



INDONESIA'S CARBON TAX IMPLEMENTATION

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Ministry of Finance of the Republic of Indonesia
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BACKGROUND

1

It is necessary to control the increased emissions of greenhouse gases in the atmosphere that cause an increase in the Earth's surface temperature so that it will reduce the risk of climate change and disasters in Indonesia,

2

The Indonesian government has committed to reducing greenhouse gas emissions (GRK) by 29% (by its own efforts) by 2030 in accordance with the Paris Agreement.

3

Climate change mitigation in Indonesia requires funding.

4

Efforts are needed to transform the behaviour of economic activists who potentially produce greenhouse gas emissions into more environmentally friendly behaviours.


Climate Change Mitigation Financing Needs by Sector


Sector	Second BUR		Roadmap NDC Mitigasi	
	(Rp triliun)	(billion USD)	(Rp triliun)	(billion USD)
Forestry	77,82	5.60	93,28	6.50
Energy & Transportation	3.307,20	236.20	3.500,00	243.90
Industrial Processes & Product Use	40,77	2.90	0,92	12.64
Waste	30,34	0.40	181,40	0.06
Agriculture	5,18	2.20	4,04	0.28
Total	3.461,31	247.30	3.779,63	263.39


Source: Second Biennial Update Report (2018) & Roadmap NDC Mitigasi (2020)


LEGAL BASIS

Article 13 Law 7/2021 (Harmonization of Tax Regulations)

 A carbon tax is proposed to apply on carbon emissions that give negative impact to the environment.


 The imposition of this tax will take **the carbon-tax roadmap and/or the carbon-market roadmap** into account and will be implemented under the following two specific schemes: a trading scheme and a carbon tax scheme.

 The carbon tax will apply to **individuals and entities** that **purchase** goods containing carbon and/or that engage in **activities that produce** carbon emissions.

 **Carbon tax is payable on:**

1. the acquisition of goods containing carbon (**purchased-based carbon tax**)
2. activities resulted in the carbon emission (**emission-based carbon tax**)

in a certain amount and for a certain period

 The carbon tax will become payable upon the purchase of any goods that contain carbon or upon the undertaking of any activities that produce a certain amount of carbon emissions over a certain period, specifically during the following timeframes:

1. **at the time of purchase of goods** that contain carbon
2. **at the end of the calendar year for activities that produce** certain amounts of carbon emissions; or
3. at other times, which will be further regulated by or based on a Regulation of the Government

LEGAL BASIS

Article 13 Law 7/2021 (Harmonization of Tax Regulations)



The carbon-tax rate will be set at a rate higher than or equal to the carbon market price per kgCO₂e or equivalent unit. In the event that the carbon price in the carbon market falls to a level lower than Rp30.00/kgCO₂e or equivalent unit, then the carbon-tax rate will be set at a minimum of Rp 30.00/kgCO₂e or equivalent unit.



Any revenue that is generated through the carbon tax may be allocated to attempts to mitigate the effects of climate change.



Taxpayers who participate in **carbon emissions trading, the offsetting of carbon emissions** and/or other mechanisms, in accordance with laws and regulations that apply within the environmental sector, **may be granted a reduction** in their carbon tax and/or other treatment relating to the fulfillment of their carbon-tax obligations

Article 17 Law No 7/2021 (Harmonization of Tax Regulations)



- The provisions on carbon tax set under Law 7/2021 come into force on 1 April 2022
- Will initially be imposed upon entities that operate **coal-fired power plants**
- At a rate of **Rp30.00/kgCO₂e** (≈US\$2,00) or equivalent unit

IMPLEMENTATION OF INDONESIA'S CARBON TAX

As mandated under Law 7/2021, the implementation of the carbon tax will be carried out using the following rules:

1 Government regulation concerning carbon tax's roadmap

2 Ministry of Finance regulation concerning provisions of carbon tax rate and carbon tax imposition basis

3 Ministry of Finance regulation concerning provisions on the procedures for calculating, collecting, paying or depositing, reporting, the mechanism for imposing carbon taxes, and procedures for reducing carbon tax and/or other treatment for fulfilling carbon tax obligations

The process of refining these regulations takes into account all related aspects, including:

- developments in the carbon market;
- achievement of NDC targets;
- the readiness of the sector and economic conditions; and
- the principles of fairness and affordability.

The primary objective of carbon taxation is not the tax revenue received, but rather as an instrument of climate control in achieving sustainable economic growth according to the polluter pays principle (polluter pays principle). The introduction of a carbon tax is expected to change the behavior of economic actors to switch to green, low-carbon economic activity.



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