

Impact of corruption

on fiscal outcomes and how to promote good fiscal governance, focusing on tax related issues

INDONESIA

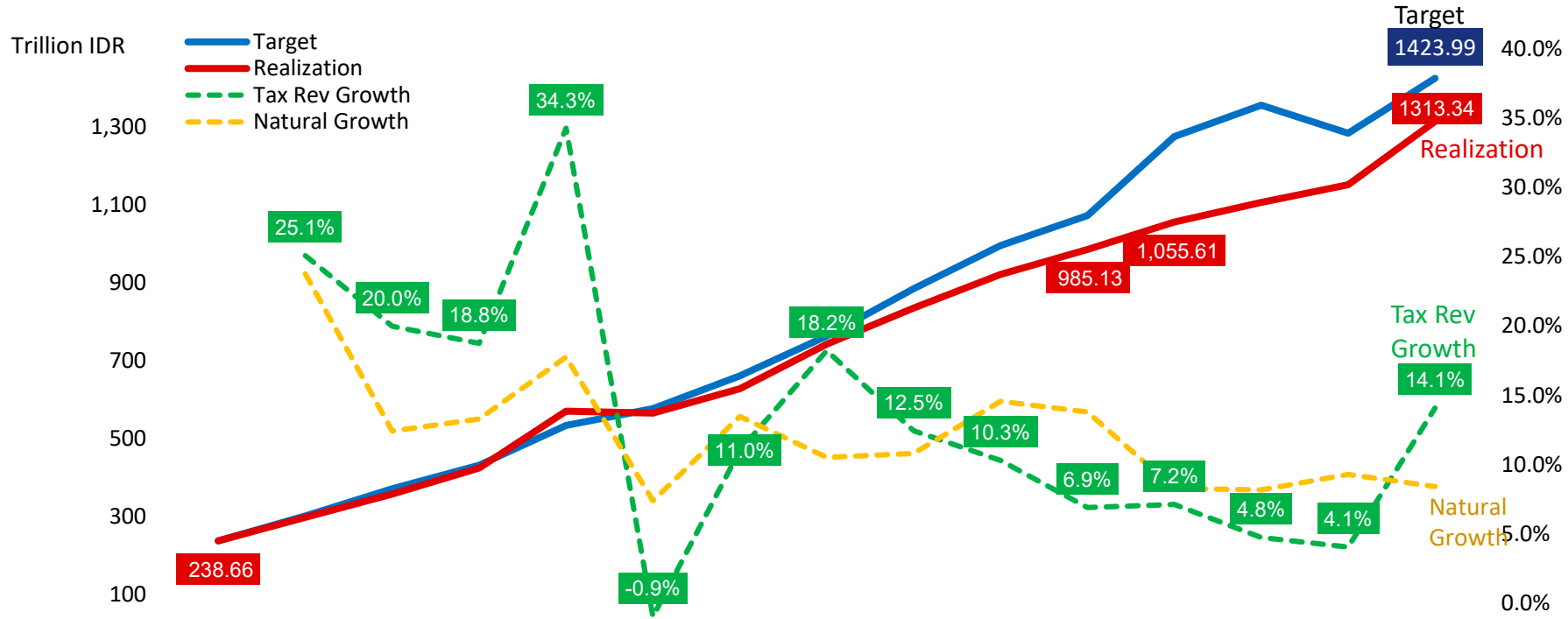
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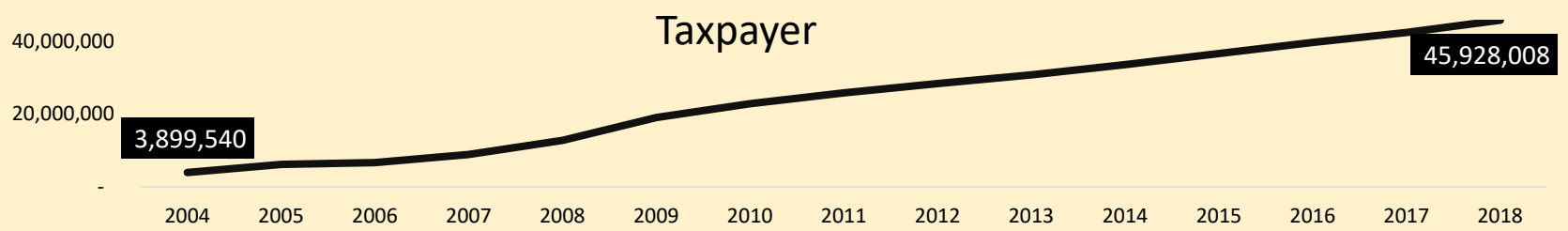
Indonesia Tax Revenue Performance

Source: DG Taxes's Database (accessed at 15th Feb 2019), Central Government Report (processed), Central Bureau of Statistics



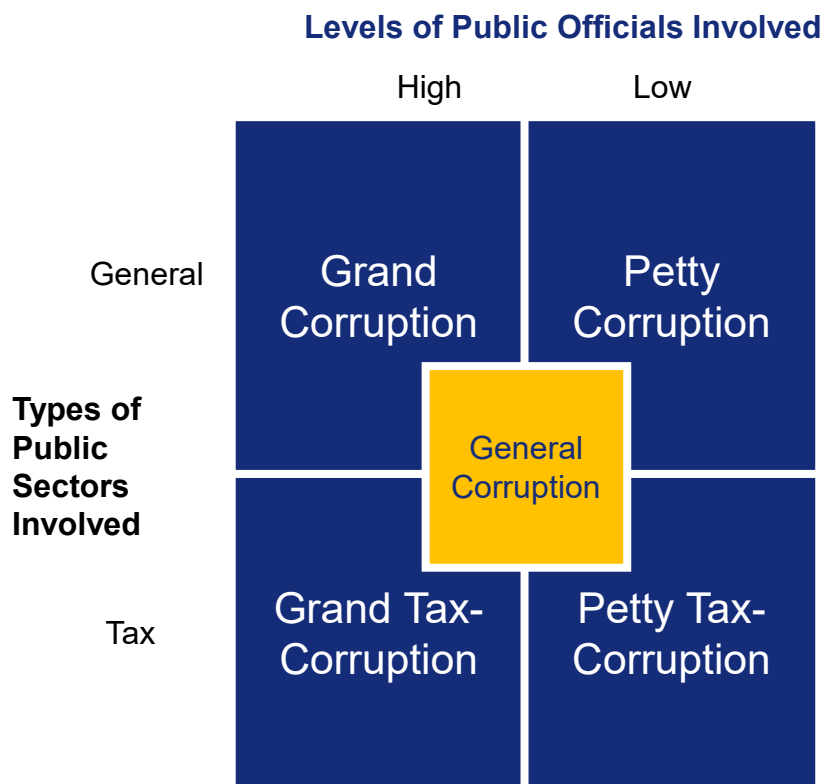
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018*
Target	238.59	302.16	371.70	432.52	534.53	577.39	661.50	763.67	885.02	995.21	1,072.	1,274.	1,355.2	1,283.57	1,423.99
Realization	238.66	298.53	358.20	425.37	571.11	565.77	628.23	742.74	835.25	921.40	985.13	1,055.	1,105.9	1,151.	1,313.34
Tax Rev Growth		25.1%	20.0%	18.8%	34.3%	-0.9%	11.0%	18.2%	12.5%	10.3%	6.9%	7.2%	4.8%	4.1%	14.1%
Natural Growth		23.8%	12.4%	13.3%	17.8%	7.4%	13.5%	10.5%	10.8%	14.6%	13.8%	8.3%	8.2%	9.3%	8.4%

Achievement	100,03%	98,80%	96,37%	98,35%	106,84%	97,99%	94,97%	97,26%	94,38%	92,58%	91,86%	82,84%	81,61%	89,67%	92,23%
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What is Corruption

- There is no consensus on the definition of corruption. In fact, corruption can be defined in several ways
(see, for example, Blackburn, Bose, and Haque 2010)
- Most of the definitions, however, appear to emphasize governmental aspects of corruption by highlighting the abuse of public authority for personal gains—accordingly, commonly termed as ‘government corruption’
(Shleifer and Vishny 1993: 599).



One popular way of classifying corruption is by using its scale (UNDP 2008). In this sense, corruption is categorized in the sector where it occurs or the amounts of money involved

corrupt acts include

- Payment of bribes
- Embezzlement and public service fraud
- Nepotism or cronyism
- Influence peddling and conflicts of interest

How Corruption Affect Tax Revenue

Revenue collections in developing economies are generally afflicted by widespread evasion, coercion, and corruption (McKerchar and Evans 2009, Bird 2015). Corruption creates inefficient tax systems, erodes tax collection legitimacy, reduces corporate and personal citizens' willingness to pay their fair shares of taxes and, as a result, lowers levels of tax collection

(Imam and Jacobs 2007, Alm, Martinez-Vazquez and McClellan 2016)

To circumvent this problem, many authors recommend that emerging countries should prioritise reducing the extent of corruption to improve tax compliance

(McKerchar and Evans 2009, OECD 2012)

■ **Policy making process**

Corruption creates inefficient tax systems, where corrupt politicians may provide ad hoc tax breaks for some people or firms while others will end up facing higher tax rates.

■ **Tax administration**

Corruption erodes tax collection legitimacy.

■ **Willingness to pay**

Corruption reduces corporate and personal citizens' willingness to pay their fair shares of taxes.

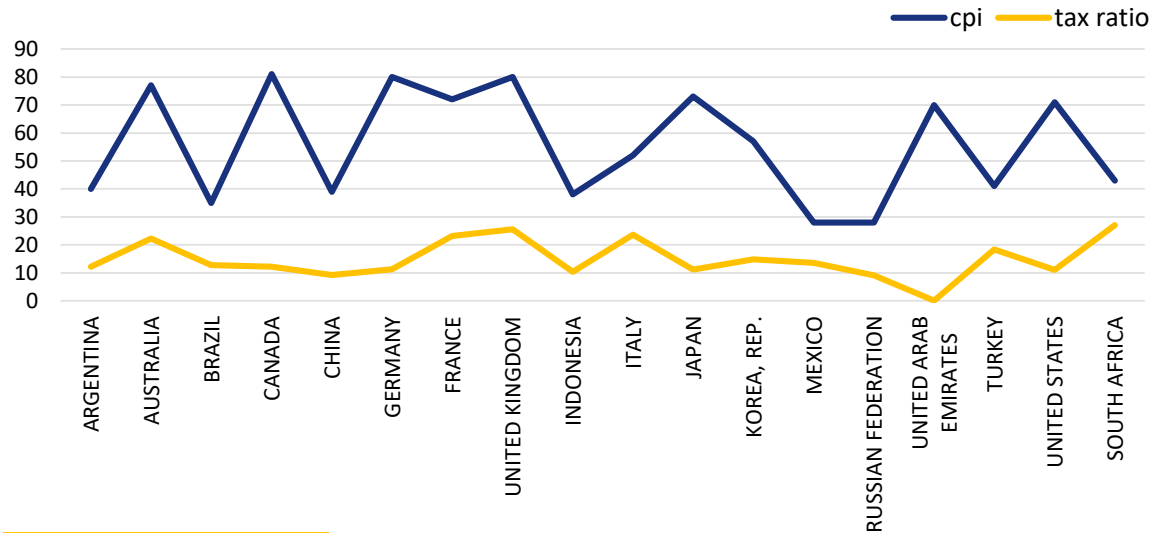
(Imam and Jacobs 2007, Alm, Martinez-Vazquez and McClellan 2016)

Perceptions of Corruption 2018 vs Tax Ratio 2018

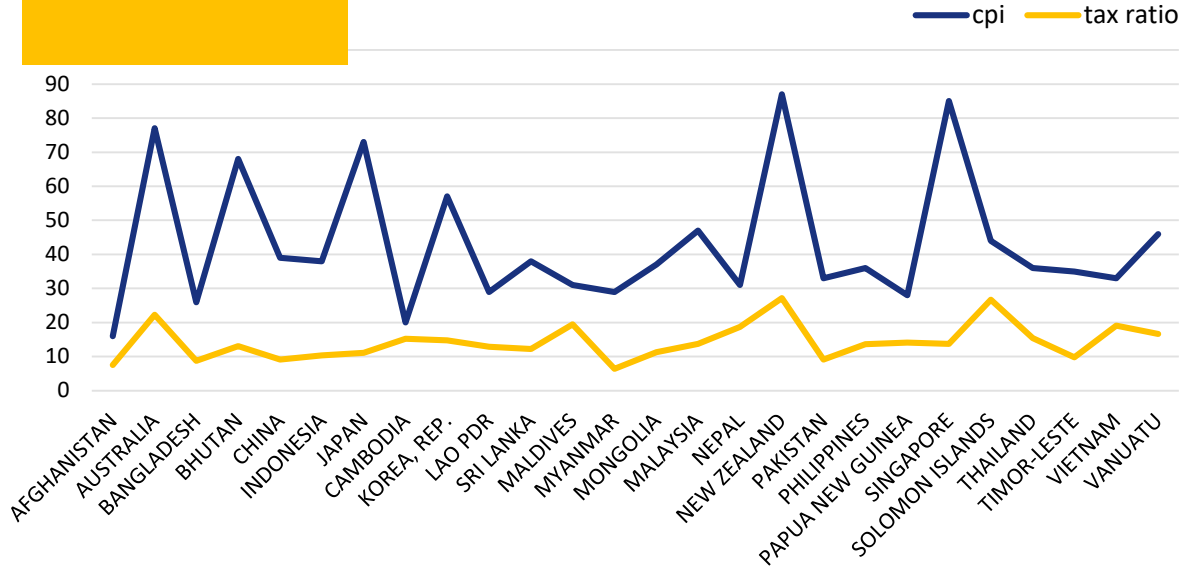
- Perceptions of corruption may have a worse effect than the corruption itself (Melgar, Rossi, and Smith 2010).
- Perceived corruption may erode taxpayers' willingness to contribute their fair share of tax (Jahnke 2015)
- Perceptions of corruption also undermine compliance as taxpayers may perceive that, due to corruption, the presence (or benefit) of government expenditures they receive will be reduced (Alm, McClelland, and Schulze 1992) as well as induce more taxpayers to underreport taxes, as more underreported taxes create more opportunities for bribery of tax officials (Çule and Fulton 2009).

G20

Source: transparency.org & World Bank



Asia Pasific



Jakarta - Tokyo

Inflight : 7 hours 10 minutes

✈ 7 jam 10 mnt
mulai Rp 4.050.100

Sabang

✈ 13 jam 35 mnt
mulai Rp 11.393.100

Sabang - Merauke

Inflight : 9 hours 25 minutes
2 Transit : 2 hours 55 minutes





17,504
ISLANDS

3,257,483 km²
MARINE AREA (80%)

34
PROVINCES

Distribution of Operational Offices

34 Regional Tax Office (RTO)

352 Tax Office
LTO | MTO | STO

207 Tax Service, Counsel, and Consultation Office (Micro)

45,928,008
Taxpayer (April 2019)

MACRO ECONOMICS in INDONESIA

GDP

2018 **IDR 14.837** quadrillion

2017 **IDR 13.587** quadrillion

Economic Growth

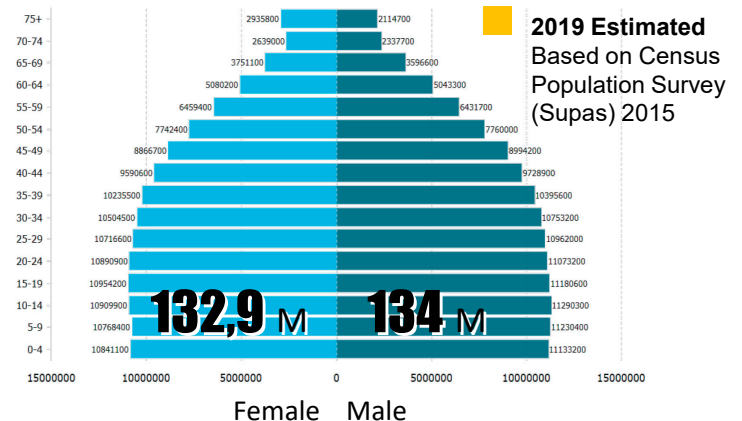
2018 **5.17%** y.o.y

2017 **5.07%** y.o.y

POPULATION of INDONESIA

Source: databoks.katadata.co.id

266.91 M



The Biggest Tax Bribery Case in Indonesia

Indonesian taxman Gayus Tambunan jailed for corruption

By Alice Budisatrijo
BBC News, Jakarta

🕒 19 January 2011

📘 🗨️ 🐦 ✉️ 🔄 Share

An Indonesian former tax official has been jailed for seven years for causing millions of dollars in state losses.

Gayus Tambunan was found guilty on four counts of corruption - including bribing his way out of bribery charges.

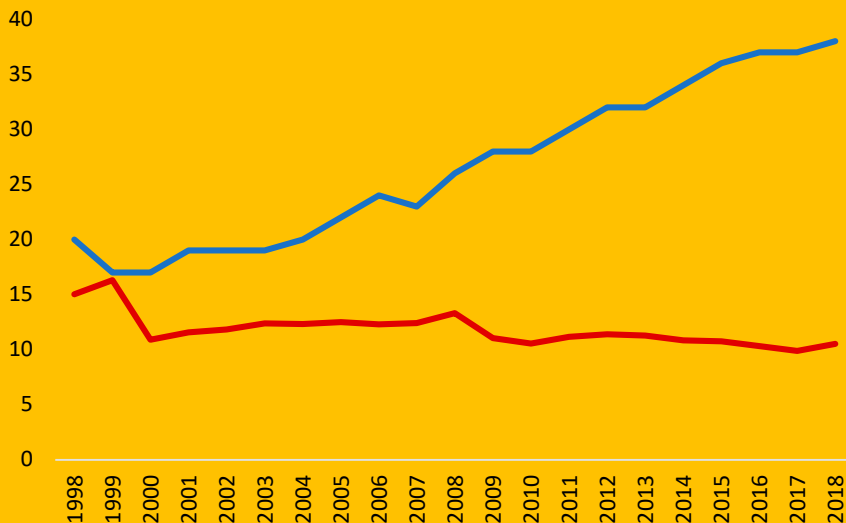


Gayus Tambunan bribed his way out of jail to watch a tennis match in Bali during the trial

<https://www.bbc.com/news/world-asia-pacific-12224782>

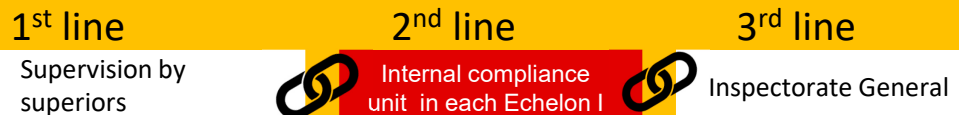
CPI and TAX RATIO

— cpi
— tax ratio



Strengthening Internal Control Function

Minister of Finance ordered the formation of internal compliance unit as a second line of defense



many researchers recommend that emerging countries should prioritize reducing the extent of corruption to improve tax compliance

(McKerchar and Evans 2009, OECD 2012).

Fighting Corruption by Promoting Good Governance



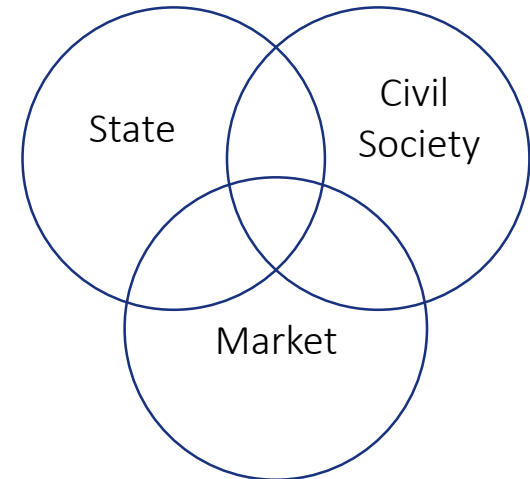
Operation of 3 Key Actors

State:

clean, accountable, responsive, oriented to the interests of the community, encourage public participation in the process of making, implementing and controlling policies

Civil Society:

strong commitment, be proactive in giving suggestions for improvement, actively participating



Market:

open, accountable, have high morality, social responsibility, comply with laws

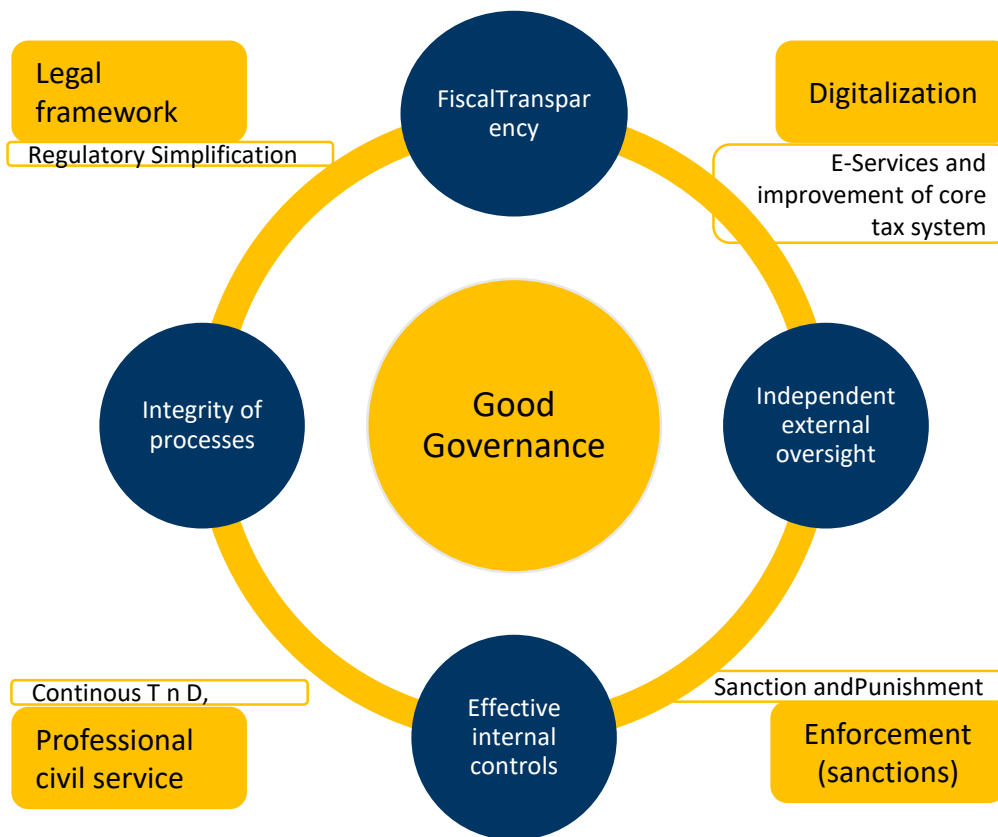
Fighting Corruption by Promoting Good Governance (IMF)



Internal Control In DG Taxes

- Code of Conduct
- Whistle Blowing System
- Internal Compliance Unit
- Compliance Checking
- Internalization of Compliance
- Knowing Your Employee
- Leaders as a Role Model
- Risk management
- Early Handling
- Complaint Handling
- Mandatory reporting of gifts
- Declaration of assets and interests accessible to the public (in Indonesia: LHKPN)
- Imposition of Discipline Punishment
- Collaboration with Auditors and Law Enforcement Officer

Fiscal Governance Framework



SYNERGY



Connectivity of Whistleblowing System

Number : 134 year 2017
Number : PRJ-1/IJ/2017

- WBS Empowerment
- Data and Information Exchange
- Monitoring and Evaluation and Supervision



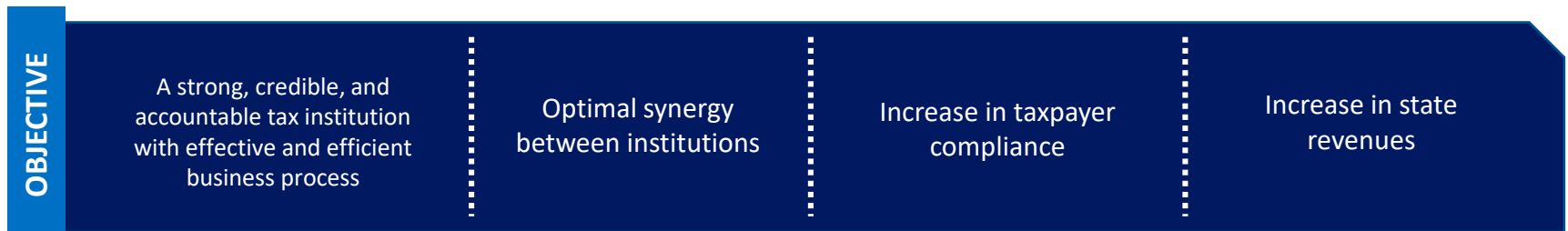
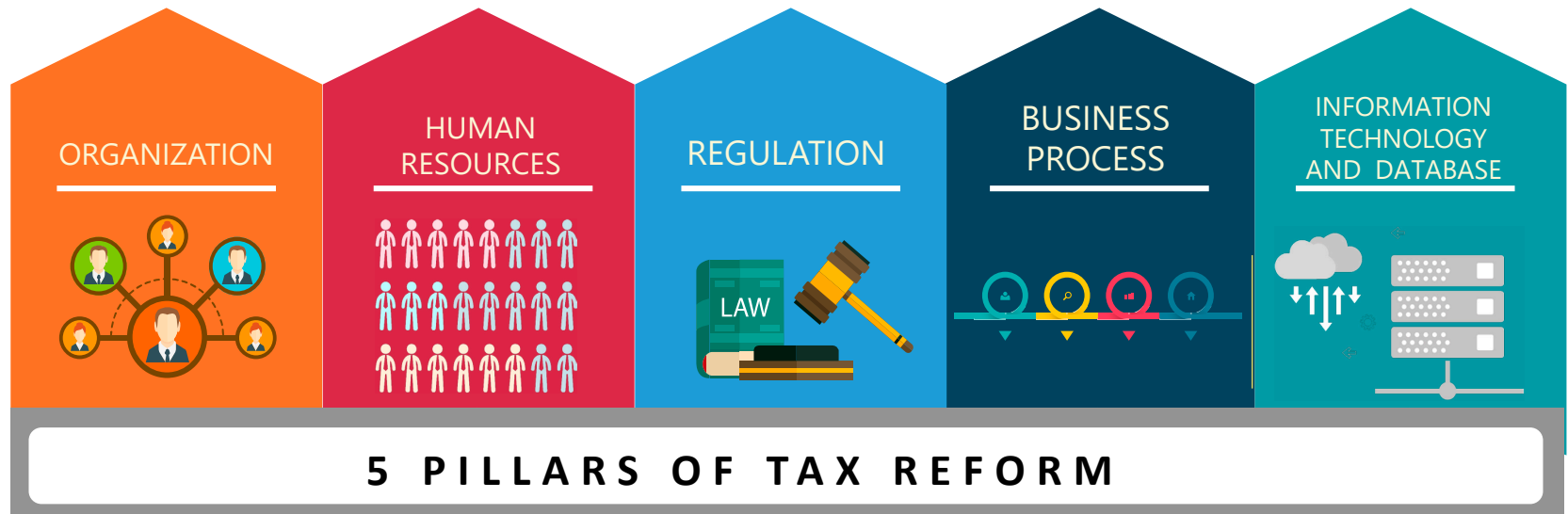
Coordination and Cooperation in the Context of Protection for Reporters, Witnesses, and Witnesses of Actors who Cooperate in the Context of Action to Prevent and Eradicate Corruption Crimes.

MoU – 9/MK.09/2015

NK-043/I/DIV4.2/LPSK/09/2015

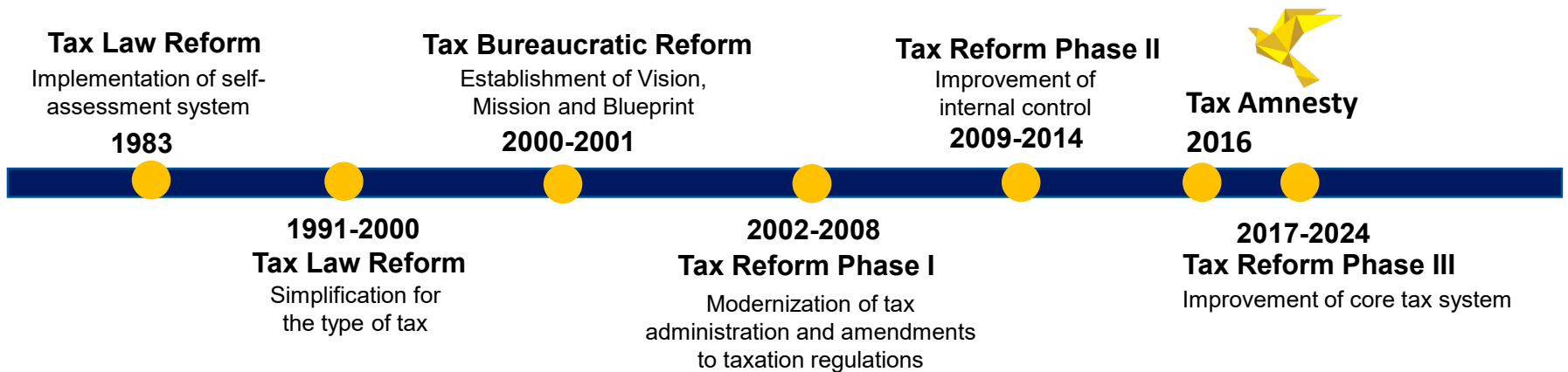
- WBS Coaching
- Protection of Reporters, Witnesses, Witnesses of Actors Cooperating in the Corruption Eradication Framework
- Coordination / Provision of Information
- Socialization
- Information Dissemination and Advocacy

5 PILLARS OF TAX REFORM



DG Taxes is implementing Tax Reform (2017-2024)

DG Taxes Tax Reform



Thank

you