



MINISTRY OF FINANCE
REPUBLIC OF INDONESIA



2nd International TAX Forum
Adapting Tax Policies in a Dynamic World

Indonesia Tax Expenditure To Support The Economy

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OUTLINE



Economic and Fiscal Update



State Budget and Tax Incentives Role



Indonesia Tax Expenditure Report 2023



Indonesia Tax Expenditure Transparency Level

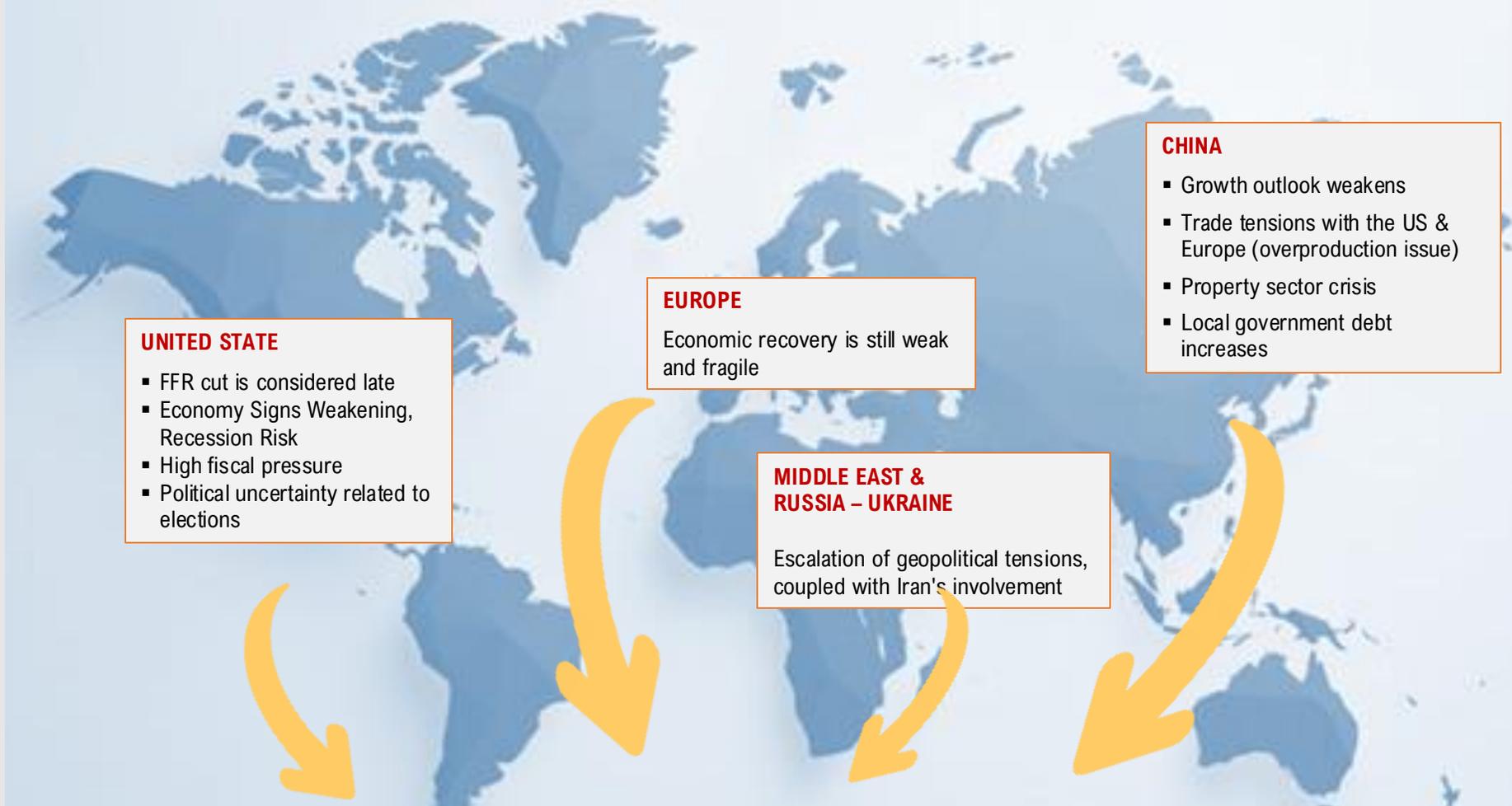
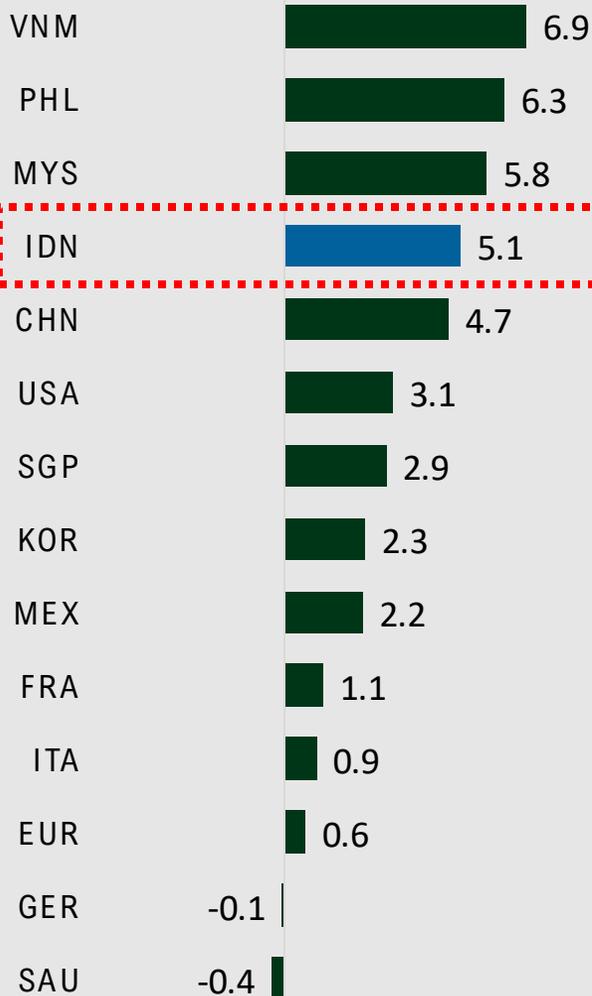


Conclusion

GLOBAL ECONOMIC GROWTH IS STILL OVERSHADOWED BY RISKS AND UNCERTAINTIES

Indonesia's economy performance until the second quarter of 2024 is still resilient.

**Economic Growth
Q2 2024 (% , yoy)**



UNITED STATE

- FFR cut is considered late
- Economy Signs Weakening, Recession Risk
- High fiscal pressure
- Political uncertainty related to elections

EUROPE

Economic recovery is still weak and fragile

MIDDLE EAST & RUSSIA - UKRAINE

Escalation of geopolitical tensions, coupled with Iran's involvement

CHINA

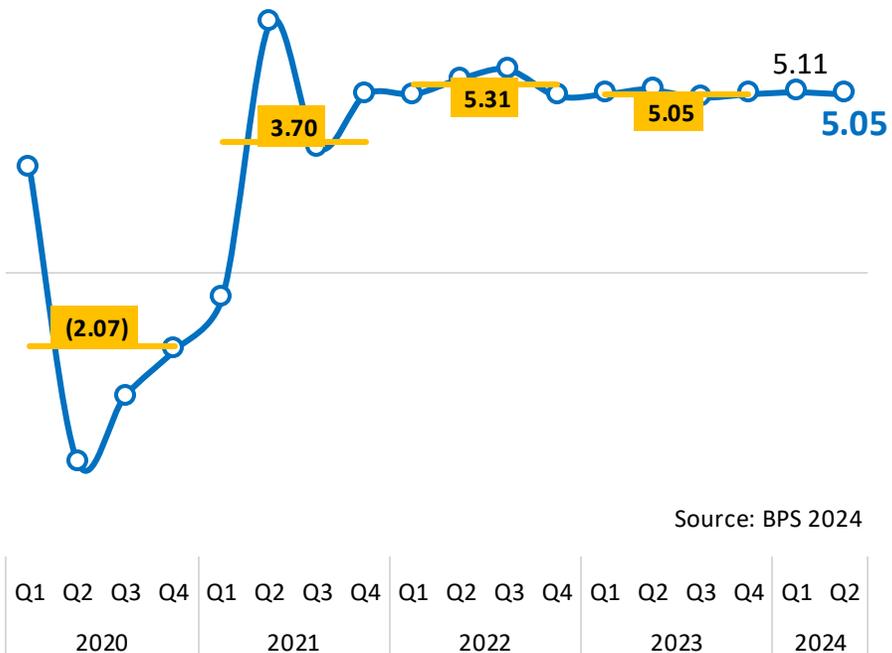
- Growth outlook weakens
- Trade tensions with the US & Europe (overproduction issue)
- Property sector crisis
- Local government debt increases

- Financial market dynamics (exchange rate volatility & yield)
- Escalating US-China trade war
- Fragmentation & protectionism on the rise
- Policy support for global growth is limited
- Weak global growth outlook

INDONESIA'S ECONOMY GROWS SOLIDLY 5.05% YOY IN THE SECOND QUARTER OF 2024

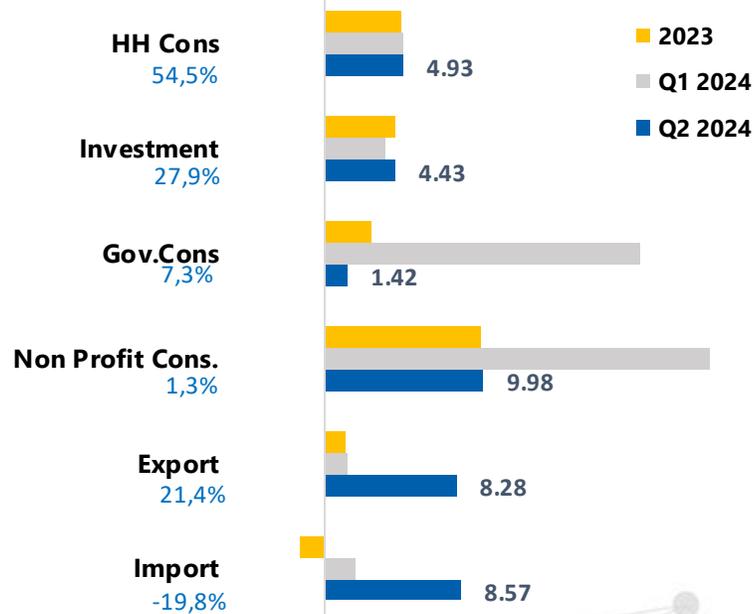
Supported by household consumption which grew 4.93% (yoy) in terms of expenditure and the manufacturing sector grew 3.95% (yoy) in terms of production.

Economic Growth(% ,yoy)

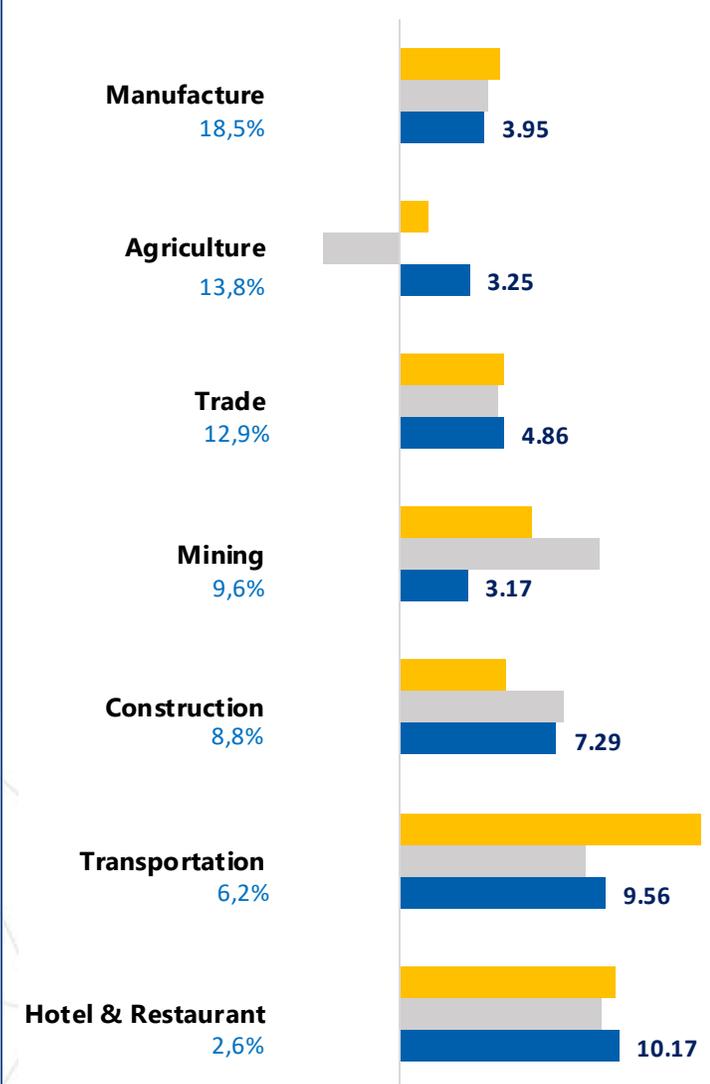


GDP Growth: Expenditure (% , YoY)

(Dist. Q2 2024 % PDB)



GDP Growth: Production (% , YoY)



- **Household consumption** is supported by the maintenance of people's purchasing power in line with controlled inflation and fiscal support through **subsidies, social spending, and compensation**.
- **Investment** is supported by high **private investment**, apart from Government Capital Expenditure support.
- **Government Consumption** is supported by the **Employee Expenditure (Religious Holiday Allowance, 13th salary with 100% performance allowance) & Goods Expenditure policy**.
- The largest contributor to the production side is **the manufacturing sector, supported by strong domestic demand**.
- The multiplier effect of the **Government Employee Expenditure Policy** in Q2 also encouraged the growth of the **sector, trade, transportation, and food/beverage accommodation** in line with the **Public holiday period and school holidays**.

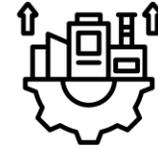
INDONESIA'S ECONOMIC GROWTH IS SUPPORTED BY THE STATE BUDGET AS AN INSTRUMENT OF ECONOMIC AND WELFARE



Economic Dynamics



Development Challenges
(al. Demography, Climate Change)



Development Agenda
(al. New Capital, Elections)

FISCAL POLICY

Responding to Economic Dynamics, Responding to Challenges, and Supporting the Development Agenda



1

State Budget as a Shock Absorber

(STABILIZATION FUNCTION)



2

State Budget People's Welfare Solutions

(DISTRIBUTION FUNCTION)



3

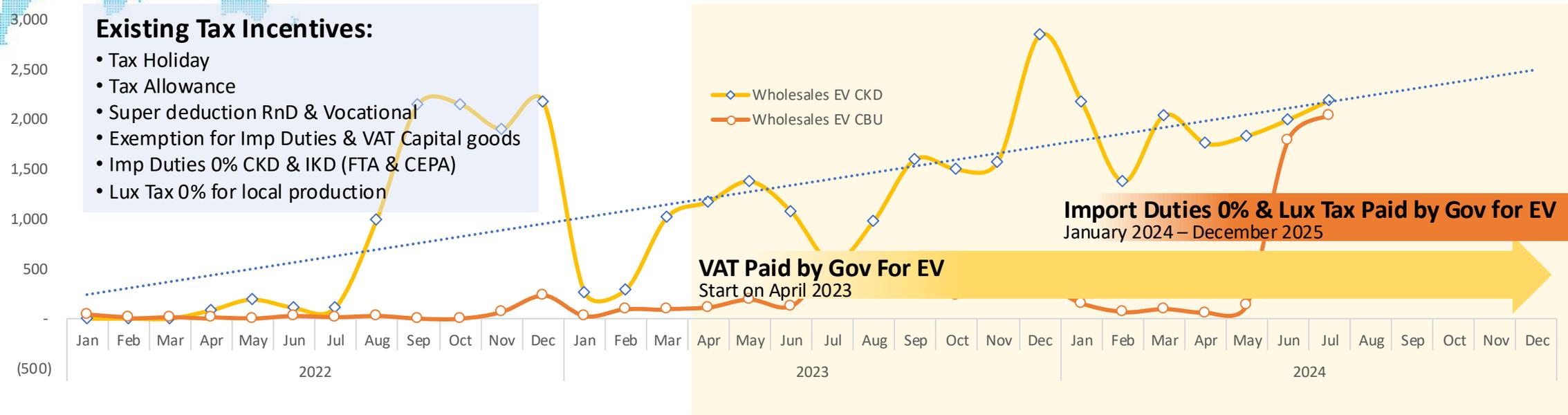
State Budget as a development agent
(Economic Transformation)

(ALLOCATION FUNCTION)

Tax Expenditure Supports the Stabilization and Distribution Function of the State Budget

CASE STUDY: FISCAL AND NON-FISCAL SUPPORT HELPS ACCELERATE THE EV PROGRAM

Sales of CKD and CBU EV



Source: Gaikindo

- **Incentives for EVs have been able to attract investors to produce domestically.** Wuling and Hyundai will start production in 2022, followed by Cherry, MG, and Neta which have also started production in 2024.
- **The additional provision of VAT Borne By Government EV incentives for 2023-2024 is effective in increasing sales of electric vehicles.** Sales of domestically produced electric vehicles in 2023 increased by 44% yoy. Meanwhile, sales in the first semester of 2024 increased by 115% yoy.
- **In order to accelerate the development of the EV ecosystem, adjustments to the TKDN roadmap have been made and incentives of 0% Import Duty and PPnBM Borne By Government for 2024 and 2025 are given to investors who are committed to producing KBLBB domestically.** This incentive has been able to attract BYD and Citroen manufacturers to also commit to domestic production.



Indonesia Tax Expenditure Report 2023

Definition



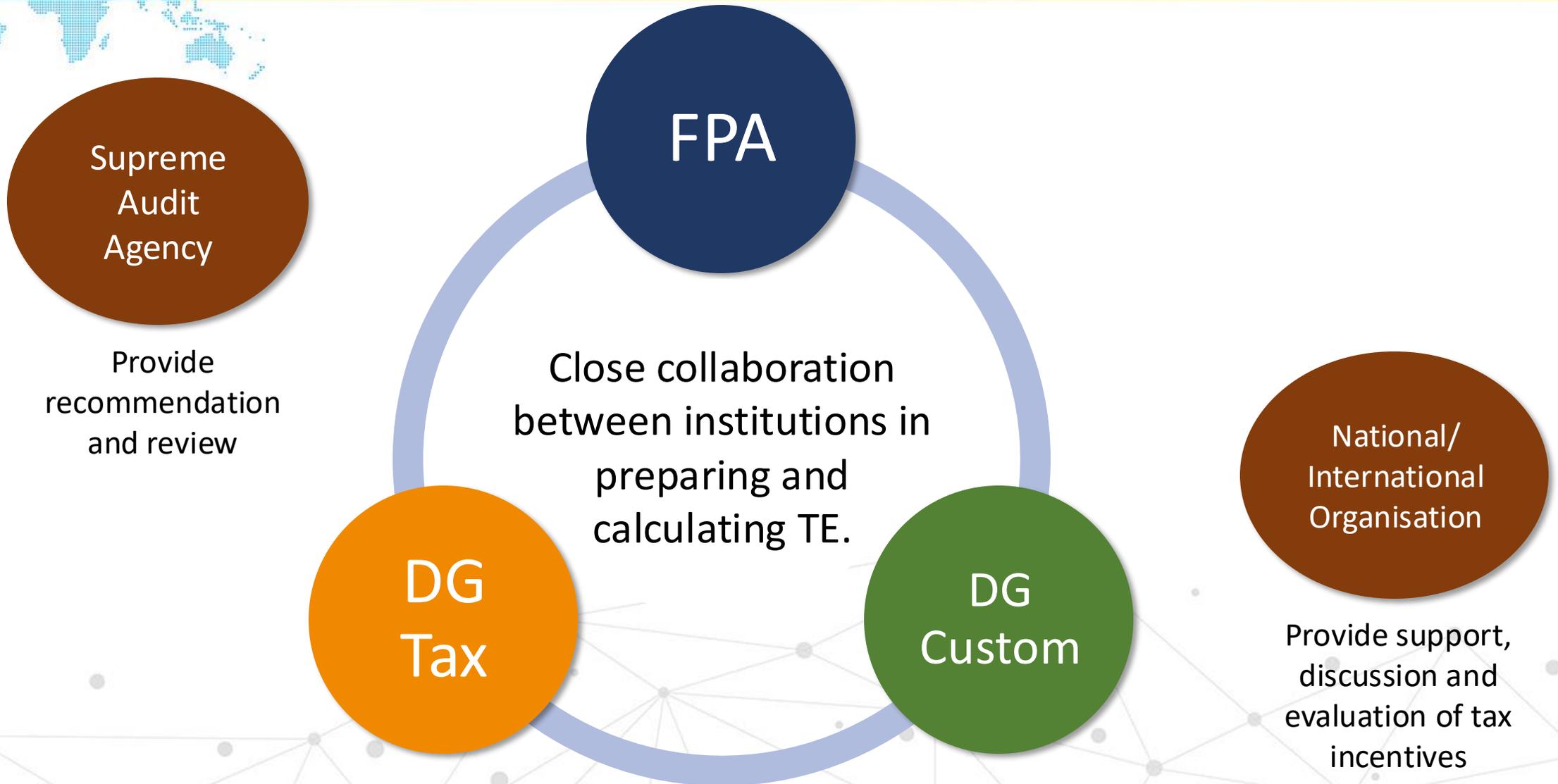
Tax revenues that are not collected or reduced as a result of special provisions that differ from the benchmark tax system which targets only some tax subjects and objects with certain requirements.



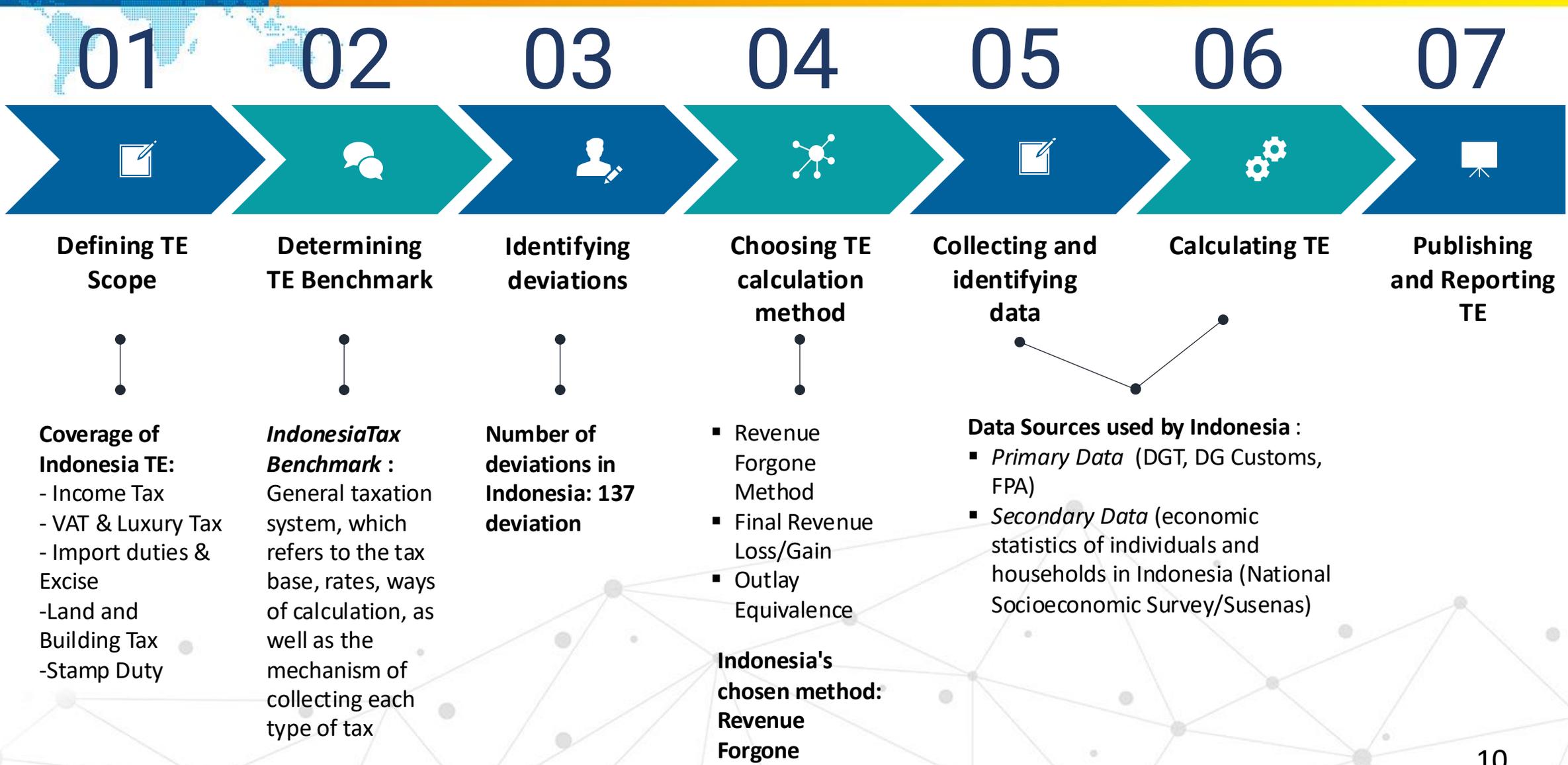
Caveats

The removal of the tax incentive provision does not have a direct impact on increasing tax revenue because estimates are static:

1. **Does not take into account changes in behavior.** For example, tax holiday, if the facility is revoked, there will not necessarily be investors who enter and increase the tax base
2. **Does not take into account the impact of economic multipliers.**
3. **Does not take into account the continued policy changes of the government.**



FLOW OF TAX EXPENDITURE REPORT PREPARATION



01



Defining TE Scope



Coverage of Indonesia TE:

- Income Tax
- VAT & Luxury Tax
- Import duties & Excise
- Land and Building Tax
- Stamp Duty

02



Determining TE Benchmark



IndonesiaTax Benchmark :
 General taxation system, which refers to the tax base, rates, ways of calculation, as well as the mechanism of collecting each type of tax

03



Identifying deviations



Number of deviations in Indonesia: 137 deviation

04



Choosing TE calculation method



- Revenue Forgone Method
- Final Revenue Loss/Gain
- Outlay Equivalence

Indonesia's chosen method: Revenue Forgone

05



Collecting and identifying data



Data Sources used by Indonesia :

- *Primary Data* (DGT, DG Customs, FPA)
- *Secondary Data* (economic statistics of individuals and households in Indonesia (National Socioeconomic Survey/Susenas))

06



Calculating TE

07

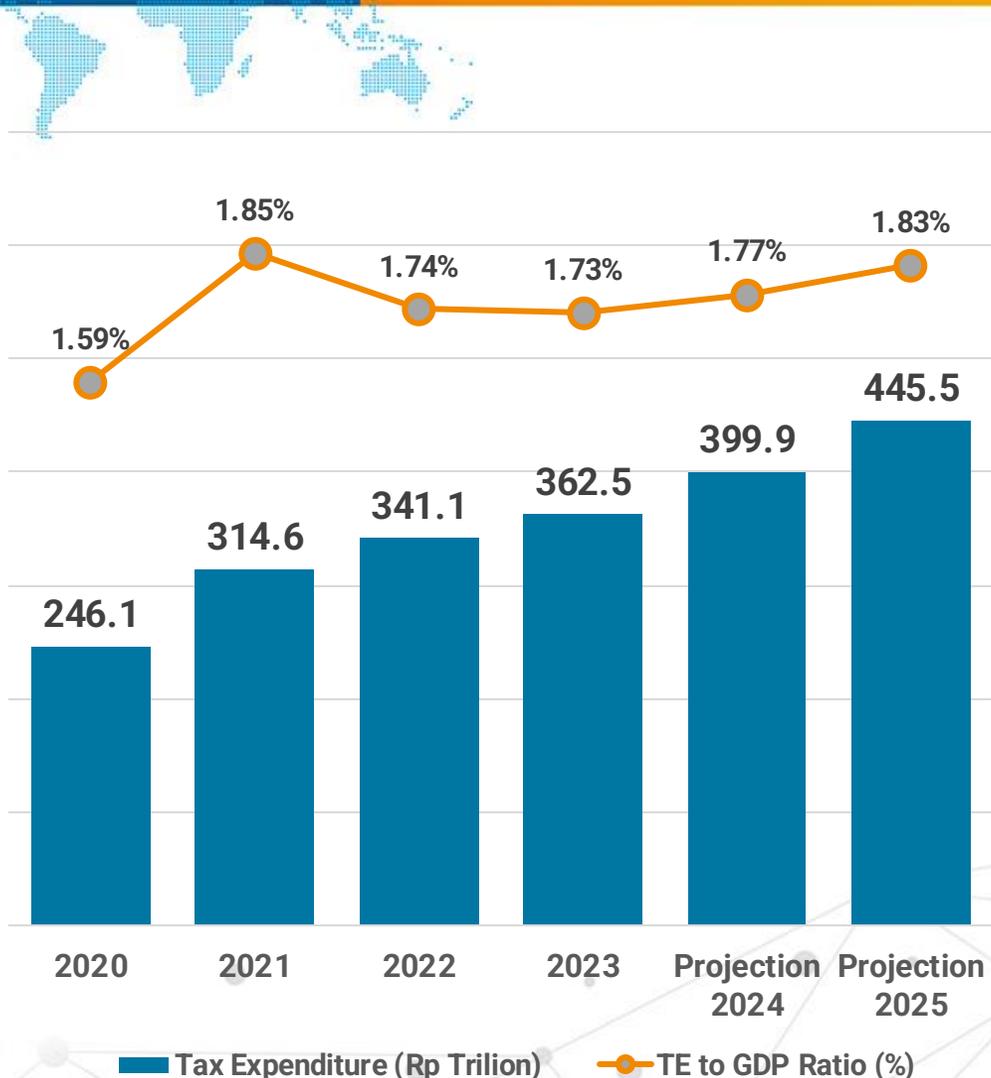


Publishing and Reporting TE



TAX EXPENDITURE SUPPORTS DOMESTIC ECONOMIC GROWTH

The value of tax expenditure in 2023 is Rp362.5 trillion [US\$ 23,8 billion] (1.73% of GDP), an increase of 6.3% compared to 2022 in line with economic growth, and is projected to increase in 2024 and 2025



in trillions of Rupiah

Types of Taxes	Estimation				Projection	
	2020	2021	2022	2023	2024	2025
VAT & Luxury Tax	141,4	175,8	195,6	210,2	231,0	265,6
Income Tax	91,0	121,8	128,6	129,8	138,6	144,7
Customs & Excise	13,7	17,0	16,4	21,4	29,2	34,0
Land and Building Tax	0,05	0,04	0,03	0,7	0,7	0,7
Stamp Duty	-	-	0,4	0,3	0,4	0,4
Total	246,1	314,6	341,1	362,5	399,9	445,5

TE to GDP Ratio 1,59% 1,85% 1,74% 1,73% 1,77% 1,83%

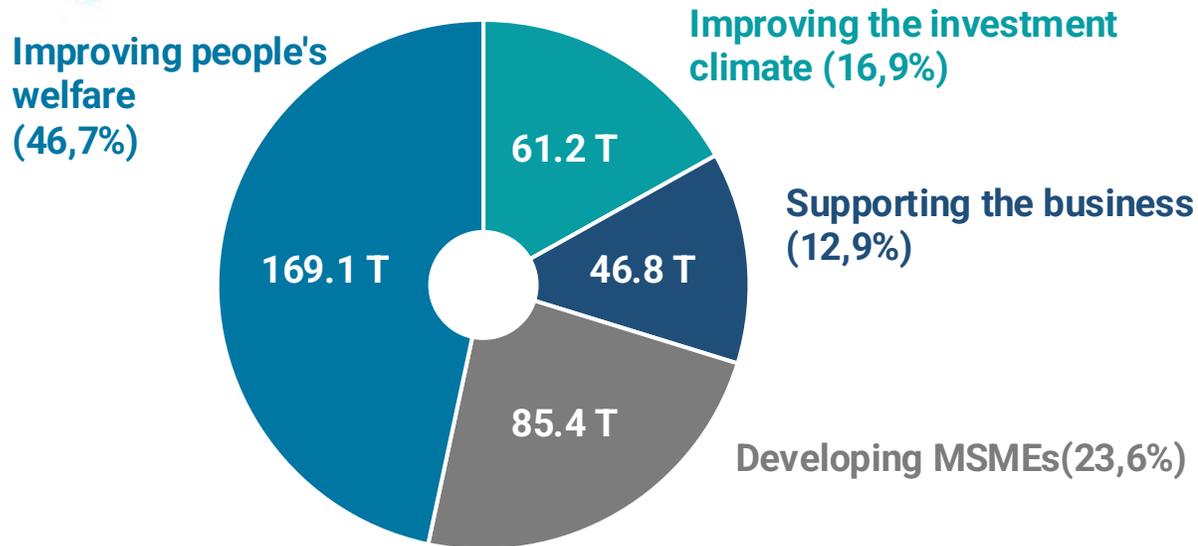
in billions US\$

Types of Taxes	Estimation				Projection	
	2020	2021	2022	2023	2024	2025
VAT & Luxury Tax	10,0	12,3	12,4	13,8	14,4	16,6
Income Tax	6,5	8,5	8,2	8,5	8,7	9,0
Customs & Excise	1,0	1,2	1,0	1,4	1,8	2,1
Land and Building Tax	0,003	0,003	0,002	0,05	0,05	0,05
Stamp Duty	-	-	0,02	0,02	0,02	0,03
Total	17,4	22,0	21,7	23,8	25,0	27,8

The largest tax expenditure comes from VAT and PPnBM facilities which on average reaches more than 60% of the total estimated tax expenditure per year.

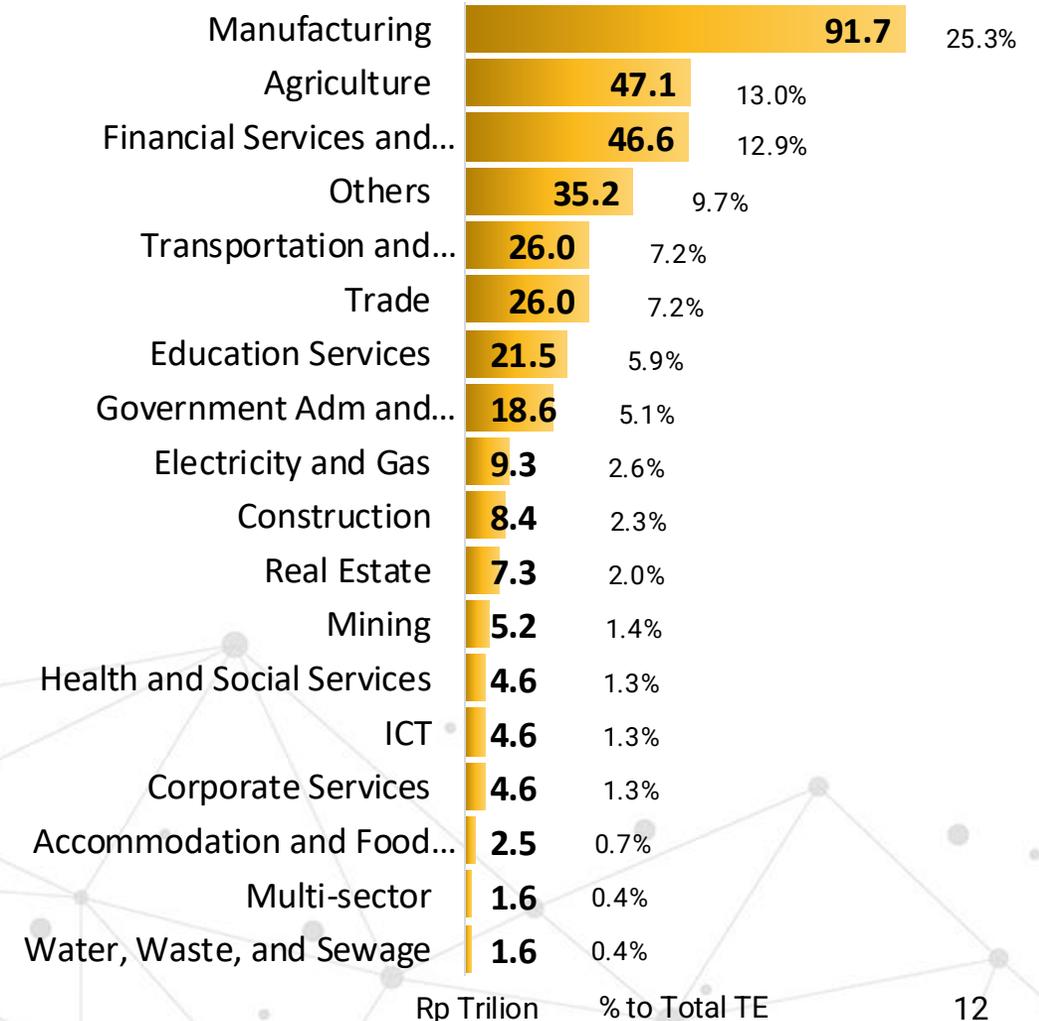
UTILIZATION OF TAX EXPENDITURE IN 2023 BASED ON ECONOMIC OBJECTIVES AND SECTORS

Tax Spending by Purpose



- Based on the Objectives, the use of Tax Expenditure is mainly to improve people's welfare of Rp169.1T (46.7%) and Develop MSMEs Rp85.4T (23.6%).
- Based on the sectors that use it, the Manufacturing and Agriculture sectors make the most use of tax spending, Rp91.7T (25.3%) and Rp47.1T (13.0%), respectively.

Tax Expenditure Based on Economic Sectors

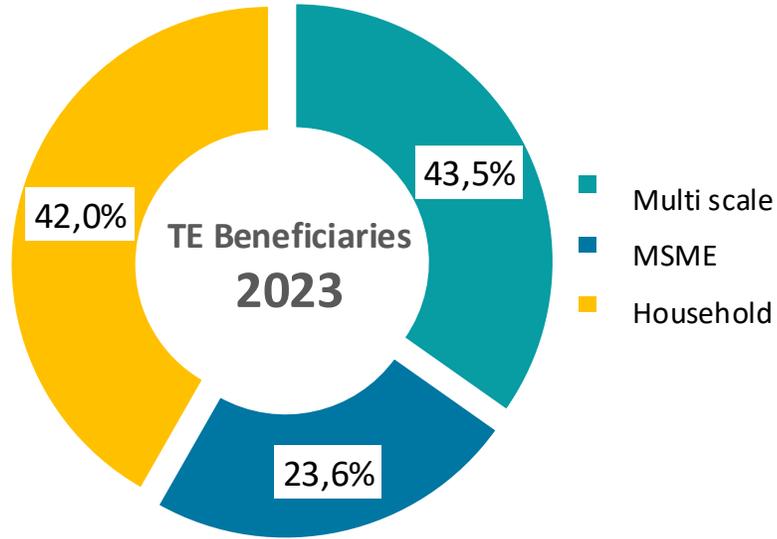
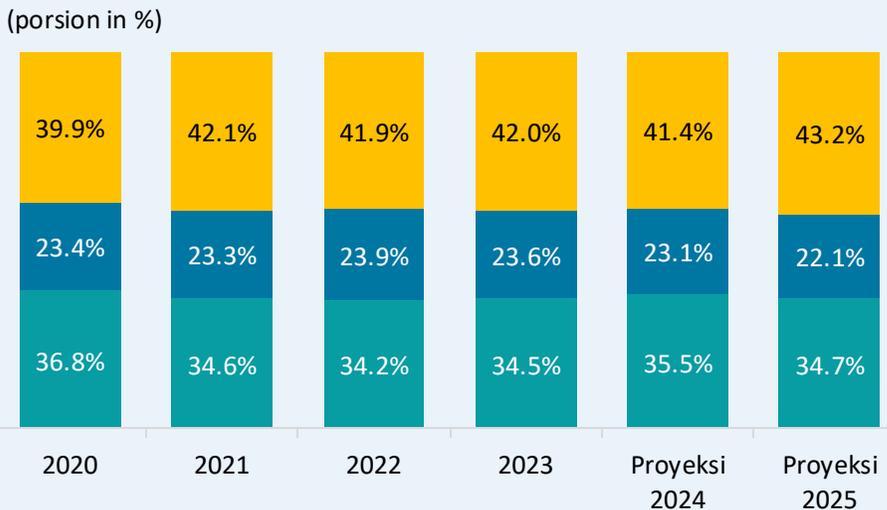
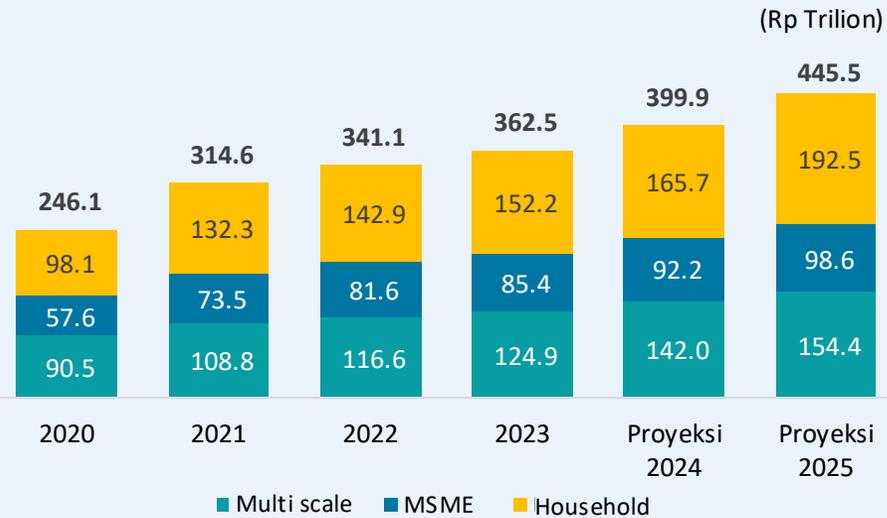




ESTIMATED TAX EXPENDITURE BASED ON RECIPIENT SUBJECT

2023: MSMEs and households are the largest recipients of TE (65.2%) with a total of IDR 237.6 T (US\$ 15,6 billion)

Tax Expenditure by Subject, 2020-2025



Tax facilities received by households in 2023 include:

- VAT not payable on basic necessities
- VAT is not charged on education services
- VAT is exempted on electricity, except for power above 6600 VA

Multiscale tax incentives are tax incentives enjoyed by the MSME segment and Large Business Actors:

Taxation facilities include:

- BM exemption for capital goods imports
- Reduction of Corporate Income Tax rates for public companies
- Final Income Tax on the transfer of land/building rights

Tax facilities received for MSMEs in 2023, include:

Income Tax

- 50% reduction in Corporate Income Tax rate
- MSME Income Tax rate
- Final Income Tax for MSMEs borne by government

VAT

VAT not payable on small entrepreneurs (turnover up to 4.8 M)

TAX INCENTIVES ARE COMPREHENSIVELY UTILIZED BY THE COMMUNITY AND VARIOUS ASPECTS OF THE ECONOMY

Tax Expenditure in 2023 includes:

VAT exempted for groceries

Rp63,1T

US\$ 4.1 Bio

- VAT is exempted on basic necessities (rice, corn, soybeans, sugar, fresh milk, beans, poultry, etc.) Rp40.9T.
- VAT is exempted for fishery and marine products of IDR 22.2T.



Incentives for the education sector

Rp21,5T

US\$ 1.4 Bio

- VAT is exempted for education services amounting to Rp19.8T.
- VAT is exempted for textbooks of IDR 418 billion
- Other incentives of Rp1.3T



Incentives for the transport sector

Rp26,0T

US\$ 1.7 Bio

- Among others:
- VAT is exempted for public transportation services of IDR 17.2T.
 - A special VAT rate for freight forwarding services of IDR 5.2T.



Incentives for the health sector

Rp4,6T

US\$ 0.3 Bio

- VAT is not imposed on medical health services amounting to Rp3.3T.
- MSME income tax in the health sector amounted to IDR 119.3 billion
- Income Tax Article 21 DTP of IDR 13.3 billion
- Other policies whose taxpayers are engaged in the health sector amounted to Rp1.2 T



Incentives to support MSMEs

Rp85,3T

US\$ 5.6 Bio

- Among others:
- VAT is not collected for MSMEs of IDR 52.4T.
 - MSME Final Income Tax of IDR 27.5T.



Tax Holidays and Tax Allowances to encourage investment

Rp5,6T

US\$ 0.4 Bio

- As of July 2024, Tax Holiday is given to 176 taxpayers with 187 new investments, Tax Allowance is given to 223 taxpayers with 226 investments.



THE USE OF TAX FACILITIES ENCOURAGES INCREASED INVESTMENT

The use of Tax Holiday Facilities are able to absorb the largest investment value



Period 2011-July 2024

 **176** Taxpayer

Investment Realization
Rp349,57 T &
US\$ 479 Million



Period 2007-July 2024

 **80** Taxpayer

Investment Realization
Rp84,57 T &
US\$ 8,5 Million



Period 2020-July 2024

 **8** Taxpayer

Investment Realization
Rp0,53 T &
US\$ 18,6 Million



Period 2021-July 2024

TAX HOLIDAY  **7** Taxpayer
TAX ALLOWANCE  **34** Taxpayer

Investment Realization
Rp0,25 T

Investment Realization
Rp11,66 T



 **85** Taxpayer

Period 2019-Juli 2024

 **81.278** Participants
 **795** Vocational Partners
 **Rp1,16 T** Cost Estimation



 **6** Taxpayer

Period 2020-Juli 2024

 **9 Focus**
38 Theme
 **Rp1,34 T**
US\$ 15,36 Million Cost Estimation

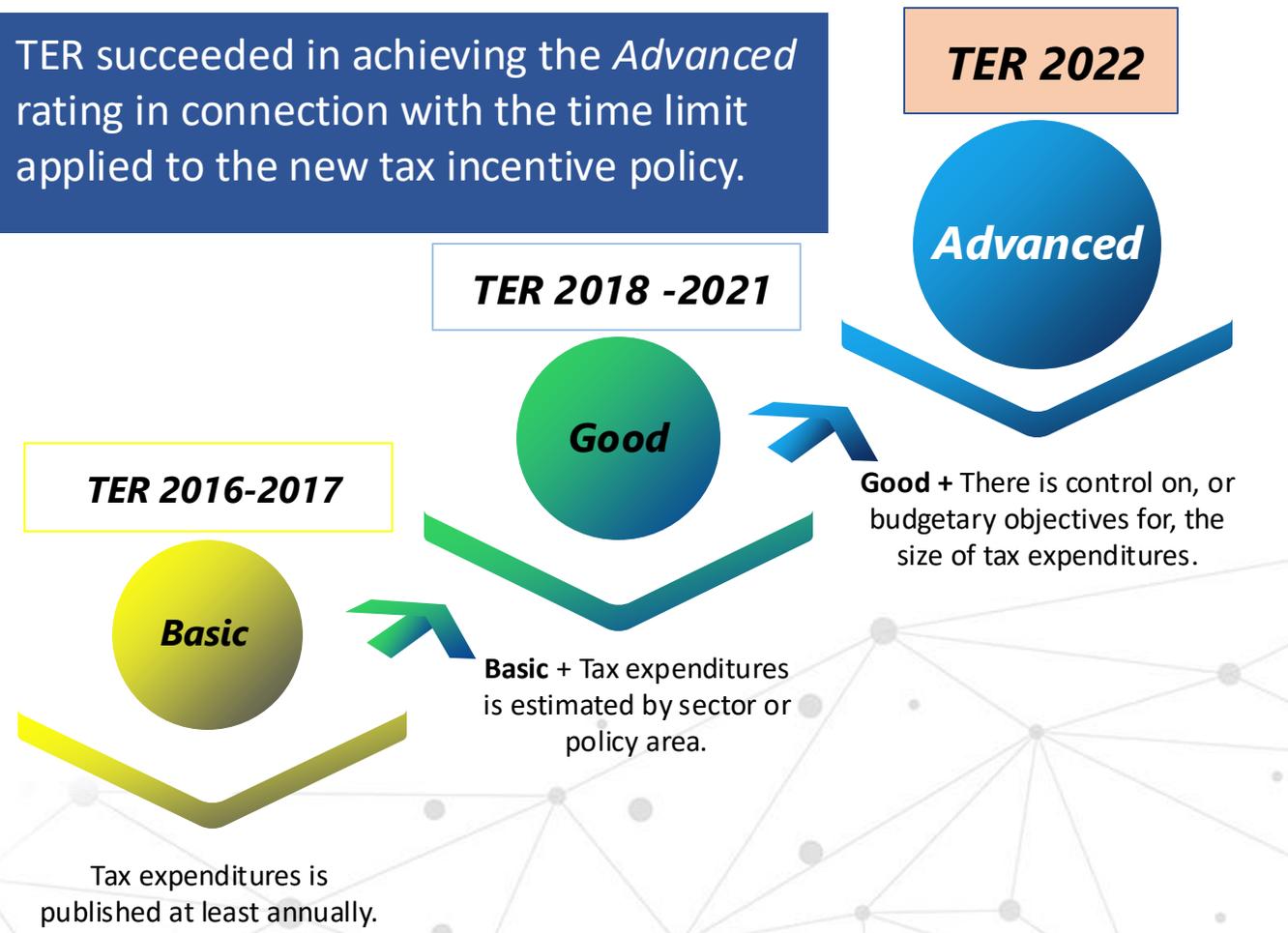


Indonesia Tax Expenditure Transparency Level

TAX EXPENDITURE REPORT ACHIEVES ADVANCED RATING IN FISCAL TRANSPARENCY REVIEW

As an evaluation of the implementation of fiscal transparency, every year BPK conducts a fiscal transparency review of the Tax Expenditure Report. The fiscal transparency review refers to the IMF's Fiscal Transparency Code (FTC).

TER succeeded in achieving the *Advanced* rating in connection with the time limit applied to the new tax incentive policy.



Improvement in the preparation of the TE Report from year to year

TER 2019

- Expansion of Tax Type Coverage
- Incentive Evaluation Chapter
- Additional chapters to present other incentives in addition to the Tax Spending incentive

- Improvement of databases and methodologies.
- Adjustment of report presentation

TER 2020

TER 2021

- Presentation of projected values
- Displaying 5 Incentive Evaluations

- Projected Value t+3
- Additional Incentive Evaluation
- Book Redesign

TER 2022

TRANSPARENCY LEVEL OF INDONESIA'S TAX EXPENDITURE REPORT BASED ON GTETI

Indonesia, through the issuance of tax expenditure reports, is one of the few countries in the world that has a great commitment to implementing information disclosure to the public regarding the allocation and use of fiscal resources.

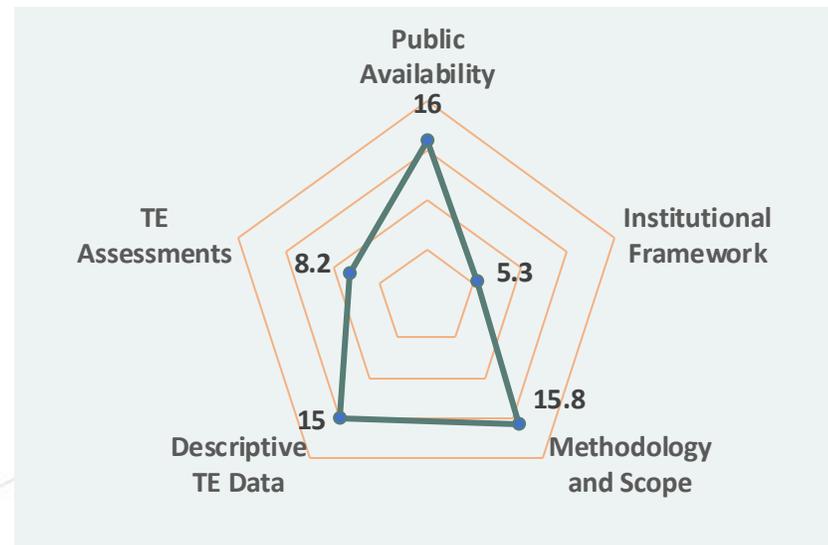
Only **105** of the 218 countries that have reported TER at least 1 time

Only **61** countries that have regularly published TER since 2017.

In the Southeast Asian region, only **Indonesia** and the **Philippines** have reported the value of tax spending.

Indonesia ranks 15th in the Global Tax Expenditures Transparency Index (GTETI 2023) above Sweden, the UK, New Zealand, Belgium and several other developed countries.

TER's Transparency Level based on the 5 dimensions of GTETI



GTETI ranks countries based on the total value of the 5 dimensions above. The five dimensions are intended to assess various aspects of a country's TER quality.

Indonesia's Ranking in GTETI

Country	World Ranking	G20 Ranking	ASEAN Ranking
South Korea	1	1	-
Canada	2	2	-
Germany	4	3	-
France	5	4	-
United States	6	5	-
Italy	7	6	-
Australia	9	7	-
Indonesia	15	8	1
Russia	23	9	-
United Kingdom	27	10	-
Argentina	34	11	-
India	36	12	-
Mexico	42	13	-
South Africa	51	14	-
Brazil	57	15	-
Philippines	75	-	2
Turkey	78	16	-
Japan	94	17	-
China	105	18	-
Saudi Arabia	105	19	-
Malaysia	105	-	10
Singapore	105	-	10
Vietnam	105	-	10

Ranking
15
in the world

Ranking
8
in G20

Ranking
1
in ASEAN

Source: GTETI 2023

Source: GTED 2023

- Tax expenditure policy is very important in supporting Indonesia's economic stability, especially in maintaining people's purchasing power and the growth of key sectors such as manufacturing and agriculture.
- In 2023, total tax expenditure reach IDR 362.5 trillion or 1.73% of GDP, an increase of 6.3% from 2022. VAT and PPnBM facilities account for more than 60% of total tax expenditure.
- The government will continue to be committed to increasing transparency and effectiveness in reporting to ensure optimal use of tax expenditures.
- Tax expenditure policy serves as a strategic investment for the future of the nation, encouraging sustainable development and improving people's welfare.



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Terima kasih - Thank You