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Facing a tax audit in 2008

Suppose you filed your 2007 corporate income tax return (CITR) on 31 March 2008 with a claim for a tax refund in it. The Director General of Tax (DGT) is required by law to decide on your claim within 12 months of the filing date, that is, by 30 March 2009. The DGT is unlikely to let the deadline pass without any decision as it would mean automatic approval for your claim. A tax audit is therefore inevitable.

The tax audit is likely to start in 2008. As it pertains to the 2007 tax year, your tax rights and obligations would be dealt with in accordance with the old tax administrative (KUP) law. This means the rule of “pay first, argue later” would still reign. Hence, if the DGT ultimately issues an underpaid tax assessment letter, instead of an overpaid one, you will be required to pay the whole assessment within a month of the assessment date irrespective of your disagreement. Filing an objection or an appeal is not an excuse to postpone the payment.

However, the DGT is committed to implementing the administrative provisions of the 2007 KUP law from 1 January 2008 for any year being audited. As a consequence, the one-month rule, regarded as an administrative affair, was declared by a senior DGT officer in a informal discussion with us recently, to be applicable for all tax audits starting in 2008 irrespective of the years being audited. Under this rule, you are required to provide documents requested by the tax auditors within a month from the request date. (Please refer to FAQ No. 2 of TaxFlash No. 3/2008).

Under these circumstances, we would recommend the following:

- **Reconciliation schedules.** Make sure that all data presented in the CITR, financial statements, monthly tax returns are reconciled with each other. You may need to prepare reconciliation schedules for this purpose.
- **Smooth access to your books.** The tax auditors will inevitably trace the data presented in the CITR and financial statements to your books. Some interface documents may be required to enable smooth access to your books. These may include a trial balance summary along with a schedule showing the allocation of those balances to the CITR and financial statements.
- **Supporting documents for each accounting entry.** Normally the tax auditors will confirm some journal entries, possibly on a sample basis, with the relevant supporting documents. These may include sales invoices, agreements with customers or vendors, bank transfers, etc. Ensure they are readily available.
- **Tax-related documents.** The DGT would normally validate certain tax-related documents such as tax invoices, withholding tax slips, and tax payment slips. Ensure that you keep the original documents and that none contain errors.

- **Your tax audit team.** In dealing with the tax auditors, the company must be represented by the company's officers. These primarily include members of the board of directors as stated in the company's Articles of Association. Employees who have authority to manage the company or parts thereof may also qualify as company officers for tax purposes subject to certain restrictions. Alternatively, you may appoint a proxy using a specific proxy letter. In this case, only licensed tax consultants are generally eligible as a proxy to represent you before the DGT in a tax audit.

If you have any questions regarding tax audits, please contact your PwC tax adviser.

Moving to a new tax service office

The DGT is streamlining several over-loaded tax service offices (KPP). More than 15,000 taxpayers originally registered with the special KPPs in Jakarta have been designated to be transferred to 70 primary and medium KPPs throughout Indonesia. The special KPPs consist of tax service offices that manage the following types of taxpayers: foreign investment (PMA) companies, go-public companies, and state-owned companies, as well as non-resident individuals and permanent establishments.

A complete list of taxpayers to be transferred to other KPPs is attached to the DGT Reg. No. KEP-35/PJ/2008 issued late March. If you or your company is registered with one of the special KPPs, we recommend checking the list to ascertain whether you or your company have to move to a new KPP.

According to Reg.35, registration with the new KPPs should take place no later than 7 April 2008. However, the change apparently has not yet been properly communicated to taxpayers. Several taxpayers only became aware of it when they filed their monthly tax returns. Confusion has therefore arisen. The DGT are aware of this matter, and have therefore postponed the effective registration date with the new KPPs to 2 June 2008 by Reg. 48/PJ/2008.

Those in the KPP transfer list should be aware of the following issues and, if required, take relevant measures:

- **Valid tax identity number.** Your tax identity number (NPWP) will change. Putting the incorrect NPWP in a tax-related document, such as a tax invoice, may render the document invalid and worthless. Hence, the change may call for an adjustment to your existing internal system. Externally you need to notify your vendors and service providers to ensure that they issue tax invoices with your valid NPWP.
- **Tax invoices.** Tax invoices issued under the new KPP should start with a new serial number. The new KPP should be notified in writing before the first tax invoice is issued. Another notification, specifying the employees who are authorized to sign tax invoices, along with a sample of their signature, should be submitted to the new KPP before 20 September 2008.
- **On going-tax audits.** The DGT's official policy is that on-going tax audits handled by the old KPPs and not yet completed by 2 June 2008 should be finalized by the old KPPs. Nevertheless, tax assessments should be issued by the new KPPs. However, the DGT may change the implementation at its own discretion.
- **Ongoing tax objections.** Tax objections filed with the old KPPs with a deadline before 2 August 2008 should be finalized by the old KPPs. Other tax objections must be transferred to the new KPPs. However, the DGT may change the implementation at its own discretion.

If you have any questions regarding the change, please contact your PwC tax adviser.

Code of conduct The way we do business*

Putting our values in action

Excellence

Delivering what we promise and adding value beyond what is expected.

We achieve excellence through **innovation, learning and agility.**

Teamwork

The best solutions come from working together with colleagues and clients.

Effective teamwork requires **relationships, respects and sharing.**

Leadership

Leading with clients, leading with people and thought leadership.

Leadership demands **courage, vision and integrity.**

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