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TAXGuide

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EditorialNotes

Assalamualaikum Wr. Wb. May peace and prosperity befall upon all of us and Happy New Year 2018.

There is always optimism when facing a new year. The same applies to Tax Guide that just entered its second year after its first edition in January 2017.

Last year, Indonesia's economy recorded a positive growth by the range of 5%. Various macroeconomic indicators shows improvement trend. Also the tax revenue, although it has not reached the expected target, it brings the air of optimism and positivity in encountering various challenges in 2018.

New year of 2018 also offers new atmosphere and dimension in tax sector. Started from the appointment of Robert Pakpahan as the new captain of Directorate General of Taxes (DGT), the posture of 2018 State Budget colored by high target, the implementation of Automatic Exchange of Information (AEoI) to the world's tight competition in tax.

Those are topics for the new edition of Tax Guide in 2018, especially to predict the direction of Indonesian tax reform in political year.

Many things are worth learning for Tax Guide editorial team in its first year. Critics and suggestions addressed to the editorial team have always become a 'trigger' for us to provide a better Tax Guide. Thank you for your attention and contribution so far and we hope that your critics and participation do not stop here.

Last but not least, Tax Guide invites all readers to welcome the new year with full optimism and joy. May we become better persons and our resolution come true. Amin. Wassalamualaikum Wr. Wb.

Jakarta, January 2018

Razikun

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ROBERT PAKPAHAN. Photo : DetikFinance

Reckoning Reform Direction & Tax Resolution under Robert Pakpahan's Control

Approaching 2017 New Year's Eve, Directorate General of Taxes (DGT) has a new director, who is actually a senior figure in the institution. He is Robert Pakpahan, the ex-Director General of Budget Financing and Risk Management, who was formerly serving as a fiscal authority in the DGT for more than three decades (35 years). Robert was called to return to the DGT by the Minister of Finance Sri Mulyani Indrawati to take the vacant position left by Ken Dwijugisteadi following his retirement.

A pile of "homework" has been waiting for Robert. Other than ensuring that the tax revenue in the upcoming years is secure (reaching the target), he is also urged to lead the DGT's soft landing at the end of 2017. It is conducted by minimizing the potential of tax shortfall or at least preventing the increase of state budget's deficit from becoming too high, instead of reaching the tax target in the Amendment of State Budget and Expenditure (Anggaran Pendapatan Belanja Negara Perubahan/APBNP) 2017 that is impossible to reach in the remaining 1 (one) month.

Moreover, Robert also has other important tasks, other than tax revenue that always misses the target. The Minister of Finance in the inauguration speech pointed to Robert that the DGT should maintain the situation of investment and economic activities to remain conducive. In principle, tax policy should not hold or decrease the economic acceleration.

In front of entrepreneurs, in a dialogue forum held by Indonesian Chamber of Commerce and Industry and Indonesian Young Entrepreneurs Association on Wednesday (20/12/2017), Robert Pakpahan expressed his thoughts and stated several strategies to respond the tax challenges in the future. The excerpt of his statement is as follows:

You've served as the Director General of Taxes for a month before the end of 2017. Before we discuss the direction of policy, what are your views on the tax condition and performance last year?

We can see from the DGT's tax revenue of IDR1,283 trillion in APBNP 2017 and it has been realized by IDR1,058.41 trillion until 15 December 2017. This number, if we see the growth compared to the same period last year, increases by 3.87%.

But, please bear in mind, last year there was revenue from tax amnesty of more than IDR100 trillion. Thus, this (annual realization) is quite satisfying, positive in total. It was 82.46% if compared to last year.

Without considering tax amnesty redemption money and income tax upon asset revaluation, the realization of tax revenue for year 2016 was of IDR516 trillion. This is only to describe, if we neutralize (it), apple to apple, *the revenue of income tax for year 2017 grows by 16.08% and the VAT grows by 16.52%, so that the overall tax revenue grows by 15.57% and this indicates the improvement of performance supported by the economic growth and the taxpayer's compliance escalation.*

Has the growth of tax revenue reflected the fundamental condition?

The growth is quite impressive to our opinion, since the real growth of our economy is only 5.1% with 3.6% inflation. The main sector that grows positively, if we consider each industry sector: the tax revenue from the manufacturing industry sector grows by 15.2%, the tax from commerce sector grows by 20.4%, and from financial service grows by 7.7%.

Let's take a look on the manufacturing sector, the growth of Gross Domestic Income (GDI) until the third quarter of 2017 grows by 4.2%, but the tax revenue grows by 15.2%. Excellent. The GDI of commerce sector grows by 4.8%, but the tax revenue grows by 20.4% or higher than the sectorial growth. Meanwhile, the highest is the mining sector. The GDI of mining sector grows by 1.1%, but the tax revenue grows by 41.8%.

Further, if we look on each type of taxes, to be aware of the relationship between the tax revenue and the economic pulse, Income Tax Article (ITA) 21 grows by 7.45% from the previous year (2016) (of) -3.73%. This is actually the income tax from employees' salary, indicating the existence of (business) activities. The import ITA 22 grows by 14.69%, while last year was -7.18%. In other words, Indonesian international commerce is now positive, in which export minus import has equaled positive.

The most impressive one is Individual Income Tax that grows by 46.78%, last year was -18.67%. This is due to the increase of individual compliance, as an effect of tax amnesty. The Corporate Income Tax (CIT) also grows by 18.03%, the domestic Value Added Tax (VAT) by 13.78%, the VAT In by 22.09%. So, there are many good outlooks if seen from the tax revenue posts. This indicates that our economic activities are not that bad.

Based on the realization and the facts of taxation condition that you've described, what are the DGT's plans and strategies in the future?

I've been serving as the Director General of Taxes since 2-3 weeks ago. What we've explained here is still highlight, still in general. First, our action to increase revenue is by implementing Government Regulation (Peraturan Pemerintah/PP) Number 36 Year 2017, which has been signed by the president. This is the imposition of Income Tax upon certain income in the form of net asset deemed as income. Prior to becoming the Director General of Taxes, I've heard much confusion about this regulation.

In principle, PP 36 is the subordinate regulation of the Tax Amnesty Law. The Tax Amnesty Law also offers relief (of tax due or sanctions) upon assets not yet reported in the taxation system, with low rates of 2%, 3% and 5%. In addition, there is an article in the Law that states, after the relief, if the tax authority finds a taxpayer not yet reporting all of his/her assets, (s)he is subject to normal rate plus 200% sanction. This article is intended to encourage people declaring all of their assets. This condition applies for those not yet reporting all of their assets, either those participating in tax amnesty or not. Let me underline this, for Taxpayers having reported their assets in the Tax Return, either participating in tax amnesty or not, just waive this PP 36. It is only for those not yet reporting and if discovered or only discovered by the tax authority.

Many consider that PP Number 36 Year 2017 contradicts the spirit of Tax Amnesty Law, particularly regarding the authority in re-evaluating the assets declared in the tax amnesty. What do you think about it?

I'll talk about the legal aspects later, whether it is really contradictive or not. I'll discuss it later.

Related to the policy of voluntary asset declaration with final tax rate, many taxpayers are still confused about this policy and regard it as tax amnesty volume II. How is your response?

We called Ministry of Finance Regulation Number 165/PMK.03/2017 as Voluntary Asset Declaration with Final Rate. This regulation is the continuance of tax amnesty and also the implementation of PP Number 36 Year 2017. So, if a taxpayer has asset, not yet discovered and not (declared) in tax amnesty, but voluntarily comes and declares, (the taxpayer) will obtain the normal tax rate. The government guarantees that there is no sanction.

So, this is another option, a quite good offer from the government. Before discovered by the government, if (the taxpayer) wants it (to be) voluntarily, the asset may be subject to normal rate. Then, all of the sanction is guaranteed to be annulled. This offer from the government is quite good, even though it causes a little confusion because of the duality towards the tax amnesty. This applies forever, until before or as long as the audit warrant has not been issued by the DGT.

How about Automatic Exchange of Information (AEoI)? What is your commitment to ensure that the financial information exchange for taxation has run in line with its purpose?

This is one thing that will affect our action in 2018 and forward. That is, Law Number 9 Year 2017, which was previously in the form of the Government Regulation in lieu of Legislation regarding financial information access for the purpose of taxation. Now, the world is moving on to financial information openness. The AEoI is unavoidable, then the government takes this action and proposes it to the House of Representative, to be legitimate as Law. The DGT will have automatic access from both financial institutions in Indonesia and overseas starting from 2018.

To be more exact, starting from April 2018, financial data transfer from domestic financial institutions to the DGT, with account value limit under IDR1 billion will automatically be submitted to the DGT. Yet, those not automatically (submitted) can also be used by request. In September 2018, the AEoI from overseas financial institutions, upon Indonesian assets, will automatically be submitted to us.

We brace ourselves to prepare the management. First, (the management) to make the organized data submission as soon as possible via gateway. Then, the internal management will be ensured to run well with information system, because it has to be handled automatically or no longer done manually. We do not expect one or two data that will come, we're talking about millions of data here.

One of big challenges that you will face as the Director General of Taxes is finishing the tax reform. What are your actions related to this agenda?

We'll do reform that is administrative, which will be done by ourselves. I will be leading (the tax reform team) starting January 2018. (The tax reform team has been led by Expert Staff of Minister of Finance Surya Utomo).

There are five pillars that will be reformed and improved in the DGT. First, the developing organization. The taxpayer number is getting higher and not only that, the economic structure is actually changing. In the digital era, for e-commerce, whose business model is biased, the tax treatment is not stipulated in the regulations. Thus, we think that this environment is changing, the organization should also be prepared for change, for example whether the e-commerce should also be in the dedicated office, and it is also what we consider in adjusting the economic development in the environment.

The human resources will be added and the capacity will also be increased. The information technology is also very critical, which will be fixed too. Because, again, the DGT now uses the information system of DGT, whose main system is quite conservative so that it is quite slow. But we support it with the application of satellite surrounding it to help the analysis, etc. It is time to change it with the new integrated system that is currently being procured. There are also several business processes being improved.

How about the business process of DGT, what will be improved?

Especially for the business process, this is critical. There are two groups of taxation business process. One, the group of service. Whether it is to answer taxpayers, to help taxpayers in registration, payment matters, Tax Return submission, e-filing. It is the business process that focuses in providing service. It has been improved much in the DGT, there is e-filing, (in which) the information system provides it. Yet, we think that there are still many rooms to be improved, because there are still many complaints from taxpayers having not known about how to fill the Tax Return, which form to use. Which letter to submit, where to ask. So, I can sense that too. Perhaps those are the things we will do for the following days, and we are open to any input. But we will push the business process in the service group on how to improve the services, that how to pay, to report, to register, to ask become easy. And taxpayers does not have to worry about it.

The second business process is control. Control, due to the self-assessment system, should be counter checked by the DGT to ensure that what have been submitted are valid, even though not 100%. The control is in several layers. From the control by Account Representative, self-control, data search, to profiling, it is a soft control in the first level. There are still many rooms with the business process to be improved to ensure the presence of Quality Assurance.

Next, audit, it is also included in the group of control. There are many rooms to address. There are many issues regarding the audit quality. Whether the taxpayer obtains a full opportunity to convey the complaints? Whether the audit is conducted in transparency? Whether the person selected to be audited is really based on the established criteria or avoiding the obedient person to be audited? This is the room that will be fixed to improve the audit process. There is also the business process of investigation, and etc.

So, there are many things we've considered in this process to be addressed. This is to improve the service quality as well as the control quality.

Last, what are other things to improve in terms of internal reform in the DGT?

The critical point is on the sophisticated information technology development. Since it is the core tax system to support our process. The management of data access is also very important. (It is) Management (that is conducted by) balancing the service and the control so that the DGT becomes fairer and more reliable. This is mainly the highlight of what we consider, which will be performed together by our team in the DGT along with the expert staff of Ministry of Finance supported by several parties, certainly by holding a public dialogue. Receiving input is something that we must do continuously to find the good taxation system in this republic. (ASP)

Don't be Trapped in the Tax Battles

The BEPS Action Plan concluded by OECD and G20 has appeared to be ineffective in preventing global tax competition.

US is about to conduct a massive tax reform for the period 2018-2025 following the passing of Tax Cuts and Jobs Act. Several main points of the Act are, among others, cutting the corporate income tax rate from the highest level of 35% to 21% for the income higher than USD10 million, and the individual income tax rate from the highest 39.6% to 37%.

The enactment of this Act could lead other countries to conduct similar policy, i.e lowering tax rate which eventually could drive a "race to the bottom" on tax rates.

KONTRIBUTOR
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The US individual tax cut is also accompanied by the change in the income bracket subject to the highest tax rate, from USD426,700 (single filer) and USD480,050 (married filing jointly) to USD500,000 (single filer) and USD600,000 (married filing jointly).

This new Act also states that the taxpayers repatriating the assets in the form of cash or the cash-equivalent assets from the foreign income are subject to 15.5% rate. The tax rate goes down to only 8% when the income from overseas is reinvested domestically.

Furthermore, the Trump's administration also changes the US tax system from worldwide to territorial system and omits the provision of alternative minimum tax (AMT) for corporation (Shuster, 2017).

President Donald Trump claims this policy as the largest tax cut in Uncle Sam's history. This US tax reform is considered as a radical and controversial breakthrough conducted by Trump to restore the US economy—which in one last decade has fallen into a recession, due to the 2008 financial crisis.

Background

Since Subprime Mortgage crisis, the US economy has experienced a great recession. The economy dropped, the dollar suffered, and the unemployment went worse.

The first response from Barrack Obama's administration to overcome the crisis at that time was by creating a massive stimulus policy in the form of tax rebates of USD800 per household or amounting to the total of USD150 billion. Meanwhile, the Fed as the monetary authority balanced it by cutting the Federal Funds Rate (FFR) to nearly zero percent to improve the American purchasing power.

After four years gone, the US has changed the direction of its policy by deliberately decreasing the stimulus portion (tapering off). Step by step, the Fed made financial asset purchases (quantitative easing) and increased the FFR. It took a decade to recover, even though not in full yet.

The US economy's slow recovery, marked by a low inflation as well as a high unemployment 9 Appelbaum, 2017), became a hot issue flavouring Donald Trump's win at the 2016 US presidential election. As if trying to compete with his predecessor, Trump also promised the biggest tax cut in the US history. Even more, he offered tax facilities for US multinational companies to bring home their capital.

Tax Battles - Risks and Sovereignty Dilemma

The tax battles issue is actually not something new. This situation has emerged for years along with the emerging tax avoidance practices through the shifting of profits to the countries with low tax rates or some tax-free jurisdictions (tax havens).

On the other side, almost all countries in the world are faced with the increasing budget to fund the development after they were hit by the global financial crisis. Tax reform, among others by lowering the tax rate, has become one of considerable options for many countries to attract investments, as well as to increase the tax base—not to mention the various tax incentives and facilities commonly implemented.

US, Australia, India, the Philippines, China, South Korea, and Malaysia are some of many countries that plan to cut their tax rates. Indonesia is also seems to be tempted to reduce its corporate income tax rate to the level of its ASEAN peer countries.

Every country has its own rights and sovereignty to manage its taxation system. However, considering the importance of economy and investment cooperation, both bilaterally and multilaterally, it is necessary to implement a fair tax system, including the tax rate matters. Tax Treaty is the example of bilateral cooperation in taxation.

Tax cut policy may give short-term positive impact towards the improvement of purchasing power, investment and economy of a country. Yet in a long run, a drastic tax cut without optimization of new revenue source may become a time bomb that can ruin the economy at any time.

In the US case, Trump's administration should be aware of the consequences of a massive tax cut for this policy will reduce the state revenue up to USD1.5 trillion within the next decade. On the other hand, there is a need of significant budget in every year to fund the social securities and healthcare of millions American citizens that will reach their retirement ages. In 2017, approximately 45 million Americans received their pension social security cheques. The number is estimated to rise to 60 million in 2027. As a consequence, if US fiscal deficit this year is budgeted of USD487 billion, within ten years it is predicted to soar three times (Harwood , 2017). If the risk is not anticipated and well-managed, a huge amount of debt may once again drag the Uncle Sam down to the deeper new financial crisis.

It is just one country, yet it's America. In view of globalization, the American economy crisis means the world's economy crisis. Imagine if many countries are competing to apply the same (tax cut) policy. The risk must be even greater.

It is important that G20 countries should make necessary efforts to stop global (harmful) tax competition. The thing is, even an agreement or commitment to stop the tax battles will not be sufficient against a sovereignty of a country. In case of violation committed, the sanction is only an isolation from the global community, which can be removed at any time under the consideration of economic interest.

Another risk to be considered by the US is the impact of the change in taxation system, from worldwide to territorial income system. Despite encouraging the investment through the tax rate cut, it may apply the other way around which is, triggering the local investors to invest overseas instead. Since, the territorial income system will only tax the income which derives from within the country, while the income derives from overseas will be free of taxes.

Don't Just Follow

Every policy always comes with pros and cons. In light of tax battles, Indonesia as a sovereign country has a right to either copy, follow, or implement what the US has done. The Indonesian government is now in the process of amending the tax laws. The opportunity for tax reform has now risen—including the possibility to lower the tax rate—through the revision of tax law packages that are now included in the 2018 National Legislation Program (Program Legislasi Nasional/Prolegnas).

However, we should not just follow the Uncle Sam's tax policy. Taxpayers' aspiration should also be taken seriously. Is it solely a high tax rate that makes them incompliant? Or perhaps, it is purely about the complexity of tax system, or the multi-interpretative tax laws that are mostly hard to digest for the majority taxpayers.

Speaking of the latter, even when the tax rate is set to the lowest, but if the tax administration and services are not simplified, we cannot expect to improve understanding and awareness of the society to pay tax.

It reminds me of this saying from a big entrepreneur, "It is not about the tax rates. What matters most are the business certainty, procedure clarity, and no multi-interpretative regulation."

*Short version of this article has been published in www.jakartaglobe.id, Thursday, January 18, 2018.

TABLE 1.

Tax Brackets for Ordinary Income Under Current Law and the Tax Cuts and Jobs Act (2018 Tax Year)

Single Filer			
Current Law		Tax Cuts and Jobs Act	
10%	$0-$9,525	10%	$0-$9,525
15%	$9,525-$38,700	12%	$9,525-$38,700
25%	$38,700-$93,700	22%	$38,700-$82,500
28%	$93,700-$195,450	24%	$82,500-$157,500
33%	$195,450-$424,950	32%	$157,500-$200,000
35%	$424,950-$426,700	35%	$200,000-$500,000
39.6%	$426,700+	37%	$500,000+

TABLE 2.

Tax Brackets for Ordinary Income Under Current Law and the Tax Cuts and Jobs Act (2018 Tax Year)

Married Filing Jointly			
Current Law		Tax Cuts and Jobs Act	
10%	$0-$19,050	10%	$0-$19,050
15%	$19,050-$77,400	12%	$19,050-$77,400
25%	$77,400-$156,150	22%	$77,400-$165,000
28%	$156,150-$237,950	24%	$165,000-$315,000
33%	$237,950-$424,950	32%	$315,000-$400,000
35%	$424,950-$480,050	35%	$400,000-$600,000
39.6%	$480,050+	37%	$600,000+

Fiscal Challenge in Political Year

CONTRIBUTOR
KARSINO - Director

There is always optimism when facing a new year. The 2018 State Budget posture is the real example of the government's optimism after relieved from heavy tax burden in the previous years. It was tough since the expected budget realization frequently does not match with the reality.

What happened in 2017 seems to be the most actual overview of the fact that managing tax was not easy amid uncertain economic condition. Many achievements during 2017 should be appreciated but some should be criticized.

In light of macroeconomy, various economic indicators have shown positive trends. The economic growth was maintained in the range of 5%, the inflation was successfully controlled under 4%, export-import grew into two digits for the first time in the last five years, as well as the investment grew by 7% for the first time in the same period. Unfortunately, the household consumption gradually declined and government expenditure was insufficient to compensate the downturn.

In regards to the level of budget absorption, the 2017 government expenditure was actually quite high compared to the accomplishments in the previous years. Notably, from capital expenditure that was claimed contributing the highest budget absorption in the last three years (92.8%). It was in line with the government's aggresive policy on infrastructure development.

Further, the state revenue recorded a total of 95.4% realization from the 2017 Revised State Budget target. It was indeed an impressive attainment compared to the level of realization in the last couple of years. However, there are number of things to note, especially related to the shortfall of tax revenue despite the tax amnesty support.

Tax as the biggest contributor for the state revenue becomes the most critical post to observe. Amid a relatively stable economic condition, the 2017 tax revenue increased by only 4% from last year. The achievement was far below the regular growth, which was calculated from economic growth plus inflation.

No	Jenis Pajak	APBN-P 2017	Realisasi s.d. 31 Desember					
			2016	2017	Δ% 2015 - 2016	Δ% 2016 - 2017	% Penc. 2016	% Penc. 2017
(1)	(2)	(3)	(4)	(5)	(6)	(7)=(5-4)÷4	(8)	(9)=5÷3
A	PPh Non Migas	742,20	630,11	596,89	14,02	(5,27)	76,89	80,42
	1. PPh Ps 21	148,05	109,64	117,74	(4,22)	7,38	84,77	79,52
	2. PPh Ps 22	11,06	11,35	16,19	33,90	42,58	115,82	146,28
	3. PPh Ps 22 Impor	52,54	37,98	43,15	(5,67)	13,62	87,26	82,12
	4. PPh Ps 23	36,39	29,14	33,73	4,52	15,76	92,50	92,70
	5. PPh Ps 25/29 OP	19,94	5,31	7,83	(35,66)	47,32	18,45	39,26
	6. PPh Ps 25/29 Badan	242,66	171,60	208,99	(7,35)	21,79	45,62	86,12
	7. PPh Ps 26	55,12	43,23	50,88	(10,35)	17,70	79,34	92,32
	8. PPh Final	156,18	117,68	106,33	(1,66)	(9,64)	80,77	68,08
	9. PPh Non Migas Lainnya	20,24	104,18	12,05	54.923,50	(88,43)	49.131,78	59,54
B	PPN dan PPnBM	475,48	412,21	480,73	(2,71)	16,62	86,92	101,10
	1. PPN Dalam Negeri	328,07	273,00	315,37	(2,50)	15,52	85,74	96,13
	2. PPN Impor	132,36	122,77	149,00	(5,65)	21,36	87,28	112,57
	3. PPnBM Dalam Negeri	10,64	11,81	12,38	27,09	4,84	112,47	116,35
	4. PPnBM Impor	4,08	4,30	3,78	7,16	(11,89)	99,13	92,82
	5. PPN/PPnBM Lainnya	0,34	0,33	0,20	19,30	(38,52)	98,75	59,90
C	PBB	15,41	19,44	16,77	(33,53)	(13,74)	109,79	108,82
D	Pajak Lainnya	8,70	8,10	6,75	45,55	(16,78)	109,31	77,53
E	PPh Migas	41,77	36,10	49,96	(27,33)	38,39	99,32	119,60
Total Penerimaan DJP		1.283,57	1.105,97	1.151,10	4,25	4,08	81,61	89,68

(Source: Ministry of Finance. Realisasi (Sementara) Penerimaan DJP Tahun 2017. Press Conference, 5 January 2017)

Some posts of tax revenue have indeed recorded positive notes: VAT and Sales Tax on Luxury Goods that grew by 16.62% as well as Income Taxes on oil and gas that soared by 38.4%. We should be grateful for the increase in commodity prices, particularly oil price that could restimulate the export and import performances as well as its contribution to tax. On the other side, household consumption could still substantially contribute to VAT, despite its weakening.

Unfortunately, the Income Taxes on non-oil and gas giving contribution of more than 50% was actually minus 5.27%. The tax amnesty euphoria that faded was indicated as the cause of low Income Taxes on non-oil and gas revenue in 2017. The role of tax amnesty program held in the first three months of 2017 was considered incomparable to the implementation of the same program held in the last six months of 2016 that was full of amnesty atmosphere.

If the contribution of revenue from the tax amnesty program (redemption and Income Taxes on asset revaluation) is not included in the calculation, the 2017 tax revenue could actually grow by almost 16%. It was the government's alibi, considering the 2016 tax revenue base that was significantly high as a result of tax amnesty. It was such a reversed and regressive perspective compared to the government's initial optimism that one of tax amnesty purposes was to increase the tax base and revenue.

However, fiscal balance was well-maintained in 2017. The budget deficit projected reaching 2.92% towards Gross Domestic Product (GDP) was successfully retained within the range of 2.57% at the end of the year. The efficiency of the staff and goods expenditure by the government quite lessened the effect of revenue shortfall. The realization of the 2017 state expenditure was recorded of IDR2,001.6 trillion or 93% from the target determined in 2017 Revised State Budget.

Oil Price Bonus

Optimism arises in 2018, considering the trend of commodity price and global demand increase. Specifically oil price, which gave windfall profit to the state treasurer in the form of the skyrocketing revenue from the Income Taxes on oil and gas last year.

The economic activity predicted improving is believed to give a bigger space and role in tax, both in view of state expenditure and revenue. With this optimism, the state revenue and expenditure budget allocation target is determined at a quite ambitious level in 2018 State Budget.

Indicators of Macroeconomy	2017 Revised State Budget	2018 State Budget
Economic Growth (%)	5.2	5.4
Inflation (%)	4.3	3.5
Treasury Bills Interest Rate (%)	5.2	5.2
Exchange Rate (IDR/USD)	13,400	13,400
Price of Crude Oil (USD/barrel)	48	48
Oil Lifting (thousand barrel/day)	815	800
Gas Lifting (thousand barrel equivalent to oil /day)	1,150	1,200

(Source: Ministry of Finance, Nota Keuangan & APBN 2018)

Tax revenue target is set at IDR1,424 trillion or increases by 11% compared to the target in the 2017 Revised State Budget of IDR1,283.6 trillion. Nevertheless, if compared to the (temporary) realization per 31 December 2017, the tax target for this year increases by 23.7%. Based on the recording period of 8 January 2018, the realization of 2017 tax revenue was of IDR1,151.1 trillion or a shortfall of IDR132.5 trillion from the target.

Considering its growth potential, both 11% and 23.7%, the tax revenue target for this year is above the regular growth (economic growth+inflation) of 8.9%. If it is reached, that would be a lot of effort.

In some occasions, Minister of Finance Sri Mulyani Indrawati explicitly instructed the Tax Authority to keep the climate of investment and business world remain conducive. Therefore, the attempt to boost the tax revenue is expected not causing any uproar.

The question arises: is the 2018 tax revenue target feasible enough to be achieved? Whether realistic or not, it depends on the effort and strategy that will be conducted by the Directorate General of Taxes (DGT) to collect the tax revenue as much as possible. If still using the old ways or without any breakthrough, the target seems to be impossible to reach, as the trend of tax revenue growth in the last five years tended to decline from 10.2% in 2013 to 3.8% in 2017.

Trend of Tax Revenue Growth in 2013-2017

Year	Growth
2013	10.2%
2014	6.9%
2015	7.7%
2016	4.3%
2017	3.8%

(various sources, processed)

Work Focus

In reaching out the 2018 tax revenue target, a breakthrough in policy is required to complete the mainstream ways currently used by the Tax Authority. Among others, through the efficiency on the Program of Voluntary Asset Disclosure with Final Rate (PAS-Final) with its unlimited implementation time. Although it is not as good as tax amnesty, at least this facility gives lower tax rate for Taxpayers to declare their undisclosed assets without worrying about administrative sanction.

If the Taxpayer is given the facility, the Tax Authority should maximize its role and function by optimizing the implementation of Government Regulation Number 36 Year 2017. This policy is the follow-up of tax amnesty program, regulating the Income Tax imposition on specific income in the form of net assets considered as income. In other words, the DGT should not only rely on the collected data, but also be able to explore new tax potentials.

Indonesia's commitment to implement the agreement of financial information and data exchange for tax purposes or Automatic Exchange of Information (Aeol) can also be taken as advantage to improve the tax base. Besides, the change in transfer pricing documentation format obliging the business group to also submit the Country by Country (CBC) Report unlocks a considerable tax potential in addition to reducing tax avoidance acts by enterprises.
The next challenge is, how far is the readiness of the Tax Authority to follow up the collected data and information to be analyzed as a new tax revenue source. It is also related to the readiness of advanced Information and Technology (IT)-based tax system. Especially, in the middle of a rapid growth of e-commerce business creating various new trading transactions that are hard to record by conventional tax system.

Besides the sophisticated IT-based tax system, supporting regulations shall also be prepared immediately by the government. Revision to Tax Law package may open a door for the government to tax the new economic transaction objects that have gone unsupervised under the DGT (underground economy).

As a reminder, the revision to Tax Law package is closely linked to the agenda of continuing tax reform, which among others include the improvement of institutional system, the enhancement of human resource quality, and the completion of tax regulations. The amendment to Taxation General Provisions and Procedures, Income Tax Law, and VAT Law is an old agenda that has become National Legislation Program since last year. Learning from political experience and uncertainty in parliament, the discussion of one law could take a lot of energy and could be so time-consuming. Imagine discussing three packages of Tax Law, it must be a heavy duty to complete this year. Say it is done, we cannot let it substantially create any regression of policy in taxation.

Speaking of economic policy, which is inseparable from the budget politic process, the test for the government will be even harder in 2018. Even though the upcoming general election will be held next year, many have predicted that the political tension will start to escalate this year. Mainly in Java Island, as election of Regional Head will be held simultaneously in three big provinces, namely West Java, Central Java, and East Java. At this point, the government's focus is tested to prove that the instruction of President Joko Widodo: "kerja..kerja..kerja" (work, work, and work) is not a mere slogan.

*Short version of this article has been published in www. kompas.com, Monday, January 15, 2018.

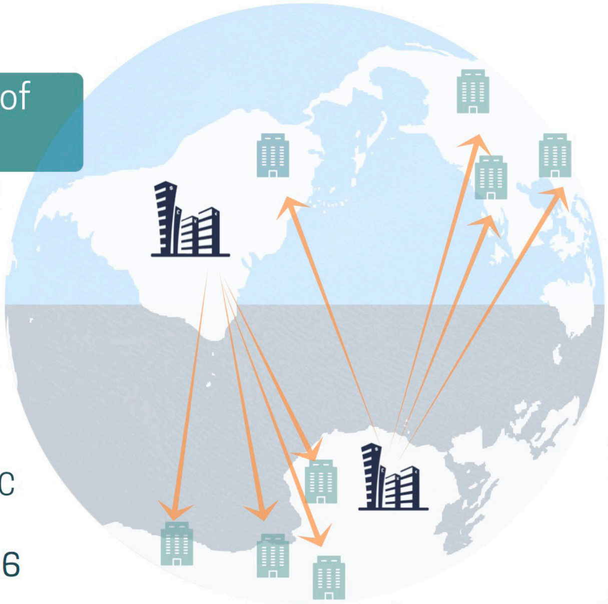
COUNTRY BY COUNTRY REPORT

Global Action is Cautious Over Agressive Tax Planning

The Indonesian Government officially adopts Base Erosion and Profit Shifting (BEPS) action 13 on the Country by Country (CbC) Report. Starting Fiscal Year 2016, all business entities affiliating to a business group are required to make and submit a CbC Report and Notification to Directorate General of Taxes (DGT)

Mandatory Requirements of CbC Report

- The companies have consolidated gross income of more than IDR11 trillion or equivalent to EUR750 million at minimum; or
- The country of the parent company does not make CbC reporting compulsory; or
- The country of the parent company does not enter into information exchange agreement with the Indonesian Government; or
- The Indonesian Government cannot access the CbC Report



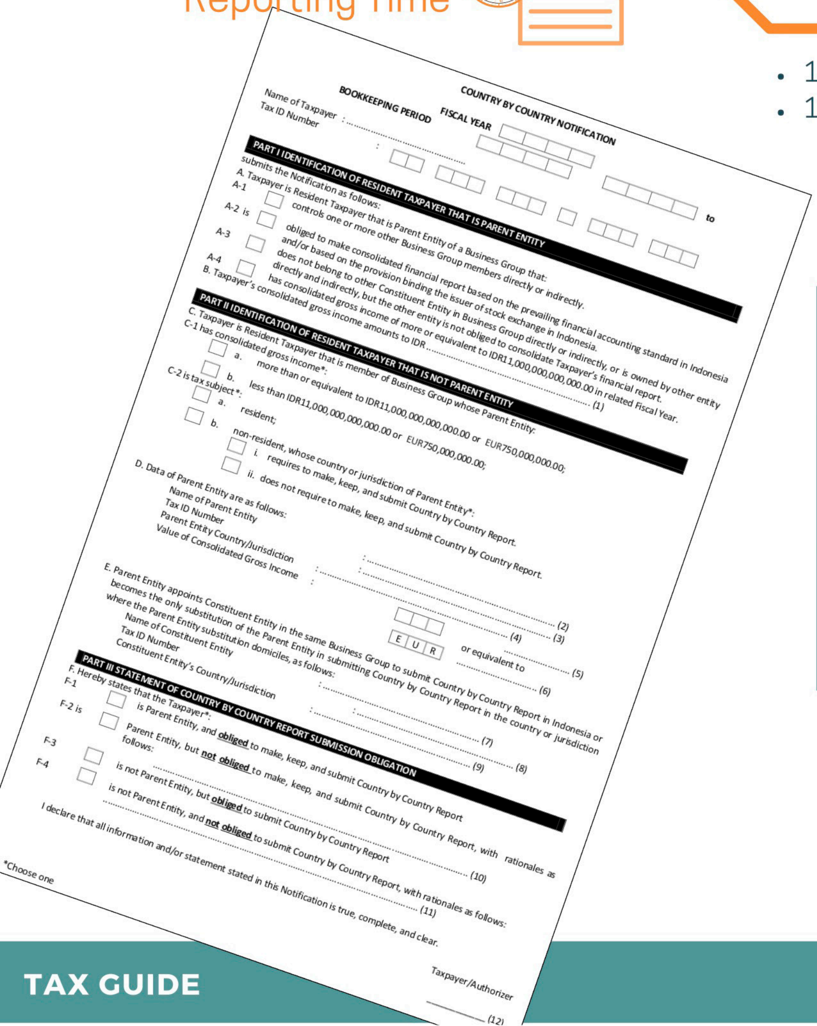
Reporting Time

2016

April 2017

December 2018

- 16 months after the end of fiscal year 2016; or
- 12 months since the end of fiscal year 2017 and so on



COUNTRY BY COUNTRY NOTIFICATION

FISCAL YEAR

BOOKKEEPING PERIOD ... to ...

Name of Taxpayer : ....

Tax ID Number :

PART I IDENTIFICATION OF RESIDENT TAXPAYER THAT IS PARENT ENTITY

submits the Notification as follows:

A. Taxpayer is Resident Taxpayer that is Parent Entity of a Business Group that:

A-1 ☐ controls one or more other Business Group members directly or indirectly.

A-2 is ☐ obliged to make consolidated financial report based on the prevailing financial accounting standard in Indonesia and/or based on the provision binding the issuer of stock exchange in Indonesia.

A-3 ☐ does not belong to other Constituent Entity in Business Group directly or indirectly, or is owned by other entity directly and indirectly, but the other entity is not obliged to consolidate Taxpayer's financial report.

A-4 ☐ has consolidated gross income of more or equivalent to IDR11,000,000,000,000.00 in related Fiscal Year.

B. Taxpayer's consolidated gross income amounts to IDR .... (1)

PART II IDENTIFICATION OF RESIDENT TAXPAYER THAT IS NOT PARENT ENTITY

C. Taxpayer is Resident Taxpayer that is member of Business Group whose Parent Entity:

C-1 has consolidated gross income*:

☐ a. more than or equivalent to IDR11,000,000,000,000.00 or EUR750,000,000.00;

☐ b. less than IDR11,000,000,000,000.00 or EUR750,000,000.00;

C-2 is tax subject*:

☐ a. resident;

☐ b. non-resident, whose country or jurisdiction of Parent Entity*:

☐ i. requires to make, keep, and submit Country by Country Report.

☐ ii. does not require to make, keep, and submit Country by Country Report.

D. Data of Parent Entity are as follows:

Name of Parent Entity : .... (2)

Tax ID Number : .... (3)

Parent Entity Country/Jurisdiction : .... (4)

Value of Consolidated Gross Income : EUR .... or equivalent to .... (5)

E. Parent Entity appoints Constituent Entity in the same Business Group to submit Country by Country Report in Indonesia or becomes the only substitution of the Parent Entity in submitting Country by Country Report in the country or jurisdiction where the Parent Entity substitution domiciles, as follows:

.... (6)

Name of Constituent Entity : .... (7)

Tax ID Number : .... (8)

Constituent Entity's Country/Jurisdiction : .... (9)

PART III STATEMENT OF COUNTRY BY COUNTRY REPORT SUBMISSION OBLIGATION

F. Hereby states that the Taxpayer*:

F-1 ☐ is Parent Entity, and **obliged** to make, keep, and submit Country by Country Report

F-2 is ☐ Parent Entity, but **not obliged** to make, keep, and submit Country by Country Report, with rationales as follows:

.... (10)

F-3 ☐ is not Parent Entity, but **obliged** to submit Country by Country Report

F-4 ☐ is not Parent Entity, and **not obliged** to submit Country by Country Report, with rationales as follows:

.... (11)

I declare that all information and/or statement stated in this Notification is true, complete, and clear.

Taxpayer/Authorizer

__________ (12)

*Choose one

Notification Content

Identification of Resident Taxpayers that are parent entities;

Identification of Resident Taxpayers that are not parent entities; and

A statement of the obligation to present a CbC Report.

MUC Consulting Group

MUC TAX RESEARCH INSTITUTE

MUC Training S

14 February 2018

Dasar-Dasar Transfer Pricing dan Dokumentasi Transfer Pricing

14 March 2018

Tax Update (Latest Tax Regulation)

11 April 2018

Kupas Tuntas PPh Badan dan Pengisian SPT 2017 Pasca Tax Amnesty

18 July 2018

Menghadapi Pemeriksaan dan Sengket Transfer Prici di Era BEPS Action Plan

For further information, please

Schedule 2018

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14 August 2018

Tax Update (Latest Tax Regulation)

18 September 2018

Seminar Transfer Pricing "Transfer Pricing pasca PMK-213 tahun 2016 dan OECD Transfer Pricing Guidelines (OECD TPG) 2017".

23 October 2018

Menghadapi Pemeriksaan dan Sengketa Transfer Pricing di Era BEPS Action Plan

14 November 2018

Merancang Strategi PPh Pasal 21 Berdasarkan Kebijakan Terbaru

contact *training@mucglobal.com*