

Inequitable Taxation in Indonesia: Baseline Mapping of Policy Areas and Options in an Effort to Tackle the Issue¹

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Abstract

Income inequality is now on the political agenda due to the widening gap between the rich and poor. There are a number of factors that are causing the inequitable distribution of wealth. For example, public policies such as taxation, labor, education, health that are inconsistent with the principles of justice and equity are also contributing to widening economic and non-economic disparities. Another causal factor is an unfair market mechanism. Taxes as a fiscal policy can function as an instrument for fair and equitable economic distribution. However, in practice, taxes are a source or cause of economic inequality. Tax rates that put the wealthy and super-wealthy at a more advantaged position are proof of this paradoxical effect.

Keywords: income inequality, tax policy, tax inequality.

Introduction

“Every time people try to punish the rich, the rich don’t simply comply, they react. They have the money, power, and intent to change things. They do not just sit there and voluntarily pay more taxes. They search for ways to minimize their tax burden. They hire smart attorneys and accountants, and persuade politicians to change laws or create legal loopholes. They have the resources to effect change... The poor and middle class do not have the same resources. They sit there and let the government’s needles enter their arm and allow the blood donation to begin. Today, I am constantly shocked at the number of people who pay more taxes, or take fewer deductions, simply because they are afraid of the government. And I do know how frightening and intimidating a government tax agent can be”.

- Robert T Kiyosaki, *Rich Dad, Poor Dad* (2010: p. 21)

Income inequality is now a much-discussed subject to the extent that public attention has shifted its attention away from non-income inequality issues (social inequality). The notion that ‘social equality is harder to measure than money inequality’ as contended by Noah Smith is probably one of the reasons for this. Income inequality is in fact much easier to measure and comprehend. As part of economic inequality, the income gap illustrates a situation where disparities exist between the percentages of the population relative to resources, including income received by the population.

Numerous countries across the globe are now experiencing high levels of economic inequalities. Luebker (2011) regards this drastic rise in economic disparities as the worst ramification of globalization. Luebker was probably arguing against the Kuznets (1995) curve theory. Kuznets does

¹ In “Inequality, the Dark Side of Development in Indonesia”, published in cooperation: INFID, Oxfam and European Union (Jakarta, 2014), 78-89.

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not consider economic inequality as a problem but instead sees it as necessary for growth. The emergence of the rich sets the economic wheels in motion, creating more employment opportunities. The employed population can therefore earn a livelihood, thus elevating their well-being. Citing Luebker, economic globalization, however, has debunked Kuznets theory. A globalized industry that transcends national and geographical boundaries has led to increasingly expansive industrial activities. Consequently, massive capital accumulation due to reckless human greed can no longer be effectively measured. The extractive industry has made it possible for natural resources to be siphoned off from one country to another at such frenetic pace that seems to know no borders.

In the United States the highest income earning bracket represents 1% of the population but have control over 40% of national assets (Stiglitz, 2012). This has been a cause for concern for President Obama who considers income inequality as the most profound challenge facing the United States. In Indonesia, Yusuf, Sumner and Rum (2013) made an estimate of the evolution of income inequality in the country from 1990 to 2012. By applying the Gini coefficient³ and decile dispersion ratio,⁴ it was evident that Indonesia's income inequality has hit heights unmatched in the country's history. Indonesia's Gini ratio was 0.33 in 1990 and rose to 0.41 in 2012. CEDS of University of Padjajaran (2013) released estimated figures for 2012 which showed that the wealthiest 20% take in 49% of national income, while the poorest 40% are only left to enjoy 16% of national income. Meanwhile, the richest 10% have become wealthier with a twelve-fold income increase compared to the bottom 10%.

Inequality needs to be measured periodically. Two basic concepts should to be taken into account in measuring income inequality: (i) private sector income inequality (earnings before tax and transferred to the public), and (ii) income inequality in terms of disposable income after direct tax and public transfer. Direct tax refers to taxes imposed directly upon the taxpayer and cannot be transferred to other parties, such as income tax. These two approaches are also known as primary and secondary income distribution (Luebker: 2011). Meanwhile, Todaro and Smith (2006) used two measurements to analyze income distribution: (i) size distribution of income that directly calculates the earnings of each individual or household, and (ii) functional or factor share distribution of income that measures total national income received by each factor of production (land, labor and capital).

Based on various references it can be inferred that income inequality can be attributed to several factors: (i) the unequal distribution or control of natural resources; (ii) differential treatment or appreciation between those who toil to earn a living and others who need not put in as much effort; (iii) individuals are socially coerced to work or not to work in all lines of work based on specific disciplines; (iv) public policies (taxation, labor, education, health, etc.) that have a bearing on the quantity and quality of the distribution of existing resources. Apart from these four aspects, inequality in general can be the result of an unbalanced market mechanism and unfair tax policies and distribution (Kenworthy and McCall, 2008).

³ Measuring inequality based on the Lorenz curve which makes a comparison between the distribution of a specific variable (income or income per capita) and the uniform distribution of a variable that represents equality. The curve's horizontal axis shows the cumulative percentage of households from poor to rich, while the vertical axis indicates cumulative expenditure or income.

⁴ A simple and basic inequality measurement that presents the ratio of the average consumption of the richest 10% of the population against the average consumption of the poorest 10%. This approach can be interpreted by expressing the income of the richest 10% of the population as a multiple of the income of the bottom 10% or those in the poorest decile.

From the foregoing explanation, a simple deduction that can be drawn is that in the event of widening disparities in a population, inequality will also worsen. To curb disparities, several experts have suggested on the need for income distribution. In relation to this, an instrument that can be forced upon by the government is redistribution through tax collection and distribution. Carter and Matthews (2012), two OECD tax experts, have emphasized the role of tax policies in reducing inequality by improving wealth distribution through more transfers, either through the delivery of basic services (education and health), infrastructure development or cash transfers. In addition, progressive taxation can be a means for the government to redistribute income. This approach will prompt financial reforms that should not only be about pursuing growth but also oriented towards distributive justice. Duncan and Peter (2012) in their work, *Unequal Inequalities: Do Progressive Taxes Reduce Income Inequality?* Further elaborated that a progressive tax structure is capable of narrowing inequalities, primarily by creating a climate with redistributive impacts. In reference to Fozzard (2001), collected taxes that have become part of public funds must be directed towards meeting citizen preferences and for ensuring justice by reducing poverty and social disparities.

Tax policies and practices on the other hand also bring problems that need to be addressed. In numerous countries, taxation has become a source or cause of inequality. The super-rich are paying fewer taxes compared to the upper-middle income earners due to low tax rates. As put forward by Kiyosaki and cited in the early part of this paper, the rich will unrelentingly seek ways, either legally or illegally, to minimize their tax burden. Bahagijo (2014) in *Super-Tax for France's Mega-Rich and Indonesia's 2014 Elections* (INFID Analysis No.1) brought attention to the meager contribution of the ultra-rich in paying taxes. Musgrave and Musgrave (1984) added that theoretically, a persistent issue in the implementation of a tax regime concerns the distributive justice of tax burdens for different income groups.

In various countries, tax contribution to total state revenue is typically higher compared to state revenue from non-tax sources. In Indonesia, taxes contribute to an average of 72 – 74% of total state earnings. In 2012, total state earnings amounted to IDR 1,358.13 trillion of which 74.8% is derived from tax collections (Ministry of Finance, 2013). This average is below the target set for the fiscal year. In the past few years, the tax revenue target has never been met. In 2013, total tax revenue was 91.31% from the target set by the revised national budget for 2013, the lowest performance in the past three years. In preserving Indonesia's existence as a nation, the relationship among citizens and between citizens and the government should be based on a set of values and instruments. One of the principles that can help maintain these relationships is upholding justice. With justice, citizens shall be equally treated, with regard to their fundamental rights and obligations as citizens of the state.

Furthermore, distributive justice of goods and services (*justitia distributiva*) will be more equitable and enjoyed by all. Every citizen shall be able to exercise their rights based on their roles and contributions. Citizens on the other hand will also have basic rights that are not based on their roles and contributions (*justitia cummulativa*). Justice however is based on transactions (*sunallagamata*), both voluntary and involuntary. Distributive justice is often used for measuring government policies with regard to the people.

The state's responsibility towards citizens therefore is perceived to be greater than the people's obligations towards the state. The government must therefore distribute resources under the people's control in a fair manner. In this context, it would indeed be more important to implement the principle of distributive justice. However, when citizens are expected to fulfill their responsibilities such as their tax obligations, the principle of commutative justice becomes more of a priority.

Concerning the issue of tax burden and distribution that leads to inequality, it is therefore necessary to look into areas where tax inequality has arisen. How should inequitable tax burden and distribution be dealt with to ensure tax justice? This paper will attempt to provide answers to both questions. The scope of this paper is limited to measuring tax-benefit incidence in terms of: (i) who will truly bear tax burdens? and (ii) who will benefit the most from public spending?

Inequitable Taxation: Baseline Mapping

In the presence of distributive and cumulative justice, every individual will be able to benefit from taxes through social programs or others which will ultimately reduce inequalities. In addition, distributive justice will also help lay a more concrete foundation to ensure equality before the law. In view of this, there are a number of urgent reasons to address taxation and tax inequality: (i) taxes are a vital and most the sustainable source of development financing; (ii) taxes can pave the way for upholding distributive justice. Through fair and just fiscal and monetary policies, the government will be able to make a difference for the people consistent with the principles of social justice as enshrined in Indonesia's constitution.

This is because of the transfer of resources from high-income earners to low-income earners through fiscal (tax) policies. Sources of tax revenue and the transfer of tax resources are the keys to reducing tax inequality. From the author's research, several areas of inequality taxation have been identified:

1. Sources of Tax Revenue

Pursuant to the Income Tax Law, sources of tax revenue in general can be distinguished into: personal, undivided inheritance as a whole to replace the rightful heir, statutory bodies and permanent establishments. In simplified terms, these sources are categorized only as personal and statutory bodies. The official number of taxpayers by 2013 is provided in Table 1 below:

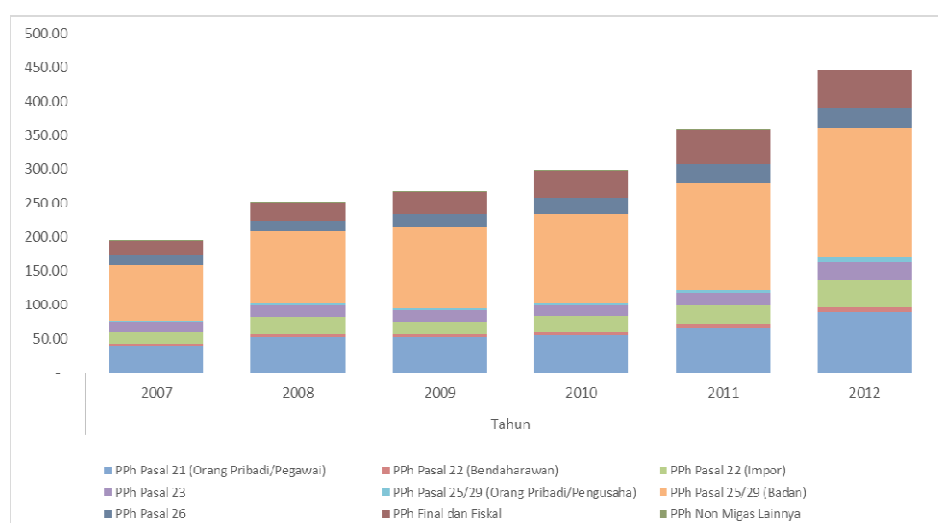
Table 1: Number of Taxpayers in Indonesia

Taxpayer	2009	2010	2011	2012	2013
Individual	13,861,253	16,880,649	19,881,684	22,131,323	23,082,822
Statutory body	1,608,337	1,760,108	1,929,507	2,136,014	2,218,573
Treasurer	441,986	471,833	507,882	545,232	555,995
Total taxpayer	15,911,576	19,112,590	22,319,073	24,812,569	25,857,390

Source: The Finance Ministry's Taxes Directorate General, 2014.

From the statistics above, it is evident that the number of individual and corporate taxpayers is far from ideal. With a population of 237 million people (2010) of which 10-11% are poor, individual taxpayers of only 23 million are surely far from adequate. If examined further, in comparison to the income tax contribution of the rich, employees contribute far much more. This is governed in Article 26 of the Income Tax Law (dividend, interest, discounts and benefits related to guarantees, loan repayment, royalty, rent and miscellaneous income associated with the use of property, and others) which sets a lower percentage compared to components in Article 21 (salary, wage, honorarium, allowance and others). Statutory bodies (Articles 25 and 29) in fact significantly contribute to tax revenue (Figure 1 below).

Figure 1: Total Tax Revenue from Non-Oil and Gas Sources



Given the considerable number of wealthy individuals in Indonesia, the country's tax revenue potential from the rich is immense. According to the Deposit Insurance Institution (DII), this publishes information on the number of national bank accounts and nominal amount of Third Party Funds (TPF) deposited in banks (see in tabel 2 below).

Table 2: TPF by Nominal Segment (DII, September 2013)

No	Nominal Deposit (Rupiah and Foreign Currency)	Account	Percent	Nominal	Percent
1	N ≤ 100 m	127,733,160	97.5%	534,175.34	15.13%
2	100 m < N ≤ 200 m	1,450,383	1.11%	197,617.60	5.60%
3	200 m < N ≤ 500 m	956,074	0.73%	305,432.68	8.65%
4	500 m < N ≤ 1 bn	402,540	0.31%	293,395.22	8.31%
5	1 bn < N ≤ 2 bn	205,772	0.16%	283,578.67	8.03%
6	2 bn < N ≤ 5 bn	107,710	0.08%	339,427.08	9.61%
7	N > 5 bn	63,128	0.05%	1,577,488.54	44.67%

In 2013, *Perkumpulan Prakarsa* Jakarta compiled data from DJP and BKF of the Ministry of Finance concerning the contribution of various tax sources relative to total tax ratio. In 2012, with a tax ratio of 13.3%, the percentage contribution is as follows: (i) income tax at 6.2% with the following breakdown – personal income tax 1.2%, corporate tax 2.3%, others 2.8%; (ii) value-added tax at 4.1%. From both sources (income tax and VAT), at least 10.3% from 13.3% tax ratio has been

accumulated. This means that the highest tax burden is borne by individuals (employees) and the entities where they work for along with their consumption. Revenue realized from income tax in the 2010 national budget with regard to Article 12 of the Income Tax Law (employee income tax) amounted to IDR 55.3 trillion (18.6% from total income tax revenue) and Article 25/29 on personal income tax (non-employees) at only IDR 3.6 trillion (1.2% of total income tax revenue). This is unfair because the contribution of individual entrepreneurs who should be included in the high net-worth individual category is instead insignificant. We can therefore deduce that the small number of individual entrepreneurs registered as taxpayers has affected the amount of tax revenue (Prastowo, 2012).

2. Tax Rate: High for Middle-Income, Low for the Rich

The principles of taxation are equality, certainty, convenience of payment and efficiency. The principle of equality in collecting taxes by the state should be based on the capacity and income of taxpayers (Tjahjono & Husein, 2000). A flat tax would in fact mean that the government is being discriminatory to taxpayers. A socially equitable approach in terms of taxation would be to impose different rates for taxpayers. The higher the income, the higher the taxes that taxpayer must report and pay. Conversely, low income would mean fewer taxes to report and pay. This constitutes economic justice that ultimately leads to social justice.

The prevailing tax rates are also another form of inequitable taxation, in addition to tax brackets where different tax rates apply for different income levels. In Indonesia, the income tax rates (resident taxpayer) applicable to taxable income are as follows:

- Up to IDR 50 million, 5 percent tax rate.
- Over IDR 50 million to IDR 250 million, 15 percent tax rate.
- Taxable income over IDR 250 million to IDR 500 million, 25 percent tax rate.
- Taxable income over IDR 500 million, 30 percent tax rate.

The rates on the taxable income of resident corporate taxpayers and permanent establishments are as follows:

- Up to IDR 50,000,000, 10% tax rate.
- Over IDR 50,000,000 to IDR 100,000,000, 15% tax rate.
- Over IDR 100,000,000, 30% tax rate and pursuant to government regulations, the highest rate can be lowered to a minimum of 25%.
- Non-resident taxpayers for 20% of gross income, or according to the Tax Agreement applicable for the said non-resident taxpayer.

Given the tax rates for individual and corporate taxpayers described above, it appears that the principle of justice does not entirely apply as they have created inequality in terms of tax rates and burden borne by taxpayers. As an illustration, an individual with IDR 100 billion in wealth will be paying the same rate of 30% as those with a net worth of IDR billion and so forth. This structure of tax bracket is clearly unfair. The ultra-rich will ultimately only pay a fraction of the percentage imposed on middle-income earners. The state will therefore not be earning tax revenue as much as it potentially can, and consequently there will be fewer resources to distribute to citizens.

3. Tax Incentive: Inequitable Policy From Planning Phase

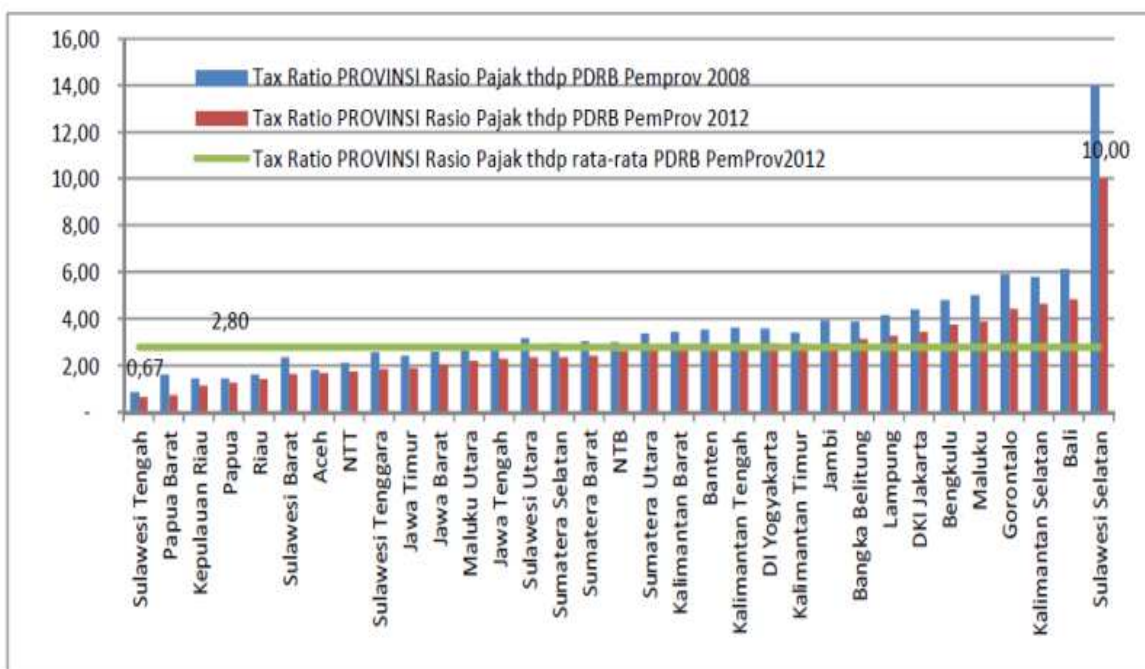
Apart from the issue of tax sources and rates, inequitable taxation can also be observed with regard to tax incentives. Tax incentives are mostly offered to entrepreneurs. In giving out these incentives, does the prudent principle and openness apply? Tax incentive policies often lack transparency and as a consequence awarding such privileges to large-scale businesses can undermine justice. To reduce inequality with regard to taxation in order to ensure tax justice, tax incentives should also be available to the low and middle-income earners.

The government's 'preferential' treatment to major businesses, both domestic and foreign, is indicated for example in Finance Ministerial Regulation No. 130/PMK.011/2011 concerning Corporate Income Tax Exemption or Reduction Facility (Tax Holiday). The tax holiday facility for corporate income tax is introduced under the pretext of encouraging foreign investments in Indonesia. In reality, incoming investments are mostly for the extractive industry given Indonesia's abundant natural resources. This policy will undoubtedly be counter-productive to efforts in increasing tax revenue from corporate taxpayers.

4. Sub-national Tax Ratios: Widely Divergent

The diverging trends of tax revenue among regions in Indonesia are of utmost concern. Sub-national tax ratios (comparison between tax revenue of a given region and the value of an economy's output or Gross Regional Domestic Product/GRDP among regions) vary widely. The tax ratio of provincial governments in 2012 in general saw a declining trend compared to 2008. The South Sulawesi provincial government has the highest tax ratio at 10 percent, whereas Central Sulawesi registered the lowest at 0.67 percent. A high tax ratio is attributed to low GRDP and even lower sub-national tax collections (see the graph 1)

Graph 1: Tax Ratio by Province in Indonesia, 2008 - 2012



Source: National Development Planning Board / Bappenas, December 2013.

Tax ratios at the district/city level are even more troubling. Table 3 presents 5 districts or cities with the highest tax ratio, and 5 districts or cities with the lowest.

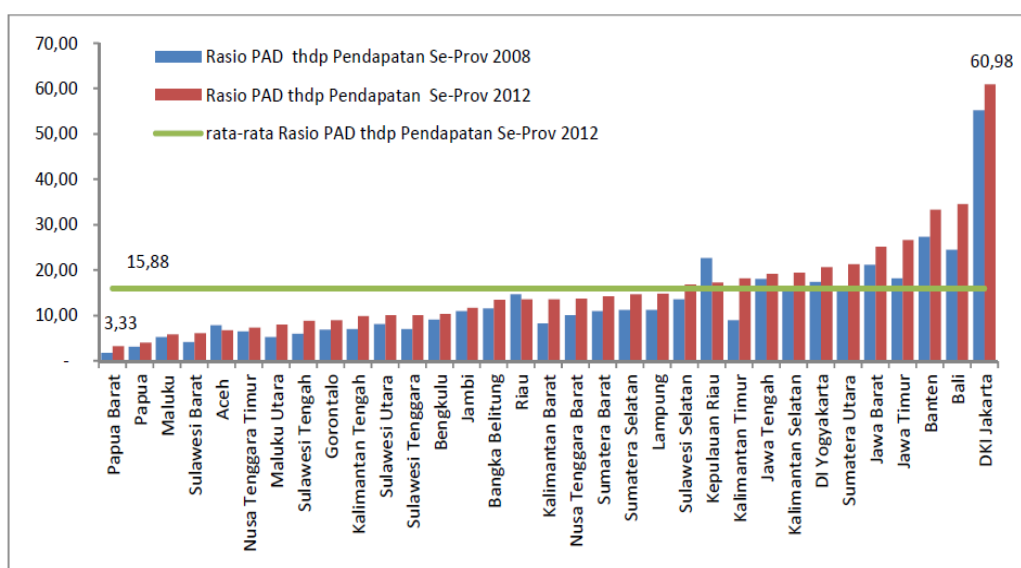
**Table 3: Tax Ratio by District/City
(Top 5 and Bottom 5, 2011)**

Top 5		Bottom 5	
District/City	Tax Ratio	District/City	Tax Ratio
1. Badung (Bali)	15.94%	1. Puncak (Papua)	0.00%
2. Tomohon City (North Sulawesi)	14.8	2. Sorong (Papua) (West)	0.03%
3. Karimun (Riau Islands)	6.76%	3. Mesuji (Lampung)	0.03%
4. North Buton (Southeast Sulawesi)	4.27%	4. North Nias (North Sumatra)	0.04%
5. South Tangerang City (Banten)	3.96%	5. East Kutai (East Kalimantan)	0.04%

Source: National Development Planning Board / Bappenas: 2011 – compiled.

The ratio of locally generated revenue (LGR) relative to total income of districts/cities of each province in Indonesia is not much different than the tax ratio among provinces. Bappenas (2013) observed a rise in total income for 2012 when comparing data from 2008 to 2012, with the exception of the provinces of Aceh, Riau and Riau Islands. The highest LGR ratio is attained by DKI Jakarta at 60.98 percent, and lowest by West Papua at 3.33 percent. Meanwhile, 12 provinces have recorded LGR-to-total income ratio above the average ratio for districts/cities in a given province (15.88 percents), see in graph 2 below.

Graph 2: LGR-to-Total Income Ratio of Districts and Cities by Province



Source: National Development Planning Board / Bappenas, December 2013.

5. Inequitable Distribution: A Portrait of Fiscal Spending

Fiscal spending is a means to distribute available resources. Distribution through fiscal policies helps to ensure that the income gap among the people is not overly wide, and national revenue share can be measured and sustained. To this end, the spending posture for each fiscal year can serve as an indicator to determine the extent to which fiscal spending reflects optimal distribution. In the past several years, the lion's share of fiscal spending was for government employment expenditure and routine spending. Government spending which should be intended for *"the prosperity of the people, to the greatest extent possible"* has instead shifted to *"the prosperity of bureaucrats and public officials, to the greatest extent possible"*. Government employment expenditure⁵ should not exceed spending for development and social welfare. This is to ensure that the national budget does not only benefit bureaucrats, public officials and politicians, but more importantly the public at large.

In the future, the payroll and allowance scheme of civil servants, military and police personnel and state officials should be designed in such a way that does not squander public funds, nor put a strain on the national budget. Any decision to increase remuneration or allowances should not only be approved by parliament, but the public should also have a say in the matter. If the national budget only allows for narrow fiscal space partly due to substantial government employment expenditure as a consequence of the swelling ranks of civil servants along with their pay rise, a restructurization policy is therefore crucial and only then will the management of state finances reflect social justice. Social justice runs parallel with the concept of creating *"prosperity for the people, to the greatest extent possible"*. National budget policies that embrace the principle of social justice should therefore take into account adequate and equitable social spending⁶, capital expenditure⁷, materials expenditure⁸, and subsidies⁹. According to the OECD country average, social

⁵ Government employment expenditure refers to monetary and in-kind payment determined according to existing legislation to state officials, civil servants and employees on government payroll but have not been conferred civil servant status as compensation for work undertaken, except work related to capital formation. This expenditure component includes salary, benefits, honorarium, overtime pay, social contribution and other employee-related expenses (Source: Finance Ministry Regulations/PMK Number 101/PMK.02/2011 on Spending Classification).

⁶ In the existing financial system, items under the "social aid" category include cash or in-kind transfers offered to the public to protect against potential social risks. This expenditure seeks to elevate the well-being of the people, non-continuous and selective in nature. Other expenditure categorized as social spending includes those that cannot be classified under the aforementioned expense items which include non-recurring and uncommon expenditure such as in response to natural disasters, social disasters and other unexpected expenditures (Source: Finance Ministry Regulations/PMK Number 101/PMK.02/2011 on Spending Classification).

⁷ Capital expenditure refers to budget expenses allocated for acquiring or increasing fixed assets and other assets that provide benefit for more than an accounting period and exceed minimum capitalization of fixed assets or other assets as determined by the government (Source: Finance Ministry Regulations/PMK Number 101/PMK.02/2011 on Spending Classification).

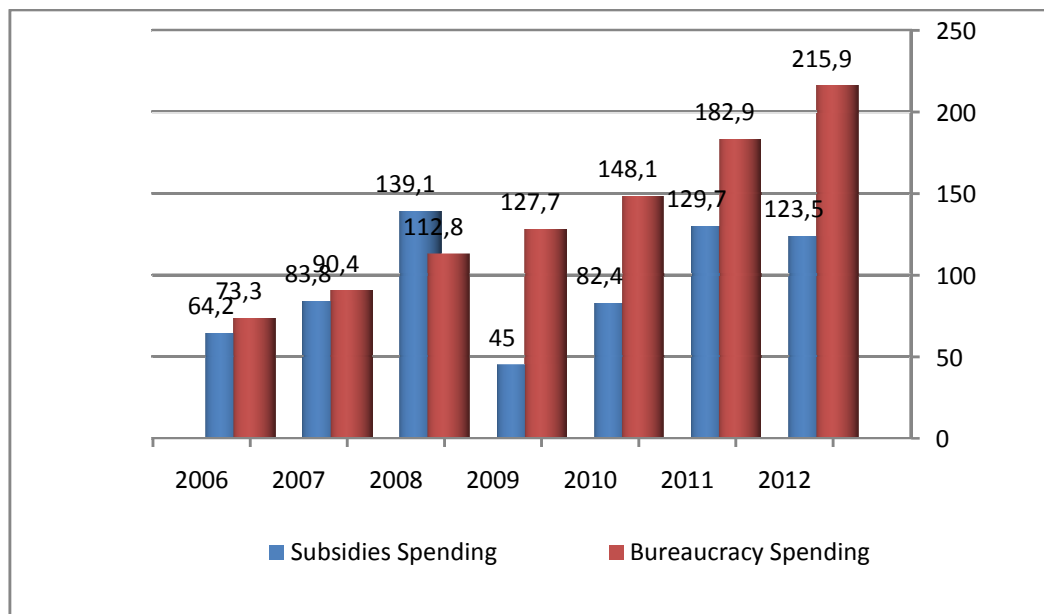
⁸ Materials expenditure refer to the purchase of consumable goods and services to produce goods and services, either marketed or not, and the procurement of goods to be transferred or sold to the public, and official travel expenses (Source: Finance Ministry Regulations/PMK Number 101/PMK.02/2011 on Spending Classification).

⁹ Subsidies refer to budget allocated by the government to state-owned enterprises, government agencies or other third parties that produce, sell, export or import goods and services in a view to ensure affordable prices for the people to meet their necessities of life. This component consists of subsidy expenditure in financial institutions, fuel subsidy, non-fuel price/cost subsidy, non-fuel credit interest subsidy, non-fuel tax subsidy, other non-tax subsidy and PSO subsidy (Source: Finance Ministry Regulations/PMK Number 101/PMK.02/2011 on Spending Classification).

expenditure is considered adequate when total allocation accounts for at least 20% of total GDP. In OECD tradition, social spending covers health expenditure (*Social expenditure: Aggregated data, OECD Social Expenditure Statistics, 2013*). If the OECD benchmark is considered too high for Indonesia, the percentage of total social spending may range between 10 and 15% of GDP. In reference to Lindert (2004), social spending includes: (i) social transfers that cover cash compensation for unemployment, retirement and health, and (ii) social transfers along with government subsidy for education. Based on Lindert’s study (*Growing Public: Social Spending and Economic Growth since the Eighteenth Century Vol I, Cambridge University Press, 2004*), cogent historical and factual evidence shows that substantial social spending (and high yet proportional taxation) will help strengthen the economy and bring collective prosperity.

The fact, however, remains that Indonesia’s social spending is still dismally low. The 2012 revised national budget has only set aside 3.4% (amount +- IDR 48 trillion) of total national budget for health expenditure. As can be seen from Graph 3 below, even fuel subsidy expenditure, which has incited heated debate because of the staggering amount, is much lower than the amount earmarked for government employment expenditure.

Graph 3: Fuel Subsidy Expenditure Compared to Government Employment Expenditure, 2012. IDR (Rp) Trillion



Source: The Finance Ministry, 2012.

Conclusion

Inequitable taxation refers to inequity in tax burden and distribution which will undermine the fundamental principle of tax justice. In simpler terms, inequity occurs when “the really rich pay less tax than the middle class or poor, yet the wealthy are benefiting more from tax distribution than the less well-off.” Taxation therefore is a source of inequality. To fulfill the principles of justice, tax policies should be commensurate with the financial condition or income of the taxpayer.

Several experts argue that equitable tax policies and distributive income through taxation can reduce both economic and social inequalities. Hubbard (2014), the Dean of Columbia Business School, contends that tax reform is the best way to narrow income inequality. Moene and Wallerstein (2003) in Kenworthy and McCall (2008) suggest that inequality can be reduced by introducing social programs, such as unemployment insurance and health, making sure that they are accessible in a transparent manner to allow every person to genuinely benefit from them.

Recommendations

The author recommends the following policy options:

1. The government needs to increase the number of taxpayers, primarily among rich individuals and employees, to reach an ideal percentage between registered taxpayers and prospective taxpayers. Efforts to increase the number of taxpayers should be directed at both corporate and individual taxpayers;
2. The need to broaden the tax base among others by levying taxes on the informal sector at the upper-mid-scale and on financial futures transactions. Furthermore, the government should not hesitate to raise tax rates, particularly for the mega-wealthy;
3. The government can offer tax incentives through the inclusion of non-taxable income for female employees with head-of-household status, elderly workers, people with disabilities and other vulnerable groups. The government can also grant a tax exemption for the poor for the purchase of agricultural production equipment and so forth.

The author appreciates the government's decision to increase the limit for non-taxable income as of 1 January 2013 from IDR 15,840,000 (unmarried taxpayer without dependents) to IDR 24,300,000; for married taxpayers without dependents from IDR 17,160,000 to IDR 26,325,000; and married taxpayers filing a joint return (without dependents) from IDR 33 million to IDR 50,625,000. The government however has shown lack of gender and disability sensitivity. There should be a non-taxable income policy as tax incentive for women-headed households, elderly workers, people with disabilities and other vulnerable groups. Lowering the non-taxable income limit for unmarried taxpayers without dependents may also be considered;

4. To ensure that taxation serves the purpose of achieving social justice, the tax bracket policy should be revised by adding an additional bracket. For the purpose of reducing inequality, it is recommended that the government apply a 35-40% rate for those earning over IDR 5 billion annually. A tax bracket where the same 30% rate is levied on individuals with a net worth of IDR 100 billion and those with IDR 500 million in wealth is unfair;
5. The government may earmark specific taxes (sin taxes and on the extractive industry), both at the national and sub-national level, to be allocated for basic services such as education, health and cash transfers for the poor. This is to ensure that an instrument is in place to guarantee the distribution of resources to those really in need;
6. Urge local governments to build their tax collection capacity especially since the collection of land and building tax, and underground and surface water tax are already under their authority;
7. The need to increase social spending and implement social programs, both through the targeting and universal approach, to ensure optimal distribution of resources through fiscal policies.

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