Proceeding of the Launch Study

Tax and Gender Inequality in Indonesia

Title: Proceeding of the Launch Study ‘Tax Inequality and Gender Inequality in Indonesia’

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FOREWORD

Aksi! for Gender, Social, and Ecological Justice (Aksi!) is an organization whose program, Economic Justice, strengthens the voices of women in the community in the struggle against gender and economic injustice. The country's economic growth model, which relies on the exploitation of natural resources and labor, foreign debt, and foreign direct investment, is the root cause of the impoverishment process. This model continues to encourage the extraction and exploitation of natural and human resources. Consequently, economic inequality fuels the feminization of poverty in Indonesia.

The feminization of poverty due to structural economic inequality has received little public attention due to the limited information circulation on this issue. Much public attention and discussion are needed regarding this feminization of poverty, one of which is taxes, which generate economic and gender inequality in Indonesia.

Aksi! believes that solutions to the economic justice crisis need to involve progressive tax reforms that can reduce income inequality and increase investment in education and skills training. However, this solution requires a holistic approach and cross-sector collaboration to create a more inclusive and equitable economic foundation.

To raise public awareness about the impact of tax policies on gender and economic inequality, Aksi! launched the study "Gender and Economic Inequality in Indonesia from the

Perspective of Taxation and Illicit Money Outflows." This book launch generated input from various organizations and perspectives to enrich the study.

Jakarta, 2024
Aksi! for Gender, Social, and Ecological Justice

EXECUTIVE SUMMARY

Aksi! for gender, social, and ecological justice held a book launch and discussion on the results of its study, "Gender and economic inequality in Indonesia from the perspective of taxation and illicit outflows of money," on November 7, 2024, in Jakarta. This event aimed to build an understanding of the impact of taxation on economic and gender inequality in Indonesia.

The book launch was attended by 39 participants from NGOs/CSOs, women leaders, youth groups, journalists/media, and the general public. Rio Ismail and Marhaini Nasution, presenters from Aksi! for gender, social, and ecological justice, explained gender and economic inequality in Indonesia from the perspective of taxation and illicit outflows of money. Subsequently, six NGOs/CSOs provided responses based on their respective organizations' focus issues: Jaya Darmawan from the Center of Economic and Law Studies (CELIOS), Uli Arta Siagian from the Indonesian Forum for the Environment (WALHI), Meliana Lumbantorum from PWYP Indonesia, Danang Widoyoko from Transparency International Indonesia (TII), Armayanti Sanusi from Solidaritas Perempuan (SP), and Samira Hanim from The Prakarsa.

The launch of the study yielded new insights and knowledge about taxes from a women's perspective. This study enriches tax studies conducted by civil society and strengthens tax justice advocacy in Indonesia. It also helps grassroots women understand and analyze the connection between taxes and women's daily lives. Following the launch, the study's findings will be used as evidence in a judicial review of the Tax Law.

THE LAUNCHING AND DISUCSSION OF THE STUDY

Aksi! sees an increase in the feminization of poverty, where poverty is increasingly experienced by women and is always followed by discrimination, labor-sexual exploitation and violence. Aksi! conducts discussions in different regions about the poverty that occurs. One of the causes of poverty is the inability of the state to finance women's welfare. In fact, Indonesia is a country rich in both natural resources and human resources. In view of this situation, one of the causes of the state's inability is the increasing national debt, which has reached IDR 1600 trillion. Due to the high debt, the Indonesian government will increase the value-added tax in 2025, although there is information that this may not happen.

Aksi! sees the importance of addressing taxation issues because people pay taxes without understanding why and for what. Therefore, Aksi! has conducted a study related to taxes and the results of the study are presented in order to get input to enrich future studies. In addition, this study will be used as material for further awareness raising.

Presentation of Study Results

*Taxes have robbed our children.*Taxes have burdened people in their daily lives. Women see that many taxes can be used for the welfare of the people but it does not happen. This inequality is one of the foundations for Aksi! in making a study. The study was conducted by collecting information and data from various sources and methods, one of which is conducting discussions with women's groups where this group sees taxes as a burden.

The state collects taxes from the people, but it is not intended for the welfare of the people. The state exploits the environment/ecosystem, life and natural resources belonging to the people, as well as destroying or allowing the destruction of the living spaces of many people. The state also seems reluctant or even unable to return a fair share to the people and the environment. Even the state is unable to maintain and restore the ecosystem of life for the sustainability of the lives of all creatures in a fair manner.

The prevalence of various injustices experienced by women and other vulnerable groups can be attributed to the imbalanced allocation of social welfare budgets and environmental restoration and maintenance. These injustices have multifaceted consequences that require equitable resolution. Consequently, Aksi! recognizes the imperative to scrutinize state policies governing fiscal management, particularly in the domains of financing sources and the apportionment of costs derived from natural resources, along with the implementation of diverse economic activities.

This study examines three critical aspects:

- First, it explores the reasons and mechanisms by which the state has encountered difficulties in effectively managing its financial resources, leading to their failure to reach designated targets. This failure can be attributed to the erosion of these resources by corrupt practices, money laundering, and various financial crimes, including illicit financial flows (IFF).
- Second, it analyzes the strategies the state can employ to address the limitations imposed by its budget in order to advance the interests of women. The study will examine the state's budgetary allocation process (APBN/State Budget) to identify opportunities for enhancing the proportion of budgetary resources allocated to promote justice-related interests for women and to safeguard ecosystems and the environment.
- The study will also explore the state's response to the challenges faced by women who lack access to social services due to budgetary constraints and the degradation of ecosystems in various regions

Findings

Components of Tax

Historically, taxation has been ingrained in injustice, despite its conceptual basis in justice. Taxes fail to reach the proportional amount intended, and they are eroded by illicit financial flows, as well as by corruption and money laundering practices, such as illicit enrichment and trading in influence. This practice has not been explicitly regulated in the Anti-Corruption Law.

During the 2017-2022 period, taxes constituted the primary contributor to state revenue; however, tax revenue failed to reach its targeted levels on an annual basis, with an average of approximately 78.24% per year. Only in the 2021 and 2022 fiscal years did revenue surpass the APBN target. The government has asserted a decline in the achieved amount, citing, for instance, the PNBP.

A significant proportion of the population remains non-compliant with tax obligations. Notably, taxpayers who demonstrate compliance are often from lower economic backgrounds.According to the June 2022 political indicator survey, women exhibit a higher level of mandatory compliance compared to men. Despite having fewer Non-Filer Withholding Permits (NWFPs), women demonstrate a higher level of tax return filing and tax payment compliance compared to men.The survey findings indicate that;

- 55.4% of women report filing tax returns, while only 50.1% of men do so.
- A study of tax compliance reveals notable gender disparities, with 70.5% of women paying taxes, compared to 56.7% of men.
- Furthermore, 55.4% of women reported filing tax returns, while this figure dropped to 50.1% for men.
- Finally, 31% of men admitted to having a TIN, while only 23.9% of women did

Law No. 7/2021 on Income Tax established a new progressive income tax rate of 35% for individuals with income above IDR 5 billion. This group of taxpayers is referred to as high net worth individuals (HNWI), and the criteria for inclusion are a net worth of USD 1 Million. The number of HNWIs recorded in 2022 reached 82,012 people (0.1%) of the total taxpayers. However, HNWI taxpayers' contribution to total tax revenue is minimal, amounting to only 0.96%. In contrast, employee personal taxpayers contribute up to 11% of tax revenue, indicating that the tax burden is predominantly shouldered by ordinary employees rather than individuals with substantial wealth.

Tax avoidance

Global Financial Integrity (GFI) has reported that between 2004 and 2013, Indonesia experienced losses amounting to US$ 180.71 billion due to tax avoidance, equivalent to Rp 2,100 trillion. This indicates that Indonesia loses approximately IDR 210 trillion in revenue annually. Furthermore, in 2016, GFI reported that Indonesia lost tax and royalty revenues of US$ 6.5 billion, equivalent to Rp 62.86 trillion, due to trade misinvoicing or the misuse of billing data in international trade transactions.

Furthermore, Prakarsa's research indicates a potential loss of tax revenue amounting to USD 11.1 billion or IDR 107.34 trillion for the period between 1989 and 2017. This loss is attributed to the practice of trade misinvoicing on six primary export commodities: palm oil (CPO/crude palm oil), coal, rubber, copper, crustaceans, and coffee. Furthermore, Indonesia experienced a significant loss of potential taxes from coal exports, amounting to USD 5.32 billion or IDR 51.44 trillion, and even potential PNBP from coal and copper royalty revenues, with a total value of USD 2.96 billion or IDR 28.62 trillion during the period 2000-2017.

Why is the achievement not growing healthily and progressively?

Since 2015, the Corruption Eradication Commission (KPK) has repeatedly emphasized the significant economic potential inherent in the management of natural resources, along with the attendant risks of corruption, money laundering, and tax evasion. However, in recent years, this issue has received minimal attention in the legal process.

The 2018 National Movement for the Rescue of Natural Resources (GNP-SDA) Evaluation Synthesis Report, for instance, indicates that state losses due to illegal logging amount to Rp 35 trillion per year. Furthermore, it was observed that from 2003 to 2014, the potential annual production of roundwood was significantly underreported, with the state facing a yearly deficit ranging from Rp 5.24 trillion to Rp 7.24 trillion.

Conversion of forests for other sectors through timber utilization permits (IPK) also results in potential state losses ranging from IDR 49.8 trillion to IDR 66.6 trillion per year during the same period. Additionally, there is a shortfall in mining tax payments in forest areas, amounting to IDR 15.9 trillion per year on three islands: Kalimantan, Sumatra, and Papua. The Corruption Eradication Commission (KPK) has also identified a potential revenue loss of approximately IDR 28.5 trillion due to administrative challenges, inadequate licensing systems, and a deficient state revenue control system.

Furthermore, the state faces potential losses amounting to IDR 70 trillion per year from the marine and fisheries sector's potential GDP. This figure is particularly striking when viewed in contrast to the non-tax state revenue (PNBP), which, at the time, amounted to a mere IDR 230 billion per year. Despite being warned by the Corruption Eradication Commission (KPK), as of 2020, the non-tax state revenue (PNBP) from the fisheries sector has only increased to IDR 957.10 billion.

Selling tax incentives, saving the business sector

Since 2017, the government has continuously increased incentives or tax spending to pamper the business sector. The accumulated amount of tax incentives from 2017-2022 is IDR 1,571.9 trillion. In terms of government spending, tax incentives related to economic services were the only major incentive throughout 2017-2022. According to the Indonesian government, the increase in tax incentives and special support for corporations and MSMEs was carried out to prevent bankruptcy, avoid layoffs, and encourage economic activity to continue.

Weak law enforcement

Until 2022, the government is still ambiguous and even systemically provides incentives or hidden subsidies to various business entities or corporations that are not only in trouble with taxes but also with the environment and society. The Corruption Eradication Commission's findings and the views of various experts regarding cases of tax avoidance and the link between tax, corruption and money laundering have often been made public. However, the law enforcement process is still slow, even though a number of people have been or are being prosecuted.

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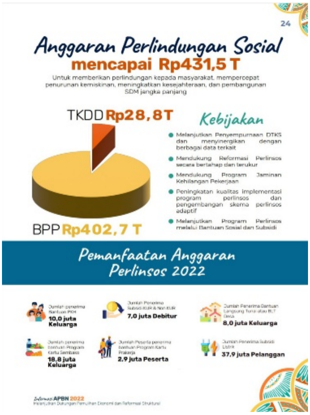

A snapshot of state policy in distributing wealth and tax and non-tax revenue

In 2022, the value-added tax will increase from 10% to 11%, which will have an impact on women, including the economic burden on the family. Poor women are also vulnerable to the impact of inflation, where as taxes increase, needs increase, making it difficult for women to manage and even reduce family meals. Poor women are more vulnerable to the effects of inflation. This can be seen during the COVID period, where inflation occurs but people's purchasing power decreases. In

2024, deflation occurred because people's purchasing power decreased as people lost their livelihoods. With the increase in food prices, women have to adjust the family's diet, reduce the purchase of nutritious foods and meal portions, and so on..

Education

- Education budget averages 20%, but available budget has not yet improved quality of education
- Human Capital Index (HCI) score of 0.54 (2020) below ASEAN average: measures of survival to school age, expected years of schooling or years of schooling, health/stunting
- Low Program for International Student Assessment or PISA scores (on measures of mathematics, science, and reading)
- Lowest university enrollment rate in ASEAN
- High rate of corruption in the education sector; 423 cases of corruption in the education sector in 2005-2016
- Approximately 16.09% of females aged 15 years and above do not have a diploma, 11.65% of males. As many as 5.35% of women aged 15 and above are illiterate, compared to 2.57% of men. (BPS 2021)
- The average length of schooling is still very low, only 8.3 - 8.5 years or equivalent to grade 2 of junior high school. Due to the low level of education, women find it difficult to get a job and work mostly in the informal sector with long working hours, low wages and unprotected.
- According to the results of the consultations organized by Aksi! in 10 cities, the obstacles for women to get

education are; (1) not having money, (2) not being allowed to go to school, (3) not being allowed to choose a school.

- Women's schools are also not of high quality, which leads to the lack of a strong network.
- Children who live in rich families will have a more promising future due to strong capacities and networks, while children who live in poor families have the potential to remain poor due to weak capacities and networks.

Health

- The average rate is 5-6% per year. This is a very small allocation to address such a large health problem.
- The available budget has not been able to improve the health problems of women and children;
  (1) The high maternal and child mortality rate, MMR in Indonesia until 2019 still reached 305 per 100,000 live births. This means that there are about 305 mothers who die in 100,000 live births,
  (2) The low quality of life of women; for the Nutrition Adequacy Rate (AKG), 40% of the community is not adequately nourished, about 1,738 kcal per capita per day. And this is below the AKG standard of 2,100 kcal. (BPS 2022).
  (3) Stunting reaches 30%.
- Drug prices in Indonesia are among the highest in ASEAN.
- The low achievement of global health indicators related to; (1) the ratio of doctors and nurses to the population, the ratio of Indonesian doctors according to WHO is also relatively low. In 2019, Indonesia had

only 0.47 doctors per 1,000 people, which means that 1 doctor served 19,000 people, which is far below the WHO standard of at least 1 doctor per 1,000 people; (2) the health care index; and (3) the wellness index, which includes physical, mental, environmental, and social.

- Access to health care in rural areas and islands is still very low. This can be seen in the minimal number of hospitals and medical personnel, as well as the many cases of mothers dying in childbirth.

Social Protection

- The budget for social protection is only about 12-15%.
- Has not been able to reduce poverty, economic and gender inequality.
- Indonesia's poverty rate has declined very slowly since 1999. The rate of reduction is also not in line with the 2015-2019 RPJMN targets of 7.0-8.0% and the 2020-2024 RPJMN targets of 6.5-7.5%.
- Indonesia ranks 7th in terms of inequality, with the richest 1% of Indonesians controlling 36.6% of national wealth.
- Communities not involved in social protection planning (perlinsos)
- Criticism: Social protection is only to alleviate the turmoil, funds are given minimally and are not able to reduce poverty, the program does not empower, stuck in the social safety net (JPS), understood only as social assistance (such as PKH, BLT, BOS, BPNT, etc.), has not targeted communities affected by the

environment due to development projects; evictions, no compensation, etc.

- Based on the results of the 10 cities consultation, protection programs are not well targeted, especially in areas where SDA conflicts occur.
- There are still many women who find it difficult to access social protection programs.
- Women informal workers do not have health insurance because work is considered to be paid with health insurance. This has resulted in women informal workers not having access to KIS (Indonesian Health Card).
- Maternity protection is not maximized by both KIS and BPJS Kesehatan

Investment

- Provide incentives and subsidies in the form of tax deductions, mini tax holidays, and investment allowances to encourage investment.
- Address the challenges faced by women, who make up a significant portion of the unemployed or those working in the informal sector.
- Labor absorption is only around 235 thousand to 380 thousand people, far from the target of up to millions of people.

Environmental protection

- Criminalization in mining, forestry, plantation and coastal areas

- Unrehabilitated former mines that have led to hundreds of child drowning deaths in several ex-mining ponds
- In 2021, there were 58 cases of criminalization in these sectors

Response from Responders

Jaya Darmawan - CELIOS

- Aksi! tries to take a broad look at the state budget and the link between gender and economic inequality, especially with data that is not easily available.
- This is in line with what CELIOS publishes on inequality in Indonesia.

- The issue of gender inequality is related to salary inequality. The reason for this is the level of education that causes women to earn less than men.
- One way the state could help is by investing more in education.CELIOS believes that Indonesia can provide free education by managing the state budget better.
- Another important issue is child marriage, which makes it hard for women to get an education. We need to look at areas where child marriage is common.
- Social services are a basic right for all people and should be provided. Instead of spending more on social services, the government is more interested in spending more on security. This suggests that security is a priority, but it can also lead to corruption.
- The state is in charge of the budget, the DPR oversees the budget, and the community is also important to make sure the budget is used for the people's well-being.

Meliana Lumbantoruan – Publish What You Pay (PWYP)

- The results of the Aksi! study cover a lot of topics, making it a good starting point for anyone interested in the subject.
- To make the most of it, we need to explore the sub-themes more thoroughly.
- Since the study was conducted in 2023, it should be updated to reflect the current government situation. It is necessary to add recommendations that can be given to the new government by looking at the study from 2017-2022.

- Prabowo-Gibran has Asacipta number 7 and more commitments related to taxation. Therefore, it needs to be studied again, such as the reduction of income tax and tax exemptions for MSMEs that have only been formed in the last 2 years.
- The tax trend in Indonesia is 10%, but the target of the partnership between Gibran and Prabowo is 23%. Is this possible?
- Gender inequality and economic growth are connected: when gender inequality is higher, economic growth is lower.
- Singapore offers a tax incentive for women who give birth, and in Africa, there are tax exemptions for baby diapers. In India, there are tax exemptions for sanitary pads. Women in developing countries buy essential materials. It's important to have taxes that support women so they can get the things they need.

Uli Arta Siagian – WALHI (National Indonesian Forum for The Environment)

- WALHI is important when we talk about managing and protecting the natural resources that are essential for people's lives.
- Women are left out of the conversation. Their knowledge and role in managing natural resources is ignored, which also leads to their exclusion when it comes to budget decisions.
- In the natural resource management style, the government easily gives out licenses that can lead to tax avoidance and corruption because the number of

licenses is much higher than the number of inspections and law enforcement is not enough.

- This leakage doesn't just happen with taxes; it also happens upstream.
- Companies that control areas in Indonesia are given many incentives, but the price to the public keeps going up.
- Many companies don't pay taxes because they don't have HGU or they're operating illegally in the forest. This is because there's a lack of supervision.
- A large part of the budget for security, defense, and infrastructure is used to "silence" communities that are resisting.
- Infrastructure does not focus on remote areas.
- Huge sums of money are made from extracting natural resources in areas where people are poor. This causes environmental damage and other problems. However, very little money is spent on supervision, protection, and law enforcement.

Armayanti Sanusi – Solidaritas Perempuan (SP)

- Gender inequality in politics is seen when we look at the structures and power relations in the state and society.
- The state has adopted a patriarchal socio-cultural system in its policies.
- Law No. 36 on Income Tax mentions the family unit where men are the economic providers.
- In a patriarchal system, women are expected to provide clothing and food for the family. This means

that the VAT affects women's ability to meet their family's needs.

- High tax inflation, with unclear distribution, especially for education, health, and social protection, can indicate the use of black money to fund the state budget.
- The Job Creation Law encourages increased investment and affects derivative regulations that ensure ease of investment for the extractive and energy sectors.
- However, investment projects can lead to increased feminization of impoverishment, rights violations, and violence against women (for example, in agrarian conflicts).

Samira Hanim – The PRAKARSA

- This research is important because there is not much research on the relationship between taxes and gender inequality.
- Why should women's organizations learn about taxes? Why should women know about taxes? This shows that women don't know much about taxes. So, it is important to make recommendations.
- The next step for Aksi! is to continue improving women's understanding of taxes and the economy. We also need a strategy to increase women's participation in the formal economy.
- In March 2022, when Indonesia was invited to the G20 presidency, the OCD invited the Assistant Ministry of Finance and several OCD leaders to discuss the relationship between gender and tax.The Ministry of

Finance said that there are three aspects that are studied: increasing access to education, health, and leadership for women. They also want to increase economic access and training for women.But from 2022 until now, there has been no visible impact of these targets for women.

- When we look at the Indonesian economy and taxes, there are three broad categories: income tax, sales tax, and property tax.
- On income tax, the clear inequality is that the Non-Taxable Income (Penghasilan Tidak Kena Pajak/PTKP) is only imposed on men. When women choose a different NPWP, they are not subject to PTKP. This is different from other countries, such as Singapore, which reduces PTKP twice when women give birth.
- The poor are very tax-compliant but get little benefit from the tax.However, objective taxation does not see the difference between men and women.In terms of consumption patterns, women contribute more than men.
- There is a tax on assets based on ownership. When women get married, their assets tend to be under the ownership of men as the head of the family.
- Many women work in the informal sector, which limits their access to credit because banks exclude informal workers. Meanwhile, in other countries such as Nepal, there are laws that provide tax exemptions for property ownership for women.
- When talking about gender inequality and taxes, we must consider whether women benefit from these taxes. In Indonesia, the rich people are the ones who

benefit from the tax revenue, even though this group already has enough money and does not need or receive help.

Danang Widoyoko – Transparency International Indonesia (TII)

- Aksi!'s studies cover a lot of different topics, from financial connections to IFF to poverty and gender inequality. This means the topics will always be relevant.
- What's the difference between a tax officer and a thug? They're basically asking for money in a way that feels forced. When the state collects taxes, people might question how much control and supervision it really has.
- The Indonesian economy is shifting from liberalization to nationalization to increase the state's revenue share. Companies were nationalized to boost the country's income and revenue.
- Downstreaming was a form of nationalization of the economy that favored nationalists, but many international companies were given the facility.
- The state increased revenue through willpoll tax, where the state should have asked for a share. When prices of goods like cooking oil go up, the government is confused because goods become scarce, which harms the public. The state should get a share when prices rise, but it doesn't.
- The state has problems with taxation, especially with regulation, monitoring, and imposing penalties or sanctions.

- If the economy is strong, the largest portion of revenue comes from income tax, not value-added tax (VAT).
- There is a lot of corruption at the border, especially in the trade export-import sector. This has been happening since the country gained independence. The government is not brave enough to make changes, such as changing quotas to tariffs.
- The financial flow conditions depend on the country's capacity.
- Countries such as Singapore and China, which have increasing deaths and decreasing births, consider health facilities. The same is true for education, as schools are not just places to seek knowledge and teach, but also to seek money, votes, and power.
- Tax administration with gender: the NPWP for married women is more difficult to obtain, so more women choose to enter their husband's NPWP. There is a structural problem with the tax system.
- We need stories from people who have experienced problems or situations that occur, such as early marriage, not attending school, and others. The results of the Aksi! study should include stories from women, not just statistical figures.


PELUNCURAN HASIL KAJIAN DAN DISKUSI:

Recomendation

- Expand and deepen the review, including the themes that should be explored further.
- Monitor the state budget, including how taxes are distributed and allocated.
- Make tax awareness a movement so that it can address systemic issues caused by the government's inability to oversee the sources of people's lives, which are often used for extraction and economic dependence.
- Showing the lives of women and other vulnerable groups, and involving the people most affected as researchers- It is important to encourage tax justice in the middle class movement to criticize taxes because the middle class has the potential to drive change. The middle class tends to be well-educated and has a modest income, so the middle class must be involved in protesting injustice and poverty. Addressing inequality is not solved by social assistance, but by economic empowerment.

Aksi! for gender, social and ecological justice was founded on March 8, 2012. The organization talks about development and climate change policies to protect and promote human rights, women's rights, and the rights of affected communities.

Aksi! is involved in discussions about development and climate change policies to protect and promote women's human rights and the rights of other affected communities. They also support local women's efforts for gender, social, and environmental justice.

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