



BADAN KEBIJAKAN FISKAL  
KEMENTERIAN KEUANGAN RI

***Excise Policy and Administration Reform:  
Policy Tools to Improve Health Behaviors  
and Increase Financing for Health with  
The Aim of Achieving SDG 3***

***Ministry of Finance of The Republic of Indonesia***

**ASEAN SUB WORKING GROUP ON EXCISE TAXATION:  
Chiang Mai, 5 September 2019**

# Sustainable Development Goals



# Sustainable Development Goals

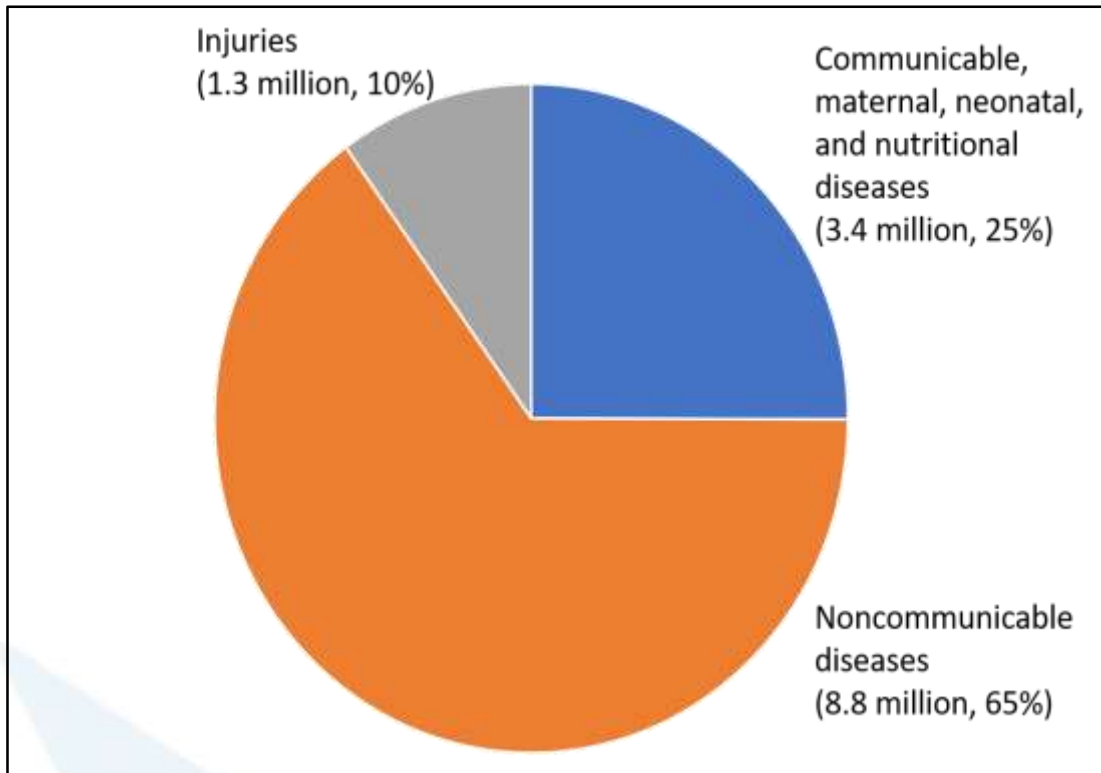


**SDG 3:**

***Ensure healthy lives and promote wellbeing for all at all ages***



# Causes of Death in South-East Asia Region (all ages)

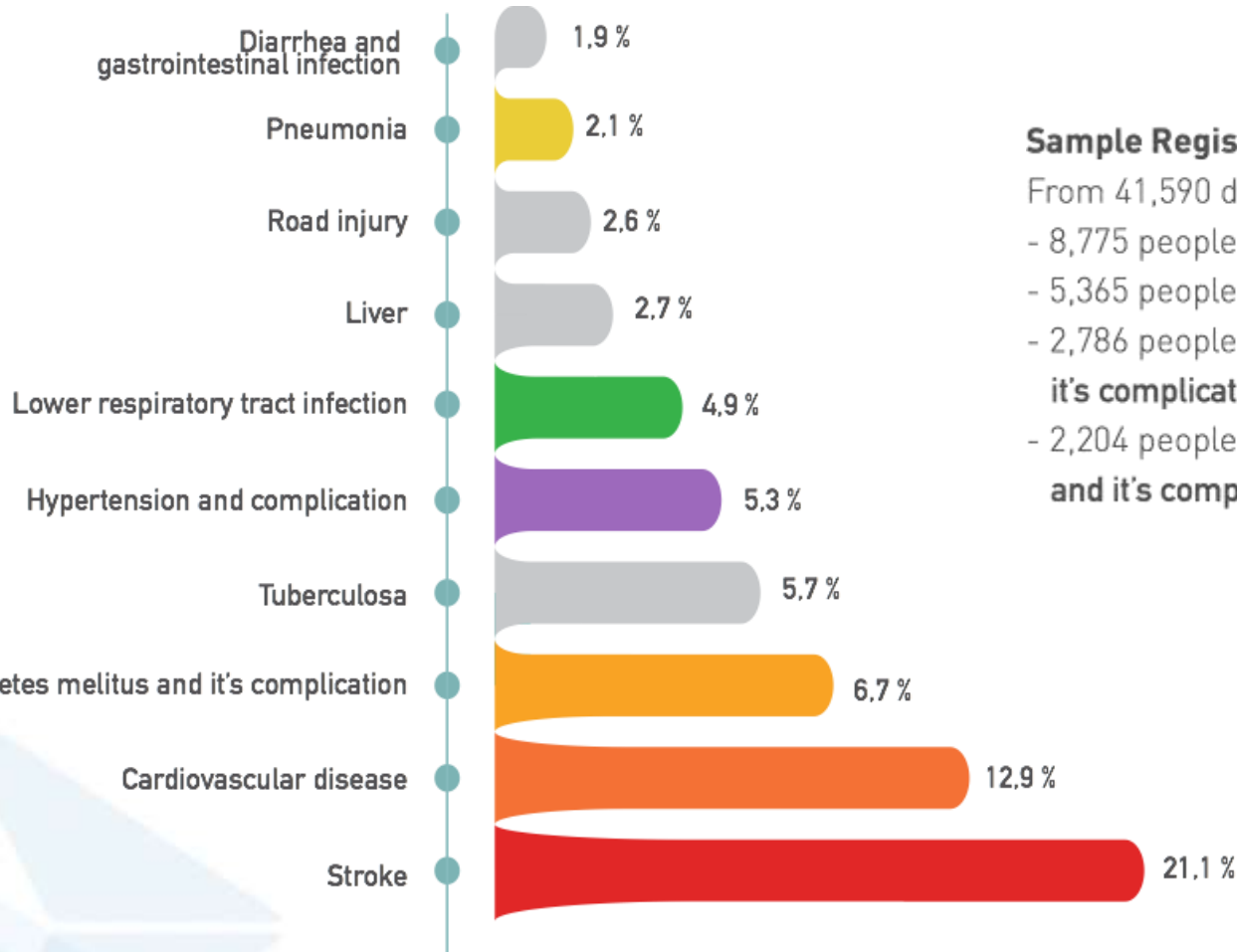


Source: Global Health Estimates 2016: Deaths by Cause, Age, Sex, by Country and by Region, 2000-2016. WHO 2018.



Countries	% of all NCD deaths under 70 years	
	Male	Female
Bangladesh	49.1	49.8
Bhutan	61.2	63.5
DPR Korea	51.3	30.3
India	59.8	50.9
<b>Indonesia</b>	<b>59.6</b>	<b>49.1</b>
Maldives	35.6	30.6
Myanmar	60.2	50.0
Nepal	50.6	47.3
Sri Lanka	53.5	34.8
Thailand	49.7	36.5
Timor-Leste	61.0	51.0

# 10 Cause of Death in Indonesia



## Sample Registration Survey, 2014:

From 41,590 death in Indonesia :

- 8,775 people die because of **stroke**,
- 5,365 people die because of **CVD**
- 2,786 people die because of **DM and it's complication**
- 2,204 people die because of **hypertension and it's complication**

**2/3 OF CASES IS STILL HIDDEN  
POSE THREAT TO COMPLICATIONS,  
DISABILITIES, PREMATURE DEATH  
AND ECONOMIC BURDEN**

Source : SRS 2014  
(National Institute of Health, Research and Development MOH)

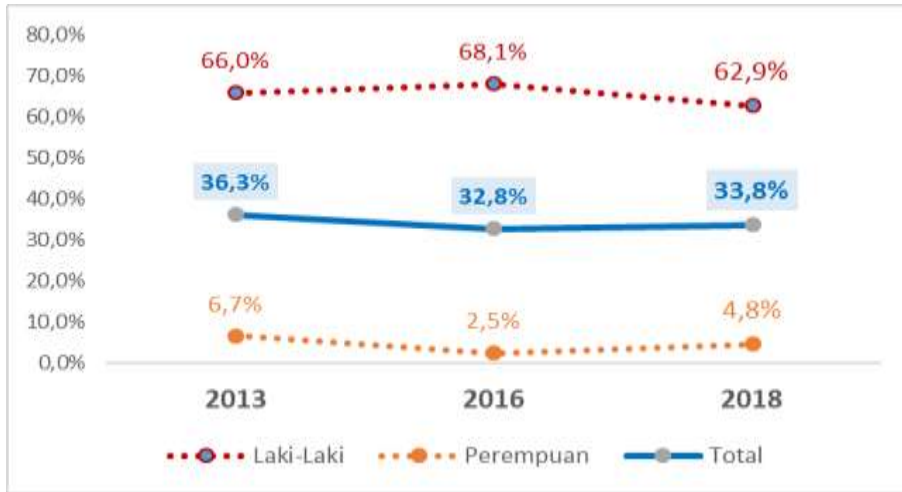
# Tobacco Excise Tax Policy in Indonesia



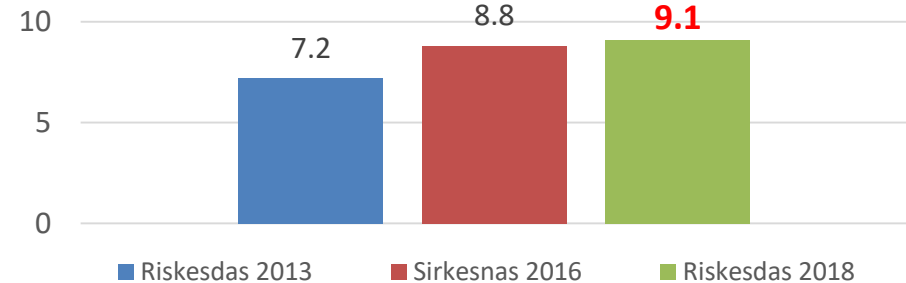
# Cigarette Consumption Prevalence in Indonesia

*In general consumption prevalence slowed in 2018 but teenage smoker increased*

## Tobacco consumption prevalence at age population > 15yo



## Teenage Smoker Percentage in Indonesia, aged 15-19yo, 2013-2018



*Sources: Riskesdas dan Sirkesnas*

- *It is important to take not only fiscal measures but also preventive and promotive actions (non-fiscal) by the governmental institutions, regional governments, as well as NGOs to decrease the smoking prevalence level, especially in teen-aged group.*



# Policy Objective of Tobacco Excise Tax

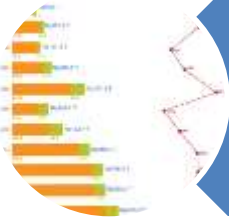
*Increasing excise tariff has been aimed at controlling consumption, optimizing revenue, and protecting employment...*



## CONSUMPTION CONTROL

*The main objective of increasing excise tariff is to control consumption.*

*“Studies on tobacco consumption in Indonesia show that average tariff increase of 9% can reduce consumption by 0,9%” (Djutaharta, et al 2005)*



## TAX REVENUE

*Optimizing tax revenues →*

*(considering excise tax target, tobacco market share, price elasticity, and declining production)*



## EMPLOYMENT

*Excise tariff increase pays attention to cigarette type (machine or hand-rolled), type of industry (labour or capital-intensive) and type of manufacturer (big/medium/small).*

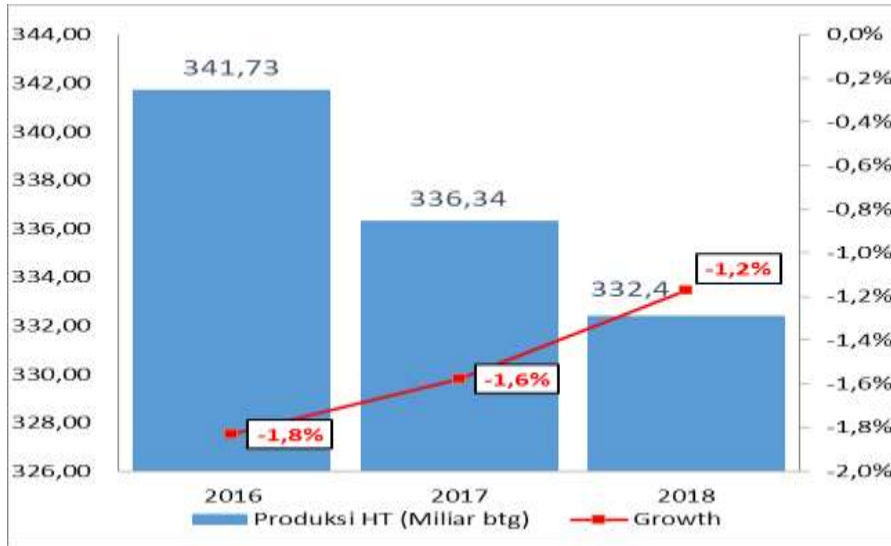
*To protect the home industry through excise tariff*



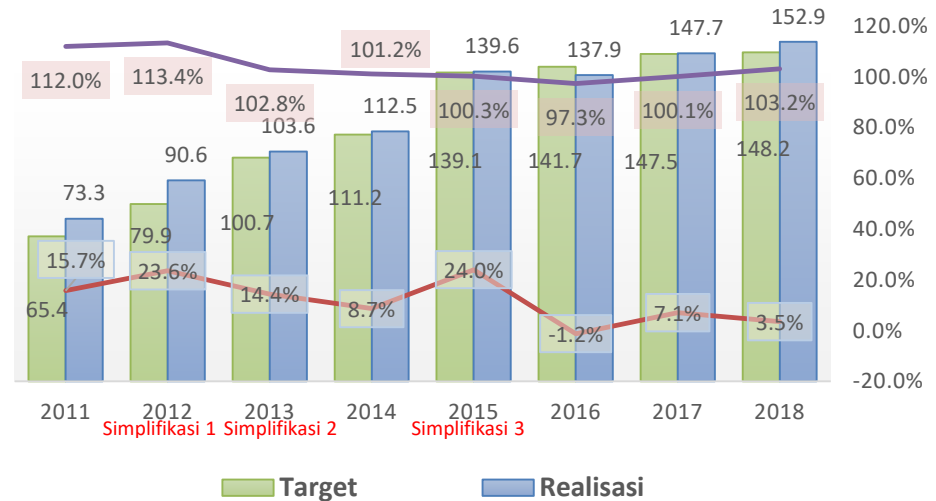
# Excise Revenue from Tobacco Products

*Revenues increase even though production decrease*

## Cigarettes Production (2016 – 2018)



## Excise Revenue (2011 – 2018)



In the last 3 years cigarette production growth tends to decrease by 1.5 per cent, but revenue still growing.

The last few years the fiscal policy for the tobacco industry is represented by several parameter such as :

1. The average increase in excise tariffs reached by 8,8 per cent - 15,7 per cent
2. Local cigarette tax is imposed by 10 per cent from excise tariff
3. VAT constantly is imposed by 8,4 per cent until 2015, 8,7 per cent in 2016, and 9,1 per cent until now.

# Tobacco Product Taxes, 2015-2018

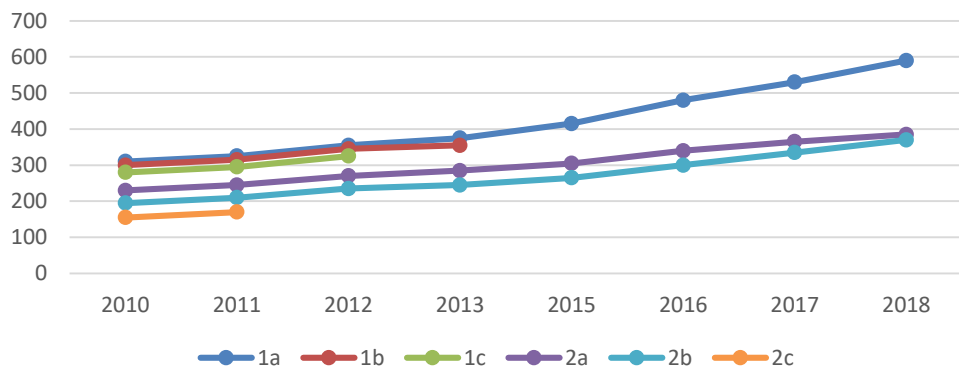
*The increase of excise tariff is aimed at reducing affordability and consumption...*

	2015	2016	2017	2018
Increase in excise tarif	11,7%	14,2%	10,5%	10,04%
Tobacco tax (10% of excise)	10%	10%	10%	10%
VAT	8,4%	8,7%	9,1%	9,1%
Retail Price Floor (Rp/stick)	820	935	1.027	1.054
Increase in Retail Price Floor	14,2%	14,1%	12,26%	10,49%
Average Excise Tariff (Rp/stick)	355	405	440	488
Excise tax as a % of cigarette price	43,3%	43,3%	43,6%	44,7%
Tobacco taxes (excise, local tax and VAT) as a % of cigarette price	56,0%	56,3%	57,1%	58,3%
Cigarette Production (Billion stick)	348,1	341,7	336,3	331,9
Growth (%)	1,04%	- 1,83%	- 1,58%	- 1,3% (est)
Increase in Excise Tax Revenues	24,0%	- 1,2%	7,1%	6,8% (est)

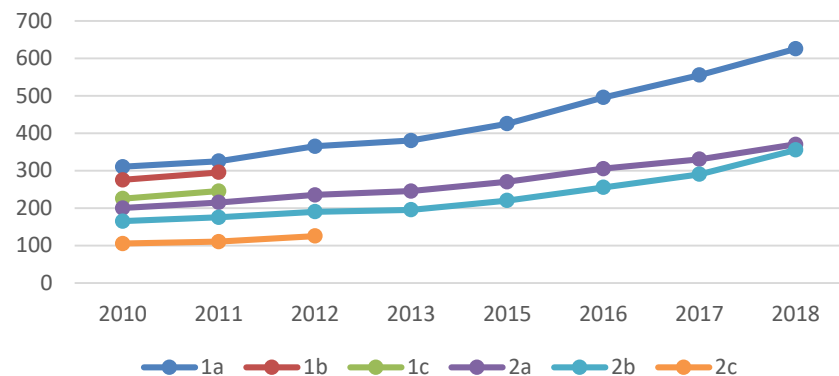
- *The increase in excise tariff has been determined for at least above inflation rate + economic growth rate + certain value to reduce cigarette affordability and consumption*
- *Increasing the cigarette price floor aims at maintaining the market price of cigarette high enough (not too cheap) as a means of consumption control.*
- *The average tobacco taxes (excise, VAT and local tax) a proportion of cigarette retail price are 56.7% in the last 4 years.*
- *By increasing the excise tariff and price floor, tobacco production and consumption can be reduced.*

# Simplification of Excise Tariff Structure on Cigarettes 2010-2018

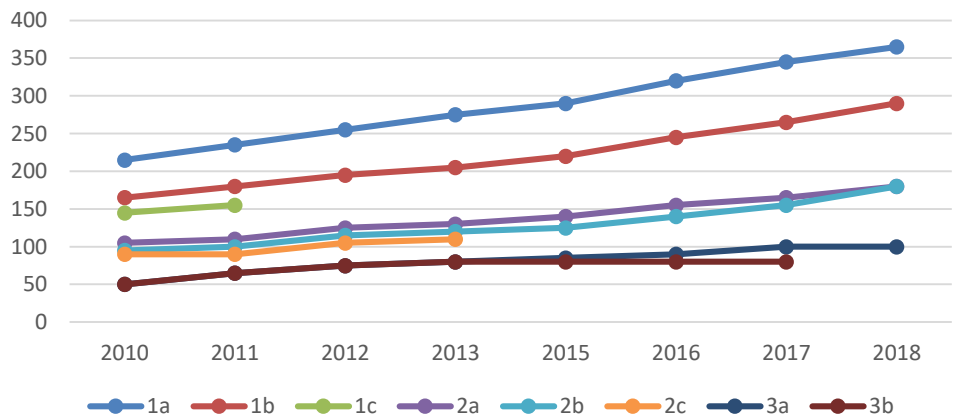
## Machine Rolled Clove Cigarette (IDR/Stick)



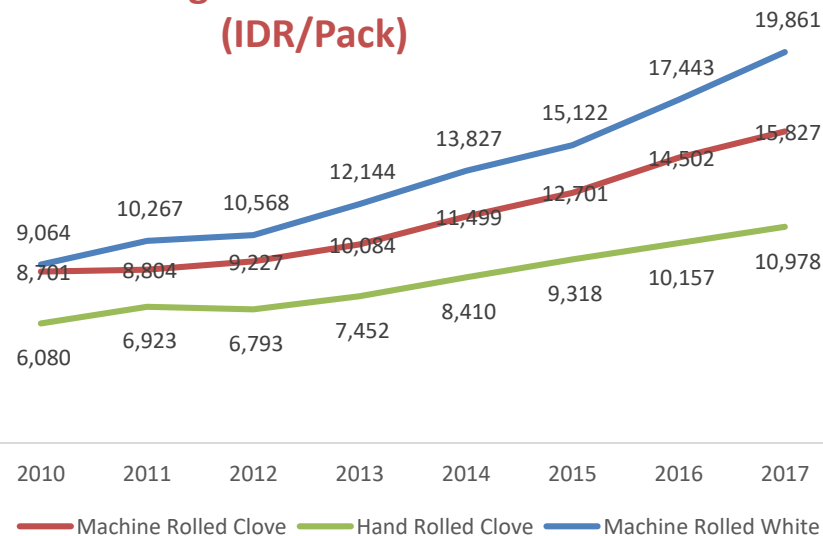
## Machine Rolled White Cigarette (IDR/Stick)



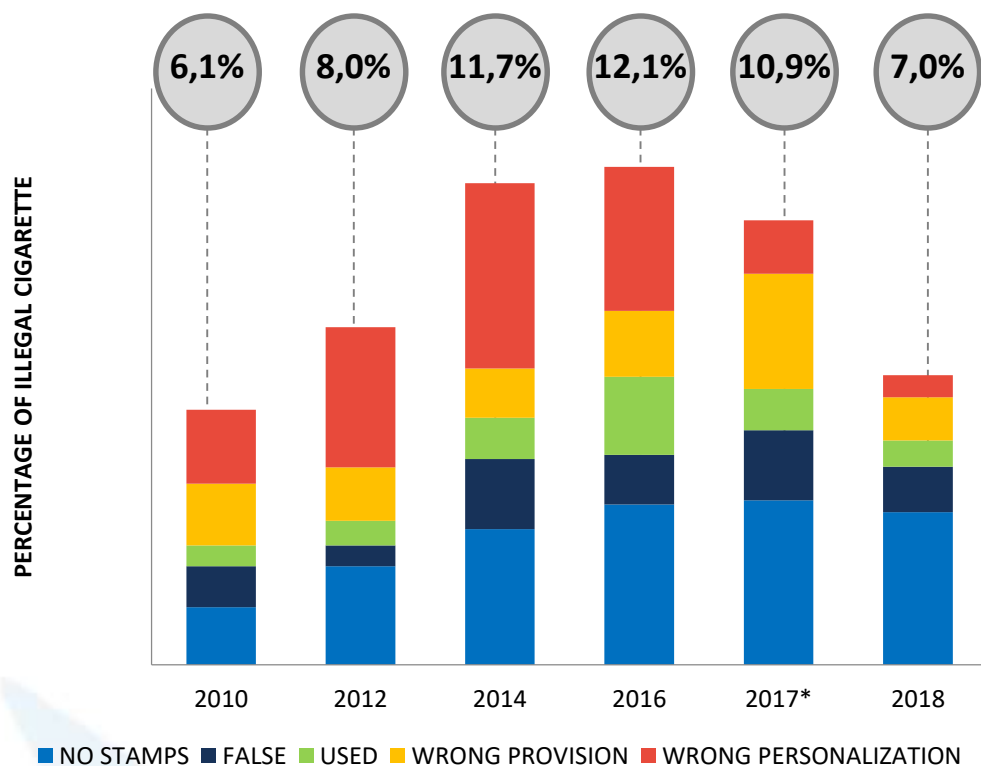
## Hand Rolled Clove Cigarette (IDR/Stick)



## Average Transaction Price (IDR/Pack)



# TYPES AND SERIES OF ILLICIT CIGARETTES



Source : survey rokok ilegal nasional – UGM (2010-2018), survey rokok ilegal DJBC (2017), complied

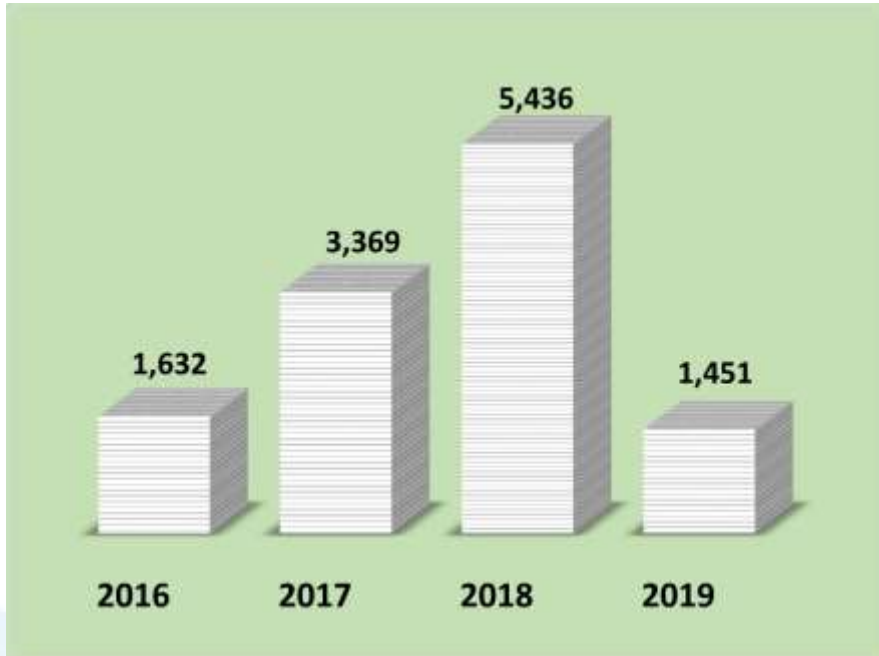
## Excise Tobacco Policy :

1. Tobacco Excise tariff regulation is not a trigger to illegal tobacco trade. Illegal tobacco products is dominated by the retail price below Rp. 8000 per pack or equivalent with the retail price of Category II. Thus, the rise of tariff and retail price for Cigarettes Category II is not excessive.
2. Tobacco Excise Tariff and enforcement have succeed in decreasing illegal tobacco trade to 7.04% in 2018 from 12,10% in 2012.

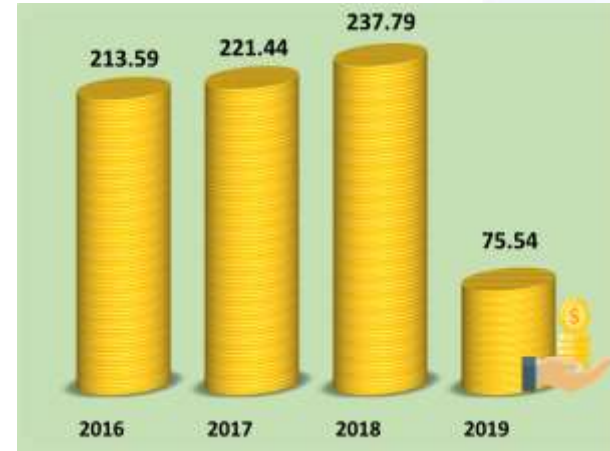


# EXCISE ENFORCEMENT – TOBACCO (2016 – 2019)

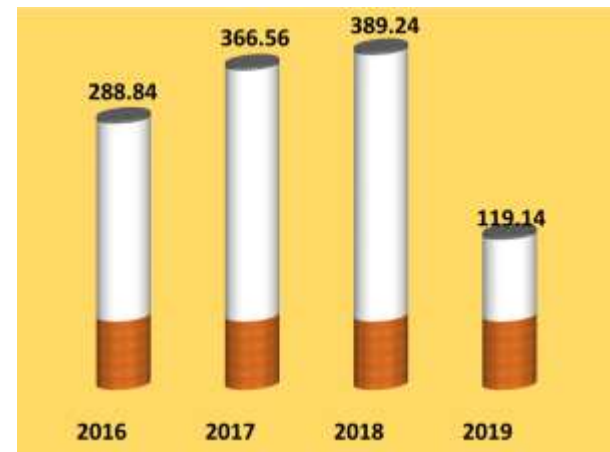
## NUMBERS OF ENFORCEMENT



## THE VALUE OF ENFORCEMENT (Billion Rp)



## THE NUMBERS OF GOODS ENFORCEMENT (Million stick)



# Fiscal Earmarking in Indonesia

Revenue sharing fund - local tax..

## USE OF LOCAL TAX

1. Public Health Services
2. Law Enforcement
3. Other Program

≥ 50%

## USE OF REVENUE SHARING FUND

1. Quality Improvement Of Raw Materials
2. Industrial Coaching
3. Social Environment Development
4. Externalization of Regulations
5. Law Enforcement
6. Other Regional Government Programs

≥ 50%



75% of these 50% of local tax revenue is allocated to BPJS Health

The 50% of Revenue Sharing Fund is prioritized to support national health security program

# Alcohol Excise Tax Policy in Indonesia



# BACKGROUND

87,2%

Indonesian population is dominated by Moslem (87,2%).

DNI

Alcohol industry is considered as Closed Business Field on List of Negative Investment (Daftar Negatif Investasi/ DNI).

0.8

Alcohol per capita (15+) consumption per 2016 is 0.8 litre of pure alcohol (WHO – 2018).

## ALCOHOLIC BEVERAGE PRAVELENCE DATA

Alcohol per capita (15+) consumption (in litres of pure alcohol)

	2010*		2016*	
Recorded	0.1		0.3	
Unrecorded	0.6		0.5	
<b>Total**</b>	<b>0.7</b>		<b>0.8</b>	
Total males/ females	1.2	0.2	1.4	0.2
WHO South-East Asian Region	3.5		4.5	

\* three-year averages of recorded and unrecorded for 2009-2011 and 2015-2017;

\*\* adjusted for tourist consumption

Source: World Health Organization, 2018



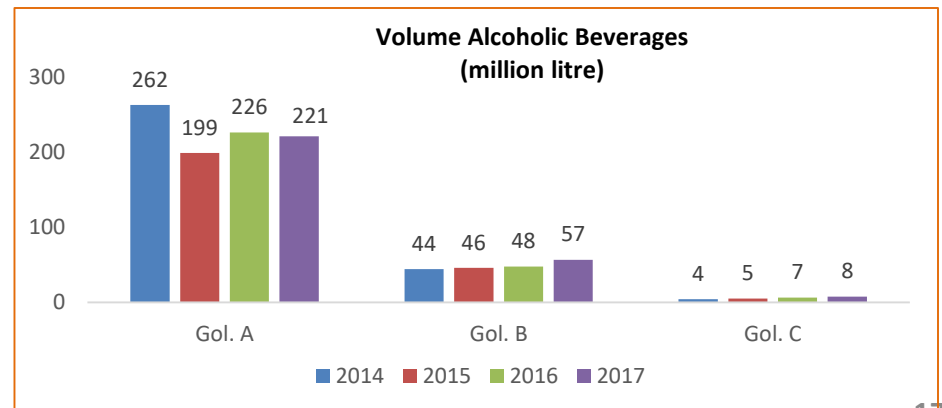
# Excise Tax Policy on Alcoholic Beverages

## Excise Tax Structure on Alcoholic Beverages 2006 - ...

2006					2010					2014	
Category	Content Of Alcohol	Excise (IDR per Litre)		Luxury Tax	Cate gory	Content Of Alcohol	Type	Excise (IDR per Litre)		Excise (IDR per Litre)	
		Domestic Production	Import					Domestic Production	Import	Domestic Production	Import
A1	s/d 1%	2.500	2.500	40%	A	≤5%	Beer	11.000	11.000	13.000	13.000
A2	>1% s/d 5%	3.500	5.000	40%							
B1	>5% s/d 15%	5.000	20.000	40%	B	>5% - ≤20%	Wine	30.000	40.000	33.000	44.000
B2	>15% s/d 20%	10.000	30.000	40%							
C	>20% s/d 55%	26.000	50.000	75%	C	> 20%	Spirit	75.000	130.000	80.000	139.000

## Policy

- **Simplify** the structure of excise tariff
- **Eliminate** the Luxury Tax => Excise in 2010
- **Adjust** the tariff (inflation/ economic growth)



# Excise Tariff on Alcoholic Beverage in 2019

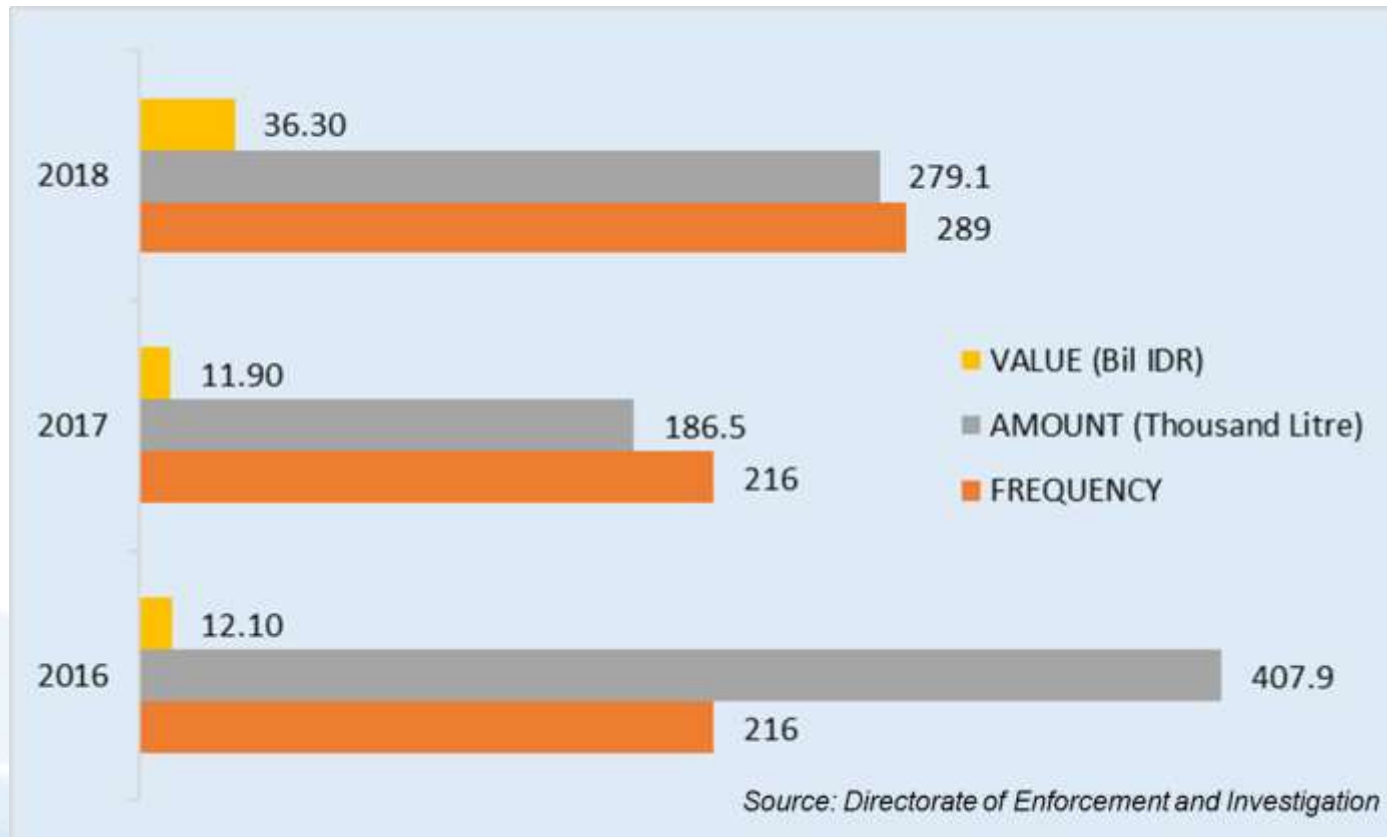
- Excise Tariff

CATEGORY	DESCRIPTION	EXCISE TARIFF			
		DOMESTIC		IMPORT	
A	Contains alcohol more than 0% to 5%	IDR	15.000	IDR	15.000
B	Contains alcohol more than 5% to 20%	IDR	33.000	IDR	44.000
C	Contains alcohol more than 20%	IDR	80.000	IDR	139.000

- Excise Licensing (NPPBKC/ Principal Number of Excise Levied Goods Manufacturer) preceded by Licencing from Indonesian Minister of Industry (IUI/ Industry Work Permit).
- Alcoholic beverage category B and C must use CK-5 document as legal security carriage document.



# Alcoholic Beverage Domestic Enforcement



# The Challenge of Excise Policy Reform



# Administration : Information Technology

- The system is centralised
- Used to serve manufacturer for reporting finish product, monitor excise stamps stock, discharge goods, monitoring the movement of the goods, etc
- The system is already integrated with bank's system for the excise's payment;

# Monitoring and law enforcement

- Monitoring the retail price of cigarette periodically. The retail price may not be below 85% from retail price administered by customs and excise office
- Law enforcement for illegal cigarette.

***-- Thank you --***