A LITTLE VIEW OF THE INDONESIAN TAX SYSTEM

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Abstrak

Indonesia has come a long way in the last decade to improve its tax system in terms of both revenue generation and administrative efficiency. However, tax revenues are still low at 4,444 due to growing infrastructure spending and the need for social protection. With the exception of the natural resources sector, the best way to increase tax revenues is to expand the tax base and improve tax administration, rather than changing the size of taxes that appear more or less in line with international practice. Possible steps to expand the tax base include accepting more self-employed people in the tax system, targeting employer benefits and benefits, and reducing VAT exemptions. Increase. Similarly, broad investment credit is not an ominous way to increase investment incentives over selective tax exemptions. The government plans to promote integration into the tax system in the long run, but the introduction of simplified tax systems to SMEs and SMEs is restricted by the government. Since 2002, tax administration has improved, internal control systems have improved, and administrative decision transparency has improved. New tax audits due to compliance risks in the resource sector, especially in income tax mining, could further improve the management system. This means that Indonesia now has access to international financial markets and a diverse portfolio of resources.

Keywords: Indonesian Tax System

INTRODUCTION

According to the revised state budget by Presreg (President Regulation) 72/2020 the spending will Rp 2.732,92 Trilyun (T), whereas the targeted income will only Rp 1.699,9T resulting in a deficit that will be financed by debt of Rp 1.039,2T. By September 2020, the accumulated State's debt has already Rp 5.756,87T which was about 36,4% of GDP (incuding Treasury Securities (TS) of Rp 4.892,57T). Pandemic Covid-19 spreading out almost the whole globe might constitute one of the fast increase in any State's debt. Ronny P Sasmita (Kompas, 171120) stated that this debt is still save level compared to other countries e.g., US's 131,2%, China's 61,7%, India's 89,3%, Malaysia’s 67,6%, and Thailand's 50,4%. Out of the revenue Rp 1.699,9T about 82,62% comes from taxation. Within this term “taxation” includes revenue collected by the Directorate General of Custom and Excises (e.g., customs and excises, VAT and income tax on imports) and other taxes.

While a double taxation between Government levels is avoided, so as to enhance the Local Government self financing capability, Law Number 28/2009 Re Local Government Tax and Retribution Act (LGTRA) allocates the tax jurisdiction to the local authorities. Table 1 bellow shows the types of taxes collected by each level of authorities. In order to gear some spendings of their revenues, three of the local taxes are earmarked.

| No | National Level | Provincial Level | Cities and Regency Levels |
|----|----------------|-----------------|---------------------------|
| 1  | Income Tax     | Motor Vehicle Tax | Hotel Tax                |
| 2  | Value Added Tax and Sales Tax on Luxury Goods | Motor Vehicle Transfer Duty | Restaurant Tax |
| 3  | Land and Building Tax on Mining, Gardening and Forestry (PBBP3) | Motor Vehicle Fuel Tax (Ear marking) | Entertainment Tax |
| 4  | Stamp Duty     | Surface Water Tax | Advertisement Tax         |
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Within the fifteen member countries of RCEP (Regional Comprehensive Economic Partnership) the Indonesian competitive level is in the 9th, with per capita income of USD 4,100, and unemployment rate of 9.6%. Therefore, irrespective of the almost country wide protest made by the Labor Union and the students, the Parliament approved the Bill and the Government enacted the Law No 11/2020 Re Employment Creation Act (ECA). Articles 111, 112 and 113 ECA amend several articles of the General Tax Act (GTA), Income Tax Act (ITA), Value Added Tax Act (VATA), and LGTRA. Aimed at creating employment opportunities, fastering increase in GDP and per capita income, improving business and investment climates, developing the small enterprises (UMKM), and gaining higher and faster economic growth, the character of the ECA tax rules are facilitating, ease of doing business and debeurocratization so as to alleviate the tax burden. Whether the ECA provides tax incentives on Carbon Tax will be discussed below.

THE ROLE OF PERSONAL INCOME TAX AND HOW TO INCREASE TAX RATIO

As appears in Table 2 below, unlike some developed countries, including USA, Australia and Japan having personal income tax (PIT) of more than 35% of revenues, the role of the Indonesian PIT, excluding Payroll Taxes, is very low, i.e., 0.74%. Whereas the role of the Corporate Income Tax (CIT) almost doubled of the US' and Australia's, and one and a half of Japan's. Why this could be happen in this country populated more than 250 million people? Some reasons could be mentioned, inter alia, income per capita USD 4100 which is equivalent to Rp 59.450.000 [minus Job Allowances 5% (Rp 2.972.500) + Exempt Income Rp 54.000.000] resulting in tax per capita of Rp 123.850. As the State's gini ratio is high, i.e., 0.39% and 10% of the people hold 84% of the total wealth of this nation, and most of the wealthy individual businessmen (WIB) are likely to behave as the employees. According to the reversal rule, employee's fringe benefits may neither taxable to the employees nor deductible to the employer. Hence, those WIB may gain the reversal rule tax shelter. Especially, when the companies are always in business losses. As the WIB may gain the lower tax rate from the companies nondeductible fringe benefits, especially in case of making loss companies, the taxation of fringe benefits may increase the role of PIT. Another options, include: (1) keep continuing the use of joint/family tax return, (2) as to increase the amount of WIB, instead of applying nontransparent system for partnership and the like entities, it would be advisable to apply the transparent one, (3) the use of of Art 22 income tax on the buying for reseling merchandises made by individual traders, (4) integrating of PIT with CIT, and (5) automatic compliance control applying to trader on B2B transactions by using IT (e-review of at least 50% of commercial/ tax invoices). According to Arifin Rosyid (2017, Dissertation, NSW Univesity), Table 2 below shows the structure of this State's Revenue. More than 70% of revenues are collected via the Withholding Tax (WT). The IRS Study on Taxpayer Compliance Measurement Program (TCMP) 1996-2006 (Matthijs Allink & Victor van Kommer, 2015, Handbook on Tax Administration) found that taxpayers who subject to WT and Third Party's Reporting (TPR) are more complaint than the two other groups who are only subject to either WT or TPR, or neither both of them.
Table 2 The Structure of Indonesian Tax Revenues in 2017

| No | Description                                                                 | Percentage |
|----|-----------------------------------------------------------------------------|------------|
| 1  | Personal Income Tax                                                          | 0,74       |
| 2  | Corporate Income Tax                                                         | 20,85      |
| 3  | Property Tax (PBBP3)                                                         | 2,17       |
| 4  | Payroll Tax                                                                 | 11,22      |
| 5  | Withholding Tax on Deposit Interest                                          | 7,47       |
| 6  | Withholding Tax on Importation                                               | 5,41       |
| 7  | Withholding Tax on Dividend, Interest and Royalty                            | 4,17       |
| 8  | Withholding Tax on Nonresidents Dividend, Interest and Royalty               | 3,53       |
| 9  | Consumption Taxes                                                            | 40,00      |
| 10 | Tax on Oil and Gas                                                           | 4,44       |
| 11 | Total                                                                       | 100,00     |

Business Indonesia (11 August 2020) as demonstrated in Table 3 below, estimated the probable 2020 tax revenue performance.

Table 3 Tax Revenue Budgeted and Realized in SM I 2020

| No | Description                             | Presreg 72/20 Budget | SM I 2020 |
|----|-----------------------------------------|----------------------|-----------|
| 1  | Income Tax                              | 670,38               | 330,23    |
|    | - Non Oil and Gas                       | 638,52               | 312,21    |
|    | - Oil and Gas                           | 31,86                | 18,06     |
| 2  | VAT and Sales Tax on LG                 | 507,52               | 189,52    |
| 3  | PBBP3 and Other Taxes                   | 20,93                | 11,93     |
| 4  | Total Tax Revenue                       | 1,198,82             | 531,71    |

Many years experiences, indicates revenue in SM II at least will be similar to SM I, due to the bussy months of November, December, Mary Christmass, New Year and the end of spending year [Republika 021220 informs MoF (Ministry of Finance) will spend Rp 1.000T in the rests of this fiscal year], plus the extra effort made by tax officials (i.e., audit, collection and extensification) to achieve target. Business Indonesia (13 August 20) was estimating that revenue in 2021 budget will between Rp 1.232,3 – Rp 1.331,8T with an increase of 2,8 – 11% from the 2020 realization. Accordingly, it was estimated the realized budget of 2020 will between Rp 1.170, 7 – Rp 1.247,9T. Hence, it may be expected that The DGT will be able to get the target.

As the formal compliance (i.e., the return filing) is about 72,9%, and the substantive compliance appears in Table 4 bellow (most of tax audits resulted in under payments), another crucial tax problem of this State's is whether tax ratio could be uplifted to 15-17% (as under the 2019 OECD Report)?

Table 4 Tax Audit in 2017-2018, Coverage, and Realized Revenue Thereof

| Year | Individual Taxpayer | File Audit | TR Cover | Entity Taxpayer | Ought Filer | Audit Cover % | Audit Aud rev | Revenue Realized | Role % |
|------|---------------------|------------|----------|-----------------|------------|---------------|---------------|-----------------|-------|
| 2017 | 11.273.778          | 0,45       | 774.118  | 34.148          | 2,90       | 0,36          | 53,93 T       | 1.151,60T       | 4,68  |
| 2018 | 11.697.090          | 0,62       | 854.354  | 50.64           | 3,23       | 0,51          | 56,36         | 1.344,10        | 4,19  |
The theory of the level of tax determinant introduced by Musgrave (in Alex Radian, 1983, Revenue Mobilization in Poor Countries) dictates that the development of economic structure, may improve the tax structure, revenue and tax ratio as well. A good tax structure may facilitate the use of fiscal policy to gain economic stability and growth. This development may increase GDP, per capita income, promote the movement of informal-hard-to tax sector to formal-easy-to tax sector economic resulting in the migration of taxing potential. By using effective and efficient tax handles (WT and TPR), these potentials may be mobilised to increase revenue and tax ratio as well. Table 4 shows that the 2018 audited of 0,51% filing taxpayers resulting in revenue of Rp 56,36T. It implies that should the audit coverage be increased, e.g., up to 25% of the filers may give revenue of Rp 3.408,8T. With GDP of Rp 16.000 may result in tax ratio of more than 17%. This increase in coverage from 0,51% may not be achieved without modernizing tax administration by integrating IT so as to enable replacing the outmoded little coverage manual audit by massive e-review of at least 25% of e-commercial/tax invoice of VAT and e-bupot (WT) of income tax. By enlarging the audit coverage via e-review more than 80% commercial/tax invoices implies the use of Compliance Risk Management (CRM) to force the taxpayer automatic voluntary fully comply as required by the Self Assessment System (SAS).

WHETHER THE ACE PROVIDES RELIEVES FOR ENVIRONMENTAL SUSTAINABILITY
As to stimulate Foreign Direct Investment (FDI), a general relief for instance decrease in CIT rate is offered by Law 2/2020 Re Stipulation on the Government Regulation (GR) Subtituting Law Number 1 Year 2020 Concerning Policy on State Financial and Stability of Financial System for the Handling of Pandemic Covid-19 and/or In The Framework of Facing the Dangerous Threatening National Economic, and/or the Stability of Financial System to Becoming Act (Law 2/2020). Study made by AT Keamey (2019) found that the first tax determinant on FDI includes the rate and the paying as well, whereas another World Bank study (2018) states that tax rate is considered very important 19%, important 39%, important enough 31%, and less important 9%. Accordingly, Art 3(1) of Law 2/2020 provides the reduction of CIT rates from 25% to: (a) 22% will effective in year of 2021 and 2022; and (b) 20% will effective in 2023. Whereas Art 3(2) states that qualifying resident corporations with at least 40% of the paid up shares listed in the capital market may gain 3% lower rateof the CIT rate. While unlisted corporations and local permanent establishment may pay CIT at 20% in 2023, those with 40% stocks listed in the capital stock market may gain the 17% lower rate. The ITA offers tax holidays (TH) for pioneer FDI industries and activities in Special Economic Zone, whereas 30% tax allowances (TA) are made available for other FDI, plus accelerated depreciations, longer loss carry forward, and 10% WT on dividends. MoF Decree No-96/PMK/0.10/2020 states that the application of this TA may be submitted to the Investment Coordinating Board (ICB) via OSS (Online Single Submission). This relief is available for 166 sector businesses in 17 Business Field Standard Classifications (KBLI) in some zones according to Appendix I and II of MoF Decree-78/2019. An increase in installment tax of Art 25 from 30 to 50% will soon be issued.

Art 111 of the ECA amending Art 4(3)(f)1 ITA provides that Indonesian source dividends received by resident entities are tax exempt, whereas those obtained by resident individuals are tax free, provided that they are being invested in this country. In respect of resident aliens having special expertise, Art 111 ECA amending Art 4(1a) ITA provides that during 4 years since becoming residents they are subject to tax on the Indonesian source income only. Hence, they are tax free on income items sourced out side this country. Meanwhile nonresidents deriving TS interest, according to Art 26(1b) ITA the 20% WT rate may be reduced by GR.

Article 112 ECA amending some articles of VATA provides VAT stimulus, inter alia: (1) deleting the taxation on delivery of taxable goods on consignment to consignee, (2) exempting VAT on taxable goods transferred for exchange of shares, (3) making coal directly extracted from the ground is taxable, (4) where it is lawfull, taxable firms not having deliver taxable
goods/services or export taxable goods/services may credited input tax obtained from the acquisition of taxable goods/services, importation of taxable goods, the usage of foreign taxable intangibles/services at home, (5) creditability of input tax obtained by non taxable firms from the acquisition of taxable goods/services, the usage of foreign taxable intangibles/services at home, the acquisition of taxable goods/services that their input taxes are collected by tax bill, those that are not reported in the tax return, and tax input on the acquisition of taxable goods other than capital ones before the taxable firms starting production.

Article 113 ECA amending some articles of GTA provides punishments relieves, including: (1) reduction in fines on tax return adjustment, voluntary disclosure on careless and deliberate crimes, disclosure of wrong doing during audit with interest fine reference (4-4,5%) decreed by MOF instead of fixed rate (2% monthly), (2) the extension periods for tax delay and instalment

more than 12 months, (3) no double fines (interest or surcharge), (4) the delete of Art 13A GTA (decriminalisation of careless crime) by incorporating thereof (plus deliberate crime) in the voluntary disclosure rule and reducing the 150% surcharge to 100%, (4) giving interest on the late refund payments according to the reference decreed by MoF, (5) deleting the possibility of issuing tax bill after 5 years expiring time according to a final crime decisive, (6) reducing the 2% fine of Art 14(4) GTA to 1% of VAT tax base, (7) determine the expired time of the Tax Collection Notice within 5 years, (8) ruling the 24 months limitation on interest fine of tax bill late payment, and (9) reducing the 400% maximum fine on tax investigation stopping under Art 44B GTA to 300%

WORLD RECOVERY WITH GREEN STIMULUS AND INDONESIA’S FORESTRY GREENING PROGRAM

November 2020 Report of the World Meteorology Organization (WMO) indicates that pandemic may reduce green house gas emission including carbon dioxida (CO2), but accumulated past and current high CO2 concentration exceeds the upper threshold of 410 ppm (part per million). The daily area lockdown may reduce 17% of CO2. However, as the globe now has 7,7 billion inhabitant this reduction may not able to decrease CO2 at the athmosphere. Emission of CO2 comes from the burning of fossil fuel, coal and other mineral, deforestation, area and forest burnt. Therefore, irrespectif of the UK using of Covid-19 vaccine in 23 December 2020, some economists state that Covid-19 and economic recovery package must take broader priorities so as to make people more recilient facing sum risks and other uncertainties primarily with the global warming and climate changes. A survey pooling from more than 200 of Central Bank Governors, G20 MoFs, and top academicians of 53 States concludes that where the leaders neglected the carbon emission control in their funding policy, the world risks great disaster in the future. For this purpose, some countries allocate their green stimulus budget during pandemic era, whereas Indonesia spent her budget on area and forestry greening. Hence, while Table 5 bellow provides some countries’ budget on green stimulus, Table 6 therafter indicates the Indonesian spending on area and forestry greening 2015-2019.

| States      | France | China | UK  | Canada | Japan | South Korea | Italy | Switzerland | Pakistan |
|-------------|--------|-------|-----|--------|-------|-------------|-------|-------------|---------|
| USD Milion  | 9,7    | 2,5   | 2,5 | 1,8    | 1,0   | 0,185       | 0,132 | 0,048       | 0,047   |
The Indonesian Forest Watch (IFW) discloses that few decades recently, there was continuing deforestation of this country's natural forest. Between 2000-2017 the forest lost about 1,1 - 1,4 million hectares, however IFW found that there were movement of forest destruction from Sumatera and Kalimantan to Molucas and Papua. Although the result of replanting movement projects are able to alleviate the forestry destruction, however this may not be able to recovery the function thereof as the world's lung and the water absorption keeping down flood and landslide. Eventhough, replanting programs must be promoted to gain the process of fotosynthesis resulting in dioxide carbon penetration and oxigeen release. Ministry of Forestry and Environmental releases data on area and forestry greening spending 2015-2019 in Table 6 bellow. In average the Ministry spent Rp 5 T in this forestry greening projects and this was doubled in 2019.

Table 6 Area and Forestry Greening Spending 2015-2019

| Tahun | 2015 | 2016 | 2017 | 2018 | 2019 | Total |
|-------|------|------|------|------|------|-------|
| Dana Trilyun | 5,6 | 5,2 | 5,23 | 4,9 | 10,3 | 31,23 |
| USD Million | 40 | 37 | 37 | 35 | 73 | 223 |

PROMOTING THE USE OF THE NEW AND RENEWABLE ENERGY

In order to make society enjoy clean energy by achieving target of new renewable energy (NRE) with national energy mixed (NEM) 23% in 2025, as until Semester I 2020 Indonesia has already reached 14,17%, some choices used to promote the employment of green energy. One of them is the replacement of fossil base electric raising (FBER) producing high emision by NRE base electric raising (NREBER) which more environment friendly. To this purpose, two alternatives are available: (1) replacing FBER with solar power electric raising (SPER) which are less maintenance, quick building, and pricing goes down, and (2) co-firing biomass instead of coal. As to gain energy transition and decarbonisation in 2050-2060 according to Paris Agreement target, hence in 2050 the NRE must be 60-70% and no need to uild a new FBER. To attract investors in order to attain 23% NEM in 2025, the Government will improve NRE investment climate by making available incentives and ease of doing investment.

COAL GASPICATION PROGRAMS

Regardless of the increase in demand coal from new export destination South Korea, Ministry of Energy and Mineral Resources noted that four new coal-gasification projects will be developed: PT Kaltim Prima Coal, PT Arutmin Indonesia, PT Bumi Resources Tbk and PT Adaro Energy Tbk. In addition to these four projects, there is an underground gasification project taken by PT Kideco Jaya Agung. Not only increases the domestic supply of coal, the downstream coal to gas (gasification), coal to methanol, and coal to DME (dimethyl ether)
projects will be able to create a bigger value added for the coal mining industries. PT Bukit Asam estimates coal to gas project may contribute 30-40% total revenues in 2024-2055. Therefore, according to Business Indonesia (27 November 2020) the per share market price goes up from Rp 50 to Rp 76. Moreover, when the government is willing to make available tax stimulus for this gasification projects more coal manufacturings will joint thereon. Converting coal to gas projects must be taken as a more broader priorities in order to gain people more resilient facing sum risks primarily from the global warming and climate changes.

THE CHALLENGES OF GARBAGE MANAGEMENT

In 2019 the Indonesian inhabitant was 267 million. One of it impact is the mountaining of household garbages, which according to Jaktranas (Business, 201120) amounting from 67,8million ton in 2020 rising to 70,8 million in 2025. Effort to solve the garbage's challenges needs colaboration between government, producer, ritel, and society. Two approaches of colaboration: (1) reducing the garbage volume at the level upstream (household) and middle stream (place of the garbages management). Although 88,17% out of 189.000 ton monthly rural plastic garbages can be recycling, however only 11,83% are collected for that purpose. The optimization of this garbage's recycling may create circular economy in the garbage management. This management may result in derivative product of garbage, inter alia, plastic seeds, and electricity. It appears that from the garbage management can be build a garbage power electric rising plant (GERBP) and making available people to gain clean energy via green garbages energy instead of fossil energy.

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