Revenue Statistics in Asian Countries

TRENDS IN INDONESIA, JAPAN, KOREA, MALAYSIA, THE PHILIPPINES AND SINGAPORE

1990-2014

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2016

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Foreword

Revenue Statistics in Asian Countries: Trends in Indonesia, Japan, Korea, Malaysia, the Philippines and Singapore is a joint publication by the OECD Centre for Tax Policy and Administration and the OECD Development Centre. It presents detailed, internationally comparable data on tax revenues for six Asian economies, two of which (Japan and Korea) are OECD members. Its approach is based on the well-established methodology of the *OECD Revenue Statistics*, which has become an essential reference source for OECD member countries. Comparisons are also made with the average for OECD economies and with the average for Latin American and Caribbean (LAC) countries.

In this publication, the term "taxes" is confined to compulsory, unrequited payments to general government. As outlined in the Interpretative Guide to the Revenue Statistics, taxes are "unrequited" in the sense that benefits provided by government to taxpayers are not normally in proportion to their payments. The OECD methodology classifies a tax according to its base: income, profits and capital gains (classified under heading 1000), payroll (heading 3000), property (heading 4000), goods and services (heading 5000) and other taxes (heading 6000). Compulsory social security contributions paid to general government are treated as taxes, and are classified under heading 2000. Much greater detail on the tax concept, the classification of taxes and the accrual basis of reporting is set out in the Interpretative Guide in Annex A.

Extending the OECD methodology to Asian countries makes possible comparisons of tax systems on a consistent basis between countries in Asia, Africa, Latin America and the Caribbean, and the OECD.

The report also provides an overview of the main taxation trends in Indonesia, Japan, Korea, Malaysia, the Philippines and Singapore. It examines changes in both the levels and the composition of tax revenues plus the attribution by sub-level of government between 1990 and 2014.

The report also includes a special feature which discusses the development of segmented taxpayer offices in tax administrations in Asia.

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Executive summary

Revenue Statistics in Asian Countries provides internationally comparable data on tax levels and tax structures for six Asian countries: Indonesia, Japan, Korea, Malaysia, the Philippines and Singapore. It also includes a Special Feature, which includes a discussion of the development of segmented taxpayer offices in tax administrations in Asia.

Tax levels in Asian countries, which are defined as the total tax revenue, including social security contributions as a percentage of gross domestic product (GDP), ranged from 12.2% in Indonesia to 32.0% in Japan in 2014. Japan and Korea, the two OECD countries included in the publication, have higher tax-to-GDP ratios (above 24%) than the remaining four countries whose ratios stand below 17%. Ratios in all countries are lower than the OECD average of 34.2% in 2014.

In this publication, "taxes" are defined as compulsory, unrequited payments to general government. Taxes are "unrequited" in the sense that benefits provided by government to taxpayers are not normally in proportion to their payments. The OECD methodology classifies a tax according to its base: income, profits and capital gains, payroll, property, goods and services and other taxes. Compulsory social security contributions (SSCs) paid to general government are classified as taxes. More information on the tax classification and the basis of reporting is set out in the Interpretative Guide in Annex A.

Tax levels in Asian countries in 2014

The Asian economy continues to suffer from the slow recovery of developed countries from the financial crisis, China's economic slowdown, the fall of commodity prices, and some trade protectionist measures. Despite this, Japan, Korea, the Philippines and Singapore experienced increases in their tax-to-GDP ratio between 2013 and 2014, whereas Indonesia and Malaysia experienced decreases. Japan saw the largest increase of 1.7 percentage points due to the increase in value added tax (VAT) revenues over this period following the increase in the VAT rate.

Five of the six Asian countries featured in this publication increased their tax-to-GDP ratios between 2000 and 2014, in part due to tax reforms and the modernisation of their tax systems and administrations. The size of the increases between 2000 and 2014 ranged from 0.9 percentage points in the Philippines to 5.4 percentage points in Japan. The predominant driver of the growth in tax-to-GDP ratios from 2000 to 2014 differed across the five countries. Revenue from taxes on income and profits was the predominant driver of growth in Malaysia and the Philippines, whereas this growth was principally driven by revenues from SSCs in Japan and Korea that increased by over 3.0 percentage points. In Indonesia, the biggest increase occurred in revenues from taxes on goods and services. Singapore experienced a decrease in its tax-to-GDP ratio by 1.6 percentage points over this period mainly due to several decreases in corporate income tax rates.

Tax structures in Asian countries in 2014

The four Southeast Asian countries (Indonesia, Malaysia, the Philippines and Singapore) rely principally on taxes on goods and services and taxes on incomes and profits, which together make up more than 75% of their total tax revenues. In contrast, the tax structures of Japan and Korea are more evenly split between the main categories of tax revenues in 2014, similar to the OECD average.

The share of taxes on incomes and profits as a percentage of taxation has remained relatively steady since 2000 in all countries except Malaysia. Between 2000 and 2014, revenues from these taxes increased by 16 percentage points in Malaysia, mainly driven by corporate income tax revenues (an increase of 14.2 percentage points). In 2014, revenue from taxes on income and profits in Malaysia reached nearly 70% of total taxation whereas this category amounts to between 40 and 45% in the other Southeast Asian countries and between 30 and 35% in Japan, Korea and the OECD on average.

Corporate income taxes are a significant source of tax revenue in all six countries, ranging from 13% as a percentage of total taxation in Korea to around 53% in Malaysia in 2014, compared to the OECD average of 9%. As percentage of GDP, corporate income tax revenues in 2014 were higher than in 2000 in four countries, despite the reduction of corporate income tax rates between 2000 and 2014. As a percentage of total taxation, Indonesia and Singapore – who decreased corporate income tax rates the most significantly during that period – have shown the largest decreases in the share of corporate income tax revenues compared to the early 2000s. In Singapore, the decrease in corporate income tax revenues as a percentage of total taxation in 2014 compared to 2000 was around 11.4 percentage points.

Revenue from taxes on goods and services as a percentage of taxation has evolved differently across the six countries since 2000, remaining relatively steady in four countries and decreasing significantly in Korea (by 8.4 percentage points) and Malaysia (by 15.6 percentage points). Within this category, countries have decreased their reliance on taxes on specific goods and services (mainly excises and import and customs duties) and increased revenues from taxes on general consumption, most notably the VAT. Except for Indonesia, the share of VAT to total tax revenues in 2014 remains smaller than the OECD average of 20% in all other countries included in the publication due to generally lower VAT rates.

Revenues from SSCs are relatively small in Southeast Asian countries, at 2% or less of total revenues in Indonesia and Malaysia and 13% in the Philippines. Singapore does not levy any SSCs. In contrast, SSCs represent around 40% and 27% of total revenue in Japan and Korea respectively compared to 26% in the OECD countries on average.

Tax revenues by level of government

More than 80% of total revenues were collected at the central level of government in the Southeast Asian countries in 2014. In Japan and Korea, revenue collected at the central level stands respectively at 37% and 56% of total revenues. In these two countries, an important part of total revenues are collected by the local governments (23% and 17% respectively) and social security funds (40% and 27% respectively). Tax revenues collected by local government in the Southeast Asian countries range from around 3% in Malaysia (a federal country) to 11% in Indonesia. Singapore, a city-state, has no local government divisions. The corresponding average for OECD unitary countries was 12%.

Special feature findings

Income tax revenues form an important part of tax revenues in Southeast Asian countries and a significant part of these revenues comes from larger taxpayers. The organisational model employed by tax administrators has been evolving in recent years and there has been a clear trend internationally for revenue bodies to organise around different "taxpayer segments" (e.g. large businesses and small businesses). Under this segmented approach, there were a number of reforms in Asian and Pacific countries, focusing on the large taxpayers due to their high tax contributions as well as the often complicated nature of their businesses and related tax affairs. In the Philippines, the Bureau of Internal Revenue (BIR) stepped up monitoring of large taxpayers and took measures to address compliance issues in 2015. In Indonesia the Foreign Enterprise and Individual Tax Office was strengthened to better manage all tax matters relating to foreign-owned firms and individual taxpayers.

CHAPTER 1

TAX REVENUE TRENDS, 1990-2014