

THE ADJUSTMENT OF NON-TAXABLE INCOME IN INDONESIA: ECONOMIC AND POLITICAL FEASIBILITY

Nur Arif Nugraha

Politeknik Keuangan Negara STAN

nur.nugraha@pknstan.ac.id

INFORMASI ARTIKEL

Diterima Pertama
20-11-2017

Dinyatakan Diterima
21-01-2018

*Keywords: adjustment, non-taxable income,
impact, feasibility*

ABSTRACT

Indonesian government has an extensive experience in the adjustment of non-taxable income. Indonesian government decision to adjust non-taxable income has several impacts for Indonesian citizen. The adjustment is to increase an amount of non-taxable income. The most current policy of non-taxable income adjustment is effective from 1 January 2016. Therefore, there are some positive impacts and negative impacts. In one hand, an increase of non-taxable income has an impact to increase the purchasing power of people. On the other hand, this policy has an effect on income tax revenue for the country. This paper will focus on an increase of non-taxable income from the economic feasibility point of view. The first part will explain the policy problem within the implementation. The second part will elaborate an increase of non-taxable income from the economic feasibility point of view. The final part will give a recommendation for Indonesian government about the policy implementation.

INTRODUCTION

Tax revenue is the most crucial aspect for Indonesia because it contributes significantly for the state budget. Income tax is the main aspect of the Indonesian state revenue. Indonesia has experienced in increasing the non-taxable income several times since the first income tax law was introduced in 1983 until the last adjustment of non-taxable income in 2016, which is effective from 1 January 2016.

The policy which the author reviews is a policy from Indonesian government to increase non-taxable income. Non-taxable income is an income threshold that is not imposed by taxes. Non-taxable income is a deduction to count a taxable income for individual taxpayers who receive an income relates to jobs, services, and activities in any means and forms (The Government of Republic of Indonesia, 2008).

The policy problem that the author is trying to alleviate is the purchasing power of people. Consumption is one of the indicators that determining the Gross Domestic Product instead of investment. In macroeconomic theory, the Gross Domestic Product is equal to consumption plus investment. In this policy context, consumption is closely related to the purchasing power of people (Ilyas, 2012). The purchasing power itself is determined by the amount of income that people have. The net income received by citizens might be lower after it is deducted from all expenses incurred such as bills, instalments or other household expenses. As time goes by, and the economic and monetary development as well as the cost of basic necessities is increasing, the amount of non-taxable income is adjusted after considering reasonable aspects.

ECONOMIC FEASIBILITY

A new policy implemented by the government should have an implication in every aspect, especially an increase in non-taxable income. According to the knowledge of taxation, family members who are eligible to be covered under non-taxable income is family members who do not have income and all expenses incurred by the head of his family (Candra, 2012).

The next requirement is the family members are derived from blood relatives and family members related by marriage in a straight line also includes an adopted child. Thus, dependents are given to biological children, birth parents and in-laws, especially for foster children who are eligible to enter the non-taxable income is limited to immature age (below 18 years old) and do not have income. The number of dependents is also limited up to 3 people only. Documents used as proof of dependents included in non-taxable income in the form of an affidavit, made by the employee and may be updated when there are changes in a number of dependents (The Government of Republic of Indonesia, 2008).

An increase in non-taxable income will have a direct effect to the taxpayers. The most significant effect is the purchasing power of people becomes

higher than before. Non-taxable income is identical to the standard cost of living (Saez, Slemrod, & Grietz, 2009). In general, the amount of non-taxable income is used as a limit by the government to tax a person's income. An individual who has earned income through taxable income required paying income tax to the state treasury. Considerations for determining the amount of non-taxable income are based on economic development and monetary cost of basic necessities annually. The increase in non-taxable income is also expected to ease the burden of life (Slemrod & Kopczuk, 2002).

In the midst of rising prices of basic needs recently, it is appropriate for the government to raise the non-taxable income. It is expected that by raising the non-taxable income limit, there will be more take-home income for spending and saving. The level of public consumption is expected to increase. Thus, with increasing levels of consumption, the government will receive tax payments of VAT (value added tax). VAT is a tax levied on the consumption of goods and services in the country (Candra, 2012).

The adjustment of non-taxable income is duplicating an existing policy. As mentioned earlier, Indonesia has experienced six times in increasing the non-taxable income. To simplify the explanation, I will give an illustration of the non-taxable income for the single (not married) taxpayers. Since the first income tax law was published in 1983, the non-taxable income was IDR 960,000, effective since 1 January 1984. Starting from 1 January 1985, it was increased to IDR 1,728,000. This non-taxable income was eligible until the end of 1998 when the new non-taxable income was increased to IDR 2,880,000, effective since 1 January 1999. The significant increase occurred when the non-taxable income was increased to IDR 12,000,000 since 1 January 2005, and it was only eligible only for one year. Starting from 1 January 2006, the government decided to increase the non-taxable income to IDR 13,200,000, and it was eligible for three years until 31 December 2008. The government introduced the new taxable income of IDR 15,840,000, and it was effective for four years since 1 January 2009 until 31 December 2012 (The Government of Republic of Indonesia, 2012).

Non-taxable income threshold has been raised higher than before. Before the last adjustment, anyone with a single status in Indonesia is obliged to pay income tax if earned in a year more than IDR 15,840,000. After consulting the House of people's representatives in Parliament, the government through the Ministry of Finance finally raised the non-taxable income to IDR 24,300,000 million, or if calculated per month is IDR 2,025,000. This means that everyone who does not earn more than two million per month is exempted from income tax (Djumena, 2012).

Furthermore, for those who are married, they get an additional non-taxable income. The head of a family who bears his wife and children will get an additional non-taxable income amounting to IDR 2,025,000 per year. For dependents, are allowed with a maximum amount of 3 people. Thus, an employee who is married and has three biological children who are fully covered

the cost of his life to get taxable income of IDR 32,400,000.

From the data shown in Figure 2, it can be seen that the adjustment of non-taxable income will increase the income tax revenue in general since 2005 where the non-taxable was still IDR 12,000,000, and it was eligible for one year. The income tax revenue from 2006 to 2008 indicated an increase although the non-taxable income was adjusted to IDR 13,200,000. Finally, during the period of 2009-2012 when the non-taxable income was adjusted to IDR 15,840,000, the income tax revenue also increased significantly.

The government policy to increase non-taxable income is a right policy. Although the policy implementation may decrease state income from a payroll tax, however the policy may also increase state income from it too (Rahmawati, 2013). An increase of non taxable income is a beneficial policy which led to a lighter tax burden certified by taxpayers. However, an increase in disposable income may lead to an additional household consumption, which may increase a company income. Therefore, corporate income tax may have an additional increase because of this policy (Apriliawati & Setiawan, 2017)

POLITICAL FEASIBILITY

Current economic development has experienced a slowdown. Western countries such as the U.S., Spain, and Greece are struggling with the global economic crisis. Residents in the country began to be sparing and selective in consuming. As a result European and U.S., which are originally export markets, began to reduce demand for goods from Indonesia. This impact is felt from a deficit trade balance. The government addressed the slowing exports by encouraging level of domestic consumption. For that reason, it is necessary for the government to raise the non-taxable income. Hopefully, the higher take-home pay will encourage people to consume or to invest. The addition of consumption and investment rates may ultimately increase the Gross Domestic Product (Samudro, 2012).

The adjustment of non-taxable income need to be discussed with the parliament because it is a policy which may affect most of Indonesian citizen. As representatives of the citizen, House of Representatives should be consulted in a policymaking. The purpose of the consultation meeting is to discuss the government's intention to raise the non-taxable income. It has gained the majority support from the coalition party because it would lift the purchasing power, especially for the low-income citizen.

However, the opposition parties questioned the government policy to raise the non-taxable income because it would cause the shortfall in tax revenue. In this consultation process, the government is succeeded to convince the parliament that the negative impact of non-taxable income adjustment is only for a short term, but in a long term it would have a deterrent effect to the national economic growth. Finally, after the intensive consultation the government decided to make an adjustment to the non-taxable income.

Essentially, the non-taxable income is stipulated in Article 7 of the income tax law, but the alteration of taxable income is allowed by the lower rule (The Regulation of Minister of Finance) after discussion with House of Representatives. Finally, in October 2012, the government published a Regulation of the Minister of Finance number: PMK-162/PMK.011/2012 about the adjustment of non-taxable income. The Circulation Letter from the Director General of Taxes number: SE-51/PJ/2012 about the adjustment of non-taxable income clarified this regulation. These rules are applied definitively starting from 1 January 2013 (The Government of Republic of Indonesia, 2012).

There are some significance change of events where affected the amendment of non-taxable income in the next following years. In the last two years government had amended non-taxable income twice. First, in 2015, government increased non-taxable income slightly from IDR 2,025,000 for a single person into IDR 3,000,000 annually. The government expected that an increase in non-taxable income can increase people's purchasing power. In addition, it is also expected to be an incentive for national economic growth, driven by increased public consumption. The government argues the reason is the slow economic growth and rising prices of basic needs (Ministry of Finance, 2015). However, there is a drastic escalation in 2016 where government raised the non-taxable income 50% percent into IDR 4,500,000. The legal basis for this alteration is when in June 2016, the government published a Regulation of the Minister of Finance number: PMK-101/PMK.010/2016 about the adjustment of non-taxable income. These rules are applied definitively starting from fiscal year 2016 (The Government of Republic of Indonesia, 2016). This further adjustment of non-taxable income is to protect and increase people's purchasing power. In addition, it is also one of the tax stimuli that will encourage consumption and economic growth (Ministry of Finance, 2016).

CONCLUSION

Based on both economic and political feasibility explained above, it can be concluded that the government is recommended to keep the policy because an increase in non-taxable income will have a significant effect to lift the purchasing power of people. If the purchasing power is higher, it is expected people will not only spend more on their income, but also invest their income in various instruments. As a result, the Gross Domestic Product will increase automatically because it is stated in macroeconomic theory that the Gross Domestic Product is equal to consumption plus investment. Finally, the essence of this policy is to increase the people's purchasing power. In other words, the higher income people earn, the higher purchasing power they may have.

REFERENCES

- Apriliawati, Y & Setiawan, 2017. Analisa Kenaikan Penghasilan Tidak Kena Pajak Pada Penerimaan Pajak. *Ecodemica 1(1)*, 118-126.
- Candra, A. (2012). Kenaikan PTKP Retrieved 17 March 2013, 2013, from <http://www.pajak.go.id/content/article/kenaikan-ptkp>
- Candra, A. (2012). Selamat Datang PTKP Baru Retrieved 17 March 2013, 2013, from <http://www.pajak.go.id/content/article/selamat-datang-ptkp-baru>
- Djumena, E. (2012). Gaji Rp 2,5 Juta Bebas Pajak Retrieved 17 Maret 2013, 2013, from <http://bisniskeuangan.kompas.com/read/2012/09/20/0745186/Gaji.Rp.2.5.Juta.Bebas.Pajak>
- Djumena, E. (2012). Penghasilan Tidak Kena Pajak Naik agar Daya Beli Kuat Retrieved 17 March 2013, 2013, from <http://bisniskeuangan.kompas.com/read/2012/05/31/02530762/Penghasilan.Tidak.Kena.Pajak.Naik.agar.Daya.Beli.Kuat>
- Ilyas, W. B. (2012). Makna Kenaikan PTKP Retrieved 17 March 2013, 2013, from <http://koran-jakarta.com/index.php/detail/view01/105816>
- Ministry of Finance. 2015. *Mulai Januari 2015, Pemerintah Naikkan PTKP WP Orang Pribadi Jadi Rp36 Juta*. Retrieved 7 July 2017 from <https://www.kemenkeu.go.id/Berita/mulai-januari-2015-pemerintah-naikkan-ptkp-wp-orang-pribadi-jadi-rp36-juta>
- Ministry of Finance. 2016. *Mulai Januari 2016, PTKP Naik Jadi Rp54 Juta Per Tahun*. Retrieved 7 July 2017 from <https://www.kemenkeu.go.id/Berita/mulai-januari-2016-ptkp-naik-jadi-rp54-juta-tahun>
- Rahmawati, 2013. Pengaruh Tigkat Inflasi dan Penghasilan Tidak Kena Pajak Terhadap Penerimaan Negara. *Signifikan 2(1)*, 69-80.
- Saez, E. S., Joel B.; and Giertz, Seth H. (2009). The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review. *Economics Department Faculty Publications, Paper 54*.
- Samudro, A. (2012). Analysis: GDP outlook promising despite 4Q slowdown Retrieved 17 March 2013, 2013, from <http://www.thejakartapost.com/news/2013/02/07/analysis-gdp-outlook-promising-despite-4q-slowdown.html>
- Slemrod, J. & Kopczuk, W. (2002). The optimal elasticity of taxable income. *Journal of Public Economics, 84*, 91-112.
- Tampubolon, H. D. (2012). Govt officially increases non-taxable income threshold Retrieved 17 March 2013, 2013, from <http://www.thejakartapost.com/news/2012/11/12/govt-officially-increases-non-taxable-income-threshold.html>
- Tampubolon, H. D. (2012). Rise in non-taxable income rate increases consumption and VAT but not net tax income Retrieved 17 March 2013, 2013, from <http://www.thejakartapost.com/news/2012/05/01/rise-non-taxable-income-rate-increases-consumption-and-vat-not-net-tax-income.html>

APPENDIX

**Figure 1: Non-Taxable Income from 1984 until present time
(in thousand Rupiahs)**

No.	Year	For a single taxpayer	Additional for a married taxpayer	Additional for a wife whose income is joined with her husband's	Additional for a bloodline family and related by marriage in a straight line ancestry (max. 3 people)
1	1984-1993	960	480	960	480
2	1994	1.728	480	1.728	480
3	1995-1998	1.728	864	1.728	864
4	1999-2000	2.880	1.440	2.880	1.440
5	2001-2004	2.880	1.440	2.880	1.440
6	2005	12.000	1.200	12.000	1.200
7	2006-2008	13.200	1.200	13.200	1.200
8	2009-2012	15.840	1.320	15.840	1.320
9	2013-2014	24.300	2.025	24.300	2.025
10	2015	36.000	3.000	36.000	3.000
11	2016-present	54.000	4.500	54.000	4.500

Source: The Income Tax Law, The Regulation of Ministry of Finance

Figure 2: The Income Tax Revenue of Indonesia 2007-2016 (in million rupiahs)

Year	Income Tax Revenue	Increase (Decline)	Percentage
2007	238.431,00		
2008	327.498,00	89.067	27,20%
2009	317.615,00	(9.883)	(3,11%)
2010	357.045,00	39.430	11,04%
2011	431.122,00	74.077	17,18%
2012	465.069,60	33.948	7,30%
2013	506.442,80	41.373	8,17%
2014	546.180,90	39.738	7,28%
2015	679.370,10	133.189	19,60%
2016	763.470,50	84.100	11,02%

Source: Statistics Indonesia, 2016