



Indonesia Tax Reform: A Never-Ending Journey

Yon Aarsal

*Assistant of Minister for Tax Compliance,
Ministry of Finance Republic of Indonesia*

Tax Reform in Indonesia



Timeline

The first monumental tax reform in Indonesia can be traced back to 1983 with the implementation of the self-assessment system





Organization & HR Challenges

- The number of employees will not match the increase in the number of taxpayers, which creates difficulties in monitoring compliance and enforcing the law
- Organizational Structure is less adaptive
- Business process does not follow leading practice
- Core business process less consolidated
- Reward & punishment scheme issue

A low compliance level

Regulations that can anticipate rapid developments in trade transactions

Ever-increasing collection goals

IT and Database Issues

- Digital Disruption
- Advances in the digital economy and information technology
- Do not employ advance analytics (big data)
- Outdated Technology
- Integrity data issue

WHY REFORM THE TAX SYSTEM



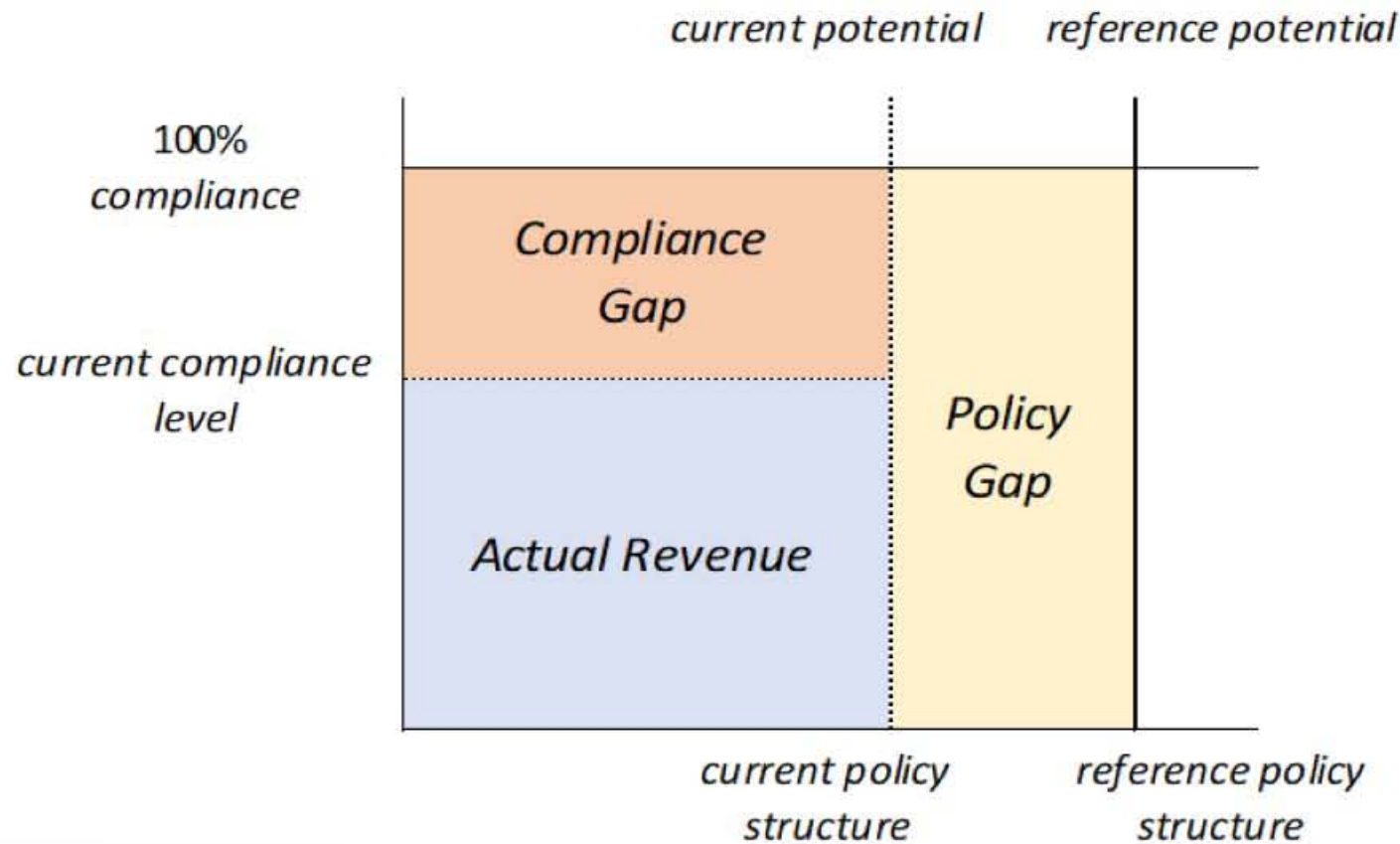
Suboptimum Tax Ratio



Since 2014, the tax ratio dwindled and would require a comprehensive reform package to boost the tax administration capability in catching up with the present-time business dynamics



Tax Compliance Challenge in Indonesia



Policy gap is related to policy choice and/or sub-optimum regulation while compliance gap is determined by taxpayer's compliance level. Lodgment rate of 70% in Indonesia is still lower than OECD Standard (85%)



The Third Reform: 5 Pillars

The latest Tax reform has been carried out since 2017, strengthening and improving organization through 5 main pillars (of reform)



The creation of a strong, credible, and accountable Directorate General of Taxes

5 Pillars of Tax Reform

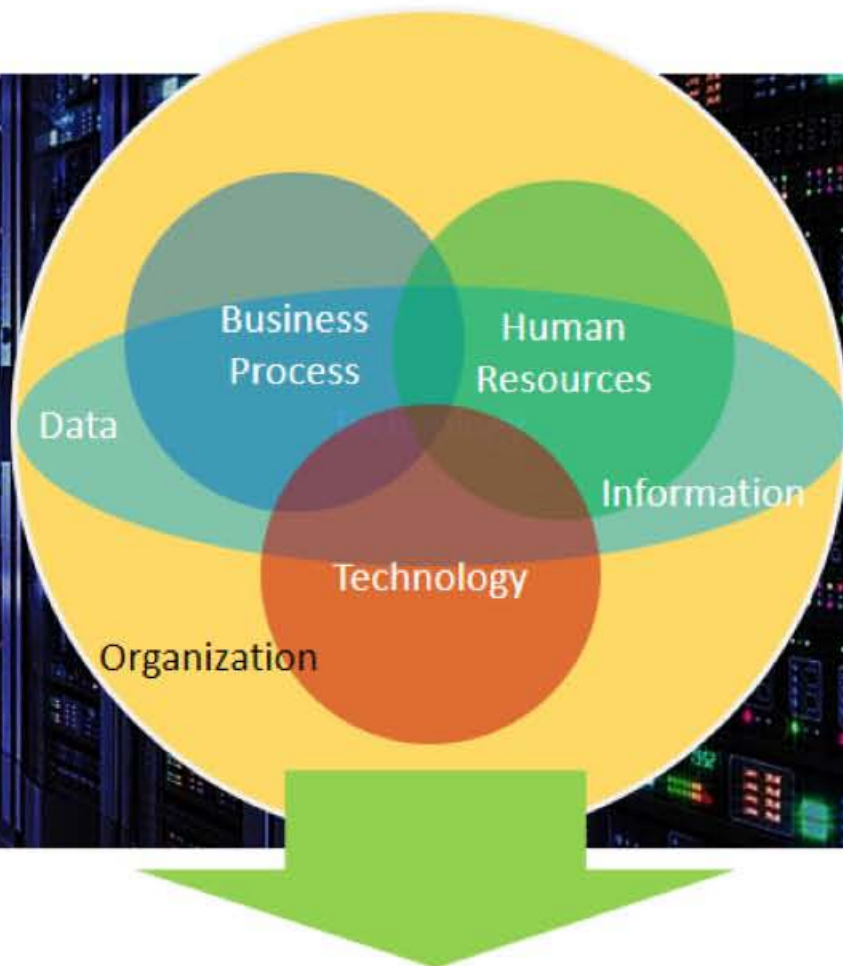




The Third Reform: Core Tax System

a complete overhaul,
including:

- **DGT service transformation towards a comprehensive, IT-based (digital) model**
- **business process, policy – regulation, culture, and organizational refinement**



"Not a mere system upgrade"



Core Tax System: Capabilities



Taxpayers Digital Interaction

Online channel, multichannel services, & Taxpayer Relationship Management

Advanced Analytics

Predictive, prescriptive, and cognitive analytics

Process Automation

Integrated taxpayers accounting system

Collaboration & Governpreneurship

In particular, lodgment service, education, and troubleshooting



The Third Reform: Our Milestones

Policy & Regulation

- Regulation reform to support other pillars, e.g. to simplify procedures and knowledge base
- Eliminating clashing and/or obsolete regulations
- Designing tax incentives to bolster business, including Covid-19 related measures
- Review of current Tax Regime → some which are accommodated in the upcoming Omnibus Law Bill

Business Process

- Filing simplification, including electronic filings
- Filing and service expansion, including form simplification
- More digitalized back-office process (to support the IT Reform program), including electronic signature and e-office system documentation

Organization & Human Resources

- Improvement of DGT's organizational structure, e.g. new unit/directorate at the HQ, refining HQ functions, expanding new small-taxpayers office, establishing new medium-taxpayers offices.
- Location-based compliance monitoring approach by Account Representative
- Improved Human Resources Management System

IT & Database

- Core Tax System procurement and development
- IT System improvement to support the ever-growing digital services
- DJP Online as one-stop tax service platform
- Compliance Risk Management implementation
- B2B (host-to-host) e-filing and e-invoice piloting with SoE



Tax Reform: Expected Outcome



Ultimately,
**Improved Tax
Collection –
Expanding Tax
Ratio**



Policy Update
**Revenue Outlook
& Policy Direction**



Fiscal Policy Challenge & Focus in 2021

Specifically for tax revenue, the outlook in FY 2021 is challenging because of the looming uncertainty, business still recuperating, and economic structural transformation (post-pandemic). Thus, the government committed to intensify the incentives while maintaining optimal revenue collection.

Tax Revenue Risk

- Lower-than-expected revenue baseline in FY 2020
- Dwindling commodities price
- Economic rebound has yet to reach pre-pandemic performance
- Business still recuperating post Covid-19 (recovering the loss)
- Less effective tax effort (intensification and extensification) post pandemic

Tax Revenue Challenge

- Economic transformation and digitalized transactions
- Support for business, especially HR development & competitiveness
- The needs to expand the tax base (subject + object)
- Sub-optimum compliance level



Tax Policy 2021

- Effective tax incentives
- Easing the procedures to stimulate economic recovery
- Legislation & regulation revamp
- Optimum revenue collection through voluntary compliance, equitable enforcement, and administrative reform (tax reform)
- R&D + vocational incentives, community & environmental protection



Medium Term Outlook & Policy

For 2021 – 2024, the government anticipate a stable and positive economic environment. Also, the tax policy will continue to bolster the business while balancing the needs of revenue collection with a fitting policy mix.

Outlook	Economic Growth (%)	Inflation (%)
2021	4.5 - 5.5	3.0
2022	5.4 - 6.0	2.0 - 4.0
2023	5.5 - 6.3	1.5 - 3.5
2024	5.5 - 6.5	1.5 - 3.5

**Nota Keuangan RAPBN 2021*



Policy to support economic growth

e.g. more effective tax incentives and expenditures and simplification to enhance the Ease of Doing Business.

Policy to optimize tax revenue

e.g. continue the reform agenda, risk-based assessment and enforcement, expanding the tax base (subject & object), and simplification to promote voluntary compliance.



Medium Term Revenue Strategy

Several MTRS recommendation to enhance revenue mobilization. These proposals will be harmonized with our medium-term tax reform agenda

- 1 **Expanding the Tax Base,**
object &
subject

INCOME TAX REFORM STRATEGY

- 2 **Regulating Incentives,**
including PIT
deduction

- 3 **Tariff,**
CIT Rate and PIT
Progressivity

- 4 **Redesigning Final Tax Regime**

- 2 **Regulating Incentives,**
more targeted
incentives

- 3 **Tariff,**
aligning VAT
Rate with CIT

- 4 **Reviewing Sales Tax on Luxury Goods**

- 1 **Expanding the Tax Base,**
including
exemption and
threshold review

VAT REFORM STRATEGY

Covid-19 Tax Measures

Tax Incentives to Support Business during the Pandemic



Bracing the Pandemic with Prompt Fiscal Responses (1)

More broadly, the government devoted Rp 695.2 trillion in the FY 2020 budget across 6 main expenditure pillars: health, social protection, business incentives, MSME support, corporate financing, and local government program



Rp 87.55 T

Health expenditure, including care worker incentives



Rp 123.46 T

MSME support



Rp 203.9 T

Social protection, such as financial assistance and pre-employment



Rp 53.57 T

Corporate financing



Rp 120.61 T

Business incentives (tax)



Rp 106.11 T

Ministry/local government aid and program



Bracing the Pandemic with Prompt Fiscal Responses (2)

Briefly, our main objectives in designing current tax incentives are bolstering the economy and engaging people to curb the pandemic



Supporting the demand-side economy: purchasing power, through payroll tax incentives (Art. 21 Tax borne by the government)



Sustaining the supply-side: easing the cash-flow challenges on impacted business through import tax (Art. 22 on Import) exemption, accelerated refund procedures (for eligible sectors), and monthly income tax (Art. 25) reduction by 30%



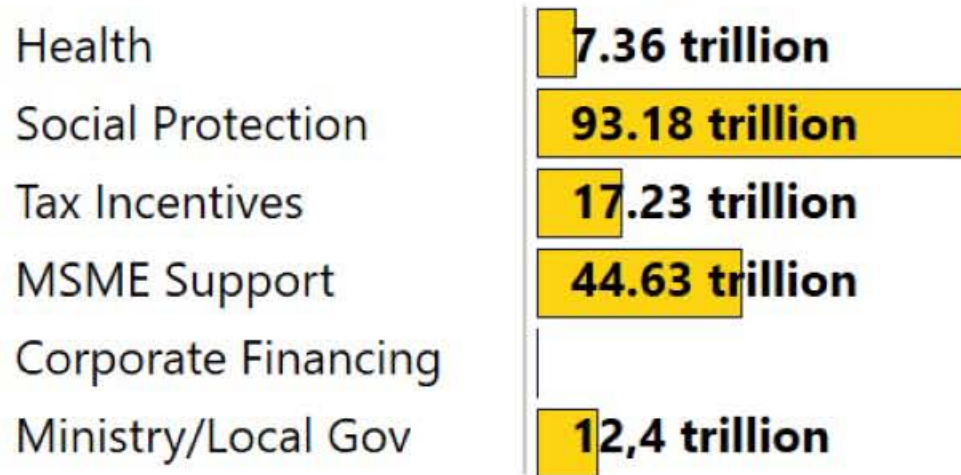
Engaging the public to fight Covid-19 through PMK-28 and PP-29, e.g. additional tax deduction for medical equipment manufacturer, deductible donations, 0% payroll tax for health workers, and incentives for shares buyback



Bracing the Pandemic with Prompt Fiscal Responses (3)

However, the disbursement progress is rather sluggish and largely affected by administrative challenges.

Covid-19 Expenditure so far (25.1% from Budget)



Identified Issues

- Stringent paperwork and administrative procedures
- Ponderous verification process
- Implementation hiccup, especially overlapping and target error for financial assistance
- Low tax incentives take-up from eligible taxpayers
- Legal and practical quandary for MSME Support, Corporate Financing, and Local Gov. program



thank you

    DitjenPajakRI  www.pajak.go.id  1 500 200