



Indonesia Tax Expenditure Report: Taxpayers' Perspective

DDTC Fiscal Research & Advisory

Development of Indonesia's Tax Expenditure Report (TER)



- 1 Updated data and regulations are accommodated to provide more accurate estimation of the tax expenditure → Adjustments from new regulations are necessary.
- 2 Additional years of tax expenditure projection until $t + 3$ years, supplemented by macroeconomic and fiscal projection on certain variables → Additional scenarios with different assumption can be insightful.
- 3 The detail of estimation result is comprehensively provided in a separate report, engaging for public discussion.
- 4 Limitation and plan for improvements of the estimation are openly disclosed in the report
- 5 Current TER can be followed by local governments to improve transparency and fiscal discourse at regional level

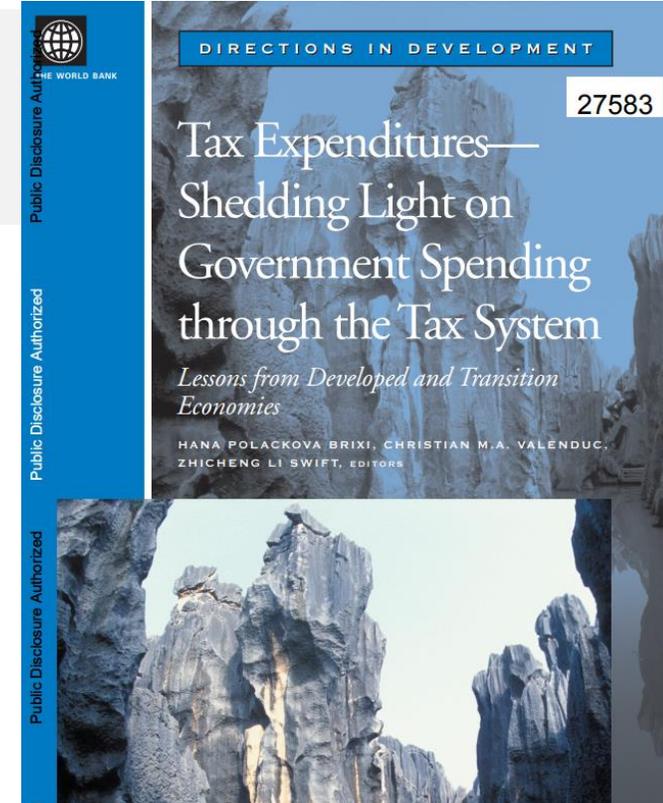
Continues improvements have been sustained to ensure that the report is comprehensive, accountable, and transparent for open and public discussion.



Taxpayer's Expectation from Tax Expenditure

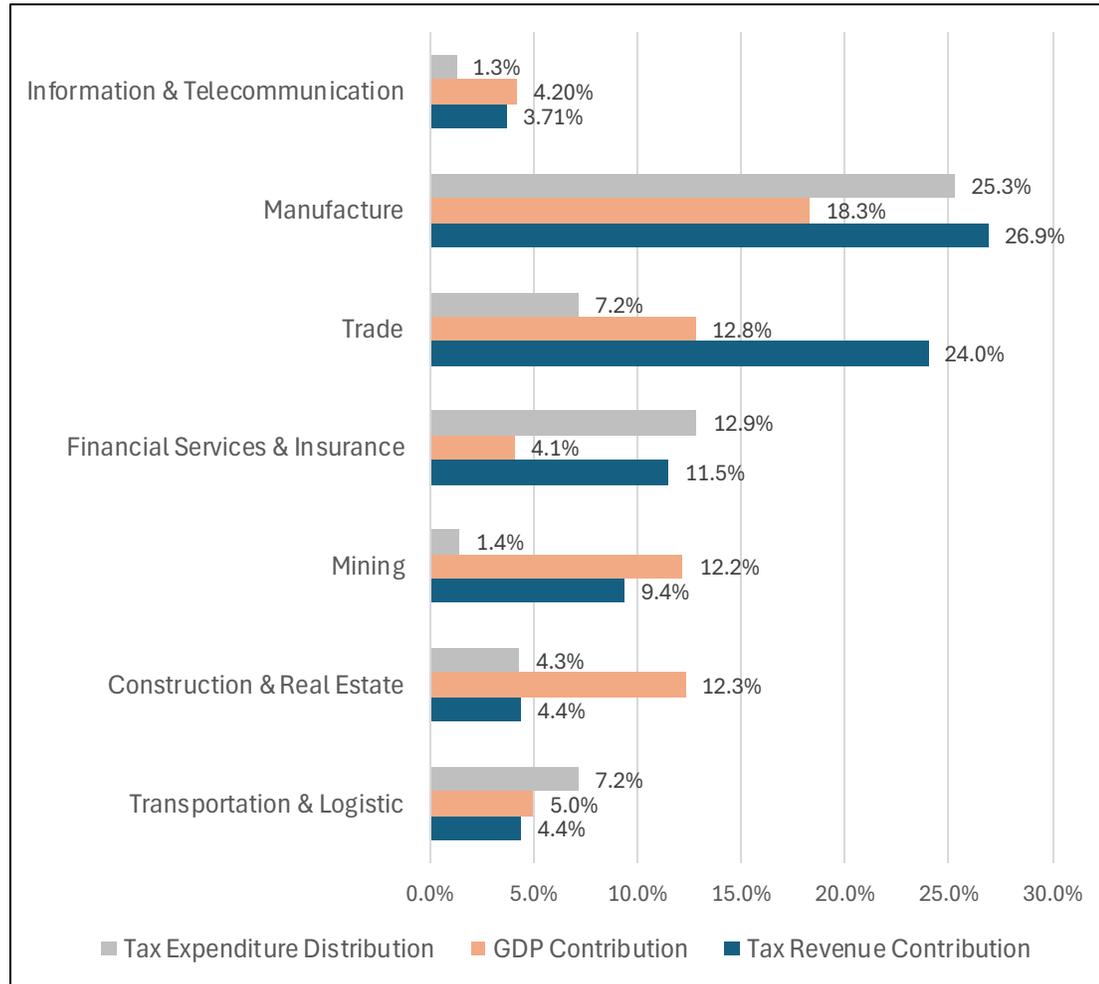
Tax expenditure's positive trend shows the relentless support for taxpayers through the tax system. Nevertheless, it is also expected that certain tax expenditure sources (e.g. incentives, etc.) do not reduce tax certainty.

- TER has shown the transparency improvement and relentless support from the tax system. Nevertheless, taxpayers expect the 'follow up actions' from TER and more involvement from related government bodies.
- Tax expenditure can improve more efficient resource allocation for taxpayers as the 'tax expenses' can now be directly used for other necessities (Brix, et al., 2004)
- As anti-tax avoidance from Government Reg. 55 of 2022 and other regulations onwards heavily limits room for tax planning, taxpayers will rely more on utilizing tax facilities.
- Nevertheless, what still hinders certain tax expenditures from optimum amount are the lack of certainty on taxpayers' eligibility and the consequences of utilizing tax facilities.
- Taxpayers will expect more from tax expenditures, especially as governments are broadening tax bases through HPP Law.



Hana P. Brix, et al., "Tax Expenditures-Shedding Light on Government Spending through the Tax System," (The World Bank: Washington, 2024).

General Review on Tax Expenditure Performance

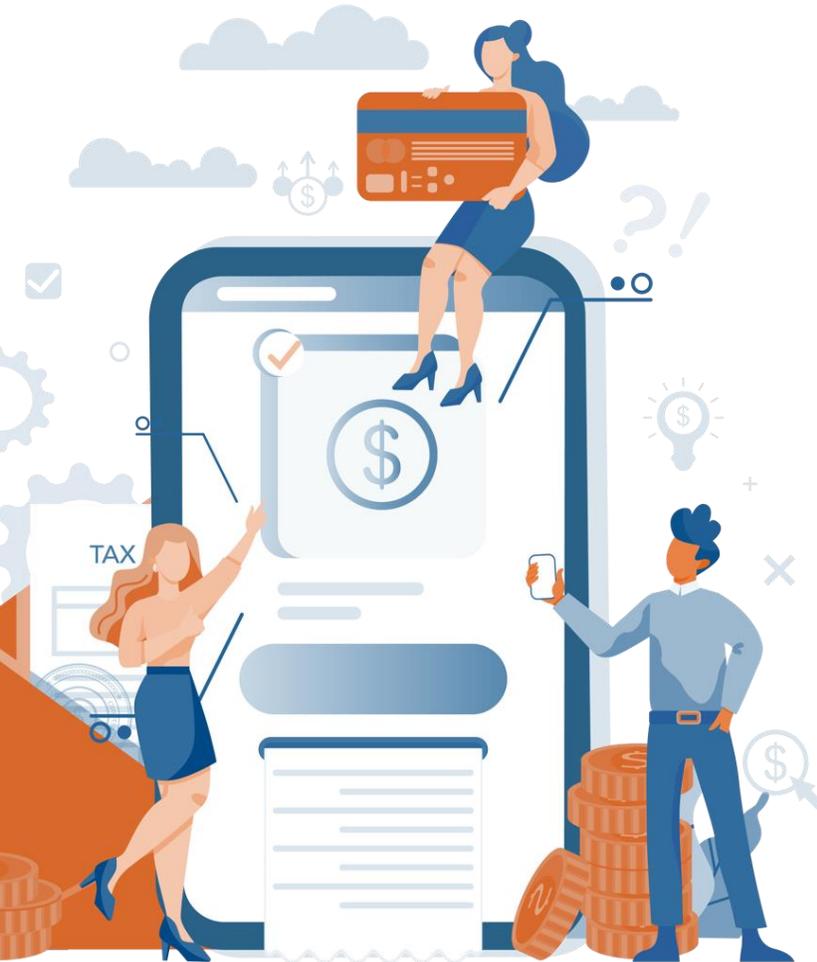


Source: Ministry of Finance, "Tax Expenditure report" from various years and National Budget Plan Note 2025, APBN Kita, and BPS (processed by DDTC FRA).

- 1 Tax expenditure is distributed across economic sector with variation compared to each economic and tax contribution.
- 2 Most sectors which are entitled to higher tax expenditure also contribute relatively high tax revenue, notably trade and mining sector. This indicates that the 'tax breaks' for certain taxes pushes the contribution of other tax revenues from the sector.
- 3 There are several sectors that contribute significant to the economy (mining, construction, and IT), and also the other way around (financial services & insurance, transportation & logistic, and manufacture). These situation needs to be aligned with government priority and the balance between economy and fiscal matter.



Notes on Certain Classification of Tax Expenditure



- 1 Any tax regulations that are designed for administration simplicity are rightfully exempted from tax expenditure's coverage, as mentioned in Tax Expenditure Report. However, certain final income tax regulations are still classified as tax expenditure post, such as final income tax for certain business, incomes from land and/or building sales, etc.)
- 2 Tax expenditure from several tax facilities are still zero or close to zero, including:
 1. Tax holiday and tax allowance in Special Economic Zone
 2. Tax holiday and tax allowance in Industrial Zone
 3. Investment allowance for certain human-capital intensive industries
 4. Supertax deduction for vocational activities
 5. Supertax deduction for research & development
- 3 How should income tax on fringe benefits affect regulations perceived in tax expenditure estimation? Are the exemption recognized as tax expenditure?
- 4 How would Global Minimum Tax affect the tax expenditure? Should the impact get covered by new tax incentives?
- 5 Negative tax expenditure – deviation from benchmark tax structure, but **makes taxpayers pay more than they should 'normally' do** – needs to be taken into account.

Tax Expenditure from New Tax Base: Fringe-Benefit Tax

New tax expenditure may arise as a result from new tax bases, notably income tax on fringe-benefit, as regulated in MoF Reg 66 of 2023 .

Definition

1

“Remunerations in the form of in-kind” refer to remunerations in the form of **in-kind other than money**

2

“Remunerations in the form of fringe benefits” refer to the remunerations in the form of **the right to use facilities and/or services.**

Excluded Objects

- 1 Foods, ingredients of food, ingredients for beverages and/or beverages **provided for all employees**
- 2 in-kind and/or fringe benefits **provided in certain areas**
- 3 in-kind and/or fringe benefits to be provided by the employer **in the implementation of work**
- 4 in-kind and/or fringe benefits **sourced or financed by the state budget**, local budget and/or village budget
- 5 in-kind and/or fringe benefits of **certain types and/or thresholds.**

Are these exclusions treated as tax expenditure? If so, how to estimate the number?



Negative Expenditures

- 1 Under VAT Law, VAT input can only be credited by VAT output generated within 5 years (+1 years for national strategic project).



What if after 5 years, the business is yet to produce taxable goods/services?

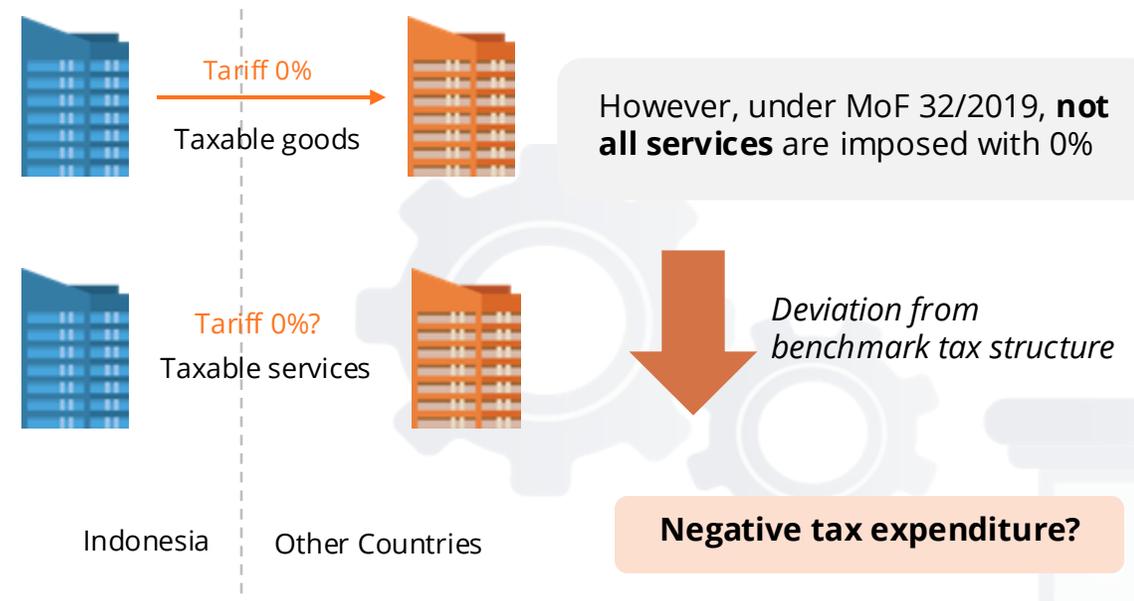
Consequence:

- **VAT input can no longer be recovered** (Art. 9 (6a) VAT Law)
- **The recovered VAT has to be returned** (Art. 9 (6e and 6f) VAT Law)
- **There are risk of interest sanctioned if the VAT recovery is not returned on time** (Art. 13 (2a) General Tax Provisions Law)

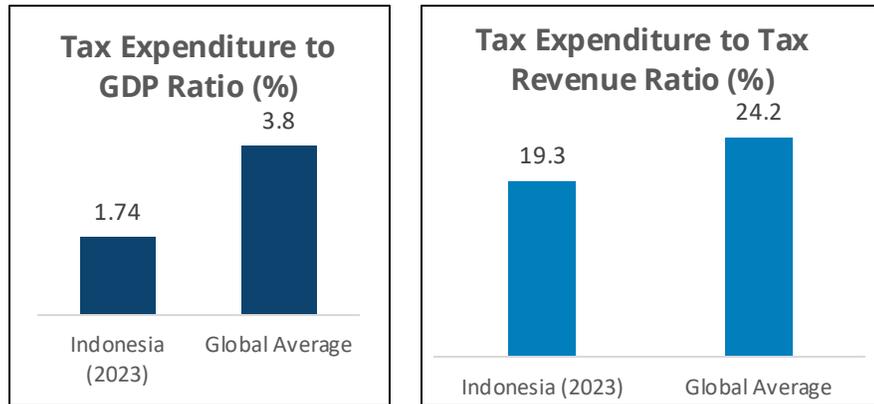


How should these negative tax expenditures affect the estimation? More importantly, how does these impact to economic welfare?

- 2 VAT on export is normally imposed with 0% rate, and it is generally implemented internationally to prevent double VAT.

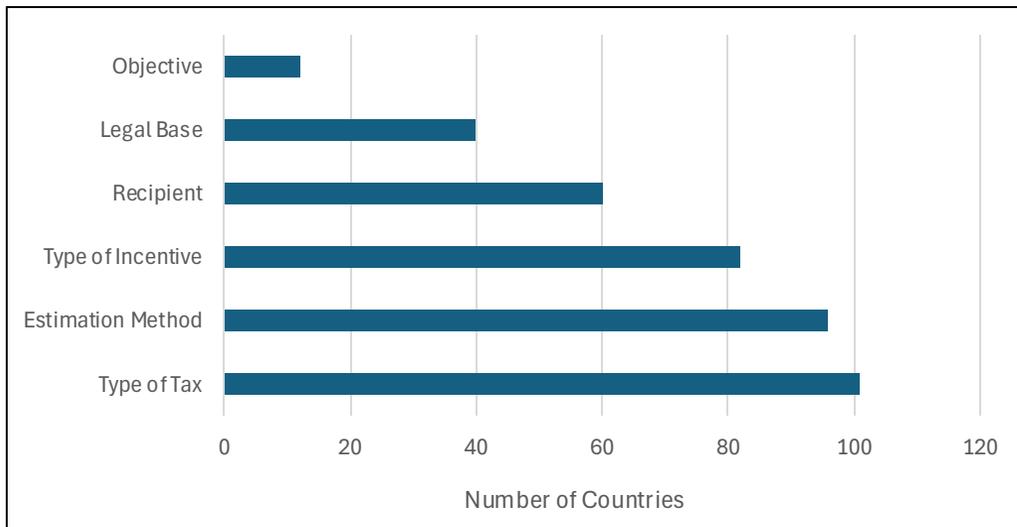


Global Comparison



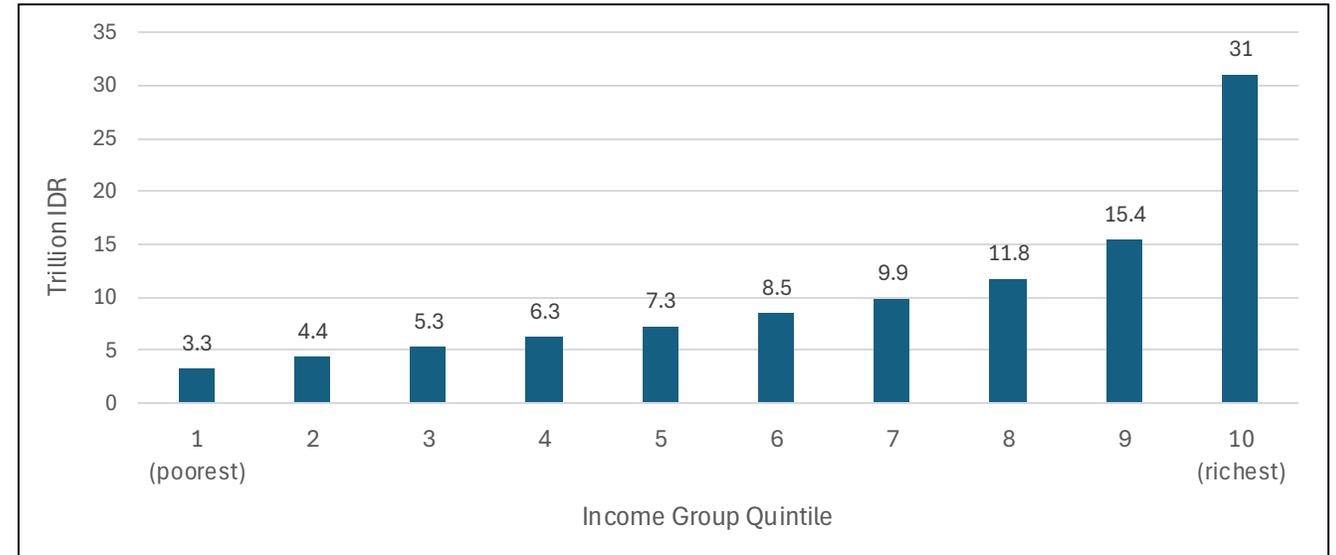
Source: Ministry of Finance, "Tax Expenditure Report" and National Budget Plan 2025
 Note: Global Tax Expenditures Database (2021)

Number of Countries in Providing Certain Information in TER



Source: Global Tax Expenditure Database, 1990-2020

Number of Countries in Providing Certain Information in TER



Source: Ministry of Finance, "Rancangan RAPBN 2025", Materials used for Work Meeting with DPR RI (2024)

- 1 TER can be used to evaluate policy effectiveness to ensure that tax subsidy is received by the targeted recipient and achieve the objective (Van den Ende, et al, 2004).
- 2 Legal base may enable the government to create planning and assignments of the business process in the making of systematic and more transparent TER.

Review on Estimation Method

Revenue forgone method

The difference in tax revenue due to the provision of tax expenditure, assuming that there is no change in the behavior of the taxpayer and the receipt of other taxes (OECD, 2014).

Advantage

- Easier and faster estimation
- Reflects the magnitude of tax benefits received by taxpayers
- Suitable for countries that are just starting to report tax spending
- Commonly used in other countries

Limitation

- Do not estimate the behavior changes due to the regulations
- Do not represent the real tax revenue loss
- Limited in providing interpretation in evaluating the effectiveness
- Cannot be used as reference to analyze tax revenue addition when there are changes of regulation

Final revenue loss method

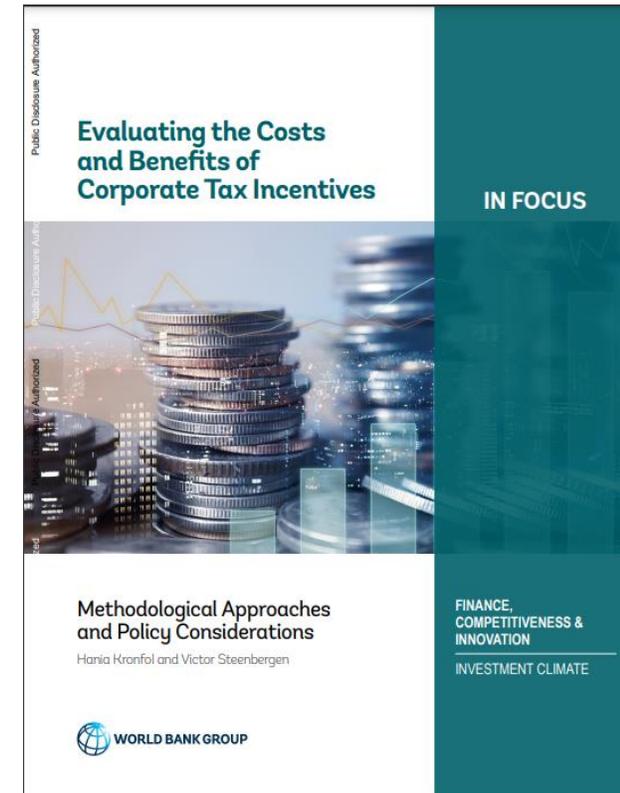
The impact on tax revenue due to the existence of tax expenditure, by incorporating the behavior changes as a respond to the 'tax benefit' (OECD, 2014).

Advantage

- Estimating the cost & benefit of tax expenditure, including additional tax revenue from additional economic activity
- Providing insights on 'redundant' tax incentive



Can be performed initially on certain strategic tax incentive



Key Takeaways



Tax Law Design and Policy Series
No 0814, Juni 2014
TAX EXPENDITURE ATAS
PAJAK PENGHASILAN:
REKOMENDASI BAGI INDONESIA

Darussalam dan B. Bawono Kristiaji



- 1 Tax expenditure report in Indonesia has shown the significant support from the tax system to the taxpayers
- 2 Definition of tax expenditure, benchmark tax structure, and other criteria need to be continually evaluated based on regulations development
- 3 The estimation result need to be followed up by further analysis of the tax expenditure effectiveness
- 4 The report shows that there are still some unutilized tax facility. Further study can be followed.
- 5 The existence of negative tax expenditure from several regulations need to be more acknowledged in the report.
- 6 Final revenue loss method can be initially used to generate more policy insight and effectiveness evaluation

Terima Kasih

Global & Domestic Recognition:



DDTC Surabaya
AMG Tower Lantai 17 Unit T.07-08-09
Jl. Dukuh Menanggal 1A, Gayungan, Surabaya
Jawa Timur 60234 - Indonesia
Phone: +6231 8252 0000,
Fax: +6231 8252 0999

Menara DDTC
Jl. Raya Boulevard Barat Blok XC 5-6 No B
Kelapa Gading Barat, Kelapa Gading
Jakarta Utara, 14240 - Indonesia
Phone: +6221 2938 2700
Fax: +6221 29382699