A BRIEF STUDY OF ACTUAL AND STRATEGIC ISSUES

INTRODUCTION

Tax, non-tax, and grant are the three main resources of state revenue based on Law No. 17 year 2003 on State Finance. Later, the state revenue resources will be used to establish people welfare as the actualization of the fifth principles of Pancasila, that is Social justice for all Indonesian people. The state revenue resources will return to the people again in the form of assistance programs or public facilities development.

TAX REFORM AND CARBON TAX IMPLEMENTATION THROUGH THE LEGISLATION OF HARMONIZED TAX LAW

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Abstract

Legislation on taxes is coming to a new era after the Harmonized Tax Bill was passed into Law. With various change in policies being committed as well as improvement in tax administrative performance, it’s predicted that the Harmonized Tax Law (UU HPP) will have positive effect on tax revenue. This paper studied tax revenue potential and overall tax system reformation as well as the existence of Carbon Tax. For short term in 2022, tax revenue is predicted rather to increase with the tax ratio’s range is around 9% of GDP. Furthermore, within medium term, it can reach more than 10% of GDP in 2025 at the very latest, in line with the improvement of economic growth. The House of Representatives of The Republic of Indonesia (DPR RI) needs to urge the government to make derivative policies and disseminate the UU HPP immediately in order that its benefits to tax revenue, public, and business players can be gathered immediately. All at once, DPR RI should also supervise the utilization of state revenue from Carbon Tax in order to achieve the reduction of greenhouse gas emission.

INTRODUCTION

Tax state revenue divided into seven categories, i.e.: Income Tax, Value Added Tax, Luxury Sales Tax, Land and Building Tax, export Tax, Taxes on International Trade, and Customs and Excise Exemption. The amount of those taxes rate are specified on Taxation Law. Generally, Income Tax is imposed on the people with certain amount of income. Although tax revenue is important and dominant in national budget, until 2021 it’s still in deficit, so that it is necessary to rearrange
the regulations of taxation in order to reduce the deficit through the harmonization of tax regulations.

Those problems open the space for new admission concerning tax through Harmonized Tax Bill (RUU HPP) which is expected to lift the performance of state revenue better. This paper studied tax revenue potential and tax system reformation as well as Carbon Tax because these points will progressively change many national tax management system.

Tax system Reformation and Potential

The Government reported that taxation outlook or derived from tax, customs and excise in year 2021 reached Rp1,413.7 trillion. That number was higher compared to the outlook that was outlined in 2022 Financial Note and State Budget (APBN), that was Rp1,375.83 trillion. The outlook also reported a growth that reached until 10% compared than the last year realization of tax revenue totalling Rp1,285.1 trillion.

The expectation emerges because looking at the trend of some commodities prices surge, particularly coals, as the results of the soaring demand from global market, therefore tax payment from Natural Resource would significantly increase. Aside from that, the trend of buying up the entire ribbon excise action also raises the prospect of higher revenue. Non-oil and gas Income Tax in the form of Article 21 Income Tax dan Final Income Tax that grew positive 1,18% (year-on-year, yoy). Domestic Value Added Tax (PPN) grew 12,59% yoy due to people consumption level and domestic production relatively stable together with economic activities recovery (Bisnis Indonesia, October 19, 2021).

Based on the reason above, in order to create a health and sustainable State Budget, as well as increasing tax ratio, therefore reformation from tax sector should be done. A health State Budget needs a sufficient state revenue. Therefore, tax ratio or comparison between tax revenue and GDP should record a good performance. The increasing of consumption rate and per-capita income is one of the signs to tax basis increase of a state. For the collectibility to be possible, tax regulation need to be designed, so that the tax basis could be made into realization into revenue (News.ddtc.co.id, 7 October, 2021).

With the Harmonized Tax Law (UU HPP) made official, Ministry of Finance projected that Indonesia 2022 tax ratio will increase to 9% from GDP. In addition to that, in mid-term, the impact of UU HPP is that tax ratio could reach more than 10% in 2025 at the very latest. The projection could be achieved earlier if Indonesia economic growth improved (Liputan6.com, October 18, 2021).

The UU HPP commissioned a reparation in tax administration as well as policies that is expected could boost tax performance to its potential level. Tax policy in the UU HPP will strengthen the justice aspect in tax expense which taxpayer paid and partiality to support the empowerment of Micro, Small, and Medium Enterprises (UMKM) that are the main subject in national economy (Kemenkeu.go.id, October 11, 2021).

In the UU HPP, for UMKM workers who all these time had paid Income Tax with final rate 0,5% as in the Government Regulation No. 23 of 2018 on Income Tax on Income from Business Received or Earned by Taxpayers with Certain Gross Circulation, will be granted incentive with limitation of Non-taxable Income (PTKP) on gross circulation up to Rp500 million a year.

Whereas for UMKM Enterprise taxpayer still granted with the facility of 50% Corporate Income Tax rate reduction as regulated in Article 31E Income Tax Law. From Value Added Tax (VAT) side, the government also gives different policies. The facilitation is the implementation of final VAT rate, for example 1%, 2% or 3% from venture circulation of certain types goods/services or certain types business sectors will be regulated further with Ministry Of Finance Regulation (PMK). In this matter, small entrepreneur with gross circulation no more than Rp 4.8 billion a year, could choose to be Taxable Entrepreneur for VAT Purposes (PKP) or not (Newssetup.kontan.co.id, October 18, 2021).

The UU HPP implementation is predicted could reduce State Budget Fiscal Year 2022 deficit up to Rp. 868 trillion or equal with 4,85% of GDP. Needs to know that State Budget Fiscal Year 2020 deficit was recorded 6,1%. Then, in 2021 State Budget deficit was estimated decline in the rate of 5,7% (Liputan6.com, October 18, 2021). The reduction of those State Budget deficit is in line with Law No. 2 of 2020 on State Financial Policy and Financial System Stability for Handling Covid-19 Pandemic. In the regulation, the government must revert the state deficit back to 3% in 2023.

Carbon Tax
Carbon Tax regulation in the UU HPP is a progressive step to anticipate the impact of climate change. Carbon Tax is expected to be the instrument and catalyst that guarantee the road map to reduce emission become state and business actors commitment. (Kompas, October 18, 2021). The main purpose of Carbon Tax imposition is to alter the attitude of economy actors so that they shift to
green economy activities which is low carbon. This analogously with the government effort to achieve the target on reducing green house emission up to 29% with the country’s own abilities and 41% with international support in 2030.

Aside of that, Carbon Tax imposition gives a strong signal to boost the development of carbon market, technology innovation, and a more efficient, low carbon, and friendly environment investment. State revenue from Carbon Tax could be used to add development fund, friendly environment technology investment, or to give aid to the low-income class citizen in the form of social aid program. Here, in our opinion, DPR RI roles should have been visible, supervising so that the state revenue from Carbon Tax is indeed go to the direction of the government achievement target, that is the reduction of green house gasses emission.

As the first step, Carbon Tax will be imposed to coals Steam-Powered Electric Generator (PLTU) in April 1, 2022, using tax mechanism based on emission limit (cap and tax). The rate of Rp30 per kilogram carbon dioxide is equivalent imposed to the amount emission that exceeding the settled cap. In the imposing mechanism, taxpayers could use the carbon certificate they buy in carbon market as the substrahend of their Carbon Tax obligation (Kemenkeu.co.id, October 13, 2021).

According to economists, this plan potentially will surge electrical rate and reduce work force in mining sector, considering electric supply in Indonesia still depend on coals powered electric generator (Katadata.co.id, 8 Oktober 2021). In our opinion, the Tax Carbon imposition on industries should revert back to the people, mainly households in certain segment and UMKM sector through subsidies distribution concerning the increasing of electrical rate that is happening. National economy recovery could be hampered due to UMKM increase in production costs and add to people’s burden in the middle of Public Activity Restrictions (PPKM) in some region.

The government should immediately work fast to disseminate the UU HPP to the local governments and immediately publishes implementing regulations before enforcing the rate tarif like the story before. The slowness of implementation for the two points will cause in the minimal tax revenue potential will be gained.

Closing

Taxation system should be able to create a stable and not a pro-cyclical revenue. Taxation system should also give legal security, unpretentious, effective in performing its role as policy instrument, and should be able to create justice. Apart from that, taxation system is expected to be more flexible and capable to anticipate technology alteration, globalization, business activities alteration, and even to respon the unexpected situations. With the validation of UU HPP, the
expectations are the raise in revenues, particularly in tax sector, as well as the increase of public welfare in general.

DPR RI needs to urge the government to make derivative policies and disseminate the UU HPP so that the local government, business players, and public understand the regulations within the Law. DPR RI should also paid attention that Carbon Tax imposition will potentially cause another after effect, such as the raise in electricity price and the reduction of work force in the mining sector. According to us, as the researchers and the writer, Carbon Tax imposition on the sector of based on coals Steam-Powered Electric Generator (PLTU) should be directed toward the compensation for the low-income families and Micro, Small, and Medium Enterprises (UMKM) in order not to burden them.

References


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