Estimating Revenue Forgone: Concepts and Methods

Directorate General of Taxation

Indonesian MoF

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Utilization of Revenue Forgone Method: A Simple and Widely Used Approach…

PART 1

The method used to calculate tax expenditures is the **Revenue Forgone Method**.

The Revenue Forgone Method, also known as initial revenue loss, measures **the magnitude of tax expenditures** by calculating:

The difference in

Tax revenue due to tax expenditure provisions

assuming

No change in taxpayers' behavior and revenue from other taxes.

The choice of using the revenue forgone method considered as the **simplest** and **most widely used** method in both developing and developed countries.

Data Sources Classification: Internal and External Data Distinctions...

PART 2

Identifying the appropriate data sources is the initial crucial step in determining the Tax Expenditure calculation method.

Internal Data	This refers to data available within the **internal environment** of the Directorate General of Taxes (DGT) sourced from taxpayer reporting, both individual and aggregate
	This data may include Annual Tax Returns, State Revenue Module (MPN), Approweb, and other applications owned by DGT.

External Data	This refers to **data originating from outside DGT** as it is not available within DGT's internal systems.
	This data may include company financial reports, macroeconomic data, statistics, and other supporting data not sourced from DGT.
	Examples of data in this category include BPJS (Social Security Administration), Jamsostek (Workers Social Security), Stock Exchange data, etc.

Analyzing Tax Expenditure: Methods and Examples…

PART 3

Analysts employ different methods for calculating the value of Tax Expenditure (TE):

1. DIRECT METHOD

- Extracting TE values **directly** from tax forms such as Annual Tax Returns, Periodic Tax Returns, and Tax Invoices.
- Alternatively, it can also come from **state revenue module data or financial reports**.
- This method **eliminates the need for further estimation**, as the TE value is derived by multiplying the tax base with the applicable tax rate.

Example: TE on Tax Holiday Income Tax.

2. COMPARATIVE METHOD

- The comparative approach is employed when **the direct method is infeasible**.
- It necessitates additional estimation by **comparing the anticipated tax amount** (benchmark rate) with **the tax declared by taxpayers**.

Example: TE on Other Taxable Values for VAT, TE on Tax Allowance.

3. HYBRID METHOD

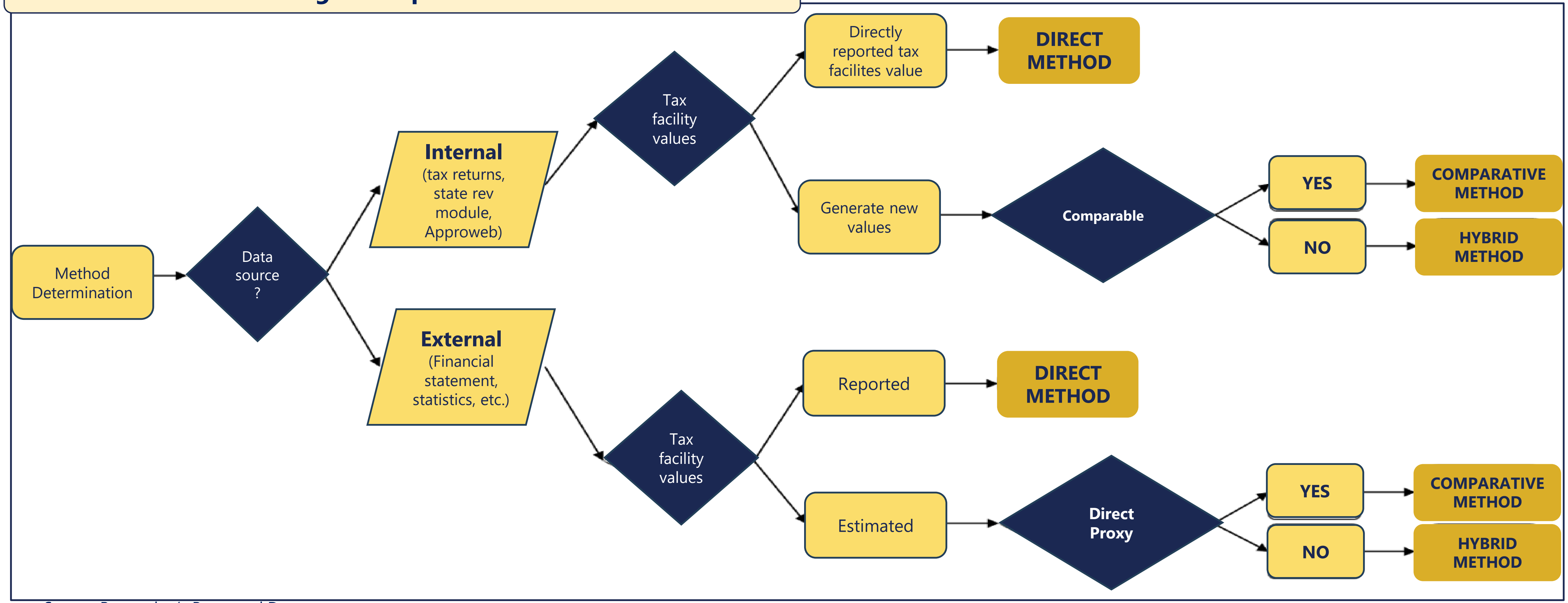
- It i**ntegrates** the previously mentioned techniques.
- It employs **proxy options** when the other methods are not applicable.
- This approach utilizes data from Annual Tax Returns, the state revenue module, and **other supporting information to calculate Taxable Net Income** (NPM.

Example: TE on SME Income Tax, TE on VAT for Travel Agency Services.

Tools for Empowering the Analysis: Decision Tree for Tax Expenditure Estimation Method Selection...

The decision tree below is designed to aid analysts in selecting the appropriate calculation method for their research.

Decision Tree for Selecting Tax Expenditure Estimation Methods



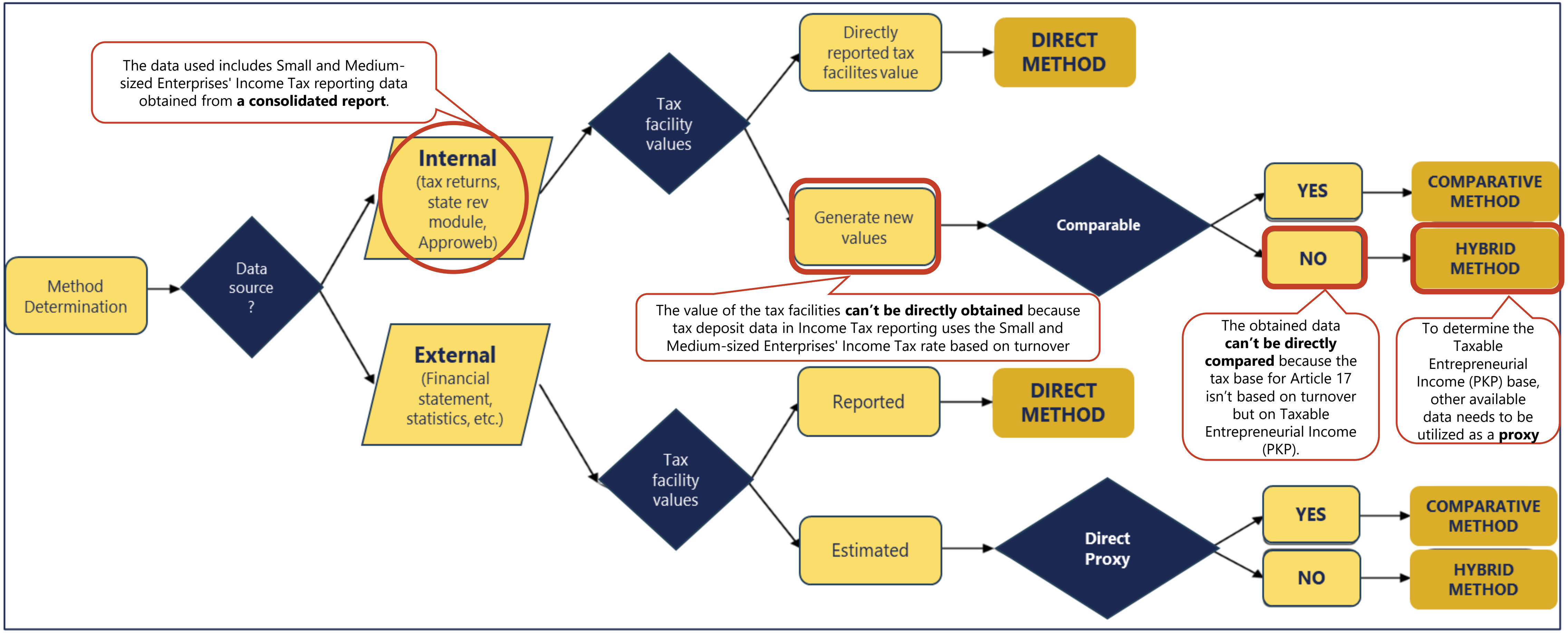
Source: Researcher's Processed Data

Illustration of Decision Tree Application (1)...

Example of applying the decision tree scheme to determine the TE calculation method:

TE on SME Income Tax

The process of determining the TE calculation method for Small and Medium-sized Enterprises' Income Tax begins with identifying the type of data and concludes that the method used is a **hybrid method.**



Enhancing TE Accuracy: Understanding the Three Levels of Accuracy Criteria...

The level of accuracy reflects the extent to which tax expenditure calculations are accurate, considering the available data and assumptions.

There are three level of accuracy: **low, medium, and high**.

The criteria for each level of accuracy are determined according to the following table:

Low

- ❑ Data source from **statistical/macro data** such as IO tables, SUSENAS, etc.;
- ❑ Using **assumptions** in determining the size/portion of a specific sector/field; **and/or**
- ❑ **Only a portion** of facilities can be calculated

Medium

- ❑ Data source from **statistical/macro data** such as IO tables, SUSENAS, etc.;
- ❑ **No assumptions** in determining the size/portion of a specific sector/field; **and/or**
- ❑ **Using financial statement data but still using assumptions** for determining the size of business surplus; and/or
- ❑ **Using primary data** sourced from tax returns or financial statements but **with certain assumptions**

High

- ❑ **Using primary data** sourced from tax returns or financial statements **without specific assumptions**;
- ❑ **Using realization data** from applications/systems at Customs or DGT; and/or
- ❑ Using data from realizations as per the financial report of the central government (LKPP).

Terima kasih

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