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Indonesia: Top Six Tax Haven Countries as the Strategy to Tax Avoidance

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Abstract: Singapore, Netherlands, Virgin Island, Mauritius, Caymand Island and Hongkong are the highest countries that became the location of companies affiliated with the company listed in Indonesia Stock Exchange. Based on the data that has been obtained from the financial statements of listed company the 469 companies listed on the stock exchange there are 128 companies (27.29%) with overseas entities of the 128 companies, listed total overseas affiliated companies amounted to 417 firms in 2012 and 415 companies in 2011. The most of the branches or the parent company are located in Singapore, Netherlands, Virgin Island, Hongkong, Mauritius and Caymand Island. Judging from the existing tax provisions in these countries have all 6 corporate tax rates that is lower than Indonesia. They use tax evoidance to tax haven countries can be made by using some strategies. They are transfer pricing, shopping treaty, thin capitalization and the controlled Foreign company. Singapore, Netherlands, Virgin Island, Mauritius, Hongkong and Caymand Island are tax haven countries which become a tax heaven for Indonesian tax payer. It can be concluded that tax havens are a serious problem for Indonesia and the need for a more assertive policy establishment and more detail about tax havens.

Key words: Tax avoidance, tax haven, tax evasion, tax rate, tax payer, Netherlands, Mauritius

INTRODUCTION

"In this world nothing can be to be certain, except death and taxes". Taxation is the most important source of revenue for every country, especially for developing country. Indonesia as developing country depends on tax as the biggest source of revenue for the country. In 2013, Indonesia receives US$ 150, 2 billion from tax as the country revenue. The government of Indonesia has to play an active role in promoting economic growth and development because private initiative and capital are limited. Fiscal policy or budget has become important instrument in promoting growth and development in such economies. Taxation is an important part of fiscal policy which can be used effectively by government of developing economies. But it is not easy for the government to collect the tax from the tax payer, a lot of tax payer try to do tax avoidance even tax evasion especially tax evasion of global company. Tax evasion efforts are not only happen In Indonesia, it is also occurred in various countries. The global company in Indonesia invest their money to tax haven country in purpose for minimize the tax income which should be paid.

There are some countries as the tax haven for Indonesia tax payer they are Singapore, Netherlands, Virgin Island, Mauritius, Caymand Island and Hongkong.

Tax haven characteristics are low tax on certain types of income and capital, compared to the country residence, bank and commercial secrecy, the lack of exchange controls or a dual currency control system for residents and non residents, offshore banking facilities, excellent communication facilities, physical transportation (sea and air) and telecommunications, opportunities for multilateral tax planning, political and economic stability, favourable disposition of Foreign capital, availability of professionals advisors and geographical location and climate (Gordon, 2002) .

It will be analyse deeply in this study about tax avoidance in tax haven country with the tax haven media, the method and the government efforts to solve this problem.

Analysis of tax avoidance schemes to the state tax haven: Taxes for Indonesia are not only materially useful but have other functions. They are as a function of budget and regulation (Waluyo, 2011). The function needs to be supported by the method or mechanism of collection.

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Table 1: Indonesia companies that have affiliation in Hong Kong

Companies name	Affiliation company	Fields
PT Argha Karya Prima Industry Tbk	International Resources Ltd.	Trade and marketing
PT Alakasa Industrindo Tbk	Alakasa Company Limited	Raw materials trade
PT Argo Pantes Tbk	Argo Pantes Ltd.	Marketing
PT Bank Rakyat Indonesia Tbk	BRI Remittance Co. Limited	SPV
PT Eratex Djaja Tbk	PT Eratex (Hongkong) Ltd	Trading
PT Hero Supermarket Tbk	Jardine Matheson Holdings Limited	Investment
PT Hero Supermarket Tbk	Dairy Farm International	Technical advisor, purchase of goods
PT Sinar Mas Multiartha Tbk	Global Asian Investment Limited	Investment

The Indonesia Stock Exchange

Table 2: Indonesia companies that have affiliation in Singapore

Companies name	Affiliation company	Fields
PT Adhi Karya (Persero) Tbk.	Adhi Multipower, Pte., Ltd.	Management consultant services
PT Adaro Energy Tbk.	Rachpore Investments Pte. Ltd.	Investment
PT Astra International Tbk.	Jardine cycle and Carriage Ltd.	Investment
PT Bhakti Investama Tbk.	Innoform media Pte., Ltd. (Innoform)	Broadcast media
PT Bhakti Investama Tbk.	Alliance entertainment Singapore Pte., Ltd.	Broadcast media
PT Bhuwanatala Indah Permai Tbk.	BIP Holdings International Pte, Ltd.	Investment
PT Global Mediacom Tbk.	Innoform media Pte., Ltd. (Innoform)	Broadcast media
PT Global Mediacom Tbk.	Alliance entertainment Singapore Pte., Ltd.	Broadcast media
PT Bakrie and Brothers Tbk.	Bakrie fund Pte. Ltd.	Investment
PT Bakrie and Brothers Tbk.	Bakrie Investment Pte. Ltd.	Investment

The Indonesia Stock Exchange 2013

Aspect of tax collection are the principle of domicile, the principle of source and nationality principle (Priantara, 2012). In international taxation, the existence of this taxation principle leads to the imposition of double taxation of income derived from abroad. According Surahmat (2007) this problem arises due to the definition of income sources, this problem is a gap for taxpayers to do tax avoidance by minimizing the tax burden under tax laws. According to Eicke (2008), tax payer try to minimize the tax burden as follows, they are legally tax planning and tax avoidance and illegally tax evasion. Tax avoidance is a taxpayer prepared work plan in which the plans prepared by taxpayers are legally. Since, the provisions of the tax laws of each country is different, this gap is done by the taxpayers who earn income from abroad to make tax evasion. Even sometimes the taxpayer tends to get a gap to blame the provisions of the law for the benefit of self-interest (Rohatgi, 2007). IBFD International tax glossary, avoidance for tax purpose is a term used to describe the taxpayer's habit of reducing the amount of tax payable which in turn will lead to tax evasion. So in fact tax avoidance in accordance with the law or does not violate the provisions of the law but not in accordance with the spirit of the law it contains (Larking, 2005).

Currently Indonesia tax payer use tax avoidance as the way to minimize tax. Multinational corporations in Indonesia will try to minimize their global tax burden by utilizing the lack of state taxation provisions that do not regulate anti tax avoidance or regulate it but are inadequate, giving rise to opportunities that can be utilized for tax avoidance practices. They invest in tax haven countries one of the advantages is to enjoy the lower tax rates of the state of Indonesia (Septriadi and Darusalam, 2008, 2009). Beside that, tax payers try to do tax avoidance in tax haven country by using methods such as transfer pricing. In international framework, the prices at which tangible and intangible assets are transfer price not only determine the income of each party participating in a particular transfer but also influence the tax base of the jurisdictions where these parties are located (Boos, 2003). According to Gunadi, transfer pricing is the price amount on the imposition of goods or service rewards that have been agreed by both parties (Gunadi, 2007) which adopted by the tax payer to in tax haven countries. Tax avoidance, in this case is done to tax haven countries and is generally done through several medias. They are holding company, intermediary and subsidiary company. The existence of the three media owned by a company with specific economic objectives, they are) financing) special purpose vehicle) investments, services and an intellectual property. Although, the purpose of the existence of different media, they are all a great opportunity to be the media tax avoidance.

Table 1 shows that PT Argha Karya Prima Industry Tbk, PT Alakasa Industrindo Tbk., PT Argo Pantes Tbk., PT Bank Rakyat Indonesia Tbk ., PT Eratex Djaja Tbk., PT Hero Supermarket Tbk and PT Sinar Mas Multiartha Tbk are Indonesian company tax payer which have affiliation in Hongkong, prefer to open and invest their money in financing, SPV, investment and service in 2013 for tax avoidance.

Table 2 shows that PT Adhi Karya (Persero) Tbk, PT Adaro Energy Tbk., PT Astra International Tbk., PT Bhakti Investama Tbk, PT Bhuwanatala Indah Permai Tbk, PT Bhuwanatala Indah Permai Tbk, PT Global Mediacom

Table 3: Indonesia companies that have affiliation in Netherlands

Companies name	Affiliation company	Fields
PT Polychem Indonesia Tbk	GTPI Netherlands B.V	Dormant
PT Bhakti Investama Tbk	Media Nusantara Citra B.V (MNC B.V)	Broadcast media
PT Bhakti Investama Tbk	Aerospace Satelitte Corporate B.V	Media-based customer
PT Bhakti Investama Tbk	Aerospace Satelitte Corporation Holding BV	Media-based customer
PT Global Mediacom Tbk	Media Nusantara Citra B.V (MNC B.V)	Broadcast media
PT Global Mediacom Tbk	Aerospace Satelitte Corporate B.V	Media-based customer
PT Global Mediacom Tbk	Aerospace Satellite Corporation B.V	Financing
PT Bakrie and Brothers Tbk	Bakrie International Finance Company BV	Financing
PT Bakrie and Brothers Tbk	Blue Cape BV	Financing
PT Bumi Resources Tbk	Bumi Nedherlands B.V.	SPV

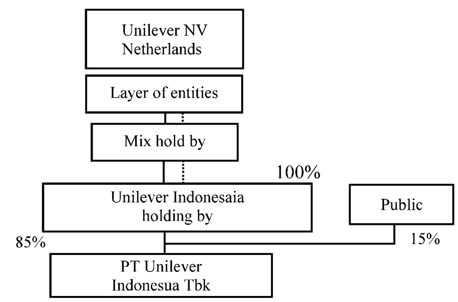

Fig. 1: Holding company scheme of PT Unilever Tbk and Unilever NV

Tpk., PT Bakrie and Brothers Tbk and PT Bakrie and Brothers Tbk are Indonesian company tax payer which have affiliation in Singapore, prefer to open and invest their money in management consultant services, investment, broadcast media and investment in 2013.

Table 3 shows that, PT Polychem Indonesia Tbk, PT Bhakti Investama Tbk, PT Global Mediacom Tbk, PT Bakrie and Brothers Tbk and PT Bumi Resources Tbk which is affiliation in Netherlands, prefer to open and invest their money in Dormant, Media-based customer, Broadcast media, Financing and SPV in 2013.

Tax avoidance media through the tax haven country: It is known that in an effort to tax evasion a company requires the media they are holding company, intermediary company and subsidiary company. This kind of media is not absolute but mostly tax evasion occurs by utilizing this media. The media are as follows.

Holding company: Holding company is a company whose main purpose is to hold shareholdings in other companies. The term is sometimes used more loosely to refer to companies holding other asset such as a patent, licence or similar investments. In general, a company that wants to do tax avoidance by the media holding company will open a holding company in tax haven country. Holding company in tax haven countries will be the acquisition of a majority share in Indonesia Company that serves as the parent company. Based on data from the Indonesia Stock Exchange in Fig. 1 shows that PT. Unilever has a holding company in the Netherlands. In the financial statements are not explained in detail the purpose of the economic establishment in the Netherlands holding company but majority holdings owned by the parent of 85% .

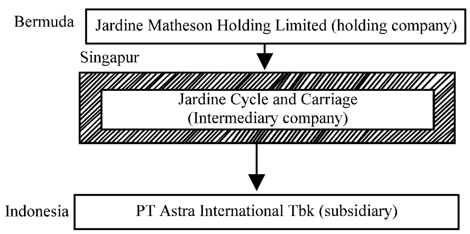

Fig. 2: Schemes intermediary company (Overseas)-Tax Heaven Country (THC)-Indonesia

Intermediary company: Intermediary is a company which obtains the benefit of tax treaty in respect of income arising in a foreign country, the economic benefit of which income accrues to persons in another country who would not have been entitled to such treaty benefits had they received the income directly. The establishment of intermediary as a means of tax avoidance scheme consists of 3.

Foreign Direct Investment (FDI) to Indonesia by utilizing tax haven country: This scheme is done by first opening, intermediary company in a tax haven country Fig. 2 shows that the Jardine Matheson Holdings Ltd. Domiciled in Bermuda open Jardine Cycle and carriage Ltd. In Singapore and then listed PT Astra International Tbk as subsidiary of Jardine Cycle and Carriage Ltd. In this case Jardine Cycle and Carriage Singapore Ltd. Acting as Intermediary Company, It is a holding company for subsidiary and another company. This scheme shows that Jardine Matheson Holdings Ltd. has no direct ownership in PT Astra International Tbk because of its ownership by Jardine Cycle and carriage Ltd. Singapore.

Indonesian company wants to develop his business and opened a subsidiary in Indonesia itself by utilizing tax haven country: Figure 3 shows that PT Salim Ivomas

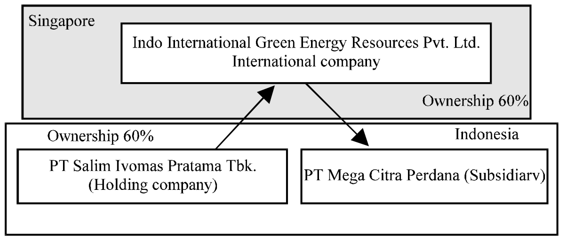

Fig. 3: Schemes intermediary company (Indonesia) Tax Heaven Country (THC) Indonesia

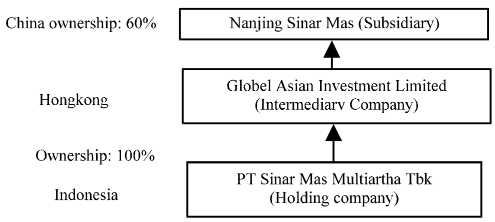

Fig. 4: Schemes intermediary company Indonesia THC-overseas

Primary Tbk. is a holding company in Indonesiado not open direct branches in Indonesia but it first opened a branch in the tax haven country and then branch in Indonesia as subsidiary of IndoInternational Green Energy Resources Pte. Ltd.

An investment from Indonesia to other countries by utilizing the following intermediary company: Figure 4 shows that PT. Sinar Mas Multiartha Tbk. which is in Indonesia wants to open a branch in China but makes an investment through the Asian Global Investment Limited in Hong Kong.

Subsidiary company: Subsidiary company is a company in which another company (referred to as the parent company) holds a substantial participation (typically a controlling interest). When used in relation to indirect participations, the term sub-subsidiary is sometimes used. Tax benefits may be directly or indirectly associated with a company's status as a subsidiary such as the right to pay dividends to the parent company free from withholding tax.

Figure 5 shows that PT Lippo Karawaci Tbk is a public company in Indonesia, engaged in real estate, urban development, the release or purchase, lease, sell and commercialize buildings, residential, office, industrial, hospitality, hospitals, shopping centres, sports facilities and supporting infrastructure including but not limited to golf courses, clubs and restaurants. PT Lippo Karawaci

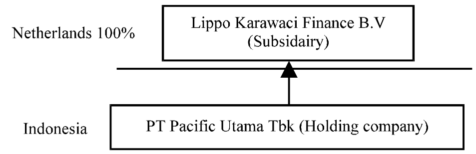

Fig. 5 : The scheme of subsidiary company

Tbk has 100% ownership of Lippo Karawaci finance BV based in the Netherlands. The purpose of the establishment of the company is Financing, investment and services.

Tax avoidance method through tax haven countries: Tax evasion to tax haven countries can be made by using some methods. They are transfer pricing, shopping treaty, thin capitalization and the controlled foreign company. The tax avoidance scheme was carried out by multinational companies to tax haven countries in order to reduce their tax burden.

Transfer pricing: Transfer pricing continues to lead the list of international tax issues that MNEs wrestle with today and expect to grape with the incoming years. The factors that have become most important to economic growth and societel wealth are intangible (Blair and Wallman 2001). The taxation of income from intangibles is perhaps the most important large case issue in the inter-company transfer pricing world today.

Transfer pricing as a means of tax evasion of tax havens often happen in international company. This scheme is indicated because of a special relationship and transaction conducted outside the reasonable price. Transfer pricing can occur either between the two companies in the same group (intercompany pricing) or even between the two divisions of the company in the same company.

Transaction between related parties have a transaction is not arm's length, does not meet the principle of fairness and the predominance of business. As a measure of fairness and the prevalence of large businesses are given the price of a company to another company that does not have a special relationship. Pricing that does not comply with the reasonable price of this transaction utilized multinational companies to benefit from the difference between the fair price with the price of the transaction privilege tax on low-cost countries levy taxes or not at all. By using the transaction price with a related party, the tax base of the transaction will be much smaller than the tax base to the other party, so that, the tax payable is also lower. In principle, transfer pricing can be driven by tax reasons or other reasons than taxes. Tax motivation on

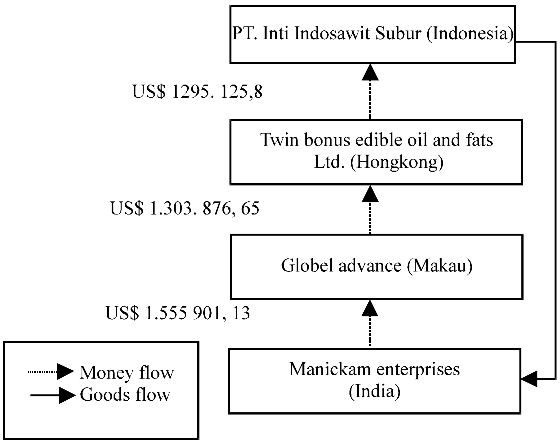

Fig. 6: Transfer pricing scheme

transfer pricing transactions carried out with as much as possible to move income to countries with the lowest tax burden (Mangonting, 2009).

By moving the tax to the state with a minimum tax will certainly provide much greater benefits for the company. The following is a transfer pricing scheme of the Asian Agri case. Figure 6 shows that PT Inti Subur Indosawit Indonesia-based affiliate companies sell palm oil to the fictional Twin Bonus Edible Oil and Fats Ltd. (Hong Kong) and Global Advance (Macau) at a low price. Then Global Advance selling CPO to the actual buyer is Manickan Enterprices in India with a high price. Actually, CPO directly shipped from Indonesia to India, even though the sale is made by Global Advance in Macau (Zain, 2011)

The scheme in Fig. 6 is based on sales revenue recorded in the Indonesian CPO is US$ 1,295,125.8. When PT Inti Subur Indosawit do not use this scheme as it is recorded sales of US$1,555,901.13. The difference between the incomes is US $ 260,775.33. If we assume Indonesia Bank middle rate at the time was the same as the exchange rate as of June 20, 2013 is equal to 9927, then the difference in income is Rp. 2.588.716.70 . Supposedly Rp. 2,588,716,701, recognized as income Indosawit PT Inti Subur potentially add to the tax base of PT Inti Subur Indosawit but due to the transfer pricing scheme of course, the tax base of PT Inti Subur Indosawit reduced.

Treaty shopping: Treaty shopping has been described as the situation where a person who is not entitled to the benefits of tax treaty makes use in the widest meaning of the word of an individual or of a legal person in order to obtain those treaty benefits that are not available directly. Treaty shopping is done by a company for benefit from the tax treaty between the two countries by making

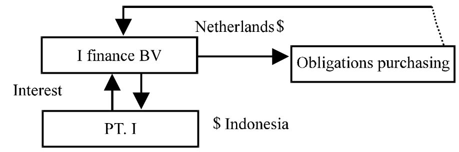

Fig. 7: Treaty shopping scheme

affiliated company in one of the countries where the practice of tax avoidance purposes. Tax treaty rates were applied for each country to other countries would be a trigger of treaty shopping. Singapore, the Netherlands and Hong Kong have withholding tax rates are quite low with its partner countries. By having affiliate companies in all three countries, the company certainly Indonesia is one step closer in an effort to treaty shopping. As one example in Fig. 7, treaty shopping is done by PT. I, the first in Indonesia set up a special purpose vehicle in the Netherlands that aims to make the sale of international bonds in order to raise funds.

I finance BV issued bonds in the Netherlands. In Fig. 7, the proceeds from the sale of investment then given to PT. I Indonesia as a loan with interest to be paid to the finance BV I. I finance BV has been qualified as Netherlands tax payer and therefore, the above position, I finance BV can enjoy the tax treaty between Indonesia and the Netherlands, it is the payment of interest on loans with a maturity of over 2 years is not payable tax income Article 26. This can be seen tax treaty of Indonesia and Netherlands Article 11 Paragraph 4 : Notwithstanding the provision of Paragraph 2, interest arising in one of the two states shall be taxable only in the other state if the beneficial owner of the interest is a resident of the other state and if the interest is paid on a loan made for a period of more than 2 years or is paid in connection with the sale on credit of any industrial, commercial or scientific equipment.

Controlled Foreign company: Utilization of controlled Foreign company performed by delaying the recognition of income from capital from abroad by a subsidiary company in a tax haven country.

To run the above scheme, Fig. 8 shows that PT. A must have at least 50% of shares of stock A Finance Pte. Ltd. and do not trade the stock A Finance Pte. Ltd. In The Stock Exchange in order for the PT. A has full control over the timing of the recognition of a dividend Finance Pte. Ltd. According to Article 26 and Aapril 10, 2018 Article 24 tax income regulations, gains on dividend income from abroad can be combined with domestic income. Would be a tax avoidance scheme when A Finance Pte. Ltd. While acknowledging the benefits of PT. A is get loss so dividend income do not as tax base.

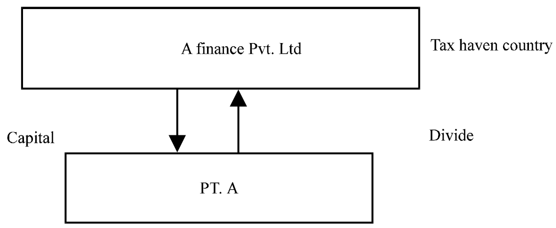

Fig. 8: Controlled Foreign company scheme

Thin capitalization: A company is said to be "thinly capitalized" when it has a high proportion of debt capital in relation to its equity capital. This relationship may be referred to as capital gearing, gearing, leveraging or debt/equity ratio. The two most common tests for determining whether this ratio is too high are firstly by reference to the arm's length principle (the assumption being that a third party would not be prepared to lend to a thinly capitalized borrower) and secondly by reference to affixed ratio of debt to equity. The two may sometimes be combined whereby the fixed ratio often functions as a save harbour. Many countries have rules designed to discourage thin capitalization, particularly in an international context. In general, under such rules the interest on the amount of debt which exceeds the permitted level is not deductible. In addition, in some countries the debt is recharacterized as equity and the interest for tax purposes (including withholding tax) as a dividend.

In the above scheme can be seen that the company is in a tax haven country lending to companies in Indonesia and PT. DD has the obligation to pay interest where such interest becomes a deduction from gross income of PT. DD. Ongoing lending resulted in the proportion of debt and equity becomes unnatural.

Indications tax avoidance through the tax haven country: According to data from the stock exchanges, there are so many Indonesian companies that have a special relationship with its affiliated companies in tax haven countries. Table 4 is a list of countries that have companies affiliated with the companies listed on the exchange.

Based on the data from the company's financial statements in stock exchanges, so, many companies or parent branch opened in Singapore, the Netherlands, Virgin Islands, Malaysia, Mauritius, Cayman Island and Hong Kong. So, many companies have affiliates in these countries certainly due to an advantage that can be obtained there. In addition, government data also showed an increase in Foreign direct investment from these countries every year.

Table 4: A list of locations or subsidiaries of a parent company

Countries	2012	2011
Singapore	134	133
Netherlands	62	62
Virgin Island	39	38
Mauritius	18	18
Cayman Island	18	18
Hongkong	9	9

The data in Table 4 shows that there are close relationship between the 6 countries with Indonesia. Increased Foreign Investment will surely be a positive stimulus to the Indonesian economy. However, when viewed from the first data regarding the number of affiliated company incorporated in Singapore, the Netherlands, Virgin Islands, Mauritius, Cayman Island and Hong Kong followed by looking at so low rates and tax incentives given by the state, the high suspicion of the practice of tax avoidance to the taxpayer made these countries. In addition there had been a few cases that occurred in the previous period using the above countries as a destination country for tax avoidance, the government should be more wary in the determination of the anti-avoidance rules to these countries. In view of the existing tax provisions in these countries, Singapore, Hong Kong the Netherlands, Virgin Islands, Mauritius, Cayman Island and Hongkong, all six have a lower tax rate than Indonesia. Table 4 shows that Singapore is the first rank of country where Indonesian tax payer would like to invest their money in 2011 there are 133 companies and in 2012 thwew are 134 companies affiliated in Singapore.

A country when the levy is <50% of the Indonesian tax. Indonesian corporate taxes by 25%, meaning a new state tax havens would be said if a tax levy less than 12.5%. Meanwhile, according to the results of the data collection, so much a company incorporated in Singapore, Hong Kong, Netherlands, Virgin Islands, Mauritius and Cayman Island. Based on these data in Table 4 did not meet all three requirements as a tax haven country for Indonesia. But if we see more depth to the tax laws of the country where, so many tax incentives and provisions of a tax rate reduction such as during the first 3 years, a new company became resident in Singapore can get a 0% tax rate for SG$100,000 taxable income is first. It should be more concern for the government because of course it is quite tempting opportunity to make tax avoidance to Singapore. In addition withholding tax of three countries tend to be lower than Indonesia, it would also lead to the use of the three countrie's tax treaty.The three tables it can be seen that most of the withholding tax between the three countries and Indonesia is quite different. Moreover, many of those countries provide three levels of withholding tax rates for different countries or different ownership conditions.

Anti-tax avoidance rule in Indonesia: In the effort to counteract some tax avoidance schemes that have been described, the Indonesian government established a special policy (Specific Anti Tax Avoidance/Saar) contained in the income tax law Article 18, the policies are:

Anti transfer pricing policy: In Article 18 (3) of the income tax , it is written that the DGT in the Indonesian tax authorities have the authority to determine the amount of income and the reduction of debt as well as determine the amount of capital to calculate Taxable Income (PKP) for taxpayers who have a special relationship with the taxpayer in accordance to the fairness and prevalence of business which are not affected by related parties by using the price comparison between independent parties, the resale price method, cost plus method or other methods.

Policy anti-treaty shopping: In Article 18 of income tax regulation, there are no regulation about treaty shopping but the government publish tax regulation PER-61/PJ/2009 about Procedures Implementation Agreement for the Avoidance of Double Taxation with renewal in the PER-24/PJ/2010. The regulation of the beneficial owner and the requirements to be a beneficial owner is the tax payer should have Certificate of Domicile (COD). Domicile form intended to ensure that the person who will get income from other country are the resident of partner country agreement (treaty partner). This is in accordance with the provisions of Article 1 of the treaty that tax treaty applies only to residents (resident) in that state (the beneficial owner). In addition, the beneficial owner is also mentioned in the tax regulation PER-62/PJ/2009 about the prevention of tax Avoidance of Double Taxation Agreement with the renewal in the PER-25/PJ/2010. In these regulations Article 3 c, the beneficial owner is "the actual owner on the economic benefits of income."

Anti thin capitalization policy: Financing with interest (loan financing) is more advantageous for the company because basically, the interest deduction can be expensed and the amount of income that reduced corporate profits and the tax base will be reduced. To prevent this happening, the government makes the rules contained in Article 18, Paragraph 1 which states that the Minister of Finance of the Republic of Indonesia is authorized to determine the ratio between the debt capital (Debt Equity Ratio/DER). The purpose is to stimulate investors to invest funds through stock ownership.

Anti-controlled Foreign company policy: In anticipation of CFC practice, government in Article 18, Paragraph 2 states that, the Minister of Finance of the Republic of Indonesia is authorized to determine when dividends accrued by the taxpayer in the source country in the business entity in the contracting state which share do not sell on the stock exchange with the qualification are: The amount of capital investment in the source country lowest 50% of the amount paid shares or together with other domestic taxpayers have the lowest capital investment 50% of the amount paid shares.

Government efforts in reducing tax avoidance through the tax haven country: According to DGT, the government's efforts to reduce tax avoidance continues to assess the amount of the tax rates in Indonesia. According to him, the smaller the rate charged in Indonesia, it also decreases the tax avoidance efforts. It is very sensible given, the purpose of tax avoidance itself does is to avoid the high tax rates in Indonesia. If the tax rate in Indonesia fell surely the main reason to do tax avoidance fade. And then, increases alertness DGT by increasing the tax audit of financial statements. The tax audit aimed to test a company's tax compliance. Increase the chances of an audit by a company, the company acquired the opportunity of tax evasion would be higher. In addition, the government also often renew the existing tax laws. Updates form of additional detail, certainly to prevent any misinterpretation of the taxpayer existing regulations. For example, changes to the PER-61/PJ/2009 and PER-62/PJ/2009, government publishes PER-24/PJ/2010 for change PER-61/PJ/2009 and changes found in Article 4 of Form DGT. The Article 4 was made to be more detailed in explaining the use of Form DGT. Form DGT is a sign that states the existence of an international agreement between the two countries through tax treaty. Through, this form others country tax payer will report their income both within and outside the country. For DGT, this form is very useful to prevent double non-taxable. the government efforts are sending intelligence to some state taxes are considered to require it. Given the increasing emergence of transactions with the Hong Kong and China, this time in both countries have placed tax intelligence. For the future tax intelligence will continue to be placed in other countries. On the other hand, the government continues to pursue any exchange of Information between Indonesia with other countries, especially countries which binds tightly to the Indonesian economy. EOI is very helpful in the process of investigating the tax. With the EOI agreements, a country must be willing to open the confidentiality of the data resident in the country in order for tax purposes.

Table 5: FDI of Singapore, HongKong and Netherlands

	2010		2011		2012's	
Negara/countries	P	I	P	I	P	I
Asia/Asia	1.628	7,977,8	2,311	9.135,5	2.364	11.0968,4
Singapura/Singapore	418	5.565.0	679	5.123.0	805	4.856,4
Hong Kong/Hong Kong (SAR)	62	566.1	104	135.0	105	309.6
Belanda/Netherlands	106	608,3	118	1.354,4	131	966,5

A progress on May 14, 2013 showed that the Singapore announced that they have agreed to cooperate with other countries in the world in the EOI. The effectiveness of law enforcement affects profit shifting. Interacting a summary measure of law enforcement quality and tax profit ratios of firms in the regressions, it is found that a low quality of law enforcement goes along with a high sensitivity of tax payments to corporate tax rates. With ineffective law enforcement have greater difficulties to effectively implement anti tax avoidance measures like, e.g., thin capitalization rules or transfer pricing corrections. This suggests that developing countries are more vulnerable to income shifting than developed countries (Azemar 2008). Other effort of Indonesia government to minimize the tax avoidance is by giving tax amnesty. Tax amnesty is a limited-time opportunity for a specified group of taxpayers to pay a defined amount in exchange for forgiveness of a tax liability (including interest and penalties) relating to a previous tax period or periods and without fear of criminal prosecution

The majority of the income tax rate applied in Singapore is higher than in Indonesia for each type of income derived from property ownership, shares and permanent establishment. However, there are exceptions for interest income which Singapore has lower income tax rates than Indonesia. However, there may be other factors to be considered by the Indonesian taxpayer to keep Singapore as a source of income. Indonesian taxpayer who owns property in the form of property, shares and permanent establishment in Singapore should consider in transferring the property to Indonesia because there are advantages in taxation which can be obtained by joining tax amnesty program (Tjaya, 2016) (Table 5).

CONCLUSION

An IMF Background study issued in June, 2003 classified international offshore financial centres into Three categories International Financial Centres (IFC) IFCs are large full service international centres, like London and New York with favourable tax and regulatory treatment. They provide a wide range of specialist activities globally and are well regulated and supervised Regional Financial Centres (RFC), RFCs are financial centres or jurisdictions such as Hongkong and Singapore They provide offshore banking and other services such as fund and trust administration, insurance, banking secrecy and tax planning in Asia Offshores Financial Centres (OFC) OFCs are largely smaller centres with limited specialist services and skills and low direct tax. Over 80% of international market is handled by OECD Member countries for the service where non OECD countries Singapore and Hongkong account for 10% of global market (Biswas, 2002)

BKPM showed Table 5 an increase in Foreign Direct Investment from the Netherlands, Singapore and Hong Kong to Indonesia each year.

The evidence above in Table 5 suggests that, the good correlation between the three countries with Indonesia. Increased foreign Investment will certainly be a positive stimulus for the economy of Indonesia. However, when viewed from the first data regarding the number of affiliated company established in Singapore, the Netherlands and Hong Kong, followed by seeing, so, low tariffs and tax incentives given these countries, high suspicion the practice of tax avoidance that do taxpayers to these countries.

Tax evasion to tax haven countries (in this discussion are Singapore, Netherlands, Virgin Island, Mauritius, Caymand Island and Hongkong) have tax rates lower than Indonesia or not levy taxes at all and these countries provide a very lucrative incentive for investors. Attractive incentive coupled with fairly stable economic conditions, the existence of a tax treaty with Indonesia, ease of access to investment and strategic location adds to the appeal of tax havens in the eyes of Indonesian investors. In addition, the lack of exchange of information is also a major consideration in tax avoidance, confidentiality of investors and funding sources are secured investment will provide comfort in the practice of tax avoidance. Tax avoidance to tax haven countries use some medias, they are a holding company, intermediary company and subsidiary company which can be done by the method of transfer pricing, thin capitalization, controlled foreign company and treaty shopping. The schemes which are used the most common are transfer pricing and treaty shopping. The existence of tax haven countries would give a negative impact to the Indonesian economy. Tax haven countries are preventing tax for most Indonesian

Taxpayers which are supposed to pay taxes to the Indonesian government as a funding contribution towards the development and progress of the nation.

Government efforts in resolving tax avoidance is to review the taxation laws of Indonesia and tax amnesty program. One is the decision to lower the tax rate where it is believed that the decrease in the tax rate, taxpayers tend to choose to pay more taxes than spend effort to find a means of avoidance taxes. In addition, the government did tax avoidance by conducting tax audits. Efforts to deal with tax avoidance would not have been possible without good cooperation with the authorities of other countries. Taxpayers will always look for ways to make tax avoidance because virtually every person, especially the business entity has the goal to maximize profits andminimize costs but the Indonesian government remains optimistic that tax havens would be reduced and the state of tax revenue could continue to rise.

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