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## Article

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## Tax Policy in Indonesian Energy Sectors: An Overview of Tax Amnesty Implementation

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### ABSTRACT

Taxation plays an important role in a country's growth target. The taxation program often used by the government to improve tax compliance and tax revenue is called tax amnesty. One of the industrial sectors that is largely influenced by the taxation policy is the energy sector, which includes the mining industry. This study aims to examine the implementation and role of the tax amnesty program in the Indonesian energy sector. Based on the analysis, the study found that the tax amnesty program in the energy sector, especially in the mining industry, still underperforms. In other words, the tax compliance of companies in the energy sector is still low. The study also found that the total tax revenue from the energy sectors is largely determined by the total number of taxpayers. The total number of tax amnesty participants only significantly influences the tax revenue collection in the renewable energy sectors, while, in the oil and gas sector, the total number of tax amnesty participants does not significantly influence tax revenue collection.

**Keywords:** Taxation, Tax Amnesty, Energy Sector

**JEL Classifications:** H2, Q4

## 1. INTRODUCTION

To date, energy remains a politically sensitive subject (Newbery, 2005). The tax code is considered as one of the important components of an energy policy (Metcalf, 2007). Government intervention in the energy sector is important, as it influences energy externalities, national security, market failures, and barriers in energy conservation markets and rent expropriation (Metcalf, 2007).

One government intervention in the energy sector is called tax amnesty, which refers to the opportunity given to taxpayers to waive an existing tax liability (including interests and fines) by paying a defined amount given during a limited time window (Marchese and Cassone, 2000). Some countries have implemented tax amnesty programs in many sectors, including energy sectors, e.g., Ukraine.

The Indonesian government has also implemented a tax amnesty program in its energy sectors. The policy was taken to increase tax compliance in the sector. The potency of income tax and

value-added taxes collected from the mining industry excavation in Indonesia in 2012 reached IDR.140,96 trillion. Unfortunately, the government only collected IDR.43,48 trillion or equal to 30.8% of taxes potency, while 70.2% was lost due to the number of companies that had not paid taxes.

To date that is only a dearth of research that examine tax amnesty implementation in the energy sectors. Based on the above discussion, the study aims to review the tax policy implemented by the Indonesian government to overcome the low tax compliance in the energy sectors. In addition, this study also examines the factors that influence tax amnesty revenue collection. It is expected that this study will provide empirical evidence on the implementation of the tax amnesty program in the energy sectors.

## 2. TAX AMNESTY IN THE ENERGY SECTOR

### 2.1. Tax Amnesty: Definition and Concept

As previously explained, tax amnesty is defined as the write-off of tax liability by paying only the required amount of tax during

a limited period of time (Marchese and Cassone, 2000). In other words, tax amnesty means forgiveness on tax liabilities, but it should specify the unpaid tax interest and penalties that will be waived by the government (Alm and Rath, 1998).

According to Alm and Rath (1998), the implementation of tax amnesty has benefits, e.g., immediate tax revenue collection, reduction of administrative costs, and improvement of the tax compliance after the tax amnesty program. Despite its advantages, there are also some weaknesses of a tax amnesty program. First it will only generate small and overstated tax revenue. Second, it reduces the tax compliance of honest taxpayers, as they perceive that the tax amnesty program is unfair (Alm and Rath, 1998).

## 2.2. Tax Compliance and Tax Amnesty

The issue of tax compliance is as old as tax itself (Andreoni et al., 1998). Tax compliance refers to the degree of tax if a taxpayer files all required tax returns at the required time and that the returns correctly report tax liability in accordance with the tax rules of his or her country (Alm et al., 1990). According to Alm et al. (1990), tax amnesty has a mixed effect on tax compliance. Based on their experiments, the tax amnesty program tends to lower the average of tax compliance level. However, a well-designed tax amnesty program and post-amnesty enforcement program will improve the aggregate tax compliance level (Alm et al., 1990). It is not recommended for the government to conduct a repeated series of tax amnesty programs, as it would destroy the government's credibility (Buckwalter et al., 2014; Luitel and Sobel, 2007).

## 2.3. Tax Amnesty in the Energy Sector

In spite of its positive impact, tax amnesty may have a negative impact on tax compliance, including the tax compliance in the energy sectors (Barisitz and Pemmer, 2006). The Ukraine has a negative experienced amnesty program. The tax compliance that was previously improved by streamlining the system, cancelling discretionary tax exemptions, enhancing tax administration, improving cash management, and clearing public spending arrears, was weakened by the tax amnesty program conducted in 2001. Based on Ukraine tax amnesty data, the worst tax compliance was reflected in the energy sectors (Barisitz and Pemmer, 2006).

## 2.4. Tax Amnesty in Indonesia

The tax amnesty program in Indonesia took place for nine months (July 2016 until March 2017) (Said, 2017). Tax amnesty was conducted by the Indonesian government, as some taxpayers avoided paying their liabilities by taking the following actions (Said, 2017): (a) Keep their wealth abroad and deposit or invest it in different kinds of investments such as properties and stocks without recording those assets in their annual tax file; (b) save their wealth in Indonesia in the form of deposits or stocks without recording those assets in their annual tax file; (c) keep their wealth in Indonesia in the form of belongings or cash without recording those assets in their annual tax file; (d) entrust their wealth to others who do not have a taxpayer identification number; (e) invest their wealth in illegal businesses.

According to Said (2017), there are three negative impacts of tax amnesty programs in Indonesia; one of them is that it reduces

tax compliance; however, they expect there will be another tax amnesty program for the future.

Prior to the tax amnesty program, the tax compliance level between 2006 and 2016 remained low. Based on Indonesian corruption watch research results during the period of 2006–2016, there were indications of unreporting of coal transactions (exports) of USD 27.062 billion or equivalent to IDR 365.3 trillion. This affects indications of state losses both from coal companies' liabilities to income taxes and royalties of IDR 133.6 trillion (Akbar, 2017).

## 3. RESEARCH METHOD

This study implemented a quantitative research approach using secondary data collected from the Indonesian directorate general of taxation. The data covered the pre-amnesty period (2013–2015) and during the tax amnesty period (2016–2017). The data consisted of number of submitted reports, unsubmitted reports, total number of registered taxpayers, total number of tax amnesty participants, and tax amnesty revenue collected. Descriptive analysis and regression analysis were used to analyze the data.

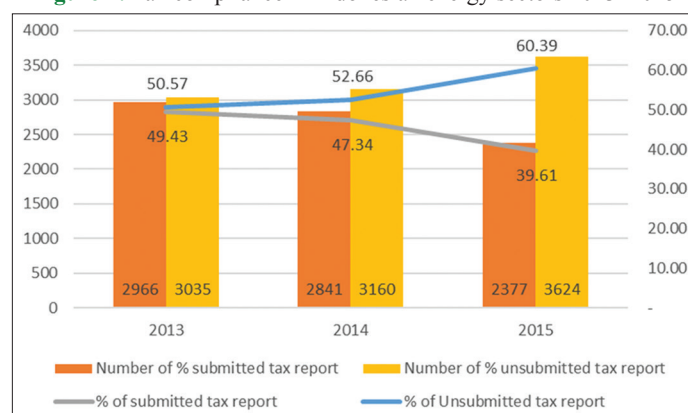
## 4. ANALYSIS

### 4.1. Tax Compliance in Indonesian Energy Sector

The data from the Indonesian directorate general of taxation between 2013 and 2015 show that the Indonesia mining company, in general, has declining tax compliance, which can be seen from the annual tax report numbers submitted to the Indonesian directorate general of taxation (Figure 1). Based on the figure, it can be seen that the total number of unsubmitted tax reports in the Indonesia energy sector has increasing substantially since 2013, which amounts to 3.035 out of 6.001 registered companies in the energy sector (50%). The figure increased to 3.160 in 2014 (53%) and to 3.624 (60%) in 2015.

To overcome the declining tax compliance, the government released a new regulation that limits the transfer pricing abuses. The issuance of Regulation of the Minister of Finance (PMK) number 213/PMK.03/2016 enables companies to no longer avoid taxes by using transfer pricing. The regulation of January 1, 2017, is also expected to have a major impact on affiliated mining companies because of frequent transfer pricing.

**Figure 1:** Tax compliance in Indonesian energy sectors 2013–2015



**Table 1: Tax amnesty revenue from renewable energy and oil and gas sectors**

Sector	Renewable energy			Oil and gas		
	Total registered taxpayer	Total participants	Total amount (IDR million)	Total registered taxpayer	Total participants	Total amount (IDR million)
Sumatera	1,307	277	46,700.0	94	1	130
Java	512	97	12,200.0	42	4	0.72
Kalimantan	2,754	378	144,100.0	41	0	0
Sulawesi	855	135	15,700.0	10	0	0
Nusa Tenggara, Papua and Maluku	573	80	2,800.0	25	1	14
Total	6001	967	221,500	221	6	144.72

**Table 2: Regression analysis for the tax amnesty revenue from the renewable energy and oil and gas sectors 2016–2017**

Dependent variable	Renewable energy	Oil and gas
Total registered taxpayers		
t-value	14.817	3.383
Sig	0.05*	0.077*
Total Participants of Tax Amnesty		
t-value	4.364	-0.790
Sig	0.049*	0.512
F	126.60	5.757
Overall R <sup>2</sup>	0.496	0.423
Adjusted R <sup>2</sup>	0.492	0.352

Dependent variable=tax revenue, \*significant at 0.1

of registered taxpayers to increase its tax revenue income, as it significantly influences tax revenue collection.

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## 4.2. Tax Amnesty Revenue from the Energy Sector

Based on the data of the Indonesian directorate general of taxation (Table 1), the largest amount of tax amnesty revenue was collected from Renewable Energy amounting IDR221,500 million collected from 967 tax amnesty participants. The oil and gas sector has a low amount of tax amnesty collection, amounting to IDR 144.72 million collected from six tax amnesty participants.

Based on the regression analysis data (Table 2), the total number of taxpayers become the most significant factor that influences the total amount of tax revenue for the renewable energy (0.05) and oil and gas sectors (0.077). The total number of tax amnesty participants only significantly influences the tax revenue collection in the renewable energy sector (0.049). The total number of tax amnesty participants has no significant impact on oil and gas tax revenue.

## 5. CONCLUSIONS AND RECOMENDATIONS

Based on the above discussion, it can be seen that, in Indonesia, renewable energy becomes the sector that gives the higher contribution to the tax amnesty program compared with the oil and gas sector. The study also shows that the total number of taxpayers becomes the most significant determinant of tax revenue collection rather than the total number of tax amnesty participants. Thus, it is recommended for the government to improve the database