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Policy Paper Toward An Equitable Wealth Tax System In Indonesia
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Executive Summary

Fiscal policy can be defined as the process of collecting public money by the state to promote social justice, economic stability, and institutionality. However, in Indonesia, all three aspects have become increasingly difficult to achieve since wealth distribution is growing faster than the development of a progressive tax system. While tax revenue constitutes the base of public finance in the country, the current system is predominantly based on consumption-based taxes such as value added tax. On the contrary, accumulated wealth of rich people remains underutilized through periodic taxation. As a result, wealth tax gains growing popularity as an instrument to ensure the improvement of fiscal equity without sacrificing economic development.

This policy paper is prepared according to the results of the research conducted by Jesica Yulianto and entitled 'Public Perceptions Toward Wealth Tax Adoption in Indonesia'. Unlike those who focus their research on the importance of wealth taxes only as an additional revenue for the government, the author of this research shows that public support for such fiscal instruments is dependent on their perceptions of fairness, redistribution, institutionality, and accountability of the state. Furthermore, the research proves that such support exists when there is public belief in the transparency of tax authorities' work and efficient use of the collected public money for the benefit of the citizens. In other words, institutional legitimacy is another key condition besides fiscal capacity necessary for implementing wealth tax reforms.

Policy Relevance The urgency of introducing the policy of wealth tax reform is confirmed by the structural characteristics of Indonesia's fiscal environment. Wealth distribution grows increasingly unequal and the tax structure of the country still remains dependent on consumption-based taxes. Under these conditions, there are more and more concerns about distributive justice since low and middle-income households pay relatively higher taxes due to their daily consumption, while asset accumulation is less taxed. In the absence of gradual reforms of fiscal capacity, such inequality risks reducing public confidence in taxation as a tool of distributional policy.

However, the experience of many countries proves that the introduction of wealth taxes is neither administratively easy nor politically straightforward. Poor design of such taxes in different countries led to the following problems: valuation difficulty, capital mobility, administrative costs, and reduction of public confidence. These findings prove that the success of wealth taxes' implementation is dependent not only on tax rates, but also on the quality of tax administration, asset identification, credibility of institutions, and public communication. Indonesia thus needs a properly sequenced strategy rather than quick expansion of the tax base.

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Based on these findings, this policy paper recommends a phased strategy of wealth tax reforms. First of all, the readiness of the institutions should be improved through the enhancement of taxpayer databases, modern tax administration, and proper asset reporting before implementing wealth taxes. Secondly, the design of the policy should target only ultra-high-net-worth individuals through high exemptions. Thirdly, the Ministry of Finance should promote wealth taxes as an instrument of fiscal equity rather than the punishment of economically successful people.

Besides that, institutional legitimacy should be the core of implementation of this policy. It can be achieved by the promotion of transparent governance, enforcement of laws, and reporting concerning the distribution of the revenues from wealth taxes. In order to promote the feeling of reciprocity of taxpayers and the state, wealth tax revenues can be used to fund educational, healthcare, social protection, and development projects.

Conclusions Overall, the introduction of wealth taxes should not be considered simply as additional revenue for the government but rather as a part of a fiscal reform aimed at promoting distributive justice and building institutional trust. Findings of the research underlying this policy paper suggest that successful implementation of this policy should be balanced in terms of administrative feasibility, public legitimacy, and fiscal efficiency of the measures. A properly designed wealth tax can make a contribution to the achievement of a more progressive tax system and strengthening of the long-term ties between citizens and the state.