

INDONESIA TAXATION QUARTERLY REPORT **Q3 - 2019**

Strengthening Tax Ombudsman
Role in Tax System



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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

Praise be to God Almighty, that by His blessings and approval, this report entitled “Indonesia Taxation Quarterly Report III-2019” can be published.

The publication of “Indonesia Taxation Quarterly Report III-2019” is a countenance of DDTC’s consistency in providing most updated guidance for tax stakeholders – including investors, business associates, policy makers, academicians, media and society as a whole.

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.

As we have entered the last quarter of 2019, the government is now trying to minimize tax revenue’s shortfall through extra administrative efforts under new leadership. Breakthrough steps are necessary to optimize the tax revenue while not distorting the economy and investment.

At the same time, we should be reminded to keep alert to the developments tax environment, whether in terms of automatic data exchange, reaching consensus of digital economy taxation, escalating attention to tax transparency or other forms of international tax cooperation. They certainly should be followed by government’s quick initiatives so that our tax system remained relevant to the business world.

Similar to previous reports, this publication starts with updating the most recent tax developments followed by two chapters related to strategic issues: tax ombudsman revitalization and the need of breakthrough efforts to increase tax ratio.

We do sincerely hope that “Indonesia Taxation Quarterly Report III-2019” will offer a considerate impact and contribution that will benefit not only for a segmented purpose, but also for the whole tax system and its surroundings.

Jakarta, November 2019

Darussalam
Managing Partner DDTC

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Abbreviation

ADR	= Alternative Dispute Resolution
AEoI	= Automatic Exchange of Information
AMT	= Alternative Minimum Tax
APBD	= <i>Anggaran Pendapatan dan Belanja Daerah</i> /State Budget
APBN	= <i>Anggaran Pendapatan dan Belanja Negara</i> /National Budget
BEPS	= Base Erosion and Profit Shifting
BI	= Bank Indonesia
BPS	= <i>Badan Pusat Statistik</i> /Statistics Indonesia
BO	= Beneficial Ownership
CFC	= Controlled Foreign Company
CHT	= <i>Cukai Hasil Tembakau</i> / Tobacco Product Excise
CIT	= Corporate Income Tax
CRS	= Common Reporting Standard
DID	= <i>Dana Insentif Daerah</i> / Regional Incentive Funds
DGCE	= Directorate General of Customs and Excise
DGT	= Directorate General of Taxes
EODB	= Ease of Doing Business
GDP	= Gross Domestic Product
GRDP	= Gross Regional Domestic Product
HNWI	= High Net Worth Individual
IMF	= International Monetary Fund
MAP	= Mutual Agreement Procedure
MLI	= Multilateral Instrument
OECD	= Organisation for Economic Cooperation and Development
R&D	= Research and Development
SME	= Small and Medium Enterprise

Executive Summary

Recent Developments

In this third quarter of 2019, Indonesia achieved economic growth of 5.02% (yoy 2018 – 2019), which shows a downfall compared to the growth in the same quarter last year (5.17%). In the context of regional, the growths in Asia and Asia Pacific were re-projected by IMF and the World Bank resulting at a slower pace amid weakening global demand and heightened trade policy uncertainty. In general, this may cause the national growth target of 5.3% by the end of the year seems getting harder to accomplish.

In fiscal context, as of the end of September, the realization of state revenue from the tax sector contributed as much as 57.21% of the 2019 State Budget target with revenue of IDR902.59 trillion. Cumulated monthly, the tax revenue recorded in September 2019 experienced only 0.19% annual growth. This nominal is then considered as very low compared to last year where its growth for cumulative revenue of the end of third quarter reached 16.87% (yoy 2017-2018).

Viewed in more detail based on the revenue for each type of tax, the three biggest proportion in the period of January to September 2019 were Domestic VAT (22.11%), Corporate Income Tax Article 25/29 (19.09%), and VAT on Import (16.03%). However, the revenue performance of these three types of tax which become the revenue backbone of the 2019 State Revenue were slowing down at the end of third quarter 2019. In this Report, DDTC Fiscal Research also conducted the revenue forecasting, which estimates that the

revenue realization from tax sector will ideally be in the range of 86.30% to 88.65% of this year's target of IDR1,577 trillion. However, in the worst possible scenario, tax revenue realization could only reach as low as 83.58% from the target.

In terms of custom and excise, revenue realization against its target from import duty is the highest compared to the performance of other components in spite of its negative growth. The contraction of import duty revenue for this quarter was strongly influenced by the performance of national imports, which reached -9.12% until the end of September 2019.

In midst of an unfavorable economic situation, Government of Indonesia is currently drafting a new law that is commonly called as omnibus law, namely the provisions and facilities related to taxation to strengthen the economy. This draft will be one of the priorities to complete by new Director of DGT who is officially appointed on 1 November 2019, Suryo Utomo.

Despite the stagnancy on ease of doing business, Indonesia notches score of 75.8 for Paying Taxes category in Doing Business (DB) 2020, improving from 68.4 in DB 2019. This recent score is above the average score of Paying Taxes in Asia Pacific region for DB 2020, 73.60. However, Indonesia's tax ratio was claimed as the lowest in Asia Pacific region in 2017 according to OECD Report that was published in the end of July.

At global level, addressing tax challenges from digitalization of the economy is still a rising concern among countries. OECD itself as one of the initiators of global tax cooperation is still in the progress

to prepare an economic analysis and impact assessment of the proposals since some parties assert that the efforts to reshape corporate tax rules are moving ahead without wholly assessing the potential consequences of proposed schemes.

There is also a discussion about development of tax reform since OECD indicates that the pace of tax reform has slowed in most major economies. OECD urged that most countries only conduct less significant reform and often undertaken in a piecemeal fashion. On the other hand, there was significant progress on improving tax transparency through CBCR as part of BEPS Action 13. CBCR itself provides an unprecedented level of transparency to tax administrations of large MNEs worldwide.

Strengthening Tax Ombudsman Role

In the context of tax reform, providing the right balance between taxpayers' rights and tax authority power would set up the core of effective good governance in tax administration. It will ease the shift of taxpayers' paradigm from enforced to voluntary compliance. Accordingly, a fortified tax ombudsman will upgrade the taxpayer's perception toward the government. In addition, they will become more aware that their rights are getting more attention and priority from the authority.

Ombudsman means 'representative' and the first modern ombudsman was first established in 1809 in Sweden (*justitieombudsman*). As the name implies, 'ombudsman' is concerned with protecting citizens from violations of rights by the state apparatus, abuse of power, wrongdoing, neglect and maladministration, unfair decisions, and delays that result in uncertainty.

In Indonesia, the tax ombudsman has been present in the form of the Taxation Supervisory Committee (*Komite Pengawas Perpajakan*) as the implementation of Article 36C of Law Number 6 of 1983 concerning General Tax Provisions and Procedures as last amended by Law Number 28 of 2007 (KUP Law). The article states that the Minister of Finance has established the

Taxation Supervisory Committee, the provisions of which are regulated by a Minister of Finance Regulation.

In many countries, the establishment of a tax ombudsman usually begins with tax reforms. This is inseparable from the general comprehension that ideal tax reforms must involve structural and institutional reforms from stakeholders in the tax sector. Accordingly, taxpayers should not only be viewed as a 'money machine' for the government. Tax reforms should not only be interpreted as an effort to increase tax revenue. Furthermore, tax reform should provide a balanced fiscal contract restoration framework between the state (government) and society (taxpayers). As such, taxpayers must be given access to the institutions representing their voices to review the extent to which the power to tax has been properly administered.

The tax ombudsman is, in essence, a form of representation for taxpayers to guarantee their rights. In this case, the Taxation Supervisory Committee can act as a bridge between the taxpayers and the tax authority, among others, by ensuring a participatory policy formulation process.

The taxpayers' representation and the independent nature of the Taxation Supervisory Committee are evident in the membership structure consisting of the Secretary General and the Inspector General of the Ministry of Finance as permanent members, plus 5 (five) other members, at least 4 (four) of whom are non-civil servants. However, the most fundamental thing to underline is: the Taxation Supervisory Committee is ought to be an institution representing taxpayers, not the Ministry of Finance.

In addition, the Taxation Supervisory Committee may act as a mediator in alternative dispute resolution (ADR), specifically, the mediation mechanism. The Taxation Supervisory Committee's role as the facilitator or mediator is far more appropriate due to the institution's independence. This function must undoubtedly be supported by a legal basis of ADR and revitalization of the Taxation Supervisory Committee.

Furthermore, the Taxation Supervisory Committee's role in ensuring the proper provision of services (in terms of tax

policies, laws, and administration) for taxpayers encourages adequate services that will, in turn, improve taxpayer compliance. As a logical consequence, tax revenue will increase.

The Need of Breakthrough to Increase Tax Ratio

Entering the final quarter of 2019, our tax revenue performance most likely will not continue last year's positive achievement. By the end of September, its realization reached only 57,21% of APBN target or around 63,1% of 2019 tax revenue outlook, noting as little as 0,19% growth from 2018 on the same period. It is much lower than economic performance in the same period, reaching 5,02% compared to January-September 2018, indicating the tax system could not capture the tax base growth.

Prior this trend, in 2018, the IMF released its diagnosis and prescription in the publication titled *'Realizing Indonesia's Economic Potential'* with the momentum of the 2018 IMF-World Bank Annual Meeting. On the other hand, the OECD revealed its prescription in the *'Economic Survey Indonesia October 2018'* along with the extension of the OECD-Indonesia Joint Work Program for 2019-2021.

Analyzing Indonesia's taxation system, the IMF offers a prescription framed in the medium-term revenue strategy (MTRS). Through this prescription, the tax ratio is projected to rise to 15.4% in by 2022, to be exact. Additionally, the prescription also aims to reduce tax distortion and strengthen progressivity.

Simultaneously, MTRS focuses on reducing compliance costs and improving the investment climate. Moreover, the IMF seeks to enhance people's perception of justice in Indonesia's current taxation system. A tax system relevant to the dominance of the middle-income population is a crucial remedy in the prescription.

Based on diagnosis on the same 'illness', the OECD has also offered a relatively similar prescription. This institution sees a potential increase in the tax ratio to 22%. The difference lies in the emphasis,


the OECD's prescription underlines increasing voluntary compliance through taxpayers' greater willingness to comply, strengthening of administration, and expanding the tax base.

At the same time, it is also important to note that there are little evidence suggesting that a significantly improved tax revenue mobilization can be achieved without being associated with a strengthened tax morale of the society. In most cases, it can be accomplished by growing transparency and willingness to change 'cop-and-robber' perception to a more cooperative collaboration that emphasize equal standing between tax authority and taxpayers.

Accordingly, trust-based relationship between tax authority and taxpayers plays crucial role in reducing costs from the two sides – compliance and administrative cost. From taxpayers' side, it will be easier to comply because they can get certainty about their tax position. Meanwhile, from tax authority's view, a more opened and cooperative taxpayers enable resource reallocation, particularly in audit and investigation process to be more focused on high-risk taxpayers.

To improve tax morale, the taxpayer's perception has to be changed first toward the existing tax system. As broadly suggested, initiatives from the tax authority, mainly related to efforts in fulfilling taxpayer's rights and changed perception of tax authority toward the taxpayers are the starting steps to enlighten them that the tax system is moving to the right direction.

Furthermore, in relation to the changing tax landscape, we should anticipate that technological advancement alters the economic environment in which government seek to collect tax revenue. These advancements will make some persons or transactions easier to tax. But at the same time, they will also make some persons or transactions harder to tax. For example, it is currently much harder for tax authorities to track goods in digitized form than those that are physically transported across or between countries. If they are not well-anticipated, unreported business activities, or shadow economy, will increase in the future.



In essence, digitization should not be only aimed to detect both non-compliance behaviours, but also help taxpayers to comply more easily and improve transparency between taxpayers and the DGT to strengthen

relationship and trust between the two. In this sense, technology may be utilized to simplify or reduce number of necessary administrative obligations or forms that need to be filled.

Survey of Recent Developments

This chapter describes the taxation circumstances during the third quarter. They include highlights and key trends on policies, administrations and recent data of macro-fiscal situations, revenue performance, issues on domestic tax, customs and excises, non-tax revenue, local taxes, international aspects of Indonesian taxation and global taxation trends.

1 Chapter

Survey of Recent Developments

In general, the growth target of 5.3% by the end of the year seems getting very unlikely to accomplish.

A. Macro-Fiscal Framework

In this third quarter of 2019, Indonesia achieved economic growth of 5.02% (yoy), shows a downfall compared to the growth in the same quarter last year of 5.17%. The sectors that saw the highest annual growth compared to the second quarter of 2018 were the Other Services (10.72%), Business Services (10.22%), and Health and Social Care Services (9.19%).

Based on the data from Statistics Indonesia (BPS), the largest contributions of total Gross Domestic Product (GDP) were from the Manufacturing Industry (19.62%), Agriculture, Forestry, and Fisheries (13.45%), and Wholesale and Retail Trade with Vehicle Repair (13.02%). Yet, their annual economic growths were only ranging from 3% to 4% for this quarter. In general, the growth target of 5.3% by the end of the year seems getting very unlikely to accomplish.

On the expenditure side as the components of GDP, the highest annual growth was achieved by the Household Non-Profit Institution (LNPRT) Consumption Expenditure of 7.44% where Household Consumption only grew by 5.01%. Yet, the biggest portion of total GDP by expenditure was still the Household Consumption (56.52%).

Cumulatively, the state expenditures until the end of September 2019 reached IDR1,594.69 trillion (64.80% of the target) with the growth of 5.43% (yoy). Accordingly, the state expenditure consists of central government expenditure and transfers to regions with the village funds. The realization of central government expenditure already reached IDR999.34 trillion within the 61.14% of the ceiling set by government. It increased by 6.44% (yoy), mainly due to the realization of Social Expenditures Aid which reached 85.21% of the State Budget target or increased by 38.70% (yoy).

The Ministry of Finance estimates that economic growth in the second quarter will be in the range of 5.02-5.13% and by the first semester of 2019, it would reach 5.1%. In general, the growth target of 5.3% by the end of the year seems even harder to accomplish.

The deflation on September 2019 was triggered by the decrease of inflation index on volatile food group (-1.97%). Accordingly, the inflation rate for the calendar year (January-September 2019) was recorded at 2.20% (ytd) with the core inflation rate of 2.62% (ytd). On a year to year (yoy) basis, the inflation rate itself reached 3.39%.

Until the end of third quarter of 2019, Indonesia's cumulative trade balance recorded a narrow deficit of USD0.16 billion with the change of -146.35% compared to the same period for the last year. The deficit primarily stemmed from a decreasing non-oil and gas trade surplus coupled with a stable oil and gas trade deficit.

In the light of global competitiveness, according to the World Economic Forum, Indonesia ranks 50th for this year, down five places from last year.¹ Nevertheless, the decline in score is small (0.3 points to 64.6) and its performance essentially unchanged. The overall ranking is estimated in index by measuring national competitiveness which is defined as the set of institutions, policies, and factors that determine the level of productivity.

In the scope of ASEAN, Indonesia ranks fourth behind Singapore (1st), Malaysia (27th) and Thailand (40th). Singapore has the score increased 1.3 points to 84.4, taking over the top spot this year from the US. The data shows its competitiveness score decline by 2.0 points to 83.7.

The main strengths of Indonesia based on the Global Competitiveness Index 4.0 which covers 141 jurisdictions are its market size (7th), business dynamism (29th), and macroeconomic stability (54th). On the other hand, poor digital and innovation competitiveness appeared to be undermining any progress as Indonesia's score on Information and Communication Technologies (ICT) adoption (72nd) and innovation capability (74th).

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In terms of monetary policy, the Bank of Indonesia (BI) Board of Governors have agreed to lower the interest rate as to stimulate the economy. The rates will be lowered to BI 7-Day Reverse Repo Rate (25 bps to 5.25%), Deposit Facility (25 bps to 4.50%) and Lending Facility (25 bps to 6.00%). The amendment is expected to become effective per 2 December 2019. Such a decision is closely related to the efforts to relax macroprudential policy in order to increase bank lending capacity and catalyze demand for new loans.

The central bank of Indonesia also refines Macroprudential Intermediation Ratio (MIR), both for conventional and sharia, by expanding the loan and financing components received by the banks as a source of funds when calculating MIR. In addition, the government also relaxes the Loan-to-Value (LTV) and Financing-to-Value (FTV) ratios by 5%, both for property and environmental-friendly motor vehicles in terms of loans, financing, down payments on loans.

The position of reserve assets in Indonesia itself remains solid, recorded at USD124.3 billion at the end of September 2019. The value is equivalent to 7.2 months of imports or 7.0 months of imports and servicing government external debt, which is well above the international adequacy standard of three months. In addition, the Balance of Payment (BOP) performance is backed by a capital and financial account surplus coupled with a manageable current account deficit where portfolio investment recorded a net inflow of USD4.8 billion in the third quarter of 2019.

In line with solid BOP performance, the Rupiah has also strengthened. During the period of January to September 2019, the average exchange rate of Rupiah only reached IDR14,173/USD² when 2019 State Budget itself assumes the exchange rate of IDR15,000/USD. The appreciated Rupiah is supported by a well-functioning foreign exchange

1 Klaus Schwab, *The Global Competitiveness Report 2019* (World Economic Forum: October 2019), ix.
2 This value is calculated by averaging the selling and buying rate of Bank of Indonesia (BI) Exchange Rates on Transaction for the given period.

As one of commodity-exporting countries, Indonesia need to consider new tax or administrative measures to boost revenues in the medium term.

By the end of September 2019, state revenue from taxation had reached IDR1,039.26 trillion

Cumulated monthly, the tax revenue recorded in July, August, and September 2019 experienced only 2.68%, 0.21% and 0.19% annual growth respectively.

supply and demand mechanism from business sectors in addition to maintained foreign capital inflows.

In the context of regional economy, the growth in Asia is moderately expected by International Monetary Fund (IMF) to be 5.0% in 2019 and 5.1% in 2020 (0.4 and 0.3 percentage point lower than projected last April, respectively).³ Although the region is still the world's fastest growing major region, contributing more than two-thirds to global growth, there is undoubtedly a marked deceleration of economic activity particularly in the manufacturing sector, including Indonesia. This is mostly driven by distortionary trade measures and an uncertain policy environment.

The Asia Pacific region is also projected as slower growth amid weakening global demand and heightened trade policy uncertainty by the World Bank, from 6.3% in 2018 to 5.8% in 2019, 5.7% in 2020 and 5.6% in 2021, respectively.⁴ As one of commodity-exporting countries, Indonesia need to consider new tax or administrative measures to boost revenues in the medium term. In the face of pressure to expand spending especially on growth-enhancing infrastructure projects, it will also be important to improve the quality of spending and to guard fiscal sustainability even its relatively low levels of public debt ratios.

B. Revenue Performance

1. Revenue Performance from Taxation Sector

By the end of September 2019, state revenue from taxation had reached IDR1,039.26 trillion. This revenue components consist of the revenue from taxes and the receipts from custom and excise sectors which are managed by the Directorate General of Taxes (DGT), the Directorate General of Customs and Excise (DGCE), and also the collaboration between the two.⁵

As the end of third quarter this year, the realization of taxation revenue reached 58.18% of the target of the 2019 State Budget. Cumulatively, the growth per July, August, and September 2019 were relatively low, which only reached 3.93%, 1.39%, and 1.44% respectively compared to the realization in the same period last year. Comparison of the performance of state revenue from the taxation sector is shown in the following figure.

2. Revenue Performance from Tax Sector

In July 2019, the realization of tax revenue reached IDR705.590 trillion or 44.73% of the 2019 State Budget target. Furthermore, as of September 2019, the realization of state revenue from the tax sector contributed as much as 57.21% of the 2019 State Budget target with revenue of IDR902.59 trillion. The comparison of the performance of tax revenue in these three months and that of the same period in the previous five years is shown in the Figure 2.

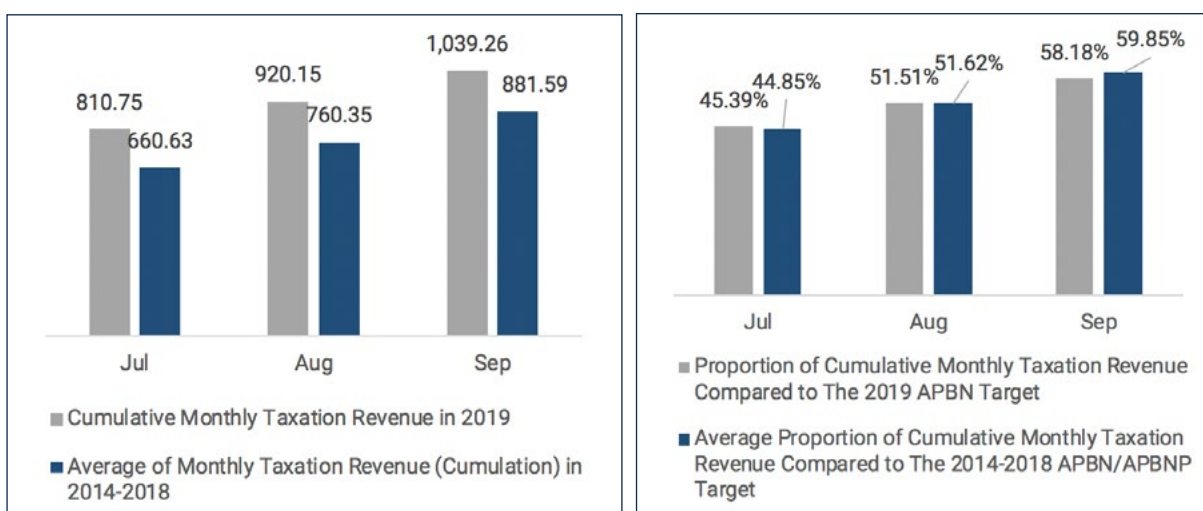
Cumulated monthly, the tax revenue recorded in July, August, and September 2019 experienced only 2.68%, 0.21% and 0.19% annual growth respectively. Based on the pattern of growth on a year-on-year basis, these three nominals are considered as very low compared to last year where its growth for

3 International Monetary Fund, *Regional Economic Outlook - Asia and Pacific: Caught in Prolonged Uncertainty: Challenges and Opportunities for Asia* (Washington D.C.: October 2019), 1.

4 World Bank, *Weathering Growing Risks: East Asia and Pacific Economic Update* (Washington D.C.: October 2019), 31.

5 The tax 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.

Figure 1. Comparison of Taxation Revenue for the Period of July to September in 2019 and in the Average of Previous Five Years (Trillion Rupiah and Percentage)⁶



Source: Ministry of Finance (processed by DDTF Fiscal Research). The monthly taxation revenue data is derived from the realization of the State Budget/ the Revised State Budget for the data of 2014 to 2017⁷ and APBN KiTa for data of 2018 to 2019.⁸ 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.⁹

Table 1. Performance of Cumulative Revenue Per Type of Tax for the Period of July to September 2019

Type of Tax	Realization (Trillion Rupiah)			Growth (yoy 2018 - 2019)		
	Jul	Aug	Sept	Jul	Aug	Sept
Income Tax	440.17	494.21	546.23	4.66%	3.08%	1.99%
Oil and Gas	35.50	39.42	43.24	-1.84%	-6.22%	-9.15%
Non-Oil and Gas	404.67	454.78	503.00	5.27%	3.97%	3.08%
VAT and STLG	249.40	288.01	336.04	-4.55%	-6.36%	-4.40%
Other Taxes	16.02	18.94	48.03	201.79%	52.41%	47.52%
TOTAL	705.59	801.16	902.59	2.68%	0.21%	0.19%

Source: Ministry of Finance (APBN KiTa)

Compared to the previous year, the growth of tax revenue for this third quarter was sustained by the increase in Income Tax, especially from non-oil and gas sector.

cumulative revenue of July, August, and September reached 14.36%, 16.52, and 16.87% (yoy 2017-2018).¹⁰ The fiscal performance of the third quarter of this year could have indicated a shortfall risk of the tax revenue in 2019.

Compared to the previous year, the growth of tax revenue for this third quarter was sustained by the increase in Income Tax, especially from non-oil and gas sector. However, its annual growths were only 5.27%, 3.97%, 3.08% for July, August, and September 2019 where its contribution was more than a half of total tax revenue realization. On the other side, the central revenue realization from land and building tax and other type of taxes experienced high annual growth in July 2019 (201.79%), August 2019 (52.41%), and September 2019 (47.52%). Yet, its proportion to the total tax revenue was only around 2% until 5% for these three months cumulatively.

Viewed in more detail based on the revenue for each type of tax, the three biggest proportion in the period of January to September 2019 were Domestic VAT (IDR199.63 trillion),

⁶ Tax revenue in 2017 includes tax revenue data with Tax Amnesty and Asset Revaluation.

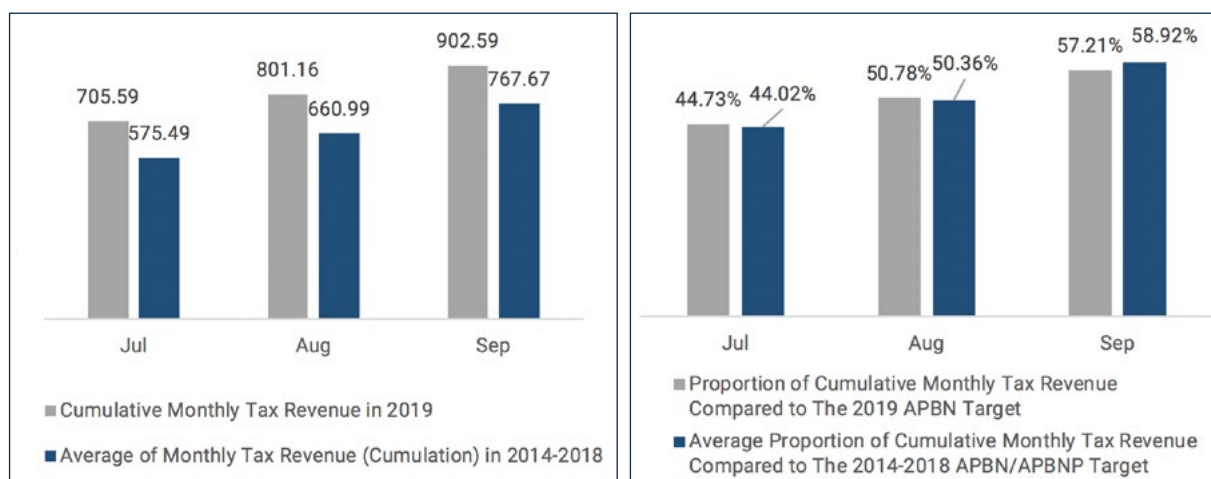
⁷ Ministry of Finance of the Republic of Indonesia, "Realisasi APBN/ State Budget Realization," Internet, can be accessed at: <https://www.kemenkeu.go.id/informasi-publik/realisasi-apbn/>.

⁸ 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/>.

⁹ 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).

¹⁰ These nominals consider the redemption from tax amnesty program. If the revenue from tax amnesty is not included, the growth will become higher. The growth data is retrieved from APBN KiTa Edition of August – October 2018.

Figure 2 Comparison of Tax Revenue for the Period of April to June 2019 and the Average for the Last Five Years (2014-2018) in Trillion Rupiah and Percentage¹¹



Source: Ministry of Finance (processed by DDTC Fiscal Research). The monthly tax revenue data is derived from the realization of the State Budget/ the Revised State Budget for the data of 2014 to 2017 and APBN KiTa for data of 2018 to 2019. 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.

Table 2. Growth in Cumulative Revenue Per Type of Tax for the Third Quarter of 2019

Type of Tax	Growth (yoy 2018 - 2019)		
	Jul	Aug	Sept
Income Tax			
Article 25/29 Income tax	1.70%	1.34%	-0.94%
Corporate	0.94%	0.64%	-1.69%
Individual	15.90%	15.35%	15.35%
Final Withholding Tax	4.52%	6.14%	6.35%
Article 21 Income Tax	12.31%	10.63%	9.71%
Value Added Tax			
Domestic VAT	-4.68%	-6.47%	-3.28%
Taxes on Imports			
Import VAT	-4.52%	-6.03%	-6.15%
Import STLGs	5.34%	7.50%	n.a
Article 22 Income Tax on Imports	1.20%	6.61%	0.48%

Source: Ministry of Finance (APBN KiTa)

The realization from final income tax for Small Medium Enterprises (SMEs) showed the slower growth of -23.67% (yoy 2018-2019) until the end of August 2019. Corporate Income Tax Article 25/29 (IDR172.34 trillion), and VAT on Import (IDR125.59 trillion). However, the revenue performance of these three types of tax which become the revenue backbone of the 2019 State Revenue were slowing down at the end of third quarter 2019. Their growths in September 2019 were -3.28%, -1.69% and -6.15% (yoy 2018 - 2019) as shown in Table 2.¹²

On the other hand, the revenue from Individual Income Tax showed the fair performance in the third quarter this year. Individual Income Tax Article 21 and Article 25/29 grew in double digit based on the cumulative revenue from January to August 2019 even though the growth for Individual Income Tax Article 21 slowed down again at the of September 2019. The other types of income tax that had the positive growths in this period were the Income Tax Article 22 on Import and Final Income Tax.

In fact, the realization from final income tax for Small Medium Enterprises (SMEs) showed the slower growth of -23.67% (yoy 2018-2019) until the end of August 2019. This was caused by the reduced tariff from 1% to 0.5% by implementing the Government Regulation Number 23 Year 2018 per 1 July 2018. If this reduced tariff was not considered, this type of tax from SMEs sector would have experienced growth of 56.50% of the aggregate of final income tax revenue realization as of August 2019. In the future, government also needs to be aware of the result of tax relaxations for the private sectors that are intensively provided lately.

In the context of revenue per sector, monthly tax revenue can be viewed from

11 Tax revenue in 2017 includes tax revenue data with Tax Amnesty and Asset Revaluation.

12 These nominals consider the redemption from tax amnesty program. If the revenue from tax amnesty is not included, the growth will become higher. The growth data is retrieved from APBN KiTa Edition of August - October 2018.

Table 3. Performance of Sectoral Tax Revenue for the Period of July to September 2019 (Cumulative)

Sector	Realization (Trillion Rupiah)			Growth (yoy 2018 - 2019)		
	Jul	Aug	Sept	Jul	Aug	Sept
Trade	135.67	155.12	176.24	1.80%	1.50%	-3.20%
Manufacture	187.72	215.58	245.61	-4.30%	-4.80%	2.80%
Financial Services	95.26	108.33	120.68	7.00%	7.70%	4.90%
Construction and Real Estate	42.13	48.2	56.22	1.50%	-1.50%	-1.20%
Transportation and Warehousing	28.17	32.59	36.36	20.00%	20.70%	18.90%
Mining	37.32	40.21	43.21	-12.30%	-16.30%	-20.60%

Source: Ministry of Finance (APBN KiTa)

The three biggest proportion in the period of January to September 2019 were Domestic VAT (IDR199.63 trillion), Corporate Income Tax Article 25/29 (IDR172.34 trillion), and VAT on Import (IDR125.59 trillion).

six sectors, namely trade, processing industry (manufacture), financial services, construction and real estate, transportation and warehousing, and the mining sectors.¹³ In the third quarter of 2019, the six sectors collected tax revenue of IDR678.32 trillion. The total contribution reached 42.99% of the tax revenue target in the 2019 State Budget.

The highest sectoral growth in this third quarter was contributed by the transportation-warehousing sector. The achievement of this sector in 2019 far exceeded the annual growth of previous year in the same period (12.6%, yoy 2017 – 2018). On the other hand, the highest sectoral growth last year in the third quarter, mining, which reached 70.14% (yoy 2017 – 2018)¹⁴ was experienced much slower growth this year. However, these two sectors respectively were only contributed around 4%-5% of total sectoral tax revenue realization in 2019.

The highest sectoral growth last year in the third quarter, mining, which reached 70.14% (yoy 2017 – 2018) was experienced much slower growth this year.

2.1. Projected Revenue Realization from the Tax Sector

In midst of busy tasks of government units to commemorate the new official cabinet, DDTC Fiscal Research has prepared the forecast of tax revenue realization for this year. The prognosis of shortfall –the difference between the realization and the target– is expected to occur again. This prediction has

been processed by utilizing various econometrics methods, considering significant determinant factors, and emphasizing fair approach to measure the realization that can be achieved by a tax system based on current conditions.

DDTC's Fiscal Research itself estimates that until the end of 2019, tax revenue will reach between IDR1,361 trillion (pessimist) to IDR1,398 trillion (optimist) as shown in the Figure 3. Therefore, the revenue projection will be in the range of 86.30% to 88.65% of this year's target of IDR1,577 trillion.¹⁵ This figure, however, is still lower than the government's outlook, IDR1,437 trillion or around 91% of the target.¹⁶ Furthermore, under the worst possible scenario, tax revenue could only reach IDR1,318 trillion, or 83.58% of the target. Figure 4 shows the comparison between government's outlook and DDTC Fiscal Research estimation as well as the 2019 target and 2018 realization.

3. Revenue Performance from Custom and Excise Sector

Components of customs and excise revenue are from international trade taxes and excise. Two main types of international taxes which is estimated in here are in the form of import duties and export duties. In addition, revenue from excise consists of excise on tobacco products (*cukai hasil tembakau/CHT*), beverages containing ethyl alcohol (*minuman mengandung etil alkohol / MMEA*), and ethyl alcohol (*etil alkohol/ EA*).

As of September 2019, this sector contributed IDR136.65 trillion to the state revenue and this revenue itself has reached 65.44% of the target in the 2019 State Budget. This achievement grew positively by 10.53% (yoy 2018-2019) where previous year's growth was reached 14.24% (yoy 2017-2018).¹⁷ The following figure shows the comparison of the revenue from custom and excise for the third quarter – this year and previous five years – cumulatively.

¹³ Based on information contained in APBN KiTa as the government's official document.

¹⁴ Ministry of Finance Republic of Indonesia, *APBN KiTa Edition of October 2018* (Jakarta: 2018), 26.

¹⁵ Republic of Indonesia, *Book II: Budget Statement and Law of the 2019 State Budget* (Jakarta: August 2018), II.3-2.

¹⁶ Republic of Indonesia, *Book II: Budget Statement and Law of the 2020 State Budget* (Jakarta: August 2019), Attachment 1: 3.

¹⁷ Ministry of Finance Republic of Indonesia, *APBN KiTa Edition of October 2018* (Jakarta: 2018), 32 - 33.

Figure 3 – DDTC Fiscal Research Projection of 2019 Tax Revenue

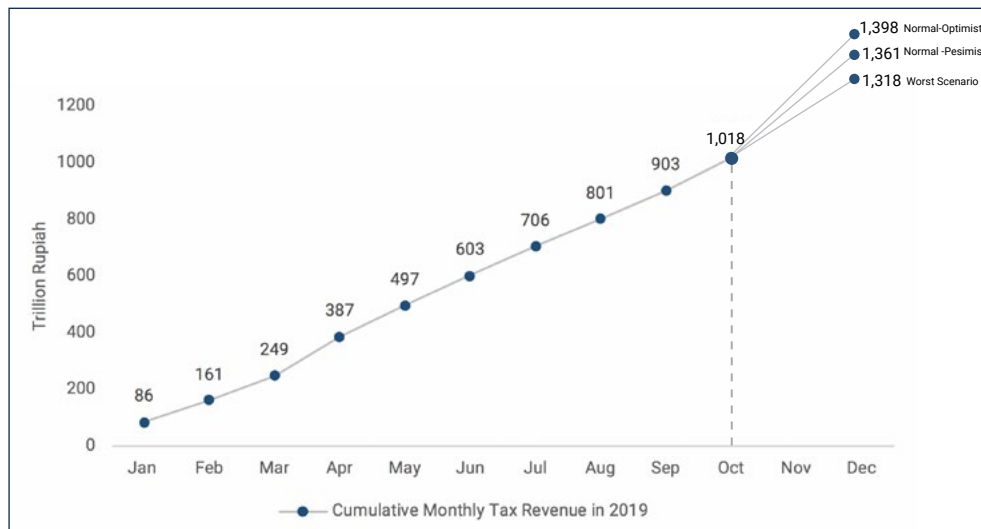
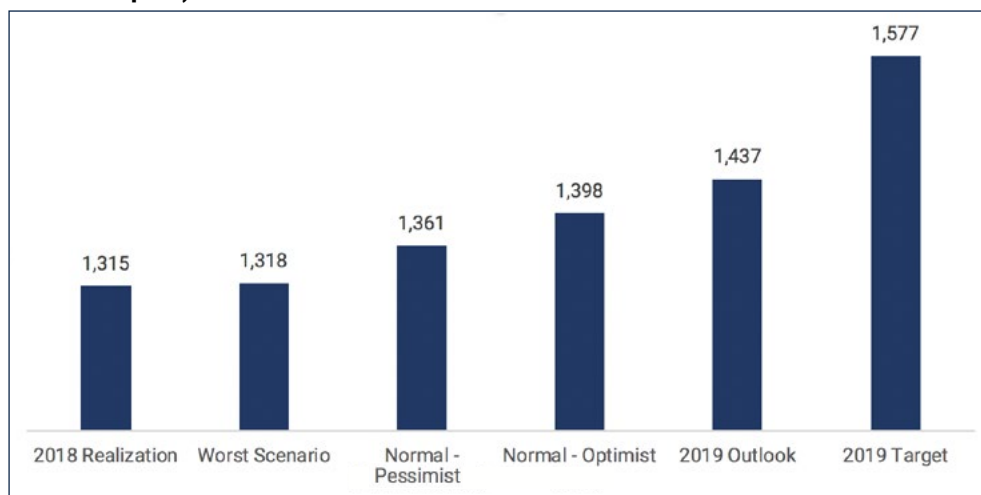


Figure 4 – Comparison of Tax Revenue Realization, Projection, and Target (In Trillion Rupiah)



The import of Indonesia itself has slowed down since the beginning of the year which reached -9.12% until the end of September 2019. As a result, the slowdown has had an impact on the achievement of import duty revenue which continues to repress.

The revenue realization from import duties from January to September 2019 was IDR26.83 trillion where export duties contributed around IDR2.05 trillion. These two duties respectively reached around 68.99% and 51.56% of this year target. The realization of import duty revenue against its target is the highest compared to the performance of other custom and excise revenue components. However, the revenue realization of custom and excise revenue for this quarter was mainly contributed by excise.

The contraction of import duty revenue for this quarter was strongly influenced by the performance of national imports. The import of Indonesia itself has slowed down since the beginning of the year which reached -9.12% until the end of September 2019.¹⁸ As a result,

the slowdown has had an impact on the achievement of import duty revenue which continues to repress.

C. Domestic Tax

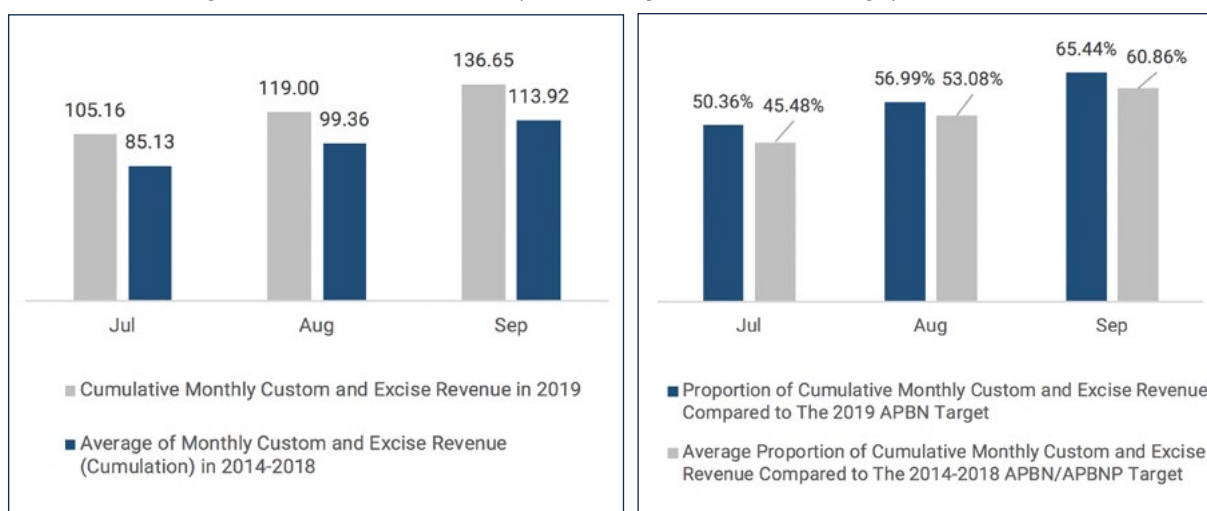
1. Income Tax

Upcoming CIT Rate Reduction

The government has assured that there will be a cut to the Corporate Income Tax (CIT) rate. This policy will be the part of the tax deregulation plan pursued by the government in the next few years and is also in line with the government's law draft on the provisions and facilities related to taxation for strengthening the economy.

¹⁸ Indonesia Statistics, "Statistics Official News" (15 October 2019), Internet, can be accessed at: https://www.bps.go.id/website/materi_ind/materiBrsInd-20191015113320.pdf.

Figure 5 - Comparison of Custom and Excise Revenue for the Period of July to September in 2019 and in the Average of Previous Five Years (Trillion Rupiah and Percentage)



Source: Ministry of Finance (processed by DDTC Fiscal Research). The monthly custom and excise revenue data is derived from the realization of the State Budget/ the Revised State Budget for the data of 2014 to 2017 and APBN KiTa for data of 2018 to 2019. 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.

Table 4. Revenue Performance of Customs and Excise from July to September 2019

Type of Customs and Excise	Realization (Trillion Rupiah)			Growth (yoy 2018 - 2019)		
	Jul	Aug	Sept	Jul	Aug	Sept
Duties						
Import Duties	20.69	23.83	26.83	-3.42%	-5.19%	-5.71%
Export Duties	1.85	2.05	2.28	-52.72%	-53.25%	-55.89%
Excise						
Excise on Tobacco Products (CHT)	79.15	88.97	102.70	22.50%	18.60%	19.47%
Beverages Containing Ethyl Alcohol (MMEA)	3.36	4.02	4.68	n/a	17.30%	14.48
Ethyl Alcohol	0.07	0.08	0.09	n/a	n/a	n/a

Source: Ministry of Finance (APBN KiTa)

Started in 2021, the reduction will be gradually applied from 25% to 22% and will be ended on 20%. According to the Directorate General of Tax (DGT), the objective of the plan is to respond the demands of the business community. Besides, this action is also needed to anticipate the threat of an economic slowdown.

However, there is 'cost' that will be borne by the government. The potential loss for 2021 to tax revenue is estimated around IDR87 trillion for a 5% simultaneous reduction and around IDR53 trillion for 3% gradual reduction.

The reduction in CIT rates indeed becoming a trend in many countries. According to the latest data released by the Organization for Economic

Cooperation and Development (OECD) recently, the average global CIT rate decreased from 28.6% in 2000 to 21.4% in 2018.¹⁹

The main causes for this trend are to boost the domestic economy and to increase competitiveness in the struggle for attracting capital. Ideally, the CIT cut itself should be followed by an expansion of the tax base or often referred as "broad base-low rate" system.

The Modification of PIT Bracket

The government have planned an adjustment on Personal Income Tax (PIT) bracket on a limited basis since the current condition with four layers is no longer relevant. Based on the preliminary government's plan, the taxpayers with

¹⁹ OECD, *Corporate Tax Statistics Database: First Edition* (Paris: 2019), 8.

Table 5 – The Preliminary Plan to Modify the PIT Bracket

PIT Rate	Net Taxable Income (Present)	Net Taxable Income (Planned)
5%	≤ IDR50,000,000	IDR50,000,000 – IDR100,000,000
15%	IDR50,000,000 – IDR250,000,000	IDR100,000,000 – IDR250,000,000
25%	IDR250,000,001 – IDR500,000,000	IDR250,000,001 – IDR1,000,000,000
30%	> IDR500,000,000	> IDR1,000,000,000

Ideally, the CIT cut itself should be followed by an expansion of the tax base or often referred as “broad base-low rate” system.

Conceptually, the scheme for taxing the individuals as regulated in PIT should reflect how a country distributes tax burdens at every level of society.

taxable income of IDR1 billion will be the starting income bracket that is subjected to PIT of 30%. Then, for taxable income up to IDR100 million, a rate of 5% will be charged. It also means that the number of layers still remain, but the nominals of taxable income are different. Table 5 will show the modification.

Conceptually, the scheme for taxing the individuals as regulated in PIT should reflect how a country distributes tax burdens at every level of society. So that, it needs to consider its progressiveness. In addition to optimize tax revenue, the implementation of progressiveness in the context of PIT scheme itself can also be used to overcome income inequality.²⁰

Relaxation for Taxing Investment in Infrastructure Sector

The government again released relaxation for taxing the income tax. This is regulated through the Government Regulation No. 55 Year 2019 (Gov Reg No. 55/2019) in order to attract the investment for infrastructure sector.

This new regulation is provided for the bond interest in the forms of Real Estate Investment Trust (*Dana Investasi Real Estate/DIRE*), Infrastructure Investment Funds (*Dana Investasi Infrastruktur/DINFRA*) and Asset Backed Securities of Collective Investment Contract (*Kontrak Investasi Kolektif-Efek Beragun Aset/KIK-EBA*).

Principally, the three investment instruments were similar to mutual funds with higher tax rates so that it become less attractive for the investors. Therefore, the latest regulation in taxing infrastructure investment is expected to accommodate these instruments to receive equal tax treatment as same as mutual fund investment.

The Revised Plan of Tax Holiday Provision for SEZs

The government plans to revise the provisions on tax holidays that can be utilized in Special Economic Zones (SEZs). The changes will be revised the Government Regulation No.96 Year 2015 concerning Facilities and Ease in SEZs (Gov Reg No. 96/2015).

According to the economic coordination authority, current tax holiday incentives in the SEZ create multiple interpretations for potential investors, particularly regarding the amount of investment and fiscal incentives that can be obtained.

Presently, the investment value and the tax holiday period of years obtained is set at ranges. Later, it will be changed to a fixed year period in order to provide certainty. The revised regulation that was planned to be issued this October contains the information that the government will change the criteria. Eventually, every investor who will operate business in SEZs would get a 100% CIT reduction with the only difference in time period with respect to certain investment value range.

A minimal investment value to obtain this incentive is between IDR100 billion until IDR500 billion with a 100% CIT reduction for a period of five years. Meanwhile, the maximum period of 20 years will be granted if an investment value is more than IDR20 trillion. Later, government also provides Tax Holiday grace of 50% for a two-year transition period if the main facility period has ended.

Previously, the tax discounts given for SEZs will be 20% - 100% of the tax payable if the investment value is more than IDR1 trillion with a 10 - 25 years of grant period. The same tax reduction will also be provided if the investment value of main activities ranged from

²⁰ Denny Vissaro, “DDTCNews Analysis: Menimbang Progresivitas PPh OP Indonesia,” Internet, can be accessed at: <https://news.ddtc.co.id/menimbang-progresivitas-pph-op-indonesia-17077>.

current tax holiday incentives in the SEZ create multiple interpretations for potential investors, particularly regarding the amount of investment and fiscal incentives that can be obtained.

IDR500 billion to IDR1 trillion. Yet, the facility period for the second condition is only for 5 - 15 years. Specifically, for certain SEZs such as Bitung, Morotai, and Sorong with investment values lower than IDR500 billion, the tax holiday provided is between 20% - 100% with 5 - 15 period of years.

R&D Tax Incentive for Vocational Activities

The first technical regulation related to tax incentives for Research and Development (R&D) is the super deduction for vocational activities. The provision is concerning the gross income reduction for the implementation of work practices, apprenticeship, and/or learning activities in the framework of coaching and development of human resources based on certain competencies.

The first technical regulation related to tax incentives for Research and Development (R&D) is the super deduction for vocational activities.

That policy is regulated through Minister of Finance Regulation No. 128/PMK.03/2019 (MoF Reg No. 128/2019). This new rule is a technical guidance of Government Regulation No. 45 Year 2019 concerning the Calculation of Income Taxes and Repayment of Income Taxes in the Current Year (Gov Reg No. 45/2019).

According to Gov Reg No. 45/2019, taxpayers can be given a maximum gross income reduction of 200% of the total costs incurred for work practices, apprenticeship, and/or learning activities if they meet several provisions. *First*, they must have performed practical work activities, apprenticeship, and/or learning in the context of coaching and developing human resources based on certain competencies.

Taxpayers can be given a maximum gross income reduction of 200% of the total costs incurred for work practices, apprenticeship, and/or learning activities if they meet several provisions.

Second, have a cooperation agreement between the taxpayers and vocational high school, vocational *madrassa aliyah* (Islamic school), vocational education diploma program, vocational training center, or agencies that perform government affairs in the field of central, provincial, and regency/city employment. *Third*, not in a state of fiscal loss in the fiscal year for the use of additional gross income reduction. *Fourth*, has submitted a tax clearance certificate from the DGT.

For the fourth condition, the document is a statement from the DGT that the taxpayers have met the requirements

for obtaining services or in the context of performing certain activities. In other words, it is a proof of taxpayers' tax compliance regarding a certain period.

The government divides the potential grant based on three groups of competency level. *First*, vocational high school and or vocational *madrassa aliyah* for students, educators, and/or education personnel.

In this group, there are a total of 127 types of competencies that can receive facilities. The competencies spread in various sectors such as manufacturing (73 competencies), health (7 competencies), agribusiness (30 competencies), tourism and creative industries (7 competencies).

Second, college diploma programs on vocational programs for students, educators, and/or education personnel. In this group, there are a total of 268 specific competencies that can utilize the super tax deduction incentive.

A total of 268 competencies for the second level are spread across several sectors, namely manufacturing (124 competencies), health (31 competencies), agribusiness (64 competencies), tourism and creative industries (26 competencies), and digital economy (23 competencies).

Third, vocational training center for individuals and trainees, instructors, and/or coaching staff. There are 58 types of competencies in this group. Number of competencies are spread across several sectors are manufacturing (19 competencies), agribusiness (15 competencies), tourism and creative industries (13 competencies), digital economy (7 competencies), and migrant workers (4 competencies).

Work practices or apprenticeship is defined as an activity performed by taxpayers in the place of business as part of the vocational or vocational education curriculum in order to master the skills or expertise of certain fields. Meanwhile, learning activities is stated as a teaching activities performed by parties assigned by taxpayers to teach in vocational schools, vocational *madrassa aliyah*, tertiary diploma programs in vocational education, and/or vocational training center.

2. VAT & STLGs

VAT & STLGs Becomes the Main Component of Indonesia Tax Expenditure

The Government of Indonesia has stated the nominal of tax expenditure in the Budget Statement 2020. The main purpose of reporting on tax expenditures is to provide transparency into how governments use the tax system to accomplish policy objectives, and the cost, in terms of foregone revenue.

The large percentage of VAT in total tax expenditure is to encourage household consumption and resulting the economic growth for more than 5% from this component.

This, in turn, allows for assessing the cost-effectiveness of tax policy vis-à-vis non-tax instruments, such as direct spending, which is normally reported in government budget. Therefore, its reporting is essential for good governance and informed decision-making process.²¹

Analyzed by type of tax, the biggest tax expenditures for 2016-2018 were Value Added Tax (VAT) and Sales Taxes on Luxury Goods (STLGs). These two are accounted for more than 60% of the total estimated tax expenditure.

The biggest contributor comes from the grant of exemption to the SMEs to become Taxable Entrepreneurs who collect VAT. In addition, the exemption facility which is provided for the basic needs of the community, such as basic necessities, educational services, and health services also contribute the large share of tax expenditure for these three years.²²

According to the fiscal policy authority, the large percentage of VAT in total tax expenditure is to encourage household consumption and resulting the economic growth for more than 5% from this component. Furthermore, the purpose of the spending through the tax system itself is not to reduce the economic shock from external, but rather to encourage domestic business growth in priority sectors.

The Changing STLGs Scheme for Taxing Cars

The government is revising the STLGs regulation for motor vehicles, namely for luxurious cars and for battery electric vehicles. In general, vehicles that are subject to STLGs are regulated through Minister of Finance Regulation Number 33/PMK.010/2017 concerning Types of Motor Vehicles Subject to STLGs and Procedures for Granting Exemption from the Imposition of STLGs (MoF Reg No. 33/2017).

Based on present regulation, the rate will be set based on vehicle capacity as well as the engine capacity. In the new provision, the STLGs rate will be determined based on three parameters, namely engine capacity, fuel consumption, and carbon-dioxide emissions. Therefore, cars with less emissions will be subject to lower rates, including for the flexy-engine based vehicles. Later, there is also a plan to issue a government regulation regarding the harmonization of STLGs which will support the development of low-emission cars.

The new scheme also states a new category, namely the supercar. This is defined as an energy-friendly car that has an engine capacity of more than 4,000cc and is planned to be subject to STLGs of 95%. Compared to the previous STLGs for motor vehicles, there was no supercar category while passenger cars that have engine capacity above 3,000cc is charged with STLGs of 125%.

For the battery electric cars, it is possibly that this type of vehicle will be subject to 0% rate of STLGs. This plan is in line with the development plan of electric car industry in Indonesia which is regulated through Presidential Regulation of the Republic of Indonesia No. 55 Year 2019 concerning the Acceleration of the Battery Electric Vehicle for Road Transportation (Presidential Regulation No. 55/2019).

Provisions related to the new rates are contained in the Government Regulation Number 73 of 2019 concerning Taxable Goods Classified as Luxurious in the form of Motor Vehicles that are

21 Christopher Heady and Mario Mansour, *Tax Expenditure Reporting and Its Use in Fiscal Management: A Guide for Developing Economies* (IMF Fiscal Affairs Department: 2019), 2.

22 Republic of Indonesia, *Book II: Budget Statement and the Law Draft of the 2020 State Budget* (2019), 2-18.

The government is revising the STLGs regulation for motor vehicles, namely for luxurious cars and for battery electric vehicles.

Subject to Sales Tax on Luxury Goods (Government Reg. No. 73/2019)

Promulgated on 16 October 2019, this regulation will come into force in two years and will also revoke Government Regulation No. 41 of 2013 (Government Reg. No. 41/2013) regarding Taxable Goods Classified as Luxurious in the form of Motor Vehicles Subject to Sales Tax on Luxury Goods as amended by Government Regulation Number 22 of 2014 (Government Reg. No. 22/2014).

Third, the regime of individual income tax will be changed to the territorial system. *Fourth*, there will be relief for the sanctions with respect to the tax administration. *Fifth*, the mechanism to credit the input tax will become more relaxed.

Sixth, provisions concerning various tax facilities will be placed in one section. *Seventh*, VAT for digital companies will be regulated. *Eighth*, the definition of permanent establishment (PE) is no longer based on the physical presence.

The Government of Indonesia is currently drafting a new law (*Rancangan Undang-Undang/RUU*) namely the provisions and facilities related to taxation to strengthen the economy.

3. Taxation in General

Omnibus Law to Strengthen the Economy

The Government of Indonesia is currently drafting a new law (*Rancangan Undang-Undang/RUU*) namely the provisions and facilities related to taxation to strengthen the economy. This draft will combine several different rules which are still related or commonly called as omnibus law.

Practically, omnibus law itself is known as a common practice in for the countries with common law traditions such as the United States. Yet, it is relatively unknown in Indonesia which implemented the civil law traditions.

The contents which accommodated in this bill are sourced from General Tax Provisions and Procedures Law, the Income Tax Act, and the Value Added Tax Act. There are eight important points from the current taxation laws are subject to be changed by using this omnibus law.

This omnibus law can be said as a rapid response from the government for the tax reform, as well as the economic situation.

First, the reduction of corporate income tax (CIT) rates from 25% to 20%. Specifically, for the companies that have conducted Initial Public Offering (IPO) and listed at the Indonesia Stock Exchange, the CIT rate will be 17%. *Second*, the dividends from domestic and foreign companies will not be charged the income tax.

This omnibus law can be said as a rapid response from the government for the tax reform, as well as the economic situation. However, it is necessary to be aware of the effectiveness and cooperation in implementing the rules so that they can have maximum impact. Furthermore, the draft should also not cause the uncertainty for the public.

D. Customs and Excise

EU Imposed Countervailing Import Duty for Indonesia Biodiesel Producers

The European Commission imposed countervailing import duties of 8% to 18% on imports of subsidised biodiesel from Indonesia which was effectively applied per 13 August 2019. The move is said to restore a level playing field for the European Union (EU) producers.

The European Commission, which coordinates trade policy for the EU, launched an anti-subsidy investigation in December last year following a complaint by the European Biodiesel Board. Its finding showed that Indonesian biodiesel producers benefit from grants, tax benefits, and access to raw materials below market prices. As informed, the EU biodiesel market is worth an estimated EUR9 billion a year with imports from Indonesia worth about EUR400 million

The Government of Indonesia has expressed strong protests to the Government of EU several times.²³ Since the issue of an investigation, Indonesia

23 Ministry of Trade Republic of Indonesia, "Official Press Release: *Pemerintah Indonesia Respons Tegas Uni Eropa Atas Proposal Pengenaan Bea Masuk Imbalan Produk Biodiesel*," (26 July 2019), Internet, can be accessed at: <https://www.kemendag.go.id/files/pdf/2019/07/26/pemerintah-indonesia-respons-tegas-uni-eropa-atas-proposal-pengenaan-bea-masuk-imbalan-produk-biodiesel-id0-1564127177.pdf>.

EU continues to impose the extra tariff for biodiesel sectors, then Indonesia will try to submit an appeal to the EU General Court and to the World Trade Organization Dispute Settlement Body (WTO DSB) forum.

has taken steps to approach it through pre-investigation consultations with the EU Case Team. Later, if EU continues to impose the extra tariff for biodiesel sectors, then Indonesia will try to submit an appeal to the EU General Court and to the World Trade Organization Dispute Settlement Body (WTO DSB) forum. This effort has been implemented by Indonesia over 2017 related to the dispute on anti-dumping import duties.

Increase in Excise Rates on Tobacco Products

The Ministry of Finance of the Republic of Indonesia has decided to increase the tobacco products excise rates (cukai hasil tembakau/CHT) with a weighted average of 23%. This increase will also be followed by an increase in retail sale prices (harga jual eceran/HJE) of tobacco products.

The Ministry of Finance of the Republic of Indonesia has decided to increase the tobacco products excise rates (cukai hasil tembakau/CHT) with a weighted average of 23%. This increase will also be followed by an increase in retail sale prices (harga jual eceran/HJE) of tobacco products.

The provision for the CHT rate increase is contained in the Minister of Finance Regulation Number 152/PMK.010/2019 (MoF Reg. No. 152/2019) concerning the Second Amendment to the Minister of Finance Regulation Number 146/PMK.010/2017 (MoF Reg. No.146/2017) concerning the CHT Rates. The regulation provides details of the new rates on CHT along with the threshold for HJE per single or per gram of tobacco products, including cigarettes.

The rate details are set forth in two attachments that are inseparable from this regulation. The first attachment contains the details of HJE thresholds and CHT rates per single or gram of domestically produced tobacco products. In addition, the second attachment contains details of the HJE threshold and CHT for imported tobacco products.

Exemption from Import Duty for Book Production Activities

The Indonesian government has provided fiscal incentives to encourage the growth of the national book industry. Such incentives are stipulated in Article 67 of the Government Regulation of the Republic of Indonesia No. 75 of 2019 concerning Implementing Regulation of

Law Number 3 of 2017 concerning Book System (Government Reg. No. 75/2019).

The two types of products provided with the facilities in the form of import duty exemptions are printing equipment and raw materials. In addition to the import duty exemption, this industry is also entitled to tax exemptions or reductions subject to statutory provisions.

The granting of these taxation facilities is in line with the government's efforts, both central and local, to develop a robust book production system, ranging from the supply of raw materials, the production process, distribution, and the retail price of books. In addition, the incentive scheme is also expected to guarantee the availability of high quality, inexpensive, and accessible books for the society.

E. Tax Administration

Suryo Utomo Continues the Leadership Role of Directorate General of Taxes

On 1 November 2019, Suryo Utomo is officially appointed as new Director of the DGT, replacing Robert Pakpahan who have entered his retirement. Prior this assignment, Suryo has been serving for 26 years in Ministry of Finance since 1993.

His assignment attracts high hopes from both the House of Representatives (*Dewan Perwakilan Rakyat/DPR*) and APINDO. Misbakhun from Commission Member XI believes that the appointment is the right decision. Accordingly, he hopes there will be good communication between the DGT and DPR. Meanwhile, APINDO wishes that the DGT will continue extra effort by focusing on non-compliant taxpayers in the form of tax extensification.

Starting the duty, he stated that he will consolidate internally with the internal officers to finish the 2019 period. In addition, he will conduct the remapping the tax situation in order to identify which work processes can be accelerated. Draft of Law concerning Regulations and Tax Incentives to Strengthen the Economy will be one of his priorities to complete.

The two types of products provided with the facilities in the form of import duty exemptions are printing equipment and raw materials.

Table 6. The Lowest HJE Threshold and CHT Rates Per Single/Gram of Imported Tobacco Products

No	Types of Tobacco Products	Lowest Thresholds of HJE per Single/Gram Tobacco Product			Excise Rates Per Single/Gram Tobacco Product		
		Previous (IDR)	New (IDR)	Change (%)	Previous (IDR)	New (IDR)	Change (%)
1	SKM	1,120	1,700	51.79	590	740	25.42
2	SPM	1,130	1,790	58.41	625	790	26.40
3	SKT or SPT	1,261	1,461	15.86	365	425	16.44
4	SKTF or SPTF	1,120	1,700	51.79	590	740	25.42
5	TIS	276	276	0.00	30	30	0.00
6	KLB	290	290	0.00	30	30	0.00
7	KLM	200	200	0.00	25	25	0.00
8	CRT	198,001	198,001	0.00	110,000	110,000	0.00

Despite the stagnancy of ease of doing business, Indonesia's rank for paying taxes climbs to 81st, raising significantly from 112th in the previous year.

Indonesia Paying Taxes' Rank Significantly Improves

Despite the stagnancy of ease of doing business, Indonesia's rank for paying taxes climbs to 81st, raising significantly from 112th in the previous year. Based on the current situation, Indonesia notches score of 75.8 for Doing Business (DB) 2020, improving from 68.4 in DB 2019.²⁴ This recent score is above the average score of Paying Taxes for Asia Pacific region, 73.6 for DB 2020.²⁵

In more detail of the score component, the number of tax payments necessary for taxpayers to comply is 26 (the previous year's score was 42). In terms of hours spent to comply, Indonesia records 191 hours per year (the previous year's score was 208). Meanwhile, the score for total tax and contribution rate and post-filing index only remains unchanged, 30.1% and 68.8% consecutively.²⁶

Compliance Risk Management (CRM) to Increase Taxpayer Compliance

The tax authority continues to work on several instruments to improve taxpayers' compliance. The formal compliance rate is being targeted at 85% for 2019.²⁷ On the other hand, the trend

of formal compliance rate over the past five years has only been around 60% to 70%.

One of the efforts made by the government is by optimizing the compliance risk management (CRM). This is regulated through the Director General of Taxes Circular Letter Number SE-24/PJ/2019 regarding Implementation of Compliance Risk Management in Extensification, Supervision, Inspection, and Collection Activities at the Directorate General of Taxes (SE-24/PJ/2019).

The regulation, which was promulgated as of 11 September 2019, defines CRM as a taxpayer compliance risk management process carried out systematically by the DGT. This risk management is implemented through constructing the treatment options based on taxpayer behavior and the capacity of its resources. Later, this is expected to increase compliance effectively while preventing non-compliance.

This risk management program is a continuation of the tax amnesty and the Exchange of Information (Eol) programs to enable tax authorities in setting

This risk management program is a continuation of the tax amnesty and the Exchange of Information (Eol) programs to enable tax authorities in setting a more sophisticated and accurate taxpayer risk profile.

- 24 Paying Taxes in DB 2020 and DB 2019 respectively cover the indicator for calendar year of 2018 and 2017.
- 25 World Bank, "Ease of Doing Business Score: Paying Taxes DB 2019 & DB 2020," Internet, can be accessed at: <https://www.doingbusiness.org/en/data/doing-business-score?topic=paying-taxes>.
- 26 With regard to Paying Taxes 2019, please see: PWC, "Paying Taxes 2019," Internet, can be accessed at: <https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2019/overall-ranking-and-data-tables.html>. With regard to Paying Taxes 2020, please see: World Bank Group, "Doing Business 2020: Indonesia," Internet, can be accessed at: <https://www.doingbusiness.org/content/dam/doingBusiness/country/i/indonesia/IDN.pdf>.
- 27 Redaksi DDTNews, "Sri Mulyani Akui Target Kepatuhan Formal 85% Cukup Berat," Internet, can be accessed at: <https://news.ddtc.co.id/sri-mulyani-akui-target-kepatuhan-formal-85-cukup-berat-15201>

The exchange of beneficial ownership data has begun to be carried out across ministries. This is stated in the Memorandum of Understanding (MoU) which has been signed on July 2019.

a more sophisticated and accurate taxpayer risk profile. Based on this, the authority will prepare a Compliance Map which is utilized as a decision-making tool. For the implementation, CRM will be divided into three main stages, namely extensification, supervision & inspection, and billing.

Inter-Ministry Data Exchange for Beneficial Ownership

The exchange of beneficial ownership data has begun to be carried out across ministries. This is stated in the Memorandum of Understanding (MoU) which has been signed on July 2019. The joined ministries for this program are the Ministry of Finance, the Ministry of Law and Human Rights, the Ministry of Energy and Mineral Resources, the Ministry of Agriculture, the Ministry of Cooperatives and SMEs, and the Ministry of Agriculture and Spatial Planning.

The government will set a web-based services as the main interaction channel between DGT and taxpayers for the future.

In the context of taxation, this data exchange can complement data that has been obtained through automatic exchange of information (AEOI). This move is considered to increase transparency. Further, it also can close the gap of tax avoidance.

The Unification of Periodic Tax Return Forms

The DGT is preparing to simplify the submission of tax returns for corporate taxpayers. Presently, the periodic tax returns are implemented for various types of income tax, such as Income Tax Article 15, Income Tax Article 4(2), Income Tax Article 22, Income Tax Article 23 and Income Tax Article 26. In the future, the periodic income tax return will be unified in one reporting format.

This project will be carried out through an internet-based application. For the corporate taxpayers, this unification is expected to provide the convenience of reporting future tax returns so that it will reduce compliance cost. Meanwhile, for the tax authority, this program is expected to conduct surveillance and inspection in easier and more efficient manners. The pilot project of this will be implemented on some large state-owned companies such as PT Pertamina.

The Amount of Account Representative Will Be Reduced

The reform carried out by the DGT will streamline the number of account representatives (AR) in the future. The purpose of this change is to create standardization for providing services to taxpayers.

The interpretation of rules between ARs can be differentiated between regions at present. Therefore, the government will set a web-based services as the main interaction channel between DGT and taxpayers for the future. The face-to-face meeting between the taxpayer and the AR becomes the last option in carrying out the service function.

This program will go hand in hand with improvements to the core tax administration system. However, the implementation of the core tax system seems to be behind schedule due to some problems in procurement process. Originally, it is designed to be effective per 2021.

Database Management to Encounter the Risk of Shortfall

In the midst of facing the risk of tax revenue shortfall, data management could be the best option to reach the target. Beside to optimize the available database, data management is also needed to explore other potential tax revenue.

In short term, the government can then utilize third party data in order to assess the taxpayer compliance, especially from high net worth individuals (HNWI). The data can be in forms of information exchange, access to financial information, and data exchange between government agencies.

This effort to increase the taxpayer compliance, however, will certainly depend on the readiness of information technology infrastructure. Furthermore, the commitment and willingness of government, including the preparation of proper procedures for managing the data are no less important.

The Government of Indonesia has changed the formula to calculate the revenue sharing fund of tobacco products excise (Dana Bagi Hasil Cukai Hasil Tembakau/ DBHCHT) for the provincial level.

F. Local Tax and Fiscal Decentralization

New Formula to Allocate Provincial DBHCHT

The Government of Indonesia has changed the formula to calculate the revenue sharing fund of tobacco products excise (*Dana Bagi Hasil Cukai Hasil Tembakau/ DBHCHT*) for the provincial level.

This change is stated in Minister of Finance Regulation No. 139/PMK.07/2019 concerning The Management of Revenue Sharing Fund, General Allocation Grant, and Special Allocation Fund (MoF Reg No. 139/2019).

This regulation withdraws Minister of Finance Regulation No. 50/PMK.07/2017 concerning The Management of Transfers to Local Regions and the Village Fund (MoF Reg No. 50/2017) which has amended for three times.

Based on this new regulation, the calculation of DBHCHT uses three basic data. *First*, the realization of CHT revenue produced in Indonesia in the previous fiscal year by each region. *Second*, the CHT revenue which is planned for the regarding year. *Third*, the performance of CHT revenue of the previous fiscal year per district or city complete with the paperwork calculation.

Based on these data, the Directorate General of Fiscal Balance then will calculate the allocation of DBHCHT per province based on the distribution formula. In the regulation which took effect on 8 October 2019, the government eliminated the Human Development Index (HDI) variable in the distribution formula.

In addition, the distributional proportion of CHT revenue realization and dry tobacco production are also changed. The comparison of these changes can be seen in Table 7.

Furthermore, total performance allocation is calculated using different weighted parameters. The parameters used for estimation are the achievement of tobacco product excise revenue performance, the achievement of dry tobacco production performance, the achievement of the priority use of DBHCHT performance, and timeliness of report submission. This amount is then multiplied by the province's previous DBHCHT allocation.

Local Fiscal Capacity Has Stagnated in the Last Three Years

The government has recently released Minister of Finance Regulation No. 126/PMK.01/2019 concerning Local Fiscal Capacity Map (MoF Reg No. 126/2019). The local fiscal capacity map is an overview of the local financial capacity grouped based on the local fiscal capacity index (*Indeks Kapasitas Fiskal Daerah/IKFD*) which covers 34 provinces and 508 regencies/cities in Indonesia

The local fiscal capacity is defined as the financial capacity of each region which is reflected through local government revenue minus the revenue for which the allocation has been determined (earmarked revenue) and certain expenditures.

Referring to this regulation, components of local government revenue include local own-source revenue (*Pendapatan Asli Daerah/PAD*), balance funds, and other lawful revenues. As for the earmarked revenue, it includes cigarette tax, revenue sharing fund (*Dana Bagi Hasil/DBH*),

Table 7 – Formula for Distributing the DBHCHT Allocation for Provinces

MoF Reg No. 139/2019	MoF Reg No.50/2017
$\frac{\{(60\% \times \text{CHT}) + (40\% \times \text{TBK})\}}{\{(\text{Ceiling of DBHCHT}) - (\text{Total Performance Allocation})\}}$	$\frac{\{(58\% \times \text{CHT}) + (38\% \times \text{TBK})\}}{\{(4\% \times \text{IPM}) \times \text{Ceiling of DBHCHT}\}}$

Notes:

CHT : the proportion of CHT revenue realization of a province against the national CHT revenue realization in the previous year

TBK : the average proportion of dry tobacco production in a province over the past 3 years against the average national dry tobacco production.

Ceiling of DBHCHT : 2% of the CHT revenue in the regarding year.

The local fiscal capacity map can be used for consideration in determining the area of grant recipients, determining the amount of matching funds by the local government if required, and/or other utilizations in accordance with statutory provisions.

The local fiscal capacity of 34 provinces in Indonesia for this year has not moved from the existing position in 2017 with 9 provinces are considered as very low local fiscal capacity category for the year of 2019.

tobacco products excise (*Cukai Hasil Tembakau/CHT*).

The other revenues that have also been earmarked are the reforestation funds, physical and non-physical special allocation funds (*Dana Alokasi Khusus/DAK*), special autonomy funds, additional infrastructure funds, Yogyakarta (Daerah Istimewa Yogyakarta/DIY) privilege funds, and village funds. Furthermore, certain expenditures include employee expenditure, interest expenditure, grant expenditure for new autonomous regions, revenue sharing expenditure, and allocation of village funds.

The local fiscal capacity map can be used for consideration in determining the area of grant recipients, determining the amount of matching funds by the local government if required, and/or other utilizations in accordance with statutory provisions. This map consists the provincial and regency/city level of each local fiscal capacity map with the criteria of IKFD ranges as can be seen in Table 8.

MoF Reg No.126/2019 withdraws the previous regulation, namely MoF Reg No.10/PMK.07/2018 (MoF Reg No. 10/2018). If compared, the local fiscal capacity of 34 provinces in Indonesia for this year has not moved from the existing position in 2017 with 9 provinces are considered as very low local fiscal capacity category for the year of 2019.

Moreover, there are only 4 provinces since 2017 until now which reach the very high category of local fiscal capacity. Then, only 5 provinces that bear a high local fiscal capacity category, and the remaining 16 provinces still classified as the medium and low category respectively as many as 8 provinces for both categories.

Furthermore, the four provinces with very high categories of local fiscal capacity map remain concentrated in Java, namely DKI Jakarta, West Java, Central Java and East Java. Papua which once achieved the very high category in 2017 fell to the very low category in 2019. Provinces such as Southeast Sulawesi, Central Sulawesi and Gorontalo were also recorded as having very low fiscal capacity in 2019.

Meanwhile, only 42 of 508 regencies/cities in Indonesia are in the very high category. The regencies/cities include

Surabaya City, Medan City, Bekasi City, Semarang City, Tangerang Regency, and Sidoarjo Regency. Additionally, 86 regencies/cities occupy the high local fiscal capacity category while the average, low and very low categories are each occupied by 127, 126, and 127 regencies/cities respectively as seen in Figure 6.

Regarding to this IKFD, the central government will cut the cumulative maximum limit for the local government budget (*Anggaran Pendapatan dan Belanja Daerah/APBD*) deficit for next year. This was regulated through MoF Reg No. 125/PMK.07/2019 concerning the Maximum Cumulative Limit of the APBD Deficit, the Maximum Limit of the APBD Deficit, and the Maximum Limit of the local loan for the 2020 Budget Year (MoF Reg No. 125/2019).

The cumulative maximum limit for the deficit was cut from 0.3% of the GRDP projection to 0.28% of the GRDP projection for 2020. The maximum budget deficit limit for 2020 was set differently than in previous years where the maximum limit of the APBD deficit was set at 5% to 3% depending on the local fiscal capacity category of the relevant regions.

For 2020, the maximum APBD deficit is set between 4.5% to 3.5% of GRDP depending on the local fiscal capacity category of the relevant region. For regions with very high categories, the maximum APBD deficit limit is set at 4.5% of local government revenue, lower than the previous year which could reach 5% of GDP.

Furthermore, the regions with high, medium, low and very low categories each set a maximum limit of deficits respectively at 4.25%, 4%, 3.75%, and 3.5% of local government revenue for 2020. In previous years, regions with high, medium, low and very low local fiscal capacity categories were each set to a maximum limit of deficit of 4.5%, 4%, 3.5%, and 3% of local government revenue.

In a short, government cut the maximum limit of APBD deficits for regions with very high and high IKFD categories and widens the maximum limit for local deficits with low and very low local fiscal capacity categories.

The government has stated that local's fiscal condition and finance management will be one of the factors in calculating local incentive funds (Dana Insentif Daerah/DID) for local governments.

Regional Fiscal Independency Will Influence the Calculation of Local Incentive Funds

The government has stated that local's fiscal condition and finance management will be one of the factors in calculating local incentive funds (Dana Insentif Daerah/DID) for local governments. This is as stipulated in Minister of Finance Regulation Number 141/PMK.07/2019 concerning The Management of Local Incentive Funds (MoF Reg No. 141/2019), which revokes Minister of Finance Regulation Number 50/PMK.07/2017.

The consideration of this new calculation formula was to improve efficiency, effectiveness and budget accountability, so that the allocation, transferring mechanism and the expenditure budgeting of DID were revised. As information, DID is one of Local Government and Village Funds (*Transfer ke Daerah dan Dana Desa*) components as a reward for local government's achievement in finance management, public service, general services and public welfare.

G. Non-Tax State Revenue

The realization of Non-Tax State Revenue for the period of January to September 2019 reached IDR301.70 trillion. This value is accounted 79.75% of the target mentioned in 2019 State Budget. This amount of realization increased by 7.08% compared to the same period in 2018.

The components that contribute the significant growth is Restricted State Assets (*Kekayaan Negara yang Dipisahkan/KND*). Realization of revenues from Restricted State Assets reached IDR72.94 trillion, which is around 159.99% of the target in the 2019 State Budget. Cumulatively, this significant growth was contributed by the dividend payments of state-owned enterprise and the remittances from the remaining rupiah surplus of Bank Indonesia in May 2019 which amounts to IDR30.09 trillion.

On the other hand, non-tax state revenues from natural resources and Public Service Agency show the decreasing trend. However, the dominant composition of Non-Tax State Revenue still originates from natural resource revenues. Natural resource sectors contribute around 36% of the Total Non-Tax State revenue from January to September this year. Meanwhile, its contribution reached more than 40% of total non-tax state revenue for the same period last year.

We assume that the decline in Non-Tax State Revenue from the natural resources sector this year is mostly triggered by shock of commodity prices. Some indicators, Indonesia Crude Price (ICP) and reference price of coal (*Harga Batubara Acuan/HBA*) for example, showed much lower value compared to the assumptions set by authority in the previous year.

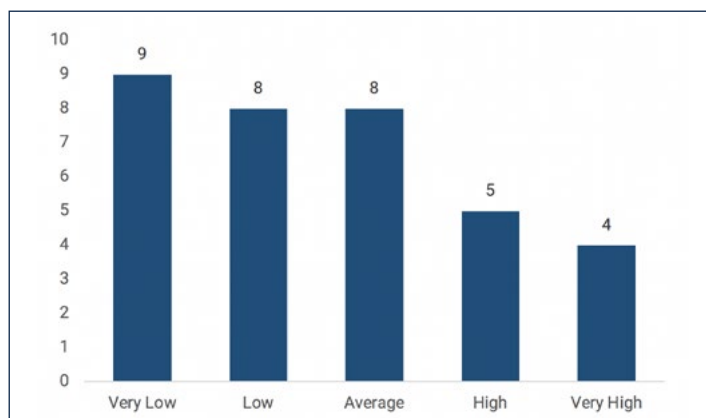
From the beginning of the year to the third quarter of 2019, the average value of ICP is USD62.18/barrel where government set the assumption that it will be USD70.00/barrel. Meanwhile, for the same period this year, the average value of reference price of coal is only

Table 8 – Criteria of IKFD Ranges

Local Fiscal Capacity Category	IKFD Ranges for Provincial Regions	IKFD Ranges for Regency/City Regions
Very Low	IKFD < 0,509	IKFD < 0,304
Low	0,509 ≤ IKFD < 0,720	0,304 ≤ IKFD < 0,445
Average	0,720 ≤ IKFD < 1,089	0,445 ≤ IKFD < 0,808
High	1,089 ≤ IKFD < 1,959	0,808 ≤ IKFD < 1,564
Very High	IKFD ≥ 1,959	IKFD ≥ 1,564

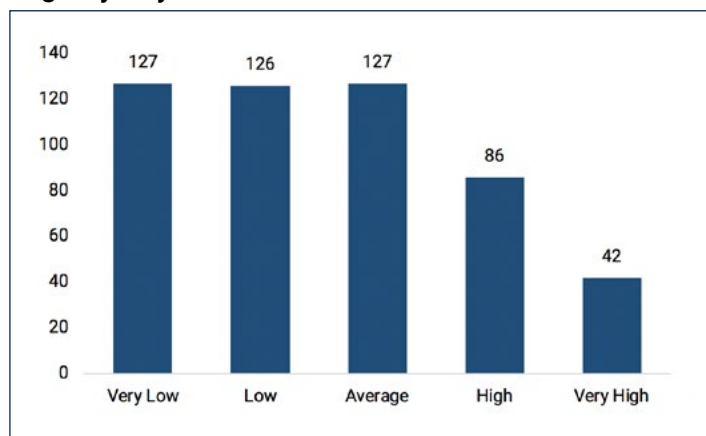
Source: MoF Reg No. 126/2019

Figure 6 - Distribution of Local Fiscal Capacity Map for Provincial Level



Source: MoF Reg No. 126/2019

Figure 7 - Distribution of Local Fiscal Capacity Map for Regency/City Level



Source: MoF Reg No. 126/2019

The Governments of Indonesia and Luxembourg agreed to restart negotiations about the Tax Treaty which has been delayed since 2012.

USD81.93/ton²⁸ when the government's assumption reached USD85.00/ton. In fact, the reference price for this commodity for the month of September 2019 was dropped to USD 65.79/ton. In addition, the drop of natural resource revenue was also influenced by the appreciation of the rupiah exchange rate against the US dollar.

More specifically, the realization of natural resources from the mineral and coal mining for this year is much lower compared to last year. As of 30 September 2019, the revenue realization from mineral and coal sectors has only reached IDR29.74 trillion, which was

equivalent to 68.76% of the 2019 target. If compared to last year for the same period, these sectors' contribution had already reached IDR22.08 trillion or 123.63% of the annual target.²⁹

Until the end of last year, mineral and coal sectors accounted the revenue of 169.74% of the target which was set at IDR17.86.³⁰ Therefore, basic macroeconomic assumptions that affect the state revenue from natural resource revenue, such as commodity prices and oil-gas lifting will certainly give a big impact on the realization of Non-Tax State Revenue so that it needs to be carefully considered for next year.

H. International Aspects

The Indonesia-Luxembourg Tax Treaty Discussion Has Been Restarted

The Governments of Indonesia and Luxembourg agreed to restart negotiations about the Tax Treaty which has been delayed since 2012. The main cause of this discussion is due to rapid development in international tax agreements.

The representatives of this negotiations which conducted on July 2019 are the Ministers of Finance from both parties. In addition, they also agreed to explore opportunities for increasing cooperation in various financial fields such as sustainable finance, infrastructure project financing, and digital economy.

Spontaneous Exchange of Information Follow-Up

The DGT starts following up spontaneous exchange of information (Spontaneous EOI). This is based on Circular Letter Number SE-15/PJ/2019 concerning Implementation Guidance of Spontaneous Information Exchange in order to Implement International Agreements (SE-15/PJ/2019).

²⁸ This value is calculated by averaging the reference price of coal until the third quarter of 2019. Data is sourced form monthly Decree of Minister of Energy and Mineral Resources Republic of Indonesia.

²⁹ Ministry of Finance Republic of Indonesia, *APBN Kita Edition of October 2018* (Jakarta: 2018), 40 – 41.

³⁰ Republic of Indonesia, *Central Government Financial Statement for the 2018 Budget Year (Audited)* (Jakarta: May 2019), L.2.

Table 9 - Revenue Performance per Type of Non-Tax State Revenue for the Period of July to September 2019 (Cumulative)

Source of Income	Realization (Billion Rupiah)			Growth (yoy 2018 - 2019)		
	Jul	Aug	Sept	Jul	Aug	Sept
Natural Resources	87,253.90	99,830.63	109,505.62	-5.51%	-7.08%	-9.48%
Oil and Gas	68,216.70	78,365.56	85,168.40	-6.11%	-6.50%	9.55%
Oil	68,216.70	61,117.80	67,920.60	-6.11%	-27.08%	-27.85%
Gas	0	17,247.76	17,247.80	0.00%	n/a	n/a
Non-Oil and Gas	19,036.80	21,465.07	24,337.22	-3.29%	-9.11%	-9.24%
Mineral and Coal Mining	15,103.80	17.04	n/a	-8.15%	-24.16%	n/a
Forestry	2,611.70	3.06	n/a	13.67%	-5.25%	n/a
Fishery	285.20	0.32	n/a	1.72%	1.36%	n/a
Geothermal	1,036	1.03	n/a	56.64%	56.46%	n/a
Restricted State Assets	69,874.80	72,485.97	72,396.44	83.22%	82.25%	77.35%
Other Non-Tax State Revenue	59,759.50	67,689.30	83,643.10	8.44%	7.78%	4.35%
Public Service Agency	24,385.10	28,157.90	35,616.16	-5.01%	-7.08%	-9.84%

Source: Ministry of Finance (APBN KiTa)

This provision acts as implementing regulation of Director General of Taxes Regulation Number PER-24/PJ/2018 concerning Procedure of Spontaneous Exchange of Information in order to Implement International Agreements (PER-24/PJ/2018).

Spontaneous EOI can be defined as information exchange that are spontaneously exchanged performed by authorized office in Indonesia by sending relevant information that are valuable for taxation purpose of country or jurisdiction partners and the other way around without preceded by request. Later, this document becomes the guidance for Tax Offices (*Kantor Pelayanan Pajak/KPP*), Office of External Data Management (*Kantor Pengolahan Data Eksternal/KPDE*), Regional Offices of DGT and Unit of Echelon II of the DGT.

There are two types of spontaneous EOI that are explained in the provision. First, spontaneous EOI that are sent to the country or jurisdiction partners, recognized as outbound spontaneous EOI. Second, spontaneous EOI sent from country or jurisdiction partners, recognized as inbound spontaneous EOI.

The information is to be spontaneously exchanged between related tax authorities if they contain one of these

suspicious incidents. Some of the indications are tax revenue lost either for Indonesia or jurisdiction partners, taxpayers' income that are suspected to be not reported, and tax reduction or exemption that potentially add the amount of tax obligation.

In addition, the business activities performed between taxpayers in Indonesia and jurisdiction partner through several countries that are arranged in a way that causes the decrease of paid tax in Indonesia or jurisdiction partner or both, and other of suspicious tax reduction caused by fictive profit transfer within a business group also met the criteria to be exchanged spontaneously between tax authorities.

Number of Jurisdictions Exchanging Financial Information with Indonesia Increases

The number of jurisdictions that will automatically exchange financial data for the purpose of taxation with DGT continues to increase. This is stated in the Director General of Taxes Announcement Number PENG-05/PJ/2019 concerning the List of Participating Jurisdictions and Reportable Jurisdictions for the Purpose of Automatic Exchange of Financial Account Information (PENG-05/PJ/2019).

According to the Report of Revenue Statistic in Asian and Pacific Economies 2019, the tax ratio in 2017 across the jurisdictions varied considerably, ranging from 11.5% in Indonesia to 32.0% in New Zealand.

This announcement acts as the implementation provision for Minister of Finance Regulation No. 70/PMK.03/2017 concerning Technical Guidelines on Access to Financial Information for Tax Purposes (MoF Reg No.70/2017) as lastly amended by Minister of Finance Regulation No. 19/PMK.03/2018 (MoF Reg No.19/2018).

The follow-up information is caused by the increase numbers of jurisdictions that have signed and/or activated the Multilateral Competent Authority Agreement on the Automatic Exchange of Financial Account Information.

The number of participating jurisdictions to conduct AEOI with Indonesia increase to 98 which were previously 94 jurisdictions. It means that there are four new jurisdictions, namely Albania, Brunei Darussalam, Ghana, and Saint Kitts & Nevis.

Furthermore, there is a list of 82 reportable jurisdictions. This number increased from the previous which is only listed 81 jurisdictions. The new jurisdiction mentioned in this list is Saint Kitts and Nevis.

Indonesia Tax Ratio is Claimed as the Lowest in Asia Pacific

On 25 July 2019, OECD published the Report of Revenue Statistics in Asian and Pacific Economies 2019. This sixth edition report is a series of similar regional reports from the OECD and covers 17 jurisdictions, including Indonesia.³¹ The document itself was produced with the co-operation of the Asian Development Bank (ADB), the Pacific Islands Tax Administrators Association, and the Pacific Community with the financial support from the EU.

According to the report, the tax ratio in 2017 across the jurisdictions varied considerably, ranging from 11.5% in Indonesia to 32.0% in New Zealand.

In the context of Indonesia, the lower achievement for tax revenue performance is caused by a relatively high share of agriculture in Indonesia's economy, low openness to trade, high levels of informality, tax evasion, and narrow tax bases.³²

In general, tax ratios were higher in the Pacific economies than in the Asian economies. The data from surveyed countries of the Pacific regions shows that their tax ratios were higher than 24% in 2017, with the exceptions of Tokelau (14.2%) and Vanuatu (17.1%). Meanwhile, the reported Asian economies in average have tax ratio below 18% with the exception of Korea (26.9%).

It should also be noted that the methodology to estimate the tax ratio by OECD is different where it also includes social security contributions. According to the official government data, the tax ratio in Indonesia for 2017 is only 10.7%. This number, however, is much lower if compared to the recommendation of tipping point (15%).³³

Google Starts Collecting VAT in Indonesia

Google will impose a VAT of 10% through the Indonesian subsidiary, PT Google. This policy will charge advertisers whose billing addresses are in Indonesia and take effect simultaneously on 1 October 2019.

The digital giant said that this tax is a form of company compliance with domestic tax regulations in Indonesia. In addition, the customers who utilize Google Ads and withhold tax for paying advertisement services by themselves will also be required to provide the proofs in form of original and signed tax receipt to Google in order to avoid the outstanding in their balance.

The regulation that imposes VAT on payments is new in Indonesia where the

Google will impose a VAT of 10% through the Indonesian subsidiary, PT Google. This policy will charge advertisers whose billing addresses are in Indonesia and take effect simultaneously on 1 October 2019.

31 The other economies are Australia, Cook Islands, Fiji, Japan, Kazakhstan, Korea, Malaysia, New Zealand, Papua New Guinea, Philippines, Samoa, Singapore, Solomon Islands, Thailand, Tokelau and Vanuatu

32 OECD, *Revenue Statistics in Asian and Pacific Economies 1990 – 2017* (Paris: 2019), 16 – 17.

33 Vitor Gaspar, Laura Jaramillo, Philippe Wingender, "Tax Capacity and Growth: Is there a Tipping Point?" *IMF Working Paper* WP/16/234 (2016): 30.

The regulation that imposes VAT on payments is new in Indonesia where the people are not yet familiar with digital tax.

people are not yet familiar with digital tax. In other words, Google and other popular digital media such as Facebook also did not impose conventional tax obligations like this.

study entitled Report on Tax Certainty in collaboration with International Monetary Fund (IMF).³⁴

This event brought together over 200 tax policy makers, tax administrations, business representatives and other stakeholders from over 50 countries. They discussed ways to make further improvements in both dispute prevention and dispute resolution. It includes co-operative compliance programs, advance pricing agreements (APA), the international compliance assurance programme (ICAP), joint audit, and the mutual agreement procedure (MAP).

In a survey conducted by OECD in a report titled 'Tax Morale, What Drives People and Business to Pay Tax?', there are ten instruments that can be utilized to improve tax certainty.

I. Global Taxation Trends

OECD Calls for Instruments to Improve Tax Certainty

In a survey conducted by OECD in a report titled 'Tax Morale, What Drives People and Business to Pay Tax?', there are ten instruments that can be utilized to improve tax certainty. In general, OECD stated they are reduction of bureaucracy, timely consultation with taxpayers when changes are introduced, effective dispute resolution, detailed guidance in tax regulations, reduced frequency of changes in tax legislation, changes in statutory tax system announced in advance, domestic regulation to be in line with international standards, increased tax administration transparency, availability of Mutual Agreement Procedure (MAP), existence of Multilateral Advance Pricing Agreement (APA) in collaboration with other jurisdictions.

During the event, the OECD also published statistical information regarding the Mutual Agreement Procedure (MAP) for the year of 2018. The information includes statistics from all OECD, G20 members, and the members of the OECD Inclusive Framework on Base Erosion and Profit Shifting (BEPS) that joined the Inclusive Framework (IF) prior to 2019. For a total of 89 jurisdictions, this statistic covers almost all MAP cases worldwide.

The report provides data separately for transfer pricing cases and for other cases for 2018. The parameter itself is respect to the opening inventory and ending inventory of MAP cases, number of new MAP cases started, number of MAP cases completed, cases closed or withdrawn, and average cycle time for cases completed, closed or withdrawn.

Second is the timelines. In 2018, the transfer pricing case takes more time to be resolved.

In these statistics, there are at least four aspects that could be highlighted. *First* is inventory where new cases continue to increase. Compared to 2017, the case of transfer pricing rose by almost 20%. Meanwhile, other taxes cases rose by more than 10% in 2018.

OECD is confident that the fulfillment of those elements will improve the credibility of tax system and help taxpayers to be compliant. In addition, they will contribute in developing tax morale of the society and businesses that will in turn increase their compliance voluntarily.

Transfer Pricing Becomes the Main Case for Dispute Resolution

OECD held the Tax Certainty Day which took place at OECD headquarters in Paris on 16 September 2019. As recognized, maintaining and enhancing tax certainty brings benefits for taxpayers and tax administrations alike and is key in promoting investment, jobs and growth. In fact, OECD also work on finalizing the

Majority of tax authorities had resolved or closed more numbers of cases compared to previous year. However, aggregate case inventory continues to increase globally. This is mainly due to transfer pricing cases where the number of cases resolved increases at a slower pace than the number of cases initiated.

Second is the timelines. The transfer pricing case in 2018 takes more time to be resolved. The average period to resolve this type of MAP cases is around 33 months for 2018 compared to 30

Maintaining and enhancing tax certainty brings benefits for taxpayers and tax administrations alike and is key in promoting investment, jobs and growth.

³⁴ With regard to this, please see: IMF & OECD, *2019 Progress Report on Tax Certainty* (Paris: 2019).

The reporting on jurisdiction specific for MAP itself is expected to enhance transparency, brings visibility, and allows to improve focus.

months for previous years. On the other hand, the average time needed for the other cases is around 14 months. This is faster than the 2017 position with 17 months.

The average time to resolve a case varies significantly by jurisdiction, ranging from 2 - 66 months. Similar to what was observed in 2017, about 60% of reporting jurisdictions met the target of 24 months across all cases for 2018.

Third is outcomes in which can be in the forms of resolved with an agreement, fully or partially resolving taxation not in accordance with tax treaty, granted a unilateral relief, resolved via domestic remedy, and closed when there is no agreement, including agreement to disagree.

In the context of outcomes, more than 80% of the MAPs concluded in 2018 solved the problem for the transfer pricing case. For other cases, the concluded percentage is around 75%. Yet, there is 2% of the MAP cases were closed because the authorities could not find a mutual agreement.

Fourth is jurisdiction specific indicators. For the first time, the MAP statistics compare the reporting performance of jurisdictions with respect to key indicators. Some of the indicators are the time taken to close MAP cases and compare the number of MAP cases resolved with expenses for each type of case per jurisdiction. The reporting on jurisdiction specific for MAP itself is expected to enhance transparency, brings visibility, and allows to improve focus.

Tax Cooperation in Asia Pacific Continues

Asia Pacific tax authorities held 49th regular meeting called Study Group on Asian Tax Administration and Research (SGATAR) in October. John Hutagaol, Director of International Taxation of the DGT concluded that cooperation and collaboration are very critical to embrace global tax challenges. Accordingly, he added that unilateral action is not the best solution to the more complex international tax issue, such as transfer pricing and digital economy.

Therefore, the commitment to succeed the automatic exchange of information (AEOI) will be very important. All country members agreed that financial transparency should be the priority to combat tax evasion and avoidance. Currently, there are 17 tax authority members listed in SGATAR, namely Australia, Taiwan, Cambodia, Hong Kong, Indonesia, China, Papua New Guinea, Japan, Malaysia, Macau, Mongolia, New Zealand, South Korea, Thailand, Singapore and Vietnam.

EU Removes Some Jurisdictions from Its Tax Haven List

The 28-nation EU set up a blacklist and a gray list of tax havens in December 2017 after revelations of widespread avoidance schemes used by corporations and wealthy individuals to lower their tax bills. Countries that have been blacklisted will be more strictly controlled to conduct transactions with the EU. They also face reputational damage due to this naming and shaming scheme.

As part of the regular review of the lists, the EU finance ministers decided to drop the UAE from the EU blacklist. Blacklist means that the jurisdictions have failed to cooperate with the EU on tax matters. The UAE as the largest financial center which was blacklisted was removed from the list since it adopted new rules on offshore structures in September 2019.

This Gulf country charges no corporate taxes which making it a possible target for firms to conduct tax avoidance where they actually operate. The EU itself does not automatically add countries that charge no tax to its blacklist where it could be a sign of being tax haven. However, the EU requested the UAE introduce rules that would allow only companies with a real economic activity there to be incorporated in order to reduce risks of tax dodging.

In addition to the UAE, the Marshall Islands has also been removed from the blacklist with there still nine jurisdictions exist in this list, mostly around Pacific islands with few financial relations with the EU.

Furthermore, Albania, Costa Rica, Mauritius, Serbia and Switzerland were

removed from the gray list because these six countries have reformed everything needed to comply with the EU's good tax governance policies ahead of the deadlines. Meanwhile, the other 30 countries which still exist on the gray list are still being monitored by the EU after promising to commit to EU tax laws.

Fewer countries have introduced comprehensive tax reform packages in 2019 compared to previous years while most countries only conduct less significant reform and often undertaken in a piecemeal fashion.

OECD Urged the Slowing Tax Reform Progress

OECD urged each country to take a more courageous step to respond to future challenges. This pressure came after the pace of tax reform slowed in most major economies. According to OECD, fewer countries have introduced comprehensive tax reform packages in 2019 compared to previous years while most countries only conduct less significant reform and often undertaken in a piecemeal fashion.

Based in this report, the most comprehensive tax reform was introduced in the Netherlands which includes the PIT cut, VAT rate increase and the implementation of the EU's Anti-Tax Avoidance Directive (ATAD). Other significant tax changes have been implemented in Lithuania (labour taxes), Australia (PIT), Italy (CIT) and Poland (PIT and CUT).

OECD also explains the latest tax reforms in all OECD countries in this report with the snapshots for Indonesia, Argentina, and South Africa. One of the highlighted aspects in case of Indonesia is the withholding tax rate cut for Small Medium Enterprises (SMEs).

Protecting CIT bases using BEPS project remains the main issue. The tax challenges arising from the increasing digitalization of the economy also continue to give rise to concern among countries.

Analyzed by the type of taxes, the reforms of CIT can be seen as have continued in 2019 but with less significant CIT rate reduction compared to 2018. Interestingly, the countries that are introducing the most significant CIT rate reductions tend to be those that exhibit higher initial CIT rates.

Furthermore, with regard to international taxation, protecting CIT bases using BEPS project remains the main issue. The tax challenges arising from the increasing digitalization of the economy also continue to give rise to concern among countries.

In the aspect of indirect tax, the

stabilization of standard VAT rates observed across countries in the last couple of years is continuing where the high standard VAT rates have limited the room for additional rate increases without generating potentially high efficiency and equity costs.

Moreover, trends in excise duties show continuing tax increases to deter harmful consumption, focused on tobacco products and sugar-sweetened beverages. The report also highlights the underutilization of property tax where reform only focuses on increasing taxes on high-value immovable property.

Positive Progress on Improving Tax Transparency through CBCR

Country by Country Reporting (CBCR) is one of the four minimum standards of the BEPS Project. This is contained in BEPS Action 13 and requires tax administrations to collect and share detailed information on all large MNEs doing business in their country.

Information collected includes the amount of revenue reported, profit before income tax, and income tax paid and accrued, as well as the stated capital, accumulated earnings, number of employees and tangible assets, broken down by jurisdiction.

CBCR itself provides an unprecedented level of transparency to tax administrations worldwide. As a result, tax administrations, often for the first time, will have received detailed information on all large MNEs doing business in their country.

Positive progress has shown as the result of second phase of peer reviews of the BEPS Action 13. Initiated in June 2018, the global exchange of CBCR reaches the number of 2,200 exchange relationships which covers 116 jurisdictions of Inclusive Framework (IF) members.

Practically, with over 80 jurisdictions have already introduced legislation to prepare this document, almost all MNE Groups with consolidated group revenue at or above the threshold of EUR750 million have been covered. The implementation is also largely consistent with the Action 13 minimum standard. Moreover, other

countries of the IF are still working towards finalizing their domestic legal frameworks.

Progress to Reach OECD Global Consensus in Taxing Digital Economy

Addressing tax challenges from digitalization of the economy is a rising concern among countries. OECD as one of the initiators of global tax cooperation continue the discussion toward a consensus-based solution to overhaul the rules-based international tax system which is 2020.

According to OECD, the failing to reach an agreement on taxing digital economy by 2020 would have negative consequences on an already fragile global economy.

A new document which is a part of BEPS Action 1 was published on October 2019 to ensure large and highly profitable Multinational Enterprises (MNEs), including digital companies to pay tax wherever they have significant consumer-facing activities and generate their profits.

The latest development regarding this is a public consultation concerning the "Unified Approach" to Pillar One.³⁵ Main points of on these documents include resolving BEPS issues and ensuring the proper mechanism to impose CIT on multinational profits with the fair share. Furthermore, the Consultation with G20 is scheduled to take place in December.

At least, there is an additional global state revenue of EUR95 billion in the form of taxes, interest, and penalties during 2009 to 2019 due to the implementation of AEoI.

Although bringing large digital multinationals to account is an overarching aim, the OECD hopes to reach international consensus before more countries take up unilateral domestic digital taxes. The OECD itself has already delivered two "big bangs" to the international tax system, namely the automatic exchange of information (AEoI) and the BEPS project. Yet, it needs stakeholder engagement now more than ever as it works to deliver the third big bang, the 2020 solution.

According to OECD, the failing to reach an agreement by 2020 would have negative consequences on an already fragile global economy. Presently,

the OECD is still in the progress to prepare an economic analysis and impact assessment of the various proposals since some parties think that the international efforts to reshape corporate tax rules are moving ahead without wholly assessing the potential consequences of proposed schemes.³⁶

The G20 International Tax Agenda Shows Significant Progress

As of December 2018, there has been significant progress on the entire international tax agenda initiated by the G20. These agenda include the support for modernizing the international tax for tax transparency, implementation of BEPS, efforts to overcome digital economic tax challenges, tax certainty, and restructuring the tax system.

With regard to tax transparency, the bank secrecy for tax purposes no longer exists where almost all financial centres are involved in the automatic exchange of financial information (AEoI) through the OECD Common Reporting Standard (CRS).

Starting with only 40 inter-jurisdictional information exchange agreements in 2008, the number increased significantly with more than 4,500 information exchange agreements implemented in 90 jurisdictions that apply CRS in 2018.

Behind this impressive number, there is a real impact that many countries in the world managed to collect the tax from the hidden wealth. Disclosure of assets is done through voluntary compliance mechanisms and other offshore investigations. At least, there is an additional global state revenue of EUR95 billion in the form of taxes, interest, and penalties during 2009 to 2019 due to the implementation of AEoI.³⁷

In the context of BEPS implementation, there are currently 21,000 exchanges of tax rulings that were previously confidential between government and

35 With regard to this, please see: OECD, "Public Consultation Document Secretariat Proposal for a "Unified Approach" under Pillar One: 9 October 2019 – 12 November 2019," Internet, can be accessed at: <https://www.oecd.org/tax/beps/public-consultation-document-secretariat-proposal-unified-approach-pillar-one.pdf>

36 Jennifer McLoughlin, "Global Corporate Tax Reform 'Racing Ahead' with Little Analysis," *Tax Notes International Volume 95* Number 12 (September 2019): 1186.

37 OECD, "Using Bank Deposit Data to Assess the Impact of Exchange of Information," *OECD Preliminary Analysis* (2019): 3.

Nearly all regimes which is identified as harmful and attract tax base from other countries by only targeting non-residents and foreign income have been amended or abolished.

certain taxpayers. Therefore, companies can no longer negotiate confidentiality agreements with countries that want to hide their income.

Furthermore, there are also more than 250 tax regimes that have been reviewed since 2015. Nearly all regimes which is

identified as harmful and attract tax base from other countries by only targeting non-residents and foreign income have been amended or abolished. Then, there are multilateral instruments (MLI) to end the treaty shopping practice which covers 89 jurisdictions and has been ratified by 35 jurisdictions as of 30 September 2019.³⁸

38 OECD, *OECD Secretary-General Tax Report to G20 Finance Ministers and Central Bank Governors* (Paris: October 2019), 11 – 12.



Strengthening Tax Ombudsman Role in Tax System

Following part provides perspective on how ombudsman role in Indonesian taxation should be improved. The idea is to strengthen the Taxation Supervisory Committee to guarantee the fulfillment taxpayers' rights and act as bridge between taxpayers and tax authority, particularly in dispute resolutions.



Chapter 2 Strengthening Tax Ombudsman Role in Tax System

These days, there is a tendency to strengthen the role of the tax ombudsman to optimize the protection of taxpayer rights.⁴⁰ There are at least two advantages of establishing a tax ombudsman. First, strengthening the instruments that guarantee the dialogue and overall protection for all taxpayers. Second, in the medium term, the tax ombudsman has a positive impact on the optimality of services provided by the tax administration.⁴¹

In the context of tax reform, providing the right balance between taxpayers' rights and tax authority power would set up the core of effective good governance in tax administration. It will ease the shift of taxpayers' paradigm from enforced to voluntary compliance.⁴² Accordingly, a fortified tax ombudsman will upgrade the taxpayer's perception

toward the government. In addition, they will become more aware that their rights are getting more attention and priority from the authority.

Nevertheless, the success of the tax systems is not solely determined by the tax ombudsman but also depends on other factors. The tax ombudsman, nonetheless, plays an important role, specifically in the tax landscape that is full of uncertainty, 'distrust', and increased complexities.⁴³

Ombudsman means 'representative' and the first modern ombudsman was first established in 1809 in Sweden (*justitieombudsman*). As the name implies, 'ombudsman' is concerned with protecting citizens from violations of rights by the state apparatus, abuse

40 IBFD, *Observatory on the Protection of Taxpayers' Rights: 2015-2017 General Report on the Protection of Taxpayers' Rights*, (Amsterdam: IBFD, 26 April 2018), 83.

41 Fernando Serrano, "The Taxpayer's Rights and the Role of the Tax Ombudsman: an Analysis from a Spanish and Comparative Law Perspective," *Intertax* Vol.35, Issue 5 (2007): 340.

42 IMF and OECD, "2019 Progress Report on Tax Certainty", *IMF/OECD Report for the G20 Finance Ministers and Central Bank Governors* (2019): 47.

43 Marjorie E. Kornhauser, "When Bad Things Happen to Good Taxpayers: A Tale of Two Advocates," *Tax Notes International* (16 February 1998).

As the name implies, 'ombudsman' is concerned with protecting citizens from violations of rights by the state apparatus, abuse of power, wrongdoing, neglect and maladministration, unfair decisions, and delays that result in uncertainty.

of power, wrongdoing, neglect and maladministration, unfair decisions, and delays that result in uncertainty.⁴⁴ In the context of taxation, the supervisory institution or tax ombudsman has five main functions, namely: (i) ensuring protection of taxpayer rights; (ii) providing information to the public; (iii) control mechanisms in the context of check and balance; (iv) alternative institution or facilitator for tax dispute resolution; and (v) strives to improve (perform corrections) in tax law and policies. In carrying out these functions, the tax ombudsman addresses complaints and suggestions from taxpayers. Therefore, in addition to being independent, autonomous, and impartial, the presence of the tax ombudsman must be known by taxpayers.

In Indonesia, the tax ombudsman has been present in the form of the Taxation Supervisory Committee (*Komite Pengawas Perpajakan*)

In Indonesia, the tax ombudsman has been present in the form of the Taxation Supervisory Committee (*Komite Pengawas Perpajakan*) as the implementation of Article 36C of Law Number 6 of 1983 concerning General Tax Provisions and Procedures as last amended by Law Number 28 of 2007 (KUP Law). The article states that the Minister of Finance has established the Taxation Supervisory Committee, the provisions of which are regulated by a Minister of Finance Regulation (MoF Regulation).

As such, what is the ideal role of the Taxation Supervisory Committee for Indonesia in the future? What are the elements to be considered and what revitalization is required?

A. Revitalization of the Tax Ombudsman as a Signal for Tax Reforms in Favor of Taxpayers

At present, approximately 75% of Indonesia's development funds originate from tax monies. Unfortunately, such dependency is not supported by optimal tax collection performance. To address this issue, the government has scheduled tax reforms that stand on five pillars: organization, human resources, information technology, business processes, and tax law revisions. One of the objectives is to achieve the tax ratio target of 15-16%.

We should note that one of the most important thing in tax reform is the fulfillment of taxpayers' rights.⁴⁵ In fact, in many countries, the establishment of a tax ombudsman usually begins with tax reforms. This is inseparable from the general comprehension that ideal tax reforms must involve structural and institutional reforms from stakeholders in the tax sector.⁴⁶ In short, tax reform must be oriented towards shareholders.

In the Indonesian context, taxpayers should not only be viewed as a 'money machine' for the government. Tax reforms should not only be interpreted as an effort to increase tax revenue. Furthermore, tax reform should provide a balanced fiscal contract restoration framework between the state (government) and society (taxpayers).

One effort to restore the fiscal contract is limiting state power to collect taxes.⁴⁷ Unlimited power will engender the risk of violations in the fulfillment of taxpayers' rights. Thuswise, the reciprocal relationship between the tax administration authorities and taxpayers is difficult to accomplish.⁴⁸ This violation is caused by the discretion and lack of control for the tax authority in imposing taxes.⁴⁹

44 Swapan Kumar Bala and Pallb Kumar Biswas, "Tax Ombudsman in Bangladesh: An Analytical Review of the Regulatory Framework," *The Cost and Management*, Vol. 33 No. 6 (November-December 2005): 27-40.

45 One important lesson from the success of tax reform is public acceptability.

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

47 Ana P. Dourado, *Separation of Powers in Tax Law* (European Association of Tax Law Professors and Authors, 2010), 146.

48 Geoffrey Brennan and James M. Buchanan, *The Power to Tax: Analytical Foundations of a Fiscal Constitution* (Indianapolis: Liberty Fund, 2000), 3-6.

49 See Duncan Bentley, *Taxpayers' Rights: Theory, Origin, and Implementation* (Kluwer Law

Taxpayers must be given access to the institutions representing their voices to review the extent to which the power to tax has been properly administered.

As such, taxpayers must be given access to the institutions representing their voices to review the extent to which the power to tax has been properly administered.⁵⁰ The institution that can play a role in this context is the Taxation Supervisory Committee. Additionally, taxpayers' rights are, in essence, an important element of the fiscal contract between the state and its citizens. Therefore, the tax reform framework in Indonesia must also consider such facts.

The Taxation Supervisory Committee that plays an optimal role can restore taxpayers' trust in a fairer tax system.⁵¹ Moreover, the revitalization of the Taxation Supervisory Committee encourages other agencies in the taxation field -primarily, the Directorate General of Taxes- to establish internal compliance procedures and behaviors that prioritize services for taxpayers.

The robust Taxation Supervisory Committee will certainly guarantee the ideal balance and coordination among institutions.

Further, there exists a discourse of the Directorate General of Taxes' institutional transformation into a semi-autonomous revenue authority (SARA) in the Indonesian tax reform agenda. Such a discourse must undoubtedly be positioned in the context of the institutional setting in the Indonesian taxation sector in the future. Included in the agenda is the design of an institutionalized balance of powers model within the framework of a check and balance mechanism.⁵² The robust Taxation Supervisory Committee will certainly guarantee the ideal balance and coordination among institutions.

Ultimately, Indonesia's tax reform is momentum for changes in the taxation system for the better. As such, the revitalization of the Taxation Supervisory Committee must be included in the tax reform agenda in Indonesia.

B. Revitalization of the Tax Ombudsman to Institutionalize the Protection of Taxpayers' Rights.

Over the past few decades, there has been an increasing trend of respect for taxpayers' rights.⁵³ The objective of such respect is to establish a tax system with legal certainty for taxpayers and give rise to a perception of a fair system⁵⁴

Taxpayers' rights can be defined as written or unwritten rules intended to protect taxpayers from levies by the tax authorities that are considered arbitrary or illegal from the taxpayers' point of view.⁵⁵ In broad terms, the protection of taxpayers is not only limited to aspects of the collection (financial) but is also closely related to a balanced relationship between taxpayers and tax authorities.⁵⁶

In short, the taxpayers' rights consist of: (i) the right to be informed, assisted, and heard; (ii) the right of appeal; (iii) the right to pay no more than the correct amount of tax; (iv) the right to legal certainty; (v) the right to privacy; and (vi) the right to confidentiality and secrecy.⁵⁷ These rights have also been recognized

International, 2007), 292.

50 Anders Hultqvist, "Taxpayers' Rights in Sweden," *Revenue Law Journal* Vol 7 Issue 1, Article 4 (1997): 45.

51 William Hoffman, "Taxpayer Advocates Build Trust Across the Globe, Panelists Say," *Tax Notes International* (23 November 2015), 670-671.

52 Hans Gribnau, "Netherlands", in *Separation of Powers in Tax Law*, Ana Paula Dourado (ed.), Amsterdam: IBFD, 2010), 147-148.

53 See OECD, *Tax Administration 2015: Comparative Information on OECD and Other Advanced and Emerging Economies*, (Paris: OECD Publishing, 2015).

54 George Guttman, "Worldwide Tax Administrators Discuss How to Build a Customer-Friendly Tax Administration," *Tax Notes International* (24 May 1999).

55 See A. van Rijn, "A Comparative Study of Taxpayer Protection in Five Member Countries of the European Union," in *Taxpayer Protection in the European Union*, ed. D. Albrechtse, H. van Arendonk (London: Kluwer Law International, 1998), 45.

56 For instance, the tax authority must be able to provide the information required or requested by the taxpayers to make the right decisions regarding the sustainability of their business, as well as various other activities that are part of taxpayers' rights. See Bogumil Brzezinski, "Taxpayer's Rights: Some Theoretical Issue," in *Protection of Taxpayer's Right European, International and Domestic Tax Law Perspective*, ed. Włodzimierz Nykiel dan Magorzata Sek (Warsawa: Wolters Kluwer Polska, 2009), 19.

57 See OECD, *Taxpayers' Rights and Obligations-A Survey of the Legal Situation in OECD Countries*, (Paris: OECD, 1990)

in many countries in the form of primary and secondary law as well as taxpayers' charter.⁵⁸ Protection to taxpayers' rights is increasingly relevant to the government's need to collect taxes from its citizens on an ongoing basis.

The Taxation Supervisory Committee can act as a bridge between the taxpayers and the tax authority, among others, by ensuring a participatory policy formulation process.

The tax ombudsman is, in essence, a form of representation for taxpayers to guarantee their rights.⁵⁹ In this case, the Taxation Supervisory Committee can act as a bridge between the taxpayers and the tax authority, among others, by ensuring a participatory policy formulation process.

In this context, the presence of the Taxation Supervisory Committee as a tax ombudsman will guarantee the non-violation of taxpayers' rights in Indonesia. Moreover, signals of partiality, representation, and protection of taxpayers' rights must be explicitly implied in the Taxation Supervisory Committee to establish taxpayers' trust.⁶⁰

Signals of partiality, representation, and protection of taxpayers' rights must be explicitly implied in the Taxation Supervisory Committee to establish taxpayers' trust.

C. Revitalization of the Tax Ombudsman to Encourage Voluntary Compliance and Sustain Tax Revenue Performance

Efforts to optimize tax compliance require a more harmonious relationship between taxpayers and tax authorities. Primarily, tax compliance can be realized through two elements, namely:

(i) enforced compliance through law enforcement; and (ii) voluntary compliance which is pursued through increased trust. Voluntary compliance is the ideal compliance and is desired by all tax authorities.

To achieve voluntary compliance, tax authorities must make various efforts, for instance, fostering an equal relationship with mutual trust and openness with taxpayers, improving services, and providing convenience for taxpayers in carrying out their tax obligations, creating systems with integrity, and so forth. Such efforts require support from external institutions such as the Taxation Supervisory Committee, that can fulfill the functions of supervising, controlling, providing input, as well as directly accommodating complaints and suggestions from taxpayers.

In practice, establishing an ideal tax system is not an easy task.⁶¹ Efforts to optimize revenue and fulfill taxpayers' rights are frequently contradictory. The overemphasis on increasing revenue and the lack of customer service and taxpayers' rights result in the lack of public trust in the tax authorities' ability to carry out their obligations. An obsession to achieve short-term revenue targets poses the risk of injuring relationships and distorting the trust that is built between the tax authorities and taxpayers. Consequently, in the long run, this will hinder the government in implementing policies, collecting taxes, and providing public services.⁶²

Lack of trust in tax authorities also results in reduced voluntary compliance.⁶³

- 58 Duncan Bentley, "A Model of Taxpayer's Rights as a Guide to Best Practice in Tax Administration," A Thesis for Faculty of Law, Bond University (2006): 339-436.
- 59 According to Gill, the tax ombudsman can serve as a means of control and plays a major role in the fiscal democratic system. This is as stated by the Supreme Court of Canada: "*The Ombudsman represents society's response to ... problems of potential abuse and of supervision. His unique characteristics render him capable of addressing many of the concerns left untouched by the traditional bureaucratic control devices. He is impartial. His services are free, and available to all. Because he often operates informally, his investigations do not impede the normal processes of government. Most importantly, his powers of investigation can bring to light cases of bureaucratic maladministration that would otherwise pass unnoticed ... On the other hand, he may find the complaint groundless, not a rare occurrence, in which even his impartial and independent report, absolving the public authority, may well serve to enhance the morale and restore the self-confidence of the public employees impugned. In short, the powers granted to the Ombudsman allow him to address administrative problems that the courts, the legislature and the executive cannot effectively resolve.*" See Terry S. Gill, "Canada to Appoint Taxpayers' Ombudsman," *Tax Notes International* (18 June 2007): 1194-1196.
- 60 Amanda Bartmann, "Making Taxpayer Rights Real: Overcoming Challenges to Integrate Taxpayer Rights into a Tax Agency's Operations," *Tax Lawyer* Vol 69 No. 3 (2016): 624.
- 61 Richard M. Bird, "Administrative Dimensions of Tax Reform", *Asia-Pacific Tax Bulletin* (2004): 135
- 62 Muzainah Mansor, "Performance Management for a Tax Administration: Integrating Organisational Diagnosis to Achieve Systemic Congruence", *UNSW Law Research Paper* No. 2010-56 (2010): 3.
- 63 Matthijs Alink and Victor van Kommer, "Handbook on Tax Administration", (IBFD: 2015): 168.

. The overemphasis on increasing revenue and the lack of customer service and taxpayers' rights result in the lack of public trust in the tax authorities' ability to carry out their obligations.

The function of the tax ombudsman than can intervene in the on-field tax system implementation requires an independent position (separate from the organizations the tax ombudsman supervises) and neutral (impartial and non-discriminatory).

An optimal tax ombudsman requires autonomy and a separate budget to function well.

Voluntary compliance is important not only because of the awareness of taxpayers' rights and expectations of fairness and efficient treatment, but also a clear, simple, and user-friendly system.

In view of this, the ideal tax system is not only limited to optimized tax revenue. The method used by the tax authority to collect tax receipts is equally important, in particular, if the government seeks to establish credibility in the eyes of taxpayers. In this case, the Taxation Supervisory Committee is needed as an institution that engenders the credibility of the tax system.

D. Efforts to Revitalize the Tax Ombudsman through its Position and Stance

The function of the tax ombudsman than can intervene in the on-field tax system implementation requires an independent position (separate from the organizations the tax ombudsman supervises) and neutral (impartial and non-discriminatory).⁶⁴ Moreover, institutions related to respecting taxpayers' rights must avoid political influence and be transparent to the public wherever possible.⁶⁵

Therefore, as a supervisory institution, ideally, the tax ombudsman must be independent of the supervised institution. According to Leon Yudkin, a tax ombudsman may not be placed in an executive institution as it would incite a conflict of interest.⁶⁶ An optimal tax ombudsman requires autonomy and a separate budget to function well.⁶⁷

In practice in some countries, however, the position of this taxation supervisory committee varies. In Bangladesh, the tax ombudsman is an institution of

which the members are appointed by the President. On the contrary, in the United States, the National Taxpayer Advocate is under the IRS. In South Africa, despite its separate position, the South African Tax Ombudsman's budget is derived from the tax authority (SARS).⁶⁸ In contrast, the tax ombudsman in Mexico, Prodecon, is independent and autonomous from the Mexican tax authority. Interestingly, the level of effectiveness of tax ombudsman institutions in various countries is not affected by their position and stance, but rather by the extent to which the paradigm of representing taxpayers has been implemented.

In Indonesia, the taxpayers' representation and the independent nature of the Taxation Supervisory Committee are evident in the membership structure consisting of the Secretary General and the Inspector General of the Ministry of Finance as permanent members, plus 5 (five) other members, at least 4 (four) of whom are non-civil servants.⁶⁹ However, the most fundamental thing to underline is: the Taxation Supervisory Committee is an institution representing taxpayers, not the Ministry of Finance.

E. Ideal Design of the Tax Ombudsman in the Interaction with other Parties

In practice, the tax ombudsman in various countries has different functions. The function of the tax ombudsman in the United States (National Taxpayer Advocate) is oriented to identifying problems, assisting taxpayers, proposing changes to tax administration, and recommending changes to tax legislation provisions concerning issues between taxpayers and Internal Revenue Services (IRS).⁷⁰ The National Taxpayer

64 C Ofori-Boateng, *Factors to Consider when Establishing an Effective Tax Ombudsman in South Africa*, Dissertation. (Nort-West University, Afrika Selatan, 2014).

65 IMF, "Assurances of Integrity," from *Manual on Fiscal Transparency* (2007), Part IV.

66 Leon Yudkin, *A Legal Structure of Effective Income Tax Administration*, (Cambridge: Harvard Law School, 1971), as quoted in Darussalam, "Peningkatan Kepatuhan Wajib Pajak melalui Komite Pengawas Perpajakan," *Ortax* (25 March 2010). Available online at: <http://www.ortax.org/ortax/?mod=issue&page=show&id=43&list=&q=&hlm=4> (accessed on 20 November 2018).

67 Teri Sprackland, "Tax Ombudsmen Note Impact of Fiscal Independence on Their Work," *Tax Notes International* (30 November 2015): 745-746.

68 *Tax Administration Act 28 of 2011 concerning the South African Tax Ombudsman* whose budget originates from SARS.

69 Article 2 of Minister of Finance Regulation Number 63/PMK.09/2016.

70 Issues that are included in the NTA's scope must meet several criteria: (i) the taxpayer will face economic harm or potential economic harm; (ii) there exists an immediate threat of the IRS's

Box 1 Performance of Taxation Supervisory Committee⁷¹

Being responsible to oversee the formulation of taxation policy and the administrative practices, Taxation Supervisory Committee conducts its role independently to assist Ministry of Finance in ensuring the implementation of tax system as regulated in Minister of Finance Regulations (MoF) Number 63/2016.

In 2018, the Committee handled 60 complaints, which shows decreasing trend from 2017 and 2016 which amounted to 77 and 114 complaints consecutively. From the last year's complaints, 22 (34%) of them were complaints related to services, 17 (28%) were related to audit, 5 (8%) were related to tax potentials, 4 (7%) were related to objections and one was related to human resources.

From all the complaints between 2016-2018, the Committee had performed 8 mediation between the tax authority and taxpayers. They resulted in the issuance of Oil and Gas-Land and Building Tax, improvement of Minister of Finance Regulation related to the termination of tax investigation, the revocation of the DGT Regulations related to the obligation to submit Income Tax Article 4(2) interest and deposit's withholding tax receipt, simplification of exemption certificate issuance of Income Tax Article 22 and Import VAT and the restitution of double taxation.

During 2014-2018 period, the Committee had issued 160 recommendation, mainly related to revocation of STLG for furniture products, taxation data improvement, simplification of taxation procedures and incentives, tax reform and advice for tax, duty and excise data integration – including joint audit, joint investigation and joint business process – and other recommendations related to taxation reform, VAT refunds and tax incentives.

Overall, consisting of 50 people (as of 2018), the Committee Secretary executes the assigned responsibilities with positive note. Further improvements, nevertheless, are necessary in terms of mediation between taxpayers and tax authority in preventing or solving dispute. In essence, improving tax morale and ensuring the fulfillment of taxpayers' right should be part of the Committee's responsibility as the Indonesian tax ombudsman.

Advocate also handles issues, namely cases and strategic issues.

- In Gibraltar, the tax ombudsman functions as a mediator in tax disputes.
- In Pakistan, the Federal Tax Ombudsman (FTA) has the authority

to penalize individuals who commit fraud and maladministration.⁷² The Federal Tax Ombudsman can only provide recommendations, but it is the Revenue Division (tax authority) that implements the recommendation (to a certain extent or cases).⁷³

action; (iii) the taxpayer will incur significant costs if relief is not granted (including fees for professional representation); (iv) the injury is irreparable or has long term adverse impact if relief is not granted; (v) the taxpayer does not obtain certainty in a certain period of time; (vi) the taxpayer has not received a response or resolution to the problem or inquiry by the date promised; (vii) a system or procedure has either failed to operate as intended, or failed to resolve the taxpayer's problem or dispute among the taxpayer and the IRS; (viii) the implementation of tax laws raises considerations of equity or the taxpayer's rights; (ix) determines public policy that warrants assistance for certain taxpayers. See National Taxpayer Advocate, *Report to Congress: Fiscal Year 2010 Objectives*, (30 June 2009), 1.

71 Sekretariat Jenderal Kementerian Keuangan, Laporan Kinerja Sekretariat Jenderal Kementerian Keuangan 2018 (2019), 98-138; See also Komite Pengawas Perpajakan Kementerian Keuangan, "Jumlah Pengaduan Pajak Menurun Selama Dua Tahun Terakhir". Internet, can be accessed on: <http://komwasperpajakan.depkeu.go.id/Berita/Details/1122>; and Komite Pengawas Perpajakan Kementerian Keuangan, "Komite Pengawas Perpajakan Mendorong Sinergi Instansi Perpajakan". Internet, can be accessed on: <http://komwasperpajakan.depkeu.go.id/BeritaKemenkeu/Details/84>.

72 Federal Tax Ombudsman Pakistan, *Annual Report 2010* (Karachi: FTO, 2011).

73 Fernando Serrano, "The Taxpayer's Rights and the Role of the Tax Ombudsman: an Analysis from a Spanish and Comparative Law Perspective," *Intertax* Vol.35, Issue 5 (2007): 332.

In Spain, the tax ombudsman's duties include ensuring that taxpayers understand their rights and that there are no violations against the 20 types of taxpayers' rights.

In India, the tax ombudsman may receive complaints from taxpayers for certain cases and resolve them through the reconciliation process.

The functions, duties, and authority of the tax ombudsman in various countries differ and have a broad spectrum.

- In Spain, the tax ombudsman's duties include ensuring that taxpayers understand their rights and that there are no violations against the 20 types of taxpayers' rights as stipulated in the Taxpayers Bill of Rights. In addition, the Spanish tax ombudsman has five other functions: revoking a tax provision, information-related functions (collecting data, interpreting data, and indirectly ensuring public participation), democratic control mechanisms over bureaucracy in the tax sector, playing a role in dispute resolution alternatives, and continuously reforming the tax law system.⁷⁴
- In Sri Lanka, the tax ombudsman has a role in fixing maladministration which includes discretion, decisions, processes, recommendations, or actions that deviate from administrative procedures, that are inconsistent, discriminatory, unaccountable, groundless, and involve power or do not use authority appropriately in corruption or certain motives.⁷⁵
- In India, the tax ombudsman may receive complaints from taxpayers for certain cases and resolve them through the reconciliation process. There must be a report to the Ministry of Finance of the actions required for the problematic employees and these findings will be considered in the performance appraisal. Certain cases, for instance: delays in tax refunds and returns, other administrative delays, unconsidered documents and facts, and the misdemeanor in the tax authorities.⁷⁶
- In Mexico, Prodecon has 10 functions: (i) providing advice and recommendations to taxpayers that encounter problems with the tax authorities; (ii) being present in court in cases with certain amount of disputes; (iii) accepting all types of complaints against the authorities; (iv) resolving certain cases and providing special consultation sessions; (v) investigating and identifying the systemic problems of

taxpayers and submitting proposals to the tax authorities for solutions; (vi) providing positions and opinions on the interpretation of rules at the request of the tax authority; (vii) proposing changes to rules regarding internal administration; (viii) requesting and inviting tax authority officials to meet with taxpayer organizations and gathering solutions; (ix) proposing to the Tax Legislation Committee in Congress regarding changes to the tax law; and x) acting as an intermediary and witness in alternative tax dispute resolution procedures.⁷⁷ Prodecon's authority is, in fact, not only related to mediation issues, but also to the provision of a review of public complaints, recommendations to tax authorities to address these issues, campaigns to pay taxes as a culture, provision of legal assistance and consultation to taxpayers, and submission of amendments to tax regulations and law.

Based on the comparative study above, it can be inferred that the functions, duties, and authority of the tax ombudsman in various countries differ and have a broad spectrum, ranging from receiving complaints to serving as mediators in tax disputes. The difference lies in the context and the needs of their tax systems to translate areas that require taxpayer-representing institutions.

In Indonesia, several points of authority are granted to the Taxation Supervisory Committee in the context of carrying out their duties, namely:⁷⁸

- a. requesting information, data and/or information from agencies that carry out tax policy formulation and agencies authorized to carry out tax administration;
- b. requesting data and/or information from other related parties;
- c. performing observations;
- d. receiving complaints and/or public input;
- e. performing mediation;

74 Fernando Serrano, "The Taxpayer's Rights and the Role of the Tax Ombudsman: an Analysis from a Spanish and Comparative Law Perspective," *Intertax* Vol.35, Issue 5 (2007): 338.

75 World Bank, *A Handbook for Tax Simplification*, (Washington DC: The World Bank, 2009), 189

76 World Bank, *A Handbook for Tax Simplification*, (Washington DC: The World Bank, 2009) 189- 190

77 Diana Bernal Ladron de Guevara, *Taxpayers' Rights in a Transparent and Global Society: The Mexican's Ombudsman Experience*, Prodecon 2017.

78 Article 3 paragraph (1) Minister of Finance Regulation 63/PMK.09/2016.

Box 2 – Prodecon and Tax Reform in Mexico⁷⁹

Mexico incorporated an independent public organisation – Procuraduría de la Defensa del Contribuyente (Prodecon) – which acts as a taxpayers' ombudsman, with a mandate to guarantee and protect the constitutional and human rights of taxpayers. Although introduced to public in 2011, it was substantially strengthened through Mexico's 2014 tax reform.

Presently, Prodecon plays a role in the mediation process for tax disputes resolution. The mediation process can only be performed at stages prior to trials, in particular, during the audit process. The mediation will stop the audit process. Furthermore, if the mediation process is carried out for the first time by the taxpayer, administrative sanctions related to the disputed amount of tax payable shall be revoked.

The 2014 tax reforms result in the strengthening of the institution to facilitate the dispute resolution process between the taxpayer and the Mexican Tax Administration Service (SAT). The legally binding agreement from the mediation process on the disputing parties results in certainty for taxpayers. This has contributed to Prodecon's increasingly prominent role in the tax sector in Mexico.

Prodecon is regarded as an example for other countries' tax administrations due to its two great advantage: its independence and its broad powers as it does not belong to nor is controlled either by the Mexican Treasury Department or the Tax Administration Service. Furthermore it offers a wide array of faculties and attributions ranging from the fostering of a refreshed ethical/tax culture to the submission of tax bills to Congress and the non/judicial settling of potential tax disputes

Capacity building that includes the quantity and quality of human resources and supporting infrastructure is needed to improve the effectiveness of the Taxation Supervisory Committee's services.

- f. conducting studies;
- g. providing education to the community;
- h. providing advice and/or recommendations related to taxation policies and tax administration; and
- i. monitoring and evaluating the agencies that formulate tax policies and the agencies authorized to carry out tax administration on the follow-ups of complaints and suggestions and/or recommendations.

The abovementioned points of authority are appropriate and cover Indonesia's needs.

F. Establishing the Tax Ombudsman Ideal Capacity

Revitalization requires strengthening the Taxation Supervisory Committee's and the Secretary of Taxation Supervisory Committee's capacities. Capacity building that includes the quantity and quality of human resources and supporting infrastructure is needed to improve the effectiveness of the Taxation Supervisory Committee's services.⁸⁰

To date, the Secretary of the Taxation Supervisory Committee has fewer than 100 employees. This is far different from, for example, the United States' National Taxpayer Advocate's number of employees of 2,200 or approximately 2% of IRS employees.⁸¹ On a side note, the strengthening of human resources was the realization of the Internal Revenue Service Restructuring and Reform Act

79 Marie Sapirie, "Mexico's Improved Ombudsman Breaks New Ground", *Tax Notes International* (2015): 989. See also, Diana Bernal, "The Role of Prodecon in the Protection of Taxpayers' Rights", paper presented in *International Conference on Taxpayers Rights in Washington DC* (2015): 2-12.

80 In the context of tax disputes, see David Crawford, *Detailed Guidelines for Improved Tax Administration in Latin America and the Caribbean: Chapter 11. Objections and Appeals*, USAID's Leadership in Public Financial Management (Agustus, 2013): 24-25.

81 Philip Moss, "Towards Community Ownership of the Tax System: the Taxation Ombudsman's Perspective," *Makalah*. Presented at 6th International Conference on Tax Administration, Sydney, 15-16 April 2004.

The motivation for ADR is increasingly relevant in the profile of tax disputes in Indonesia.

1998 which emphasizes the need to revamp tax services for the public and meeting the taxpayers' needs. Referring to the benchmark, the Secretary of Taxation Supervisory Committee Secretariat must have a minimum of 846 employees (2% of 42,300 Directorate General of Taxes' employees).⁸²

In the face of the coming era, the Indonesian Government requires specific strategies to reduce disputes (for example, with the cooperative compliance approach) or through more effective and efficient dispute resolution mechanisms (for example, through ADR).⁸⁴

Moreover, functions that comprise the supervisory of policies and administration of tax collection, mediation, and provision of recommendations clearly require high-quality human resources from diverse academic backgrounds. This is to ensure appropriate and feasible outputs.

The motivation for ADR is increasingly relevant in the profile of tax disputes in Indonesia. At present, Indonesia's tax system does not have any alternative tax dispute resolution mechanism. The Tax Court, taxpayers' 'last resort' to seek justice is sub-optimal in terms of the system, human resources, and organization. As such, the productivity of decisions is low and tax disputes pile up at the appellate level or in other words, a backlog occurs (see Figure 8). ADR can obviously reduce the Tax Court's. Thuswise, ADR must be considered as an integrated part of the tax system.

Tax ombudsman has a positive impact on the process of resolving and preventing tax disputes.

G. Enhancing the Participation of the Tax Ombudsman in Tax Dispute Resolution

Changes in the tax landscape may escalate disputes. In a global context, the agenda of international organizations in taxation will undoubtedly affect the tax policies in all countries.⁸³ Domestically, the tax reform agenda that includes improving administration and revising laws in the tax sector will support the development toward the new tax system. Tax law enforcement is expected to increase in line with different interpretations of various tax provisions. Consequently, domestic and international tax disputes are likely to rise and create the so-called tsunami of disputes.

Thuronyi even states that the tax ombudsman has a positive impact on the process of resolving and preventing tax disputes.⁸⁵ This is also reinforced by the fact that as many as 1/3 of the 55 countries surveyed by the OECD in the *2017 OECD Tax Administration Survey* provide a role to the tax ombudsman to handle tax dispute resolution.⁸⁶

Today, there is even a discourse on the involvement of the tax ombudsman in cross-jurisdictional dispute resolution through the Mutual Agreement Procedure (MAP) as the involvement of the tax ombudsman guarantees the protection of taxpayers' rights in the MAP process and at the same time,

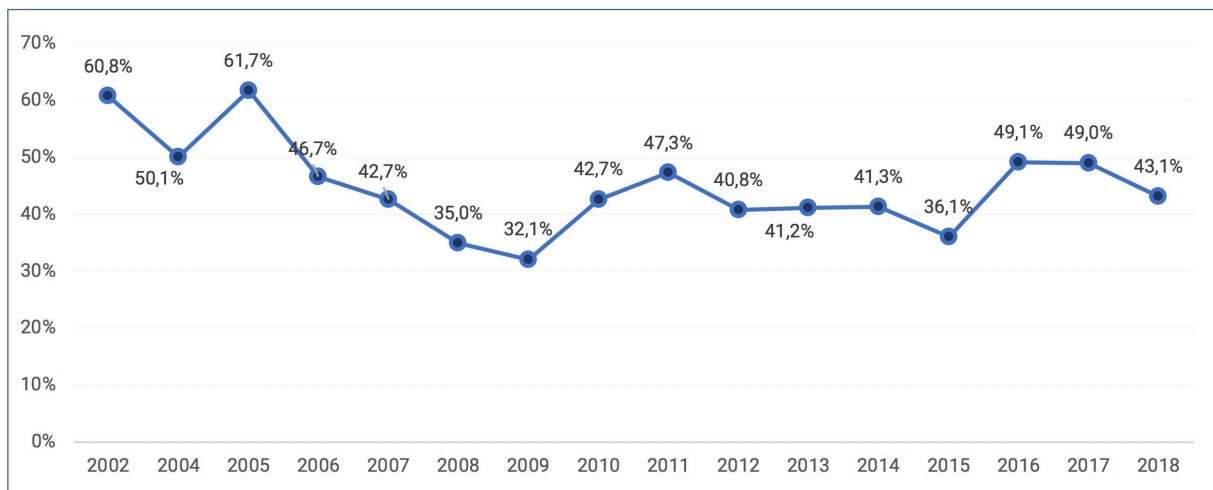
⁸² Data from the Ministry of Finance as of September 2018.

⁸³ Anti-BEPS (Base Erosion and Profit Shifting) Project initiated by the OECD and G20, automatic exchange of information among tax authorities, and Addis-Ababa Agenda that emphasize opposition against tax non-compliance practice are bound to encourage changes in the international tax landscape. See Todd Welty, et.al. "Lessons from U.S. Tax Dispute Resolution Processes," *Tax Notes International* (21 Maret 2016): 1049.

⁸⁴ This is despite the need for a better tax dispute management strategy. The government must stop being compulsive and avoid the paradigm that the tax court is the 'last resort' that decides on disputes. The think before act (of filing appeal) principle in the National Litigation Policy formulated by the Ministry of Law and Justice, the Indian Government in 2010, can be used as a reference. When making a decision to advance a tax dispute to the court, the government must conduct a cost-benefit review and analysis. This also includes the consideration for filing any appeal for the same and recurring points of dispute, as well as factual (non-interpretative) disputes. See Mukesh Butani, *Tax Dispute Resolution: Challenges and Opportunities for India*, (Lexis Nexis: Gurgaon, 2016), 55-58.

⁸⁵ Victor Thuronyi, "How Can an Excessive Volume of Tax Disputes be Dealt With?" *IMF Tax Law Note* (Desember 2013).

⁸⁶ See Appendix A.169 in OECD Tax Administration Survey 2017. The countries that provide the tax ombudsman with a position in tax dispute resolution are: Australia, Belgium, Canada, Cyprus, Denmark, France, Hungary, Iceland, Luxembourg, Malta, Mexico, New Zealand, Norway, Peru, South Africa, Spain, Sweden, Turkey, and the United States.

Figure 8 - Productivity Level of Tax Court, 2002 – 2018

Note: productivity is calculated based on the number of decisions against the number of files in the same year

Source: data prior to 2015 is sourced from Inside Tax Edition 36, p. 157-161. Data for 2015 to 2018 is processed from data available on the Secretariat of the Tax Court's website. Available at: <http://www.setpp.kemenkeu.go.id/statistik> (accessed on 20 November 2019)

The Taxation Supervisory Committee's role as the facilitator or mediator is far more appropriate due to the institution's independence.

encourages the effectiveness of a fair MAP.⁸⁷

In this context, the Taxation Supervisory Committee may act as a mediator in ADR, specifically, the mediation mechanism. The Taxation Supervisory Committee's role as the facilitator or mediator is far more appropriate due to the institution's independence. This function must undoubtedly be supported by a legal basis of ADR and revitalization of the Taxation Supervisory Committee.

this is still in conflict with Article 34 of the KUP Law that protects the confidentiality of taxpayer information. Therefore, in future revisions of the KUP Law, it would be better if the taxpayer information is explicitly accessible by the Taxation Supervisory Committee. On the other hand, at the technical level, a protocol that regulates how to obtain this information among the Taxation Supervisory Committee, the Directorate General of Taxes, and the Directorate General of Customs and Excise is required.

Recommendations, information gathering, or questions from the Taxation Supervisory Committee should have a mechanism to obtain answers from the parties concerned within the allotted time.

H. Creating Synergy between Tax Ombudsman with Other Government Institutions

The Taxation Supervisory Committee should not distort the governance and duties of other agencies in taxation but instead should strengthen the synergy. The ultimate goal is to foster public trust in the tax system.

Another synergy that can be established is a question and answer mechanism or a forum involving other agencies. Recommendations, information gathering, or questions from the Taxation Supervisory Committee should have a mechanism to obtain answers from the parties concerned within the allotted time.⁸⁸ This has been implemented for example, in Mexico. Upon complaints, Prodecon may request relevant information from the Mexican tax authority and must receive answers within a maximum of three working days.⁸⁹

The duties and authorities of the Taxation Supervisory Committee will only be effective if they have access to information from other agencies in taxation and other parties. However,

Essentially, the Taxation Supervisory Committee's role in ensuring the proper provision of services (in terms of tax

87 Katerina Perrou, "The Ombudsman and the Process of Resolution of International Tax Disputes – Protecting the "Invisible Party" to the MAP", *World Tax Journal* (Februari 2018): 99-129.

88 Fernando Serrano, "The Taxpayer's Rights and the Role of the Tax Ombudsman: An Analysis from a Spanish and Comparative Law Perspective," *Intertax* Vol.35, Issue 5 (2007): 340.

89 See Diana Bernal, "The Role of Prodecon, the Mexican Tax Ombudsman Agency, in Ensuring Taxpayer Access to Mutual Agreement Procedures," *Bulletin for International Taxation* Vol.72, No 9 (2018)

Essentially, the Taxation Supervisory Committee's role in ensuring the proper provision of services (in terms of tax policies, laws, and administration) for taxpayers encourages adequate services that will, in turn, improve taxpayer compliance.

To protect citizens' rights, the ombudsmen generally carry out several functions, among others, preparing periodic reports for the parliament/government and the public in general.

policies, laws, and administration) for taxpayers encourages adequate services that will, in turn, improve taxpayer compliance. As a logical consequence, tax revenue will increase.⁹⁰ This is the expected form of synergy.

I. Realizing the Tax Ombudsman Key Role

To protect citizens' rights, the ombudsmen generally carry out several functions, among others, preparing periodic reports for the parliament/government and the public in general.⁹¹ The report includes performance, activities, the number of complaints received and followed up, and the strategic issues reviewed. Without the dissemination of information regarding the relevance, function, credibility, and performance, the tax ombudsman may not be recognized by the public and its function as a representative of taxpayers will not be optimal.⁹² The tax ombudsman must instead operate publicly, thus gaining trust as a representative of the taxpayer.

Establishing public awareness of the presence and advantages of a tax ombudsman is not an easy task. For instance, a survey conducted by the National Taxpayer Advocate in 2012 shows that only about half of US taxpayers believe that they have rights before the IRS. Furthermore, only 11% of such taxpayers are cognizant of these rights.⁹³ This means that even in developed countries, the public may not be aware of the information on taxpayer rights that are guaranteed by the tax ombudsman institution.

As such, transparency and dissemination of information will encourage the legitimacy of a balanced tax system, both in optimizing state revenue and in fulfilling taxpayers' rights.⁹⁴ Ultimately, without socialization and branding strategies targeted at taxpayers, the Taxation Supervisory Committee's excellent performance and function will be in vain. Disseminating information on complaints, problems that have been resolved, recommendations, and so forth to the public is a strategy that must be carried out by the Taxation Supervisory Committee.

- 90 Darussalam, "Peningkatan Kepatuhan Wajib Pajak melalui Komite Pengawas Perpajakan," *Ortax*, 25 March 2010. Can be accessed at: <http://www.ortax.org/ortax/?mod=issue&page=show&id=43&list=1&q=&hlm=5>
- 91 Fernando Serrano, "The Taxpayer's Rights and the Role of the Tax Ombudsman: an Analysis from a Spanish and Comparative Law Perspective," *Intertax* Vol.35, Issue 5 (2007): 331-332.
- 92 ADB, *Strengthening the Ombudsman Institution in Asia: Improving Accountability in Public Service Delivery through the Ombudsman*, (Manila: ADB, 2011), 77.
- 93 Amanda Bartmann, "Making Taxpayer Rights Real: Overcoming Challenges to Integrate Taxpayer Rights into a Tax Agency's Operations," *Tax Lawyer* Vol 69 No. 3 (2016): 598.
- 94 OECD, *Citizens as Partners: OECD Handbook on Information, Consultation and Public Participation in Policy-Making* (OECD, 2001): 19.

The Need of Breakthrough to Increase Tax Ratio

This chapter gives perspective on how certain breakthroughs can support to increase Indonesia's tax ratio. It delivers a proposition that besides contemplating recommendations from IMF and OECD, the tax authority also needs to prioritize efforts and resources to improve the citizen's tax morale.



3

Chapter The Need of Breakthrough to Increase Tax Ratio

Entering the final quarter of 2019, our tax revenue performance most likely will not continue last year's positive achievement.

The downward movement of tax ratio is understandably related to under-performed tax buoyancy.

A. Weakened Performance Towards End of 2019

Entering the final quarter of 2019, our tax revenue performance most likely will not continue last year's positive achievement. By the end of September, its realization reached only 57.21% of APBN target or around 63.1% of 2019 tax revenue outlook, noting as little as 0.19% growth from 2018 on the same period. It is much lower than economic performance in the same period, reaching 5.02% compared to January-September 2018, indicating the tax system could not capture the tax base growth.

Soon after having a step-up performance in 2018, the pace of tax revenue

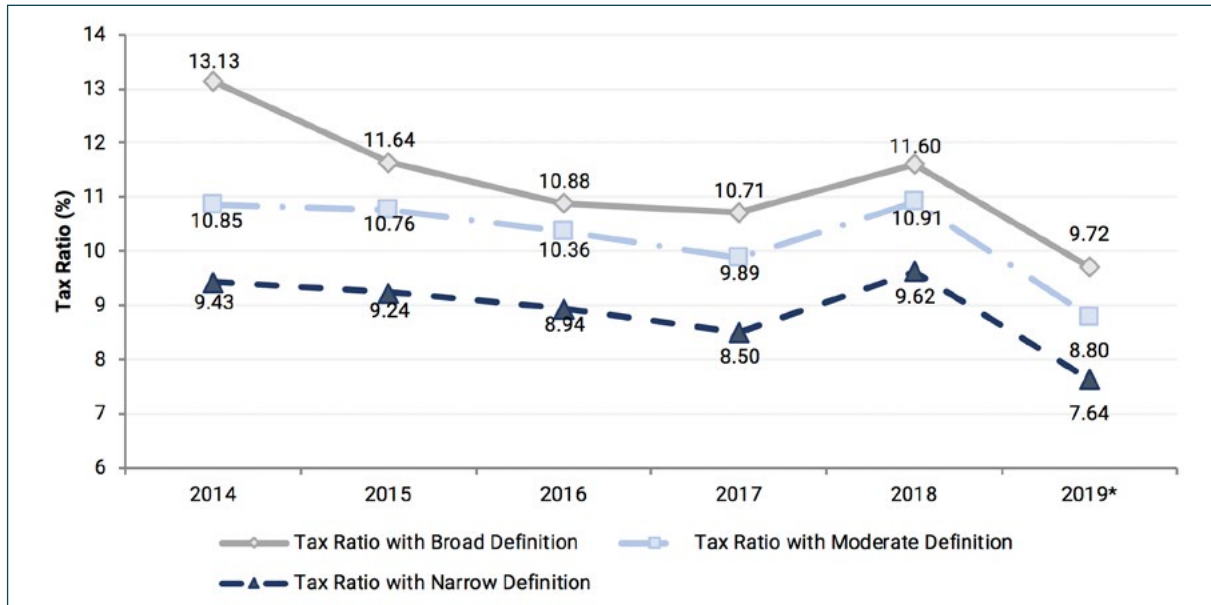
performance is slowing back again. Compared to our economic productivity, the tax revenue only reached 7.64% by September (see Figure 9). Adding it with excise, duty and oil-and-gas non-tax revenue, the ratio is still less than 10%, much lower than the generally agreed minimum ideal tax ratio of 15%.⁹⁵

The downward movement of tax ratio is understandably related to under-performed tax buoyancy.⁹⁶ As shown by Figure 10, our tax revenue sensitivity is significantly decreased after having a favourable improvement in 2018. By having tax buoyancy amounted to 0.03, it is indicated that every 1% growth of economic productivity can only push 0.03% of additional tax revenue. To gain tax ratio improvement, tax buoyancy should reach more than one,

95 See Vito Gaspar, Laura Jaramillo and Phillippe Wingender, "Tax Capacity and Growth", *IMF Working Paper* No. 16/234 (2016).

96 Tax buoyancy denotes the tax revenue responsiveness toward the change of economic productivity. Mathematically, it is the ratio between tax revenue growth and GDP (current price) growth. See Glenn P. Jenkins, Chun-Yan Kuo and Gangadhar P. Shukla, "Tax Analysis and Revenue Forecasting", (2000): 1. See also Danu Febrantara, Denny Vissaro and Dea Yustisia, "Metode dan Teknik Proyeksi Penerimaan Pajak: Panduan dan Aplikasi", *DDTC Working Paper 2119* (2019): 11-14.

Figure 9 - Tax Ratio Trend 2014-2019 (3rd Quarter)



*Calculation as of September 2019
 Source: Ministry of Finance and BPS (calculated by DDTC Fiscal Research)

Figure 10 - Tax Buoyancy 2014-2019



*Calculation as of September 2019
 Source: Ministry of Finance and BPS (calculated by DDTC Fiscal Research)

which means that tax revenue growth outweighs the economic productivity growth.

The degraded tax ratio and tax buoyancy has started since the first quarter of 2019, where the former (with broad definition) only reached 8.35%, while the latter only amounted to 0.23. There was a favourable momentum in the second quarter, before it gets worse than before in the third quarter. To sum it up, we are now entering a difficult fourth

quarter before concluding this year's performance.

If we analyse based on type of the tax, there were actually several positive notes where some of the taxes actually achieve positive growth (see Table11), such as Article 25/29 Income Tax for individual, Article 21 Income Tax (mainly comes from employment incomes) and several other types of income tax. It indicates that there are improvements from tax authority's effort in bettering

97 Tax ratio with broad definition denotes the revenue ratio of tax, excise, duty and oil-and-gas non-tax revenue to GDP (current price); tax ratio with moderate definition derived from dividing revenue of tax, excise and duty to GDP (current price); tax ratio with narrow definition is calculated the proportion of tax revenue alone to GDP (current price).

Table 10 - Tax Buoyancy and Tax Ratio 1st – 3rd Quarter of 2019

	2019		
	1st Quarter	2nd Quarter	3rd Quarter
Tax Buoyancy	0.23	0.49	0.03
Tax Ratio (with narrow definition)	6.61%	7.79%	7.64%
Tax Ratio (with moderate definition)	7.43%	8.72%	8.80%
Tax Ratio (with broad definition)	8.35%	9.63%	9.72%

Source: Ministry of Finance and BPS (calculated by DDTC Fiscal Research)

The low tax ratio places Indonesia at the bottom position among the G20 countries.

taxpayers' compliance, mainly from the individuals.

Nevertheless, Table 11 also suggests that our tax revenue is quite sensitive to the global economy and import activities. Negative growths largely come from taxes on imports and corporate tax. In addition, decreasing revenue from VAT compared to last year when the refund is being accelerated indicates our VAT performance was never close to optimal. Unfortunately, those taxes hold the biggest proportion of our tax revenue resulting only 0.19% growth as of September (yoy).

Table 11 – Tax Revenue Per Type as of September 2019

Type of Tax	Amount (Trillion Rp)	Proportion (%)	Growth (yoy 2018-2019)
Income Tax			
Article 25/29 Income tax			
Corporate	172.34	19.09%	-1.69%
Individual	9.36	1.04%	15.35%
Final Withholding Tax	86	9.53%	6.35%
Article 21 Income Tax	111.45	12.35%	9.71%
Article 22 Income Tax	13.03	1.44%	7.71%
Value Added Tax			
Domestic VAT	199.63	22.12%	-3.28%
Taxes on Imports			
Import VAT	125.59	13.91%	-6.15%
Import STLGs	N/A	N/A	N/A
Article 22 Income Tax on Imports	40.77	4.52%	0.48%

Source: Ministry of Finance

B. Contemplating OECD's and IMF's Recommendations in Mobilizing Indonesian Revenues⁹⁸

Using medical terms, the low ratio of tax revenue to gross domestic product (tax ratio) remains an infirmity that strikes Indonesia's fiscal sustainability. This 'chronic disease' affects the overall domestic economy, including the agenda to reduce poverty and inequality.

The International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD)'s diagnoses are lucid. Thus, the 'illness' must be treated promptly. The increase in tax ratio is expected to affect fiscal health. Increased state revenues can be expended to target inclusive economic growth.

The IMF concurrently released its diagnosis and prescription in the publication titled '*Realizing Indonesia's Economic Potential*' with the momentum of the 2018 IMF-World Bank Annual Meeting. On the other hand, the OECD revealed its prescription in the '*Economic Survey Indonesia October 2018*' along with the extension of the OECD-Indonesia Joint Work Program for 2019-2021.

The low tax ratio places Indonesia at the bottom position among the G20 countries. According to the IMF, empirical evidence indicates that the economies of countries with tax ratios below 15% tend to experience sluggish growth due to the constraints on productive spending.

Despite some governmental efforts, the OECD is of the opinion that the tax collection indicator slightly increased compared to the position in the early 2000s. Moreover, Indonesia's tax ratio is low compared to other countries with relatively similar income levels, such

98 The OECD's recommendations in this section are abstracted from OECD, *OECD Economic Surveys: Indonesia 2018* (Paris: OECD Publishing, 2018), 9-17. Meanwhile, the IMF's recommendations are sourced from Ruud de Mooij, Suahasil Nazara, and Juan Toro, "Implementing a Medium-Term Revenue Strategy", in *Realizing Indonesia's Economic Potential*, Luis E. Breuer, Jaime Guajardo, and Tidiane Kinda, eds. (Washington: IMF, 2018), 109-142.

The IMF and OECD have identified the need to increase investment in tax administration, in particular, human resources (HR), electronic services, and databases

as the Philippines, Malaysia, Brazil, and Argentina.

Analyzing Indonesia's taxation system, the IMF offers a prescription framed in the medium-term revenue strategy (MTRS). Through this prescription, the tax ratio is projected to rise from 10.4% to 15.4% in 5 years, in 2022, to be exact. Additionally, the prescription also aims to reduce tax distortion and strengthen progressivity.

Simultaneously, MTRS focuses on reducing compliance costs and improving the investment climate. Moreover, the IMF seeks to enhance people's perception of justice in Indonesia's current taxation system. A tax system relevant to the dominance of the middle-income population is a crucial remedy in the prescription.

Both institutions suggest a gradual increase in VAT rates.

Based on diagnosis on the same illness, the OECD has also offered a relatively similar prescription. This institution sees a potential increase in the tax ratio to 22%. The difference lies in the emphasis, the OECD's prescription underlines increasing voluntary compliance through taxpayers' greater willingness to comply, strengthening of administration, and expanding the tax base.

Of the two prescriptions from the IMF and OECD, there exist a variety of remedies that can be classified into four categories. This classification is based on the factors in the Indonesian taxation system resulting in Indonesia's low tax ratio despite former tax reform efforts.

First, compliance, tax administration, and legislation. The IMF and OECD have identified the need to increase investment in tax administration, in particular, human resources (HR), electronic services, and databases. They have also indicated the significance of using information technology in risk management to improve compliance.

Further, the IMF provides recommendations for strengthening the tax authority institutions, particularly those relating to HR management flexibility. In contrast, the OECD adds

the requirement to standardize public consultation procedures prior to any regulation implementation. The OECD also requests for the expansion of taxation expenditure estimates and regular reporting on such estimates.

Second, income tax. In this category, both institutions assess that the threshold for non-taxable income in Indonesia is considerably high. Nearly 90% of Indonesians' average income is below non-taxable income. As such, both institutions do not recommend any further increase in the non-taxable income threshold.

Both the IMF and OECD also encourage a reduction in the upper bracket threshold in the imposition of personal income tax. Concerning the final withholding tax for SMEs, the IMF solicits a reduction in the threshold for taxation on small and medium enterprises (SMEs) while the OECD requests a tightening of tax criteria for SMEs.

In the context of corporate income tax, the IMF proposes the confluence of all special regimes into one regime and the application of alternative minimum tax (AMT). This measure is considered to as an effort to prevent tax avoidance. In contrast, the OECD prescribes the substitution of a tax holiday with a cost-based incentive.

Third, value added tax (VAT) and excise. Both institutions suggest the reduction of various exemptions in the Indonesian VAT system followed by a reduction in the inauguration threshold as a taxable person for VAT purposes. Moreover, they demand a gradual increase in VAT rates.

In addition to these suggestions, the IMF and OECD recommend new excisable goods, for instance, motor vehicles, fuel, carbon, and sugar. Specifically, for tobacco products excise, the OECD proposes an increase in rates and harmonization (simplification) for all products.

Fourth, local taxes, in particular, property taxes. The IMF and OECD both advocate an increase in land and building tax

To support an efficient and targeted audit process, data matching capabilities need to be improved through comprehensive taxpayer data investment from various sources.

rates. Furthermore, the OECD urges an increase in the sale value of non-taxable objects. Additionally, they agree to restore previous local taxes to the central government. All these proposals aim to strengthen the fiscal capacity of regional governments.

In principle, the prescriptions from the IMF and OECD focus on the chronic illness of low tax ratios. Thuswise, it is essential that the public and stakeholders examine and determine which prescription works most effectively. Perhaps a concoction of both prescriptions provides more efficacious results.

Recommendations for Tax Administration

Administrative reform is a classic agenda that always emerges in tax reform. Significantly, four of the five pillars of reform that are currently being discussed by the government pertain to administrative issues. These issues comprise organization, human resources (HR), information technology and databases, and business processes.

Such a fact is not confounding as aspects of institutional administration play a vital role in optimizing the results of tax reform. Numerous tax reforms in other countries have failed due to the absence of administrative reorganization, improved management, and human resource strengthening.⁹⁹

Despite the increase in the Directorate General of Taxes' (DGT) performance over the past few years, there is ample space to maximize the tax collection process. In this context, the government may consider several fiscal recommendations from the IMF and OECD.

One of the IMF's proposals that is worth considering is the establishment of the Compliance Improvement Program (CIP). This program provides a systematic approach focused on increasing taxpayer compliance in four high-risk areas, namely Value Added Tax, Article 21 Income Tax, rich taxpayers

who with specific professions (wealthy individuals), and ultra-high-wealth individuals/UHWI.

To that end, the IMF emphasizes improvements in the quality of the audit process. To support an efficient and targeted audit process, data matching capabilities need to be improved through comprehensive taxpayer data investment from various sources.

Some data capital of which the utilization is to be maximized is data obtained from the tax amnesty program, banking data, and information that will be obtained from abroad through the Automatic Exchange of Information (AEOI).

The entire data processing should be employed for compliance risk management. This is beneficial to detect non-compliance at an early stage and avoid errors in carrying out the audit process. This means that not only a more effective audit process increases compliance, but also reduces the number of disputes.

In terms of the DGT's institutional administration, the IMF also advises that the authority reorganize the institutional structure be expanded. This includes the establishment of new units required by the DGT and more flexible recruitment and termination of employment.

Albeit being under the Ministry of Finance, the DGT should be flexible in daily operational decision-making. Flexibility should be included in the reallocation of the budget based on needs. This is crucial as DGT's needs can change from time to time. Consequently, budget allocation decisions require adjustments.

The IMF also puts forward the strengthening of state revenue analysis capacity in the domain of the tax policy unit. This unit is expected to have access to taxpayers' data to provide a more robust micro analysis.

In contrast to the IMF's recommendations

Compliance Improvement Program (CIP) provides a systematic approach focused on increasing taxpayer compliance in four high-risk areas, namely Value Added Tax, Article 21 Income Tax, rich taxpayers who with specific professions (wealthy individuals), and ultra-high-wealth individuals/UHWI.

⁹⁹ Predrag Bejakovic, "Improving the Tax Administration In Transition Countries", (1996). Internet, can be accessed on: http://www.umar.gov.si/fileadmin/user_upload/konference/06/10_bejakovic.pdf.

The advice submitted by the OECD focuses more on strengthening compliance from the taxpayers' perspective.

that place more emphasis on efforts to increase compliance from the DGT's perspective, the advice submitted by the OECD focuses more on strengthening compliance from the taxpayers' perspective.

The OECD considers that tax law enforcement efforts must be implemented along with the efforts to establish taxpayers' voluntary compliance. This may be accomplished through efforts to reduce compliance costs which have been considerably high and disproportionate.¹⁰⁰ These efforts can be made by increasing administrative ease using technology, expediting the restitution process, and minimizing the level of disputes.

Both international organizations concur that Indonesia is required to increase the progressivity of income tax.

Moreover, strengthening the tax ombudsman's functions to ensure the protection of taxpayers' rights as well as the investment to improve services for taxpayers are two other significant elements.¹⁰¹ Thus, taxpayers will have a better perception of DGT. There is more to the decision to comply than simply avoiding penalties or sanctions.

Furthermore, the complexity of taxation regulations needs to be addressed. Complicated tax rules engender a burden for taxpayers, in particular, with the uncertainty in the interpretation of tax regulations.

Within this context, the OECD supports the government's plan to revise several regulations containing ambiguity in their interpretation. The OECD suggests that the revision involve public involvement of various stakeholders. As such, the revisions are in accordance with the problems faced by taxpayers.

In consideration of the opinions from the IMF and OECD, the government may consider the proposed recommendations. Both institutions seem to comprehend the tax administration issues that are currently

being addressed. Additionally, the two recommendations complement each other in mapping the problems and solutions. Ultimately, tax administration reform, which has always been a classic agenda of reform, is expected to be more ideal and in line with the international best practice.

Recommendations for Income Tax

Income tax is a type of tax that is considered most in line with the aspect of justice as it represents taxpayers' ability to pay. Progressive rates based on the amount of income represent the ability to pay in income tax.

Progressivity is highlighted in the income tax 'prescriptions' issued by the IMF and OECD. Both international organizations concur that Indonesia is required to increase the progressivity of income tax. Such a measure may be undertaken by lowering the threshold of the top two brackets in personal income tax. In addition, the IMF and OECD agree that the thresholds on Indonesia's non-taxable income are particularly high thus no increase in such thresholds is required.

Further, the OECD underlines the issue of benefits in kind and allowances received by employees that are not included in the calculation of taxable income. From the OECD's point of view, such regulation is regressive as high-income individuals commonly receive more benefits in kind and allowances. As a result, the OECD recommends that the benefits in kind and allowances (fringe benefit tax) received by employees be included in the taxable income components with the aim of increasing the progressivity of income tax.

100 See Darussalam, "Perspektif Perluasan Withholding Tax atas Penghasilan Usaha" DDTNews July 2, 2018. Please visit <https://news.ddtc.co.id/menyoal-perluasan-withholding-tax-atas-penghasilan-usaha-13008>.

101 Darussalam, "Arah Reformasi Pajak: Meningkatkan Penerimaan, Mengurangi Sengketa", dalam *Menuju Ketangguhan Ekonomi: Sumbang Saran 100 Ekonom Indonesia*, Tim INDEF eds. (Jakarta: Penerbit Buku Kompas, 2017), 32-33.

Box 3 – Basic Concept of Alternative Minimum Tax¹⁰²

Many thought-provoking recommendations have been put forward by the IMF and OECD for the Indonesian tax system, among others, the IMF's recommendation to impose the alternative minimum tax (AMT) in Indonesia's income tax area.

According to the IMF, AMT is requisite for Indonesia to safeguard the practice of tax avoidance and evasion by corporate taxpayers. The AMT regime is proposed with low rates and is calculated from gross income. In its implementation, corporate taxpayers will pay the tax due based on the higher value between the normal tax regime of the corporate income tax and the AMT regime. As such, what exactly is AMT?

AMT is not new in the world of taxation. As part of the 'extended family' of presumptive tax, AMT also uses alternative indicators other than taxable income which is commonly used as the tax base. Alternative indicators used as approximation are generally chosen as bases that cannot be easily manipulated, but can be conveniently monitored (Slemrod and Yitzhaki, 1996).

Unlike other presumptive tax methods that are also employed to provide administrative ease, however, for instance, the final withholding tax regime for small and medium enterprises (SMEs), AMT is more oriented to prevent tax avoidance. The IMF itself has recommended AMT for developing countries in the context of preventing tax base erosion and tackle international aggressive tax planning practices (IMF, 2014).

Practices such as transfer pricing manipulation, excessive debt interest payments, and hybrid instruments are some forms of tax avoidance schemes. These various schemes enable corporations to pay lower or no taxes due to the artificial losses they have created.

Dissimilar to the various anti-tax avoidance provisions, AMT does not test or trace transactions suspected of having base erosion and profit shifting (BEPS) risks. AMT, in fact, plays a role in ensuring that all corporations at least pay 'a minimum value of tax' to the state or serving as a safeguard.

Several countries have implemented AMT in their tax systems, ranging from Canada, Belgium, Argentina, India, Pakistan, to Tanzania. On a side note, the AMT regime in these countries does not always refer to the value of gross income. Other indicators, such as the total value of assets, net assets, and calculation of the tax base based on income deduction adjustments are also used (reconstruction of income).

As a tool to prevent tax base erosion, AMT is not optional. AMT is, by and large, a regime that is parallel to the generally applicable income tax system. In other words, the tax payable value of a corporate taxpayer is calculated using either the normal corporate income tax regime or the AMT. Should the amount of tax payable in the normal regime income tax is higher than that of the AMT regime, the tax authority uses the tax payable from the normal regime and vice versa.

To ensure fairness and prevent excessive taxation, the AMT regime allows a carry over clause. This means that the difference between the tax payment of the AMT regime and the normal regime can be used as a deduction for tax payable in the tax calculation with a normal mechanism in the following period.

The prospect of implementing AMT in Indonesia is, nonetheless, comprehensible. This is related to the numerous foreign investment taxpayers that have suffered losses over the years but continue to operate commercially. However, designing the AMT regime is not an easy task. Policymakers are to determine several components, such as tax subjects, rates, thresholds, and the connection to the anti-tax avoidance provisions.

102 Joel Slemrod and Shlomo Yitzhaki, "The Costs of Taxation and the Marginal Efficiency Cost of Funds", *IMF Staff Papers* Vol. 43 No. 1 (1996): 172-198. See also IMF, *Spillovers on International Corporate Taxation* (Washington DC: IMF, 2014), 36; and Eric M. Zolt, "Tax Incentives in Developing Countries: Maximizing the Benefits and Minimizing the Costs", in *UN Handbook on Selected Issues in Protecting the Tax Base of Developing Countries: 2nd Edition*, Alexander Trepelkov, Hary Tonino, and Dominika Halka (eds.) (New York: UN, 2017), 563-563.

The IMF recommends that Indonesia introduce alternative minimum tax (AMT). Interestingly, AMT may serve as one solution to preventing aggressive tax planning and securing tax revenue.

In addition, the IMF and OECD point out the Micro, Small and Medium Enterprises (MSMEs) issues. The OECD believes that the government should tighten MSME tax criteria, including those related to the reduction of the income tax threshold for MSMEs. The IMF is of the same opinion. The MSMEs income tax threshold of Rp4.8 billion is considered too high by the two international organizations, thereby reducing the tax base. According to the OECD, MSMEs should be given more access to non-financial benefits, such as bookkeeping training.

On the other hand, the IMF and OECD have different viewpoints in terms of tax incentives. A tax incentive is a means to attract foreign investors to invest their capital in Indonesia. One somewhat tempting incentive is the tax holiday.

According to the IMF, the facilities in Indonesia's corporate income tax system, in fact, distort the allocation of economic resources resulting in inefficiency. Hence, the IMF considers that there should be consistency in the application of corporate income tax rates in accordance with the normal rates.

In line with the IMF, the OECD also considers that tax holiday is costly in fiscal and economic terms as it erodes the revenue base, creates tax planning opportunities, is inefficient, and distorts competition.

The OECD proposes that Indonesia substitute tax holidays with cost-based incentives by providing a sunset date. Cost-based incentives may include tax credits for research and development (R&D) activities or allowances or tax credits for workplace training as applied in Malaysia. The OECD considers that cost-based tax incentives are more appropriate in targeting new and more effective investments in reducing the cost of capital, even when profitability is low.

Concerning the new provisions, some of the IMF's proposals are noteworthy. The IMF recommends that Indonesia introduce alternative minimum tax (AMT). Interestingly, AMT may serve as one solution to preventing aggressive tax planning and securing tax revenue. However, there are issue of trade-offs between revenue and accuracy (see Box 3 – Basic Concept of Alternative Minimum Tax).

In principle, both the IMF and OECD attempt to offer quality inputs and proposals to increase the income tax base. The IMF has an advantage in that it has more experience with developing countries whereas the OECD is known to be superior in in-depth tax knowledge.

Ultimately, the government can consider some of these recommendations by considering the situation in Indonesia. The prudence principle, comprehensive exploration, and cost and benefit

Table 12 – IMF and OECD's VAT Recommendation

Feature	IMF's Recommendation	OECD's Recommendation
Tariff	Increase to 12%	Increase within medium-term timeline
Tax Exemption	Exemption to be not given to services in tourism, domestic transportation, employment, financial, entertainment, arts, water and electricity sectors.	Exemption to be not given to intermediate and strategic goods and services.
VAT Entrepreneur Threshold	Reducing current VAT Entrepreneur's threshold of turnover.	Reducing VAT Entrepreneur's current threshold of turnover.
Specific Issue	Re-switching the authority to collect restaurant and hotel tax from local government to central government.	<ul style="list-style-type: none"> Re-switching the authority to collect restaurant, entertainment, parking and hotel tax from local government to central government. Simplify the system of registering VAT entrepreneur that conduct e-commerce business

Broadly understandable that the VAT entrepreneur's turnover threshold is relatively high even when compared to several OECD countries.

analysis are three things to consider in addressing the two organizations' recommendations concerning income tax.

Recommendations for Value Added Tax and Excise

To improve compliance and push growth altogether, IMF and OECD offer similar recommendations. Related to VAT, they suggest the government to broaden the tax base by reducing the exempted goods and services and lower the threshold of VAT entrepreneur. It is broadly understandable that the VAT entrepreneur's turnover threshold is relatively high even when compared to several OECD countries.¹⁰³ In addition, when it comes to tariff, both institutions insist Indonesia to raise its rate due to its neutrality to economy. This trend has become increasingly worldwide, mainly from countries who had relatively low rate.¹⁰⁴

Meanwhile, in terms of excise-related recommendations, both IMF and OECD promote increasing the number of excise objects.

Table 13 - IMF and OECD VAT's Excise Regulation

Feature	IMF's Recommendation	OECD's Recommendation
Tobacco Product Excise Tariff	No recommendation	To be increased along with rate structure simplification.
Excise Object	<ul style="list-style-type: none"> Change Vehicle Tax to Vehicle Excise Imposing Excise to vehicle fuel 	Excise scope should be broadened to new objects, such as environmental-related excise (carbon tax) and health-related excise (sugar tax)

Recommendations for Local Tax

Taxation on property is the 'central milestone' of the efforts to increase regional revenue capacity in Indonesia. At present, state revenues from taxes on property or better known as Taxes on Land and Buildings are estimated to range from 0.3% to 0.4% of Gross Domestic Product (GDP). The contribution is considered sub-optimal

considering the types of assets in Indonesia that are largely dominated by real estate compared to financial assets.

Historically, taxation on property in Indonesia was under the authority of the central government until some types of the management were subsequently authorized to the district/city government through Law No. 28/2009 concerning Regional Taxes and Regional Levies. Land and building taxes on Rural and Urban areas (PBB-P2) are managed by the regencies/municipals whereas land and building taxes for Plantation, Mining, and Forestry (PBB-P3) are managed by the central government.

Delegation of the authority to collect PBB-P2 to regional governments is a breakthrough in the effort to improve regional fiscal independence. The improvement of PBB-P2 subsequently serves as the key to fixing Indonesia's local tax system as recommended by the IMF and OECD. However, the two institutions have different approaches.

Through its medium-term revenue strategy (MTRS) for Indonesia, the IMF provides recommendations to increase the maximum rate of PBB-P2 from 0.3% to 1%. In addition to proposing a maximum rate increase, the OECD underlines the sale value of non-taxable objects.

In terms of the sale value of non-taxable objects, the OECD recommends that the regions increase the amount of sale value of non-taxable objects set at a minimum of Rp10 million. In other words, the OECD suggests that regions be more independent in determining their tax policies in accordance with the objectives of each region. Increasing the sale value of non-taxable objects can also reduce inequality in wealth by not imposing substantial PBB-P2 burden on the low-income class.

Furthermore, the IMF recommends revamping the PBB-P2 collection

103 Richard Highfield, Chris Evans, Binh Tran-Nam and Michael Walpole, "Diagnosing the VAT Compliance Burden: A Cross-Country Assessment", *UNSW Business School/Taxation and Business Law Final Report* (2019): 13.

104 OECD, *Consumption Tax Trends 2018: VAT/GST and Excise Rates, Trends and Policy Issues* (Paris: OECD Publishing, 2018), 15-42.

administration system. As with the general problem of taxation on property in other countries, the regional administration's low capacity is a major obstacle to PBB-P2, in particular, with regards to updating data on property. Thus, the IMF recommends data revaluations with coordination between the central and the regional governments.

Due to the absence of a cadastral system that contains national-scale data on property, the OECD recommends strengthening regional administrative capacity.

OECD recommendations also focus on data updates. Due to the absence of a cadastral system that contains national-scale data on property, the OECD recommends strengthening regional administrative capacity. This capacity includes the appropriate administration of land and building assets, in terms of information on property values and ownership. This is expected to expand the tax base. Further, the OECD suggests strengthening regional human resources related to information technology.

There are little evidence suggesting that a significantly improved tax revenue mobilization can be achieved without being associated with a strengthened tax morale of the society.

The OECD proposal makes perfect sense. Incorrect data collection may cause large administrative costs in the future. Administrative costs may incur due to the regional governments' failure to collect tax liabilities accordingly from previous years. In addition, the low and inadequate capacity of the local tax revenue authority may increase uncollectible tax receivables.

Accordingly, trust-based relationship between tax authority and taxpayers plays crucial role in reducing costs from the two sides – compliance and administrative cost.

Finally, PBB-P2 reforms can be considered a long journey and calls for Indonesia's serious intent. PBB-P2 reforms recommended by the IMF and OECD can be used as the steppingstone in strengthening regional fiscal independence.

In this context, reforming the administration of PBB-P2 must be a shared priority and need to be supported by transparent policies. In addition

to increasing regional revenue, the implementation of the PBB-P2 system reform may evidence the success of the 'regional fiscal contract' through better mobilization of revenue and provision of public services in the foreseeable future.

C. Improving Tax Morale to Enhance Voluntary Compliance

Sub-optimal revenue mobilization has been the main problem not only for Indonesia, but also for many developing countries. The primary causes are mainly weak capacity of tax administration, small tax base, large shadow economy and non-compliant taxpayers.¹⁰⁵ But aside from these factors, low tax morale has been the root problem – yet neglected – of why it gets almost impossible to achieve adequate tax revenue.¹⁰⁶

It is important to note that there are little evidence suggesting that a significantly improved tax revenue mobilization can be achieved without being associated with a strengthened tax morale of the society.¹⁰⁷ In most cases, it can be accomplished by growing transparency and willingness to change 'cop-and-robber' perception to a more cooperative collaboration that emphasize equal standing between tax authority and taxpayers.¹⁰⁸

Certainty in Exchange of Transparency

Accordingly, trust-based relationship between tax authority and taxpayers plays crucial role in reducing costs from the two sides – compliance and administrative cost.¹⁰⁹ From taxpayers' side, it will be easier to comply because they can get certainty about their tax position. Meanwhile, from tax authority's view, a more opened and cooperative

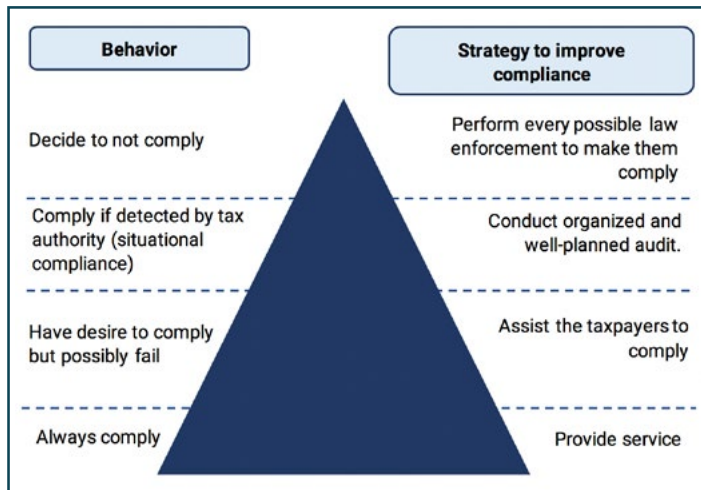
105 OECD, *Tax Morale: What Drives People and Business to Pay Tax* (Paris: OECD Publishing, 2019), 3.

106 OECD, *OpCit.*, 36-49.

107 Exceptions are applicable to several countries with non-democratic countries, such as Burkina Faso, The Gambia, Senegal and Rwan. See Bernardin Akitoby, Jiro Honda, Hiroaki Miyamoto, Keyra Primus and Mouhamadou, "Case Studies in Tax Revenue Mobilization in Low-Income Countries", *IMF Working Paper No. 19/104* (2019).

108 Darussalam, Danny Septriadi, B. Bawono Kristiaji and Denny Vissaro, *Era Baru Hubungan Otoritas Pajak dengan Wajib Pajak* (Jakarta: Penerbit DDTC, 2019), 24-25.

109 OECD, *The Changing Tax Compliance Environment and the Role of Audit* (Paris: OECD Publishing, 2017), 18.

Figure 11- OECD Compliance Model

OECD, *Compliance Risk Management: Managing and Improving Tax Compliance*, (Paris: OECD, 2004), 41.

To improve tax morale, the taxpayer's perception has to be changed first toward the existing tax system.

taxpayers enable resource reallocation, particularly in audit and investigation process to be more focused on high-risk taxpayers.¹¹⁰

The key is to ensure that every taxpayer get treatment based on their tax-risk profile. If voluntarily compliant taxpayers get similar treatment with non-compliant citizen, the tax morale will naturally deplete over time.¹¹¹ In the long run, as the impact, it will take more effort from the tax authority to maintain a stable tax collection since taxpayers would perceive that there is no incentive to genuinely comply.¹¹²

The key is to ensure that every taxpayer get treatment based on their tax-risk profile.

Well-targeted tax treatment is seen as part of a new paradigm in building compliance based on an improved tax morale. OECD perceives it as foundation to develop sustainable compliance (see Figure 11), while World Bank is confident that it would result in fair and equitable tax system (see Figure 12).

To improve tax morale, the taxpayer's perception has to be changed first toward the existing tax system. As

broadly suggested, initiatives from the tax authority, mainly related to efforts in fulfilling taxpayer's rights and changed perception of tax authority toward the taxpayers are the starting steps to enlighten them that the tax system is moving to the right direction.¹¹³

To gain the trust from taxpayers, it is imperative that they can get certainty of tax consequences for their economic activities. Thus, stable and predictable tax policy, tax administrative simplification and consistent treatment toward every business behaviour should be pursued to prevent arising doubts from taxpayers.

Supported with well-digitized tax system, it is then necessary that the tax authority utilizes it for the benefit of taxpayers. The source of uncertainty may be derived from four areas: legal systems, tax administration, dispute resolution process and international dimensions. As OECD suggests, from these four sources, uncertainty mainly arise due to inconsistency of treatment or inability to secure certain results.¹¹⁴

These would distort the credibility of fiscal contract developed between the two. Conversely, clear and unambiguous tax rules, administrative procedure simplification, consistent interpretation and treatment and improvement of services would give rise to certainty of taxpayers' behaviour consequences.

The Importance of Tax Digitization

Technological advancement alters the economic environment in which government seek to collect tax revenue. These advancements will make some persons or transactions easier to tax. But at the same time, they will also make some persons or transactions

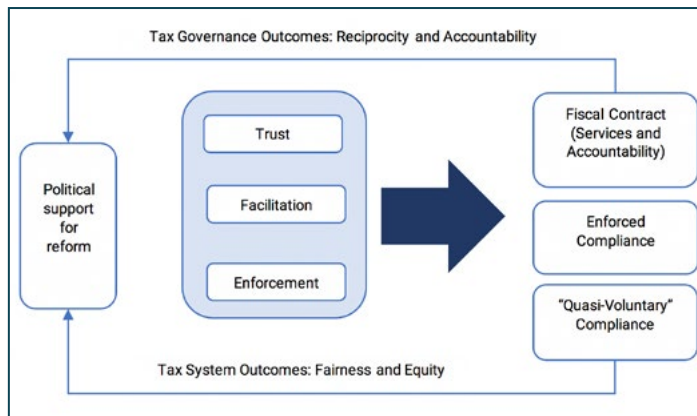
110 OECD, *Cooperative Compliance: A Framework from Enhanced Relationship to Cooperative Relationship* (Paris: OECD Publishing, 2013), 28.

111 OECD, *Study in the Role of Tax Intermediaries* (Paris: OECD, 2008).

112 In addition to the existence of incentive to comply, social norm also plays role to determine taxpayers' behavior. For Asian countries, social norm is found to be intrinsically influenced by existing social institutions. See James Alm and Chandler McClellan, "Rethinking the Research Paradigms for Analyzing Tax Compliance Behavior," *Tulane Economics Working Paper* 1211 (2012), 2; see also Bruno Frey, "A Constitution for Knaves Crowds Out Civic Virtues," *The Economic Journal* 107 No. 443 (1997): 1043-1053.

113 OECD, *Tax Morale: What Drives People and Business to Pay Tax* (Paris: OECD Publishing, 2019), 16-31.

114 Solving this will not only help to improve tax morale, but confidence for investors to put their capital. See OECD, *Tax Morale: What Drives People and Business to Pay Tax* (Paris: OECD Publishing, 2019), 44-45.

Figure 12 - World Bank Compliance Model¹¹⁵

Source: OECD, *Tax Morale: What Drives People and Business to Pay Tax?* (Paris: OECD Publishing, 2019), 5

This large size of shadow economy shows why digitization to enhance tax administration capability is crucial in Indonesia.

harder to tax. For example, it is currently much harder for tax authorities to track goods in digitized form than those that are physically transported across or between countries. If they are not well-anticipated, unreported business activities, or shadow economy, will increase in the future.

Shadow economy in Indonesia is estimated to be around 26,6% of GDP over 2005-2015 data.¹¹⁶ This is due to the existence of hard-to-tax sector Indonesia, including informal sector, black market, Small-to-Medium Enterprises (SMEs) and the emergence of e-commerce. In addition, there are expectedly lots of assets located abroad to which the Directorate General of Taxes (DGT) does not have access. This large size of shadow economy shows why digitization to enhance tax administration capability is crucial in Indonesia.

Data standardization is key to accelerate the data matchmaking in order to find mismatches between tax returns and external data from other institutions and countries.

Technology has rooms for potential to change how taxing authorities perform the interconnected tasks of locating and identifying taxpayers, information reporting and withholding, processing returns, auditing, collecting, educating taxpayers and providing taxpayer services.

In optimizing them, the DGT internal function is already in the process of

being digitalized, mainly when it is related to data management. To get in line with automation era, the authority already started to analyse using big data which is integrated to all-related taxpayers' data. However, adequate infrastructure and supportive business process are still in built-up process. Thus, further works need to be done to see the result.

As upcoming external data stream will only increase in upcoming years, digitization in data management and processing are very important. Technology optimization is needed to support server and application thus improving the quality of data. It would then be used to support data normalization and make external data priority identification faster and more effectively.

Subsequently, data standardization is key to accelerate the data matchmaking in order to find mismatches between tax returns and external data from other institutions and countries. In result, this technology advancement could enhance the ability of tax authority to detect non-compliance behaviours faster and accurately, monitor economic activities in the informal sector and improve the compliance risk management. These include tracking the location of taxpayers and their assets, maintaining information from reporting and withholding and auditing taxpayers.

Beyond the data, technological advancement can also be used to enhance the processing of payment and restitutions, improving services to taxpayers and reducing face-to-face interaction between tax officer and taxpayers to reduce corruption probability.

In addition, the government can take into account the recommendation from OECD (2019) which argues that digital platforms can play a role in tax system, specifically VAT in terms of

¹¹⁵ 'Quasi-voluntary' is derived from citizen perception that the tax system is fair and that the government is able to provide sufficient public goods and service from the paid taxes. See Nita Rudra and Ida Bastiaens, "Challenges of Taxation and Redistribution in Globalizing Economies". Internet, can be accessed on: <https://www.un.org/development/desa/dspd/wp-content/uploads/sites/22/2018/06/9-1.pdf>.

¹¹⁶ Leandro Medina and Friedrich Schneider, "Shadow Economies Around the World: What Did We Learn Over the Last 20 Years?", *IMF Working Paper* No. 18/17 (2018).

Table 14 – Several Areas of Tax Digitization in Indonesia

Parameters	Current State
1. Taxpayers Tracking and Information Reporting	
1.1. e-SPT (tax return)	This year, 93% of individual taxpayers (more than 10 million individuals) have used e-SPT to report their income tax. Meanwhile, there are 73% of corporate taxpayers (around 550.000 corporations) using e-SPT
1.2. e-Faktur (electronic invoicing for VAT)	Used by VAT entrepreneur (PKP) as withholding tax slip from the business transactions performed. The implementation started in 2014 through the enactment of PMK 151/2013 (pilot project for PKP in Java island)
1.3. e-Bupot	An application trough which taxpayers create withholding tax slip for Income Tax Article 23 and 26, starting May 2019 through the issuance of KEP-425/PJ/2019. There are currently more than 1700 withholder taxpayers obliged to use e-Bupot
1.4. e-Reporting	Provided for 2016-2017 Tax Amnesty Program participants to report the location of wealth that was listed in the program.
1.5. Pre-populated tax return	The embryo of pre-populated tax return implementation was actually started from 2017. This can be seen from tax return submission system using electronic format (e-form SPT), particularly for e-form 1770 and 1770S for individual taxpayers and e-form 1771 for corporate taxpayers. In this format, several type of data within the tax return are be automatically filled.
2. Application Service Providers	There are various third-party application service providers (ASP) who serve tax compliance administration for taxpayers and legally appointed by the DGT. They enable tax calculation and tax return submissions for several taxes, such as Income Tax Article 21, 23 and VAT. In addition, users can also use the application to create e-Faktur.
3. Data Automation, Processing and Information Exchange	
3.1. Formation of Directorate of Tax Data and Information (<i>Direktorat Data dan Informasi Perpajakan/DDIP</i>)	On June 2019, the government established DDIP as a new directorate under the DGT. DDIP is responsible for formulating and implementing policies and technical standardization in tax data and information. The Directorate has 5 functions: include policy formulation, policy implementation, establishing norms, standards, procedures, and criteria, providing technical guidance and evaluation, and administrative affairs implementation. All of these are related to the field of tax data and information.
3.2. New technology through core tax system	The government has enacted Presidential Regulation Number 40 of 2018 concerning the Renewal of Core Tax System. This system is purposed to create tax administration system that is more effective, efficient and has high degree of flexibility. The core of this regulation is the procurement that will be effective by 2021. With such implementation, administration matters related to taxpayers' compliance are expected to be simpler, effective and efficient.
4. Services to Taxpayers	
4.1. Complaints Handling	On April 2019, the DGT has issued new regulation pertaining to procedures for submitting complaints on tax services through DGT Regulations Number 07 of 2019 (PER-07/2019). The taxpayers may submit a complaint through complaint channels including telephone, e-mail, website, social media, facsimile and online chatting to the complaints recipients, which are Information and Complaint Service Center of the DGT or through mail or personal attendance to Directorate of Dissemination, Services and Public Relations and other Work Units.

Source: summarized by DDTC Fiscal Research from various sources.

Digitized tax system should not only focus on administration, but also on tax policy making process

cooperation in providing information to the DGT, performing as tax collectors/withholders, as well as those who educate merchants on their platforms regarding taxation obligation.

Digitized tax system should not only focus on administration, but also on tax policy making process. High quality

data that are well processed will give useful information the fiscal authority. This information can produce better estimation of future tax revenue, evaluate existing tax policies, create prospects for new policy opportunities. Conclusively, tax digitization will be the determining factor in creating a more transparent and equal relationship, through which

Digitization should not be only aimed to detect both non-compliance behaviours, but also help taxpayers to comply more easily and improve transparency between taxpayers and the DGT to strengthen relationship and trust between the two.

tax authority and taxpayers can trust each other.

Conclusively, digitization should not be only aimed to detect both non-compliance behaviours, but also help taxpayers to comply more easily

and improve transparency between taxpayers and the DGT to strengthen relationship and trust between the two. In this sense, technology may be utilized to simplify or reduce number of necessary administrative obligations or forms that need to be filled.

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