INDONESIA TAXATION QUARTERLY REPORT Q4 - 2019

Anticipating Compliance Risk Management

Fiscal Research

Equality, Certainty, Convenience, Economy

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Q4-2019

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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

Huge gratitude belongs to God Almighty, that by His blessings and approval, this report entitled "Indonesia Taxation Quarterly Report IV-2019" is now published.

This publication continues DDTC's relentless commitment in providing the latest update for every tax stakeholder in Indonesia. More than ever, we believe that all of us are getting more concerned to Indonesia's taxation development and its dynamicity.

To satisfy the underlying needs, this edition delivers continuous provision of DDTC's core missions: to influence and to contribute in tax policies' formulation, also elimination of asymmetry of taxation information in Indonesian society, that hopefully can be attained gradually along with the publication of the report.

This form of initiative is getting more important as we can see more clearly now that the dimensions of taxation are not limited just to revenue matter, but also economic competitiveness and development as a whole. Based on this multidisciplinary perspective, "Indonesia Taxation Quarterly Report IV-2019" brings its mission to provide objective, critical and balanced perspective.

Similar to previous reports, this publication starts with updating the most recent tax developments followed by two chapters related to strategic issues: Anticipating Compliance Risk Management and The Future of Local Tax under Omnibus Law.

May this report help us embrace 2020 with relentless hope, confidence along with persistent efforts to support our tax system development. It is our genuine hope to bring maximum impact that will benefit to Indonesia as our beloved nation.

Jakarta, January 2020

Darussalam
Managing Partner DDTC

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Abbreviation

AEoI	= Automatic Exchange of Information
BOP	= Balance of Payment
APBD	= Anggaran Pendapatan dan Belanja Daerah/State Budget
APBN	= Anggaran Pendapatan dan Belanja Negara/National Budget
BEPS	= Base Erosion and Profit Shifting
BI	= Bank Indonesia
BPS	= Biro Pusat Statistik/Central Bureau of Statistics
BO	= Beneficial Ownership
CHT	= Cukai Hasil Tembakau/ Tobacco Product Excise
CIT	= Corporate Income Tax
CRM	= Compliance Risk Management
DGCE	= Directorate General of Customs and Excise
DGT	= Directorate General of Taxes
GDP	= Gross Domestic Product
HJE	= Harga Jual Eceran/Retail Price
IMF	= International Monetary Fund
KEK	= Kawasan Ekonomi Khusus/Special Economic Zone
MLI	= Multilateral Instrument
MSME	= Micro, Small and Medium Enterprise
NPWP	= Nomor Pokok Wajib Pajak/Taxpayer Identification Numbers
OECD	= Organisation for Economic Cooperation and Development
PKP	= Pengusaha Kena Pajak/Taxable Entrepreneurs
PMSE	= Perdagangan Melalui Sistem Elektronik/Trade through Electronic System
P3B	= Perjanjian Penghindaran Pajak Berganda/Tax Treaty
SME	= Small and Medium Enterprise
STLG	= Sales Tax on Luxury Goods
VAT	= Value Added Tax

Executive Summary

Survey of Recent Developments

Indonesia has maintained economic growth momentum against a backdrop of worsening global economic moderation, demonstrating its external resilience. Economic growth in the last quarter of 2019 was recorded at 4.97% (yoy), contracted by 1.74% (q-to-q) captured in the previous quarter. This growth also meant a slight downfall compared to the growth for the same period last year of 5.18%. Cumulatively, total domestic growth throughout 2019 was recorded at 5.02%, lower than the achievement in 2018 (5.17%).

Overall economic stability also contributed to this steady growth aside from the primary support of private consumption. Cumulative inflation rate as one of the indicators, for example, was recorded at 2.72% (yoy and ytd), achieving the 2019 target which was set at the range of 3.5% ± 1.0%. The realization of investment at the end of 2019 also exceeded the target of IDR792 trillion which rose 12.24% compared to 2018. In addition, rupiah also continues to appreciate.

By the end of 2019, the realization of cumulative state revenues reached 90.40% of the 2019 State Budget target, grew by 0.69% compared to the realization in 2018. On the other hand, state expenditure, which is also a part of State Budget components, reached 93.9% of the target with the annual growth of 4.4%.

The realization of cumulative tax revenue in 2019 only amounted to IDR1,332.1 trillion or 84.4% of the target which grew 1.43% (yoy), causing the shortfall of IDR245.5 trillion. The biggest cumulative revenue proportion were Domestic VAT, Corporate Income Tax Article 25/29, and VAT on Import. In terms of growth, Individual Income Tax Article 25/29's growth has convincingly outperformed other taxes' growth and accelerated significantly based on the cumulative revenue. However, this type of tax only contributed less than 1% of total tax revenue in 2019.

Furthermore, Indonesia's ranking in Ease of Doing Business (EoDB) 2020 for Paying Taxes show an improvement from 112th in the previous report to 81st. This better performance is mainly supported by the advancement of time to comply measurement where the time spent to take care of taxes has declined from 208 hours to 191 hours per year. Notwithstanding the ranking of paying taxes, overall score for Indonesia's EoDB shows the stagnancy.

For the issue of domestic taxation, the Directorate General of Taxes (DGT) as tax authority in Indonesia has commenced the implementation of the compliance risk management (CRM) system for carrying out systematic identification, valuation, ranking and treatment of tax compliance based on risk. In line with this, the DGT also has begun to utilize bank customer account data and information to optimize tax revenue considering Law No. 9/2017.

In terms of Custom and Excise, this sector contributed as much as IDR213.27 trillion to the state revenue, reaching 102% of 2019 State Budget target. This is mainly contributed from excise revenue that reached 80.80% of last year target with Tobacco Products excise revenue as the dominant source.

In spite of that, the government officially increased the excise rates of tobacco products per 1 January 2020. Under this provision, the excise rates and retail sale prices of several types of tobacco products have increased by 23% and 35% respectively. In addition, government also plans to restipulate the retail sale price thresholds for electric cigarette.

Anticipating Compliance Risk Management

Generally, CRM can be defined as systematic process of identification, assessment, rating, and appropriate treatment of risk. By acknowledging those risks comprehensively, hopefully CRM will lead to better treatment strategies for each of those risks. In 2004, OECD developed CRM process that consist of: (i) identifying risks; (ii) assess and prioritise risks; (iii) analyse compliance behavior; (iv) determine treatment strategies; and (v) plan and implement strategies. Last but not least, to ensure framework's sustainability, the framework's progress is also need to be evaluated and monitored consistently due to vulnerability caused by external factors

Several countries in Asia and Pasific have enacted, whole or partially, the framework of formal CRM processes. In Denmark, the Danish Tax & Customs Administration started implementing a new compliance strategy in 2007 and it was purposely designed to strike a balance between traditional enforcement activities and innovative treatments in order to arrive at high levels of compliance and high customer satisfaction. Further, the risk database is also used as benchmark for their CRM framework.

In Indonesia, CRM process is divided into extensification, examination & supervision, and billing functions. Each function contains several phases in which could determine its own output. In brief, extensification focuses on the extend of existing tax base, that could be potentially extracted to be considered as new taxpayer. Meanwhile, examination & supervision related to the ongoing process after extensification phase, more or less maintaining current situation. Lastly, billing function focuses on tax revenue collection, i.e., how to get paid by those extended tax base. .

According to OECD, changes in how revenue bodies are operating today could affect CRM framework. Four aspects of the changing tax compliance environment are: (i) the hugely increased availability of data; (ii) sharpened targeting of risks; (iii) co-operative compliance and transparency; and (iv) increased automation of compliance checks.

In the age of data, risk analysis utilizes the abundance of information retrieved from tax-related sources such as individual income tax administration, VAT invoices, export tax rebates, until financial-related data such as credit card information, ATM cash withdrawals, banks, payment service providers, and cryptocurrency exchanges. This integrated information could sharpen targeting of risks, increasing the probability of transforming data into insight, thus will likely to increase the probability of targeting the correct taxpayers. Also, the introduction of dispute's substitution scheme portrayed in co-operative compliance, and the use of robot-tax (automation) in the tax system, make the whole tax administration system more effective and efficient.

Hence, staff in tax centers of revenue authority must be equipped with adequate data management as well as information-related skill and should be balanced with excellence communication skill in order to be adaptable to the changing environment and implementing CRM in an appropriate manner.

The Future of Local Tax under Taxation Omnibus Law

It has been stated that the government plans to re-regulate the interplay of local tax and retribution under the omnibus tax law, whose objective is to boost investment in the country. General Director of Fiscal Balance has stated, nevertheless, that the local government will remain as the holder of the authority.

The idea is to ensure investors that there will be no differences in treatment wherever they intend to invest. In short, tax is ought to be non-distorting toward business decision making.

So, it seems that under Omnibus Law, new balance is going to be redefined to achieve what is best for both local tax revenue and the economy. Before presenting a critical view on how to get the right balance, this chapter starts by elucidating the challenges faced by local governments and how they are going to face them. This way, we can have a more holistic idea on how investment can be boosted without sacrificing local revenue performance.

The main change is, as stated by General Director of Fiscal Balance of Ministry of Finance, Astera Primanto Bhakti, the omnibus law will open the gate for central government to set the tariffs. The purpose is to eliminate differences of tax treatment between regions in Indonesia, so that tax would not distort the decision making of investors in choosing which regions they wish to put their capital. The determination then will be determined accordingly through further regulations.

Given the current situation and the direction where we are going, it is logical that the central government wants to ensure that central and regions have the same spirit in advancing development. Disparity between the two would result downturn in both fiscal and investment. However, it is without risks afterwards for the central government in implementing the omnibus law.

First, if the central government is about to intervene certain local tax rate, there will be ‘costs’ incurred, either in terms of time, energy and also politics. The related region should put effort to revise its law and all related instruments. In other words, every intervened local governments will certainly add the total costs arise due to the revision.

To anticipate and minimize this, the central government should consider how to minimize the burden and ease up the process in region. If this phase can go well, the next round in the future should be more predictable since the local governments should have similar understanding with the central government.

To ensure that, derivative regulations should be able to clarify the process in detail, including what corridor of policy design should be followed, how long the local government should change its tax rate when being intervened and other technicalities.

Second, we should note that tax burden is not only determined by the tax rate, but also the tax base calculation. The central government should ensure that there will be no ‘room’ in the regulation that can be exploited to violate the spirit of the omnibus law. The local governments need to be confident that the law will be reliable and not be tricked by other regions.

Third, we cannot deny that the taxation omnibus law plan will potentially limit the local governments’ freedom in deciding what is best to improve their tax collection performance. Consequently, at least in the near future, it will be likely that local governments would still rely on the transfer fund from central government in their budget. With that said, the central government should have considered this in their fiscal balance policy.

Fourth, there should be assurance that any local laws that are to be changed are to be conducted in a way that would not create law unambiguity or otherwise there could be potential resistance. As we know, in 2017, Constitutional Court (Mahkamah Agung) has shut down the central government’s autonomy in revoking local regulations. If the central government is to succeed the objective of the taxation omnibus law, then the procedure needs to be heavily formulated in certain way that would result in harmony.

Survey of Recent Developments

This chapter describes the taxation circumstances during the fourth quarter of 2019. They include highlights and key trends on policy, administration and law on macro-fiscal situations, revenue performance, issues on domestic tax, customs and excise, non-tax revenue and local taxes, international aspects of Indonesian taxation and global trends.

1 Chapter Survey of Recent Developments

Indonesia has maintained economic growth momentum against a backdrop of worsening global economic moderation.

A. Macro-Fiscal Framework

Indonesia has maintained economic growth momentum against a backdrop of worsening global economic moderation, demonstrating its external resilience. Economic growth in the last quarter of 2019 was recorded at 4.97% (yoy), contracted by 1.74% (q-to-q) captured in the previous quarter. This growth also meant a slight downfall compared to the growth for the same period last year of 5.18%. Cumulatively, total domestic growth throughout 2019 was recorded at 5.02%, lower than the achievement in 2018 (5.17%).

Sectors that saw the highest annual growth compared to the fourth quarter of 2018 were the Other Services (10.78%), Business Services (10.49%), and Information & Communication (9.41%). The largest contributors to such growth were from the Manufacturing Industry especially non-oil and gas (19.63%), Wholesale and Retail Trade with Vehicle Repair (13.01%), and Construction (10.75%). However, with such proportion to total Gross Domestic Product (GDP), these sectors' annual economic growths were only at 3.66%, 4.24%, and 5.75% respectively for the last quarter of 2019.

Throughout last year, Other Service Sectors obtained the highest growth (10.55%) but its share to total GDP was only 1.95%. On the other hand, similar to 2018, Manufacturing Industry remained as the biggest contributor in terms of the biggest share of total GDP. This sector's contribution to total GDP and growth in 2019 were recorded at 19.70% and 4.29%.

Based on expenditure approach, the highest cumulative growth of Indonesia's GDP for the fourth quarter was captured by the Household Non-Profit Institution (LNPRT) Consumption Expenditure of 10.62%. Household Consumption as the biggest contributor of total GDP by expenditure, however, only grew by 5.04%. In comparison, the respective proportion of Household Consumption and LNPRT Consumption to total GDP in the fourth quarter of 2019 were 57.32% and 1.27%.

In terms of other macroeconomic indicator, the inflation rate for the calendar year (January – December 2019) recorded at same rate, 2.72% (yoy and ytd) with core inflation rate at 3.02% (yoy and ytd).

In terms of other macroeconomic indicator, the inflation rate for the calendar year (January – December 2019) recorded at same rate, 2.72% (yoy and ytd) with core inflation rate at 3.02% (yoy and ytd). This nominal achieved the 2019 target which had been set by the government at level of 3.5% with the range of 3.5% ± 1.0%. In addition, cumulative goods trade balance throughout this year captured a USD3.20 billion deficits with the change of 63.26% compared to last year. This improvement was primarily caused by the decrease of import value, especially from raw/auxiliary materials.

International Monetary Fund (IMF) projected a revised version of rising global growth, from 2.9% in 2019 to 3.3% in 2020.

Furthermore, Indonesia's Balance of Payment (BOP) also showed signs of improvement in the third quarter of 2019 by recording a considerably narrower deficit (USD46 million) compared to deficit in the second quarter (USD2.000 million). These accomplishments were supported by lower current account deficit coupled with a larger surplus of capital account and financial account. As a result, the position of official reserve assets as the end of September 2019 reached USD124.3 billion, which was equivalent to 6.9 months of imports and official debt repayment and well above the international adequacy standard of three months of import.

The realization of Indonesia's investment in 2019 also showed a steady progress. Amounted to IDR809.6 trillion, this realization exceeded the target of IDR792 trillion and rose 12.24% compared to 2018. The biggest contribution of this realization came from foreign investment with Singapore as the largest investor. The investment value of Singapore last year reached US$6.5 billion with 7,020 projects and contributed 23.1% of the total investment value. However, that value fell by around 29% compared to Singapore's investment in 2018.

Related to monetary policy, the BI Board of Governors agreed on 18 and 19 December 2019 to hold the BI 7-Day Reverse Repo Rate at 5.00%, while also maintaining the Deposit Facility (DF) and Lending Facility (LF) rates at 4.25% and 5.75%. In this last quarter of 2019, the rupiah also continues to appreciate. As of mid of December 2019, the rupiah strengthened by 0.93% (point to point) on the November 2019 level, thus appreciating 2.90% (ytd) since the beginning of the year.[1]

At the end of 2019, the realization of cumulative state revenues reached IDR1,957.17 trillion (90.40% of the 2019 State Budget target), grew by 0.69% compared to the previous year's realization. Indonesia state revenue itself as stated in State Budget consists of taxation revenue, non-taxation revenue, and grants where the values respectively were IDR1,545.37 trillion, IDR405,00 trillion and IDR6.80 trillion. Therefore, the proportions of each realization and target over the past year were equal to 85.61%, 107.06%, and 1,562.11%.

The state expenditure, which also a part of State Budget components, reached the value of IDR2,310.2 trillion (93.9% of the target) with the growth of 4.4% (yoy) until the end of December 2019. Accordingly, the state expenditure consists of central government expenditure and transfers to regions with the village funds.

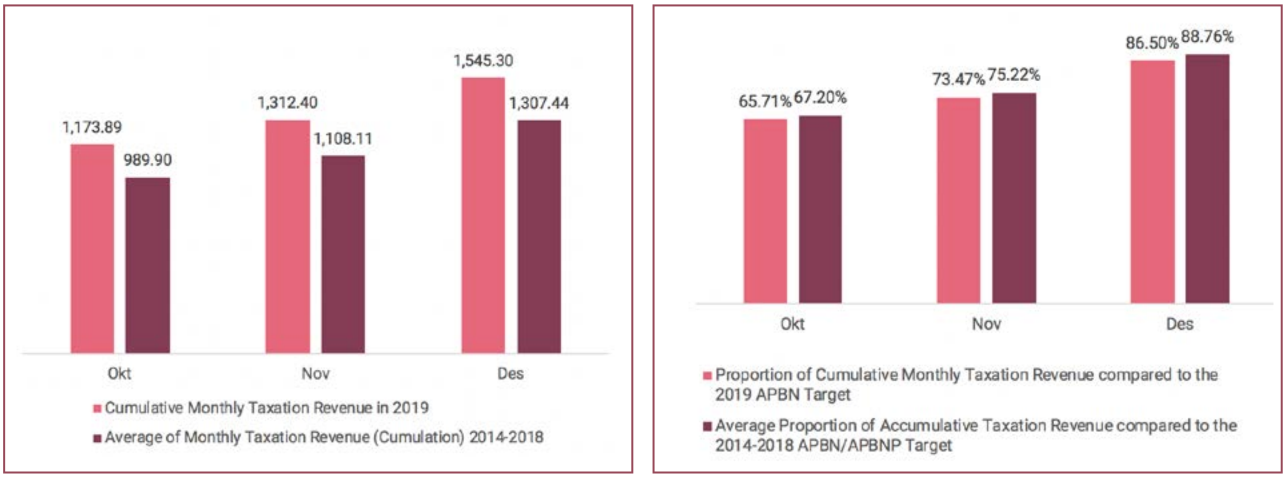
The realization of central government expenditure reached IDR1,498.9 trillion or similar with 98.1% of the ceiling set by government. It increased by 3.0% (yoy), mainly due to the realization of Social Expenditures Aid which reached 110.80% of the State Budget target or increased by 34.11% (yoy). Therefore, it makes the (temporary) realization of State Budget deficit until the end of 2019 reached IDR353.0 trillion, that is around 2.20% of GDP.

In the context of global economy, International Monetary Fund (IMF) projected a revised version of rising global growth, from 2.9% in 2019 to 3.3% in 2020.[2] This IMF'S projection is a downward revision of 0.1 percentage point for these two years compared to data in the October 2019 World Economic Outlook (WEO), which primarily reflects negative surprises to economic activity in a few emerging market economies and the impact of increased social unrest.

1 Investor Relation Units – Bank of Indonesia, "Republic of Indonesia: It Is All About Reforms" (December 2019), Internet, can be accessed at: https://www.bi.go.id/en/iru/presentation/red/Pages/Republic-of-Indonesia-Presentation-Book---December-2019.aspx.

2 International Monetary Fund (IMF), "Tentative Stabilization, Sluggish Recovery?," *World Economic Outlook Reports* (2020): 1 – 10.

Figure 1. Comparison of Taxation Revenue for the Period of October to December in 2019 and in the Average of Previous Five Years (Trillion Rupiah and Percentage)[3]



Source: Ministry of Finance (Processed by DDTC Fiscal Research). The monthly taxation revenue data is derived from the realization of State Budget/the Revised State Budget for the data of 2014 to 2017[4] and APBN KiTa for data of 2018 to 2019.[5] The 2014-2017 Revised State Budget data is derived from the Revised State Budget Law while for 2018 and 2019, data from the revised State Budget Law is used as the Revised State Budget will not/has yet to be issued.[6]

World Bank estimated a global growth of 2.4% in 2019 and 2.5 % in 2020, following an expected recovery of trade and investment.

In addition, World Bank estimated a global growth of 2.4% in 2019 and 2.5 % in 2020, following an expected recovery of trade and investment.[7] For the East Asia and Pacific (EAP) region, the growth is projected to slow from an estimated 5.8% in 2019 to 5.7% in 2020 where Indonesia's real growth itself is estimated at 5.0% in 2019 to 5.1% in 2020.[8] This steady growth is supported by a conducive situation of domestic's private consumption and a positive contribution from net exports amid import compression.[9]

B. Revenue Performance

1. Revenue Performance from Taxation Sector

For the fiscal year 2019, state revenue from taxation has reached IDR1,545.3 trillion. The components of this taxation revenue involve both taxes revenue and receipts from custom and excise sectors, handled by the Directorate General of Taxes (DGT) and the Directorate General of Customs and Excises (DGCE), as well as collaboration of both.[10]

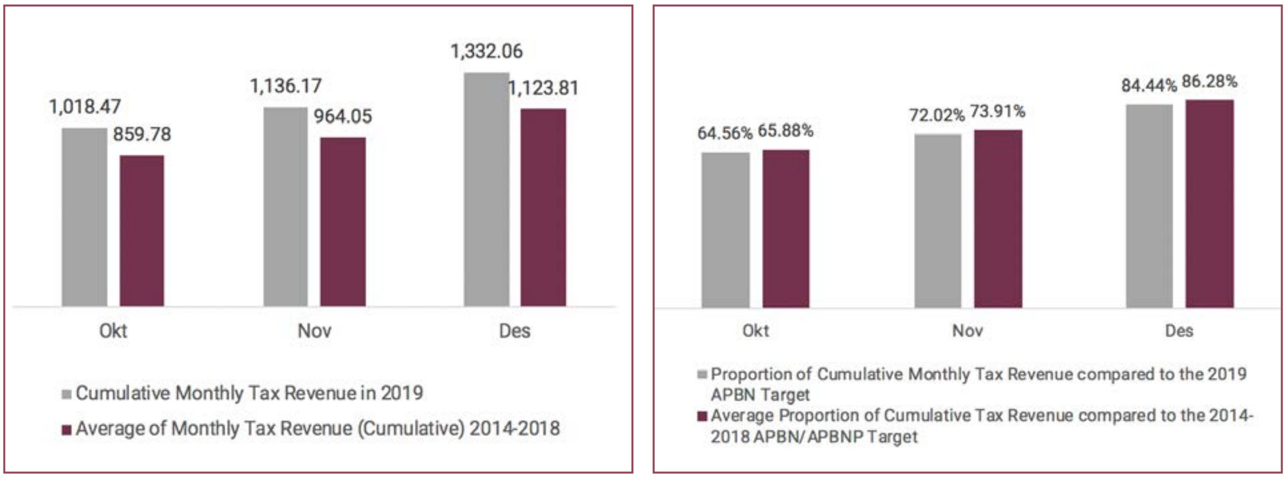
3 Tax revenue in 2017 includes tax revenue data with Tax Amnesty and Asset Revaluation.
4 Ministry of Finance of the Republic of Indonesia, "*Realisasi APBN*/ State Budget Realization, Internet, can be accessed at: https://www.kemenkeu.go.id/informasi-publik/realisasi-apbn/.
5 Ministry of Finance of the Republic of Indonesia, "*APBN KiTa*/ State Budget: Performance and Facts," Internet, can be accessed at: https://www.kemenkeu.go.id/publikasi/apbn-kita/.
6 Law no. 12 of 2014 concerning the Amendment to Law No. 23 of 2013 concerning the State Budget for the Fiscal Year 2014 (2014 APBNP Law), Law No. 3 of 2015 concerning the Amendment to Law No. 27 of 2014 concerning State Budget for Fiscal Year 2015 (2015 APBNP Law), Law No. 12 of 2016 concerning the Amendment to Law No. 14 of 2015 concerning the State Budget for Fiscal Year 2016 (2016 APBNP Law), Law No. 8 of 2017 concerning the Amendment to Law No. 18 of 2016 concerning the State Budget for Fiscal Year 2017 (2017 APBNP Law), Law No. 15 of 2017 concerning the State Budget for Fiscal Year 2018 (2018 APBN Law), and Law No. 12 of 2018 concerning the State Budget for Fiscal Year 2019 (2019 APBN Law).
7 World Bank. *Global Economic Prospects, January 2020: Slow Growth, Policy Challenges* (Washington, DC: World Bank, 2020), 26.
8 *Ibid,* 301.
9 *Ibid*, 64.
10 The kind of taxes which are jointly managed by the DGT and DGCE is tax on imports (*Pajak dalam Rangka Impor*/PDRI) where the DGCE is the party that carries out the collection. Moreover, the revenue of Tax on imports will be considered as the revenue performance of the DGT.

Table 1. Revenue Performance per Type of Tax for the Period of October to December 2019 (Accumulative)

Type of Tax	Realization (Trillion Rupiah)			Growth (yoy 2018 - 2019)		
	Oct	Nov	Dec	Oct	Nov	Dec
Income Tax	605.09	668.61	777.4	2.15%	2.64%	2.71%
Oil and Gas	49.27	52.89	59.1	-9.27%	-11.51%	-8.68%
Non-Oil and Gas	556.63	615.72	711.2	3.30%	4.07%	3.78%
VAT and STLG	388	441.18	532.9	-4.24%	-4.07%	-0.81%
PBB and Other Taxes	24.57	26.37	28.9	37.58%	n.a	15.99%
Total	1,018.47	1,136.17	1,332.06	0.23%	-0.04%	1.43%

Source: Ministry of Finance (APBN KiTa October – December 2019)

Figure 2 Comparison of Tax Revenue for the Period of October to December 2019 and the Average for the Last Five Years (2014-2018) in Trillion Rupiah and Percentage[11]



Source: Ministry of Finance (APBN KiTa October – December 2019)

Annual growth of tax revenue for the fourth quarter of 2019 are considered as very low, pointing to a continued tax revenue acceleration in previous year.

By the end of 2019, the realization of taxation revenue reached 86.50% of the target of the 2019 state budget. In aggregate, the growth per October, November, and December 2019 were relatively low, grew by only 1.18%, 0.83%, and 1.75% respectively compared to realization of the same period last year. Figure 1 depicts a comparison of the state revenue's performance from taxation sector.

2. Revenue Performance from Tax Sector

In October 2019, the realization of tax revenue reached IDR1,018.47 trillion or 64.56% of the 2019 State Budget target. Further, as of November 2019, the realization of tax sector's state revenue contributed as much as 72.02% of the 2019 State Budget target with revenue of IDR1,136.17 trillion. The comparison of tax revenue's performance over those three-month period is depicted in the figure 2.

To this end, yoy annual growth of tax revenue for the fourth quarter of 2019 grew at 0.23%, -0.04%, and 1.43% respectively. Still, these nominals are considered as very low, pointing to a continued tax revenue acceleration in previous year. Over the same period in 2018, the growth for cumulative revenue of October, November, and December reached 17.64%, 15.35%, and 14.33% (yoy 2017-2018).

Overall, the total tax revenue in November 2019 slowed the worst compared to October and December. As is apparent, this may reflect the decelerated growth in income tax (oil and gas), VAT, and STLG. It should be noted that, according to DGT, this decelarated growth of VAT occurred because there was a shift in the time of depositing.[12] In 2019,

11 Tax revenue in 2017 includes tax revenue data with Tax Amnesty and Asset Revaluation.
12 Based on information cotained from Directorate General of Taxes official website.

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

Type of Tax	Growth (yoy 2018 - 2019)		
	Oct	Nov	Dec
Income Tax			
Article 25/29 Income tax	0.01%	1.81%	1.72%
Corporate	-0.70%	1.18%	1.07%
Individual	16.35%	16.59%	19.38%
Final Withholding Tax	6.41%	6.73%	7.86%
Article 21 Income Tax	9.77%	10.58%	10.17%
Value Added Tax			
Domestic VAT	-2.42%	-1.76%	3.71%
Taxes on Imports			
Import VAT	-7.25%	-7.88%	-8.13%
Import STLGs	14.98%	13.96%	15.04%
Article 22 Income Tax on Imports	-0.91%	-1.47%	-1.94%

Source: Ministry of Finance (APBN KiTa October – December 2019)

November's annual growth for oil and VAT-STLG shrank to -11.51% and -4.07%, differ significantly to 15.01% and 14.11% in 2018. Import of oil reduced drastically mainly due to declining value of crude oil[13], largely affect tax revenue on that sector. However, non-oil sector – undoubtedly the biggest sector of tax revenue – contributed approximately more than 50% of total tax revenue and fortunately still has experienced positive growth.

Table 3. Performance of Sectoral Tax Revenue for the Period of October to December 2019 in Accumulation

SECTOR	Realization (Trillion Rupiah)			Growth (yoy 2018 - 2019)		
	Oct	Nov	Dec	Oct	Nov	Dec
Trade	197.47	219.34	246.85	2.50%	2.20%	2.90%
Manufacture	277.33	312.9	365.39	-3.50%	-3.10%	-1.80%
Financial Services	137.38	151.2	175.98	7.00%	6.90%	7.70%
Construction and Real Estate	64.8	73.3	89.65	-0.10%	0%	3.30%
Transportation and Warehousing	40.32	44.15	50.33	17.90%	16.30%	18.70%
Mining	47.39	52.49	66.12	5.00%	-20%	-19.00%

Source: Ministry of Finance (APBN KiTa October – December 2019)

In particular, the biggest revenue proportion in the period of January to December 2019 were Domestic VAT (IDR364.31 trillion), Corporate Income Tax Article 25/29 (IDR256.74 trillion), and VAT on Import (IDR171.25 trillion). From those taxes, only import VAT showed negative growth in December 2019. Their growths were 3.71%, 1.07%, and -8.13% (yoy 2018-2019) as shown in table 2.[14]

In contrast to the CIT Article 25/29, Individual Income Tax Article 25/29's growth has convincingly outperformed other taxes' growth and accelerated significantly in December based on the cumulative revenue from January to December 2019, along with the growth of STLGs on import. Similarly, positive growth performances were also shown by Final Income Tax and Individual Income Tax Article 21. However, the Income Tax Article 22 on Import failed to maintain previous quarter's performance, stood at negative growth during the end quarter of 2019.

Decelerated growth of CIT Article 25/29 was mainly due to slowed performance of mining sector, especially the plummeting of coal prices.[15] By corolllary, abundance supply of coal in global market leads to the fallen price. Concerning this issue, potentially a trade agreement between US and China is predicted to lower the trade war tension, thus will likely affect global trade in becoming a better and conducive environment.

Looking further, six sectoral tax revenue's performances showed important implication to be considered, notably trade, manufacture, financial services, construction and real estate, transportation and warehousing, and mining sectors.[16] At the end quarter of 2019, those combined sectors collected IDR994.32 trillion in tax revenue with 74.64% contribution of the tax revenue realization in 2019.

Similar to the previous quarter, the highest sectoral growth in this end quarter was contributed by the transportation-warehousing sector. Last

13 Based on data retrieved from Ministry of Finance.
14 Ministry of Finance Republic of Indonesia, *APBN KiTa Edition of January 2019* (Jakarta: 2018), 34.
15 Based on information contained on press release of Ministry of Energy and Mineral Resources Number 695.Pers/04/SJI/2019.
16 Based on information contained in APBN KiTa as the government's official document.

Table 4. Performance of Customs and Excise Revenue from October to December 2019 in Accumulation

Type of Customs and Excise	Realization (Trillion Rupiah)			Growth (yoy 2018 - 2019)		
	Oct	Nov	Dec	Oct	Nov	Dec
Duties						
Import Duties	30.16	33.59	37.45	-6.25%	-5.04%	-4.27%
Export Duties	2.87	3.18	3.49	n.a	-48.49%	-48.45%
Excise	122.4	139.46	172.33	15.29%	13.10%	8%
Excise on Tobacco Products (CHT)	116.83	143.66	164.87	15.36%	13.69%	7.80%
Beverages Containing Ethyl Alcohol (MMEA)	5.4	6.2	7.34	14.27%	15.49%	14.30%
Ethyl Alcohol (EA)	0.1	0.11	n.a	n.a	n.a	n.a

Source: Ministry of Finance (APBN KiTa October – December 2019)

year (yoy 2017-2018), this sector has already grew steadily at 14.40%, but still can be outgrew by as much as 4.30% compared to the growth in 2019 (yoy 2018-2019). Another interesting fact is that, for mining sector, the growth initially stood confidently at 50.70% in 2018 but plunged this year to a negative growth of 19% (yoy 2018-2019)[17]. As mentioned earlier, much of this decelaration of growth is driven by plummeting coal prices, contributing to this undesirable growth.

Meanwhile, manufacture industry has also experienced negative growth despite of positive growth in a year before (yoy 2017-2018). In general, other sectors experienced contracted growth compared to previous year's performance, namely trade, financial services, and construction.

Throughout 2019, revenue from excise reached 80.80%, pointing to a large revenue proportion within Customs and Excise sector.

3. Revenue Performance from Custom and Excise Sector

Throughout 2019, revenue from excise reached 80.80%, pointing to a large revenue proportion within Customs and Excise sector. In light of imposition, excise can be accessed through goods (object) and people (subject). Object consists of ethyl alchohol (*etil alkohol*/EA), beverages containing ethyl alchohol (*minuman mengandung etil alkohol*/MMEA), and excise on tobacco products (*cukai hasil tembakau*/CHT). Meanwhile, subject includes business owners, importers, and distributors of those goods.

As of December 2019, Custom and Excise sector itself contributed as much as IDR213.27 trillion to the state revenue and this revenue has reached 102% of the target in the 2019 State Budget. However, this achievement is relatively smaller than last year, which was able to reach 105.90% (yoy 2017-2018).

The revenue realization from import duties from January to December 2019 was IDR37.45 trillion where export duties contributed around IDR3.49 trillion. These two duties respectively reached around 96.20% and 79.70% of this year target. Nevertheless, there was a big contraction in export duties in which experienced significant portion of negative growth. Still, Excise on Tobacco Products dominates the overall revenue from customs and excise sector and grew positively at 7.80% this year.

C. Domestic Tax

1. Income Tax

The Certainty of Article 25 Income Tax Installments

The tax authority has affirmed the provisions concerning net income used as the basis for calculating Article 25 income tax installments. This affirmation is stated in the Director General of Taxes Circular No. SE-25/PJ/2019. In terms of Article 25 income tax installments of bank taxpayers, public listed taxpayers, and other taxpayers, net income as the basis for calculating installments refers to commercial net income. The regulation is intended to provide certainty and ease for taxpayers in calculating income tax installments in the current year.

17 Ministry of Finance Republic of Indonesia, *APBN KiTa Edition of January 2019* (Jakarta: 2018), 40.

The government has revised tax allowance incentive policies.

The End of the Repatriation Fund Holding Period

The repatriation fund holding period for tax amnesty period I and II ended on 31 December 2019. Based on the 2016 DGT Annual Report data, the total repatriated assets in period I and II amounted to Rp.114.16 trillion. Funds or assets that have exceeded the holding period may be repatriated anywhere. The Directorate General of Taxes expects that the repatriated funds will remain in Indonesia despite the expiration of the holding period.

The government plans to amend the provisions on tax holidays utilized in Special Economic Zones

Revision On Tax Holiday Provisions

The government plans to amend the provisions on tax holidays utilized in Special Economic Zones (*Kawasan Ekonomi Khusus*/KEK). The amendments include the amount and duration of incentives. These two aspects are to use fixed figures to prevent uncertainty and multiple interpretations. The following are the details of the incentive formula, *first, i*nvestment of Rp100 billion – Rp500 billion (tax holiday for up to 5 years). *Second*, an investment of Rp500 billion –Rp2.5 trillion (up to 7 years). *Third*, an investment of Rp2.5 trillion – Rp7.5 trillion (up to 10 years). *Fourth, i*nvestment of Rp7.5 trillion – Rp20 trillion (up to 15 years). *Fifth,* an investment of Rp20 trillion (up to 20 years). There is, however, a 2-year transition period that means the tax holiday that may be enjoyed for 2 years amounts to 50%.

The government will also provide a mini tax holiday for business activities with an investment of Rp20 billion to Rp100 billion over 5 years with a tax reduction of 50%. There is a transition period for a mini tax holiday of 25% for 2 years.

The discussion pertaining to the policy draft of the omnibus law scheme is planned to commence in early 2020.

The Number of MSME Taxpayers Increases, but Revenue Declines

The DGT states that there has been an increase in the number of micro, small and medium enterprise (MSME) taxpayers who paid taxes after a reduction in the final withholding tax rate. The number of MSME taxpayers who have paid taxes has increased since the reduction in the final withholding rate from 1% to 0.5% through Government Regulation (*Peraturan Pemerintah*/PP) No. 23/2018. As of the end of August 2019, the tax-paying MSME taxpayers increased by 33% from 1,295 taxpayers in 2018 to 1,724 taxpayers this year. The increase in the number of taxpayers, however, has yet to compensate for the risk of decreased revenue.

Changes to Tax Allowance Provisions

The government has revised tax allowance incentive policies. This is stated in Government Regulation No. 78/2019 concerning Income Tax Facilities for Investments in Certain Business Fields and/or in certain regions. There were formerly 145 business sectors divided into 71 specific business sectors and 74 certain business sectors located in certain regions. The new regulation, however, sets forth 183 business sectors that are entitled to tax allowance incentives. The number is divided into 166 specific business sectors and 17 certain business sectors located in certain regions.

Moreover, there are provisions for additional period of tax allowance utilization. 1 year extra is provided for taxpayers' investments in certain fields and/or certain regions. 1 year extra is also provided for investments in new and renewable energy.

Further, there are also some changes to the addition of the use of tax allowance. First, one year extra for additional employment of a minimum of 300 Indonesian workers for 4 consecutive years. Second, two years extra for additional employment of a minimum of 600 Indonesian workers for four consecutive years. Third, one year extra if the taxpayers a minimum of 70% of domestically produced raw materials and/or components no later than the second taxable year.

Discussion of the Omnibus Law Starts in 2020

At the end of 2019, the draft of omnibus law tax facility was finalized. The discussion pertaining to the policy draft of the omnibus law scheme is planned to commence in early 2020.

The Ministry of Finance Facilitates the Provision of Fiscal Facilities for Contractors of Cooperation Contract

The Ministry of Finance facilitates the process of fiscal facilities provision for Contractors of Upstream Oil and Gas Cooperation Contract (*Kontraktor Kontrak Kerja Sama*/K3S). The process of import duty exemptions for the imports of operational goods is accelerated through the Indonesia National Single Window (INSW) system. The single submission-fiscal facility services to K3S provides two benefits, namely efficiency, and acceleration of the transaction process. The INSW system collects all K3S applications to obtain government fiscal facilities.

The government has simplified the registration mechanism to become a taxable person for VAT purpose of retail stores wishing to participate in the VAT Refund scheme in the tourism sector.

2. VAT & STLGs

Simplified Registration Mechanism of VAT Refund for Retail Stores Taxable Entrepreneurs

The government has simplified the registration mechanism to become a taxable person for VAT purpose (*pengusaha kena pajak/PKP*) of retail stores wishing to participate in the VAT Refund scheme in the tourism sector. This simplification is stipulated in the Director General of Taxes Regulation No. PER-17/PJ/2019 concerning the Registration Procedures and the Obligations of PKP Retail Stores Participating in the Value Added Tax (VAT) Refund for Foreign Tourists Scheme. Under the new regulation, a PKP of retail stores who is willing to participate is only required to register electronically through the VAT Refund for Tourists application on the webpage of Directorate General of Taxes (DGT). The DGT thereafter issues a printable decision letter regarding the appointment as PKP of Retail Stores on the same application. This differs significantly from the previous regulation.

Re-stipulation of Sales Tax on Luxury Goods (STLGs) Provision for Motor Vehicles

The government has re-stipulated the rates of Sales Tax on Luxury Goods (STLGs) imposed on motor vehicles. The new provisions are contained in PP No. 73/2019. Changes in motor vehicle rates are classified into 4 groups according to the type of vehicles. First, motor vehicle rates are divided into two groups, namely 9 different rates for motor vehicle transport for fewer than 10 people, ranging from 15% to 70% and 5 different rates for motor vehicles for 10 to 15 people, ranging from 15% to 30%.

Second, dual cabin vehicles are categorized into 3 groups based on the cylinder capacity. Vehicles with a cylinder capacity of 3,000 cc are imposed with layers of rates, ranging from 10% to 15 %. Vehicles with a cylinder of more than 3,000 cc to 4,000 cc are imposed with 3 layers of rates, ranging from 20% to 30% and the electric motor vehicles are imposed with a single-layer rate of 15%.

Third, the Government Regulation outlines the SLTGs rates for four-wheel motor vehicles with low carbon emissions. The rate is set at 15% with a tax base (*dasar pengenaan pajak*/DPP) of 0%. Fourth, the rates for other types of vehicles. Each rate layer is based on fuel consumption and the level of CO2 emissions. The previous regulation categorized the rates based on the type of axle. This Government Regulation will come into force in two years since the promulgation.

D. Customs and Excise

Increase in Excise Rates on Tobacco Products

The government officially increased the tobacco products excise (*cukai hasil tembakau*/CHT) rates on 1 January 2020. The rate increase is stated in Minister of Finance Regulation No. 152/ PMK.010/2019. Under the regulation, the government raised the excise rates and retail sale prices of several types of tobacco or cigarette excise by 23% and retail sale prices (*harga jual eceran*/HJE) by 35%. The largest increase in cigarette excise rates was 29.96% for Machine-made White Cigarettes (*Sigaret Putih Mesin*/SPM). The rates for Filter-tipped Hand-rolled Clove Cigarettes (*Sigaret Kretek Tangan Filter*/SKTF) rose by 24.42%, Machine-made Clove Cigarettes (*Sigaret Kretek Mesin*/SKM) by 23.49%, and Hand-rolled Clove Cigarettes (*Sigaret Kretek Tangan*/SKT) by 12.84%. Banderoles that have been ordered with the old rates may still be used no later than 1 February 2020.

To develop books and encourage the growth of the national book industry, the government provides fiscal incentives.

Incentives for Imports of Book Printing Raw Materials

To develop books and encourage the growth of the national book industry, the government provides fiscal incentives. Such provisions are stipulated in Government Regulation No. 75/2019 concerning the Implementation of Law No. 3/2017 concerning Book System. The fiscal incentives comprise exemptions or reductions of import duty for the imports of printing equipment and raw materials.

The government has imposed safeguard import duty (bea masuk tindakan pengamanan/ BMTP) on imports of aluminum foil, textile and textile products.

Safeguard Import Duty for Aluminum Foil Products

The government has imposed safeguard import duty (*bea masuk tindakan pengamanan*/BMTP) on imports of aluminum foil products. This is stated in Minister of Finance Regulation No. 153/PMK.010/2019 which was signed on 24 October 2019. This regulation was issued to recover from the threat of serious losses to the domestic industry. BMTP is imposed on imported goods in the form of aluminum foil products that are not printed or are not placed on paper, cardboard, plastic, or similar bases. Moreover, the thickness of the aluminum foil product should not exceed 0.2 mm, is rolled but not further processed, and the aluminum content is 97.5% or higher of its weight.

The government plans to restipulate the retail sale price (harga jual eceran/HJE) thresholds for liquid electric cigarette or vape.

Temporary Safeguard Import Duty for Imports of Textiles and Textile Products

The government has imposed temporary safeguard import duty (*bea masuk tindakan pengamanan sementara*/ BMTPS) on imports of textile and textile products. The imposition of BMTPS is contained in three Minister of Finance regulations (MoF Reg.). *First*, MoF Reg. No.161/PMK.010/2019 concerning the Imposition of Temporary Safeguard Import Duty on Imports of Yarn Products (Other Than Sewing Thread) from Synthetic and Artificial Staple Fibers. *Second*, MoF Reg. No.162/PMK.010/2019 concerning the Imposition of Temporary Safeguard Import Duty on Imports of Textile Products. *Third,* MoF Reg. No.163/ PMK.010/2019 concerning the Imposition of Temporary Safeguard Import Duty on Imports of Curtain Products (Including Gordyne), Inner Blinds, Bed Nets, and Other Furniture Items.

Bonded Warehouse Rules Updated

To support the national industry road map and boost Indonesia's economic growth through the role of customs facilities, the government issued MoF Reg. Number 155/PMK.04/2019 concerning Bonded Warehouses. The regulation adds and specifies the operation and organization of bonded warehouses and the forms/ specifications of bonded warehouses. Taking effect as of 5 December 2018, this regulation revokes MoF Reg. No. 143/PMK.04/2011 concerning Bonded Warehouses. The regulation tightens the provisions regarding the requirements for the establishment of bonded warehouses.

Retail Sale Price Thresholds Plan for Vape

The government plans to restipulate the retail sale price (*harga jual eceran*/HJE) thresholds for liquid electric cigarette or vape. The HJE thresholds for liquid vape may be in the range of HJE increase for Machine-made Clove Cigarettes (*Sigaret Kretek Mesin*/SKM), Machine-made White Cigarettes (*Sigaret Putih Mesin*/ SPM), or Hand-rolled Clove Cigarettes (*Sigaret Kretek Tangan*/SKT).

Procedures for Excise Exemptions

The government has revised the provisions on excise exemptions through the Minister of Finance Regulation No. 172/PMK.04/2019. Under this regulation, the government exempts the obligation to store ethyl alcohol in a separate place within the location of the company thereof for entrepreneurs who produce biofuels. Further, the regulation outlines the provisions regarding the minimum levels of ethyl alcohol for social purposes that are entitled to excise exemptions. The government has also added excise exemptions for beverages containing ethyl alcohol for general worship purposes.

Amendments to Provisions on Import Duty Exemptions on Goods Imported by the Government

The government has issued a new regulation pertaining to import duty exemptions on goods imported by the government for the public interest. This is stated in MoF Reg. No.171/ PMK.04/2019. Under this regulation, the government expands import duty exemptions. There are two requirements for import duty exemption. *First,* if the goods imported by the government are goods of which the purchases are financed by the State Budget or Regional Budget. *Second,* the imported goods originate from grants.

The DGT has commenced the implementation of the CRM.

E. Tax Administration

The DGT Starts to Implement Compliance Risk Management (CRM)

The DGT has commenced the implementation of the compliance risk management (CRM) system in accordance with the mandate in the Directorate General of Taxes (DGT) Circular No. SE-24/PJ/2019. CRM is a structured process for carrying out systematic identification, valuation, ranking and treatment of tax compliance based on risk. [18] The DGT will establish the List of Extensification Targets (*Daftar Sasaran Ekstensifikasi*/DSE) which will be used as an instrument to expand the tax base. This policy will subsequently to used to map taxpayers based on the degree of compliance. With this system, non-compliant taxpayers become the DGT's priority supervision targets. The CRM system may encourage taxpayers to voluntarily provide information about tax liabilities and commercial conditions[19] so as to engender cooperative compliance.

The government continues to facilitate state revenue payment services through cooperation with the marketplace.

Ease of Tax Payments

The government continues to facilitate state revenue payment services through cooperation with the marketplace. This policy is supported by the issuance of the Director General of the Treasury Decree No. 170/2019 and No. 179/2019. The two decrees designate Tokopedia and Bukalapak as other tax payment institutions that implement the state revenue system electronically.

The DGT is preparing supporting infrastructure for the unification of periodic income tax return.

In addition, to ease tax payments, the Ministry of Finance, the Financial Services Authority (OJK), and the banking industry collaborate to facilitate the public in paying taxes. A pilot project for tax payment through the Officeless Financial Services in Inclusive Financial Framework (*Layanan Keuangan Tanpa Kantor dalam Rangka Keuangan Inklusif*/ Laku Pandai) has been implemented. Payments via Laku Pandai agents simplify the process of paying taxes to the state treasury.

Regulation for the Estimation of Deficits and Additional Deficit Financing

The government has released a regulation concerning estimations of deficits and additional deficit financing for the 2016 state budget, i.e. the Minister of Finance Regulation No. 144/PMK 05/2019. The Asset-Liability Management (ALM) Committee is to calculate the estimated amount of the deficit to anticipate deficits exceeding the target. Should the estimated deficits exceed the target, the estimated additional deficit will be funded using additional financing

DGT Starts Using Bank Customer Data and Accounts

The DGT has begun to utilize bank customer account data and information to optimize tax revenue. This is in line with Law No. 9/2017. Armed with this data, DGT groups 10 account holders deemed as potential taxpayers in each tax office.

Unification of Periodic Income Tax Return

The DGT is preparing supporting infrastructure for the unification of periodic income tax return. The piloting for the unification of the Periodic Income Tax Return is currently in progress. The authority will perform an evaluation after the piloting runs for a minimum of 6 months. In the next three months, other business entities are expected to be able to use income tax return unification as well. The policy facilitates the aspects of fulfilling tax liabilities and administration.

The DGT's SSE1 and SSE3 Billing Application Services Stop Operating

Starting 1 January 2020, the DGT's SSE1 and SSE3 billing application services have stopped operating. The termination of the services is intended for billing code generation as part of the system

18 OECD, Compliance Risk Management, October 2004, 8.
19 Kataryna Bronzewska, Cooperative Compliance: A New Approach to Managing Taxpayer Relations (IBFD: 2016): 95.

The government has expanded the taxable object classification for land and building tax for PBB-P3.

integration. The e-billing and e-billing systems are integrated into one link to facilitate taxpayers in fulfiling their tax obligations. Billing code generation can be done through the DGT Online, tax payment banks/agents, Application Service Provider, DGT Officer through *Kring Pajak*, and the state revenue portal page, *Single Sign-On Portal Penerimaan Negara*.

Trade Through Electronic Systems

The government has issued new provisions concerning trade through electronic systems (*perdagangan melalui sistem elektronik*/PMSE). The provisions are outlined in Government Regulation No. 80/2019 concerning trade through electronic systems. Under this regulation, taxation provisions and mechanisms apply to PMSE business activities in accordance with existing regulations. Additionally, all businesss actors conducting PMSE are required to have Taxpayer Identification Numbers (*Nomor Pokok Wajib Pajak*/NPWP).

The central government is to carry out the rationalization of local taxes soon.

Beneficial Owner Reporting

Approximately 38,626 corporations have reported beneficial owners (BO). Disclosure of BO transparency has been implemented since the enactment of Presidential Regulation (*Peraturan Presiden*/Perpres) No. 13/2018. The parties that may submit information on the corporate BO include the founder or corporate management, notary, or other parties authorized by the founder or corporate management to submit BO information from the corporation.

F. Land and Building Tax on Plantation, Forestry, and Mining

Expanded Classification of Land and Building Taxable Objects for the Sectors of Plantation, Forestry, and Mining

The government has expanded the taxable object classification for land and building tax for the sectors of plantation, forestry, and mining (hereinafter: PBB-P3). The addition is set forth in the MoF Reg. No. 186/PMK.03/2019. The government expands the classification of land and building taxable objects into six sectors, namely plantation, forestry, the petroleum and natural gas mining sector, the mining sector for geothermal exploitation, the mineral or coal mining sector, and other sectors. Moreover, the regulation pertains to the detailed procedures for determining the sales value of taxable objects (*nilai jual objek pajak*/NJOP) for all sectors.

G. Local Tax and Fiscal Decentralization

Changes to the Tobacco Product Excise Sharing Fund Formula

The government has revised the formula to calculate the allocation of tobacco products excise revenue sharing fund (*dana bagi hasil cukai hasil tembakau*/ DBH CHT) for every province. The amendments are outlined in Minister of Finance Regulation No. 139/ PMK.07/2019. The bases for calculating DBH CHT in the regulation comprise first, the realization of Indonesia's CHT revenues in the previous fiscal year detailed by each region. Second, the estimation of CHT revenue for the year in question. Third, the data on the excise revenue performance in the previous fiscal year, broken down by district/city, complete with the calculation working paper. Based on these three components, the new formula for the allocation of DBH CT: {(60% xCHT) + (40% xTBK)} x {(DBH CHT Ceiling) - (Total Performance Allocation)}. The previous regulation set forth the following formula {(58% xCHT) + (38% xTBK)} x {(4% xIPM) x DBH CHT Ceiling}.

Rationalization of Local Taxes

The central government is to carry out the rationalization of local taxes soon. The rationalization is intended to restipulate local tax rates, which were formerly under the central government's authority. Local tax provisions will later be included in the omnibus law scheme that is currently being designed by the government.

The Need for Changes in Local Government Fiscal Policies

The World Bank issued a report titled *"Overview Time to ACT: Mewujudkan Potensi Perkotaan Indonesia"* that states the need for Indonesia to amend fiscal policies concerning local governments.[20] Some proposed changes include the mechanism of transfer budget allocation to the regions and increasing regional capacity to collect the land and building tax.

The realization of Non-Tax State for the period of January to December 2019 reached IDR405 trillion, accounted 107.07% of the target mentioned in 2019 State Budget.

H. Non-Tax State Revenue

The realization of Non-Tax State for the period of January to December 2019 reached IDR405 trillion. This value is accounted 107.07% of the target mentioned in 2019 State Budget. This amount of realization decreased for about 40% compared to the same period in 2018.

Overall, Restricted State Assets (*Kekayaan Negara yang Dipisahkan*/ KND) contributes to the substantial growth. This year, realization of revenues from Restricted State Assets stood at 80.72 trillion, accounted for 177.08% of the target in the 2019 State Budget.

Negative growth still underpinned non-tax state revenues from natural resources and Public Service Agency.

On the other side, looking at the other revenue sources, negative growth still underpinned non-tax state revenues from natural resources and Public Service Agency. However – similar to previous quarter – the dominant composition of Non-Tax State Revenue still originates from natural resource revenues. Natural resource sectors contribute around 38% of the total Non-Tax State revenue from January to December this year. Meanwhile, its contributon reached 44% of total non-tax state revenue for the same period last year.

Decelaration of commodity prices triggered growth contraction of Non-Tax State Revenue from the natural resources during the whole year. Last quarter, some beneficial indicators, including Indonesia Crude Prices (ICP) and reference price of coal (*Harga Batubara Acuan*/HBA), depicted a substantial value braking in which contradicted with assumptions set by government and other parties of interest in the preceeding year.

The rising price of ICP in November 2019 as much as USD3.44/barrel from an average of USD59.82/barrel to USD63.26/barrel was mainly due to the agreement reached during the first round of the US-China trade negotiations, thereby raising the global oil market's optimism.[21] In addition, the European Union has put Brexit on hold until January 2020. The Indonesian Oil Price Team noted that the oil price hike was spurred by the market expectation that OPEC member nations will extend the period of cutting production, and if possible, increase the volume of production cut during a meeting in December 2019.[22]

For December 2019, ICP was growing by USD3.92/barrel from USD63.26 to USD67.18/barrel, calculated by the ICP formula. According to Ministry of Energy and Mineral Resources, boosting of the main crude on the international market during the end of year 2019 was mainly due to the agreement of OPEC+ member countries to lengthen production cut period and add production cut volume by 500,000 barrels per day, to 1.7 million barrels per day at the end of 2019.

Looking further, positive response from the market was also triggered by China-US trade agreement, which leads to high market expectation towards improvement in global economic growth and crude demands. And, amongst others, the US Federal Reserve's policy to maintain the interest rate for economic prospect reasons is also worth to be considered.[23]

Despite of the ICP's price recovery

20 World Bank, Time to Act: Realizing Indonesia's Urban Potential, The World Bank Group, 2019, 18.
21 Based on information contained on press release of Ministry of Energy and Mineral Resources Number 695.Pers/04/SJI/2019.
22 Ministry of Energy and Mineral Resources, *"Pertemuan Konsultasi Negara-Negara OPEC"*. Internet, can be assessed at https://migas.esdm.go.id/post/read/Pertemuan-Konsultasi-Negara-Negara-OPEC.
23 Based on information contained on press release of Ministry of Energy and Mineral Resources

Table 5. Performance of Non-Tax revenue from October to December 2019 in Accumulation

Source of income	Realization (Billion Rupiah)			Growth (yoy 2018 - 2019)		
	Oct	Nov	Dec	Oct	Nov	Dec
Natural resources	127,818.00	139,754.77	154,087.63	-10.01%	-9.22%	-14.68%
Oil and Gas	100,502.60	109,024.80	120,412.93	-10.41%	-8.65%	-15.67%
Oil	79,666.10	88,188.20	n.a	-28.99%	-26.11%	n.a
Gas	20,836.50	20,836.50	n.a	n.a	n.a	n.a
Non-Oil and Gas	27,315.40	30,120.40	33,673.70	-8.47%	-11.20%	-10.92%
Mining	n.a	23,739.40	n.a	n.a	-15.58%	n.a
Forestry	n.a	4,511.54	n.a	n.a	5.04%	n.a
Fishery	n.a	625.81	n.a	n.a	21.02%	n.a
Geothermal	n.a	878.38	n.a	n.a	25.12%	n.a
Restricted State Assets	75,699.80	76,650.10	80,727.50	78.26%	70.19%	79.15%
Other Non-Tax State Revenue	92,130.80	104,962.10	122,122.10	-3.98%	-1.01%	-5.02%
Public Service Agency	37,642.70	42,007.80	48,101.70	-11.69%	-9.41%	-12.69%

Source: Ministry of Finance (APBN KiTa October-December 2019)

trends, reference price of coal was still struggling to lift up the deceleration. In December, coal reference price was dropped by 0.56%, after experienced 2.97% decrease in the previous month. Wisely to say, the expectation of better performance in Non-Tax State Revenue should not be urged considering the sensitive movements of prices due to external factors, such as economic and political stability.

Indonesia and Singapore have signed a memorandum of understanding/MoU on commitments to exchange export-import data electronically.

I. International Aspects

AEoI Implementation Is Progressing

The implementation of Indonesia's automatic exchange of information (AEoI) is in progress. 2019 was the second year of Indonesia's participation in the automatic exchange of information (AEoI) and this has taken place since the end of September. In the exchange of data, the Directorate General of Taxes sends information of foreign customers in domestic financial institutions to 64 jurisdictions. In contrast, the tax authority receives financial data on Indonesian resident taxpayers (inbound AEoI) from 78 partner jurisdictions.

The number of participating jurisdictions has increased compared to last year when the DGT sent foreign taxpayers' financial reports to 54 partner countries.

Further, at the end of 2019, the Indonesian Government entered into an exchange of data and information agreement for tax purposes with the Government of the San Marino Republic. The agreement has come into force since the issuance of Circular No. SE-28/PJ/2019.

Indonesia Exchanges Export and Import Data with Singapore

Indonesia and Singapore have signed a memorandum of understanding/ MoU on commitments to exchange export-import data electronically. Thus far, the export-import data statistics between Indonesia and Singapore have been different, asynchronous, and inconsistent. This allows customs and tax avoidance and smuggling. The MoU provides facilities and secures the trade flows based on correct and accurate data and information between the two countries.

Chartered Professional Accountant in Southeast Asia

Countries in the Southeast Asia Region agree on equal qualifications in the accounting workforce. Job opportunities in the accountant profession are

Number 023.Pers/04/SJI/2020.

becoming more widespread beyond the domestic arena. The cooperation is stated in the Mutual Recognition Arrangement (MRA) on Accountancy Services. Asean Chartered Professional Accountant (Asean CPA) certificate holders have equivalent qualifications and are eligible to practice in 10 Asean countries.

Indonesia's ranking in Ease of Doing Business (EoDB) 2020 remains steady from last year's position, ranking 73 out of 190 countries.

Indonesia's Ease of Doing Business Ranking Unchanged

Indonesia's ranking in Ease of Doing Business (EoDB) 2020 remains steady from last year's position, ranking 73 out of 190 countries. This ranking is far below the government's target at 40. The report also reviews the increase of Indonesia's paying taxes ranking.[24] Indonesia ranks 81[st], indicating an increase compared to the previous year ranking at 112. In addition, The time spent on handling taxes (time to comply) the time spent to take care of taxes (time co comply) has declined from 208 hours to 191 hours per year.

Tax Treaty Renegotiation

The government plans to renegotiate Indonesia's tax treaties (*perjanjian penghindaran pajak berganda*/P3B) with partner countries/jurisdictions. In consideration of the changes in the international taxation landscape, the Indonesian P3B will be renegotiated.

The government has officially ratified the multilateral instrument on tax treaty (MLI).

Ratification of the Multilateral Instrument on Tax Treaty

As part of the efforts to prevent base erosion and profit shifting (BEPS) simultaneously and efficiently, the government has officially ratified the multilateral instrument on tax treaty (MLI). This ratification was marked by the issuance of Presidential Regulation (*Peraturan Presiden*/Perpres) No. 77/2019 concerning the Ratification of the Multilateral Convention to Implement Tax Treaty Related to Measures to Prevent BEPS. MLI shall serve as the entry point for modifying Indonesia's tax treaties with other countries. MLI is targeted to come into force in the next 3 months after the legal umbrella of ratification is sent to the OECD.

J. Global Taxation Trends

Public Consultation on Digital Economic Tax Proposal

In early October, the Organization for Economic Co-operation and Development (OECD) requested public comments regarding proposals submitted by the secretariat for a unified approach under the first pillar regarding taxation of the digital economy. The first pillar addresses the distribution of taxing rights on a company, including when the company has no physical presence. Furthermore, in November 2019, the OECD again requested public comments regarding proposals submitted under the second pillar. *Second,* the imposition of global minimum tax rates. The OECD focuses on technical issues related to the GloBE proposal. There are three aspects to the technical design of the GloBE proposal. Both proposals are intended to ensure that large multinational companies, including digital companies, pay taxes where they have significant consumer-related and profitable activities.

European Union Removes Several Countries from the Blacklist

The Council of the European Union (EU) has agreed to remove several countries from the tax haven countries blacklist in early October. The countries removed from the blacklist include Albania, Costa Rica, Mauritius, Serbia, Switzerland, United Arab Emirates (UAE), and Marshall Islands. A list of tax haven countries was compiled in 2017 to track non-cooperative jurisdictions with the EU regarding taxes. Further, this list is used for 'naming and shaming' countries that support tax avoidance by multinational companies and wealthy individuals.

Combatting Tax Crime in the Asia Pacific

The OECD has issued a report titled *Combatting Tax Crimes More Effectively in APEC Economies*. This report is part of the OECD's support for the efforts of the Asia Pacific countries (Asia-Pacific Economic Cooperation/ APEC) to reduce tax crime.[25] This

24 The World Bank, Internet, can be accessed at https://www.doingbusiness.org/en/reports/global-reports/doing-business-2020, (24 November 2019), 4.

25 OECD, Combatting Tax Crimes More Effectively in APEC Economies, 2019, 7.

As of December 2019, 137 jurisdictions were incorporated in the Inclusive Framework on Base Erosion and Profit Shifting

report draws on international best practice and successful examples of the APEC economies and focuses on legal instruments, policy tools, and capacity building initiatives to combat tax crime. Matters highlighted in the report include the setting of standards and best practices for countries to apply. Earlier in 2017, the OECD established 10 principles to combat tax crime.

Increase of Member Countries in the BEPS Framework

As of December 2019, 137 jurisdictions were incorporated in the Inclusive Framework on Base Erosion and Profit Shifting (Inclusive Framework on BEPS). There have been an additional five countries since 5 July 2019. The five countries include Jordan, Namibia, Albania, Eswatini, Bosnia and Herzegovina, Honduras, and Montenegro. All jurisdictions may work together to implement the BEPS package consistently.

Anticipating Compliance Risk Management

This chapter describes the current CRM framework implementation and its processes. They include the implementation in several countries and region including Indonesia, development of the CRM framework processes in the digital era, its applicability towards changing tax administration system and how countries are adapting to those challenges, i.e., what things are necessary for future implementation.

2

2 Chapter Anticipating Compliance Risk Management

Improving taxpayers' voluntary compliance has always been the major challenge of all tax authorities to increasing tax collecting performance

In recent years, major reforms in public sector administrations are initiated as governments strive to improve its operations' efficiency and effectiveness to create a sound corporate governance practices with the application of modern risk management approaches. This way, hopefully the government could help identifying compliance risks and their treatments.[26]

In tax administration context, improving taxpayers' voluntary compliance has always been the major challenge of all tax authorities to increasing tax collecting performance in a cost-effective manner.[27] The effect of non-compliant act indicated in shadow economy and the growing of aggressive tax planning needs to be minimized by applying effective treatment strategy for each of those.

To address this issue, OECD has designed a framework for the application of modern compliance risk management (CRM) principles. The framework itself is a manifestation of considerable attention to the development of sound CRM practices as universal guidance or reference for tax revenue authorities.

Basically, there are four main goals in applying CRM framework. First, it assists revenue authorities to respond quickly to the changing circumstances. Second, it assists revenue authorities to ensure that treatment strategies are applied to activities of the highest priority, and that those strategies have a high probability of success. Third, it assists revenue authorities to leverage the impact of interventions. Finally, it also assists revenue authorities to optimise collections under the law while maintaining community confidence in the system.

26 OECD, "Forum on Tax Administration: Small/medium enterprise (SME) sub-group: Evaluating the effectiveness of compliance risk treatment strategies", *guidance note* (November 2010), 8-9.

27 Asian Development Bank, *A Comparative Analysis of Tax Administration in Asia and the Pasific,* (Manila: ADB Publishing, 2018).

CRM is a structured process of systemic identification, assessment, rating, and appropriate tax treatment of risk.

The framework itself consists of step processes of: (i) identify risks; (ii) assess and prioritise risks; (iii) analyse compliance behavior (causes, options for treatment); (iv) determine treatment strategies; and (v) plan and implement strategies. In Asia and Pasific region, just under 75% of revenue bodies report having a formal compliance risk management process, although little is known in any detail about the nature and comprehensiveness of the approaches adopted by individual revenue bodies.[28]

As such, how does current CRM implementation in Indonesia? and how will it improve tax collection performance in Indonesia? How do other countries implement CRM? What are the further 'home works' for Indonesia and what are the challenges?

CRM is a decision-making helping tool for achieving organizational strategic goal, such as treating taxpayer in fairness and transparency in more effective and efficient capital management in order to develop a continuous compliance as a new compliance paradigm.

A. Defining CRM and Its Processes

The term 'compliance' is derived from the verb 'to comply', which basically means 'to obey, conform, and act in accordance with'.[29] In business or banking sector, failure to comply with laws, regulations, or other regulatory requirements can lead to financial and reputation damage for stakeholders and financial loss of government in case of systemic risk.[30] In the context of taxation, consequences are more or less the same, but in general, has highlighted the correlation to government revenue.

In relation to such definition, European Commission (EC) define CRM as:[31]

> "***a systematic process*** *in which a tax administration makes deliberate choices on which treatment instruments could be used to effectively stimulate compliance and* ***prevent non-compliance****, based on the knowledge of all (taxpayers' behavior) and related to the available capacity*."

In formal terms, CRM is a structured process of systemic identification, assessment, rating, and appropriate tax treatment of risk. Without knowing the risks that taxpayer' non-compliant behavior can produce, it will be difficult in formulating strategies to avoid those risks.[32]

The Directorate General of Taxes (DGT) has stated that CRM is a risk management processes of taxpayers' compliance by enacting certain optional treatments and is used for improving compliance effectively as well as preventing non-compliant based on taxpayers' behavior and capacity of its owned capital.

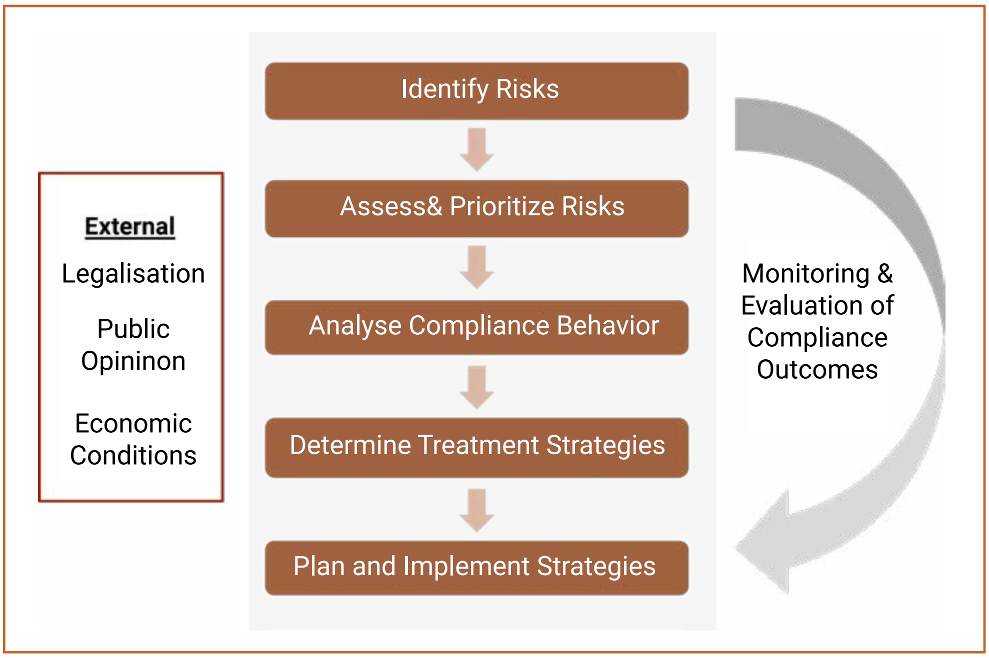
Moreover, according to the DGT, CRM is a decision-making helping tool for achieving organizational strategic goal, such as treating taxpayer in fairness and transparency in more effective and efficient capital management in order to develop a continuous compliance as a new compliance paradigm.[33]

More specifically, CRM contains certain procedures and processes as it may be applied by a revenue authority. The process outlined is generally consistent with current management literature and risk management standards as adopted by various international bodies and by member OECD countries.[34]

In CRM framework, operating context is the central of CRM process and is the 'environments' in which the tax

28 Asian Development Bank, Op. Cit.
29 See Cambridge English and Merriam-Webster dictionary.
30 USFRS, "Consumer Compliance Risk Management". Can be accessed at https://www.fedpartnership.gov/bank-life-cycle/topic-index/consumer-compliance-risk-management.
31 European Commission, *Compliance Risk Management Guide for Tax Administrations*, (EU: EC publishing ,2010), 5.
32 Diana Sari, "Risk Management and Taxpayers Compliance" *international Conferece on Education for Economics,* (2016).
33 DGT circular letter Number 24/PJ/2019.
34 See OECD, *Compliance Risk Management: Managing and Improving Tax Compliance,* (Paris: OECD Publishing, 2004).

Figure 3 – CRM Processes



Source: OECD, *Compliance Risk Management: Managing and Improving Tax Compliance,* 2004.

administration operates (see Figure 3).[35] The first phase of operating context is identifying risks. Based on DGT's circular letter, causes of taxpayer non-compliant behavior are (i) registration risk; (ii) filling risk; (iii) payment risk; and (iv) correct -reporting risk. Those risks are basically from government perspective regarding tax administrative compliance.

Table 6 – Risks Comparison between Tax and Financial Sector

Tax Sector	Financial Sector
Compliance risk (government)	**Compliance risk (government)**
Registration risk	Laws/Legislation risk
Filling risk	Rules/regulation risk
Payment risk	Codes of conduct risk
Correct reporting risk	Related self-regulatory organization standards risk
Taxpayers' risk	**Banks & Financial Services' risk**
Integrity risk	Integrity risk
Business risk	Business risk
Reputation risk	Reputation risk
Financial risk	Financial risk
Legal risk	Legal risk
Litigation risk	Litigation risk
Interpretational risk	Interpretational risk

Source: Ramakhrisna, *Enterprise Compliance Risk Management: An Essential Toolkit for Banks & Financial Services,* 2015, and OECD, *Compliance Risk Management: Managing and Improving Tax Compliance,* 2004.

Similarly, in banking sector, there are also non-compliant consequences (see Table 6). These risks take into account individual's perspective and can be related to taxpayers in taxation area.[36] By looking thoroughly at taxpayers' perspective, tax authority thus will have broader range of knowledge spectrum, as well as comprehensive understanding concerning tax compliance in their countries.

For example, non-compliant taxpayers will risk their reputation and integrity if not paying their tax obligation to tax authority. As a consequence, those individuals may potentially be a target of tax authority, focusing more on taxpayer's past behavior. Further, tax authority may shut down the businesses and give sanctions due to non-compliant behavior (business risk). Another consideration would be tax dispute. Apart from its significant cost, tax dispute is an energy-drain and time-consuming contention, with no success guarantee.

Taxpayers, if found guilty, may also be afraid to be sanctioned in terms of financial or being eligible to prison time

35 European Commission, *Compliance Risk Management Guide for Tax Administrations*, (EU: EC publishing ,2010), 14.

36 Saloni P. Ramakrishna, *Enterprise Compliance Risk Management: An Essential Toolkit for Banks & Financial Services,* (Singapore: John Wiley & Sons, 2015).

Table 7 -Risk Categorization and Treatment Strategy

Level of Risk	The Behavioral Characteristic the Compliance Risk Level	The Activities of the Compliance Risk Level	Compliance Strategy
High	1. Taxpayers who deliberately intention to disobey 2. Taxpayers who do not comply but would obey if any supervision	BEPS, aggressive domestic tax avoidance, VAT (refund) fraud, shadow economy, preferential tax regimes, transactions with tax havens, high net worth individuals	Law enforcement in full (examination)
Medium	Taxpayer seeks to be obedient but have not been successful	E-commerce	Assistance to be obedient (extension)
Low	Taxpayers who voluntarily obey	Amortization of goodwill, research and development tax credits	The provision of facilities in the implementation of tax obligations (servicing)

Source: OECD, *Compliance Risk Management: Managing and Improving Tax Compliance,* 2004, and ADB, *A Comparative Analysis of Tax Administration in Asia and the Pasific,* 2018.

(legal, financial, and litigation risks). Finally, non-compliant in tax will alter the society's interpretation towards them, and thereby assuming that they may have financial difficulties or business trouble (interpretational risk).

After behavior classification, appropriate strategies subsequently can be taken in accordance to the level of risk of those taxpayers have.

Looking into taxpayer's compliance behavior, revenue authorities classifies the degree of risks, whether taxpayer is actually a compliant individual, wants to comply but does not get enough information to perform the right thing, or he/she has pure intention to avoid taxes (see Table 7). After behavior classification, appropriate strategies subsequently can be taken in accordance to the level of risk of those taxpayers have, as shown in following table.

Compliance strategies are adjusted to taxpayers' level of risk. For example, treatment strategy for high-risk taxpayer is no other than law enforcement. This kind of taxpayer group has plenty information and reasons to avoid taxes. A robust tax law is needed in order to improve compliance for high-risk taxpayers. Meanwhile, for medium risk taxpayer, providing better tax service and information will guide them to be more obedient and aware of tax regulations and procedures. They need assistance and education in fulfilling their tax obligations in appropriate manner.

The second process will be access and prioritise risk. Nevertheless, OECD stated that narrower focus differentiates CRM from the wider concept of integrated risk management. DGT applied this concept by focusing on major compliance risk (also aroused by OECD) such as registration, filling, payment, and correct reporting risk.[37] This narrower concept of risk, however, can still capture high-risk non-compliant behavior, i.e., transfer pricing (shifting profits in a multinational setting to gain a tax advantage), that is included as correct reporting risk.

The third CRM process is to analyse compliance behavior by specifying causes and options for treatment. OECD separates compliant behavior influence factors into business profile, industry, sociological, economic, and psychological with its characteristics as depicted in table 8.

For instance, causes for taxpayer who has high risk (do not want to comply with or without supervision) could be psychological factor such as altruism or fairness principle, or do not agree or support the current government (sociological). Moreover, type of activities (business profile) could also be the factor, such as digital businesses who offer services that is difficult to be related to applicable tax law in certain countries.

37 DGT circular letter Number 02/PJ/2016.

Table 8 – Business Taxpayers' Compliance Characteristic

Factor	Characteristic
Business Profile	Structure, size, type of activities, focus, financial data, business intermediaries
Industry	Definition, major participants, profit margins, cost structures, industry regulation, working patterns, industry issues
Sociological	Cultural norms, ethnic background, attitude to government, age, gender, educational level
Economic	Investment, demographic interest rates, the tax system, government policies, international influence, inflation, markets
Psychological	Greed, risk, fear, trust, values, fairness/equity, opportunity to evade

Source: OECD, *Compliance Risk Management: Managing and Improving Tax Compliance,* 2004.

Table 9 – CRM Treatment Strategy for Taxpayers Based on Risk Level

Individual Taxpayer	Business Taxpayer	Possible Treatment Strategies
High risk	Business profile, industry, economic, psychological	Legislative changes (new reporting obligations)
Medium risk	Sociological	New taxpayer education and service products
Medium risk	Sociological	Simplify administrative processes and reducing opportunities for taxpayers' errors
Medium risk	Business profile, industry, economic. sociological	Acquiring additional and/or better-skilled staff
High risk	Business profile, industry, economic, sociological	Work with third parties (tax professionals) to leverage improved compliance
High risk	Psychological	Increased and/or more targeted use of sanctions
Medium risk	Sociological	Use the media to communicate news of actions and results achieved
High risk	Psychological	Introduce new forms of interventions (third party data matching)
High risk	Psychological	Make more effective use of technology (better targeting of "at risk" taxpayers)
High risk	Psychological	Work more collaboratively with other government agencies

Source: OECD, *Compliance Risk Management: Managing and Improving Tax Compliance,* 2004, and ADB, *A Comparative Analysis of Tax Administration in Asia and the Pasific,* 2018.

Table 8 represents factors for which affect the behavior of business taxpayers' compliance and its characteristics. By specifying the characteristic for each factor, appropriate treatment strategies can be taken.

The fourth step is to determine treatment strategies to each classified behavior as depicted in Table 9. For example, enforcing tax law that can be applicable to those digital businesses, or by increasing the penalties/sanctions to tax evasion act, and regulating transparency within the tax system. Of course, the process of determining appropriate treatment strategies can be done through various researches concerning the case.

However, operation context can be affected by number of factors in the external environment, including legislation, public opinion, and economic conditions. For example, public opinion concerns taxpayers' perspective regarding taxation system and authority. Meanwhile, economic

Final step of operating context in CRM process is to plan and implement suitable strategies according to country's characteristics, demographic, and tax administration system.

conditions possibly could affect the tax administration's effectiveness.[38]

Thus, understanding these external factors is essential as treatment of the more complex compliance risks invariably requires a mix of treatments to achieve the desired outcomes.

Final step of operating context in CRM process is to plan and implement suitable strategies according to country's characteristics, demographic, and tax administration system. Implementing such strategy is more complex, because it involves interests of various parties.[39]

For taxpayer that wants to comply, the DGT will ease the process of fulfilling their tax obligations.

Therefore, monitoring and evaluation activities are really important step outside the operating context to solve the complexities.[40] Monitoring is an ongoing process that should commence shortly after the introduction of compliance treatments. Evaluation takes place further in the process and is intended to assess if the treatment is having the desired overall impacts, and/or if further or new treatments are required.

In practice, CRM is applied differently. How is the implementation in Indonesia? How about in several other government in various countries decide to implement CRM to be more contextualized according to their challenges?"

B. CRM Implementation in Indonesia

Before CRM introduction, behavioral benchmarking model (BBM) was implemented by DGT as one of helping tools in taxpayer extraction program along with mapping, profiling, recording, and exchange of taxation data. DGT does comparison of taxpayer's financial performance with other that have similar business scale and business field classification.[41] This comparison used to find out or detect taxpayers who have a high risk of non-compliant, so appropriate action can be taken.[42]

DGT introduced CRM concept in September 2019. Tax amnesty program and the transparency of financial information allows DGT to build a more sophisticated and accurate taxpayer risk profile. With an increasingly sophisticated risk profile, DGT can serve taxpayers more specifics are adjusted to the conditions and needs of the taxpayer concerned.

Moreover, CRM can be used for mapping taxpayer compliance by scoring and risk weighting based on Automatic Exchange of Information (AEoI) and Tax Amnesty in achieving objectivity through data-driven analysis for accuracy improvement.

Compliance risk categorization of taxpayer is a tool in differentiating taxpayer as a basis of risk engine development and CRM, so that taxpayer can be systematically mapped according to international standard, measurable by scoring and risk weighting, and is more objective due to its data-driven mechanism. For taxpayer that wants to comply, the DGT will ease the process of fulfilling their tax obligations.

On the contrary to the taxpayer who deliberately refused to perform its tax obligations, the DGT will firmly act according to the provisions of the current regulation. This paradigm replaces the old perspective in which the taxpayer and the DGT have an attitude mutual distrust and suspicion which hinders the sustainability of voluntary compliance. In the old model, all taxpayers were treated uniformly so that it actually

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38 European Commission, *Compliance Risk Management Guide for Tax Administrations*, (EU: EC publishing ,2010), 14.

39 Paul Manna and Susan L. Moffitt, "Traceable tasks and Complex Policies: When Politics Matter for Policy Implementation", *Policy Studies Journal,* (17 June 2019).

40 See OECD, *Compliance Risk Management: Managing and Improving Tax Compliance,* (Paris: OECD Publishing, 2004).

41 Characteristics of benchmarking are determined based on business field, ratios related to level of profit and company inputs, the correlation between ratios is considered, and focus on assessing the reasonableness of financial performance and meeting tax obligations.

42 DGT circular letter Number 02/PJ/2016.

Table 10 – CRM Processes in Indonesia

CRM Function	Framework
Extensification	**Step 1:** planning phase and *Daftar Sasaran Ekstensifikasi*/DSE drafting **Step 2:** risk analysis of taxpayer included in DSE and visualizing it into DGT information system, profiled by extensification risk, noncompliance level probability (X axis), and fiscal impact (Y axis) **Step 3: step 2 result** is the output of CRM extensification function **Step 4:** further treatment of taxpayer in DSE is executed according to taxpayer risk compliance's rank based on valid rules and regulations
Examination and supervision	**Step 1:** mapping *Daftar Sasaran Prioritas Penggalian Potensi* (DSP3) with correct taxpayer **Step 2:** visualize **step 1 result** in DGT information system based on (i) examination and supervision risk (loss in tax revenue probability), (ii) noncompliance level probability (X axis), and (iii) Fiscal impact (Y axis) **Step 3:** use **step 2 result** as a tool in determining DSPP and *Daftar Prioritas Pengawasan/* OPP and other further actions based on valid rules and regulations
Billing	**Step 1:** determine billing priority based on *Daftar Prioritas Tindakan Penagihan Pajak*/DPTPP **Step 2: step 1 result** is arranged by using CRM billing function **Step 3: step 2 result** produces *Daftar Prioritas Tindakan*/DPT and *Daftar Prioritas Pencairan*/ DPP visualized in DGT information system, profiled by (i) billing risk, (ii) Taxpayer payment probability (X Axis), and (iii) fiscal impact (Y Axis) **Step 4:** further action by DGT based on valid rules and regulations

Source: DGT's circular letter.

creates injustice between the compliant and non-compliant taxpayer.

The recommended CRM framework encompasses a series of steps that should be undertaken systematically and cyclically.

The application of risk-based supervision will assist DGT in serving taxpayers more equitably and transparently, while managing resources more effectively and more efficiently so that it can ultimately help realize more optimal and sustainable compliance.[43]

In general, CRM framework in Indonesia consists of three functions (see Table 10). First, extensification function is DGT's effort to extend tax base by capturing undetected taxpayers. Treatment strategy for this function is by focusing on 'extensification risk' and 'noncompliance risk'. Second, examination and supervision function aimed to maintain its captured taxpayers, monitoring their tax compliance behavior, and assuring their loyalty in paying taxs. Third, billing function aimed to realized its tax revenues from previous functions, focusing on taxpayer payment probability.

C. CRM Implementation in Several Other Countries

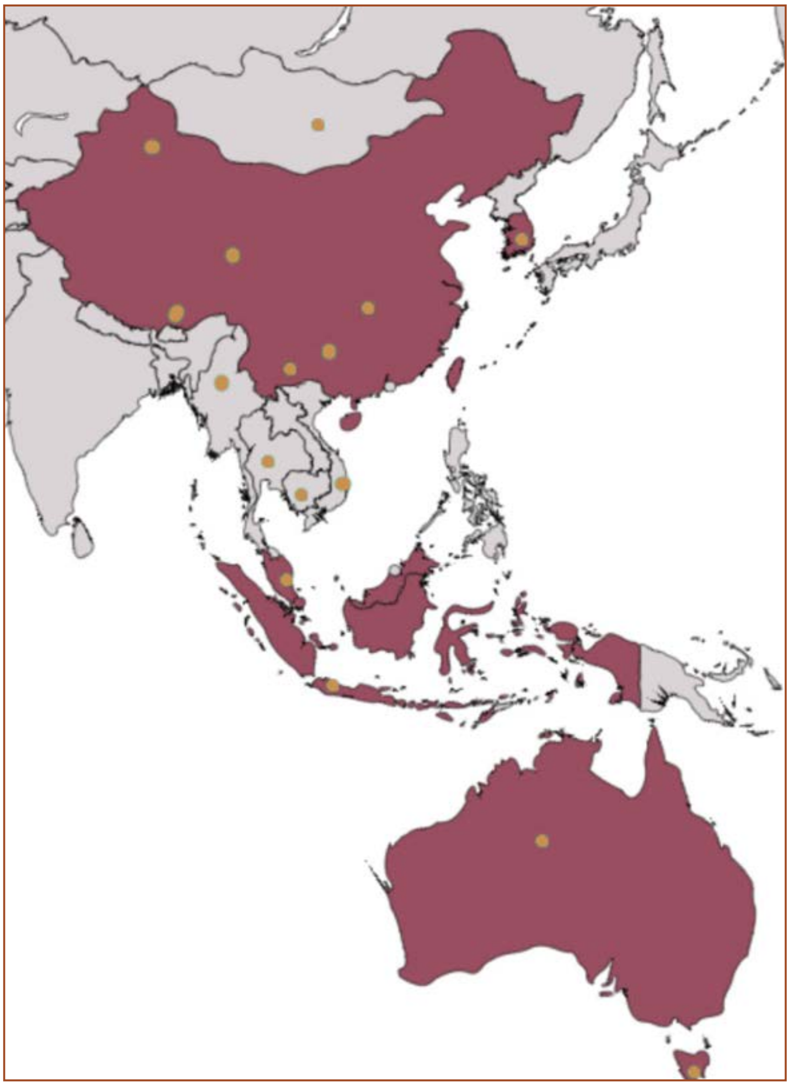
The recommended CRM framework encompasses a series of steps that should be undertaken systematically and cyclically. In most countries, it is a 'top-down' process that focuses on the overall compliance environment rather than individual taxpayers.

By identifying and assessing the main compliance risks and their drivers, the process aims to assist revenue bodies establish overall priorities for their compliance activities across all segments of taxpayers.[44]

43 DGT, "DJP Reformasi Paradigma Pengawasan Kepatuhan Perpajakan" DJP Online, (13 September 2019). Available online at: https://www.pajak.go.id/id/siaran-pers/djp-reformasi-paradigma-pengawasan-kepatuhan-perpajakan (accessed on 20 January 2020).

44 Asian Development Bank, *A Comparative Analysis of Tax Administration in Asia and the Pasific,*

Figure 4 – CRM Implementation Map in Asia & Pasific region



Source: ADB, *A Comparative Analysis of Tax Administration in Asia and the Pasific,* 2018.

The success of CRM requires a great deal of coordination and cooperation between revenue agencies and other organizations

In Singapore, Internal Revenue Authority of Singapore (IRAS), acts as agent of Government in administering, assessing, collecting and enforcing payment of taxes. Moreover, advises government and represent Singapore internationally on matters related to taxation.

They suggested that lifecycle of taxpayer such as registration, record keeping, filing, reporting, payment, and de-registration can lead to compliance risks (incomplete or non-registration, incomplete records or poor documentation, late or non-filing of tax return, inaccurate or omissions in tax reporting, late or non-payment of tax, deregistration without tax clearance).[45]

In Denmark, the Danish Tax & Customs Administration started implementing a new compliance strategy in 2007 and was designed to strike a balance between traditional enforcement activities and innovative treatments in order to arrive at high levels of compliance and high customer satisfaction. They created risk database to be used as benchmark for their CRM framework. Risk database is built based on risk identification templates, risk map, and treatment plan made by local and specialist staff in tax centres.[46]

Survey by Asian Development Bank have shown that in Asia and Pasific region, formal CRM process has been implemented by most of tax authorities is being shown in Figure 4. Further, this survey represents the awareness of local tax authority in improving tax compliance by enacting standard procedures of CRM. However, the survey itself was not comprehensively acknowledge the detail about the nature of the approaches adopted by individual revenue bodies.[47]

In Southeast Asia, only Brunei, Philippines, and Myanmar that do not seem to have formal compliance process. In south Asia, Nepal is only partially applying CRM. Kyrgyz Republic, Japan, and Papua New Guinea are the other countries in Asia and Pasific region who do not have a relevant CRM process.

In general, many local tax authorities have already a goodwill of improving tax administration for better tax compliance. Nevertheless, we should note that it is difficult to improve quickly the effectiveness of taxation system. The success of CRM requires a great deal of coordination and cooperation between revenue agencies

(Manila: ADB Publishing, 2018).

45 Inland Revenue Authority of Singapore, "Improving Tax Compliance in Singapore", *The Sixth IMF-Japan High Level Tax Conference,* (7 April 2015).

46 European Commission, *Compliance Risk Management Guide for Tax Administrations*, (EU: EC publishing ,2010), 63.

47 Asian Development Bank, *A Comparative Analysis of Tax Administration in Asia and the Pasific,* (Manila: ADB Publishing, 2018).

and other organizations, thus making its implementation still develops and adapts the changing technology and challenges.[48]

CRM framework designed in 2004 still remain valid to be used recently despite of changes in how revenue bodies are operating today.

D. Development and Challenges for CRM in the Digital Era

According to OECD, CRM framework designed in 2004 still remain valid to be used recently despite of changes in how revenue bodies are operating today. Tax authorities are using advanced analytics for risk detection, and use of new information sources in monitoring and evaluation.

Four aspects of the changing tax compliance environment are: (i) the hugely increased availability of data; (ii) sharpened targeting of risks; (iii) co-operative compliance and transparency; and (iv) increased automation of compliance checks.[49]

Cooperative compliance and transparency could enhance trust of societies, businesses, and other interest parties toward government.

In the information age, the multiplication of data is escalating. Digitalization of tax administration and payment procedures would produce abundance of tax related data. Data can be gathered from devices, banks, merchants, suppliers, customer, government agencies, and international partners. Furthermore, these abundances of data can be utilized for appropriately targeting the taxpayers for both intensification and extensification purposes.

Canada Revenue Agency (CRA) uses data sources such as taxpayers filling and assessment information, risk profiles, historical audit, collections and appeals information. With that information, they identified the highest risk taxpayers in the small medium enterprises (SMEs) population with machine learning algorithms. In China, they introduced a cloud-based big data platform for compiling relevant tax data sources to be integrated with risk data management model.

Another development in tax administration system is the introduction of cooperative compliance. Cooperative compliance and transparency could enhance trust of societies, businesses, and other interest parties toward government. Resultantly, there will be an increased level of acceptability from a certain policy in society, but also help government in fulfilling taxpayers' rights, as well as accommodating various ideas and perspectives in a constructive way for creating ideal policy solution.[50]

In Australia, Australian Taxation Office (ATO) uses co-operative compliance and transparency in managing tax compliance of large public and private corporate groups, while Austria developed a concept for accompanying monitoring of large taxpaying business on a voluntary basis. In China, the State Taxation Administration (STA) set up a new service targeted at large business restructuring that helps to co-ordinate and resolve difficult tax matters in large business restructuring processes based thus improve tax certainty and consistency in implementation.

Finally, the use of automation for tax administration has been implemented by most tax authorities. Ireland developed robotics in the processing of tax return exceptions using data reported on the tax return. Netherlands also applying Natural Language Processing (NLP) to their computer assisted document processing services.[51]

E. CRM in The Future

Since the start of CRM introduction, revamping tax administration has been taken into consideration by most local tax authorities. Tax compliance is one of factors affecting collected tax revenue. In Indonesia, tax revenue target has

48 ICTD, "Obstacles to increasing Tax Revenues in Low Income Countries", *ICTD Working Paper 15,* (September 2015).
49 OECD, *Tax Administration 2019: Comparative Information on OECD and other Advanced and Emerging Economies,* (Paris: OECD Publishing, 2019).
50 Darussalam, Danny Septriadi, B. Bawono Kristiaji, and Denny Vissaro, *Era Baru Hubungan Otoritas Pajak dengan Wajib Pajak,* (Jakarta: DDTC, 2019).
51 OECD, Op. Cit.

To increase tax collection revenue even further, implementation of cooperative compliance will be a beneficial factor in stimulating voluntary compliance and establishing good atmosphere and relationship between tax authority and taxpayers.

never been achieved since 2008. Highest tax revenue realization was in year 2018, 'successfully' collecting 92.4% of its target.

Accordingly, the role of CRM in Indonesia will be very crucial. CRM framework comes as technical guidance for better tax administration system.

Besides the benefit in improving tax administration, CRM also supports intensification, extensification, tax refund and billing purposes that lead to increasing tax collection performance while preserving the economy. These functions are related to one another and hugely relevant considering the ongoing transformation in the tax administration system.

Further, CRM could also identify tax collection issue, i.e., shadow economy, by increasing tax literacy and simplicity of compliance, reducing the opportunities and increasing detection, and reinforcing social norms.

One of the challenges in implementing CRM in Indonesia will be mainly related to human resource. Tax authorities, if not recruiting new staff, must equip their existing workers with data science and data management skill. As previously mentioned, tax workers in the digital era have to deal with abundance of data whilst simultaneously delivering taxpayers' profile classification based on their risks with certain algorithms and transforming those data sources into meaningful information for tax compliance purpose.

Finally, to increase tax collection revenue even further, implementation of cooperative compliance will be a beneficial factor in stimulating voluntary compliance and establishing good atmosphere and relationship between tax authority and taxpayers, creating trust and loyalty for producing tax collection sustainability.

3

The Future of Local Tax under Taxation Omnibus Law

With local tax systems will be part of upcoming taxation omnibus law, this chapter provides the debate and critical view on challenges that may arise afterwards. It also gives anticipation on how to prevent and minimize the unwanted risks.

Chapter

3 The Future of Local Tax under Taxation Omnibus Law

"Unless local governments are given some level of freedom with respect to local revenue . . . the development of responsive local government will remain an attainable mirage"

(Bird, 1993)[52]

Over the decades, the debate on local tax design often lies on getting the right degree of autonomy given to local governments to formulate and implement their own tax system.

A. What's Going on with Local Tax?

Over the decades, the debate on local tax design often lies on getting the right degree of autonomy given to local governments to formulate and implement their own tax system.[53] Accordingly, certain amount of autonomy must be granted under any decentralization. Afterwards, the crucial question would be how much authority should be decentralized. With the upcoming plan under taxation omnibus law, it seems that current local tax authority will be differently set.

As local governments in Indonesia are seemingly getting more pressure over time to increase their revenue with lessened resources, the plan is feared to add the burden in maintaining local tax collection performance. Meanwhile, most of them also face a growing expectation from societies since the population size and its economy rises. In addition, the changing world presents challenges for local governments in taxing the given objects.

Accordingly, this chapter explains what can be expected from the implementation. It also provides discourse on the balance of fiscal autonomy between central and local governments. In addition, subsequent necessary anticipation is elucidated to minimize unwanted risk in the future.

52 Richard M. Bird, "Threading the Labyrinth: Some Issues in Fiscal Decentralization", *National Tax Journal* No. 46(2) (1993): 207-227.

53 As also expressed by Dougherty, Harding and Reschovsky (2019): "A local or regional government that is able to define its own tax bases, tax rates, and other characteristics of a tax has a high degree of tax autonomy or taxing power. See Sean Dougherty, Michelle Harding and Andrew Reschovski, "Twenty Years of Tax Autonomy Across Levels of Government: Measurement and Applications", *OECD Working Paper On Fiscal Federalism* No. 29 (2019): 6.

Under taxation omibus law, new balance is going to be formed to achieve what is best for both local tax revenue and the economy.

B. The Central Plan for Local Tax

In almost every aspect, the central government has been proving the commitment to utilize tax system to be more tempting for investors. Plan to lower the corporate tax rate, enactment of various tax incentives, restitution acceleration and digitization in compliance administration are of examples from the central government to make tax become friendlier and less costly to taxpayers.

As it has been proven in national level, now the government feels the need to also apply the same spirit on sub-national level. It has been stated that the government plans to re-regulate the interplay of local tax and retribution under the taxation omnibus law, whose objective is to boost investment in the country. General Director of Fiscal Balance has stated, nevertheless, that the local government will remain as the holder of the authority.

The purpose is to eliminate differences of tax treatment between regions in Indonesia, so that tax would not distort the decision making of investors in choosing which regions they wish to put their capital.

The idea is to ensure investors that there will be no major differences in treatment wherever they intend to invest. In short, tax is ought to be non-distorting toward business decision making.

So, it seems that under taxation omnibus law, new balance is going to be formed to achieve what is best for both local tax revenue and the economy. Before presenting a critical view on how to get the right balance, this section provides short description on what is going to be the case of taxation omnibus law, under which local tax is going to be rationalized.

Theoretically, local governments are ought to have the ability to impose taxes on their citizens without undue interference from state or federal laws. Brunori argues that without such ability, they will not be able to effectively provide public services.[54] Furthermore, if they lack the ability to set determine tax burdens, the election of local representatives serves little purpose (Goldsmith, 1997).[55]

Local governments should not only have access to revenue sources that they are best equipped to exploit, but they should also be both encouraged and permitted to exploit these sources without undue central supervision.

Regarding to this, General Director of Fiscal Balance of Ministry of Finance, Astera Primanto Bhakti, emphasized that local governments will stay as the major actor in collecting the local taxes and retributions. This way, the omnibus law is said to not to take such authority from the local governments.

The main change is, as he continued, the omnibus law will open the gate for central government to set the tariffs. The purpose is to eliminate differences of tax treatment between regions in Indonesia, so that tax would not distort the decision making of investors in choosing which regions they wish to put their capital. The determination then will be determined accordingly through further regulations.

The same tone has been stated by Coordinating Minister for Economic Affairs, Airlangga Hartanto who said that the purpose of this regulation is to shift the authority of local tax tariffs determination to the central government. This way, there will be hopefully further interest to Real Estate Investment Fund (*Dana Investasi Real Estate*/DIRE), since there will be similarity of tax treatment between regionals.

Despite of this intention, we should note as well that there are concerns to the performance of local tax collections. Based on 2018 realization data from Ministry of Finance that have been calculated further, the amount of local taxes was 'only' IDR 194.2 trillion, or less than 15% compared to tax revenue managed by central government. So it is not surprising if local government's budget relies heavily on fiscal balance fund from central government.

54 David Brunori, *Local Tax Policy:* A Primer (Roman & Littlefield Publishing, 2020), 13-24.
55 Mike Goldsmith, "Autonomy and City Limits", in *Theories of Urban Politics*, David Judge, Gerry Stoker and Harold Wolman, eds. (Sage Publications, 1997).

This intention, nevertheless, should not overlook the fact that most economic and political benefit of decentralised public finance comes from the ability of local governments to make their own decisions about taxation.

For local governments on municipality/ city level, in 2018, 71% of their budget is financed by fiscal balance funds. This proportion, however, slightly decreases compared to 2013 which was 73%. Meanwhile, such proportion on the level of province government significantly increases from 42% in 2014 to 56% in 2018.

Fiscal disparity between regions is certainly one of the main problems. The level of local tax authority's digitization, human resources capacity and infrastructure provisions vary between regions, causing difficulties in creating similar solutions.[56] In result, local tax revenue performance also differs significantly between provinces and cities.

For instance, the growth of local tax revenue in East Kalimantan reached 35% in 2018, while Aceh experienced minus growth as low as -0,48% in the same year. This kind of pattern of disparity almost always happen every year. In addition, their revenue structures are not well distributed between taxes, causing over-reliance on certain business activities. Consequently, this also causes vulnerability and instability given current business models are easily changing.[57]

C. Debating the 'Right' Balance of Autonomy: Study from Practices

Most theoretical literatures suggest that local tax deserves independency in regulating their own taxes. The arguments are that there are irreplaceable benefits generated where local governments are entitled with a substantial amount of freedom to make decision on their own taxation.[58]

While the concept can be justified, it is notably built on the assumption that the local governments has the capacity to perform effectively and there is no disharmonious problem that might distort economic activities. More often than not, particularly in developing countries, too much given autonomy lead to too much differences between regions which may rise adverse effect regional development.[59]

Moreover, in certain situations where one region's decision depends on policies held in surrounding areas, it may distort the policy-making process from the objective considerations. In this case, it is certainly better if centralized influence can intervene to prevent much worse scenarios from occurring.

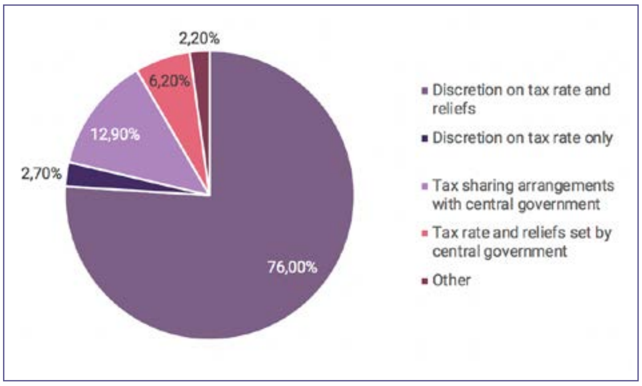
This intention, nevertheless, should not overlook the fact that most economic and political benefit of decentralised public finance comes from the ability of local governments to make their own decisions about taxation.[60] Fiscal problem that arises in regional needs solution from closest authority.[61]

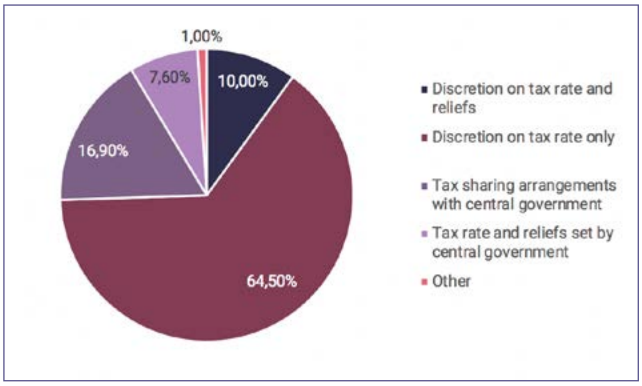
From studies conducted by OECD in OECD countries, it is found that local governments mostly have lesser autonomy than is recommended by revenue-based measures of decentralization (see Figure 5).

Furthermore, OECD also shows that while the profile of local governments' tax autonomy differs markedly between federal and unitary countries, cross-country differences are most marked for unitary countries. In general, there has been an increasing trend of tax autonomy of local governments over time.

56 Robert D. Ebel and Robert Talierco, "Subnational Tax Policy Design and Administration in Transition and Developing Economies: International Symposium on Fiscal Decentralization in Asia Revisited", *Tax Notes International* (2005): 919-935.
57 David Brunori, OpCit., 21-26.
58 Wallace E. Oates, Fiscal Federalism (New York: Harcourt Brace Jovanovich, 1972).
59 For instance, see Roland White and Paul Smoke, "East Asia Decentralizes" in *East Asia Decentralizes: Making Local Government Work*, The World Bank (Washington DC: The World Bank, 2005), 6.
60 Sean Dougherty, Michelle Harding and Andrew Reschovski, OpCit., 4.
61 See Sean Dougherty, Michelle Harding and Andrew Reschovski, OpCit., 6.

Figure 5 - Tax Autonomy for Federal and Unitary Countries, 2014 (% of revenues)





Source: OECD Fiscal Decentralization Database (2019), as quoted in Sean Dougherty, Michelle Harding and Andrew Reschovski, "Twenty Years of Tax Autonomy Across Levels of Government: Measurement and Applications", *OECD Working Paper On Fiscal Federalism* No. 29 (2019): 6.

On average, state or regional governments have a higher degree of tax autonomy than local governments. State/regional governments on average have full discretion over 70 percent of their tax revenue. Another 15 percent of their revenues come from shared taxes, where state governments' consent to the sharing ratio is required. In contrast, local governments, on average, have full or close to full autonomy over only 13 percent of their revenue. Nevertheless, local governments retain on average discretion, subject to some limitations, over an additional 62 percent of tax revenues.[62]

Looking to East Asia's administrative side, we can find much diversity despite current trend is found to be closer to decentralized.

Looking to East Asia's administrative side, we can find much diversity despite current trend is found to be closer to decentralized. The Philippines, for example, is highly decentralized for tax administration. The Bureau of Internal Revenue (BIR) administers national taxes, while each local government administers its own-source revenues according to the local government code and local revenue codes. There is little formal cooperation provided for by law.

The BIR operates independently of local tax administrations, and the national government provides little support to local governments. Local tax administrations, for the most part, operate independently of one another.[63]

At the other extreme is Vietnam, in which all tax administration is centralized. Vietnam's central General Taxation Department (GTD), under the Ministry of Finance, is responsible for collecting all internal revenue with offices at the provincial and district levels.[64]

Local governments have no responsibility for tax administration. However, tax administrators are responsible to their ministerial management as well as to representatives of local governments. Thus, there are some tensions built into the administrative system. On the one hand, local governments have little formal responsibility for tax administration, and on this count the system

It is logical to say that there is no single measure of autonomy that can be applied. It is dynamic, and it depends on where. As argued by Brunori, central government commitment needs to be complemented by local authority if it wants to ensure that investors are comfortable in putting their funds for long term.

While it is true that revenue performance of local taxes is not optimal, we should not forget that the lack of tax base and autonomy might contribute to their low share to total Local Own-Source Revenue (*Pendapatan Asli Daerah*/ PAD).[65] Furthermore, under Law Number

62 The degree of tax autonomy given to local governments are classified by OECD (see Appendix).
63 Robert D. Ebel and Robert Talierco, OpCit., 929.
64 *Ibid*.
65 The degree of local government's autonomy in determining its own tax policy has influence to

We should note the reality, where most local governments opt to set the maximum possible tax rate.

28 of 2009, local governments are only allowed to determine the tax rates within certain range, which means they cannot set excessive tariff. This shows that current law has been intended to preserve business climate within the regions.

Nevertheless, it seems that current state of regulations is not enough. We should note the reality, where most local governments opt to set the maximum possible tax rate.[66] In addition to that, there is still no limitation for local governments in determining tax base calculation (*Dasar Pengenaan Pajak*/ DPP).

Therefore, it is understandable that central government wants to rationalize current state of regulations. To realize the revenue potential and cover the lack of local government administrations capacity, the central government might need to consider OECD[67] and IMF[68] proposals to centralize certain tax collection, such as restaurant tax, hotel tax, parking tax and entertainment tax.

It is logical that the central government wants to ensure that central and regions have the same spirit in advancing development. Disparity between the two would result downturn in both fiscal and investment.

Certainly, high-technology economy will alter the way local governments raise revenue. Technology is inevitably creating new business models that enable more 'remote' activities.[69] For instance, it has been clear that restaurants are now easier to serve delivery food in many areas while the management is remotely conducted through mobile application. E-commerce also makes it much more difficult to impose business taxes. Technological developments have made business increasingly mobile.

Accordingly, daily business activities are no longer as dependent on physical devices as they were one decade ago. Thus, relocation to other cities or municipalities are much easier. In effect local governments will not be able to rely on business property tax revenue as much as they once did. As future business will not require significant amount of real property, the burden will likely shift to residential property.

Given the current situation and the direction where we are going, it is logical that the central government wants to ensure that central and regions have the same spirit in advancing development. Disparity between the two would result downturn in both fiscal and investment.

More important than that, every local government will be able to safely formulate local tax policies without being judgemental toward other regions. It results in certainty and objectivity which will ease the local government to stimulate investment while preserving the economy.

D. Anticipating the Consequence

Despite the positive intention, it is without risks afterwards for the central government in implementing the omnibus law.

First, if the central government is about to intervene certain local tax rate, there will be 'costs' incurred, either in terms of time, energy and also politics. The related region should put effort to revise its law and all related instruments. In other words, every intervened local governments will certainly add the total costs arise due to the revision.

To anticipate and minimize this, the central government should consider how to minimize the burden and ease up the process in region. If this phase can go well, the next round in the future should be more predictable since the local governments should have

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the level of revenue they can collect. See Robert D. Ebel and Serdar Yilmaz, "On the Measurement and Impact of Fiscal Decentralization", in *Public Finance in Developing and Transition Countries: Essays in Honour of Richard M. Birds*, James Alm and Jorge Martinez-Vazquez eds. (Cheltenham: Edward Elgar Press, 2003), 101-120.

66 This information can be retained from "Profil Pajak Daerah" column in DDTCNews: https://news.ddtc.co.id/literasi/profil_daerah.

67 OECD, Economic Survey Indonesia October 2018 (Paris: OECD, 2018).

68 IMF, *Realizing Indonesia's Economic Potential* (Washington DC: IMF, 2018).

69 Thomas S. Neubig and Satya Poddar, "Blurred Tax Boundaries: The New Economy's Implications for Tax Policy", *State Tax Notes* (2000): 965-973.

Fourth, there should be assurance that any local laws that are to be changed are to be conducted in a way that would not create law unambiguity or otherwise there could be potential resistance

similar understanding with the central government.

To ensure that, derivative regulations should be able to clarify the process in detail, including what corridor of policy design should be followed, how long the local government should change its tax rate when being intervened and other technicalities.

Second, we should note that tax burden is not only determined by the tax rate, but also the tax base calculation. The central government should ensure that there will be no 'room' in the regulation that can be exploited to violate the spirit of the omnibus law. The local governments need to be confident that the law will be reliable and not be tricked by other regions.

Third, we cannot deny that the taxation omnibus law plan will potentially limit the local governments' freedom in deciding what is best to improve their tax collection performance. Consequently, at least in the near future, it will be likely that local governments would still rely on the transfer fund from central government in their budget. With that said, the central government should have considered this in their fiscal balance policy.

Fourth, there should be assurance that any local laws that are to be changed are to be conducted in a way that would not create law unambiguity or otherwise there could be potential resistance. As we know, in 2017, Constitutional Court (*Mahkamah Agung*) has shut down the central government's autonomy in revoking local regulations. If the central government is to succeed the objective of the taxation omnibus law, then the procedure needs to be heavily formulated in certain way that would result in harmony.

In the end, there is no single 'best' policy in taxation. What we can achieve is to choose the best from possible choices while preventing and minimizing the unwanted risks.

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Appendix

A. Countries' strategy and approach towards changing tax administration environment

Country	Agent	The increased availability of data	Sharpened targeting of risks	Co-operative compliance and transparency	Automation of compliance checks
Australia	Australian Taxation Office (ATO)	N/A	N/A	Assure the tax compliance of large public and private corporate groups	N/A
Austria	Australian Financial Administration	N/A	N/A	Developed a concept for accompanying monitoring of large tax-paying business on a voluntary basis	N/A
Belgium	Belgian Tax Administration (BTA)	N/A	Developed four predictive models that resulted in reducing the tax debt	N/A	N/A
Canada	Canada Revenue Agency (CRA)	Taxpayers filling and assessment information, risk profiles, historical audits, collections and appeals information.	Identify the highest risk taxpayers in the small and medium enterprises (SME) population with data mining/ machine learning algorithms	N/A	N/A
China	The State Taxation Administration (STA)	Introduced a cloud-based big data platform (individual income tax administration, VAT invoices, export tax rebates, external and historical data	Has 264 risk data management models	Set up a new service targeted at large business restructuring that helps to co-ordinate and resolve difficult tax matters in large business restructuring processes based thus improve tax certainty and consistency in implementation	N/A
Estonia	Estonian Tax and Customs Board (ETCB)	Data on turnover, number of employees, average salary, tax debts, shortcomings in complying with tax law, background management	Calculated tax compliance rating based on number of risk criteria	The taxpayer will be able to address those sortcomings in complying with tax law to improve his ratings	N/A
Finland	Finnish Tax Administration (FTA)	Credit card companies, ATM cash withdrawals, banks, payment service providers, and cryptocurrency exchanges	N/A		N/A

Country	Agent	The increased availability of data	Sharpened targeting of risks	Co-operative compliance and transparency	Automation of compliance checks
Hungary	National Tax and Customs Administration (NTCA)	N/A	Calculated compliance rating of more than 550.000 taxpayers in business registry	Introduced a public taxpayer compliance classification system by rating	N/A
Ireland	Revenue Commissioners	Tax return data	N/A	N/A	Used robotics in the processing of tax return exceptions using data reported on the tax return
Italy	Italian Revenue Agency (IRA)	fiscal, external entities, invoices and information under CRS	N/A	N/A	
Netherlands	Netherlands Tax and Customs Administration (NTCA)	N/A	N/A	N/A	Created computer assisted document processing services based on Natural Language Processing (NLP)
Norway	The Norwegian Tax Administration (NTA)	N/A	N/A	N/A	Developed a self-assessment tax return for individual taxpayers and business together with a new case processing system
Romania	National Agency for Fiscal Administration	N/A	Focusing on HNWI (with assets over EUR 25 million)	Co-operative compliance programme for HNWI	N/A
Russia	Federal Tax Service (FTS)	N/A	Used data mining functions to quickly assess the taxpayer's current operations and predict the probability of future non-compliance	N/A	Developed an integrated risk management (IRM) system to engage with large business taxpayers in order to flag risks early so that they can be addressed upfront, minimizing the risk of future disputes
Spain	Spanish Tax Agency (AEAT)	Automatic Exchange of financial account information, country by country reporting and exchange of rulings	N/A	N/A	Used the automated attachment procedure since 2015 to focus resources on the most complex files
UK	Her Majesty's Revenue and Custom (HMRC)	Online marketplace to provide VAT number	N/A	N/A	N/A
USA	Internal Revenue Service (IRS)	N/A	Used Bayesian analytical model in a data-driven risk assessment product to identify low, medium, and high risk	N/A	N/A

B. CRM Approach for Shadow Economy in Comparison in Selected Countries

Country	CRM for shadow economy		
	Taxpayer education and simplicity of compliance	Reducing the opportunities and increasing detection	Reinforcing social norms
Australia	Providing a range of online tools and support via mobile devices	N/A	N/A
Austria, France, and Russian Federation	N/A	Mandating issue of receipts and use of online cash register systems	Imposing limits on the value of cash transactions between individuals and businesses
Brazil, Italy , and the Russian Federation	N/A	Mandating use of e-invoicing for VAT and cross-matching all invoice data	N/A
Canada	N/A	N/A	Providing education on tax obligations through trade and technical colleges
New Zealand	N/A	N/A	Marketing campaigns directed at specific shadow economy sectors
UK	Making access to licenses required for business conditional on tax registration	Acquiring credit and debit card transaction data to track merchants' turnovers	N/A

Source: OECD, *Tax Administration 2019: Comparative Information on OECD and Other Advanced and Emerging Economies*, (Paris: OECD Publishing, 2019),47-58.

C. OECD Taxonomy of Taxing Power

Classification	Description
A1	The recipient SCG sets the tax rate and any tax reliefs without needing to consult a higher-level government.
A2	The recipient SCG sets the rate and any reliefs after consulting a higher-level government.
B1	The recipient SCG sets the tax rate, and a higher-level government does not set upper or lower limits on the rate chosen
B2	The recipient SCG sets the tax rate, and a higher-level government does sets upper and/or lower limits on the rate chosen
C	The recipient SCG sets tax reliefs
D1	There is a tax-sharing arrangement in which the SCGs determine the revenue split.
D2	There is a tax-sharing arrangement in which the revenue split can be changed only with the consent of SCGs.
D3	There is a tax-sharing arrangement in which the revenue split is determined in legislation, and where it may be changed unilaterally by a higher-level government, but less frequently than once a year.
D4	There is a tax-sharing arrangement in which the revenue split is determined annually by a higherlevel government.
E	Other cases in which the central government sets the rate and base of the SCG tax.
F	None of the above categories a, b, c, d or e applies.

Source: Blöchliger and King (2006), as quoted in Sean Dougherty, Michelle Harding and Andrew Reschovski, "Twenty Years of Tax Autonomy Across Levels of Government: Measurement and Applications", OECD Working Paper On Fiscal Federalism No. 29 (2019): 7.

D. Local Tax Tariff Range

Province Level

Local Tax (Province Level)	Maximum Tariff
Motor Vehicle Tax (*Pajak Kendaraan Bermotor*/PKB)	0.1-10%
Transfer of Motor Vehicle Title Fee (*Bea Balik Nama Kendaraan Bermotor*/BBNKB)	0.75-20%
Fuel Tax (*Pajak Bahan Bakar Kendaraan Bermotor*/ PBBKB)	5-10%
Surface Water Tax	10%
Cigarette Tax	10%

Source: Law Number 28 of 2009

City/Municipality Level

Local Tax (Municipality/City Levels)	Maximum Tariff
Hotel Tax	10%
Restaurant Tax	10%
Entertainment Tax	10%/35%/75%
Advertisement Tax	25%
Street Lighting Tax	10%
Non-Metallic Minerals and Rocks Tax	25%
Parking Tax	30%
Groundwater Tax	20%
Swallow's Nest Tax	10%
Land and Buliding Tax (*Pajak Bumi dan Bangunan Perdesaan dan Perkotaan*/ PBB-P2)	0.3%
Land and Building Title Transfer Fee (*Bea Perolehan Hak Atas Tanah dan Bangunan*/BPHTB)	5%

Source: Law Number 28 of 2009

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Sets the Standards and Beyond