How can RI benefit from global tax cooperation?

The Jakarta Post · 12 Jun 2017 · Yulius P, Hermawan The writer is a lecturer at the Department of International Relations, Parahyangan Catholic University in Bandung. He is active in the Think 20 network under the German presidency.

President Joko "Jokowi" Widodo now has more confidence to attend the upcoming G20 Summit, which will be held in Hamburg, Germany, in July of this year.

After having a long debate about the importance of an exchange of information on taxation and its possible implications for the bank secrecy law and investment in Indonesia, on May 8 the government issued Government Regulation in Lieu of Law (Perppu) No. 1/2017 on financial information access for taxation purposes.

The Perppu authorizes the finance minister to conduct an exchange of information on taxation with foreign tax jurisdictions. This is an important commitment that Indonesia declared to the G20 and Organization for Economic Cooperation and Development (OECD) member countries in 2014.

The Indonesian government recognizes an urgency in the introduction of the Perppu. Indonesia could be considered a country that fails to meet its commitments on the automatic financial information exchange if it is unable to introduce the legal framework by June 30.

The credibility of Indonesia as a G20 member and the trust among investors will be at stake. Indonesia may also be classified as a destination country for illegal financial transactions.

The urgency has a strong basis of argument. In a report recently published by the OECD, Indonesia and Turkey are the only two G20 member countries that are classified "partially compliant." Other G20 members are already classified as either compliant or largely compliant in their ability to meet their commitments on the Automatic Exchange of Information (AEOI).

The OECD is also concerned about Indonesia's ability to provide information in a timely manner (90 days). Another concern is the lack of awareness among local tax authority officials, which will affect the duration of the process of obtaining the requested information.

The enactment of the Perppu demonstrates that Indonesia has a strong commitment to promote global cooperation in tackling tax evasion.

The government has now the legal instrument to obtain and provide the requested information on taxation.

The Perppu authorizes the director general of taxation to have access to the financial information of financial service institutions, including in the banking sector, capital markets, other financial services and other relevant financial entities.

The information includes the identity of account owners, financial account numbers, the names of financial service institutions, the financial accounts' balances or values and incomes.

The Perppu also rules on the procedures for verification of the financial account identification, report mechanisms (either electronic or non-electronic) under the authority of the director general of taxation to request information, evidence or confirmation from the financial service institutions and the authority of the finance minister to conduct exchanges of information with other foreign tax jurisdictions (treaty partners).

The Perppu constitutes a legal basis for the government to respond to foreign tax jurisdictions' requests within the agreed time. Indonesia has been committed to beginning the exchanges in 2018 and there are thus only a few months left to implement the law.

The Perppu clearly helps the government to serve the interests of its treaty partners. This leads to a challenging question: How can Indonesia itself benefit from the information exchange cooperation?

For Indonesia and other G20 leaders, the AEOI is a very strategic means to tackle tax evaders. For Indonesia, the cooperation is particularly important for mobilizing domestic resources that can be used to finance the development agenda.

Following the implementation of Indonesia's ambitious tax amnesty, it is now the right time to ensure that every taxpayer respects Indonesian tax law.

To get benefits from the cooperation, the government needs to pursue two priority agenda items.

First, Indonesia needs to develop a better internal system before the exchanges can effectively take place in 2018. It includes the establishment of a common reporting standard and an effective coordination between national and local tax offices.

Second, Indonesia must review the existing bilateral agreements with foreign jurisdictions to ensure that the agreement can fully function as a legal basis for the mutual cooperation.

Indonesia has already signed agreements on the information exchanges with 77 jurisdictions. Seventy-one agreements are in the form of Double Taxation Avoidance Agreements (Double Taxation Convention/DTCs) and six in the form of Tax Information Exchange Agreements (TIEAs). The DTA was made initially to promote cross-border trade, avoid double taxation and prevent fiscal evasion. The DTA is now also an instrument to obtain tax information to fight against tax evasion and avoidance.

Another important agenda item includes ratification of 11 agreements that were already signed with foreign jurisdictions, but not yet ratified.

After all necessary legal frameworks are well established, the next agenda item is to become accustomed to the OECD's procedure of sending requests to the treaty partners.

The government must be proactive in identifying any crossboundary financial transactions that may cause tax losses because of tax evasion. The government needs to develop a regularly updated list of jurisdictions where Indonesian citizens and national and multinational corporations may be getting involved in tax evasion.

Of course, this approach will only work optimally if the government continues to promote the transparency and accountability of the domestic tax system.