



MINISTRY OF FINANCE  
REPUBLIC OF INDONESIA

# Tax Expenditure Governance in Indonesia

**Presented by:**

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Community of Practice on Tax Expenditures, 24 October 2024



# OUTLINE

- Economic-Fiscal Update and Tax Incentives Role
- Indonesia Tax Expenditure Report 2023
- Indonesia Tax Expenditure Transparency Level
- Conclusion



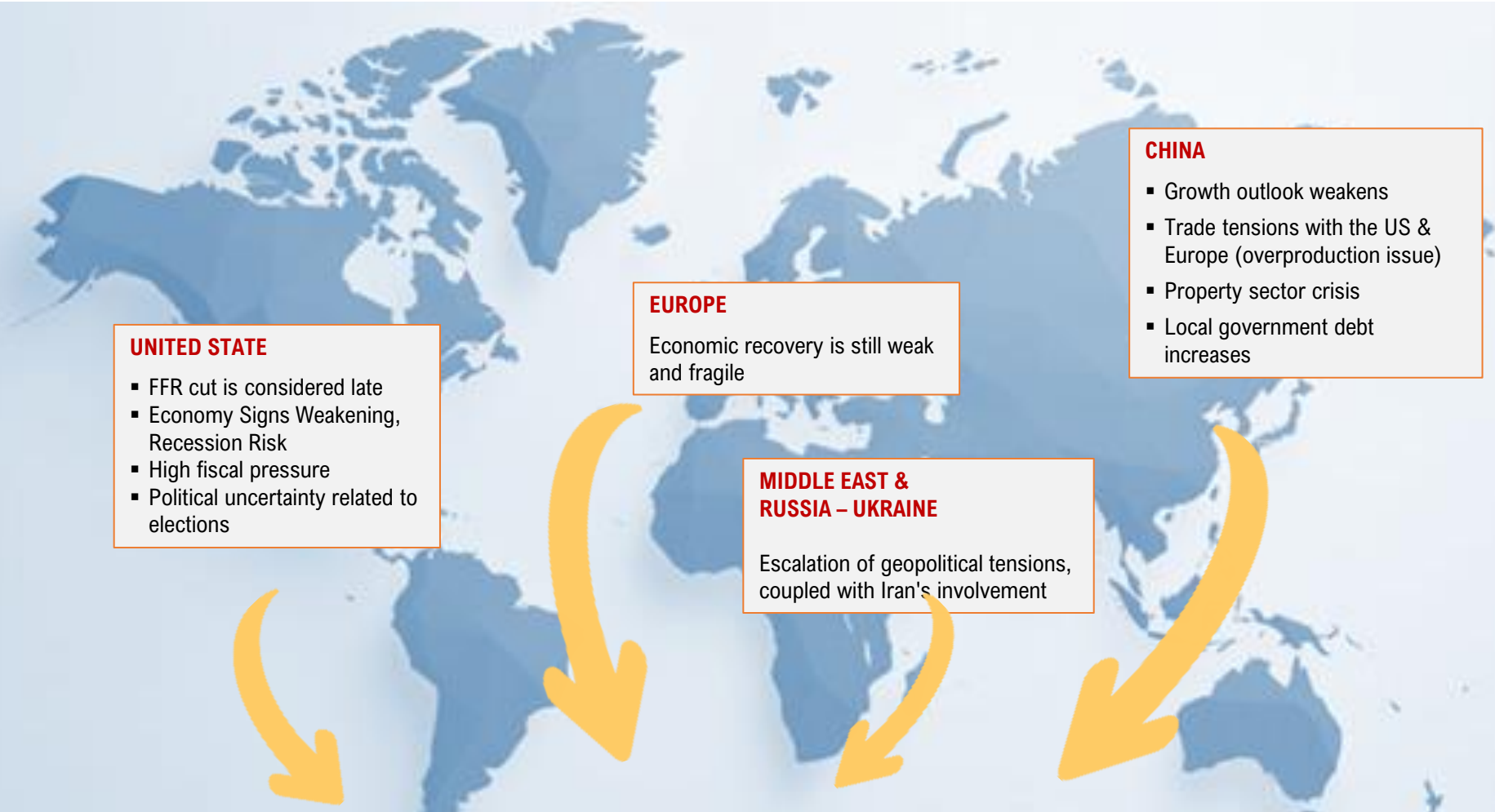
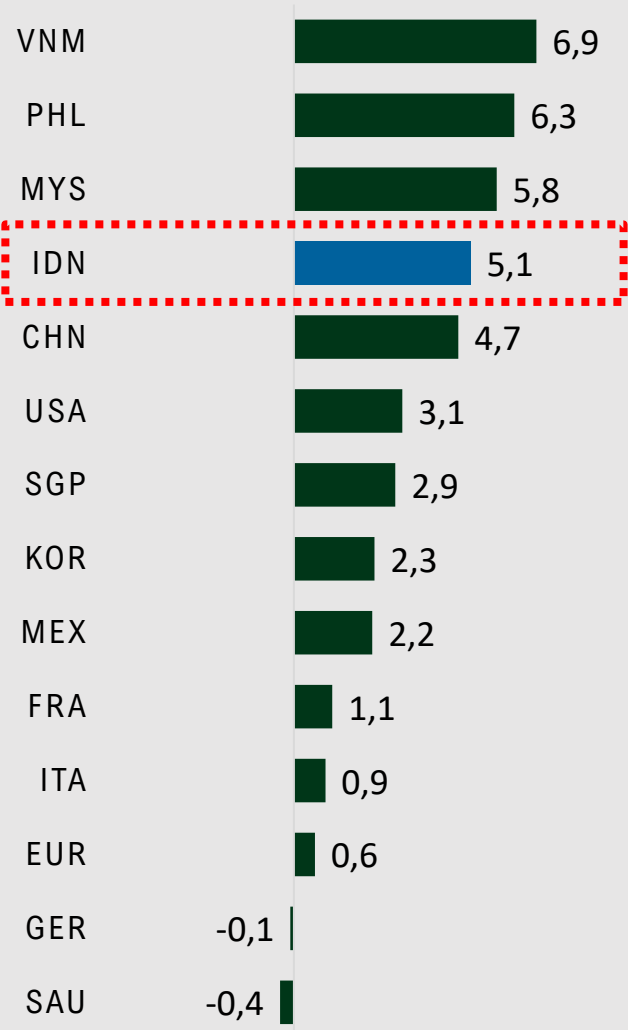


# GLOBAL ECONOMIC GROWTH IS STILL OVERSHADOWED BY RISKS AND UNCERTAINTIES



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**

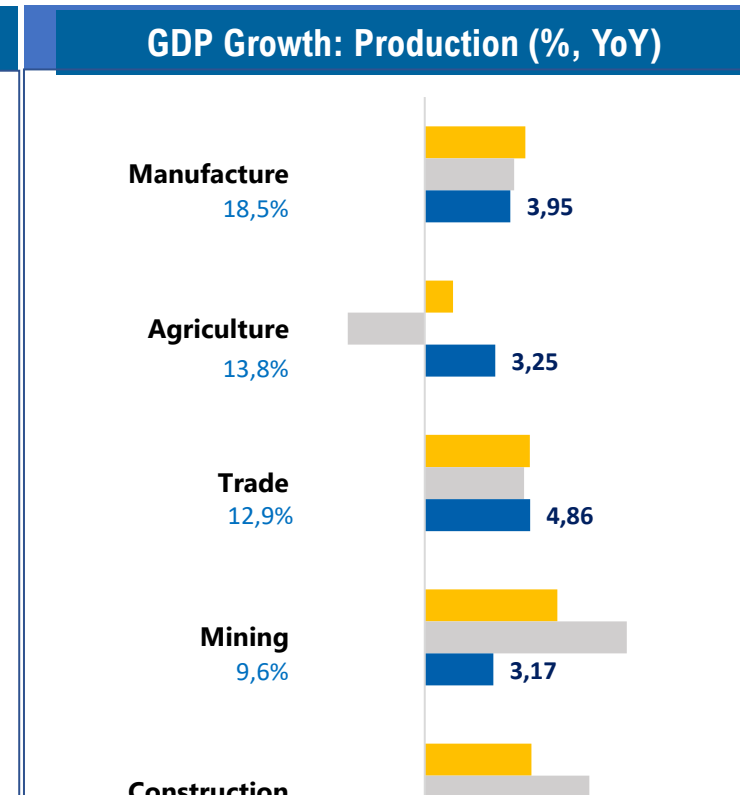
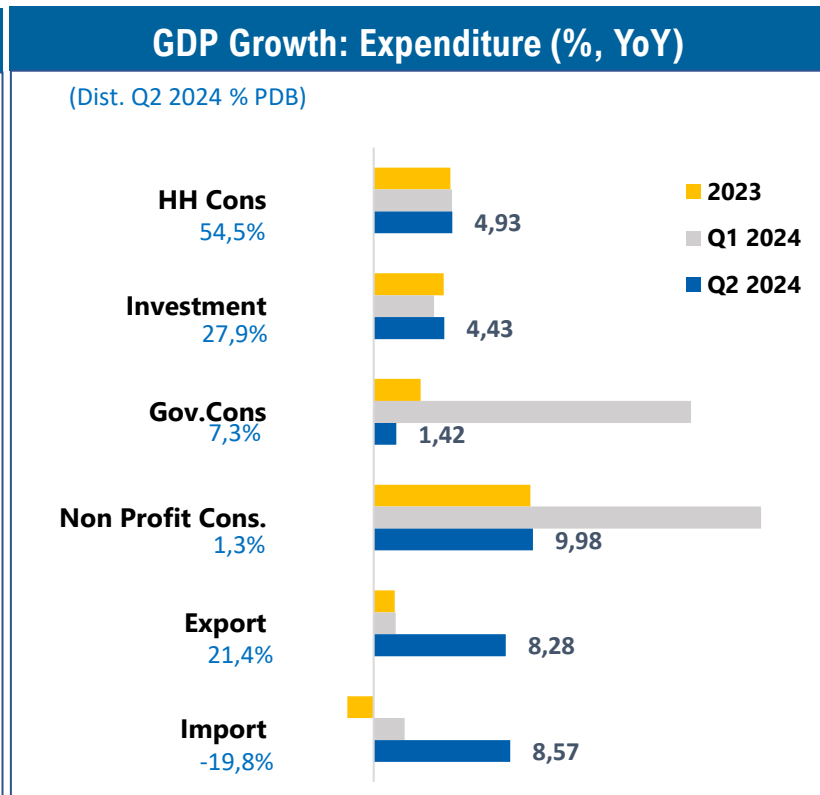
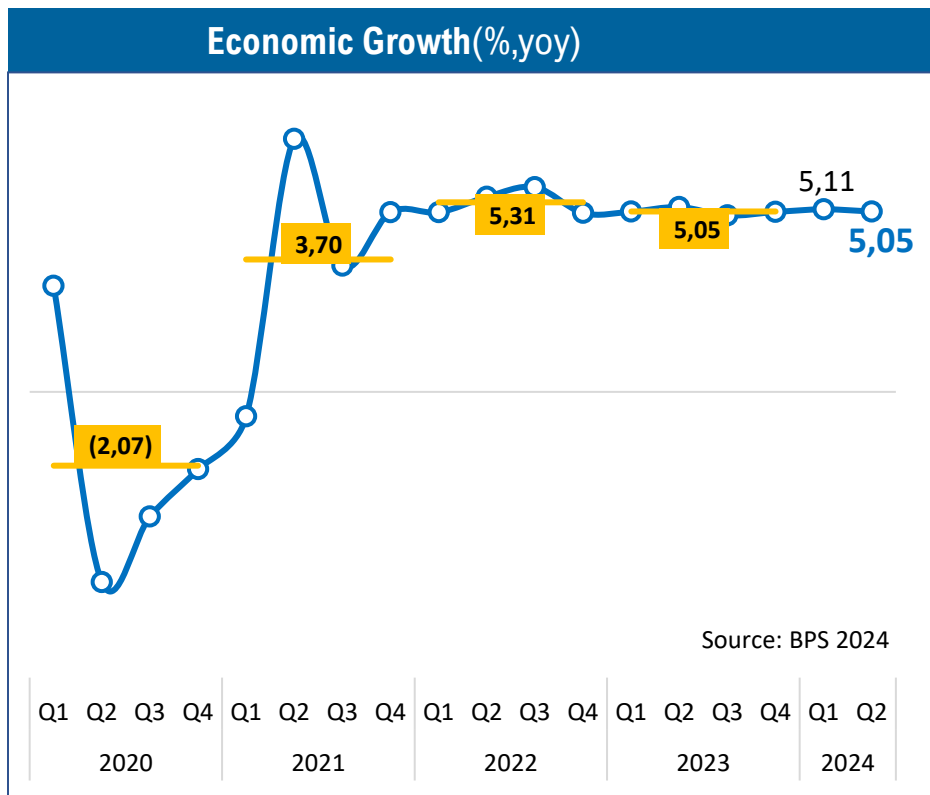
- Growth outlook weakens
- Trade tensions with the US & Europe (overproduction issue)
- Property sector crisis
- Local government debt increases

- 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.



- **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**





# Indonesia Tax Expenditure Report 2023

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## 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

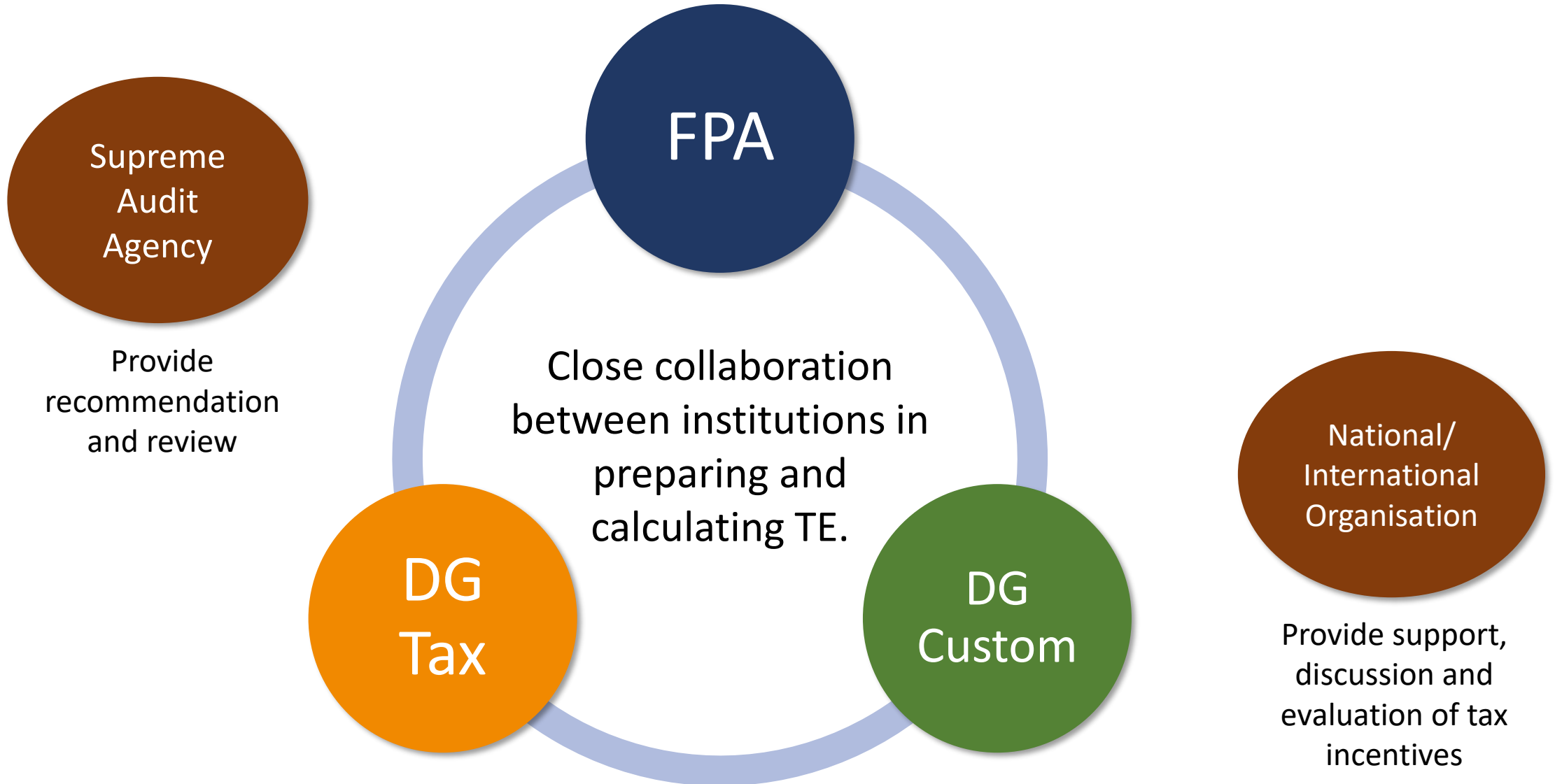
The removal of the tax incentive provision does not have a direct impact on increasing tax revenue because estimates are static:

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.**





# INSTITUTION COLLABORATION IN ESTIMATING AND REPORTING TAX EXPENDITURE





# LEGAL BASIS AND REPORTING OBLIGATIONS FOR INDONESIA TER



- Indonesia has a commitment to publish Tax Expenditure Reports on a regular basis every year which is regulated through the Minister of Finance Decree

Minister of Finance Decree No. 619/2020



- Tax Expenditure Report submitted to Parliament (House of Representatives) through the Financial Note (Nota Keuangan),  
Financial Note is a supporting document in the APBN proposal submitted by the President to the Parliament on August 16 each year.

State Finance Law No. 17 of 2023, Article 15(a)





# 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

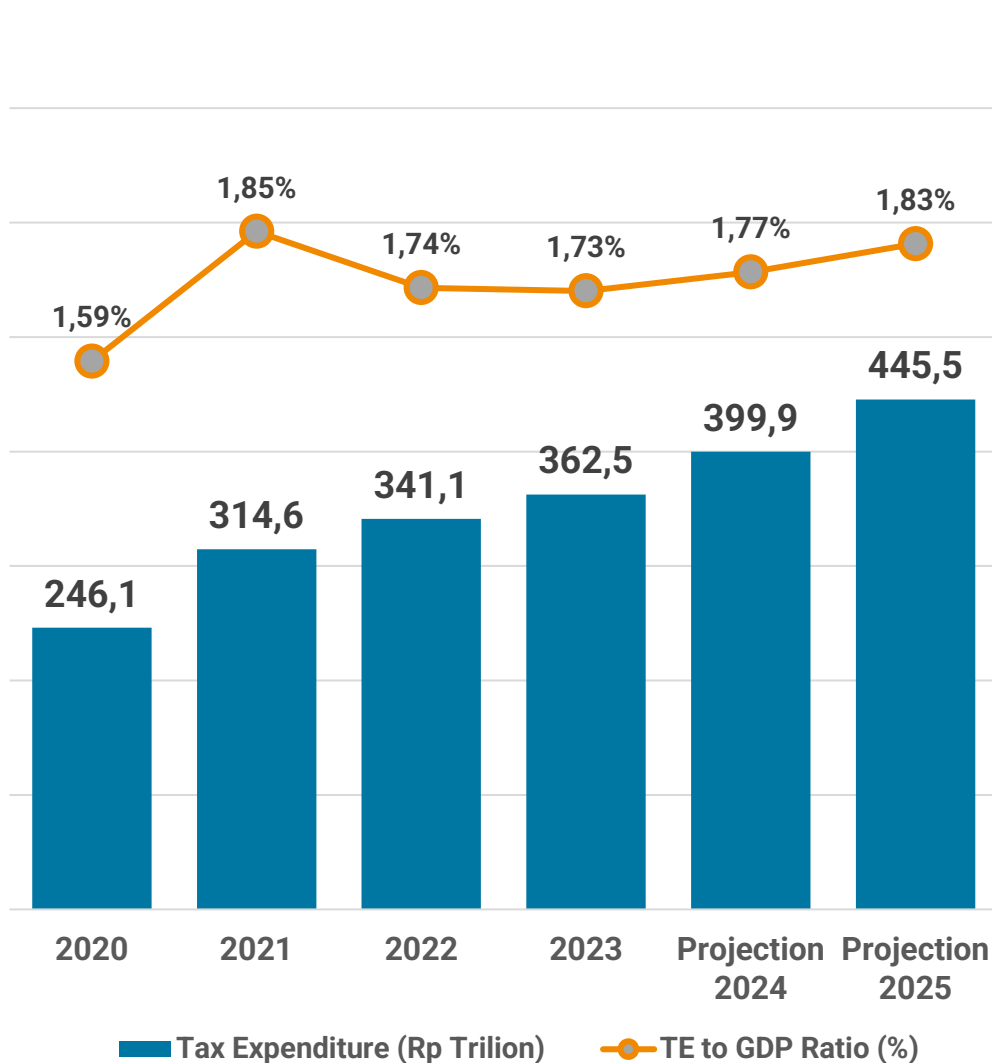




# TAX EXPENDITURE SUPPORTS DOMESTIC ECONOMIC GROWTH



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
<b>Total</b>	<b>246,1</b>	<b>314,6</b>	<b>341,1</b>	<b>362,5</b>	<b>399,9</b>	<b>445,5</b>
<b>TE to GDP Ratio</b>	<b>1,59%</b>	<b>1,85%</b>	<b>1,74%</b>	<b>1,73%</b>	<b>1,77%</b>	<b>1,83%</b>

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
<b>Total</b>	<b>17,4</b>	<b>22,0</b>	<b>21,7</b>	<b>23,8</b>	<b>25,0</b>	<b>27,8</b>

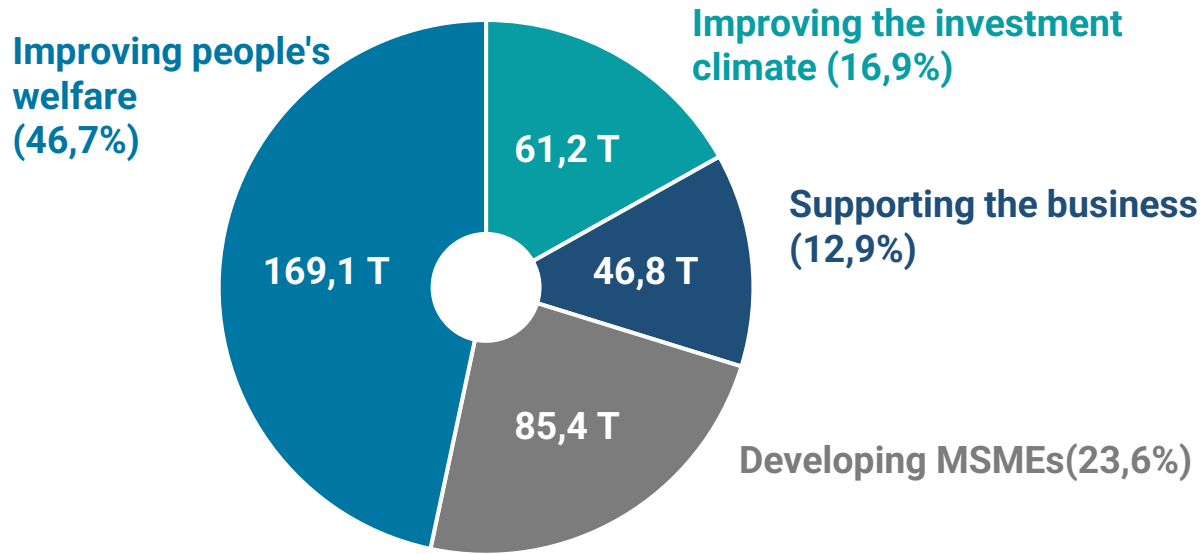
The largest tax expenditure comes from VAT and PPnBM facilities which on average reaches more than 60% of the total estimated tax expenditure per year.



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

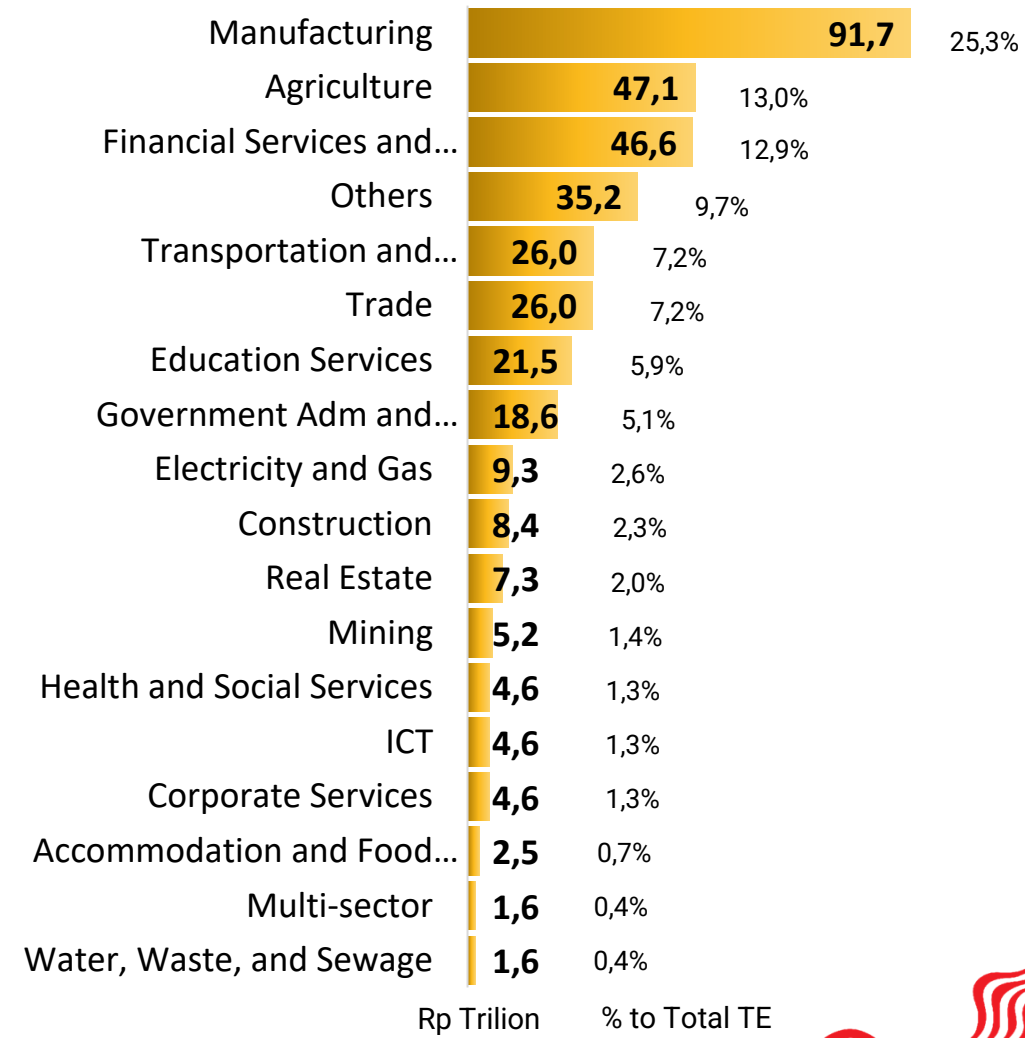


## Tax Spending by Purpose



- 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



Rp Trillion      % to Total TE



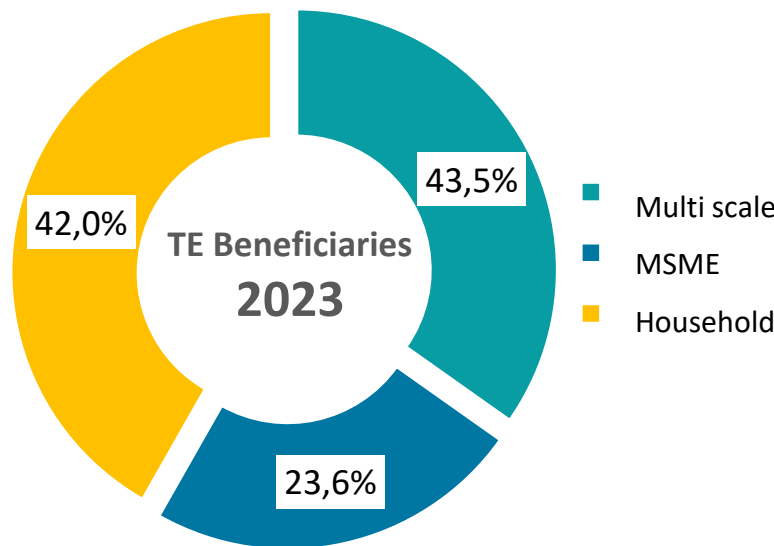
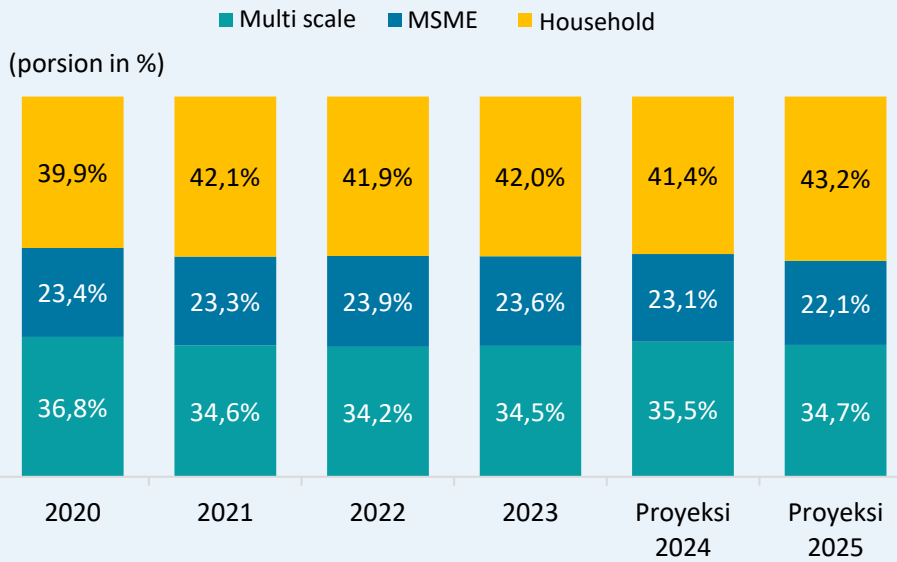
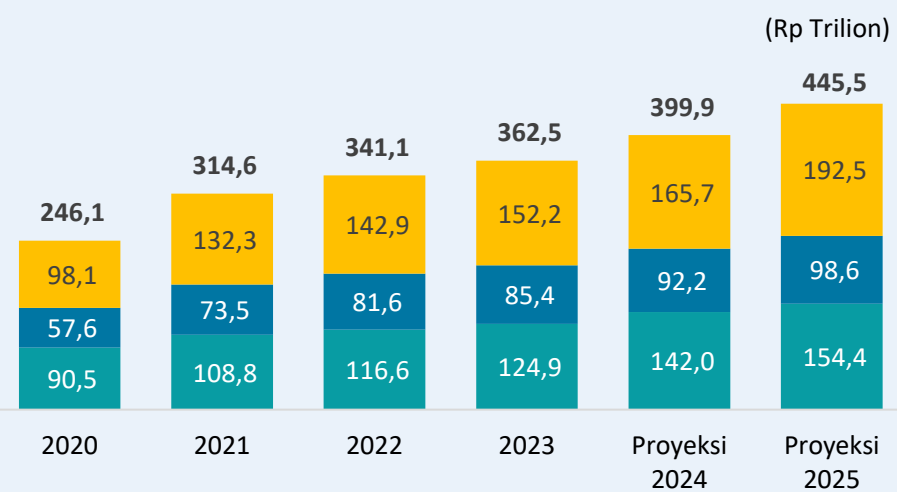


# ESTIMATED TAX EXPENDITURE BASED ON RECIPIENT SUBJECT

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

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)

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 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**

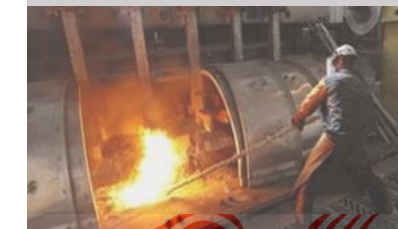
- Among others:
- VAT is not collected for MSMEs of IDR 52.4T.
  - MSME Final Income Tax of IDR 27.5T.

### 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.





# Indonesia Tax Expenditure Transparency Level

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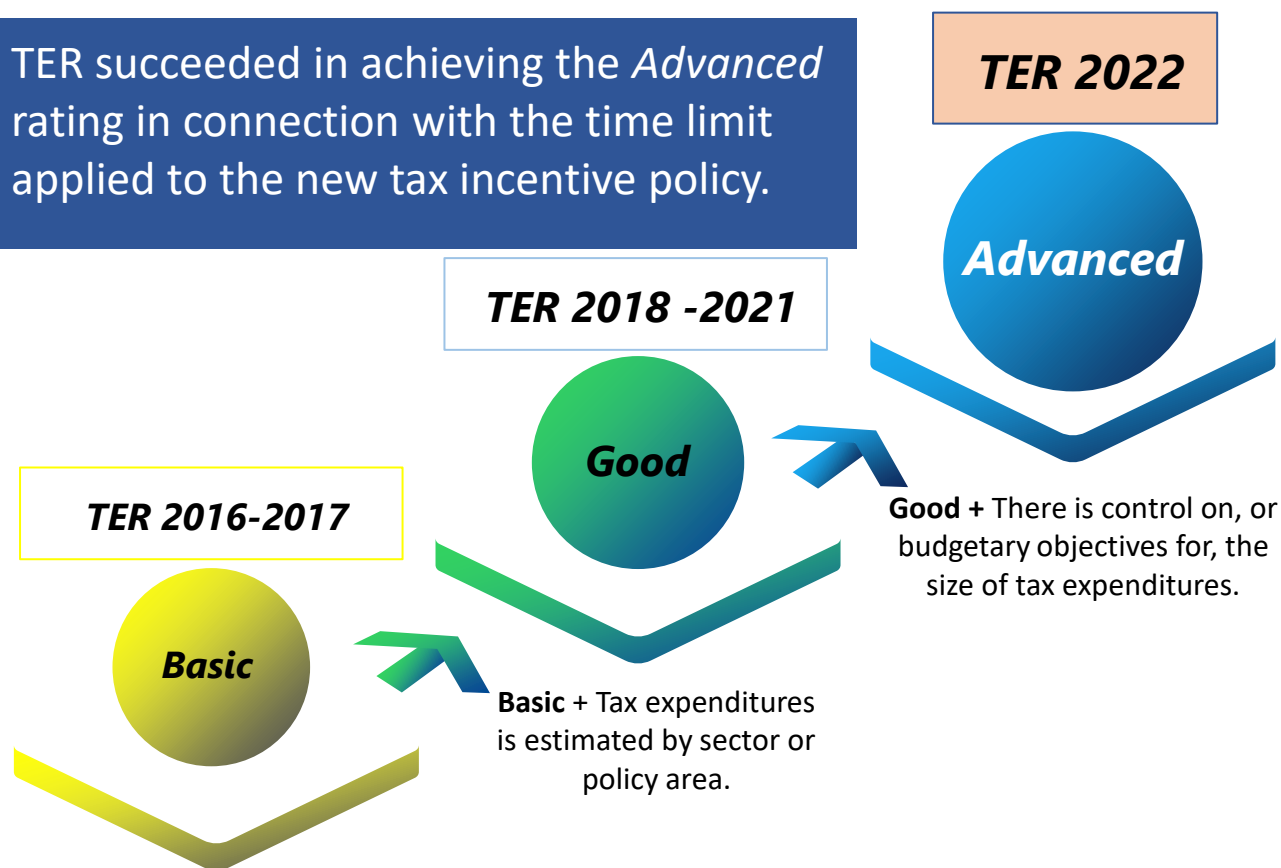


# TAX EXPENDITURE REPORT ACHIEVES ADVANCED RATING IN FISCAL TRANSPARENCY REVIEW



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.



Tax expenditures is published at least annually.

Improvement in the preparation of the TE Report from year to year	
<b>TER 2019</b>	<ul style="list-style-type: none"> <li>Expansion of Tax Type Coverage</li> <li>Incentive Evaluation Chapter</li> <li>Additional chapters to present other incentives in addition to the Tax Spending incentive</li> </ul>
<b>TER 2020</b>	<ul style="list-style-type: none"> <li>Improvement of databases and methodologies.</li> <li>Adjustment of report presentation</li> </ul>
<b>TER 2021</b>	<ul style="list-style-type: none"> <li>Presentation of projected values</li> <li>Displaying 5 Incentive Evaluations</li> </ul>
<b>TER 2022</b>	<ul style="list-style-type: none"> <li>Projected Value t+3</li> <li>Additional Incentive Evaluation</li> <li>Book Redesign</li> </ul>





# CONCLUSION



- 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.





THANK YOU

