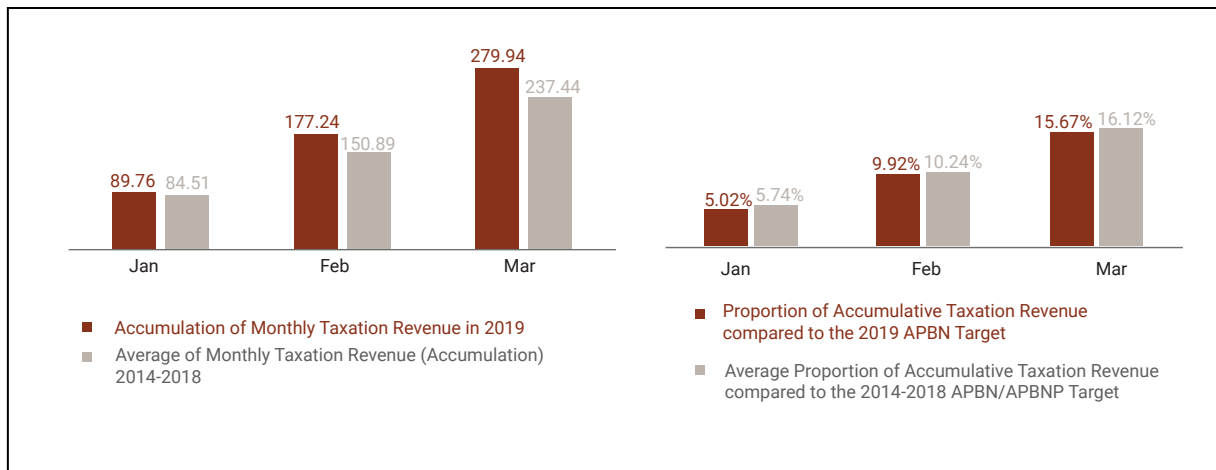
2 Attachment I of the President of the Republic of Indonesia Regulation Number 72 of 2018 concerning the Government Work Plan for 2019: II-23.

3 Attachment I of the President of the Republic of Indonesia Regulation Number 72 of 2018 concerning the Government Work Plan for 2019: V-21-22.

4 *Ibid.*

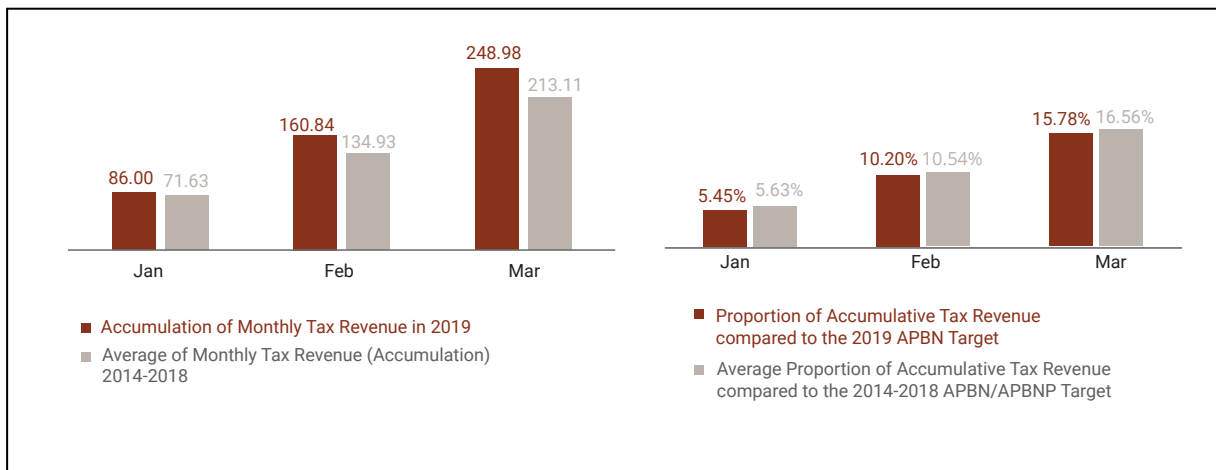
5 The kind of taxes which are jointly managed by the DGT and DGCE is the taxes on imported (*Pajak dalam Rangka Impor/PDRI*) where the DGCE is the party that carries out the collection.

**Figure 1 Comparison of Taxation Revenue for the Period of January to March 2019 and the Average for the Last Five Years (2014-2018) in Trillion Rupiah and Percentage.<sup>6</sup>**



Source: Ministry of Finance (calculated by DDTC Fiscal Research). The monthly tax revenue data was obtained from the documents of realization of the state budget/*Realisasi APBN*<sup>7</sup> (for data from 2014 to 2017) and APBN *KiTa*<sup>8</sup> (for data from 2018 - 2019).

**Figure 2 Comparison of Tax Revenue for the Period of January to March 2019 and the Average for the Last Five Years (2014-2018) in Trillion Rupiah and Percentage.<sup>9</sup>**



Source: Ministry of Finance (calculated by DDTC Fiscal Research). The monthly tax revenue data was obtained from the documents of realization of the state budget/*Realisasi APBN*<sup>10</sup> (for data from 2014 to 2017) and APBN *KiTa*<sup>11</sup> (for data from 2018 - 2019).

Accumulated monthly, the tax revenue recorded in January and February 2019 experienced growth of 8.82% and 4.66% (yoy 2018- 2019) respectively, while the growth in March 2019 only amounted 1.82%. The tax revenue performance until March 2019 was very

slow as compared to the growth of the tax revenue in the first quarter of 2018 which grew by 9.9% (yoy 2017-2018). In fact, if the redemption money for Tax Amnesty in the first quarter of 2017 is not taken into account, the growth in the first quarter of 2018 could have reached

6 Data in 2017 includes tax revenue from Tax Amnesty and Asset Revaluation.  
 7 The Ministry of Finance of the Republic of Indonesia, "*Realisasi APBN*," Internet, can be accessed at: <https://www.kemenkeu.go.id/informasi-publik/realisasi-apbn/>.  
 8 The Ministry of Finance of the Republic of Indonesia, "*APBN KiTa*," Internet, can be accessed at: <https://www.kemenkeu.go.id/publikasi/apbn-kita/>.  
 9 Tax revenue in 2017 includes tax revenue data with Tax Amnesty and Asset Revaluation.  
 10 The Ministry of Finance of the Republic of Indonesia, "*Realisasi APBN*," *Op. Cit.*  
 11 The Ministry of Finance of the Republic of Indonesia, "*APBN KiTa*," *Op. Cit.*

16.21%.<sup>12</sup> Fiscal performance in the first quarter of this year could have indicated a shortfall risk – the difference between the realization and the target – of the tax revenue for the year of 2019.

Two types of taxes whose growth was quite encouraging until the end of March were income tax from the oil and gas sector and the Land and Building Tax (*Pajak Bumi dan Bangunan/PBB*) and other taxes.

Compared to the previous year, the positive growth of tax revenue in the same period was sustained by the increase in Value Added Tax (VAT) and Sales Tax on Luxury Goods (STLG) revenue by 18.21%.<sup>13</sup> However, this year, the growth of VAT revenue in these first three months decreased drastically to a total of -10.40% in February and -8.88% in March 2019. In January this year, VAT and STLG revenue also dropped dramatically, only ranging around IDR29.26 trillion with -9.17% growth. In fact, the APBN target for these two types of indirect taxes in 2019 reaches 42% of the total tax revenue.

Viewed in more detail based on the revenue, the tax that became a sustained revenue for the last five years, namely the Article 25/29 Corporate Income Tax, shows fair performance with double-digit growth of 40.44% in the period of January to February 2019. Overall, for the first quarter of 2019, the growth of this type of tax is recorded at 15.48%.

Two types of taxes whose growth was quite encouraging until the end of March were income tax from the oil and gas sector and the Land and Building Tax (*Pajak Bumi dan Bangunan/PBB*) and other taxes. The growth of both taxes shows double-digit figures, 26.46% and 12.74% respectively. Nevertheless, the revenue from these two types of taxes is not proportionally significant in that both only contribute around 6.5% of the total tax revenue for the period of January to March 2019. The overall tax revenue performance is shown in Table 1.

**Table 1 Revenue Performance per Type of Tax for the Period of January to March 2019 (Accumulative)**

Type of Tax	Realization (Trillion Rupiah)			Growth (yoy 2018 - 2019)		
	Jan	Feb	Mar	Jan	Feb	Mar
<b>Income Tax</b>	56.11	102.26	157.29	8.82%	15.37%	9.02%
Oil and Gas	6.27	10.51	14.48	38.23%	34.85%	26.46%
Non-Oil and Gas	49.84	91.75	142.81	19.07%	13.48%	7.52%
<b>VAT and STLG</b>	29.26	57.44	89.94	-9.40%	-10.40%	-8.88%
<b>PBB and Other Taxes</b>	0.63	1.14	1.75	49.09%	21.51%	12.74%

Source: Ministry of Finance (APBN KiTa February – April 2019)

Viewed in more detail based on the revenue, the tax that become a sustained revenue for the last five years, namely the Article 25/29 Corporate Income Tax, shows fair performance with double-digit growth of 40.44% in the period of January to February 2019. Overall, for the first quarter of 2019, the growth of this type of tax is recorded at 15.48%. This shows that the dependence on revenue from this type of tax is still considerably high.

Article 25/29 Corporate Income Tax is also the largest contributor to the total state tax revenue. Its contribution ranged from 15% to 18% in the past few years in which the same type of tax imposed on Individuals only contributed less than 1% even though the revenue growth was relatively high earlier this year. However, there was a shift in growth in the first quarter, where the tax revenue of Article 25/29 Individual Income Tax recorded a significant change amounting to 21.37%. This may indicate increasing individual taxpayers' material compliance. Data on growth per type of tax is shown in Table 2.

**Table 2 Revenue Growth per Type of Tax (yoy 2018 - 2019) in Accumulation for the First Quarter of 2019**

Type of Tax	Growth (yoy 2018 - 2019)		
	Jan	Feb	Mar
<b>Income Tax</b>			
Article 25/29 Income Tax	57.12%	40.00%	n.a
Corporate	58.87%	40.44%	15,38%
Individual	19.33%	28.17%	21,37%
Final Withholding Tax	19.89%	15.67%	0.16%
Article 21 Income Tax	14.51%	10.65%	15.48%
<b>Value Added Tax</b>			
Domestic VAT	-19.49%	n.a	-15.05%
<b>Taxes on Imports</b>			
Import VAT	5.96%	0.79%	-0.46%
Import STLG	-42.65%	-23.58%	-13.80%
Article 22 Income Tax on Imports	13.53%	3.96%	2.79%
Total of Other Taxes on Imports	7.22%	1.16%	0.08%

Source: Ministry of Finance (APBN KiTa February – April 2019)

12 Ministry of Finance of the Republic of Indonesia, *APBN KiTa – Kinerja dan Fakta* (April 2018),6.  
13 Ministry of Finance of the Republic of Indonesia, *Ibid.*, 14.

Based on the average sectoral tax revenue from 2014 to 2018, the processing industry is the largest tax contributor. In the last five years, this sector contributed to tax revenue of IDR311 trillion, where the value ranged from 20% to 30% of total sectoral tax revenue per year in that period.

Sectorally, monthly tax revenue can be viewed from six sectors, namely trade, processing industry, financial services, construction and real estate, transportation and warehousing, and the mining sectors.<sup>14</sup> In the first quarter of 2019, these six sectors collected tax revenue of IDR185.05 trillion. The total contribution reached 11.73% of the tax revenue target in the 2019 State Budget.

Based on the average sectoral tax revenue from 2014 to 2018, the processing industry is the largest tax contributor. In the last five years, this sector contributed to tax revenue of IDR311 trillion, where the value ranged from 20% to 30% of total sectoral tax revenue per year in that period. However, in accumulation, the tax revenue from this sector has grown negatively in January and February 2019, i.e. -16.2% and -11.3% respectively. Until March, the performance of tax revenue from this sector has not improved with only -8.8% growth compared to 2018.

The realization of customs and excise revenue for the first quarter of 2019 has reached 14.83% of the 2019 state budget target. In terms of growth in the same period last year, the growth recorded a significant increase of 73.04% compared to the first quarter of 2018.

The growth of tax revenue in these six sectors in January showed a positive value, yet tend to slow down in the following months for the first quarter in 2019. However, in accumulation of the three months, sectoral tax growth was supported by growth in tax revenue in the transportation and warehousing sectors (24.0%). This sector alone contributed 6% to the total tax revenue from the six sectors identified in the first quarter of 2019.

### Revenue Performance from Custom and Excise Sector

Components of customs and excise revenue are from international trade taxes – in the form of import duties and export duties – and excise revenue. Excise revenue derived from excise on tobacco products (*cukai hasil tembakau/ CHT*), beverages containing ethyl alcohol (*minuman mengandung etil alkohol / MMEA*), and ethyl alcohol (*etil alkohol/ EA*).

The realization of customs and excise revenue for the first quarter of 2019 has reached 14.83% of the 2019 state budget target. In terms of growth in the same period last year, the growth recorded a significant increase of 73.04% compared to the first quarter of 2018.

The most significant growth of 119.05% was recorded in February 2019 with total revenue of IDR16.39 trillion.<sup>15</sup> Compared with January 2019, nominally, the growth in February 2019 was recorded at 336% (mom). The comparison of the performance of customs and excise sector revenue in the first three months of 2019 compared to the last five years is shown in Figure 3.

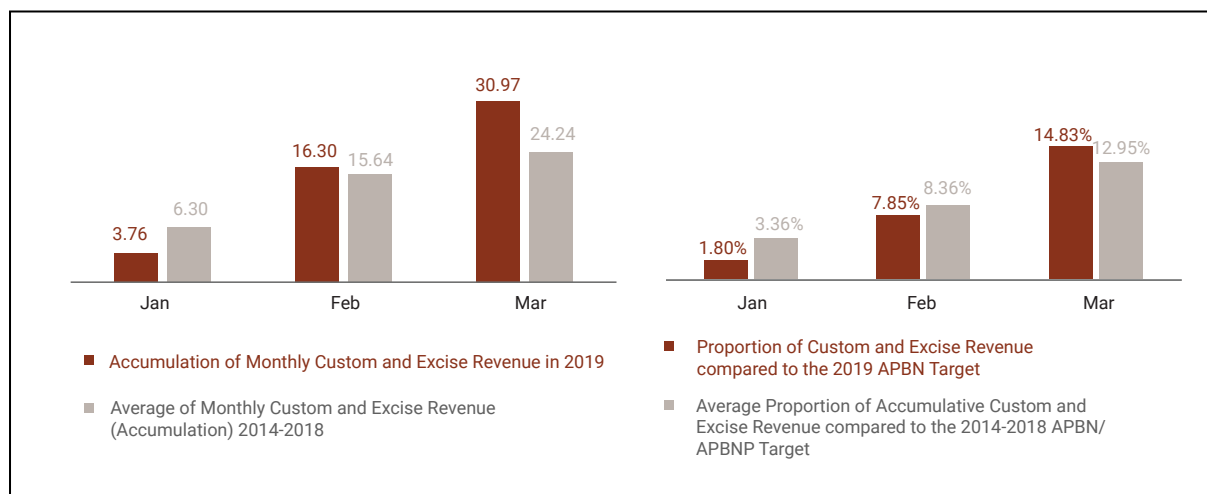
**Table 3 Revenue Performance per Sectoral Tax Revenue for the Period of January to March 2019 in Accumulation**

Sector	Realization (Trillion Rupiah)			Growth (yoy 2018 - 2019)		
	Jan	Feb	Mar	Jan	Feb	Mar
Trade	20.50	36.03	53.55	25.40%	1.70%	1.30%
Processing Industry	16.77	36.87	60.43	20.80%	-11.30%	-8.88%
Financial Services	10.02	21.56	32.41	12.40%	27.50%	11.30%
Construction and Real Estate	7.24	11.58	16.89	9.00%	-0.80%	6.10%
Transportation and Warehousing	4.69	8.30	11.78	5.80%	27.60%	24.00%
Mining	3.69	5.30	9.99	4.69%	30.70%	-16.20%

Source: Ministry of Finance (APBN KiTa February – April 2019)

<sup>14</sup> Based on information contained in APBN KiTa as the government's official document.  
<sup>15</sup> Ministry of Finance of the Republic of Indonesia, *APBN KiTa – Kinerja dan Fakta* (March 2019), 30

**Figure 3 Comparison of Customs and Excise Revenue for the Period of January to March 2019 and the Average in the Previous Five Years (Trillion Rupiah and Percentage)**



Source: Ministry of Finance (calculated by DDTF Fiscal Research). The monthly tax revenue data was obtained from the documents of realization of the state budget/*Realisasi* APBN<sup>15</sup> (for data from 2014 to 2017) and APBN KiTa<sup>16</sup> (for data from 2018 - 2019). The data for Revised State Budget (APBNP) is obtained from the Law of Revised State Budget for 2014 - 2017 while data from the Revised State Budget Law is not/ has yet to be issued so that we used data from the Law of State Budget will not/has yet to be issued.

The accumulated excise revenue amounted to IDR21.35 trillion or 12.09% of the state budget target for excise in 2019. Until the end of March 2019, the growth itself reached 165.11% compared to the first quarter of 2018.

The significant increase in CHT contribution in February was due to the repayment of the purchase of excise stamps carried out in December 2018. The payment for the purchase of excise stamps at the end of last year was due in February 2019.

Even though the accumulative revenue until February 2019 did not reach 10% of the APBN target, the revenue performance of the custom and excise sector has exceeded the average revenue for the past five years by March 2019. The amount of this revenue is dominated by the revenue from import duty and excise tax which grew positively in the first quarter of 2019. However, the export duty which is imposed on exports showed a decrease when compared on annual basis.

The accumulated excise revenue amounted to IDR21.35 trillion or 12.09% of the state budget target for excise in 2019. Until the end of March 2019, the growth itself reached 165.11% compared to the first quarter of 2018. In fact, the growth of excise tax revenue accumulated until February 2019 reached 768.89% compared to the excise revenue in February 2018. Excise revenue and its growth are the highest compared to other revenue components for the customs and excise sector.

Excise revenue from tobacco commodities was recorded at 189.14% compared to the first three months of last year accumulatively. CHT revenue experienced a significant rise for the total revenue from January to February 2019, which amounted to 1,638.21% compared to the first two months in quarter I of 2018 with a contribution of IDR9.43 trillion.

The significant increase in CHT contribution in February was due to the repayment of the purchase of excise stamps carried out in December 2018. The payment for the purchase of excise stamps at the end of last year was due in February 2019. This is an implementation of the MoF Number 57/PMK.04/2017 concerning the Postponement of Excise Payment for Factory Entrepreneurs or Importers of Excisable Goods that Carry Out Repayments by Attaching Excise Stamps (PMK 57/2017) which causes a change in the purchase scheme despite the fact that there is no increasing in terms of excise rate. The following table shows the customs and excise performance in accumulation for the period of January to March 2019.

16 The Ministry of Finance of the Republic of Indonesia, "*Realisasi APBN*," *Op. Cit.*  
17 The Ministry of Finance of the Republic of Indonesia, "*APBN KiTa*," *Op. Cit.*

**Table 4 Performance of Customs and Excise Revenue from January to March 2019 in Accumulation**

Type of Customs and Excise	Realization (Trillion Rupiah)			Growth (yoy 2018 - 2019)		
	Jan	Feb	Mar	Jan	Feb	Mar
<b>Duties</b>						
Import Duties	2.95	5.69	8.54	5.07%	4.76%	1.56%
Export Duties	0.33	0.63	1.08	-10.41%	-29.49%	-24.76%
<b>Excise</b>	0.49	10.08	21.35	36.54%	768.89%	165.11%
Excise on Tobacco Products (CHT)	0.22	9.43	20.14	76.03%	1,638.21%	189.14%
Beverages Containing Ethyl Alcohol (MMEA)	0.25	0.61	1.18	19.15%	3.89%	13.26%
Ethyl Alcohol (EA)	0.01	0.02	0.03	-26.48%	-16.59%	-16.51%

Source: Ministry of Finance (APBN KiTa February – April 2019)

## C. Domestic Tax

### Income Tax

The discussion regarding the plan to reduce the corporate income tax (CIT) rate reemerged prior to the Presidential Election that was held on 17 April 2019. Although it has been a popular policy, there is a big warning for the implementation itself and we should consider it based on the precautionary principle. This is based on two main considerations.

Firstly, the consideration that Indonesia is a country with a large economic size. Moreover, as a developing country, the national revenue is still be prioritized for development purposes. Out of the various sources of national revenue, tax revenue is the dominant source. Therefore, the reduction in tax rate must also be 'rivaled' by the policy to expanse its tax bases.

Secondly, given of the condition of the income tax base in Indonesia, both in terms of the subject and object, it can be argued that the tax base is not yet strong in terms of the foundation and basis. A significant reduction of rate may lead to greater impacts whereas the reduction

in the CIT rate will produce a short-term fiscal shock. Moreover, tax revenue from CIT itself has contributed a large portion in the structure of total of non-oil and gas tax revenue which reached more than 30% for past years.

The next issue for Income Tax in this quarter is that the DGT made a number of breakthroughs as an effort to improve taxpayer compliance early this year. The DGT targets approximately 85% of formal compliance this year or around 15.5 million Annual Tax Returns for taxpayers, both for individual and corporate taxpayers.<sup>18</sup> Furthermore, based on official documents released by the DGT, i.e. the Principal Performance Indicator (*Indikator Kinerja Utama/IKU*) of the institution, the formal compliance for corporate taxpayers and non-employee individual taxpayers is targeted at 70%.<sup>19</sup>

In terms of the administrative aspect, the DGT had used e-mails for five days from 1 March 2019 to 5 March 2019 as a reminder for individual taxpayers to submit Annual Tax Return for Tax Year 2018 earlier and suggested that such document be sent before 16 March 2019.

In addition, the DGT has issued the Director General of Taxes Regulation

The DGT targets approximately 85% of formal compliance this year or around 15.5 million Annual Tax Returns for taxpayers, both for individual and corporate taxpayers.

18 DDTCNews Editorial Staff, "Sri Mulyani Akui Target Kepatuhan Formal 85% Cukup Berat," Internet, can be accessed at: <https://news.ddtc.co.id/sri-mulyani-akui-target-kepatuhan-formal-85-cukup-berat-15201>.

19 Ministry of Finance of the Republic of Indonesia, "Peta Strategi Direktorat Jenderal Pajak Tahun 2019," Internet, can be accessed at: <https://www.kemenkeu.go.id/media/12292/peta-strategi-dan-iku-2019-kemenkeu-one-djp.jpg>.

The realization of individual taxpayers Annual Tax Returns reporting as of 1 April 2019 accounted to 11.03 million whereas numbers of individuals who are obliged to submit should be as much as 16.8 million individual taxpayers. It means that 5.77 million individual taxpayers have not submitted their Annual Tax Returns yet.

Number PER-02/PJ/2019 concerning Procedures for Submitting, Receiving, and Processing Annual Tax Returns.<sup>20</sup> One important change in this provision pertains to the obligation to submit Annual Tax Returns through e-Filing to ease the administrative burden of taxpayers. PER-02/PJ/2019 also provides convenience for taxpayers in which all types of annual tax returns, including revised tax returns and periodic tax overpayment returns, can be received at service office which integrated with Tax Office (*Kantor Pelayanan Pajak/KPP*) and DGT services outside the office.

In addition to increase individual taxpayer compliance, DGT also released provision for exempting the administrative sanctions for the late reporting of Annual Income Tax Returns.<sup>21</sup> Despite being supported by the ease of technology, the rules and socialization regarding the procedures for submitting Annual Tax Returns which are expected to be in line with the increasing formal compliance of taxpayers this year, in reality, formal compliance tends not to rise significantly.

In total, the number of reported Annual Tax Returns up to 1 April 2019 reached 11.3 million, which is the combination of Annual Tax Returns for individual and corporate taxpayers. This means that formal compliance as of the end of March 2019 is 61.7%. Thus, 4.2 million Annual Income Tax Returns are to be submitted to achieve a formal compliance target of 85%.

After the individual Income Tax Returns submission deadline was due, the government has again used technology by sending e-mails related to submitting Annual Tax Returns for individual taxpayers. The realization of individual

taxpayers Annual Tax Returns reporting as of 1 April 2019 accounted to 11.03 million whereas numbers of individuals who are obliged to submit should be as much as 16.8 million individual taxpayers. It means that 5.77 million individual taxpayers have not submitted their Annual Tax Returns yet.

In contrast to individual taxpayers on whom the DGT emphasizes the active role from the taxpayers while the DGT takes role as a supporting party, in the context of increasing the compliance of corporate taxpayers, the proactive approach is more emphasized by the tax authority.<sup>22</sup> This indicates that the DGT does not only target at the indications of corporate taxpayers' formal compliance, but also their material compliance considering the significant contribution of the CIT to total tax revenue.

Furthermore, there is also issue related tax provision regarding sales deduction. This is due to many different interpretations of the Director General of Taxes Circular Letter Number SE-24/PJ/2018 concerning the Tax Treatment of Rewards Received by Buyers in connection with Certain Conditions in Sale and Purchase Transactions.

The Circular Letter is intended as a form of confirmation of VAT and income tax withholding on the rewards received by the buyer in connection with certain conditions in sale and purchase transactions. For companies, the tax treatment issue in terms of sales deductions has become increasingly confusing after the issuance of the circular letter,<sup>23</sup> particularly in cases where the producer acts as the seller and the distributor acts as the buyer.

Furthermore, there is also issue related tax provision regarding sales deduction. The Circular Letter is intended as a form of confirmation of VAT and income tax withholding on the rewards received by the buyer in connection with certain conditions in sale and purchase transactions.

20 This regulation is the implementation of MoF Regulation Number 9/PMK.03/2018 regarding the Amendment to MoF Regulation Number 243/PMK.03/2014 concerning Annual Tax Returns (PMK 9/2018).

21 Exemptions of these administrative sanctions are set forth in the Director General of Taxes Decree Number KEP- 95/PJ/2019.

22 Doni Agus Setiawan, "Pelaporan SPT WP Badan Masih Minim, DJP Siapkan Langkah Ini," (15 April 2019), Internet, can be accessed at: <https://news.ddtc.co.id/pelaporan-spt-wp-badan-masih-minim-djp-siapkan-langkah-ini-15638>.

23 Bambang Pratiknyo, "Perlakuan Pajak atas Imbalan Tertentu Menurut SE-24/2018," (8 Maret 2019), Internet, can be accessed at: <https://news.ddtc.co.id/perlakuan-pajak-atas-imbalance-tertentu-menurut-se-24-2018-15260>.

Previously, the imposition of income tax on rewards given to the buyer is highly dependent on the recording carried out by the seller and the buyer.<sup>24</sup> If the reward given to the buyer is recorded as a price discount or sales deduction to determine the net sales value for the seller and the cost of goods sold for the buyer, the reward is not an object of tax withholding, either Article 21 Income Tax or Article 23 Income Tax. Nevertheless, numerous producers still withhold the Income Tax as a reward for the distributor.

On the implementation level, this provision leads to ambiguity and is still not optimally socialized. Confusion does not only occur at the level of producers who act as the sellers and distributors who act as the buyers but also at the tax office level. This discloses weak socialization within the DGT surroundings whereas circular letters should be used for improvements in the internal scope conceptually.

### Withholding Tax

At the end of last February, the government stated that they would evaluate the implementation of the final rate scheme for the construction and real estate sector. This evaluation discourse was brought to public due to the imbalance between the proportion of tax revenue and its contribution to gross domestic product (GDP). Overall, these two sectors accounted for 13.26% of GDP in 2018. This portion is greater when compared to the trade sector which only reached 13.02% of total GDP.

Tax revenue from the construction and real estate sector in 2018 itself only amounted to IDR83.5 trillion or 6.6% of the non-oil and gas total tax

revenue which as a whole reached IDR1,251.2 trillion. On the other hand, the contribution of the trade sector to non-oil and gas tax revenue reached 18.7%.

Through the Fiscal Policy Agency (*Badan Kebijakan Fiskal/BKF*) of the Ministry of Finance, the government has disclosed that the underlying reason of this plan is the existence of a final Withholding Tax scheme for real estate which causes the statutory tax rate for the real estate sector to be lower than other sectors. The final tax for this sector is also considerably low, i.e. only 2.5% of the gross amount of the transfer value.<sup>25</sup> Then, opinion emerged which stated that if revisions were made to this regulation, the withholding tax regime on construction would be inconsistent as it had revised previously.

Theoretically, the imposition of a withholding tax should only be targeted at hard to tax sectors and not at business income.<sup>26</sup> Furthermore, in the future, this final tax should be considered as a temporary tax scheme. Therefore, it is the right time to re-evaluate the imposition of the withholding tax for the property sector to be subject to a general scheme. In the end, it will reflect fairness vertically and horizontally.

### Value Added Tax (VAT) and Sales Tax on Luxury Goods (STLG)

#### VAT

The realization of Value Added Tax (VAT) revenue at the beginning of the year could be considered as quite disappointing. The performance of VAT at the beginning of 2019 shortly fell compared to its performance last year.

At the end of last February, the government stated that they would evaluate the implementation of the final rate scheme for the construction and real estate sector.

24 In addition, SE-24/PJ/2018 does not consider the aspect of recording these rewards at the seller and buyer sides. This certainly differs from the Director General of Taxes' response letter issued before SE-24/PJ/2018, for instance, the Director General of Taxes Letter Number S-29/PJ.43/2003 concerning the Affirmation of the Imposition of Income Tax on Sales Deduction and Sales Incentives and S-822/PJ.31/2003 concerning the Affirmation of Prize Characteristics.

25 In general, Final Withholding Tax on the real estate sector is regulated through the Government Regulation of the Republic of Indonesia Number 34 of 2016 concerning Income Tax on Income from the Transfer of Rights of Land and/or Buildings and Sale and Purchase Contracts of Land and/or Buildings and the Amendments.

26 Darussalam, "Menyoal Perluasan Withholding Tax atas Penghasilan Usaha," *Perspektif* (2 July 2018). Internet, can be accessed at: <https://news.ddtc.co.id/menyoal-perluasan-withholding-tax-atas-penghasilan-usaha-13008>.



The performance of VAT at the beginning of 2019 shortly fell compared to its performance last year. In this regard, imports are considered to have a significant impact on the performance of VAT although some parties consider that the acceleration of VAT refund was a cause of lower VAT performance in this quarter.

Further review is then subsequently required to explore the various factors causing weak VAT performance.

In this regard, imports are considered to have a significant impact on the performance of VAT although some parties consider that the acceleration of VAT refund was a cause of lower VAT performance in this quarter.

Based on trade balance data released by the Ministry of Trade of the Republic of Indonesia, the recorded import growth as of February 2019 was negative compared to the same period in the previous year. This was mainly due to oil and gas imports of which the growth was contracted up to -28.59%,<sup>27</sup> whereas, import VAT in the past few years contributed around one-third of all VAT revenue or ranged from 12% to 15% of the total tax revenue.

Further review is then subsequently required to explore the various factors causing weak VAT performance. Among others, such factors include the question of whether this performance is purely caused by the weakening of national economy or a gap. This gap can then be viewed in terms of policy gap, such as exemption policy and administration gaps such as issues of compliance and refund.

Even though its performance cannot be considered at satisfying level, government still plans to give relaxation for this in terms of VAT refunds. Earlier this year, government has planned to revise VAT refund rules for foreign tourists. This policy was meant to increase interest in shopping, which will, in turn, encourage economic growth. The VAT refund rule for foreign tourists presently is stipulated in MoF Regulation Number 76/PMK.03/2010 concerning Procedures for Submitting and Completing Request of VAT Refund for of Personal Goods for Foreign Passport Holders (PMK 76/2010).

Based on this regulation, foreign tourists' spending on shopping up to 5 million Rupiah with VAT amounting to IDR500,000 in one Special Tax Invoice (*Faktur Pajak Khusus/FPK*) are entitled to

a refund according to the paid VAT when shopping at the same store. Through the planned new regulation, refunds can also be given with documents from different stores provided that certain requirements are met. In addition to this plan, government also hopes that Micro, Small and Medium Enterprises (MSMEs) may join the VAT Refund for Tourist program which indicates the increasing tax compliance from this hard-to-tax sector.

There are also issues regarding VAT in the view of sales deduction provision related to SE-24/PJ/2018. One of the issues is that the provisions stipulate that the rewards given to the buyer for achieving certain requirements in purchase and sale is not determined as an object of VAT. Therefore, such reward is not subject to VAT.

The DGT itself had previously issued the Director General of Taxes Circular Letter Number S-1112/PJ.322/2005 to address a number of issues related to this condition. The circular states that rewards given to buyers in connection with work, services, and other activities or performance rewards are subject to VAT, such as the case of distributors as buyers and producers as sellers.

Furthermore, in the field, the price protection condition which should not be an object of VAT based on SE-24/PJ/2018 is also frequently required to issue tax invoices. Consequently, numerous producers issue tax invoices on the VAT payments whereas based on this Circular Letter, the rewards are not object of VAT. Ambiguous interpretation of the provisions contained in the Circular Letter still be a crucial problem.

## STLG

One issue that has been widely discussed in terms of STLG is the change in the scheme for imposing such tax for motor vehicles. Under the planned provision, the classification of motorized vehicles

<sup>27</sup> Ministry of Trade of the Republic of Indonesia, "Neraca Perdagangan Indonesia Total Periode: 2014-2019," Internet, can be accessed at: <http://www.kemendag.go.id/id/economic-profile/indonesia-export-import/indonesia-trade-balance>. Accessed at 24 April 2019.

based on engine capacity will be simpler than the current provisions. Moreover, the imposition of STLG will not be based on the type of sedan and non-sedan vehicles. Rather, it will be arranged by tariffs that will be based on the level of vehicle emissions.

In the proposed new regulation, the government will also impose a STLG rate of 3% on Low Cost Green Car (LCGC) vehicles which are the type of the Energy-Saving and Affordable Motor Vehicles (*Kendaraan Bermotor Hemat energi dan Harga terjangkau/KBH2*).

New STLG on motor vehicles may also serve as a balance point between efforts to reduce negative impacts on the environment, the sustainability of the vehicle industry, and the impact on state revenue.

The proposed new rates can actually be reviewed from various aspects. On the one hand, the increase in rates can indeed create a burden on the industry. However, the imposition of these rates can prevent more severe environmental damages.

In the currently applicable regulations, the impact of negative externalities from emissions alone is not internalized in prices. Through the new scheme, in the future, the economic value of the environment can be improved while the negative impact on the environment is borne by the industry as the party contributing emissions through the production of its vehicles. Emission-based Sales Tax on Luxury Goods may indirectly serve as a market instrument to change people's consumption behavior.

The latest custom-related policy launched by the government in the first quarter of 2019 is a regulation on antidumping import duties

The imposition of STLG on these vehicles does not seem to be intended to be a new 'revenue source' for the government. Rather, it emphasizes on developing a more environmentally friendly vehicle industry where revenue is merely a logical consequence of the policy scheme.

This regulation may also serve as a balance point between efforts to reduce negative impacts on the environment, the sustainability of the vehicle industry, and the impact on state revenue. This

is evident with the existence of a mixed scheme that does not only consider one aspect, whether it is based on emission or engine capacity.

## D. Custom & Excise

### Custom

The latest custom-related policy launched by the government in the first quarter of 2019 is a regulation on antidumping import duties (*Bea Masuk Anti Dumping/BMAD*). Accordingly, this policy provides an 'extra' tariff for import duties on a type of imported goods. This fiscal instrument is used as a protection for the domestic industry hence domestic businesses remain competitive even though imports of goods imposed with BMAD are still required.

Broadly speaking, the BMAD policy in a country is in fact allowed as an action against dumping in the event of an injury<sup>28</sup> to the domestic industry. Furthermore, the government must also be able to show where the dumping occurs and estimate the level of difference between export prices compared to domestic prices.

Two BMAD-related regulations issued in March are MoF Regulation Number 224/PMK.010/2019 concerning the Imposition of Anti Dumping Import Duty on the Imports of H Section and I Section Products from the People's Republic of China (PMK 224/2019) and MoF Regulation Number 25/PMK.010/2019 concerning the Imposition of Anti-Dumping Import Duty Against Imports of Flat-rolled Products of Iron or Non-alloy Steel from the People's Republic of China, India, Russia, Kazakhstan, Belarus, Taiwan, and Thailand (PMK 25/2019).

28 Based on Law Number 110 of 1995 (UU 110/1995) concerning Customs, the types of injuries in domestic industries that are prerequisites for BMAD are in the event that: imports of these goods cause injuries to domestic industries that produce similar goods; imports of these goods pose a threat of injuris to domestic industries that produce similar goods; and imports of these goods hinder the development of similar goods domestic industries.

In general, the types of commodities that are given additional tariffs based on these new regulations are iron and steel. The abundant imports of these commodities is indicated to result in a considerable trade deficit in 2018 where the growth of their imports reached 28.32% compared to 2017. Imports in January 2019 also showed a substantial increase, reaching US\$ 1,197.10 million with more than 40% growth compared to the same period in the previous year.<sup>29</sup>

The Indonesian Anti-Dumping Commission (*Komite Anti Dumping Indonesia/KADI*) has a major role in the issuance of the two regulations. PMK 24/2019 that gives an additional burden for the two types of products is the continuation of the sunset review<sup>30</sup> on the imposition of BMAD on I and H Section products where dumping practices are still found for both products in the field.

Formerly, BMAD for I and H Section products was regulated through MoF Regulation Number 242/PMK.010/2015 (PMK 242/2015) which was repealed in December 2018. PMK 25/2019 is an extension of the BMAD period until 2024 based on PMK 169/2013.

Furthermore, at the beginning of April 2019, once again, the government issued a new BMAD regulation, namely MoF Regulation Number 36/PMK.010/2019 concerning the Imposition of Anti-Dumping Import Duties on Biaxially Oriented Polypropylene (BOPP) Imports from Thailand and Vietnam (PMK 36/2019). The commodities imposed with BMAD in this regard are polymer raw materials for further processing in Indonesia.

In addition to issuing regulations to encourage exports and maintain the conduciveness of the domestic industry through BMAD, the government has also issued other customs policies to support the major theme of the economy this year, namely investment and exports.<sup>31</sup> This is indicated by a new system for the regulation of import tax waiver for

materials for export oriented goods (*Kemudahan Impor Tujuan Ekspor/KITE*). The KITE policy itself is regulated through MoF Regulation Number 160/PMK.04/2018 for Exemption KITE (PMK 160/2018) and MoF Regulation Number 161/PMK.04/2018 for KITE Drawback (PMK 161/2018).

In terms of regulation, the DGCE has issued technical provisions through Director General of Customs and Excise Regulation Number PER-4/BC/2019 for KITE Exemption and PER-3/BC/2019 for KITE Drawback. The regulation that is issued for exporters is a simplification of rules expanding the export production channels and service innovations to improve national export performance.

This rule is also related to the administration system of KITE itself, namely the breakthrough of new services for operational and transactional KITE licensing electronically through e-KITE. This application is one of the government's efforts to accommodate the development of business processes. Through this system, business actors can submit accountability, apply for import duty drawbacks, and supervise notifications of import and export of company goods online.

## Excise

Having obtained a new source of revenue from excise sector from the excise intensification policy namely vape products at the beginning of 2019, the government has again discussed a new product to be made as excise object. In fact, the new object targeted by the government as excise revenue is not actually a new source of revenue. The new object targeted by the government is motor vehicles that were previously subject to the Sales Tax on Luxury Goods (STLG) scheme.

This matter has emerged for some time and yet the government is still hesitant in implementing the scheme

Having obtained a new source of revenue from excise sector from the excise intensification policy namely vape products at the beginning of 2019, the government has again discussed a new product to be made as excise object.

29 Ministry of Trade, "Perkembangan Impor NonMigas (Komoditi) Periode : 2014-2019," *Ekspor Impor Indonesia*, Internet, can be accessed at: <http://www.kemendag.go.id/id/economic-profile/indonesia-export-import/growth-of-non-oil-and-gas-import-commodity>.

30 KADI. *Pengumuman Komite Anti Dumping Indonesia (KADI) Nomor: 604/KADI/X/2017*.

31 BKPM, "Tahun 2019, Pemerintah Fokus pada Investasi dan Ekspor," Internet, can be accessed at: <https://www.bkpm.go.id/id/publikasi/detail/berita/tahun-2019-pemerintah-fokus-pada-investasi-dan-ekspor>.

of fiscal instruments for motor vehicles. By far, there exist two possibilities if the government applies the tax policy to the automotive sector. *First*, the implementation of STLG scheme and excise system simultaneously and the reduction portion is to be further regulated. *Second*, STLG will be revoked entirely and will be replaced with the excise system.<sup>32</sup>

The imposition of STLG on motor vehicles was initially based on prices and engine capacity. This policy causes the sale prices of environmental-friendly vehicles with low emissions to be uncompetitive due to the imposition of the STLG. Therefore, the government now plans to change the imposition of STLG into excise based on the efficiency of the use of Motor Fuel (*Bahan Bakar Motor/BBM*) and exhaust of emissions or carbon dioxide.

Despite being plentier in terms of quantity to impose taxes flexibly, the performance of provincial level is considered better than the districts/cities for managing its regional taxes.

Excise tax policy is also considered more appropriate to encourage consumer behavior towards a more environmentally friendly direction by incorporating the externalities from negative impacts of a product. Moreover, Indonesia is the only ASEAN country that does not impose excise on motor vehicles, either cars or motorcycles.<sup>33</sup> Subsequently, this may have implications for the harmonization of policies within the scope of the region in addition to the many other justifications to shift the scheme of fiscal policy from STLG to excise regulation for motor vehicles.

## E. Local Tax and Fiscal Decentralization

The decentralization process, including fiscal decentralization, has been ongoing for two decades in Indonesia since the issuance of Law Number 22 of 1999 concerning Regional Government (UU 22/1999) and Law Number 25 of 1999 concerning Financial Balance between Central and Regional Governments (UU 25/1999). The autonomy of the regionals in Indonesia is expected to increase regional fiscal capacity both at the provincial and district/city levels, including in managing their sources of revenue.

In response to this, the central government has regulated the sources of regional revenue through Law No. 28 of 2009 concerning Regional Taxes and Regional Retributions (UU 28/2009). The types of sources of revenue managed at the provincial level also differ from those managed at the district/city level. At the provincial level, there exist five types of local taxes that can be collected whereas at the district/city level there exist eleven types of sources of revenue from the regional taxes.

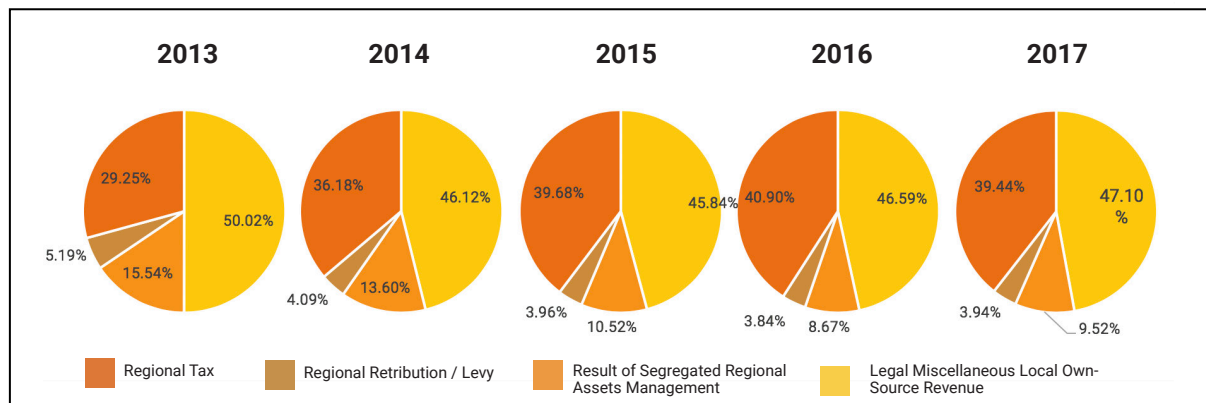
Despite being plentier in terms of quantity to impose taxes flexibly, the performance of provincial level is considered better than the districts/cities for managing its regional taxes. This structure of the provincial and district/city Local Own-Source Revenue (*Pendapatan Asli Daerah/PAD*) between 2013 to 2017 can be shown in Figure 4.

32 The Ministry of Industry of the Republic of Indonesia, "Sistem Cukai Dinilai Lebih Fleksibel," *Berita Industri*, Internet, can be accessed at: <http://www.kemenperin.go.id/artikel/2788/Sistem-cukai-dinilai-lebih-fleksibel>.

33 B. Bawono Kristiaji and Dea Yustisia, "Komparasi Objek Cukai Secara Global dan Pelajaran Bagi Indonesia," Working Paper DDTC (2019): 30.

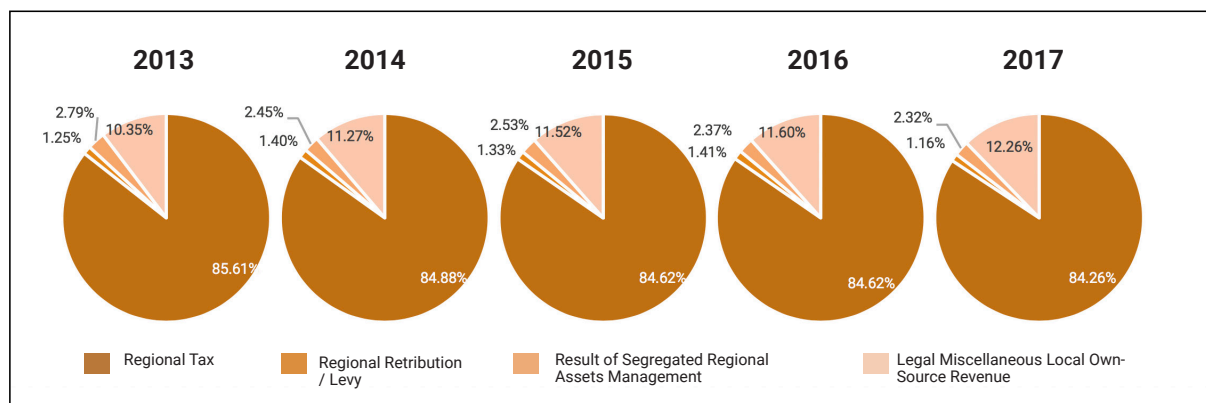
**Figure 4 Proportion of Source of Local Own-Source Revenue**

(i) District/City



Source: Statistics Indonesia, The Directorate General of Fiscal Balance (2019, processed by DDTC Fiscal Research)

(ii) Province



Source: Statistics Indonesia, The Directorate General of Fiscal Balance (2019, processed by DDTC Fiscal Research)

The low capacity of the regions in collecting tax revenue causes them to be dependent on transfers of funds from the central government.

The low capacity of the regions in collecting tax revenue causes them to be dependent on transfers of funds from the central government.<sup>34</sup> This is shown in the development of the revenue from balance fund for regionals in Indonesia. These balance funds are sourced from the revenue of APBN allocated to the regionals in order to fund regional operational needs for implementing decentralization. From 2013 to 2017, there was an apparent imbalance in the regional capacity between provinces and districts/cities whereas districts/cities required more fund transfers from the central government.

The extremely high proportion of balance fund transfers may indicate that the architecture of Indonesia’s fiscal decentralization seems to result the lack of progressiveness of the regional governments, especially in building the fiscal capacity of their regions. One of the biggest obstacles is regional competence, in particular, administrative capacity, which is still relatively far below the government at the central level.<sup>35</sup>

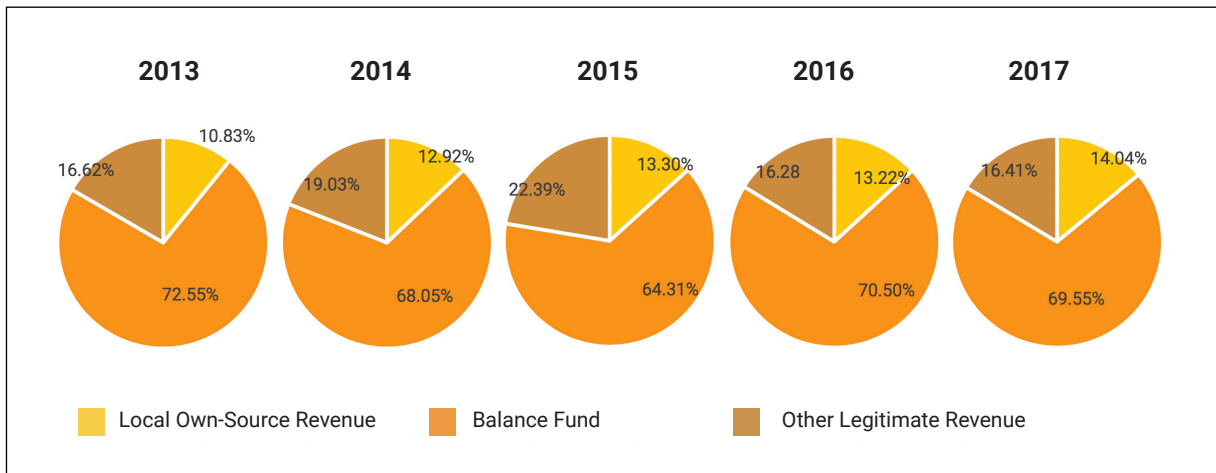
The regional tax that contributes significantly to fiscal decentralization revenue at the moment is Land and Building Tax for Rural and Urban Areas

34 A similar thing also takes place various developing countries as research conducted by F.M Maseko, “An Evaluation of Revenue and Expenditure Assignments to Sub-National Governments in South Africa”, *Master’s Thesis of Economics Potchefstroom Campus of the North-West Universit* (2010).

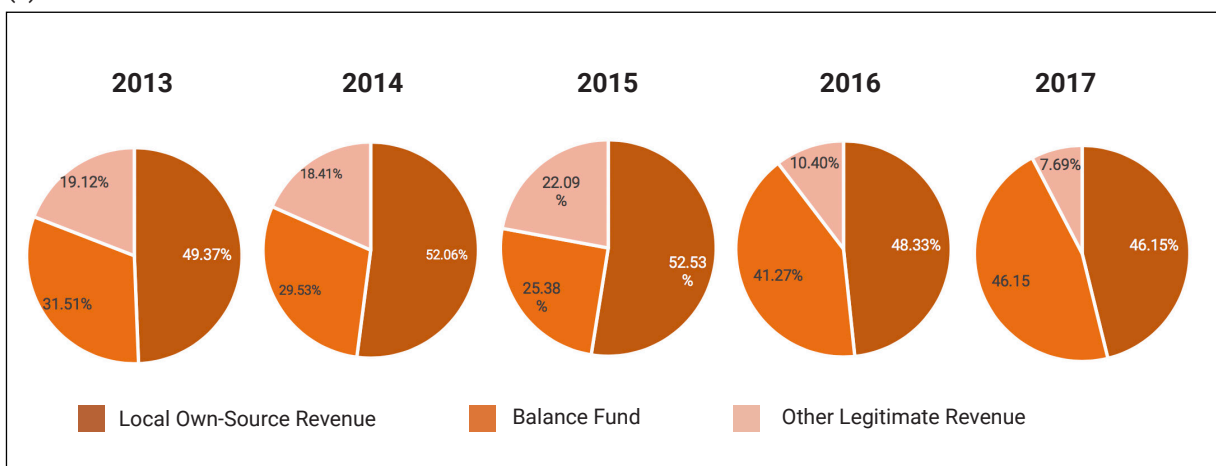
35 Interview with Director General of Fiscal Balance, Astera Primanto Bhakti. Further information can be found at DDTC Indonesia, “*Fasilitas Fiskal Daerah Harus Kuat*,” in *InsideTax* No. 40 (Jakarta: December 2018), 65 - 67.

**Figure 5 The Development of Local-Own Source Revenue, Balance Funds, and Other Legitimate Revenue to Total Regional Revenue**

(i) District/City



(ii) Province



Source: Statistics Indonesia, The Directorate General of Fiscal Balance (2019, processed by DDTC Fiscal Research)

Indonesian society is not administratively compliant in agrarian matters. On the other hand, the imposition of PBB-P2 is very dependent on the tax authority in determining the amount of tax payable as PBB-P2 is a tax with an official assessment system.

(*Pajak Bumi dan Bangunan – Perdesaan dan Perkotaan/PBB-P2*). Initially, this tax was a central tax that turned into a regional tax since the issuance of Law No. 28 of 2009 concerning Regional Taxes and Retributions/Levy (UU 28/2009). Along with the Acquisition Duty of Right on Land and Building (*Bea Perolehan Hak atas Tanah dan/ atau Bangunan/BPHTB*) as a regional tax from the property sector, the total revenue of both in 2018 was the highest source of Local Own-Source Revenue in the level of districts/cities in Indonesia. Accumulatively, the value amounted to 13% of the total district/city Local Own-Source Revenue (Directorate General of Fiscal Balance, 2018).

Although this type of tax is the most significant contributor and becomes

the backbone of regional taxes, it is understandable that a large part of the Indonesian society is not administratively compliant in agrarian matters. On the other hand, the imposition of PBB-P2 is very dependent on the tax authority in determining the amount of tax payable as PBB-P2 is a tax with an official assessment system.

The government then has finally issued provisions to improve the PBB-P2 system which was socialized earlier this year. The issued regulation is MoF Regulation Number 208/ PMK.07/ 2018 concerning Guidelines for Assessing Land and Building Taxes for Rural and Urban Areas (PMK 208/ 2018). This was conducted to escalate the local government capacity in establishing the Sales Value of Taxable Object (*Nilai*

One of the much-debated problems with regional tax administration at the beginning of 2019 is related to Revenue Sharing Fund of Tobacco Products Excise

*Jual Objek Pajak*/NJOP). In the future, the local government is expected to be able to optimize local tax collection in accordance with the existing tax bases whereas not overburden the taxpayers.

Moreover, one of the much-debated problems with regional tax administration at the beginning of 2019 is related to Revenue Sharing Fund of Tobacco Products Excise (*Dana Bagi Hasil Cukai Hasil Tembakau*/DBH CHT). The administrative aspect in this regard related to the utilization of this central fund transfer to the local governments. With regard to the regional fiscal aspect, the Indonesian government has issued a regulation regarding the allocation through MoF Regulation No. 12/PMK.07/2019 concerning the Details of Revenue Sharing Fund of Tobacco Products Excise per Province/Regency/City Region for Fiscal Year 2019 (PMK 12/2019).

DBH CHT for Fiscal Year 2019 itself was stipulated in the Presidential Regulation No. 129 of 2018 (Perpres 129/2018) of IDR3,777,111,849,000. Such amount has increased by 7.17% compared to the previous year as stipulated in Presidential Regulation No. 107 of 2017 (Perpres 107/2017). The utilization of DBH CHT itself has been regulated through MoF Regulation No. 222/PMK.07/2017 concerning the Use, Monitoring and Evaluation of DBH CHT (PMK 222/2017) and the earmarking aspect has been set in this provision.

Prior to the implementation of this MoF Regulation, the implementation of the DBH CHT was regulated through MoF Regulation Number 28/PMK.07/2016 concerning the Implementation, Monitoring and Evaluation of DBH CHT (PMK 28/2016) by enacting DBH CHT as a block grant that provided flexibility to regions to use funds in the context of regional needs and priorities. However, the regional government was

administratively unprepared in utilizing the financing of activities sourced from the central transfer fund. Eventually, these funds are often not absorbed or not recognized to fund activities and are considered as SiLPA.<sup>36</sup>

In the currently applicable regulation, the use of DBH CHT is regulated in detail, amounting to a minimum of 50% for the health sector that supports the National Healthcare Insurance (*Jaminan Kesehatan Nasional*/JKN) program. This shows that the current implementation can be categorized as a specific grant. DBH CHT is prioritized at funding healthcare programs in regions where most of the allocations are used on the supply side in order to support JKN. The use of these funds for JKN is intended to improve the quality and quantity of first-level health facilities (*fasilitas kesehatan tingkat pertama*/FKTP) in the regions as the frontline healthcare unit in the JKN Program.

Some regions consider that the adjustment of DBH CHT from a block grant to a specific grant leads to a more difficult implementation.<sup>37</sup> However, it is noteworthy that with low fiscal capacity in many regions to manage regional allocation funds, the use of DBH CHT in the form of specific grant is the best choice to optimize the realization of their budgets.

36 SiLPA (with lower case i) is Budget Surplus, which is the difference between the realization of revenue and expenditure over a budget period. For instance, the realization of regional revenue for fiscal year 2017 was IDR 100 billion while the realization of regional expenditure was IDR 90 billion, the SiLPA is then IDR 10 billion.

37 Fandi Armanto, "Pemkab Pusing Lantaran Peraturan Menteri Keuangan soal DBHCT Berubah," *Jawa Pos* 8 March 2018, Internet, accessed at: <https://radarbromo.jawapos.com/read/2018/03/08/55381/pemkab-pusing-lantaran-peraturan-menteri-keuangan-soal-dbhct-berubah>.

## F. Non-Tax State Revenue (Penerimaan Negara Bukan Pajak/PNBP)

At the end of March 2019, the deposit of PNBP was recorded at IDR70.04 trillion. This result showed a slower growth by -1.29% compared to the same period last year when the realization reached IDR71.04 trillion compared to the same period last year

At the end of March 2019, the deposit of PNBP was recorded at IDR70.04 trillion. This result showed a slower growth by -1.29% compared to the same period last year when the realization reached IDR71.04 trillion compared to the same period last year. Initially, PNBP from the non-oil and gas sector showed positive growth of 7.40% for January 2019.<sup>38</sup> However, in the following month, in accumulation, the recorded growth was negative of -0.66% in February 2019.

Globally, world commodity prices also tended to decline in the period of January to March 2019 compared to the same period last year.

The low realization of PNBP was mainly caused by the declining growth of natural resource (*sumber daya alam/SDA*) revenue of around -3.03% in the period January – March 2019 compared to last year. In this period, the realization of the average Indonesian crude oil price (ICP) during the first three months of this year was only US\$60.49 per barrel. The value dropped compared to last year which reached US\$63.60 per barrel. The realization of commodity prices in the early quarter was far lower than the government's prediction based on basic macroeconomic assumptions as shown in the following Table.

**Table 5 Comparison of the Basic Macroeconomic Assumptions of Commodities in 2018 and 2019**

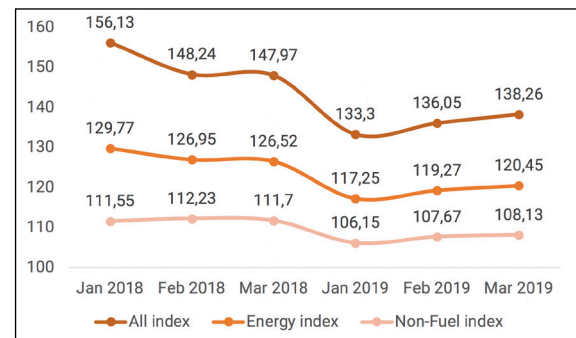
No	Indicators	2018	2019
1	Indonesian Crude Oil Price (US\$/barrel)	48	70
2	Lifting of Crude Oil (thousand barrels per day)	800	775
3	Lifting of Gas (thousand barrels equivalent to oil per day)	1,200	1,250

Simultaneously, coal reference price (*harga batu bara acuan/HBA*) in the period of January to March 2019 also far

declined compared to last year. For this period, the HBA was US\$91.59 per ton which was lower than the same period last year which valued US\$99.36 per ton.

Globally, world commodity prices also tended to decline in the period of January to March 2019 compared to the same period last year. This can be indicated through the international commodity index as shown in Figure 6. The fall in commodity prices which is also encouraged by the strengthening of rupiah currency will certainly have a significant impact on the contribution of PNBP.<sup>39</sup>

**Figure 6 Comparison of Global Commodity Price Index (Q1 2018 vs Q1 2019)**



Source: Primary Commodity Price System, IMF (2019, processed).<sup>39</sup>

Apart from the natural resource sector, the Restricted State Assets (*Kekayaan Negara Dipisahkan/KND*) also gives low contribution for PNBP. The realization itself has only reached IDR2.64 billion with a decline in growth of 91% compared to last year. In 2018, KND alone contributed IDR31.08 billion in national revenue. Restricted state asset's contribution is highly dependent on the results of the general meeting of shareholders (*Rapat Umum Pemegang Saham/RPUS*) to deposit and pay dividend receivables from State-Owned Enterprises (*Badan Usaha Milik Negara/ BUMN*).

<sup>38</sup> One of the regulations considered to encourage PNBP revenue in January was the monthly royalty payments and fixed contributions payments from minerals and coal taxpayer. This provision is regulated through the Minister of Energy and Mineral Resources Decree No. 1823/30/MEM/2018 concerning the Guidelines for the Imposition, Collection, and Payment/ Depositing of Minerals and Coal PNBP.

<sup>39</sup> The rupiah exchange rate was predicted to reach IDR 15,000/US\$. However, in this first quarter, the realization of the Rupiah exchange rate against the United States Dollar was approximately IDR14,000.

<sup>40</sup> The base year used is 2016 = 100.



The performance of PNB in the first quarter should alert the government to strengthen its revenue performance from the taxation sectors.

The performance of PNB in the first quarter should alert the government to strengthen its revenue performance from the taxation sectors. Moreover, with a deficit target of 2.5% of GDP and administrative difficulties in compiling the Revised State Budget (APBN) during the political year, only two choices are left for the government: aiming for other sources of state revenue or suppressing expenditure.

## G. International Aspects

Efforts in expanding national tax base become the main theme for our international aspect of tax system this quarter. The attempts are notably embodied in Automatic Exchange of Information (AEol) implementation, regulations regarding the determination of permanent establishment (PE) and the on-going formulation of Controlled Foreign Company (CFC) Rule revision.

Efforts in expanding national tax base become the main theme for our international aspect of tax system this quarter. The attempts are notably embodied in Automatic Exchange of Information (AEol) implementation, regulations regarding the determination of permanent establishment (PE) and the on-going formulation of Controlled Foreign Company (CFC) Rule revision.

The implementation of AEol shows promising outcome in this first quarter. Currently, the DGT is analyzing the AEol data received from partner countries regarding taxpayers' assets located abroad. The data is being identified and matched with taxpayers' returns to detect whether there is non-compliance behavior. Furthermore, the DGT seeks to utilize financial technology users as one of the data in AEol.

By the end of 2018, the DGT had received wealth data from 65 partner countries, while sending data on foreigners' wealth located in Indonesia to 54 counterparts. Increasingly, by September 2019, the DGT will have received data from 94 countries, while sending data to 81 countries.

As of March 2019, it is reported that there are domestic taxpayers' financial assets located abroad which amount to IDR1,300 trillion. Meanwhile, mutual legal assistance (MLA) has been agreed between Indonesia and Switzerland in February. It would support the tax authority in carrying out investigations

of alleged tax fraud.

Based on the agreement, Switzerland would help Indonesia by providing testimony in certain cases, tracking evidence hidden in the country, freezing or even confiscating fraud assets, restraining individuals in violation of the law to be interrogated and confronted and other forms of support that are not against the law therein. However, Indonesia is yet to have access to valuable information regarding taxable assets in Switzerland since based on the AEol agreement, the information exchange will commence in September 2019.

Meanwhile, regarding certainty in determining Permanent Establishments (PE), the government has issued MoF Regulation Number 35/PMK.03/2019 concerning the Determination of Permanent Establishments (PMK 35/2019) to arrange the criteria in more detail. Article 4 paragraph (1) of the regulation sets forth that a business can be deemed as a PE if there is a fixed place of business that is used to run a business or activities.

Furthermore, the regulation regulates the details of business forms, which are included in and beyond the definition. Through this stipulation, the economic activities carried out by foreign persons and entities which have thus far escaped taxation are expected to be categorized as PEs and are therefore taxed. This is in line with the government's efforts to implement the BEPS Action 7 related to efforts to prevent tax avoidance through PE status.

As for the progress for new CFC Rule, it is expected that the revision will soon be enacted to replace the current regulation, i.e. MoF Regulation Number 107/PMK.03/2017 concerning Determination of Deemed Dividends and Its Base of Calculation by Domestic Taxpayers for Shares Participation in An Overseas Business Entity Trading its Shares in the Stock Exchange (PMK 107/2017).<sup>41</sup> With its implementation in

41 CFC Rule regulates the right of the government to determine the timing of attainment

the near future, hopefully, the upcoming regulations will not only be able to prevent tax avoidance practices more effectively, but also maintain undistorted business climate.

Meanwhile, the government has relaxed the tax policy by expanding the scope of service exports subject to 0% VAT rate. Through PMK 32/2019 issued on 29 March 2019, the government now expands the application of the destination principle, which is to impose a tax on goods and services based on the location where the goods and services are consumed.

Meanwhile, the government has relaxed the tax policy by expanding the scope of service exports subject to 0% VAT rate. Through MoF Regulation Number 32/PMK.010/2019 concerning the Limitations of Activities and Types of Taxable Services of which the Exports are Subject to VAT (PMK 32/2019) issued on 29 March 2019, the government now expands the application of the destination principle, which is to impose a tax on goods and services based on the location where the goods and services are consumed. This signifies the government's commitment to strive to improve the competitiveness of service exports through tax policy instruments. In the foreseeable future, it is expected that the destination principle can be extended to other service sectors in line with the increased administrative capability of the tax authority.

The divided course of direction occurs between countries in responding to tax challenges arising from digital economy.

Beyond the aspects explained above, it is noteworthy as well that tax treaty between Indonesia and Belarus has been applicable since 1 January 2019. The treaty itself has entered into force since 9 May 2018—it was signed formally on 19 March 2013.

A number of Finance Ministers in Europe Union (EU) recently agreed to postpone the implementation of taxing giant digital corporations such as Google and Facebook. For the meantime, they agree to await the global agreement in taxing such businesses. Recently, Australia has also decided to wait for global agreement instead of introducing its own digital services tax. The government argues that interim measure would potentially harm and discourage innovation, adversely affect start-ups and low-margin businesses, and the potential for double taxation.

Contrary to these movements, France plans to advance unilateral action to tax huge digital corporations with 5% tariff. Spain, United Kingdom, Germany, Italy, Turkey, and Austria seem to be in line to implement a similar plan, showing frustration by the lengthy process underway at the OECD level.

Recently, the EU has adopted measures in targeting e-commerce sales with a new VAT framework which would be effective starting at the beginning of 2021. These include rules obliging large online marketplaces to ensure that VAT is collected from goods sold by non-EU sellers to EU consumers through their platform. This, in effect, causing them to be liable for any unpaid VAT from the goods.

## H. Global Taxation Trends

### Digital Taxation

Establishment of agreements in tax coordination in the ASEAN region shows an understanding and similarities in economic interests and taxation among member countries.

The divided course of direction occurs between countries in responding to tax challenges arising from digital economy. While we all look forward to the global consensus to be agreed and implemented in sharing the taxing rights in an appropriate and efficient manner by 2020, some countries choose to implement their solution unilaterally while some others prefer to patiently wait for common approval.

### ASEAN Member Countries Cooperate to Tackle Illegal Economic Activities

Establishment of agreements in tax coordination in the ASEAN region shows an understanding and similarities in economic interests and taxation among member countries. They have recently agreed on cooperation in the field of tax and customs, which was focused on suppressing illegal economic activities. This was agreed on at a joint meeting of the ASEAN Ministers of Finance and Governors of the Central Banks in Chiang Rai, Thailand on 2-5 April 2019.

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of dividend income of a company from entities abroad. The definition applied on CFC is firstly stated in Article 18 paragraph 2 of the Income Tax Law 2008. The article defines that the minimum level of control 50% of shareholding ownership – whether it is by single or combination of several taxpayers – may be treated as a CFC.

They agreed to suppress illegal practices, including money laundering and terrorism funding. In addition, they agreed to encourage the expansion of the tax treaty network among member countries and to implement global initiatives related to information exchange for tax purposes.

### Global Minimum Tax to Be Introduced?

With the process of reaching a global consensus on taxing digital players on its way, OECD discusses the potential of implementing the global minimum tax.

With the process of reaching a global consensus on taxing digital players on its way, OECD discusses the potential of implementing the global minimum tax. This tax denotes the minimum payment from multinational companies that collects income from abroad. The progress is already reflected in the proposal between France and Germany that was signed on 29 February 2019. They agree on the provision of taxing digital economy to support ongoing financial reforms in each country. The agreement uses country-by-country or entity-by-entity approach in determining the minimum tax.

### IMF to Take Role on International Tax Stage?

International tax coordination has always been the concern of large international organizations, including the IMF. On 25 March 2019, IMF Managing Director, Christine Lagarde, requested that all worldwide stakeholders reconsider the corporate taxation system that better reflects global economic changes and overcomes actual problems. According to her, current international corporate tax architecture is outdated.

Lagarde believes the IMF has a role in helping countries to create solutions that offer stability and integrate the interests of developing countries.

Lagarde believes the IMF has a role in helping countries to create solutions that offer stability and integrate the interests of developing countries. Moreover, according to her, inter-governmental coordination and the role of rule-setting carried out by the OECD are considered to have failed.

In an IMF study entitled 'Corporate Taxation in the Global Economy', it is

stated that the BEPS project is still weak in addressing tax competition, particularly in the context of the digital economy. The problems discussed in the project only revolve around the arm's length principle and how to determine the physical presence of the phenomenon of companies with large profits but paying very low taxes. The IMF emphasizes the urgency of implementing the Global Formulation Support (GFA) in the context of transfer pricing in the era of economic digitalization, although it also acknowledges that this poses risks of exacerbating tax competition.

### ATAD Implementation Started to Take Effect in EU

Efforts to combat the practice of tax avoidance in the European Union has made significant progress in two member states, namely Ireland and Luxembourg. As stipulated in the Anti-Tax Avoidance Directives (ATAD), European Union member states must already have new Controlled Foreign Income regulations as well as General Anti-Abuse Rule regulations that are effective as of January 1, 2019. The other two rules have longer deadlines, i.e. the implementation of exit tax at the end of 2019, anti-hybrid mismatch rules in 2020, and interest limitation rules in 2024. This certainly affects member states with no rules that meet the criteria yet.

To fulfill this obligation, Ireland has issued a new CFC rule. Anti-hybrid rules are also expected to take effect this year while there is a possibility that the interest limitation rules will be implemented in 2020. Meanwhile, Luxembourg has adopted interest limitation rules and anti-hybrid rules that have come into force as of January 1, 2019.

### Cooperative Compliance Regime Continues

France continues the international trend in implementing cooperative compliance program as part of the national tax regime.<sup>42</sup> This regime has

42

Cooperative compliance is an initiative developed by OECD for promoting better tax

been previously applied in Germany, Canada, US, Hungary, Ireland, Italy, Japan, Netherlands, New Zealand, Portugal, Singapore, Russia, the UK, and many others.

In this program, the French government will focus on establishing a framework for quick regulation of complicated tax issues, third-party tax compliance reviews, and increased support for French companies abroad.

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compliance through enhanced relationship and trust between tax administration and taxpayers. It sets out expectations for transparency and good tax governance by the taxpayers. In return, the government can give greater tax certainty to the taxpayers.



# Topical Analysis: Tax and Digital Economy

This chapter provides an in-depth analysis of topics relevant to the latest tax developments. In this edition, our main theme is the impact of digitalization on the tax arena which currently becomes the focus of attention, both for Indonesia and international tax society. Digitalization has both positive and negative effects on the tax sector. On the one hand, digitalization has encouraged ease of administration of tax compliance ranging from the use of electronic mail to real-time technology. On the other hand, the emergence of digitalization has also created the issue of ensuring fair tax payments from players in the digital ecosystem.

# 2 Chapter

## Topical Analysis: Tax and Digital Economy

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### A. Rising Tax Challenges

The economy is increasingly digital with an unprecedented pace. The era of digital transformation has revolutionized the way businesses operate. Hence, it would be misleading to isolate digital business from the rest of the economy to determine its tax treatment since the whole economy itself is becoming digitalized.<sup>43</sup>

Yet, the nature of the tax system is left behind with the norms of conventional business.<sup>44</sup> Tax tends to be imposed on businesses where they have a physical existence rather than virtual presence – since it continues to be developed on the basis of traditional good and service lines. Digital businesses need no factories, stores, or other fixed places of business in order to sell their products to consumers in a particular country. Meanwhile, the value of business is increasingly concentrated in intangible

assets, such as patents and copyrights on software and digital content. Such assets are easily transferred to low-tax countries thus they can minimize taxable income in countries with higher tax rates.

In addition, without adequate supervision, business activities in a digitized economy would create a new layer of shadow economy. The transactions are harder to be detected and monitored within the tax system, thus lowering the realization of potential revenue.

Hence, just as the economy is evolving at an unprecedented motion, tax rules cannot stand still constantly. It is important to seek for fair, consistent and workable regulations on digital commerce, both now and as reforms come through in the future.

However, what is the form of solutions that meet those criteria and, more

43 Maarten F. de Wilde, "Comparing Tax Policy Responses for the Digitalizing Economy: Fold or All-in", *Intertax* (2018): 466.

44 Tatiana Falcao and Bob Michel, "Assessing the Tax Challenges of the Digital Economy: An Eye-Opening Case Study", *Intertax* Vol. 42 Issue 5 (2014): 317-324.

It is thus crucial to identify the gap between existing tax rules and the digital businesses' compliance behavior.

importantly, able to effectively answer the rising challenges from the digitalized economy? Are such solutions in the form of breakthroughs in administration, policy innovations, or both?

It is thus crucial to identify the gap between existing tax rules and the digital businesses' compliance behavior. To do so, we have to understand the business model in the context of how they generate income and how the transactions occur. We need to differentiate the variety of the business models since each one raises different challenges thus they need different solutions.

## B. Domestic Challenge

The internet economy is estimated to reach around US\$27 billion with an annual growth rate of 49% (2015-2018). By 2025, it is expected that it will significantly increase up to US\$100 billion by 2025.

Electronic commerce (e-commerce) provides a whole new way of conducting business transactions. Globally, sales of goods through e-commerce are currently estimated to be worth in the region of US\$2 trillion per year – involving around 1.6 billion consumers – with the projection of reaching US\$4.5 trillion by 2021.<sup>45</sup> In Indonesia, based on research conducted by Google and Temasek, the internet economy is estimated to reach around US\$ 27 billion with an annual growth rate of 49% (2015-2018).<sup>46</sup> By 2025, it is expected that it will significantly increase up to US\$100 billion by 2025.<sup>47</sup>

Principally, to maintain fairness and equal level-playing field between digital and conventional business, each of them should comply with the same general tax rules.

Subsequently, the increasing rate of business transactions over the platforms raises the challenge in addressing whether and how the actors and transactions should be taxed. Principally, to maintain fairness and equal level-playing field between digital and conventional business, each of them should comply with the same general tax rules. In other words, there should be no difference in terms of tax burden. The purpose of such rules is no other than to preserve the tax base that shifts to the digital platform and capture its growth within the tax system.

The challenge is then for the government to enforce the compliance for each business model. There should be clearly-detailed procedures that are workable for each digital business model, whether they are e-commerce businesses or the transactions occur through social media. Thus, the solution lies in performing administrative breakthroughs to ensure that e-commerce business is treated equally with conventional commerce.

We should note, however, the administrative solution is not without consequence. It may result in a complicated compliance problem and legal uncertainty. The rules may be burdensome to some of the e-commerce businesses hence they need to be aligned to their capacity in fulfilling the obligation.

As we recall by the end of last year, the government issued MoF Regulation Number 210/PMK.010/2018 concerning the Taxation on Trade Transactions through Electronic Systems (E-Commerce) (PMK 210/2018) to be implemented on 1 April 2019 but revoked the rules near the time of implementation. The regulation was rightly aimed at providing administrative procedures regarding taxation aspects for e-commerce transactions.

However, the Minister of Finance witnessed too many false rumors regarding the regulations, causing misunderstanding from the public. She also stated that there is an urgent need for more collaboration and coordination between stakeholders whose involvement in PMK 210/2018 formulation was lacking. She added that adequate time was needed for intensive socialization and communication toward all stakeholders and preparation to build adequate infrastructure to accommodate the e-commerce data.

Meanwhile, Indonesian e-Commerce Association (IdeA) appraises that

45 The figures are assumptions made by European Commission in 2016, as quoted by OECD, "The Role of Digital Platforms in the Collection of VAT/GST on Online Sales", (2019): 13.  
 46 Google and Temasek, "e-Economy SEA 2018: Southeast Asia's Internet Economy Hits An Inflection Point", (2018): 6.  
 47 *Ibid.*



PMK 210/2018 lacks of certainty and firmness. Should the regulations be implemented, the tax authority would have difficulties in enforcing the law in social media since there was no certain mechanism to capture transaction data from that area. In effect, it could then incentivize e-commerce transactions to shift into social media from marketplace platforms, which will, in turn, jeopardize their growth.

**Lessons Learned**

Participative regulation making is the key to ensure the rules are workable and accepted by the public.

Therefore, participative regulation making is the key to ensure the rules are workable and accepted by the public. Consultancy with related stakeholders is necessary, given that they are the ones who understand and experience the practice in the field. They know better how certain regulations would impact the economic response from the privates in e-commerce. Accordingly, better inputs can be accommodated in the regulation-making process, which turn out to produce one that is well supported by them.

With more participation from stakeholders, the upcoming regulation would hopefully be more efficient, transparent, well-targeted, and supportive to the growth of e-commerce. There should be a comprehensive collaboration representing every stakeholder that may be impacted by the regulations.

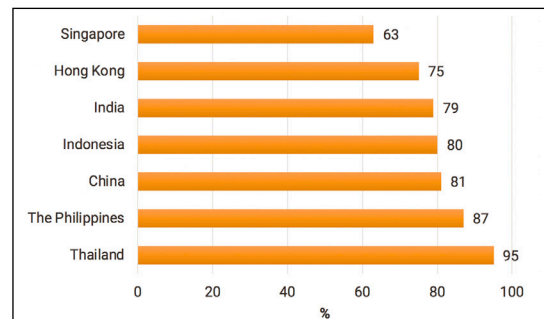
In order to help governments enforce compliance behavior, OECD has proposed measures that occupy assistance from online marketplaces to help collect VAT on sales made through the platforms.

In addition, there should be an in-depth consideration in ensuring that there would be a similar treatment between e-commerce in marketplace platform and other digital platforms, such as social media, online retail, classified ads, or daily deals. This is to ascertain that there would be no economic behavior changes in e-commerce industry caused by different treatments by the DGT.

Moreover, social media contains a substantial source of potential tax base data and information. According to survey conducted by PayPal to 4,000 consumers and 1,400 merchants in seven countries (Singapore, Hongkong, China, India, Indonesia, China, The Philippines and Thailand) in 2017,

80% of e-commerce transactions was conducted through social media (see Figure 7).

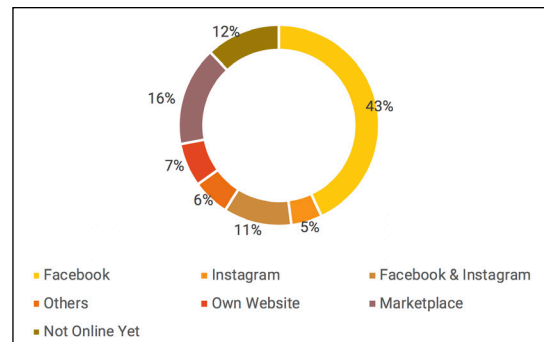
**Figure 7 Social Media Usage for E-Commerce in Several Asian Countries (2017)**



Source: PayPal Inc, as quoted by databoks.co.id

In another survey conducted by IdeA, it was found that only 16% of e-commerce transactions were conducted through marketplace platforms, while most of them occurred through Facebook & Instagram (43%) (see Figure 8). Therefore, ideally, business activities performed in social media need to be monitored as well.

**Figure 8 Share of Social Media Usage for Online Transactions (2017)**



Source: IdeA, as quoted by databoks.co.id

We should also note that the cancellation of PMK 210/2018 coincided with the issuance of OECD proposal on 22 March 2019 regarding VAT collection by digital platforms – some alternatives the government may need to consider. In order to help governments enforce compliance behavior, OECD has proposed measures that occupy assistance from online marketplaces to help collect VAT on sales made through the platforms.

The proposal offers ways to make online

OECD/G20 released the Public Consultation Document "Addressing the Tax Challenges of the Digitalization of the Economy". The document describes the proposals prepared by the Inclusive Framework on solutions to the tax challenges arising from the digitalization of the economy. It is divided into two pillars: the allocation of taxing powers to the market/user jurisdiction (Pillar 1) and effort to tackle BEPS (Pillar 2).

platforms liable to VAT collection on business-to-consumer transactions and provide an in-depth explanation regarding full VAT liability regimes. Consequently, platforms may be fully liable for VAT on online sales that they facilitate or optionally, they are collectively liable with the underlying supplier for the tax due on online sales.

It also provides recommendations of additional roles that can be performed by online platforms in supporting VAT collection on online sales. They include information sharing, under which online platforms would be requested to send data to tax authorities that may be relevant for VAT compliance; to provide education to make suppliers using online platforms aware of their VAT obligations; and further cooperation agreements, which can combine several kinds of measures to help with compliance.<sup>48</sup>

In addition to these measures, the proposal gives advice on what online platforms can do to maximize VAT compliance in online sales, such as using joint and several liability regimes or adopting due diligent schemes.<sup>49</sup> These strategies may require assistance from other parties that could handle goods from cross-border suppliers to perform due diligence checks or possible disciplinary measures.<sup>50</sup>

### C. Global Agenda: The Progress into Reaching Consensus

In June 2012, more than 110 countries and jurisdictions came together to discuss tax challenges arising from digital economy and other international tax issues. They were concluded on OECD/G20 Base Erosion and Profit Shifting (BEPS) Project Action 1, published on 5 October 2015. Unfortunately, this BEPS project's final report fell short on concrete agreement on measures to address the tax challenges of the digital economy. Since then, talks have continued under

the OECD/G20 Inclusive Framework on BEPS, with the goal of issuing the final report reflecting global consensus in 2020.

Not long ago, on 13 February 2019, the OECD/G20 released the Public Consultation Document "Addressing the Tax Challenges of the Digitalization of the Economy". The document describes the proposals prepared by the Inclusive Framework on solutions to the tax challenges arising from the digitalization of the economy. It is divided into two pillars: the allocation of taxing powers to the market/user jurisdiction (Pillar 1) and effort to tackle BEPS (Pillar 2).

As we recall, the digital economy has given an opportunity to platforms and other business models that create economic value from the information provided by users. Consumers' contribution to value creation is growing significantly, yet in essence, the rules of international taxation do not acknowledge that contribution. How would countries agree to adjust to the new realities in the years ahead?

According to Pillar 1, one of the tasks is to develop nexus that represent the digital business. Simply put, this means expanding the definition of PE to encompass "digital presence" as determined by the location of a service user. Afterward, it continues to the specification of a formula for allocating taxable income that incorporates the contribution from users (depends on the business model).

Three proposals are wrapped in Pillar 1 and each of them has their own merits and shortcomings in denoting the new nexus and subsequent profit allocation rule. They are "User Participation" Proposal, "Marketing Intangibles" Proposal, and "Significant Economic Presence" Proposal.

The "User Participation" Proposal assumes that users of a service in a particular jurisdiction contribute to the value creation by uploading their

The digital economy has given an opportunity to platforms and other business models that create economic value from the information provided by users.

48 OECD, "The Role of Digital Platforms in the Collection of VAT/GST on Online Sales", (2019): 50-59.  
 49 OECD, OpCit., 62-64.  
 50 *Ibid.*

A taxable presence arises when there is a significant economic presence on the basis of factors that provide an intended and sustained relation with other jurisdictions.

information and interacting with online platforms. They are people surfing in social media, search engines, and online market places. Under this perspective, countries are assured that they have the right to tax on the basis that they have such users.

In the second Proposal, “Market Intangibles” model, the focus does not solely lie on digitized business. It seeks to formulate profit allocation on the basis of traits which are present in a broader range of business models. The resulting profits would then be allocated on a formula basis.

The third one, “Significant Economic Presence” Proposal, is motivated by a view that the digitalization in economy enables businesses to be actively involved in the economic life of other jurisdictions without physically entering them. A taxable presence arises when there is a significant economic presence on the basis of factors that provide an intended and sustained relation with other jurisdictions.

Accordingly, it reflects a desire by some countries to avoid complexity and uncertainty by proposing a highly formula-based approach. It proposes that a tax base is calculated by factors that are not bound by physical characteristics. Such factors include user base, website, billing in the local currency, and other factors that are influential to the local business activities.

## D. Towards A Fairer and More Efficient International Tax System

Each of the proposal addresses the need to reflect the role of “remote active presence” in allocating taxing

rights as per international rules. OECD/G20 acknowledge that value can be created in a jurisdiction where users or customers are located without requiring physical presence.<sup>51</sup> Thus, consequently, they open the discourse of taxing rights reallocation according to that judgment.

“User Participation” Proposal has the narrowest scope and shows a ring-fencing effect. It seems to be applicable only to a limited set of representative business models expressed by the digitalization of the economy.<sup>52</sup> However, it should be noted, as argued by Becker and Englisch mere user number does not necessarily correlate to the value creation, which is the jargon that OECD always emphasizes.<sup>53</sup> It should be backed by stable user relationships, data usage intended for business purpose, and aggregate user relationship in terms of size (the number of devices) and depth (intensity of use).<sup>54</sup>

Meanwhile, the “Marketing Intangible” and “Significant Economic Presence” Proposals are broader and better preserve neutrality with other forms of remotely (digital and non-digital) operated as well as conventional businesses.

Specifically, under “Significance Economic Presence” Proposal, market countries are allowed to exercise their taxing power on business profits derived remotely, whenever such businesses are substantively active in the economic life of those countries. This way, it can expand the concept of Permanent Establishment (PE) by acknowledging the existence of a virtual PE.

However, although the three proposals have different approaches, they are not necessarily mutually-exclusive and they could be partly bundled in certain ways.<sup>55</sup> Their concepts have certain similarities with each other and thus the resulting

Each of the proposal addresses the need to reflect the role of “remote active presence” in allocating taxing rights as per international rules.

51 Pasquale Pistone, Joao F.P. Nogueira, Betty Andrade, “The OECD Proposals for Addressing the Tax Challenges of the Digitalization of the Economy: An Assessment” (2019) Internet, can be accessed at: [https://www.ibfd.org/sites/ibfd.org/files/content/pdf/itaxs\\_2019\\_02\\_int\\_1.pdf](https://www.ibfd.org/sites/ibfd.org/files/content/pdf/itaxs_2019_02_int_1.pdf).

52 *Ibid.*

53 Johannes Becker and Jochim Englisch, “Taxing Where Value Is Created: What’s ‘User Involvement’ Got to Do with It?”, *Intertax* Vol. 47 Issue 2 (2019): 161-171.

54 *Ibid.*

55 Pasquale Pistone, Joao F.P. Nogueira, Betty Andrade, OpCit.

Regardless of how the consensus may result, it looks likely that digital business will move the whole economy closer toward consumption-based taxation.

agreement may reflect the mix of the three.

Regardless of how the consensus may result, it looks likely that digital business will move the whole economy closer toward consumption-based taxation. The European Commission's proposal for taxing sales of digital goods and services – although recently rejected – embodies this orientation, as does the destination-based cash flow tax that was once considered by the United States government. Nevertheless, these sort-of movements still lack efficiency and fairness and they could raise double taxation issues.

To conclude the common ground amongst the three proposals, we understand that it is crucial to devise a system for assessing and taxing a corporation's digital assets – along with the platforms and other intangibles derived from those assets – and distributing the revenue among jurisdictions.<sup>56</sup> It would require all the capability and integrity of our tax experts, policymakers, and diplomats to manifest these ideas and execute them into a new era of fair and efficient international tax systems.

The proposal under Pillar 2, focusing on remaining BEPS issues, comprises an income inclusion rule that would function as a minimum tax and a tax on base-eroding payments (TBEP). The minimum tax would be imposed on the income of a foreign subsidiary or controlled entity where it was taxed by a low effective tax rate, while TBEP would deny any deduction or relief for certain payments should they be taxed under the minimum rate in the other residence.

This proposal has certainly surprised many stakeholders since this pragmatical plan might well target BEPS

more effectively, but it is also more likely harm purely economic decisions in the global market. As quoted in International Tax Notes Vol. 93 No. 12 (March 25, 2019), Georg Geberth of Siemens, representing International Chamber of Commerce, believes that the proposal has nothing to do with taxing value creation and it is a departure from the BEPS project's fundamentals.<sup>57</sup> Besides, it could be technically complex and therefore burdensome to companies, he added.<sup>58</sup>

It would be wise to see how far BEPS Projects implementation outcome first and detect the real gap rather than immediately take actions that would harm business decisions taken based on real economic activities. In addition, many countries, particularly the developing ones, are still progressing. If we are to enter the new phase proposed by Pillar 2, it is possible that many of them are not ready in terms of administration capacity and complex international tax coordination.

## E. Opportunities from Digitalization in Increasing the Tax Authority's Performance

Not only does digital technology possess challenges, but it also provides opportunities that must be utilized. This means that the tax challenges that arise from digitalization need to be responded digitally as well by the tax authority. This response needs to be built optimally in two areas: adaptation of compliance control and tax rules pertaining to ongoing changes in the business models<sup>59</sup> and the existence of regulations that support international tax cooperation, especially in terms of information exchange.<sup>60</sup>

Not only does digital technology pose challenges, but it also provides opportunities that must be utilized. This means that the tax challenges that arise from digitalization need to be responded digitally as well by the tax authority.

56 Shigeki Morinobu, "Strategies for Taxing the Digital Economy", (2018), Internet, can be accessed at: <https://www.tkfd.or.jp/en/research/detail.php?id=24>.

57 Stephanie S. Johnston, "Making Waves: OECD Navigates Debate On Tax Rules for Digital Age", Tax Notes International Vol. 93 No. 12 (2019): 1262-1263.

58 *Ibid.*

59 See Marcel Olbert and Christoph Spengel, "International Taxation in the Digital Economy: Challenge Accepted", *World Tax Journal* (2017): 3-46.

60 Rafal Lipniewicz, "Tax Administration and Risk Management in the Digital Age", *Information Systems in Management* Vol 6(1) (2017): 26-37.

Digitalization can improve the effectiveness and efficiency of the tax authority in administering the tax system

Thus, digitalization can improve the effectiveness and efficiency of the tax authority in administering the tax system, including reducing operating costs, improving the performance of risk management, and building trust between the tax authority and taxpayers. The potentials may be observed from the role of digitalization in the following areas.

First, the data management process and taxpayer information become more accountable and well-monitored. Through digital transformation, the data becomes a valuable asset in detecting taxpayers' behavior and projecting economic trends. They can be utilized massively and structured so that analysis can be carried out more effectively and new conclusions that may not be available without digitalization can be provided.<sup>61</sup> In other words, this will speed up the identification process of non-compliance risks more accurately and measurably.

Furthermore, non-compliance acts through false reporting or invoicing can be detected earlier.<sup>62</sup> They can be in the form of under-reporting of income and over-reporting of deduction. In this regard, technology can provide a solution through the collection of reports on transaction data automatically and systematically so that it is easily monitored.<sup>63</sup>

Second, digitalization also makes it easy for the tax authority to increase transparency between the tax authority and taxpayers. With better transparency, the tax collection process can be simpler and reduce the required supporting administrative obligations.<sup>64</sup> In addition, taxpayer satisfaction with the tax authority's performance may increase thus voluntary tax compliance would be enhanced.

Third, the services of the digitalized tax authority also help taxpayers in various matters, including the provision of payment facilities, the provision of tax overpayments, and the provision of relevant information to help taxpayers comply with existing provisions.

Fourth, fulfilling digitalized tax administration obligations also provides convenience for taxpayers. One example of administrative digitalization is the electronic submission of financial and accounting information data by taxpayers to the tax authority. This practice was first carried out by Portugal in 2008. This method was then adopted by other countries such as Austria, Luxembourg, France, Poland, and Lithuania.<sup>65</sup> As such, the compliance cost borne by taxpayers decreases significantly.

Another example is the automatic e-invoice by taxpayers to the tax authority. Without the role of digitalization, the evasion practice to avoid VAT tax obligations will be relatively easy.<sup>66</sup> This method was applied by the European Union in 2010 optionally. However, in reality, business people preferred this method as it proves to be far easier and more efficient than traditional invoice.<sup>67</sup>

Fifth, tax policy making process will produce appropriate regulations that is well targeted. Acquiring massive economic and taxpayers data requires effective management hence useful information to the tax authorities can be provided. This information can produce estimates of future tax revenue, map taxpayers' compliance behavior, create prospects for new policy opportunities, and evaluate applicable policies. In this regard, adequate technology support will improve data management capabilities hence the aforementioned functions may be accomplished.

Digitalization also makes it easy for the tax authority to increase transparency between the tax authority and taxpayers. With better transparency, the tax collection process can be simpler and reduce the required supporting administrative obligations.

- 61 Piergiorgio Valente, "The Data Economy: On Evaluation and Taxation", *European Taxation* Vol. 59 No. 5 (2019): 1.
- 62 Aleksandra M. Bal, "VAT Trends in Europe: Digitalization and Real-Time Filing", *Journal Tax Analysts* (2019): 1.
- 63 OECD, "Technology Tools to Tackle Tax Evasion and Tax Fraud", (2017): 6-7.
- 64 Steef Huibregtse, Paola Ottoni, and Sonia C.M. Rodriguez, "How Technology Is Changing Taxation in Latin America", *Bulletin for International Taxation* (2019): 151.
- 65 Aleksandra M. Bal, *OpCit*, 2.
- 66 Charlene A. Herbain, "Fighting VAT Fraud and Enhancing VAT Collection in A Digitalized Environment", *Intertax* Vol. 46 Issue 6-7 (2018): 579-580.
- 67 Adam Rombel, "Paving the Way for E-invoices", *Global Finance* (2007). Internet, can be accessed at: <https://www.gfmag.com/magazine/march-2007/cover-story-paving-the-way-for-e-invoices> (accessed at 23 April 2019).

The momentum of utilizing opportunities from digital technology with the tax reform ongoing is of high importance.

Sixth, increasing the effectiveness of international tax coordination and cooperation in information exchange among countries. Information exchange in question includes matters comprised in the automatic information exchange agreement (AEOI) and transfer pricing information. In this context, the accuracy and timeliness of information exchange strongly require the support of digital technology. Thus, digital technology will encourage the effectiveness of automatic data exchange implementation, thus improving the possibility of conducting multilateral audits.<sup>68</sup>

The momentum of utilizing opportunities from digital technology with the tax reform ongoing is of high importance. If the six opportunities from the abovementioned area are optimized, the tax system can run more optimally within the framework of more harmonious relationships between the tax authority and the taxpayers. In addition, the tax policies produced will also better represent the taxpayers' condition and the priority of government's needs. Thus, the objective of revenue optimization and reducing disputes can be achieved.

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68 Steef Huibregtse, Paola Ottoni, and Sonia C.M. Rodriguez, *Op.Cit.*, 141.



# Tax Reform Agenda: Encouraging Competitiveness

Along with the tax reform in Indonesia, DDTC Fiscal Research is committed to participating in enriching discussions to establish a better tax system. This chapter contains reviews considered relevant for the tax reform in Indonesia. In this edition, we raise the theme of tax reform to increase competitiveness. In addition, as this quarterly report is launched for the first time, we also review the trends and patterns of tax reforms in various countries in general and the lessons for Indonesia.





# 3 Chapter

## Tax Reform Agenda: Encouraging Competitiveness

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### A. Comparative Tax Reform: Lessons Learned

#### 1. Key Elements of Tax Reform

There are at least nine success-determining factors of tax reforms in various countries.

**There is no one-size-fits-all formula for the success of any tax reform.** Experience from various countries shows that any tax reform is driven and determined by the balance between supply-demand for the ideal tax system and the conditions and challenges faced by each country.<sup>69</sup> Hence, the tax reform template in a country is not necessarily appropriate in resolving tax problems in other countries. The structure of GDP, degree of openness to the international

economy, demographics and workforce structures, political system, dependence on natural resources, access to tax information, interactions amongst stakeholders in the tax sector, and culture are different factors and will determine the course of each country's tax reform.

**The importance of public acceptance.** The success of tax reform requires understanding and public support that are built through transparent communication and processes. In pursuing this, the general involvement of the public and tax experts as external parties is vital in policy formulation.<sup>70</sup> Transparent policy formulation and tax reform are also interpreted as an effort to attend to public opinion.

**Good tax administration is good policy.**<sup>71</sup> The tax policy design must

Tax reform template in a country is not necessarily appropriate in resolving tax problems in other countries.

69 See Vito Tanzi, *The Ecology of Tax Systems: Factors that Shape the Demand and Supply of Taxes*, (New York: Edward Elgar Publishing, 2018).

70 Richard Wilson, "Policy Analysis as Policy Advice," in Michael Moran et al. eds., *The Oxford Handbook of Public Policy* (Oxford: Oxford University Press, 2006), 152-153.

71 See the opening speech delivered by Carlo Cottarelli, "Structures, Processes and Governance

The quality of tax administration is the key that determines the effectiveness of tax policy implementation, particularly in developing countries.

With step-by-step evaluation, gradual tax reforms will, in turn, create more appropriate conditions.

take into account the administrative capacity that carries out such policy. In this regard, a tax administration with adequate capacity is required so as to build a sense of trust amongst taxpayers to the tax authority. The effectiveness in collecting tax revenue depends on strong tax administration and the effectiveness in establishing equal relations and readiness to cooperate with taxpayers and other stakeholders. Despite being well-formulated, the implementation of a policy or tax reform does not necessarily meet expectations if not supported by a quality tax administration. Therefore, the quality of tax administration is the key that determines the effectiveness of tax policy implementation, particularly in developing countries.

#### **Myths about first-best policy.**

Normatively, tax policy must achieve the so-called first-best policy that comprises elements of efficiency, neutrality, and so forth. As a matter of fact, the ideal concept frequently fails to consider the reality in the field. For instance, a tax policy may sacrifice efficiency in the economy or other economic benefits in order to create distribution and stability in the economy. Brooks and Hwong stress that the imposition of taxes undoubtedly results in economic costs, but this is for the sake of greater benefits, both in terms of the economy itself and justice and morality.<sup>72</sup> Therefore, tax policy must be formulated in such a way that it may achieve greater welfare goals and represent moral values that apply in society. In other words, in reality, it is difficult for tax policies to create social justice impeccably, but at the very least, such policies should be able to bring people as close as possible toward that direction (second best policy).<sup>73</sup>

**Tax reforms must be carried out systematically.** In tax reforms, fundamental system changes are

called for, yet changes should be made gradually. The tax system reform requires the adaptation of each party involved in it, both the taxpayers and the tax authority. Martinez-Vazquez and McNab refer to this as a transitional process, in which at certain stages in tax reform, it is essential to consider the response of the economy and society. With step-by-step evaluation, gradual tax reforms will, in turn, create more appropriate conditions.<sup>74</sup>

#### **Tax reform should take heed of policies in other countries.**

With the increasing economic interaction among countries, the so-called tax spillovers occur meaning that the tax policies in a country will have impacts, directly and indirectly on the economy and tax situation of other countries.<sup>75</sup> This is closely related to resource mobility (both capital and labor) and investment choices. The tax consideration factor is clearly one of the aspects determining investment choices. Consequently, it is essential for policymakers to monitor and keep up with developments in other countries and what has become an international consensus.

#### **The importance of institutional aspect.**

The formulation of tax policies is heavily influenced by how the state regulates the structure of organizations and the duties and functions of each component to ensure democratic and structured processes. In essence, not only do institutions cover organizational aspects, but also the supremacy of the law, better governance, and human resources with expertise and integrity.

**Rationality, political dynamics, and tax reform agenda.** Tax reforms are frequently driven more by efforts to fulfill

in Tax Policy-Making" at Said Business School, Oxford University, 8 March 2012. Can be accessed at: <http://www.imf.org/en/News/Articles/2015/09/28/04/53/sp030812> (accessed at: 5 March, 2019).

72 Neil Brooks and Thaddeus Hwong, "The Social Benefits and Economic Cost of Taxation," Canadian Centre for Policy Alternatives (2006): 1-2.

73 Citizens for Public Justice, "Taxes for the Common Good: A Public Justice Primer on Taxation," *Fact Sheet Series* (May 2015): 3.

74 Jorge Martinez-Vazquez and Robert McNab, "Tax Reform in Transition Economies: Experience and Lessons," *GSU Working Paper*, 97-6 (1997): 30-31.

75 IMF, "Spillovers in International Corporate Taxation," *IMF Policy Paper*, (2014): 13-14.

political promises towards constituents without rational considerations of their implications in the future.<sup>76</sup> That tax program is by nature a tool for gaining voters in an election, but this also needs to be balanced with information on strengths and weaknesses as well as the implications for state finances in the future.

The availability of clear design and framework will determine the corridor to set forth changes to achieve the stated objectives.

**It is important for the government to establish the design and framework of tax reform from the outset prior to concluding what improvements need to be made.** This is of great importance, especially in accommodating a variety of objectives that are not necessarily in line with one another.<sup>77</sup> The availability of clear design and framework will determine the corridor to set forth changes to achieve the stated objectives. Thus, every stage of reform and change effectively brings the tax system closer to the ideal system.<sup>78</sup> In addition, each consequence of the changes is more measurable so that effective anticipation can be prepared.<sup>79</sup>

## 2. Changing Landscape, Motives and Considerations

### Revenue Mobilisation

Changes in the economic and political landscape over the past five years have encouraged tax reforms in various countries.

Changes in the economic and political landscape over the past five years have encouraged tax reforms in various countries. Commitment to achieving what is stated in the Sustainable Development Goals (SDGs),<sup>80</sup> as well as the commitment to tax reforms as set forth in the Doha Declaration on Financing for Development have increased public awareness and new stakeholders' interests in the tax sector.<sup>81</sup> For

instance, the involvement of multilateral institutions, international donors, and non-governmental organizations (NGOs) has become increasingly prevalent over the past few years. This will clearly create an increasingly 'noisy' tax landscape and include many interests.

### Economic Uncertainty and Competitiveness

The uncertainty of the global economic situation marked by protectionist policies, volatility in commodity prices, geopolitical stability, and pressures to the financial markets will definitely affect the conditions and directions of the domestic economy in numerous countries. Concurrently, the phenomenon of shifting to digital economy has also developed massively. Digital economy is characterized by dependence on intangible assets, massive data usage, the adoption of multifaceted business models, and the difficulty of determining the jurisdiction of the value creation.<sup>82</sup> These business innovations then pose a challenge to the world of taxation. Due to the development of the business model, it is necessary to carry out tax reform.

In this context, two things underlie the spirit of tax reform in a number of countries: (i) the government must formulate tax reforms that support economic activities and remain competitive in order to protect the tax base; and (ii) formulate a shock-resistant and sustainable tax reform framework amidst changes in the economic landscape.

76 For instance, political promises in the Election were integral in the indirect tax reform in Malaysia in 2018-19. Despite being more rational in terms of the budget and system, VAT was changed back to the Sales Tax system. See B. Bawono Kristiaji, "Belajar dari Politik Pajak Malaysia," *Gatra Magazine*, 30th edition (May 2018).

77 See James Mirrlees, *Tax by Design* (New York: Oxford University Press, 2011), 21.

78 Lawrence A. Hunter and Stephen J. Entin, "A Framework for Tax Reform", *Issue Brief* (2005): 6.

79 James Mirrlees, *Op. Cit.*

80 SDGs 2016-2030 contain 17 goals and imply that sufficient government budget is required to accomplish such matters. See <https://sustainabledevelopment.un.org/sdgs>.

81 United Nations, *Doha Declaration on Financing for Development*. Outcome Document of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, (Doha – Qatar 2009), Point 16.

82 OECD, *Action Plan on Base Erosion and Profit Shifting* (Paris: OECD, 2013): 10.

## Transparency and Protecting Tax Base

Demand for transparency in the tax sector has become a game-changer of the tax reform in many countries.

Moreover, the demand for transparency in the tax sector has become a game-changer of the tax reform in many countries. Essentially, tax transparency includes three dimensions.<sup>83</sup> First, it includes the authority's access to tax-related information. This does not merely cover issues of tax evasion, but also other crimes in the financial sector such as: money laundering. Second, the disclosure of data on tax payments from a company to the public, for example in the Extractive Industries Transparency Initiative (EITI). Finally, the government's transparency in the management of the tax sector. These three dimensions encourage changes in tax regulations in numerous countries and the initiation of a global cooperation framework in terms of information exchange amongst tax authorities such as the Automatic Exchange of Information (AEOI) and the end of banking secrecy.

The changing landscape of tax system may increase uncertainty for taxpayers

Efforts to counteract the increasing practice of base erosion and profit shifting have also changed the international tax landscape. The main factors can be found in the Base Erosion and Profit Shifting (BEPS) project initiated by the OECD and G20. The project essentially seeks to reform the 'outdated' international tax system that still has loopholes for tax avoidance. The project has produced 15 recommendations that stand on the elements of substance, coherence, and transparency. The implementation of BEPS recommendations has changed countless domestic rules and the global tax system which consequently results in uncertainty for taxpayers.

## Democracy, Taxpayers' Rights, and Certainty

Simultaneously, the phenomenon of protection for taxpayers' rights is also being strengthened. The application of a democratic system has encouraged the recognition of taxpayers' rights. The main taxpayers' rights, for instance: certainty, confidentiality, the right to obtain information, and so forth, have now been adopted in many countries both in the form of primary and secondary law and in the form of taxpayer's charter.<sup>84</sup> Protection for taxpayers' rights is also increasingly relevant due to the government's need to collect taxes from its citizens on an ongoing basis. The taxpayers' rights are in fact one of the important elements of fiscal contracts between state and society. Therefore, the tax reform framework in Indonesia must also take such fact into account.

The changing landscape of tax system may increase uncertainty for taxpayers, especially with the increasing disputes and burden of compliance.<sup>85</sup> The tax reform in numerous countries has certainly improved administrative matters and efforts to enhance certainty.

## Improving Compliance through Simplification

Nowadays, various factors put pressure on the scheme of the system and tax provisions hence they become complicated.<sup>86</sup> Tax simplification is possible to conduct, but it cannot completely eliminate the complexity of the tax system. Some of the factors that cause complexity are unavoidable matters or are beyond the control of the government, such as tax avoidance practices in the era of globalization.

World Bank argues that in general, there exist five reasons why simplification

- 83 Jeffrey Owens, "Embracing Tax Transparency," *Tax Notes International* (23 Desember 2013).
- 84 Duncan Bentley, "A Model of Taxpayer's Rights as a Guide to Best Practice in Tax Administration," A Thesis for the Faculty of Law, Bond University (2006): 339-436.
- 85 See Jonathan Leigh Pemberton and Alicja Majdanska, "Can Cooperative Compliance Help Developing Countries Address the Challenges of the OECD/G20 Base Erosion and Profit Shifting Initiative?" *Bulletin for International Taxation* (October 2016): 595-600.
- 86 Sheldon D. Pollack, "Tax Complexity, Reform, and the Illusion of Tax Simplification," *George Mason Law Review* Vol. 2 No. 2 (1994): 320-322.

Some countries have at least included the simplification criteria in their tax administration reforms.

of taxes is important to implement, including: reducing the cost of compliance, reducing the cost of administration, reducing corruption and misappropriation, increasing investment, and increasing compliance.<sup>87</sup> Tax simplification can be carried out in four areas: (i) simplification of tax policies; (ii) simplification of tax provisions; (iii) simplification of tax administration; and (iv) simplification of compliance mechanisms or interactions between taxpayers, tax collectors, and tax authorities.<sup>88</sup>

Some countries have at least included the simplification criteria in their tax administration reforms. For example, the United Kingdom. To be able to monitor the tax complexity and increase efforts to simplify taxes continuously, the British government has established the Office of Tax Simplification (OTS).<sup>89</sup> The task of the unit generally includes measuring the level of complexity of the tax system on a regular basis,<sup>90</sup> collecting various data and information to perform studies and strategies in order to simplify taxes, conduct public consultations and discussions, and develop strategies to reduce compliance costs.<sup>91</sup>

built on transparency, openness, mutual trust, and mutual understanding among taxpayers, the tax authorities (and tax intermediaries).<sup>93</sup> Consequently, tax issues that may turn into disputes can be identified and discussed before becoming subjects of any dispute or in other words, tax disputes can be settled at an early stage.<sup>94</sup>

For taxpayers, cooperative compliance provides various benefits: (i) certainty; (ii) reduced compliance costs; (iii) more measurable and easy risk management; (iv) easier and more convenient audits; (v) openness which results in an easier implementation of agreements; and (vi) the benefits of no reputational risk. While from the tax authority side, there are several benefits: (i) better understanding of the business and taxpayer situation; (ii) certainty; (iii) encouraging the tax authorities to focus on high-risk cases; (iv) the allocation of human resources during audits will be much more efficient; and (v) reducing disputes at the appeal level.<sup>95</sup>

More than 20 countries have implemented the cooperative compliance paradigm in their tax systems, such as the United States, Austria, Canada, Russia, Australia, the Netherlands, Denmark, Sweden, and so forth. Basically, cooperative compliance is not intended to replace the existing system, but rather becomes a supplement that complements and strengthens the current system.

Cooperative compliance requires a relationship built on transparency, openness, mutual trust, and mutual understanding among taxpayers, the tax authorities (and tax intermediaries).

### Ensuring Compliance Through a New Paradigm

Cooperative compliance is one of the new frameworks for taxpayer compliance based on enhanced relationship.<sup>92</sup> The new paradigm requires a relationship

- 87 World Bank, *A Handbook for Tax Simplification* (Washington: World Bank, 2009), 171-190.
- 88 Chris Evans and Binh Tran-Nam, "Managing Tax System Complexity: Building Bridges through Pre-filled Tax Returns", *Australian Tax Forum* No. 25(2) (2010): 245-274.
- 89 See Tracey Bowler, "The Office of Tax Simplification: Looking Back and Looking Forward", *TLRC Discussion Paper* No. 11 (2014).
- 90 See Gareth Jones, Philip Rice, Jeremy Sherwood, and John Whiting, "Developing a Tax Complexity Index for the UK", Office of Tax Simplification. Internet, can be accessed at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/285944/OTS\\_Developing\\_a\\_Tax\\_Complexity\\_Index\\_for\\_the\\_UK.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/285944/OTS_Developing_a_Tax_Complexity_Index_for_the_UK.pdf).
- 91 Office of Tax Simplification (OTS), "Framework Document". Internet, can be accessed at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/193545/ots\\_framework\\_document\\_jul10.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193545/ots_framework_document_jul10.pdf).
- 92 Robbert Veldhuizen, "Cooperative Compliance: Large Business and Compliance", in *Tax Assurance*, Ronald Russo (ed), (The Hague: Kluwer Law, 2015), 135-138.
- 93 Justin Dabner and Mark Burton, "Lessons for Tax Administrators in Adopting the OECD's "Enhanced Relationship" Model – Australia and New Zealand Experiences", *Bulletin for International Taxation*, IBFD (July 2009): 318.
- 94 See the interview with Darussalam, "Membangun Kerangka Baru Kepatuhan Pajak", *Inside Tax Edisi* 36 (2016): 8-12.
- 95 See Katarzyna Bronzewska, *Cooperative Compliance: A New Approach to Managing Taxpayer Relations*, (IBFD: 2014).

## Lessons Learned

Global economic uncertainties must obviously be addressed wisely in a sense that the tax reform must continue to consider the stability of the national economy and its competitiveness.

What can we learn then from the changes in the tax landscape for Indonesia? It can be said that the government has obtained more justifications to conduct a tax reform to optimize the tax revenue, in particular with the need to increase economic resilience and on the other hand, as the commitment to realize better social life. These efforts are also supported by changes at the global level, such as the era of transparency and international coordination to combat tax avoidance. In terms of momentum, the end of tax amnesty program is considered as an ideal condition for comprehensive tax reform.

Nonetheless, changes in the landscape also signal that the tax reform framework must be carefully formulated. Global economic uncertainties must obviously be addressed wisely in a sense that the tax reform must continue to consider the stability of the national economy and its competitiveness. On the other hand, changes in the business model, for instance in the digital era, must be translated to tax reforms that are protecting tax base.

In the end, we should note that a new regime of tax regulations accompanied the by stronger tax administration authority may lead to an increased number of tax disputes.

### 3. Tax Reform Trends

Incentives for investment activities are carried out in almost all regions equally.

Below are the progresses of tax reform in a number of countries for the past five years.

#### Corporate Income Tax (CIT)

The decline in statutory CIT rate become one of the instruments to stimulate

the national economy. Among OECD countries, at least have already 8 countries lowered their rates in 2017 and 7 other countries have lowered their rates in 2018 (on average by 4%).<sup>96</sup> A wave of rate reduction will also continue, for example, in Australia (25% in 2027), Greece (26% in 2020), and so forth.<sup>97</sup> The reduction is carried out both gradually and directly. For example, Argentina lowered the corporate income tax rate from 35% to 30% in 2018 and this rate will decrease to 25% in 2020. Meanwhile, the United States lowered its rate directly from 35% to 21% in 2018. Interestingly, some countries have actually increased their statutory CIT rates, for instance, Turkey (from 20% to 22%) and South Korea (from 22% to 25%).

The rate reduction is also applied to Small and medium-sized enterprises (SMEs). The evidences are in Canada and Belgium for certain conditions or thresholds. Last year, through Government Regulation No. 23 of 2018 (PP 23/2018), Indonesia also reduced the SME tax rate from 1% to 0.5% on turnover basis.<sup>98</sup>

Efforts to encourage investment are also carried out by adopting the hybrid territorial tax system. Thus far, worldwide tax system is believed to cause the lock-out capital phenomenon and changes in the resident status of a company. Over the past 10 years, several countries such as the UK, Japan, and New Zealand have switched to the hybrid territorial tax system by means of foreign dividend exemptions.<sup>99</sup> This course of action was also taken by the US through the Tax Cuts and Jobs Act (TCJA) which was effective in 2018.

Incentives for investment activities are carried out in almost all regions equally. The survey conducted by International Bureau of Fiscal Documentation (IBFD) in early 2018 over 207 countries confirmed this. Approximately 50% of

<sup>96</sup> OECD, *Tax Policy Reforms 2018* (Paris: OECD Publishing, 2018), 65.

<sup>97</sup> *Ibid.*, 66-67.

<sup>98</sup> See Darussalam, "Mendorong Pengembangan UMKM melalui Simplifikasi Pajak," DDTTC News, 30 September 2018.

<sup>99</sup> See Li Liu, "Where Does Multinational Investment Go with Territorial Taxation? Evidence from the UK" *IMF Working Paper* No 18/7 (2018) and Thornton Matheson, Victoria J. Perry, and Chandara Veung "Territorial vs. Worldwide Corporate Taxation: Implications for Developing Countries," *IMF Working Paper* No. 13/205 (2013).

The pressure of revenue and efforts to guarantee a level playing field in digital economic businesses have driven more varied dynamics policies, for example by taxing activities on social media (Uganda), equalization levy (India), provisions for PEs (Israel), and so forth

countries have tax incentive regimes with tax holiday schemes, reduced rates, investment allowances, and special economic zones. About a quarter have incentive schemes aimed at research and development activities.<sup>100</sup> In addition, there are countries that specifically provide incentives for reinvestment activities (e.g. Latvia), asset revaluation (Argentina), and incentives to increase employee salaries (Japan).<sup>101</sup>

The expansion of the tax base is also increasingly intensified with limitations on loss-compensation, the application of anti-tax avoidance provisions, and special tax imposition for multinational companies. This is for example done by Japan (in 2016) and Norway (in 2017) which reduces the accelerated depreciation. South Korea and Japan limit the compensation for losses suffered by companies.<sup>102</sup> On the other hand, the implementation of the BEPS Project action plans – especially those that are the minimum standards related to the harmful tax regime, prevention of treaty shopping, transfer pricing documentation formats, and effective international tax dispute resolution – continues to be a domestic agenda in various countries. Intense participation from more than 120 countries in the BEPS Inclusive Framework is also a significant factor.<sup>103</sup> Simultaneously, there is a discourse of changing international tax architecture with the minimum tax option for both inbound and outbound investments.<sup>104</sup>

The majority of tax reform carried out in 2018 also targets employees and low-income groups in order to encourage consumption, reduce poverty, and ensure the participation of workers in the formal sector.

Taxation on digital economic activities concerns all tax authorities. At the global level, there is currently no consensus on how to tax (giant) digital businesses that may earn income in a jurisdiction without paying taxes fairly. However, the pressure of revenue and efforts to guarantee a level playing field in digital

economic businesses have driven more varied dynamics policies, for example by taxing activities on social media (Uganda), equalization levy (India), provisions for PEs (Israel), and so forth. These domestic policies are generally beyond the international agreement (unilateral actions).

### Personal Income Tax (PIT)

The majority of countries have revamped the structure of the PIT rates, especially for middle to lower income groups. In general, more and more countries are reducing the top PIT rates, for example: the Netherlands has cut its highest PIT rate in 2019 from 52% to 49.5% and the United States in 2018 from 39.6% to 37%.<sup>105</sup> The partiality for the low-income taxpayer group is also indicated by the reduction in rates with the reform of tax brackets in the majority of European Union countries. This can be found in Ireland, Finland, and Portugal.

Adjustment of PIT relief system. The majority of tax reform carried out in 2018 also targets employees and low-income groups in order to encourage consumption, reduce poverty, and ensure the participation of workers in the formal sector. The method is through reforming the relief system in PIT in the form of tax allowance, earning tax credit, or tax deduction. The trend shows that a number of countries have added components and adjusted costs in the itemized deduction regime (e.g., Greece, Latvia, Japan) and moved to earned income tax credits scheme (e.g., Canada, Italy, the Netherlands).<sup>106</sup>

Income tax incentives for non-resident high-skilled labor and high-net-worth individual are introduced in order to guarantee the productivity of the

100 Madalina Cotrut and Kennedy Munyandi (ed.), *Tax Incentives in the BEPS Era*, (Amsterdam: IBFD, 2018), Chapter 1.

101 OECD, *Tax Policy Reforms 2018* (Paris: OECD Publishing, 2018), 74-75.

102 OECD, *Tax Policy Reforms 2017* (Paris: OECD Publishing, 2017), 62.

103 Data as of March 2019. The explanation on BEPS Inclusive Framework can be found at <http://www.oecd.org/tax/beps/beps-about.htm>.

104 This is discussed in the IMF proposal. See IMF, "Corporate Taxation in the Global Economy" *IMF Policy Paper* (March 2019).

105 However, some countries such as South Korea and South Africa have in fact increased the PIT rate for their top income earners.

106 OECD, *Tax Policy Reforms 2018* (Paris: OECD Publishing, 2018), 54.

domestic economy. One of such incentives is applied by Italy through a special taxation regime for high skill expatriates, who work as researchers and academicians, as well as wealthy individuals in certain professions.<sup>107</sup>

Difficulties in imposing income taxes –because of tax avoidance activities in globalization era and the desire to encourage competitiveness – and on the other hand, considering the less distortive nature of VAT for the economy, have been the arguments of increasing VAT rates in various countries.

Capital income tax is increasingly a concern, especially given the era of information disclosure and efforts to reduce inequality. This is reflected in the trend of increasing taxes on passive capital income (Luxembourg, Iceland) or the administration in the field of information disclosure (Belgium implemented the so-called Cayman Tax in 2018).<sup>108</sup>

### VAT/GST

A number of countries have raised their VAT/GST rates. Difficulties in imposing income taxes –because of tax avoidance activities in globalization era and the desire to encourage competitiveness – and on the other hand, considering the less distortive nature of VAT for the economy, have been the arguments of increasing VAT rates in various countries. From 2008 to 2018, 23 OECD countries had at least once increased the standard VAT rates. It is noteworthy that globally, the standard VAT rates do not have a stable inter-temporal pattern. On average, the standard VAT rates fluctuate.<sup>109</sup>

Administrative reform has become the focus of many countries, mainly to prevent VAT gap and VAT fraud.

Expansion of the VAT base is done by differentiating the rates on certain products and services and reducing exemptions. Despite having a positive goal of the partiality for low-income society, exemptions facilities have created distortions, reduced aspects of neutrality in the VAT system, and generated large tax expenditures. Therefore, tax reform in some countries actually removes most exemptions, for example, the Philippines through the TRAIN program (See Box 1). Conversely,

there is a trend of reducing rates for certain goods and services as an effort to improve compliance from taxpayers. For instance, the VAT on e-books in Switzerland which has been reduced to 2.5% or VAT on accommodation in Austria which has been reduced to 10%.<sup>110</sup>

Administrative reform has become the focus of many countries, mainly to prevent VAT gap and VAT fraud. A number of measures may be conducted, but generally, such measures can be categorized into three categories. First, ensuring the compliance of VAT Taxable Persons with the use of technology, such as the Standard Audit Files for Tax (SAF-T) and VAT electronic invoices that guarantee real-time information. Second, expansion of the reverse charge mechanism, especially for sectors that are at high risk of fraud. Third, the obligation to be a VAT person in a value chain about which the information is difficult to obtain, including in the online marketplace.<sup>111</sup>

VAT compliance in the activities of international trade transactions for services and intangible assets is increased. Globally, VAT on international trade refers to the destination principle, i.e. goods or services are imposed with VAT in the jurisdiction where they are consumed or utilized. The increased trading volume of intangible services and goods in the digital era (digital supplies) has caused difficulties for importing countries in collecting VAT, especially on B2C transactions. In such case, the OECD suggests that taxing rights should be given to the jurisdiction where the customer has his usual residence and foreign suppliers are obliged to register and remit VAT in the customer's usual residence jurisdiction.<sup>112</sup> Argentina, South Africa, and Turkey are countries that have implemented rules to ensure compliance with VAT on such scheme.<sup>113</sup>

107 Giorgio Beretta, "From Worldwide to Territorial Taxation: Is Italy Now an Attractive Destination from Migrating Individuals?" *Bulletin for International Taxation* (August 2017): 442.

108 OECD, *Tax Policy Reforms 2018* (Paris: OECD Publishing, 2018), 58-59.

109 Respectively from 2015 to 2019, the average of global VAT/GST standard rates are: 15.55% (2015), 15.48% (2016), 15.50% (2017), 15.47% (2018), and 15.40% (2019). Data is taken from KPMG tax rates database (<https://home.kpmg/vg/en/home/services/tax1/tax-tools-and-resources/tax-rates-online/indirect-tax-rates-table.html>)

110 OECD, *Tax Policy Reforms 2018* (Paris: OECD Publishing, 2018), 88-89.

111 *Ibid.*, 91.

112 *Ibid.*, 95.

113 *Ibid.*



## Box 1 – The Philippines’ Comprehensive Tax Reform Program (CTRP)

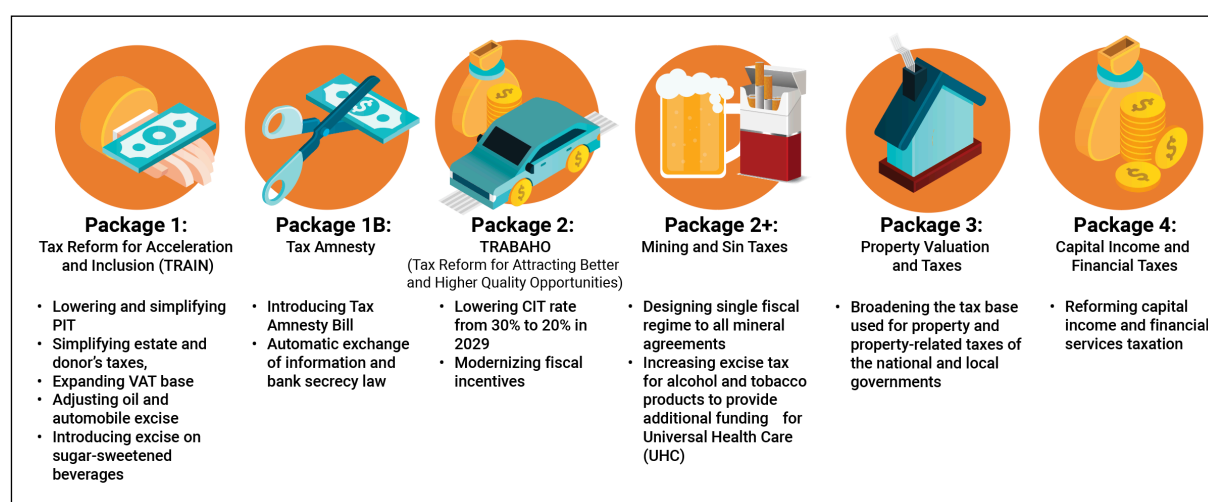
Under President Rodrigo Duterte’s administration, the Government of Philippines launched the Comprehensive Tax Reform Program (CTRP). This program is called for to accelerate poverty alleviation (from 21.6% to 13-15% in 2022), sustainable economic growth (target of 7% per year with structural transformation from the consumption to investment sector), creating new jobs, increasing investment in health, education, social security, infrastructure and R&D activities, and improving the economic status to the upper-middle income country by making the tax system simpler, fairer, and more efficient, and at the same, ensuring sufficient revenue to finance the development.

CTRP consists of 4 packages. The first package is the Tax Reform for Acceleration and Inclusion (TRAIN) which aims to reduce and simplify personal income tax rates, simplify estate and donor taxes, expand value-added tax bases by reducing VAT exemptions, adjusting excise on oil and automobile, and introducing excise on sugar-sweetened beverages. TRAIN has been realized through Republic Act No. 10963 which was effective as of 1 January 2018. A number of more detailed and technical rules for the changes made through TRAIN are further regulated by The Philippines Bureau of Internal Revenue. As a complement to TRAIN, CTRP also includes Package 1B concerning tax amnesty. This has also been realized through the Tax Amnesty Act or Republic Act No. 11213 which was promulgated in February 2019.

Package 2 of CTRP is a Tax Reform for Attracting Better and High-Quality Opportunities (TRABAHO) that are more oriented towards the business and business climate. TRABAHO aims to make the corporate tax system simpler, fairer, and more transparent, mainly by reducing corporate income tax rates and providing fiscal incentives. TRABAHO has been approved by the parliament through House Bill No. 8083. TRABAHO aims to encourage investment by gradually reducing the corporate income tax rate for 10 years (a reduction in rates by 2% every 2 years). The target is by 2029, the Philippines’ corporate income tax rates will be at 20%. TRABAHO will also gradually revoke the various pre-existing preferential tax regimes hence the corporate income tax system is expected to be simpler and fairer. Variations in fiscal incentives were also introduced through tax holidays, reduced rates, incentives for vocational activities, training, R&D, as well as manufacturing and infrastructure reinvestment projects.

The second package will also be supported by Package 2+ which includes reform on mining and sin taxes with the main goal of supporting Universal Health Care funding. On a side note, the increase in tobacco excise rates was approved by Duterte earlier this year. Finally, Packages 3 and 4 of CTRP will improve property tax, capital income tax, and financial taxes.

Source: Department of Finance, Republic of the Philippines website (<https://www.dof.gov.ph/taxreform/>).



Source: Department of Finance, Republic of the Philippines (<http://www.dof.gov.ph/taxreform/>)

## Box 2 – Indonesia Tax Reform

At the end of 2016, the Government of Indonesia established a tax reform team through the Minister of Finance Decree Number KMK-885/KMK.03/2016 concerning the Establishment of the Tax Reform Team. The purpose and objective of the formation of the Reform Team are to prepare and support the implementation of the tax reform that covers the following aspects: organization and human resources, information technology, database and business processes, and legislation. Reform of these aspects is carried out in order to increase the trust of taxpayers towards tax institutions, taxpayer compliance, reliability of database management/tax administration, and the integrity and productivity of the tax authority.

The tax reform is expected to produce three conditions, namely: (i) robust, credible and accountable tax institutions with effective and efficient business processes to result in optimal state revenue; (ii) optimal synergy amongst institutions; and (iii) high taxpayer compliance. All three are expected to improve the performance of the tax ratio by 15% in 2020.

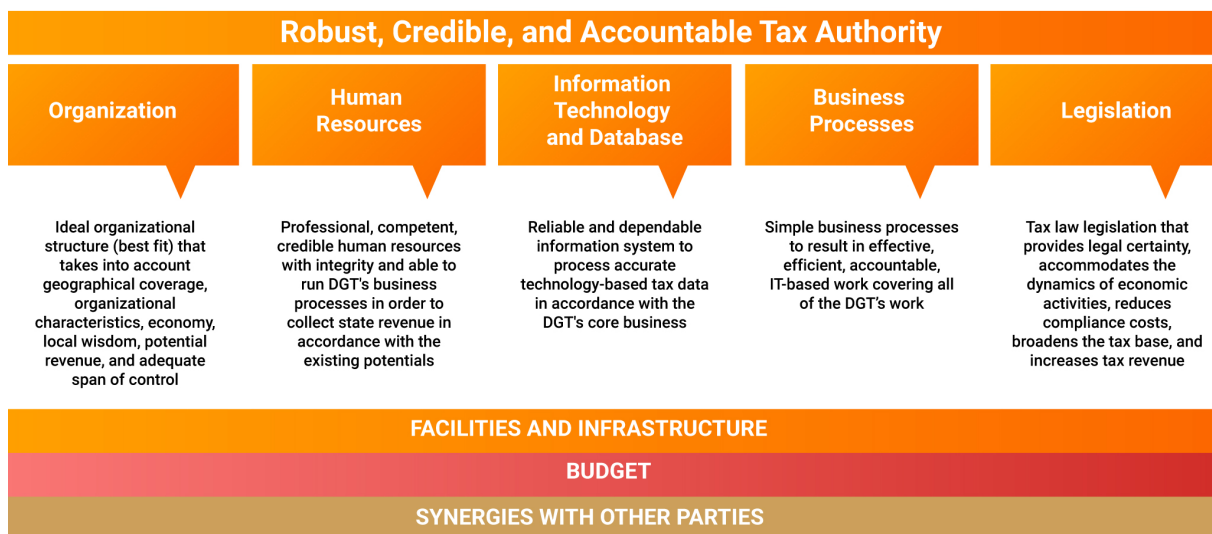
The Indonesian tax reform agenda during the period of 2017-2020 is reflected in five pillars, namely:

- The first pillar pertains to the tax administration organization in Indonesia. This includes redesigning organizations and institutions of tax administration authority, redesigning employee formations, and redesigning taxpayer management.
- The second pillar is related to human resources that will produce employees with high discipline and integrity. In addition, this pillar includes a better remuneration system and planning of needs and career paths.
- The third pillar is the business processes. That is, there will exist simple, effective, efficient, and accountable, and information technology-based business processes.
- The fourth pillar is related to the information system and business processes that include: efforts to reduce the administrative burden of both the taxpayers and tax authority, extensive and accurate databases, reliable and dependable data processing, and adequate information system infrastructure.
- The last or fifth pillar is of the revision of legislation in the tax sector

In addition to these five pillars, there is another pillars that emphasizes the importance of synergies with other parties. This pillar includes: exchange of data and information, cooperation in the implementation of duties, legal protection, and tax socialization.

Source: The Directorate General of Taxes – Ministry of Finance. Internet, can be accessed at: <http://www.pajak.go.id/reformasiperpajakan> (accessed at March 2019).

## THE PILLARS OF TAX REFORM



Expansion of excise objects is carried out in numerous countries.

## Excise Duties and Other Taxes

Excise rates, especially for tobacco and alcohol products, are increased. In order to control consumption of excisable goods – generally those that have an impact on health and externalities (sin tax) – excise rate increases are relatively more acceptable to the public. Goods that are subject to sin tax are also generally inelastic towards prices.<sup>114</sup> The need for revenue has also driven the increase in excise rates, particularly for tobacco and alcoholic beverages over the past few years.

Expansion of excise objects is carried out in numerous countries.<sup>115</sup> One of the trends is sweetened beverage drinks (for example in the United Kingdom, Ireland and South Africa) and e-cigarettes (for example in Sweden, Poland, Greece, and Finland).<sup>116</sup>

In general, environmental taxes receive less attention, except for levies on energy and fuel. On the other hand, the discourse on the imposition and revamping of taxes on wealth – notably to reduce inequality – is escalating, although, in reality, it has not transformation implementation yet.

in formulating policies in a country. Furthermore, internationalization and competitiveness in the global context escalate tax competition.<sup>118</sup>

Some parties emphasize that competitiveness may serve as the key to the success of the global economic system along with the increasing effectiveness of countries' production factors. However, there is also a consideration that the orientation towards competitiveness will lead to poor results due to unbalanced competition and result in negative impacts on the competing parties. In the context of fiscal policy, taxation is one of the main indicators to determine a country's competitiveness.<sup>119</sup>

Despite being an important element that influences policy, competitiveness itself is still a relative concept and does not have any standard concept. OECD reveals that competitiveness is a relative concept. The concept of competitiveness in the business context means that a company is able to produce output at the same or lower cost than other companies in the same business field or the company has several other advantages such as the quality of its products. In most business contexts, competitive companies will be able to obtain more returns than their capital costs.<sup>120</sup>

In general context, the Global Competitiveness Report in the OECD defines competitiveness as a group of institutions, policies, and factors that determine the productivity level of a country in order to obtain a sustainable standard of living.<sup>121</sup> The concept is in line with the concept of competitiveness according to Slemrod in Toder that competitive policy is a policy that may improve the living standards of its

Today, there is a global trend that tax reform is designed in order to increase competitiveness and improve a country's economic growth.

## B. Increasing Competitiveness through Tax Reform

### 1. Tax Reform, Economic Growth, and Competitiveness: Some Comments

Today, there is a global trend that tax reform is designed in order to increase competitiveness and improve a country's economic growth.<sup>117</sup> Competitiveness is undeniably one of the justified elements

114 See William J. McCarten and Janet Stotsky, "Excise Taxes," in *Tax Policy Handbook*, ed. Parthasarathi Shome (Washington D.C.: IMF Publication, 1995).

115 B. Bawono Kristiaji and Dea Yustisia, *Op.Cit.*

116 OECD, *Tax Policy Reforms 2018* (Paris: OECD Publishing, 2018), 98.

117 Daniel Bunn, Kyle Pomerleau, and Scott A. Hodge, *International Tax Competitiveness Index 2018* (Tax Foundation, 2018), 1 – 2.

118 Office of Tax Policy U.S. Department of the Treasury, *Approaches to Improve the Competitiveness of the U.S. Business Tax System for the 21st Century* (2007), 2.

119 Jan Tecl, "Dependence between Competitiveness and Tax Indicators Based on Competitiveness Reports," (2018): 48.

120 OECD, "What is a Competitive Tax System?" *OECD 50th Anniversary Challenges in Designing Competitive Tax Systems* (June 2011): 1.

121 *Ibid.*

Even though competitiveness is also called a 'dangerous obsession', the government still finds it difficult to reject it

citizens.<sup>122</sup> Meanwhile, according to Latulippe, country competitiveness is manifested in the form of a country's ability to produce goods and services in a fair market mechanism while maintaining the amount of income earned by its citizens in the long run.<sup>123</sup>

Although competitiveness is considered important in general, there exists an assumption that the trend of international competition leads to poor results. Regarding competitiveness in the formulation of tax policies, Krugman argues that competitiveness is not the appropriate objective.<sup>124</sup> Nonetheless, even though competitiveness is also called a 'dangerous obsession', the government still finds it difficult to reject it.<sup>125</sup>

Efforts to encourage a competitive tax system can be carried out through tax and administrative policy reforms.

Furthermore, the tax system is considered as one of the characteristics of a country's competitiveness.<sup>126</sup> Nonetheless, the first thing to be addressed is competitiveness over what? According to Toder, there are at least five components of competitiveness, namely competitiveness in the availability of labor, capital, intangible assets and technology, tax revenue, and energy and natural resources.<sup>127</sup> In addition, international organizations such as the World Bank generally also encourage competitiveness in the field of market competition and trade.

Efforts to encourage a competitive tax system can be carried out through tax and administrative policy reforms. In general, political stability and the

business environment, good standards of governance, non-existence of corruption or undue administrative decisions, macroeconomic considerations and tax reform, and dynamic markets all play an important role in defining a competitive tax system.<sup>128</sup> According to the Confédération Fiscale Européenne (CFE), the tax system must contribute to 'business and investment friendly' environment. Ideally, tax policy should result in minimum distortions for investment decisions. In addition to those related to tax policy, there are other key aspects in need of considerations, namely simplification related to tax regulations and compliance and the process of formulating tax regulations.<sup>129</sup>

In agreement with CFE, Matthews also emphasizes efforts to establish a good administrative system. The establishment of a tax policy design should also focus on a system of transparency, non-discrimination, and coordination between the tax authority and taxpayers and other stakeholders.<sup>130</sup> All decisions issued by the tax authorities must, therefore, be made public.

## 2. Options for Tax Policy Reform

On a side note, capital and labor have long been considered as the main drivers of productivity and the key to transformation leap of the economic structure. Not surprisingly, efforts to increase competitiveness through tax reform mainly have been carried out to attract capital and labor.

- 122 Eric Toder, "International Competitiveness: Who Competes Against Whom and for What?" *Tax Law Review*, 2012: 509.
- 123 Lyne Latulippe, "Tax Competition: An Internalised Policy Goal," in *Global Tax Governance: What is Wrong with it and How to Fix it*, ed. Peter Dietsch and Thomas Rixen (Colchester UK: ECPR Press, 2016), 82.
- 124 Jane G. Gravelle, "Does the Concept of Competitiveness Have Meaning in Formulating Corporate Tax Policy," *Tax Law Rev* (2012): 325-326.
- 125 Paul Krugman, "Competitiveness: A Dangerous Obsession," *Foreign Affairs*, (March/April 1994): 28-44.
- 126 Klaus Schwab, "The Global Competitiveness Report 2012-2013" World Economic Forum, Internet, can be accessed at [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2012-13.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf).
- 127 Eric Toder, *Op.Cit.*, 510-515.
- 128 CFE Fiscal Committee, "Opinion Statement FC 10/2018 on the European Commission Platform for Tax Good Governance Discussion Questionnaire on Tax Competition and Competitiveness," Internet, can be accessed at: <http://taxadviserseurope.org/wp-content/uploads/2018/12/CFE-Opinion-Statement-Tax-Competitiveness-Final.pdf>, 2.
- 129 Ernesto Zangari, Antonella Caiumi, and Thomas Hemmelgarn, "Tax Uncertainty: Evidence and Policy Responses," *European Commission Taxation Paper*, No. 67 (2017): 3.
- 130 Stephen Matthews, "What is a 'Competitive' Tax System?" *OECD Taxation Working Papers* No. 2 (2011), 11-14.

Efforts to increase competitiveness through tax reform mainly have been carried out to attract capital and labor.

Tax policies (subject, object, and tax rates) clearly play an important role in the attractiveness and competitiveness of a country in global competition. OECD (2018) shows that the trend of changes in various countries' tax policies is generally driven by the desire to increase competitiveness and economic growth. Each country competes to attract capital in order to cover the budget deficit as well as provide public goods.<sup>131</sup>

Taxes is one of the considerations for workers to migrate.

It is noteworthy that capital in this sense may take the form of financial capital (portfolio investment) and physical capital. Financial capital does not directly facilitate production in the economy. However, competition for financial capital frequently occurs because financial capital refers to the ownership of physical capital.<sup>132</sup>

The trend over the past few years confirms the intense competition of tax policy on capital as evidenced by the reduction in corporate income tax rates, tax system transition (from the worldwide tax system to territorial tax system), the establishment of offshore financial centers, the proliferation of tax incentives, and the design of corporate-shareholder taxation that produce low effective tax rates.<sup>133</sup>

All of these choices certainly have pros and cons and require supporting strategies. For example, a reduction in corporate income tax rates may erode Indonesian tax revenue in the short term, particularly as 35% of non-oil and gas income tax revenue originates from corporate income tax. Without supporting strategies, such as expanding

the tax base as per the tax reform tagline in various countries –broad-based, low rate—the shortfall risk of tax revenue increases (see Box 3).

Unlike capital investment, competitiveness in labor has not received many attention in the context of tax reform. According to Richter and Schneider in Toder (2012), labor is assumed as an immobile factor and can be equated with the imposition of taxes on capital in the context of international taxes<sup>134</sup> while in fact, individuals as workers have the ability and willingness to migrate and change their tax subject status. Taxes is one of the considerations for workers to migrate.<sup>135</sup>

In the Indonesian context, the first thing that needs to be understood is how sufficient is the availability of high-skilled labor. The demographic bonus -which means that there are more productive than non-productive age population- will lead to risks when the majority of the labor force is low-skilled. As a result, labor absorption and output will be low.

At present, the government is preparing tax incentives for vocational and training activities. The incentives aimed at these activities are intended to encourage the behavior to increase the capacity and quality of labor, both before and after entering the labor market.<sup>136</sup> In terms of tax policy for labor competitiveness, Indonesia is still 'behind' compared to other countries. For example, tax policy to prevent brain drain (for example, exit tax) or a policy to attract certain skilled foreign labor (for example, expatriate regime) do not exist.<sup>137</sup>

131 Eric Toder, *Op.Cit.*, 513.

132 Neva R. Goodwin, "Five Kinds of Capital: Useful Concepts for Sustainable Development," *G-DAE Working Paper No. 03-07* (2003): 4-5.

133 Mainly aimed at preventing double taxation at the corporate or shareholders levels.

134 Eric Toder, *Op.Cit.*, 510.

135 Giorgio Beretta, "Mobility of Individuals after BEPS: The Persistent Conflict between Jurisdictions," *Bulletin for International Taxation* (2018): 439.

136 OECD, "Taxation and Skills," *OECD Tax Policy Studies No 24* (2017); Cedefop, *Using Tax Incentives to Promote Education and Training* (Thessaloniki: Cedefop, 2009).

137 This is as stated by Sharkey (2015): "More and more jurisdictions are creating special categories of resident who are not subject to full taxation or are offering concessions that have the same effect. Much of the rationale for these categories is competition between countries to attract appropriate expatriate talent and can be viewed as a form of tax competition in many respects analogous to tax concessions for foreign investment. However, this may not be the only rationale for concessions, as they may, in some circumstances, simply be concerned with easing the burden for expatriates rather than actually attracting them. Ultimately though, there is no doubt that such measures in many instances a form of tax competition." See Nolan

### Box 3 – The Idea of Tax Reform: Broad-Based, Low Rate

One characteristic that marks the direction of tax reform in various countries is the expansion of the tax base followed by rates reductions (broad-based and low tax rate reform). This is not surprising as taxes are often considered as the main source of economic distortions. In addition, there is an assumption that the reduction in rates will increase revenue as it will encourage economic productivity which is the tax base itself. With an increasingly expanded tax base, the design of reforms is believed to be in line with the goal of optimizing revenue and boosting the economy.

It should be understood that these two matters – the decrease in tax rates and the expansion of the tax base – are two things that are of different nature. The policy of reducing rates is a one-time step that is carried out through changes in tax law provisions. In contrast to the rate policy, efforts to expand the tax base are continuous courses of actions and such expansion can only be conducted gradually. Although the expansion of the tax base can also be done through tax law provisions, this is not necessarily automatically followed by the increase in the tax base referred to by the provision.

Rate reduction is highly dependent on whether the tax base has been expanded along with the prerequisite factors. Unfortunately, the public's drive to reduce rates tends to occur more quickly and intensely than the support to expand the tax base. As such, the government is pressured to reduce tax rates without balanced support to expand the tax base.

Some of the various studies that have been conducted found that the rate reduction policy will have a negative impact on revenue in the short run and will only have a neutral impact on revenue after several years. This depends on how quickly the tax base is expanded through other policies.

OECD itself recommends that the reduction in rates be carried out when the tax base is large enough thus the impact of the distortion on the reduced economy is also greater. Furthermore, various other policy instruments may have a positive impact on compliance and expansion of the tax base without having to reduce revenue, such as anti-tax avoidance provisions, the strengthening of tax administration, law enforcement, simplification, and various other aspects. The option to reduce rates with the aim of increasing compliance should be the last option, namely when other options have been optimally implemented.

Source: OECD, *Choosing A Broad Base – Low Rate Approach to Taxation*, (OECD Publishing, 2010); OECD, *Tax Policy Reforms 2017* (Paris: OECD Publishing, 2017); William G. Gale and Andrew A. Samwick, "Effects of Income Tax Changes on Economic Growth", *The Brookings Institution Economic Studies* (2014).

In order to reduce deficit of the trade balance, the Indonesian government has attempted to improve international trade competitiveness.

The competition over aspects other than labor and capital also deserves attention. For example, in order to reduce deficit of the trade balance, the Indonesian government has attempted to improve international trade competitiveness. One of the government's breakthroughs is the issuance of Minister of Finance Regulation No. 32/PMK.010/2019 concerning the imposition of 0% VAT for several exports of Taxable Services (TS) (PMK 32/2019). The regulation is expected to make national service exports more competitive while attracting investment of services sector in the country. However, along with the improvement of the supervision of tax administration, the types of TS exports with a 0% VAT rate should continue to be expanded.

### 3. Options for Tax Administration Reform

The obsession to increase competitiveness is often perceived as the design of appropriate tax policies. This perspective is true, but often neglects the fact that competitiveness through policy is generally discriminatory as it is more oriented toward the new tax subjects and objects. In other words, it provides a 'red carpet' for new taxpayers, but disregards existing taxpayers. In addition, improvements through tax policies are considered easier compared to administrative improvements that cannot be carried out instantly.

Cormac Sharkey, "Tax Treaties and Temporary Residence for Individuals: Tax Abuse? – Focus on the Rules in Australia, China (People's Rep.) and Singapore in the Context of the Tax Treaties between These States and with India, Japan, Korea (Rep.) and the United Kingdom?" *Bulletin for International Taxation* (February 2015): 67.

138 OECD, *Tax Policy Reforms 2017* (Paris: OECD Publishing, 2017).

Improvements through tax policies are considered easier compared to administrative improvements that cannot be carried out instantly.

Interestingly, at the Hangzhou Summit in China in September 2016, the leaders of the G20 agreed that trade and investment competitiveness could be driven by certainty in the tax system. The IMF and OECD, in their publication entitled *Tax Certainty*, mention some elements that must be considered in producing certainty of the tax system. Two of such elements are related to tax administration.<sup>139</sup>

First, convenient tax administration, low cost, and protection of taxpayers' rights. The uncertainty of the tax system is often caused by administrative problems, such as tardiness in tax refunds, asymmetric tax information, inadequate audits, multiple legal interpretations, and so forth. All of these issues potentially result in more complex and high-cost tax systems as well as tarnish fiscal contracts.

The government, specifically the tax authority, must have strategies to prevent and resolve tax disputes, for example by presenting the cooperative compliance paradigm, providing alternative dispute resolution, and providing certainty regarding the period of time of cross-jurisdiction tax disputes.

A similar thing is recommended by CFE. Reducing complexity and distortion in the tax system is of high importance to improve the competitiveness of the tax system. Simplicity and clarity of tax rules are essential. The tax law must establish clear general principles and attempt to prevent multiple interpretations. In addition, stakeholders must be given the opportunity to be involved in the legislative process prior to the implementation of any rule.<sup>140</sup>

Second, efforts to prevent and resolve tax disputes. Tax disputes, like it or not, are inevitable in the tax system. The high number of disputes may impact on the erosion of trust in the tax system and result in high compliance costs.<sup>141</sup> Therefore, the government, specifically

the tax authority, must have strategies to prevent and resolve tax disputes, for example by presenting the cooperative compliance paradigm, providing alternative dispute resolution, and providing certainty regarding the period of time of cross-jurisdiction tax disputes.

#### 4. Conclusion

In a long-term perspective, design of a tax system that is conducive to the economy and business will fulfill the principle of neutrality and also in line with efforts to optimize the revenue. Undeniably, in the long-term perspective, the growth of tax revenues has a positive relationship with increasing economic productivity, which is the basis of the tax itself hence the sustainability of tax revenue growth lies in the quality of the economy and the investment climate.<sup>142</sup>

Therefore, it is not surprising that the tax reform paradigm is now shifting toward the efforts to improve the quality of relations with the taxpayers and adaptation efforts to the economic dynamics and business changes.<sup>143</sup> The tax system that supports the investment climate and economy is also believed to increase revenue for two reasons. First, such a system will increase the economic base and the ability to pay taxes. Second, the system will improve taxpayer compliance due to the better quality of their relationships and communication with the government.<sup>144</sup>

In the end, the various options on tax policy and administration above must certainly be tested and confronted with

139 See IMF and OECD, "Tax Certainty" *IMF/OECD Report for the Finance Ministers* (2017); IMF and OECD "Update on Tax Certainty" *IMF/OECD Report for the G20 Finance Ministers and Central Bank Governors* (2018).

140 CFE Fiscal Committee, "Opinion Statement FC 10/2018 on the European Commission Platform for Tax Good Governance Discussion Questionnaire on Tax Competition and Competitiveness," Internet, can be accessed at: <http://taxadviserseurope.org/wp-content/uploads/2018/12/CFE-Opinion-Statement-Tax-Competitiveness-Final.pdf>, 5.

141 See Francois Vaillancourt, Jason Clemens and Milagros Palacios, "Compliance and Administrative Costs of Taxation in Canada," in *The Impact and Cost of Taxation in Canada: The Case for Flat Tax Reform*, Jason Clemens (ed.) (Vancouver BC: The Fraser Institute, 2008).

142 OECD, "Challenges in Designing Competitive Tax Systems", internet, can be accessed at: <https://www.oecd.org/ctp/48193734.pdf>

143 Natalia Kasalovska, "Trends in Global Tax Reform", in Raffaele Petrucci and Karoline Spies (eds.), *Tax Policy Challenges in the 21<sup>st</sup> Century* (Wien: Linde, 2014), 2.

144 OECD, *Co-operative Compliance: A Framework: From Enhanced Relationship to Cooperative Compliance* (Paris: OECD Publishing, 2013), 103-104.

The 2017-2020 tax reform agenda definitely can serve as a momentum to thoroughly review these matters in order to strengthen the Indonesian economy in the future.

the interests of Indonesia. The 2017-2020 tax reform agenda definitely can serve as a momentum to thoroughly review these matters in order to strengthen the Indonesian economy in the future.



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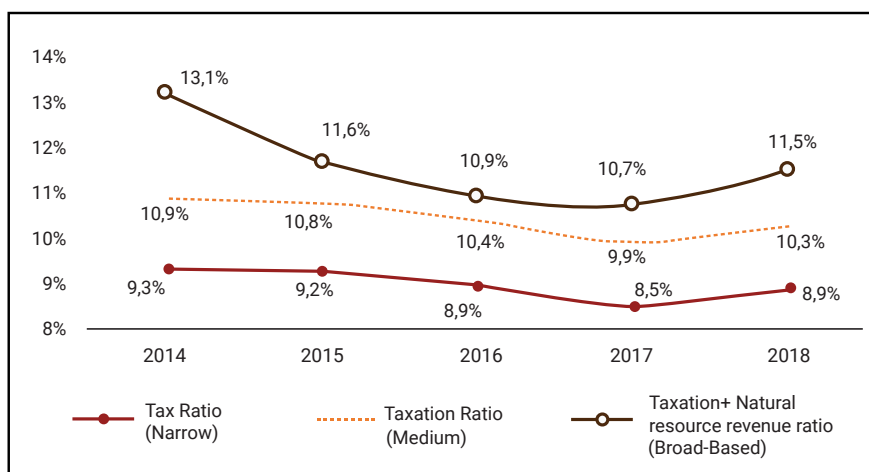
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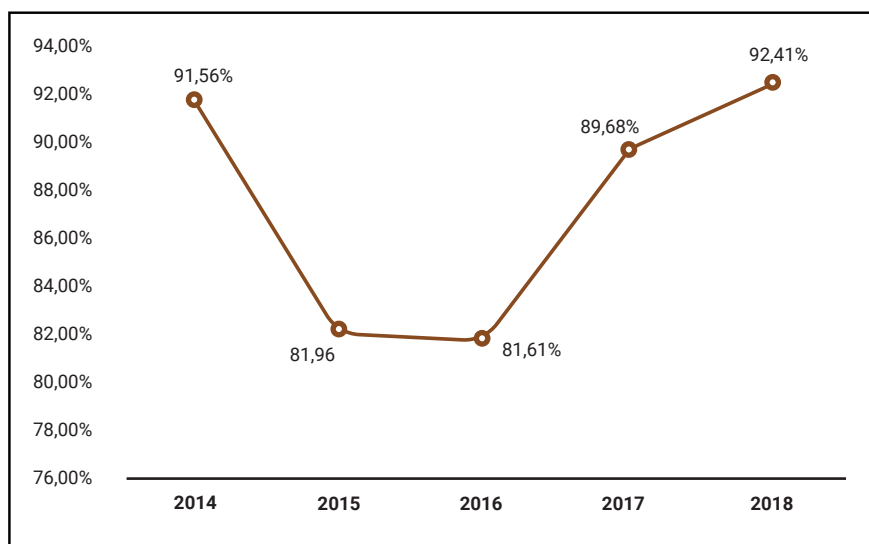
# APPENDIX



Development of Tax Ratio in Indonesia (2014-2018):

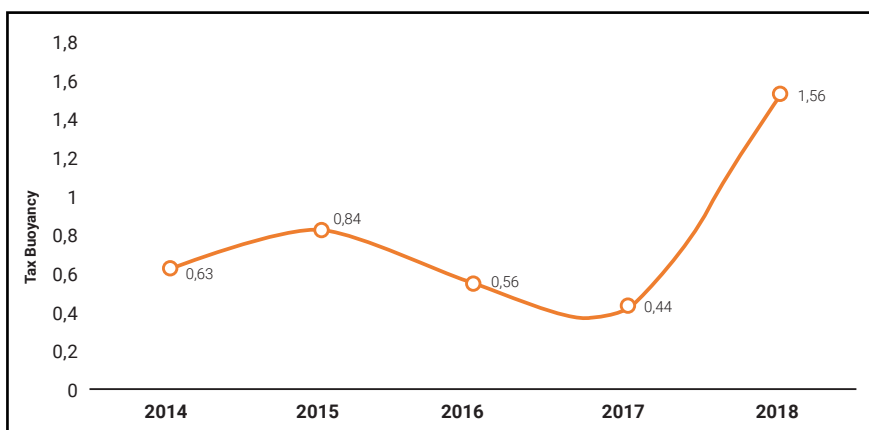
Narrow, Medium, and Broad-Based

Source: LKPP and Annual Report of DGT for the year of 2014-2017; and APBN KiTa January 2019 Edition for the year of 2018.



Tax Revenue: Realization vs Target Development (2014-2018)

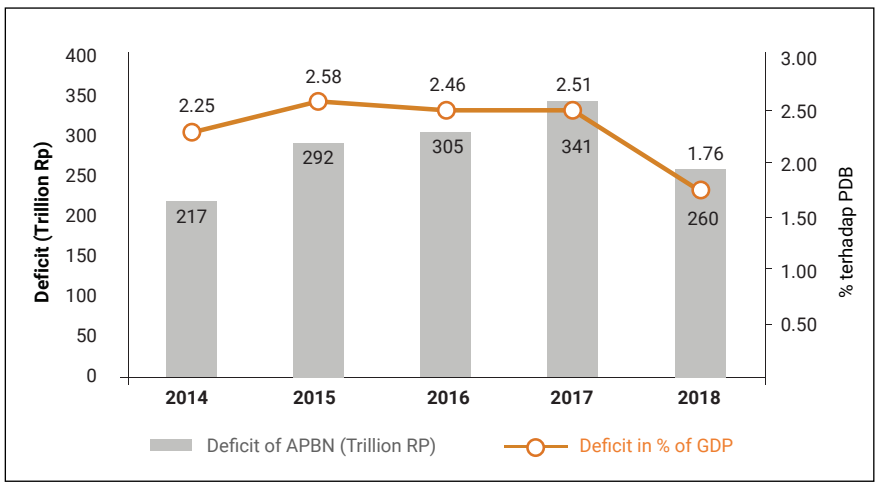
Source: LKPP and Annual Report of DGT for the year of 2014-2017; and APBN KiTa January 2019 Edition for the year of 2018.



Tax Buoyancy (2014-2018)

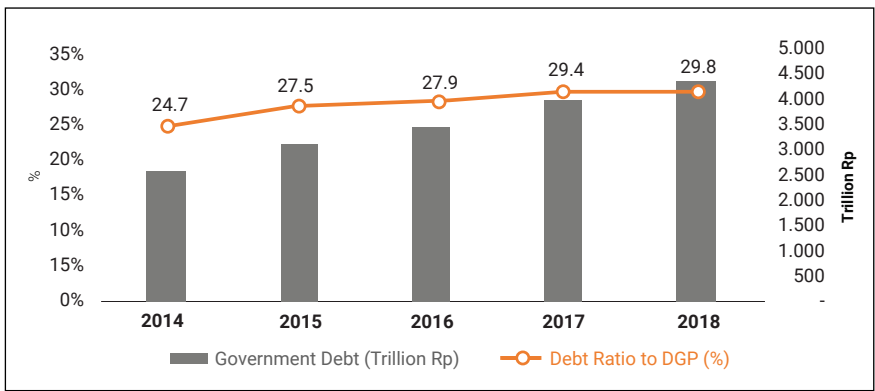
\*The result was calculated using current price

Source: Calculated from LKPP, APBN 2014-2018 and BPS



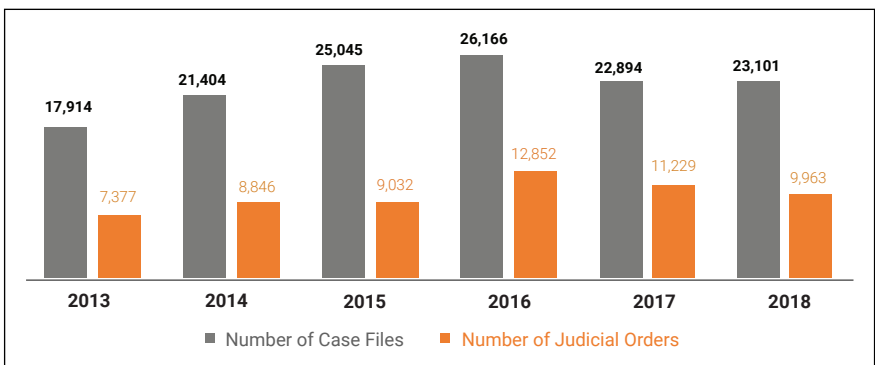
**Deficit of APBN and Its Percentage of GDP (2014-2018)**

Source: LKPP, APBN 2014-2018 and Central Bureau of Statistics



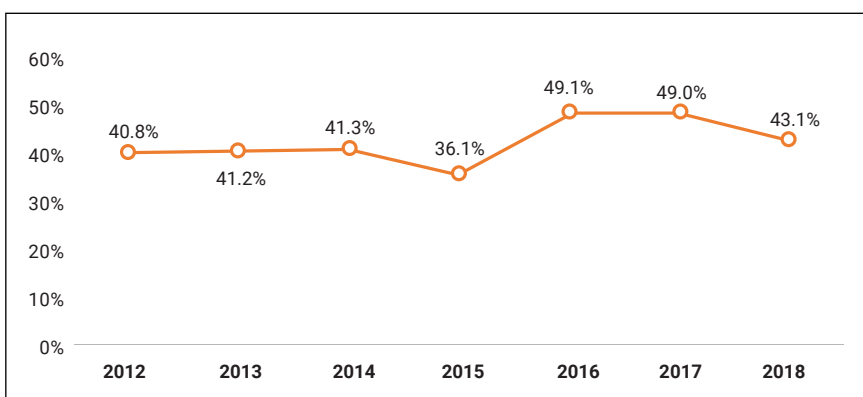
**Government Debt and Its Percentage of GDP (2014-2018)**

Source: The Directorate General of Budget Financing and Risk Management, Ministry of Finance



**Number of Appeal Dispute and Lawsuit Files in the Tax Court (2014-2018)**

Source: The data prior to 2015 was taken from Inside Tax Edition 36, page 157-161. The data for 2015-2018 was calculated from the Secretariat of the Tax Court. It can be accessed at: <http://www.setpp.kemenkeu.go.id/statistik> (accessed at 11 April 2019)



### The Productivity of Tax Dispute Resolutions in the Tax Court (2012-2018)

Source: The data prior to 2015 was taken from Inside Tax Edition 36, page 157-161. The data of 2015-2018 were calculated from the Secretariat of the Tax Court. It can be accessed at: <http://www.setpp.kemenkeu.go.id/statistik> (accessed at 11 April 2019)

Type of Court Decision	2012	2013	2014	2015	2016	2017	2018	Number
Repealed	75	81	95	178	1,352	1,521	250	3,552
Unaccepted	1,037	1,013	854	1,187	1,774	702	1,053	7,620
Overruled	1,700	1,929	2,438	2,294	2,878	2,600	1,997	15,836
Additional Tax Liability	3	2	1	13	8	1	9	37
Partially Granted	732	1,003	1,430	1,217	1,346	1,373	1,389	8,490
Fully Granted	2,530	3,276	3,991	4,049	5,367	4,982	5,228	29,423
Revoked	476	73	37	94	127	50	37	894
Total	6,553	7,377	8,846	9,032	12,852	11,229	9,963	65,852

#### a. In Nominal

### The Result Summary of Court Decision in the Tax Court (2012-2018)

Source: The data prior to 2015 was taken from Inside Tax Edition 36, page 157-161. The data for 2015-2018 was calculated from the Secretariat of the Tax Court. It can be accessed at: <http://www.setpp.kemenkeu.go.id/statistik> (accessed at 11 April 2019)

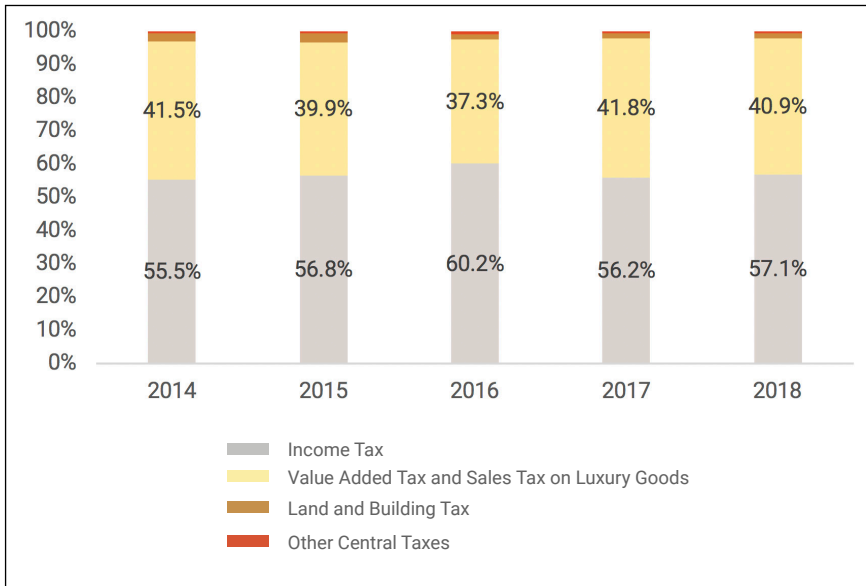
Type of Court Decision	2012	2013	2014	2015	2016	2017	2018	Number
Repealed	1.1%	1.1%	1.1%	2.0%	10.5%	13.5%	2.5%	5.4%
Unaccepted	15.8%	13.7%	9.7%	13.1%	13.8%	6.3%	10.6%	11.6%
Overruled	25.9%	26.1%	27.6%	25.4%	22.4%	23.2%	20.0%	24.0%
Additional Tax Liability	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.1%	0.1%
Partially Granted	11.2%	13.6%	16.2%	13.5%	10.5%	12.2%	13.9%	12.9%
Fully Granted	38.6%	44.4%	45.1%	44.8%	41.8%	44.4%	52.5%	44.7%
Revoked	7.3%	1.0%	0.4%	1.0%	1.0%	0.4%	0.4%	1.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

#### b. In Percentage

### The Result Summary of Court Decision in the Tax Court (2012-2018)

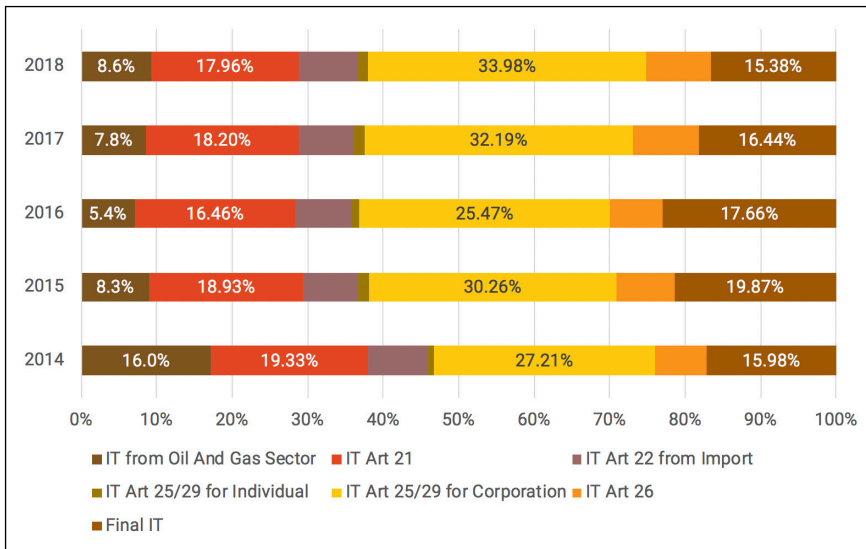
Source: The data prior to 2015 was taken from Inside Tax Edition 36, page 157-161. The data for 2015-2018 was calculated from the Secretariat of the Tax Court. It can be accessed at: <http://www.setpp.kemenkeu.go.id/statistik> (accessed at 11 April 2019)





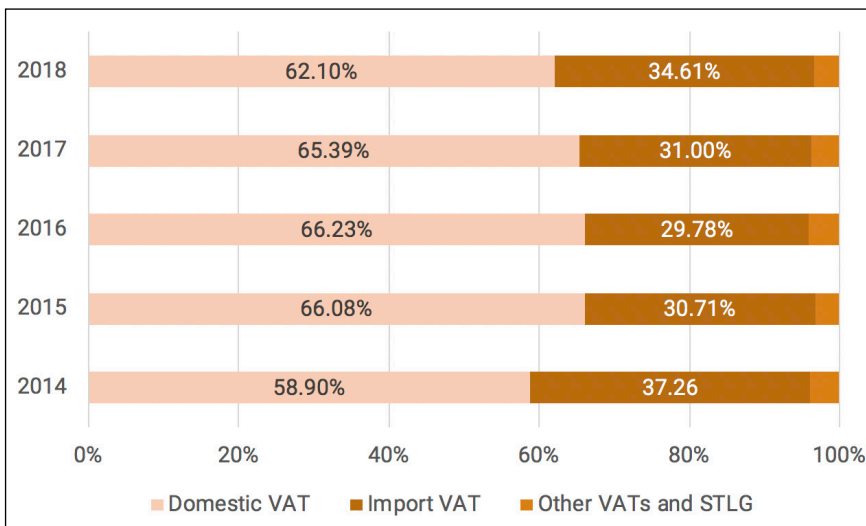
**Structure of Tax Revenue Based on Type of the Tax (2014-2018)**

Source: Calculated from DGT Annual Report 2014 – 2017 and APBN KiTa (January 2019)



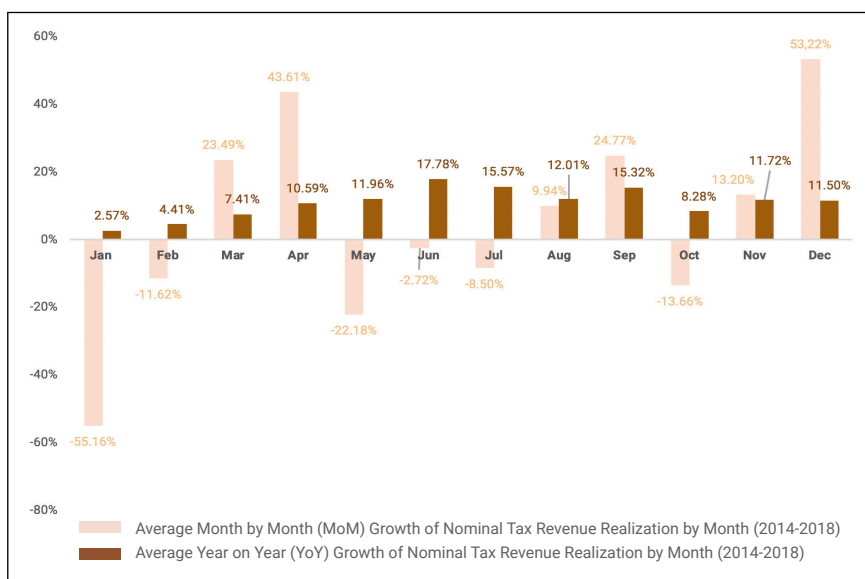
**Contribution of Types of Income Tax (IT) to Total Income Tax (2014-2018)**

Source: Calculated from DGT Annual Report 2014 – 2017 and APBN KiTa (January 2019)



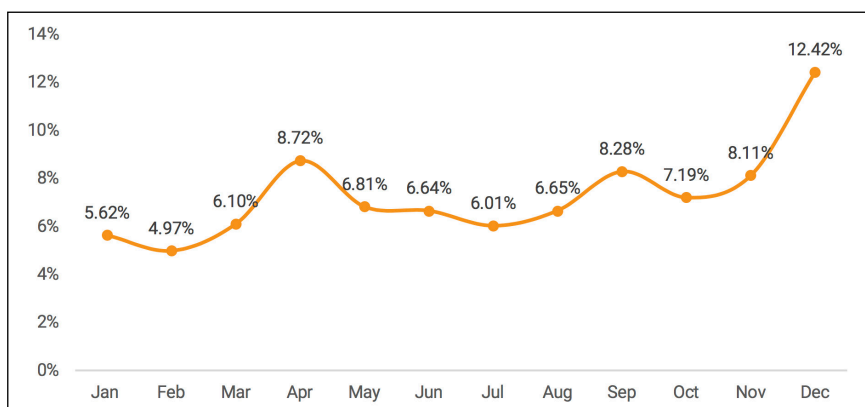
**Contribution of Types of Value Added Tax (VAT) and Sales Tax on Luxury Goods (STLG) to Total VAT and STGS (2014-2018)**

Source: Calculated from Annual Report of DGT 2014 – 2017 and APBN KiTa (January 2019)



**Average Growth of Nominal Tax Revenue Realization by Month (2014-2018)**

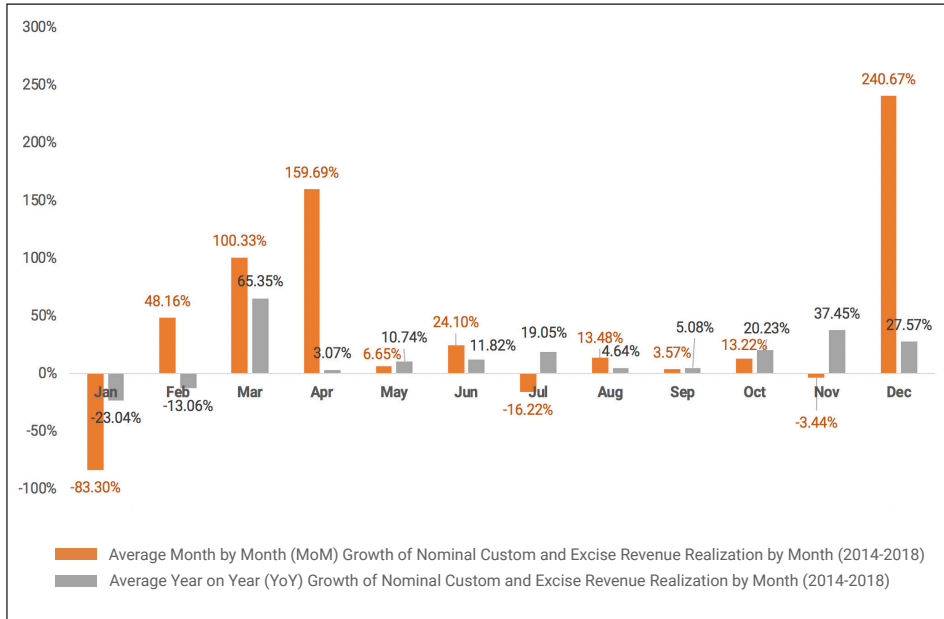
Source: Ministry of Finance (APBN Realization for 2014 – 2017<sup>145</sup> and APBN KiTa for 2018<sup>146</sup>)



**Proportion of Average Nominal Tax Revenue Realization per Month in terms of APBN Target (2014-2018)**

Source: Ministry of Finance (calculated by DDTC Fiscal Research). Monthly data of tax revenue realization is derived from APBN Realization document (for the year 2014 until 2017) and APBN KiTa document (for the year of 2018). Data of APBNP 2014 – 2017 is derived from the Law of Revised Budget (UU APBNP) whereas the data for 2018 is derived from the Law of Budget since there was no Law of Revised Budget for the year in question.<sup>147</sup>

- 145 Ministry of Finance Republic of Indonesia, "Realisasi APBN (*Realization of Indonesia Budget*)," Internet, can be accessed at: <https://www.kemenkeu.go.id/informasi-publik/realisasi-apbn/>
- 146 Ministry of Finance Republic of Indonesia, "APBN KiTa", Internet, can be accessed at: <https://www.kemenkeu.go.id/publikasi/apbn-kita/>
- 147 Law No. 12 of 2014 concerning Revised of Law No. 23 of 2013 concerning National Budget for Fiscal Year 2014 (Law of Revised Budget 2014/ *UU APBNP 2014*), Law No. 3 of 2015 concerning Revised of Law No. 27 of 2014 concerning National Budget for Fiscal Year 2015 (Law of Revised Budget 2015/ *UU APBNP 2015*), Law No. 12 Tahun 2016 concerning Revised of Law No. 14 of 2015 concerning National Budget for Fical Year 2016 (Law of Revised Budget 2016/ *UU APBNP 2016*), Law No. 8 of 2017 concerning Revised of Law No. 18 of 2016 concerning National Budget for Fiscal Year 2017 (Law of Revised Budget 2017/ *UU APBNP 2017*), and Law No. 15 of 2017 concerning National Budget for Fiscal Year 2018 (Law of Budget 2018/*UU APBN 2018*).



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**Average Growth of Nominal Customs and Excise Revenue Realization by Month (2014-2018)**

Source: Ministry of Finance (APBN Realization for 2014 – 2017 and APBN KiTa for 2018)

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