



PRAKARSA
Welfare Initiative for Better Societies

2022

IMPLEMENTING WEALTH TAX IN INDONESIA

Potential and Opportunities



Implementing Wealth Tax in Indonesia: Potential and Opportunities

Irvan T. Harja
Rizky Deco Praha
Eka Afrina Djamhari
Samira Hanim
Herni Ramdlaningrum



P R A K A R S A
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Researchers and Authors:

Irvan T. Harja, Rizky Deco Praha, Eka Afrina Djamhari, Samira Hanim, Herni Ramdlaningrum

Responsible Person:

Ah Maftuchan

Reviewer:

Victoria Fanggidae

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Table of Contents

Table of Contents	iii
List of Abbreviations	v
List of Tables	vii
List of Figures	vii
List of Boxes	vii
Preface	viii
Executive Summary	xii
Chapter 1 Introduction	1
1.1 Background	1
1.2 Research Gap	4
1.3 Research Questions	5
1.4 Research objectives	5
1.5 The scope of research	5
Chapter 2 The Concept of Wealth Tax	7
2.1 The General concept of Tax	7
2.2 Wealth Tax Definition and Concept	11
2.3 Taxes in Islam	15
Chapter 3 Research Methods	17
3.1 Methods	17
3.2 Formula for calculating potential revenue of the wealth tax	21

Chapter 4 The Practice of Wealth Tax Implementation in Several Countries	25
4.1 Supporting and Opposing Arguments on Wealth Tax	25
4.2 The Practice of Wealth Tax Implementation in Some Countries	27
Chapter 5 The Potentials and Opportunities for the Implementation of Wealth Tax in Indonesia	33
5.1 Several Types of Individual Taxes	33
5.2 Potential Wealth Tax in Indonesia	41
5.3 Opinion of members of the DPR RI on the application of the wealth tax	51
5.4 Opportunities and challenges of implementing wealth tax in Indonesia	55
Chapter 6 Taxes and Zakat	67
6.1 The position of Taxes and Zakat	67
6.2 Management of Zakat Funds in Indonesia and Malaysia	72
6.3 The correlation of tax and zakat	76
Chapter 7 Closing	83
7.1 Conclusions	83
7.2 Recommendations	85
References	87

List of Abbreviations

AEoI	: Automatic Exchange of Information
ATM	: Anjungan Tunai Mandiri (Automated Teller Machine)
APBN	: Anggaran Pendapatan dan Belanja Negara (State Revenue and Expenditure Budget)
BAZNAS	: Badan Amil Zakat Nasional (The National Zakat Management Agency)
BPS	: Badan Pusat Statistik (Statistics Indonesia)
DGT	: Directorate General of Taxes
DPR RI	: Dewan Perwakilan Rakyat Republik Indonesia (The House of Representatives of the Republic of Indonesia)
HNWI	: High-Net-Worth-Individual
IFI	: Impôt sur la Fortune Immobilière
IMF	: International Monetary Fund
ISF	: Impôt de solidarité sur la fortune
MoRA	: Ministry of Religious Affairs
MoF	: Ministry of Finance
KNEKS	: Komite Nasional Ekonomi dan Keuangan Syariah (National Committee for Islamic Economy and Finance)
TIN	: Taxpayer Identification Number
OECD	: Organization for Economic Co-operation and Development
OJK	: Otoritas Jasa Keuangan (Financial Services Authority)
OPZ	: Organisasi Pengelola Zakat (Zakat Management Organization)
PBB-P2	: Pajak Bumi dan Bangunan Perdesaan dan Perkotaan (Land and Building Tax – Rural and Urban)
GDP	: Gross Domestic Product
PKB	: Pajak Kendaraan Bermotor (Motor Vehicle Tax)
PKP	: Penghasilan Kena Pajak (Taxable Income)
PPh	: Pajak Penghasilan (Income Tax)
PPh OP	: Pajak Penghasilan Orang Pribadi (Personal Income Tax)
VAT	: Value-Added Tax
PPnBM	: Pajak Penjualan atas Barang Mewah (Sales Tax on Luxury Goods)

- PPATK : Pusat Pelaporan dan Analisis Transaksi Keuangan
(Financial Transaction Reports and Analysis Center)
- PPS : Program Pengungkapan Sukarela
(Voluntary Disclosure Program)
- P3B : Persetujuan Penghindaran Pajak Berganda (Tax Treaties)
- SPT : Surat Pemberitahuan Tahunan (Annual Tax Returns)
- EU : European Union
- UU HPP : Undang-Undang Harmonisasi Peraturan Perpajakan
(Law on Harmonization of Tax Regulations)
- UU KUP : Undang-Undang Ketentuan Umum Perpajakan
(Law on General Provisions and Procedures of Taxation)
- WP OP : Wajib Pajak Orang Pribadi (Individual Taxpayer)

List of Tables

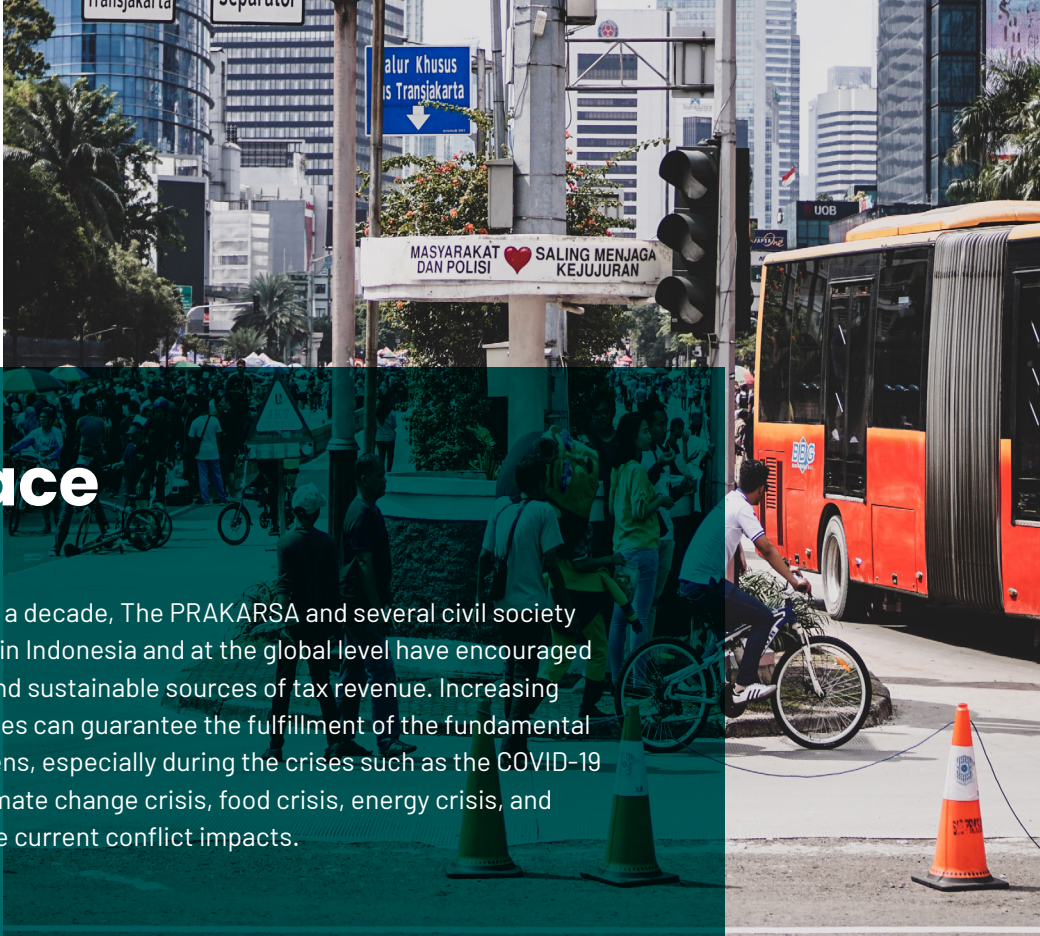
Table 1. Wealth tax categories and their objects	11
Table 2. Characteristics of Recurring and One-Off Wealth Tax	13
Table 3. List of research informants	18
Table 4. Five scenarios of the wealth tax model.	22
Table 5. Summary of wealth tax formats in some countries	30
Table 6. Taxable income rates	34
Table 7. Critical notes on types of local taxes and relevance of wealth tax.	40
Table 8. Five potential wealth tax models	41
Table 9. Projection Breakdown: The Simulation of Annual Share Return.	47
Table 10. Estimated wealth tax revenue with a progressive rate of 1-2 percent	50
Table 11. Main reasons for agreeing and disagreeing with the implementation of the wealth tax in Indonesia.	52

List of Figures

Figure 1. Number and percentage of people living in poverty in Indonesia	2
Figure 2. Comparison Between the Revenue Realization of Several Types of Taxes and that of Wealth Taxes (Trillion Rupiah)	51

List of Box

Box 1. Calculation Simulation of Deposits Minus Wealth Tax	46
Box 2. Calculation Simulation of Share Minus Wealth Tax	47
Box 3. Calculation Simulation of Gold Minus Wealth Tax.	49



Preface

For more than a decade, The PRAKARSA and several civil society organizations in Indonesia and at the global level have encouraged more varied and sustainable sources of tax revenue. Increasing revenue sources can guarantee the fulfillment of the fundamental rights of citizens, especially during the crises such as the COVID-19 pandemic, climate change crisis, food crisis, energy crisis, and handling of the current conflict impacts.

Inequality of income and opportunity has evolved into a classic problem all around the globe. Resources and wealth are highly concentrated in only few segments of the population and it is challenging to distribute opportunities and wealth through policy instruments; thus, *"the rich get richer, the poor get poorer."*

Political leaders are required to take extraordinary initiatives to actualize the distribution of wealth and opportunity. Nelson Mandela, in his speech before the members of the South African parliament on February 6, 1996, declared that leaders play a key role in working on equitable distribution of wealth, opportunity, and power within society. He asserted, *"We must work together to ensure the equitable distribution of wealth, opportunity, and power in our society."*

Progressive tax policy, including wealth tax, becomes one of the policy options that can effectively reduce inequality and accelerate the equitable distribution of wealth. Technically, this policy option is feasible; however, many country leaders do not consider it politically. Many countries implement an old-fashioned taxation system and are on the side of the super-rich. Even the tax policy has turned out as a factor perpetuating inequality in various aspects.

Multidimensional crises in various countries due to the COVID-19 pandemic, climate change, and conflict have further exacerbated inequality and aggravated the quality of life for most

global citizens, including Indonesians. Further, the government's capacity in developed and developing countries to fulfill the citizens' fundamental rights deteriorates. The low state revenue obtained from taxes and non-taxes has led to suboptimal handling of the impacts of the pandemic, climate change, and conflict.

The tax system has failed to execute its essential role in distributing wealth. Numerous governments are proven to have failed to mobilize potential for state revenues. The practice of tax evasion and avoidance by corporations and super-rich groups remains a challenging problem for tax authorities to address. It is hardly surprising that many countries, including Indonesia, have tax ratios much below their potential. The direct impact of the inability to optimize the tax ratio is the government's low capacity to finance development programs and essential public services, create welfare, and reduce socio-economic inequality.

The COVID-19 pandemic, climate change crisis, food crisis, energy crisis, and handling of conflict impacts have caused multidimensional concerns worldwide, both in rich and poor countries. It also triggers a widening inequality between the rich and the poor in the socio-economic sector. The government's low fiscal capacity hampers efforts to handle the COVID-19 pandemic and restore socio-economic conditions. One of the efforts many countries have taken includes increasing their national debt. By the end of 2021, the public debt of developed countries was expected to increase by 20 percent of GDP, while developing countries would increase by ten percent.

The government needs to explore sources of tax revenue in addition to increasing debt, including the strategy of mobilizing domestic resources by applying a **wealth tax** to the super-rich group. Wealth tax is not a brand-new initiative. Moreover, it is progressively finding its relevance during the COVID-19 pandemic. International organizations, such as the OECD and the IMF, support the implementation of this idea. Furthermore, the concept of a wealth tax is also endorsed by billionaires in developed and developing countries. In a petition letter issued by **Millionaires for Humanity**, some billionaires declared their willingness to support their country by paying their wealth tax for the COVID-19 pandemic handling and economic recovery. Accordingly, 150 billionaires worldwide have signed a petition to implement the wealth tax. Jeffrey Sachs and Gabriel Zucman, two economists experts, also supported this petition.

In Indonesia, Glocalities and Millionaires for Humanity conducted a survey by interviewing 1,051 respondents. This survey indicated that 79 percent supported the implementation of wealth tax in Indonesia, in which people with more than IDR140 billion must pay an additional one percent annual tax. Respondents believed the wealth tax is essential to finance economic recovery and support people affected by the COVID-19 pandemic. Only 4 percent of respondents rejected the idea. Thus, the results of this survey suggested considerable support for the wealth redistribution policy through wealth tax implementation.

For more than a decade, The PRAKARSA and several civil society organizations in Indonesia and at the global level have encouraged more varied and sustainable sources of tax revenue. Increasing revenue sources can guarantee the fulfillment of the fundamental rights of citizens, especially during the crises such as the COVID-19 pandemic, climate change crisis, food crisis, energy crisis, and handling of the current conflict impacts.

We propose that the Government of Indonesia reform the tax and non-tax revenue system; thus, Indonesia will make progress in funding sources. However, it is not easy to implement. The government has been carrying out several innovations, including tax governance. The Government of Indonesia has regulated regional taxation expecting optimal tax collection and utilization and providing a tax amnesty program to support improvements. Regardless, Indonesia's debt remains high, even for fundamental development uses.

The PRAKARSA is a member of a global network that encourages the advancement of a more equitable world tax system. Equitable values are interpreted as the redistribution of wealth and assets from the rich to the poor. The taxation issue is encountered by Indonesia and other developed countries, such as the United States, which endures complicated issues on taxation. Some time ago, Joe Biden was "angry" with digital entrepreneurs in America, including Amazon, as they utilized government infrastructure, postal codes, and roads built by the government but contributed minimum tax payments from their businesses. Likewise, in England, during the era of Prime Minister David Cameron, he was also "angry" in front of the media. He criticized Starbucks for having hundreds of outlets throughout England but did not pay income tax. Such matters are indeed complex, requiring efforts related to aspects of personal and structural improvement.

This study examines the robust literature and empirical views related to the potential and opportunities for applying wealth tax in Indonesia. This report aims to invite readers to comprehend the potential and opportunities of wealth tax in Indonesia and to provide arguments on the legislative and the rich support for implementing wealth tax in Indonesia. Through this report, the researchers seek to encourage HNWI in Indonesia to contribute more to the nation's development. More importantly, this report is expected to be an up-to-date source of information on the idea of expanding taxes to address poverty and inequality.

Finally, I would like to thank the PRAKARSA research team and those involved in preparing this report. I hope this report will enrich existing sources of knowledge and provide reinforcement; thus, every policymaker is fully committed to realizing equitable tax, supporting policy conditions, and ensuring a more prosperous society. Therefore, we must collaborate to encourage major religious organizations, civil society organizations, and other organizations in Indonesia to promote these goals.

To conclude, a robust political commitment from the country's leaders will significantly determine the quality of future development. Without sufficient funding, advanced

development will be challenging to achieve. Citing Thomas Piketty in *Capital in the Twenty-First Century*, we can understand that "the history of the distribution of wealth has always been deeply political, and it cannot be reduced to purely economic mechanisms."

Jakarta, 28 July 2022

Ah Maftuchan

The PRAKARSA Executive Director



Executive Summary

The wealth tax holds the potential to become a new source of state revenue that has the possibility to be applied in Indonesia for strengthening short-term purposes and long-term fiscal consolidation. The government can count wealth tax as a new tax category in addition to the existing tax categories. Wealth tax can stimulate state revenues and decrease wealth inequality. In addition, the close connection between wealth tax and zakat can be institutionalized as an integrated wealth redistribution system.

This research was conducted to investigate and draw a comprehensive overview of the potential and opportunities for implementing wealth tax in Indonesia and its correlation with zakat. This study employed a qualitative method to capture opinions from members of the House of Representatives of the Republic of Indonesia regarding the opportunities for applying wealth tax by conducting interviews and calculating the potential for wealth tax revenue in Indonesia through economic modeling. This study also involved interviews with other stakeholders, such as the Ministry of Finance (MoF), Center for Financial Transaction Reports and Analysis (PPATK), citizens included in high-net-worth-individuals (HNWI), academics, activists of fiscal-related civil society organizations, and Muslim scholars to achieve more in-depth information regarding opportunities for implementing wealth tax.

This study aims to:

1. Calculate the potential wealth tax in Indonesia
2. Identify the opportunities for applying wealth tax in Indonesia
3. Understand the correlation between wealth tax and zakat

This study revealed that the potential wealth tax in Indonesia imposed on HNWI with a net worth of greater than or equal to IDR144 billion based on four calculation models (models 1 - 4) ranges from IDR54 trillion to IDR155.3 trillion for one-time imposition. Model 3, worth IDR78.5 trillion, was a moderate amount of the four calculation models of the potential wealth tax. The wealth tax objects included the total asset values from savings/giro, deposits, shares, precious metals, donations, inheritance, and grants.

Opportunities to apply the wealth tax signified a positive signal from the members of the DPR RI interviewed. Albeit not all of the 61 DPR RI members interviewed supported the initiative to implement a wealth tax in Indonesia, most of them positively welcomed this initiative.

Apart from DPR RI members, the support from HNWI indicated a positive possibility but with some critical notes. One of the notes is the implementation of wealth tax shall be complemented by recognition from the government through disclosure of HNWI who pay and do not pay wealth taxes. HNWI also required earmarked taxes for wealth tax allocation on food, education, health, humanity, and social assistance. In addition, the implementation of wealth tax shall be accompanied by an improvement in the business climate, especially the eradication of 'illegal levies'.

This study discovered several challenges and risks related to implementing a wealth tax in Indonesia that need to be mitigated. Two of them included the assurance of tax administration in Indonesia, which was complex and managed to lead to tax disputes, and the wealth tax could trigger tax avoidance and capital flight.

Wealth tax correlates with zakat. The current notion believes that zakat payments are identified as tax deductions. Therefore, zakat payments can be recognized as tax payments (specifically wealth tax, not other types of taxes). Despite the existence of different statements among *fuqaha* (experts in Islamic law) regarding the correlation between zakat and taxes, this study did not identify any contrastive aspect between taxes and zakat; thus, both can be integrated.

According to the research results and findings, this research report suggests several recommendations as follows:



The government and DPR RI shall draft policies on wealth tax

The proposed wealth tax format is a one to two percent progressive wealth tax rate with a net worth imposed threshold of greater than or equal to IDR144 billion of the combined total assets, including savings/giro, deposits, shares, precious metals, donations, inheritance, and grants. The wealth tax is imposed annually on WP OP representing the family.



The government and DPR RI shall target the implementation of wealth tax within the next four years

The MoF carries the responsibility to prepare and implement wealth tax. In the first year, the MoF shall formulate regulations concerning wealth tax implementation and its strict sanctions. Afterward, the MoF shall start disseminating the implementation of wealth tax in the second year. Further, the Directorate General of Taxes shall record WP OP with taxable wealth in the third year. WP OP shall begin to pay wealth tax to the Directorate General of Taxes in the fourth year. In the fifth year, the MoF shall publish the names of taxpayers who comply and do not comply with the wealth tax policy. Finally, the fourth and fifth-year stages shall be executed on an annual basis.



The MoF shall involve financial institutions and appraisers to identify and evaluate assets adopted as guidelines for calculating the net asset amount

The MoF shall cooperate with the Financial Services Authority (OJK) and financial service institutions for assets in savings/giro and deposits; the MoF shall refer to the values published by PT Aneka Tambang Tbk for precious metal assets; the MoF shall cooperate with PT Bursa Efek Indonesia Tbk and PT Penilai Harga Efek Indonesia for assets in shares/warrants/state securities/sukuk (Islamic debt papers); and the MoF shall cooperate with public appraisal services companies for other unmentioned assets of donations, inheritance, and grants.

04

The MoF shall recognize the legality of the *zakat mal* payment (Islamic wealth tax) deposited by WP OP to zakat management institutions (*amil zakat*) through BAZNAS or registered religious organizations as payment of wealth tax.

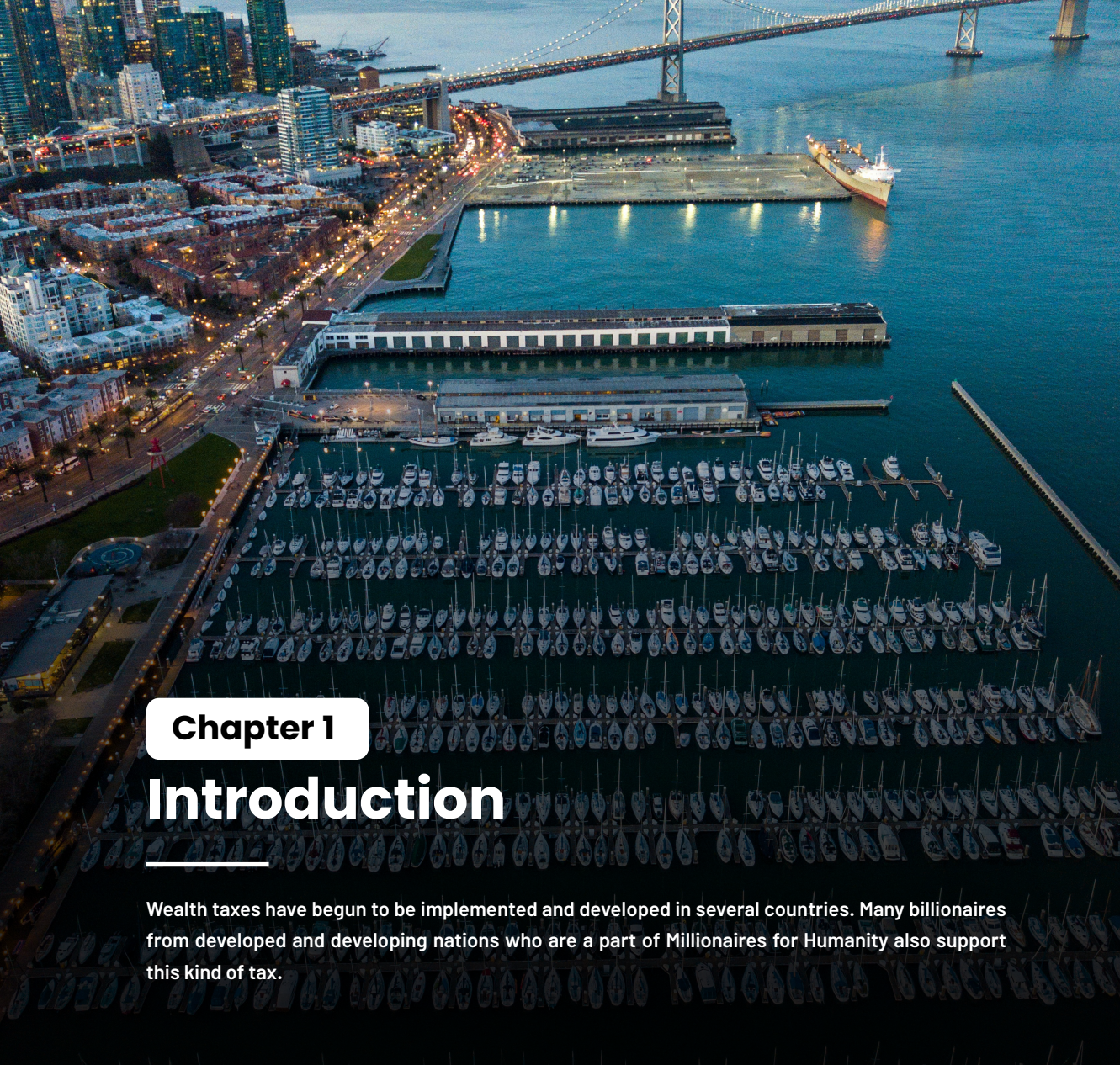
Thus, WP OP can pay wealth tax through the payment of zakat to registered *amil zakat* institutions. The zakat deposit receipt shall be considered evidence of wealth tax payment reported through filling out the Annual Tax Return (SPT).

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The government shall accelerate multilateral cooperation on automatic information exchange systems for international taxation purposes

Through multilateral forums, the President and the MoF shall propose a global approach to implementing a global wealth tax by preparing an initiative on global wealth tax standards.

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Chapter 1

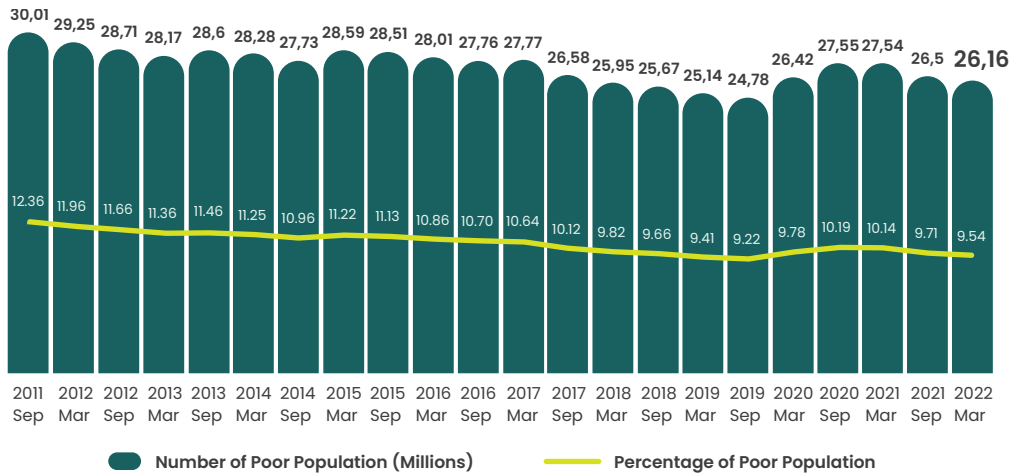
Introduction

Wealth taxes have begun to be implemented and developed in several countries. Many billionaires from developed and developing nations who are a part of Millionaires for Humanity also support this kind of tax.

1.1 Background

The number of people living in poverty has increased due to the pandemic, rising from 26.42 million in March 2020 to 27.54 million in March 2021. Rural areas have the highest poverty rates (12.29%), whereas urban areas have a lower rate (7.5%). As of September 2020, Statistics Indonesia (BPS) also reported a Gini ratio of 0.385, indicating growth in inequality compared to the early pandemic, where the ratio was 0.380 in September 2019 and 0.381 in March 2020 (BPS, 2022).

Figure 1. Number and percentage of people living in poverty in Indonesia



Source: Statistics Indonesia, 2021

Meanwhile, an investment institution from Switzerland, Credit Suisse Research Institute (2021), stated that the number of High Net Worth Individuals (HNWI) in Indonesia has increased amid the COVID-19 pandemic. The number of Indonesians with wealth greater than US\$1 million was close to 172,000 in 2020, increased by 62 percent compared to 2019. The impacts of the COVID-19 pandemic have also affected Indonesia's fiscal capacity amid this socio-economic inequality. The pandemic has gravely wounded the national economy, urging the government to allocate a far higher-than-normal fund for social and health programs.

In dealing with the impact of the COVID-19 pandemic, the Government of Indonesia has issued various policies, one of which is to adjust the 2020 State Budget. State revenues decreased from IDR2,233.1 trillion (in the 2020 State Budget Law) to IDR1,699.9 trillion (in Presidential Regulation Number 72 of 2020). The decrease was influenced by the decline in community economic activities, indirectly reducing tax revenues which became the primary source of state revenue. However, state expenditure has increased from IDR2,540.4 trillion (in the 2020 State Budget Law) to IDR2,739.2 trillion (in Presidential Regulation Number 72 of 2020), despite a decline in state revenues. The increase in state expenditure was because the government required an additional budget to cope with the unexpected impacts of the COVID-19 pandemic on the health, economic, and social sectors (MoF, 2022).

The decrease in revenue and increase in expenditure ultimately led to a highly significant increase in financing, which was more than 300 percent from IDR307.2 trillion (in the 2020 State Budget Law) to IDR1,039.2 trillion (in Presidential Regulation Number 72 of 2020). Thus, the government shall seek alternative funding sources to cope with this issue (MoF, 2022). One of the measures included issuing a tax amnesty program combined with the Voluntary

Disclosure Program (PPS) through Law Number 7 of 2021 concerning Harmonization of Tax Regulations (UU HPP). This policy strives to optimize state revenues from individual wealth taxes. In Indonesia, taxes contributed almost 79% to total state revenues in 2020 (BPS, 2022).

Wealth tax serves as an effective instrument for wealth redistribution to address the inequality, poverty, and gap increasing due to the impact of revenue and wealth distribution (Kapeller & Wildauer, 2021). Wealth taxes are nothing new in the world. The international economic organization, the International Monetary Fund (IMF), supports the implementation of a wealth tax. The IMF and several academics promote a progressive wealth and income tax to reduce inequality and optimize fiscal capacity (Advani et al., 2020).

Wealth taxes have begun to be implemented and developed in several countries. Many billionaires from developed and developing nations who are a part of Millionaires for Humanity also support this kind of tax. As many as 150 global billionaires signed a petition calling for the establishment of a wealth tax to address the COVID-19 pandemic and economic recovery. This petition was also supported by two world-famous economists, such as Jeffrey Sachs and Gabriel Zucman (*Globalities and Millionaires for Humanity*, 2021).

Additionally, the concept of wealth tax, also known as *zakat maal* (an amount of money that must be paid for asset ownership and has met the mandatory zakat requirements), is not a brand-new for countries with Islamic laws-based government systems or large Muslim populations, such as Indonesia. Zakat is a redistribution of resources regulated by religion and/or the state. Zakat also contributes to economic, social, and worship functions. In Islam, the economic function of zakat is considered an effective transfer medium from those with a high net worth to those underprivileged.

Taxes and zakat are mandatory. Tax refers to citizens' compulsory and coercive contribution to the state (regulated in law). Meanwhile, zakat refers to the obligation to give certain assets based on the characteristics, amount, and certain groups; thus, substantively, zakat has a vital position in Islam. Zakat plays a role in alleviating poverty and ensuring social justice for the community, especially during the COVID-19 pandemic. According to the MUI Fatwa Commission, zakat funds can be distributed to overcome the impact of the COVID-19 pandemic, both in the health and economic sectors.

Although most of Indonesia's population is Muslim, the acceptance of zakat remains suboptimal. Zakat is merely perceived as a religious obligation for every Muslim. No regulation explicitly emphasizes the obligation to pay zakat for all Muslims in Indonesia. Such a fact emerges since Indonesia is a country that does not implement Islamic law in its state administration. As a result, Muslims only pay zakat on each person's awareness (Fathoni et al., 2020)

The Baznas analysis (2020) discovered that the realization of zakat has only reached IDR71.4 trillion or about 21.7% of the potential zakat, amounting to IDR327.6 trillion. Of this

amount, only IDR10.2 trillion was paid through the official OPZ, Baznas, while the remaining amounts were paid through the unofficial OPZ (Baznas, 2022). Indonesia also views zakat as a deduction from taxable income (PKP).

1.2 Research Gap

According to OECD data, the countries collecting income from individuals' net worth taxes in 2020 are Colombia, France, Norway, Spain, and Switzerland (Bunn, 2022). In 2020, Switzerland's wealth tax accounted for about 3.6 percent of the country's total revenue, while France only contributed 0.19 percent of total revenue. Wealth tax revenues in OECD countries averaged 1.5 percent of total revenue in 2020 (Bunn, 2022).

Several scientific studies have employed two empirical approaches to assess the effect of wealth taxes on wealth accumulation. One of the approaches aimed to analyze the bunching of reported wealth at discontinuities in tax schedules (Londoño-Vélez et al., 2018; Seim, 2017). This approach yields small elasticity estimates, but the bunching is particularly likely to underestimate actual behavioral responses concerning wealth taxation since changes in wealth depend, to a large extent, on asset prices that are uncertain and exogenously determined. Other researchers employed the Difference-in-Difference (DID) analysis of changes in the wealth tax schedule, comparing taxpayers who were affected differently by these changes for reasons arguably unrelated to their subsequent responses (Jakobsen et al., 2020; María Durán-Cabré et al., 2019; Zoutman, 2018). These studies found responses with an order of magnitude greater than group-based analyses, with a semi-elasticity ranging from 14 percent to 32 percent.

In Indonesia, the result of a poll conducted by Prakarsa (2021) indicated that 79 percent of respondents from 1.051 communities supported the implementation of wealth tax in Indonesia, where individuals having more than IDR140 billion are required to pay additional annual tax of 1 percent. This study aims to examine the potential and opportunities for implementing wealth tax in Indonesia to fill the literature gap on the initiation (*ex-ante*) of wealth tax.

However, the experiences of wealth tax implementation have not always been positive. One study (Schuyler, 2014) found that the wealth tax in the United States would reduce investment, wages, employment, income, and output. Piketty (2015) also estimated that wealth tax would reduce the capital stock by 13.3 percent, depress wages by 4.2 percent, eliminate 886.000 jobs, and decrease GDP by 4.9 percent, or about \$800 billion, all for a revenue gain of less than \$20 billion.

Some of the aforementioned research and publications on wealth tax investigated phenomena related to wealth tax after or during the application of the wealth tax. Different from previous studies, this study seeks to describe the policy prospects of the potential

and opportunities for implementing a wealth tax before it is implemented in Indonesia. The prospective analysis of public policy serves as the production and transformation of information before policy action is initiated and implemented (Dunn, 2000). Analysis can be carried out at every stage of public policy. In this study, the analysis was carried out at the pre-implementation stage of public policy.

1.3 Research Questions

The research questions include as follows:

1. To what extent is a wealth tax potential to be applied in Indonesia?
2. What are the perspectives of DPR RI members about the wealth tax implementation in Indonesia?
3. What is the position of the wealth tax in Islamic law?

1.4 Research objectives

The aims of this research are as follows:

1. Estimating the potential of wealth tax in Indonesia
2. Understanding the perception of the DPR RI members on the wealth tax implementation
3. Knowing the position of wealth tax in the context of Islamic law

1.5 The scope of research

1. The scope of this research is limited to the description of the potential and opportunities of wealth tax implementation in Indonesia. This research does not shed light on the distribution of the calculated wealth tax collection results.
2. The potential tax revenue is calculated from data sources from the Forbes list of 100 richest Indonesians (HNWI) in 2021 and Statista in 2021 with total assets of more than IDR15 billion.

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Chapter 2

The Concept of Wealth Tax

A well-functioning state can meet the basic needs of its citizens by relying on domestic revenues to achieve development goals.

2.1 The General concept of Tax

2.1.1. Tax Concept

Taxes play a pivotal role in a country, especially in the development process, since they are a source of state revenue to finance all expenditures, including development expenditures. A well-functioning state can meet the basic needs of its citizens by relying on domestic revenues to achieve development goals. By employing an effective tax system, a country can mobilize its domestic resources, distribute wealth, and provide basic services and infrastructure. An effective tax structure can also create incentives to improve

governance, strengthen channels of political representation, and reduce corruption (Perkumpulan PRAKARSA, 2014).

However, most governments worldwide attempt to collect sufficient taxes to finance basic services equitably. The Global South, in particular, faces serious challenges due to weak tax authorities, low revenues, large informal sectors, pressure to provide tax relief that is too generous, and the exploitation of tax loopholes by irresponsible companies and by high-net-worth individuals (HNWI). The tax system is also frequently fraudulent against the interests of underprivileged people (Perkumpulan PRAKARSA, 2014).

The amount of tax levy depends on the policies of each country. There are various definitions of tax put forward by experts.

However, based on Law No. 28 of 2007 concerning the third amendment to Law No. 6 of 1983 concerning general provisions and taxation procedures, tax is defined as a mandatory, payable contribution to the country from an individual or entity, which is coercive under the law, without any direct return and shall be utilized for the need of the country for the greatest prosperity of people.



In a nation of laws, tax collection policies shall have a legal basis. If there is no legal basis, the collection made by the state is not considered tax collection but rather an illegal levy. Taxes exist since the tax function is required by every country (the state treasury function and the regulating function). A country creates taxes to raise funds to provide protection and services for its people.

2.1.2 Tax collection principles

There are several principles of tax collection. In this study, these principles refer to the basic principles regarding the reference in making significant decisions in tax collection. According to experts, there are several principles that should be considered.

According to Adam Smith (2007, in Azmiya and Rusydiasas, 2013; 6-7), tax collection is defined as follows:

1. Based on the Principle of Equality, tax collection by a state shall be in accordance with the ability and income of taxpayers. The state shall not act discriminatory against taxpayers.
2. Based on the Principle of Certainty, all tax levies shall be based on laws, so those who violate them will be subject to legal sanctions.
3. Based on the Principle of Convenience of Payment, taxes shall be collected at a convenient moment for taxpayers, such as right after they receive their income or a reward
4. Based on the Principle of Efficiency, the cost of collecting taxes shall not be greater than the results of tax collection.

According to W.J. Langen (n.d, in DGT, 2022), the principle of tax collection is as follows:

1. Based on the Principle of Carrying Capacity, the amount of tax collected must be adjusted to taxpayers' income. The higher the income, the higher the tax burden.
2. Based on the Principle of Benefit, taxes collected by a state shall be utilized for activities that are useful for the public interest.
3. Based on the Principle of Welfare, taxes collected by a state shall be utilized to improve people's welfare.
4. Based on the Principle of Equality, all taxpayers, under the same conditions, shall be taxed in the same amount (treated equally).
5. Based on the Principle of the Smallest Burden, the amount of tax collection shall be made as reasonable as possible and shall not exceed the value of the tax object so that it does not burden taxpayers.

According to Adolf Wagner (n.d, in DGT, 2022), the principle of tax collection is as follows:

1. Based on the Principle of Financial Politics, the amount of tax collected by a state shall be sufficient to fund or support all state activities.
2. Based on Economic Principles, the determination of the tax objects shall be precise, for example, income tax and tax on luxury goods.
3. Based on the Principle of Equity, tax levies apply in general without discrimination. For example, the same conditions are treated equally.
4. Based on the Principle of Administration, it concerns the issue of tax certainty (when and where to pay taxes), flexibility in the collection (how to pay), and the number of tax rates.
5. Based on the Juridical Principle, all tax collections shall be based on laws.

Based on the above-mentioned experts' opinions, there is a common belief that tax collection shall not discriminate against taxpayers and be fair. In addition, taxpayers shall also be treated equally, and taxes must be adjusted to the ability of individuals to improve people's welfare.

2.1.3 Introduction to Tax Fairness

Tax fairness refers to fair tax practices advocated by global and Indonesian tax activists. Fair and effective tax collection is essential to increase state revenues in order to provide services the community needs. Taxes are a powerful tool for redistributing wealth within society to reduce poverty and inequality. Taxes can also build accountability between the government and its citizens.

The relationships between citizens and between citizens and the government in statehood are intertwined due to various values and instruments. One of the values maintaining the established relations is fairness, with which citizens receive equal treatment related to their fundamental rights and obligations (Maftuchan, 2014).

Taxes as a fiscal policy may basically serve as an instrument of fair and equitable economic distribution. However, taxes may practically be one of the causes of economic inequality. Tax rates that favor the rich and superrich people are the most obvious evidence (Maftuchan, 2014).

It is necessary to implement and enforce fair tax instruments for a more just and equal life. Tax redistribution essentially aims to encourage mutual trust between citizens and the government to fully realize democracy (Indonesian Association for Media Development, 2021). According to Jackson and Milliron (1986, in Astuti, 2012), tax fairness constitutes a key non-economic variable that affects taxpayer compliance behavior. Gerbing (1998), in Berutu and Harto (2012), suggested that tax fairness can be assessed through general fairness, exchanges with the government, self-interest, special provisions, and tax rate structures.

Tax fairness reforms are urgently needed by developing countries to increase their tax revenues and address the fundamental gaps in the tax systems of many developing countries that make the poor pay more taxes than they should. The tax burden on the poor should be eased, and the tax burden on the rich (HNWIs) and major economic actors should be increased based on an in-depth review of income and property taxes. Generous tax incentives for corporations should be removed, in line with stringent efforts to tackle tax evasion by corporations and the elite. Progressive taxation shall go hand in hand with increasing public expenditure for the poor (Perkumpulan PRAKARSA, 2014).

2.2 Wealth Tax Definition and Concept

2.2.1. Wealth Tax Definition

According to the OECD (2022), a wealth tax is imposed on an individual's net worth or the market value of their owned total assets minus liabilities. A wealth tax can have a narrow or broad definition, and depending on the definition of wealth, the basis for a wealth tax may vary. A wealth tax works by applying a tax rate to an individual's net worth, usually above a certain threshold.

This study considers the principles and practices of a broad-based tax on net worth ownership, referred to as the 'wealth tax'. In this case, "broad-based" indicates that the wealth tax is imposed on most (or all) types of assets owned by individuals, not only certain types of assets, such as housing (Advani et al., 2020). Wealth tax is imposed on net worth (holding of wealth/total assets minus liabilities), transfer of wealth, and appreciation of wealth resulting from capital gains.

2.2.2. Wealth Tax Objects

Taxes on net worth are derived from taxes on a number of assets, including but not limited to, savings/giro, bank deposits, shares, vehicles, estimated property values, and so forth. Taxes on the transfer of wealth are imposed from the inheritance, donation, and grant taxes, while taxes on the appreciation of wealth are imposed from capital gains. For example, if someone owns a house on a mortgage, their net worth is the house's value minus outstanding loans. Wealth includes all types of property but does not include other legally invaluable advantages that an individual owns, such as 'human capital'. Therefore, there are many ways to impose a tax on wealth, including income tax (PPH), value-added tax (VAT) on individual expenses, value-added tax on luxury goods (PPnBM), and other taxes.

A wealth tax is usually imposed on a certain level of individual wealth with a certain wealth threshold. This study compiles five wealth tax scenarios to estimate potential revenues. Each model will undoubtedly have consequences in its implementation. Therefore, to discuss the opportunities for applying the wealth tax, it is necessary first to calculate the potential of wealth tax.

Table 1. Wealth tax categories and their objects

Wealth Tax Categories	Wealth Tax Objects
Net Worth (Holding of Wealth)	Total assets minus liabilities Assets: 1. Saving/giro 2. Bank deposits

	<ol style="list-style-type: none"> 3. Shares 4. Vehicles 5. Properties 6. Precious metals (gold, silver, diamonds, etc.)
Transfer of wealth	<ol style="list-style-type: none"> 1. Inheritances 2. Donations 3. Grants
Appreciation of Wealth	Capital Gains

Source: Piketty, 2015

2.2.3. Wealth Tax Thresholds and Rates

We are not authorized to set appropriate thresholds and rates, and they shall be applied under a one-off or annual wealth tax and targeted total income. This is because issues related to thresholds and rates are a matter of political judgment and democratic considerations as the main levers that determine the direction and scope of the distributive effect of taxes, i.e., who should pay and how much they should pay.

This study only provides a modeling simulation of how much wealth tax can be imposed and from whom at varying levels and thresholds. The choices we present that refer to the best practices of several countries and take into account some rationalization assumptions should be read as a possibility, not a mandate or a necessity.

According to Thomas Piketty in "Capital and Wealth Taxation in the 21st Century" (2015), the wealth tax is applied to solve socioeconomic problems, especially inequality. According to Piketty, in today's world economy, there are indications that the growth rate of return on investment exceeds the rate of economic growth. Economic inequality will continue to exist and widely diffuse unless there is political intervention through wealth tax implementation (Piketty, 2015).

To prevent the development of investment returns that tend to be high, Piketty emphasizes the need for the application of a wealth tax in conjunction with the application of an income tax. The implementation of a wealth tax can also stimulate economic activity and spur economic growth. Imposing a tax on income but not on net worth can result in the accumulation of unproductive assets. However, if net assets are taxed, asset owners will invest their assets, such as savings, into real investments, triggering job creation and reducing asset accumulation.

In principle, the implementation of the wealth tax is also based on a threshold scheme. In the European Union (EU), a one percent tax rate is imposed on individuals with a wealth of

EUR1 million to EUR5 million, or approximately IDR14.7 billion to 73.7 billion (assuming an exchange rate of EUR1 is equal to IDR14.7 thousand), and two percent tax rate is imposed for individuals with a wealth of EUR5 million. According to Piketty's study, the implementation of this wealth tax will increase the level of tax revenue by two percent of GDP.

The OECD (2022) also provides a simulation, for example, an individual with a wealth of US\$2.5 million (approximately US\$36.9 billion) and a liability of US\$500 thousand (approximately IDR7.2 billion) will have a net worth of US\$2 million (approximately IDR29.5 billion). If a wealth tax is imposed on all assets of individuals above US\$1 million (or IDR14.4 billion), then at a 5 percent wealth tax rate, they will be taxed US\$50 thousand (IDR720 million). If their wealth is assumed not to grow at a higher rate than the tax rate, then the wealth tax will reduce their wealth. It demonstrates that individuals with lower returns on wealth will be exposed to higher effective tax rates.

2.2.4. Wealth Tax Collection Time

In its development, the implementation of wealth tax in several countries is divided into two types of wealth tax policies: a recurring wealth tax and a one-off wealth tax. The two types of wealth tax have their own characteristics.

Table 2. Characteristics of Recurring and One-Off Wealth Tax

Recurring Wealth Tax	One-Off Wealth Tax
A tax based on taxpayers' wealth	A tax based on taxpayers' wealth
Payment obligations are based on recurring (usually annual) asset valuation	The payment obligation is based on a one-off asset valuation
A permanent feature in the tax system to increase state revenues and state expenditure on a regular basis	An 'unusual' feature in the tax system, generally applied to respond to extraordinary fiscal circumstances
General tax process design and full of public debate	Implemented quickly without in-depth public debate and minimal notification to taxpayers, the potential revenue is based on the latest determined wealth assessment
Taxpayers believe that the property tax applies repeatedly	There is no certainty that the one-off withdrawn wealth tax applies repeatedly or not

Low tax rates are required to ensure taxpayers' compliance	High tax rates are possible due to the possibility of non-recurrence
Annual payment	Usually applied every few years to minimize liquidity issues and wider market impacts.

Source: O'Donovan (2021)

According to O'Donovan (2021), the two types of taxes are based on a comprehensive wealth measure. A one-off wealth tax is based on a valuation of wealth on a specific date, and may therefore be subject to a higher rate than a recurring wealth tax (O'Donovan, 2021, p. 570). In 'extraordinary fiscal circumstances', the application of a one-off wealth tax can overcome fiscal problems, such as a deep State Budget deficit, and is likely to be carried out more than once in a number of years according to fiscal conditions.

2.2.5. Property Tax Subjects: High-Net-Worth Individuals (HNWIs)

High-Net-Worth Individuals (HNWIs) is a common term in the financial industry to refer to individuals with liquid asset ownership values above US\$1 million or equivalent to IDR15 billion. This term is a more official term to define very rich people or billionaires. Although there is no binding standard, the threshold for HNWI is generally understood to include only liquid assets such as money held in a bank or intermediary account and does not include assets such as primary residences, collectibles, or durable goods.

The net worth of an individual can be calculated in a relatively simple way. The standard formula is simply to subtract the total value of assets with liabilities, or as follows:

$$\text{New Worth} = \text{Total Assets Value} - \text{Total Liabilities}$$

For example, if an individual has total assets of US\$1 million, including houses, vehicles, bank account balance, collectibles, and investment account equities, and the individual's liabilities include outstanding mortgage balances, vehicle debt, credit card debt totaling US\$250 thousand, the individual's wealth in this example is US\$750 thousand. Therefore, the individual is not included in the HNWI category. It is important to note that, to determine whether or not individuals belong to the HNWI category, we generally need to consider only their liquid assets.

Statistically, based on the release of Statista (2021), approximately 21,000 individuals belonged to the HNWI category in Indonesia in 2020. The number declined 9.2 percent

from the previous year. Despite this slight decline, in The Wealth Report 2021, the number is predicted to more than double by 2025.

2.3 Taxes in Islam

Like zakat, taxes also have economic, social, and religious functions. In Islam, the economic function of taxes is considered an effective transfer tool from those who have it in excess to those who do not. Taxes serve as a tool to realize social justice by eliminating inequality and supporting community welfare. Taxes and zakat are considered mandatory. Tax is the obligation of citizens, while zakat is the obligation of the servants of Allah. Both have their characteristics and sizes and are intended for certain groups. Thus, taxes and zakat substantively have a vital position in the state and religion.

With the increasingly widespread discussion of wealth tax to increase state income and eradicate social inequality in society, and because the role of tax is as significant as zakat in Islam, this topic becomes relevant for discussion. The reason for that is Muslims with wealth above a certain limit are obliged to donate their wealth at a certain level in the form of taxes and zakat. Similar to the economic purpose of zakat, taxes aim to redistribute wealth. However, unlike zakat, taxes have special categories prepared by the government related to collection, distribution, and distribution targets.

Zakat has a very clear legal basis both in the Quran and hadith. The implementation procedure of zakat has been explained in depth in various books of *fiqh*. Therefore, there is no doubt regarding the subjects, objects, rates, payment times, and intended use. The obligatory nature of zakat has been established in the Quran Surah At-Tawbah Verse 3:

Take from their wealth (O Prophet) charity to purify and bless them, and pray for them—surely your prayer is a source of comfort for them. And Allah is All-Hearing, All-Knowing.

(QS. At-Tawbah [9]:103)



In addition to the Quran, the hadith narrated by Bukhari and Muslim cited by Umar Radiyallahu Anh also explains that :

Islam is built on five pillars: testifying that there is no god but Allah and that Muhammad is the Messenger of Allah, establishing the prayer, paying Zakat, making the Hajj (pilgrimage) to the House, and fasting in Ramadhan

(Inayah, 2005)

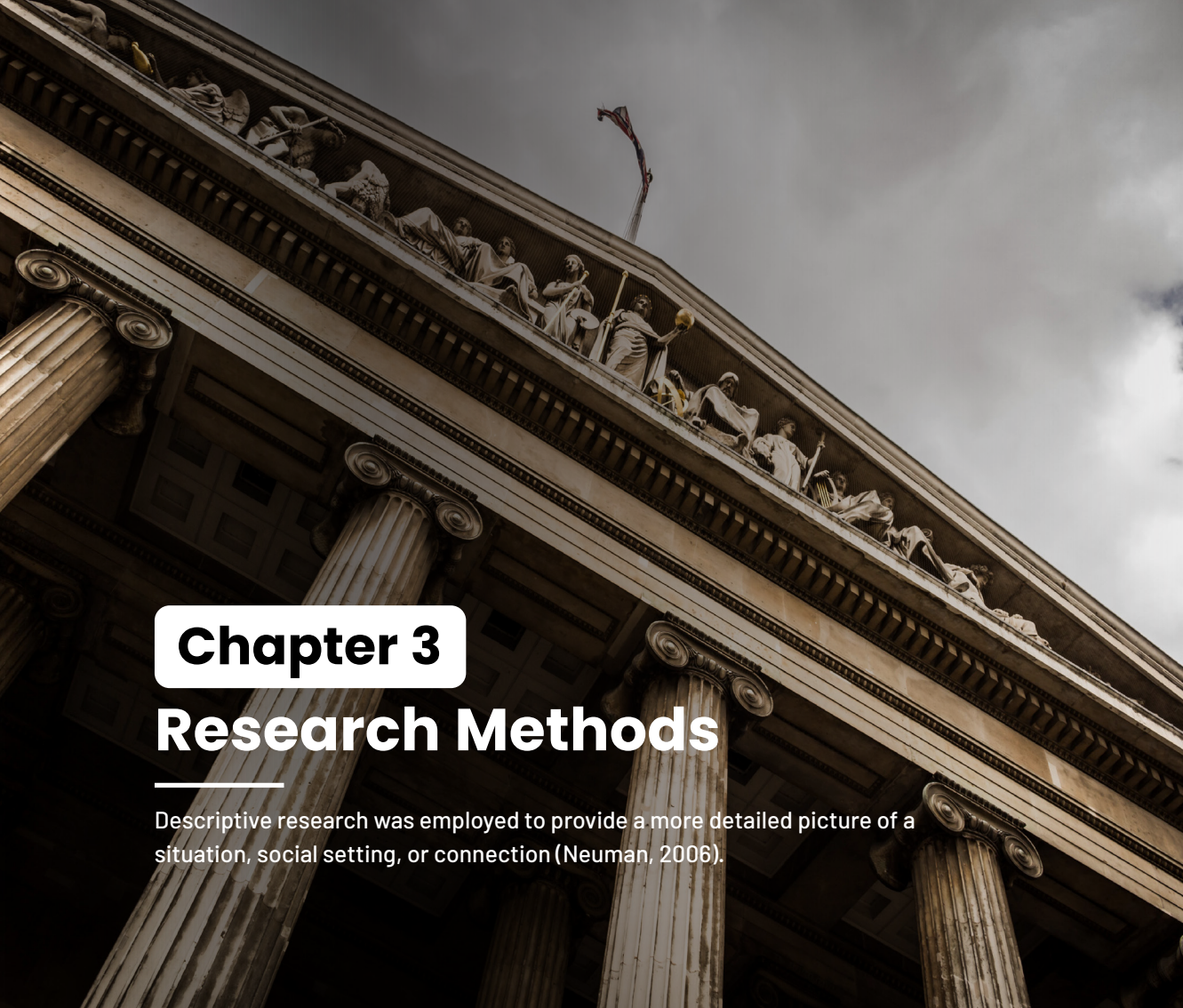


In the Islamic economic system, the term tax refers to *adh-dharibah*, not *jizyah*, because *jizyah* refers more to the term "tribute" (head tax), which is imposed on the People of the Book (Christians and Jews) and Zoroastrian communities. Meanwhile, during the era of the Prophet Muhammad PBUH (610-632M) and the Rashidun Caliphs (632-650M), state revenues (*mawarid ad-daulah*) were classified into three main categories, namely :

1. *Ghanimah*: booty taken from the infidels in times of war
2. *Fa'i*: booty obtained by Muslims from the enemy without going through war
3. *Shadaqah or Zakat*: Muslims' obligation on specific assets that reach a certain nisab and are paid at a specific time

Fa'i is further divided into three categories, namely :

1. *Kharaj*: tax for land levied on non-Muslims when Khyber was conquered;
2. *Ushr*: import duty imposed on all traders crossing national borders, which shall be paid once a year and applied to goods with a value greater than 200 dirhams;
3. *Jizyah* (tribute) or head tax: a tax paid by non-Muslims, especially People of the Book, to guarantee the protection of their life, property, worship, freedom from values, and no military service (Gusfahmi, 2007).



Chapter 3

Research Methods

Descriptive research was employed to provide a more detailed picture of a situation, social setting, or connection (Neuman, 2006).

3.1 Methods

This research employed a qualitative-descriptive approach. According to Neuman (2006), researchers applied an interpretive paradigm in the qualitative approach. They were not solely focused on one question but reflected on a theoretical, philosophical paradigm in its completion and were open to the process of perspective-taking. Descriptive research was employed to provide a more detailed picture of a situation, social setting, or connection (Neuman, 2006).

The following data collection techniques were implemented to obtain the necessary data and information according to the research context:

- **Study of Literatur**

It was performed by analyzing and reading various literature related to the discussion of wealth tax and processing data to obtain a simulation of the potential wealth tax in Indonesia. Documents serving as information sources covered related research publications, scientific articles, news, and statistical data.

- **In-depth Interview**

It was implemented to obtain information about the opportunities for applying the wealth tax and the position of the wealth tax in Islamic law. An in-depth interview is a method used to collect data or oral information from different identified informants. The researchers conducted face-to-face interviews both online and offline. The instrument used was structured interview guidelines, which were presented to members of the House of Representatives to provide their opinions and semi-structured interview guidelines for other informants.

- **Focus Group Discussion**

It was conducted face to face in focus groups by applying semi-structured interviews on the topic of the position of wealth tax in Islam led by one of the researchers as moderator.

The purposive sampling technique was utilized to determine data sources or informants in this study. The sample was selected based on criteria, objectives, or particular situations. When measuring populations that are difficult to reach, purposeful sampling is most frequently used (Neuman, 2006). The informants were also selected by employing a snowball sampling technique. According to Neuman (2006), the snowball sampling technique uses a rolling process to gather the sample from one respondent to another. Usually, this method is applied to explain social or communication (sociometric) patterns of a particular community. The following is a table listing the research informants

Table 3. List of research informants

No	Informant	Information obtained	Total
1.	DGT, Sub-Directorate of Tax Potential	Taxation policy and opportunities for implementing a wealth tax	1 person
2.	BKF (Fiscal Policy Agency), State Revenue Policy Center	Taxation policy and opportunities for implementing a wealth tax	1 person
3.	PPATK	Knowledge of opportunities for tax avoidance on wealth tax implementation, its authorities, and constraints in data collection of HNWI	1 person

4.	Ministry of Finance, Special Staff of the Minister of Finance	Taxation policy and opportunities for implementing a wealth tax	1 person
5.	Members of DPR RI Commission I	Knowledge of wealth tax, opinion on wealth tax, and support for implementing a wealth tax	8 people
6.	Members of DPR RI Commission II	Knowledge of wealth tax, opinion on wealth tax, and support for implementing a wealth tax	3 people
7.	Members of DPR RI Commission III	Knowledge of wealth tax, opinion on wealth tax, and support for implementing a wealth tax	4 people
8.	Members of DPR RI Commission IV	Knowledge of wealth tax, opinion on wealth tax, and support for implementing a wealth tax	6 people
9.	Members of DPR RI Commission V	Knowledge of wealth tax, opinion on wealth tax, and support for implementing a wealth tax	4 people
10.	Members of DPR RI Commission VI	Knowledge of wealth tax, opinion on wealth tax, and support for implementing a wealth tax	6 people
11.	Members of DPR RI Commission VII	Knowledge of wealth tax, opinion on wealth tax, and support for implementing a wealth tax	3 people
12.	Members of DPR RI Commission VIII	Knowledge of wealth tax, opinion on wealth tax, and support for implementing a wealth tax	6 people
13.	Members of DPR RI Commission IX	Knowledge of wealth tax, opinion on wealth tax, and support for implementing a wealth tax	6 people
14.	Members of DPR RI Commission X	Knowledge of wealth tax, opinion on wealth tax, and support for implementing a wealth tax	3 people

15.	Members of DPR RI Commission XI	Knowledge of wealth tax, opinion on wealth tax, and support for implementing a wealth tax	8 people
16	Members of DPR RI Commission XI	Taxation policy, opportunities for implementing a wealth tax, and perceptions for implementing a wealth tax in Indonesia	4 people
17.	DDTC	Taxation policy and opportunities for implementing a wealth tax	1 person
18.	PYWP Indonesia	Civil society's perspectives on the opportunities for implementing a wealth tax	1 person
19.	HNWI, Indonesian Entrepreneur (IDR140 billion)	HNWI's perspectives and support on the opportunities for implementing a wealth tax	2 people
20.	Academic of Universitas Indonesia, tax consultant	Taxation policy and opportunities for implementing a wealth tax	1 person
21.	Ulema, zakat expert, Deputy Chairman of Tarjih Council of Muhammadiyah Central Executive Board	Knowledge of the position of wealth tax in Islamic law	1 person
22.	Zakat expert, ulema, General Director of Executive Board of Nahdlatul Ulama	Knowledge of the position of wealth tax in Islamic law	1 person
23.	Zakat expert, Director of National Amil Zakat Institution - Al-Irsyad	Knowledge of the position of wealth tax in Islamic law	1 person
24.	Academic and Zakat expert, UIN Syarif Hidayatullah	Knowledge of the position of wealth tax in Islamic law	1 person
Total			74 people

Note: Out of nine fractions representing the Indonesian House of Representatives members for the 2019-2024 period, only the United Development Party (PPP) was unavailable for an interview during the research (June to August 2022).

Afterward, the researchers adopted two triangulation techniques based on the collected data: (1) data triangulation and (2) investigator triangulation. Subsequently, the data coding was performed through thematic analysis followed by data tabulation to generate key themes. This analysis was conducted through several stages: transcribing the interview data into text, specifying important themes, reviewing the generated themes, and preparing the report.

3.2 Formula for calculating potential revenue of the wealth tax

This research was included in the prospective public policy analysis because it was performed before implementing public policy. Therefore, this research strived to discover Indonesia's potential for a wealth tax. This research employed a simple method to calculate the potential revenue from a wealth tax by providing the proportion of the number of rich people and the value of their wealth.

Apart from that, this study also involved alternative data on the number of rich people and their wealth levels provided by Forbes and Statista of 2021. This measure was taken since the researchers could not access information on the number of taxpayers and their wealth levels under the wealth tax limit from the Directorate General of Taxes. The basic assumption for calculation is provided below:



$$\text{Potential Revenue} = \text{Total net worth} \times \text{tax rate} \times \text{number of individuals}$$

Notes:

Total net worth: the average net worth – the lower limit of wealth level

Tax rate: flat/progressive tax rate according to the level with each model

Number of individuals: number of rich people at each level

This study emphasized the idea of the wealth pyramid in general; the higher an individual's net worth in a particular amount, the fewer people belonging to that group. For each group, the researchers implemented the average value as a simple basis for calculating the amount of individual wealth multiplied by the tax rate (which would vary for each group in the progressive model) and the number of individuals in that group. Data from Credit Suisse and Knight Frank, which Forbes and Statista officially published in 2021, was adopted to calculate the potential of wealth tax. Forbes released data on the wealth accumulation of Indonesia's 100 richest. In contrast, Statista published data on the number of billionaires and other individuals with a wealth of greater than \$1 million.

This study elaborated on the potential of wealth tax calculated based on five scenarios. These scenarios refer to the literature review of several techniques and simulations of

calculating wealth tax by the Wealth Tax Commission in the United Kingdom (Advani et al., 2021).

Table 4. Five scenarios of the wealth tax model.

Model	Model 1	Model 2	Model 3	Model 4	Model 5	
Approach	One-off	Flat Tax	Moderate progressive	High progressive	Progressive Wealth Cap	
Tax-free population (%)	Calculation Process	Calculation Process	Calculation Process	Calculation Process	Calculation Process	
Tax bracket	Tax rate				Tax bracket	Tax rate
From 50 billion	1%				0.5 times the average net worth	0.1%
From 100 billion		2%			two times	1%
From 144 billion			1%	1%	Five times	2%
From 217 billion			1.1%	1.25%		
From 289 billion			1.2%	1.5%		
From 361 billion			1.3%	1.75%		
From 433 billion			1.4%	2%	ten times	5%
From 722 billion			1.5%	2.25%	100 times	10%
From 1,010 billion			1.6%	2.5%	1,000 times	60%
From 1,444 billion			1.7%	2.75%	10,000 times	90%
From 1,877 billion			1.8%	3%		

From 2,600 billion		1.9%	3.25%		
From 3,610 billion		2%	3.5%		
From 6,354 billion			4%		

Source: the model is adopted from the UK Wealth Tax Commission and has been modified (2020)

In the first scenario (model 1), the wealth tax is levied once from one individual who meets the criteria, adapting the wealth tax applied in the UK. The tax will be applied at 1% on those with assets worth more than IDR10 billion. A one-off wealth tax is expected to be a solution during specific crises. Therefore, individuals would only be taxed once according to the value of their assets at any given time. They could still pay taxes in installments over several years to minimize costs in a particular year. However, the tax amount would be determined by their wealth at the initial assessment.

The second scenario (model 2) provides the flat tax rate scenario that is relatively simple and understandable. This constant tax rate would cost 2%, starting from a net worth of over IDR100 billion. The constant tax rate means that billionaire households were taxed the same way as trillionaire households. This 2% rate was relatively low compared to the average return rate on wealth. For instance, Jorda et al. (2017) estimated a return of more than 9% on equity. If the tax rate was below the return rate, the tax could be paid from the generated capital income, and the concentration of wealth would not be reduced and could potentially continue to increase from time to time. It means that this tax model was not expected to reduce the level of current wealth inequality.

The third scenario (model 3) with a moderate progressive scheme adopts the bracket and tax scenario from the wealth tax policy in the Philippines. In this progressive structure, the tax rate increases along with the total net worth increase. The tax rate will be set at 2% for a net worth of over IDR140 billion, increasing 0.25% at each level to the highest at the 3.5 trillion wealth limit taxed at 3.75%. Even though this tax rate has moderately increased, it remained lower than the return rate on wealth. Therefore, this model is expected to reduce the tendency of wealth inequality but not significantly reduce social inequality.

The fourth scenario (model 4) is implementing a progressive scheme closer to the return rate on wealth. The 2% rate is set on a net worth greater than IDR200 billion, increased to 3% for net worth above IDR400 billion, 5% for net worth above IDR800 billion, 7% for net worth above IDR1 trillion, 8% for net worth above IDR2 trillion, and the last group with 10% rate and the wealth level of over IDR5 trillion. The tax level in this highest bracket was relatively equal to the wealth return rate (Jorda et al., 2017). This model is expected to reduce the current level of inequality over time.

The last scenario (model 5) employs the Wealth Cap approach proposed by Thomas Piketty (Schuyler, n.d.). Model 5 applies the average wealth as the basis of bracket or baseline. According to the World Bank's release, the average wealth of Indonesians in 2021 was around IDR2 billion. Piketty suggested that the wealth tax could be applied at 0,1% on half times individual wealth above the average. A 1% tax level is imposed on a net worth above twice the average, or IDR4 billion, a 2% tax level is set on a net worth above five times the average or IDR10 billion, and a 5% tax level is imposed on a net worth above ten times the average or IDR20 billion. In addition, it increases to a 10% tax level for above 100 times the average or IDR200 billion, a 60% tax level for above 1,000 times the average or around IDR2 trillion, and a 90% tax level for above 10,000 times the average or around IDR20 trillion. The character of this model substantially exceeded the wealth return rate. Therefore, this model is expected to reduce inequality more effectively.

Wealth tax is imposed on individuals by calculating their wealth after deducting their mortgages and other debts and by dividing the value of their joint assets, such as a jointly owned family home and assets exceeding the tax threshold, and only on the value of wealth exceeding the threshold was taxed. By determining the tax percentage and cut-off, this study estimates the potential state revenue from the implementation of wealth tax. Even though the outputs may become a rough estimate, they serve as the basis for calculating potential wealth tax revenues in this study.





Chapter 4

The Practice of Wealth Tax Implementation in Several Countries

In addition to the economic impact technically, tax administration and economic-political factors are among the obstacles to implementing wealth tax.

4.1 Supporting and Opposing Arguments on Wealth Tax

Wealth tax continues to come up with ups and downs, given its relevance and socio-economic impacts. In OECD member countries, of 12 countries that implemented the wealth tax in 1996, only five countries continued to implement it in 2020, covering Colombia, France, Norway, Spain, and Swiss (Daniel Bunn, 2022).

The OECD report on wealth tax described that the wealth tax could increase business risk and reduce innovations that influence long-term growth (OECD, 2018). France, for example, is currently in the transition phase of wealth tax elimination as a part of economic reforms to encourage more foreign investments.

The wealth tax argument is also identified as capital flight, a disincentive for investment behavior, and the practice of increasing tax evasion. If imposing a tax on returns of savings and investments, the decisions to postpone resource consumption and allocation over time will be distorted since the tax rises intersection between consumption prices at different times. Besides, these impacts possibly emerge considering all countries implement their particular tax policies, especially those with tax havens.

In addition to the economic impact technically, tax administration and economic-political factors are among the obstacles to implementing wealth tax. Tax administration not only covers the tax design regarding the asset variety included in the category of wealth tax object, but it also covers the valuation and opportunities for tax evasion.

Generally, countries implementing wealth tax contribute relatively small tax revenues (Perret, 2021). The wealth tax in Switzerland and Spain generates only 3.9% and 0.5% of their total tax revenues, respectively, while, compared to the GDP ratio, Switzerland and Spain generate only 1.1% and 0.2%, respectively. The difference in this income ratio reflects various factors, especially the design of each country's wealth tax.

In addition, the political factors behind the wealth tax revocation also apply, such as the powerful role of particular interest groups and wealthy elites (Perret, 2021). The wealth tax revocation indicates that the parties that benefit from wealth tax, including the lower and middle classes, do not have a well-organized political bargaining position (Banting, 1991).

The wealth tax generally contributes a relative amount to the state revenue for the countries practicing it, depending on the political ecosystem of the wealth tax in those countries. The wealth tax in France contributed only 0.19% to the tax revenue in 2020. However, the contribution of wealth tax to the tax revenue in Switzerland reached 5.12% in the same year (Bunn, 2022). Such a revenue gap implies various factors, especially each country's wealth tax design.

Amidst the COVID-19 pandemic, the relevance of the implementation of wealth tax was evidently revealed due to the increase in inequality. The government of several countries encountered financial difficulties due to the unexpected crisis and the impact of the economic slowdown. On the other hand, the number of the new generation of HNWIs and the wealth of senior HNWIs increased during the crisis. Such a happening was actually the foremost opportunity and reason for the wealth tax to become an option to increase state revenue and protect the poor.

In almost all countries, the distribution of wealth was highly concentrated in a few particular populations. Even European Union countries recorded that 1% of the richest households had a third of the total aggregate net worth. Meanwhile, 50% of the poorest households had less than 5% of the total net worth. However, such a powerful wealth concentration suggested a high potential revenue from the wealth tax. The University of Greenwich,

France, estimated that the progressive tax on net worth potentially generates revenue between 3% and 10% of GDP (Kapeller et al., 2021).

Many public is concerned about the wealth tax, particularly the current wealth distribution and method. Principally, it raises the argument that the inequality of wealth distribution can be directly addressed through a one-off tax on the existing wealth ownership (Adam & Miller, 2021). This annual wealth tax shall be equal to the tax on normal wealth returns (set under the appropriate level to increase the same income).

In addition to the annual wealth tax, a general adopted scheme was a one-off wealth tax. This one-off tax was widely applied after the second world war to subsidize the reconstruction of economic impacts, which now is rarely implemented. However, the global financial crisis resulting from the COVID-19 pandemic has led this tax scheme relevant to be proposed. Some of the one-off wealth tax policies were considered capable of substantially increasing revenues. (Advani et al., 2021).

4.2 The Practice of Wealth Tax Implementation in Some Countries

4.2.1. Argentina

In December 2020, Argentina started establishing a new wealth tax policy to fund the impact of the pandemic. In almost a year of implementation, Argentina had collected more than ARS240 billion or about US\$2.4 billion from one-off wealth taxes from around 10,000 taxpayers. These revenues were intended to pay for medical supplies and support for the small businesses affected by the COVID-19 pandemic.

The wealth tax policy targeted the richest of the 45 million population in Argentina to purchase medical supplies, support small and medium enterprises, fund social assistance, and provide natural gas to those who lack access to the energy grid. The wealth tax was paid once by those with assets worth more than ARS200 million or about US\$1.63 million on December 18, 2020. The qualified richest would be taxed on a progressive scale ranging from 0.5% to 2.25% based on their net worth. Notably, the assets located abroad could also be imposed to a rate increase of up to 50%.



According to the Government of Argentina, these revenues were critical to cope with extraordinary spending in response to the impact of the second wave of the pandemic and promote an inclusive economic recovery. According to the Ministry of Economy of Argentina, due to the non-tax revenues included in the current budget, different jurisdictions have funds to finance policies established by law.

On December 20, 2021, approximately 73% or ARS180,205 billion was spent on the total tax contributions collected. Of that amount, ARS60.19 billion was allocated for gas investments; ARS8,125 million for social housing improvements; ARS18.15 billion for Progresar scholastic assistance; ARS48.15 million for wage subsidies; and approximately ARS45.59 billion for the Ministry of Health for vaccinations and the health system improvement.

4.4.2. France

A wealth tax has been implemented in France since 1989, namely *Impôt de solidarité sur la fortune* (ISF). The ISF is an annual progressive tax, ranging from 0.5% to 1.5% of rates and subject to those with a personal net worth greater than €1.3 million. This tax has attracted numerous inaccurate reporting and analyses, primarily disinformation, as it has been paid by roughly 350 thousand households each year, of which approximately 250 thousand households pay less than €5,000 in ISF.

However, as house prices continued to increase since the 1990s, this tax was then imposed on those with 'high capital and asset' but 'low income'. Thus, in 2016, 20% of ISF taxpayers covered those with an annual income of less than €49,000, while 10% had an income of less than €33,000.

The inequality of tax wealth imposition on middle-income households has been exacerbated by how some of the wealthiest taxpayers are capable of adopting tax planning optimization strategies to minimize (and even escape) tax liability.

The wealth tax scheme in French was criticized by the 2017 French presidential candidate, Emmanuel Macron. He argued that the wealth tax was unfair to those investing in the real (productive) economy. President Macron promised 'The Third Way' economic policies in his first declaration as the presidential candidate. However, it turned out that it reformed the existing wealth tax (*France24, 07/05/18*). Upon being elected as President, Macron changed the name of the tax to *Impôt sur la Fortune Immobilière* (IFI), removing the word 'solidarité'. Such a change contributed to reducing the number of wealthy taxpayers to approximately 150,000 households. This wealth tax was estimated to generate around €2 billion a year.

4.2.3. Switzerland

Switzerland presents as one of the few developed countries implementing a wealth tax for individuals. The wealth tax is only levied at the provincial and municipal levels instead of the federal level. Wealth tax was firstly introduced in Switzerland during the Helvetism era (1789-1803). Switzerland was a unitary state with a centralized tax system at that time. After the collapse of Helvetism, the provinces (cantons) regained tax autonomy.

Switzerland's wealth tax accounts for an average of 3.6% of tax revenue, the highest percentage in the OECD so far. Further, unlike other countries' practices, Switzerland

applied a wealth tax scheme with a significantly lower exemption threshold, as wealth taxes are levied at the cantonal and municipal levels rather than the federal level.

The provincial (cantons) tax system in Switzerland developed reasonably different. Sometimes, it applies a significant difference in the tax burden on taxable assets across provinces and municipalities within a province. Nowadays, banks in Switzerland impose negative interest on bank deposits, resulting in the wealth tax being relatively burdensome.

Assets subject to wealth tax include, on the one hand, all rights in the form of wealth over movable and immovable assets, such as gold bullion, land, or the right to use the proceeds of land. On the other hand, they also include all rights to receivables, investments, and partnership assets (e.g. heirs). However, assets are considered taxable if they have a market/monetary value, such as can be sold or having a use value to the owner. Items that, for example, have purely emotional value are not taxed.

Switzerland regulates assets are valued based on their market value. Market value is the value obtained in the market in a sale. An asset's unit value can only be determined indefinitely if the respective assets are traded on a stock exchange, for example, listed securities, commodities, and currencies, including cryptocurrencies. The market value should be estimated for other assets, such as real estate, unlisted securities, artwork, pictures, and jewelry.

Comparing the tax rates of cantons and municipalities in Switzerland, we can identify a significant difference or variation between cantons and municipalities within a canton. Such a tax rate difference makes it clear that the residence strongly influences the level of wealth tax.

Brühlhart et al. conducted a study in 2019 on taxable wealth by canton throughout the 2003-2015 period by observing the design variations of intra-national wealth taxes in Switzerland. The results suggested that a one percentage point reduction in the cantonal wealth tax rate would increase the reported individual taxable wealth by at least 43% after six years. The administrative tax records of two cantons with random differential tax reforms indicated that 24% of the effect arises from taxpayer mobility and 21% from concurrent increases in housing prices. Further, the savings asset response failed to explain more than a small part of the rest, suggesting such a design raised a significant avoidance response without third-party financial wealth reporting.

Based on the practices and experiences of several countries above, it can be concluded that wealth tax is relatively sensitive to many factors, such as domestic crises, tax systems, politics, and tax rates in each country. Under certain conditions, such as health and economic crises, wealth tax contributes adequate redistributive impact since domestic revenues tend to decrease while HNWI wealth increases. In addition, a country's tax system and domestic politics greatly influence the impact of wealth tax policy.

4.2.4. Wealth tax rates in some countries

Few countries in the world have implemented a wealth tax; among OECD countries, only five currently apply a wealth tax. However, these five countries adopt different methods to determine tax rates and bases. Further, many wealth taxes in developed countries have been revoked in recent years (OECD, 2022). The followings are several tax rates of wealth tax in some OECD member countries:

Table 5. Summary of wealth tax formats in some countries

Country	Rate Level	Tax Base
Colombia	0.5 – 1%	Net worth greater than US\$1.3 million or IDR19.2 billion
France	0.5% – 1.5%	Individual net property assets greater than €1.3 million or IDR20.2 billion
Norway	0.7% at the city level and 0.25% at the national level	The fair market value of assets is subtracted from debt; the tax applies to wealth above NOK1.5 million (US\$180,000 or IDR2.6 billion) for single/unmarried taxpayers and NOK3 million (US\$360,000 or IDR5.2 billion) for married couples.
Spain	0.2% – 3.5%	It may differ depending on the region. Generally, the value of assets is subtracted by the value of liabilities. The regions have autonomy in determining the value of tax exemptions.
Switzerland	0.05% – 4.5% depending on canton (province) and city	Gross assets (at fair market value) are subtracted from debt.
Argentina	0.5% – 2.25%	Total asset value above ARS3 million (US\$24,410 or IDR361 million)
The Philippines	1% – 3%	Total assets above PHP1 billion (US\$ 18.7 million or IDR277 billion)

Source: various sources (analyzed)

The above table indicates that, on average, the countries practicing the wealth tax apply progressive rates ranging from 0.05% - 4.5%. In addition, the determination of the imposed tax base or the basis for the wealth tax imposition also varies between countries. Such a fact conforms with the previous discussion on practices and lessons learned from several countries that wealth tax is relatively sensitive to many factors, such as domestic crises, tax systems, politics, and tax rates in each country. A country's tax system and domestic politics significantly influence the impact of wealth tax policy.

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Chapter 5

The Potentials and Opportunities for the Implementation of Wealth Tax in Indonesia

On the other hand, externality considerations, such as the investment climate, should also be counted. In addition, it also requires considering the existing tax nomenclature in planning wealth tax to classify the types of taxes and avoid double taxation.

5.1 Several Types of Individual Taxes

The implementation of wealth tax should wait for the right time and moment. It is because UU HPP will be effective in 2022. Therefore, all parties are required to analyze the effectiveness of UU HPP. On the other hand, externality considerations, such as the investment climate, should also be counted. In addition, it also requires considering the existing tax nomenclature in planning wealth tax to classify the types of taxes and avoid double taxation.

The taxation aspects and division of taxation authority between the central and local governments should be understood collectively. It is because several wealth tax objects, such as Land and Building Tax – Rural and Urban (PBB-P2) and Motor Vehicle Tax (PKB), have become the authority of local governments. These taxes cover:

01

Income tax (PPh)

02

Value-added tax (VAT)

03

Tax amnesty, included in the Voluntary Disclosure Program (PPS)

The three tax schemes are regulated in Law Number 7 of 2021 concerning the Harmonization of Tax Regulations (UU HPP), enacted on October 29, 2021. In addition, local taxes are regulated through Law No. 1 of 2022 concerning Financial Relations between the Central Government and Local Governments.

5.1.1 Income Tax (PPh)

The Income Tax Law revises nontaxable income (PTKP) by adding income layers and rates. Nontaxable income (PTKP) per year is given at a minimum of IDR54,000,000 for individual taxpayers, an additional IDR4,500,000 for married taxpayers, an additional IDR54,000,000 for wives whose income is combined with the husband's income, and an additional IDR4,500,000 for each biological and in-law family member in a straight lineage and fully dependent adopted children, with a maximum of three members for each family. This income tax is one of the taxes that correlate to the wealth tax.

The applied tax rates to PKP as regulated by Article 17 of UU HPP for individual domestic taxpayers are as follows:

Table 6. Taxable income rates

Taxable Income Layers	Tax Rates
Up to IDR60,000,000	5%
Above IDR60,000,000 to IDR250,000,000	15%
Above IDR250,000,000 to IDR500,000,000	25%
Above IDR500,000,000 to IDR5,000,000,000	30%
Above IDR5,000,000,000	35%

Source: UU HPP

The five layers of tax rate above are the updated version of the previous tax rate layers. Previously, there were only four layers of taxable income, with a cut-off at IDR50,000,000 and a 5% rate, and the highest layer at IDR500,000,000 and a 30% rate.

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Indeed, some people consider that PPh OP in Indonesia is less progressive. Although we already have the 'layer' rates based on income. However, an in-depth overview suggests that it is less progressive than similar taxes applied in other countries. We only have four layers with a maximum of 30% rate. So, we added one layer to HPP with a maximum rate of 35%. Hopefully, those with income above five billion can make a more significant contribution. That is our effort amidst the restricted regulatory framework.

Anonymous, BKF

Even though there is an increase in the PPh rate to 35% for income above five billion, most HNWI's earn passive income from royalty, interest, dividends, etc. Therefore, HNWI's have the opportunity to be exempt from PPh because the passive income is subject to the final PPh, which is calculated separately.

““

The interest is final, flat, has been taxed, and exempt from a progressive tax. The HNWI's PPh rates are final; thus, regardless of their income, the tax will be flat. Therefore, the PPh rates do not reflect economic capability. Furthermore, the final PPh in Indonesia consists of wide-range categories and is adopted for simplification. In Indonesia, we haven't implemented a tax with the same characteristics as the 'capital gain tax'; for example, the asset's value today and tomorrow and its value gap. Accordingly, they do not reflect the economic capability.

BBK, DDTC

The DGT's data, as of December 31, 2021, recorded that up to 15.97 million of 19 million, or 84% of taxpayers, were obligated to report their 2020 SPT. Even though the tax compliance percentage increased from previous years, the basis of WP OP remained narrow. The DGT's data recorded 17.35 million WP OP.

““

On the other hand, according to the MoF, more than 50 million Indonesians are classified as upper middle class, while 120 million others are classified as aspiring middle class.

MOF, 2019

Particular reasons trigger the lack of people's compliance in paying taxes. One of the informants, a tax administration lecturer at Universitas Indonesia (UI), stated that the two reasons behind the lack of people's compliance in paying taxes are their insufficient awareness of the importance of taxes for national development and their low trust in the Government.

““

The lack of knowledge on taxation goes as the first reason. Perhaps, our people don't realize that the roads they drive on daily are built with tax funds, their children can attend school without tuition fees since tax provides subvention, etc. Second, they have sufficient knowledge about taxation, but their trust in the Government remains inadequate. They are unconfident that the government will appropriately allocate the money.

FA, Tax Administration Lecturer of UI

Therefore, the government adopts the withholding tax mechanism as one of the efforts to cope with poor tax compliance. A withholding tax system is a tax collection system that authorizes the third parties, namely domestic tax subjects, including taxpayers of corporate, individuals, employers, government treasurers, or other domestic tax subjects appointed by the Directorate General of Taxes (Wardhani and Pangestuti, 2019). Through the mechanism of the withholding tax system, third parties directly collect or withhold taxes. Hitherto, Indonesia has applied the withholding system with the PotPut mechanism for several types of taxes, including withholding income tax Article 21, withholding income tax Article 23, withholding income tax Article 26, withholding income tax Article 4 paragraph (2), withholding income tax Article 22, and withholding value-added tax (VAT).

The imposition of final PPh with the withholding tax mechanism facilitates the government to increase state revenue. The state treasury receives cash inflows promptly. With the withholding tax mechanism, income imposed on final PPh is not reported as PKP. However, tax revenue in Indonesia is lower than expected. Therefore, it is necessary to conduct a deeper study on the effectiveness of the withholding tax system in increasing tax revenue aside from its existence utilized by certain parties in conducting tax planning (Wardhani and Pangestuti, 2019).

However, the final PPh creates a tax gap between the potential economic tax base and its realization, such as in the final PPh on land and buildings. Land and buildings are taxed when transferred or sold from one party to another. The state has no tax revenue as long as the asset has not been transferred, even though the asset's value increases every year. Even though the assets are transferred, the final PPh is only imposed on the sale value, and it's not calculated based on the difference between the asset's acquisition value and its selling value. In other words, the final PPh system does not reflect the capital gains earned by taxpayers. In fact, the assets earned come from the income saved. This example demonstrates that the final PPh represents an unjust tax system and potentially creates economic class inequality. Therefore, a wealth tax on capital gains is worth considering. Capital gains tax can be imposed on the gain or difference between the asset's sale value and acquisition value. Therefore, the imposition of wealth tax on capital gains follows the principle of equity.

On the other hand, the current income PPh system does not consider the ability to pay. This income tax system utilizes gross income as the basis for tax imposition in the final PPh, except for PPh Article 21. As a result, the final PPh does not reflect the principle of equity but instead creates inequality. In addition, the final PPh distorts Indonesia's progressive tax system. UU HPP regulates the progressive Personal Income Tax (PPh OP) rate (5-35%). However, some income sources are imposed on the final rate because they come from passive income, such as dividends. Accordingly, asset ownership is concentrated among a few people. Some HNWI's earn their income from the ownership of immovable assets, such as land and buildings, ownership of securities, investment in shares, and so forth. It means that the taxation of untaxed wealth to HNWI's becomes relevant.

Thus, the final income tax does not reflect the equity of the tax system in Indonesia. The tax carrying capacity between taxpayers whose primary source of income is passive income is imposed on the final PPh, which, to a certain extent, has a lower rate than PPh with the calculation of five layers of PKP. For example, Bureaucrat A, with an income bracket of IDR60,000,000- IDR250,000,000, imposed a 15% PPh rate. In contrast, Investor B, whose income comes from stock sales transactions on the stock exchange, imposed a final PPh rate of 0.1% per transaction under Government Regulation Number 14 of 1997. If Investor B creates a hundred share sales transactions in a month, he only pays 1% final income tax in

a month (or 12% in a year) of the profit from the sale transaction, which means that the tax carrying capacity is much lower than the Bureaucrat A.

5.1.2. Value-added tax (VAT)

Furthermore, the government officially raised the value-added tax (VAT) to 11 percent as of April 1, 2022, according to Article 7 of UU HPP. Although UU HPP exempts certain goods from the imposition of VAT, including basic needs, health services, social services, financial services, and education, by adding 1 percent to VAT, the government expects more state revenue to be allocated for development and economic recovery after the COVID-19 pandemic.



The increase in VAT may harm the middle and lower classes' sense of justice. On the contrary, the government has reduced the rate for domestic corporate taxpayers and permanent establishments from 25 percent to 22 percent, which will take effect in the 2022 tax year. Domestic corporate taxpayers in the form of a public company with a total number of paid-up shares traded on a stock exchange in Indonesia of at least 40% and that meet certain requirements may receive a 3% rate lower than the initial 22% rate.

The increase in VAT amid inflation and rising prices of various goods due to the pandemic and the Russia-Ukraine war may hit people's purchasing power, leading to slow economic growth. The decline in people's purchasing power is assumed to be due to the additional tax burden that must be paid, thus reducing consumption. In fact, household consumption accounts for half of GDP. The results of a study by James et al. (2012, in Zahara (ed.), 2022, p. 3) suggest that a 1% increase in VAT rates impacts household consumption growth by 0.32-0.51% in 2-3 years in developing countries.

Increasing state revenue from the tax sector through an increase in VAT poses a risk to people's purchasing power. Since the increase in VAT goes hand in hand with an increase in commodity prices, therefore, a more sensible approach to increase state revenue from the tax sector is to impose a wealth tax on HNWIs. Thus, state revenue will increase from the wealth tax paid by HNWIs—which incidentally have increased wealth—and the purchasing power of the middle to lower-class people will be maintained.

5.1.3. Voluntary Disclosure Program (PPS)

UU HPP also provides an amnesty program for tax evaders through the taxpayers' Voluntary Disclosure Program (PPS). The PPS was held from January 1, 2022, to June 30, 2022, and divided into two schemes. The first scheme applies to taxpayers participating in the 2016 tax amnesty program. Article 5, paragraph (1) of UU HPP states that taxpayers may disclose net assets that have not been or are insufficiently disclosed in the declaration letter provided the Director General of Taxes has not yet found the data and/or information regarding the relevant assets.

The second PPS scheme is intended for individual taxpayers who do not report their Annual Income Tax Return and may disclose their net assets obtained from January 1, 2016, to December 31, 2020. The net assets are considered additional income received or earned by taxpayers in the 2020 Tax Year. The additional income is subject to final Income Tax and is calculated by multiplying the basis for the tax imposition rate.

The declared and deposited tax value generated from the 2022 PPS is smaller than that generated from the tax amnesty program in 2016. The DGT of the Ministry of Finance recorded that the total net assets reported in the PPS reached IDR594.82 trillion, with income tax payments of IDR61 trillion (DDTC News, 03/07/22). This number is far lower than that recorded in the tax amnesty in 2016, with a reported net asset of IDR4,854.63 trillion. The domestic declaration reported in the PPS was IDR 498.88 trillion, lower than the domestic declaration of tax amnesty volume I, which amounted to IDR 3,676 trillion. In addition, foreign declarations in the PPS amounted to only IDR59.91 trillion, while foreign declarations during tax amnesty volume I reached IDR1,031 trillion. Tax repatriation in PPS amounted to IDR16.06 trillion, while tax repatriation in the 2016 tax amnesty amounted to IDR147 trillion (DataIndonesia.id, 07/14/22).

The tax amnesty policy volume II (PPS), which was smaller than tax amnesty volume I, should be the last tax amnesty program enacted by the Government since the continuous implementation of such programs can lead to tax leakage. The combined number of participants in the tax amnesty volume I (956,793 taxpayers) and the tax amnesty volume II (247,918 taxpayers) (DataIndonesia.id, 14/07/22) shows the large number of taxpayers who do not pay taxes in a timely and proper manner.

The repeated implementation of tax amnesty may potentially create distrust of taxpayers who comply with the Government regulation regarding tax fairness. Taxes are considered fair if they fulfill the principles of ability to pay and benefit. Based on the ability to pay principle, taxes are considered fair if they are imposed according to the taxpayer's ability to pay. Meanwhile, based on the benefit principle, taxes are considered fair if taxpayers receive benefits from a type of tax.

The repeated tax amnesty policy will shape the perception of compliant taxpayers that the Government favors noncompliant taxpayers. In addition, if it is applied again, the tax

amnesty policy will show the Government's inconsistency in stating that PPS is the last tax amnesty. Both of these potentially trigger a decrease in taxpayers' compliance. The tax revenue generated from the PPS, which was relatively small compared to that generated from the 2016 tax amnesty, indicated a large potential tax revenue. To optimize this potential, the Government can implement a wealth tax.

5.1.4. Local Taxes

The discussion on the implementation of wealth tax can certainly cause problems in the form of double taxation if the objects subject to it are not determined. The reason is that there are assets that have been subject to wealth tax in the form of Motor Vehicle Tax (PKB) collected by the District/City Government and Rural and Urban Land and Building Tax (PBB-P2) regulated in Law No. 1 of 2022 concerning Financial Relations between the Central and Regional Governments. It means that the implementation of wealth tax needs to exclude PKB and PBB-P2 from the wealth tax object lists.

Table 7. Critical notes on types of local taxes and relevance of wealth tax.

Types of Local Taxes	Critical Notes	Relevance of Wealth Tax
PPh	<p>The final PPh rate is relatively smaller than that of PPh OP. Meanwhile, the average income of HNWI's comes from passive income that is not subject to PPh OP.</p> <p>In addition, instead of increasing, the corporate PPh decreased from 25 percent to 22 percent.</p>	<p>Wealth tax can be an instrument to optimize tax revenue from HNWI's, most of whose wealth has experienced a significant upward trend, especially during the COVID-19 pandemic.</p> <p>Wealth tax can be imposed on assets serving as the source of income for HNWI's through the taxation of capital gain on certain assets.</p>
VAT	<p>Amid rising commodity prices that triggered an increase in consumer goods prices, the VAT rate rose to 11 percent. The increase in VAT is burdensome for the middle and lower classes, as it can limit purchasing power.</p>	<p>To maintain people's purchasing power during high inflation, the Government can optimize sources of tax revenue from HNWI's resistant to the rising prices of living necessities.</p>

PPS	PPS, or tax amnesty volume II, which is smaller than the tax amnesty volume I, indicates a large potential tax revenue from HNWIs.	The government can impose a wealth tax on HNWIs to optimize tax revenue. This is due to PPS's failure to reflect tax fairness, particularly for compliant taxpayers.
PKB and PBB-P2	PKB and PBB-P2 are features of the wealth tax.	The implementation of PKB and PBB-P2 indicates that the wealth tax can be applied in Indonesia and imposed on other assets other than PKB & PBB-P2.

Source: Researchers' Processed Data

5.2 Potential Wealth Tax in Indonesia

5.2.1. Calculation Simulation of the Potential Wealth Tax

Out of the five calculation scenarios provided in the research methodology section, this study highlights four main scenarios of wealth tax rates and models applied by some countries. The fifth model (*a la* Piketty) is only demonstrated as a comparison to the other four models. The calculation of potential revenue, as presented in Table 7, employs Forbes and Statista data in 2021. These two sources process data and information from other secondary sources, i.e., Credit Suisse and Knight Frank. Through these two data sources, it is estimated that there are approximately 10,700 taxpayers of wealth tax in Indonesia.

Table 8. Five potential wealth tax models

Potential Wealth Tax Revenue (billion rupiah)	Number of Tax payers	1% Flat	2% Flat	Progressive 1 1% - 2%	Progressive 2 1.5% - 4%	Progressive Average Wealth 0.1% - 90%
		Model 1	Model 2	Model 3	Model 4	Model 5
1-50 richest individuals (IDR12,600 – IDR615,000 billion)*	50	23,294.58	46,539.16	48,792.35	99,114.45	1,767,923.98

51-100 richest individuals (IDR6,400 - IDR12,600 billion)*	50	4,582.62	9,115.24	11,368.43	24,266.60	276,457.13
Individuals with a wealth of IDR3,600 - IDR6,400 billion**	50	2,483.37	3,698.80	4,281.41	7,075.51	96,317.52
Individuals with a wealth of IDR2,600 - IDR3,600 billion**	60	1,853.74	2,749.10	2,915.40	4,624.35	48,002.69
Individuals with a wealth of IDR1,900 - IDR2,600 billion**	70	1,556.22	2,297.58	2,274.27	3,487.22	19,614.80
Individuals with a wealth of IDR1,400 - IDR1,900 billion**	80	1,316.46	1,932.69	1,784.76	2,642.49	12,367.80
Individuals with a wealth of IDR1,000 - IDR1,400 billion**	90	1,091.15	1,589.47	1,364.56	1,949.38	10,015.02
Individuals with a wealth of IDR720 - IDR1,000 billion**	100	851.39	1,224.58	953.03	1,299.58	7,517.85
Individuals with a wealth of IDR430 - IDR720 billion**	150	843.89	1,187.08	303.24	433.19	6,944.83
Individuals with a wealth of IDR360 - IDR430 billion**	429	1,637.66	2,231.47	1,222.31	1,431.18	12,107.56

Individuals with a wealth of IDR288 – IDR360 billion**	643	1,992.32	2,650.96	1,253.25	1,392.50	13,519.67
Individuals with a wealth of IDR216 – IDR288 billion**	1,228	2,918.77	3,733.49	1,374.17	1,440.66	16,956.95
Individuals with a wealth of IDR144 – IDR216 billion**	1,714	2,837.29	3,355.88	618.89	618.89	15,472.26
Individuals with a wealth of IDR100 – IDR144 billion**	2,786	3,001.49	3,039.63	-	-	17,096.85
Individuals with a wealth of IDR50 – IDR100 billion**	3,215	1,945.42	1,230.52	-	-	12,137.99
Individual with a wealth of IDR14 – IDR50 billion**	10,715	1,845.11	-	-	-	17,261.82
Total Potential Wealth Tax Revenue (billion rupiah)		54,051.48	86,575.67	78,506.06	155,278.32	2,332,452.91

Source: *Forbes and **Statista, 2021 (processed data)

In 2021, Forbes provided detailed information about the total wealth of the 100 richest individuals in Indonesia. Meanwhile, Statista revealed aggregate data regarding the number of billionaires with wealth above US\$1 million (approximately IDR14.4 billion, with the exchange rate of US\$1 = IDR14,400), which amounts to 21.4 thousand people. A calculation simulation of the number of taxpayers is initiated with the assumption that 4.6 thousand people have wealth exceeding the threshold for the wealth tax rate of US\$10 million or IDR144 billion.

In addition to estimating the number of taxpayers, this study also estimates the amount of tax these taxpayers shall pay. We took the median value of each bracket or group subject to tax rates according to the model and level. For example, in the bracket of IDR144 – IDR216.5 billion, the potential tax revenue for model 1 is obtained from the median value of IDR180.5 billion subtracted by the level of nontaxable wealth and then multiplied by the number of taxpayers of 1.7 thousand people.

The calculation results in the above table reveal that:



In model 1, with a 1% flat tax scheme, the potential tax revenue reaches IDR54 trillion. This study utilized Forbes data to estimate that Indonesia's 100 richest individuals will contribute IDR27.9 trillion, and the rest will contribute IDR26.2 trillion. Compared to the realization of Indonesia's tax revenues in 2021, this wealth tax model will contribute 4.23 percent of the total tax revenues.



Model 2 (2% flat tax) will provide a potential revenue of IDR86.6 trillion. The 100 richest individuals will contribute 55.7 trillion, and the rest will contribute 30.9 trillion. Based on this result, this wealth tax model will contribute 6.78 percent of the realization of Indonesia's tax revenue in 2021.



In model 3, with a progressive rate scheme of 1 to 2 percent, it is estimated that the potential revenue will reach IDR78.5 trillion, of which the 100 richest individuals will contribute IDR60.2 trillion, and the rest will contribute IDR18.4 trillion. It equals 6.15 percent of the realization of Indonesia's tax revenues in 2021.



In model 4, with a progressive rate scheme of 1 to 4 percent, the estimated potential wealth tax revenue amount to IDR155.3 trillion. The 100 richest individuals will contribute IDR123.4 trillion, and the lower group will contribute IDR31.9 trillion. It is equivalent to 12.15 percent of the realization of Indonesia's tax revenues in 2021.

By implementing models 1-4, the potential variation of wealth tax revenue in Indonesia ranges from IDR54 to IDR155.3 trillion. Models 1 and 2 apply a flat rate model of one and two percent, respectively. Models 3 and 4 employ a progressive rate model varying with each increase in wealth level.

5.2.2. Wealth Tax Format Simulation

The above calculation simulation of the potential wealth tax indicates that Model 3 (1-2% progressive with a cut-off of net worth greater than IDR144 billion) is the most appropriate

option to be implemented in Indonesia. It is because the imposition value of the progressive tax is relatively low, with significant potential revenue (around IDR78.5 trillion/year).

The wealth tax subjects include individuals as a family by referring to the report of individual taxpayers (WP OP) in the Annual Tax Return of Individuals' Income Tax (SPT PPh OP), where the WP OP can report all assets in one family. The wealth tax objects cover the result of the total wealth subtracted by liabilities. On the other hand, the calculated tax objects include assets and wealth sourced from transfers as follows:



Assets: savings/current accounts, deposits, shares, warrants, state securities, sukuk, and precious metals.



Wealth sourced from transfer: inheritance, donations, and grants.

The calculation method is the total wealth values above minus liabilities. The wealth tax will be imposed, provided the net worth exceeds IDR144 billion. The net worth threshold greater than IDR144 billion applies as a temporary ideal amount, considering the relatively large number of HNWIs (21.4 thousand people (Statista, 2021)) and the relatively small number of UHNWIs in Indonesia (approximately 450 people (the researchers' assumption) or close to 0 percent of the population (Credit Suisse, 2021). By employing the liquid asset threshold of IDR144 billion or equivalent to US\$10 million (exchange rate of US\$1= IDR14,392, BI middle rate of February 02, 2022), the researchers estimated that 4.7 thousand people could be subject to wealth tax. Such an estimation was based on the inverted pyramid assumption adopted by Credit Suisse in its 2021 Global Wealth Data Report and took evidence from Forbes' UHNWI listings into account.

The imposition of a wealth tax on HNWIs with liquid assets greater than IDR144 billion at a progressive rate of 1-2 percent shall not block the growth of the wealth of tax subjects. Such an assumption was based on a rough calculation of the wealth growth generated by tax subjects from three investment instruments: deposits, shares, and gold. The following is the calculation simulation of the percentage (%) value of the wealth tax imposition on HNWIs. The investment instruments adopted for this research simulation are limited to deposits, stocks, and precious metals because the imposition of the wealth tax on assets on these objects will not hinder the growth of HNWIs' wealth. This estimation is illustrated as follows:



Box 1. Simulation of Deposits Minus Wealth Tax

According to the following simulation, an HNWI with liquid assets of IDR150 billion will make an income of approximately IDR153,000,000,000 from a 12-month deposit investment:

Initial deposit funds	: IDR150,000,000,000
Deposit tenor	: 12 months
Deposit interest (annual)	: 2.50% (Bank Mandiri, interest paid due)
Deposit interest tax	: 20%

*Calculation: Deposit interest

Deposit fund x (annual interest/12) x total tenor months

$\text{IDR}150,000,000,000 \times (2.50\%/12) \times 12 = \text{IDR}3,750,000,000$ (interest before tax)

$\text{IDR}3,750,000,000$ with a 20% tax ($\text{IDR}750,000,000$) = $\text{IDR}3,000,000,000$

If the initial deposit assets of IDR150 billion are subject to a progressive wealth tax of one percent (IDR60 million = 1% x (IDR150 billion-IDR144 billion), the tax subject will experience a wealth growth of approximately IDR2,940,000,000, with the following simulation:

1% wealth tax rate	: Rp 60.000.000
Assets minus wealth tax	: Rp 150.000.000.000- Rp60.000.000
	= Rp 149.940.000.000,

Final asset position minus wealth tax plus deposit interest:

$\text{Rp } 149.940.000.000 + \text{Rp } 3.000.000.000 = \text{Rp } 152.940.000.000$

From the above simulation, if an HNWI with deposits of IDR150 billion is imposed on a progressive wealth tax of one percent, the HNWI will remain to generate a wealth growth of IDR2,940,000,000. If the wealth growth is divided into 12 months, the HNWI will earn passive income of IDR245 million per month.



Box 2. Simulation of Shares Minus Wealth Tax

Initial share purchase : Rp150.000.000.000
Investment period : 12 months (August 19, 2021 – August 18, 2022)
Performance (one year) : 19.73% (IDX Composite, August 18, 2022 at 03:00 p.m. Western Indonesian Time)

The following is a breakdown of the projected calculation of interest income from shares using a compound interest calculator for the initial purchase of IDR150 billion.

Table 9. Projection Breakdown: The Simulation of Annual Share Return (in Million IDR)

Month	Interest	Accrued Interest	Balance
0	-	-	150,000
1	2,466.25	2,466.25	150,000
2	2,466.25	4,932.50	150,000
3	2,466.25	7,398.75	150,000
4	2,466.25	9,865.00	150,000
5	2,466.25	123,312.50	150,000
6	2,466.25	147,975.00	150,000
7	2,466.25	17,263.75	150,000
8	2,466.25	19,730.00	150,000
9	2,466.25	22,196.25	150,000
10	2,466.25	24,662.50	150,000
11	2,466.25	27,128.75	150,000
12	2,466.25	29,595.00	179,595

**Calculation using compound interest calculator[1]*

[1] Compound interest calculator: <https://www.thecalculatorsite.com/compound?a=144000000000&p=19.73&pp=yearly&y=1&m=0&rd=0&rp=monthly&rt=deposit&rw=0&rw=1m&rm=end&ci=yearly&ip=&c=6&di=>

The projection table above demonstrates that, from the purchase of a number of shares on August 19, 2021 amounting to IDR150 billion, which were sold on August 18, 2022 referring to the IHSG movement (19.73% IDX Composite on August 18, 2022), the

rough assumption of the investment value of shares as of August 18, 2022 amounted to IDR179,595,000,000. Thus, investors earned an increase in the value of shares of IDR29,595,000,000.

If an investor is assumed to sell their entire shares with a selling fee of 0.3%, the position of the investor's wealth value amounts to IDR179,506,215,000, with the following simulation:

$$\text{Rp } 29.595.000.000 \times 0,3\% = \text{Rp } 88.785.000$$

Total increased asset value:

$$\text{Rp } 29.695.000.000 - 88.785.000 = 29.506.215.000$$

Total final asset value:

$$\text{Rp } 150.000.000.000 + \text{Rp } 29.506.215.000 = \text{Rp } 179.506.215.000$$

Suppose the initial share value of IDR150 billion is imposed on a progressive wealth tax at one percent (IDR60 million = 1% x (IDR150 billion-IDR144 billion)). In that case, the tax subject will generate a wealth growth of around IDR29,446,215,000, with the following simulation:

1% wealth tax rate	: Rp 60.000.000
Assets minus wealth tax	: Rp 150.000.000.000- Rp 60.000.000 = Rp 149.940.000.000

The position of the final wealth value minus the wealth tax plus the increased share asset value:

$$\text{Rp } 149.940.000.000 + \text{Rp } 29.506.215.000 = \text{Rp } \mathbf{179.446.215.000}$$

The simulation above indicates that an HNWI with deposits of IDR150 billion imposed on a progressive wealth tax of one percent will remain to experience a wealth growth of **IDR29,446,215,000** (the difference in the final wealth value of IDR179,446,215,000 minus the initial asset value of IDR150,000,000,000). If the wealth growth is divided into 12 months, the HNWI remains to earn a passive income of approximately IDR2,453,851,250 per month

¹ Selling fees imposed by securities companies commonly include broker fees, levy fees, VAT of brokerage fee, and final income tax of 0,1% of the total gross transaction.



Box 3. Simulation of Gold Minus Wealth Tax

Referring to Antam's gold price movement from August 18, 2021, to August 18, 2022, the gold price increased by 3 percent. If an HNWI with a liquid wealth of IDR150 billion invests in gold assets, the HNWI's assets will increase by three percent within a year, i.e., from IDR4,500,000,000 to IDR154,500,000,000. If the assets are sold and subject to income tax Article 22 of 1.5% or IDR2,317,500,000, the HNWI will receive IDR152,182,500,000. Then, if the wealth tax is imposed at one percent of the initial assets or IDR60,000,000,000, the position of the HNWI's final wealth amounts to IDR152,122,500,000. Therefore, with the imposition of a progressive wealth tax at a rate of one percent, HNWIs with gold assets worth IDR150 billion will remain to generate a wealth growth of IDR2,122,500,000.

Property tax can be imposed once a year and be applied no later than four years with several conditions and considerations, including;

1. Planning a wealth tax policy
2. Preparing a database and a wealth calculation system
3. Disseminating the policy
4. Implementing the policy
5. Evaluating the policy.

The imposition of wealth tax must be performed with careful planning, such as registering taxpayers subject to wealth tax and calculating their liquid assets. Furthermore, to comply with the asset value reporting system in the annual tax return that applies the acquisition value, the imposition of wealth tax also applies the acquisition value of assets that are the object of wealth tax. A wealth tax is imposed on net worth based on the acquisition value of all assets for the last year prior to the wealth tax collection year.

Wealth tax is calculated by multiplying the wealth tax rate by the taxable wealth. Meanwhile, taxable wealth is calculated by subtracting total wealth from total liabilities. The applied wealth tax rate is a **1-2%** progressive rate. To maintain the liquidity of taxpayers, wealth tax can be paid in installments for a maximum of one year without being subject to fines or interest. The imposition of sanctions in the form of fines or interest can apply if the payment exceeds one year. Based on the proposed wealth tax progressive rate of **1-2%** for HNWIs with net assets equal to or more than IDR144 billion, it is estimated that the total wealth tax revenue generated is IDR78.5 trillion (model 3).

Table 10. Estimated wealth tax revenue with a progressive rate of 1-2 percent

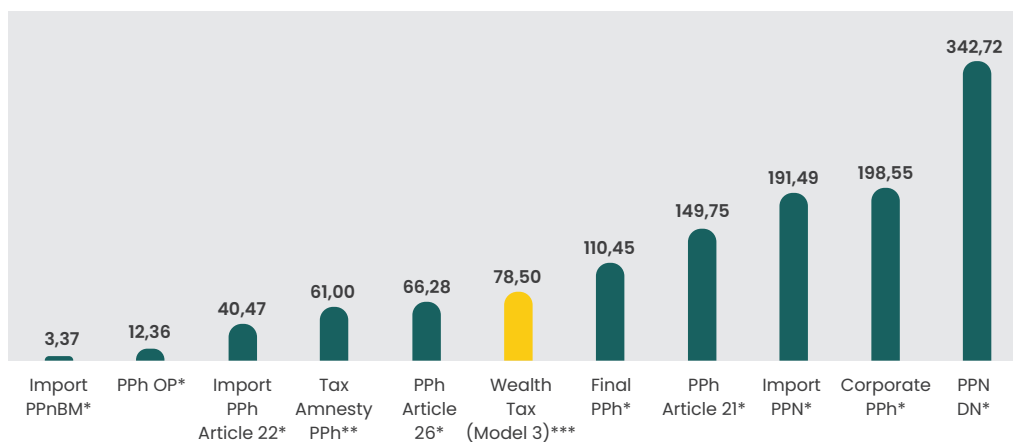
Rates (1-2%)	Wealth Levels	Total Potential Wealth Tax Revenue (billion rupiahs)
2.0%	1-50 richest individuals (above IDR10,000 billion)	IDR48,792.35
2.0%	51-100 richest individuals (IDR6,400 - IDR12,600 billion)*	IDR11,368.43
2.0%	Individuals with a wealth of IDR3,600 - IDR6,400 billion	IDR4,281.41
1.9%	Individuals with a wealth of IDR2,600 - IDR3,600 billion	IDR2,915.40
1.8%	Individuals with a wealth of IDR1,900 - IDR2,600 billion	IDR2,274.27
1.7%	Individuals with a wealth of IDR1,400 - IDR1,900 billion	IDR1,784.76
1.6%	Individuals with a wealth of IDR1,000 - IDR1,400 billion	IDR1,364.56
1.5%	Individuals with a wealth of IDR720 - IDR1,000 billion	IDR953.03
1.4%	Individuals with a wealth of IDR430 - IDR720 billion	IDR303.24
1.3%	Individuals with a wealth of IDR360 - IDR430 billion	IDR1,222.31
1.2%	Individuals with a wealth of IDR288 - IDR360 billion	IDR1,253.25
1.1%	Individuals with a wealth of IDR216 - IDR288 billion	IDR1,374.17
1.0%	Individuals with a wealth of IDR144 - IDR216 billion	IDR618.89
Total Potential Wealth Tax Revenue (billion rupiahs)		IDR78,506.06

Source: Researchers' Processed Data

The estimated wealth tax revenues are higher than the tax revenue realization as of December 2021 for the Import PPnBM, PPh OP, and Import PPh Article 22, even exceeding

the total revenues from income tax deposits through Tax Amnesty in 2016 and 2022 (PPS). The figure below presents that the wealth tax's potential revenues can reach two times that of the import PPh Article 22. It means that the wealth tax can be a potential source of state revenues.

Figure 2 . Comparison Between the Revenue Realization of Several Types of Taxes and that of Wealth Taxes (Trillion Rupiah)



* Realization of state revenues in December 2021

** Realization of tax amnesty in 2016 & 2022

*** Estimated revenues

Source: processed data from various sources (2022)

This relatively simple calculation is expected to provide an overview of potential state revenues and is utilized as a comparison for tax revenues from other types of taxes.

5.3 Opinion of members of the DPR RI on the application of the wealth tax

The opinion of the members of the DPR RI is essential to consider in this study because it is closely related to the policies concerning the wealth tax. This study collects the opinions of members of the DPR RI Commission I to Commission XI to examine the distribution of their knowledge regarding wealth tax. Of the 61 informants, if quantified, 53 (87%) of them said they had heard or read about wealth tax. It indicates that the wealth tax is not new among members of the DPR RI.

Most respondents agree with the implementation of the wealth tax in Indonesia. Of the 61 informants, 47 (77%) of them agreed, and 14 (22%) of them disagreed based on different reasons.

Table 11. Main reasons for agreeing and disagreeing with the implementation of the wealth tax in Indonesia.

Reasons for agreeing with the implementation	Reasons for disagreeing with the implementation
Increasing state revenues	There has been a personal income tax
Optimizing economic recovery after the Covid-19 pandemic	There has been Law no. 7 of 2021 concerning the Harmonization of Tax Regulations
Redistributing wealth to address socioeconomic disparities and realize economic equity	Increasing the burden on taxpayers
Optimizing social and infrastructure development programs	There has been no agreement on the threshold for net worth subject to wealth tax
Establishing a sense of unity and a form of economic mutual cooperation	Reducing investment interest

Source: Researchers' Processed Data

Those who agree with the implementation consider that the wealth tax can increase state revenues. It can also optimize economic recovery after the COVID-19 pandemic. On the other hand, those who disagree with the implementation have a variety of reasons. First, there has been an individual income tax in Indonesia, thereby eliminating the need to tax wealth/assets. Several respondents also stated that Indonesia had stipulated a new tax regulation, namely Law no. 7 of 2021. In addition, the imposition of a tax on the net assets of superrich taxpayers will burden them, and it is considered to affect their investment interest. Another reason is the lack of clarity regarding the threshold for eligible net worth to be subject to wealth tax.

Informants who agree with the implementation of the wealth tax also have different perceptions regarding the format of the wealth tax. The following are some opinions of the members of the DPR RI regarding the applicable formats of the wealth tax in Indonesia:

- Of the several threshold options of net worth subject to wealth tax, most respondents chose IDR140 billion, which is the lowest option proposed in the research question.
- Regarding the wealth tax rate model, most informants(45 people) chose the progressive rate model to implement the wealth tax in Indonesia. The value of the progressive rate is considered more appropriate because it is imposed based on the level of the wealth

- group: the greater the amount of wealth, the greater the value of the tax rate imposed
- Regarding the frequency of the wealth tax collection, informants have various answers, ranging from once in five years, every year, once in a lifetime, only when the state budget deficit is more than 3%, to once in three years. However, judging from the pattern of answers, one-third of the informants stated that the ideal frequency of wealth tax collection is once in five years

The results of the above analysis indicate a positive perception of the DPR RI members regarding the discussion on the implementation of the wealth tax in Indonesia. Most respondents believe that the wealth tax can increase state revenues, optimize economic recovery after the pandemic, and redistribute wealth to overcome socioeconomic inequality. Most of the informants chose the progressive wealth tax model because it is considered to represent justice among the wealth groups of HNWI taxpayers who are subject to the wealth tax, if applied. In addition, they consider that the threshold for eligible wealth to be subject to the wealth tax is IDR140 billion. Most respondents stated that the wealth tax could be collected once in five years. Most of the respondents who support the wealth tax implementation also assume that the wealth tax is a potential solution to the state budget deficit.

Another thing to note from the findings is that taxing the rich and superrich (HNWIs) is not an easy task. Most HNWIs have political networks in the DPR RI; thereby, they can also influence policies issued from the legislative space. For example, some policies tend to be incentives for HNWIs, but are disincentives for state revenues, such as cutting the corporate income tax rate from 28 percent to 22 percent as of the 2022 tax year. In addition, the final income tax rate offered by the Government for Policy I ranges from 6 to 11 percent, and the final income tax rate for Policy II ranges from 12 to 18 percent, much lower than the highest personal income tax rate of 35 percent.

Commission XI members admit that they are still looking for solutions to poverty and inequality through economic equality. Equitable development requires a strong and solid fiscal capacity, and the wealth tax can be relied upon as a supplement to fiscal reinforcement. KS, a member of the DPR RI Commission XI, supports the implementation of the wealth tax because, according to him, it complies with the principles of justice and economic equity. He is also quite optimistic that his colleagues in Commission XI will welcome the initiative to implement the wealth tax.

““

I fundamentally agree with that for several reasons: first, to realize social justice; and second, to reduce social inequality between the rich and the poor; thereby, the redistribution of assets, development, and wealth can be realized for 278 million people in Indonesia. Therefore, to optimize state revenues to achieve social justice, reduce the 'gap' between the rich and the poor, and build equality, we positively welcome the discussion on wealth tax rates. I believe my colleagues in the DPR RI have the same perception of our national development interests.

KS, a Member of the DPR RI Commission XI

Another member of the DPR RI Commission XI, FS, stated that in fact, the discussion on the wealth tax arose at the beginning of the COVID-19 pandemic as a form of solidarity. He personally agrees with the implementation of the wealth tax as it is in line with his mandate to encourage people's welfare through increasing state revenues from the tax sector, realizing tax justice, and redistributing wealth. Like KS, FS also assumes that his fellow members of the DPR RI Commission XI will agree with the implementation of the wealth tax.

““

This (wealth tax, writer) is also in line with the statement of the Minister (of Finance, writer) that taxes shall be equitable: the bigger the wealth, the bigger the tax. Justice does not mean equal. All factions or a faction will agree with it since our mandate is to fight for the poor. We are also aware that development will always marginalize people economically or others.

FS, a member of Commission XI DPR RI

FA is optimistic that the other Members of Commission XI will agree to the policy. In addition, other members also believe that other political factions in the DPR RI will not object it. FA, a member of Commission XI of DPR RI, stated that his political party faction would undoubtedly support the wealth tax, "this policy aims to help the community, reduce the Gini ratio, and increase our country's tax revenue." (FA, a member of DPR RI Commission XI).

FA also recommended that if the Government applies wealth tax, it should be implemented annually for the income-generating fixed assets. However, FA noted that since the wealth tax is a disincentive for the rich, it needs to be completed with the provision of incentives for reducing the wealth tax rate for those who comply with depositing wealth tax within a certain period, such as a discount on the wealth tax rate. However, law enforcement must be upheld to those who meet the criteria of a wealthy taxpayer but do not pay taxes to provide a sense of justice for obedient wealthy taxpayers (in-depth interview with FA, a member of DPR RI Commission XI).

5.4 Opportunities and challenges of implementing wealth tax in Indonesia

5.4.1. Opportunities of implementing wealth tax

a. Wealth tax can reduce inequality

During the economic downturn due to the COVID-19 pandemic, the wealth of the ten richest people in the world has significantly risen (Oxfam, 2022). The rise in their wealth is considered sufficient to prevent all the world's citizens from falling into poverty and sufficient to meet global vaccination needs. How about the wealth of HNWI in Indonesia? According to Forbes (2021), the wealth of Indonesian HNWI has risen from year to year, especially during the COVID-19 pandemic. Forbes noted that in 2021 the combined total net assets of the 50 richest people in Indonesia increased by 22 percent to US\$162 billion (approximately IDR2,316 trillion) compared to the previous year of US\$133 billion (approximately IDR1,938 trillion). The Hartono brothers, who got the first place among Indonesia's richest people, accounted for a quarter of the combined total wealth of Indonesia's 50 richest people in 2021.

The discourse of implementing wealth tax has resurfaced amid statistics that reveal widening economic inequality and the global economic downturn due to the COVID-19 pandemic. The Secretary General of the United Nations, Antonio Guterres, stated that it is necessary to implement the wealth tax to reduce extreme economic inequality due to the COVID-19 pandemic (Reuters, 2021).

In Indonesia, the implementation of the wealth tax finds its relevance in its fiscal conditions. It is due to the state revenues from the tax sector have not been optimal, and the existing tax system does not reflect tax fairness. The realization of state revenue as of December 31, 2021, indeed exceeded the target of the 2021 APBN, growing by IDR2,003.1 trillion or 11.49 percent of the 2021 APBN target of IDR1,743.6 trillion (MoF, 2022). This remarkable achievement was also supported by external factors, including the drastic rise in crude oil and commodity prices. The realization of the 2021 APBN recorded the price of crude oil at US\$68.5 per barrel, even though the assumption in the APBN was only US\$45 per barrel. In addition, the positive performance of the mining sector, which grew by 60.52 percent,

also boosted state revenues. The increase in commodity and crude oil prices positively impacted PPh by 17.3 percent. It means that without the increase in world commodity and crude oil prices, there is a possibility of a shortfall in 2021 tax revenues.



It must be bear in mind that the rich also benefit from the state's incentive facilities in any sector, such as health, education, and many others. The rich also acquire the same rights, including receiving a lot of tax incentives and other fiscal incentives when they run a business or become entrepreneurs. Accordingly, when the rich and the poor make an effort in their business, the rich earn more incentives and benefit from Indonesia's natural wealth. Thus, the rich need to contribute more to this country.

AN, Publish What You Pay or PWYP
Indonesia)

Schedular tax schemes, such as imposing separate taxes on passive income, allow HNWLs to pay lower taxes than people with lower incomes. For example, a top business manager and a company owner obtain a 6 billion annual income each. The company owner typically does not earn a monthly salary but can acquire allowances for housing, education, and vehicle facilities, as well as income from dividends. Through the Job Creation Law, dividends earned will be excluded from tax objects if the individual utilizes the dividends to buy new shares. Meanwhile, as a wage earner, the top business manager will be subject to an income tax of 35 percent. This illustration demonstrates that the tax system still favors people with capital compared to people with relatively fixed incomes.

The phenomenon of the rich paying low taxes or the effective tax rate of their total income will lead to tax unfairness. Thus, the characteristics of HNWI who earn passive income cannot be considered the same concerning taxation as people in the professional sector.

The aforementioned facts become relevant to the discourse on implementing wealth tax for optimizing state revenues and tax fairness. The community also supports the implementation of a wealth tax. The survey conducted by Glocalities and Millionaires for Humanity (2021), involving 1,051 respondents, found that 79 percent of respondents supported the implementation of wealth tax on Indonesian citizens with assets of more than IDR140 billion at a flat rate of one percent every year. Respondents viewed that the wealth tax is essential for economic development, especially for the recovery from the

COVID-19 pandemic. The survey results confirmed that the community highly supported implementing wealth tax as an effort of wealth redistribution (PRAKARSA, 2021).

The popular statement also reinforces empirical data on community support that the implementation of wealth tax is a sign of the HNWI's alignment with reducing inequality and becomes a political commitment of policymakers to create equitable development.

“

If this (wealth tax) is imposed on the rich in Indonesia at a specific rate set by the Government, it will overcome the existing inequality and benefit the lower class, provided that it is appropriately distributed and used to help people with low incomes.

FA, UI Tax Administration Lecturer

Implementing wealth tax indisputably requires the ingenuity of the tax authorities amid regulations and taxation systems that contain gaps making the taxpayers utilize tax planning strategies to avoid or reduce their tax burden. It also includes a paradoxical situation when more people flaunt their wealth, but Government receives minimum tax revenues from the rich.

b. Prerequisites of opportunity to be supported by HNWI

HNWIs are expected to contribute more to development initiatives, not just through charity or CSR within their companies but also by paying wealth tax to the Government. Based on the results of an in-depth interview with a millionaire, the implementation of wealth tax is likely to be supported by HNWIs, with the following three notes:

1. Clear regulations and legal certainty

The superrich (HNWIs) are likely to support the idea of implementing wealth tax if it contains clear regulations regarding the redistribution of wealth. For example, the Government should improve the regulations and its implementation related to the distribution of subsidized goods for the poor. Thus, people in need will obtain a more significant tax benefit from HNWIs.

Furthermore, HNWIs will likely support wealth tax implementation if the governance and working procedures of tax collection are carried out properly and correctly. The Government shall ensure that all taxpayers who meet the criteria for paying wealth tax pay their taxes. There should be no tax leak, neither from tax evasion nor corruption by tax officials.

Accordingly, it will assure wealthy taxpayers that this system is equitably enforced for all wealthy taxpayers. Thus, good tax collection governance and work will increase HNWI's trust in the Government as it becomes a valuable asset for implementing wealth tax.



In this situation, I totally agree that the rich should be taxed. However, the Government must also demonstrate that the wealth taxes the rich pay are appropriately distributed and used for the welfare of the poor

TG, Entrepreneur

Good governance also includes transparency in the enormous allocation of taxes, such as for education, alleviation of poverty, food assistance, fuel subsidies, or LPG (liquefied petroleum gas) subsidies. It can increase public cognition that the contribution of HNWI's to development through wealth tax is beneficial and can be accounted for. The allocation of wealth tax can also be specifically aimed at developing specific sectors, such as tax for food, health, or education so that HNWI's obtain clear information on where the tax they pay is distributed. Such taxes are known as earmarked taxes (allocation of tax funds) and are generally applied to local taxes.

In addition, another aspect that can increase the opportunity of receiving support for wealth tax implementation is the linkage of wealth tax to the zakat system. This idea came from a national HNWI entrepreneur, who stated:



(If) its application or utilization of wealth tax is in accordance with Islamic rules, I will support it. I will not refuse if it's in line with Islamic teachings. I just wanna suggest that when we have paid zakat, it is not identified as a deduction from paying taxes, but can be determined as payment of the tax itself.

MB, HNWI national entrepreneur

Thus, a Muslim HNWI will support the implementation of wealth tax if the zakat on wealth he pays is also identified as a wealth tax payment, not a tax deduction, as implemented in Malaysia, where zakat payments are identified as tax payments.

2. Investment climate improvement

One of the concerns arising from the implementation of wealth tax includes the transfer of capital abroad, which is not entirely confirmed. Transferring capital abroad has often occurred for other causes, especially the unfavorable business climate, even before the implementation of wealth tax. TG, a national entrepreneur, stated that transferring capital abroad, for example, to Vietnam, is not a simple task. However, it is undeniable to carry out due to the unfavorable business climate.



Moving a business is not a cheap and easy job. For example, in Vietnam, if a foreign company enters, local workers do not want to be paid at the local minimum wage. We had had difficulty finding Vietnamese workers. We found the Vietnam Industrial Park, where each factory advertised that it needed employees. I even met with the deputy PM (Prime Minister) to discuss this case. So, businesses move to Vietnam not because the operating costs are cheaper but because of certain obstacles in the business. Once again, moving a business is a complicated job.

TG, a National Entrepreneur

The HNWI informant emphasized that the transfer of capital from Indonesia to abroad might occur since the business climate in Indonesia is still inconducive. For example, the electronically integrated business licensing system is still considered quite difficult for entrepreneurs, especially at the regional (government) level. As opposed to the Vietnamese system, which has been using Online Single Submission (OSS) since 2005, licensing can be administered at the branch office. After that, the officer will determine whether the company is on the negative list category and if not, the business can be developed immediately. According to TG, even though the business opportunity in Indonesia is lucrative, entrepreneurs still will be reluctant to invest when facing the unfavorable business administration climate. It means that the willingness of HNWIs to pay wealth taxes is correlated with conducive business climate factors, such as the existence of legal certainty, ease of doing business and administering licensing, and no illegal levies. TG admitted that illegal levies become an obstacle for entrepreneurs dealing with local governments.

One of the HNWI respondents explained that another factor in the unfavorable investment climate includes the national customs tariff, which does not support domestic industrial activities. The difference in import tax rates on some finished goods and raw materials

(capital goods) from particular countries requires improvement. For example, a foreign company from Singapore imports raw materials from Australia through Vietnam, further entering Indonesia with a zero percent import tariff. Meanwhile, domestic entrepreneurs import the same raw materials from the United States at a five percent tariff. Consequently, foreign companies' product value becomes more competitive than domestic companies. Due to unfavorable customs tariffs, Indonesia's absolute advantage on certain products turns out to be underdeveloped compared to several other ASEAN countries.

Supporting TG's statements, another HNWI respondent, MB, stated that entrepreneurs prefer to import certain goods rather than produce them domestically. For example, they are reluctant to produce elevators due to many taxes imposed in the production process, ranging from VAT on the purchase of capital goods, PPh in business, and so on. As a result, the value of an item produced becomes uncompetitive in the market. Therefore, entrepreneurs prefer to import elevators for resale due to the cheaper imported elevators with low import tariffs.

3. Recognition of the wealth tax payers

The Government needs to convey the recognition of the contribution of HNWI wealth tax payers, since it has never delivered this information about HNWI's contribution to national development so far. Accordingly, the public, especially the poor, assumes that the rich have no concern about poverty, potentially creating social sentiments. It must be highlighted that the tax funds paid by the rich, either through PPh OP or Corporate PPh, contribute to state revenues. By disclosing the contribution of HNWIs to national development to the public, social sentiments between economic groups will fade, and it will trigger the spirit of mutual cooperation among HNWIs (*the result of an interview with TG, a National Entrepreneur*).

In disclosing their contribution, the Government can also use the naming and shaming strategy; to publish the names of HNWIs that are compliant and non-compliant with paying taxes. TG, a national entrepreneur who also owns a business overseas, said:



The Government should state that this will be disclosed and, if necessary, publish the name of a thousand rich people who have paid taxes so that people acknowledge those rich people doing good things to help them. If the Government gives such recognition to the rich, I think the rich will also be pleased. There was a hospital being built with each room named after rich people, and the building was finished in no time. (It is natural as a) human, recognition is important (after all). They will complain if there is no recognition.

TG, a National Entrepreneur

In addition, the implementation of wealth tax can possibly obtain support from HNWIs by learning from the experience of other countries that implement wealth tax. However, the main emphasis on this initiative includes transparency, accountability, and accuracy in the factual distribution of tax funds, such as for education or health. If the Government realizes the initiative, it will strengthen national relations between economic groups, develop social harmony, and reduce economic inequality.

On the other hand, implementing wealth tax without the Government's recognition will trigger a higher potential for rejection from HNWIs, resulting in a status quo: no changes, the sentiment between economic classes will remain, and the gap in wealth inequality will broaden. Thus, the Government needs to mitigate the discourse on the implementation of wealth tax through public consultation, dialogue, and competent political communication. Careful planning for applying wealth tax will minimize the rejection of HNWIs.

The naming and shaming strategy is a concept that the Panama Papers used in 2016. This concept seeks to change the behavior of taxpayers, either by increasing taxpayer compliance or reducing tax violations. Luttmer and Sigal (2014) in Dwenger and Treber (2018) stated that this practice is an effective instrument and relatively inexpensive to implement. Several considerations shall be taken into account in implementing it. First, the shaming strategy may be effective but can also cause unfavorable side effects such as embarrassment. Second, carefully determining the threshold amount for the shaming strategy becomes crucial. Third, the practice can be carried out periodically to maintain public concern. Fourth, public stigmatization is associated with high financial and non-financial costs. If the subject changes their behavior in response to the shaming strategy, they should be immediately reintegrated into society. Therefore, it is advisable to immediately remove taxpayers who have paid tax debts from the shaming list (Dwenger and Treber, 2018).

5.4.2. Challenges of Implementing a Wealth Tax

a. Inadequate tax administration system

1. Inadequate regulations and institutions

Since 1983, Indonesia has implemented policies regarding taxation through Law on General Provisions and Procedures of Taxation (KUP), i.e., Law Number 6 of 1983, as amended several times, the latest by Law Number 16 of 2009. In 2021, the latest policy concerning taxation had been ratified, i.e., Law Number 7 of 2021 concerning the Harmonization of Tax Regulations. The latest policies aim to 1) increase economic growth; 2) optimize state revenues; 3) realize a more just tax system with legal certainty; 4) implement administrative reforms, consolidated taxation policies, and expansion of the tax base; and 5) increase taxpayer compliance. From a sociological and psychological perspective, applying a new tax (wealth tax) will be challenging in Indonesia since its elements have been included in

the UU HPP. According to informants from the DPR RI and the Ministry of Finance, the Law is considered adequate to represent the wealth tax.

Still, according to the implementing agency, there is an inadequacy in the disparity between the number of tax collectors and the potential subject and object of taxes. Institutionally, both enforcing the law and fostering compliance still require attention. One member of Commission XI of the DPR RI stated that one of the institutional problems is influenced by the responsibilities and bureaucracy within the Ministry of Finance.

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At the time, there was an urge to place the tax institution under the President's direct control rather than the Ministry of Finance. Several tax officials complained to Commission XI that the scope of the tax institution was too broad, so transfers, rotations, and enforcement of discipline were less than optimal. The tax institution is controlled by a minister who handles about 36,000 tax officials and an Echelon 1 who holds significant decisions. They said that the President should directly control the state revenue agency that protects taxes to create a good turnover of the institution.

FT, Commission XI of PKB Party
Faction of DPR RI

In Indonesia, there is no policy for capital gains tax. Indonesia has become one of the countries that do not explicitly regulate the "capital gains" tax and income or capital gains, such as the sale of shares, debt securities, and property. According to DDTC (2018), when compared to the asset transfer tax provisions regulated in the Final PPh Article 4 paragraph 2 of the PPh Law Number 36 of 2008 concerning the Fourth Amendment to Law Number 7 of 1983 concerning Income Tax, the capital gains tax is regarded to be a more equitable policy alternative since it can burden the rich with "inherited wealth".

Subsequently, in terms of tax nomenclature, it is necessary to remap the existing tax nomenclature. Regarding tax and non-tax structures, it is required to perceive the burden and fairness level of a party, such as VAT or PPh. If the wealth tax is directly applied without any dissemination, it is concerned that the rich will refuse or even perform tax avoidance. Benchmarking from countries that fail and succeed in implementing wealth tax policies is utilized to prepare and disseminate this concept into a proposal that may be approved politically. In addition, policies shall also regulate the certainty of the benefits of levies having an impact on the community.

The implementation of the tax policy for the rich shall also be supported by other state

policies. The possibility of tax avoidance is carried out by transferring assets to other countries or hiding them. Tax treaties or tariff wars between countries, such as corporate income tax rates, will actually be a gap in avoiding taxes. Meanwhile, the concealment of wealth can be carried out by registering assets in other's names, both domestically and abroad. Thus, they still hold assets or businesses in Indonesia even if they have changed citizenship. Therefore, we should anticipate this matter with policies that bind and support each other between countries to prevent tax rate inequality. In addition, the wealth tax should also be implemented in other countries and become a global agreement.

2. Difficulties in assessing individual wealth data and tax disclosure

The difficulty of identifying the wealth of the rich is another issue requiring to be addressed prior to the implementation of a wealth tax. Some gaps require to be examined, such as the imposition of a final passive income tax that is hard to reflect an individual's actual economic capacity. The rich tend to earn quite a variety of income, either active income (salaries, honoraria, allowances, and other payments of any type and form in connection with a job or position) or passive income (dividends; interest; royalties; rent; other income related to guarantees; incentives pertaining to services, work, and activities; gifts; pensions; swap premiums; and gains from debt relief). The passive income will be subject to a final tax rate calculated separately, flat, and not subject to a progressive tax. Thus, the taxes paid may not reflect an individual's economic capacity. Calculating wealth is more complicated than calculating identifiable income since wealth covers the accumulation of all individual assets and income.

If the Government intends to be more effective in encouraging the tax contributions of the rich and simultaneously reducing inequality, it is necessary to review the tax scheme on passive income. Data on the ownership of assets of the rich have not been confirmed for validation or accuracy. DGT continues to create improvements with the core tax system update program to collect, process, and integrate data. Currently, the DGT already has data collected through taxpayer reports, the Automatic Exchange of Information (AEOI) system, the exchange of information with other tax authorities, and access to financial information. However, the effectiveness and accuracy of the data should be considered to obtain complete profiling of taxpayers.



The practice we often find is using nominees or other individuals' names. For example, this rich person has money, which is then deposited into another individual's account. He owns buildings, lands, and vehicles on behalf of another person. These are the four types of assets we often find as the result of money laundering or hidden to avoid detection of wealth.

CS, PPATK

The available data is considered insufficient to describe the ownership of all assets or assets of taxpayers. From the administrative process and documentation, there is still a gap for property ownership on behalf of another person. From the administrative side, optimization of more accurate data and information shall be carried out immediately.

3. Coordination of data disclosure to calculate individual wealth: a long process

The process of disclosing wealth takes time as well. Based on the research results, there is currently no integrated data accessible on the list of the rich, asset ownership, or the total amount of the rich wealth. Although, as previously mentioned, DGT receives data from other agencies, in fact, it is necessary to collect separate data regarding the data of the rich and all their assets in Indonesia. Additionally, it is hard to find information regarding the ownership of assets or wealth of the rich abroad. Provisions on the types of assets that can be included in the calculation of wealth tax also require a separate study. As a result, the implementation of the wealth tax is not optimal without the availability of adequate data.

4. Problems with tax collection in Indonesia

Taxpayer compliance in Indonesia is not optimal since the ratio of taxes received has not reached 100%. Based on the DGT report (2020), the compliance ratio for submitting annual income tax returns reached 77.63% of the approximately 46 million registered taxpayers. The implementation of the wealth tax in Indonesia may encounter difficulties due to the nonoptimal tax collection in Indonesia. The existing tax system or policy in Indonesia has not been able to encourage all taxpayers to report SPT. Another situation is that, even though they are taxpayers, some have income below the PTKP or are no longer employed. Also, the informal sectors have not been captured by the tax system, so people are not obligated to pay taxes.

Another problem related to tax collection includes the tax evaluation process and its policies. This evaluation activity is challenging and complicated and can lead to disputes due to high administrative complications.

The problem of tax compliance can also be influenced by two matters. The first one is dissemination and education that require to be carried out continuously for business actors, economic actors, and Indonesian citizens. The second one is the Government's commitment to guarantee good governance and avoid corruption. Corruption by tax officials has created stigma and public opinion about taxes.

b. Risks of applying wealth tax in Indonesia

1. Tax avoidance or asset transfer

The wealth of the rich in Indonesia is relatively unaffected during the COVID-19 pandemic. As mentioned in the previous section, the wealth of the rich people in Indonesia has increased. The wealth tax is claimed to indicate the function of the tax as a redistribution of income.

Meanwhile, various contra arguments regarding the application of a wealth tax were stated by informants of this research, i.e., regarding the risks of concealing and/or transferring assets, both domestically and abroad. Taxpayers will psychologically feel as though their money has been lost. The rich can create tax plans to disguise assets or transfer assets. This action does not directly indicate tax avoidance but the transfer of assets overseas to avoid detection. The rich have adequate resources, such as financial resources, financial advisors, tax consultants, and access to politics.



Because the rich in Indonesia are relatively smart, they will use many strategies to avoid paying taxes. Panama Papers, for example, prefer investing abroad. It is also one of the strategies for avoiding Indonesian taxes, right?

Taxpayers are commonly well educated, or those who are financially capable but do not understand taxes will hire reliable tax consultants to take advantage of gaps in tax regulations to expedite tax avoidance in methods that do not violate tax provisions and with good tax planning

FA, UI Tax Administration Lecturer

Multi-stakeholder, such as banking, PPATK, Corruption Eradication Commission (KPK), police, or other law enforcement officers, shall be involved if tax avoidance is detected. However, PPATK emphasizes that this can be executed only if there is a report on one new case that can be followed up.

2. HNWI resistance

Another argument related to the risk of applying a wealth tax is the tendency of resistance from the rich. From an economic perspective, one of the resistances to the wealth tax relates to the issue of double taxation. Double taxation is feared to emerge from the calculation of wealth or the imposition of different taxes on each type of income or property. In addition, these super-rich shall pay a relatively large amount of income tax. With the application of the wealth tax, it is possible to have a double effect that actually triggers unfairness in the proportion of tax payments.

This resistance from those who would be subject to the wealth tax will reinforce the supply side tax policy, which is also an obstacle where partiality to capital owners remains present. This capital can drive the economy, making it challenging to impose a wealth tax because it is assumed to obstruct efforts to drive the economy. Furthermore, in terms of valuation, the wealth tax is considered hard to implement since no mechanism can perceive changes in the added value of an asset, such as land, buildings, and so forth.



A close-up photograph of a person's hand held palm-up, with a small amount of white rice grains falling from it into a white bowl filled with rice below. The background is a plain, light-colored wall.

Chapter 6

Taxes and Zakat

Taxes and zakat are funding sources to realize halal sustenance (*hayah thayyibah*) and a good country inhabited by a good nation (*baldah thayyibah*).

6.1 The position of Taxes and Zakat

6.1.1. Taxes in Islam

Tax (*adh-dharibah* in Arabic) serves as one of the state revenues based on the endeavors (*ijtihad*) of the leaders (*ulil amri*) approved by the DPR (*ahlu al-halli wa al-'aqdi*) and ulema. Tax (*adh-dharibah*) is another obligation on properties that arose during an emergency or vacancy in the Baitul Mal, as stated by *Ulil Amri's* decision. Muslims shall pay taxes to help finance the Muslims' crucial needs, such as security, healthcare, and education, which must be covered collectively (*ijtima'iyah*). Taxes are collected not based on property ownership but due to other obligations (burdens) on Muslims (Zabidi, 2002).

According to Islamic teachings, zakat is the primary tax Muslims shall pay on their property. There are various opinions of ulema regarding whether there are other obligations for Muslims, apart from paying zakat, on their assets. Most fiqh experts (*fuqaha*) suggested that if Muslims have paid zakat, their obligations have been completed, and their wealth has been purified. Another opinion, on the other hand, states that there are other obligations besides paying zakat. The midpoint of these opinions is that Muslims must pay zakat on their assets. Still, if some conditions require additional needs, taxes (*adh-dharibah*) will be applied to cover those needs (Qardhawi, 1973)..

There are diverse perspectives on the link between taxes and zakat in *fiqh*, including those that combine taxes and zakat, those that split taxes and zakat, and those between taxes and zakat. In simple terms, taxes and zakat are the obligations of believers. Zakat is a direct obligation (as special worship), while taxes are an indirect obligation (as general worship). Zakat is included in the realm of "worship" with the dimensions of *muamalah*, morals, and faith. On the other hand, taxes are included in the realm of "*muamalah*" with dimensions of morality, worship, and faith. Taxes and zakat are funding sources to realize halal sustenance (*hayah thayyibah*) and a good country inhabited by a good nation (*balдах thayyibah*).



In *fiqh*, taxes are part of *muamalah* (worldly conduct). In classical literature, the term tax varies widely. Taxes are considered part of *muamalah*, which means contextually adaptable and negotiable human-to-human activities to provide wide space for dynamics and flexibility. The concept of *muamalah* is based on several principles, including piety, justice, and public interest.

The main purpose of collecting taxes in Islam is for the public interest because government funds are insufficient to finance various "expenditures", which, if not financed, will cause disadvantages, while preventing disadvantages is an obligation. In the rules of *fiqh*, taxes should not be collected by force and power alone, but because Muslims have some obligations that are borne to the government, such as providing a sense of security, health care, and education which lead to various expenditures such as salaries for soldiers, employees, judges, and so on. Therefore, taxes are indeed the obligation of citizens in Islamic countries.

In collecting taxes, the government is obliged to fulfill two conditions (requirements), namely :

1. Tax revenues shall be considered as a mandate and shall be spent honestly and efficiently to realize tax objectives;
2. The government shall distribute the tax burden equally among taxpayers

Islamic scholars supporting the permissibility of collecting taxes asserted that what they meant is an equitable taxation system, which is in line with Islamic law. According to Abdul Qadim (2002), a fair taxation system shall meet the following criteria :

1

Taxes are imposed to finance essential expenditures to realize *maqasid al-shariah* (goals or objectives of Islamic law).

2

The tax burden shall be flexible, distributed equally, and adjusted to the ability of taxpayers

The collected tax funds shall be spent fairly for the purposes for which the tax is required.

6.1.2. General Definition of Zakat

The obligation to pay zakat applies to everyone without any limitation. Zakat on property/wealth is obligatory if it has reached its *nisab* (threshold) within a period of one year except for crops or agricultural products, whose zakat is due at harvest. Such zakat shall be paid when it reaches the *nisab*. Zakat is obligatory on the following assets:

1. Livestock, including camels, cows, and sheep, etc;
2. Crops or agricultural products;
3. Money, gold, and valuables;
4. Trade items

(Ministry of Religious Affairs of the Republic of Indonesia, 2013)

Types of Zakat :

Zakat *al-Fitr*

Zakat *al-Fitr* is a type of zakat that Muslims shall pay before Eid *al-Fitr* in the holy month of Ramadan. The amount of Zakat *al-Fitr* is equivalent to 3.5 liters (2.7 kg) of staple foods in the relevant area, including rice, wheat, and others.

Zakat *al-Mal* (Zakat on Assets)

Zakat *al-Mal* is a type of zakat imposed on assets that Muslims own when it reaches the *nisab* (threshold) and the *haul* (one Islamic (Hijri) year, approximately 355 days). This type of zakat does not have to be paid at a certain time and can be paid throughout the year when the conditions are met. Zakat *al-Mal* is imposed on various types of assets, including income, trade items, agricultural products, mining products, marine products, livestock, found assets, bonds, savings, gold, silver, and so on. Zakat *al-Mal* has different calculations for each type of asset.

Zakat on Income

Zakat on income is a type of zakat that Muslims shall pay when they get income in the form of assets or money. Similar to zakat on assets, the collection time of zakat on income is once a year, but it can also be paid monthly in installments and with different calculations.

Zakat on Agricultural Products

Zakat on agricultural products is a type of zakat that farmers or agricultural companies shall according to how they cultivate the farm (depending on manual irrigation or rainwater).

Zakat on Trade Items

Zakat on trade items is a type of zakat imposed on commercial assets (assets traded for profit).

The principles of zakat on trade items

- The nisab is 85 grams of gold and the zakat rate is 2.5%.
- It is calculated based on an annual report.
- The commodities traded are halal.
- It is calculated before tax.
- The business has been running for 1 Islamic (Hijri) year.
- If it is not possible to pay with cash money, it can be paid with other valuable items that can be traded to other parties.
- It applies to individuals and corporations.
- The calculation of zakat on trade items: $(\text{capital} + \text{profit} + \text{receivables}) - (\text{debt due}) \times 2.5\%$.

Zakat on Livestock

Requirements for zakat on livestock

- Livestock subject to zakat shall be fully owned, not purchased on debt or jointly with other people.
- Livestock are subject to zakat when the ownership period has reached the haul (one Islamic (Hijri) year, approximately 355 days).
- Livestock subject to zakat are raised and grazed year-round for their milk, meat, and breeding products
- Livestock subject to zakat is not utilized for work (plowing fields, transporting goods, or pulling carts).

Nisab and Rate of Zakat on Livestock

a. Goats and Sheep

- For 40–120 goats/sheep with an ownership period of one Islamic (Hijri) year, the rate is one goat/sheep aged one year
- For 121–200 goats/sheep with an ownership period of one Islamic (Hijri) year, the rate is two goats/sheep, plus one goat/sheep aged one year for every additional 100 goats/sheep.

b. Cows and Buffalos

- For 30 cows/buffalos with an ownership period of one Islamic (Hijri) year, the rate is one cow/buffalo aged one year
- For 40 cows/buffalos with an ownership period of one Islamic (Hijri) year, the rate is one cow/buffalo aged two years. Furthermore, for every 30 additional cows, the rate increases by one cow/buffalo aged one year, and for every 40 additional cows, the rate increases by one cow/buffalo aged two years.
- Zakat on poultry (chickens, ducks, birds, and fish) is not calculated based on the number, but based on the business scale.

6.2.1. Management of Zakat Funds in Indonesia

In Islam, zakat practices historically vary from time to time and from place to place and are usually managed by the governments. Islamic governments provide protection and guidance for zakat which serves as a tax to support state revenues and expenditures (Lessy, 2013; Gusfahmi, 2007). In Indonesia, Muslims pay taxes to the Government as an obligation under the Constitution. In addition, they give their zakat funds to the poor, mosques, orphanages, or charitable foundations as a religious obligation (Alfitri, 2006). In 2001, Indonesia decentralized the collection of its national zakat funds, thereby the country's districts and cities became the main administrative units responsible for most government services (CIA World Factbook, 2011). It involves 33 Muslim Charitable Donations Board (BAZIS) members that collect and distribute zakat funds (Abbas, 2010).

Zakat is a potential source of funds to strengthen economic funds and income distribution, which can escalate the economy of Indonesia. So far, the zakat calculation only applies to zakat on income and exclude other types of zakat, such as zakat on agricultural products, zakat on trade item, zakat on cash money, zakat on gold, corporate zakat, and so on (Ministry of Religious Affairs of the Republic of Indonesia, 2013).

The Ministry of Religious Affairs of the Republic of Indonesia, through the Directorate of Zakat Empowerment (2013), requires several conditions for an asset to be subject to zakat, as follows:

1. The owner holds absolute ownership of the asset. The term "absolute ownership" indicates that the individuals have full control of assets, or the assets shall be on the owner's side.
2. The asset or wealth has a growth characteristic. It means that the asset can be developed intentionally or has the potential to develop. The term "develop" in this case refers to property that can generate profits.
3. The asset meets the minimum quantity or *nisab* based on the type of asset. The *nisab* requirement correlates to the fact that zakat is an obligation imposed on the rich to help the poor and Muslims in general. Therefore, zakat shall be collected from the wealth of individuals with the capability of performing this obligation.
4. The asset shall be abundant above the owner's needs
5. The asset shall have the characteristic of solvency or freedom from debt. In addition to possessing absolute ownership of the asset and abundance above the needs, the owner shall also be free from debt. Debt eliminates one's zakat obligation; if the owner has debt equal to the *nisab* of the asset or which reduces the asset to less than the *nisab*.

6. The asset has been owned for over one Islamic (Hijri) calendar. The ownership of the asset has passed the haul or one Islamic (Hijri) calendar. This condition applies to livestock, trade items, and cash money; it does not apply to agricultural products, fruits, honey, treasures, and the like.

The implementation of zakat as a tax deduction in Indonesia is regulated in Law Number 23 of 2011 concerning Zakat Management in Articles 22 and 23, paragraphs 1 and 2. Article 22 states that the zakat paid by *muzakki* (eligible individuals to pay zakat) to BAZNAS or OPZ is deducted from taxable income. Then, BAZNAS or OPZ shall provide a zakat payment receipt to each *muzakki* as proof to process the deduction of their taxable income. The policy on zakat as an income tax deduction aims to prevent Muslim taxpayers from being exposed to a double burden and increase public awareness to pay zakat as their obligation as Muslims.

Article 2 of the Regulation of the Director General of Taxes Number PER-06/PJ/2011 concerning the Implementation of Zakat Payment and Payment Receipt regulates the implementation of zakat as an income tax deduction. It states that taxpayers who pay zakat or compulsory religious contributions must attach a photocopy of the zakat payment receipt to the Annual Tax Return (SPT) of Income Tax of the tax year the payment is made. The payment receipt may be a direct payment receipt or a transfer receipt for payments through bank account transfers or Automated Teller Machine (ATM) transfers. The payment receipt shall include taxpayers' full name and their Taxpayer Identification Number (NPWP), payment amount, payment date, name of zakat management agency or religious institution established or legalized by the government, as well as transfer receipt for payments through bank account transfers. Zakat shall be void as an income tax deduction if taxpayers do not pay through a zakat management agency or religious institution established or legalized by the government and the payment receipt does not meet the requirements.

According to the data of BAZNAS, the potential zakat revenues in Indonesia reaches IDR300 trillion per year since the potential zakat revenues in 2020 shall amount to IDR326.7 trillion, but the actual nominal only reached IDR71.4 trillion or approximately 21.7 percent. Based on the Zakat Potential Mapping Indicator (IPPPZ), as of 2019, Indonesia's zakat potential was recorded at IDR233.8 trillion. The high potential zakat revenues in 2020 were a sum of the following components (BAZNAS, 2021):

1. Corporate zakat (Rp144,5 triliun)
2. Zakat on income and services (Rp139,07 triliun)
3. Zakat on cash money (Rp58,76 triliun)
4. Zakat on livestock (Rp9,52 triliun)

In 2020, BAZNAS cooperated with Institut Pertanian Bogor (IPB), the National Islamic Economics and Finance Committee (KNEKS), and the Ministry of Religious Affairs of the

Republic of Indonesia (MoRA RI) to conduct a study on Zakat, Infaq, and Sadaqa (ZIS) that were not paid through the official Zakat Management Organizations (OPZ). The study revealed that the total ZIS funds not paid through the official OPZs in 2020 amounted to IDR61.25 trillion. Zakat, which was not paid through the official OPZs, led the collected ZIS fund rate in Indonesia to be significantly lower than the actual potential.

In addition to the aforementioned challenges, AQ, in the discussion of zakat experts, stated that it is necessary to pay attention to a cultural aspect that leads to challenges in collecting zakat in Indonesia. During Ramadan or Islamic Holidays, many Muslims prefer distributing zakat directly to those entitled to receive it around their homes or to institutions they trust (unofficial zakat agencies). It results from their preference to give it in person (face to face) and their distrust of the government's charity institutions. Muslims believe more in charity institutions managed by community organizations. The level of public awareness to collect zakat through official institutions such as BAZNAS remains limited to their compliance with their obligations as employees in a company or institution instead of personal awareness.

Considering the potential zakat collection deficiency, according to BAZNAS, there is room for improvement in the transparency and accuracy of zakat fund distribution to *mustahiq* (individuals who are entitled to receive zakat). In this case, zakat collection strategies and innovations shall open spaces for OPZs or individual *muzakki* (individuals who are obliged to pay zakat) to distribute their zakat funds in person and report them to BAZNAS as part of the zakat receipt process.

According to the 2020 National Coordination Meeting (Rakornas) of Zakat, there are several aspects to take into account, including.

1. The distribution of zakat to *mustahiq* needs to be supported by an accurate database to avoid overlapping receipts. In this case, it is recommended that BAZNAS collaborate with the Ministry of Social Affairs and the Ministry of Cooperatives and Small and Medium Enterprises to obtain data on poor households and micro and small enterprises.
2. It is necessary to replicate best practices in zakat collection, especially to reach out *muzakki* who have not paid their zakat either through BAZNAS, LAZ, or other institutions. Efforts to reach out *muzakki* through collaboration shall continue to be scaled up for effective implementation.

It is important to develop innovation and digitization of the zakat collection, especially to make it easier for *muzakki* to fulfill their obligations. It is in line with the continuous efforts to increase zakat literacy for millennials and Indonesian youths, given that the national zakat literacy index in 2020 remained at a moderate level (66.78 percent).

6.2.2. Zakat Management in Malaysia

The zakat management in Malaysia offers unique aspects compared to that in other Southeast Asian countries. The authority of zakat collection and distribution in Malaysia is controlled by each region, resulting in regions in Malaysia implement varied zakat management. These varied models of zakat management policies lead to a wide range of problems related to coordination of the amount of *nisab*, classification of eligible assets to be subject to zakat, and individuals entitled to receive zakat (*ashnaf*) (Islamy & Aninnas, 2020).

Malaysia's economic, social, and political developments have contributed to the advancement of its zakat institutions. Zakat institutions in Malaysia are highly considered, supported, and advanced by the government. In addition, they have an essential role in alleviating poverty, especially for the Muslim community in the country (Rahman et al., 2012)..

The correlation between taxes and zakat in Malaysia can be perceived from the country's regulation that paying zakat can release individuals from their tax obligations. Muslims in Malaysia can enjoy tax deductions equivalent to paying zakat. Zakat can be used to reduce taxes by up to 100%. This strategy aims to avoid the payment of double taxation on the income of zakat payers or *muzakki*. However, it is important to note that *muzakki* must pay their zakat to an official zakat institution recognized by the state, such as Pusat Pungutan Zakat (PPZ) or Zakat Collection Centre.



Sumber: <https://www.kosmo.com.my/>

In Islam, the zakat system reflects the wealth tax. As described earlier, individuals own assets that have met the *nisab* (threshold) requirements must pay zakat. An informant, HI, at the FGD of zakat experts explained that the current practice of zakat had become a minimum standard practice. The payment of zakat in Islam consists of a minimum threshold principle and a principle of virtue. Payment of zakat using the principle of virtue refers to the practice of paying above the applicable *nisab*. The principle of virtue can also be identified as the other form of commitment or willingness to pay zakat for individuals possessing abundant wealth exceeding their basic needs.



People possessing net worth above their needs include those who already own supplies or wealth to meet their basic needs in one day and one night. Thus, the practice of zakat on wealth in the principle of virtue can be applied without calculating assets above needs at a certain amount of billions. For example, we can estimate a reasonable amount for a person who owns assets like mobile phones and cars. If the reasonable amount or needs includes a mobile phone and a car, then the second mobile phone and car must be subject to additional zakat or virtue. Thus, it can be considered as the value of zakat on wealth

HI, Deputy Chairman of Tarjih Council of Muhammadiyah Central Executive Board

Paying zakat with the principle of virtue becomes an obligation for Muslims as it is considered better than the minimum threshold principle. Surah Al-Baqarah verse 219 mentioned a clear reference recommending to spend *al-'afwa*, *ma yashulu infaquhu*. According to Mujahid, one of the interpreters of followers of *sahabah (tabi'in)*, donating *al-'afwa* means *ash-shadaqatu 'ala dhahri ghinan*, paying zakat (alms) when one owns wealth above their needs.



Implementing zakat in Islam is mandatory, can be forced, and can emerge penalty for those who do not comply. It means that if the government stipulates a wealth tax for the rich with a specific wealth threshold, the government can enforce it as an obligation and penalize those who do not comply. Therefore, Islam supports the regulations regarding the obligation to pay wealth taxes and penalties for those violating the policies.

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Zakat is a mandatory practice. In this world, taxes serve as the alms that legally force people to pay and even penalize those who do not pay. Zakat is an Islamic term for what is internationally and globally called taxes. Therefore, zakat is an Islamic term meaning actual taxes.

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During the period of the Prophet, the wealth tax became a development that emerged as a result of the increasing number of the poor who were unable to meet their basic needs and the inability of the state treasury to assist the poor due to budget deficits. These conditions encouraged the government to implement wealth tax for the rich and distribute it to the poor (Zaloom, 1988).

The idea of wealth tax implementation that emerged in recent years can be considered similar to those applied during the Prophet period, meaning that the wealth tax law holds a solid reference in Islam. The COVID-19 pandemic has caused an economic crisis and increased the number of poor; thus, the country requires more funding to address health, economic, and other crises more optimally. By implementing the wealth tax, the country can ensure the redistribution of excess wealth owned by a few people to reduce poverty and inequality and address other problems.



Taxes in any form become essential as they bear the costs of the public's needs, such as in the health sector. It also supports unfortunate people, the needy, and the poor. In addition, it aims for the public interest, such as building bridges, roads, and other facilities and infrastructure needed by many people. Thus, zakat or tax is compulsory and can be forced by institutions, the state, or the government. Those who do not pay taxes or zakat can be penalized. Why? Because if you don't pay, the state will collapse, the poor will suffer, and the public interest will be neglected. Therefore, the tax or zakat is mandatory, and those who do not pay can be penalized and imprisoned. That is the actual power of the state or government to force people to pay taxes or zakat. They collect and manage the taxes or zakat and allocate it for the sake of the interests, which in Islam is the interests of eight asnaf (beneficiaries).

KM, the General Director of the Executive Board
of Nahdlatul Ulama

In the perspective of Islam, the state holds a robust and comprehensive responsibility supported by Islam. In addition, the state is entitled to collect, globally referred to as taxes or zakat in Islam. The state guarantees the equity and security of the whole people through the right to collect taxes or zakat; thus, the state can protect the people, provide infrastructure and other needs, and support the poor and needy (*fuqara and masakin*).

Therefore, the government can allocate the wealth tax to *asnaf* or the eight categories of beneficiaries eligible to receive the assistance discussed in the previous sub-chapter. However, the eight categories are reclassified into three categories. The poor go as the first category. The state should not let the needy people or the poor suffer and must subsidize and help them. The second category is allocated for public needs, such as building bridges, roads, and other infrastructure, as the state is responsible for distributing the tax or zakat funds. The last category includes the regular expenses of the government, in this case, the zakat management institution or *amil*. *Amil* refers to the officials collecting and spending taxes and other interests.

Thus, the state or government has the right to compel to collect wealth tax from people with power and people with the ownership of wealth above minimum percentage, and annually or monthly can be regulated under mutual agreement. Any country in the world shall not let

the poor suffer as they cannot fulfill their basic needs. Likewise, people struggling in the path of God (people pursuing study, sick, or dawah) need state assistance. In addition, the government must build public infrastructure and facilities using funds collected from taxes or zakat.

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With that, we will live an ideal life. The rich must be forced to share their wealth for the common good, especially to empower the poor and simultaneously build public interest infrastructures in the country. The state is undoubtedly responsible since it is God's representative on this earth to protect its people from arbitrariness. The state can assist the poor and provide protection and security for its people from domestic and foreign attacks. The state is khalifatullah, meaning the representative of God on earth to protect mankind, especially the poor.

KM, the General Director of the Executive Board of Nahdlatul Ulama

Implementing the wealth tax has become an essential and engaging idea since the COVID-19 pandemic has worsened the poverty rate but increased the number of HNWIs. A financial institution, Credit Suisse, reported the number of people with a net worth of US\$1 million or above in Indonesia had reached 171,740 in 2020, rising 61.69 percent year on year (YoY) from 106,215 people in 2019. According to this phenomenon, AQ, a female ulema and scholar, supported the wealth tax initiative. She stated that in Indonesia, a Muslim majority country, the religious perspective on wealth tax would also influence whether or not Indonesia can implement this policy. Therefore, it can carry out three opportunities for implementing wealth tax. **First**, a new middle-class Muslim group in Indonesia perceives religion as an essential matter in their lives

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In my opinion, the wealth tax holds a huge potential to maximize existing resources in acquiring more substantial benefit for needy groups. We need to understand that Indonesians strongly believe in the influence of religion. We have numerous charity institutions with good credibility, and many people are increasing their awareness to share. In addition, the taxpayers of wealth tax, namely the new Muslim generation, whose member reaches more than thirty million, appears as an opportunity. The new Muslim generation members come from the middle class living in urban areas. They also do not come from groups of santri (Islamic boarding school students), mosques management, and kauman (area with a Muslim majority usually near town squares and mosques). In general, members of religious groups in Indonesia believe that religion has become an essential aspect of their daily lives. According to a survey, 19% of them regarded religion as important, and 80% perceived religion as strongly important. It means that the wealth tax can be feasible as Islam regards this tax as an obligation.

AQ, UIN Sunan Kalijaga Lecturer

In addition to examining the references regarding wealth tax in Islam, elaborating on distributing wealth tax also becomes a significant process. The government can invite the public to discuss public financing from the wealth tax fund for special needs, such as restitution for victims of sexual violence, fulfillment of the rights of vulnerable groups, and other target beneficiaries.



Framing on its utilization is required to fulfill the rights of vulnerable groups, such as victims of sexual violence. DPR RI just ratified the Law on the Eradication of Sexual Violence (UU PKS) on April 12. If the perpetrator is poor, the state will be responsible for the restitution. So, if we strive to frame this wealth tax will benefit the fulfillment of the rights of vulnerable groups, I think it will be engaging. Because once again, we intend to point out that even though they have already paid taxes, they can help these special groups through the wealth tax.

AQ, UIN Sunan Kalijaga Lecturer

In addition to its designation, the collection of wealth tax can affect the success of its implementation. Indonesians reasonably trust charity institutions managed by non-government organizations or mass organizations, such as LAZISNU and LAZISMU. Accordingly, it requires the involvement of non-governmental institutions to drive a campaign for the importance of the wealth tax so that people maintain the awareness to pay it. In addition, wealth tax governance and transparency need to be carried out as well as possible so that the public can receive the wealth tax allocation.



Transparency can also be carried out by publishing reports on the benefits of the wealth tax for the benefit of the people, such as meeting basic needs and infrastructure, for the interest of the public, nation, and others. Therefore, the government must adopt the transparency principle to implement wealth taxes, if they execute it later.

AQ, UIN Sunan Kalijaga Lecturer

The second opportunity concerns a wide range of understanding of people on taxes and zakat. Some assume that paying taxes means they do not need to pay zakat, and vice versa. People recognize that tax obligations are different from zakat. AQ considered such a concept an opportunity to implement the wealth tax on the super-rich.

The third opportunity is a group of billionaires who are already super-rich and need assistance in their management as a form of goodwill. A super-rich person may make donation to building particular facilities credited to him/her, such as the Education Building

of A's family or the skill development center of Mrs. B. Such an acknowledgment undoubtedly encourages HNWI's to spend their wealth to gain recognition for their contributions to community development.

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If the law of (wealth) tax refers to the concept of zakat, trust me, the distribution of wealth will be very effective. I'm trying to say that Indonesia has Pancasila, whose first principle sounds 'Belief in the Almighty God,' and there is an element of divinity. Indonesians believe in God. God has made a rule, and we should comply with it. As simple as that.

MB, National Entrepreneur

Integrating the concept of zakat and wealth tax into the national financial system is the essence of formulating the role of religion-state relations in solving social development problems. When linking zakat and wealth tax, it can be illustrated that whoever has paid wealth tax to the state (as *amil zakat*) with the intention of paying zakat, then the person is exempted from the obligation to pay zakat. On the contrary, whoever has paid zakat with a wealth tax rate, then the person is exempted from wealth tax liability. Regardless the wealth is distributed through the state (as wealth tax) or *amil zakat* institutions (as zakat), the zakat/tax funds will eventually be allocated for the same interest, namely the people's welfare. Thus, if zakat and wealth tax are understood as a unity, the boundary between practicing faith and fulfilling the obligations to pay tax vanishes.



Chapter 7

Closing

In Indonesia, zakat is managed not only by the state but also by a large number of non-governmental zakat management institutions, including unregistered ones. It means the institutionalization of wealth tax with the zakat system also needs to involve non-governmental zakat management institutions.

7.1 Conclusions

The wealth tax policy has great potential, so it has the opportunity to be implemented in Indonesia. Also, there is a linkage between the wealth tax and zakat, allowing both to be institutionally managed as one. Based on the findings in previous parts, this study concludes that:

The wealth tax can provide a significant addition to state revenues.

Wealth tax revenue is estimated to be equivalent to 6.15 percent of total tax revenue in 2021 and 0.46 percent of GDP. The potential wealth tax based on the four calculation models (models 1-4) ranges from IDR54 trillion to IDR155.2 trillion for a single imposition. This amount can reach 6 (six) times compared to the realization of Personal Income Tax (PPH OP) in December 2021.

A wealth tax format with a progressive rate of one to two percent can be applied annually to HNWI's with a net worth greater than or equal to IDR144 billion

It is estimated that the revenue from implementing the wealth tax in model 3 will reach IDR78.5 trillion for the 2022 fiscal year. The implementation of wealth tax in model 3 does not hinder the wealth growth of taxpayers subject to the wealth tax. The net worth includes a combined total wealth of assets of savings/giro, deposits, shares, warrants, state securities, , precious metals, donations, inheritance, and grants. The imposition of all these objects is based on the consideration that if it is only imposed on one of them, the taxpayers might transfer their wealth from one asset subject to wealth tax to another asset that is not subject to wealth tax.

Most informants from 2019-2024 DPR RI members supported and approved the implementation of the wealth tax in Indonesia

The main reason is that the wealth tax can increase state revenues and become an instrument of wealth redistribution. The progressive wealth tax model is preferred by most informants. In addition, they consider that the threshold for eligible wealth to be subject to the wealth tax is IDR140 billion.

The wealth tax is likely to be supported by HNWI's with at least three notes

The first one is clear tax regulations and their technical implementation. Second, the wealth tax implementation must be followed by an improvement in the investment climate to be more conducive. Third, the government shall convey recognition of taxpayers subject to the wealth tax, disclosing that their wealth tax payments are managed for the philanthropic act.

The discourse on implementing wealth tax faces several challenges and risks

There are at least three challenges and risks to implementing wealth tax. First, the wealth tax requires a more complex tax administration system, especially in estimating the value of assets considered tax objects. Second, the imposition of wealth tax is feared to trigger capital flight abroad. Third, if not regulated carefully, the implementation of wealth tax is feared to result in double taxation.

There are two perspectives in Islam regarding the position of wealth tax

The first perspective views taxes and zakat as a single entity; paying zakat means paying taxes, and vice versa. The second perspective views taxes as being distinct from zakat. Zakat is an obligatory act of worship, while taxes are part of muamalat (worldly conduct). Although there are several opinions on the position of the wealth tax, no one has defined

taxes as opposed to zakat. Therefore, it is possible to simultaneously institutionalize tax and zakat management practices as applied in Malaysia. Zakat management practices in Indonesia differ from those implemented in the two neighboring countries. In Indonesia, zakat is managed not only by the state but also by a large number of non-governmental zakat management institutions, including unregistered ones. It means the institutionalization of wealth tax with the zakat system also needs to involve non-governmental zakat management institutions

7.2

Recommendations

1. **The government and DPR RI shall draft policies on wealth tax.**

The proposed wealth tax format is a one to two percent progressive wealth tax rate with a net worth imposed threshold of greater than or equal to IDR144 billion of the combined total assets, including savings/giro, deposits, shares, warrants, state securities, sukuk, precious metals, donations, inheritance, and grants. The wealth tax is imposed yearly on WP OP representing the family.

2. **The government and DPR RI shall target the implementation of wealth tax within the next four years.**

The MoF carries the responsibility to prepare and implement wealth tax. In the first year, the MoF shall formulate regulations concerning wealth tax implementation and its strict sanctions. Afterward, the MoF shall start disseminating the implementation of wealth tax in the second year. Further, the Directorate General of Taxes shall record WP OP with taxable wealth in the third year. WP OP shall begin to pay wealth tax to the Directorate General of Taxes in the fourth year. In the fifth year, the MoF shall publish the names of taxpayers who comply and do not comply with the wealth tax policy. Finally, the fourth and fifth-year stages shall be executed on an annual basis.

3. **The MoF shall involve financial institutions and appraisers to identify and evaluate assets adopted as guidelines for calculating the net asset amount.**

The MoF shall cooperate with the Financial Services Authority (OJK) and financial service institutions for assets in savings/giro and deposits; the MoF shall refer to the values published by PT Aneka Tambang Tbk for precious metal assets; the MoF shall cooperate with PT Bursa Efek Indonesia Tbk and PT Penilai Harga Efek Indonesia for assets in shares/warrants/state securities/sukuk (Islamic debt papers); and the MoF shall cooperate with public appraisal services companies for other unmentioned assets of donations, inheritance, and grants.

- 4. The MoF shall recognize the legality of the zakat mal payment (Islamic wealth tax) deposited by WP OP to zakat management institutions (*amil zakat*) through BAZNAS or registered religious organizations as payment of wealth tax.**

Thus, WP OP can pay wealth tax through the payment of zakat to registered *amil zakat* institutions. The zakat deposit receipt shall be considered evidence of wealth tax payment reported through filling out the Annual Tax Return (SPT).

- 5. The government shall accelerate multilateral cooperation on automatic information exchange systems for international taxation purposes.**

Through multilateral forums, the President and the MoF shall propose a global approach to the implementing a global wealth tax by preparing an initiative on global wealth tax standards.

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We believe that this multi-stakeholder approach will strengthen our works and initiatives in the knowledge production and dissemination as well as the evidence-based policymaking process. We also believe that networking will facilitate and reinforce one another. Therefore, we have received support from various donors and participated in multifarious initiatives with The PRAKARSA partners.

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Komplek Rawa Bambu 1

Jl. A. No. 8E Kel. Pasar Minggu, Kec. Pasar Minggu
Jakarta Selatan, Daerah Khusus Ibu Kota Jakarta
12520, Indonesia

 +62 21 7811 798

 perkumpulan@theprakarsa.org

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