Tax
Indonesia

TaxFlash

18 June 2008 No. 05/2008

IN THIS ISSUE:

Tax in the 2008-2009 economic program focus

In late May the President issued Instruction No. 5/2008 regarding the 2008-2009 economic program focus. One of the objectives is to improve the country's investment climate. In this respect, as far as tax is concerned, Instruction 5 set out several measures that the government will take in the next few months:

- Broadening the areas and regions in which investments may be granted income tax facilities. In this context GR 1/2007 will be revised in June 2008.
- Expanding the group of taxpayers eligible for obtaining pre-audit VAT refunds, i.e. VAT refunds which will be granted within seven days of the request date. A Minister of Finance (MoF) regulation will be issued in August 2008.
- Setting up 128 primary tax service offices outside Java and Bali equipped with a modern tax administration system.
- Encouraging on-line payment of Article 25 income tax. In this context the Director General of Tax (DGT) Regulation 22/PJ/2008 was issued in May 2008 which states that an on-line payment of such tax is also considered as a filing of the Article 25 income tax return. Separate filing is still required if such tax is not paid on-line.

Please find our next TaxFlash for a further discussion about Instruction 5/2008.

Tidy up your tax before the sun sets!

People are still in doubt about the Government's real intent behind its Sunset Policy. The 2007 tax administration (KUP) law, in Article 37A, does state that the Government may exempt interest penalties on underpaid tax resulting from a revision of an annual income tax return (AITR). As an implementing regulation, the MoF has also issued Reg. 66/PMK.03/2008 which confirms that an interest penalty exemption applies.

However, the policy as set out in Reg. 66 offers even more concessions:

- Any data declared in the revised AITR cannot be used as a basis to issue assessments on any other taxes**.**

- The revised AITR will not be audited unless it claims an overpaid tax refund or proves to be incorrect.
- Filing a revised AITR which calls for an additional tax payment may stop an on-going tax audit. This includes the audit of corporate income tax for which the revised AITR has been filed and also the audit of other taxes, as long as the relevant tax returns do not claim tax overpayments. The DGT, however, at his own discretion may decide to continue the audit irrespective of the absence of overpaid tax returns.

The policy prevails only up to the end of 2008. Hence, while it reminds you to tidy up your taxes with an offer of some concessions during the 'sunset' period, it also flags up what the DGT may do at 'night'.

In light of the current tax environment, the policy could potentially bring about a breakthrough, amid public scepticism about the image of the tax authorities. However, it sounds so good that doubts abound as to whether this could really be put into practice. It will be a real challenge for the DGT to implement the policy.

Tax withholding pertaining to state debt securities

Based on the debt period length, state debt securities are classified into two types: treasury bills (*Surat Perbendaharaan Negara* or SPN) and state bonds. The former has the debt period extending not more than 12 months while the debt period of the latter exceeds 12 months. Both may be acquired or transacted at a discount, i.e. at less than their face value or maturity value.

In the past, a different treatment applied in respect of tax withholding on the discounts of treasury bills and state bonds. As far as treasury bills were concerned, only a single discount would attract tax withholding, namely the discount derived from the original acquisition of the instrument from the issuer in the primary market. Further transfers of the instrument from one party to another at a discount did not call for any tax withholding. In contrast, transfers of a state bond at a discount to any parties other than the designated privileged parties would attract tax withholding.

By virtue of Government Regulation (GR) 27/2008 issued in early April, the Government ruled that tax withholding for treasury bills discounts should follow the same method as that applicable to state bond discounts. Hence, from now on, every transfer of treasury bills at a discount from one party to another, other than the designated privileged parties, will attract tax withholding. However, exemption or reduction from the standard domestic withholding tax rate may be applicable in light of a particular tax treaty. In this respect, the privileged parties are banks, including branches of foreign banks, established in Indonesia, government-approved pension funds, and venture capital.

Your PricewaterhouseCoopers contacts

Ali Mardi
ali.mardi@id.pwc.com

Anthony J. Anderson
anthony.j.anderson@id.pwc.com

Anton Manik
anton.manik@id.pwc.com

Engeline Siagian
engeline.siagian@id.pwc.com

Lili Tjitadewi
lili.tjitadewi@id.pwc.com

Margie Margaret
margie.margaret@id.pwc.com

Nuryadi Mulyodiwarno
nuryadi.mulyodiwarno@id.pwc.com

Robertus Winarto
robertus.winarto@id.pwc.com

Tim Watson
tim.watson@id.pwc.com

Ali Widodo
ali.widodo@id.pwc.com

Ay-Tjhing Phan
ay.tjhing.phan@id.pwc.com

Heru Supriyanto
heru.supriyanto@id.pwc.com

Margaret Duong
margaret.duong@id.pwc.com

Melisa Himawan
melisa.himawan@id.pwc.com

Ray Headifen
ray.headifen@id.pwc.com

www.pwc.com/id

If you would like to be removed from this mailing list, please reply with history to this email and write UNSUBSCRIBE in the subject line or send email to maria.purwaningsih@id.pwc.com.