

Riatu M. Qibthiyyah

INCOME TAX LAW & TAX BASE IMPROVEMENT

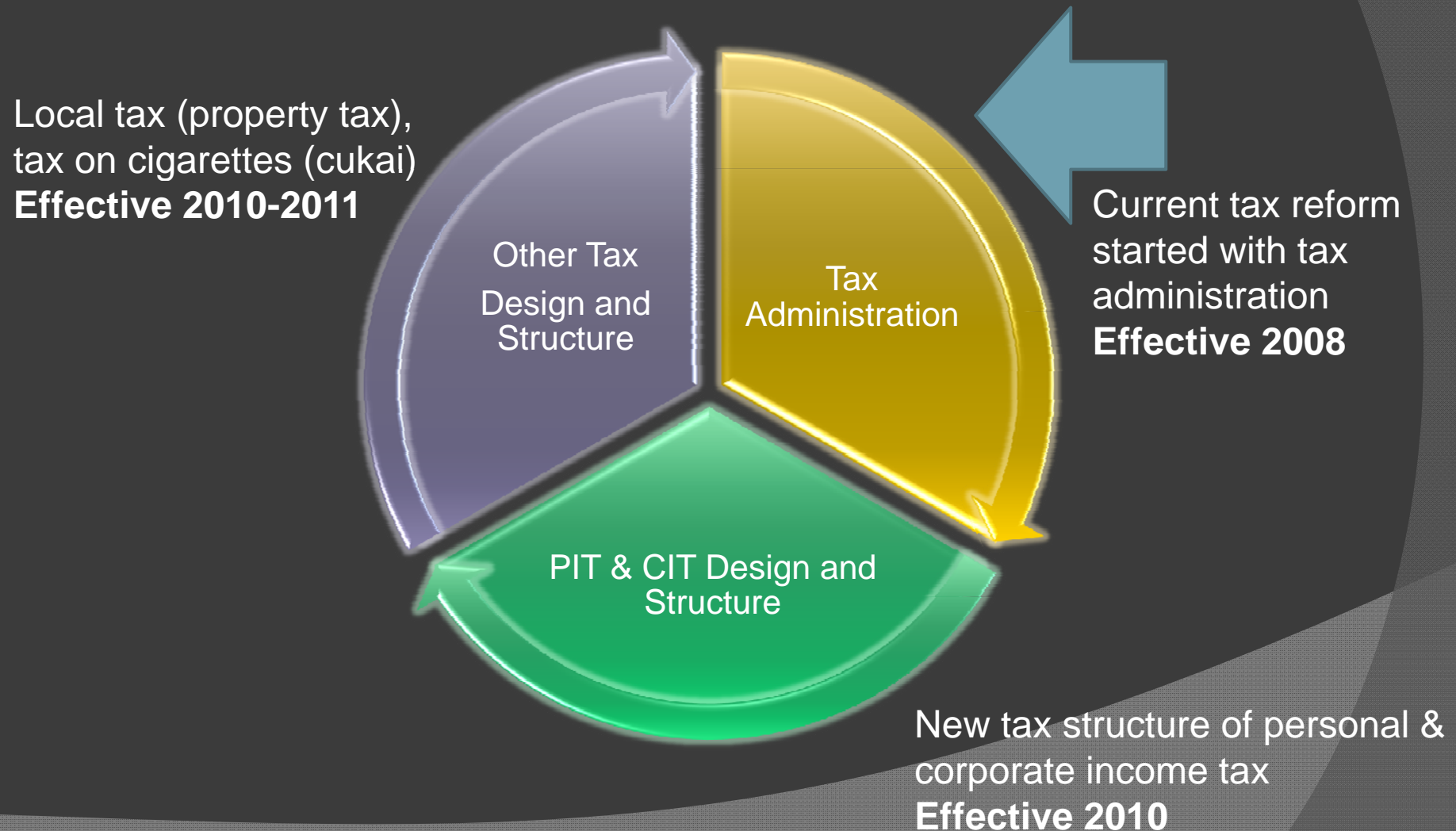
Overview

- ⦿ Law and sequence of the reform
- ⦿ Current income tax policy: on tax administration and tax structure
- ⦿ Income tax revenues, and comparison with other countries
- ⦿ The estimation on personal income tax base
- ⦿ Summary and policy challenges

Income Tax Law Reform: Indonesian Context

- ⦿ Law 7 1983 and Law 6 1983
- ⦿ Law 17 2000 and Law 16 2000
- ⦿ Law 6 2008 and Law 28 2007

Income Tax Law Reform: Indonesian Context



Tax Administration Policy: Law 28 2007

- Start to emphasize on compliance costs
- The enforcement institutions are integrated (i.e. on tax disputes)
- Tax amnesty on PIT for non-filers prior 2007
- Relatively clear filing procedures, **but not yet simplified**

Tax Registration

Year	Number of Individual with NPWP <i>In Million</i>	Number of (Medium & Large) Firms	Number of SME's
2005	4.35	20,728	2,323,772
2006	4.8	29,545	3,194,606
2007	7.13	28,970	3,218,597
2008	10.68	27,808	NA
2009	15.91	NA	NA

Source: Directorate of Tax, MOF (2010), Ministry of Industry (2010)

Policy of Tax Structure: Law 36 2008

- Flat tax rate of corporate tax (CIT)
- CIT deductions on depreciations
- Tax exemptions are relatively reduced in terms of income “source” (i.e. no lower rate for civil servants; no lower rate for SME)
- On PIT, a flattened rate on low and middle income group

Personal Income Tax (PIT)

Structure

<i>Income Group</i>	<i>1983 Individual Income Tax Law***</i>	<i>Income Group</i>	<i>2000 Individual Income Tax Law**</i>	<i>Income Group</i>	<i>2008 Individual Income Tax Law *</i>
Exempted 0.96 million IDR ¹⁾		Exempted up to 2.88 million IDR ¹⁾		Exempted up to 15.8 million IDR ¹⁾	
Up to 10million IDR	15%	Less of equal 25 million IDR	5%	Up to 50 million IDR	5%
10 million IDR up to 50 million IDR	25%	25 million IDR up to 50 million IDR	10%		
Up to 50 million IDR	35%	50 million IDR up to 100 million IDR	15%	50 million IDR up to 250 million IDR	15%
		100 million IDR up to 200 million IDR	25%		
		More than 200 million IDR	35%	250 million IDR up to 500 million IDR	25%
				More than 500 million IDR	30%
<i>Income of civil servant will be taxed flat at 20% and paid by the institution</i>					

Source: * Article 17, Law No. 36 2008; **Article 17, Law No. 17 2000 ***Article 17, Law No.7 1983, 1) Minimum exemption

PIT Exemptions

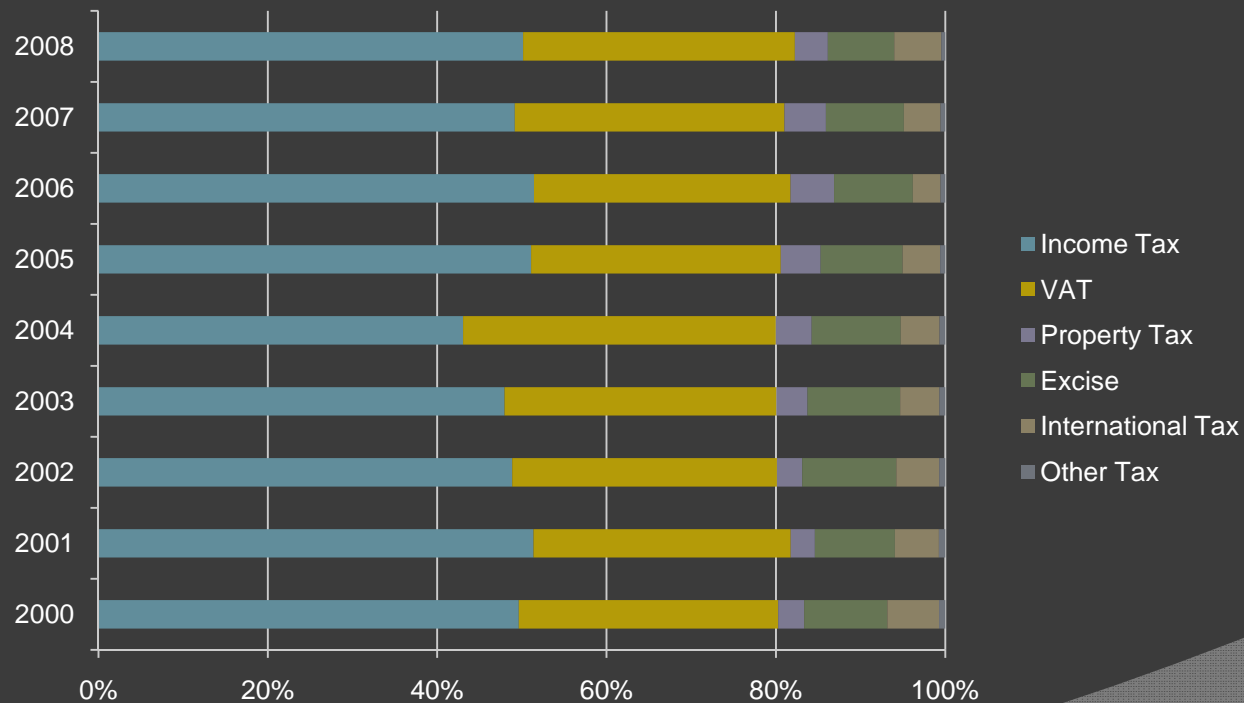
<i>Income Group</i>	<i>1983 Individual Income Tax Law*** Exemptions (million IDR)</i>	<i>2000 Individual Income Tax Law** Exemptions (million IDR)</i>	<i>2008 Individual Income Tax Law * Exemptions (million IDR)</i>
Single	0.96	2.88	15.8
Married	1.44	4.32	17.12
Married and 2 incomes (Joint filing to husband*)	2.4	7.20	32.92
Married of 2 incomes with 1 Child	2.88	8.64	34.24
Married of 2 incomes with 2 Children	3.36	10.08	35.56
Married of 2 incomes with 3 Children	3.84	11.52	36.88

Income Tax Revenue 2000-2009

Year	Income Tax <i>Billion IDR</i>	(Non Oil & Gas) Income Tax <i>Billion IDR</i>	%
2000	57,073.00	38,421.50	67.32
2001	94,576.00	71,474.40	75.57
2003	101,873.00	84,404.00	82.85
2004	115,016.00	96,053.00	83.51
2005	119,514.50	96,567.92	80.80
2006	175,541.19	140,398.02	79.98
2007	208,833.13	165,645.24	79.32
2008	305,016.00	251,366.00	82.43
2009	319,610.00	280,842.00	87.87

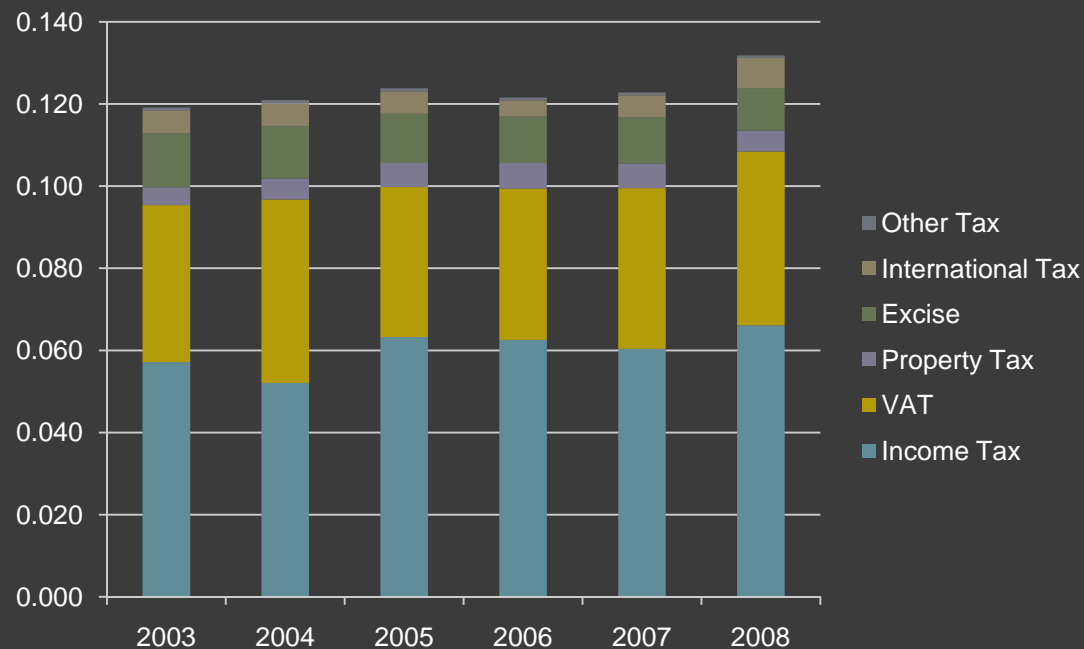
Source: Directorate of Tax, MOF (2010); CEIC (2010)

Share of Income Tax Revenue: comparison to other type of tax 2000-2008 (as % to total domestic tax revenue)



Source: CEIC (2010)

Share of Income Tax Revenue: comparison to other type of tax 2000-2008 (to GDP)



Source: CEIC (2010)

Share of Income Tax Revenue: Country Comparison 2000-2008 (to GDP)

Year	Phillipine	Thailand	Malaysia	Singapore
2000	0.061	0.050	0.132	0.076
2001	0.062	0.049	0.174	0.082
2002	0.057	0.048	0.174	0.069
2003	0.057	0.057	0.155	0.064
2004	0.057	0.063	0.152	0.055
2005	0.059	0.069	0.154	0.063
2006	0.063	0.070	0.151	0.068
2007	0.064	0.069	0.149	0.065
2008	0.065	0.073	0.153	0.072

Source: CEIC (2010)

Income Tax Revenue: Country Comparison on share of PIT 2000-2009 (as % to total income tax)

Year	Thailand	Malaysia
2000	38.87	51.63
2001	39.76	51.84
2002	37.35	58.44
2003	36.15	59.32
2004	33.58	54.38
2005	31.00	53.19
2006	31.66	46.17
2007	33.44	50.03
2008	30.62	49.08
2009	33.65	32.01

Source: CEIC (2010). Note: CEIC government finance data on Indonesia does not distinguish between personal and corporate income tax-- a similar case to Philippine and Singapore

Why we need to reform PIT administration?

- ⦿ PIT is one source of revenue stream for sub-national and local governments, as it is included in the revenue sharing since 2004
- ⦿ Income may grow from SMEs. Informal sector is the hard to tax, and changed it to formal is “big” potential to improve revenue, although it generally needs big investments on administration

Tax Revenues performance:

Does the base has broadened?:

- Tax amnesty has improved tax registration, but not yet channel to tax compliance (Directorate of Tax, MOF 2009).
- Compliance rate is estimated to be around 10%-20.14% of current total tax revenues (Parulian 2008, Ikhsan et al. 2005)
- The change in marginal tax rate contribute to tax base improvement. High income group tends to have higher elasticity that lower income group (Yuwono, 2008)

Summary:

Income tax reform

- ⦿ The administration procedures aim to simplify, especially on the services for taxpayers

Summary:

Income tax reform

- ④ Transparency of tax revenues across level of government
- ④ Develop a small-scale administration – the need to cooperate with sub-national and local government unit. At the same time, central assistance for local tax administration

Summary:

Income tax reform

- ④ Income tax is directed toward individual and less to corporate.
- ④ Income tax system that will improve tax base considers the responsiveness of individual.
- ④ On tax structure, various countries have moved to levy a flat rate on personal income tax, and not only on CIT.

Resume

- Tax administration policy should be emphasized as to improve collection rate.
- To focus on broadening the base, income tax, should be less directed to have a distributive impact.
- Transparency and aligning to political system of decentralization to attain good tax system.