

Implication of Tax Revenue Target to Individual Taxpayers

The media reports that the tax revenue so far this year is below that achieved last year even though the target for 2016 is higher than both the target and actual achieved for 2015. Meanwhile the Tax Office talks of extensification and enforcement, and there is ongoing debate regarding the potential Tax Amnesty. What are the implications for individual taxpayers?

Arkoen, Jakarta

At the time of setting the 2016 State Budget, the Government probably hoped that a floor would be reached soon for commodity prices (e.g. the oil price was budgeted at USD 50 per barrel), however, prices have continued to fall.

That said, it was quite ambitious for the 2016 APBN (Budget) to expect a small increase in tax receipts compared to the 2015 Budget when, in fact, the tax collection realization for 2015 was already well below budget.

Against this back drop it is no surprise that the Government and Tax Office are looking for ways to achieve the revenue targets to fund the proposed expenditures without resorting to additional deficit funding.

The Government continues to believe that the tax amnesty, if enacted, will result in a significant increase in tax receipts from individuals that have unrecorded assets (especially overseas). Once these are declared, it then expects further tax receipts from future income generated by these assets.

At the same time, the Tax Office has announced that it

will send teams into the community to identify owners of property and assess whether these assets are already reported or not. It suggests that this is an alternative way to generate tax if the tax amnesty is not enacted.

In our view, this extensification action will occur anyway – either in 2016 or future years – because the Tax Office is already making use of data regarding luxury/marquee assets (condos, cars, yachts) in the same way as tax authorities overseas do.

If you are already compliant then you should not have anything to be concerned about. If, however, you have been slow to declare assets (and related income) then now is the time to take action. With greater resources and IT available to the Tax Office a domestic “hide it and hope” strategy is not realistic.

Simply keeping deposits and other financial assets offshore is also less likely to succeed once countries start sharing financial account information under the Automatic Exchange of Information Agreements (AEOI).

And do not assume that some countries will never share their information – the push towards AEOI is global; it is supported by the OECD and G20 – ultimately all jurisdictions will need to embrace AEOI if they want to participate in the global financial economy.

Therefore now is the time to prepare for the brave new world of compliance.

This does not mean that you cannot tax plan – it is just that the methods must be compliant with the tax law rather than relying on non-declaration.

If the tax amnesty is enacted that this will potentially provide a low cost method of tidying your tax affairs. You should not, however, wait forever for this.

In the meantime we also hope that the Government and Tax Office remember that the objective of all their actions should be focused on the longer term. That is, to create a sustainable tax system that is broader (captures all taxpayers) and deeper (ensures all, and only, valid taxes are collected).

KEY POINTS

- Tax revenue target already under pressure
- Non-disclosure is not a valid tax planning tool – the world is becoming more transparent with AEOI and improved information system
- Tax planning is still possible and should not wait for possible tax amnesty



Nicholas Graham

Tax Partner

nick.graham@rsmindonesia.id

THE POWER OF BEING UNDERSTOOD

Wake Up Call is a consultancy column designated to discuss questions related to audit, accounting, tax, corporate finance, business services, governance, risk management, internal audit, and internal control. RSM Indonesia is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network, the 6th largest network global audit, tax and consulting services. RSM network has representative in more than 120 countries, and a combined total of 38,000 staff including 3,000 partners in 760 offices. Questions can be submitted to wakeupcall@rsmindonesia.id.