



The Impact of Taxation and Public Expenditure on Income Distribution in Indonesia

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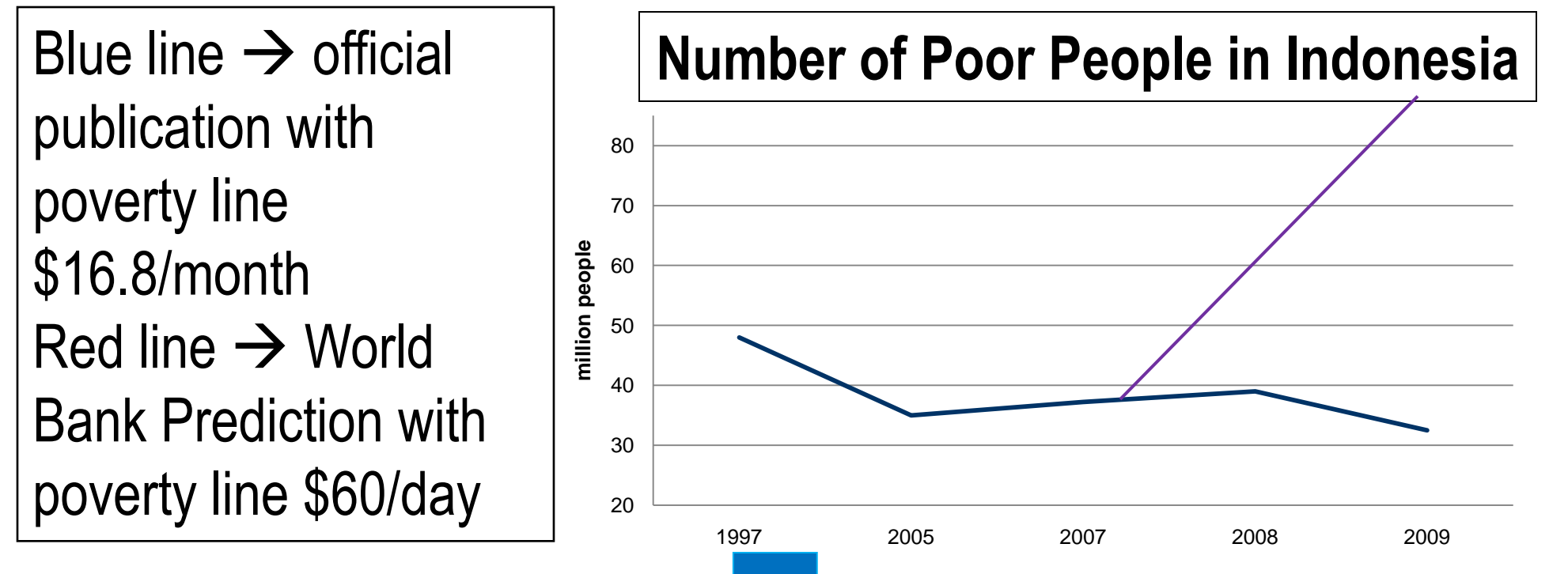
Professor Phil Lewis



Background

An important role of government is to reduce inequality in the distribution of income and reduce the number of the poor people.

There are still many people living in poverty or near-poverty, even though Indonesia experience high economics growth since 2000.



This study will evaluate Indonesian taxation and public expenditure in relation to programs that reduce income inequality.



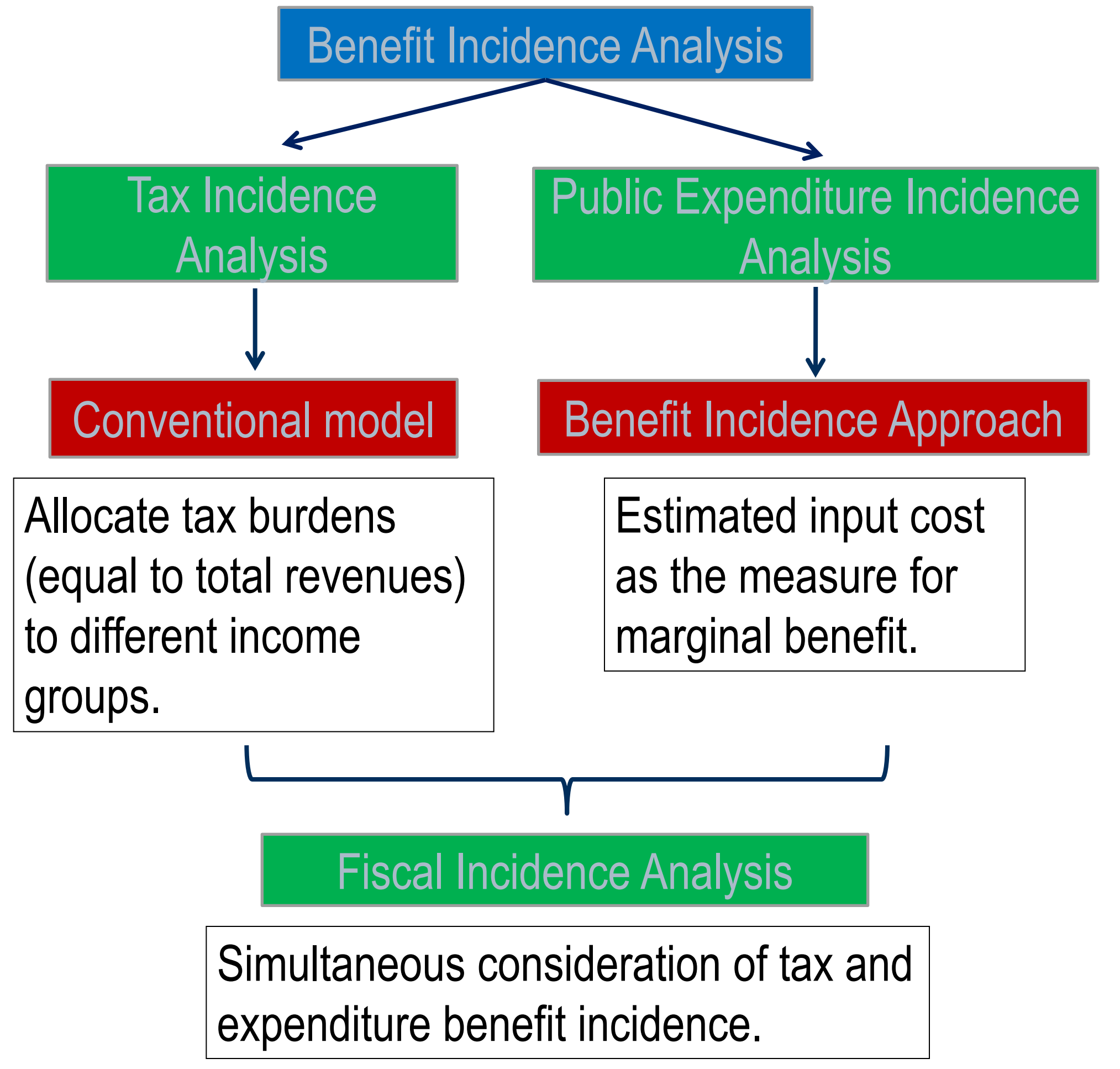
Research questions:
 • Which segments of the community are benefiting from taxation and public expenditure changes?
 • Can taxation and public expenditure be used to improve income distribution?

Hypothesis:
 Indonesian taxation and public expenditure has increased income inequality in Indonesia

Aims and Objectives

- To test the hypothesis.
- To give government a tool to evaluate taxation and public expenditure programs
- To provide feedback for government to improve taxation and public expenditure effectiveness

Literature Review

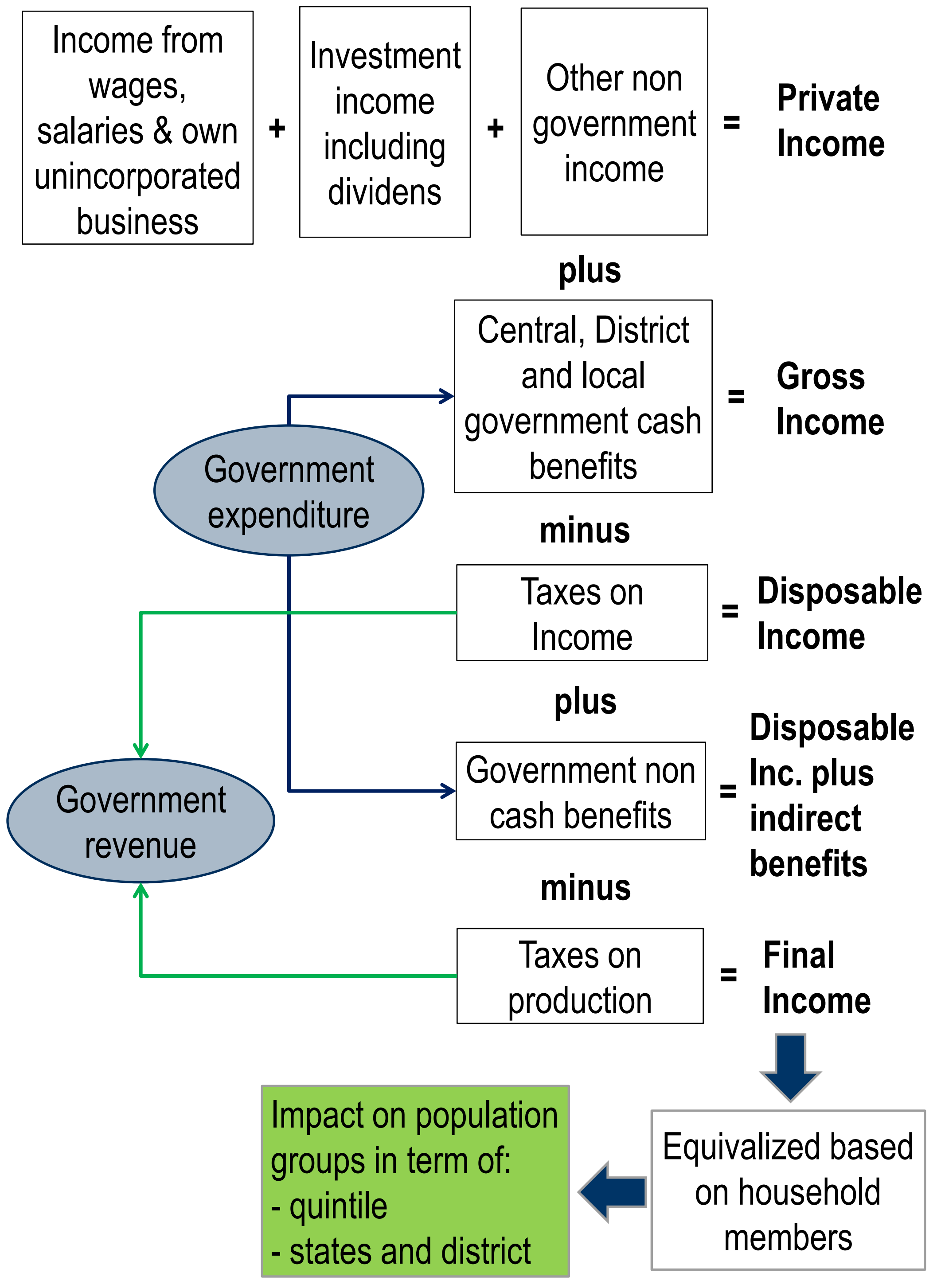


The important thing is to differentiate tax incidence and efficiency incidence

Reference List

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- Gasparini, L, 2006, "Assessing Benefit-Incidence Result Using Decomposition: the Case of Health Policy in Argentina", *Economics Bulletin*, Vol.4, No. 40, pg. 1-10.
- McKay, A, 2002, "Assessing the Impact of Fiscal Policy on Poverty", UNU/WIDER Discussion Paper, No.2002/43, UNU/WIDER, Helsinki.
- Vazquez, J.M, 2004, "The Impact of Fiscal Policy on the Poor: Fiscal Incidence Analysis", *International Studies Program Working Paper Series*, No. 01-10, Georgia State University, U.S.A.

Methodology and Methods



Compare the distribution of private income to distribution of final income

The Example: Distribution of Household Income, Benefit and Taxes in Australia

	Equalised final income quintile (%)				
	Lowest	Second	Third	Fourth	Highest
1 Private income	0.8	8.9	17.0	25.7	47.6
2 Benefits					
- Cash	60.8	23.7	9.9	3.9	1.7
- Non cash	29.8	22.5	18.7	15.8	13.2
Total	41.1	23.0	15.5	11.5	9.0
3 Taxes					
- Taxes on income	0.3	4.6	13.3	23.6	58.2
- Taxes on production	13.4	15.2	18.5	22.9	30.0
Total	5.6	9.0	15.4	23.3	46.7
Final income (1 + 2 - 3)	14.0	14.2	17.0	21.2	33.5
Equalised final income	13.2	15.1	18.1	21.6	32.1

Source of Data

- Six major data sources will be used in this study:
- Indonesian Social Economic Household Survey (SUSENAS)
 - Indonesian Families Life Survey (IFLS)
 - Indonesian Financial Note (IFN)
 - Government Financial Statistics (GFS)
 - Input - Output Tables (I-O Tables)
 - Other relevant data from line ministries

Intended Outcome

The study is important to help government improve taxation and public expenditure program effectiveness.

- Provide information that could be used to evaluate programs and policies developed to support the decision on whether to expand or modify a particular programs
- Will allow policy makers to promote better policies and sounder policy accountability.

Contribution and Limitation

The study will:

- contribute to new knowledge in Indonesia, because the study analyses both aspect of government budget.

The limitations are:

- the methods need many assumptions to make sure that all chosen variable can be quantified
- The survey data have a lot of weakness, such as the methodology of survey and the chosen sample.

Contact information

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