



TAX INCENTIVES TO ENHANCE INVESTMENT GROWTH

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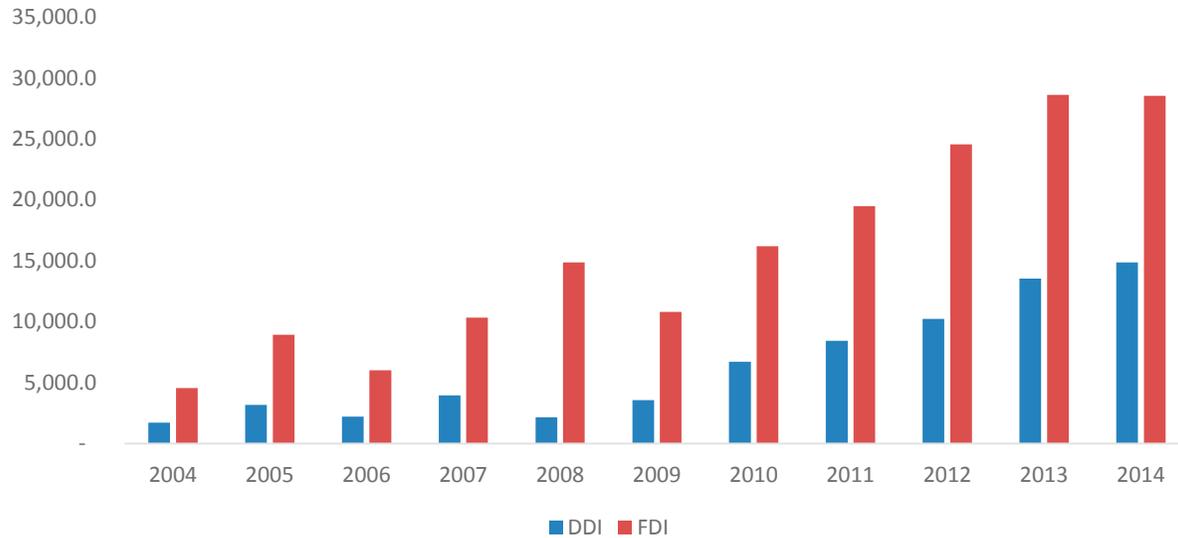


INVESTMENT IN INDONESIA

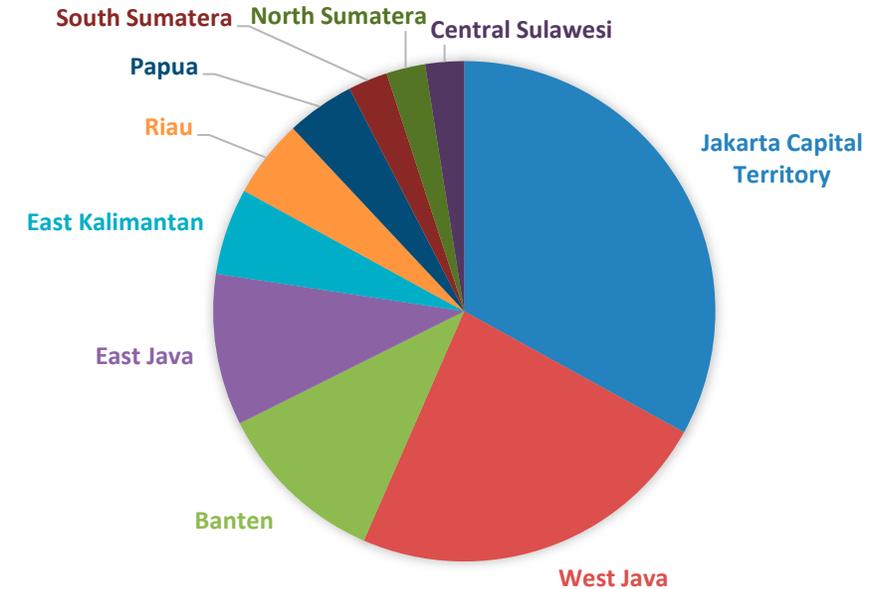


Source: Indonesia Investment Coordinating Board

FDI and DDI in Indonesia



FDI BASED ON REGION



- Growth of FDI has an upward trend. In spite of financial crisis in 2008, FDI in Indonesia was still robust, though weakened in 2009 and grew even stronger than before financial crisis.
- As for growth of DDI has been as favourable as that of FDI, despite in term of value, FDI in Indonesia has greatly outnumbered DDI.
- Despite the growth of investment, FDI geographical destination is not distributed well. Currently, FDI destination is dominated by certain region, mostly in Java Island.



FDI BY SECTOR IN INDONESIA



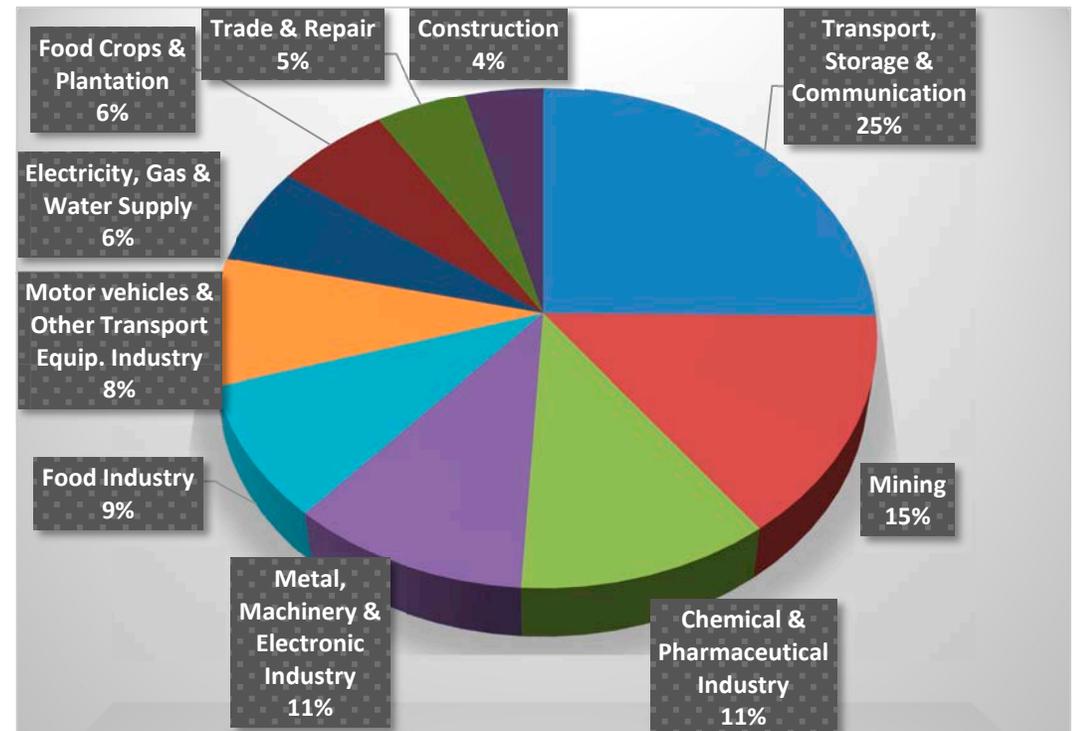
in million USD

Sector	2012	2013	2014	Sum
Transport, Storage & Communication	2,808.2	1,449.9	3,000.8	35,754.0
Mining	4,255.4	4,816.4	4,665.1	20,659.6
Chemical & Pharmaceutical Industry	2,769.8	3,142.3	2,323.4	15,925.6
Metal, Machinery & Electronic Industry	2,452.6	3,327.1	2,472.0	15,074.8
Food Industry	1,782.9	2,117.7	3,139.6	12,468.9
Motor vehicles & Other Transport Equip. Industry	1,840.0	3,732.2	2,061.3	11,754.1
Electricity, Gas & Water Supply	1,514.6	2,221.8	1,248.8	8,959.2
Food Crops & Plantation	1,601.9	1,605.3	2,206.7	8,581.4
Trade & Repair	503.8	606.5	866.8	6,863.9
Construction	239.6	526.8	1,383.6	5,922.5

Source: Indonesia Investment Coordinating Board

For the last three years, mining sector has been the primary destination for investors. Motor vehicles & other transport equipment industry was the second highest in 2013. Food industry followed mining as the main sector of industry in 2014.

In period 2004 to 2014, FDI to Indonesia dominated by transport, storage, and communication industries. Followed by mining industries. Total FDI to Indonesia for the last 11 years reached 173,004.3 million USD.



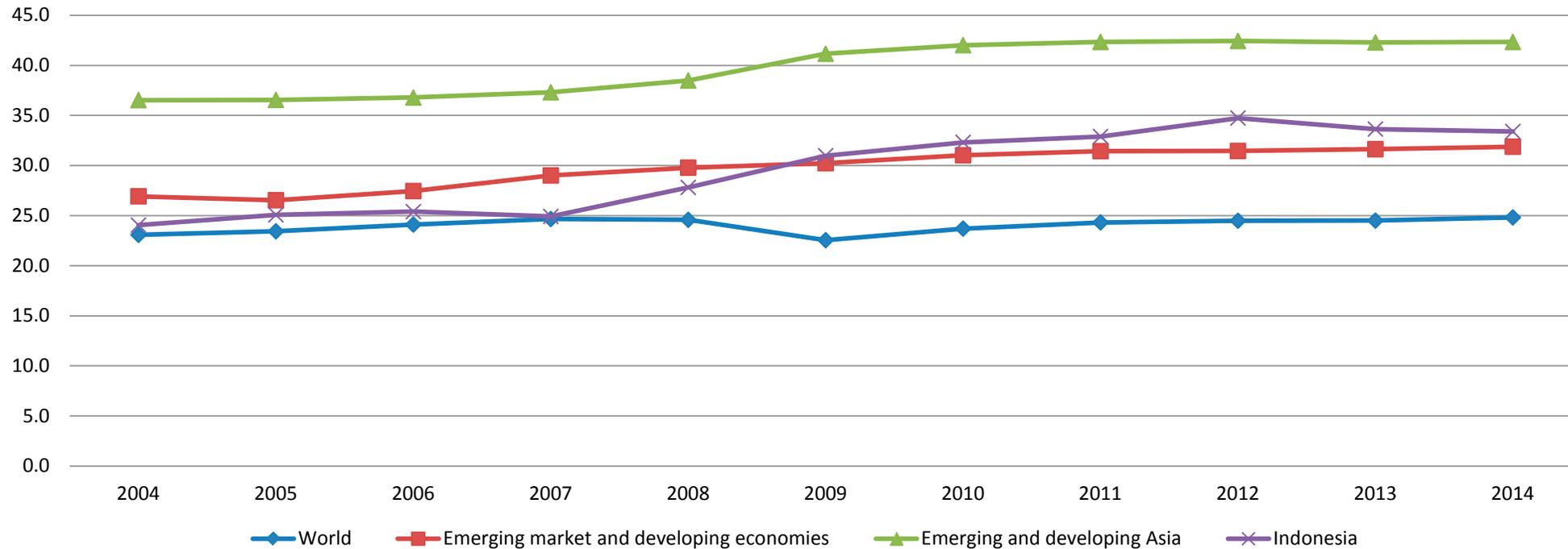
Average FDI from 2004 to 2014



COUNTRIES COMPARISON



Investment to GDP



Source: World Economic Outlook-IMF

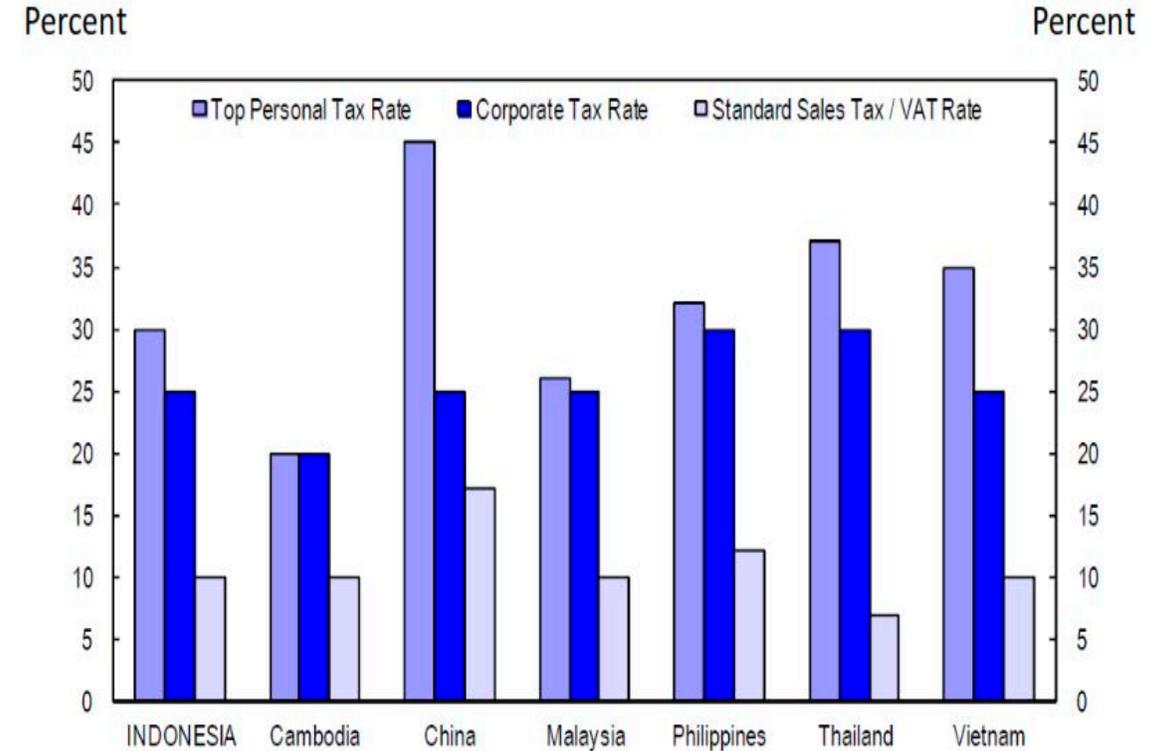
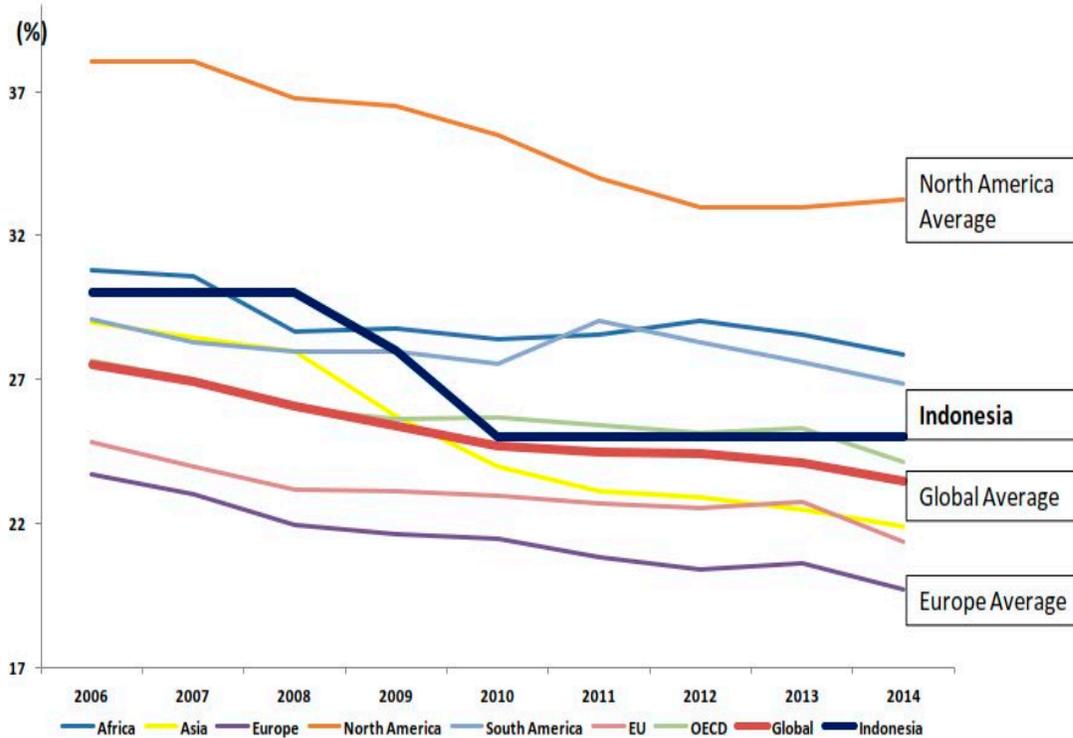
- Indonesia investment to GDP is lower than emerging and developing Asia.
- Starting from year 2009, Indonesia ratio is higher than emerging market and developing economies, and much higher than world ratio.
- There is tendency of declination in investment to GDP in Indonesia since 2012.



COUNTRIES COMPARISON



Corporate Income Tax Rate



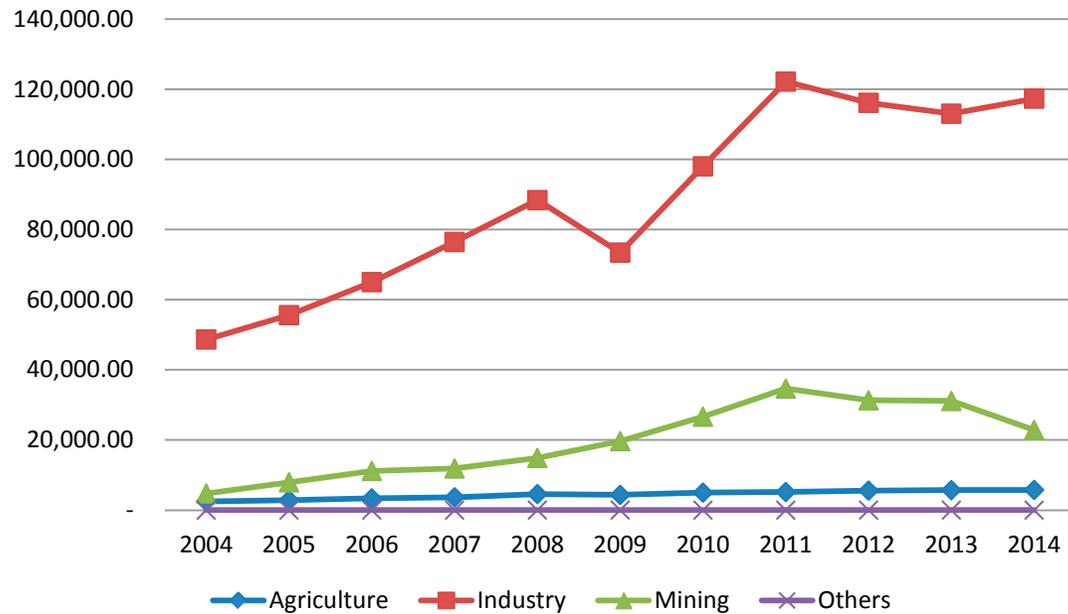
- Indonesia reduce its corporate income tax rate from maximal 30% to a flat rate 28% year 2008 and 25% started in year 2009.
- Worldwide trend shows that corporate income tax rate is declining.
- Compare to other countries, Indonesia corporate tax rate is on track.
- Compare to some ASIAN countries, Indonesia tax rate is moderate.



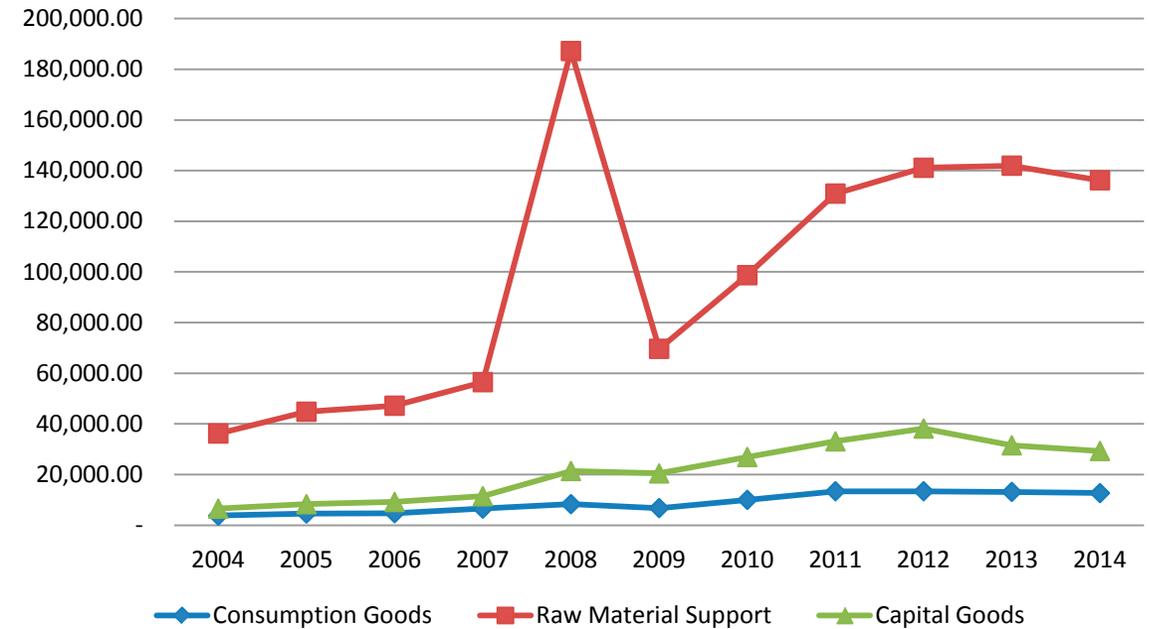
TRADE BALANCE CHALLENGE in INDONESIA



Export by Sector



Import Based on Commodity (mil USD)



Source: Ministry of Trade

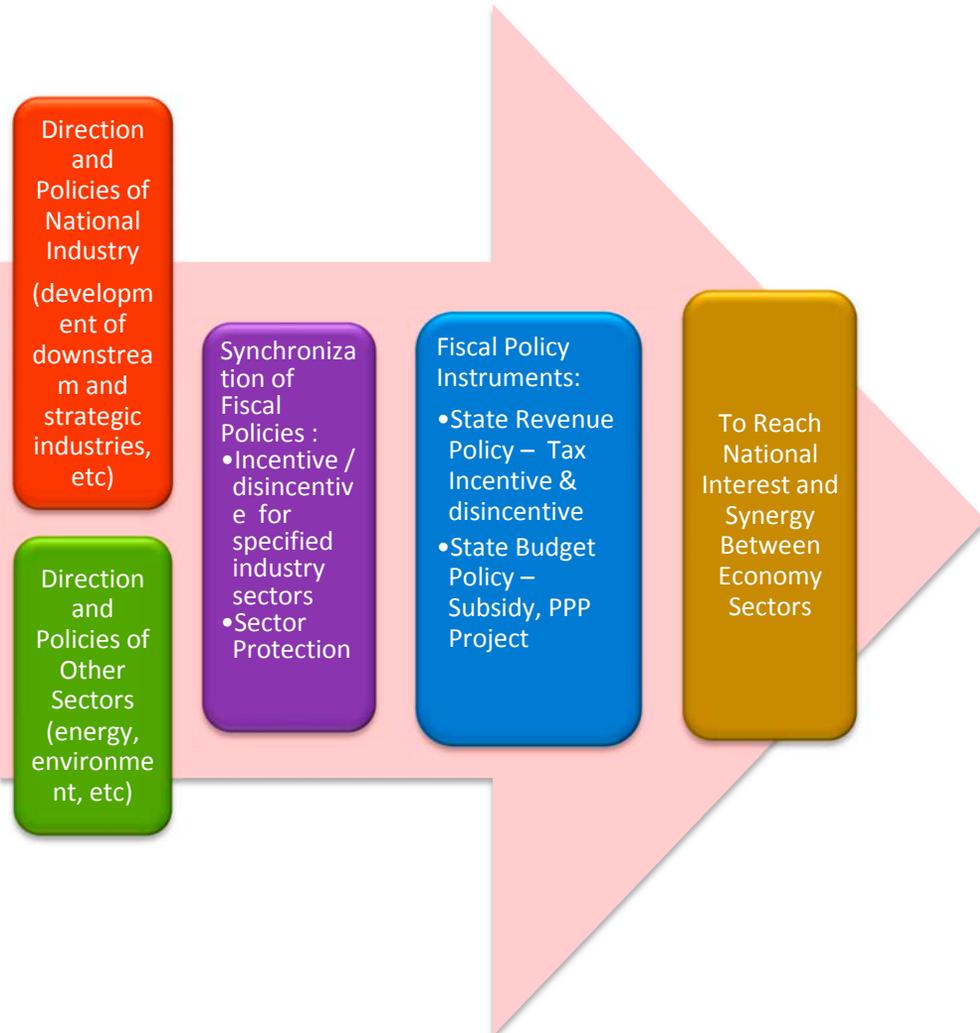
- ❑ Import of Indonesia is dominated by highly needed raw material (intermediate goods) which are required by industries. Yet, since 2012, growth of export delivered by industry sector has gone downward which resulted deficit in Indonesia Trade Balance.
- ❑ Concerning the condition of trade balance, Indonesia still needs to support investment on :
 - Industries which substitute import of intermediate goods
 - Export oriented Industries
- ❑ To attract investment in such industries, Government of Indonesia offers tax incentives as sweetener for investment.



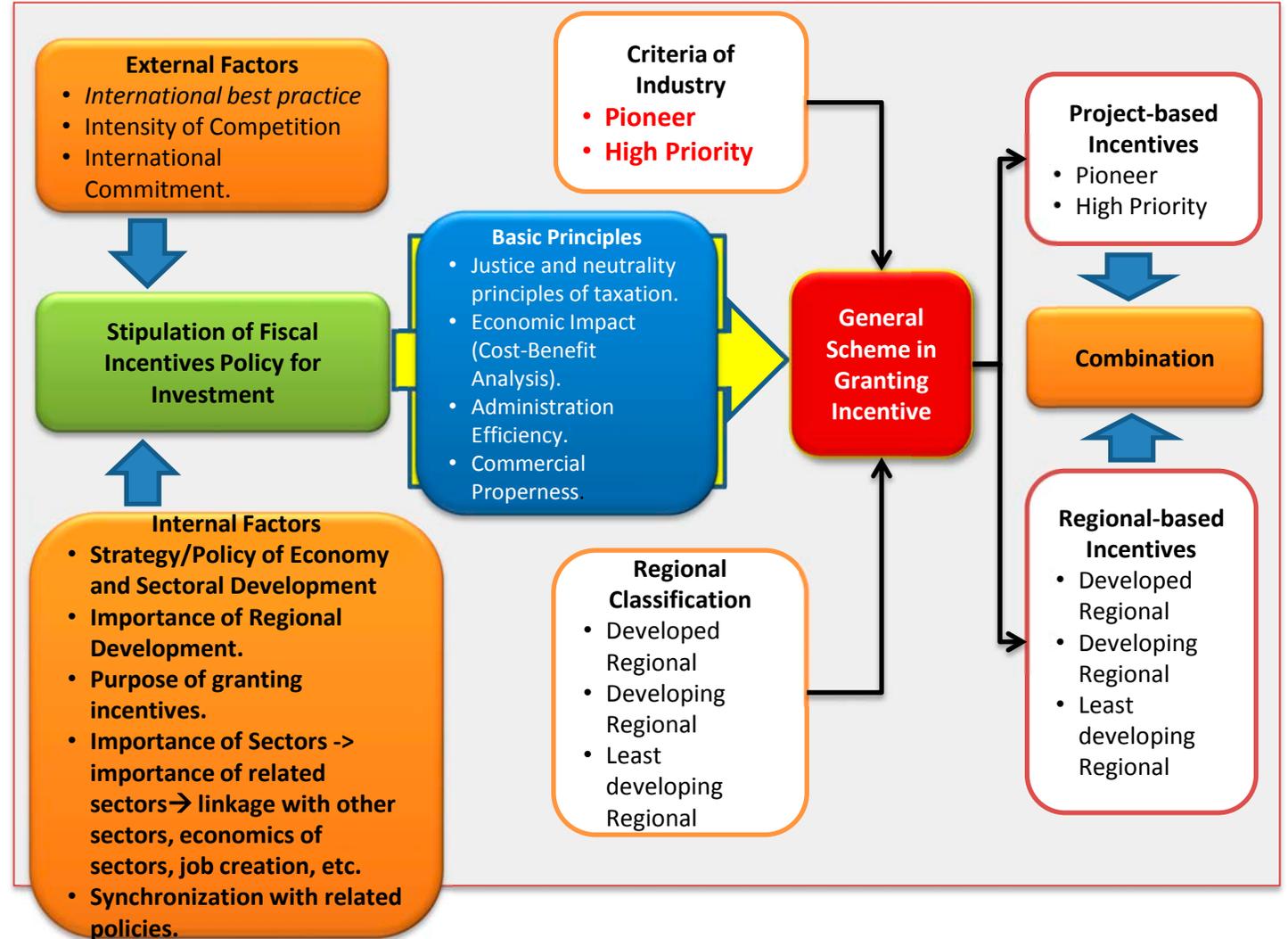
POLICY FRAMEWORK



Correlation between Industry & Fiscal Policy

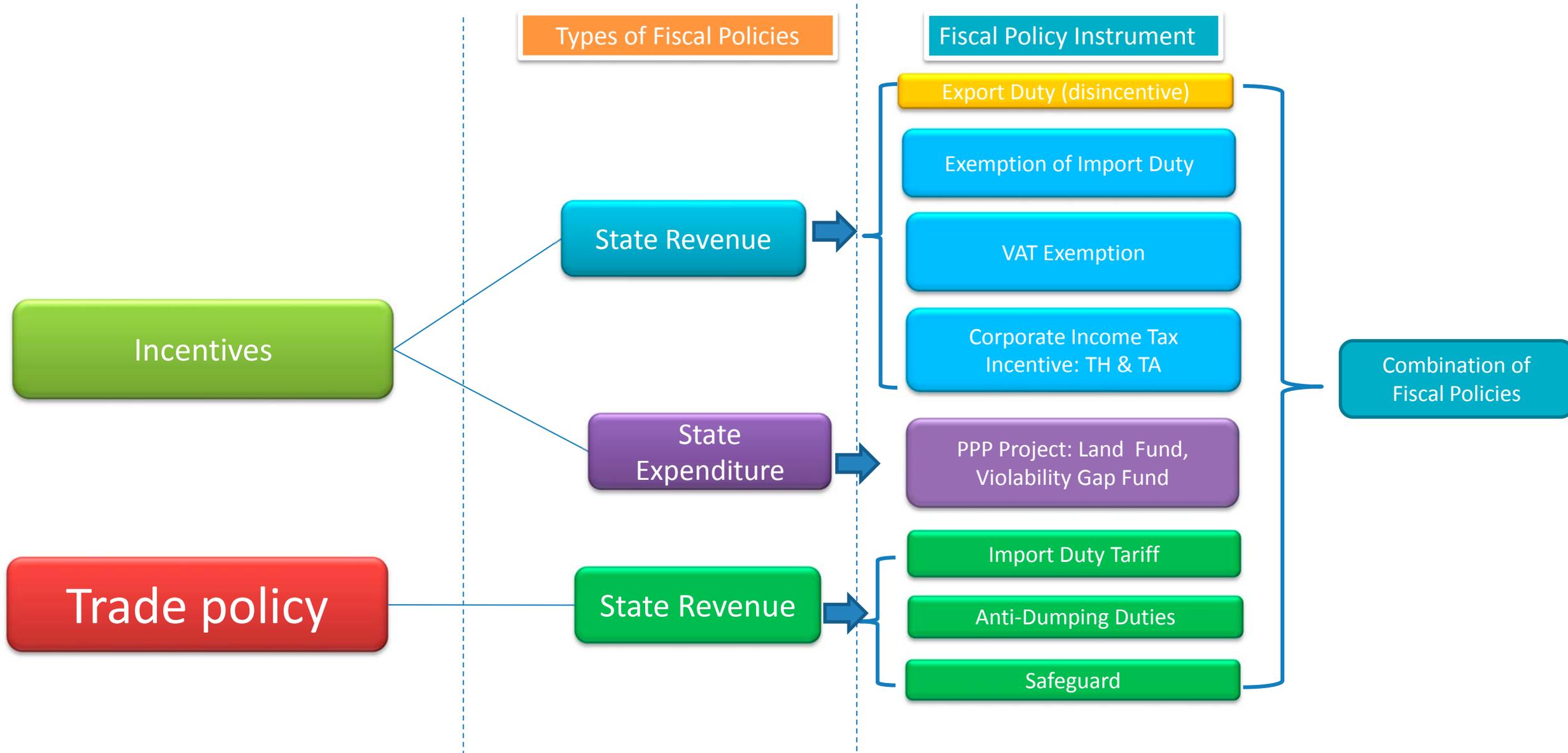


Incentive Policy Framework





FISCAL POLICY INSTRUMENTS





CORPORATE TAX INCENTIVE



Tax Holiday & Tax Allowance

TAX HOLIDAY ()

PIONEER INDUSTRY/ PROJECT

1. High economic integration
2. high value added and externalities
3. Introduces new technology
4. strategic

INCENTIVES

Tax Holiday 5-10 and 50 % discount

- Eligible industries:
 - a. Basic Metal Industry
 - b. Oil Refinery and Petrochemical Industry
 - c. Machinery Industry
 - d. Renewable Resources Industry
 - e. Telecommunication Device Industry

TAX ALLOWANCE

HIGH PRIORITY INDUSTRY / PROJECT

1. Support the economic diversification
2. Strengthen the national industry structure
3. Competitive in the international market
4. High absorptions of workers and support technology transfer
5. Located outside Java, Bali, and Batam Islands (remote area & KTI)

INCENTIVES:

- Investment Allowance, accelerated depreciation, extention loss carry forward from 5 ys to 10 yrs, discount dividend tax fotr NRA from 20% to 10%



VALUE ADDED TAX and IMPORT DUTIES INCENTIVE



VALUE ADDED TAX:

- Relief of Value Added Taxes on import and/or the transfer of taxable strategic goods.
- Strategic goods are goods that have strategic values to the economy, such as machines and factory equipment, embedded or partially, excluding the spare parts

IMPORT DUTIES:

A. Factory Instalment Phase:

- Exemption of Import duties for Imported Machine.
- Facility is provided for for 2 years, but can be extended up to the period needed to develop the respective industry.

B. Production Phase:

- Exemption of import duties for imported goods/raw materials needed for production.
- Facility is provided for 2 years, but can be extended for 1 year conditionally.



CONCLUSION



1. Investment include FDI is an effective engine of growth.
2. Tax Incentives are still needed.
3. Tax Incentive should be given with clear Criteria include the Industry Preference.
4. Avoid harmful tax practice and considering BEPS.
5. Tax Expenditure should be calculated for Revenue Risk



END



Thank You