

Misconception about Value-added Tax (VAT) Exemption Policy on Animal Feed in the Flour Industry: An Issue on Self-sufficiency of Meat after Reformation

Torganda Raymundus Universitas Indonesia, Indonesia

Haula Rosdiana Universitas Indonesia, Indonesia

Murwendah Murwendah Universitas Indonesia, Indonesia

Abstract

Flour industry and animal feed industry play an important role in supporting government programs to achieve self-sufficiency of meat. The important role of these animal feed producers has triggered the government to stipulate appropriate tax policies to ensure the growth and development of both industries. Through tax policy instruments, the government has provided facilities in the form of Value Added Tax (VAT) exemption for the delivery of animal feed and animal feed ingredients. However, in its implementation, this policy has not been all-inclusive, leading to a cascading effect suffered by the flour industry. It results in an opportunity cost and cost of taxation affecting the productivity of the flour industry as the producer of animal feed. This study applies a qualitative-descriptive method with data collection techniques of in-depth interview and documentation study. This study explains the implications of VAT exemption policy for the flour industry, evaluates VAT exemption policy on animal feed in the perspective of public policy and productivity of animal feed producers, and analyzes political relations and ideas for VAT policy on animal feed in an effort to support national flour industry and animal feed industry.

Keywords:

Value Added Tax; Tax Policy; Animal Feed; Flour Industry; Policy Evaluation

INTRODUCTION

The variety of products produced by wheat processing such as flour for humans and by-products such as livestock, poultry, and fish feed (hereafter referred to as animal feed) makes this

grain popular among global communities, including Indonesia (APTTI, 2013; PT BI, 2015). Its abundant availability in global market, high protein, relatively inexpensive price, and practically easy processing have made wheat-based food develop rapidly in Indonesia. Several products from wheat processing widely used and having selling values are, among others, wheat flour, gluten, and the waste of processed wheat (Anomaly, 2017). Wheat flour is an ingredient extracted from the endosperm of wheat

Torganda Raymundus is a Master Student at Department of Administrative Science, Universitas Indonesia, Indonesia. His research focus on Financial Economics, Public Law and Social Policy. E-mail: torgandasitohang@gmail.com.

Haula Rosdiana is a lecturer at Department of Administrative Science, Universitas Indonesia, Indonesia. E-mail: h.rosdiana@ui.ac.id.

Murwendah is a lecturer at Department of Administrative Science, Universitas Indonesia, Indonesia. E-mail: murwendah.ui@gmail.com.

seeds, slightly yellowish white and containing a protein called gluten. Gluten produces processed-products such as noodles, bread, cookies, wafers and others. Even the waste of processed wheat in the form of wheat bran can be utilized for animal feed.

In general, the flour industry produces two categories of products, namely main products in the form of wheat flour and by-products in the form of animal feed. The important role of animal feed producers attracts the attention of the government. Through tax policy, the government has provided facilities in the form of exemption from Value Added Tax (hereinafter referred to as VAT) on the import and/or delivery of Taxable Goods on animal feed and animal feed ingredients. These facilities have been regulated in the Government Regulation No 12 of 2001 on the Import and/or Delivery of Certain Strategic Taxable Goods Exempted from Value Added Tax. At the end of 2015, the government revoked this regulation and replaced it with the Government Regulation No 81 of 2015 on the Import and/or Delivery of Certain Strategic Taxable Goods Exempted from Value Added Tax.

In line with the growth of processing industry for animal feed ingredients in

Indonesia, new polemics arise against the flour industry as a processing industry for animal feed ingredients. This issue is triggered by the Objection Letter to the Exemption for Wheat Processed Products for Animal Feed issued by the Indonesian Wheat Flour Producers Association (APTINDO) on February 19, 2013. In the letter, APTINDO requested for the elimination of discrimination of VAT exemption policy on animal feed. APTINDO regretted the differences in the implications of this policy, in which the flour industry must pay input tax that cannot be credited for wheat import to produce animal feed. On the other hand, the government actually provides exemption for the import of animal feed ingredients for animal feed industry (APTINDO, 2016).

The provision of this VAT exemption makes the Input Tax on wheat import for the delivery of the paid by-products cannot be credited or deducted from the Output Tax when delivering the by-products for animal feed ingredients. The data from APTINDO explains that the Input Tax that cannot be credited for selling by-products causes the inability of approximately 8.8% of Input Tax on wheat import to be credited. As a result, the flour industry must deposit the

difference in Input Tax previously credited. It is worse when the company is undergoing a tax audit since it must risk a hundred percent fine on the tax that has been credited, yet it cannot be credited.

Apparently, the distinction between Input Tax for the production of wheat flour and that of animal feed is considered difficult and detrimental for Taxpayers. This policy is actually considered to be difficult in terms of the implementation and business processes carried out, reducing the competitiveness of national flour industry in selling its products, particularly animal feed. In addition, this policy is counter-productive with its objectives as stipulated in the Government Regulation No 81 of 2015. Related to these considerations, the Directorate General of Taxes as a representative of the government believes that exemption policy on animal feed along with its technical policies as the guidelines for calculating the mechanism of Input Tax has been compiled in such a way and quite simple in its implementation. However, in fact, it creates difficulties for taxpayers and distortion for the national flour industry. Based on this background, this study aims to:

1. Analyze the implication of VAT exemption policy on animal feed on the selling price of animal feed.
2. Evaluate the implication of VAT exemption policy on animal feed in addressing the issue of Input Tax credit for the flour industry producing animal feed.
3. Initiate VAT policy that can support national flour industry and animal feed industry.

THEORETICAL REVIEW

This study applied several concepts and theories of taxation to form the framework of thinking, namely the concepts of public policy evaluation, tax exemption, VAT, supply-side tax policy, and subsidies (Chattopadhyay & Das-Gupta, 2002; Cnossen, 1997). The concept of VAT applied is related to the legal characters of VAT, the method of calculating VAT, Input Tax credit and VAT facilities. Legal characters are the characteristics or the nature of a type of tax (Rosdiana et al, 2011). The legal characters of VAT applied as supporting theories in this study include general tax on consumption, indirect tax and neutral (Terra, 1988).

In addition to the legal characters of VAT, the concept of tax exemption was

also applied in this study. Exemption is a method of exclusion from VAT imposition on the delivery of goods or services due to non-payable delivery. Thus, VAT paid to the entrepreneurs at the time of purchase of goods and services related to the delivery of goods or services exempted from VAT that cannot be credited shall be applied as an element of cost, supposing that the purchase is not carried out by end consumers (Toma, 2014; William, 1996). The provision of tax exemption in its development is increasingly diverse and given to attract the interest of entrepreneurs to invest.

In addition to tax exemption, this study applied the definition of subsidies as a form of government expenditure, also interpreted as a negative tax that shall increase the income of individuals/groups receiving the subsidies or increase the real income, should the individuals/groups consume or purchase goods, subsidized by the government with low selling price. Subsidies can be divided into two forms, namely cash transfers and in-kind subsidy.

Furthermore, the concept of supply side tax policy (Rosdiana & Irianto, 2012) is defined as a policy aiming to improve market performance by increasing economic capacity to produce in order to

ensure the increase in demand curve. This policy can be used to reduce market imperfections to increase industrial productivity. It is in line with the findings of a study entitled "Reconstruction of the Conception of Supply-side Tax Policy" by Rosdiana (2011). This study discusses the basic philosophy of the concept of supply-side tax policy emphasizing the policies that can minimize distortions in the market caused by the influence of government regulations on prices, subsidies and high-income taxes, as well as the encouragement provided for investment and production through the establishment of free market economic incentives.

The essences of the concept of supply-side tax policy are (1) regulations of unregulated or unclear tax provisions or tax treatment, (2) deregulation of tax resulting in high cost of taxation, and (3) deregulation of tax disrupting cash flow. They essentially lead to a conception known as cost of taxation. The essence of the concept of the supply-side tax policy and the cost of taxation is a policy to reduce cost of taxation through regulation and deregulation. It is based on the belief that high cost of taxation shall narrow the space for business actors to produce, thus reducing supply. Regulations of tax

treatment on transactions with animal feed ingredients in Indonesia, unregulated or unclear tax provisions can reduce the cost of taxation since they can minimize the potential of dispute. It means reducing the time cost and psychological cost in filing objections and/or appeals, both from the taxpayers and the tax authority. Fiscal costs or direct money costs that shall be paid by both parties frequently increase due to the need to use the services of experts/consultants/registered tax lawyers/lawyers, and others. Deregulation of tax resulting in high cost of taxation can also be considered as part of the constellation of supply-side tax policy.

In this study, the context of tax policy analysis is focused on the context of VAT exemption policy as one form of public policies to achieve certain goals. In evaluating a public policy, there are criteria to be met, to assess whether a policy or program is progressing well or (Agustinus, 2008; Dunn, 2003; Jones, 2006). Those criteria are effectiveness, efficiency, adequacy, leveling, responsiveness, and accuracy (Dunn, 2003; Dye, 2008).

These concepts form a framework of thinking. Thus, the flow in this study starts with identifying conditions and issues related to VAT exemption on

animal feed ingredients in Indonesia, following by analyzing the implication of VAT exemption on animal feed for the flour industry and evaluating VAT exemption policy on animal feed in the perspective of public policy, using the concept of policy evaluation and in the perspective of productivity of animal feed producers using the concept of supply side tax policy. The final step is to construct the idea of VAT policy on animal feed (Lykkeskov, A., & Gjerris, 2017).

METHODOLOGY

This study applied a qualitative approach with inductive reasoning. The authors describe social phenomena by prioritizing social realities found in the study (Wagner, et.al., 2012). A good research design that meets scientific standards shall be followed by a relevant theoretical study or perspective to help understand and describe the social phenomena focused on (Bungin, 2002; Creswell, 1998; Neuman, 2000). Data collection techniques applied were field study and documentation study with qualitative data analysis. The field study was carried out through in-depth interviews with the informants formulating the policy, namely the Fiscal Policy Agency (BKF), and the informants

implementing the policy, namely the Directorate General of Taxes (DGT), the Indonesian Wheat Flour Producers Association (APTINDO) as an association of several flour companies in Indonesia, and a wheat flour producer, namely PT BI.

FINDINGS AND DISCUSSION

Analysis of the Implications of VAT Exemption Policy on Animal Feed for the Selling Price of Animal Feed Produced by Flour Industry

VAT exemption policy on animal feed and animal feed ingredients raises issues for the flour industry producing by-products for animal feed from wheat processing. Companies incorporated in APTINDO complain that approximately 8.8% of wheat import for the delivery of animal feed made by the flour industry cannot be credited. To observe the real implications of the imposition of Input Tax on the selling price of the by-products of wheat, the authors carry out a case study on PT BI, one of the largest wheat importers with a large production capacity (PT BI, 2015).

VAT exemption policy on animal feed for by-products of wheat has a significant negative impact on the cash flow of PT BI. In 2016, PT BI imported 200,000

MT (rounded) or equivalent to 200,000,000 kilograms (kg) of wheat seeds. The calculation of Input Tax that cannot be credited in 2016 (see Tabel 1).

The purchase price at the time of wheat import is IDR 4,300/kg. Thus, VAT payable of wheat import shall be 10% or IDR 430. Based on Table 1, it is apparent that the percentage of domestic by-product sale from one kilogram (1 kg) of wheat is 10.6%. Thus, the amount of Input Tax on the purchase of 1 kg of wheat that cannot be credited by PT BI is IDR 46/kg (rounded). Based on the data from Financial Statement of PT BI of 2016, total import of wheat is 200,000 MT/year or equivalent to 200,000,000 kg. In line with this, the amount of Input Tax on wheat import that cannot be credited is IDR 9,200,000,000. Meanwhile, PT BI has to pay Input Tax that cannot be credited of IDR. 31,712,134,059. Thus, the Input Tax on wheat import is equivalent to 29% of the total Input Tax that cannot be credited in 2016. In 2016, PT BI generally paid the amount of Input Tax that cannot be credited for 15-25% every month or an average 20% in one year due to the delivery of by-products of wheat. In dealing with this issue, PT BI imposes

Table 1. Simulation of Calculation of Sale of Products by PT BI in 2016

	Average Selling Price (IDR)	Average Percentage of Delivery (%)	Calculation of Sales (IDR)	Percentage of Sale of Products (%)
Main Product	5,400	77	$77\% \times \text{IDR } 5,400 = 4,158$	$4,158/4,819 \times 100\% = 86.3$
By-Product				
a. Domestic	2,850	18	$18\% \times \text{IDR } 2,850 = 513$	$513/4,819 \times 100\% = 10.6$
b. Export	2,950	5	$5\% \times \text{IDR } 2,950 = 148$	$148/4,819 \times 100\% = 3.1$
TOTAL		100	4,819	100

Source: Financial Statement of PT BI of 2016 (processed by the authors).

Input Tax on by-products of wheat on the cost of production. Input Tax that cannot be credited becomes a component of

In 2016, PT BI generally paid the amount of Input Tax that cannot be credited for 15-25% every month or an average 20% in one year due to the delivery of by-products of wheat. In dealing with this issue, PT BI imposes Input Tax on by-products of wheat on the cost of production. Input Tax that cannot be credited becomes a component of additional costs in the cost of production, in addition to the basic components forming the price of by-products. The calculation of Input Tax that cannot be credited by PT BI and its impact on the selling price of by-product of wheat is as follows (Tabel 2).

Based on the aforementioned calculation, it can be concluded that PT BI imposes Input Tax that cannot be credited on the selling price of by-products by implementing a markup of 2.3% of the total of Input Tax that cannot be credited. It has an impact on the selling price of animal feed as a by-product of wheat. Furthermore, it makes the price of animal feed produced by flour industry more expensive compared to the price of animal feed produced by animal feed industry and imports.

Evaluation of VAT Exemption Policy on Animal Feed

Evaluation of VAT Exemption Policy in Achieving Policy Objectives

In general, VAT exemption provided by the government has certain objectives

Table 2. Calculation of Tax Input for PT BI in 2016

Type of Cost	Total
A. Cost of Production for By-Products:	
Cost of Ingredients	IDR 644,457,339,624
Cost of Direct Labor	IDR 310,346,368,330
Cost of Factory Overhead	IDR 21,161,920,765
Marketing Cost	IDR 7,047,745,398
Administration and General Cost	IDR 3,421,728,616
Input Tax that cannot be credited	IDR 31,712,134,059
TOTAL Cost of Production	IDR 1,018,147,236,792
B. Cost of Goods Sold for Domestic By-Products	
Cost of Production	IDR 1,018,147,326,792
Markup: 10% x 23% x 31,712,134,059	IDR 716,959,083
TOTAL Cost of Goods Sold	IDR 1,018,864,285,875

Source: Financial Statement of PT BI of 2016 (processed by the authors).

to accomplish. Specifically, it is intended to encourage the animal feed industry to fulfill national needs for animal feed. In addition, through the tax policy instrument, the government attempts to lower the price for animal feed and reduce the burden of farmers in the production process of livestock. Furthermore, it is expected that the prices for animal products, such as meat, milk, and other strategic products, shall be affordable by all levels of society.

In evaluating a policy, effectiveness is an important indicator or criterion to assess the achievement of the objectives of the policy. According to Krech, and Ballachey in Danim (2004), the measurement of effectiveness starts from the comparison between input and

output. The measurement of effectiveness shall have a level of satisfaction and create conducive working relationships and high intensity. The effectiveness of VAT exemption policy for the flour industry as a producer of animal feed cannot be accomplished due to the Tax Input on the purchase of wheat during the production process of animal feed, yet there is no Output Tax collected for the delivery of animal feed and animal feed ingredients. On the other hand, the effectiveness of VAT exemption policy on animal feed and animal feed ingredients for animal feed industry can be accomplished since there is no Input Tax in a series of production. The implementation of this policy raises the cost of taxation for flour industry, both in

the form of direct money costs and administrative costs in order to carry out tax compliance in the proportional Input Tax credit mechanism as a result of the delivery of non-payable Taxable Goods.

Evaluation of VAT Exemption Policy in Optimizing the Utilization of Resource

The heat processing carried out by flour industry produces wheat flour as the main product and animal feed as the by-product (Mackenzie et al, 2017). It is a series of integrated production processes from wheat processing. In accordance with the production process carried out by the flour industry, it can be concluded that animal feed ingredients and animal feed produced by the flour industry is a form of efficiency efforts carried out to optimize existing resources.

The efficiency effort carried out by utilizing the waste of wheat processing aims to achieve zero waste. However, such effort is not ultimately efficient since the flour industry must pay the cost of taxation due to Input Tax that cannot be credited as an implication of the VAT exemption policy on animal feed and animal feed ingredients. In terms of business process, the effort is in fact not in line with the costs paid to achieve this efficiency.

Proportional Input Tax Credit is the cost that must be paid by the flour industry due to the taxable delivery (delivery of flour) and non-taxable delivery (VAT exemption on animal feed and animal feed ingredients). In accordance with the aforementioned calculation, the approximate percentage of the cost of taxation that must be paid by the flour industry in 2016 is 20%, or approximately 29% of wheat import. This significant cost of taxation does not support the efficiency effort made by the flour industry to optimize its potential and the productivity of the flour industry.

Evaluation of VAT Exemption Policy in Fulfilling Industrial Needs

The production process carried out by the flour industry to produce VAT payable wheat flour and by-product of wheat exempted from VAT requires the utilization of the method of calculation of Tax Input credit, contained in the Regulation of the Minister of Finance No. 78/PMK.03/2010. This calculation eventually raises an issue for the flour industry. Therefore, this policy is considered detrimental to the flour industry. The loss suffered by the flour industry is basically due to the legal character of VAT, namely an indirect tax.

It means that VAT can be transferred to other parties either in the form of forward or backward shifting. Thus, Input Tax on wheat import for the delivery of by-product that cannot be credited can be charged to consumers in the cost of goods sold or can be paid by the industry as a component of costs, leading to the decline of the company's profit.

Such issue has generated dissatisfaction towards the policy implementation. The opportunity to optimize the production process ultimately has an impact on increasing the cost of taxation that must be paid by the flour industry. The issue of proportional input tax credit, that must be paid by the flour industry due to producing goods exempted from VAT as previously discussed, leads to higher costs paid by the flour industry. However, animal feed industry doesn't suffer from such obligation.

Therefore, the arising issue for the flour industry due to the implementation of this policy is included into type III. An effort to address such issue is to minimize costs to achieve policy effectiveness for flour industry and animal feed industry. By minimizing costs, the effectiveness of this policy will change along with changes in costs.

Evaluation of VAT Exemption Policy in Creating Balanced Condition for Stakeholders

In accordance with the legal character of VAT as a sales tax, namely general tax on consumption, basically VAT is a tax on all expenditures used for consumption in general, regardless the type of goods or services. VAT is also an objective tax that does not see the subject. In addition, VAT is neutral in legal, competitive and economic sense. Regarding the principle of neutrality, VAT exemption is limited and intended for the delivery of certain Taxable Goods or Taxable Services. VAT exemption can be provided by reducing rate, imposing zero rate, and exemption.

Conceptually, VAT exemption policy meets one of the principles of VAT neutrality. However, the administration cost practically raises issues. This administrative cost is caused by the necessity for flour industry to recalculate the real payable Input Tax on the delivery of the wheat flour, while Input Tax on wheat import and the acquisition of Taxable Goods for the purposes of the production process have been initially credited.

The concept of leveling proposed by William N. Dunn in Riant Nugroho (2011) focuses on justice or fairness. The

benefits of VAT exemption policy for consumers can be optimally distributed since the impact of this policy makes the price of animal feed affordable. Observed from the perspective of the farmers, VAT exemption on animal feed shall make the prices of animal feed ingredients affordable due to the absence of VAT at the time of purchasing animal feed ingredients or animal feed. Observed from the perspective of the consumers, a decline in prices at the farmer level shall have an impact on more affordable prices at the end consumer level.

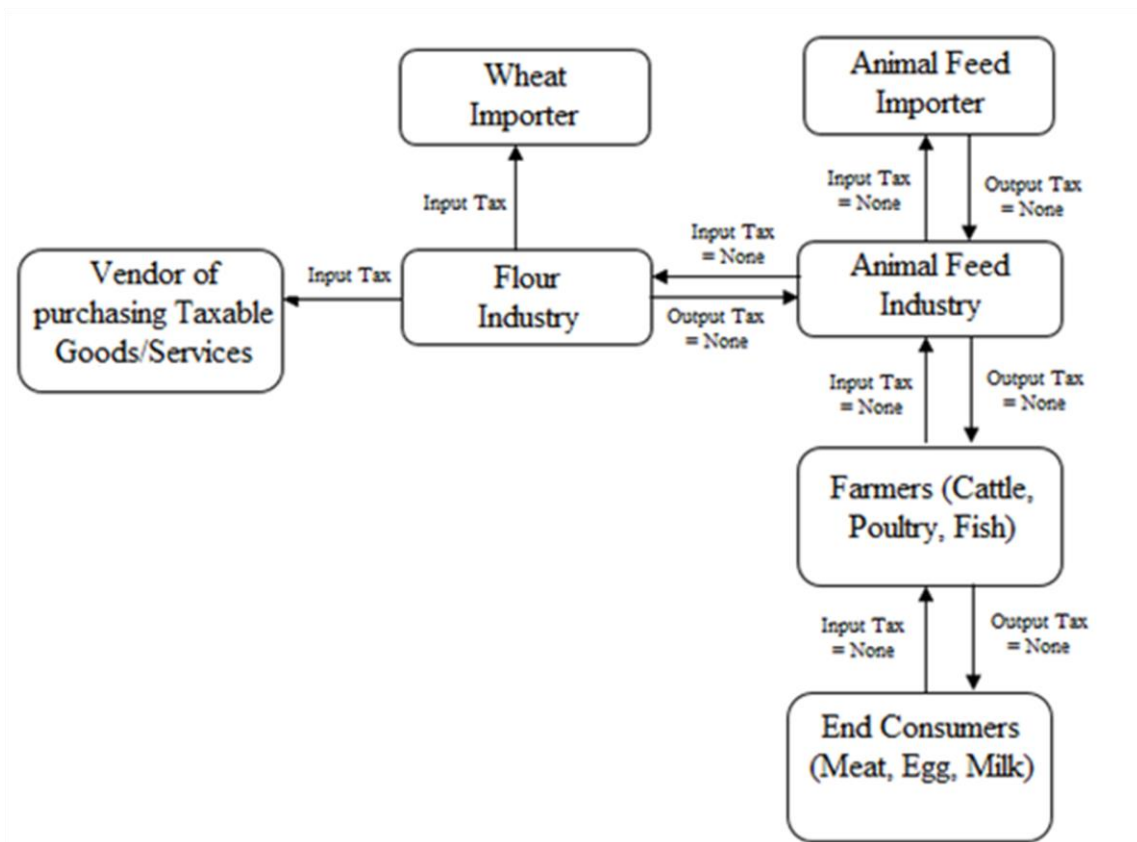
On the other hand, there is an unequal distribution of benefits for producers of animal feed and animal feed ingredients. Observed from the perspective of the animal feed industry and importer, the benefits of VAT exemption policy can be distributed optimally, since there is no distortion in the imposition of VAT. However, observed from the perspective of flour industry producing animal feed, the benefits of this policy are not optimally distributed, since the flour industry must pay the administrative cost associated with the recalculation of Input Tax and suffer from the impact of discrimination for producing VAT payable and non-payable goods. Thus, the policy makes the flour industry

as the worst off, while the animal feed industry and importer obtain benefit.

In the perspective of political relations, VAT exemption policy on animal feed can also be observed as an arising consequence in the approach of business as capital (Hagard et al., 1997). The distribution of different sectoral interests and economic activities influences politics, policy, and economic growth. In this regard, the different interests of the flour industry and animal feed industry in terms of the use of inputs have formed different collective actions and interests between different sectors. The flour industry demands VAT exemption to be better designed since the current design is detrimental due to Input Tax that cannot be credited. On the other hand, the animal feed industry deems this policy necessary to be maintained. It results in unbalanced conditions suffered by the flour industry and animal feed industry as presented in the figure 1.

VAT exemption policy can also be analyzed from the approach of business as associations; where the associations ultimately influence business preferences through lobbying and implementation of public policies. In this context, the Objection Letter submitted by APTINDO is a form of effort made to influence the

Figure 1. The Flow of VAT Imposition on Animal Feed in the Flour Industry and Animal Feed Industry



Source: The data processed by the authors.

implementation of VAT exemption policy on animal feed. Furthermore, in relation to power relations, associations are part of economic interest groups attempting to this regard tax policies that are products of political decisions between politicians and bureaucrats. Thus, in this context, VAT exemption policy on animal feed reflects the existence of different elite interests between APTINDO as the association of flour industry and policy makers, namely politicians and bureaucrats

Evaluation of VAT Exemption Policy Observed from the Views of Stakeholders on Policy

VAT exemption policy on animal feed and animal feed ingredients in Indonesia is a form of government efforts to achieve the ultimate objective of affordable livestock products at the consumer level. In relation to this objective, the Government through the Fiscal Policy Agency formulates VAT exemption policy on animal feed and animal feed ingredients as an initial effort to achieve

this objective. The formulation of VAT exemption policy involves various stakeholders. Thus, it is expected to fulfill the demands of various parties involved. Meanwhile, at the stage of policy implementation, the flour industry obtains a different impact from the animal feed industry as previously explained.

Negative responses from the implementation of this policy are delivered by APTINDO by submitting an objection letter to the Director of VAT of the Directorate General of Taxes. The objection emerges since APTINDO realizes that there is a loss that must be suffered from by the member companies of the association as an implication of implementing the policy. The Fiscal Policy Agency as a policy maker understands that there are parties who do not benefit from the implementation of this policy. As the policy maker, the Fiscal Policy Agency has involved all parties to be able to accommodate the interests of the parties involved. However, the objection from APTINDO is a form of rejection of VAT exemption policy on animal feed and animal feed ingredients.

Evaluation of VAT Exemption Policy Observed from Impacts Caused for the Stakeholders

Providing VAT exemption is one of the functions of tax carried out by the government, namely regulatory function. This function is selected by the government due to specific objectives to be achieved. As previously explained, VAT exemption is provided by the government to guarantee the availability of goods and services required by the community included in the category of merit goods. Conceptually, this tax exemption basically contradicts the theory of VAT since VAT is a tax on the consumption of goods and services. Therefore, the implementation of this tax exemption can cause losses in terms of revenue as well as distortion in the field of economy and values of justice. However, related to the specific objectives to be achieved, the government through tax policy consciously overrides the concept and shows its partiality in certain sectors, in this regard the livestock sector.

In accordance with the criteria of evaluation, the accuracy is closely related to the objectives of the policy and the impacts, both positive and negative impacts, caused in the achievement of policy objectives. The aim of VAT exemption policy on animal feed and animal feed ingredients is to control the price of animal feed to be affordable for farmers. Thus, the prices of the end

products of livestock in the form of meat, milk and others shall be affordable by the community. To achieve this objective, VAT exemption is carried out starting from animal feed ingredients and animal feed.

In reality, VAT exemption on animal feed and animal feed ingredients at the producer level creates a cascading effect on the selling price of livestock for the flour industry producing animal feed. The arising cascading effect at the producer level, particularly the flour industry, is a negative impact caused in an effort to achieve the objective of VAT exemption policy. However, on the other hand, such cascading effect does not occur in the animal feed industry. It is in accordance with the flow of animal feed production since there is no cost of taxation during the production process or the sale of animal feed. VAT exemption policy on animal feed has a positive impact on the animal feed industry since there is no arising distortion.

Evaluation of VAT Exemption Policy Observed from the Productivity of Animal Feed Producers

The provision of VAT incentives is a form of intentional discretion carried out by the government. This exemption is expected to influence the mechanism of

the domestic livestock market in line with the demand for livestock products and elastic prices. In terms of reducing the imperfection of the animal feed market, the policy to be taken is a supply side policy. It is carried out to increase the production capacity of animal feed producers. This increase in supply is greatly influenced by several factors, namely taxes, prices, and subsidies (Rosdiana, 2008). Of the aforementioned forms of supply-side policy, the most widely used is related to tax (supply-side tax policy) (Rosdiana, 2011b) (Steinmo, 2003).

VAT exemption policy on animal feed affects the selling price of by-product of PT BI. The selling price is more expensive than that of the animal feed industry as a result of the imposition of Input Tax that cannot be credited from the production process of the by-product. The effectiveness of this VAT incentive policy cannot be accomplished since the objective is not achieved. Furthermore, the impact of providing tax incentive frequently creates discourse. First, it creates tax expenditure or deficit. Second, its effectiveness is questionable (Rosdiana, 2010). Third, it inherently facilitates avoidance by taxpayers (Steinmo, 2003). Fourth, there are other

Table 3. Calculation of Lost Production Capacity of Animal Feed Due to the Imposition of Tax Input Credit to PT BI in 2016

Input Tax that cannot be credited	IDR 31,712,134,059
Cost per Unit	IDR 2,100
The Increase in Production Capacity (Unit) that can be carried out should the Input Tax can be credited	<u>IDR 31,712,134,059</u> IDR. 2.100 = 15,101,106 unit
Potential Increase in Production Capacity lost due to the influence of Input Tax that cannot be credited	15,101,106 unit

Source: The data processed by the authors.

non-tax factors affecting productivity, such as politics, security, potential market size, and economic stability.

VAT exemption policy on animal feed and animal feed ingredients as the by-product of PT BI has an impact on the cash flow and productivity of PT BI and has an influence on the supply of these products. The flour industry is unable to increase its production capacity (supply) as a result of the reduced available cash flow. Any form of policy reducing cost of taxation can result in greater cash flow available for production (Rosdiana, 2010). Furthermore, the policy has an impact on the opportunity cost that shall be obtained by PT BI as an effort to optimize the production process, increase investment in producing animal feed, and absorb employment. Investment, both domestic and foreign, has the potential to create a space for supply of labor (Rosdiana, 2010). Basically, the supply of labor that can be absorbed by industry

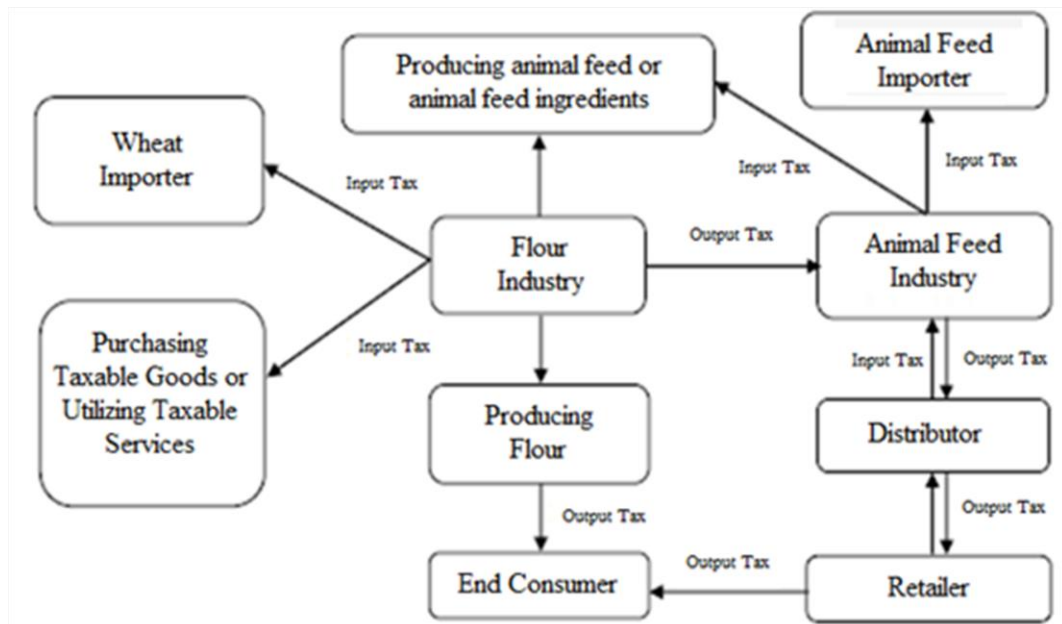
can be divided into direct labor and indirect labor from the multiplier effect of business development (Rosdiana, 2010).

The loss of investment opportunities for the flour industry as a result of VAT incentive is presented in the table 3.

The Idea of the Design of VAT Policy on Animal Feed in an Effort to Support National Flour Industry and Animal Feed Industry

In formulating VAT policy, it is important to pay attention to the harmony between the principles of tax collection consisting of three pillars, namely revenue productivity as the interest of the government to maintain revenue sustainability, equality as the interest of taxpayers, and ease of administration as the interest of tax authorities and taxpayers, and the legal character of VAT to determine the object of VAT imposition in order to compile VAT policy in addition

Figure 2. The Flow of VAT Imposition on Animal Feed in the Flour Industry and Animal Feed Industry in the Conservative Design



Source: The data processed by the authors.

to the three pillars (Rosdiana, 2011a, 2011b).

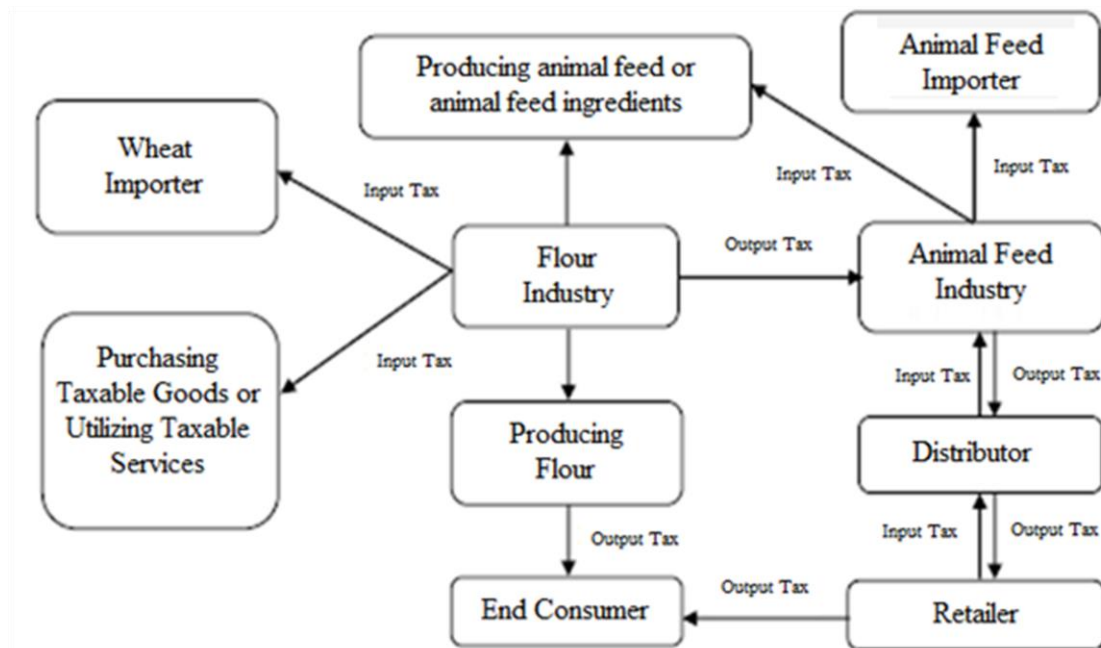
Based on these considerations, as well as in line with the aforementioned idea of policy design, the alternative design of VAT policy on animal feed and animal feed ingredients in an effort to support the flour industry and animal feed Industry is explained in the following discussion.

Policy Reconstruction: The Idea of Conservative Design

The distortion that occurs as a result of the accumulation of cost of taxation creates a cascading effect that is actually

an issue that should not occur since Indonesia basically adheres to the concept of calculation of Non Cumulative Cascade System (Gunadi, 2005; Inayati & Sari, 2013). This accumulation of cost of taxation shall ultimately have an impact on the selling price that must be paid by the consumer and the cost of taxation that must be paid by the producer. In a conservative design, VAT exemption policy on animal feed is transferred to the retailer level. Thus, there is no longer VAT exemption policy on animal feed at the producer level, eliminating the cascading effect in the form of Input Tax. The description of this conservative design can be more clearly seen in the figure 2.

Figure 3. The Flow of VAT Imposition on Animal Feed in the Flour Industry and Animal Feed Industry in the Moderate Design



Source: The data processed by the authors.

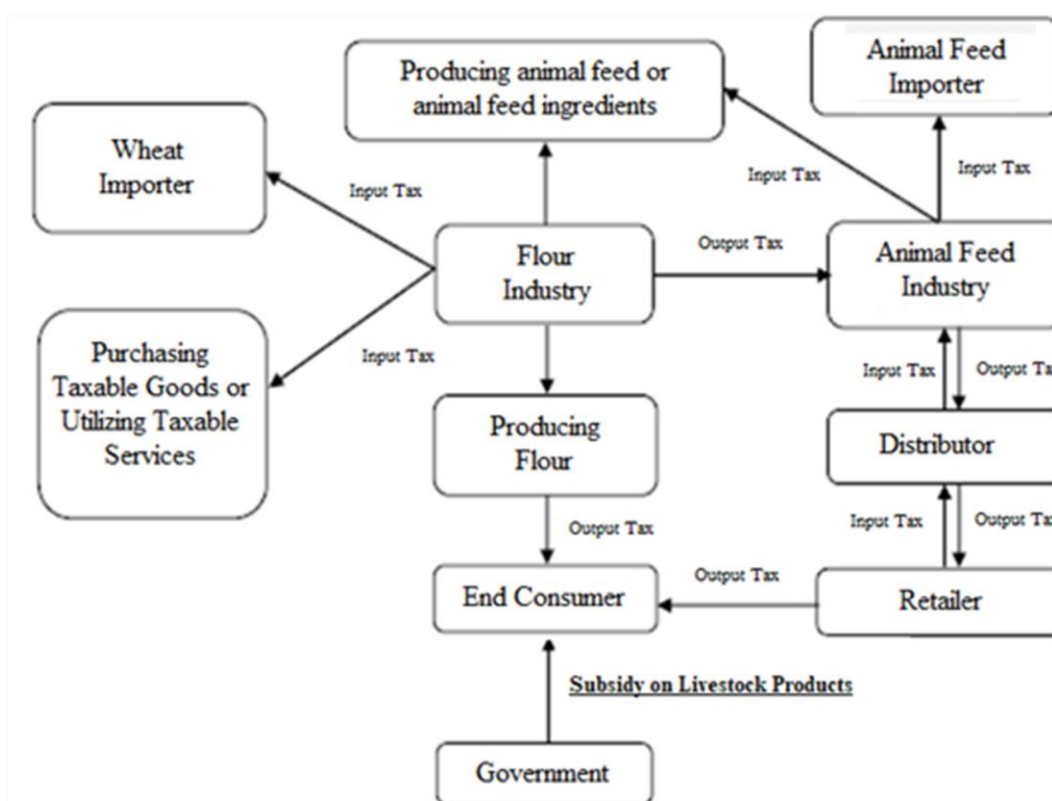
Policy Reconstruction: The Idea of Moderate Design

Moderate design is based on the view that changes in policy are required due to the cost of taxation and administrative cost that must be paid by the flour industry in implementing the current VAT exemption policy, resulting in inter-industrial competitiveness, while the animal feed industry does not need to pay the costs. The costs make the competition in selling their products between the flour industry and the animal feed industry unbalanced and not competitive.

The imposition of VAT at normal rates, equal to ten percent, is an

alternative form of solution in order to support a more competitive and fair business competition for the flour industry and animal feed industry. Furthermore, in moderate design, VAT imposition is one more equitable form of policies for the flour industry. Overall, VAT imposition on animal feed basically fulfills the principle of the neutrality of VAT and the ease of administration to reduce the cost of taxation. The description of this moderate design can be seen more clearly in the figure 3.

Figure 4. The Flow of VAT Imposition on Animal Feed in the Flour Industry and Animal Feed Industry in the Progressive Design



Source: The data processed by the authors.

Policy Reconstruction: The Idea of Progressive Design

Progressive design emphasizes the simplification carried out by changing the form of VAT exemption policy into VAT payable. Imposing VAT on animal feed and animal feed ingredients at each distribution chain shall change the proportional Input Tax credit mechanism to be a generally accepted Input Tax credit mechanism.

Protecting the interests of the middle and lower classes of society and anticipating the impacts on the community can be carried out by

providing subsidies to maintain the stability of the prices for meat and derivative products for the benefit of the community. The government shall choose the right form of subsidies between cash transfers and in kind subsidy (Suparmoko, 2003). The description of this moderate design can be seen more clearly in the figure 4.

CONCLUSION

Based on the analysis carried out, the conclusions in accordance with the questions of the study are as follows:

1. The implication of VAT exemption policy on animal feed causes member companies of APTINDO unable to credit Input Tax on the delivery of by-products of wheat. This policy creates a cascading effect for PT BI since it can increase the cost of production, thus increasing the selling price of by-products of wheat, leading to negative impacts for animal feed industry, distributors, retailers, and end consumers. VAT exemption policy on animal feed has a different impact on the flour industry and animal feed industry and has an influence on the competitiveness of the flour industry with the animal feed industry and animal feed importers as producers of animal feed.

the cost of taxation in the form of administrative cost and compliance cost for the flour industry in terms of implementing this policy. In the perspective of public policy, this policy is inefficient, cannot achieve its objectives and meet industrial demands as a whole. Thus, this policy is deemed inappropriate and has been rejected by the flour industry. In the perspective of power relations, the unbalanced conditions suffered by the flour industry and animal feed industry reflect the elite conflict between economic interest groups, namely the animal feed industry and the flour industry represented by APTINDO with policy makers, namely politicians and bureaucrats.
2. The VAT exemption policy on animal feed results in a decline of flour industry productivity due to market distortions, as a result of the cost of taxation that must be paid by the flour industry. The cost of taxation affects the cash flow of the company and reduces the production capability of the company. Furthermore, the Input Tax credit mechanism that must be proportional has resulted in
3. The difference in the implications of VAT exemption policy on animal feed has led to the need for policy designs that can support the flour industry and animal feed industry as producers of animal feed. There are several designs for VAT policies on animal feed that can be chosen by the government, namely conservative, moderate and progressive designs. In conservative design, VAT exemption policy on animal feed is transferred from the

producer level to the retailer level. In moderate design, the government can improve the policy by imposing ten percent VAT on animal feed. In progressive design, the government can improve VAT policy on animal feed by revoking VAT exemption for animal feed at the producer level and using subsidies for livestock products and their derivatives in an effort to overcome the impact of VAT imposition on animal feed on the prices of livestock products.

RECOMMENDATION

1. In order to fulfil the principle of neutrality and avoid cascading effects, it is recommended to revoke VAT exemption for animal feed at the producer level to avoid any loss in the related production chains.
2. In order to increase productivity, reduce the cost of taxation, and avoid market distortion, the government should revise the regulation on VAT exemption for animal feed by diverting VAT exemption from the producer level to the retailer level.
3. In an effort to accommodate the interests of the flour industry and animal feed industry, the Fiscal Policy

Agency should impose VAT on animal feed. On the other hand, to maintain the stability of the prices of livestock products and the purchasing power of the community, the Fiscal Policy Agency can formulate a more targeted subsidy policy for livestock products.

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