

IN BRIEF: POLITICAL

Positive steps in tax reform

The April 20 dismissal of the tax office head came as a surprise to many observers. With less than one year to go before his retirement as Director General of Tax, Hadi Purnomo had outlasted three presidents during his five-year tenure. The *Report* examines some of the issues surrounding the dismissal and analyses its significance.

Reform of the tax regime is seen as crucial in terms of increasing investor confidence in the regulatory environment and raising government funds for social and economic development. Indeed, promises of reform in one of the most corrupt institutions within government were prominent in President Yudhoyono's 2004 electoral campaign.

When explaining the dismissal, analysts have pointed to the recent spate of corruption allegations there, suggesting that the government was finally forced to take some responsibility for the irregularities. Pressure became particularly pronounced in January and February after the police made multiple arrests in connection to the Pademangan scandal, which revealed that tax and customs officials were systematically working together to falsify export documents to enable some businesses to claim fraudulent tax rebates.

Nevertheless, others suggest that the dismissal was more likely a reflection of the growing tension between senior tax officials and the government over the new tax law and its amendments.

Conflict over the tax law, which is still being debated in the legislature, has pitted the business community against senior tax officials, as the former pushes for a radical reduction in the latter's authority and scope of operations. The business community maintains that tax office corruption is facilitated by its ability to set tax policy and supervise its own activities.

In contrast, tax officials are lobbying to tighten up the procedures for tax examinations and give the tax office more power to confiscate assets over any suspected tax evasion. Meanwhile, the government is broadly committed to reducing the authority of the tax office, with the planned introduction of a new supervisory commission to oversee tax collection and the withdrawal of the tax office's policy-making powers.

It is within this context that the head of the tax office was changed, as *Report* sources suggest that Mr. Purnomo was one of those fighting to maintain the wide authority of the institution.

It appears that the Minister of Finance, Sri Mulyani, first considered appointing another senior tax official from within the tax office to replace Mr. Purnomo. But her final decision to give the position to Darmin Nasution, a former colleague at the University of Indonesia with no previous experience in the tax office, represents for many her distrust of those working within the tax office.

Agung Hendarto, the Director of the Indonesian Society for Transparency

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(*Masyarakat Transparansi Indonesia* (MTI), told the *Report* that he saw the appointment of Darmin Nasution as a positive step for the future of tax reform.

The Ministry of Finance under Jusuf Anwar had not been receptive to MTI and other NGO's lobbying for reforms in the tax office, Agung said. It was only when Sri Mulyani became Finance Minister in December 2005 that MTI's concerns regarding the increased power of the tax office, which are encoded in the new tax law, were taken seriously. Sri Mulyani facilitated the tax law's return to the DPR for amendment, replacing Hadi Purnomo when it became apparent that he was being obstructive.

"Mr. Purnomo had been focused only on increasing targets for the receipt of taxes and maintaining the extensive authority of the tax office," explains Agung. "Because of his economics background, Darmin Naustion can better understand the function of tax in the macroeconomy and especially its role in the national budget, as well as plugging 'leaks' in the system."

Darmin Nasution's future strategy for tax office reform will continue with efforts to introduce technology to the tax process in order to reduce direct contact between tax officials and tax payers, thereby reducing the potential for corruption, according to local media reports. It is also likely that the programme will have a considerable impact on reducing office's 30,000 employees. Furthermore, the changes seem to be part of a wider push by Sri Mulyani to restructure the Department of Finance, with news on May 16 that 21 echelon II civil servants in the department were dismissed.

The Iranian connection

The Iranian President, Mahmoud Ahmadinejad, returned to Tehran on May 14 following his five-day trip to Indonesia. Ostensibly to improve the political and economic relations between the two countries, the visit really underscores the polarisation of Western and Islamic countries, while pinpointing one of its core issues: global control over energy.

In the run up to his attendance at the D-8 summit in Bali, which groups eight developing Muslim countries, President Ahmadinejad spent three days in Jakarta meeting with President Yudhoyono, and delivering speeches to the DPR, the Islamic University of Indonesia, the University of Indonesia, and Muhammadiyah.

The message that President Ahmadinejad brought was an uncompromising critique of Western countries, particularly in relation to the perceived dominance of the West over the exploitation of natural resources in developing countries. That message was greeted with enthusiasm both from his university audiences and at Muhammadiyah, as it resonated with Indonesia's own strain of economic nationalism which was aired over the Cepu oil block controversy earlier this year.

In a highly symbolic gesture, President Ahmadinejad announced a multi-million dollar agreement to fund the construction of an oil refinery in Indonesia and to build a gas pipeline from Sumatra to Batam. Iran's own