



Ministry of Finance
of the Republic of Indonesia

Tax Reform in Indonesia: Issues, Challenges and Solutions

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OUTLINE

- Indonesian Taxation at A Glance
- Indonesian Tax Reform Phase 1 (2002 – 2008)
- Indonesian Tax Reform Phase 2 (2009 – 2014)



Indonesian Taxation at A Glance

INDONESIAN TAXATION

❑ Self Assessment System

❑ Types of Tax:

❑ Income Tax

- ❖ Individual : progressive rate 5%-30%
- ❖ Corporation : flat rate 25%
- ❖ Small and Medium Enterprise : 50% lower (terms & conditions applied)

❑ Value Added Tax : flat rate 10%

❑ Luxurious Sales Tax : 10% - 75% (on selected goods)

❑ Property Tax : flat rate 5% (effective rate 0.1%)

❑ Stamp Duty : 2 rates

❑ Tax Treaty: 60 countries

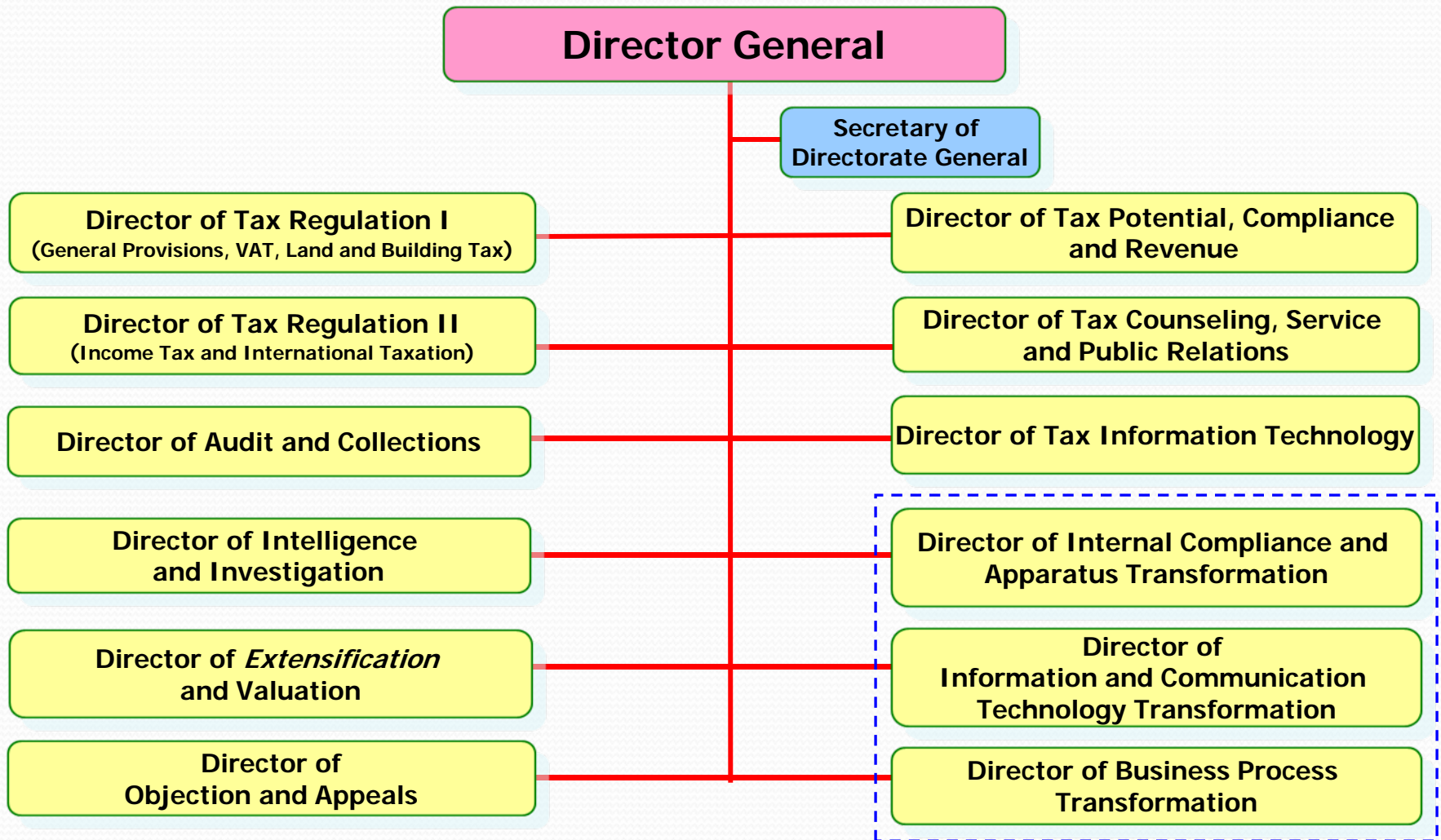
❑ Organization:

- ❖ Head Office (1)
- ❖ Regional Office (31)
- ❖ Operational Office (331)
 - Large Taxpayers Office - LTO – (4)
 - Medium Taxpayers Office - MTO – (28)
 - Small Taxpayers Office - STO – (299)

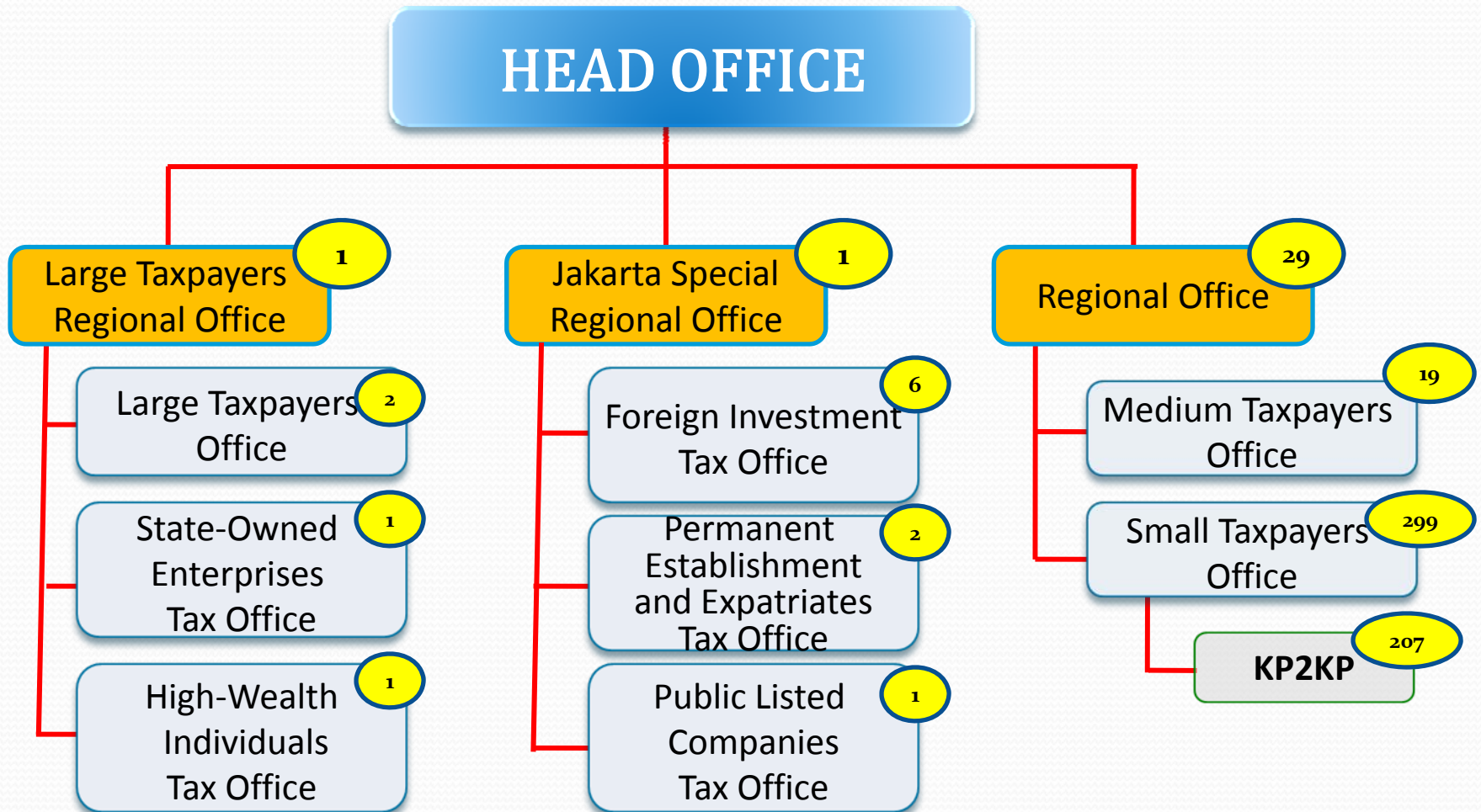
❑ Human Resources

- ❖ ± 32,000 staff

ORGANIZATIONAL STRUCTURE OF HEAD OFFICE



OPERATIONAL OFFICES



*) MTO are established only in particular Regional Offices

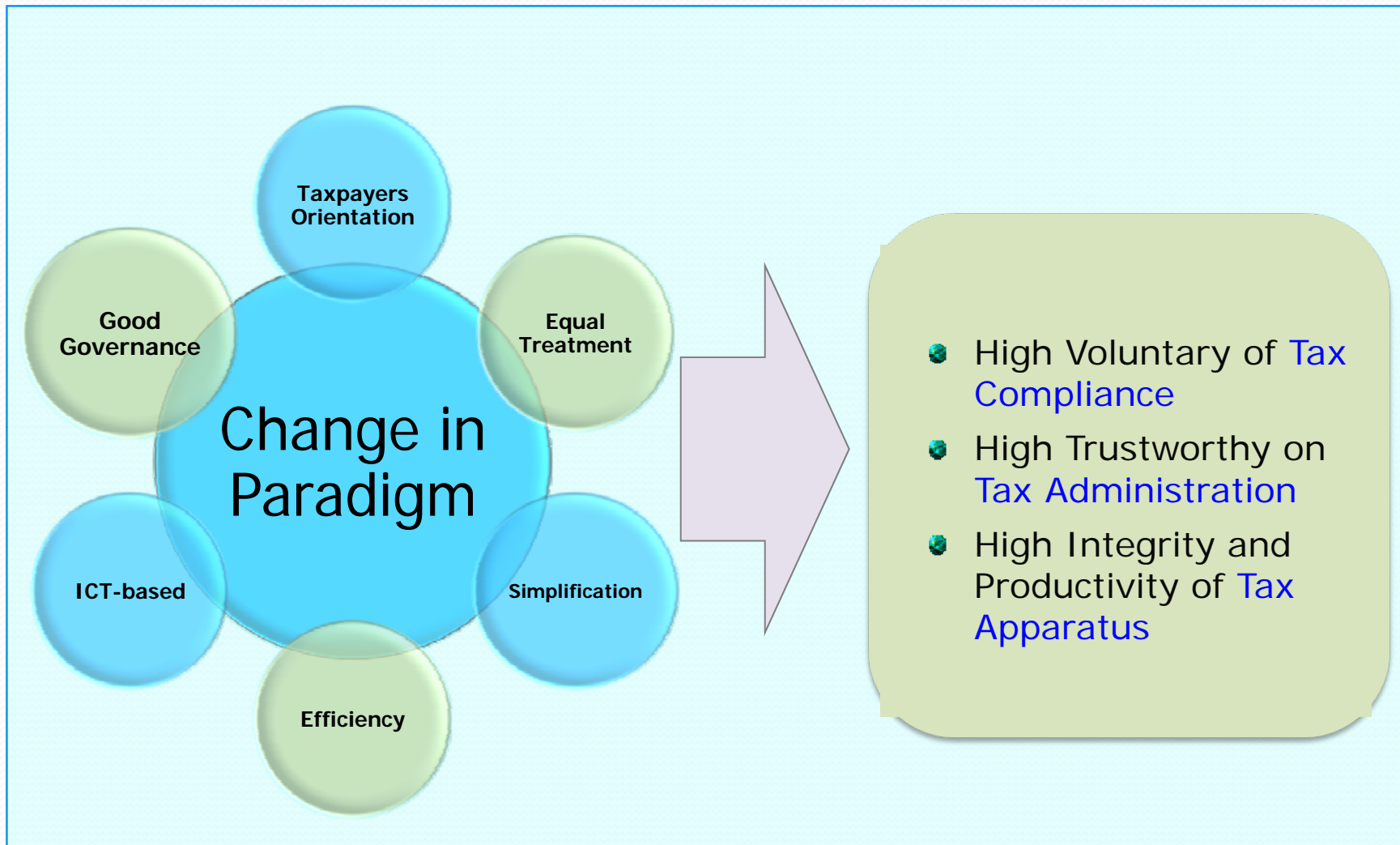


Indonesian Tax Reform Phase 1

2001 TAX ADMINISTRATION

- Low tax compliance
- Ineffective tax administration
- Integrity issue
- Low number of registered taxpayers
- Low quality of taxpayer service

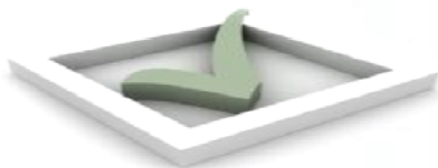
TAX REFORM PHILOSOPHY



MODERNIZATION TAXATION (2002 – 2008)

ORGANIZATION

- ❖ Taxpayers Segmentation based on size
- ❖ Functional-based organizational structure
- ❖ Customer Oriented ☐ Account Representative (Consultation and Supervision)
- ❖ Separation of function: Tax Audit managed by tax office, Objection managed by regional office
- ❖ New functions of internal control and development /transformation



HRM

- ❖ Competency Mapping for all ± 32,000 employees
- ❖ Job Evaluation and Workload Analysis
- ❖ Job Grading for Rotation and Promotion
- ❖ Assessment Center
- ❖ Job Competency Standard
- ❖ Capacity Building with Adult Learning Principles
- ❖ Remuneration Policy



ICT BASED BUSINESS PROCESSES

- ❖ Introduction of e-registration, e-filing, e-SPT (tax returns), e-payment
- ❖ Case Management and Workflow System for Administration and Service
- ❖ Risk analysis for law enforcement: Tax Audit, Collection, Investigation
- ❖ Inbound-Outbound Call Center and Non-Fileers Activation Center
- ❖ Simplified tax forms
- ❖ Integrated supporting information systems: Personnel, Finance, Assets
- ❖ Improvement in SOPs and Reporting System



GOOD GOVERNANCE

- ❖ Code of Conduct : clearly states obligations and prohibitions for staff along with sanctions for any violations of Code of Conduct
- ❖ Independent institutions to oversee code of conduct, such as Code of Conduct Committee in the Ministry of Finance and other supervisory agencies
- ❖ Internal Control units: preventive and reactive roles
- ❖ Complaint management: procedures (SOP), follow-up, and monitoring system on taxpayer's complaints
- ❖ Better reporting system

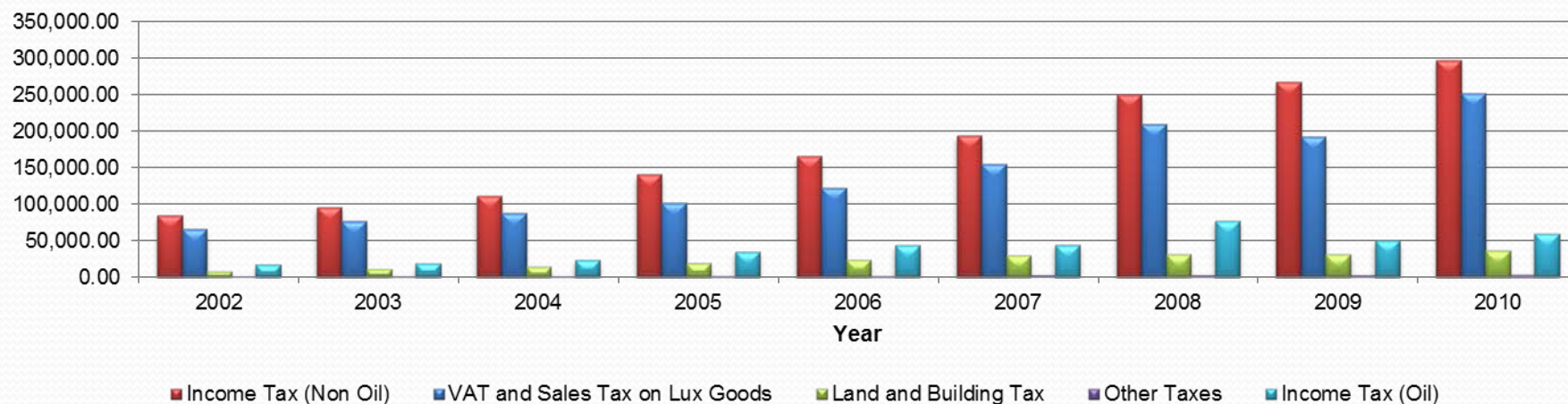


TAX REVENUE REALIZATION (2002-2010)

(in Billion rupiah)

NO	Type of Tax	REALIZATION									
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	Income Tax (Non Oil)	84,469	96,051	111,957	140,389	165,645	194,430	250,479	267,570	297,835	366,700
2	VAT and Sales Tax on Lux Goods	65,244	76,761	87,567	101,296	123,036	154,527	209,647	193,068	252,063	298,400
3	Land and Building Tax	7,986	10,906	14,680	19,649	24,043	29,677	30,927	30,733	36,607	29,100
4	Other Taxes	1,469	1,655	1,832	2,050	2,287	2,738	3,034	3,114	3,968	4,200
	Total Tax Revenue excl. Oil Income Tax	159,168	185,373	216,037	263,384	315,012	381,372	494,088	494,485	590,474	698,400
5	Income Tax (Oil)	17,033	18,781	22,947	35,143	43,188	44,001	77,019	50,044	58,873	65,200
	Total	176,201	204,154	238,983	298,527	358,199	425,372	571,107	544,529	649,347	763,600

(*) state budget 2011

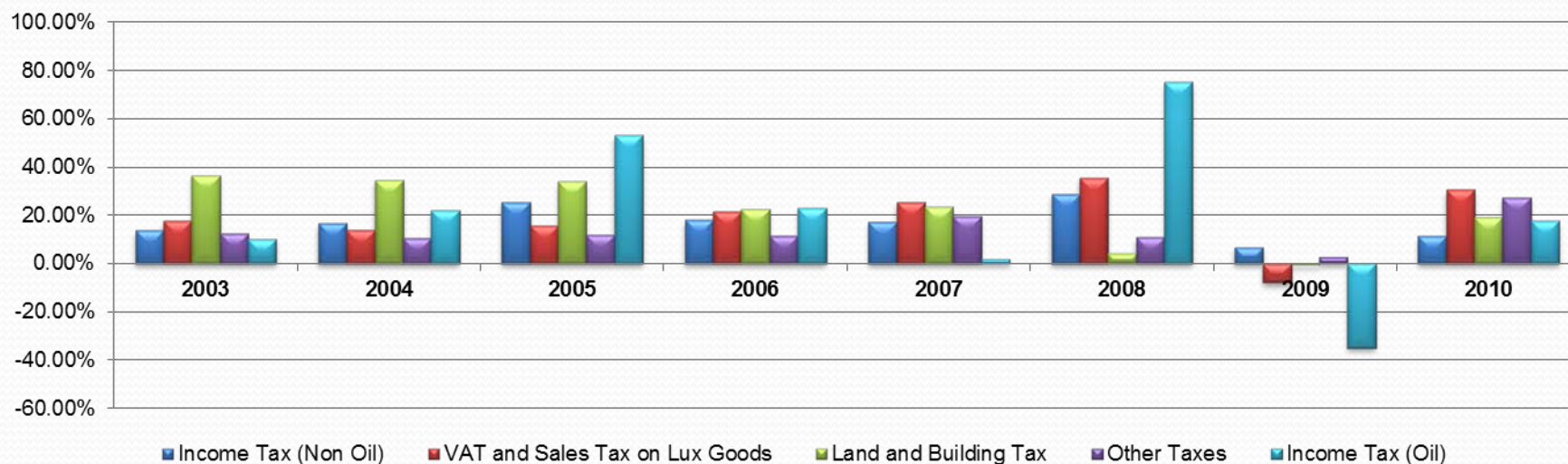


TAX REVENUE GROWTH (2002-2010)

(in Billion rupiah)

NO	Type of Tax	% GROWTH								
		2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011*
(1)	(2)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
1	Income Tax (Non Oil)	14%	17%	25%	18%	17%	29%	7%	11%	23%
2	VAT and Sales Tax on Lux Goods	18%	14%	16%	21%	26%	36%	-8%	31%	18%
3	Land and Building Tax	37%	35%	34%	22%	23%	4%	-1%	19%	-21%
4	Other Taxes	13%	11%	12%	12%	20%	11%	3%	27%	6%
	Total Tax Revenue excl. Oil Income Tax	16%	17%	22%	20%	21%	30%	0%	19%	18%
5	Income Tax (Oil)	10%	22%	53%	23%	2%	75%	-35%	18%	11%
	Total	16%	17%	25%	20%	19%	34%	-5%	19%	18%

(*) state budget 2011



NUMBER OF TAXPAYERS

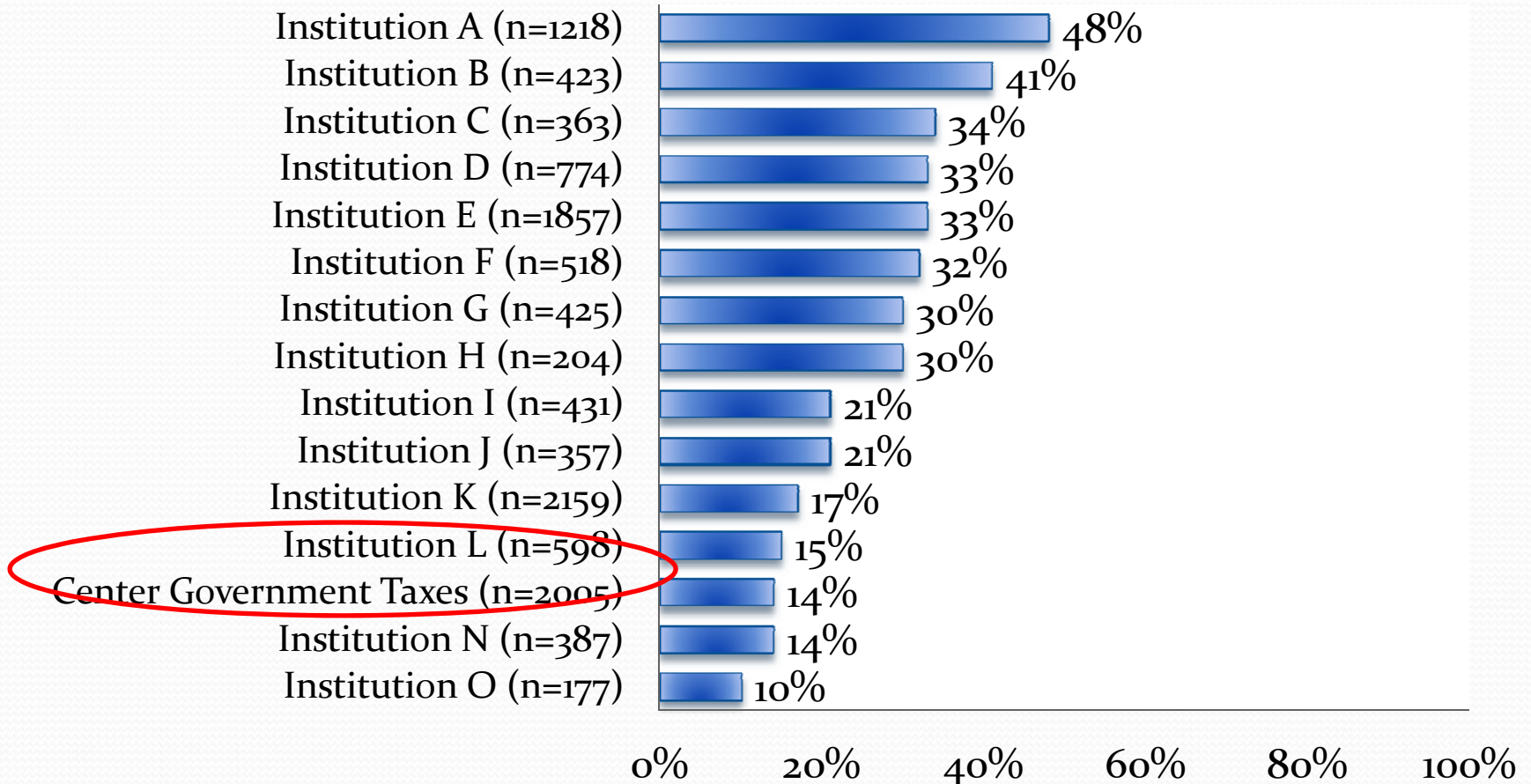
Year	Personal	Corporate	Govt. Treasurer	Total	Growth
2004	2,595,438	1,017,720	197,314	3,812,476	
2005	2,925,525	1,105,694	265,615	4,298,839	13%
2006	3,216,648	1,206,391	317,712	4,742,757	10%
2007	5,293,832	1,323,659	350,673	6,970,171	47%
2008	8,859,431	1,468,336	382,076	10,711,851	54%
2009	14,667,169	1,618,251	436,969	16,724,398	56 %
2010	18,149,661	1,790,583	470,455	20,412,709	22%



RESULT OF TAX REFORM CHAPTER ONE



ACHIEVEMENT - SURVEY CORRUPTION RANK by TRANSPARENCY INTERNATIONAL



BREAKTHROUGHS AND LESSON LEARNED

BREAKTHROUGH And Lesson Learned

Pilot Project Approach –
Tax Reform is gradually implemented

Establishment of Transformation Directorate –
Tax Reform is no longer conducted by ad hoc team

Closed coordination with external agencies –
Parliament, State Personnel Agency, etc.

Technical Assistance from Donor -
Consultancy, Secondment dan Comparative Studies

Change Management – Training and Communication
to stakeholders and taxpayers

Code of Conduct - socialization based on Adult
Learning Principles through Training of Trainers

Strategic Plan Formulation



INDONESIAN TAX REFORM PHASE 2

2009 TAX ADMINISTRATION

Revenue Performance and Tax Compliance

Number of Taxpayers

HR Policy and Management

Professionalism and Integrity

Information System Reliability and Integrity

Data Quality to Support Law Enforcement

Business Process and Control

- **Short Term:
Crash Program**
- **Medium-Long Term:
PINTAR**

CRASH PROGRAM



Many obligated residents are still unregistered as taxpayers



Weak governance in tax audit

Objection failed to provide justice to taxpayers

DGT lose in appeal cases in Tax Court

Low Tax Ratio



Weak HR Management System



Low maturity level of ICT



Current organizational structure does not reflect the dynamic of DGT main tasks and functions

9 main problems

64 strategies

128 Program Solutions

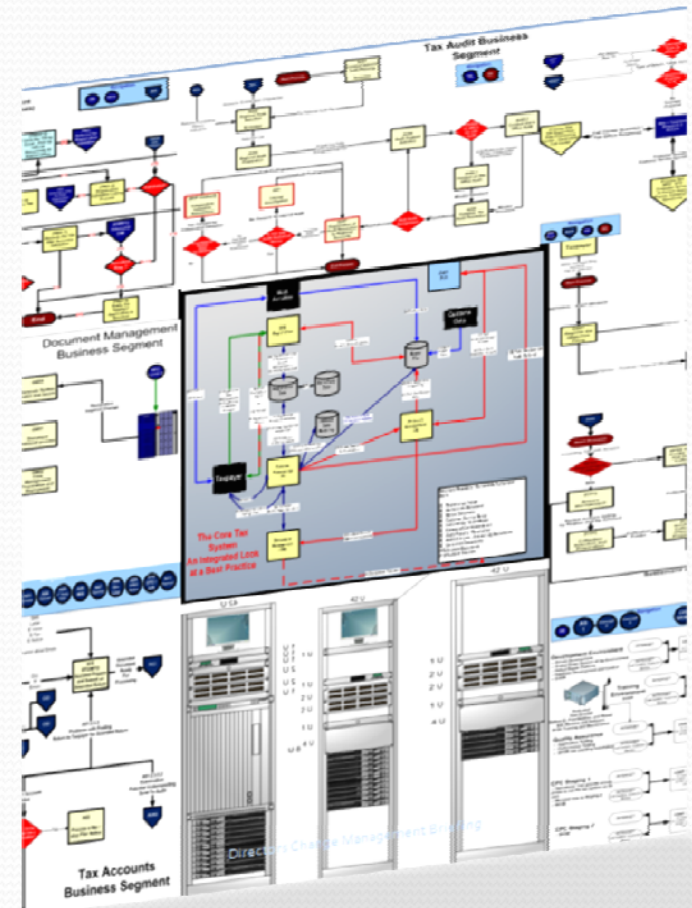
73 items of 2010 priority programs

HEADING FOR AN INTEGRATED TAX SYSTEM

PINTAR – a Transformation beyond IT

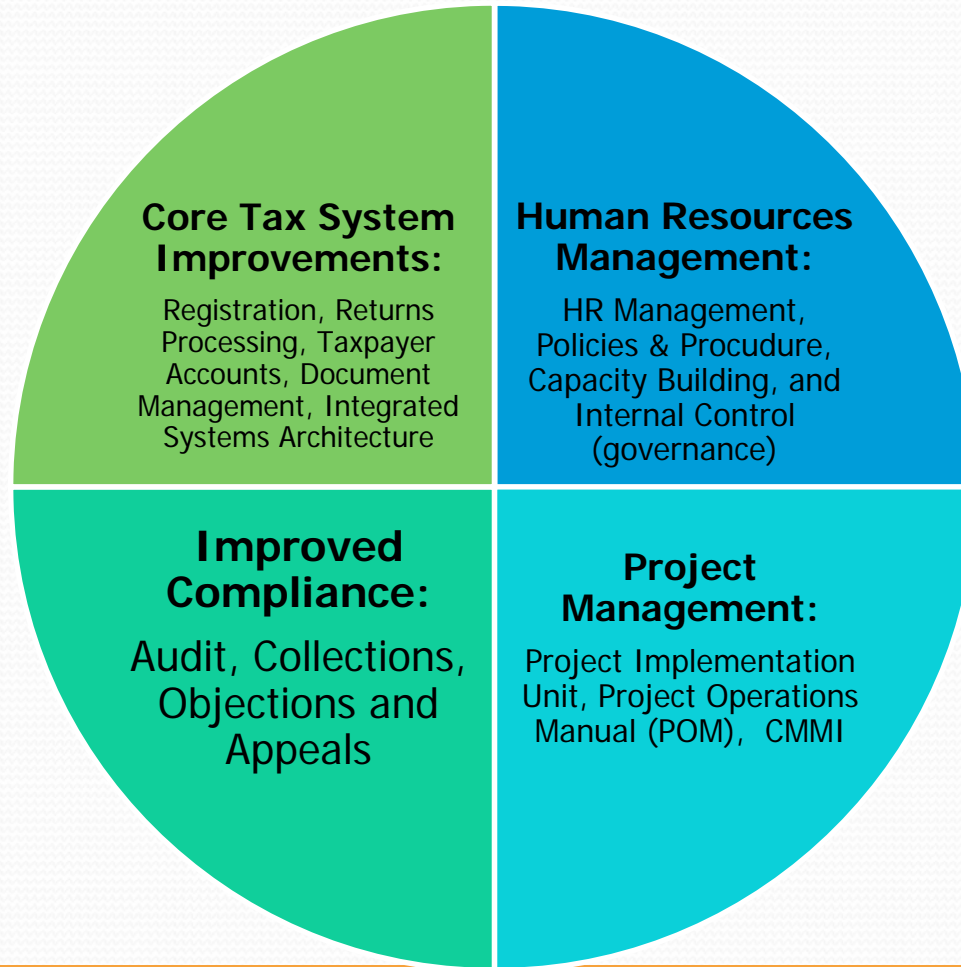
It is a *major transformation of organization and corporate culture and practices, which require strong change management leadership*. The objectives of PINTAR are to:

- Increase taxpayer voluntary compliance by lowering the compliance costs and increasing the efficiency and effectiveness of DGT; and
- Improve integrity, efficiency and governance in tax administration by strengthening transparency, professionalism, accountability, and control mechanisms.



PINTAR IS AN INTEGRATED INSTITUTIONAL TRANSFORMATION PROGRAM BEYOND IT

It is a major organization transformation, which encompasses business processes, risk-based management, HR policies & management, IT, and corporate culture and practices



PINTAR CORE TAX PROJECT

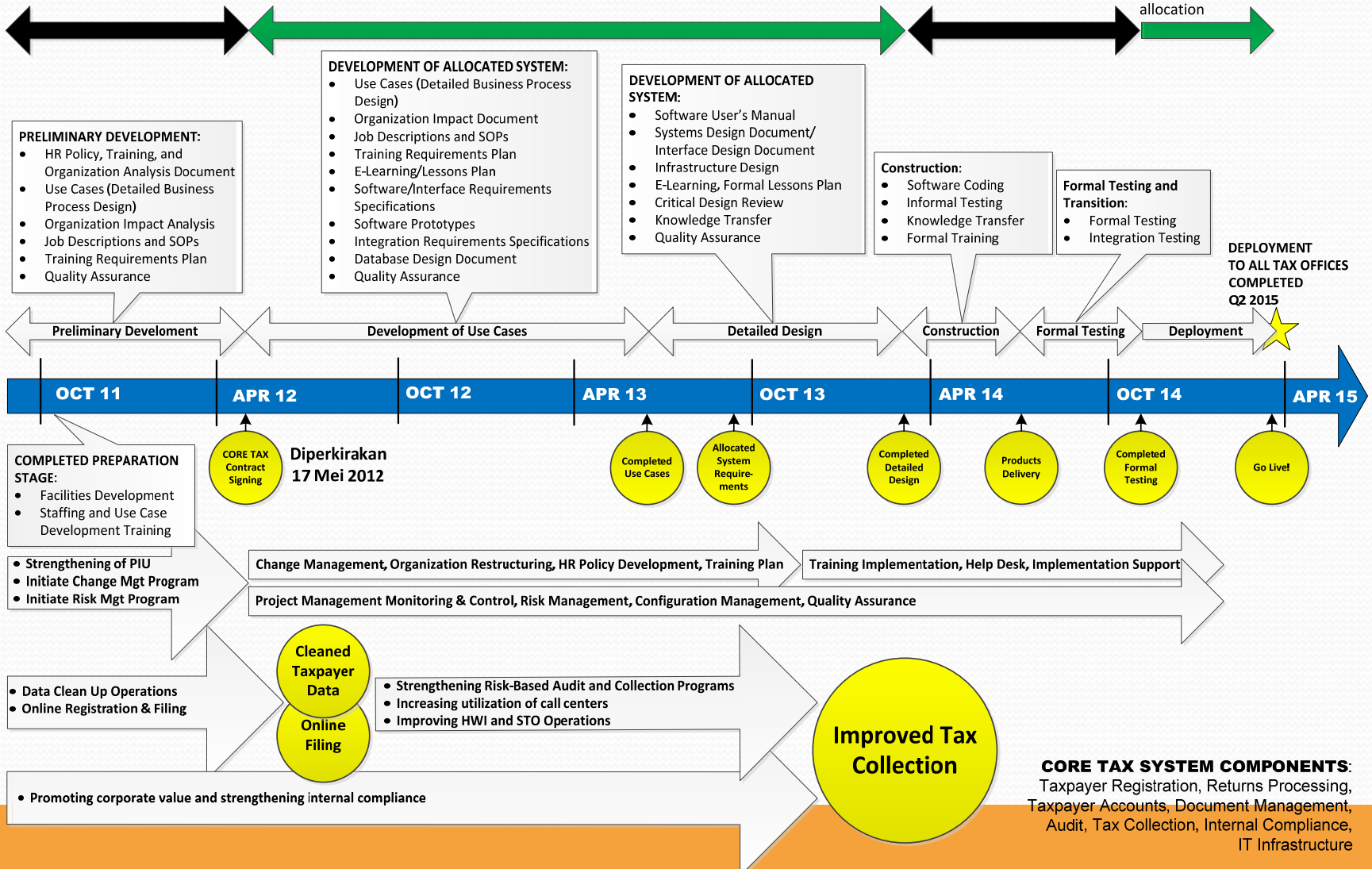
TIMELINE

- This phase cannot be compressed, and it requires extensive management attention to avoid delay
- Early start of preliminary development of Allocated System Requirement by internal DGT staff is critical

- This phase has been carefully planned. With careful analysis, this phase might potentially be compressed further through extensive management attention, improved scheduling and allocation of resources.

- The construction and formal testing phase has been tightly scheduled.

- Systems deployment phase may be compressed through improved resource allocation



PINTAR Progress per December 2011

	2010				2011				2012				2013				2014				2015								
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4					
Core Tax					Procurement (80%)				Development (0%)												PINTAR [LOAN]								
	Finalization process on Bid Evaluation Report by Procurement Committee is ongoing																												
HRM	Preparation Project Contractor will start to work in December 2011				Procurement (0%)				Development (0%)																				
Owners Agent					Procurement (70%)				Services (0%)												Trust Fund [GRANT]								
	World Bank is reviewing the Technical Evaluation Report for issuing NOL																												
INDEPENDENT BID EVALUATION [IBE]	Procurement 100%				IBE Core Tax (100%)				IBE Owners Agent (10%)				IBE HRM (0%)				Service is ongoing												
CHANGE MANAGEMENT					Procurement (90%)				Services (0%)												Trust Fund [GRANT]								
	Contract Negotiation																												
KNOWLEDGE MANAGEMENT	Procurement 100%				Services 80%																								
CRIMINAL INVESTIGATION					Procurement 50%				Services (0%)												Trust Fund [GRANT]								
	Technical Evaluation is taking place																												

CHALLENGES

- The existing laws and regulations regarding human resources and organization structures of government institutions limit DGT to implement modern human resources management and efficient office structures.
- Access to critical third-party data to enhance risk assessment and tax gap analysis capability of DGT is still limited. Systematic access to reliable third party data (e.g., Customs, National ID, utility companies, credit card companies, etc.) is needed.
- Commitment and support, along with ownerships from management and employees, including Board of Directors. Changes in paradigm, mindset and attitude require extensive and continuous effort. Possible external intervention must be anticipated.
- Availability of human resources in terms of quantity and quality with good capacity and capability both in technical, managerial, and leadership aspects.
- Sustainability and continuity of tax reform agenda have to be maintained under different regimes.



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THANK YOU