Overview of Tax Expenditure: The Case of Indonesia

By Directorate General of Taxes
“tax expenditure is the tax revenue that is not collected or reduced as a result of special provisions that are different from the benchmark tax system and applies to only some subjects or objects with certain requirements (deviation)”

(Tax Expenditure Report, 2021)
Tax Expenditure consists of any incentives in income tax, VAT, sales tax on luxury goods, Land and building tax, and customs and excises.

In 2017, Ministry of Finance initiated the drafting of TE reports involving DGT and DGCE under the coordination of FPA.

In the following years, the drafting team consisted of FPA, DGT, and DGCE is always formed around February each year to work on the TE Report in the respective year.
The audit results by Audit Board of Indonesia stated that the annual tax expenditure report is needed to improve accountability.

FPA, assisted by consultants, issued an analysis about TE.

- FPA, DGT, and DGCE identified the TE posts
- DGT were estimating 3 posts
- There were 89 TE posts for each year

- The launching of 2016 – 2017 TE Reports

The launching of 2018 TE Report
- There were 114 TE posts
- DGT were estimating 28 posts

- The launching of 2019 TE Report
- There were 114 TE posts
- DGT were estimating 29 posts

- The launching of 2020 TE Report
- There were 134 TE posts
- DGT were estimating 56 posts

- The launching of 2021 TE Report
- There were 137 TE posts
- DGT were estimating 77 posts

- The launching of 2022 TE Report

Tax Expenditure Reports are publicly available and can be accessed at: https://fiskal.kemenkeu.go.id/publikasi/tax-expenditure-report
### Tax Expenditure - Statistics

<table>
<thead>
<tr>
<th>Year</th>
<th>Total TE (in trillion IDR)</th>
<th>% of GDP</th>
<th>Number of TE posts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>143.6</td>
<td>1.16%</td>
<td>89</td>
</tr>
<tr>
<td>2017</td>
<td>154.7</td>
<td>1.14%</td>
<td>89</td>
</tr>
<tr>
<td>2018</td>
<td>225.2</td>
<td>1.52%</td>
<td>114</td>
</tr>
<tr>
<td>2019</td>
<td>257.2</td>
<td>1.62%</td>
<td>114</td>
</tr>
<tr>
<td>2020</td>
<td>241.6</td>
<td>1.56%</td>
<td>134</td>
</tr>
<tr>
<td>2021</td>
<td>299.1</td>
<td>1.76%</td>
<td>137</td>
</tr>
</tbody>
</table>

- **2021** records the *highest amount* of tax expenditure and its percentage to GDP
- **2021** also records the *highest number* of estimated posts
- The *smallest amount* of tax expenditure was in **2016** and the *smallest percentage* to GDP was in **2017**
Challenges and Progress

**Challenges**

- The *unstandardized* and *inconsistent* method of estimation every year causing *accuracy* problems
- Several TE posts cannot be calculated due to *lack of data* (usually *external* data from different ministry or other external sources)
- The *change* in team members every year might alter the estimation perspective, hence the method used might also be different

**Progress**

- The development of **TE Dashboard** (by FPA) might automate the estimation of several TE posts and develops better consistency in calculation
- We are progressing in the betterment of *exchange of information* and/or finding the other calculation method that does not require the external data
- Our subdirectorate develops **internal knowledge bank** to pass on the tacit knowledge of TE estimation and avoid the change of perspective