



FISCAL POLICY AGENCY
MINISTRY OF FINANCE OF THE REPUBLIC OF INDONESIA

MEDIUM TERM TAX REFORM STRATEGY IN INDONESIA

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Medium Term Fiscal Framework



FISCAL FRAMEWORK FOR MEDIUM-TERM

Focusing on productive spending and sustainability

* Based on initial MoF calculation

- GDP growth is expected to continue to achieve positive growth momentums.
- Inflation is benign supported by improving logistic and infrastructure acceleration.
- Interest rate and exchange rate are stable, benefiting from strong fundamental and positive investor perception.

Main features:

- Improvement in fiscal space through revenue enhancement;
- Efficiencies in non-priority spending;
- Creative and innovative financing instrument development; and
- Positive primary balance in 2020.

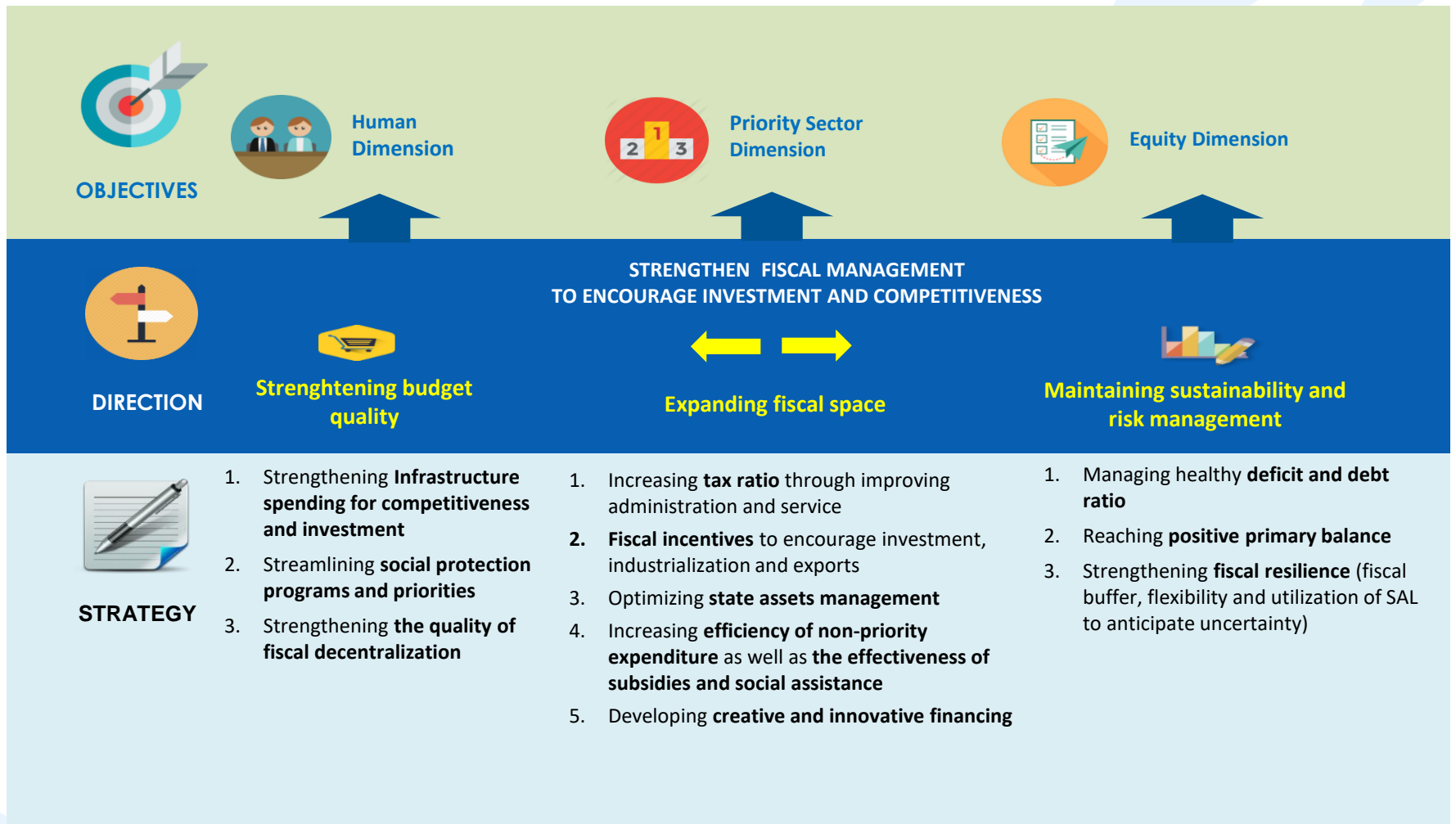
Indicator	2015	2016	2017	2018	2019
	Realized	Realized	Realized	Budget	Outlook
Economic growth (% , yoy)	4.9	5.02	5.07	5.4	5.4 – 5.8
Inflation (% , yoy)	3.4	3.02	3.61	3.5	2.5 – 4.5
3-Month Treasury Bill (SPN) (%)	6.0	5.7	4.98	5.2	4.6 – 5.0
Exchange Rate (Average, IDR/USD)	13,392	13,307	13,384	13,400	13500 – 13900
ICP (USD/barrel)	49	40.2	51.2	48	58 – 65
Oil Production (thousands of barrel/day)	778	829	803.9	800	722 -805
Gas Production (millions of barrels/day)	1.20	1.18	1.14	1.20	1.21 – 1.30

% to GDP	APBN 2018	2019	2020	2021	2022
Revenue & Grants	12.8	12,7 - 13,5	12,7 - 13,9	13,5 - 14,0	13,6 - 14,4
Tax Ratio***	11.5	11,4 - 11,9	11,4 - 12,5	11,6 - 13,0	11,8 - 13,6
Total Spending	15.0	14,2 - 15,5	14,3 - 15,6	15,0 - 15,7	15,1 - 16,0
Capital Expenditure	1.4	1,5-1,7	1,8 - 2,3	2,2 - 2,7	2,3 - 3,0
Primary Balance	(0,59)	(0,45) - 0,05	0,05 - 0,1	0,05 - 0,2	0,1 - 0,2
Budget Deficit	(2,19)	(2,05) - (1,6)	(1,7) - (1,6)	(1,7) - (1,5)	(1,6) - (1,5)
Total Debt	29.08	29,35 - 28,8	28,64 - 28,49	28,33 - 27,80	27,89 - 26,24

*** include mining non tax revenue



MEDIUM TERM FISCAL FRAMEWORK



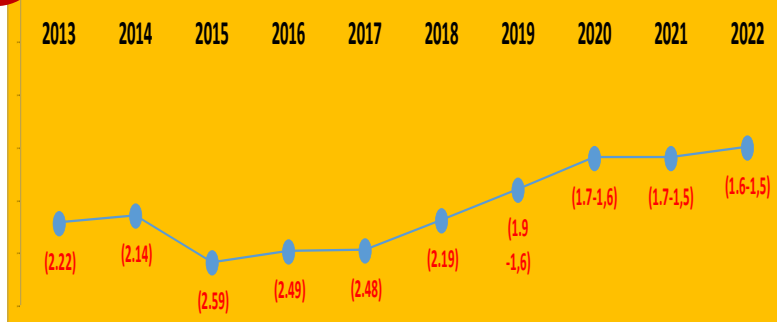
source: Ministry of Finance



POLICY CONSISTENCY TO MAINTAIN FISCAL SUSTAINABILITY

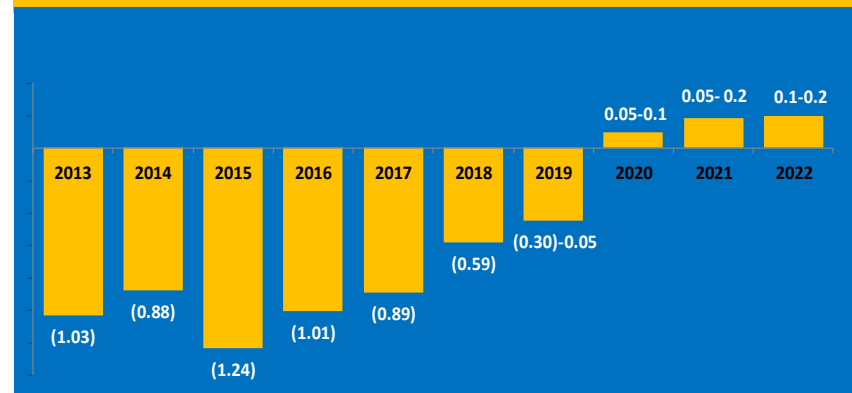
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Deficit under control (% GDP)



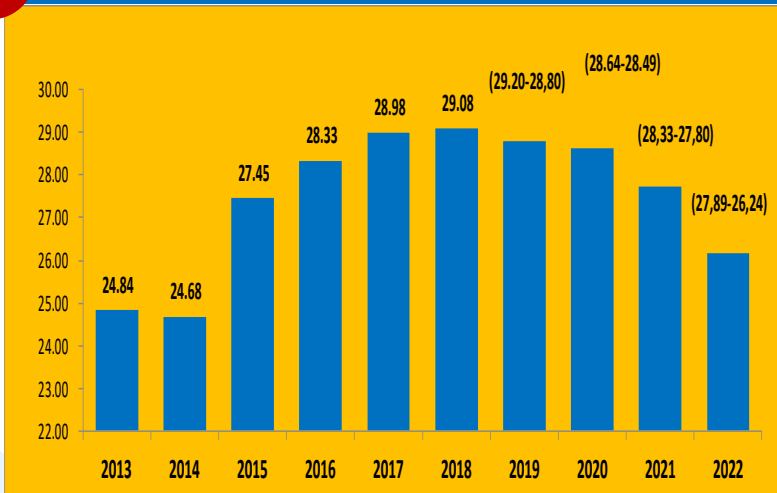
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Narrower Primary Balance Deficit (% GDP)



2

Debt ratio on manageable level (% GDP)



- In the medium term, deficit and debt ratio will be managed to promote sustainability
- Medium term fiscal framework:
 - ✓ **Debt ratio will be gradually reduced** by keeping low level of budget deficit;
 - ✓ **Primary balance will be reduced** so it will toward to positive
 - ✓ Increasing **domestic revenue** while promoting more **effective and efficient spending**



MEDIUM TERM FISCAL FRAMEWORK

Focus on: more productive, more fiscal space and more sustainable

% GDP

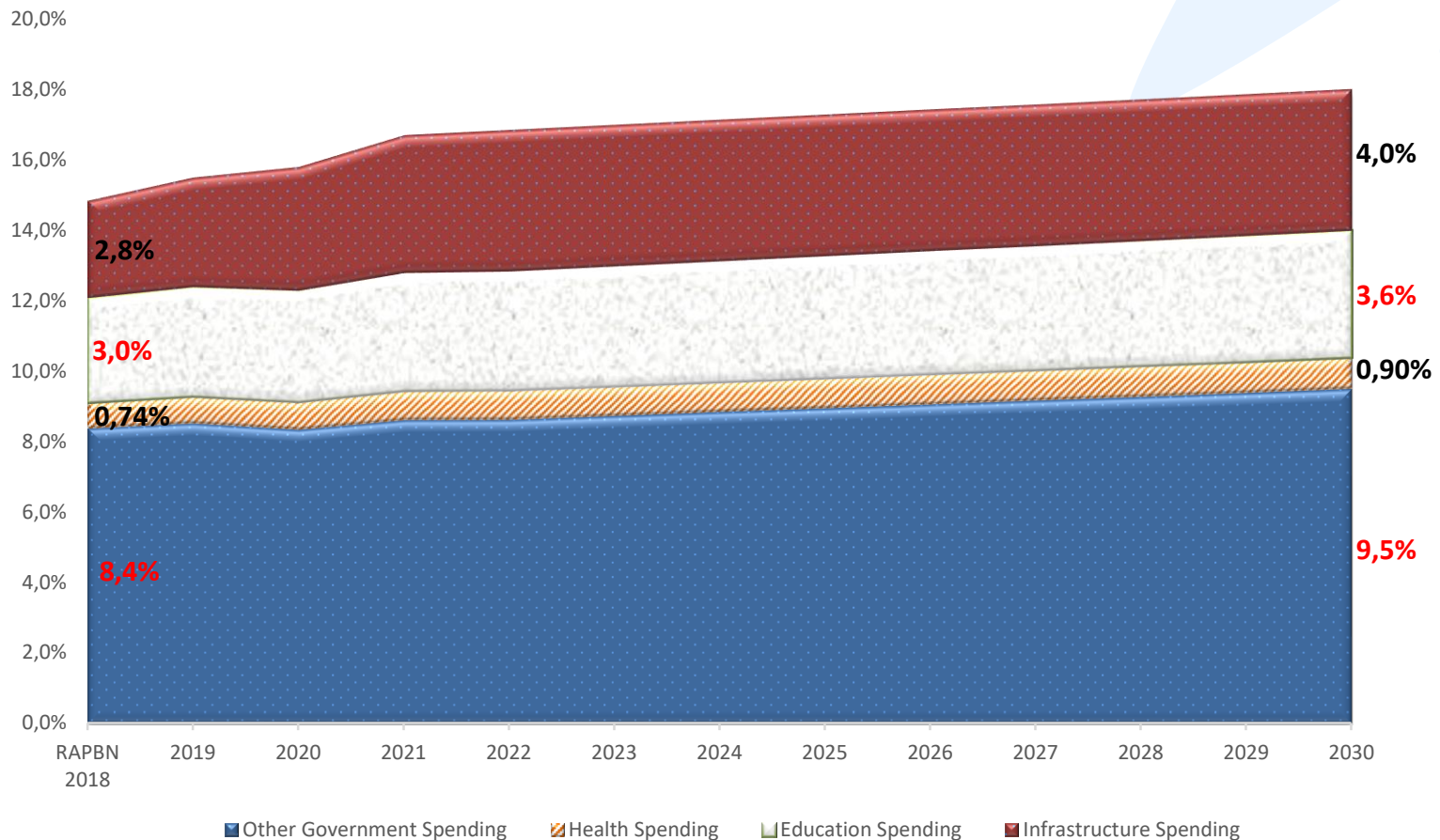
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Revenue	12.8	12,7-13,5	12,7-13,9	13,5-14,0	13,6-14,4
Tax Ratio***	11.5	11,4-11,9	11,4-12,5	11,6-13,0	11,8-13,6
Expenditure	15.0	14,2-15,4	14,3-15,6	15,0-15,7	15,1-16,0
Capital Expenditure	1.4	1,5-1,7	1,8-2,3	2,2-2,7	2,3-3,0
Primary Balance	(0,59)	(0,30) - 0,05	0,05 - 0,1	0,05 - 0,2	0,1 - 0,2
Budget Deficit	(2,19)	(1,9) - (1,6)	(1,7) - (1,6)	(1,7) - (1,5)	(1,6) - (1,5)
Debt Ratio	29.08	29,2-28,8	28,64-28,49	28,33-27,80	27,89-26,24

*** include mining non tax revenue

- **More productive spending** (capital expenditure will be increased to 2,3%-3% GDP in 2022)
- **Expanding Fiscal Space by increasing tax revenue** (*tax ratio* will be increased to 11,8 -13,6% PDB in 2022)
- **Non priority spending efficiency**
- **Creative spending** (KPBU and Non-KPBU)
- **Deficit is gradually decreased** (2022 → 1,6% –1,5% GDP)
- **Gradually decreased Debt Ratio** (tahun 2022→27,89%-26,24% GDP)
- **Positive Primary Balance**

Future Budget Figure

To support budget tax ratio need to increase by 3-5%



- Indonesia needs more budget to finance priority spending (infrastructure, education, and health)
- Ideal of budget spending to GDP ratio at 16-18% so tax revenue to GDP ratio should be 14-16% in 10-15 years

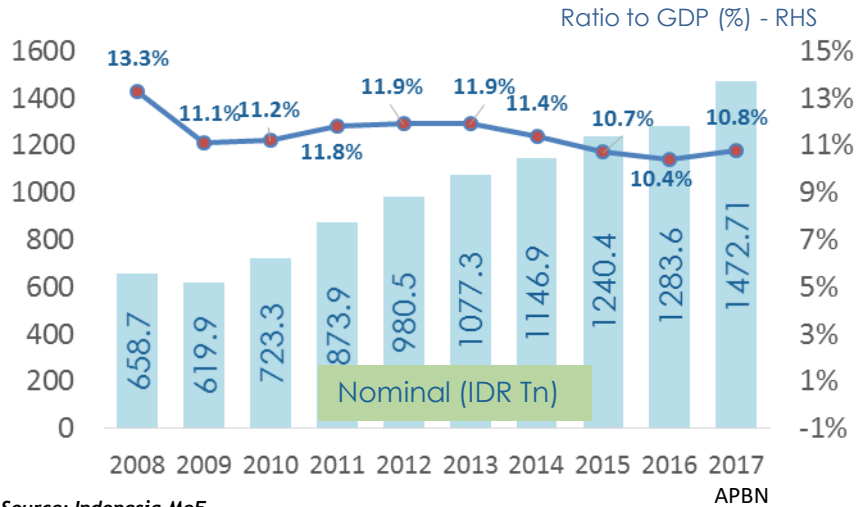


TAX PERFORMANCE AND CHALLENGES



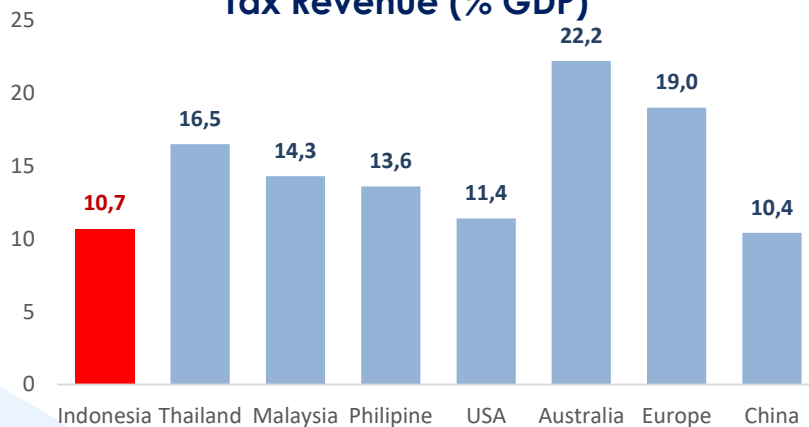
Low Tax to GDP ratio and Future Challenges

Tax Revenue



Source: Indonesia MoF

Tax Revenue (% GDP)



Source: World Bank, 2015

Tax Tariff Comparison

	CIT	PIT	Dividend	VAT
Singapore	17%	20%	0%	7%
Thailand	20%	35%	20%	7%
Cambodia	20%	20%	0%	10%
Vietnam	22%	35%	0%	10%
Malaysia	25%	25%	0%	6%
Indonesia	25%	30%	10%	10%
Philippine	30%	32%	10%	12%

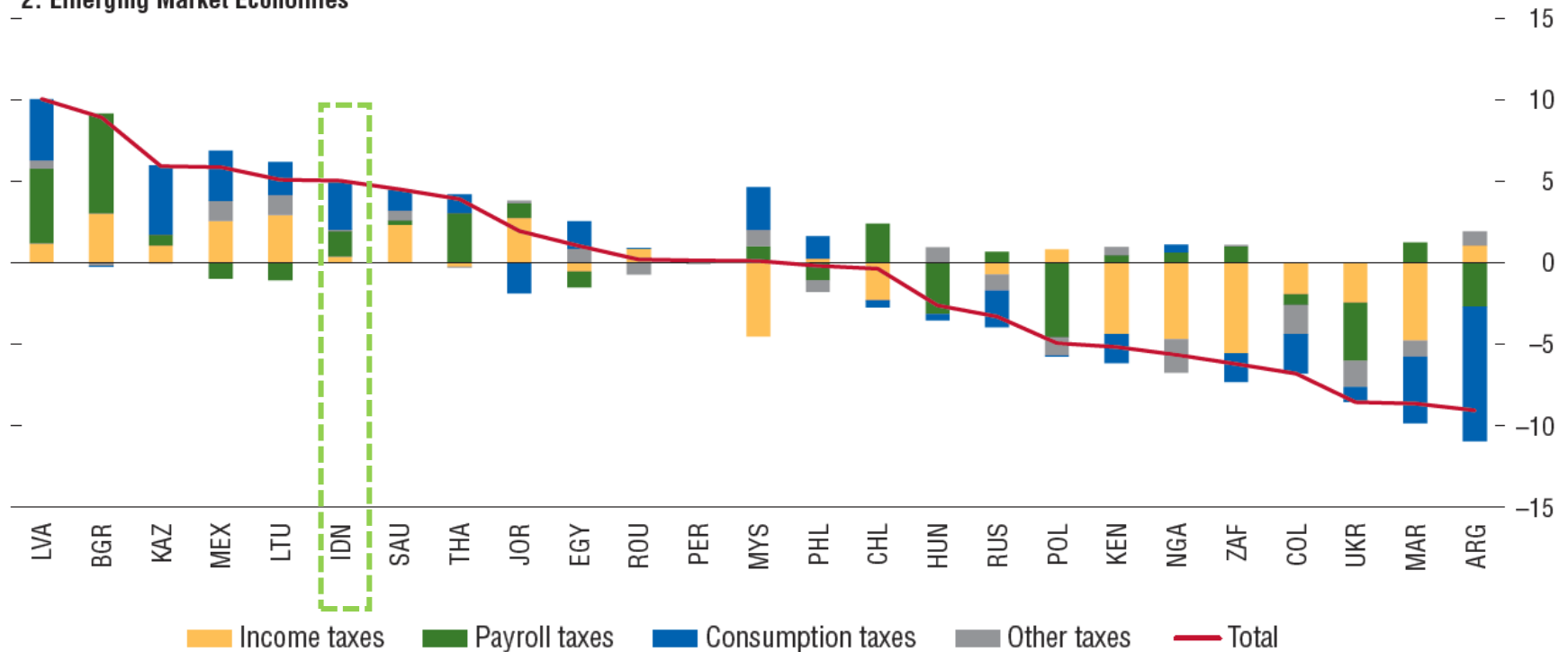
- Tariff is relatively comparable but revenue collection is not optimal yet
- Indonesia has opportunity to increase tax ratio



Tax Gap in Emerging Market Economies

...Indonesia has opportunity to close tax gap by optimizing consumption tax and Individual Tax

2. Emerging Market Economies



Source: IMF Fiscal Outlook, October 2013, Fig. 9. Page 28.

- Positive figure shows that countries tax collection lower than peers countries
- Indonesia tax *gap* around 5%, mainly come from consumption tax and individual tax



CHALLENGES

current and potential challenges should be addressed

Rising Globalization

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

Shifting Business Model

- Transfer pricing
- Intangible goods and services
- Increasing multinational e-commerce
- Simplicity in doing business such as no "*Permanent Establishment*" requirement in a country.

Structurally Declining Commodity Price

- Declining global economic growth, particularly BRICS.
- Increasing fuel efficiency and green technology innovation, such as electric vehicle, will keep pushing down oil and gas price.

Aggressive Tax Planning

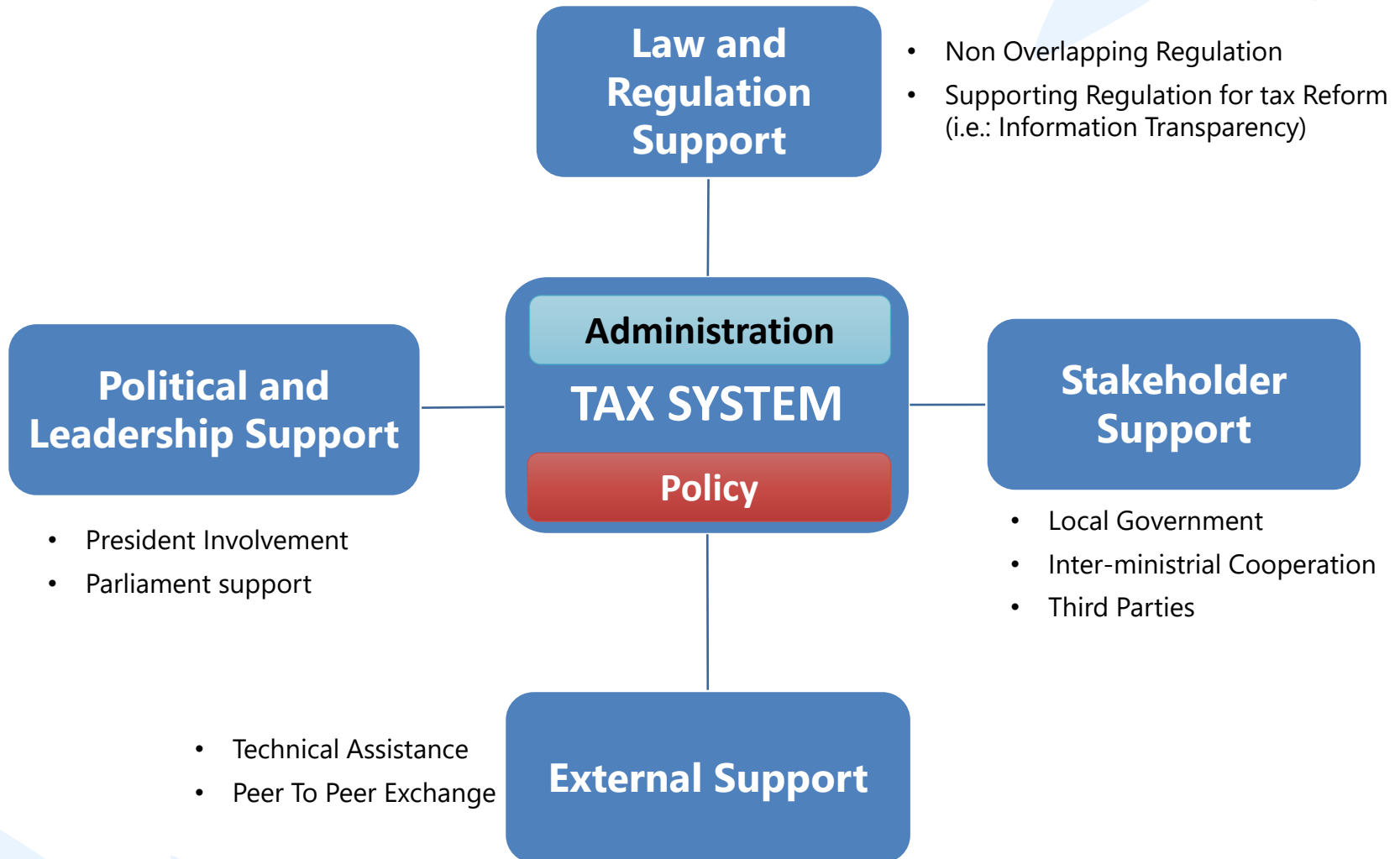
- Indonesia heavily relies on Corporate Income Tax.
- Various techniques have been used to divert business function and risk to jurisdiction with lower tax.
- The increase of financial innovation use to decrease tax obligation by changing type and source of income.



MEDIUM TERM TAX REFORM STRATEGY



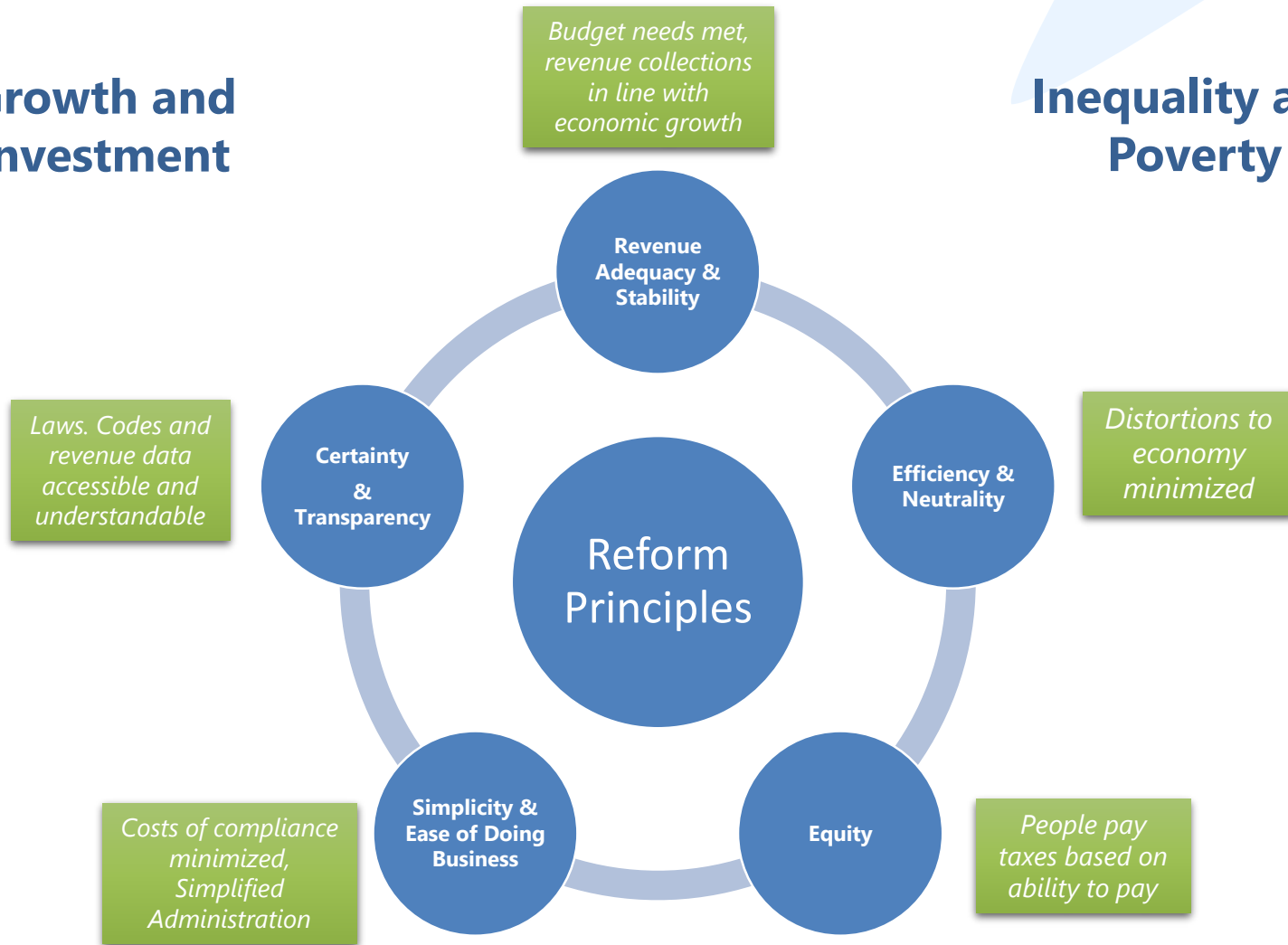
PILLARS OF TAX REFORM



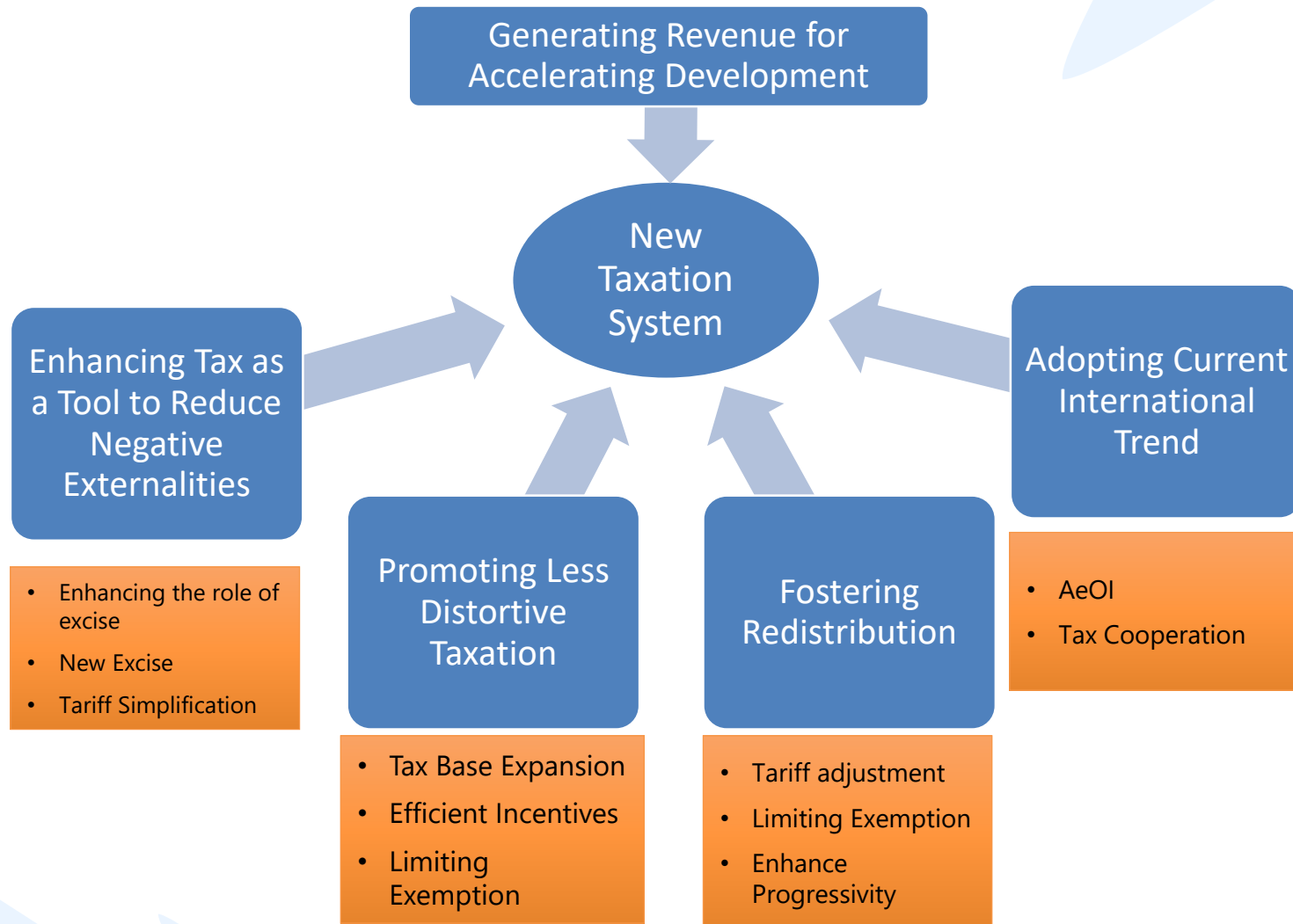
REFORM PRINCIPLES

Growth and Investment

Inequality and Poverty



OVERALL TAX POLICY REFORM STRATEGIES



TAX ADMINISTRATION REFORM

STRATEGIES

- **Strengthening Tax Collection Strategy**
- **Upgrade Compliance Program**
- **Strengthening of Tax Administration Institution**

OBJECTIVES

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

Areas to be focused :

(1) Collection strategy

- Sectoral and Economic based Targeting
- Data Analysis

(2) Tax compliance

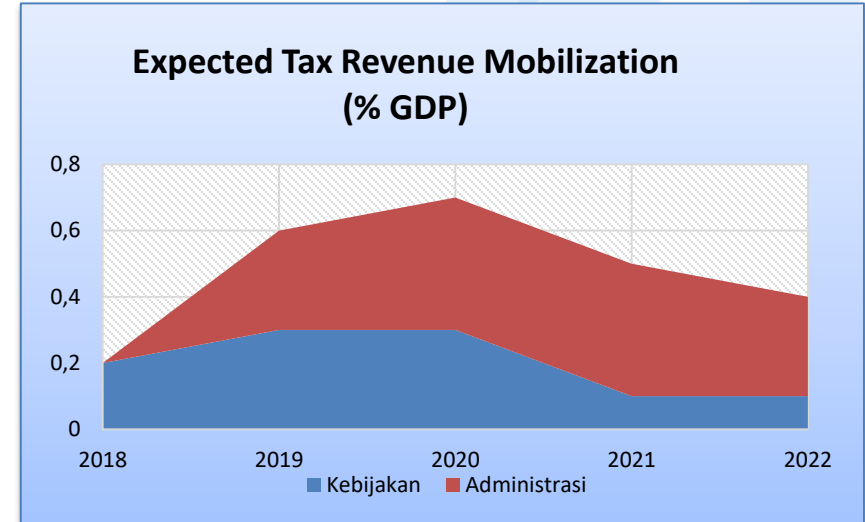
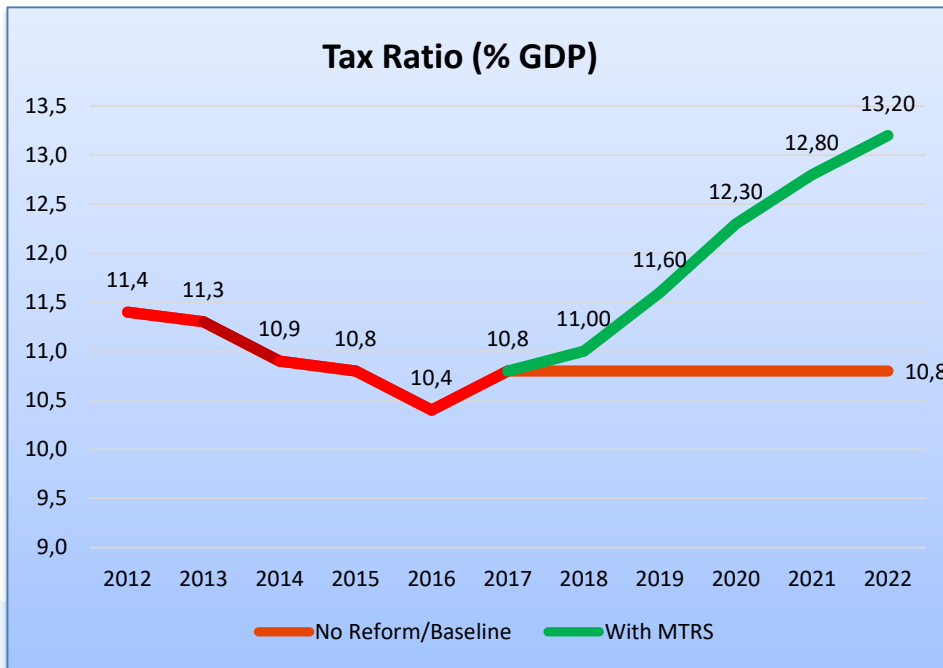
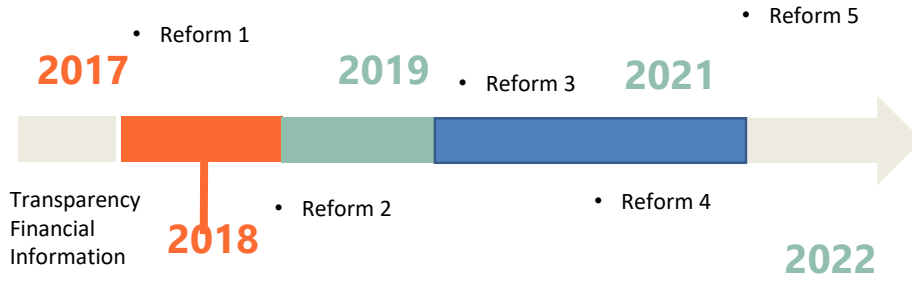
- Risk based analysis,
- IT based approach
- Easy taxation: to register, to pay, and to report

(3) Institutional reform

- HR management
- database system improvement
- risk management system,
- organization reform



EXPECTED RESULT FROM REFORM



- Reform should be implemented gradually in order to maintain stability
- By In 5 year there will be 2%-3% PDB additional tax revenue collection
- In 5 years tax ratio Indonesia will reach 13% PDB
- In the long term (2030), tax ratio will increase to 14-15% of GDP

***preliminary estimation



THANK YOU

