Tax Policies in Reducing Income Gap
Affirmative Fiscal Policy and Investment to Reduce Income Inequality: “Tax Policies in Reducing Income Gap”

TAX & INEQUALITY

Yustinus Prastowo
Executive Director of Center for Indonesia Taxation Analysis

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### Indonesia Existing Condition

#### Tax Revenue (of GDP), State Expenditure (of GDP), Gini Ratio 2000-2016

- **Tax Revenue of GDP**
- **State Expenditure of GDP**
- **Gini Ratio**

**Gini ratio is influenced by the economic dynamics that occur: Period of commodity Boom (2004 - 2012) is predicted to contribute to the increment of Gini ratio…**

#### The Structure of Tax Revenue 2006-2016

- **IDR Billion**

**Tax Injustice: Tax Revenue still rely on VAT (indirect tax). Corporate Income Tax stagnant, Personal Income Tax Art 21 increases, Non-Employee Personal Income Tax stagnant**

Source: DGT, processed by CITA

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**The decrease of Gini ratio as a result of a reduction in a proportion per capita consumption in the top decile. Meanwhile, middle and lower group began to increase…**
Type of Assets Mostly Declared
Based on Assets Declaration Letters

The composition of Asset Declaration was dominated by cash / cash equivalents and marketable securities. It means that most of the assets has already been subjected to Final Income Tax, but has not been reported yet. Keep in mind, this type of assets will not guarantee some additional significant potential in the future.

Source: DGT Tax Amnesty Press Release, MoF

Top 5 Countries-Assets mostly come from

A lot of Offshore declaration has shown the distrust of taxpayer to invest their money in Indonesia.
The Deposit Insurance Agency (LPS) Data
Period Feb 2017

Bank Accounts (Savings) in the range of amount IDR 1 Billion or above has been representing 64.22% of the total assets declared, that owned by only 496,867 bank accounts.

<table>
<thead>
<tr>
<th>Cash Declared</th>
<th>Total Bank Account</th>
<th>% Bank Account to Total Bank Account</th>
<th>% Bank Account to Total Cash Declared</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 200 million</td>
<td>199,849,842</td>
<td>98.86%</td>
<td>19.53%</td>
</tr>
<tr>
<td>200 million to 1 billion</td>
<td>1,814,174</td>
<td>0.90%</td>
<td>16.25%</td>
</tr>
<tr>
<td>&gt; 1 billion</td>
<td>496,867</td>
<td>0.25%</td>
<td>64.22%</td>
</tr>
<tr>
<td>Total</td>
<td>202,160,883</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: DGT Tax Amnesty Press Release, MoF

Cash declared in the range of amount IDR 1 Billion or Above has been representing 95.5% of the total cash declared on tax amnesty program, that owned by 291,331 participants only.
Increment of Tax Revenue is in line with state expenditure but Gini coefficients also continues to increase.

The function of the tax redistribution has not gone well in Indonesia.

Based on tax revenue composition, Tax Revenue in Indonesia has not progressive yet.

Accessibility of top 1% income for performing Tax Avoidance is widely open.

Based on the result of Tax Amnesty Program, top 1% income is the largest group that declares the asset.
## Inequality and Redistribution Function Analysis

### Income Inequality in OECD Countries, 1980-2000

<table>
<thead>
<tr>
<th>Country</th>
<th>Ratio of post-tax incomes at 10% from top of the distribution to incomes 10% from bottom</th>
<th>c.1980</th>
<th>c.2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td></td>
<td>3.5</td>
<td>3.4</td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td>3.1</td>
<td>3.3</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td>2.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Sweden</td>
<td></td>
<td>2.4</td>
<td>3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td></td>
<td>3.5</td>
<td>4.6</td>
</tr>
<tr>
<td>United States</td>
<td></td>
<td>4.7</td>
<td>5.4</td>
</tr>
<tr>
<td>OECD mean</td>
<td></td>
<td>3.4</td>
<td>3.7</td>
</tr>
<tr>
<td>OECD std. dev.</td>
<td></td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>North Europe</td>
<td></td>
<td>2.9</td>
<td>3.1</td>
</tr>
<tr>
<td>Liberal Economies</td>
<td></td>
<td>3.9</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Source: Luxemburg Income Survey

### The Change of Gini Coefficient Levels as an Impact of Redistribution

![Diagram showing the change of Gini coefficient levels as an impact of redistribution](chart.png)

Source: OECD, quoted from Roser and (Ortiz-Ospina)
Recommendations

1. Taxing the Top (1%)
   - Raising the Top Income Tax rate: Formulating the Most Effective Individual Inc. Tax - Layer Tariff

2. Increasing Personal Exemption Consideration:
   - Basic Physical Life
   - District’s Personal Exemption Scheme
   - Gender Aspects in Taxation
   - Credit for the Elderly or the Disabled

3. AEOI & BEPS
   - Taxing Digital Economy
   - TP Documentations & CbC Report
   - GAAR, SAAR

4. Pigouvian Tax
   - A tax levied on any market activity that generates negative externalities being set equal to the social cost of the negative externalities

Marginal tax rate in Indonesia, South Africa, Brazil, and UK 2014

Personal income tax system in Indonesia and South Africa do not show progressivity. It is proved by relatively low marginal rate and relatively high income level that subject to the highest rate.
T H A N K Y O U

Tax Revenue

Economic Growth

Center for Indonesia Taxation Analysis
Wisma Korindo 5th Floor
Jalan MT. Haryono Kav. 62, Pancoran, Jakarta Selatan