TaxFlash

Tax audit target for 2013

The Indonesian Tax Office (ITO) has announced the revenue target for 2013. The tax audit revenue target has been set at Rp 18.5 trillion (approximately US$ 1.9 billion), increased by 40% from the 2012 target of Rp 13.3 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-11/PJ/2013 (*SE*-11) dated 26 March 2013.

The tax audit strategy is based on certain types of industry sectors, certain professions for individuals, and certain other criteria set out in SE-11. On top of the strategy, there is also a tax audit plan in relation to the statute of limitation for the fiscal years that will expire by the end of 2013 and 2014.

The factors considered to determine industry sectors for the tax audit target remain the same as in previous years:

- 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 2012; and
- industries or certain taxpayers of public interest.

Corporate Targets

The listed target industries for 2013 tax audits are as follows (new industries are highlighted in red):

- palm oil industry;
- mining;
- plantations;
- real-estate;
- automotive;
- chemical industry;
- processing industry;
- electronic industry;
- banking and insurance;
- large trade; and
- hotels and tourism support services.

Individual Targets

For the individual taxpayers' tax audit targets (new groups are highlighted in red):

- lawyers, doctors, notaries, and accountants;
- high net worth individuals based on mass media or public information;
- individuals purchasing luxurious cars and/or houses/apartments;
- individuals with a significant increase of assets;
- individuals owning shares in several companies with significant value;
- individuals indicated with high incompliance; and
- individuals related to corporations under tax audits.

Other Targets

Certain other criteria for tax audit targets are as follows:

- taxpayers with potential for Article 21/26 Income Tax (payroll tax);
- taxpayers indicated with incompliance in relation to transfer pricing transactions, especially companies that have significant offshore related party transactions; and
- taxpayers in mining support services.

We have recently seen tax audits being performed only for the payroll tax although the corporate tax returns are not in a tax overpayment position or being audited. These tax audits are performed with an extensive process that includes rigorous data provision such as pay slips, employment agreements, Jamsostek contribution payment slips, bank transfer instruction documents, policy on employees remuneration, employee attendance recapitulation/attendance card, employees' family cards and tax ID cards, and interviews with employees (on a sampling basis). If your company is selected for this type of tax audit, you need to anticipate providing a high volume of employee data, especially if you have a substantial number of employees.

Priority due to Statute of Limitation

The tax audit plan associated with statute of limitation for 2013 is outlined in more detail in DGT Circular Letter No.SE-12/PJ/2013 (SE-12) dated 26 March 2013, outlining the tax audit priority in relation to the statute of limitation for fiscal years 2003 – 2008 which will expire by the end of 2013. In light of this expiration date, there will be a focus to perform a tax audit on Income Tax Return/ITR (corporate and individual) showing a tax loss position and Value Added Tax (VAT) return with overpayment compensation, which have not been tax audited. The tax audit is to be performed under a single tax audit type (only on one type of tax).

The priority order for each category is as follows:

- ITR with tax loss position
    1. ITR with tax loss compensated to the subsequent years;
    2. ITR with tax loss position for at least three years;
    3. ITR with tax loss and has significant related party transaction;
    4. ITR with tax loss for fiscal years 2007 and 2008; and
    5. ITR with tax loss for fiscal years 2003 - 2006 which is considered having high potential.

- VAT return with overpayment compensation
  1. VAT return with overpayment compensation upon which a tax refund has been made;
  2. VAT return with overpayment compensation for 2008 and prior years with a compensation up to December 2008;
  3. VAT return with overpayment compensation for 2007 and prior years with a compensation up to December 2007; and
  4. VAT return with overpayment compensation for 2003 - 2008 other than the above which are considered having high potential.

Similar criteria (i.e., ITR (corporate and individual) showing a tax loss position and VAT return with overpayment compensation) are also applicable for the fiscal year 2009, which become part of the tax audit plan for 2014.

Longer time provided for adjustment on VAT invoice numbering

The DGT has developed a new electronic system to generate serial numbers for VAT invoices (*Faktur Pajak/FP*) through the issue of Regulation No.PER-24/PJ/2012 (*PER*-24) dated 22 November 2012. In order to enter the system, a VAT-able Entrepreneur (*Pengusaha Kena Pajak/PKP*) must apply to the Tax Service Office (TSO) where the PKP is registered for an activation code and password. After obtaining the activation code and password, the PKP may then request from the TSO a set of serial numbers for its FP.

PER-24 revokes the previous DGT Regulation No.PER-13/PJ/2010 (PER-13) regarding VAT Invoices, as amended by Regulation No.PER-65/PJ/2010 (PER-65). Please refer to our Tax Flash No.13/2012 for our detailed discussion surrounding PER-24.

The deadline for adjusting VAT invoice numbering to comply with PER-24 was 1 April 2013. However, noting readiness of the TSO and the application process from PKPs is still ongoing, the DGT has extended the deadline to 31 May 2013 through the issue of DGT Regulations No.PER-08/PJ/2013 (PER-08) on 27 March 2013. With regard to this time extension, PER-08 sets out the following transitional provisions:

- PKPs that have obtained the DGT's notification regarding the new set of serial numbers prior to 1 April 2013 must use the new serial numbers in accordance with PER-24.

- PKPs that have not obtained the DGT's notification regarding the new set of serial numbers as of 1 April 2013 must continue serial numbers based on PER-13 *juncto* PER-65 up to 31 May 2013. If the DGT's notification is obtained prior to 31 May 2013, the new serial numbers based on PER-24 must be used starting from the date of the DGT's notification.

Anti dumping import duty

On 19 March 2013, The Minister of Finance (MoF) issued a new Regulation No.65/PMK.011/2013 (*PMK*-65) regarding the imposition of Anti-Dumping Import Duty (*Bea Masuk Anti Dumping/ BM AD*) on imported products from flat-rolled (cold reduced) iron or non-alloy steel from the following countries: Japan, the Republic of Korea (Korea), Taiwan, the People Republic of China (China), and the Socialist Republic of Vietnam (Vietnam).

The following table lists the country of origin, manufacturer/exporter and BM AD rates imposed accordingly on imported goods:

No.	Country of Goods Origin	Manufacturer / Exporter	BM AD in percentage (%)
1	China	Wuhan Iron and Steel Company Limited	13,6
		Qinghuangdao Tongye Cold Rolled Steel Strip Co., Ltd	43,5
		Other companies	43,5
2	Japan	JFE Steel Corporation	18,6
		Kobe Steel Ltd	55,6
		Nippon Steel Corporation	55,6
		Nisshin Steel Co.,Ltd	55,6
		Sumitomo Metal Industries, Ltd	55,6
		Other companies	55,6
3	Korea	Dongbu Steel Co., Ltd	10,6
		Dongkuk Industries Co.	10,1
		Hyunday HYSCO	11,0
		POSCO	10,9
		Other companies	11,0
4	Taiwan	China Steel Corporation	7,0
		Synn Industrial Co., Ltd	5,9
		Sheng Yu Steel Co., Ltd.	12,3
		Ton Yi Industrial Corp.	11,0
		Kao Hsing Chang Iron & Steel Corp.	20,6
		Other companies	20,6
5	Vietnam	POSCO-Vietnam Co., Ltd	12,3
		Other companies	27,8

The BM AD above is an additional import duty based on the preference import duty rate scheme for exporters and/or manufacturers originating from countries which have trade agreements with Indonesia. PMK-65 is dated 19 March 2013 and has been effective for three years since the effective date.

New customs concession for certain industries Import duty borne by government for 2013

MoF has issued 17 new regulations, effective from 11 March 2013, to enable 17 industry sectors to obtain a customs concession in the form of the Import Duty bBorne by the Government (*Bea Masuk Ditanggung Pemerintah/BM DTP*). These regulations are in line with MoF Regulation No.7/PMK.011/2013 (PMK-7), the purpose of which is to increase the competitiveness of certain sectors of industry. PMK-7 permits a concession for import duty on the import of goods and materials for the production of goods and/or services which are in the public interest. Please refer to our Tax Flash No.03/2013 for a more detailed discussion of PMK-7.

The 17 MoF regulations below allow import duty on goods and materials by the following industries to be borne by the government in 2013. These regulations are applicable from 11 March to 31 December 2013 and the total import duty borne for each group of industries is limited to certain subsidy threshold in the Government Budget as listed below.

No.	MoF Regulation No.	Title	Subsidy threshold (in million Rp)	Number of goods type
1	47/PMK.011/2013	plastic packaging, plastic sheets, biaxially oriented polypropylene film, cast polypropylene film, household appliances and/or furniture made from plastic, plastic sacks, plastic threads, plastic tarp, and/or geotextile	150,000	11
2	48/PMK.011/2013	carpets and/or rug	40,000	13
3	49/PMK.011/2013	alkyd resin, unsaturated polyester resin, amino resin, pigment, phthalate, solution acrylic/synthetic latex, and/or plasticizer	2,000	5
4	50/PMK.011/2013	ballpoint	2,500	3
5	51/PMK.011/2013	artificial fertilizers	30,000	1
6	52/PMK.011/2013	motor vehicle components	300,000	106
7	53/PMK.011/2013	production and/or repairment of freight carrier, passenger carrier, electric/diesel train, bogie and electric train components	7,500	26
8	54/PMK.011/2013	production of certain parts and/or installation of large equipments	45,200	103
9	55/PMK.011/2013	equipments and/or components for heavy construction industry made from iron and steel, pressed container and tank made from metal, and machinery for agriculture and forestry industry	10,000	10
10	56/PMK.011/2013	steam turbine for power plant	6,000	30
11	57/PMK.011/2013	ships production and/or repairment	60,800	160
12	58/PMK.011/2013	electronic products and/or components	21,500	35
13	59/PMK.011/2013	telecommunication equipments	13,400	3
14	60/PMK.011/2013	fiber optic cables	4,500	16
15	61/PMK.011/2013	toner	1,000	9
16	62/PMK.011/2013	smart card in the form of plastic card, security card, electronic card, phone cellular card	11,700	9
17	63/PMK.011/2013	infusion package and/or infusion medicine	10,309.36	8

In order to obtain this concession from the Indonesian Directorate General of Customs and Excise, companies in any of the areas mentioned above should submit an application, complete with a “Draft Master List”, along with a recommendation letter from a related government agency (e.g., Ministry of Industry, Food and Drug Control Agency/*BPOM*, Ministry of Transportation). This concession is not applicable if the following conditions apply:

- the imported goods and materials are not subject to 0% import duty rate according to the Indonesian Customs Tariff Book;
- the imported goods and materials are included in the category of anti dumping, safeguard, compensation, and requital import duty as defined in prevailing regulations;
- the companies already use other customs concessions (i.e., Free Trade Area preferential tariff, Bonded Zone, and KITE facility).

It is necessary for relevant companies to study these new regulations carefully, since the BM DTP will provide a cash flow benefit for their businesses. Companies that use this concession will also have to be aware that the imported goods must be for the company's own use. Anyone misusing this concession (i.e., transferring goods imported to another party), will be liable to import duty, plus 2% interest per month up to a maximum of 24 months from the import date.

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