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Indonesia's Tax Amnesty: A Reflection

By Santi H. Paramitha

Synopsis

Indonesia's nine-month tax amnesty programme ended in March 2017. Aside from proving itself as an effective tool in accomplishing a certain degree of tax compliance, the programme brought important lessons about future reforms.

Commentary

ON JUNE 2016, the Indonesian government officially ratified a law on tax amnesty (Law No. 11/2016) which would last effectively from 18 July 2016 to 31 March 2017. The tax amnesty programme was needed for greater tax revenue to fund infrastructure projects. This law also came on the back of allegations of Indonesian conglomerates listed in the Panama Papers as guilty of tax evasion.

More importantly, the law coincides with Indonesia's commitment to support OECD's initiative on the Automatic Exchange of Information in Tax Matters ratified in 2018. The tax amnesty programme offered Indonesian tax evaders tax incentives that included certain immunity from prosecution with only light penalties when they declared their domestic and/or overseas assets. Overseas assets can also be repatriated and invested in Indonesia.

Pessimism and Strong Opposition

The programme was criticised initially as a tool to advance the popularity of President Joko Widodo (Jokowi) after the government's poor performance in its collection of tax revenue in 2015. Much to the surprise of detractors, the programme proved successful – the Indonesian government was able to achieve much of its target when the programme ended.

When initially launched by former Minister of Finance, Bambang Brodjonegoro, government personnel and economic experts were reserved in their expectations. The programme also faced strong opposition from the grassroots and religious groups.

It was targeted to receive about IDR 165 trillion (around US\$12 billion) of tax revenues, IDR 4,000 trillion (around US\$ 300 billion) of declared assets, and IDR 1,000 trillion (around US\$75 billion) of repatriated assets. Indonesian economic experts saw the stipulated targets as too ambitious.

The Indonesian director-general of taxation admitted that it did not have precise data on the potential big taxpayers when the programme was launched. The estimated return from the tax amnesty was only based on unverified assumptions, making the targets more difficult to achieve.

A contrasting view correspondingly emerged inside the government, suggesting a lack of consultation with the Ministry of Finance as the main impediment. Vice President Jusuf Kalla mentioned that unchecked expectations towards perceived targets would jeopardise the success of the programme. A miscalculation of expected return from the tax would eventually force the government to cut the state budget once again.

In addition, labour unions and student groups had begun to organise demonstrations against the programme. Religious community also planned to file a judicial review of the tax amnesty. The programme was perceived as unfair to law-abiding citizens who pay their taxes consistently. It protected small groups of rich people who had violated the law at the expense of other taxpayers. In addition, there was a concern that the programme would encourage tax evaders to expect more amnesty in the future.

Sri Mulyani to the Rescue

Many Indonesians believe that Sri Mulyani's current tenure as minister of finance was part of Jokowi's strategy of utilising her prominence and track-record to dispel the negative perceptions. Although she had no part in initiating the programme, Sri Mulyani was handed the heavy task of ensuring that the tax amnesty ran smoothly.

Sri Mulyani adopted a personal touch to her approach. In September 2016, she visited the office of the second largest Muslim organisation, Muhammadiyah, to iron out the group's plan to file a judicial review at the tax amnesty. She succeeded to reconcile Muhammadiyah and the government and the planned legal action was dropped.

On January 2017, she also gave a speech at a public campaign in front of members of the Indonesian Communion of Churches (PGI), scheduling another session for Muslims on the same day. Those can be seen as her brilliant manoeuvres through conducting dialogue sessions with religious groups which could create greater awareness for their followers.

Indonesia's effort in realising its tax revenue ambitions was not only confined to the domestic domain. Sri Mulyani managed to secure the cooperation of the Singapore government in guaranteeing that Indonesians submitting to the tax amnesty programme were not coerced and would not implicate Singapore in any way. Both countries also agreed to assure that either side would not interfere in the implementation of the programme.

Achievements and Obstacles

At the end of the programme, Indonesia was reported to have successfully achieved about 121% of targeted declared assets at IDR 4,855 trillion (around US\$365 Billion). However, Indonesia only achieved 81% fulfilment of tax revenues target at IDR 114 trillion (around US\$8.6 Billion) and less than 15% fulfilment of repatriation of assets targeted at IDR 147 trillion (around US\$11 Billion).

The main obstacle to the programme revolved around the lack of participation of the various tax registrants. Noting that repatriating assets was an option, not an obligation, many Indonesians' decided to hold on to their assets overseas. In addition, most of the overseas assets were not in the form of liquid assets, but in properties and bonds. While these type of assets could be declared it was impossible to be repatriated to Indonesia.

Even though only one of its three targets was accomplished, Indonesia's Tax Amnesty Programme was largely seen as a success. The government of the Philippines even claimed that it would implement the same strategy for its country in the near future.

More than Just Numbers

Looking at the impressive results of the assets declared and the tax revenues received in totality, we can say that the tax amnesty programme was successful in increasing tax compliance to a certain extent but failed in encouraging repatriation. The lacklustre performance with regard to the repatriation targets clearly suggests that the Indonesian market is not as desirable a choice for investments as it seemed.

Although the prominence of Sri Mulyani could somehow inspire public confidence towards the government, a singular programme with all its patriotic overtones is insufficient for attracting Indonesian citizens to repatriate their assets to Indonesia.

In the end, the success of the tax amnesty programme is more than just about numbers. It is about reform. Its success is not only determined by the amount of tax revenues it is able to repatriate to Indonesia, it is also judged by how greater economic reforms can be promoted along similar leanings even after the programme has ended.

The conclusion of the tax amnesty programme is thus seen as an important milestone for Indonesian policymakers. This is so that they can gather greater momentum in revitalising Indonesia's poor tax collection record. Advocating a reform on the tax law aimed at improving administration and compliance, together with

creating a promising investment climate, are the next essential steps the Indonesian government should work on.

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