

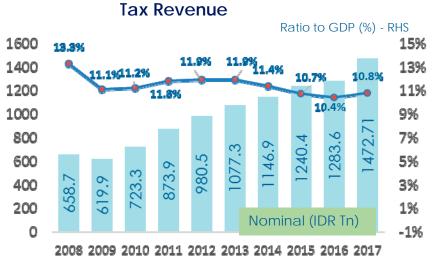
INDONESIA'S EXPERIENCE DEVELOPING MEDIUM TERM REVENUE STRATEGY

Manila, 1 December 2017 Ministry of Finance of Indonesia

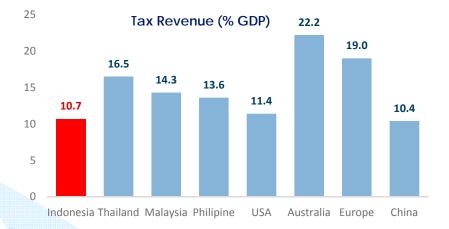
Why Indonesia Need MTRS?



Low Tax to GDP ratio and Future Challenges



Source: Indonesia MoF



Source: World Bank, 2015

Challenges

Rising Globalization

Shifting Business Model

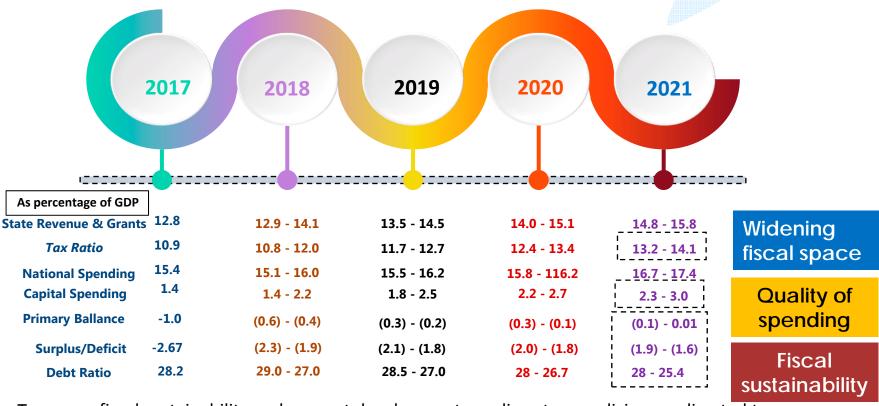
- Increasing recognition of the importance of FDI to create jobs and economic development
- Increasing investment/transactions between countries
- Increasing tax tariff competition
- Transfer pricing

BRICS.

- Intangible goods and services
- Increasing multinational e-commerce
- Simplicity in doing business such as no "Permanent Establishment" requirement in a country.
- Declining global economic growth, particularly **Structurally Declining Commodity Price**
 - Increasing fuel efficiency and green technology innovation, such as electric vehicle, will keep pushing down oil and gas price.
 - **Aggressive Tax Planning**
- Indonesia heavily relies on Corporate Income Tax.
- Various techniques have been used to divert business function and risk to jurisdiction with lower tax.
- The increase of financial innovation use to decrease tax obligation by changing type and source of income.

Medium Term Fiscal Policy Framework

need to expand fiscal space by increasing revenue and enhance spending efficiency

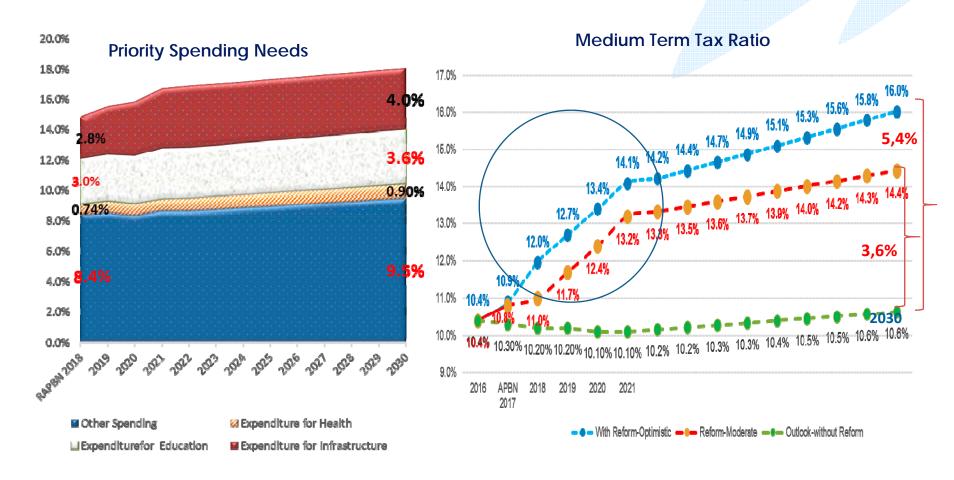


To ensure fiscal sustainability and support development, medium-term policies are directed to:

- 1. Increasing tax revenue
- 2. Conducting efficiency and expenditure priorities
- 3. Maintaining deficit and debt rate

Future Budget Figure

To support ideal budget tax ratio need to increase by 3-6%

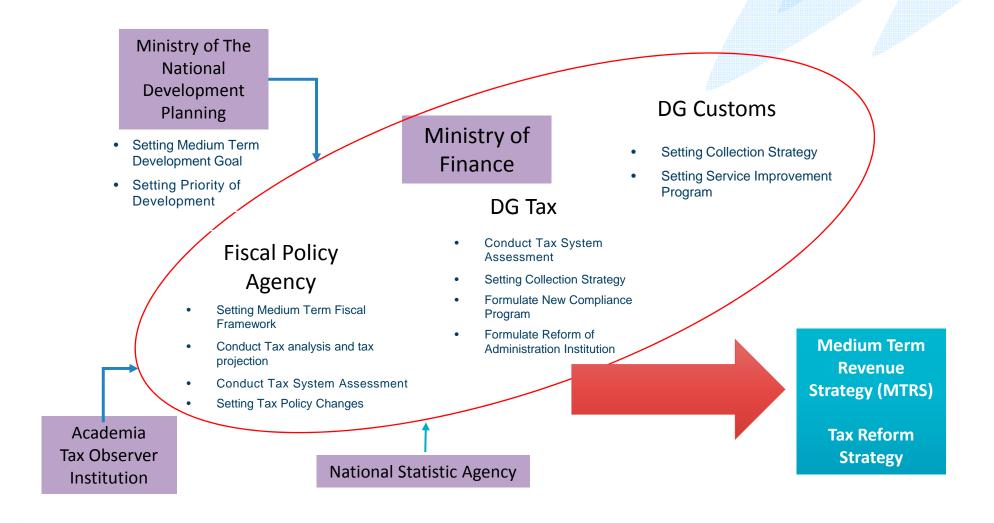


- 1. In medium term (2018-2021), with tax reform, Indonesia tax ratio hopefully improved significantly to 13,2-14,1% of GDP.
- 2. Ideal of budget spending to GDP ratio at 18% and tax revenue to GDP ratio at 16% can be reach in the 10-15 years

Developing Indonesia's MTRS



Ministry of Finance Has Central Role in Formulating MTRS





The Role of External Stakeholder in Formulating MTRS

Policy Reform

Ministry of Finance

- Administration Reform
- Conduct Tax System Assessment
- **Setting Collection Strategy**
- Formulate New Compliance Program
 - Formulate Reform of Administration Institution





Fiscal Policy Agency

- Setting Medium Term Fiscal Framework
- Conduct Tax analysis and tax projection
- Conduct Tax System Assessment
- Setting Tax Policy Changes



World Bank

Provide Technical

Analysis of Tax

Performance

Policy Changes

Assessment

Quantitative

Analysis Tools

Develop

Assistance

Joint Study/



AIPEG

- Peer Review
- Policy Changes Assessment
- Develop Quantitative **Analysis Tools**
- Capacity Building

Provide Technical Assistance

IMF

- Existing Tax System Assessment
- Propose Policy Changes and Tax Administration Reform
- Develop Concept of Indonesia **MTRS**

AFD

Peer To Peer Exchange

World Bank

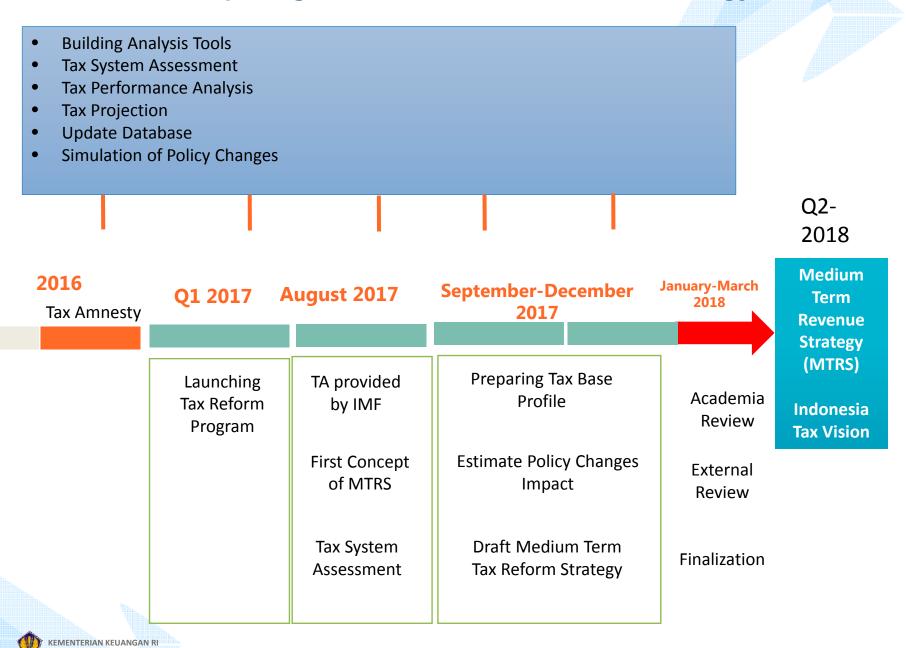
- Provide Technical Assistance
- Joint Study/ Analysis of Tax Performance
- Capacity Building
- Developing Microsimulation Tools

AIPEG

- Provide Technical Assistance in **Process Business** Reform
- Capacity Building
- Provide TA in area of Human Resource Information System



Time Line For Preparing Medium Term Tax Reform Strategy



What are the reforms contained in the MTRS?



Guiding principles: The Framework

Growth and Investment

Revenue Adequacy & Stability

Budget needs met, revenue collections in line with economic growth

Efficiency & Neutrality

Distortions to economy minimized

Equity

People pay taxes based on ability to pay

Inequality and Poverty

Simplicity & Ease of Doing Business

Costs of compliance minimized, Simplified Administration

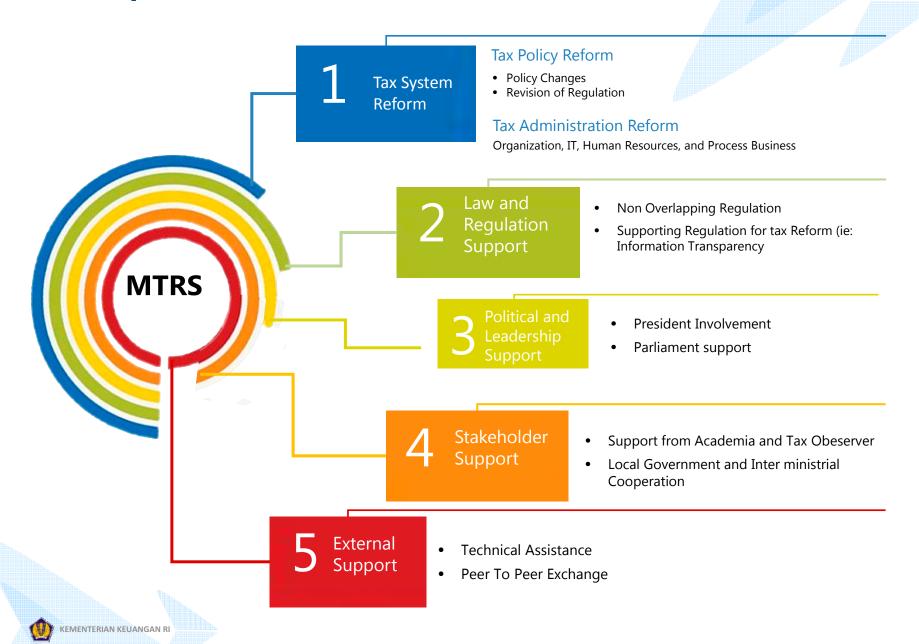
Certainty & Transparency

Laws. Codes and revenue data accessible and understandable

	Revenue Adequacy and Stability	Efficiency & neutrality	Equity	Simplicity & Ease of Doing Business	Certainty & Transparency
Goods-Services Tax/VAT			(3)	\sim	3
Personal Income Tax		(3)		3	3
Property Taxes					
Corporate Income Tax		88		3	
Excise/Sales Tax/Royalty*			3		3
CIT Incentives	3	3	3	3	3
Customs Duty	⊘		3		3
Export Tax	3		3		3

- There is no instrument that can be used to achieve all goals
- Revenue adequacy and stability is most likely the highest priority of goals
- However, MRTS should be formulate by considering economic efficiency and equity

Components of MTRS



Tax System Reform

POLICY

STRATEGY

Strengthening analysis and tax projection

Policy Changes for Optimization

Adaptation to Global Change

ECTIVI

- Guarantee sustainability of tax revenue
- Maintaining the sustainability of the investment climate and the business world
- Ensuring community justice

Areas to be focused: (1) Income tax, (2) VAT, and (3) excise

Tax base expansion, incentives, tariff changes, anti tax avoidance. phasing out Luxury VAT in vehicles into excise, tariff simplification, extensification

ADMINISTRATION

Strengthening Tax Collection Strategy

Upgrade Compliance Program

Strengthening of Tax Administration Institution

- Providing optimal services and enforcement of law
- Increase taxpayer compliance

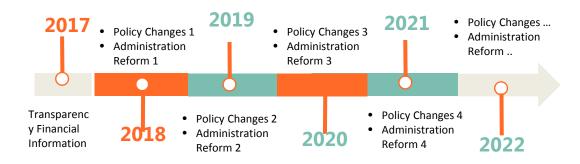
OBJECTIVE

STRATEGY

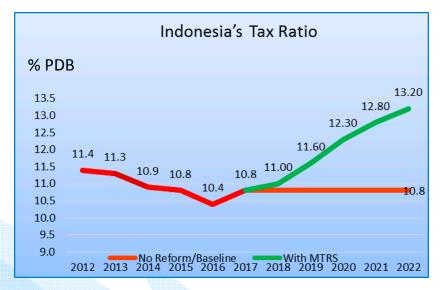
Areas to be focused: (1) collection strategy, (2) tax compliance, (3) institutional reform

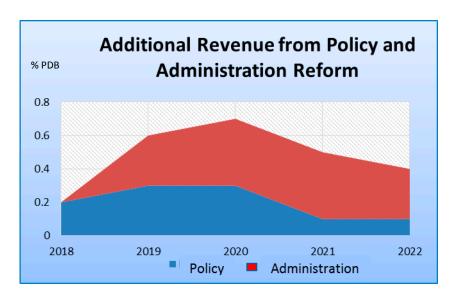
Risk based analysis, IT based approach, Sectoral Targeting, Data Based Target Setting, HR capacity building, database system improvement, risk management system, organization reform

Phasing of Reforms and Expected Outcome



- In 5 years with reform applied, additional tax revenue at least around 2% - 3% is expected.
- In 5 years, tax ratio is expected to be more than 13% PDB





^{**}Premilinary estimation

Thank You

