

Policy Direction of APBN 2015: SBY's Leadership Trap for the New President

The budget is a political resource that is being used as much as possible by the authorities for their own political interests. In the effort to create a budget for particular interests, the process can be either pragmatic or ideological, but there will always be various political interests behind all budgets/programs. The current year will see the government transition from SBY's leadership to the new president, and we would like to deliver a critical response to the policy direction of APBN 2015 proposed by SBY in the Financial Statement for 2015. There are a number of issues that should be of concern for the incoming leader who will no doubt make political promises that aren't entirely focused on APBN 2015, because besides the minimal fiscal space available, the policy direction of SBY's leadership still colours Indonesia's budget policies.

Revenue policies from the tax sector and PNBPN, especially in terms of the energy sector, social expenditure, subsidy spending and debt policies are a source of concern for us and the following should also be a source of concern for the incoming president:

State revenue is extremely low, both in terms of state tax revenue and state non-tax revenue (PNBPN), which opens up opportunities for corruption (as is currently occurring). Indonesia's tax revenue is far lower compared to other countries with parallel economies, despite the fact that tax is the largest source of state revenue. In 2015, 77.79 percent of state revenue (around Rp1.370 trillion) is planned to be sourced from tax, exceeding the three previous years (2012-2014) that were in the range of Rp1.246,1 trillion (APBPN 2014), Rp1.148.4 trillion (APBPN 2013), and Rp1.016,23 trillion (APBPN 2012). Although it's only a nominal increase, in actual fact the RAPBN 2015 only targeted tax revenue to be in the range of 12.32 percent of GDP, a slight decrease when compared with the APBPN target of 12.38 percent of GDP. As a middle income country, however, 12 percent is far below other middle income countries and Indonesia's neighbours, such as Malaysia (18.8 percent) and Thailand (19.5 percent).

Over the last five years, Indonesia's tax ratio failed to reach 14 percent. As such, debt is still seen as a way out of increasing the tax ratio, which is yet to be nominated as a solution for closing the deficit. Indonesia's less than optimal tax ratio demonstrates that there are fundamental problems with its taxation system, wherein the misuse or corruption of taxes remain high, as evidenced by PPATK findings of 63 wealthy accounts owned by young civil servants. Over the last five years then, the government has failed to optimise the performance of tax revenue. There were only incremental increases in tax revenue (in proportion with an increase in GDP), due to a lack of significant change in tax collection policies and strategies that kept tax compliance low. State revenue thus stagnated, narrowing fiscal space and threatening the cancellation of populist programs to be implemented by the incoming president.

PNBPN (especially from the natural resource sector) decreased and has the potential to be corrupted. From 2006-2012, the oil and gas sector dominated PNBPN, with average contributions of 60.5 percent. We saw how SBY's leadership failed to optimise natural resource governance, causing state losses as a result of unlawful business practices and collaborative contracts in the form of mismanaged profit-sharing, royalties/sale of natural resources, as well as the overlapping regulation of mining construction and investments in minerals/coal.

Up until the end of SBY's leadership, there still haven't been any improvements in royalty payments, so much so that an alleged 60 percent of all extractive corporations failed to pay royalties. It's suspected

that they only utilised tariffs on tax treaties, meaning that in 2012, the government lost Rp2.35 trillion in state revenue from royalties alone. Other problems have emerged, such as the fact that there are still 30 KKKS that aren't consistent in their use of the PPh tax tariff. Furthermore, there isn't adequate monitoring of compliance to KKKS taxation requirements (as such, the state lost a further Rp655 billion as it hadn't imposed sanctions on delayed payments).

Management of BUMN. PMN issued by APBN (31st December 2012) already amounts to Rp667.3 trillion. Since 2010, over a three year timeframe, PMN has value added Rp154 trillion to BUMN. However, government deposits/profit-sharing only contributed Rp89 trillion (24%) towards BUMN total profits which amounted to Rp358.4 trillion. Meaning that BUMN hasn't given any contributions to APBN, despite the fact that there's a large debt and the last recorded position of BUMN retained earnings amounted to Rp407.5 trillion (due to mining expansion). Thus, there is enormous potential for corruption and for funds to be used for the interests of the elite, as there isn't anyone in BUMN management who was able to identify regulations on the amount of PMN to be issued by APBN, regulations on dividend payments, or regulations on BUMN retained earnings. From 2008-2011, as many as 2,186 such cases had already been found in BUMN with a total value of Rp125.5 trillion. BUMN recently refunded Rp5.3 trillion to the state.

Debt policies. Along with the enactment of the deficit target of 2.32 percent of GDP in RAPBN 2015, deficit financing from nominal debt increased from Rp253.724 trillion in APBNP 2014 to Rp282.724 trillion in RAPBN 2015. The continued practice of debt dependence has been caused by a number of factors, including: (1) the extremely large burden of principal repayments and debt interest. In 2014, the government established a principal repayment ceiling of Rp247.696 trillion and a debt interest ceiling of Rp121.286 trillion; (2) the growing dependence of BUMN and local governments on foreign debt, as evidenced by subsidiary loans for PT PLN of Rp3.287 trillion, Pertamina of Rp677.6 billion and the province of DKI Jakarta of Rp298.6 billion; (3) the greater procurement of weapons and thus debt financing; (4) the continued practice of using debt for public expenditure such as education and healthcare; (5) the less than optimal condition of state revenue and weak BUMN contributions; and (6) inefficient/wasteful budget practices.

Recommendations

1. The new government needs to increase the tax ratio, by at least 5 percent of GDP. By 2016, it should then be able to achieve a minimum tax ratio of 17 percent, if it considers the following suggestions:

- Calculate the gap between tax and tax potential, and expand the number of taxpayers from 25 million to a minimum of 60 million.
- Push for higher levels of taxpayer compliance and appropriate law enforcement in large tax cases.
- Expand the taxation structure by adding two more groups; wealthy taxpayers and super-wealthy taxpayers (35 percent and 40 percent).
- Increase the level of trust in taxation institutions through a comprehensive and long-term restructure, and establish a State Revenue Agency that sits directly under the President's Office.
- Revamp the civil servant recruitment system, continue the e-tax reformation and open public access to tax courts, recruitment judges as well as the handling process of tax cases.
- Initiate legal protection by providing access to KPK tax manipulation cases, carried out by both individuals and business entities.

2. **The new government needs to optimise sources of PNBP** by taking the following steps:
 - Improve the potential lifting of petroleum and expand the government's domestic market obligation to the oil/gas sector by supporting the independence of the energy sector and controlling the impact of market fluctuations on global oil prices.
 - Consider increasing potential state revenue in the non-oil/gas sector by increasing tariffs or expanding important sectors that rake in huge profits but are not yet subject to PNBP.
3. **Opening public access to the monitoring of state revenue**, including regular access to information in tax courts, as well as to the Annual Tax Notification and the Assets Report of Government Officials.
4. Into the future, the DPR and new government should understand that debt has already wreaked enough havoc in Indonesia, and that they should immediately formulate policies that aim not only to reduce debt but also to put a stop to debt dependence, by decreasing the debt ratio and supporting effective diplomacy that takes advantage of any opportunities and facilities to abolish Indonesia's debt i.e. including odious and illegitimate debt in the debt 'category'. *Secondly*, reducing government stocks in ULN through the optimisation of debt swap mechanisms such as debt to nature swaps, debt to education swaps, or debt swaps for poverty reduction, while respecting the principle of sovereignty and national interests. *Thirdly*, stopping the recapitulation of interest payments on bonds from Bank of Indonesia Liquidity Assistance and *fourthly*, cancelling any unused/unabsorbed ULN because it incurs a commitment fee.

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