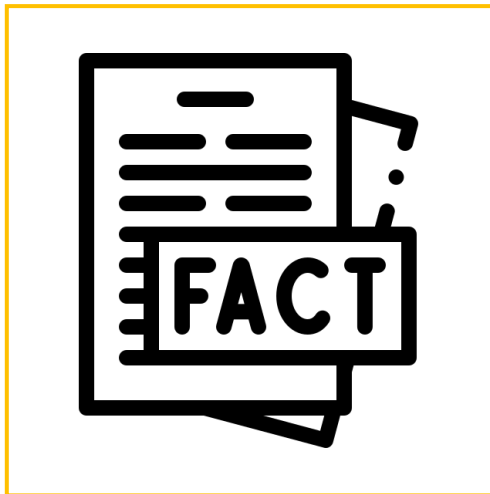




Taxing High Income Individuals

Directorate General of Taxes - Indonesia

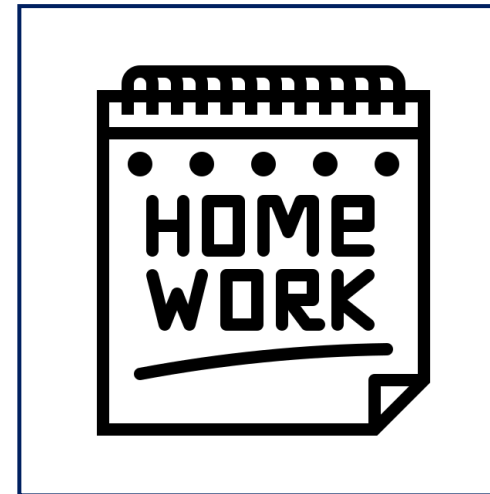
13th High-Level Tax Conference for Asian and Pacific Countries
Tokyo, 25-26 April 2024



Data and Fact



**What we
have tried**



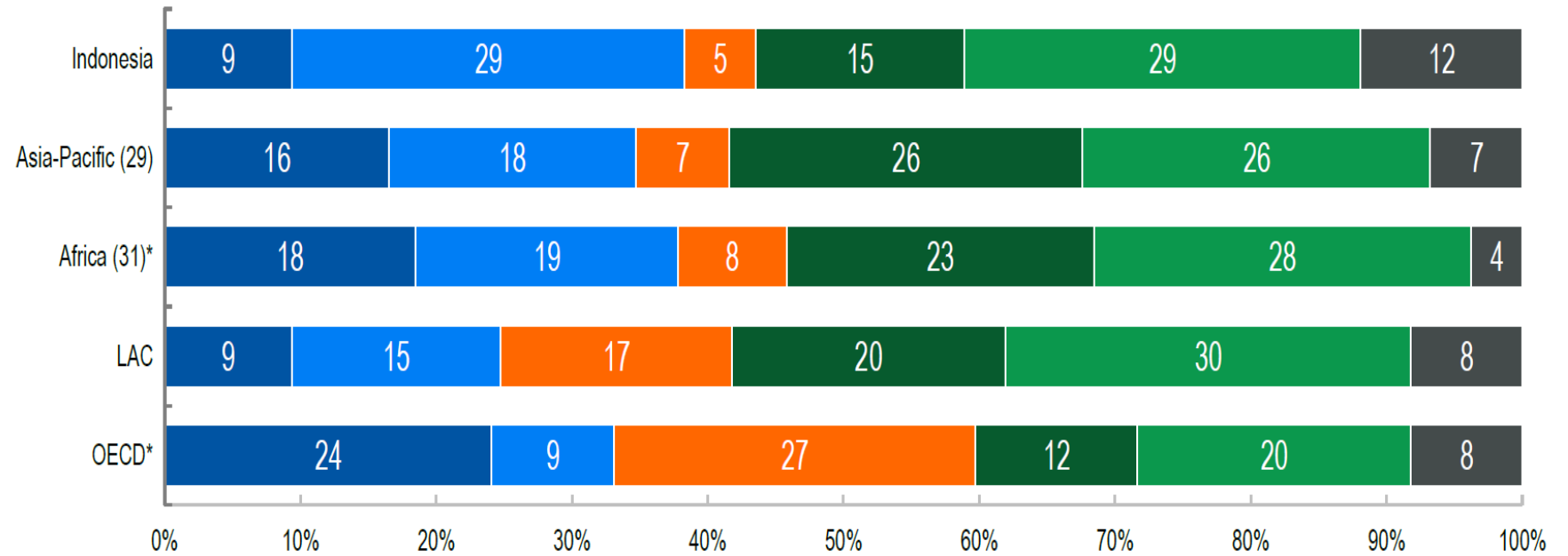
**What we need
to do**

Tax Structure compared to the Regional Averages (2021)

Individual income tax contributes **only 9%** of overall Government Revenue

There is a **large gap** between individual (9%) and corporate Taxes (20%)

We are relying on a **VAT tax** that is easier to collect





- Personal income tax
- Corporate income tax
- Social security contributions
- Other taxes on goods and services
- Value added taxes / Goods and services tax
- Other taxes

* Data for 2020 are used for the Africa (31) average and OECD average as 2021 data are not available

Source: Revenue Statistic in Asia and The Pacific, OECD 2023

Indonesia's Tax Amnesty 2016/2017

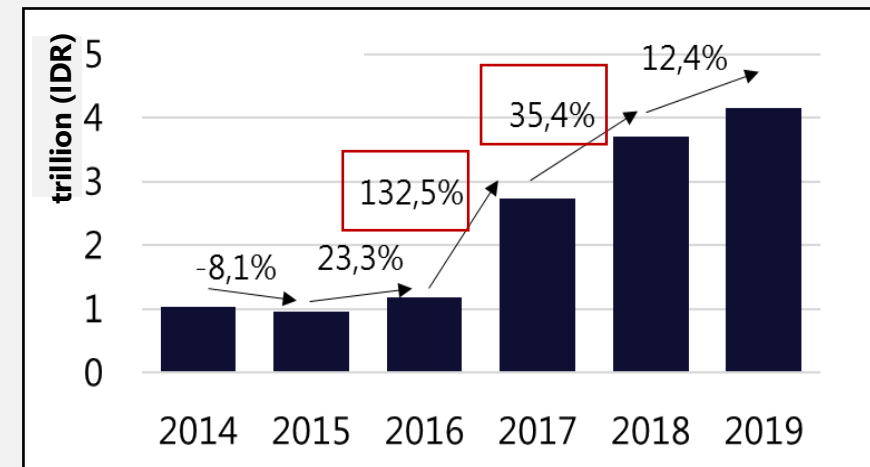
Tax Amnesty Law	
	Taxpayers disclose their assets acquired in exchange for relieving unfulfilled tax obligation in the past
	For every rupiah of their assets they need to pay <ul style="list-style-type: none"> • 2%, 3%, or 5% for domestic assets • 4%, 6%, or 10% for non-domestic assets

Tax Amnesty Realisation	
Tax Payer	Assets Declaration (Domestic and Abroad)
Small and Medium Income Individual Tax Payer	IDR 868 Trillion (USD55 Billion)
Large Income Individual Tax Payer	IDR 3.331 Trillion (USD212 Billion)



Lesson learned

- High income individuals have a greater ability to avoid or evade taxes.
- Tax authority collects better profile data of taxpayers to increase the tax base and tax revenue



The personal income tax payments by participants of the tax amnesty in the years before and after the tax amnesty period.

Harmonization of Tax Regulation (Law Number 7/2021)

Harmonization of Tax Regulation is a shift from the prior tax law. There are at least two articles that **emphasis tax progression, especially for individual**



TAX LAW

The highest tariff set from **30% to 35%** for income above IDR 5 Billion (**USD318,268.62**) expected to be more progressive



Increase tax revenue by **IDR 2.28T (USD144M)**, about **2,63%** of Individual tax revenue

Benefits in kind, which were formerly non-deductible expenses for corporate tax and non-taxable income for individuals, now deductible expenses for corporate tax and **become taxable income for individuals.**

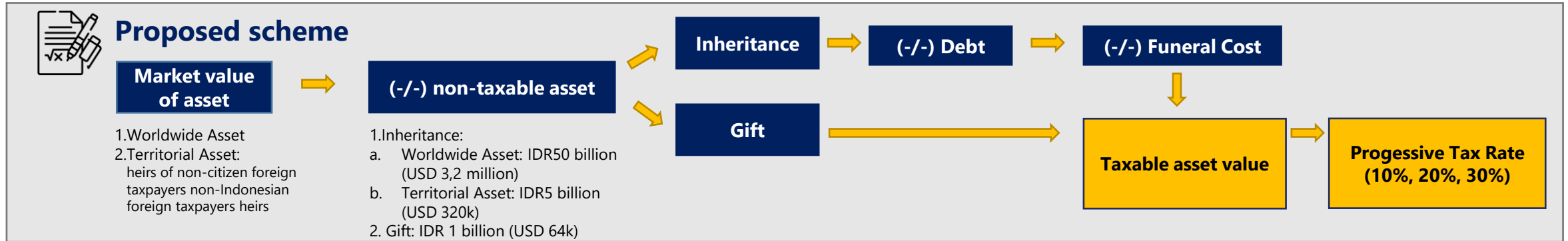


Individual tax for employees payable approximately increased by **IDR 4,05T (USD250M)**, about **3,5%** of Individual tax revenue

Rejection of Tax on Inheritance and Gift Law Proposal



- Another article that **we should have included** in the Law 7/2021 is about **Tax on Inheritance and Gift**
- The proposal **was rejected** due to:
 - social and cultural sensitivity of tax on inheritances and gift for individual taxpayers
 - there is no political will yet



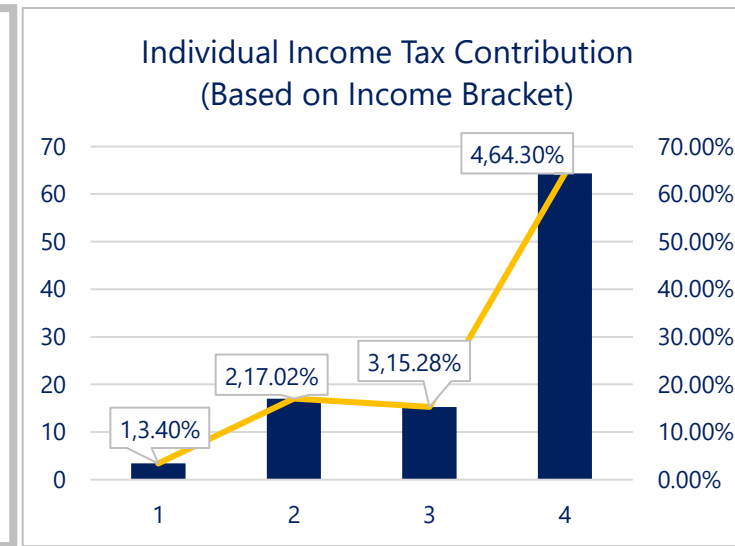
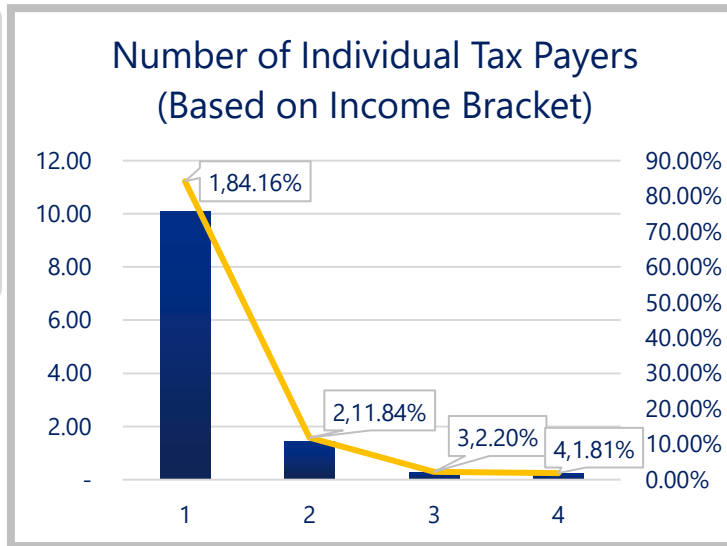
Benchmark

Inheritance Tax	Vietnam	Filipina	Thailand	USA	Japan
System	Inheritance Tax	Estate Tax	Inheritance Tax	Estate Tax	Inheritance Tax
Tax rate (after deductions)	10%	6%	0%/5%/10% single rate, depend on subject	Progressive 18% to 40% (12 bracket)	Progressive 10% to 55% (7 bracket)
Taxing Point	Asset transferred to heirs	Before inheritance assets is transferred	Asset transferred to heirs	Before inheritance asset is transferred	Asset transferred to heirs

Gift Tax	Vietnam	Filipina	Thailand	USA	Japan
Subject	Grantee	Grantee	Grantee	Grantee	Grantee
Tax rate (after deductions)	10%	6%	5% (based on grant value) or general rate of income tax	Progressive 18% to 40% (12 brackets)	Progressive 10% to 50% (6 brackets)
Taxing Point	Asset transferred to the grantee	Asset transferred to the grantee	Asset transferred to the grantee	Asset transferred to the grantee	Asset transferred to the grantee

Another Home Work

The progressive non-final rates of personal income tax appears to be on track, the group of high income individuals contributes significantly to total personal income tax revenue

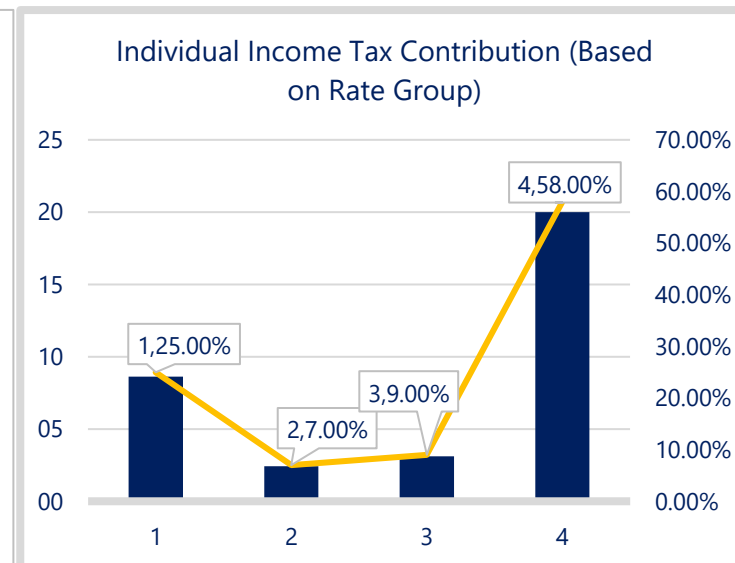
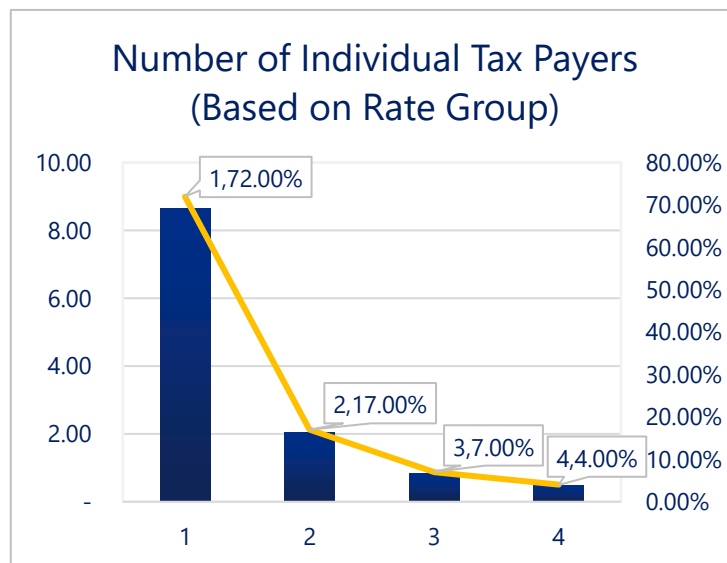


Meanwhile, we have to do something about our **final tax** because it triggers regressiveness:

- Lower rate group pay more
- Higher rate group pay less

The following income are subject to final tax:

1. sales on shares on the stock exchange (0,1%)
2. SME (0,5%)
3. Construction (1,75% s.d. 6%)
4. Land/Building sales (2,5%)
5. Land/Building Rent (10%)
6. Interest on Saving from cooperative (10%)
7. Interest/Discount on Bond (10% to 20%)
8. Interest on Saving (20%)



Is the **Net Wealth Tax** the answer ?

Net Wealth Tax

↑ Decrease Inequality level

▬ Encourage Consumption

↓ Capital Flight

Require

- **A Guideline** either from UN Tax Committee or OECD
- **Simplification, Digitalization** and better **Regulation** regarding tax base

Challenge

- **Tax Heaven Countries**
- **Global commitment and agreement**

Thank You

