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TaxFlash



Tax audit strategy for 2015

In line with the increase of this year's tax revenue target, the Director General of Tax (DGT) has tripled the 2015 tax audit revenue target from last year, to Rp 73.5 trillion (approximately US\$ 5.9 billion). This target, along with the tax audit strategy and plan, is stipulated in the DGT Circular Letter No.SE-09/PJ/2015 (SE-09), dated 13 February 2015.

The national tax audit strategy, which is designed to increase taxpayer' compliance, will focus on the following:

1. Corporate taxpayers:
 - Taxpayers who are suspected of abusing tax treaty facilities
 - Taxpayers who are conducting transfer pricing transactions with offshore entities
 - Taxpayers in the oil and gas and coal mining industry

2. Individual taxpayers:
 - Individuals with middle and high income
 - Influential individuals
 - Professionals

Interestingly, this Circular Letter has set several new performance indicators for tax auditors, including:

1. Approved tax assessment ratio

This ratio is based on the idea that the quality of a tax audit can be assessed by reference to the decreasing reluctance on the part of taxpayers to accept adjustments made by the tax auditor. The approved tax assessment ratio is calculated based on the portion of the tax assessment that is approved by the taxpayer, divided by the total tax underpayment assessment amount. The standard ratio set in this circular is 45%.

2. Tax due adjustment ratio

Another ratio used as a performance indicator is the increase of the tax due amount resulting from a tax audit. The ratio calculation differs depending on the tax return position and whether it is a normal or a re-tax audit. The standard ratio set in the Circular Letter is 12%, with a maximum ratio of 120%.

3. Refund discrepancy ratio

This ratio is calculated based on the refund amount that has been decreased by the tax auditor. The standard ratio set in the Circular Letter is 13%.

Postponement of new Article 4(2) withholding tax forms

Earlier this year, the DGT issued Regulation No.PER-01/PJ/2015 (PER-01) to amend the format of Article 4(2) withholding tax (WHT) forms, in order to gain more information from tax withholders. Significant changes occurred in regard to the information required to be reported in the list of WHT slips on interest from deposits, savings, Bank Indonesia Certificates (*Sertifikat Bank Indonesia/SBI*) and current accounts (“Form I.3”). Please refer to our TaxFlash No.07/2015 for our discussion of PER-01.

PER-01 was planned to be applicable starting from the reporting of WHT for March 2015, which has a filing deadline of 20 April 2015. However, the DGT issued Regulation No.PER-08/PJ/2015 on 20 February 2015 to postpone the application of PER-01 until further notice.

Non-VATable catering services

The new Value Added Tax (VAT) Law No.42/2009 states that catering services are not subject to VAT (i.e. they are non-VATable services). On 2 February 2015, the Minister of Finance (MoF) issued Regulation No.18/PMK.010/2015 (PMK-18) that regulates that non-VATable catering services must satisfy the criteria that they supply food and beverages (and are equipped with the necessary tools in this regard) at a location chosen by the customer. The food and beverages that are part of the provision of catering services are also non-VATable.

Excluded from non-VATable catering services is the sale of food and/or beverages at any other location (such as a store, shop, and stall), either directly or by order.

PMK-18 revokes MoF Decree No.418/KMK.03/2003 as the implementing regulation of the old VAT Law under which catering services were subject to VAT.

Electronic tax system

The DGT has released a series of regulations on the use of the electronic tax system. These regulations are dated, and have been effective since, 13 February 2015.

Below are the key points of each regulation:

1. Regulation No.PER-03/PJ/2015 (PER-03) regarding electronic tax (E-tax) returns submission

E-tax returns can be submitted to the Tax Service Office (TSO) either in the conventional manner (i.e. submitting a hardcopy and softcopy of the tax returns to the relevant TSO), by postal or courier services, or other channels stipulated by the DGT. PER-03 stipulates that other channels include:

1. The website of the DGT;
2. Websites of e-filing providers;
3. Digital voice channel, which is applicable for individual taxpayers that use Form 1770SS as their Annual Income Tax Return (AITR); or
4. A data communications network connects the DGT and the relevant taxpayer.

The digital voice channel and data communications networks are two new submission systems that are being introduced by the DGT. We understand that these systems are still under development and we expect to see further guidance once the systems are well established.

2. Regulation No.PER-04/PJ/2015 (PER-04) regarding the security of DJP Online system

The DGT has introduced a one-stop tax portal named “DJP Online” that migrates the existing e-filing and e-billing features administered by the DGT and offers new feature for monitoring the progress of application processes (e-tracking).

To be able to use the DJP Online system, the taxpayers must first apply for an Identification Number (e-FIN) at the nearest TSO, and register the information with the portal. Those who already have an e-FIN from a previous year’s application do not need to re-register.

PER-04 stipulates the use of an electronic certificate and token as additional safety measures to validate transactions submitted through the DJP Online tax service. The DGT will determine the types of transactions under DJP Online that must be completed with the use of an electronic certificate and token.

3. Regulation No.PER-05/PJ/2015 (PER-05) regarding application service providers

PER-05 regulates the requirements and obligations of application service providers (ASPs), which comprise the developers of e-tax returns software and e-filing providers. To be appointed as an authorised ASP, the ASP should apply to the DGT and a standard test will be conducted to check the system compatibility. The DGT’s approval of ASPs is valid for five years, with an option for renewal.

Further guidance on implementing Article 31E of Income Tax Law

The DGT has issued more guidance regarding implementing Article 31E, through Circular Letter No. SE-02/PJ/2015 (SE-02), which revokes the previous Regulation No.SE-66/PJ/2010 (SE-66).

The key points from the guidance are set out below.

1. The use of the facility under Article 31E is not optional and no application is required to use it.
2. Permanent establishments cannot enjoy this facility as they are foreign taxpayers.
3. The gross turnover threshold for using this facility includes all worldwide income received or earned from business activities and any other income, after deducting any sales return/reduction/discount, and before deducting costs to obtain, collect, and maintain the income.
4. The facility under Article 31E applies only to taxable income derived from non-final-taxed income, and therefore when calculating taxable income, all final taxed income and non-tax object must be excluded, including final-taxed income under Government Regulation No. GR-46/2013.
5. The current year of an Article 25 instalment must also be calculated using the Article 31E income tax rate.

Several examples for calculating income tax payable using Article 31E are provided in SE-02.

Article 19 (1) waiver – incentive for payment of tax arrears

As part of its tax collection efforts to boost tax revenue, the MoF issued Regulation No.29/PMK.03/2015 (PMK-29), dated 13 February 2015, regarding the elimination of interest administrative sanctions under Article 19 paragraph (1) of KUP Law. Interest administrative sanctions under Article 19(1) will generally be imposed if a payment of a tax payable arising from a tax assessment, objection/appeal/judicial review decisions is not paid within the stipulated deadline.

PMK-29 stipulates that taxpayers who:

- have tax payable arising before 1 January 2015;
- pay it before 1 January 2016; and
- still have an outstanding tax collection letter for sanctions under Art. 19(1)

will be granted a waiver on the unpaid sanction.

The elimination of this administrative sanction can be obtained by submitting an application letter to the DGT through the tax office where the taxpayer is registered. The detailed administrative procedure in this regard is set out in PMK-29.

VAT on toll road services

The DGT has finally issued Regulation No. PER-10/PJ/2-15, dated 2 March 2015, regarding the procedure of VAT collection for toll roads services.

This regulation stipulates that VAT will be imposed on toll roads services effective 1 April 2015. Toll tickets will be considered equivalent to a VAT invoice, provided that the ticket states the name, address, and Tax ID number of the toll roads services providers, as well as the VAT imposition base and the VAT amount. If the value of the toll ticket already includes VAT, the toll ticket must state this clearly.

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