INDONESIA PARLIAMENT PASSES TAX AMNESTY BILL INTO LAW

What is tax amnesty?

The Indonesia parliament passed the tax amnesty bill into law on 28 June 2016. The law extends an olive branch to Indonesian taxpayers currently holding undeclared wealth, allowing them to pay a lower, defined amount in exchange for forgiveness of the tax liability from previous tax periods. Taxpayers who declare earlier or repatriate these assets back to Indonesia stand to benefit from lower rates than those who declare later or choose to keep assets overseas.

Why is it important?

The passing of the bill comes as a shot in the arm for President Joko Widodo who has been effectively consolidating his political grip. This also complements other efforts to shore up foreign investors' confidence, stabilise the Indonesian Rupiah (IDR) and spur growth. The government recently revised up its 2016 budget deficit estimate, reflecting expectations for a slow revenue growth. This windfall should create more room for higher public spending while containing the deficit within the statutory 3% limit.

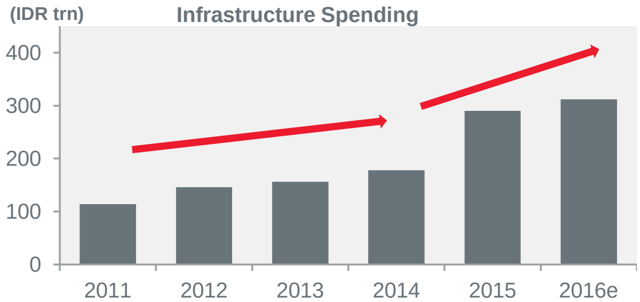
The passing of the bill also offers closure to what has been a lengthy proceeding. The key details are:

Category	1 Jul 2016 – 30 Sep 2016	1 Oct 2016– 31 Dec 2016	1 Jan 2017– 31 Mar 2017
Declared and repatriated	2%	3%	5%
Declared but not repatriated	4%	6%	10%
Small Enterprises Revenue ≤IDR4.8bn Wealth ≤ IDR10bn	0.5%		
Small Enterprises Revenue≤IDR4.8bn Wealth>IDR10bn	2%		

Implications

At a time when public spending is being used as a key tool to lift economic growth, higher spending was giving way to concerns around a fiscal cliff amidst lower year-on-year tax revenue collections so far this year.

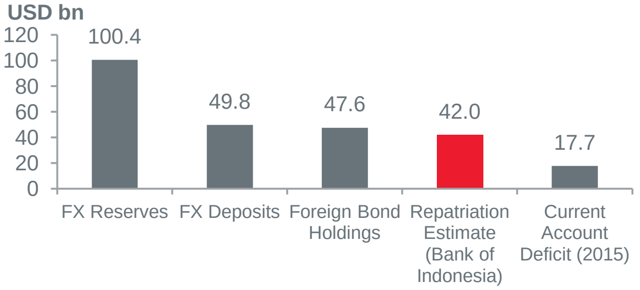
Per some official estimates, tax revenue collection could get a one-time boost of IDR165tn; equivalent to 1.3% of gross domestic product. This may thus prove to be a facilitator of infrastructure spending momentum.



Source: Ministry of Finance, Republic of Indonesia, 21 Jan 2016

Furthermore, a sizeable asset repatriation could have notable positive implications on IDR's stability, foreign exchange reserves, liquidity and rates.

Inflows on the back of the tax amnesty can help replenish liquidity and ease funding costs. This may take some pressure off the banks which have been struggling to lower lending rates in a bid to revive credit growth.



Source: Bloomberg, CEIC, Deutsche Bank, 29 Jun 2016

The quantum of repatriation however remains a conjecture. All wealth repatriated is to be parked and locked in approved securities / assets for a minimum of 3 years. More clarity on the scope of such instruments / investment vehicles is expected by the first week of July.

The government is, in parallel, preparing to revise the tax laws to lower the income tax rate, hoping that a wider tax net post amnesty could limit revenue loss from lower rates.

In principle, higher tax revenue, public spending momentum, a stimulus from lower income tax, and foreign liquidity influx will likely be positive for companies in the Financial sector, including Real Estate companies. Our Indonesia equity strategy has a positive tilt towards companies in the Financials sector, and is poised to benefit from the positive effects of this landmark bill.

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