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# Evaluating State Levies for Higher Education

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**Abstract.** In a number of developed countries, tax incentives for universities have improved the quantity and quality of graduates; in the long run, recapture tax potential losses have grown due to workforces with high levels of income. Therefore it is essential to review policies on state levies in Indonesia, since only 4% of the total national workforce have university-level education. The research maps and evaluates various forms of tax incentives for education under various tax regimes. Data is gathered through documentation study, extensive interviews, and focused group discussions. The policies are evaluated using the six policy criteria proposed by Dunn (2003). Research shows that there are many types of state levies for education, both in the form of taxes and non-tax state revenue (PNBP). In general, current policies for income tax (PPH) incentives are more progressive compared to those of previous tax regimes, although other tax incentive policies still face many limitations. Furthermore, tax incentives for higher education have not fully met the requirements for effectiveness, efficiency, adequacy, equity, responsiveness and appropriateness. It is our hope that findings from this research will serve as recommendations for policymakers in refining policies on tax incentives for higher education.

**Keywords:** *tax incentives, tax exemptions, tax deductions, VAT exemption, state levies, higher education.*

## INTRODUCTION

Education is a vital aspect in a country's development and determines whether the country will develop or remain backward. Higher commitment to education on the government's part will lead to greater opportunity for the country to develop and advance.

Many experts have stated that education has an important role in increasing public welfare, including in developing countries. Kremer (2005) states that the important policy questions stem from the potential role of education in improving the welfare of the five billion people living in developing countries. Many macroeconomists have emphasized the impact of education on economic growth. Next, Kremer describes the influence of education on economic growth. China, for instance, has successfully reduced poverty during the past twenty years, from 65% in 1981 to 17% in 2001. Well-managed education plays a critical role in improving a country's human resources quality. Japan, Norway, and Finland, for instance, have well-managed human resources to develop their knowledge-based economy (KBE) or K-economy (Samhadi, 2006).

Improvement in public welfare and the level of national education is part of Indonesia's objectives as a nation and country, as stated by the founding fathers in the Preface to Constitution 1945 (UUD 1945). These objectives are specified in Article 31 of UUD 1945, stating that each citizen has the right to primary education, the financing for which is the government's responsibility. Law No. 20/2003 on the National Education System (henceforth

referred to as "UU Sisdiknas") states that all citizens have equal rights to quality education. Citizens with special physical, emotional, mental, intellectual, and/or social needs are entitled to special education. Citizens in remote, isolated, and backward areas, as well as folk communities in remote areas, are entitled to special education services.

Nowadays education plays a greater role due to the shift in global economy from industrial economy to knowledge-based economy. In this modern age, international competitions constitute of competitions in science, knowledge, and intellect. Among the many factors that shape productivity, human resources have become the most influential and valuable, and determine a nation's innovativeness. Yihui Xie in a research called "The Influence of Population Quality Competitiveness to Regional Innovation: the China Case" concludes that the level of education is vital in innovation (Xie, 2001).

In reality, education in Indonesia is still far less advanced compared to many other countries. In 2010, Indonesia's ranking in the Human Development Index dropped from 108 to 124 (Kompas, 8/11). According to the United Nations Development Program/UNDP report (Human Development Report/HDR) in 2011, "Sustainability and Equity: A Better Future for All", the mean years of schooling for Indonesians are 8.5 years (see Table 1). This means that the highest level of education for the average Indonesian is secondary school (SMP).

Therefore it is not surprising when Statistik Indonesia 2011, published by Statistics Indonesia (BPS), states that less than 7% of working Indonesians have diploma/academy/university degrees (see Table 2); only about 4%

**Table 1. Human Development Index Indicators for Indonesia in 2011**

HDI rank		Human Development Index (HDI) Value	Life expectancy at birth (years)	Mean years of schooling (years)	Expected years of schooling (years)	Gross national income (GNI) per capita (constant 2005 PPP \$)	GNI per capita rank	Non-income HDI Value
119	Syrian Arab Republic	0.632	75.9	5.7 b	11.3	4,243	-5	0.686
120	Namibia	0.625	62.5	7.4	11.6	6,206	-21	0.643
121	Honduras	0.625	73.1	6.5	11.4	3,443	4	0.694
122	Kiribati	0.624	68.1	7.8	12.1	3,140	8	0.701
123	South Africa	0.619	52.8	8.5 b	13.1	9,469	-44	0.604
124	Indonesia	0.617	69.4	5.8	13.2	3,716	-2	0.674
125	Vanuatu	0.617	71.0	6.7	10.4	3,950	-5	0.668

Source: United Nations Development Program, 2011

**Table 2. Highest Education and Type of Weekly Activities for the Population Over the Age of 15, 2010**

Highest Education	Working	Have Worked	Have Never Worked	Total	Number of Workforce	Percentage of Workers in Workforce
0 Not in school	5 186 199	82 274	75 312	157 586	5 343 785	97.05
1 Not in/never graduated from primary school	18 007 866	254 279	345 942	600 221	18 608 087	96.77
2 Primary school	31 318 804	515 705	887 153	1 402 858	32 721 662	95.71
3 Middle/secondary school	20 634 591	558 948	1 102 501	1 661 449	22 296 040	92.55
4 High school	15 914 285	670 891	1 478 232	2 149 123	18 063 408	88.10
5 Vocational school	8 876 113	494 244	700 948	1 195 192	10 071 305	88.13
6 Diploma I/II/III/Academy	3 023 727	221 674	221 548	443 222	3 466 949	87.22
7 University	5 246 182	308 527	401 601	710 128	5 956 310	88.08
Total	108 207 767	3 106 542	5 213 237	8 319 779	116 527 546	9.,86

Source: Statistics Indonesia (BPS), 2011

of the national workforce has university-level education.

As many researches have shown that education level determines income level and type of occupation, the above numbers indicate an unfortunate fact about education in Indonesia. It is the government's responsibility to improve the population's education quality and provide greater opportunity for attending universities. One of the methods to achieve this is through fiscal policies, including state levies. Therefore, current and/or past state levies on the education sector need to be evaluated. This issue is elaborated through the following questions: (1) What are the current and past policies and forms of the income tax (PPh) for the education sector in Indonesia? (2) What are the current and past policies and incentives for the value-added tax (PPN) for the education sector in Indonesia? (3) What are the current and past policies and incentives for the land and building tax (PBB) for the education sector in Indonesia? (4) What are the current and past policies and incentives for the land and building title transfer

fee (BPTHB) for the education sector in Indonesia? (5) What are the levels of effectiveness, efficiency, adequacy, equity, responsiveness, and appropriateness in policies for state levies on the education sector heretofore?

"Economic Growth in Developing Countries: Education Proves Key", a research by the International Institute for Applied Systems Analysis (IIASA, 2008), shows that, besides health, demographic trends, and individual incomes, education also determines a country's overall economic growth. The IIASA research provides a new perspective for policymakers concerning their efforts to make education the most promising method to achieve sustainable development. The research verifies the long-held supposition that human assets (education and the status of health) play a significant role in economic development, and confirms that the United Nations' focus on universal primary education in MDGs is vital. However, universal primary education must be accompanied with secondary education in order to alleviate poverty. In

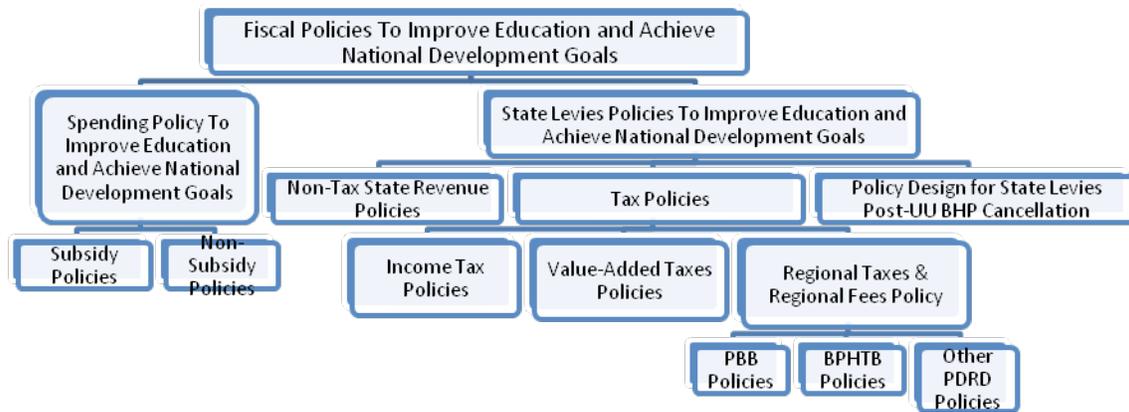


Figure 1. Research Roadmap

industrial countries, higher education plays a key role in economic growth. Furthermore, better education must become a main priority, as it helps reduce corruption in society.

The research by Trostel (2003), “The Fiscal Impacts of College Attainment”, shows that the government’s total expenditure for university graduates is negative: the amount of direct savings in the government’s post-university expenditure (about 85,000 US\$ per four years of academic title equalization) is higher than the government’s expenditure for higher education (about 75,000 US\$ per education level). Moreover, the surplus in tax revenue that directly comes from university graduates (about 471,000 US\$ per education level) is more than six times the government’s gross expenses per university graduate. The government investment’s rate of return in internal taxes for universities is estimated to be about 10.3%. This research basically reinforces the argument that the government should encourage more of the population to obtain higher education, as it will result in long-term positive effects for the state. Hence, the state should not hesitate in providing tax incentives and other levies, as short-term potential tax losses will be recaptured on the long run in a bigger amount.

Another research on the role of tax policies in improving educational development is done by Kukrer (2010) from Anadolu University, Turkey, in “Tax Exemptions to Support Education in Turkey: The Applicability of A Registered Education Savings Plans (RESPs).” Kukrer’s research analyzes tax exemptions for private schools in Turkey based on Law No. 5281 and other education-related regulations. Kukrer also analyzes the RESPs currently in practice in Canada in the form of education tax incentives: students are given loan subsidies and special tax treatment for their savings through the RESPs and Canada’s Education Savings Grants (CESGs). The conclusion is that the implementation of RESPs in Turkey has successfully increased the role of tax policies in

reducing the cost of education and improving the quality of private schools.

The present research on tax levies for education is part of a larger research, “Fiscal Policies To Improve Education And Achieve National Development Goals” (see Figure 1).

The present research’s originality lies in theme as well as concept: the state levies concept is enhanced as well as the public policy concept. The criteria for the latter are enhanced based on Dunn’s concept. The enhancement is done by combining taxation concepts to complement the policy evaluation criteria proposed by Dunn. Policy evaluation, according to Dunn (2003), is measured with six criteria: effectiveness, efficiency, adequacy, equity, responsiveness, and appropriateness.

Effectiveness refers to whether the desired results have been accomplished. Efficiency refers to the extent of efforts required to accomplish the desired results. In measuring efficiency, the researcher combines it with the cost of taxation concept, in particular the compliance cost concept proposed by Sandford (Sandford in Rosdiana, 2008). Therefore, efficiency is measured by analyzing the direct money cost, time cost, and psychological cost.

Adequacy according to Dunn refers to the extent of accomplishment of desired results in solving problems. In the present research, adequacy is also analyzed using the tax or revenue adequacy/revenue productivity conception, namely the extent to which tax policies can become instruments of budgetary functions.

Equity according to Dunn refers to whether costs and benefits are fairly distributed to various groups. In the present research, equity is also analyzed using the tax conception. In measuring the fairness of income tax, the criteria used are horizontal fairness (equal treatment for the equal) and vertical fairness (unequal treatment for the unequal).

Responsiveness according to Dunn refers to whether the policy results fulfill the needs, preferences, or values

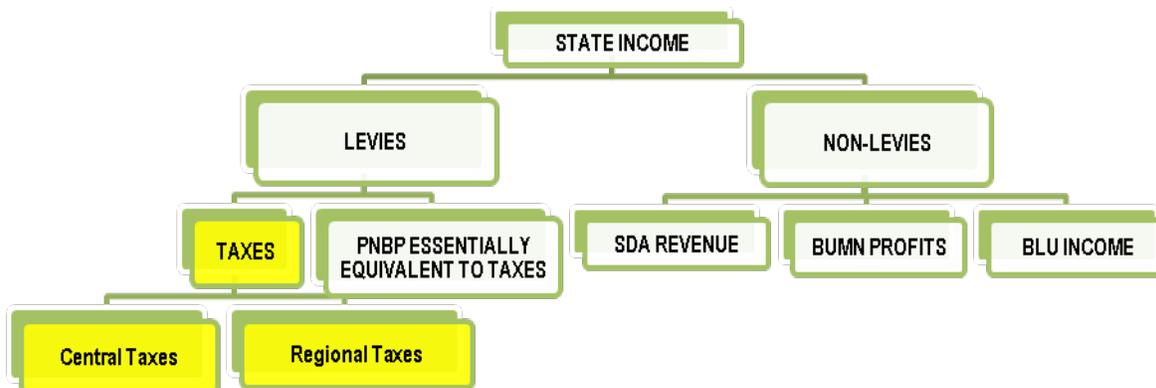


Figure 2. Categories of State Income

Source: Irianto, 2010

of certain groups. Appropriateness refers to whether the desired results or goals are genuinely beneficial or valuable.

Another original concept offered by the present research is the extension of the tax expenditure concept/theory by incorporating government policies that sacrifice the reversal rule concept (taxable-deductible approach) as a form of subsidy for income tax. The researcher also introduces the term for a form of tax exemption (temporary and limitative tax exemption).

The study inventories and evaluates policies on current and past levies for education in Indonesia. Specifically, the study maps the types of PPh, PPN, PBB, and BPHTB incentives under various tax regimes and evaluates the effectiveness, efficiency, adequacy, equity, responsiveness, and appropriateness of policies on state levies for education up until now.

### RESEARCH METHODS

The research uses the constructivism approach (Guba and Lincoln 1994, Neuman 1997, Crotty 1998, Neuman 2000, and Guba and Lincoln 2005). It is a policy research (Majchrzak, 1984; Sykes et al., 2009) focused on policy evaluation using the six evaluation criteria proposed by Dunn (2003). The approach used is the mixed approach. Data is gathered through documentation study, extensive interviews, and focused group discussion. The research is conducted in several locations. In Jakarta it was conducted at the Ministry of National Education and IKAPI (Indonesian Publishers Association). The research was also conducted in several major Indonesian universities: Universitas Indonesia in Depok, Universitas Brawijaya in Malang, and Universitas Airlangga in Surabaya. From the three universities, the researcher gains an overview of education practices, especially in relation to tax obligations. The key informants for the research are the heads of the finance division in the three universities,

the Directorate General of Higher Education, IKAPI, the Directorate General of Taxes, and tax academicians and practitioners. The tax policies analyzed are all tax policies/regulations since the tax reformation in 1983 until the most recent Tax Laws amendments (in 2008 and 2009). Field research was conducted in 2011.

The research is focused only on tax policy incentives, namely incentives for the income tax (PPh), value-added tax (PPN), land and building tax (PBB), land and building title transfer fee (BPHTB), and policies on non-tax state revenue (PNBP) for education. Policies on state levies for education is evaluated on the higher education level, in this case state universities with public service agency and state-owned legal entity statuses. The research is limited in that it does not analyze the effect of granting tax incentives on the state income in the long term.

### RESULT AND DISCUSSION

Based on the essence of theoretical conception and best practices, domestic income is categorized into two major types: 1) state income in the form of levies, and 2) non-levies state income, as illustrated in Figure 2.

In the present research, the state levies analyzed include tax revenues: income tax (PPh), value-added tax (PPN), land and building tax (PBB), land and building title transfer fee (BPHTB), and non-tax state revenue (PNBP).

Table 3 shows that, in the 1983 tax reform, tax incentives for higher education have not received special attention from the government. In the implementation of the reversal rule (taxability-deductibility approach), through Decree no. 1927/PJ.23/1983<sup>1</sup>, the government issues policies that tend to be incentive-free. For instance, by subjecting benefits for child education to the <sup>1</sup> Decree from the Directorate General of Taxes on the guideline for income tax deduction on salary, wages, honoraria, and other job-related payments.

**Table 3. Comparisons of PPh Policies for the Education Sector Based on Periods of PPh Law Modifications**

Law	Exemption	Taxable	Deductible Expenses	Non-Deductible Expenses
UU PPh No. 7/1983	- income in foundations whose profits are channeled solely toward public interests; - income from assets in foundations whose profits are channeled solely toward public interests;	Benefits for child education (Kep. - 1927/Pj.23/1983)		Donations
UU PPh No. 7/ 1991	- income in foundations whose profits are channeled solely toward public interests; - income from assets in foundations whose profits are channeled solely toward public interests;	Benefits for child education (Kep. - 1927/Pj.23/1983)		Donations
UU PPh No. 10/1994	- Aid or donations; - Grants (SE - 34/Pj.4/1995)	Scholarships (Kep. - 02/PJ./1995)	- Scholarships (for regular and contract employees) - Budget for construction of building and education infrastructures in a 4-year period (Kep. - 87/Pj./1995)	Grants, aid, donations, and inheritances
UU PPh No. 17/2000	- Aid or donations; - Grants (Se - 34/Pj.4/1995)	Scholarships (Kep - 02/PJ./1995)	- Scholarship funding - Budget for construction of building and education infrastructures in a 4-year period	Grants, aid, donations, and inheritances
UU No. 36/2008	- Aid or donations (PMK No. 245/ PMK 03/ 2008) - Grants - Scholarships (PMK No. 154/ PMK. 03/ 2009, PMK No. 246/ PMK. 03/ 2008) - Surplus received by non-profit education institutions/agencies in a 4-year period (PMK No. 80/ PMK. 03/ 2009, PER DJP No. 44/PJ./2009)		- Scholarship funding - Donation for research and development in Indonesia - Budget for building social infrastructures - Donation for education facilities (PP No. 93/2010 and PMK No. 76/PMK.03/ 2011)	

employment income tax (PPh Clause 21), the policies are shown to be incentive-free in regard to granting the benefits for child education, as shown in Table 4.

Nevertheless, in general, the government provides huge incentives for foundations that function as non-profit organizations. The incentives are given in stages since foundations are not subject to PPh for Agencies. As a result of the policy, education foundations may enjoy tax facilities as long as they function to serve public interests.

The policy stating that non-profit foundations are not subject to PPh has very few limitations and a negative effect: because the government allows a vast opportunity for aggressive tax planning practices to grow, it results in very high potential tax loss. Many foundations are established for the purpose of avoiding tax, as some sort

of tax shelters. From the perspective of adequacy, this policy greatly sacrifices revenue productivity/revenue adequacy; in other words, it is counterproductive to revenue productivity/revenue adequacy. The policy can still be found in the first amendment for UU PPh (UU PPh in 1991).

The abovementioned tax facilities policy for foundations creates a great opportunity for aggressive tax planning and tax evasion practices, as foundations can be established for tax shelter purposes. Therefore the government dramatically changes PPh policies for foundations through the third amendment for UU PPh. Under the UU PPh regime in 1994, foundations are treated similarly with other tax-paying institutions and have similar income tax obligations as other tax-paying

**Table 4. The Incentive-Free PPh on the Benefits for Child Education (As a Consequence of the Reversal Rule)**

Benefits for child education received	Giver of benefits for child education
Example: The education benefits received: Rp. 1,000,000	Example: The education benefits given: Rp. 1,000,000
Calculation under the PPh: Amount deducted under the PPh / Income Tax: $5\%^4 \times 1.000.000,- =$ Rp. 50.000.000,-	Applied on taxable income
Take Home Pay = Rp. 950.000,-	As applied on the taxable income (300,000.00) <sup>2</sup>
1) Assumption : Lowest bracket 5%	2) Assumption : Highest bracket 30%

**Table 5. Comparisons Between Income Tax Policies for Scholarships Before and After UU PPh 2008**

UU PPh Regime	Scholarship Awardees	Scholarship Awarders (Institutions)
Before UU PPh 2008	Subject to PPh/ Income Tax	Reducing Taxable Income
Scholarship Rp. 3,000,000/month	Amount of PPh/ Income Tax 150,000.00 <sup>3</sup>	Can Reduce Taxable Income/ Tax Deduction (900,000.00) <sup>4</sup>
UU PPh 2008	Not Subject to PPh	Can reduce taxable income/ Tax Deduction
Scholarship Rp. 3,000,000/month	0	(840,000.00) <sup>4</sup>
3) Assumption : Lowest bracket 5%		4) Assumption: In 2009 a 28% tariff still applied. After 2009, a 25% tariff applied.

institutions.

The extreme policy change affects the education sector, since all educational foundations and organizations are treated as tax-paying institutions. The government then amended tax policies that provide no incentives for the education sector. Despite the lack of a legal umbrella, the Decree from the Directorate General of Taxes, Kep-87/PJ./1995, provides facilitations for educational foundations or similar organizations in the form of partial and limited tax exemption: the foundations' surplus income are tax-exempt, as long as it is used for the construction of buildings and education infrastructures.

The surplus income must be spent on the construction of buildings and education infrastructures four years after the end of the tax year at the latest. If, after four years, the surplus has still not been used for the construction of buildings and education infrastructures, the surplus is stated as income and subject to income tax.<sup>4</sup>

Foundations that do not spend their surplus income to advance education face a high cost of compliance risk. Educational foundations must a) set up a separate bookkeeping and b) report physical plans as well as plans

for building construction and education infrastructures to the head of the local tax service, and send report copies to the Directorate General of Higher Education and/or Directorate General of Primary and Secondary Education or their representatives, with a statement in a specific format attached.

The policy remains valid in the third modification for UU PPh in 2000. In the fourth modification for UU PPh in 2008, the above policy is given a legal umbrella through Article 4 clause (3) point m.

Before UU PPh 2008 was implemented, PPh policies for scholarships tend to provide no incentives for the awardees. The reason is that scholarships are subject to PPh and, on the awarders' part, the scholarships reduce their taxable income (see Table 5). After the implementation of PPh 2008, PPh incentives are given for scholarships in the form of indirect PPh subsidies for the awardees. The policy is similar to the Government-Borne PPh policy, with a much simpler procedure, but here the government does not comply to the reversal rule principle (see Table 5).

PPh policies for education under the UU PPh 2008 regime can be said to provide much better incentives compared to previous UU PPh regimes. The PPh incentives, similar to PPh subsidies (tax expenditure), are indirectly given not only as scholarships but also as donations for developing social infrastructures and education facilities.

No significant PPN incentive policies have emerged

<sup>2</sup> Assumption: Highest bracket 5%

<sup>3</sup> Assumption: Lowest bracket 30%

<sup>4</sup> Article 3 in the Decree from the Directorate General of Tax Kep-87/PJ/1995 on the acknowledgment of income and budget used for the construction of buildings and education infrastructures for educational foundations or similar organizations.

<sup>5</sup> Assumption: Highest bracket: 30%

<sup>6</sup> Assumption: In 2009 a 28% tariff still applied. After 2009, a 25% tariff applied.

**Table 6. Comparisons of PPN Policies for Education Based of Periods of PPN Law Modifications**

Law	Tax Exemption	Taxable	Government-Borne PPN
UU PPN No. 8/1983	- Education service (PP No. 28/1988)	-	- Import of scientific books not yet published in Indonesia and not for sale (Keppres No. 18/1986) - Import and delivery of general schoolbooks, religious holy books and religion education books (Keppres No. 2/1990) - Delivery to student dorms (Keppres No. 18/1986)
UU PPN No. 11/1994	- Education service (PP No. 50/1994)	- Import of general school-books (Keppres No. 37/ 1998)	- Import of scientific books not yet published in Indonesia and not for sale (Keppres No. 41/1994, Keppres No. 8/1995) - Import of scientific books not yet published in Indonesia (Keppres No. 4/1996, Keppres No. 22/1997) - Delivery to student dorms (Keppres No. 4/1996, Keppres No. 22/1997)
UU PPN No. 18/2000	- Education service (PP No. 144/2000) - Delivery and/or import of general schoolbooks, religious holy books and religion education books (PP No. 146/2000, KMK No. 353/2001, PP No. 38/2003, KMK No. 370/2003) - Delivery to student dorms (PP No. 38/2003, KMK No. 370/2003)	-	-
UU PPN No. 42/2009	Regulations from the UU PPN 2000 regime are still valid	-	

during the 25 years in which Indonesia implements the PPN system. PPN incentives are given only to education services (see Table 6). Additional incentives are given for the delivery and/or import of general schoolbooks, religious holy books and religion education books, and student dorms. As of April 8, 1999, imported goods for scientific research and development purposes are subject to PPN and non-collected luxury sales tax (PPnBM). However, the regulation only applies after administrative requirements have been fulfilled: the institution or agency that imports the taxable goods must acquire a non-collected payable VAT certificate by submitting a request to the Directorate General of Taxes by way of the Directors of PPN and PTL. A notice letter from the gifts/aid benefactor, stating that the goods are given for free and not purchased or for sale, must be attached to the request, as well as confirmation from relevant ministries that the goods are not for sale. After receiving the request, the Directorate General of Taxes issues a non-collected payable VAT certificate.<sup>7</sup>

From the efficiency perspective, the above policy is not very practical since it results in a high compliance cost. The reason is that the exemption certificate (SKB) is not automatically or simultaneously given; the SKB has to be given anew for each and every type of activity.

Since the first UU PBB (UU No. 12/1985) up until the current one, PBB incentives are given in full to taxpayers when the incentives are used for public service, including national education and culture, and not for profit (see Table 7). The land and building owned by state universities are also owned by the state and PBB-exempt. Private universities may submit requests for PBB exemption up to 50%. After the right to collect PBB is transferred from the central to the local government, the policy for PBB incentives becomes the prerogative of local governments. The regulations and procedures are established in each region's tax regulations.

BPHTB incentives are given to income from land and/or building used for education-related activities and not used for profit. The incentive amounts to 50% of the payable taxes (see Table 8). The land and building title transfer fee is not levied on state-acquired taxes used for governance and/or development and/or public service purposes.

As is the case with PBB, after the right to collect BPTHB is transferred from the central to the local government, the

<sup>7</sup>Circular from the Directorate General of Taxes No. SE - 05/PJ.52/1999 on the implementation of the Decree from the Minister of Finances No. 132/KMK.04/1999, April 8, 1999, on levying value-added taxes and luxury sales taxes on taxable imported goods that are exempt from custom duties.

**Table 7. Comparisons of PBB Policies Based on Periods of PBB Law Modifications**

<i>Law</i>	<i>Tax Exemption</i>	<i>Tax Reduction</i>
UU No. 12/1985	When taxpayers only provide public service in religion, social issues, health, and national education and culture, and do not aim for profit	Applicable for institutions, in this case institutions relevant to the taxpayers and/or have acceptable reasons to apply for PBB reduction up to 75% (KMK No. 158/KMK.04/1991)
UU No. 12/1994	When taxpayers only provide public service in religion, social issues, health, and national education and culture, and do not aim for profit	- Private universities may apply for SPPT reduction or cancellation (Circular No. SE-10/PJ.6/1995) - Land and/or building owned and/or utilized by private universities may receive PBB reduction up to 50% (Circular No. SE-10/PJ.6/1995)

**Table 8. Comparisons of BPTHB Policies Based on Periods of BPTHB Law Modifications**

<i>Period</i>	<i>Object Of Exemption</i>	<i>Tax Reduction</i>
UU No. 21/1997	BPTHB is not levied on state-acquired land and/or building used for governance and/or development and/or public service purposes	Applicable on income from land and/or building utilized for social and education purposes with no aim for profit; amount is 50% of the payable tax
UU No. 1/1998	BPTHB is not levied on state-acquired land and/or building used for governance and/or development and/or public service purposes	Applicable on income from land and/or building utilized for social and education purposes with no aim for profit; amount is 50% of the payable tax (KEP-08/PJ./1999)
UU No. 20/2000	BPTHB is not levied on state-acquired land and/or building used for governance and/or development and/or public service purposes	Applicable on income from land and/or building utilized for social and education purposes with no aim for profit; amount is 50% of the payable tax (PER-158/PJ/2006, PMK 91/PMK.03/2006, KMK 561/KMK.03/2004, KMK 87/KMK.03/2002, KMK No. 518/KMK.04/2000, KEP-221/PJ./2002, KEP-531/PJ./2000)
UU No. 28/2009	BPTHB is not levied on state-acquired land and/or building used for governance and/or development and/or public service purposes	Applicable on income from land and/or building utilized for social and education purposes with no aim for profit; amount is 50% of the payable tax (PER-29/PJ/2009). However, the regulation may have changed as of 2010, due to the transfer of right to collect BPHTB to local governments.

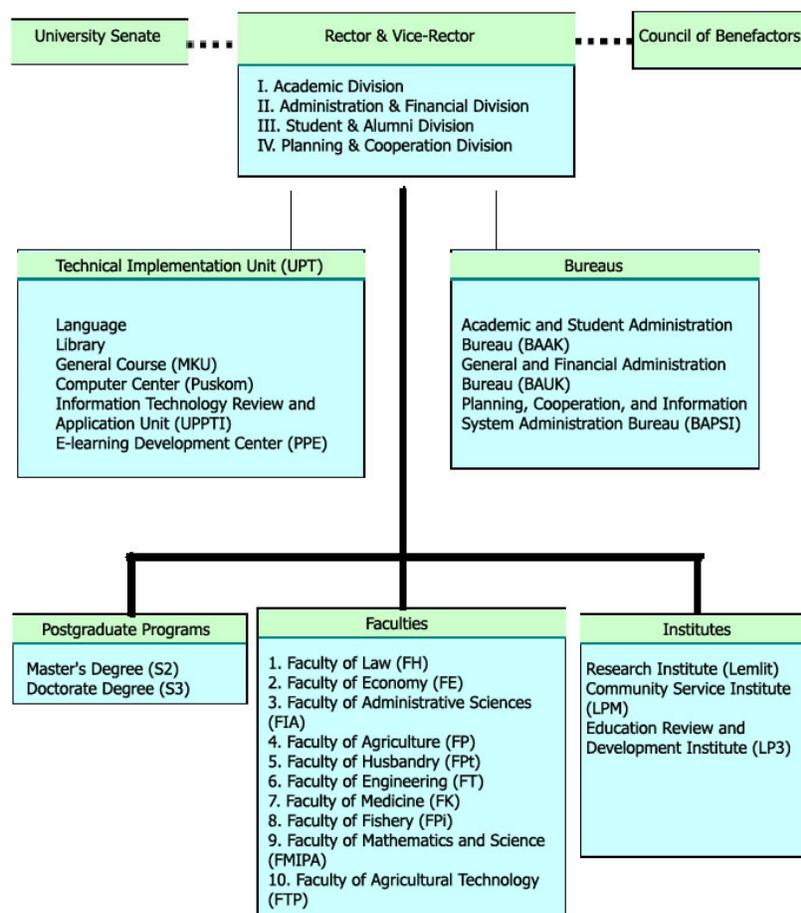
policy for BPTHB incentives becomes the prerogative of local governments. The regulations and procedures are established in each region's tax regulations.

From the perspective of effectiveness, evaluation on policies on state levies for education shows that there are many types of such state levies, both in the form of taxes and non-tax state revenue (PNBP), but there are still very few policies on tax incentives for education. UU BHP (law for legal education boards) requires that private universities that choose to become state-owned legal entities, besides being institutional taxpayers, are also obliged to deduct and collect taxes as bursars. Public universities that choose to become public service agencies, besides being taxpayers and bursars, also manage their bookkeeping using both the government accounting standards (SAK) and financial accounting standards (PSAK).

There has been no specific research that confirms a rising number in scholarships after UU No. 36/2008 was passed, in relation to tax policies on scholarships. However, several researches have partially analyzed

the rising number of scholarships granted in several companies, and this might indicate the policy's success. The tax expenditure policy, in particular PPh incentives on scholarships and donations, is proven to be effective and well-implemented, as donors have grown more interested in contributing donations both as scholarships and as other education grants. From the perspective of equity, the policy has not yet fulfilled the "equal treatment for the equal" criterion, because PPh incentives are given only for scholarships for Indonesian schools.

The policy on value-added tax (PPN) incentives necessitates administrative requirements in the form of SKB, which results in cost of taxation. Thus, the policy is not entirely in line with the efficiency criterion. The policy is also inadequate for the education sector, since the incentives are limited to education service, the delivery and/or import of general schoolbooks, religious holy books and religion education books, and student dorms (PP No. 38/2003, KMK No. 370/2003). In reality, there are still many other university tri dharma (education, research, and community outreach) activities



**Figure 3. Chart for the Structural Organization of Universitas Brawijaya**

that require PPN incentives, such as the provision of education infrastructures, including lab instruments, journal publishing, and book acquisitions.

Another cause of inefficiency is the absence of threshold for honorarium taxation. As confirmed by sources for the present research and FGD participants, the policy results in a burden on tax administration, because in practice many people are frequently paid with very low honoraria (below Rp. 100,000), and they work in the many units within the organizational structure of public universities [see Figure 3].

Figure 3 shows that universities have technical implementation units and faculties. Each faculty constitutes of several departments or study programs. Since Indonesia's PPh system combines global taxation and schedular taxation, this complicates the implementation of the regulations. The reason is that the calculation of PPh and the fulfillment of taxation obligations do not only refer to the ability to pay, but are also categorized based on income statuses (civil employees/non-civil employees and their echelons) and sources of income (APBN/D and non-APBN/D). Consequently, the policy does not meet the efficiency criterion and is not in line with the equity

criterion.

When policies on state levies are evaluated from the adequacy perspective, we see that several tax incentive policies have solved problems in university management; in particular, they help reduce tuition fees, although this only applies to public universities. On the other hand, PPN policies that provide no incentives for the development of education infrastructures bring about more problems. First, because public university students must help pay for PPN through their tuition fees. Second, the policies interfere with state income, because the PPN paid for by public universities both originates from and is received by the government. Thus, the amount of PPN received by local tax service offices (KKP) fluctuates, because development projects do not take place every year. At the end of each development project, the amount of PPN received will decrease. Tax income plans determined using the incremental approach will result in unrealistic income targets for KPP. Consequently, KPP depend on public universities as one of their major tax income sources, and tax payment from public universities is constantly under scrutiny during tax periods. Such is the case in public universities observed in the present research.

When policies on state levies are evaluated from the equity perspective, we see that, compared to previous PPh regimes, PPh incentives for education have improved under the current regime. The PPh tariff difference between Class-III civil employees (5%) and Class-IV civil employees (15%) conform to the fairness principle in PPh (both horizontal and vertical fairness). PPh for regular income and benefits, besides honorarium from APBN, is paid for by the government. During interviews with the sources and FGD in Universitas Airlangga and Universitas Brawijaya, the researcher discovered that the teaching and academic staffs have raised a complaint against the policy on tax deduction tariff changes in regard to honorarium from APBN.

According to policies on PBB and BPHTB incentives, public universities are allowed tax reduction up to 75%, but private universities are only allowed up to 50%. Because PBB and BPHTB are partly paid for by the students, private university students must pay higher tuition fees compared to their peers at public universities.

When policies on state levies are evaluated from the responsiveness perspective, extensive interviews and FGD show that policies on state levies have not successfully improved higher education in Indonesia. Sources and FGD participants suggest that the government also provide PPh incentives for journal publishing, as journals are one of the indicators in assessing the performance of public and private universities on the national and international scale. Neither do study modules receive facilities from PPN. In regard to requests for PPN exemption on assets, several Decrees from the Directorate General of Taxes and private ruling from the Ministry of Finances' Financial Education and Training Board (BPPK) state that study modules are payable from PPN.

Besides journals, textbooks are not sufficiently provided for either. The biggest component in textbook provision, the printing cost, is not supported by PPN; neither are paper procurement costs, which publishers must pay for themselves. IKAPI has suggested that PPN provide facilities that cover printing services and paper costs.

PPN on independent construction or contractor services for constructing education infrastructures should be reevaluated, although this may result in income decrease. These PPNs will result in higher tuition fees for students because universities will consider the fees as part of the development cost, unless private universities are willing to reduce tuition fees.

The final criterion for policy evaluation proposed by Dunn is appropriateness, namely assessing whether the desired results or goals are genuinely beneficial or valuable for those to whom the policies are targeted. In

general, all tax incentive policies are beneficial for the university management and the students who receive higher education services. On the other hand, these incentive policies do not have a wide influence because they are yet to be comprehensively implemented. As stated in a previous section, this lack of a significant influence is caused by a lack of incentives for several important aspects. This situation should be remedied unless state income requires something else.

## CONCLUSION

In general, policies on PPh incentives for education under the current tax regime have improved compared to previous regimes. Several types of current policies on PPh incentives even go so far as sacrificing the reversal rule (taxable-deductible/non taxable-non deductible) principle; essentially, the government provides PPh subsidies (tax expenditure) indirectly with a much simpler procedure.

On the contrary, policies on PPN incentives for education have not undergone significant changes since the first PPN regime (UU No. 8/1983) until the current one. PPN is levied on many activities that support higher education management (university tri dharma), such as the provision of scientific journals, education infrastructure development, and so forth. Consequently, the PPN levied on universities becomes part of the tuition fees that students must pay for.

Similarly, policies on PBB incentives have not undergone many changes since the first UU PBB regime in 1985; the same can be said for policies on BPHTB incentives since the 1985 regime.

Overall, tax incentives for higher education have not entirely fulfilled the effectiveness, efficiency, adequacy, equity, responsiveness and appropriateness criteria. Several tax exemption policies necessitate administrative requirements such as an exemption certificate (SKB), which goes against the ease of administration principle and results in higher cost of taxation. Fairness in tax levying is also a concern, because several current policies on tax incentives provide different tax incentives for different universities based on their ownership status.

The research's limitation is that it did not observe private universities on site, and therefore has not portrayed the problems in state levies more comprehensively. Nevertheless, the analysis and conclusion have provided a general overview of the evaluation on policies on state levies, especially tax policies in Indonesia. It is our hope that this research will serve as an input for policymakers in refining policies on tax levies.

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