

# Motor Vehicle Fuel Tax in Indonesia: Greening the Environment through the Tax?

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# Outline

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- Background
- Legal Framework
- Government's Effort
- Probable Application
- Conclusion

# Background of the Tax

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- Act 32/2009 was Introduced in 2009 as means to complement the Act 32/2004 on Regional Autonomy
- It also has the objective to raise revenue for the provinces
- This Act introduced 11 taxes that the province has the authority to levy, including, motor vehicle tax, motor fuel tax, and groundwater tax among others

# Legal Framework

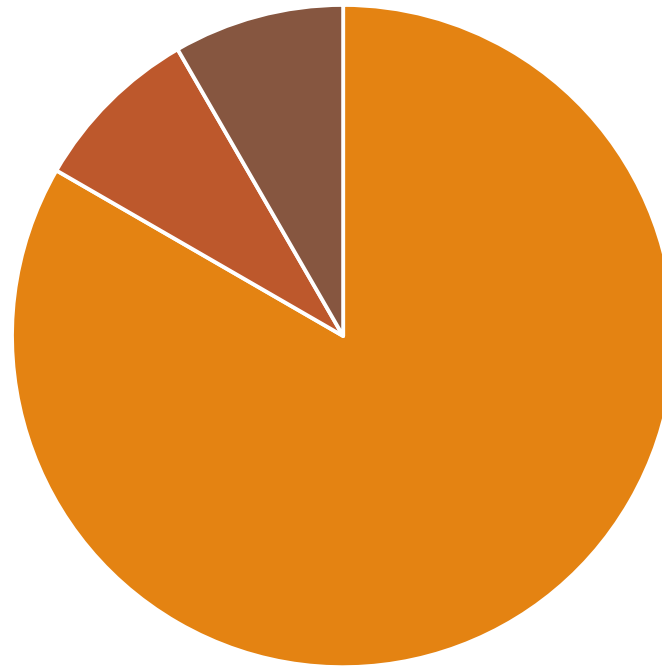
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- Act No. 32/2009 → Regional Taxes and Retribution
- As the legal backbone to provincial authority to collect taxes
- the fuel tax is targeted at motor vehicle, both in road transport and water transport
- The maximum rate is 10%
- Charged on end consumers

# Current Fuel Taxes

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- Motor Vehicle Fuel Tax → maximum of 10%, generally levied 5% by provinces
- Value Added Tax → 10%



■ Fuel Price ■ VAT ■ Fuel Tax

# Challenges

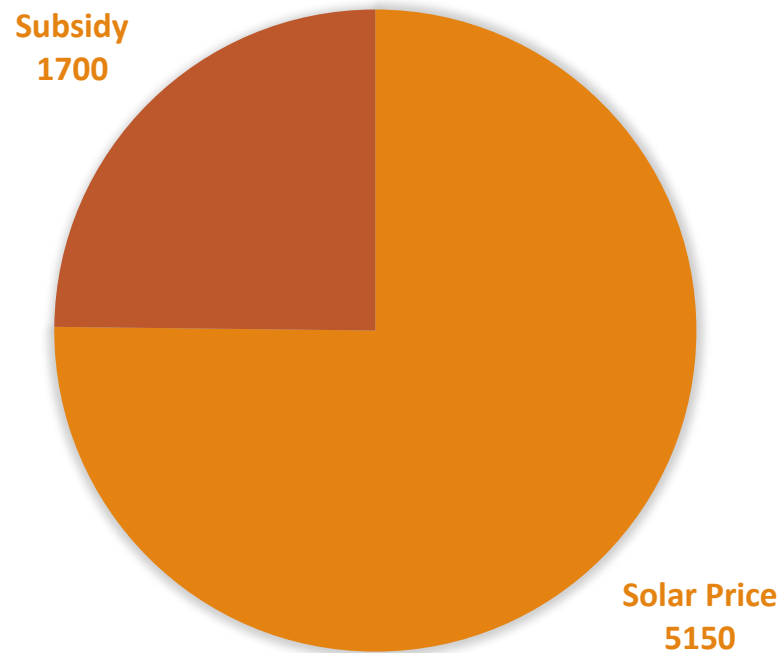
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- The main perception that taxes are mainly to raise revenue
- Act 32/2009 has objectives to raise revenue, but at the same time wishes to keep the investment environment as comfortable by not levying high taxes
- The lack of political will of the regional authority to comply with national targets
- Environmentally harmful subsidies on dirtier fuel

# Current Subsidies on Transport Fuel

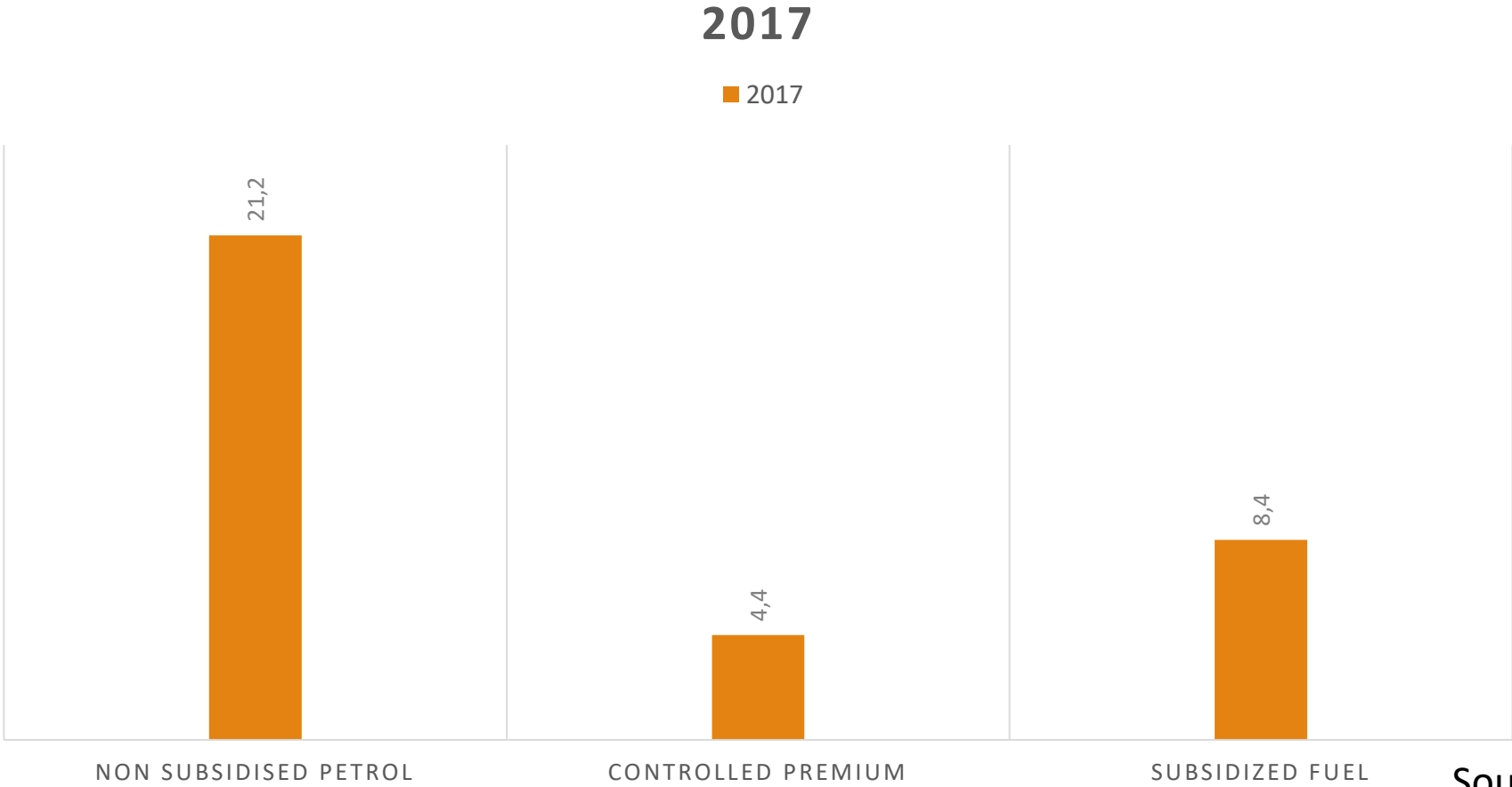
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- Diesel Fuel Price:



# Fuel Consumption in Kilo Liter

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Source: BPH Migas, 2017



# Probable Scenarios

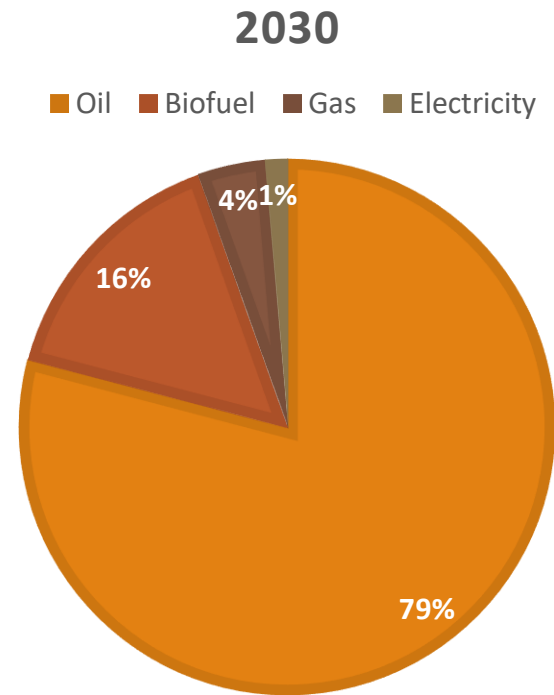
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- Road transport is a complex issue that cannot be solved only by applying taxes. It is also how the government apply other policies.
- Government has to set target, this includes the nationwide commitment under Paris Agreement and more concretely in Government Regulation No. 22/2017
- Then, the regional fuel tax can be part of the plan, that is, one that has environmental purposes. This can lead to better at allocation of revenue in building public transport, etc.
- The introduction can be low, but rising steadily as to reach the government's target.

# Alternative Fuel Policy


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Energy Mix Policy in Transportation by 2030 (Presidential Decree 22/2017)



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# Introduce a New Tax?

- Government Regulation 46/2017 on Economic Instruments for the Environment
  - Can be regional/national tax or even charges administered by a trust fund-like body
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# Conclusion

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- Legally, the law has provided way for levying of environmental taxes
- The step to be taken is government's political will to reach the commitments and targets
- The challenges include provinces' commitment on the tax as they are the ones who have authority