Tax Indonesia

TaxFlash

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Tax audit target set for 2012

The Indonesia Tax Office's (ITO) revenue target for 2012 has increased significantly from 2011. Taxpayers can expect no let up in tax audit activity and the likelihood is that tax auditors will vigorously pursue the revenue target.

The tax audit revenue target for 2012 has been set at Rp 13.3 trillion (approximately US$ 1.4 billion), an increase of 47% from the 2011 target of Rp 9 trillion. This target along with the tax audit strategy and plan is stipulated through the issuance of Director General of Tax (DGT) Circular Letter No.SE-07/PJ/2012 (SE-07) dated 2 March 2012.

Similar to previous years, the ITO will target certain industries and high-wealth individuals, which have been determined based on the following factors:
- industries that make a significant contribution to the economy and tax revenue;
- industries where compliance levels in previous years were low;
- industries which had the ability to pay high taxes in 2011; and
- industries or certain taxpayers of public interest.

The listed target industries for 2012 tax audits are as follows:
- Plantations;
- Mining;
- Mass media;
- Chemical industry;
- Processing industry;
- Automotive;
- Construction;

- Large trade (including import trade);
- Banking and insurance;
- Real-estate;
- Consulting services.

For the individual taxpayers' tax audit targets are:
- Professionals (lawyers, tax consultants, notaries);
- Individuals related to corporations under tax audits.

The ITO will also focus on certain taxpayers and low-risk taxable entrepreneurs who have already received preliminary refunds.

There is no change in the position that taxpayers seeking a tax refund will automatically be subject to a tax audit.

What should you do?

Taxpayers falling into any of the above categories need to consider their positions carefully and assess potential areas the ITO may challenge on audit. For example the current hot issue on tax audits is transfer pricing – have you got transfer pricing documentation? For services provided by offshore related parties – can you evidence the services have been provided and evidence the benefits they have brought to the company? A no answer to any of these questions could lead to a tax audit adjustment disallowing the underlying expense.

It is important that taxpayers are prepared for a tax audit. For example, preparing the basic reconciliations undertaken by the ITO on audit – sales recorded in the Corporate Income Tax return as compared to sales recorded in the Value Added Tax returns. Any reconciling item that can not be justified can lead to a tax audit adjustment.

Taxpayers may wish to undertake a preliminary mock tax audit to determine risk areas and weak spots. Action can then be taken to ensure a robust audit defense exists. For example, simple things like compiling documentation to support deductions that are likely to be queried.

Another important point is to consider how information can be best presented to the ITO – would a presentation of the overall business assist the tax auditors in understanding your business and the commercial drivers?

In our experience being prepared for an audit, understanding the tax audit process and taxpayers rights, is important in successfully handling a tax audit.

How PwC can help

As well as your usual PwC contacts, PwC has a dedicated tax dispute team that can assist you with tax audit matters. The team comprises partners and managers with extensive experience in handling tax disputes at all levels, and ex Tax Court judges and tax officials who can provide insights into the process and offer practical guidance from a different perspective. PwC industry specialists also assist the tax dispute team when required. This breadth and depth of experience has assisted PwC being successful in resolving tax disputes favourably for clients.

Should you have any questions in relation to tax disputes please do not hesitate to call your usual PwC contact or anyone in our team in the first instance - they will be happy to assist.

Your PwC Indonesia contacts

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