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# HOW INDONESIA'S GOVERNMENT CAN RAISE US\$32 BILLION WHILE SAVING THE PLANET



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Hunting in a zoo in the context of taxation describes an approach that targets only taxpayers who are easy to identify, well-documented, and already compliant, such as civil servants, teachers, lecturers, private employees, labourers, formal-sector companies, and MSMEs. Instead of pursuing the wealthy, large corporations, or entities that conceal wealth and avoid taxes through complex schemes, such as transfer pricing or the use of tax havens, this approach focuses on the “low-hanging fruit.”

The analogy of "animals in a zoo" refers to taxpayers who are already "caught" within the system, while the "wild animals in the forest" are those with high incomes, such as billionaires, who nevertheless escape the tax radar.

”



# Key Findings

## Alternative State Revenues

# US\$ 31.91 billion

Total potential state revenue if various progressive taxes are implemented

### Review Tax Incentives



Potential revenue solely from reviewing and cutting misdirected tax incentives

### Wealth Tax



Potential revenue from taxing the wealth of just the 50 richest people in Indonesia

### Carbon Tax



Potential revenue from implementing a carbon tax

### Coal Production Tax



Potential revenue from taxing the coal mining sector

### Windfall Profit Tax in the Extractive Sector



Potential revenue from a windfall tax on consecutive profit increases due to commodity price booms

### Biodiversity Loss Tax



Potential revenue if biodiversity loss is compensated through a taxation scheme

### Digital Tax



Potential revenue from large digital companies paying digital taxes

### Increase in Inheritance Tax Rates



Potential revenue from raising inheritance tax rates

### Third-Home Ownership Tax



Potential revenue if ownership of a third home is subject to taxation

### Capital Gains Tax



Potential revenue if gains from shares and financial assets are taxed at higher rates

### Sugar-Sweetened Beverages (SSB) Excise



Excise policy on sugary drinks can support public health while also boosting state revenue

\*Note. The calculation assumes an exchange rate of IDR 16,421 per US dollar as of May 5, 2025



# INTRODUCTION

The world is currently facing an extreme wave of public budget austerity. Governments worldwide continue to cut spending to close their fiscal deficits. The cause is straightforward as many countries are becoming increasingly economically vulnerable due to shrinking fiscal space, pressured by debt burdens, the need for subsidy spending, and uncertainty in state revenues. The problem is that developing countries require fiscal expansion to support development and public welfare. Budget cuts can have serious consequences, forcing the cancellation of various strategic investment projects and compelling governments to reduce or reallocate funds for citizens' basic needs, thereby hindering social development.

In the Indonesian context, the trend toward fiscal austerity has been growing stronger. The Prabowo–Gibran administration has announced budget cuts targeting up to IDR 750 trillion (US\$45.6 billion)<sup>1</sup>. As stipulated in a Presidential Instruction, the initial phase of budget efficiency is expected to generate IDR 306 trillion (US\$18.6 billion). This budget efficiency policy was chosen as a reactive fiscal response to the sharply rising debt maturities. In 2025, debt repayments are set to reach IDR 800.33 trillion (US\$48.7 billion)<sup>2</sup>, limiting fiscal flexibility for strategic programs. The policy has been followed by efficiency measures across all sectors, including cuts to operational spending in ministries and agencies, the postponement or cancellation of non-priority projects, and adjustments to capital expenditure targets.

The government argues that budget cuts will not affect public services. Time will tell whether these cuts prove effective. However, in recent months, as budget reductions began to take effect, the economy has shown no signs of recovery. Layoffs have continued to increase following the efficiency measures<sup>3</sup>. One reason is the slowdown of cash flow at the grassroots level, as state budget funds, supposed to stimulate the people's economy, were redirected toward ambitious programs such as free nutritious meals, the Merah Putih village cooperatives, and capital injections for Danantara<sup>4</sup>. The benefits of these programs have yet to be directly felt by low-income communities, meaning the money has not truly flowed back into their hands.

The government should not rely too heavily on cutting existing budgets as the primary means to address fiscal constraints. At the same time, what is needed is a fairer and more sustainable strategy, strengthening the revenue side by expanding the tax base, especially from alternative sources. This way, the state can maintain essential social programs for the public while progressively closing fiscal gaps without burdening already vulnerable groups. This approach also reflects fiscal justice, where those with greater economic capacity contribute more toward financing development.

This study aims to identify and evaluate various alternative tax revenue sources that the Indonesian government can utilize as a strategy to strengthen its fiscal structure. The study is expected to provide policy recommendations that are fair, progressive, and sustainable, helping to expand the state's budgetary space and safeguard social justice amid economic pressures. Budget cuts are not the sole solution, the government has not yet explored all alternatives for expanding new, more progressive revenue sources.

- 1 Kompas.com. (2025, Februari 15). *Prabowo sebut bakal ada 3 putaran penghematan anggaran untuk kumpulkan Rp 750 triliun*. <https://money.kompas.com/read/2025/02/15/191515326/prabowo-sebut-bakal-ada-3-putaran-penghematan-anggaran-untuk-kumpulkan-rp-750>
- 2 Direktorat Jenderal Pengelolaan Pembiayaan dan Risiko Kementerian Keuangan. (2024, 30 November). *Posisi Utang Pemerintah Pusat DJPPR Kementerian Keuangan*. Diakses dari situs resmi DJPPR.
- 3 Kementerian Ketenagakerjaan Republik Indonesia. (2025). *Data Pemutusan Hubungan Kerja (PHK) Nasional Januari–Februari 2025*. Satudata Kemnaker. <https://satudata.kemnaker.go.id/data/kumpulan-data/2671>
- 4 Kompas.com. (2025, Februari 15). *Dana hasil efisiensi anggaran disalurkan ke makan bergizi gratis dan Danantara* [Liputan berita]. Kompas.com. Retrieved from Kompas news article <https://money.kompas.com/read/2025/02/15/200755526/dana-hasil-efisiensi-anggaran-disalurkan-ke-makan-bergizi-gratis-dan-danantara?utm>



“

Indonesia’s debt has reached IDR 32 million (US\$1,948) per person. We will never escape the trap of foreign debt if state revenues are allowed to leak and stagnate.

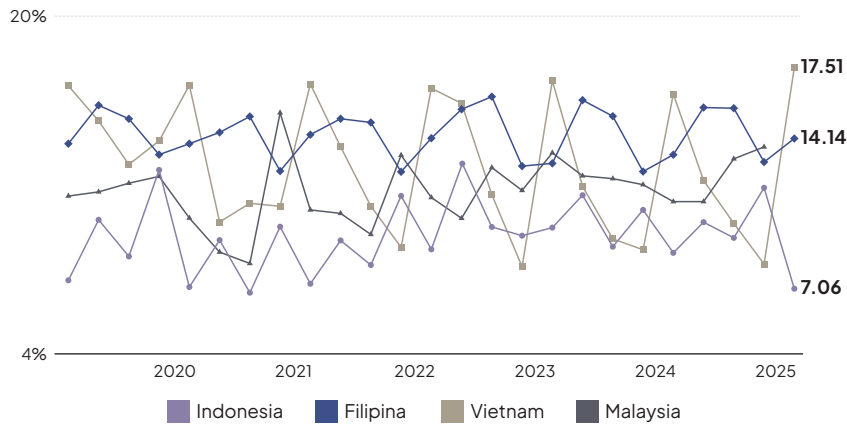
”

# INDONESIA'S TAXATION ANOMALY

**Indonesia continues to face serious challenges in building a robust and sustainable state revenue structure.**

The tax-to-GDP ratio remains stagnant and relatively low, with the first-quarter (Q1) 2025 reaching only 7.95%. This marks a decline from 2024's performance, which recorded a tax ratio of 10.8%. This figure is far below the promised target of 23%. In fact, over the past three years, the share of tax revenues for the January–May 2025 period has dropped sharply by 47.4%. Long-term projections for state revenues also send discouraging signals.

Figure 1.  
Tax-to-GDP Ratio

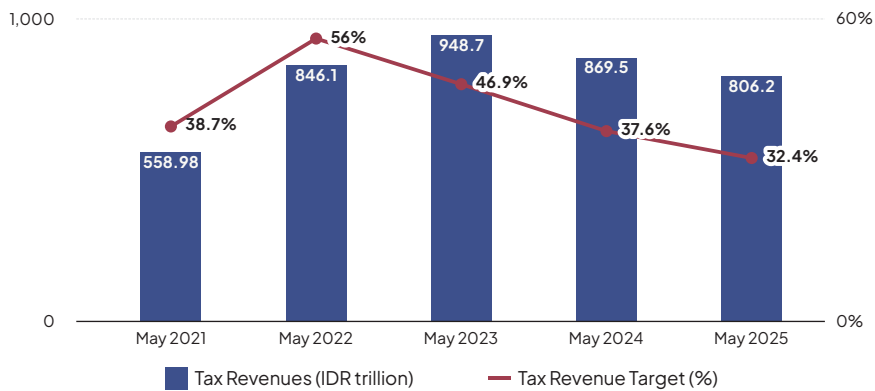


Source: CEIC, 2025

Based on the figure above, Indonesia’s tax ratio has consistently been lower than that of the Philippines, Vietnam, and Malaysia from 2019 to the present.

Indonesia’s tax ratio trend has also remained stagnant over the past two decades, indicating the government’s weak capacity to increase tax revenues. This lag signals that Indonesia is facing a crisis of fiscal effectiveness, in which economic growth does not contribute proportionally to increasing state revenues.

Figure 2.  
Comparison of Actual and Targeted Tax Revenues (2021–2025 period)

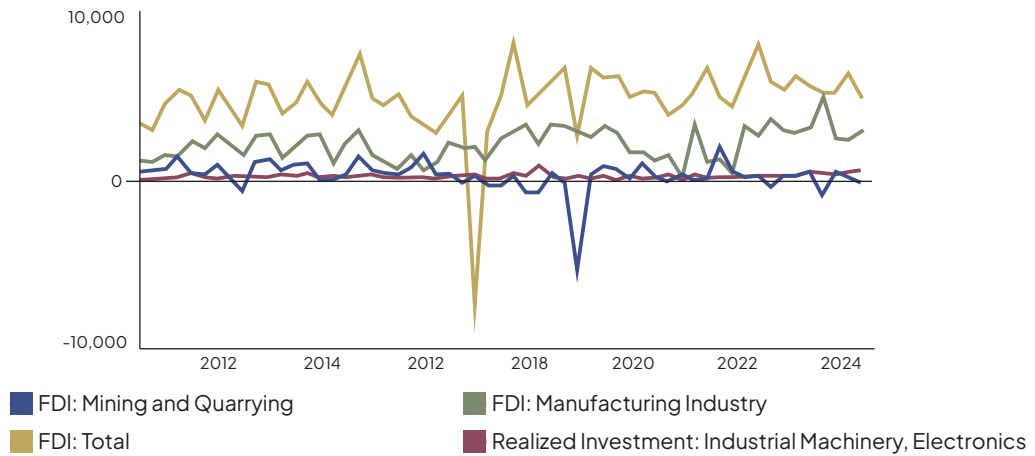


Source: CEIC, APBN Kita Ministry of Finance (various years, processed)

The low trend in tax revenues correlates positively with the overall decline in tax collection effectiveness. First-quarter (Q1) tax revenues have reached their lowest point since 2021, with only 32.4% of the target achieved, worse than during the pandemic. Failure to meet tax revenue targets will hinder fiscal planning coherence, disrupt budget stability, and weaken medium-long term budgetary posture. Poor and declining tax revenue performance will further widen the budget deficit.

The decline in fiscal productivity is also reflected in the minimal returns and benefits from the various tax incentives offered. Tax relief for specific sectors has yet to drive the tangible expansion of the national industry successfully. The impact of public budget investments in industry has never been measured in terms of their contribution to increasing production capacity and creating jobs. Fiscal incentives have merely widened the profit margins of large industrial players, without clear obligations to deliver benefits for the national economy. Put, fiscal incentives have been misdirected and have failed to generate the multiplier effect that should strengthen the domestic industrial structure.

Figure 3.  
Realized Investment by Subsector (USD Million)



Source: CEIC, BKPM 2024

Based on the figure, investment in the industrial machinery and electronics sector has stagnated at relatively low levels. This suggests that the various tax incentives provided to businesses and industries have not yet generated a productive return in terms of technological investment. Fiscal spending or tax incentives allocated for investment and business reached IDR 474.1 trillion<sup>5</sup> over the past five years. At this stage, tax incentive policies still lack clear key performance indicators and mechanisms for impact evaluation.

“

If state revenues are maximized,  
we can not only reduce unemployment,  
but also turn it into a job-creation engine.

”



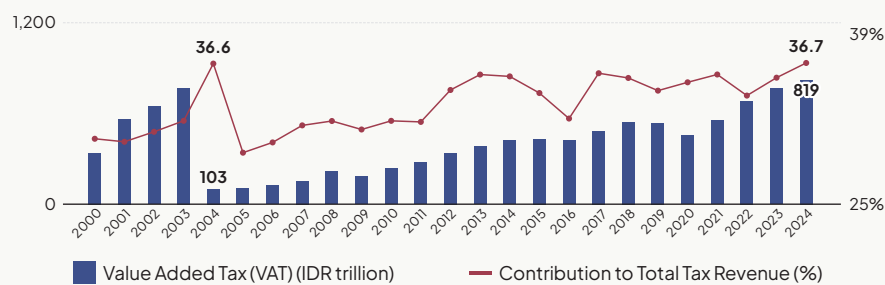
© Freepik.com/creativimages

# THE GOVERNMENT IS INCREASINGLY RELYING ON REGRESSIVE CONSUMPTION TAXES

Revenues from consumption taxes/VAT have indeed shown consistent long-term growth. However, this increase cannot be immediately regarded as a success in boosting overall tax revenues.

This is because VAT growth indicates that the general public, especially the middle and lower income groups, is bearing a greater tax burden. In addition, the low VAT productivity, reaching only 0.34, indicates that for every 1% increase in the VAT rate, only a small portion of the revenue goes into the state treasury.<sup>6</sup>

Figure 4.  
Trends in Actual VAT Revenues (2000–2024)



Source: CEIC Data, 2025 (processed)

Based on these data, VAT contributed IDR 819 trillion, or 36.7% of total tax revenues in 2024. This suggests that Indonesia's fiscal resilience remains heavily reliant on the value-added tax. When consumption is taxed while public budgets are being cut, low-income communities also lose access to social benefits. Therefore, tax reform cannot stop at merely rationalizing rates, it must target fairer revenue sources. Without a shift in the tax base, which is currently dominated by consumption, state revenues will remain low in the long term.

<sup>6</sup> Asian Development Bank (2022), A Comparative Analysis of Tax Administration in Asia and the Pacific: Sixth Edition. <https://www.adb.org/publications/comparative-analysis-tax-administration-asia-pacific-6th-edition>

VAT productivity is an indicator of efficiency in collecting Value Added Tax (VAT) in a country. It measures the amount of VAT revenue collected compared to its ideal potential, based on the standard VAT rate and the size of the economy (GDP).

“

A government that relies solely on regressive VAT is like a bully who boasts in front of people with low incomes, yet cowers in front of the super-rich conglomerates.

”



# STATE REVENUE LOST JUST LIKE THAT

**It should be noted that the loss of state revenue is not always caused by an economic crisis, but rather by a tax structure that has failed to capture surges in wealth. This problem is not merely about individual compliance, behind it lies a deeper structural issue.**

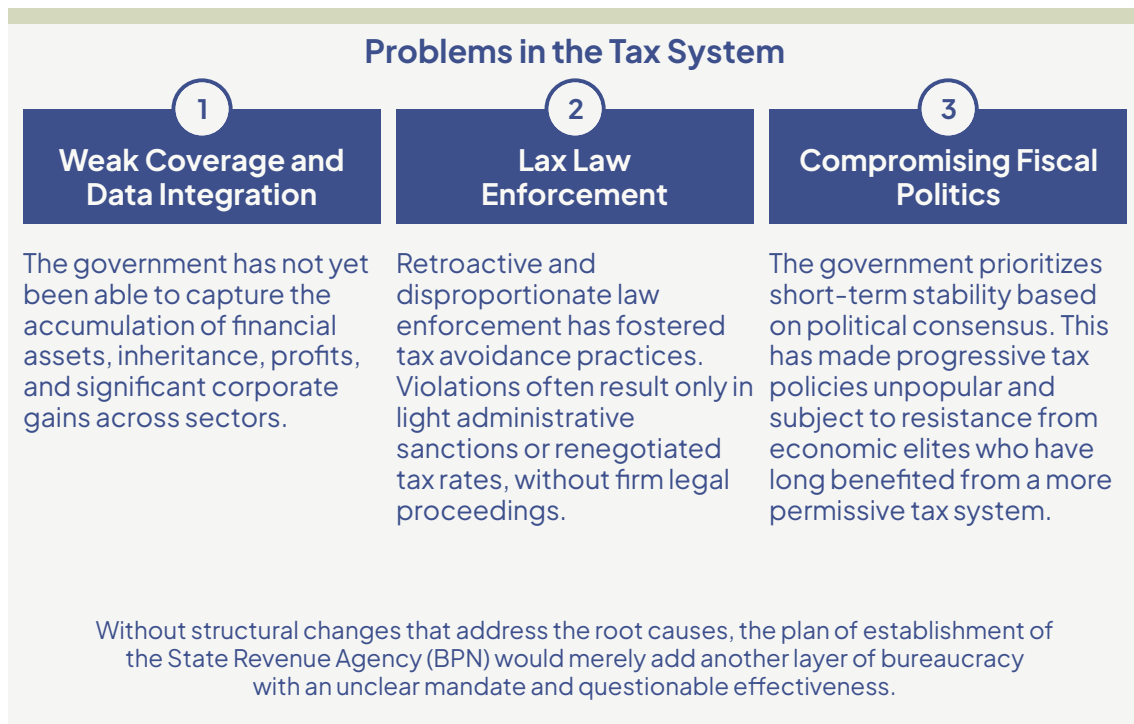
To date, the amount of state revenue lost has exceeded the gains from tax amnesty and relaxation policies. Tax leakage in Indonesia is estimated to reach IDR 195.67 trillion (US\$11.9 billion) per quarter<sup>7</sup>, equivalent to approximately 3.7% of the country's quarterly GDP. This estimate suggests that the total potential annual tax leakage could reach approximately IDR 782.68 trillion (US\$47.6 billion), exceeding the 2024 state budget deficit. Thus, effectively addressing tax leakage could significantly contribute to reducing the national budget deficit.

The expansion of tax incentives has so far disproportionately benefited the upper class. This is evident from the push for the Third Tax Amnesty Program, proposed through the Draft Law on Tax Amnesty. The promotion of this policy overlooks the evaluation of the first and second rounds of tax amnesty, which still fell short in terms of both targets and tax justice.<sup>8</sup> This situation reflects a fiscal approach that tends to be reactive—aiming for short-term revenue gains without comprehensive planning.

<sup>7</sup> Direktorat Jenderal Pajak. (2025, Februari 25). PMK 136/2024: *Suar Keadilan dalam Pengaturan Pajak Minimum Global*. Retrieved from <https://www.pajak.go.id/id/artikel/pmk-1362024-suar-keadilan-dalam-pengaturan-pajak-minimum-global>

<sup>8</sup> CELIOS (2024), *10 Lubang Fiskal Warisan Pemerintahan Joko Widodo*.

When tax reform remains incomplete, the idea of establishing a State Revenue Agency (BPN) has emerged as a proposed solution to address stagnant tax revenues. However, in the Indonesian context, this idea risks becoming a false solution if comprehensive structural reforms do not accompany it. The core problems in Indonesia's tax system do not lie solely in its institutional framework, but rather in the weak integration of wealth data, the lack of firm action against tax avoidance practices, and compromising fiscal politics.



*First*, the weakness in data integration is reflected in the absence of a cross-sector wealth database system. As a consequence, the government is unable to capture the accumulation of financial assets, inheritance, profits, and significant corporate gains. *Second*, retroactive and disproportionate law enforcement, in the long run, will only nurture tax avoidance practices. Offenders typically face only low-risk sanctions, which often result in administrative fines and renegotiated rates, rather than firm legal proceedings. *Third*, compromising fiscal politics is evident in the government's policy priorities that favour short-term stability supported by political consensus. As a result, progressive tax policies remain relatively unpopular due to political resistance from economic elites who have long benefited from a permissive tax system. Resistance from the upper class will be a significant barrier to promoting fair and assertive tax governance. Without fundamental changes to these root problems, the creation of the State Revenue Agency (BPN) would merely add another layer of bureaucracy with a vague mandate and questionable effectiveness.

Rather than solving the issues, a BPN without a clear function and firm policy direction risks exacerbating existing overlaps in authority. The BPN would face tensions and power struggles among the Directorate General of Taxes (DJP), the Directorate General of Customs and Excise, and the Directorate General of Budget. On the other hand, the limited capacity of human resources and monitoring infrastructure would further burden the new institution. To date, there has been no visible political will to tax those most able to pay. Without a mandate to pursue hidden wealth, expand the tax base, and firmly address corporate tax avoidance, the BPN would become a symbol of half-hearted reform.



### OECD Projections on Indonesia's State Revenue Loss

The Organisation for Economic Cooperation and Development (OECD) has made general projections of state revenue leakage in the context of developing countries. The potential revenue loss in developing countries due to cross-border tax avoidance is estimated to be 3.2–6.1% of GDP<sup>9</sup>. Based on this range, with Indonesia's GDP standing at IDR 22,139 trillion (US\$1.3 trillion) in 2024<sup>10</sup>, the estimated state revenue loss reaches IDR 708–1,350 trillion.



### World Bank Estimates on Tax Avoidance and Evasion in Indonesia

A World Bank study released in December 2024<sup>11</sup> is more specific, noting that the tax gap for VAT and corporate income tax in Indonesia has reached 6.4% of the country's GDP. The causes include taxpayer noncompliance (compliance gap) and policy loopholes, such as lax thresholds, inaccurate rates, and poorly targeted incentives (policy gap). The World Bank estimates that the shortfall between actual collection and potential tax lost due to tax avoidance and evasion has reached 3.7% of GDP, or around IDR 819.1 trillion (US\$49.8 billion).

<sup>9</sup> Satyadini, Agung Endika et al (2019), *Who Avoids Taxes? An Empirical Evidence From The Case Of Indonesia*, Scientax.

<sup>10</sup> BPS (2025) PDB Indonesia 2024

<sup>11</sup> World Bank (2024), *Indonesia Economic Prospects December 2024*.



# ALTERNATIVE REVENUE: A TREASURE CHEST LEFT UNTOUCHED?

## 1 Wealth Tax

A wealth tax is one form of progressive taxation imposed on an individual's total net wealth, including land, property, shares, vehicles, works of art, and bank deposits. It serves as a contribution from those who have benefited the most from the economic system to the broader society.

The stark reality of extreme inequality, which continues to shrink opportunities for economic distribution, provides a compelling reason to urgently implement a wealth tax. The principle is that a wealth tax is not aimed at taxing individual productivity, but at mitigating the uncontrolled concentration of wealth. This is where the thesis of Thomas Piketty, Emmanuel Saez, and Gabriel Zucman<sup>12</sup> becomes relevant. Their primary argument, in the face of increasingly concentrated wealth, is the introduction of a progressive and transparent wealth tax. A wealth tax is not intended to discriminate against certain groups, but rather to decisively correct an imbalanced system and to limit privileged access to the intergenerational transfer of massive wealth.

<sup>12</sup> Piketty, T., Saez, E., & Zucman, G. (2022). Rethinking capital and wealth taxation (World Inequality Lab Working Paper 2022/18). <https://wid.world/document/rethinking-capital-and-wealth-taxation-world-inequality-lab-working-paper-2022-18/>

To date, Indonesia has not implemented a progressive wealth tax. While taxes on certain wealth assets have been partially applied, such as the Land and Building Tax (PBB), the Luxury Goods Sales Tax (PPnBM), and the final income tax on dividends, these existing instruments have not been effective in capturing the entirety of an individual's net assets. Tax administration still faces capacity limitations in optimizing forensic analysis and conducting actual audits to uncover the true extent of taxpayers' wealth. Moreover, the lack of political will to adopt a wealth tax is primarily driven by strong resistance from economic elites, who remain key actors in maintaining market and investment stability. Currently, the authorities have yet to address the classic problem of illegally concealed wealth, largely due to weak risk detection and inadequate law enforcement.

▲ **Ideally, a wealth tax must be built on a solid foundation of robust data and governance to ensure fairness, effectiveness, and measurability.**

In this regard, Indonesia's active role in the G20 and the OECD provides a strategic entry point to further engage in the *Inclusive Framework on Base Erosion and Profit Shifting* (IF-BEPS)<sup>13</sup> which has implemented the Common Reporting Standard (CRS)<sup>14</sup> and the Automatic Exchange of Information (AEOI). CRS strictly regulates the technical format and reporting standards for financial institutions in identifying accounts owned by foreign nationals. Information collected through CRS forms is then automatically and periodically exchanged between countries that are signatories to the AEOI agreement. Although Indonesia already has access to these information-sharing instruments, its tax administration lacks adequate capacity to analyze and follow up on incoming data.

A progressive vision that should be adopted is the promotion of a Global Asset Registry (GAR) as a global database consolidating asset ownership information across jurisdictions<sup>15</sup>. Unlike CRS and AEOI, which are limited to financial accounts, GAR also covers non-financial assets, making it an effective tool to penetrate the secrecy of assets hidden behind shell companies and offshore accounts. The authorities must disclose the actual value of taxpayers' assets. However, revealing beneficial ownership is often hindered by overlapping and unsynchronized national asset registries. Implementing GAR at the domestic level requires integrating national databases that cover property, vehicles, bank accounts, and securities ownership. This breakthrough should combine the *Land Information System* (SIP), the *One-Stop Motor Vehicle Administration System* (Samsat), the *Financial Information Service System* (SLIK), and the *Securities Ownership Reference* (AKSes). Such domestic data integration must be accompanied by the strengthening of public accountability mechanisms and personal data protection regulations to prevent misuse.

13 OECD. (2017). *Inclusive framework on BEPS: Progress report July 2016–June 2017*. OECD Publishing. <https://www.oecd.org/tax/beps/inclusive-framework-on-beps-progress-report-july-2016-june-2017.htm>

14 OECD. (2014). *Standard for automatic exchange of financial account information in tax matters: The Common Reporting Standard (CRS)*. OECD Publishing. <https://doi.org/10.1787/9789264216525-en>

15 Zucman, G. (2019). *The hidden wealth of nations: The scourge of tax havens*. Harvard University Press.

Registrasi kekayaan nasional secara terintegrasi juga perlu meninjau pelaporan sukarela dari wajib pajak atas aset tersembunyi, baik di dalam maupun luar negeri, yang sudah terkumpulkan pada *tax amnesty* tahap pertama dan kedua. Kedepan perlu konsisten mendorong skema pelaporan mandiri sederhana (*self-assessment*) yang dikombinasikan dengan mekanisme verifikasi ketat. Apabila terdapat ketidaksesuaian antara laporan wajib pajak dengan data registrasi domestik dan pelaporan yang terbukti fiktif, kenakan sanksi administratif yang proporsional dan transparan. Bahkan sanksi pidana juga perlu ditegakkan dalam hal terbukti adanya pengalihan aset secara ilegal dan upaya penghalangan proses audit yang disengaja. Pada titik ini semakin terang bahwa integritas negara bergantung pada kredibilitas sanksi bagi pelanggar dan agresivitas audit bagi ultrakaya dan korporasi dibandingkan kedermawanannya menawarkan insentif.

A national integrated wealth registry should also consider voluntary disclosures by taxpayers of hidden assets—both domestic and offshore—already collected during the first and second tax amnesty programs. Moving forward, the government should consistently promote a simplified self-assessment reporting scheme combined with strict verification mechanisms. If discrepancies are found between taxpayer reports and domestic registry data, or if reports are proven to be fictitious, proportional and transparent administrative sanctions should be imposed. In cases where illegal asset transfers or deliberate obstruction of audits are proven, criminal sanctions must also be enforced. At this point, it becomes increasingly clear that state integrity depends more on the credibility of sanctions for violators and the aggressiveness of audits targeting ultra-high-net-worth individuals and corporations, rather than on offering incentives as an act of benevolence.

This study proposes the implementation of a wealth tax as a progressive solution to enhance state revenue. Calculations show that applying a 2% tax rate to the total wealth of only the 50 wealthiest individuals in Indonesia would yield approximately US\$ 4.97 billion (IDR 81.56 trillion) annually<sup>16</sup>. This group's lowest net worth stands at IDR 15 trillion, with an average wealth of IDR 159 trillion (US\$9.6 billion). Indicating that the potential revenue from a wealth tax would be substantially greater. Beyond serving as a source of state revenue, the wealth tax would also function as an instrument of social justice, curbing the economic dominance of a select few.

▲ **The potential state revenue from a wealth tax could reach US\$4.97 billion annually by taxing only the 50 wealthiest individuals in Indonesia.**

16 Center of Economic and Law Studies. (2024). *Laporan Ketimpangan Ekonomi Indonesia*. Jakarta: Center of Economic and Law Studies.

## 2 Biodiversity Loss Tax

The biodiversity loss tax is a fiscal instrument imposed on businesses, industries, and development projects that have been proven to cause biodiversity loss through deforestation, land conversion, exploitation of landscapes, species extinction, and other forms of environmental degradation.

As one of the world's megadiverse countries, Indonesia is currently facing a critically severe biodiversity crisis. Present conditions show that 2,432<sup>17</sup> species of mammals, plants, and fungi are threatened with extinction in the country. Moreover, between 2020 and 2024, Indonesia lost 259 thousand hectares of natural forest habitat, equivalent to carbon emissions of 194 million metric tons of CO<sub>2</sub><sup>18</sup>. Alarmingly, according to the Banking on Biodiversity Collapse 2023 report<sup>19</sup>, this environmental damage has been financed by banks to the tune of US\$ 30.5 billion since the Paris Agreement was signed.

▲ At this point, the urgency of implementing a biodiversity loss tax becomes evident as a cross-generational responsibility to address the permanent loss of ecological value caused by activities such as forest clearing, mining, and agribusiness expansion in indigenous territories.

The state should demand progressive compensation for biodiversity damage, which constitutes an enduring burden on all populations without exception.

The calculation methodology is based on Constanza's (2014) study<sup>20</sup> which estimated the global average value of ecosystem services at US\$ 3,000–7,000 per hectare per year. For the Indonesian context, the median value of US\$ 5,000 per hectare per year is used. A decrease of 1 unit in the biodiversity index (H') is assumed to result in a 25% reduction in ecosystem service value in affected areas. Consequently, ecosystem losses from a 1-unit decline in H' are equivalent to approximately US\$ 1,250 per hectare per year. Therefore, the potential annual state revenue from a biodiversity loss tax scheme is estimated at IDR 48.58 trillion.

17 Forest Digest (2024), *Spesies Terancam Punah Terus Bertambah*. <https://www.forestdigest.com/detail/2514/spesies-terancam-punah/?msg=login>

18 Global Forest Watch (2024), *Dasbor Indonesia*. <https://www.globalforestwatch.org/dashboards/country/IDN/?lang=id>

19 Tuk Indonesia & Forest Finance (2024), *Membayai Hancurnya Keanekaragaman Hayati*. <https://forestsandfinance.org/publications/banking-on-biodiversity-collapse-report-indonesian-edition/>

20 Robert Costanza et al (2014). *Changes in the global value of ecosystem services*, *Global Environmental Change*. <https://www.sciencedirect.com/science/article/abs/pii/S0959378014000685>

<b>Ecosystem Loss per hectare/year</b>	= Ecosystem Service Value/ha × Proportion of Decline = US\$ 5,000 × 0.25 = US\$ 1,250
<b>Annual Revenue Potential</b>	= Annual Deforestation Area × US\$ 1,250 = 2.4 million hectares × (16,192 × US\$ 1,250) = IDR 48.58 trillion (US\$2.96 billion)

This estimation, derived from the Integration of Biodiversity Conservation and Social Cohesion in Indonesia's Economic Transformation study, calculates the potential revenue from a biodiversity loss tax at US\$2.96 billion per year. It considers the conversion of ecologically valuable land, such as primary forests, peatlands, and habitats of endemic species, that are increasingly degraded by the expansion of extractive industries and large-scale plantations. This figure does not yet account for the full extent of widespread and massive ecological losses, meaning the fiscal potential could be significantly higher if ecosystem damage monitoring and valuation systems were strengthened.

▲ **The potential annual state revenue from a biodiversity loss tax scheme is estimated at US\$ 2.96 billion.**

21 Aulia, et al (2023), *Refining National Forest Cover Data Based on Fusion Optical Satellite Imageries in Indonesia*, International Journal of Forestry Research. <https://onlinelibrary.wiley.com/doi/epdf/10.1155/2023/7970664>  
22 Kurs USD JDOR 1 Juli 2025 Rp16.192,00

### 3 Digital Tax

A digital tax is a taxation instrument imposed on economic activities conducted in the digital sphere, such as the sale of digital goods and services, online advertising, streaming services, and cross-border digital platforms. The digital tax serves as an effective means to ensure that digital businesses benefiting from local users and markets also contribute to state revenue.

In Indonesia, the digital tax is applied through an 11% Value Added Tax (VAT) on digital transactions. Total tax revenue from this scheme has reached IDR 33.39 trillion from 2020 to January 2025.<sup>23</sup> This revenue consists of IDR 26.12 trillion from VAT on Trade Through Electronic Systems (PMSE), IDR 1.19 trillion from cryptocurrency taxes, IDR 3.17 trillion from fintech (P2P lending) taxes, and IDR 2.9 trillion from taxes collected by third parties on the procurement of goods and/or services through the Government Procurement Information System (SIPP tax).

#### APPROACHES TO DIGITAL TAXATION



There are three primary approaches to implementing a digital tax, namely direct taxation, indirect taxation, and a global consensus. Direct tax targets digital profits through the taxation of payments to foreign platforms. This approach expands the concept of a Permanent Establishment (PE) into a Digital PE, making physical presence requirements more flexible. Governments can assess the economic value of companies based on the number of active users, demand intensity, and transaction value. Another progressive practice is the Digital Services Tax (DST), which taxes gross revenues from online advertising, the sale of user data, and digital intermediation activities. Indirect tax is generally applied through VAT on digital consumption, which is easier to implement as the end consumer bears it. Meanwhile, the global consensus approach, promoted by the OECD and the G20, has resulted in Pillar One, which redistributes taxing rights to market jurisdictions, and Pillar Two, which advocates for a global minimum tax as a means to create a fair digital tax system.

<sup>23</sup> Kemenkeu (2025). Pajak atas Usaha Ekonomi Digital Terkini: 33,39 Triliun, <https://www.pajak.go.id/id/siaran-pers/pajak-atas-usaha-ekonomi-digital-terkini-3339-triliun>.

The calculation of digital tax potential under OECD Pillar Two takes into account the following factors:

- Applicable to companies with a minimum global revenue of €750 million per year (approximately IDR 13 trillion), subject to a 15% global minimum tax, a minimum global net profit of IDR 10 trillion, and a minimum revenue in Indonesia of IDR 500 billion.
- Companies subject to the global minimum tax are exempt from progressive digital taxation.
- Potential tax revenue is estimated based on the operations of giant digital companies in Indonesia.
- The progressive tax rates applied are as follows

The digital economy era has demonstrated efficiency in all aspects, allowing Global Digital Companies (Multinational Enterprises) to operate without opening offices, hiring local employees, or establishing physical outlets in their business locations. This is further reinforced by the fact that digital assets, such as algorithms, intellectual property rights, brands, and software, are intangible assets that are highly efficient and appear to be legally transferable.

So far, digital companies have been able to exploit rigid regulatory loopholes with agility, often avoiding tax obligations that require a physical presence. These limitations of traditional tax instruments have led to the concept of Significant Economic Presence<sup>24</sup> which measures a company's economic engagement in a domestic market based on factors such as the number of users, transaction volume, and revenue generated. To date, the government has taken a compromising stance by applying VAT only to trade conducted through electronic systems (PMSE). Moving forward, the government must firmly demand tax obligations on the economic value created by every company that is concretely involved in the domestic market.

Table 1.  
**Digital Tax Rate Determination**

Net Profit Bracket in Indonesia (IDR)	Additional Tax Rate (%)
≤ 100 billion	0
> 100 billion – 500 billion	3
> 500 billion – 1 trillion	5
> 1 trillion	7

<sup>24</sup> OECD. (2020). *Tax Challenges Arising from Digitalisation – Report on Pillar One Blueprint*. OECD Publishing. <https://doi.org/10.1787/beba0634-en>

Table 2.  
**Revenue and Net Profit of Global Digital Companies (Multinational Enterprises)**

Company	Global Revenue (Quadrillion IDR)	Global Profit (Trillion IDR)	Tax Scheme
Apple	6.267	1,649	Global Minimum Tax
Alphabet	5.220	1,353	Global Minimum Tax
Microsoft	3.885	1,415	Global Minimum Tax
Samsung	3.323	245	Global Minimum Tax
ByteDance	2.545	542	Global Minimum Tax
Meta	2.343	751	Global Minimum Tax
Netflix	0.574	106	Global Minimum Tax
Sea Group	0.276	7	Progressive Digital Tax
Spotify	0.257	19	Global Minimum Tax
<b>Total</b>	<b>24.691</b>	<b>6,087</b>	

Source: Processed by CELIOS from various sources, 2025

This calculation presents the estimated annual global revenue and net profit of nine multinational digital companies with the largest market share. These companies include Alphabet, Meta, Microsoft, Apple, ByteDance, Netflix, Sea Group, Spotify, and Samsung. Collectively, these multinational enterprises have generated a total revenue of IDR 24,690 quadrillion, while their combined net profit amounts to IDR 6.09 quadrillion.



Table 3.  
**Potential Revenue from Progressive Digital Tax and Global Minimum Tax in Indonesia**

Company	Revenue (Billion IDR)	Profit (Billion IDR)	Potential Tax Revenue (Billion IDR)
<b>Alphabet</b>	230,734	59,814	8,972
<b>Meta</b>	125,394	40,208	6,031
<b>Microsoft</b>	38,848	14,152	2,122
<b>Apple</b>	32,000	9,600	1,440
<b>ByteDance</b>	100,500	21,397	3,209
<b>Netflix</b>	8,032	1,480	222
<b>Sea Group</b>	6,143	163	5
<b>Spotify</b>	15,691	1,140	171
<b>Samsung</b>	33,232	2,450	368
	<b>590,577</b>	<b>150,403</b>	<b>22,541</b>

Source: Processed by CELIOS from various sources, 2025

In the Indonesian context, these global digital conglomerates have collectively generated revenue amounting to IDR 590.6 trillion, with a combined net profit of IDR 150.4 trillion. Among the nine companies, only Sea Group does not meet the requirements for the Global Minimum Tax, as its net profit is less than IDR 10 billion. Nevertheless, Sea Group can still be subject to a Progressive Digital Tax at the recommended rate of 3% of net profit. Accordingly, the potential annual state revenue from both the Global Minimum Tax and the Progressive Digital Tax is estimated to reach US\$1.37 billion. Considering that this projection only accounts for the top nine multinational digital companies in the market, the actual valuation would be even higher. Thus, the Progressive Digital Tax, alongside the Global Minimum Tax, constitutes a strategic revenue instrument to promote inclusive and equitable digital transformation in developing countries.



## UN Model Convention Tax

▲ The application of a digital tax based on the UN Model Convention<sup>25</sup> has become crucial for ensuring fiscal equity in developing countries, such as Indonesia, as it grants source countries the right to tax income generated by foreign digital companies without requiring a physical presence.

Unlike the OECD scheme, which tends to favour the country of residence of the corporation, the UN model emphasises a more inclusive and straightforward source-based taxation principle. This is achieved through mechanisms such as Article 12B, which enables direct taxation on automated digital services. This approach has gained broad support from developing countries and the Global South<sup>26</sup>, which have long been disadvantaged by loopholes in the international tax system. In addition to significantly increasing potential state revenue, this framework also strengthens fiscal sovereignty and reduces structural inequalities in the global digital economy.

Table 4.  
**Potential Digital Tax Revenue (Gross, Without Effectiveness Adjustment)**

Component	Value (Trillion IDR)
Gross Digital Revenue	590.58
Withholding Tax (Rate 5%)	29.53

Based on the withholding tax method for gross revenue, as stipulated in Article 12B of the UN Model Convention, the potential digital tax revenue can be calculated by multiplying the total gross revenue by the applicable tax rate. If the total gross revenue of foreign digital companies in Indonesia amounts to approximately IDR 590.58 trillion and the withholding tax rate applied is 5%, the estimated tax revenue would be around IDR 29.53 trillion. This scheme offers a more straightforward approach compared to profit-based taxation, allowing for tax collection without requiring detailed knowledge of the cost structures of these digital companies.

### Potential Tax Calculation Formula

$$\begin{aligned}\text{Potential Tax} &= R (\text{Revenue Base}) \times W (\text{Rate}) \\ &= \text{IDR } 590.58 \text{ trillion} \times 5\% \times 80\% \\ &= \text{IDR } 29.53 \text{ trillion (US\$1.80 billion)}\end{aligned}$$

<sup>25</sup> UN (2025), Tax Consequences of Digitalized Economy. <https://financing.desa.un.org/what-we-do/ECOSOC/tax-committee/thematic-areas/tax-consequences-digitalized-economy>

<sup>26</sup> Tax Justice Newtork (2023), Policy Tracker Beta UN Convention Tax Position of Countries. <https://policytracker.taxjustice.net/policy/un-tax-convention>

The calculation results indicate that the potential revenue from the digital tax could reach IDR 29.53 trillion, accounting for 5.0% of a total gross revenue of IDR 590.58 trillion. This figure illustrates the significant fiscal space that can be tapped from the digital economy sector, while also underscoring the importance of policy designs that capture the value of the digital economy more fairly and effectively.

▲ **The potential state revenue from a progressive digital tax is estimated to be between US\$ 1.37 billion and US\$ 1.80 billion per year.**



## 4 Carbon Tax

A carbon tax is a levy imposed on greenhouse gas emissions, primarily carbon dioxide (CO<sub>2</sub>), produced from economic activities such as industry, power generation, and transportation. Its purpose is to put a price on pollution, encourage businesses to reduce emissions, and promote the transition to clean energy and environmentally friendly technologies.

The carbon tax policy presents an opportunity to both broaden the tax base and strengthen Indonesia's climate commitments, accelerating the agenda for reducing greenhouse gas emissions. Taxing carbon emissions holds significant potential to influence industrial behaviour by holding them accountable for the carbon they emit. To date, carbon tax rates have been highly volatile, following fluctuations in the carbon market price. However, Indonesia's carbon tax rate remains relatively low. Among 65 countries that have implemented environmental taxation, Indonesia has the second-lowest rate. During the launch of IDX Carbon by the Indonesia Stock Exchange, from September 2023 to December 2024, the average carbon tax rate was approximately IDR 55,000/tCO<sub>2</sub>e<sup>27</sup>. This is far below the global average rate of US\$39.5/tCO<sub>2</sub>e<sup>28</sup>, equivalent to IDR 649,034/tCO<sub>2</sub>e.

The low rate reflects regulatory governance that lacks certainty and has yet to make a meaningful contribution to financing renewable energy subsidies. Furthermore, the monitoring, reporting, and verification (MRV) system is still under development, resulting in suboptimal oversight.

▲ In addition, the implementation of a carbon tax in the Indonesian context is often hindered by the dominance of coal-fired power plants (PLTU), which remain a significant part of the domestic energy mix.

Nevertheless, the carbon tax remains a vital instrument for mitigating the impacts of the climate crisis and achieving the net-zero emission target. For it to be effective and equitable, however, the tax must be applied progressively, with higher rates for large corporate emitters. This approach is not only vital for environmental sustainability but also sends a clear signal that the costs of environmental degradation must be borne proportionally by extractive industries.

<sup>27</sup> Direktorat Jenderal Pajak Kementerian Keuangan. (2025, Januari 8). *Pajak Karbon, Solusi Pendanaan APBN yang Berkelanjutan?*

<sup>28</sup> World Bank Group. (2025, Juni 18). *State and Trends of Carbon Pricing Dashboard*. Retrieved from <https://carbonpricingdashboard.worldbank.org/compliance/price>

### Carbon Tax Potential Calculation Formula

$$\begin{aligned} \text{Carbon Tax} &= \text{Total carbon emissions} \times \text{Tax rate} \times \text{Exchange rate} \\ &= 930 \text{ million tCO}_2\text{e} \times \text{US\$5/tCO}_2\text{e} \times \text{IDR 16,421} \\ &= \text{IDR 76.36 trillion (US\$4.65 billion)} \end{aligned}$$

This study calculates the potential carbon tax based on assumed emission levels resulting from land use. As revealed in the Global Carbon Budget Report (2023)<sup>29</sup>, Indonesia's average annual carbon emissions from land use between 2013 and 2022 reached 930 million tons. The calculation assumes an exchange rate of IDR 16,421 per US dollar as of May 5, 2025. The determination of the carbon tax rate in this calculation remains realistic, with gradual adjustments made based on its distributional impact. The proposed tax rate is intended to be increased progressively according to the following schedule:

Table 5.  
**Timeline for the Implementation of a Progressive Carbon Tax Rate**

Phase	Period	Rate (US\$/tCO <sub>2</sub> e)	Estimated Carbon Tax Revenue (IDR trillion)
Transition	2025-2027	US\$5-10	76.36 – 152.72
Advanced	2028-2030	US\$15-25	229.07 – 381.79
Expansive	2030-2035	US\$30-50	458.15 – 763.58

Accordingly, in the near term, a moderate carbon tax rate of US\$5/tCO<sub>2</sub>e would generate additional state revenue of US\$4.65 billion. This revenue could be allocated to finance climate change adaptation, strengthen renewable energy, and support vulnerable groups affected by the energy transition.

▲ **The potential state revenue from the carbon tax is estimated at US\$ 4.65 billion per year.**

29 Global Carbon Project. (2023). *Global Carbon Budget*.

## 5 Increasing the Capital Gains Tax Rate

The capital gains tax targets profits derived from the increase in the value of assets. This tax applies when the sale or transfer of an asset yields a price higher than its purchase price, subject to a certain threshold. It is generally levied on investment assets such as property, stocks, and bonds.

To date, there has been no tax instrument that distinctly differentiates between levies on transactions involving assets and levies on windfall profits from the appreciation of asset values. The implementation of a capital gains tax serves as a concrete measure to maintain tax aggressiveness toward large businesses and investors who reap substantial temporary profits from price surges and increased demand. The Capital Gains and UK Inequality report (2020)<sup>30</sup> highlights that capital gains must be taken into account when addressing inequality. Therefore, a capital gains tax instrument should be implemented or set at a higher rate to help reduce disparities.

The implementation of a capital gains tax can serve as an alternative policy to ensure effective taxation of business actors and large investors who reap disproportionate profits. The 2020 report Capital Gains and UK Inequality<sup>31</sup> highlights that capital gains must be taken into account when analyzing inequality. Therefore, capital gains taxation needs to be applied—or subjected to higher rates—in order to address the problem of inequality.

However, its implementation must consider a proportional threshold to protect micro and small enterprises. This threshold is generally determined based on the amount of profit from asset sales and the duration of asset ownership. The capital gains tax rate should be increasingly progressive for higher profits and shorter holding periods, serving as a disincentive for speculative asset trading. Thus, the capital gains tax becomes an effective complementary instrument for targeting upper-income groups and expanding the tax base.

The calculation of potential capital gains tax revenue in this study is based on the total value of stock investment transactions in 2024, which reached IDR 3,083 trillion<sup>32</sup>. The profit margin on these transactions is assumed to be 40%. The tax rate structure applied in this calculation follows a tiered system based on profit levels. Tax is imposed on asset gains exceeding IDR 50 million at a rate of 5%, while businesses earning less than IDR 50 million in gains are exempt from the tax.

<sup>30</sup> Arun Advani, Andy Summers(2020). *Capital Gains and UK Inequality*, <https://shs.hal.science/halshs-03022609/>

<sup>31</sup> Arun Advani, Andy Summers(2020). *Capital Gains and UK Inequality*, <https://shs.hal.science/halshs-03022609/>

<sup>32</sup> BEI (2024), *Sukses Tutup Tahun 2024, Pertumbuhan Positif Mendorong Kepercayaan Pasar Modal Indonesia*. <https://www.idx.co.id/id/berita/siaran-pers/2288>

Table 6.  
Distribution and Simulation of Potential Revenue

Investment Gain Interval	Proportion of Total Investment Gains	Value of Investment Gains	Tax Rate	Tax Revenue
≤ IDR 50 million	20%	IDR 12.33 trillion	0%	IDR 0
IDR 50 million – IDR 250 million	30%	IDR 18.50 trillion	5%	IDR 925 billion
IDR 250 million – IDR 1 billion	30%	IDR 18.50 trillion	10%	IDR 1.85 trillion
> IDR 1 billion	20%	IDR 12.33 trillion	15%	IDR 1.85 trillion
<b>Total</b>	<b>100%</b>	<b>IDR 61.66 trillion</b>	<b>–</b>	<b>IDR 4.63 trillion</b>

Source: Processed by CELIOS from various sources, 2025

Based on these calculations, the potential annual revenue from the capital gains tax amounts to IDR 4.63 trillion.

▲ When income from wealth grows significantly faster than income from labour, a capital gains tax serves as a tool to narrow that gap.

Without a fair capital gains tax, income from capital remains virtually untaxed, particularly for the ultra-wealthy, who no longer rely on wages or productive enterprises as their primary source of wealth.

In addition, the capital gains tax would also apply to bond instruments, which are currently only subject to a 10% withholding tax on interest and discounts at maturity, based on the taxable income provisions under Government Regulation (PP) No. 91 of 2021 concerning Income Tax on Income in the Form of Bond Interest Received or Earned by Domestic Taxpayers and Permanent Establishments. Accordingly, an additional tax instrument would be imposed on profits from the sale of bonds on the Indonesia Stock Exchange (IDX). The total value of bond sales transactions in 2024 reached IDR 483.16 trillion<sup>33</sup>, issued by 133 issuers. With an estimated capital gains margin of 1–5%, the potential tax revenue from government bond transactions in the secondary market in 2024 could range from IDR 483 billion to IDR 2.4 trillion.

<sup>33</sup> BEI (2024), Satu Obligasi dan Saham Dicatatkan di BEI pada Pekan ini. <https://www.idx.co.id/id/berita/siaran-pers/2284>

### Problems in the Taxation System

Components	Value/Assumption
Total transaction value	IDR 483.16 trillion
Estimated capital gains margin	1% – 5% (general range in the secondary market)
Capital gains tax rate	10%

Table Simulation of Potential Revenue

Capital Gain Margin Scheme (%)	1%	2%	3%	4%	5%
Capital Gain Value (IDR Trillion)	4.83	9.66	14.49	19.33	24.16
Potential Tax at 10% (IDR Trillion)	0.483	0.966	1.449	1.933	2.416

▲ The potential state revenue from applying a capital gains tax on stocks and bonds is estimated to reach US\$ 0.43 billion per year.



## 6 Third Home Ownership Tax

The third home ownership tax is a fiscal levy imposed on the ownership of high-value properties such as luxury houses, premium apartments, exclusive villas, and high-standard commercial buildings.

To date, Indonesia has not implemented a third home ownership tax. The luxury goods tax (PPnBM) is only imposed once at the time of purchase. It does not distinguish between properties purchased beyond their primary residential function or more than two units. The Land and Building Tax (PBB), which should reflect the property's value, is instead applied uniformly and disproportionately.

Given the significant inequality in access to land and property ownership, the government should intervene in non-productive property ownership through a third home ownership tax. Owners of a third or additional homes that are neither rented out nor used productively would be subject to higher tax rates, as such ownership indicates potential asset hoarding. This scheme would not burden primary residences, which remain under the PBB framework. Owning two homes is more than sufficient for use as residences, which is generally the case for lower-middle income households. When simple housing is subject to annual PBB, there is no justification for applying the same tax burden to billion-rupiah villas.

Luxury property tax policies in Europe<sup>34</sup> have successfully increased fiscal revenues from land/building value appreciation and reduced income and wealth inequality. Even when applied progressively and with allowances or deferrals for owners of multiple homes but with low incomes, these policies have proven effective in reducing inequality without causing significant economic distortions.

Potential Revenue from Third Home Ownership Tax = Average value of third homes × tax rate × number of units  
= IDR 6,000,000,000 × 1% × 21,534 units  
= IDR 1,292,040,000,000  
≈ **IDR 1.3 trillion** (per year)

<sup>34</sup> Alexander Leodolter, Savina Princen & Aleksander Rutkowski, (2022). *Taxation of residential property in the euro area with a view to growth, equality and environmental sustainability*. Quarterly Report on the Euro Area (QREA), Directorate General Economic and Financial Affairs (DG ECFIN), European Commission, vol. 20(4), pages 29–38, January. <https://ideas.repec.org/a/euf/qreuro/0204-03.html>

▲ A tax on third home ownership serves as an essential disincentive to help mitigate the scarcity of affordable housing, considering that a third home is generally not used as a regular residence but rather as a speculative property.

This calculation is based on the number of individuals owning more than one housing unit, amounting to 7,177,999 people, according to the Metadata on Housing Ownership Backlog from the Housing and Real Estate Information System, Ministry of Public Works and Housing, 2023.<sup>35</sup> It is assumed that 1% of them own a third home, which is estimated to be 71,790 people. The proportion of third homes valued above IDR 5 billion<sup>36</sup> is assumed to be 30%, or 21,534 units. The average value of such third homes exceeding the IDR 5 billion threshold is IDR 6 billion, with an annual tax rate on third home ownership of 1%.<sup>37</sup>

Table 7.  
Third Home Ownership Tax Scenarios Adjusted to Market Flexibility

Average Value of Third Home (≥ IDR 5 Billion)	Tax Rate	Tax per Owner	Potential Revenue
IDR 5 billion	1%	IDR 50 million	IDR 1.077 trillion
IDR 6 billion (primary basis)	1%	IDR 60 million	IDR 1.29 trillion
IDR 8 billion	1%	IDR 80 million	IDR 1.722 trillion
IDR 10 billion	1%	IDR 100 million	IDR 2.153 trillion

Accordingly, the potential revenue from a third home ownership tax could reach IDR 2.8 trillion if the assumed number of units increases to 25,000 and the average value of a third home rises to IDR 10 billion. Thus, the potential revenue range for a third home ownership tax is estimated at IDR 1 trillion–IDR 2.2 trillion (US\$ 67–134 million) per year. A high-value property tax could also support the financing of subsidized housing development for low-middle income households.

▲ The third home ownership tax is therefore projected to increase state revenue by approximately US\$67–134 million annually.

<sup>35</sup> Kementerian PUPR (2023), *Metadata Backlog Kepemilikan Tahun 2023*. Sistem Informasi Perumahan Dan Real Estate Kementerian Pekerjaan Umum Dan Perumahan Rakyat.

<sup>36</sup> Ambang batas rumah mewah dalam PMK No. 92/PMK.03/2019

<sup>37</sup> Benchmarking tarif batas bawah di negara/negara bagian lain seperti di AS. Center on Budget and Policy Priorities (2019), *State “Mansion Taxes” on Very Expensive Homes* <https://www.cbpp.org/research/state-budget-and-tax/state-mansion-taxes-on-very-expensive-homes>

## 7 Inheritance Tax

An inheritance tax is a levy on wealth passed down from a deceased person to their heirs, whether in the form of land, houses, shares, deposits, businesses, or other assets.

In Indonesia, the Acquisition of Land and Building Rights (Bea Perolehan Hak atas Tanah dan Bangunan/ BPHTB) has long served as a tax on the acquisition of rights to land and/or buildings. One of BPHTB's taxable objects is inherited land or buildings, calculated at a rate of 5% of the selling price minus the Non-Taxable Acquisition Value of Tax Objects (NPOPTKP). The relatively low rate has not been effective in curbing speculative practices that drive unreasonable price increases. Moreover, BPHTB is not a dedicated mechanism for taxing inheritances (i.e., an inheritance tax), but instead focuses on the acquisition of rights to land and buildings, whether resulting from sales and purchases, auction purchases, business mergers, business expansions, or gifts.

▲ In practice, however, many forms of inheritance, such as land, luxury homes, company shares, or financial deposits, directly serve as new sources of wealth accumulation for heirs.

The implementation of a progressive inheritance tax does not prohibit families from passing on assets to their children. Instead, the state carries a public mandate to ensure a proportional threshold in the transfer of wealth across generations.

The urgency of addressing inequality becomes even more apparent in light of Oxfam's (2023) findings, which revealed that 60% of billionaire wealth originates from inheritance, cronyism, and monopoly. The study also showed that all billionaires worldwide under the age of 30 inherited their wealth from their families. Indonesia faces a similar storm, where the emergence of young billionaires does not signify market inclusivity, instead, it reflects a reality in which only a select few enjoy the benefits of aggregate growth. Cronyism, defined as wealth accumulation through power relations, political connections, and close ties with policymakers, further undermines economic fairness. Wealth does not grow transparently and often remains beyond the reach of the formal tax system. A significant portion of wealth is deliberately hidden under the names of family-owned companies and securely parked overseas, creating loopholes that reduce the wealthy's contribution to state revenue.



## Progressive Inheritance Tax in France: Addressing Intergenerational Inequality

France's inheritance tax serves as a leading reference point, showcasing one of the most complex and stringent tax systems in Europe<sup>38</sup>. French authorities apply a progressive system with inheritance tax rates reaching as high as 60%. The tax burden is determined based on the relationship between the deceased and the beneficiary, as well as the total value of the inherited assets. The system provides more favourable treatment for direct descendants, such as children and grandchildren, with a tax-free allowance of €100,000 (approximately IDR 1.9 billion) per parent every 15 years. In contrast, for heirs who are not close family members, such as friends or unmarried partners, the tax-free allowance is only €1,594 (around IDR 30 million)<sup>39</sup>.

The tax rate schedule is tiered. The larger the value of the inheritance, the higher the tax rate to be paid. Even for biological children, the tax rate can reach 45% if the inheritance value exceeds €1.8 million (around IDR 34 billion). Inheritance passed to a legal spouse is fully exempt from taxation. However, inheritances given to unmarried partners remain subject to high tax rates and minimal allowances, unless a legal agreement is established. The administrative process is also highly stringent. Inheritance reporting must be completed within six months after the death, and an official notary must manage all documentation.

France's inheritance tax system is designed not merely to regulate the transfer of wealth, but to break the chain of intergenerational wealth accumulation that reinforces oligarchic power. Through a progressive framework that grants relief to middle-class families while imposing strict measures on large inheritances, France affirms that the state must not remain passive when vast amounts of wealth change hands in an uncontrolled manner.

<sup>38</sup> CJ Finance UK (2025), *Inheritance Tax France – Ultimate Guide*. <https://www.cjfinance.co.uk/inheritance-tax-france-ultimate-guide/>

<sup>39</sup> Paris Buyer. (2025, April 30). *Decrypting French inheritance tax*. Paris Buyer. Retrieved from web <https://www.parisbuyer.com/nos-actualites/decrypting-french-inheritance-tax.html?utm>

Table 8.  
Inheritance Tax Non-Taxable Threshold Scheme

Relationship of Heir	Non-Taxable Threshold per Person (IDR)	Description
Biological child, spouse	IDR 3 billion	Protection for immediate family
Sibling	IDR 1.5 billion	Lower threshold due to a more distant relation
Other heirs / non-family	IDR 1 billion	Taxable at a lower threshold

The IDR 3 billion threshold is derived from the average wealth of the wealthiest 1%, which is €PPP 515,268 or IDR 3.0 billion<sup>40</sup>, according to the World Inequality Report 2022<sup>41</sup>.

Table 9.  
Inheritance Tax Rate Structure

Taxable Inheritance Value per Person	Tax Rate
≤ IDR 3 billion	0%
IDR 3 – 5 billion	5%
IDR 5 – 10 billion	10%
IDR 10 – 25 billion	15%
> IDR 25 billion	20%

Notes:  
Applied progressively (marginal rate). Non-liquid inheritances, such as land and housing, may have their tax payment deferred until the asset is sold or the inheritance rights are distributed.

This calculation is based on 2023 BPS (Statistics Indonesia) data, which records 72 million households in the country. Each year, approximately 1.4 million people pass away. Of these, it is estimated that around 200,000 inheritance cases originate from the upper-middle class and meet the criteria for taxation. In a conservative simulation, inheritances exceeding IDR 1 billion are exempt, while the remainder is taxed progressively at rates ranging from 5% to 20%. Assuming the average tax collected per case ranges from IDR 30 million to IDR 100 million, the potential state revenue from inheritance tax could be substantial.

40 (€1 PPP = \$PPP 1.4 = IDR 5911.7)

41 World Inequality Lab (2023), *World Inequality Report 2022*, [https://wir2022.wid.world/www-site/uploads/2023/03/D\\_FINAL\\_WIL\\_RIM\\_RAPPORT\\_2303.pdf](https://wir2022.wid.world/www-site/uploads/2023/03/D_FINAL_WIL_RIM_RAPPORT_2303.pdf)

Table 10.  
**Potential Inheritance Tax Revenue**

Calculation Scale	Estimated Revenue (IDR)
200,000 cases x IDR 30 million	IDR 6 trillion/year
200,000 cases x IDR 50 million	IDR 10 trillion/year (moderate)
200,000 cases x IDR 100 million	IDR 20 trillion/year (progressive)

Based on these conservative to progressive projections, an increase in inheritance tax rates indicates the potential to generate state revenue of between US\$ 365 million and US\$ 1.2 billion (IDR 6–20 trillion) annually. Such tax revenues would effectively strengthen the state's fiscal capacity amid rising financing needs. Therefore, inheritance tax can serve as a foundation for a more equitable taxation system.

▲ **The estimated state revenue from increasing inheritance tax rates is projected to be approximately IDR 6 trillion to IDR 20 trillion per year.**



## 8 Coal Production Tax

The coal production tax is a fiscal instrument imposed on extraction activities in the form of a special levy based on the excess volume or value of production.

In the context of Indonesia, as one of the world's largest coal exporters, regulating the coal production tax carries strategic dimensions in balancing short-term economic interests, environmental sustainability, and intergenerational equity. To date, taxation in the coal production sector in Indonesia reveals significant gaps and structural vulnerabilities. The policy of exempting royalty rates on production does not reflect the economic value of non-renewable commodities that have been exploited. Companies operating under the Coal Contract of Work (Perjanjian Karya Pengusahaan Pertambangan Batubara or PKP2B) have long benefited from low royalty rates despite the sharp surge in global coal prices.

Indonesia needs to take a serious approach to taxing the extractive industry, considering the substantial negative externalities arising from drastic alterations to the landscape. Various best practices from around the world can be adopted, ranging from establishing a sovereign wealth fund to ensure long-term benefits to implementing an attributive production tax to finance the clean energy transition. The study by Ritcher et al. (2018)<sup>42</sup>, Coal taxes as supply-side climate policy: a rationale for major exporters?, reveals:

▲ Coal production tax policies have more positive impacts compared to export taxes, in terms of higher tax revenue, more potent effects on global coal consumption, a lower risk of carbon leakage, and greater effectiveness when implemented by a coalition of exporting countries.

<sup>42</sup> Ritcher et al (2018), Coal taxes as supply-side climate policy: a rationale for major exporters?. [https://www.researchgate.net/publication/323565397\\_Coal\\_taxes\\_as\\_supply-side\\_climate\\_policy\\_a\\_rationale\\_for\\_major\\_exporters](https://www.researchgate.net/publication/323565397_Coal_taxes_as_supply-side_climate_policy_a_rationale_for_major_exporters)

This study estimates potential state revenue from coal production tax under conservative and progressive scenarios. The conservative scenario calculates a direct tax at a rate of US\$ 2.50 per ton on total coal production. In contrast, the progressive scenario focuses only on realised production that exceeds the target, with a tax rate of 30% of the global coal price. Calculations are based on the realized coal production in 2024 of 836.13 million tons<sup>43</sup>, compared to the 2024 production target of 710 million tons<sup>44</sup>. The global coal price is set at US\$107/ton as of June 2025<sup>45</sup>, and the exchange rate assumption is IDR 16,421 per US dollar (as of May 5, 2025).

### Conservative Scenario

$$\begin{aligned} \text{Potential Coal Production Tax} &= \text{Realized Coal Production} \times \text{Proposed Tax Rate} \\ &= 836.13 \text{ million tons} \times \text{US\$}2.5 \times \text{IDR } 16,421 \\ &= \text{IDR } 34,325,226,825,000 \\ &= \text{IDR } 34.33 \text{ trillion (US\$}2.09 \text{ billion)} \end{aligned}$$

### Progressive Scenario

$$\begin{aligned} \text{Potential Coal Production Tax} &= (\text{Realized Coal Production} - \text{Target Production}) \times 30\% \times \\ &\quad \text{Global Coal Price} \\ &= (836.13 - 710) \text{ million tons} \times 30\% \times \text{US\$}107/\text{ton} \times \text{IDR } 16,421 \\ &= \text{IDR } 66,484,901,433,000 \\ &= \text{IDR } 66.49 \text{ trillion (US\$}4.05 \text{ billion)} \end{aligned}$$

Thus, the potential annual state revenue from the coal production tax is estimated to be between IDR 34.33 trillion and IDR 66.49 trillion. Ultimately, extractive activities that alter landscapes and forest areas serve only as short-term fiscal patches. The depletion of primary forests has serious consequences, including the loss of nature-based public revenues and the erosion of ecosystem services that sustain economic activities. Like many other developing countries, Indonesia faces a dilemma, ambitious economic growth is supported by the extractive sector and mineral downstreaming, yet the burden of environmental damage leaves a fiscal gap that cannot be compensated in the long run.

▲ **Estimated state revenue from the coal production tax is projected to range from US\$ 2.09 billion to US\$ 4.05 billion per year.**

<sup>43</sup> Ditjen Mineral dan Batubara, Kementerian Energi dan Sumber Daya Mineral RI. (2024). *Laporan Kinerja Ditjen Minerba*. Jakarta: Kementerian Energi dan Sumber Daya Mineral RI.

<sup>44</sup> Kementerian Energi dan Sumber Daya Mineral. (2025, Februari 3). *Kinerja Sektor ESDM 2024: Lampui Target, Penuhi Kebutuhan Domestik, dan Tingkatkan Ketahanan Energi*.

<sup>45</sup> Investing.id. (2025, Juni 18). *Newcastle Coal Futures - Jun '25 (NCFM1)*. Retrieved from <https://id.investing.com/commodities/newcastle-coal-futures>

## 9 Windfall Profit Tax in the Extractive Sector

A windfall profit tax is an additional levy imposed on profits gained by companies due to market price surges that are not the result of their performance efforts, but rather external factors or market dynamics.

The windfall profit tax is generally temporary and selective, as it is applied in practice only to specific sectors that reap disproportionately high profits without a corresponding increase in productivity. This tax aims to ensure that such abnormal profits are redistributed to the public, particularly during times when the broader population is under economic pressure. Currently, the tax system still relies on fixed rates without the adaptive capacity to analyze sudden spikes in commodity prices. As a result, the extraordinary profits of large extractive corporations during economic contractions are not shared with the general public, who often face higher costs during crises.

▲ The implementation of a windfall profit tax is particularly relevant during periods of rising export commodity prices in global markets. Moving forward, its application should focus intensively on sectors such as coal, palm oil, and energy, while considering size thresholds to avoid overburdening smaller operators.

This scheme should remain temporary and flexible, with periodic evaluations based on market conditions. An IMF (2022) study<sup>46</sup> titled "Excess Profit Taxes: Historical Perspective and Contemporary Relevance," found that imposing a windfall profit tax on excess profits—after accounting for a reasonable return on capital, can contribute positively to tax revenue in a fair, efficient, and non-distortive manner.

In the context of coal, the windfall profit tax calculation utilises the price surge in the global coal market that occurred in mid-2024, following the outbreak of the Russia-Ukraine conflict. As of May 2025, the international coal price reached US\$145 per ton<sup>47</sup>, while the highest benchmark coal price in 2024 stood at US\$115 per ton. According to Statistics Indonesia (BPS), coal export volume in 2024 reached 405.76 million tons. To increase state revenue during such periods of surging net profits in export commodities, a proposed windfall profit tax rate of 25% is suggested. The exchange rate assumption as of May 5, 2025, is Rp16,421 per US dollar.

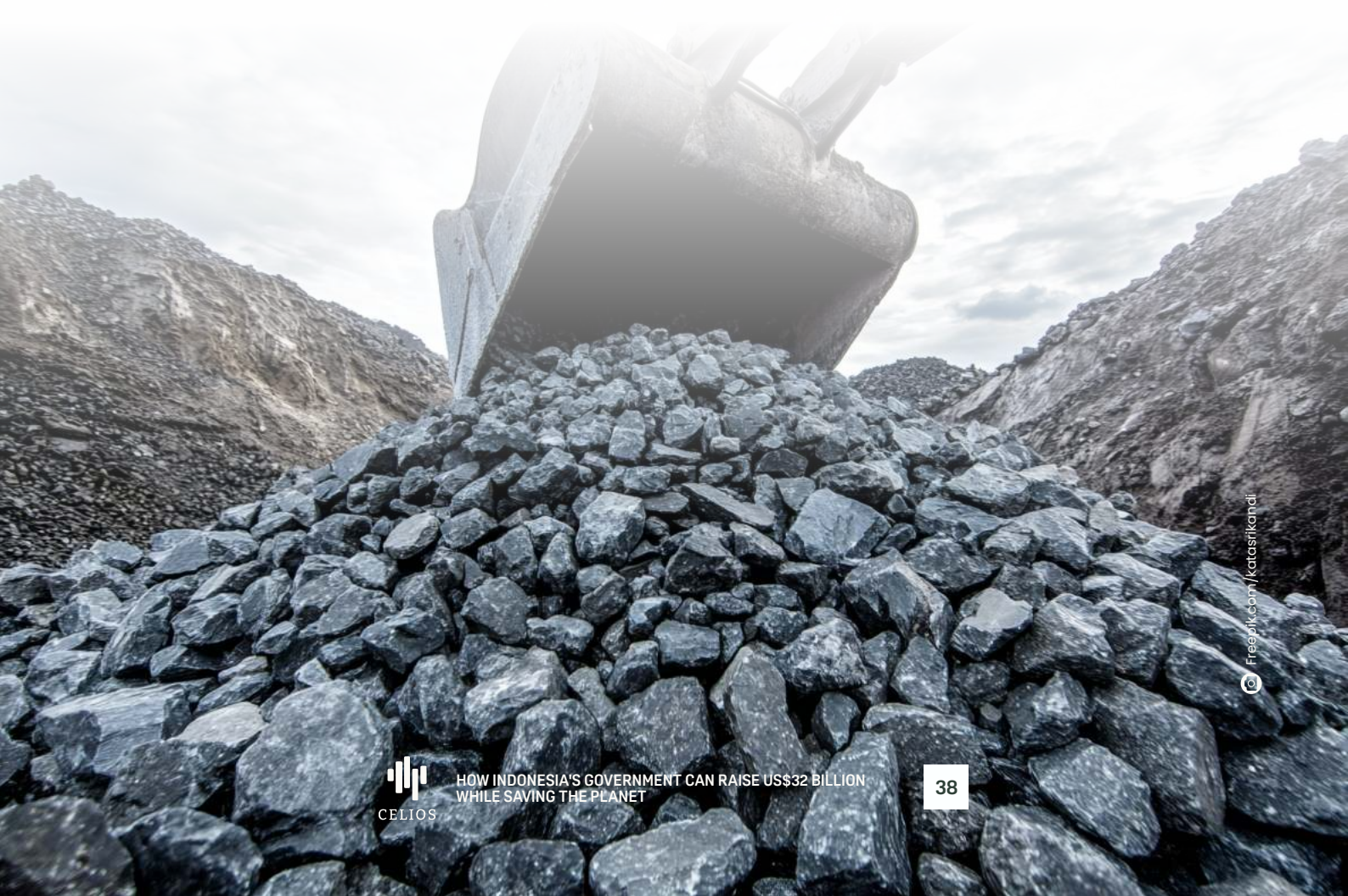
<sup>46</sup> Heboues et al. (2022), *Excess Profit Taxes: Historical Perspective and Contemporary Relevance*. <https://www.imf.org/en/Publications/WP/Issues/2022/09/16/Excess-Profit-Taxes-Historical-Perspective-and-Contemporary-Relevance-523550>

<sup>47</sup> Investing.id. (2025, Juni 18). *Newcastle Coal Futures - Jun '25 (NCFMc1)*. Retrieved from <https://id.investing.com/commodities/newcastle-coal-futures>

$$\begin{aligned}
 \text{Windfall Profit Tax Potential} &= (\text{Global Coal Price} - \text{Benchmark Price}) \times \text{Export Volume} \times \\
 &\quad \text{Proposed Tax Rate} \times \text{Rp}16,421 \\
 &= (\text{US\$}145 - \text{US\$}115) \times 405.75 \text{ million tons} \times 25\% \times \text{Rp}16,421 \\
 &= \text{Rp}49,971,155,625,000 \\
 &\approx \text{Rp}49.97 \text{ trillion (US\$3.04 billion)}
 \end{aligned}$$

Although the windfall profit tax is often considered less strategic because of its temporary nature and reliance on unpredictable gains, applying it to coal commodities could generate approximately Rp49.97 trillion in state revenue. This amount could be allocated to social compensation programs, subsidies for environmentally friendly energy sources, and fiscal support in resource-producing regions. By doing so, crises would no longer be viewed as “harvest seasons” for large industries, but rather as opportunities for fiscal policy to serve as an effective recovery tool for vulnerable communities impacted by economic shocks.

▲ The potential state revenue from a windfall profit tax in the extractive sector is estimated to reach US\$ 3.04 billion per year.



## 10 Excise on Sugar-Sweetened Beverages (SSBs)

The excise on sugar-sweetened beverages (SSBs) is a specific levy imposed on packaged drinks containing added sugar, whether in liquid form, such as syrups, sweetened bottled tea, and carbonated beverages, or in powdered form.

The purpose of implementing the SSB excise is to control excessive sugar consumption, which contributes to the increasing prevalence of obesity, diabetes, and heart disease. By imposing a tax obligation on high-sugar products, the government encourages producers to reduce sugar content in their products, thereby providing consumers with healthier options. According to the Ministry of Health (2024), the consumption of sugar-sweetened beverages in Indonesia has increased significantly, by up to 15 times over the past two decades, from 15 million litres to 780 million litres. However, the SSB excise has yet to be implemented nationally due to ongoing political negotiations, which take into account economic impacts and resistance from industry players. As a result, the government is missing out on a dual opportunity, both in mitigating public health risks and in expanding state revenue sources. The future implementation of the SSB excise could begin with ready-to-drink products, such as sodas, bottled sweetened teas, and energy drinks, before being expanded to other product categories. Research from the Global Food Research Program (2022)<sup>48</sup> indicates that SSB excise policies are effective in mitigating the negative health impacts of packaged sweetened beverages. Moreover, a study by A. Widarjono et al. (2023)<sup>49</sup> highlights the positive effects of such policies on government revenue.

The excise calculation uses a volumetric rate based on a national consumption estimate of 780 million litres per year, with a proposed average rate of IDR 5,000 per litre. This scheme considers widely circulated product types, the sugar content of each beverage category, and the potential implementation scope relative to the formal market volume. These assumptions serve to present a realistic projection for the formulation of the SSB excise policy.

Excise on Sugar-Sweetened Beverages = Total SSB Consumption × Excise Rate  
= 780 million liters × IDR 5,000  
= **IDR 3.9 trillion per year (US\$238 million)**

<sup>48</sup> Global Food Research program (2022). *Taxing Sugary Drinks: A Fiscal Policy to Improve Public Health*. [https://www.globalfoodresearchprogram.org/wp-content/uploads/2023/04/GFRP\\_FactSheet\\_SugaryDrinkTaxes\\_2022\\_11\\_corrected.pdf](https://www.globalfoodresearchprogram.org/wp-content/uploads/2023/04/GFRP_FactSheet_SugaryDrinkTaxes_2022_11_corrected.pdf)

<sup>49</sup> A. Widarjono et al (2023). *Taxing sugar sweetened beverages in Indonesia: Projections of demand change and fiscal revenue*, PLOS ONE. <https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0293913>

Berdasarkan perhitungan tersebut, potensi penerimaan negara bisa mencapai Rp3,9 triliun. Ini menunjukkan bahwa cukai minuman berpemanis dapat menjadi sumber penerimaan baru yang signifikan dan efektif mendorong pengendalian konsumsi gula di masyarakat.

- ▲ Revenue generated from this excise can be allocated to strengthen funding for the National Health Insurance (JKN), promote national nutrition campaigns, and support the development of basic healthcare services in local regions.

- ▲ The potential state revenue from the sugar-sweetened beverage excise is estimated to be US\$ 238 million per year.



## 11 Termination of Pro-Conglomerate Tax Incentives

Termination of pro-conglomerate tax incentives refers to efforts to reform tax policies that have long provided exemptions, deferrals, reductions, or even complete tax relief to large corporations without clear justification of their economic benefits to society.

Tax incentives can be traced through tax expenditure reports, which are officially published to ensure transparency regarding lost state revenue. However, tax expenditure reporting is limited to incentive instruments that are explicitly calculated and disclosed by fiscal authorities. Formal tax incentives include exemptions from value-added tax (VAT), reductions in income tax (PPH), and various preferential treatments such as tax holidays and tax allowances. Nonetheless, there are unrecorded fiscal incentives such as sectoral tax rate disparities, special negotiations (tax rulings), tax collection deferrals, and exemptions on specific export and import duties.

▲ These gaps in fiscal incentives have effectively turned tax expenditures into hidden subsidies, as several components are explicitly designed to support the investment climate and business sector. Such tax incentives are routinely enjoyed by nickel downstream companies, coal mining corporations, and extractive companies in so-called strategic and pioneer industries.

A recent study on Tax Expenditures, Reform, and Equity Distribution<sup>50</sup> underscores the importance of sectoral categorisation in assessing the impact of tax expenditure policies on income distribution and social welfare. In-depth analysis is needed to identify which groups and sectors benefit the most. The 2023 Tax Expenditure Report<sup>51</sup> already includes analysis on VAT incentive beneficiaries per decile or expenditure group. Therefore, similar studies are needed for other types of tax incentives to assess the fiscal equity of tax expenditure policies. The government does not need to abolish all forms of tax expenditures, but rather should evaluate and discontinue tax schemes that benefit large-scale industries and businesses with harmful impacts.

This study recommends that the Indonesian government review all tax incentive schemes and promote the reallocation of tax expenditures dedicated to improving the investment climate and business environment. The potential reallocation from current tax expenditures targeting investment and business could reach US\$ 8.37 billion (IDR 137.4 trillion). Termination of pro-conglomerate tax incentives is a strategic step to relieve the state budget (APBN) from unfair burdens and to restore tax credibility and transparency.

<sup>50</sup> Sugin, Linda (2014), *Tax Expenditures, Reform, and Distributive Justice*. [https://ir.lawnet.fordham.edu/faculty\\_scholarship/60/](https://ir.lawnet.fordham.edu/faculty_scholarship/60/)  
<sup>51</sup> Kemenkeu (2024), *Laporan Belanja Perpajakan 2023*. <https://fiskal.kemenkeu.go.id/publikasi/tax-expenditure-report>

▲ The potential reallocation of tax expenditures, which have so far been more beneficial to conglomerates, would generate revenues amounting to US\$ 8.37 billion.

## The Growing Wealth of Indonesia's Super-rich



109%

**Lim Hariyanto Wijaya Sarwono**  
Wealth total: US\$4.8 billion



78.5%

**Low Tuck Kwong**  
Wealth total: US\$27.2 billion



70.2%

**Prajogo Pangestu**  
Wealth total: US\$43.7 billion



63%

**Wijono & Hermanto Tanoko**  
Wealth total: US\$3.05 billion



26%

**Bachtiar Karim**  
Wealth total: US\$3.9 billion



25%

**Hamami Family**  
Wealth total: US\$1.6 billion



24%

**Jogi Hendra Atmadja & family**  
Wealth total: US\$4.4 billion



19%

**Djoko Susanto**  
Wealth total: US\$4.35 billion



15.9%

**R, Budi & Michael Hartono**  
Wealth total: US\$48 billion



12%

**Saban Prawirawidjaja**  
Wealth total: US\$940 million



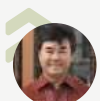
11%

**Tahir Family**  
Wealth total: US\$4.2 billion



9%

**Arini Subianto Family**  
Wealth total: US\$1.34 billion



8%

**Martua Sitorus**  
Wealth total: US\$3.25 billion



8%

**Sri Prakash Lohia**  
Wealth total: US\$8.5 billion



7%

**Sukanto Tanoto**  
Wealth total: US\$3.15 billion



7%

**Ciputra family**  
Wealth total: US\$1.7 billion



7%

**Theodore Rachmat**  
Wealth total: US\$3.2 billion



6%

**Kuncoro Wibowo**  
Wealth total: US\$1.05 billion



6%

**Anthony Salim**  
Wealth total: US\$10.3 billion



6%

**Irwan Hidayat**  
Wealth total: US\$1.08 billion



5%

**Ciliandra Fangiono**  
Wealth total: US\$2.35 billion



4%

**Husain Djojonegoro**  
Wealth total: US\$1.15 billion



4%

**Chairul Tanjung**  
Wealth total: US\$5.7 billion



3%

**Widjaja Family**  
Wealth total: US\$10.8 billion



2%

**Bambang Sutantio**  
Wealth total: US\$1.65 billion

Source: CELIOS, INDONESIA INEQUALITY REPORT 2024.



“

Tax incentives are flowing abundantly,  
slipping through corporate tax  
loopholes into the pockets of the super-rich,  
while ordinary workers are squeezed dry.  
This is unjust!

”

## 12 Reduction of VAT Rate from 11% to 8%<sup>a</sup>

The reduction of the Value Added Tax (VAT) rate is a fiscal policy undertaken by the government to lower the percentage of VAT levied on the consumption of goods and services. VAT itself is an indirect tax applied at each stage of the production and distribution chain, ultimately borne by the final consumer.

Lowering the VAT rate is not merely a populist move that sacrifices state revenue in the short term, but should serve as a momentum for restructuring the tax system toward a more balanced framework. This policy is a long-term investment aimed at restoring household consumption capacity, which has been severely hit by economic contraction. It will strengthen household purchasing power, particularly among the lower-middle class, which serves as the primary driver of domestic consumption. Increased household consumption, in turn, stimulates growth in the retail sector, domestic production, and logistics distribution. The resulting acceleration in economic productivity will ultimately create a broader and more sustainable tax revenue base.

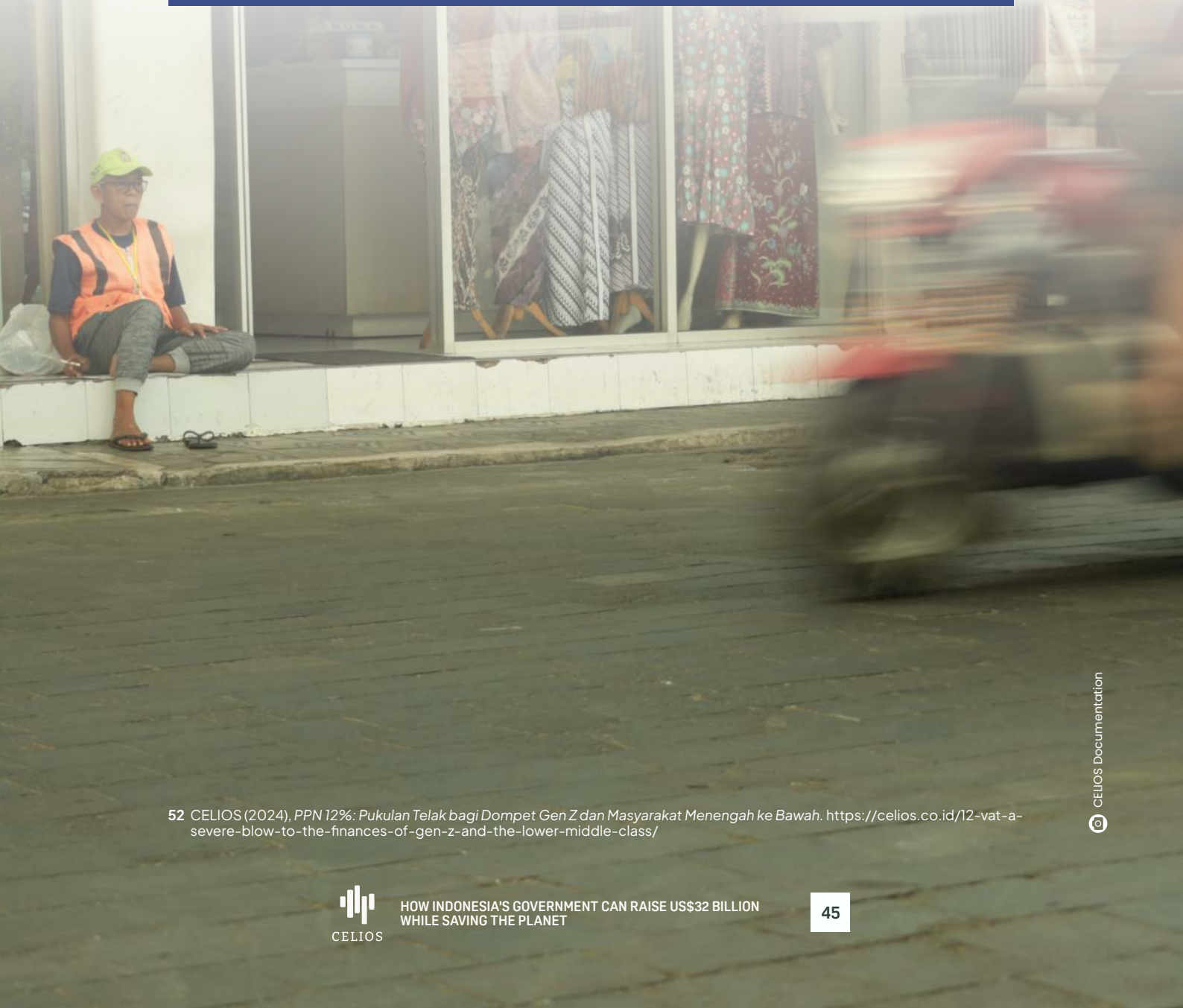
The discourse on increasing the VAT rate from 11% to 12% had gained traction, referring to provisions in the Law on the Harmonisation of Tax Regulations (UU HPP). However, the plan was eventually postponed following widespread public opposition, particularly from labor groups, MSMEs, and household consumers. This opposition reflects concerns over a tax system that tends to burden the lower-middle class, while aggressive taxation of top income groups has yet to be fully optimized. This situation highlights the need for comprehensive reform of the national tax structure.

▲ In global practice, countries with progressive tax systems tend to maintain moderate VAT rates and apply a multi-rate approach. This scheme allows necessities to be subject to lower VAT rates, or even exempted altogether, while luxury goods are taxed at higher rates.

This approach demonstrates that a fair taxation system does not depend solely on the number of taxpayers, but also on the proportional distribution of the tax burden by the ability to pay.

In research conducted by CELIOS in response to the discourse on increasing the VAT rate to 12%, an input-output model-based economic simulation showed that reducing the VAT rate could potentially have a positive impact on the national economy. This policy would not only increase overall economic output but also enhance job absorption, stimulate business surpluses, and increase household income. Specifically, a scenario of lowering the VAT rate to 8% is projected to increase household consumption by 0.74% and boost Gross Domestic Product (GDP) growth by IDR 133.65 trillion. This multiplier effect would ultimately contribute to an increase in net tax revenue of up to IDR 1 trillion (US\$61 million) per year.

▲ **The potential indirect net tax revenue from lowering the VAT rate is approximately US\$ 61 million per year.**



52 CELIOS (2024), PPN 12%: Pukulan Telak bagi Dompok Gen Z dan Masyarakat Menengah ke Bawah. <https://celios.co.id/12-vat-a-severe-blow-to-the-finances-of-gen-z-and-the-lower-middle-class/>

## Total Alternative State Revenue (per Year)

# US\$31.92 billion

TOTAL POTENTIAL ALTERNATIVE STATE REVENUE

Digital Tax

**US\$ 1.80 billion**

Carbon Tax

**US\$ 4.65 billion**

Wealth Tax

**US\$ 4.97 billion**

Capital Gains Tax

**US\$ 0.43 billion**

Third-Home Ownership Tax

**US\$ 0.29 billion**

Increase in Inheritance  
Tax Rates

**US\$ 1.22 billion**

Coal Production Tax

**US\$ 4.05 billion**

Windfall Profit Tax in  
the Extractive Sector

**US\$ 3.04 billion**

Sugar-Sweetened  
Beverages (SSB) Excise

**US\$ 0.24 billion**

Biodiversity Loss Tax

**US\$ 2.96 billion**

Review Tax Incentives

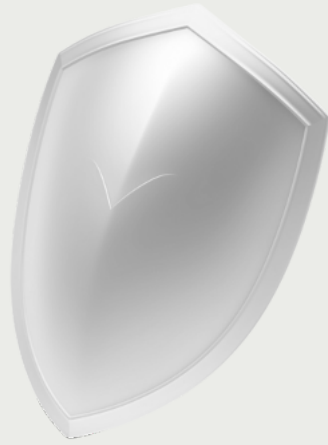
**US\$ 8.37 billion**

Reduction of value-added  
tax (VAT) rate

**US\$ 61,73 million**

**These findings suggest that Indonesia has substantial fiscal space, with the potential for new revenues of US\$ 28.56–31.92 billion annually through the implementation of progressive alternative taxes.**

This potential comes from the adoption of fairer taxation on the digital sector, carbon emissions, wealth, and other economic activities that have so far remained untaxed. In addition, the elimination of pro-conglomerate tax incentives and the adjustment of the VAT rate to a lower yet socially equitable level further strengthen this scheme. Therefore, it is highly feasible for the state to grow its revenue without increasing the burden on vulnerable groups.



Persisting with the old ways of collecting taxes in a world that has already changed is intellectual laziness. Alternative and progressive taxation is not a dream, other countries have already proven it. It is only we who are moving too slowly.



# ALTERNATIVE TAX SCHEME DESIGNED TO AVOID DOUBLE TAXATION ON THE SAME OBJECT

In designing a progressive and equitable tax system, this study seeks to ensure that the set of alternative policies does not involve double taxation or double counting. Each instrument has distinct tax objects, bases, and assessment criteria.

## Digital Tax

This policy applies to economic activities generated by foreign digital companies that do not have a physical presence across jurisdictions. The risk of duplication is low and can be minimized through international coordination, such as the OECD Pillar One framework.

## Carbon Tax

This policy is a corrective tax based on CO<sub>2</sub> emissions, not on income or profit. Since the tax object is an environmental externality, it does not overlap with income or consumption taxes.

## Wealth Tax

This policy imposes a levy on the accumulation of net assets (stock-based), rather than on annual income flows. This distinguishes it from income tax. With an integrated tax base design, potential duplication can be entirely avoided.

## Capital Gains Tax

This policy is imposed only when profits from investment assets, such as stocks or bonds, are realized. Its object is different from the general income tax and does not apply to passive asset ownership. With clear differentiation in timing and transaction type, this policy is free from double-counting.

## Third Home Ownership Tax

This policy targets properties held for speculative purposes, excluding those used as a primary or secondary residence. It does not replace property tax (PBB) and is not levied based on transaction value, but on ownership. As such, there is no duplication of tax base or object.

### Inheritance Tax

This policy applies only once when there is a transfer of value between generations and is not imposed on ongoing income or wealth. Technically, there is no double taxation because the timing is different and the object is the transfer of rights, not the accumulation of net wealth.

### Coal Production Tax

This policy is a tax on the excess production of the extractive coal commodity, not on income or profit. It stands independently from corporate income tax and royalties, serving as a corrective instrument for the negative externalities produced.

### Windfall Profit Tax in the Extractive Sector

This policy is implemented only when there are unexpected profits resulting from consecutive price surges driven by market volatility. By establishing a clear profit threshold, this policy avoids overlap with corporate income tax and prevents double counting.

### Excise Tax on Sugar-Sweetened Beverages (SSB)

This policy is a levy on products posing public health risks. It does not duplicate VAT, as its purpose is not merely revenue generation but rather to disincentivize or regulate products with negative impacts.

### Biodiversity Loss Tax

Kebijakan ini bersifat korektif terhadap kerusakan ekologis akibat aktivitas ekonomi. Karena basisnya adalah dampak lingkungan berupa keanekaragaman hayati, maka pajak ini tidak terjadi duplikasi atas model pajak lingkungan yang lain.

### Termination of Pro-Conglomerate Tax Incentives

Kebijakan ini tak menambah pungutan baru melainkan penghapusan keistimewaan pajak yang tidak adil. Oleh karena itu, tidak ada objek baru yang dikenai pajak dan tidak terdapat risiko *double taxation* maupun *double counting*.

### Reduction of VAT Rate from 11% to 8%

This VAT rate reduction policy is not a new tax instrument but an economic stimulus measure through rate-based fiscal relaxation.

Based on a detailed review of the characteristics and objects of each alternative tax, they can be implemented without overlapping taxation. First, there is no imposition of multiple taxes on the same object, thereby mitigating the risk of double taxation. Second, there is no levy on the same tax base more than once through different formulas or calculation approaches, thereby mitigating double-counting. Third, the policy design employs a clearly defined function-based approach. These tax instruments establish a clear distinction between ownership-based taxes (stock taxes) and flow-based taxes (flow taxes). Taxes on wealth transfer are also differentiated from taxes on wealth ownership. The setting of thresholds, precise classification of taxable objects, and harmonization with the existing tax system are also key instruments to ensure that the policy stands independently without creating a double burden. Thus, these alternative policies can complement each other to achieve a fairer, more transparent, and more effective tax system.





# PROMOTING TAX JUSTICE FOR THE PEOPLE

State revenue policy requires fairer regulations and implementation supported by strong administrative governance. Impartial law enforcement is also a prerequisite for the successful implementation of equitable state revenue collection. Therefore, the government needs to strengthen the following aspects:

## Publication of Large Corporate Taxes (Public Country-by-Country Reporting)

Indonesia's main obstacle to implementing CbCR lies in its weak administrative capacity, a lack of political pressure for public disclosure, and its dependence on foreign jurisdictions. Comprehensive policy reform and more substantial support from civil society are necessary, given CbCR's potential as a tool to prevent tax avoidance and enhance fiscal equity.

## Drafting and Deliberation of a Wealth Tax Law as a Tax Instrument

The government needs to immediately prepare a draft Wealth Tax Law. The drafting process must involve broad public participation, including academics, NGOs, relevant communities, and civil society organizations. In addition, the government should promptly prepare an academic study on Wealth Tax policy.

## Comprehensive Implementation of the Common Reporting Standard (CRS) and Automatic Exchange of Information (AEOI)

The necessary step is to integrate the CRS system into the Directorate General of Taxes' (DGT) core tax system. Moreover, administrative and criminal sanctions must be tightened for financial institutions that fail to comply with the CRS, and participation from tax haven jurisdictions should be encouraged to establish bilateral AEOI agreements with Indonesia.

## Implementing the Convention on Mutual Administrative Assistance (MAAC) to Close Cross-Border Tax Avoidance Loopholes

With the issuance of Presidential Regulation No. 5 of 2024, which updates the coverage to 72 countries through MAAC, Indonesia has broader access to request and provide cross-border tax collection assistance. This momentum must be strengthened through the full implementation of the Convention on Mutual Administrative Assistance in Tax Matters (MAAC), which aims to close cross-border tax avoidance loopholes by integrating automatic exchange of information (AEOI) mechanisms, facilitating cross-border collection assistance, and enhancing cross-jurisdictional compliance monitoring. The government should accelerate domestic regulatory harmonisation, strengthen DGT's institutional capacity in tracking cross-border assets, and prioritise cooperation with high-risk jurisdictions such as tax havens. The effective implementation of MAAC will expand the tax authority's reach in collecting overseas receivables, enhance international tax compliance, and narrow the scope for global tax arbitrage.

## Reorienting Indonesia's Tax Policy by Promoting Alternative Taxes

Indonesia's tax policy direction should focus on implementing progressive and equitable taxation. By prioritising progressive alternative taxes, tax contributions can more accurately reflect the economic capacity of individuals or entities. The government must be willing to uphold the principle of vertical equity, whereby those with greater financial capacity should bear a higher tax burden because they benefit more from economic growth. The push for progressive taxation is not only a matter of responsibility but also part of the spirit of economic solidarity, aimed at creating a more equal and inclusive society.

## Tax Administration Reform

Improvements in tax administration are often more effective than raising tax rates. This approach can be more efficient and cost-effective. In the study by Basri, Olken, and Hanna (2021), Tax Administration vs. Tax Rates: Evidence from Corporate Taxation in Indonesia, administrative improvements, through the establishment of Medium Taxpayer Offices (MTOs) focusing on medium-sized corporate taxpayers, were shown to increase MTO taxpayer revenues equivalent to raising the marginal corporate income tax rate for all companies by approximately eight percentage points (from 30% to 38%).

The technical, political, and institutional challenges that must be strategically anticipated in implementing various progressive taxes are outlined in the following table.

Table 11.  
Policy Action Plan and Roadmap for Alternative Taxes

<p><b>Wealth Tax</b></p>	<p><b>Challenges</b> Resistance from economic elites, limited asset ownership data</p>	<p><b>Key Stakeholders</b></p> <ul style="list-style-type: none"> <li>• Ministry of Finance (MoF),</li> <li>• Directorate General of Taxes (DGT),</li> <li>• Financial Services Authority (OJK),</li> <li>• House of Representatives (DPR),</li> <li>• National Development Planning Agency (Bappenas)</li> </ul>	<p><b>Policy Actions</b></p> <ul style="list-style-type: none"> <li>• Large-scale asset data collection, harmonization of registration systems, enactment of Wealth Tax Law</li> </ul>
<p><b>Capital Gains Tax Rate Increase</b></p>	<p><b>Challenges</b> Potential decline in investment interest, reporting complexity</p>	<p><b>Key Stakeholders</b></p> <ul style="list-style-type: none"> <li>• MoF,</li> <li>• DGT,</li> <li>• Indonesia Stock Exchange (IDX),</li> <li>• OJK,</li> <li>• capital market participants</li> </ul>	<p><b>Policy Actions</b></p> <ul style="list-style-type: none"> <li>• Amendments to Income Tax Law,</li> <li>• integration of reporting within IDX</li> </ul>
<p><b>Inheritance Tax Rate Increase</b></p>	<p><b>Challenges</b> Limited political support, lack of transparent inheritance procedures</p>	<p><b>Key Stakeholders</b></p> <ul style="list-style-type: none"> <li>• MoF,</li> <li>• DGT,</li> <li>• Notary Association,</li> <li>• National Land Agency (BPN),</li> <li>• DPR</li> </ul>	<p><b>Policy Actions</b></p> <ul style="list-style-type: none"> <li>• Amendments to the HPP Law and Income Tax Law,</li> <li>• socio-economic impact assessment</li> </ul>
<p><b>Coal Production Tax</b></p>	<p><b>Challenges</b> Resistance from extractive industries, regional fiscal dependence</p>	<p><b>Key Stakeholders</b></p> <ul style="list-style-type: none"> <li>• MoF,</li> <li>• Ministry of Energy and Mineral Resources (ESDM),</li> <li>• DGT,</li> <li>• Ministry of Environment and Forestry (KLHK),</li> <li>• Local Governments</li> </ul>	<p><b>Policy Actions</b></p> <ul style="list-style-type: none"> <li>• Integration with carbon pricing,</li> <li>• amendment of non-tax state revenue (PNBP) regulations in the mining sector,</li> <li>• focus group discussions with local governments and relevant ministries</li> </ul>
<p><b>Third Home Ownership Tax</b></p>	<p><b>Challenges</b> Transparency of multiple home ownership, central-regional coordination</p>	<p><b>Key Stakeholders</b></p> <ul style="list-style-type: none"> <li>• DGT,</li> <li>• BPN,</li> <li>• Local Governments,</li> <li>• OJK</li> </ul>	<p><b>Policy Actions</b></p> <ul style="list-style-type: none"> <li>• Adjustment of luxury goods sales tax (PPnBM) threshold,</li> <li>• mapping of owners with more than two houses via National ID integration,</li> <li>• amendment of HPP Law,</li> <li>• issuance of local regulations on third-home ownership tax</li> </ul>

<b>Sugar-Sweetened Beverage (SSB) Tax</b>	<b>Challenges</b> Industry pressure and consumer resistance	<b>Key Stakeholders</b> <ul style="list-style-type: none"> <li>• MoF,</li> <li>• Ministry of Health (MoH),</li> <li>• National Agency of Drug and Food Control (BPOM),</li> <li>• Ministry of Industry</li> </ul>	<b>Policy Actions</b> <ul style="list-style-type: none"> <li>• Public advocacy on diabetes,</li> <li>• discussion in the National Legislation Program (Prolegnas) for the SSB Excise Law</li> </ul>
<b>Carbon Tax</b>	<b>Challenges</b> Industry readiness: limitations in monitoring systems	<b>Key Stakeholders</b> <ul style="list-style-type: none"> <li>• MoF,</li> <li>• KLHK,</li> <li>• DGT,</li> <li>• Industry Associations,</li> <li>• Ministry of ESDM</li> </ul>	<b>Policy Actions</b> <ul style="list-style-type: none"> <li>• Synchronization with Presidential Regulation on Net Zero,</li> <li>• revision of carbon tax rate</li> </ul>
<b>Digital Tax</b>	<b>Challenges</b> Complexity of cross-jurisdiction reporting, pressure from large platforms/multinational enterprises (MNEs)	<b>Key Stakeholders</b> <ul style="list-style-type: none"> <li>• MoF,</li> <li>• DGT,</li> <li>• Ministry of Communication and Informatics (Kominfo),</li> <li>• platform operators,</li> <li>• MNEs</li> </ul>	<b>Policy Actions</b> <ul style="list-style-type: none"> <li>• Implementation of multilateral digital taxation (OECD Pillars 1 &amp; 2) and UN Tax Convention,</li> <li>• revision of digital economy taxation provisions in the Income Tax and VAT Laws</li> </ul>
<b>Biodiversity Loss Tax</b>	<b>Challenges</b> Lack of standardized ecological loss assessment	<b>Key Stakeholders</b> <ul style="list-style-type: none"> <li>• KLHK,</li> <li>• MoF,</li> <li>• Local Governments</li> </ul>	<b>Policy Actions</b> <ul style="list-style-type: none"> <li>• Inclusion of additional articles in the Natural Resources Conservation Law,</li> <li>• establishment of a biodiversity value index,</li> <li>• levy on damaged protected areas</li> </ul>
<b>Windfall Profit Tax in the Extractive Sector</b>	<b>Challenges</b> Difficulty in applying without objective indicators and transparent profit data	<b>Key Stakeholders</b> <ul style="list-style-type: none"> <li>• MoF,</li> <li>• Ministry of ESDM,</li> <li>• Ministry of SOEs,</li> <li>• DPR</li> </ul>	<b>Policy Actions</b> <ul style="list-style-type: none"> <li>• Profit data transparency,</li> <li>• drafting of a temporary windfall profit tax regulation based on global prices</li> </ul>

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