CHAPTER 1

TAX REVENUE TRENDS, 1990-2014

1.1. Tax ratios

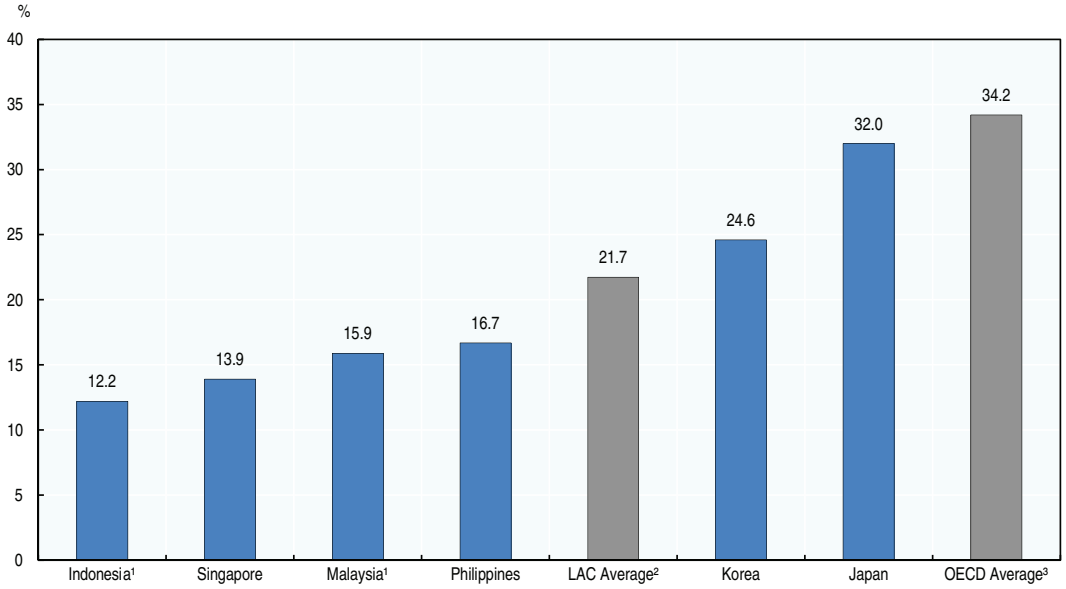
In light of the United Nation's 2030 Agenda for Sustainable Development, awareness of the need to mobilise government revenue in developing countries to fund public goods and services is increasing. Taxation provides a predictable and sustainable source of government revenue, in contrast with declining development assistance and the volatility of non-tax revenues with respect to commodity prices.

This report presents detailed internationally comparable data on tax revenues of six Asian countries: Indonesia, Japan, Korea, Malaysia, the Philippines and Singapore. This chapter discusses the key tax indicators for this group of countries: the tax-to-GDP ratio, the tax structure and the share of tax revenue by level of government. The discussion supplements the detailed country information found in Chapter 4.

Tax-to-GDP ratios in 2014

The tax-to-GDP ratio is the total tax revenue of a country (including social security contributions) measured as a proportion of the gross domestic product (GDP). In 2014, tax-to-GDP ratios in the six countries included in this publication ranged from 12.2% in Indonesia to 32.0% in Japan. Japan and Korea have relatively high tax-to-GDP ratios (above 24%) compared to Indonesia, Malaysia, the Philippines and Singapore (below 17%), as shown in Figure 1.1. The higher tax-to-GDP ratios in Japan and Korea are partially due to their more diversified economies, which make them more able to collect tax revenue from various economic sectors (Papageorgiou et al, 2015).

Figure 1.1. **Tax-to-GDP ratios (total tax revenue as % of GDP), 2014**



1. The figures exclude state government revenues for Malaysia and social security contributions for Indonesia.
2. Represents the unweighted average for 22 LAC (Latin American and Caribbean) countries.
3. Represents the unweighted average for OECD member countries. Japan and Korea are also part of the OECD (35) group.
Source: Table 3.1.

StatLink http://dx.doi.org/10.1787/888933427792

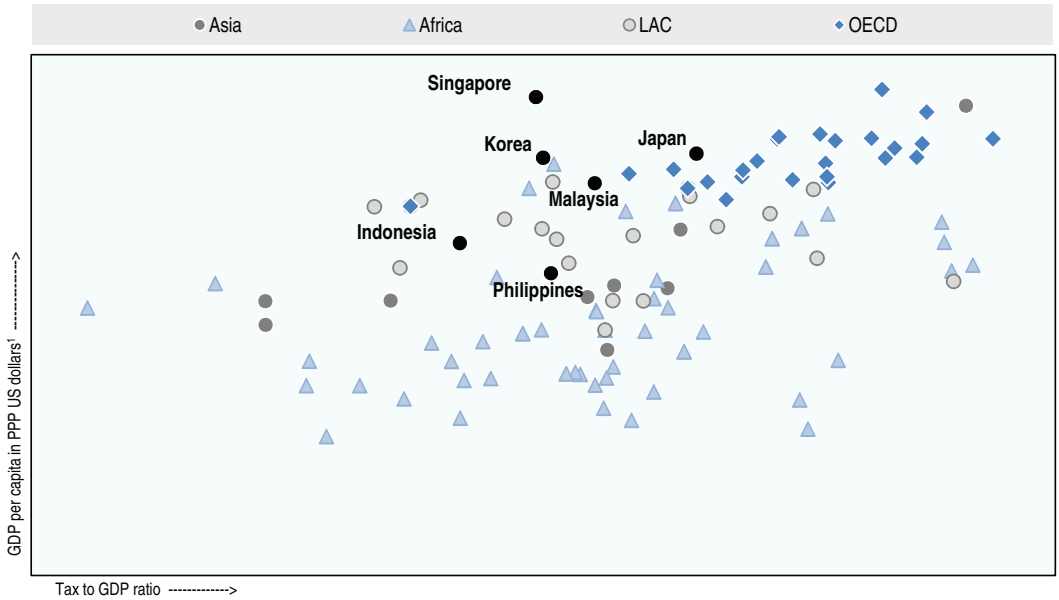
The tax-to-GDP ratios in Indonesia, Malaysia, the Philippines and Singapore in 2014 were 12.2%, 15.9%, 16.7% and 13.9% of GDP respectively. In the Philippines and Indonesia, the governments are endeavouring to strengthen their tax revenues and have established tax-to-GDP targets. The Philippines aims to increase their tax-to-GDP ratio to 17% (excluding social security contributions) by 2016 (the Philippine Star, 2016)

and Indonesia aims to reach the same level by 2019 (OECD, 2015a). These targets will contribute to increasing financial capacity toward the minimum tax-to-GDP ratio of 25% deemed essential to become a developed country (UNESCAP, 2014).

Tax-to-GDP ratios tend to be higher in high-income countries: in general, OECD countries collect a higher amount of tax revenues than non-OECD countries, measured as a percentage of GDP. Asia and Latin American and Caribbean countries have broadly similar income and development levels and similar tax-to-GDP ratios. This is illustrated in Figure 1.2, which shows the tax-to-GDP ratios and GDP per-capita of the six countries of this publication compared with other Asian, Latin American and Caribbean, African and OECD countries.

Singapore has the highest GDP per-capita of the six countries and one of the lowest tax-to-GDP ratios. The high GDP per capita in Singapore results from significant inward flows of foreign direct investment (FDI) due to a highly attractive business climate and a stable political environment (UNCTAD, 2012). The low tax-to-GDP ratio is explained by lower income tax rates (particularly on corporate income) and VAT rates, compared to other Asian countries (UNESCAP, 2014).

Figure 1.2. **Tax-to-GDP ratios and GDP per capita in PPP, 2014**



Note: The y-axis is on a logarithmic scale. The tax-to-GDP ratio does not include social security contributions.

1. The Purchasing-power-parity (PPP) between two countries is the rate at which the currency of one country needs to be converted into that of a second country to ensure that a given amount of the first country's currency will purchase the same volume of goods and services in the second country as it does in the first. The implied PPP conversion rate is expressed as national currency per current international dollar. An international dollar has the same purchasing power as the U.S. dollar has in the United States. An international dollar is a hypothetical currency that is used as a means of translating and comparing costs from one country to the other using a common reference point, the US dollar (Definitions derived from IMF, 2016 and WHO, 2015).

Source: IMF (2015), *World Economic Outlook*, October 2015, International Monetary Fund. Tax-to-GDP ratios are sourced from the WEO 2015 to enable comparison across a greater number of countries. Tax-to-GDP ratios (excluding social security contributions) for Korea and Japan are not available in the WEO and are sourced from Table 3.2 of this publication.

StatLink http://dx.doi.org/10.1787/888933427806

In the Southeast Asia region, tax-to-GDP ratios tend to be lower compared to Japan and Korea. This is explained by two main factors: low tax compliance in many countries (UNESCAP, 2016) with the notable exception of Singapore, where tax compliance is high; and narrow tax bases due to numerous tax exemptions and incentives to attract foreign

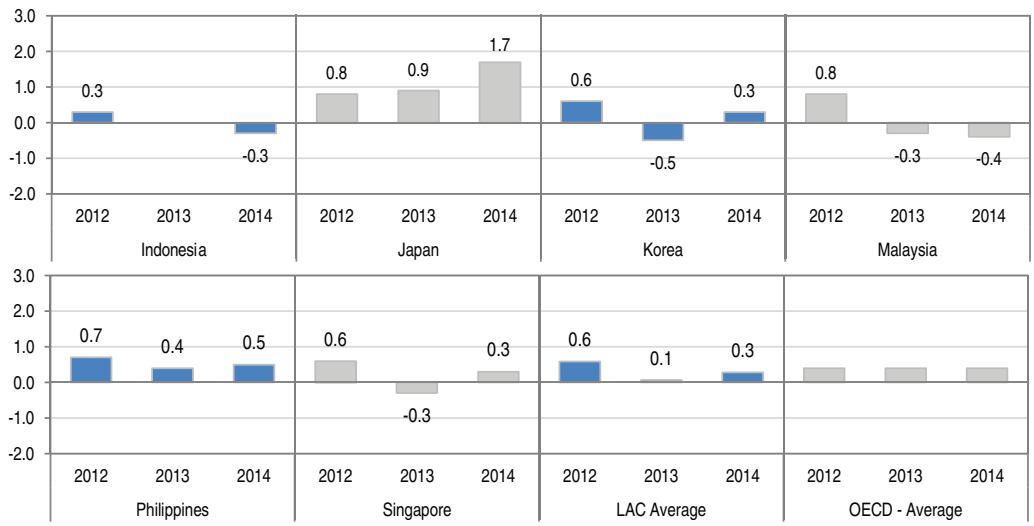
investment (UNESCAP, 2014). In Indonesia, for example, an estimated 44 million people should be paying tax whereas only 27 million are registered and less than 40% of them pay the full amount of income tax (UNESCAP, 2016).

Evolution of tax-to-GDP ratios

The evolution of tax-to-GDP ratios has been different in each country over the last three years. Considering the annual growth of tax-to-GDP ratios, the Philippines and Japan are the only two countries in which the tax-to-GDP ratio grew successively over the last three years. Japan experienced the largest increase between 2013 and 2014 of 1.7 percentage points (p.p.), largely explained by a strong increase in VAT revenue as percentage of GDP. The increase in revenue was principally due to the increase in the VAT rate from 5% to 8% in 2014 (Ernst and Young, 2015).

The other four countries showed differing patterns of tax-to-GDP growth over the same three year period. From 2011 to 2012, all six countries saw increases in their tax-to-GDP ratios; but in 2013, the tax-to-GDP ratio in Korea, Malaysia and Singapore decreased relative to 2012. From 2013 to 2014, Indonesia and Malaysia experienced decreases in their tax-to-GDP ratio in 2014 compared to 2013 whereas the other four countries experienced increases. This is shown on Figure 1.3.

Figure 1.3. **Annual changes in total tax revenue as % of GDP (p.p.), 2012-14**



Source: Authors' calculations based on Table 3.1.

StatLink http://dx.doi.org/10.1787/888933427814

The tax-to-GDP ratio is affected by broader macroeconomic conditions. Asia as a whole continues to suffer from the slow recovery of developed countries from the financial crisis, the fall of commodity prices and a number of trade protectionist measures that hinder the rise in exports (UNESCAP, 2014). OECD (2016a) explains that "recent external shocks that are affecting economic activity in the region include (…) China's further economic slowdown". For example, lower international demand for goods and services, reduced commodity prices, and lower investment have slowed GDP growth in Indonesia (OECD, 2015a).

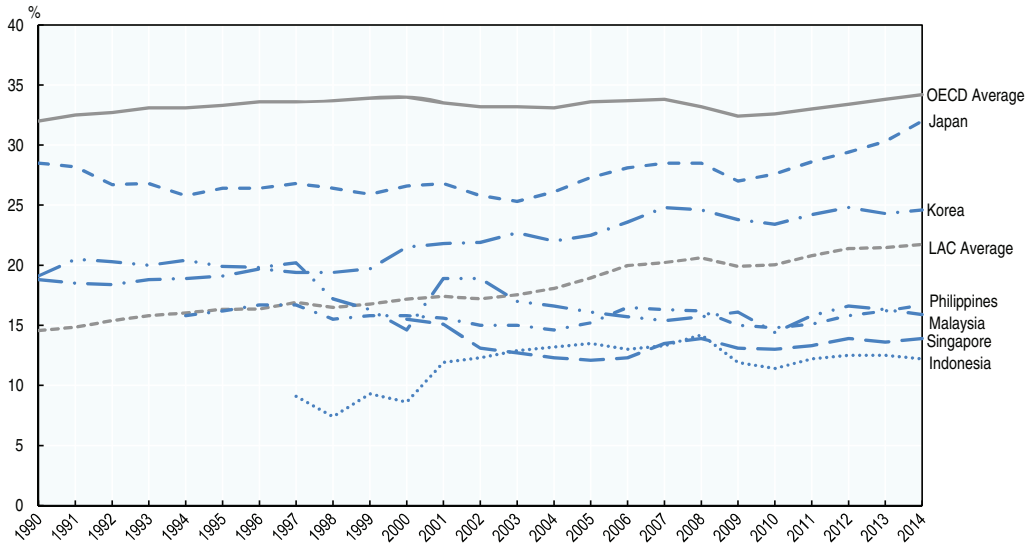
The Asian countries featured in this publication increased their tax-to-GDP ratios between 2000 and 2014, with the exception of Singapore, which decreased by 1.6 p.p. over this period. This is illustrated in Figure 1.4, which shows the tax-to-GDP ratios for the six countries between 1990 and 2014. Since 2003, the rate of growth for the Southeast

Asian countries has been slower than the Latin American and Caribbean countries (LAC) average. Over that period, the LAC average increased by 4.2 p.p. whereas the increase was less than 1.7 p.p. in the Southeast Asian countries. In contrast, the OECD average has increased by 0.2 p.p. since 2000.

Between 2000 and 2014, increases in tax-to-GDP ratios of over 3.0 p.p. occurred in Japan, Korea and Indonesia. In that period Indonesia improved its revenue collection and the efficiency of its tax administration (Arnold, 2012) through the introduction of tax administration reforms in the 2000s, particularly in respect to personal income taxes (OECD, 2015a). One key reform was the creation of offices targeted at specific taxpayer groups such as the high-wealth individual, medium and small taxpayer offices (OECD, 2015b).

Malaysia and the Philippines had increases of 1.3 p.p. and 0.9 p.p., respectively, between 2000 and 2014. The Philippines have modernised their tax administration to increase compliance of certain taxpayer groups (for example, the large taxpayer office was created in 2000) and to improve collection efficiency. In addition major efforts were made to increase the number of taxpayers, resulting in an increase of 71% between 2007 and 2013. However, this has not resulted in significant increase in tax revenues because of limited tax bases and high evasion (OECD, 2015b). In contrast, Singapore's tax-to-GDP ratio decreased by 1.6 p.p. between 2000 and 2014.

Figure 1.4. **Tax-to-GDP ratios, 1990-2014**



Source: Table 3.1.

StatLink http://dx.doi.org/10.1787/888933427820

The financial crisis affected the tax-to-GDP ratios for the Asian countries featured in this publication. All six countries experienced decreases between 2008 and 2010, ranging from -0.9 p.p. in Singapore and Japan to -2.8 p.p. in Indonesia. Following the crisis, the tax-to-GDP ratios in all countries have increased back toward pre-crisis levels except in Indonesia.

Revenues from each tax category as percentage of GDP decreased in Indonesia, with corporate income tax and VAT revenues most affected over this period. This was due to the impacts of declining GDP growth on tax revenue and the reduction of income tax rates in 2009 as part of a stimulus package that also included the removal of some tax and import duties. Under this package the top personal income tax rate was reduced from 35% to 30% and the corporate income tax rate from 30% to 28% (Basri and Rahardja, 2011).

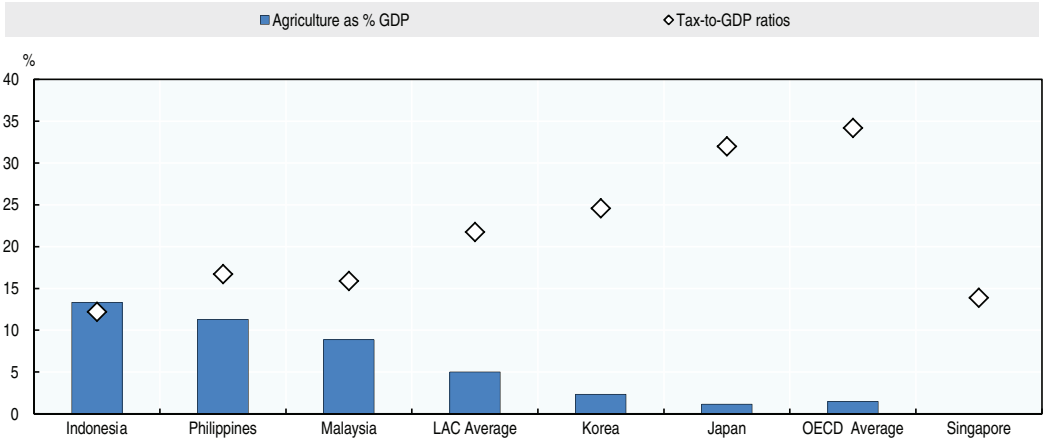
Factors influencing tax-to-GDP ratios

Tax-to-GDP ratios are influenced by a variety of domestic and international factors. Domestically, macroeconomic characteristics such as the importance of agriculture in the economy, resource endowments, openness to trade and the size of the informal economy can influence tax-to-GDP ratios. The power of tax administrations, the levels of corruption and tax morale (or willingness of people to pay taxes) are also strongly linked to the level of tax revenues (OECD, 2014). Aizenman et al (2015) found that in Asia, government effectiveness and institution quality are positively correlated with the level of tax-to-GDP ratio. Geographic location is also relevant: landlocked countries are less able to impose taxes on goods and services entering the country than island countries (UNESCAP, 2014). In addition, international factors, including the tax policies of other countries, can impact tax-to-GDP ratios.

Higher shares of agriculture in GDP are associated with lower tax-to-GDP ratios (Gupta, 2015; Addison and Levin, 2012; Profeta and Scabrosetti, 2010). This finding is mirrored in the revenue data for most of the Asian countries featured in the publication, where countries with higher shares of agriculture display lower tax-to-GDP ratios. Agriculture amounts to more than 8% of GDP in Indonesia, Malaysia and the Philippines and their tax-to-GDP ratios are all below 17%. In contrast, agriculture is less than 3% of GDP in Japan and Korea and their tax ratios are above 24%. However, in Singapore, the agricultural sector is very small as a share of GDP, but the tax-to-GDP ratio is relatively low.

The inverse relationship between agriculture and tax revenues as a percentage of GDP is explained by several factors. Firstly, agriculture is a challenging sector to tax: most people in this sector in developing economies are on low incomes and many are not registered for tax purposes (EPS PEAKS, 2013). Secondly, agriculture benefits from numerous tax exemptions. For example, Malaysia allows an agriculture allowance to be deducted from profits of eligible businesses (Inland Revenue Board of Malaysia, 2016) and goods and services related to the agriculture sector are exempt from import duty, sales tax and excise duty (Ministry of International Trade and Industry, 2016).

Figure 1.5. **Agriculture as % of GDP and tax-to-GDP ratios, 2014**



Note: This indicator includes forestry, hunting, and fishing, as well as cultivation of crops and livestock production. The LAC average includes developing Latin American and Caribbean countries only. The average for the OECD countries relates to 2013.

Source: World Bank for the figures on agriculture as percentage of GDP. Table 3.1 for the tax-to-GDP ratios.

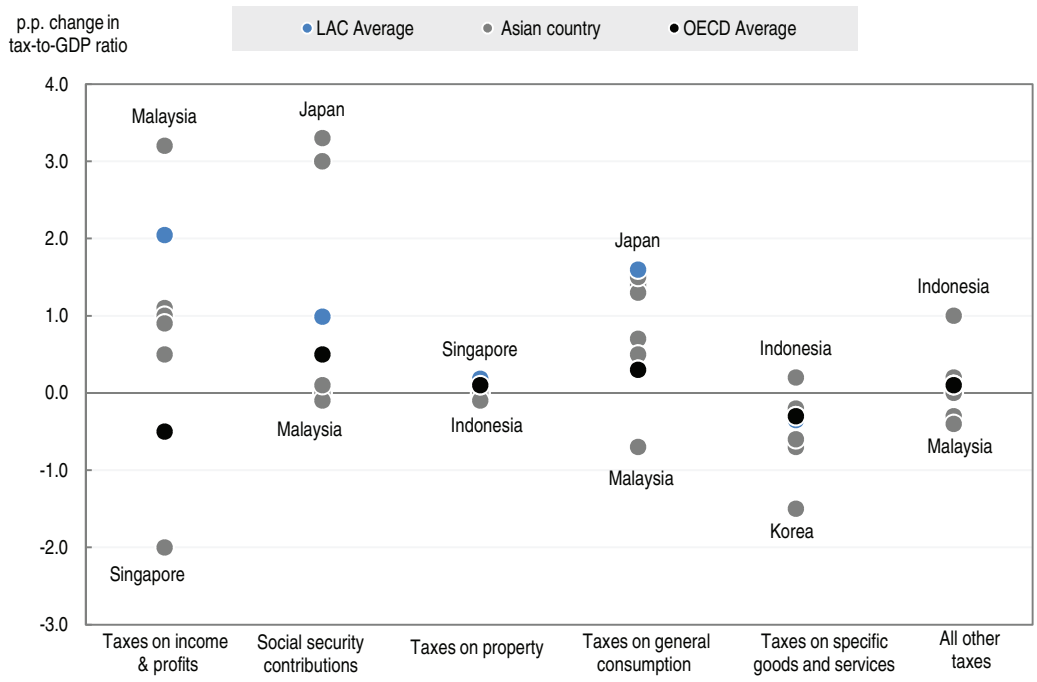
StatLink http://dx.doi.org/10.1787/888933427831

Tax exemptions and incentives can reduce the levels of tax ratios. As Southeast Asian countries have increasingly integrated into the global market they have reduced corporate income tax rates and import tariffs, in line with the international trends. The countries have also developed broad tax-incentive schemes to encourage foreign investment. Tax incentive schemes have put pressure on corporate income tax revenues, particularly following ASEAN integration. In 2007, as part of the ASEAN integration, the ASEAN[1] economies endorsed the Economic Community blueprint "to establish ASEAN as a single market and production base making ASEAN more dynamic and competitive with new mechanisms and measures to strengthen the implementation of its existing economic initiatives" (ASEAN, 2008). UNESCAP (2016) explains that "since the adoption of the ASEAN Economic Community blueprint in 2007, several countries have further reduced their CIT rate and expanded tax incentives and exemptions for investors".

Changes in tax-to-GDP ratios from 2000-2014 by tax category

Changes in the overall tax-to-GDP ratios between 2000 and 2014 in the six countries were caused by a variety of changes in the categories of tax revenues. The biggest changes to a category of tax revenue over this period occurred in taxes on incomes and profits as percentage of GDP (where Malaysia showed an increase of 3.2 p.p.) and in social security contributions (where Japan saw an increase of 3.3 p.p.). Changes in each of the subcategories are shown in Figure 1.6.

Figure 1.6. **Changes in tax-to-GDP ratios by type of taxes between 2000 and 2014 (p.p.)**



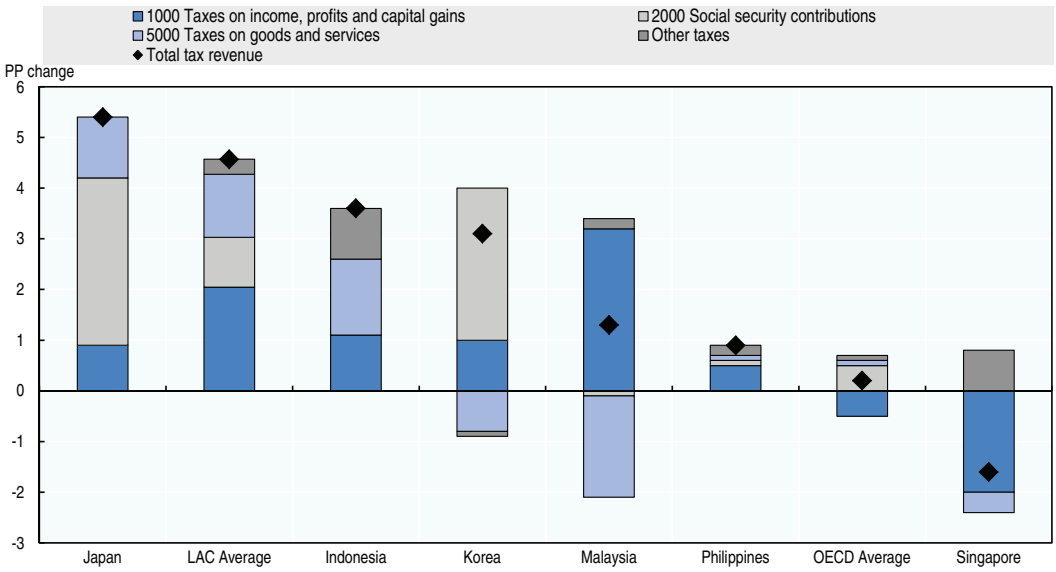
Source: Authors' calculations based on tables in Chapter 3.

StatLink http://dx.doi.org/10.1787/888933427847

In Malaysia and the Philippines, the growth of the tax-to-GDP ratio from 2000 to 2014 is primarily due to increases in taxes on incomes and profits. In Japan and Korea, the predominant driver of growth is the increase in social security contributions whereas in Indonesia, increases were seen across different categories, with the biggest increase in revenues from taxes on goods and services. The tax-to-GDP ratio in Singapore is lower in

2014 relative to 2000, driven by the decrease of individual income tax rates and corporate income tax rates. The change in tax revenues in each category (as a percentage of GDP) between 2000 and 2014 is depicted in Figure 1.7 for each country.

Figure 1.7. **Net changes in tax revenue as % of GDP between 2000 and 2014 by main type of taxes (p.p.)**



Source: Authors' calculations based on tables in Chapter 3.

StatLink http://dx.doi.org/10.1787/888933427855

The growth of revenue from taxes on incomes and profits as a percentage of GDP in Malaysia and Philippines is consistent with the broader trend for developing countries. As countries increase their level of development they tend to collect more of their tax revenue from taxes on incomes and profits relative to taxes on goods and services (UNESCAP, 2014).

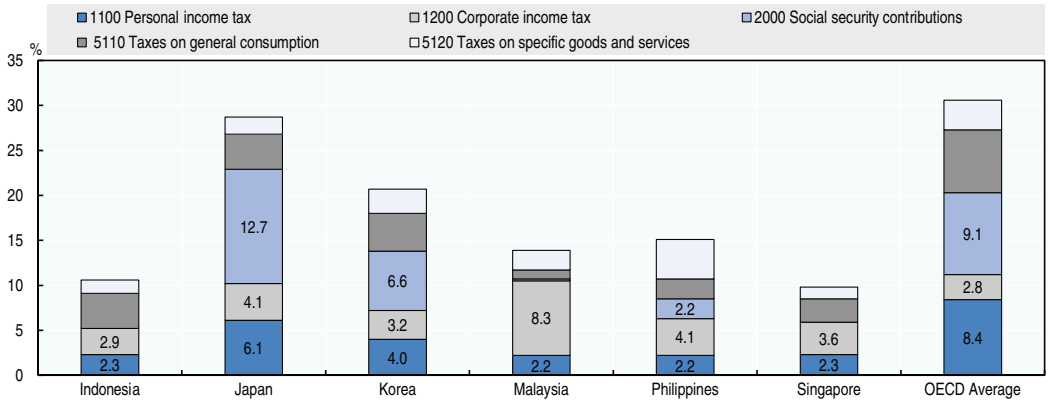
Another contributor to the higher revenues in Malaysia was changes to the tax administration. The most important were providing more autonomy by making the tax administration into a statutory authority in 1996; a change in the tax collection from formal to self-assessment (2000-2004); and deployment of more of the workforce to compliance programs and enforcement tasks. As with many countries both outside and inside the OECD, income tax revenues in Malaysia declined following the financial crisis, by over 1 p.p. in 2010. However the subsequent increase in 2011 returned the tax-to-GDP ratio above the pre-crisis levels. This was partially a reflection of further changes to working practices and the organisation of the tax administration that improved the efficiency of the tax collection process (OECD, 2015b).

In Japan and Korea, social security contributions were the main contributors to the increase in tax revenue as percentage of GDP between 2000 and 2014. The increase in social security contributions in Japan and Korea accounted to more than 3 p.p. of GDP in each country, as shown in Figure 1.7. In Japan, the change resulted from reforms in 2000, 2004 and 2009 to secure the sustainability of social security systems in light of an ageing population. These reforms included increases to premiums and the pensionable age (SSA, 2000; IPSS, 2014).

Japan and Korea have the highest revenues from social security contributions among the six countries as a percentage of GDP. In 2014, social security contributions[2] in

Japan and Korea stood respectively at 12.7% and 6.6% of GDP whereas they represented less than 2.5% of GDP in Indonesia, Malaysia and the Philippines (Figure 1.8). The range of social security contributions as a percentage of GDP reflects the wide divergence of social security systems and the instruments used to deliver social protection in Asia. For example, in Indonesia, social protection takes the form of social assistance (non-contributory) rather that social security system (contributory). Social security contributions are therefore negligible and relate only to the "Asuransi Kesehatan" – a health insurance programme for employees in for-profit state-owned enterprises. In Malaysia, civil servants are not required to contribute to their pensions, which are partially financed from the government budget (Bauer and Thant, 2010).

Figure 1.8. **Tax revenue as % of GDP by main type of taxes, 2014**



Note: Less than 5% of revenue from taxes on income and profits cannot be allocated to corporate income tax revenue or Personal income tax revenue in Malaysia, the Philippines and Singapore.
Source: Tables in Chapter 3.

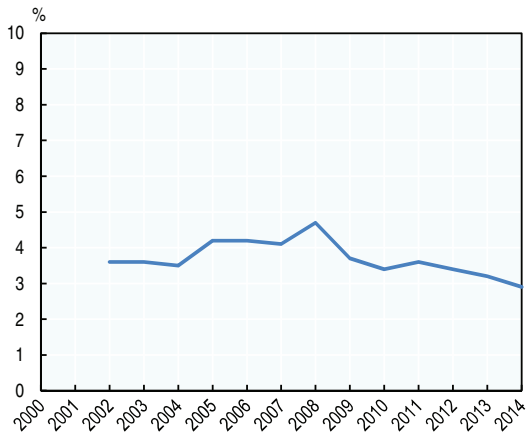
StatLink http://dx.doi.org/10.1787/888933427869

Corporate income taxes are a significant source of tax revenue in each of the countries in this publication. The share of corporate income tax revenues-to-GDP is higher in all six countries than the OECD average, ranging from 2.9% of GDP in Indonesia to 8.3% in Malaysia in 2014, compared to the OECD average of 2.8%. Corporate income tax revenue as a percentage of GDP in Malaysia is more than double that of the other countries, which is partly explained by revenue derived from petroleum companies which are taxed at a higher rate (38%) than the standard corporate tax rate (25% in 2014) (Oxford Business Group, 2014). Revenues from petroleum companies represented about 2.4% of GDP in 2014.

Between 2000 and 2014, corporate income tax rates were reduced in each of the six countries, although corporate income tax revenues as percentage of GDP in 2014 remained at the same level or increased compared to 2000, with the exception of Indonesia and Singapore. Corporate income tax revenues in Indonesia began decreasing as a percentage of GDP in 2008, following the first of two decreases in the corporate income tax rate. In Singapore, the fall in corporate income tax revenues as a percentage of GDP coincided with the gradual decline in corporate tax rates from 26% in 2000 to 17% in 2014 (Figure 1.12).

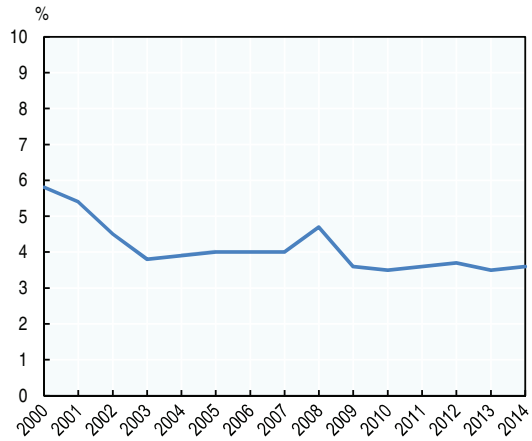
Personal income tax revenues in the six countries are lower as a percentage of GDP than the OECD average. Two factors contribute to these lower levels. Firstly, a larger population of taxpayers are on low incomes and are exempt from paying taxes. Secondly, personal income tax revenue may be reduced by non-compliance and tax evasion of some high income individuals. As a result, in many Asian countries, a small proportion of the population bears the tax burden (UNESCAP, 2014).

Figure 1.9. **Corporate income tax revenue as % of GDP in Indonesia, 2000-14**



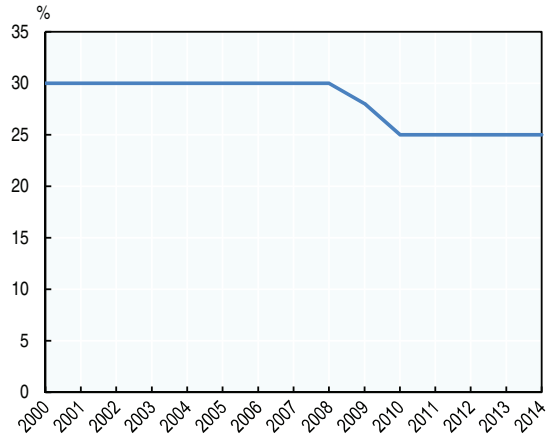
Source: Authors' calculations based on Table 4.1.
StatLink http://dx.doi.org/10.1787/888933427878

Figure 1.10. **Corporate income tax revenue as % of GDP in Singapore, 2000-14**



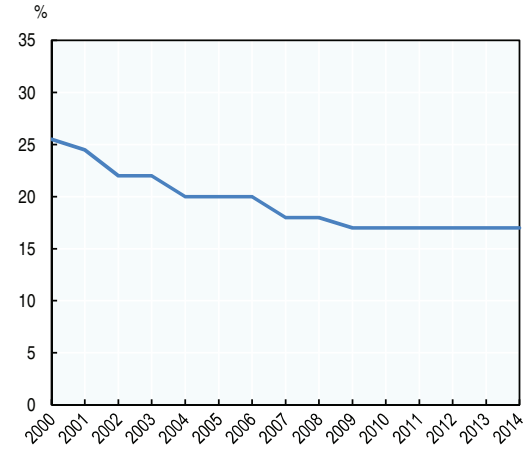
Source: Authors' calculations based on Table 4.5.
StatLink http://dx.doi.org/10.1787/888933427887

Figure 1.11. **Corporate income tax rates in Indonesia, 2000-14**



Source: Berlianto (2009) for corporate income tax rates up to 2005, KPMG (2016) for Corporate Income Tax rates for 2006-14.
StatLink http://dx.doi.org/10.1787/888933427895

Figure 1.12. **Corporate income tax rates in Singapore, 2000-14**



Source: Ministry of Finance of Singapore (MOF).
StatLink http://dx.doi.org/10.1787/888933427904

For example, in Indonesia, 3% of households paid more than 80% of personal tax revenues in 2010 (Nugraha and Lewis, 2011). Higher- and middle-income households in Indonesia may underreport their taxable personal income (Arnold, 2012) and the self-employed are not covered by a withholding system, so it is difficult to assess their taxable income. Indonesia has since taken measures to improve the registration of taxpayers and the number of individual taxpayers has increased from 3.25 million in 2006 to almost 17 million in 2010 (Arnold, 2012).

1.2. Tax structures

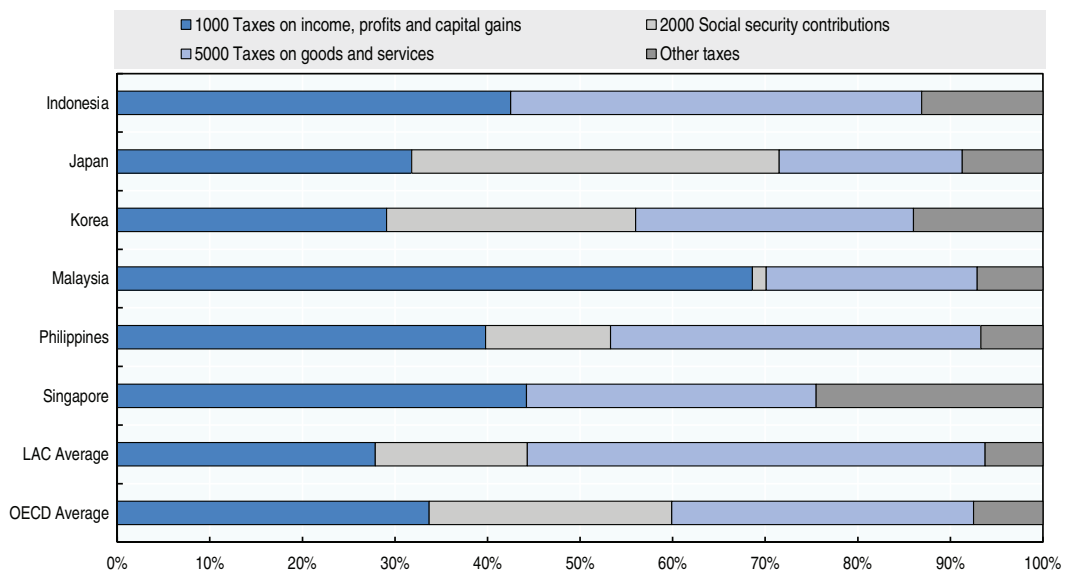
The tax structure, measured as the composition of tax revenues of different types, is a second important indicator, since different taxes have different economic and social effects. Across the six countries in this publication, the composition of taxes varies widely, reflecting their different policy choices, economic structures and conditions, tax administration capabilities and historical factors.

Tax structures in 2014 and evolution since 2000

There is a wide divergence of tax structures across the six countries in this publication. The countries can be divided into two main groups:

- The four Southeast Asian countries rely principally on taxes on goods and services and taxes on incomes and profits, which together make up more than 75% of total tax revenue in these countries. Within this group, the share of taxes on incomes and profits and on taxes on goods and services is roughly the same (around 40-45%) in Indonesia, the Philippines and Singapore; whereas revenue from taxes on income and profits in Malaysia generate nearly 70% of total tax revenue.
- In contrast, the tax structures of Japan and Korea are more evenly split between the main categories of tax revenues: in Korea, tax revenue is divided roughly equally into three parts: 29% from taxes on income and profits, 27% from social security contributions, and 30% from taxes on goods and services. This tax structure is similar to the OECD average. In Japan, social security contributions amount to nearly 40% of total tax revenue and the share of taxes on goods and services is slightly below 20%.

Figure 1.13. **Tax structures, 2014**

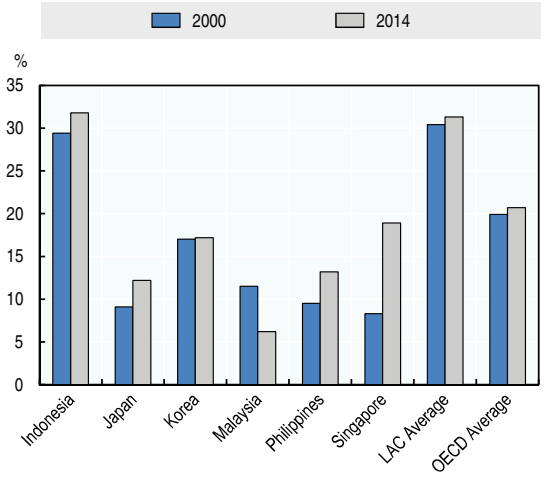


Source: Authors' calculations based on tables in Chapter 4.

StatLink http://dx.doi.org/10.1787/888933427917

Between 2000 and 2014, the Asian countries in this publication 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 VAT (Figure 1.14 and Figure 1.15).

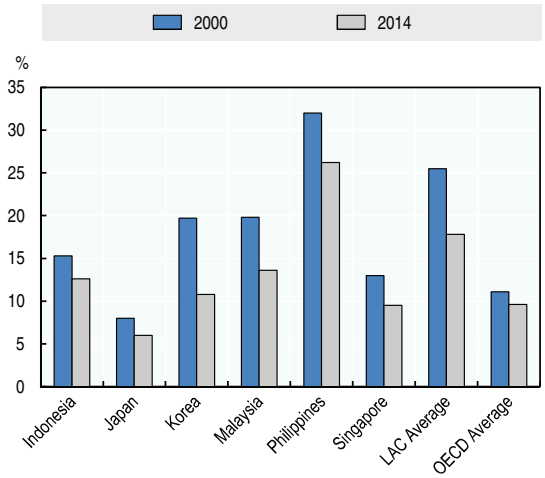
Figure 1.14. **Revenue from taxes on general consumption as % of total tax revenue, 2000 and 2014**



Source: Table 3.13.

StatLink http://dx.doi.org/10.1787/888933427925

Figure 1.15. **Revenue from taxes on specific goods and services as % of total tax revenue, 2000 and 2014**

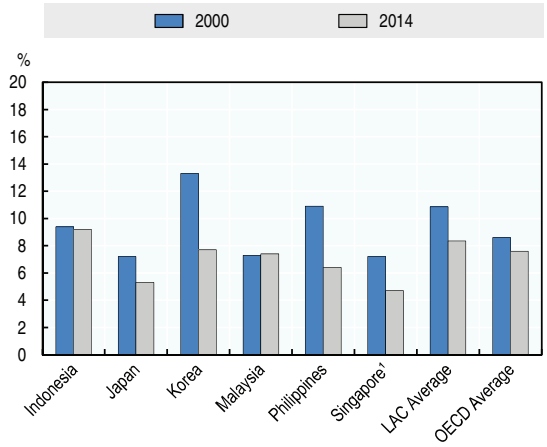


Source: Table 3.15.

StatLink http://dx.doi.org/10.1787/888933427939

Over the past decades, tax revenues from import duties have decreased in many countries, partly due to trade liberalisation that took the form of reductions of tariffs and new trade agreements (UNESCAP, 2014). Since 2000, dozens of bilateral and regional trade agreements have been signed by East Asian countries (Pomfret and Sourdin, 2011). In January 2007, the ASEAN countries agreed that tariffs on all intra-ASEAN goods would be eliminated by 2015 (Safuan, 2012).

Figure 1.16. **Revenue from excises as % of total tax revenue, 2000 and 2014**

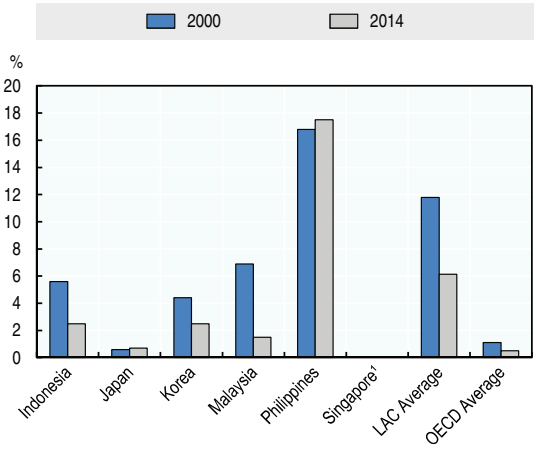


1. Customs and import duties cannot be separated from excises in Singapore and have been classified in category 5121 Excises.

Source: Authors' calculations based on tables in Chapter 4.

StatLink http://dx.doi.org/10.1787/888933427945

Figure 1.17. **Revenue from customs and import duties as % of total tax revenue, 2000 and 2014**



1. Customs and import duties cannot be separated from excises in Singapore and have been classified in category 5121 Excises.

Source: Authors' calculations based on tables in Chapter 4.

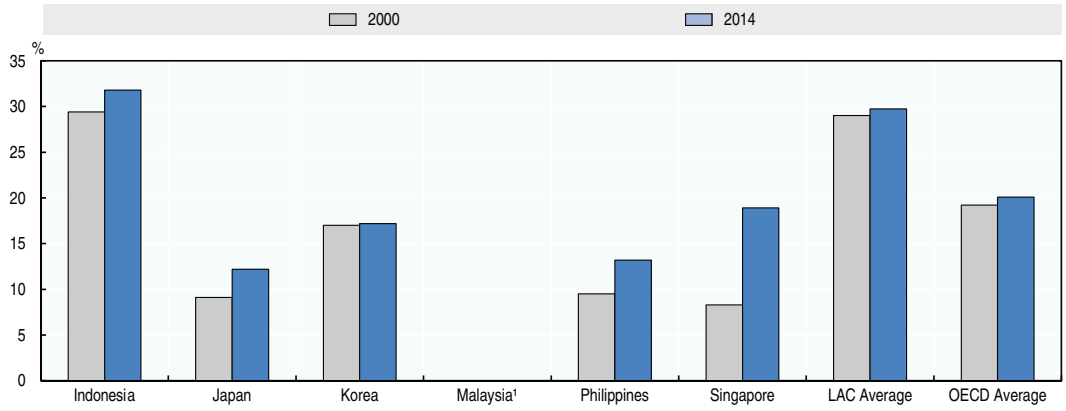
StatLink http://dx.doi.org/10.1787/888933427952

In Indonesia, Malaysia and Korea, the share of import duties[3] decreased between 2000 and 2014, consistent with these broader trends, whereas the share increased in the Philippines and Japan. As in OECD countries on average, the share of excises decreased in all six countries except in Malaysia where it increase slightly over that period.

Between 2000 and 2014, the contribution of VAT to total tax revenues increased significantly in Asian countries, including the six countries in this publication. All six countries source an important part of their revenue from VAT, except for Malaysia, which introduced VAT in 2015, having relied previously on a goods and services tax. Across the six countries, VAT revenue as a percentage of total tax revenue ranges from 12% in Japan to 32% in Indonesia in 2014 (Figure 1.18).

The share of the VAT to total tax revenues in each country remains smaller than the OECD average of 20%, except in Indonesia. This is partially due to the lower VAT rates in many Asian countries compared to OECD countries. VAT rates in the six countries range from 7% in Singapore to 12% in the Philippines (Tradingeconomics, 2016), whereas the average standard VAT rate is 19% in OECD countries (Ernst and Young, 2015).

Figure 1.18. **Revenue from VAT as % of total tax revenue, 2014**



1. Malaysia has introduced VAT in 2015 and relied on a goods and services tax until 2014.
Source: Authors' calculations based on tables in Chapter 4.

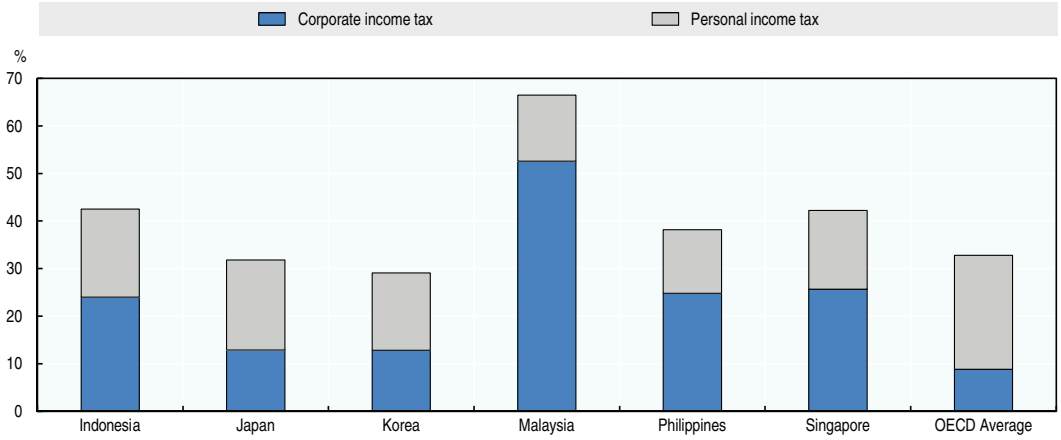
StatLink http://dx.doi.org/10.1787/888933427965

The share of corporate income tax revenues to total tax revenue in the countries included in this publication is higher than the OECD average of 8.8%. The share of corporate income tax revenues to total tax revenue is around 13% in Japan and Korea and is higher in the Southeast Asian countries, where corporate income tax revenues reached about 25% of total tax revenue in Singapore, the Philippines and Indonesia and 53% in Malaysia. Southeast Asian countries obtain a higher proportion of their revenue from corporate income taxes than from personal income taxes. In contrast, Japan and Korea have a higher share of personal income tax revenues compared to corporate tax revenues.

The share of personal income taxes to total revenue ranges from approximately 13% in the Philippines to 19% in Japan. When social security contributions are also considered, the two categories account for 60% of total tax revenues in Japan; 40% in Korea; 27% in the Philippines; and less than 20% in the other countries.

As in OECD countries on average, property taxes and payroll taxes play a limited role in the tax revenues of Asian countries. The percentage of property tax revenue to total tax revenues varies from 8% to 13% in Japan, Korea and Singapore, and less than 4% in the Indonesia, Malaysia and the Philippines. There are no payroll taxes in Indonesia, Japan, Malaysia, the Philippines and Singapore.

Figure 1.19. **Revenue from corporate income tax and personal income tax as % of total tax revenue, 2014**



Note: Less than 5% of revenue from taxes on income and profits cannot be allocated to corporate income tax revenue or personal income tax revenue in Malaysia, the Philippines and Singapore.

Source: Authors' calculations based on tables in Chapter 4.

StatLink http://dx.doi.org/10.1787/888933427975

1.3. Taxes by level of government

The proportion of total revenues collected by local government in Malaysia and the Philippines is relatively small at 3.1% and 5.4% respectively in 2014. Singapore, a city-state, has no local government divisions. In Indonesia, the proportion attributed to local governments is rising and was almost 11% in 2014, following the shift of property taxation to the local level in 2014. Local government revenues in Japan and Korea are substantially higher at 23.4% and 17.1% respectively. The corresponding average for OECD unitary countries was 12%. The share of local government revenue is high in Japan since local governments finance a wide range of goods and services including public welfare. They are also responsible for financing some education and debt services (Bessho, 2016).

Table 1.1. **Attribution of tax revenues to sub-sectors of general government as percentage of total tax revenue, 2014**

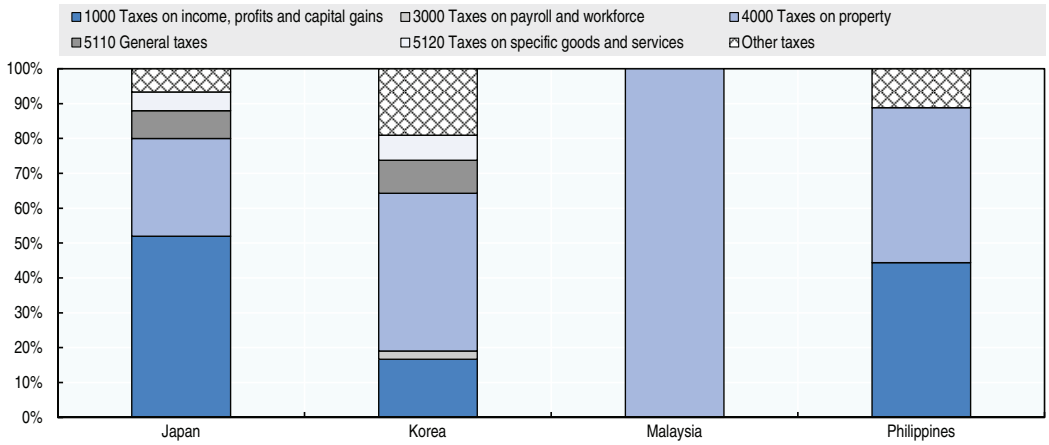
	Federal or central government				State or regional government				Local government				Social security funds			
	1995	2000	2010	2014	1995	2000	2010	2014	1995	2000	2010	2014	1995	2000	2010	2014
Federal countries																
Malaysia	97.5	94.5	94.4	95.0	..	..	..	..	2.5	3.4	4.2	3.1	..	2.1	1.4	1.3
OECD[1]	52.5	55.9	53.0	53.4	16.0	15.4	16.4	16.7	7.7	6.9	8.0	7.6	23.6	21.5	22.4	22.2
Unitary countries																
Indonesia	..	96.5	92.1	89.3	..	..	..	..	..	3.5	7.0	10.7	..	..	..	..
Philippines	90.7	81.0	81.8	81.4	..	..	..	..	..	5.1	5.4	5.4	9.3	13.3	12.8	13.2
Singapore	..	100.0	100.0	100.0	..	..	..	..	..	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Japan	41.3	38.7	33.0	36.9	..	..	..	..	25.4	26.3	25.7	23.4	33.3	35.3	40.9	39.7
Korea	69.1	67.9	59.8	56.1	..	..	..	..	18.8	14.9	16.7	17.1	12.0	16.7	23.5	26.8
OECD[2]	65.5	66.4	63.4	63.5	..	..	..	..	10.7	10.8	11.8	11.7	23.5	22.6	24.5	24.5

1. Represents the unweighted average for OECD federal member countries.
2. Represents the unweighted average for OECD unitary countries.

StatLink http://dx.doi.org/10.1787/888933428023

The types of taxes levied at local government level vary between countries. Local governments in Malaysia and the Philippines have a narrow range of taxes under their jurisdiction, relying on property taxes (both countries) and taxes on income and profits (the Philippines only). Local governments in Japan and Korea raised revenue from taxes on income and profits, property taxes, taxes on goods and services, payroll (Korea only) and other taxes.

Figure 1.20. **Composition of local government tax revenue by main type of taxes, 2014**



Note: The composition of local tax revenue is unknown for Indonesia and is currently allocated to 6000 Other taxes.

Source: OECD (2016b), "Revenue Statistics in Asia: Comparative tables", *OECD Tax Statistics* (database), http://dx.doi.org/10.1787/eabf71c2-en.

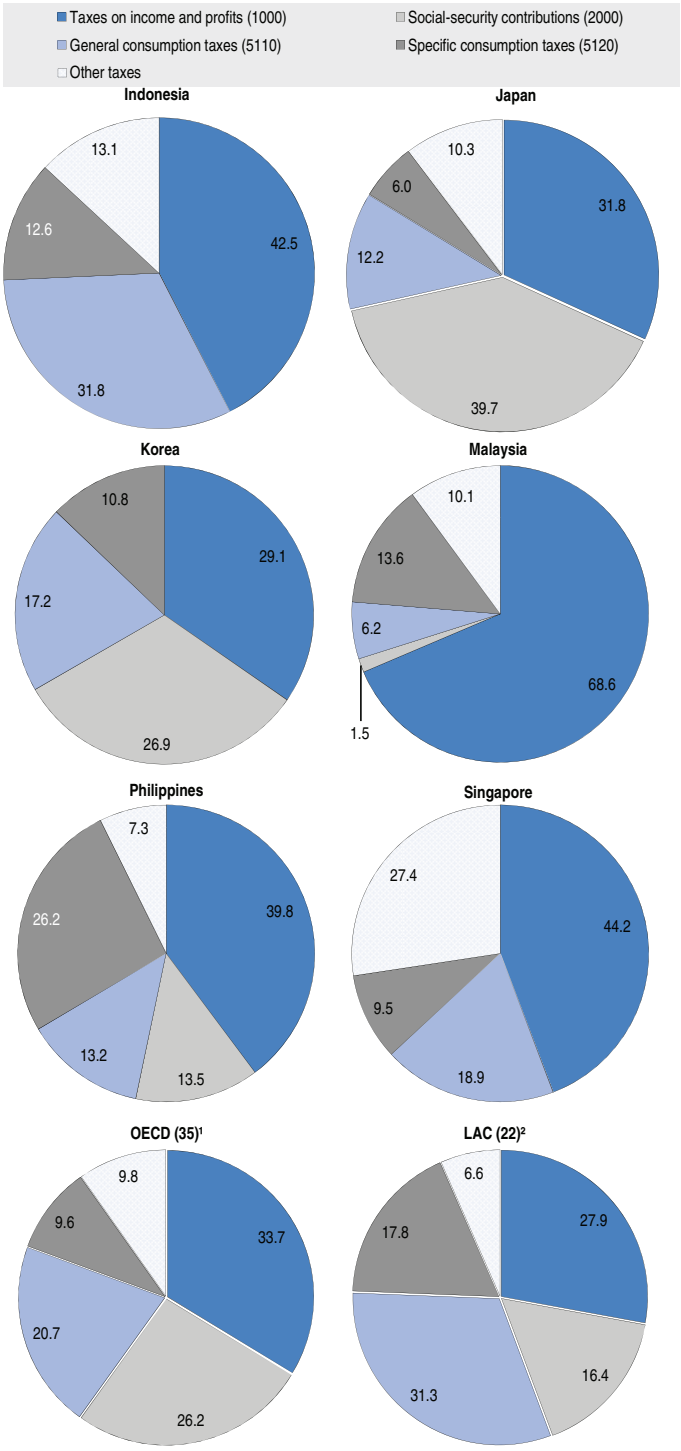
StatLink http://dx.doi.org/10.1787/888933427988

Between 2000 and 2014 the share of revenues collected by local governments in Asian and OECD countries was fairly stable, with the exception of Indonesia in which the share of revenues attributed to local governments increased by 7.2 p.p.

The proportion of total revenues collected by social security funds in Indonesia and Malaysia was almost zero in 2014, whereas in the Philippines it was 13.2%. This compares with 39.7% in Japan, 26.8% in Korea and 24.5% on average in the OECD unitary countries. The share of revenues from social security funds has increased in both Japan (by 4.3 p.p.) and in Korea (10.1 p.p.) since 2000.

1.4. Comparative figures

Figure 1.21. **Tax structures, 2014**



1. Represents the unweighted average for OECD member countries. Japan and Korea are also part of the OECD (35) group.

2. Represents the unweighted average for 22 LAC (Latin American and Caribbean) countries.

Source: Authors' calculations based on tables in Chapter 4.

StatLink http://dx.doi.org/10.1787/888933427999

Notes

1. ASEAN, the Association of Southeast Asian Nations.
2. Singapore does not levy social security contributions.
3. Customs and import duties cannot be separated from excises in Singapore and have been classified in 5111 Excises.

References

Addison, T. and J. Levin (2012), *The Determinants of Tax Revenue in Sub-Saharan Africa*, Swedish Business School at Örebro University, Örebro, Sweden, oru.diva-portal.org/smash/record.jsf?pid=diva2%3A570456&dswid=4207.

Aizenman, et al (2015) "Tax revenue trends in Asia and Latin America: A comparative analysis", *NBER Working Paper*, No. 21755, Cambridge, www.nber.org/papers/w21755.

Arnold, J. (2012), "Improving the Tax System in Indonesia", *OECD Economics Department Working Papers*, No. 998, OECD Publishing, Paris, http://dx.doi.org/10.1787/5k912j3r2qmr-en.

ASEAN (2008), "ASEAN Economic Community Blueprint", The Association of Southeast Asian Nations Secretariat, Jakarta, http://asean.org/wp-content/uploads/archive/5187-10.pdf.

Bauer, A. and M. Thant (2010), *Poverty and Sustainable Development in Asia: Impacts and Responses to the Global Economic Crisis*, ADB Publishing, Mandaluyong City, https://www.adb.org/sites/default/files/publication/27509/poverty-sustainable-development-asia.pdf.

Basri, M.C. and S. Rahardja (2011), "Mild Crisis, Half Hearted Fiscal Stimulus: Indonesia During the GFC", in Ito, T. and F. Parulian (eds.), "Assessment on the Impact of Stimulus, Fiscal Transparency and Fiscal Risk", *ERIA Research Project Report* 2010-01, pp.169-211. ERIA, www.eria.org/publications/research_project_reports/images/pdf/y2010/no1/ch5Basri_and_Rahardja_Indonesia.pdf.

Berlianto, A. (2009), "Tax competition and harmonization in Southeast Asia", Massey University, Albany, New Zealand, http://mro.massey.ac.nz/bitstream/handle/10179/966/02whole.pdf?sequence=1&isAllowed=y.

Bessho, S. (2016), "Case Study of Central and Local Government Finance in Japan", ADBI Working Paper, No 599. Asian Development Bank Institute, Tokyo, https://www.adb.org/publications/case-study-central-and-local-government-finance-japan/.

EPS PEAKS (2013), "Taxation and Developing Countries", Overseas Development Institute training notes, London, https://www.odi.org/sites/odi.org.uk/files/odi-assets/events-documents/5045.pdf.

Ernst and Young (2015), *Indirect taxes in 2015*, EYG no. DL1195, www.ey.com/Publication/vwLUAssets/ey-indirect-tax-developments-in-2015/%24FILE/ey-indirect-tax-developments-in-2015.pdf.

Gupta, P. (2015), "Generating Larger Tax Revenue in South Asia", *MPRA Paper, No. 61443*, https://mpra.ub.uni-muenchen.de/61443/1/MPRA_paper_61443.pdf.

IMF (2016), *World Economic Outlook – Frequently Asked Questions*, https://www.imf.org/external/pubs/ft/weo/faq.htm#q4d.

IMF (2015), *World Economic Outlook: Adjusting to Lower Commodity Prices*, International Monetary Fund, Washington, DC., October.

Inland Revenue Board of Malaysia (2016), "Agriculture allowances public ruling no. 1/2016", www.hasil.gov.my/pdf/pdfam/PR_01_2016.pdf.

IPSS (2014), "Social Security in Japan 2014", National Institute of Population and Social Security Research, Tokyo, www.ipss.go.jp/s-info/e/ssj2014/pdf/SSJ2014.pdf.

KPMG (2016), "Corporate tax rates table", https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html.

Ministry of International Trade and Industry (2016), Kuala Lumpur, Malaysia, www.miti.gov.my/index.php/pages/view/content5235.html.

Nugraha, K. and P. Lewis (2011), "Market Income, Actual Income and Income Distribution in Indonesia", 40th Australian Conference of Economists paper, Canberra, http://ace2011.org.au/ACE2011/Documents/Abstract_Kunta_Nugraha_Phil_Lewis.pdf.

OECD (2016a), *Economic Outlook for Southeast Asia, China and India 2016: Enhancing Regional Ties*, OECD Publishing, Paris, http://dx.doi.org/10.1787/saeo-2016-en.

OECD (2016b), "Revenue Statistics in Asia: Comparative tables", *OECD Tax Statistics* (database), http://dx.doi.org/10.1787/eabf71c2-en.

OECD, et al. (2016), *Revenue Statistics in Latin America and the Caribbean 2016*, OECD Publishing, Paris, http://dx.doi.org/10.1787/rev_lat_car-2016-en-fr.

OECD (2015a), *OECD Economic Surveys: Indonesia*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-idn-2015-en.

OECD (2015b), *Revenue Statistics in Asian Countries 2015: Trends in Indonesia, Malaysia and the Philippines*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264234277-en.

OECD (2014), *Development Co-operation Report 2014: Mobilising Resources for Sustainable Development*, OECD Publishing, Paris, http://dx.doi.org/10.1787/dcr-2014-en.

Oxford Business Group (2014), *The Report: Malaysia 2014*, Oxford Business Group, www.oxfordbusinessgroup.com/malaysia-2014.

Papageorgiou, C. et al (2015), "Diversification, Growth, and Volatility in Asia", *World Bank Policy Research Working Paper*, No 7380, http://documents.worldbank.org/curated/en/271261467986248043/pdf/WPS7380.pdf.

Pomfret, R. and P. Sourdin (2011), "Trade Agreements in Southeast Asia", https://www.wto.org/english/res_e/publications_e/wtr11_forum_e/wtr11_2feb11_e.htm.

Profeta, P. and S. Scabrosetti (2010), *The Political Economy of Taxation: Lessons from Developing Countries*, Edward Elgar Publishing, https://books.google.fr/books?isbn=1849805490.

Safuan, S. (2012), "ASEAN Economic Cooperation: Trade Liberalization Impacts on the National Economy", *International Journal of Economics and Finance*, Vol. 4, No. 11, Canadian Center of Science and Education, http://dx.doi.org/10.5539/ijef.v4n11p66.

SSA (2010), "Public Pension Reform in Japan", *Social Security Bulletin*, Vol. 63, No. 4, https://www.ssa.gov/policy/docs/ssb/v63n4/v63n4p99.pdf.

The Philippine Star (2016), "Despite strong GDP growth Tax collection slows in Q1", www.philstar.com/business/2016/05/21/1585219/despite-strong-gdp-growth-tax-collection-slows-q1.

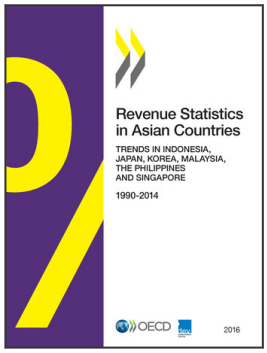
Tradingeconomics (2016), www.tradingeconomics.com/search.aspx?q=VAT rate.

UNCTAD (2012), *World Investment Report 2012, Towards a new Generation of Investment Policies*, New York and Geneva, http://unctad.org/en/PublicationsLibrary/wir2012_embargoed_en.pdf.

UNESCAP (2016), "Improving tax policy and administration in South-East Asia", *MPFD policy briefs* No. 31, https://www.unescap.org/sites/default/files/MPFD%20Policy%20Briefs%20No.31-SEA.pdf.

UNESCAP (2014), *Economic and Social Survey of Asia and the Pacific 2014, Regional Connectivity for Shared Prosperity*, United Nations, https://www.unescap.org/sites/default/files/Economic%20and%20Social%20Survey%20of%20Asia%20and%20the%20Pacific%202014.pdf.

WHO (2015), "Purchasing Power Parity 2005", www.who.int/choice/costs/ppp/en/.



From:

Revenue Statistics in Asian Countries 2016

Trends in Indonesia, Japan, Korea, Malaysia, the Philippines and Singapore

Access the complete publication at:
https://doi.org/10.1787/9789264266483-en

Please cite this chapter as:

OECD (2016), "Tax Revenue Trends, 1990-2014", in *Revenue Statistics in Asian Countries 2016: Trends in Indonesia, Japan, Korea, Malaysia, the Philippines and Singapore*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264266483-3-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.