



An Explainer: **GENDER AND ECONOMIC INEQUALITY** IN INDONESIA

from the Perspective of Taxation
and Illicit Financial Flows



GENERAL OVERVIEW

TAX REVENUE



STATE EXPENDITURE REQUIREMENT



Tax revenue is still insufficient each year to meet the needs of state expenditure, resulting in a budget deficit that continues to have to be covered by debt. .

IDR 7,776.7 T
(MARCH 2022)

IDR 8,262.10 T
(MARCH 2024)



Growth of the State Debt

Indonesia
9% -10%

Latin America and
Caribbean, and Africa
22% and 18.2%.

Indonesia's tax ratio is lower
than other developing
countries.

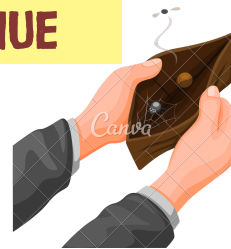


Sources of state revenue are lost to corruption, money laundering, bribery, tax avoidance and evasion, smuggling, abuse of office, and tax engineering.

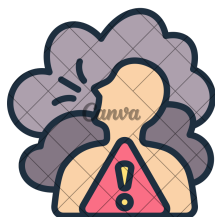
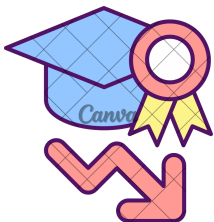
NON-TAX STATE REVENUE

=

VERY MINIMAL



Non-tax state revenue only
22.6% of tax revenue in
2022 despite the abundant
resources



Insufficient education and health budgets leads to low
quality education, high stunting rates, and limited
health services in remote areas.



Despite social protection programs, the revenue from
tax has not been able to significantly reduce poverty

The Fiscal Politics and Troubles of the Pandemic Era

Tax and Non-Tax State Revenue: Great Potential, Mediocre Achievement



2020-2022

Budget for the environment sector in the Ministry of Environment and Forestry only reached

< 1% APBN

Low Tax Compliance Level



Employees **73,65%**

Corporations **57,28%**

WP-OP **42,75%**

Tax Avoidance



Illicit Financial Flows



Corruption and Money Laundering that created a big hole in the State Budget



Selling Tax Incentives to Save Investment

even though investment in

2020 = IDR826.3 T

its impact on job creation remains LOW.



Foreign Direct Investment occurred in technology-intensive sectors, such as the basic metal and chemical industries, which do not require large numbers of workers..

Big Debt to Cover the State Budget

Indonesia's ratio of debt repayment to revenue reaches

369% di 2020

far exceeded the recommendation of the International Debt Relief (IDR) of

92-167%

and the IMF recommendation by

90-150%



State Partisanship and Weak Law Enforcement

➤ **Incentives for Troubled Corporations**

➤ **Tax Amnesty Policy without Follow-up Measures**

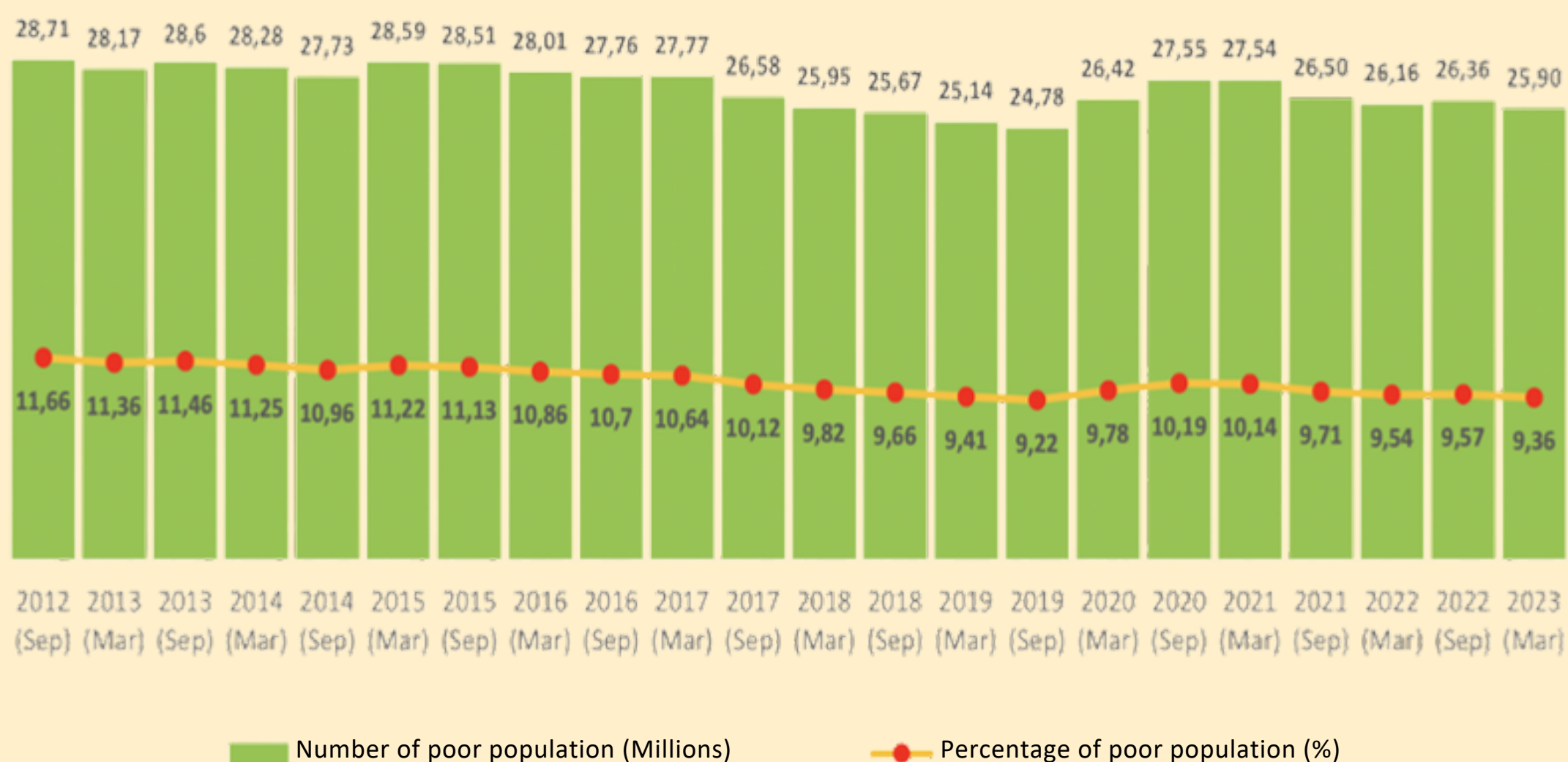
➤ **Granting Natural Resources Exploitation License**

➤ **Threat of Criminalization against the Community**

SCRAMBLING FOR CRUMBS OF STATE SERVICES THROUGH THE STATE BUDGET

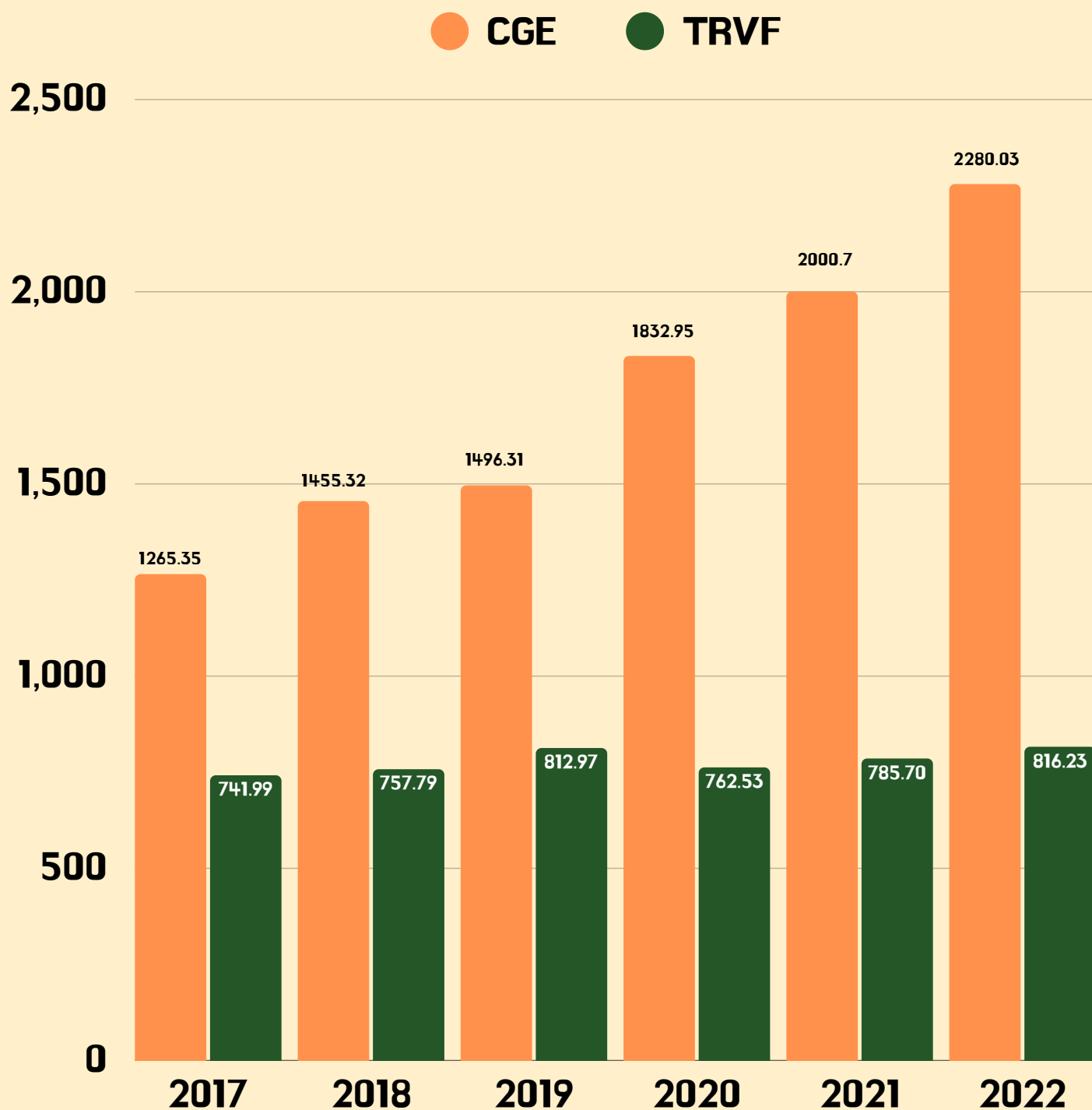
➤ Overview of Poverty, Economic Inequality and Gender in Indonesia

Poverty rate from September 2012 to March 2023



➤ Inequality in Central and Local Government Expenditure Allocation

Central Government Expenditure (CGE) Vs Transfers to Regions and Village Funds (TRVF)



Global Gender Gap Report for 2017- 2022:

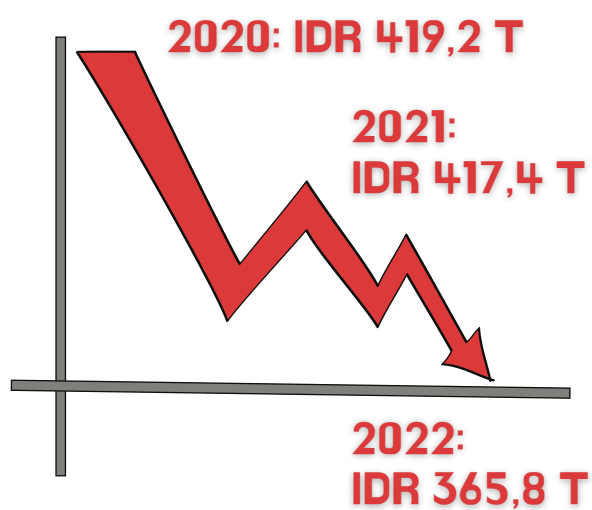


Indonesia is
ranked
**84 out of
144**
countries.

➤ Low Quality of Public Service

Infrastructure Budget

The infrastructure budget continues to increase every year ...



Education Budget

allocated on average of

20% per year

through CGE and Transfers to Regions

In 2019, the allocation decreased by 3.74% to IDR 429,5 T.

Not enough to achieve national education standards. Only met by <50% of schools.

Health Budget

The average health expenditure of 5-6% of the State Budget annually is considered small to address a large health problem.



Although the budget continues to increase, the achievement of health indicators is still low, especially in:

- ratio of health workers,
- Health Care Index,
- Wellness Index.

Budget for Social Protection

Not yet effective in reducing poverty in a long term



- Programs are not well targeted,



- focused on short-term assistance,



- corruption that hinders the achievement of long-term goals and human resource development.

Environmental budget allocation

Small budget compared to the number of environmental cases.

2021: 58 environment-related criminalization cases

- especially in
- mining sector (52%)
 - forestry/plantation (34%)



3,033 coal mining pits

not rehabilitated, which has caused

143 children died

including 37 in East Kalimantan.

Defense and security budget

The state budget allocation for defense and security funds continues to increase.



Criticism against the Ministry of Defense:

Low transparency, potential conflicts of interest and low performance accountability ratings.



Law enforcement:

Lack of professionalism and transparency, civil society reports note violence in handling protests.



Corruption Perception Index:

Low score reflects lack of public trust in corruption eradication efforts.

THE IMPACT OF FISCAL POLITICS ON WOMEN AND THEIR ENVIRONMENT

➤ The Impact of Fiscal Politics on Women and The Environment

Tax policies that regulate the revenue and distribution of development funds have direct impacts on women's welfare and protection.

Indonesia's current tax policy does not address gender issues, which makes economic and gender inequalities worse.

A more gender-transformative tax policy is needed to reduce inequality and improve women's welfare.

➤ The Roots of Gender-Based Discrimination in Taxation Policy in Indonesia

Demography and Tax Development

2022: 275.77 million population

Number of registered taxpayers in Indonesia

2002: 2.59 million
2021: 49.82 million



Tax Policy and Gender Discrimination

- Indonesian tax policy is not responsive to women's interests and needs, influenced by discriminatory laws, particularly Marital law No. 1 of 1974.

- The paternalistic principle in taxation considers men as the main breadwinner and head of the family, ignoring women's contribution as breadwinners.



Indonesian Tax Regulations Governing of State Revenues Sourced from Taxes

Law No. 7 of 1983 on Income Tax (PPh)

- **Income Tax:** Contributes 13.7% of the country's tax revenue (IDR 78.29 trillion).
- **Income Tax Law** forces married women to pay higher taxes.
- **Lack of gender segregation data** ignores women's contributions.
- **One Tax Payer Number per family**, generally under the husband's name.
- **Paternalistic taxation policy**, men are considered the main earners.
- **Women with separate tax payer numbers** are tied to the husband-wife system

Law No. 7 of 2021 on Harmonization of Tax Regulations (HPP)

- The 2021 Law Harmonization of Tax Regulations aims to increase tax revenue.
- Does not consider the impact on women.
- Introduces five layers of tax rates.
- Corporations use legal tactics to reduce taxes.
- Tax incentives for women related to family responsibilities are needed.

Personal Income Tax in Income Tax Law No. 36 of 2008

- **Economic Unity:** Family as a tax unit, combining members' incomes.
- **Husband as Taxpayer:** Husband is head of household and main taxpayer; wife is not automatic as tax payer.
- **Wife's Income:** Combined with husband, unless reporting separately.
- **Tax Burden:** a working wife doesn't receive allowance; increases the family's tax burden.

Value Added Tax (VAT) Law No. 42 Year 2009

- **VAT burdens women:** VAT on consumer goods and basic necessities are not exempted; burdening poor women.
- **Advantage to industry:** VAT exemptions favor the food industry.
- **VAT Increase:** the increase in the VAT rate from 10% to 11% increases the economic burden on women.
- **Reforms needed:** Gender-transformative tax system and women's participation

➤ The Impact of Fiscal Politics on Women and the Environment

Education programs that do not improve the quality of women's education

Budget Education

20%



but Indonesia's Human Capital Index: 0.54 (2020) below ASEAN average.

16.09% of women 15 years and older do not have a diploma, compared to 11.65% of men; 5.35% of women are illiterate vs. 2.57% of men.

2005-2016: 425 cases of corruption in the education sector costing the state IDR 1.58 trillion, impacting the allocation of budget for the education of poor women.

Health programs that do not improve the health problems of women and children

Index on Health Security: Indonesia ranked **45th** with a score of 50.8 out of 194 countries

Only **0.47 doctors** per **1,000 population** 139th out of 194 countries



Maternal Mortality Rate (MMR) reached **305 per 100,000** live births

Social protection programs that do not reduce poverty and economic and gender inequality

Human Development Index: Indonesia ranked **112 out of 193 countries**

The Social Safety Net created dependency and failed to overcome poverty.

Women in rural areas have difficulty accessing social protection programs due to complex requirements.

Environmental Protection and Women's Living Space



58

criminalization in 2021,

52%

occurred in the mining sector

3.033

open pit coal mines, resulting in 143 child death.



Land conversion causes women to lose access to food and employment, turning them into farm laborers.

Investments that Have No Impact on Reducing Women's Unemployment and Poverty

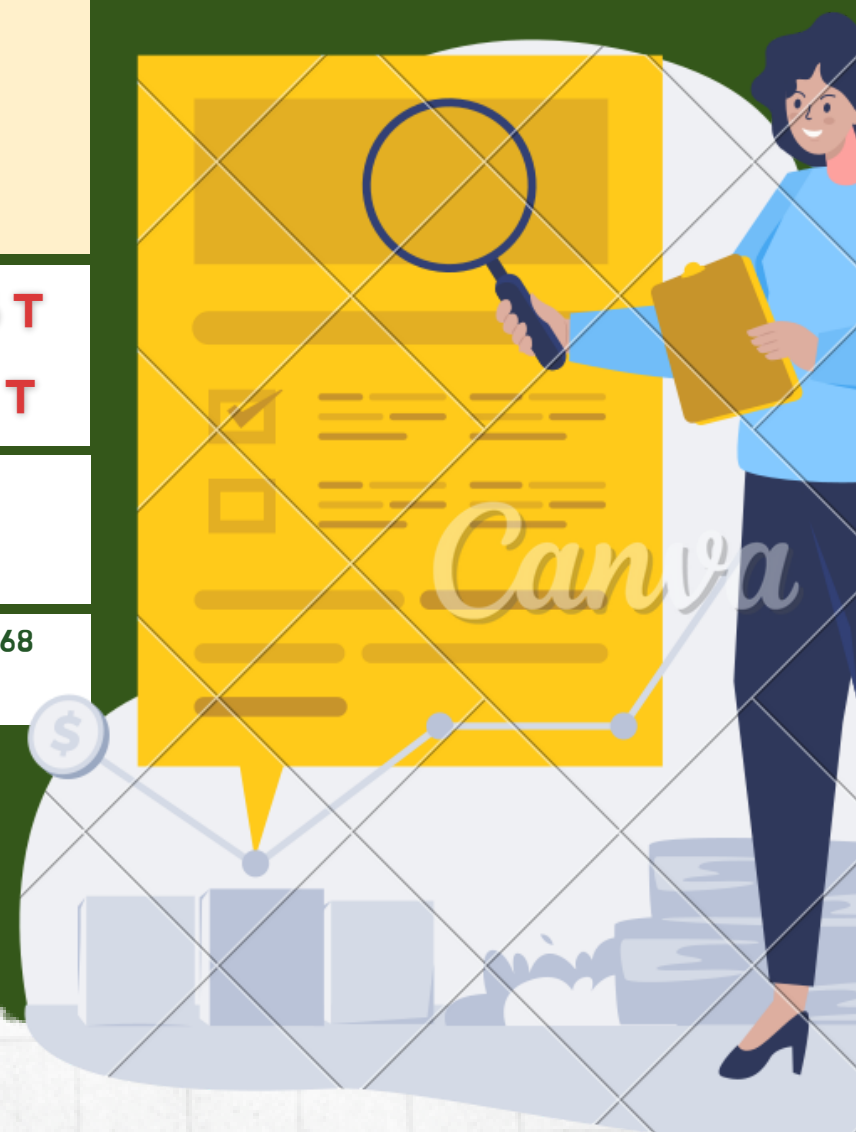
Total investment reached **IDR 826,3 T**

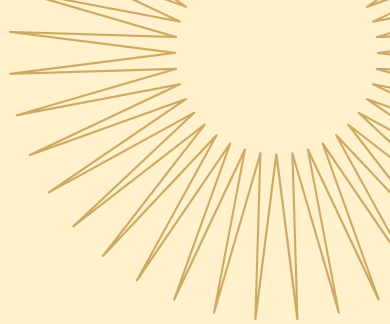
exceeded the target **IDR 817.2 T**

Labor absorption was only 235,401 to 384,892 people from 153,349 projects.



The unemployment rate was 7.07% (2.68 million people), far from the target of 4.5%-5.0%.





RECOMENDATION

Strengthen equitable tax management systems will reduce gender and economic inequalities faced by women in poor communities. **For this reason, the state must:**

- **Use tax money for women and the poor**, for example to subsidize education, health, social protection, and other social welfare.
- **Not use taxpayer money** for projects that displace people and deprive **them** of their livelihoods, thus continuing to **impoverish them**.
- **Not take on new debt** because the cost of debt burdens the state budget and robs rations for the welfare of the community, especially women.
- **The luxury tax was increased and its implementation tightened**, while the VAT on consumption of basic materials and women's needs was eliminated.
- **The recognition of women as tax subjects** even though women join the family NPWP, still recognizes women as income tax subjects.



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