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Indonesia Development Forum 2017

Fighting Inequality for Better Growth

Jakarta, 9-10 August 2017





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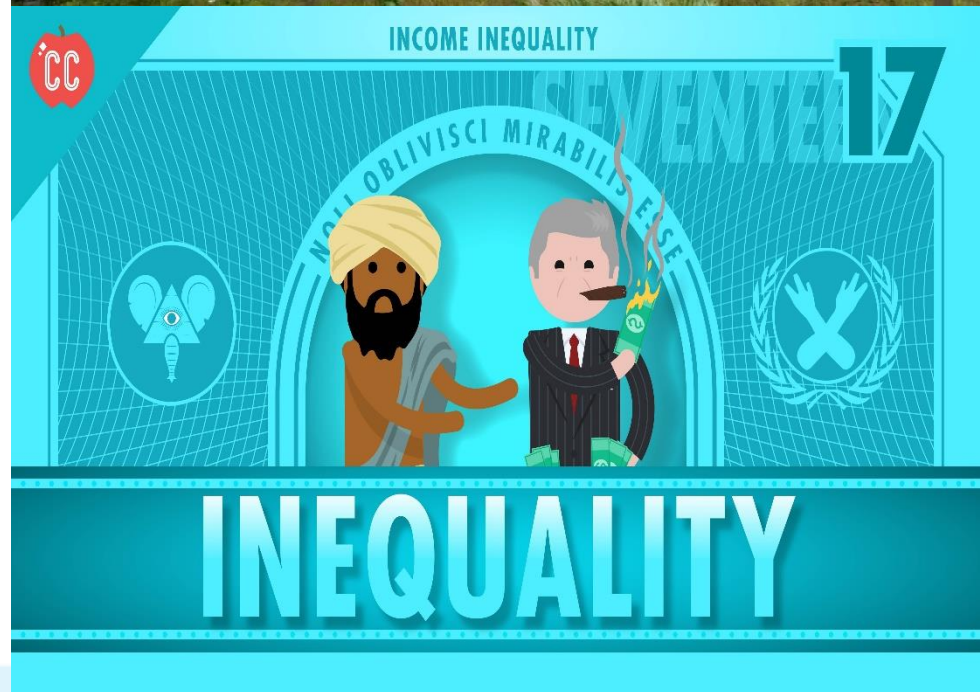
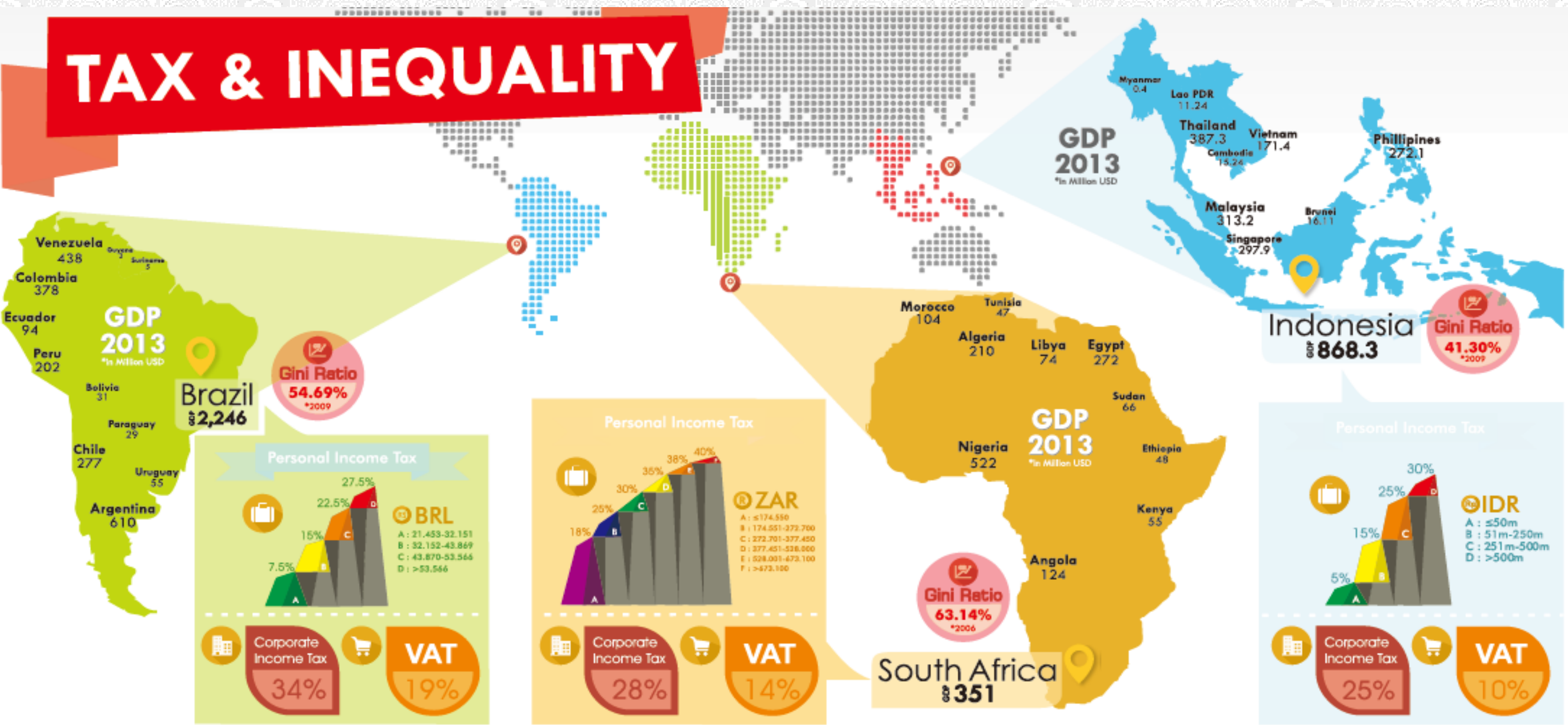


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Tax Policies in Reducing Income Gap

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



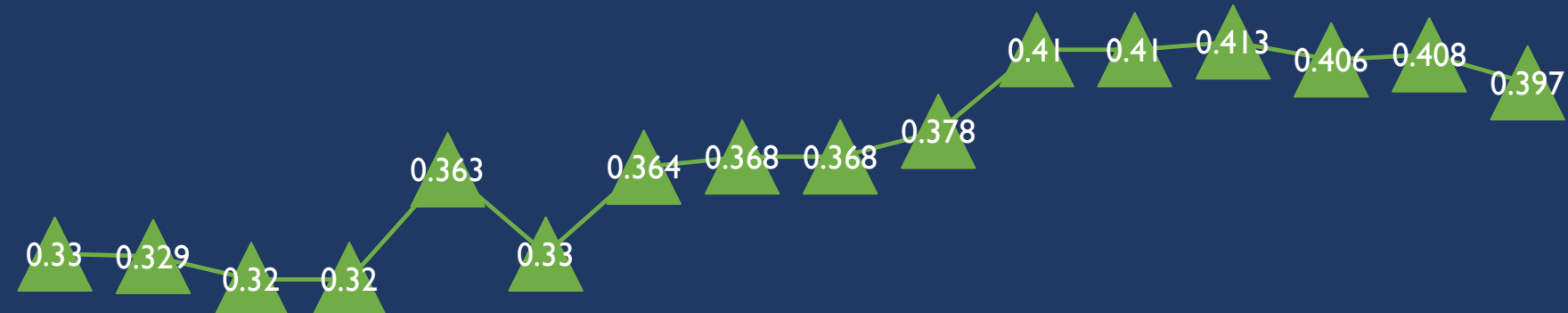
Yustinus Prastowo
Executive Director of **Center for Indonesia Taxation Analysis**

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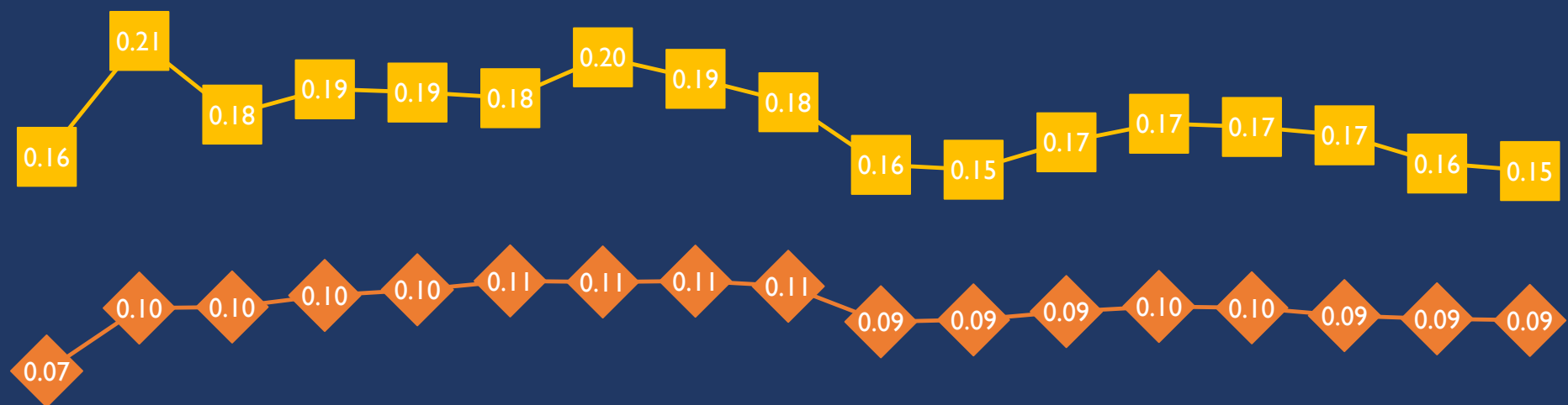
Indonesia Existing Condition

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

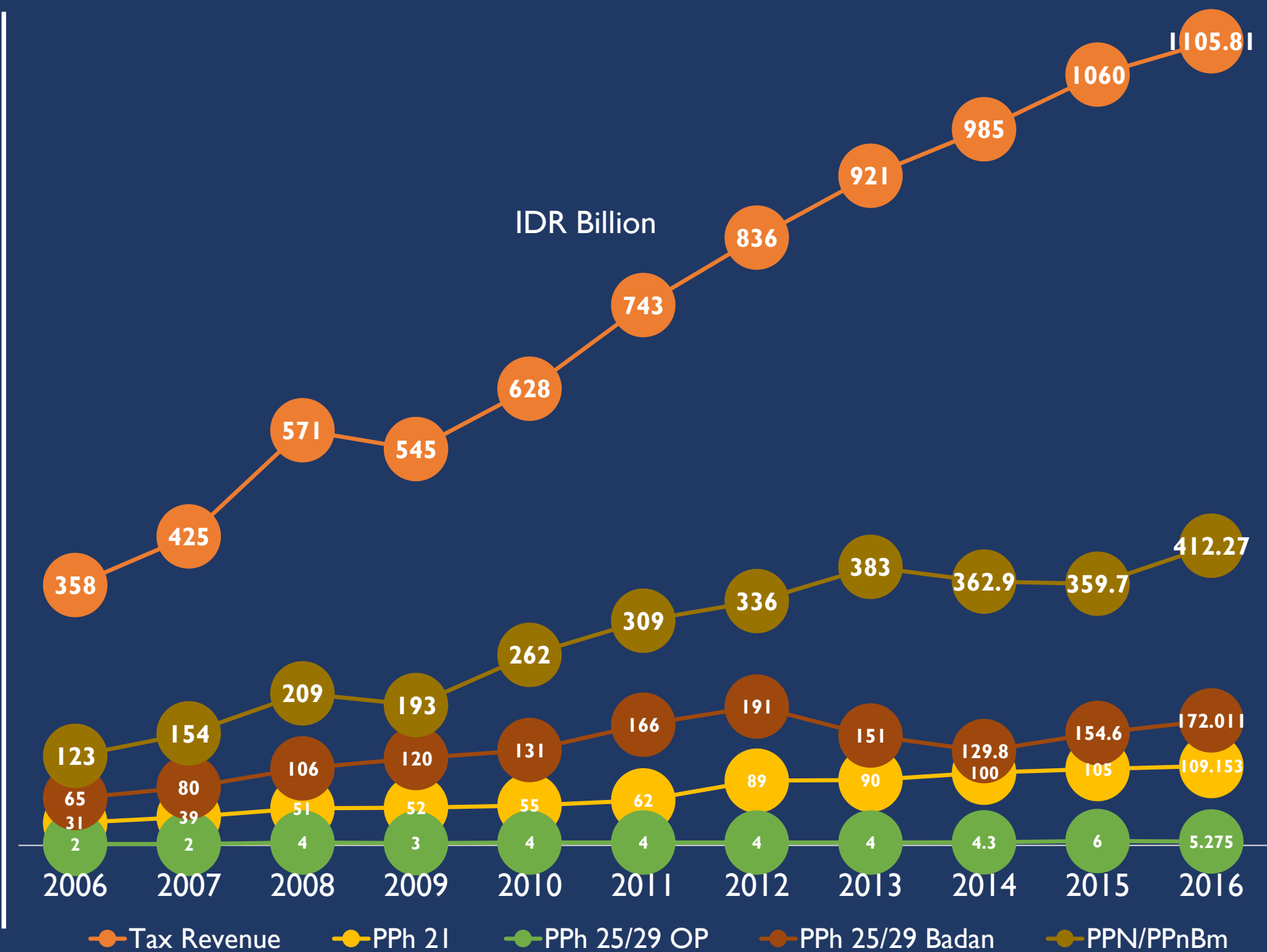
◆ Tax Revenue of GDP ■ State Expenditure of GDP ▲ Gini Ratio



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

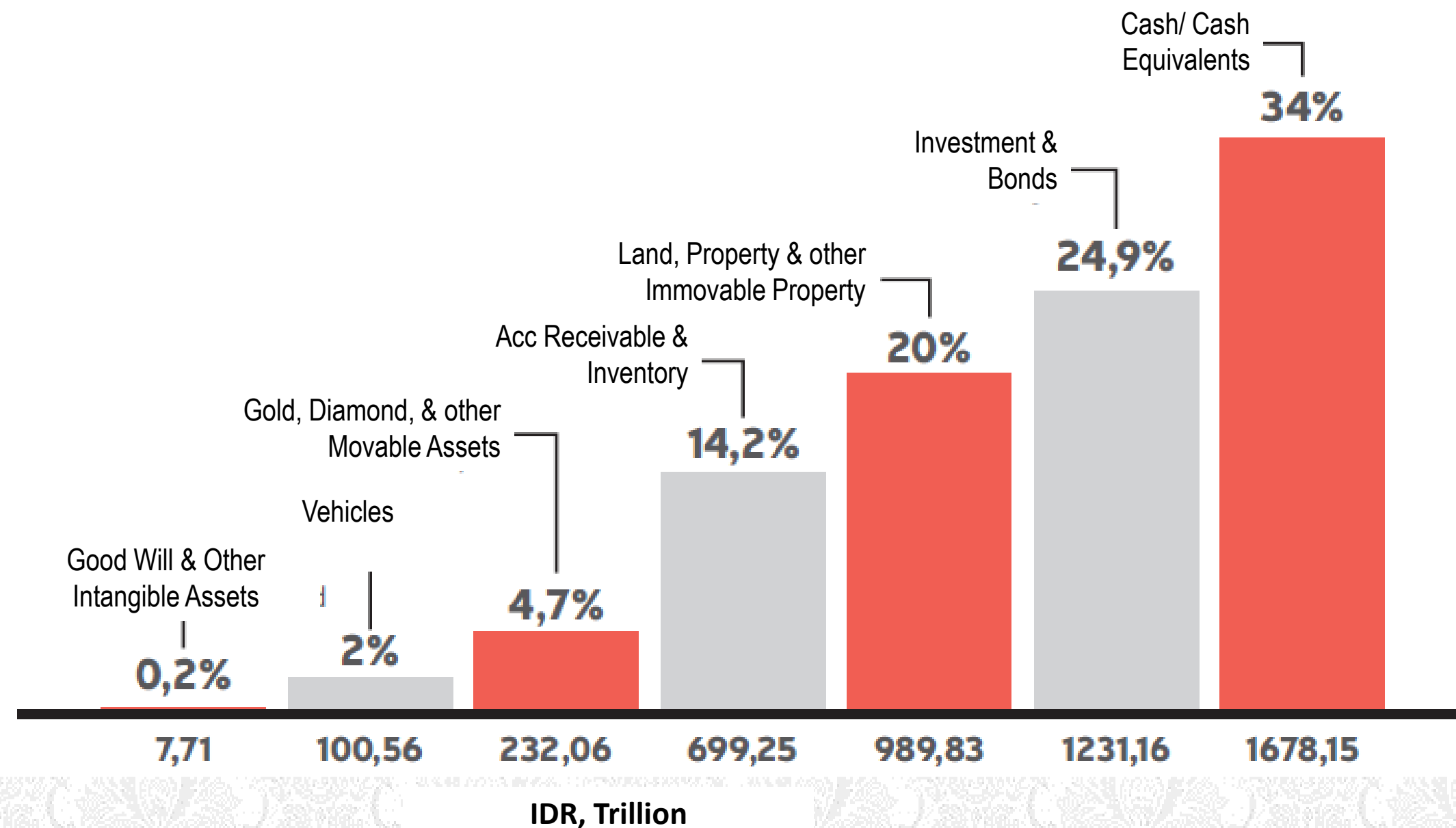


The decrease of Gini ratio as a result of a reduction in a proportion per capita consumption in the top decile. Meanwhile, middle and lower group began to increase...

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

Type of Assets Mostly Declared

Based on Assets Declaration Letters



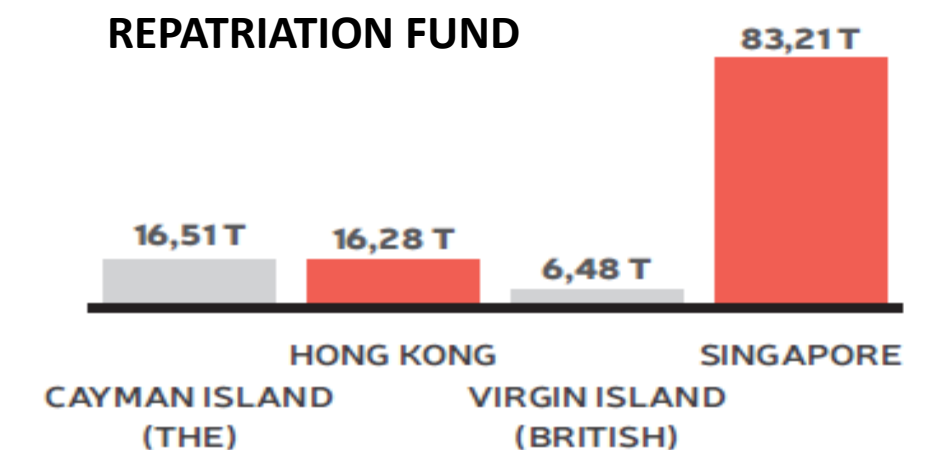
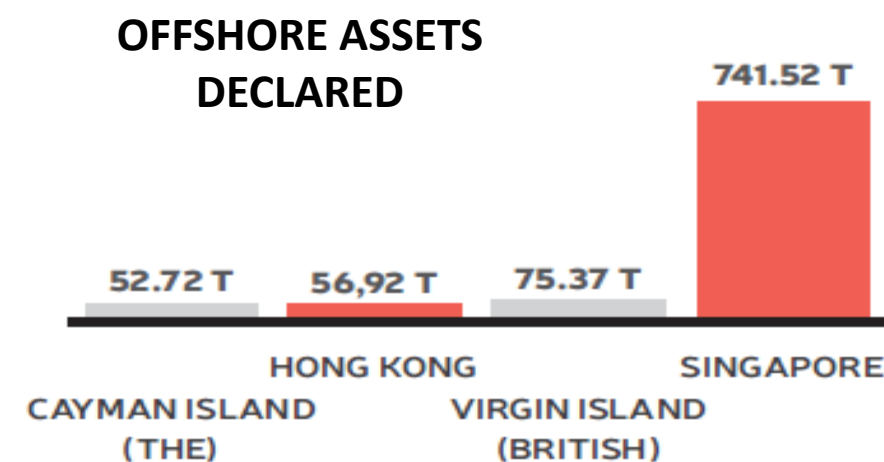
The composition of Asset Declaration was dominated by cash / cash equivalents and marketable securities.

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

Cash Declared	Total Bank Account	% Bank Account to Total Bank Account	% Bank Account to Total Cash Declared
up to 200 million	199.849.842	98,86%	19,53%
200 million to 1 billion	1.814.174	0,90%	16,25%
> 1 billion	496.867	0,25%	64,22%
Total	202.160.883	100%	100%

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.

Tax Amnesty Statistics (Assets Declared)

Cash/ Cash Equivalent Declared (Range)	Total Participant		Assets Declared	
	Participant	% Participant to Total Participant	Cash Declared (Trillion)	% Cash Declared to Total Cash Declared
< 200 million	248.689 Taxpayer	32,18%	IDR10	0,59%
200 million to < 1 billion	232.874 Taxpayer	30,13%	IDR69	3,95%
>= 1 billion	291.331 Taxpayer	37,69%	IDR1661	95,50%
Participants	772.894 Taxpayer	100%		
Total Cash Declared			IDR1739	100,00%

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.

Inequality and Redistribution Function Analysis

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

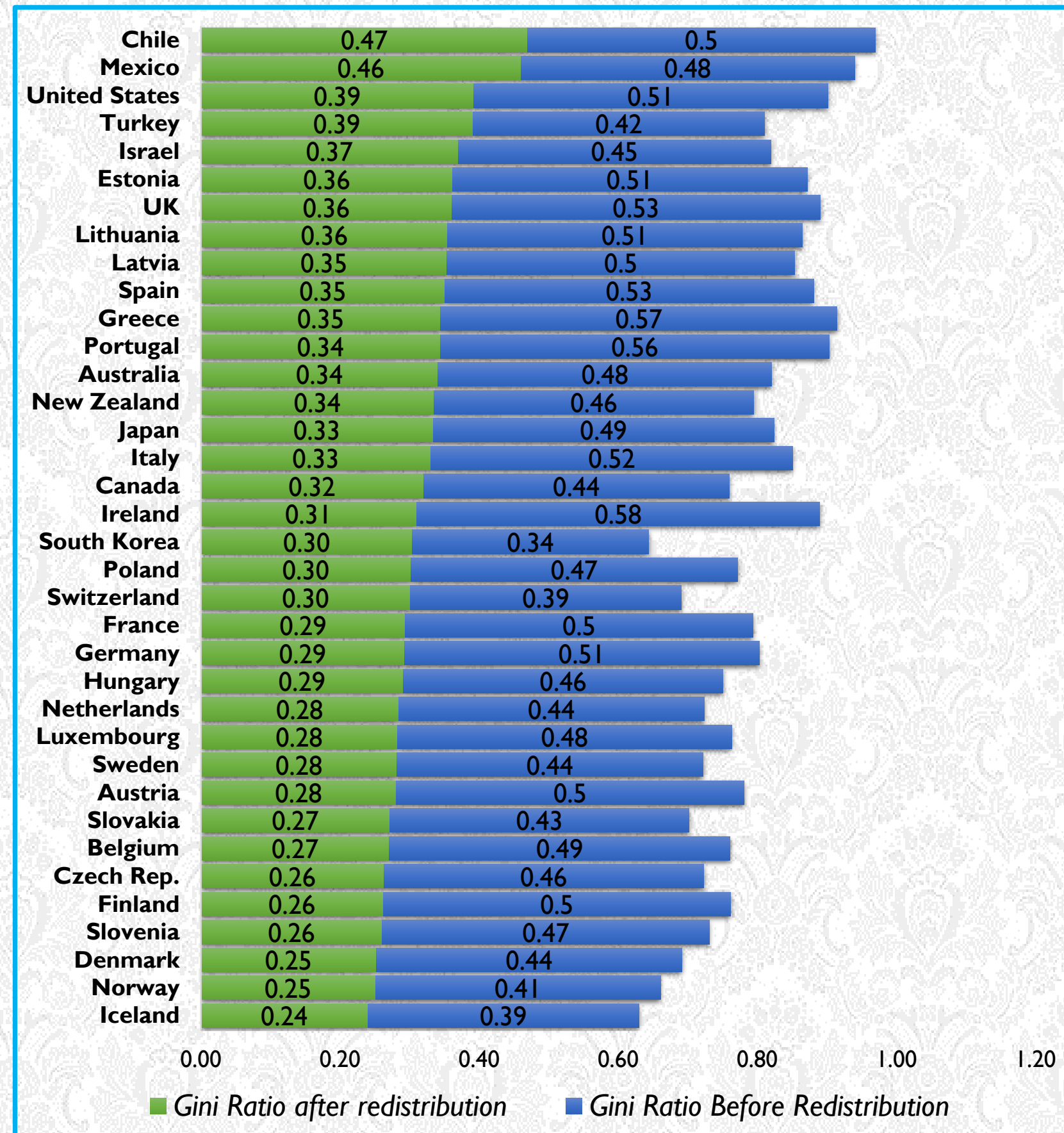
Inequality and Redistribution Function Analysis

The Change of Gini Coefficient Levels as an Impact of Redistribution

Income Inequality in OECD Countries, 1980-2000

Ratio of post-tax incomes at 10% from top of the distribution to incomes 10% from bottom	c.1980	c.2001
France	3,5	3,4
Germany	3,1	3,3
Japan	2,8	2,7
Sweden	2,4	3
United Kingdom	3,5	4,6
United States	4,7	5,4
OECD mean	3,4	3,7
OECD std. dev.	0,8	0,8
North Europe	2,9	3,1
Liberal Economies	3,9	4,5

Source: Luxembourg Income Survey`



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

Recommendations

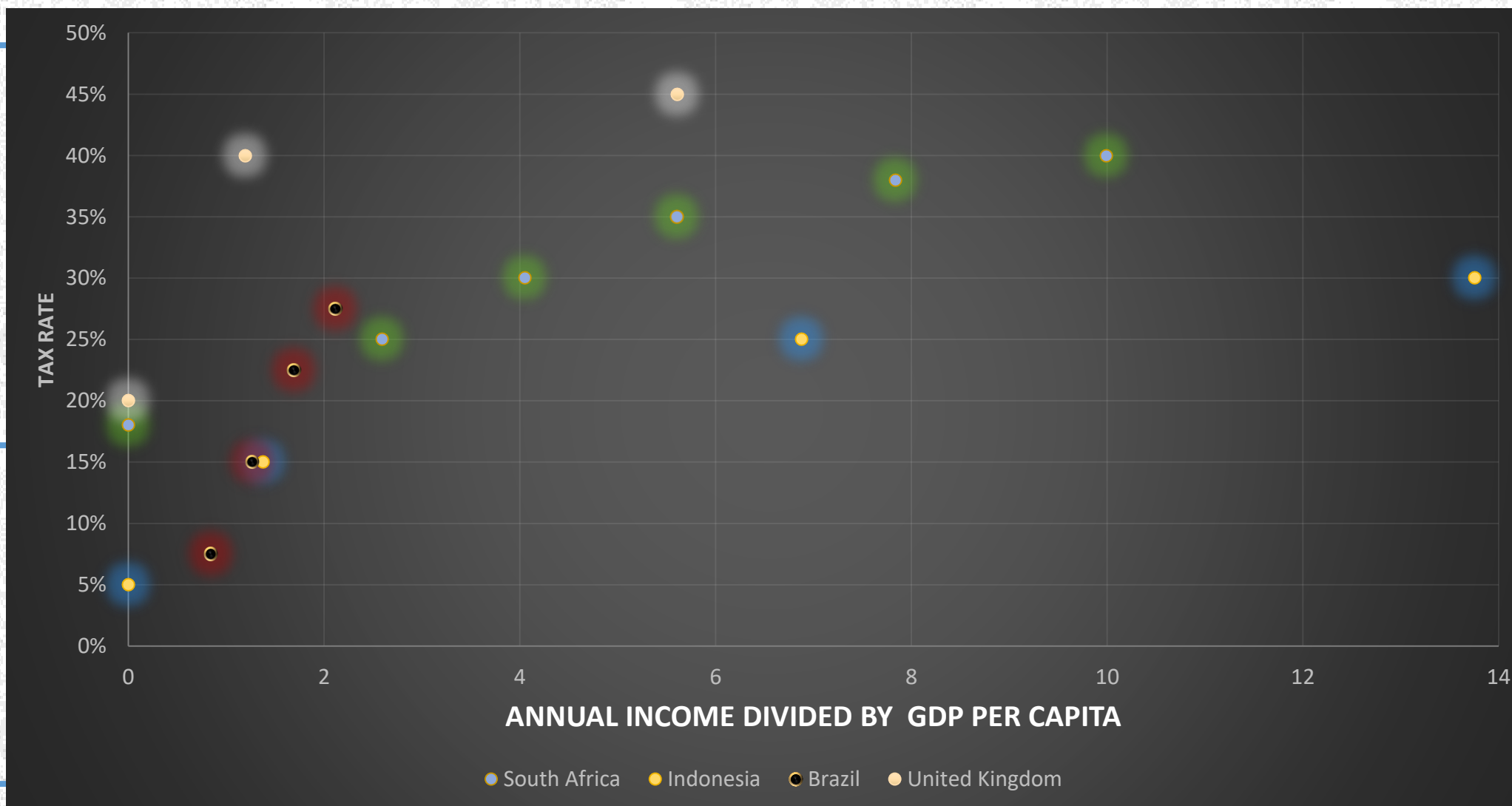
1 Taxing the Top (1%)

Raising the Top Income Tax rate:
Formulating the Most Effective Individual Inc. Tax - Layer Tariff

Inheritance Tax

Financial Transaction Tax (FTT)

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.

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

Recommendations
for the Next Tax
Reform :

Adding more
Layer on Tax
Bracket - from
4 to 6 in order
to reduce
inequality.

4 Pigouvian Tax

- ∴ tax levied on any market activity that generates negative externalities
- ∴ being set equal to the social cost of the negative externalities

THANK YOU

