

Tax Services

Indonesian

Pocket Tax Book  
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**pwc**

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# Corporate Income Tax

## Tax rates

Generally a flat rate of 22% applies for fiscal year 2021 and reduced to 20% starting fiscal year 2022. Public companies that satisfy a minimum listing requirement of 40% and other conditions are entitled to a tax cut of 3% off the standard rate, giving them an effective tax rate of 19% for fiscal year 2021 and 17% for fiscal year 2022 onwards (refer to page 69). Small enterprises, i.e. corporate taxpayers with an annual turnover of not more than Rp 50 billion, are entitled to a 50% discount of the standard tax rate which is imposed proportionally on taxable income of the part of gross turnover up to Rp 4.8 billion. Certain enterprises with gross turnover of not more than Rp 4.8 billion are subject to Final Tax at 0.5% of turnover.

## Tax residence

A company is treated as a resident of Indonesia for tax purposes by virtue of having its incorporation or its domicile is in Indonesia. A foreign company carrying out business activities through a permanent establishment (PE) in Indonesia will generally have to assume the same tax obligations as a resident taxpayer.

## Tax payments

Resident taxpayers and Indonesian PEs of foreign companies have to settle their tax liabilities either by direct payments, third party withholdings, or a combination of both. Foreign companies without a PE in Indonesia have to settle their tax liabilities for their Indonesian-sourced income through withholding of the tax by the Indonesian party paying the income.

Monthly tax instalments (Article 25 income tax) constitute the first part of tax payments to be made by resident taxpayers and Indonesian PEs as a prepayment of their current year Corporate Income Tax (CIT) liability. A monthly tax instalment is generally calculated using the most recent Corporate Income Tax Return (CITR). Special instalment calculations apply for new taxpayers, finance lease companies, banks, state-owned companies, listed companies and other taxpayers with periodical reporting requirements.

The tax withheld by third parties on certain income (Article 23 income tax) or tax to be paid in advance on certain transactions (e.g., Article 22 income tax on imports) also constitute prepayments for the current year CIT liability of the income recipient or the party conducting the import (refer to pages 32-33 for income items subject to Article 23 income tax and pages 26-30 for transactions subject to Article 22 income tax).

If the total amount of tax paid in advance through the year (Articles 22, 23, and 25 income taxes) and the tax paid abroad (Article 24 income tax) is less than the total CIT due, the taxpayer has to settle the shortfall before filing its CITR. Such a payment is referred to as Article 29 income tax.

Certain types of income earned by resident taxpayers or Indonesian PEs are subject to final income tax. In this respect, the tax withheld by third parties (referred to as Article 4(2) income tax) constitutes the final settlement of the income tax for that particular income (refer to pages 31-32 for income items subject to final income tax under Article 4(2) income tax).

For foreign companies without a PE in Indonesia, the tax withheld from their Indonesia-sourced income by the Indonesian party paying the income (Article 26 income tax) constitutes a final settlement of their income tax due (refer to pages 33-34 for income items subject to Article 26 income tax).

## Business profits

Taxable business profits are calculated on the basis of normal accounting principles as modified by certain tax adjustments. Generally, a deduction is allowed for all expenditure incurred to obtain, collect and maintain taxable business profits. A timing difference may arise if an expenditure recorded as an expense for accounting cannot be immediately claimed as a deduction for tax.

## Taxation on certain offshore income

Indonesian tax residents are generally taxed on a worldwide income basis. However, the following offshore income may be exempted from income tax if it is reinvested or used for business activities in Indonesia within a certain period:

- Income received by an Indonesian taxpayer from a PE abroad;
- Dividends paid by companies abroad; and
- Active business income received by an Indonesian taxpayer from abroad (not from a PE or foreign subsidiary).

For the first two categories above, the minimum reinvestment amount is 30% of the profit after tax. If the after-tax income from the PE and dividend paid from the non-listed subsidiary are reinvested in Indonesia is less than 30% of profit after tax, the difference between the 30% threshold and the reinvested portion will be subject to income tax.

## Controlled foreign companies

Certain income of a Controlled Foreign Companies (CFCs) are subject to deemed dividend rules in Indonesia. This income includes dividends, interest, rentals, royalties, and gains from sales or transfer of assets, with certain limitations. A CFC is a foreign entity that is at least 50% owned by an Indonesian taxpayer or at least 50% collectively owned by Indonesian taxpayers. The scope of CFC income also covers income from indirectly owned

CFC with a minimum of 50% ownership by another CFC, or collective ownership by an Indonesian taxpayer's CFCs, or collective ownership by a number of CFCs (including under the same or different Indonesian taxpayers).

The ownership threshold that is used to determine the CFC status is the ownership percentage at the end of the Indonesian taxpayer's fiscal year, which is based on either the percentage of paid-up capital or the percentage paid-up capital with voting rights. The only situation in which the rules do not apply is when the CFC's shares are listed on a stock exchange.

## Capital allowances

### Depreciation

Expenditure incurred in relation to assets with a beneficial life of more than one year are categorized and depreciated from the month of acquisition by the consistent use of either the straight-line or the declining-balance method.

Tangible Assets Categories	Useful Life	Depreciation rate	
		Straight line method	Declining balance method
I. Non-building			
Category 1	4 years	25%	50%
Category 2	8 years	12.5%	25%

Tangible Assets Categories	Useful Life	Depreciation rate	
		Straight line method	Declining balance method
Category 3	16 years	6.25%	12.5%
Category 4	20 years	5%	10%
II. Building			
Permanent	20 years	5%	
Non-permanent	10 years	10%	

The comprehensive lists of the assets included in each category are set out in certain Minister of Finance (MoF) regulations. Special rules apply to assets used for certain industries (i.e. oil and gas, forestry, plantation and cattle breeding).

### Amortisation

Intangible property or costs, including the cost of extending building use rights, rights for business use, rights for use and goodwill with a useful life of more than one year, should be amortised on the following bases, as appropriate:

- a. Using the straight line or the declining balance method at the rates specified in categories 1, 2, 3, and 4 under Depreciation (above) based on the useful life of the property that is applicable for:
  - general intangible assets;
  - the costs of incorporation and expansion of the capital of an enterprise; and



- the capitalised costs incurred before the commencement of commercial operations, with a useful life of longer than one year. Classification into the appropriate category is determined on the basis of the nearest useful life.
- b. Using the production unit method on costs incurred in the acquisition of the right to oil and natural gas concessions, mining rights, forest concessions, and other rights to exploit natural resources and natural products with a beneficial life of longer than one year. Other than for oil and natural gas concessions, the amortisation may not exceed 20% per annum.

### Assets arising from Tax Amnesty program

Indonesia has rolled out Tax Amnesty program from 1 July 2016 to 31 March 2017 and any newly declared assets under this program cannot be depreciated or amortised for tax purposes. The acquisition costs of these assets are based on the value declared in the Tax Amnesty Declaration Letter.

### Asset transfers

Sales of a company's assets (other than land and building) may result in capital gains or losses, calculated as the difference between the sales proceeds and the tax writtendown value of the assets concerned. Capital gains are assessable whilst a capital loss is tax-deductible only if the asset concerned is used in the running of the business,

i.e., for obtaining, collecting, and securing assessable income.

### Revaluation of fixed assets

Subject to the Director General of Tax (DGT) approval, corporate taxpayers and PEs who maintain rupiah accounting may undertake a revaluation of their noncurrent tangible assets for tax purposes. This may be carried out once every five years. Each revaluation must include all business-related assets which are owned by the company and located in Indonesia, except for land (this may be omitted). Before requesting the DGT's approval, the company concerned must determine that it has settled all of its outstanding tax liabilities.

The revaluation must be conducted on a market or fair value basis. The market values must be determined by a Government-approved appraiser. These are subject to DGT adjustments if the values, in the DGT's view, do not represent the fair or market values of the assets.

Once approved, the depreciation applied to depreciable assets must be based on the new tax book values (approved values) on the basis of a full useful life (in other words, as if the assets were new).

The excess of the fair market value over the old tax book value of the revalued assets is subject to final income tax at a rate of 10%. Subject to the DGT approval, taxpayers

facing financial difficulties may pay this tax in instalments over 12 months.

Fixed assets falling under categories 1 and 2 must be retained at least to the end of their useful life. Land, buildings, and assets falling under categories 3 and 4 must be retained for at least 10 years after the revaluation date. Additional final income tax at a rate of 10% is imposed on the original revaluation gains if the revalued assets are sold or transferred before the end of this minimum retention period. This does not apply to:

- a. Transfer of assets because of force majeure or based on a Government decision/policy or a court decision;
- b. Transferred in the course of a tax-neutral business merger, consolidation, or business split;
- c. Withdrawal of fixed assets of a company because of irreparable damage.

## Disallowed deductions

These include:

- a. Benefits-in-kind (BIKs) (e.g., free housing, 50% of the acquisition and maintenance costs of certain company provided cars), except food and drink provided to all employees, employee benefits required for job performance such as protective clothing and uniforms, transportation costs to and from the place of work, accommodation for ship crew and the likes, the cost of providing BIKs in remote areas, and 50% of the acquisition and maintenance costs of cellular phones;

- b. Private expenses;
- c. Non-business gifts and aid, except certain religious contributions/alms and certain donations;
- d. Provisions, except for: provision for doubtful accounts for banking and certain financial institutions, provision for insurance companies, deposit security provision for the Deposit Insurance Corporation (*Lembaga Penjamin Simpanan/LPS*), reclamation provision for mining companies, forestation provision for forestry companies, and area closure and maintenance provision for industrial waste processing businesses;
- e. Income tax payments;
- f. Tax penalties;
- g. Profit distributions;
- h. Employer contributions for life, health and accident insurance and contributions to unapproved pension funds, unless the contributions are treated as part of the taxable income of employees;
- i. Expenses relating to income which is taxed at a final rate, e.g., interest on loans relating to time deposits;
- j. Expenses relating to income which is exempt from tax, e.g., interest on loans used to buy shares where dividends to be received are not subject to income tax;
- k. Salaries or compensation received by partnership or firmas members where their participation is not divided into shares.

## Debt to Equity Ratio

A single ratio of 4:1 is generally applicable, which means the amount of debt allowable in order to obtain full deductibility of the financing cost is limited to four times the equity amount. Exemption applies to certain taxpayers.

## Losses

Losses may be carried forward for a maximum of five years. However, for a limited category of businesses in certain regions or businesses subject to certain concessions, the period can be extended for up to 10 years. The carrying back of losses is not allowed. Tax consolidation and group relief is not available.

## Profit distributions

Tax is liable to be withheld from dividends as follows:

a. Resident recipients

Dividend received from an Indonesian company is non-tax object if it is received or earned by:

- Resident individual taxpayers who reinvest it in Indonesia within certain period; and/or
- Resident corporate taxpayers.

Dividends received by resident individual taxpayers who did not meet the reinvestment requirement, are subject to final income tax at a maximum rate of 10%.

- b. Non-resident recipients:  
20% (lower for treaty countries) final withholding tax is due on dividends paid to a non-resident recipient.

## Deemed profit margins

The following businesses have deemed profit margins for tax purposes:

	Deemed Profit in Gross Revenue	Effective Income Tax Rate
Domestic shipping operations	4%	1.20% <sup>1</sup>
Domestic airline operations	6%	1.80% <sup>1</sup>
Foreign shipping and airline operations	6%	2.64% <sup>1</sup>
Foreign oil and gas drilling operations	15%	3.75% <sup>2</sup>
Certain Ministry of Trade representative offices	1% of export value	0.25% <sup>2</sup>

### Notes:

- <sup>1</sup> The effective income tax rate (eitr) is calculated using the old tax rate of 30% because the MoF has not revised the decrees which regulate the deemed profit margins.
- <sup>2</sup> The eitr is calculated using the current tax rate of 25%, excluding Branch Profit Tax (BPT) portion. BPT rate varies according to availability of a reduced rate based on tax treaties.

## Special industries and activities

Certain contractually based concessions are available in Indonesia. These include Production Sharing Contracts (PSCs), Contract of Works (CoWs) and Mining Business Licenses (*Izin Usaha Pertambangan/IUP*).

Companies engaged in upstream oil and gas typically have to calculate CIT in accordance with their PSCs. The PSCs can be “conventional” with CIT effectively based on cost recovery principles or “gross split” which more closely follow the general CIT rules.

Certain companies engaged in metal, mineral and coal mining are governed by CoWs for the CIT calculation. Different provisions may apply including in respect of CIT rates, deductible expenses and how taxable income is calculated. CoW arrangements are however no longer available under the 2009 Mining Law and recent mining will generally follow an IUP concession. The Mining Law stipulates that general prevailing tax laws/regulations apply to these mining projects. Specific tax regulations however also exist for non-coal mining IUPs.

## Transfer Pricing

The Income Tax Law defines related parties as:

- a. Taxpayer has capital participation directly or indirectly at least 25% upon another Taxpayers; the relationship between Taxpayers through ownership at least 25%

- upon two or more Taxpayers; or relationship between two or more Taxpayers mentioned later;
- b. Taxpayer controls the other Taxpayer or two or more Taxpayers are under the same control, either directly or indirectly; or
- c. There are family relationship either blood relationship or by marriage in vertical and/or horizontal lineage of one degree.

Transactions between related parties must be consistent with the arm's length principle. If the arm's length principle is not followed, the DGT is authorised to recalculate the taxable income or deductible costs arising from such transactions applying the arm's length principle.

Under the General Tax Provisions and Procedures (*Ketentuan Umum dan Tata Cara Perpajakan/KUP*) Law, the Government requires specific transfer pricing documentation to prove the arm's length nature of related-party transactions.

The MoF issued a new regulation dated 30 December 2016 regarding transfer pricing documentation which requires taxpayers under certain criteria to prepare transfer pricing documentation, namely: Master file, Local file, and Country-by-Country Report (CbCR). The Master file and Local file must be available if requested by the DGT, while the summary must be attached to the Corporate Income Tax Return (CITR) of the tax year concerned. The Notification of



the CbCR obligation and the CbCR itself (if required) must be submitted to the tax office within 12 months after the end of a tax year.

Detailed transfer pricing disclosures are required in the CITR. These include:

- The nature and value of transactions with related parties;
- The transfer pricing methods applied to those transactions and the rationale for selecting the methods; and
- Whether the company has prepared transfer pricing documentation.

ITO provides specific technical guidelines to carry out transfer pricing audits.

Transfer pricing disputes may be resolved through the domestic objection and appeal process or, where the dispute involves a transaction with a related party in a country that is one of Indonesia's tax treaty partners, the parties may request double tax relief under the Mutual Agreement Procedures (MAP) article of the relevant tax treaty. MAP may be applied concurrently with a domestic dispute resolution process. However, the MAP will result to a disagreement once the decision on the tax appeal case has been pronounced.

The tax law authorises the DGT to enter into Advance Pricing Agreements (APAs) with taxpayers and/or another country's tax authority on the future application of the arm's

length principle to transactions between related parties. APA's conclusions may potentially be rolled back to open years, albeit on a limited basis. In all cases, the APA period can be up to maximum of five years.

## Income Tax on e-commerce and Electronic Transaction Tax

Foreign e-commerce players with a significant economic presence in Indonesia can be deemed as having a Permanent Establishment (PE) in Indonesia. If a PE cannot be deemed to exist under the existing rules of an applicable Tax Treaty, affected e-commerce players will be subject to an Electronic Transaction Tax (ETT). ETT will be imposed on direct sales or sales through the marketplace.

The PE with significant economic presence will be determined based on the following factors:

- consolidated gross turnover of group businesses;
- revenue from Indonesian market; or
- number of active users

within certain thresholds that will be governed by the MoF.

Details on the tax rate, tax base, and calculation method will be governed in a Government Regulation (GR), while the payment and reporting mechanism will be governed by further implementing regulations.

# Individual Income Tax

## Normal tax rates

Most income earned by individual tax residents is subject to income tax at the following normal tax rates:

Taxable Income	Rate	Tax Rp.
Up to Rp 50,000,000	5%	2,500,000
Above Rp 50,000,000 up to Rp 250,000,000	15%	30,000,000
Above Rp 250,000,000 up to Rp 500,000,000	25%	62,500,000
Above Rp 500,000,000	30%	30% of the relevant amount

## Concessional tax rates

The final tax rates for severance payments (if paid within two years) are as follows:

Gross Income	Rate	Tax Rp.
Up to Rp 50,000,000	Nil	Nil
Above Rp 50,000,000 up to Rp 100,000,000	5%	2,500,000

Gross Income	Rate	Tax Rp.
Above Rp 100,000,000 up to Rp 500,000,000	15%	60,000,000
Above Rp 500,000,000	25%	25% of the relevant amount

The final tax rates for lump-sum pension payments from a Government-approved pension fund, old-age security saving payments from *Badan Penyelenggara Jaminan Sosial (BPJS) Ketenagakerjaan* (workers' social security program) if paid within two years are as follows:

Gross Income	Rate	Tax Rp.
Up to Rp 50,000,000	Nil	Nil
Above Rp 50,000,000	5%	5% of the relevant amount

Payments for year 3 onwards, the usual normal tax rates (please refer to page 17) will be applied.

## Main Personal Relief

Annual non-taxable income (*Penghasilan Tidak Kena Pajak/PTKP*) for resident individuals is as follows:

	Rp.
Taxpayer	54,000,000
Spouse	4,500,000
Each dependant (max. of 3)	4,500,000
Occupational expenses (5% of gross income, max. Rp. 500,000/month)	6,000,000
Employee contribution to <i>BPJS Ketenagakerjaan</i> for old age security savings (2% of gross income)	Full amount
Pension maintenance expenses (5% of gross income, max. Rp 200,000/month)	2,400,000

## Tax residence

An individual is regarded as a tax resident if he/she fulfils any of the following conditions:

- He/she resides in Indonesia;
- He/she is present in Indonesia for more than 183 days in any 12-month period;
- He/she is present in Indonesia during a fiscal year and intends to reside in Indonesia.

Note: The provisions of tax treaties may override these rules.

Indonesian tax residents are generally taxed on a worldwide income basis. However, foreign citizens may be taxed only on their Indonesian-sourced income for a limited period if they fulfill certain requirements. In addition, there are certain overseas income that are not subject to tax in Indonesia (see page 4 on Taxation on certain offshore income).

An Indonesian citizen who is present in Indonesia for less than 183 days in any 12-month period may be considered as a non-resident if they fulfill additional requirements, for example having a permanent home, centre of vital interest, habitual abode, the status of tax subject, or other criteria outside Indonesia.

Non-resident individuals are subject to withholding tax at a rate of 20% (Article 26 income tax, subject to a relevant tax treaty provisions) on Indonesia-sourced income (as specified on pages 33-34).

### Registration and filing

Resident individual taxpayers who receive or earn annual income exceeding the PTKP threshold must register with the ITO and file annual income tax returns (Form 1770). The tax return should disclose all the individual's income, including compensation from employment, investment income, capital gains, overseas income and other income, as well as providing a summary of the individual's assets and liabilities. An Indonesian shareholder in a CFC is

deemed to receive a dividend with respect to the CFC income. Please refer to pages 4-5 regarding CFCs.

A family is generally regarded as a single tax reporting unit with a single tax identity number (*Nomor Pokok Wajib Pajak/ NPWP*) in the name of the head of the family (typically the husband). His wife and his dependant children's income must be reported on the same tax return in his name; they may or may not be taxed together with his income depending on whether their income is subject to Article 21 income tax.

### Tax payments

A substantial part of individual income tax is collected through withholding by third parties. Employers are required to withhold Article 21/26 income tax on a monthly basis from the salaries and other compensation payable to their employees. If an employee is a resident taxpayer, the amount of tax withheld should be based on the normal tax rates (as set out above). If he/she is a non-resident taxpayer, the withholding tax is 20% of the gross amount (and may be set at a lower rate under a tax treaty).

Various other payments to individuals also call for withholding tax obligations from the payers. These include, among others:

- Pension payments made by Government-approved pension funds;
- Severance payments;

- Old-age security saving payments from *BPJS Ketenagakerjaan*;
- Fees for services;
- Prizes/awards.

Typically the amount of tax withheld from these types of income (Article 21 income tax) is based on normal tax rates as set out above.

The tax withheld on fees for non-employee individuals and certain professionals, such as lawyers, notaries, accountants, architects, doctors, actuaries and appraisers, are required to be calculated based on 50% of the gross income at the prevailing rates.

Interest earned on severance payments transferred to a manpower severance pay management board is subject to a final tax of 20% if the board is a bank, or to a 15% withholding tax under Article 23 income tax in other cases.

### Benefits-in-kind (BIKs)

BIKs, such as cars, housing, education, home leave and reimbursement of an employee's Indonesian tax liability provided by the employer, are typically not assessable in the hands of the employee. This also applies to BIKs which are required for the execution of a job, for example protective clothing, uniforms, transportation costs to and from the place of work and accommodation for ship crew and the likes, and the cost of providing BIKs in remote areas.



However, BIKs are taxable in the hands of the employee if they are provided by:

- Final-taxed companies; and
- Companies taxed at a deemed-profit (includes airline and shipping companies).

Some other taxpayers may also have specific tax treatment regarding the taxability of BIKs.

### Social security system

Employers are responsible for ensuring that their employees are covered by a social security program. Employees' contributions are collected by the employers through payroll deductions. These must be paid together with the employer's contributions.

From 1 January 2014, a comprehensive social security program covers all Indonesian citizens is in place. The social security system is administered by:

1. Social Security Agency for health insurance (*BPJS Kesehatan*) - covering health insurance
2. Social Security Agency for worker's social security (*BPJS Ketenagakerjaan*) - covering accidents, insurance, old age savings, death insurance and pensions

The current premium contributions are as follows:

Areas covered	As a percentage of regular salaries/wages	
	Borne by employers	Borne by employees
Working accident protection	0.24-1.74%	-
Death insurance	0.3%	-
Old age savings	3.7%	2%
Health care*	4%	1%
Pension**	2%	1%

\*) Maximum calculation base is Rp 12,000,000/month

\*\*\*) Maximum calculation base is updated annually based on BPJS regulation

The compulsory requirement to join the new social security scheme applies to all employees, including expatriates who have been working in Indonesia for more than six months.

## Saving Management of People's Housing

Saving management of people's housing (*Tabungan Perumahan Rakyat/Tapera*) is a mechanism to collect and provide a long-term, sustainable low-cost funds for house financing in order to meet the needs of decent and affordable housing for the participants. The implementation of the Tapera Program is intended for all segments of workers on the principle of mutual cooperation.

Deposits contributions are paid by employees and employers based on a certain percentage of wages i.e. 0.5% for employer and 2.5% for employee or 3% of income for freelancers.

The Government provides an opportunity for private sector employers to register their workers no later than 19 May 2027.

### Unemployment Insurance

The Government introduces a new insurance program i.e. Unemployment Insurance to provide further protection to employees affected by employment termination. The implementation is still subject to further regulations.

Under this insurance program, which will likely be managed by the BPJS, the Government will provide benefit to the affected employees in the form of cash, access to job market information and training.

## Withholding Taxes

### General

Indonesian income tax is collected mainly through a system of withholding taxes. Where a particular item of income is subject to withholding tax, the payer is generally held responsible for withholding or collection of the tax. These withholding taxes are commonly referred to using the relevant article of the Income Tax (*Pajak Penghasilan/PPH*) Law, as follows:

(i) **Article 21 income tax (PPH 21)**

Employers are required to withhold PPh 21 from the salaries payable to their employees and pay the tax to the State Treasury on their behalf. The same withholding tax is applicable to other payments to non-employee individuals (e.g., fees payable to individual consultants or service providers) (see page 17 for the relevant tax rates). Resident individual taxpayers without an NPWP are subject to a surcharge of 20% in addition to the standard withholding tax.

(ii) **Article 22 income tax (PPH 22)**

PPH 22 is typically applicable to the payments of the following events:

No	Event	Tax rate (%)	Tax base	Notes
1	The import of:			
	a. Certain end customer goods	10	Import value (i.e., CIF value plus duties payable)	
	b. End consumer goods other than (a)	7.5		
	c. Goods other than (a) and (b) using an Importer Identification Number ( <i>Angka Pengenal Impor/ API</i> ):			
	i) Soybeans, wheat and flour wheat	0.5		
ii) Other than (i)	2.5			
d. Goods other than (a) and (b) without an API	7.5			
2	The auctioned imported goods	7.5	Auction prices	
3	The purchase of goods by the Government requiring payment from the State Treasury and Proxy of Budget User ( <i>Kuasa Pengguna Anggaran/KPA</i> )	1.5	Selling prices	1
4	The purchase of goods by State Owned Enterprises ( <i>Badan Usaha Milik Negara/ BUMN</i> ) and some of their subsidiaries	1.5	Selling prices	1,3
5	The purchase of oil fuel by gas stations from Pertamina and its subsidiaries	0.25	Selling prices	2

No	Event	Tax rate (%)	Tax base	Notes
6	The purchase of oil fuel by gas stations from parties other than Pertamina and its subsidiaries	0.3	Selling prices	2
7	The purchase of oil fuel by parties other than gas stations	0.3	Selling prices	2
8	The purchase of gas fuel	0.3	Selling prices	2
9	The purchase of lubricants	0.3	Selling prices	
10	The purchase of cement by local distributors	0.25	Selling prices	
11	The purchase of paper products by local distributors	0.1	Selling prices	
12	The purchase of steel products by local distributors	0.3	Selling prices	
13	The purchase of automotive products by local distributors	0.45	Selling prices	
14	The purchase of pharmaceutical products by local distributors	0.3	Selling prices	
15	The purchase of motor vehicles from Sole Agents ( <i>Agen Tunggal Pemegang Merek/ATPM</i> ), Agents ( <i>Agen Pemegang Merek/APM</i> ) and general importers	0.45	Selling prices	4

No	Event	Tax rate (%)	Tax base	Notes
16	The purchase of forestry, plantation, agriculture, cattle breeding, and fishery products by manufacturers or exporters	0.25	Selling prices	1
17	The export of coal, metal and non-metal minerals by exporters other than those engaged in a Mining Cooperation Agreement or a Contract of Work with the Government	1.5	Export value	
18	The purchase of coal, metal and non-metal minerals from companies or individuals holding a mining license ( <i>Izin Usaha Pertambangan/IUP</i> )	1.5	Selling prices	1
19	The purchase of gold bars	0.45	Selling prices	5
20	The purchase of very luxurious goods	5	Selling prices	

**Notes:**

1. In events (3), (4), (16), and (18), the PPh 22 collectors must withhold PPh 22 from the amount payable to a particular vendor, except payments for the purchase/use of:
  - a) oil fuel, gas fuel, lubricants, postal products;
  - b) water and electricity;
  - c) oil, gas (including upstream by products) from a Contractor of a PSC, the Contractor's head office, or the Contractor's trading arms; and
  - d) geothermal or electricity from a Contractor of a Joint Operation Contract.

- There is also an exemption for the purchase of goods with a value of up to Rp 2 million, Rp 10 million, and Rp 20 million for events (3), (4), and (16) respectively. In the other events, the importer or the buyer of the designated goods must pay PPh 22 in addition to the amounts payable for the goods imported or purchased.
2. The withheld PPh 22 constitutes a pre-payment of corporate/ individual income tax liabilities, except for the purchase of oil and gas fuel by distributors/agents, which is categorised as final tax.
  3. Exception applies on the purchase of forestry, plantation, agriculture, cattle breeding, and fishery products since it is already subject to PPh 22 in event (16).
  4. Exception applies on the purchase of very luxurious motor vehicles since it is already subject to PPh 22 in event (20).
  5. Exemption applies on the sale to Bank Indonesia.
  6. The tax does not apply, either automatically or with an Exemption Certificate issued by the DGT, on the following types of events:
    - a) Import/purchase of goods not subject to income tax.
    - b) Import of goods exempted from import duties and/or Value Added Tax (VAT), including if the goods is subject to 0% import duty, or VAT is not collected.
    - c) Goods that have been temporarily imported (i.e. goods for re-export).
    - d) Goods for re-importing (i.e., exported and re-imported in the same quality or to be repaired/tested).
    - e) Import of gold bars for the production of jewellery for re-export.
    - f) Purchase of goods related to the use of the Government school operations subsidy (*Bantuan Operasional Sekolah/ BOS*) fund.
    - g) The purchase of grain or rice by the State Treasury, KPA, and the Bureau of Logistics (*Badan Urusan Logistik/ BULOG*).
    - h) The purchase of basic necessity foods by BULOG or appointed BUMNs.

Taxpayers without an NPWP will be subject to a surcharge of 100% in addition to the standard tax rate.



(iii) **Article 4 (2) – final income tax (*PPh Final*)**

Resident companies, PEs, representatives of foreign companies, organisations and appointed individuals are required to withhold final tax from the following gross payments to resident taxpayers and PEs:

Description	Tax rate
1. Rental of land and/or buildings	10% <sup>1</sup>
2. Proceeds from transfers of land and building rights	2.5% <sup>2</sup>
3. Fees for construction work performance	2/3/4%
4. Fees for construction work planning	4/6%
5. Fees for construction work supervision	4/6%
6. Interest on time or saving deposits and on Bank Indonesia Certificates (SBIs) other than that payable to banks operating in Indonesia and to Government-approved pension funds	20% <sup>3</sup>
7. Interest on bonds other than that payable to banks operating in Indonesia and Government-approved pension funds	15% <sup>4</sup>
8. Proceeds from sale of shares on Indonesian stock exchanges. To use this rate, founder shareholders must pay tax at 0.5% of the market price of their shares upon listing, otherwise, gains on subsequent sales are taxed under normal rules	0.1%
9. Income from lottery prizes	25%

Description	Tax rate
10. Certain income received by individuals and corporate (except PEs) with gross turnover of not more than Rp 4.8 billion in one fiscal year	0.5% <sup>5</sup>

**Notes:**

1. This includes land owner's income from Build Operate Transfer agreements.
2. Proceed from the transfer of real estate assets to a Real Estate Investment Fund (*Kontrak Investasi Kolektif – Dana Investasi Real Estate/KIK-DIRE*) is subject to 0.5% tax rate.
3. Different rates apply on interest received from time deposits sourced from export proceeds (*Devisa Hasil Ekspor*).
4. If the recipient is a mutual fund, Infrastructure Investment Funds (*Dana Investasi Infrastruktur/DINFRA*), Real Estate Investment Funds (*Dana Investasi Real Estate/DIRE*), or Asset- Backed Securities (*Efek Beragun Aset/EBA*), that operate under a Collective Investment Contract (*Kontrak Investasi Kolektif/KIK*) registered with the Financial Services Authority (*Otoritas Jasa Keuangan/OJK*), the tax rate is 5% until 2020 and 10% thereafter.
5. This regime is optional for eligible taxpayers and only applicable for certain period of time depending on the type of taxpayer.

**(iv) Article 23 income tax (PPH 23)**

Certain types of income paid or payable to resident taxpayers are subject to PPh 23 at a rate of either 15% or 2% of the gross amounts:

- a. PPh 23 is due at a rate of 15% of the gross amounts on the following:
  1. Dividends (but see pages 11-12 concerning profit distributions);

2. Interest, including premiums, discounts and loan guarantee fees;
  3. Royalties;
  4. Prizes and awards.
- b. PPh 23 is due at a rate of 2% of the gross amounts on the fees for the following:
1. Rentals of assets other than land and buildings;
  2. Compensation with respect to technical services, management services, consultation services and other services, except those have been withheld of Income Tax as referred to Article 21.

(v) **Article 26 income tax (PPh 26)**

Resident taxpayers, organisations and representatives of foreign companies are required to withhold tax at a rate of 20% from the following payments to non-residents:

a. On gross amounts:

1. Dividends;
2. Interest, including premiums, discounts and guarantee fees. The withholding tax rate for this particular item can be lowered by a GR;
3. Royalties, rents and payments for the use of assets;
4. Fees for services, work, and activities;
5. Prizes and awards;
6. Pensions and any other periodic payments;
7. Swap premiums and other hedging transactions;

8. Gains from debt write-offs;
9. After-tax profits of a branch or PE.

b. On Estimated Net Income (ENI), being a specified percentage of the gross amount:

	ENI	Effective tax rate
Insurance premiums paid to insurance companies:		
• by the insured	50%	10%
• by Indonesian insurance companies	10%	2%
• by Indonesian reinsurance companies	5%	1%
Sale of non-listed Indonesian company shares	25%	5%
Sale of a conduit company located in tax haven country where this company serves as an intermediary for the holding of Indonesian company shares or a PE	25%	5%
Sale of luxurious jewellerys, diamonds, gold, luxurious watches, antiques, paintings, cars, motorcycles, yachts and light aircrafts with sale value of above Rp 10 million	25%	5%

Where the recipient is resident in a country which has a tax treaty with Indonesia, the withholding tax rates may be reduced or exempted. See pages 37-41 for withholding tax rates under tax treaties.

# International Tax Agreements

## Double Taxation Agreements

Indonesia's Double Taxation Agreements (DTAs/tax treaties) provide for tax benefits in the form of withholding tax exemptions for service fees and for reduced withholding tax rates on dividends, interest, royalties and branch profits received by tax residents of its treaty partners. Tax exemption on service fees is typically granted only if the foreign party earning the income does not have a PE in Indonesia.

To claim the reduced rates, the foreign party must, at a minimum, present its Certificate of Domicile (CoD) to the ITO through the Indonesian party paying the income. Without this document, either in the form prescribed by the DGT or in the form of the treaty partner country (subject to certain conditions), the party is not entitled to the tax benefit and tax is withheld at a rate of 20%.

The foreign party must first fulfil the following anti-treaty abuse tests that are applicable to all types of income generated from Indonesia:

1. The entity has relevant economic substance either in the entity's establishment or the execution of its transaction;

2. The entity has the same legal form and economic substance either in the entity's establishment or the execution of its transaction;
3. The entity has its own management to conduct its business, and such management has an independent discretion;
4. The entity has sufficient assets to conduct business, other than the assets generating income from Indonesia;
5. The entity has sufficient and qualified personnel to conduct the business;
6. The entity has business activity other than receiving dividends, interest, royalties sourced from Indonesia; and
7. The purpose of the transaction is not to directly or indirectly obtain the benefit under the convention that is contrary to the object and purpose of the convention.

In addition, the foreign party must fulfil the following beneficial ownership test, if required under the relevant tax treaty when generating income in the form of dividends, interest, or royalties:

1. The entity is not acting as an agent, nominee, or conduit;
2. The entity has controlling rights or disposal rights on the income, the assets, or the rights that generate the income;
3. No more than 50% of the entity's income is used to satisfy claims by other persons;

4. The entity bears the risk on its own assets, capital, or the liabilities; and
5. The entity has no contracts which obliges the entity to transfer the income received to residents of a third country.

The withholding tax rates applicable under tax treaties are summarised below:

	Notes	Dividends		Interest	Royalties	Branch Profit Tax
		Portfolio	Substantial holdings			
1. Algeria		15%	15%	15/0%	15%	10%
2. Armenia		15%	10%	10/0%	10%	10%
3. Australia		15%	15%	10/0%	15/10%	15%
4. Austria		15%	10%	10/0%	10%	12%
5. Bangladesh		15%	10%	10/0%	10%	10%
6. Belarus		10%	10%	10/0%	10%	10%
7. Belgium		15%	10%	10/0%	10%	10%
8. Brunei		15%	15%	15/0%	15%	10%
9. Bulgaria		15%	15%	10/0%	10%	15%
10. Cambodia	1,5	10%	10%	10/0%	10%	10%
11. Canada		15%	10%	10/0%	10%	15%
12. China	2	10%	10%	10/0%	10%	10%
13. Croatia		10%	10%	10/0%	10%	10%

	Notes	Dividends		Interest	Royalties	Branch Profit Tax
		Portfolio	Substantial holdings			
14. Czech Republic		15%	10%	12.5/0%	12.5%	12.5%
15. Denmark		20%	10%	10/0%	15%	15%
16. Egypt		15%	15%	15/0%	15%	15%
17. Finland		15%	10%	10/0%	15/10%	15%
18. France		15%	10%	15/10/0%	10%	10%
19. Germany	1	15%	10%	10/0%	15/10%	10%
20. Hong Kong		10%	5%	10/0%	5%	5%
21. Hungary	3	15%	15%	15/0%	15%	20%
22. India	1	10%	10%	10/0%	10%	15%
23. Iran		7%	7%	10/0%	12%	7%
24. Italy		15%	10%	10/0%	15/10%	12%
25. Japan		15%	10%	10/0%	10%	10%
26. Jordan	3	10%	10%	10/0%	10%	20%
27. Korea (North)		10%	10%	10/0%	10%	10%
28. Korea (South)	2	15%	10%	10/0%	15%	10%
29. Kuwait		10%	10%	5/0%	20%	10/0%
30. Laos		15%	10%	10/0%	10%	10%
31. Luxembourg	1	15%	10%	10/0%	12.5%	10%
32. Malaysia	4,5	10%	10%	10/0%	10%	12.5%
33. Mexico		10%	10%	10/0%	10%	10%



	Notes	Dividends		Interest	Royalties	Branch Profit Tax
		Portfolio	Substantial holdings			
34. Mongolia		10%	10%	10/0%	10%	10%
35. Morocco		10%	10%	10/0%	10%	10%
36. Netherlands		10/15%	5%	10/5/0%	10%	10%
37. New Zealand	3	15%	15%	10/0%	15%	20%
38. Norway		15%	15%	10/0%	15/10%	15%
39. Pakistan	1	15%	10%	15/0%	15%	10%
40. Papua New Guinea	1	15%	15%	10/0%	10%	15%
41. Philippines		20%	15%	15/10/0%	15%	20%
42. Poland		15%	10%	10/0%	15%	10%
43. Portugal		10%	10%	10/0%	10%	10%
44. Qatar		10%	10%	10/0%	5%	10%
45. Romania		15%	12.5%	12.5/0%	15/12.5%	12.5%
46. Russia		15%	15%	15/0%	15%	12.5%
47. Serbia		15%	15%	10/0%	15%	15%
48. Seychelles	3	10%	10%	10/0%	10%	20%
49. Singapore	6	15%	10%	10/0%	15%	15%
50. Slovakia		10%	10%	10/0%	15/10%	10%
51. South Africa		15%	10%	10/0%	10%	10%
52. Spain		15%	10%	10/0%	10%	10%

	Notes	Dividends		Interest	Royalties	Branch Profit Tax
		Portfolio	Substantial holdings			
53. Sri Lanka		15%	15%	15/0%	15%	20%
54. Sudan		10%	10%	15/0%	10%	10%
55. Suriname		15%	15%	15/0%	15%	15%
56. Sweden		15%	10%	10/0%	15/10%	15%
57. Switzerland	1	15%	10%	10/0%	10%	10%
58. Syria		10%	10%	10/0%	20/15%	10%
59. Taiwan		10%	10%	10/0%	10%	5%
60. Tajikistan		10%	10%	10/0%	10%	10%
61. Thailand		20/15%	20/15%	15/0%	15%	20%
62. Tunisia		12%	12%	12/0%	15%	12%
63. Turkey		15%	10%	10/0%	10%	10%
64. Ukraine		15%	10%	10/0%	10%	10%
65. United Arab Emirates		10%	10%	5/0%	5%	5%
66. United Kingdom		15%	10%	10/0%	15/10%	10%
67. United States of America		15%	10%	10/0%	10%	10%
68. Uzbekistan		10%	10%	10/0%	10%	10%
69. Venezuela	1	15%	10%	10/0%	20%	10%
70. Vietnam		15%	15%	15/0%	15%	10%
71. Zimbabwe	1,5	20%	10%	10/0%	15%	10%

**Notes:**

1. Service fees including for technical, management and consulting services rendered in Indonesia are subject to withholding tax at rates of 5% for Switzerland, 7.5% for Germany, 10% for Cambodia, India, Luxembourg, Papua New Guinea, Venezuela, and Zimbabwe, and 15% for Pakistan.
2. VAT is reciprocally exempted from the income earned on the operation of ships or aircraft in international lanes.
3. The treaty is silent concerning the branch profit tax rate. The ITO interprets this to mean that the tax rate under Indonesian Tax Law (20%) should apply.
4. Labuan offshore companies (under the Labuan Offshore Business Activity Tax Act 1990) are not entitled to the tax treaty benefits.
5. Ratified but not yet effective, pending the exchange of ratification documents.
6. Renewed treaty was signed, but pending ratification and the exchange of ratification documents.

**Permanent establishment time test**

Certain activities may give rise to the creation of a PE if they are conducted in Indonesia for more than a certain period of time. The following is a summary of these periods for the activities specified in the relevant tax treaties:

	Bldg. Site Construction	Installation	Assembly	Supervisory Activities	Other Services
1. Algeria	3 months	3 months	3 months	3 months	3 months
2. Armenia	6 months	6 months	6 months	6 months	120 days
3. Australia	120 days	120 days	120 days	120 days	120 days
4. Austria	6 months	6 months	6 months	6 months	3 months
5. Bangladesh	183 days	183 days	183 days	183 days	91 days
6. Belarus	6 months	6 months	6 months	6 months	120 days
7. Belgium	6 months	6 months	6 months	6 months	3 months

	Bldg. Site Construction	Installation	Assembly	Supervisory Activities	Other Services
8. Brunei	183 days	3 months	3 months	183 days	3 months
9. Bulgaria	6 months	6 months	6 months	6 months	120 days
10. Cambodia	183 days	183 days	183 days	183 days	183 days
11. Canada	120 days	120 days	120 days	120 days	120 days
12. China	6 months	6 months	6 months	6 months	6 months
13. Croatia	6 months	6 months	6 months	6 months	3 months
14. Czech Republic	6 months	6 months	6 months	6 months	3 months
15. Denmark	6 months	6 months	6 months	6 months	3 months
16. Egypt	6 months	4 months	4 months	6 months	3 months
17. Finland	6 months	6 months	6 months	6 months	3 months
18. France	6 months	---	6 months	183 days	183 days
19. Germany	6 months	6 months	---	---	---
20. Hong Kong	183 days	183 days	183 days	183 days	183 days
21. Hungary	3 months	3 months	3 months	3 months	4 months
22. India	183 days	183 days	183 days	183 days	91 days
23. Iran	6 months	6 months	6 months	6 months	183 days
24. Italy	6 months	6 months	6 months	6 months	3 months
25. Japan	6 months	6 months	---	6 months	---
26. Jordan	6 months	6 months	6 months	6 months	1 month
27. Korea (North)	12 months	12 months	12 months	12 months	6 months

	Bldg. Site Construction	Installation	Assembly	Supervisory Activities	Other Services
28. Korea (South)	6 months	6 months	6 months	6 months	3 months
29. Kuwait	3 months	3 months	3 months	3 months	3 months
30. Laos	6 months	6 months	6 months	6 months	6 months
31. Luxembourg	5 months	5 months	5 months	5 months	---
32. Malaysia	6 months	6 months	6 months	6 months	3 months
33. Mexico	6 months	6 months	6 months	6 months	91 days
34. Mongolia	6 months	6 months	6 months	6 months	3 months
35. Morocco	6 months	---	6 months	6 months	60 days
36. Netherlands	6 months	6 months	6 months	6 months	3 months
37. New Zealand	6 months	6 months	6 months	6 months	3 months
38. Norway	6 months	6 months	6 months	6 months	3 months
39. Pakistan	3 months	3 months	3 months	3 months	---
40. Papua New Guinea	120 days	120 days	120 days	120 days	120 days
41. Philippines	6 months	3 months	3 months	6 months	183 days
42. Poland	183 days	183 days	183 days	183 days	120 days
43. Portugal	6 months	6 months	6 months	6 months	183 days
44. Qatar	6 months	6 months	6 months	6 months	6 months
45. Romania	6 months	6 months	6 months	6 months	4 months
46. Russia	3 months	3 months	3 months	3 months	---
47. Serbia	6 months	6 months	6 months	6 months	6 months

	Bldg. Site Construction	Installation	Assembly	Supervisory Activities	Other Services
48. Seychelles	6 months	6 months	6 months	6 months	3 months
49. Singapore	183 days	183 days	183 days	6 months	90 days
50. Slovakia	6 months	6 months	6 months	6 months	91 days
51. South Africa	6 months	6 months	6 months	6 months	120 days
52. Spain	183 days	183 days	183 days	183 days	3 months
53. Sri Lanka	90 days	90 days	90 days	90 days	90 days
54. Sudan	6 months	6 months	6 months	6 months	3 months
55. Suriname	6 months	6 months	6 months	6 months	91 days
56. Sweden	6 months	6 months	6 months	6 months	3 months
57. Switzerland	183 days	183 days	183 days	183 days	---
58. Syria	6 months	6 months	6 months	6 months	183 days
59. Taiwan	6 months	6 months	6 months	6 months	120 days
60. Tajikistan	6 months	6 months	6 months	6 months	91 days
61. Thailand	6 months	6 months	6 months	6 months	6 months
62. Tunisia	3 months	3 months	3 months	3 months	3 months
63. Turkey	6 months	6 months	6 months	6 months	183 days
64. Ukraine	6 months	6 months	6 months	6 months	4 months
65. United Arab Emirates	6 months	6 months	6 months	6 months	6 months
66. United Kingdom	183 days	183 days	183 days	183 days	91 days

	Bldg. Site Construction	Installation	Assembly	Supervisory Activities	Other Services
67. United States of America	120 days	120 days	120 days	120 days	120 days
68. Uzbekistan	6 months	6 months	6 months	6 months	3 months
69. Venezuela	6 months	6 months	6 months	6 months	---
70. Vietnam	6 months	6 months	6 months	6 months	3 months
71. Zimbabwe	6 months	6 months	6 months	6 months	183 days

## Tax Information Exchange Agreements

Indonesia has Tax Information Exchange Agreements (TIEAs) with the Bahamas (pending the exchange of ratification documents), Bermuda, Guernsey, Isle of Man, Jersey, and San Marino.

## Mutual Administrative Assistance in Tax Matters

Indonesia signed the Convention on Mutual Administrative Assistance in Tax Matters on 3 November 2011 and ratified it on 17 October 2014. Indonesia has also signed Multilateral Competent Authority Agreements on the automatic exchange of:

1. Financial Account Information using the Common Reporting Standard; and
2. Transfer Pricing documentation in the form of Country-by-Country Report.

## Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting

Indonesia signed and ratified the Multilateral Instrument on 7 June 2017 and 12 November 2019 respectively. In this ratified document, Indonesia has put 47 tax treaties to be covered by the Convention.

This MLI has entered into force on 1 August 2020. Indonesia has submitted notification to OECD (as the depository of the MLI) to confirm the completion of internal procedures for the tax treaty on 26 November 2020.

## US FATCA

Indonesia has principally agreed to sign the Inter-Governmental Agreement (IGA) 1 for FATCA compliance purposes.



# Value Added Tax

## General

Value Added Tax (VAT) is typically due on events involving the transfer of taxable goods or the provision of taxable services in the Indonesian Customs Area. The taxable events are:

- a. Deliveries of taxable goods in the Customs Area by an enterprise;
- b. Import of taxable goods;
- c. Deliveries of taxable services in the Customs Area by an enterprise;
- d. Use or consumption of taxable intangible goods originating from outside the Customs Area in the Customs Area;
- e. Use or consumption of taxable services originating from outside the Customs Area in the Customs Area;
- f. Export of taxable goods (tangible and intangible) by a taxable enterprise.
- g. Export of taxable services by a taxable enterprise.

The VAT obligations arise upon the above deliveries with the value exceeding Rp 4.8 billion per annum.

The delivery of taxable goods is defined very broadly; it includes the following:

- a. Deliveries of a title to taxable goods according to an agreement;
- b. Transfers of taxable goods according to a hire-purchase or a finance-lease agreement;
- c. Deliveries of taxable goods to an intermediary trader or through an auction official;
- d. Own-use and/or free gift of taxable goods;
- e. Remaining taxable goods in the form of inventories and/or assets, which were originally not for sale, upon a company's dissolution;
- f. Deliveries of taxable goods within a company (e.g., between branches, or between the head office and its branches) unless the company, subject to the DGT's approval, centralises its VAT reporting;
- g. Deliveries of taxable goods by a taxable entrepreneur in the framework of sharia-based financing, whereby the deliveries are deemed to take place directly from the taxable entrepreneur to the party in need of the taxable goods.

### Tax rates and tax base

The VAT rate is typically 10%. This may be increased or decreased to 15% or 5% according to a GR. However, VAT on the export of taxable tangible and intangible goods as well as export of services is fixed at 0%. Certain limitations for the zero-rated VAT apply to export of services.

VAT is calculated by applying the VAT rate to a relevant tax base. In most cases, the tax base is the transaction value agreed between the parties concerned. For certain events or situations, other criteria must be used as the tax base, including:

- a. Market value for transactions between related parties, remaining inventories of taxable goods upon a company's dissolution, and sales of (non-inventory) assets originally not for sale;
- b. Cost of sales (selling price minus gross margin) for own-use or free gifts and internal deliveries of taxable goods (e.g., between branches, or from the head office to branches);
- c. Auction price for deliveries of taxable goods through an auction officer;
- d. Agreed price for deliveries of taxable goods through an intermediary trader;
- e. Average result per film for movies;
- f. Rp 12 million per copy of imported movies;
- g. 20% of total costs incurred or paid, exclusive of the acquisition price of land, for the self-construction of a building;
- h. Retail selling prices for deliveries or imports of tobacco products;
- i. 10% of the actual billing for package shipment services;
- j. 10% of the actual billing for tour and tourism agency services whose deliveries are not based on commissions;

- k. 20% of selling price on the deliveries of gold jewellery, including services carried out by the factory in relation to gold jewellery;
- l. 10% of the actual billing on the deliveries of freight forwarding services in which billing includes freight charges;
- m. 100/110 of the Government subsidy value and 100/110 of the highest retail price determined by the Minister of Agriculture for deliveries of certain fertilizer for agricultural sector.
- n. 10% of selling price on certain deliveries of agricultural products by certain sellers.
- o. 100/110 from the retail price charged by Government-appointed entity or 10/101 from the margin of the distribution agents for the delivery of certain non-subsidised Liquefied Petroleum Gas.

By law, all goods and services, unless otherwise stated, constitute taxable goods or taxable services. The legal negative list sets out which goods and services are categorised as non-taxable with certain exceptions, as follows:

### *Non-taxable Goods*

- a. mining or drilling products extracted directly from their sources, for example crude oil, natural gas, geothermal energy, sand and gravel, iron ore, tin ore, copper ore, gold ore, silver ore and bauxite ore;
- b. basic commodities, for example rice, salt, corn, sago, soybeans, and fish;

- c. food and drink served in hotels, restaurants and the like, either consumed in the vicinity or taken away, including food and drink delivered by caterers; and
- d. money, gold bars and securities.

### *Non-taxable Services*

- a. medical health services;
- b. social services, for example orphanages and funeral services;
- c. mail services using stamps;
- d. financial services;
- e. insurance services;
- f. religious services;
- g. educational services;
- h. art and entertainment services;
- i. broadcasting services which are not used for advertising;
- j. public transportation on land and water and domestic air transport that is an integral part of international air transport;
- k. manpower services;
- l. hotel services;
- m. public services provided by the Government;
- n. parking area services;
- o. public telephone services using coins;
- p. remittance services by money orders; and
- q. food or catering services.

## VAT reporting

Companies and individuals designated as taxable enterprises (*Pengusaha Kena Pajak/PKP*) are required to report their business activities and settle the VAT liabilities on these every month. VAT is usually to be accounted for on a decentralisation basis. As a result, a company carrying out business activities through a number of business units (branches) in the jurisdiction of different district tax service offices (*Kantor Pelayanan Pajak/KPP*) must register each unit with the relevant KPP. It is in this context that internal deliveries of taxable goods within a company are subject to VAT.

Generally, a company may centralise its VAT reporting and exclude internal deliveries of taxable goods from the scope of VAT by submitting a written notification to the DGT. However, there are certain categories of taxpayers that are required to perform the centralisation and another category of taxpayers that is prohibited from doing so.

## Input-output mechanism

VAT liabilities are typically settled by using an input-output mechanism. A vendor of taxable goods or taxable services must typically charge VAT to the buyer. From the vendor's perspective, it is an output tax. The buyer has to pay the VAT to the vendor. From the buyer's perspective, it is an input tax. To the extent that the goods or services are necessary for running the buyer's business, the input tax can be credited against the buyer's own output tax. If the accumulated output tax for a particular month exceeds the

accumulated input tax for the same period, the taxpayer in question has to settle the difference by the end of the following month and prior to the VAT return filing deadline. If, however, the accumulated input tax for a particular month exceeds the accumulated output VAT, the taxpayer may carry over the overpaid VAT to the following months or ask for a yearly refund at the end of book year.

### Import and self-assessed VAT

Import VAT on goods and self-assessed VAT (also commonly known as reverse charge) on the consumption or use of foreign taxable services or intangible goods should be understood in the context of the standard input-output mechanism.

Because the non-resident vendor or service provider cannot charge VAT (in other words, cannot issue tax invoices) to the Indonesian buyer/importer, the Indonesian buyer/importer has to pay the VAT for and on behalf of the non-resident vendor or service provider.

### VAT Collector

A variation from the standard mechanism, however, is in force for deliveries of taxable goods and services to VAT Collectors. The VAT Collectors are currently the State Treasury, State Owned Enterprises (*Badan Usaha Milik Negara/BUMN*) and some of their subsidiaries, PSC (Production Sharing Contract) companies in the oil and gas sector, and mineral mining companies holding certain Special Mining Business License. As the name implies,

a VAT Collector is required to collect the VAT due from a taxable enterprise (vendor) on the delivery of taxable goods or services and to remit the VAT payment directly to the Government, rather than to the vendor or the service provider. A company engaged in deliveries of taxable goods or services mainly to a VAT Collector may accordingly be in an overpaid VAT position (see page 55 concerning VAT refunds).

### Crediting input VAT

VAT must be accounted for to the DGT every month. Input tax for a particular tax period (month), in principle, must be claimed as a tax credit against the output VAT for the same tax period. However, the claim can still be made within three months of the end of the particular tax period if the input tax has not yet been expensed.

The validity of particular tax invoices is a key to successfully claiming the input tax as a tax credit. A tax invoice must generally contain the following minimum information:

- a. the name, address and NPWP of the taxpayer delivering the taxable goods or services;
  - b. the name, address and identification number of the purchaser;
  - c. the type of goods or services, the quantity, the sales price or compensation and any discounts;
  - d. the VAT that has been collected;
  - e. the LST collected (if any) on luxury goods;
  - f. the code, serial number and date of issue of the invoice;
- and



- g. the name and signature of the authorised signatory to the invoice.

Failure to satisfy the minimum information requirement will mean that the input tax cannot be used as a tax credit. PKPs are required to prepare its tax invoice in electronic format (electronic *Faktur Pajak/e-FP*).

A tax invoice must be issued at:

- a. the time of delivery of taxable goods or services;
- b. the time a payment is received if the payment is received prior to the delivery of taxable goods or services;
- c. the time a term-payment is received in the case of delivery of a part of the work phase; or
- d. such other time as may be stipulated by an MoF regulation.

### VAT refunds

Refund applications can be made at the end of a book year. The DGT is required to make a decision on a VAT refund application, on the basis of a VAT audit, within 12 months of the receipt of a complete application. If no decision has been made within 12 months, the application is considered to have been approved.

Relevant supporting documents for a VAT refund must be delivered to the DGT within one month of the application date. Any documents delivered after that period may be ignored by the DGT in the VAT refund calculation.

Early VAT refunds are possible for certain taxpayers (see pages 89-90 concerning early tax refunds).

## VAT on e-commerce

Indonesian VAT will be imposed on the utilisation of certain intangible goods and services provided from overseas to Indonesian customers through an electronic system.

Foreign sellers, foreign service providers, or foreign e-commerce marketplaces and domestic e-commerce marketplace will be appointed as VAT Collectors if their activity in the Indonesian market meets either of the following thresholds:

- transaction value with customers in Indonesia exceeding IDR 600 million in a year or IDR 50 million in a month; or
- access to their e-commerce platform from Indonesia exceeds 12,000 users in 12 months, or 1,000 users in one month.

The appointed VAT Collectors must collect and pay the VAT from customers as well as submit reports through the designated electronic tax filing system provided by the DGT.

## VAT exemption facilities

### Strategic goods

The deliveries and/or import of taxable goods designated as strategic goods are exempt from VAT. The designation of

strategic goods is made through a GR.

Currently, the following goods are included:

- a. capital goods in the form of machinery and plant and equipment required for the manufacturing of taxable goods (please refer to page 79 on the relevant tax concession);
- b. animal husbandry products, including hunting and trapping, and fishery products, including the capture and cultivation of fish;
- c. raw hides and skins which were not tanned;
- d. seeds and seedlings for agricultural, plantation, forestry, farm and animal husbandry products;
- e. cattle, poultry and fish feed, and the raw materials for manufacturing these;
- f. raw materials of silver craft in the form of granules and/or bars;
- g. basic flats with size 21m<sup>2</sup> up to 36m<sup>2</sup>;
- h. electricity, except household electricity exceeding 6,600 VA, including electricity connection costs;
- i. import or delivery of Liquefied Natural Gas.

### Other VAT exemption schemes

To support the achievement of certain national objectives, VAT is exempt on the imports and/or deliveries of the following taxable goods or taxable services:

- a. weapons, ammunition, and various other appliances for use by the armed forces and the state police;
- b. equipment and spare parts for providing boundary data and aerial photographs used by the armed forces;
- c. polio vaccines for use in the National Immunisation Program;

- d. general education and religious books;
- e. low-cost houses, low cost flats with size less than 21m<sup>2</sup>, labor low-cost accommodation, and student accommodation with certain threshold;
- f. services rendered for the construction of low-cost accommodations in point (e) and places of worship;
- g. rental of low-cost houses and low-cost flats less than 21m<sup>2</sup>;
- h. certain port services rendered to shipping companies that are serving international routes;
- i. clean water, excluding bottled drinking water.

## VAT not-collected facilities

### Certain means of transport and related taxable services

To strengthen the national transportation industry, VAT is not-collected on the imports and/or deliveries of the following taxable goods or taxable services:

- a. transportation vehicles and spare parts thereof, used by the armed forces and the state police;
- b. ships and spare parts thereof, as well as navigational or personal safety equipment used by national commercial shipping companies, national fishing companies, national seaport operators or national river, lake and ferry operators;
- c. aircraft and spare parts thereof, as well as aviation and personal safety equipment, and repair and maintenance equipment used by national commercial airlines;
- d. trains and spare parts thereof, as well as equipment for repair, maintenance and infrastructure used by national

- train enterprises (*Badan Usaha Penyelenggara Sarana atau Prasarana Perkeretaapian Umum*);
- e. services received by national commercial shipping companies, national fishing companies, national seaport operators or national river, lake crossing and ferry operators, covering vessel leasing services, port services, and vessel maintenance or docking services;
  - f. services received by national commercial airlines, covering aircraft leasing services, aircraft maintenance or repair services;
  - g. train maintenance or repair services received by national train enterprises.

#### Other VAT not-collected schemes

VAT is also not-collected on the following events:

- a. the traffic of goods or services under the concessions on special projects and special zones (please refer to pages 71-79 on the relevant tax concession);
- b. deliveries of certain fuels for petrol-fuelled ships that transport goods to or from overseas ports;
- c. deliveries of anode slime to be further processed in producing gold bars;
- d. import of certain taxable goods exempted from import duty.

## Luxury-goods Sales Tax

In addition to VAT, deliveries or imports of certain manufactured taxable goods may be subject to Luxury-goods Sales Tax (LST). A particular item will only attract LST once, i.e., tax will be charged either on importation of the good or on delivery by the (resident) manufacturer to another party.

LST must be accounted for every month together with VAT. The importer or the manufacturer of the goods is held responsible for the settlement of the LST.

A summary of the indicative LST rates is set out below. It should be noted that the inclusion of a particular item in the summary does not necessarily mean that the item will always be subject to LST. Whether or not the particular item is subject to LST depends on other factors, including capacity, size, or price.

To ascertain whether or not a particular item is subject to LST and to identify the LST rate, reference should be made to the Customs Book using the relevant harmonised system (HS) code.

According to the VAT & LST Law, the LST rate may be increased up to 200%, however currently the LST rates are between 10% to 125%.

Group	LST Rates (%)							
	10	20	30	40	50	60	75	125
Luxury residences such as luxury houses, apartments, condominiums, town houses and the like		●						
Balloons, dirigibles, and other non-powered aircraft				●				
Shotguns and other arm cartridges, firearms and other arms, except for the state purposes				●	●			
Aircraft other than those for the state or commercial air-transport purposes					●			
Luxury cruisers, except for the need of the state and public transport as well as yacht for tourism							●	
Motor vehicles*	●	●	●	●	●	●		●

\*) The LST rate for motor vehicles will change in October 2021.

# Customs and Excise

## Import Duty

Import duty is generally payable at rates from 0% - 150% on the customs value of imported goods. Customs value is calculated on Cost, Insurance and Freight level (CIF).

Group	Good	Rate (%)
Automobiles	Passenger & commercial	5 to 50
Automobile components	Incompletely Knocked Down	0 to 7.5
	Part by Part	0 to 10
Vessels	Ships, boats and floating structures	0 to 5
Aircraft	Balloons, helicopters, aeroplanes, parachutes, and aircraft launching gear	0
Electronic goods	Camera, refrigerator, cellular phone and others	0 to 15
Textile, textile products and accessories	Bags, footwear, harnesses, apparels, and clothing accessories, etc	5 to 35
Beverages, ethyl alcohol & alcoholic drinks	Ethyl alcohol, juice, beer, wine, spirits and other beverages	5 to 150 or, Rp. 14,000/ltr



Group	Good	Rate (%)
Essential oils and resinoids	Odoriferous substances	5 to 150
Agricultural products	Animal & vegetable products	0 to 30
Furniture	Bedding, mattresses, lamp and lighting fittings, and others	5 to 20
Toys	Toys, games and sport requisites, parts and accessories thereof	5 to 20
Plastic	Plastics and article thereof	0 to 25
Rubber	Rubber and article thereof	0 to 15
Wood	Wood and article thereof	0 to 25
Steel	Steels and article thereof	0 to 20
Others	Chemicals, pharmaceutical products, software, works of art, arms and ammunition, musical instrument, and others	0 to 40

As a commitment to liberalising trade, the Indonesian Government is progressively lowering import duty rates on most products. Higher duty rates remain to protect certain industries and goods regarded as sensitive for security or social and cultural reasons. On top of normal import duty rates, there are several additional import duty rates on certain products such as anti-dumping, safeguard, compensation, and requital import duty rates.

### ASEAN duty rates

Limited relief is given to Association of South East Asian Nations (ASEAN) countries on imports of goods that have fulfilled the origin criteria i.e. wholly obtained or not wholly obtained from the origin country and have been directly shipped between such countries. Indonesian Government implements the ASEAN Trade In Goods Agreement (ATIGA) since 1 January 2010.

This scheme is intended to increase inter-ASEAN trade by reducing duty rates on most goods to 0% import duty.

### Agreements on preferential duty rates

Indonesia has also implemented the following agreements on preferential duty rates with other countries:

- a. ASEAN – China Free Trade Agreement (FTA)
- b. ASEAN – Korea FTA
- c. ASEAN – India FTA
- d. ASEAN – Australia – New Zealand FTA
- e. ASEAN – Hong Kong, China FTA
- f. ASEAN – Japan Comprehensive Economic Partnership
- g. Indonesia – Australia Comprehensive Economic Partnership Agreement
- h. Indonesia – Pakistan Preferential Trade Agreement
- i. Indonesia – Japan Economic Partnership Agreement
- j. Indonesia – Chile Comprehensive Economic Partnership

- k. Memorandum of Understanding between The Government of The Republic of Indonesia and The Government of The State of Palestine on Trade Facilitation for Certain Products Originating from Palestinian Territories.

### Import duty relief/exemption/deferral

The Indonesian government offers import duty relief, exemption, and/or deferral concessions to foreign and/or domestic investors in order to promote the development of local and export-oriented industries. This concession usually combined with other tax facilities such as VAT and income tax (please refer to pages 71-79 on the relevant tax concession). Certain entities that import goods related to R&D activities can also be granted with import duty and/or excise exemptions.

### Export Duty

Export duty can be calculated based on a certain percentage of customs value (*ad valorem*) or specifically based on duty rate/quantity in a certain currency. Customs value is determined by the Director General of Customs and Excise in accordance with the price benchmark set by Ministry of Trade.

Group	Goods	Rate
Leather and wood	Leather made from certain furry animals, veneer, chip wood, processed wood	2% to 25%
Cocoa beans		0% to 15%
Palm fruit, Crude Palm Oil (CPO) and its derivative products	Fresh fruit bars, CPO, Crude Palm Kernel Oil (CPKO), hydrogenated CPO/CPKO, Palm Fatty Acid Distillate (PFAD), biodiesel	USD 0 to 262 / Metrics Ton
Refined mineral products	Certain metals	0% to 5%*
Certain mineral products	Certain nickel and bauxite	10%

\* The export duty rates depend on the construction progress of the smelter facility

## Excise

Excise is imposed on certain goods for which distribution and consumption needs to be controlled due to their potential negative effect on society. Currently, goods subject to excise are alcoholic products and tobacco products.

Group	Rate
Ethyl alcohol	Rp 20,000/litre
Alcoholic drink	Rp 15,000/litre to Rp 139,000/litre
Ethyl alcohol concentrate	Rp 1,000/gram
Tobacco products	Rp 10 to Rp 110,000/stick or gram or 57% for certain tobacco products

# Tax Concessions

This Tax Concessions section will outline the high level information on the prominent tax facilities in Indonesia. The implementation of the tax facilities may apply differently under various conditions. The detailed requirements and application procedures are available in the respective regulations.

## Income tax concessions

### Tax Holiday

The MoF may provide an avenue for CIT reduction of 50% or 100% of the CIT due for 5–20 years from the start of commercial production depending on the investment value. After the period for which the CIT reduction is granted, the taxpayer will be provided with CIT reduction of 25% or 50% of CIT payable for the following two fiscal years depending on the investment value.

This facility is provided to firms in pioneer industries which have a wide range of connections, provide additional value and high externalities, introduce new technologies, and have strategic value for the national economy. Currently this facility is available for the business sectors with specific Indonesian Standard Classification of Business

Field (*Klasifikasi Baku Lapangan Usaha/ KBLI*) as listed in the regulation. Business sectors outside this list may also apply by fulfilling the self-assessed quantitative scoring system to justify their nature as a pioneer industry.

Generally, an application must be submitted via the Online Single Submission (OSS) system, which will verify the eligibility of the application and pass it on to the MoF. Under the latest regulation, proposals can be submitted to the MoF until 8 October 2024.

### Tax Allowance

The MoF may provide the following tax concessions to PT companies following their investment in certain designated business areas or in certain designated regions:

- A reduction in net income of up to 30% of the amount invested, prorated at 5% for six years of the commercial production, provided that the assets invested are not transferred out within six years;
- Accelerated depreciation and/or amortisation deductions;
- Extension of tax losses carry-forward for up to ten years;
- A reduction of the withholding tax rate on dividends paid to non-residents to 10% (or lower if treaty relief is available).

The applicant must meet the following high level criteria to be eligible for the above tax facilities:

- high investment value or for export purposes;
- high absorption of manpower; or
- high local content.

Generally, an application must be submitted via the OSS system and will be approved by the MoF.

### Super Deduction Facility

The super deduction facility will be given to certain industries as follows:

- facility for labour-intensive industries; in the form of a reduction in net income of 60% of the amount invested in the form of tangible fixed assets (including land utilised for main business), spread throughout a certain period;
- facility for human resources development in certain competencies; in the form of a reduction in gross income of up to 200% of the amount spent for this activity;
- facility for certain R&D activities in Indonesia; in the form of reduction in gross income of up to 300% of the amount spent for this activity.

### Tax cut for public companies

A 3% corporate tax cut can be granted to public companies which satisfy the following conditions:

- At least 40% of their paid-in shares are listed for trading in the Indonesian Stock Exchange (IDX). Shares owned

by certain related parties and treasury shares cannot be counted for this purpose;

- The public should consist of at least 300 parties, each holding less than 5% of the paid-in shares;

These two conditions must be maintained for at least 183 days in a tax year. If in a particular year either or both of the conditions are not met, the facility is not applicable for that year.

### Tax-neutral mergers

Generally, transfers of assets in business mergers, consolidations, acquisition, or business splits must be at market value. Gains resulting from this kind of restructuring are assessable, while losses are generally claimable as a deduction from income.

However, a tax-neutral merger, consolidation, or acquisition under which assets are transferred at book value, can be conducted but is subject to the approval of the DGT. To obtain this approval, the merger, consolidation, or acquisition plan in question must pass a business-purpose test. Tax-driven arrangements are prohibited and therefore tax losses from the combining companies may not be passed to the surviving company.

Subject to a similar, specific DGT approval, the same concession is also available for business splits. Registration for an Initial Public Offering (IPO) may be required for these types of transactions.



### Tax facility for venture capital company investment in small and medium enterprises

The dividends received by a Venture Capital Company (VCC) from capital participation in a micro, small, or medium sized enterprises of which the shares are not traded at a stock exchange in Indonesia, with certain requirements, are non-taxable.

### Reinvestment of branch profits

Profit after tax of PE in Indonesia are exempt from Branch Profit Tax if the PE reinvest their profit within the same year or no later than the following year in certain investment option within certain period.

## LST concessions

### LST incentive for motor vehicles

LST incentive is available for “green” motor vehicles in the form of LST base reduction (currently to 75%, 50%, or 0% of the LST base) that will effectively lower the applied LST or mean there is even no LST for certain motor vehicles.

## Concessions on special projects and special zones

### Foreign loan-funded and foreign grant-funded Government projects

Government projects funded with foreign loans or foreign grants may be eligible for special tax treatment for the income derived from that funding. The projects that typically

qualify are set out in the state Project Table of Contents (*Daftar Isian Proyek/DIP*) or other similar documents.

Main contractors, consultants and suppliers for foreign grant-funded or loan-funded Government projects may have their income tax liability borne by the Government. This facility is not available for second-level contractors, consultants and suppliers.

Apart from the above concessions, the main contractors, consultants and suppliers also enjoy the following tax facilities on the importation of goods and the use of foreign taxable services and/or foreign intangible goods for foreign grant-funded or foreign loan-funded Government projects:

- Exemption from import duty;
- Non-collection of VAT and LST;
- Non-collection of Article 22 Income Tax on imports.

If a qualifying project is only partially funded by a foreign loan or a foreign grant, the tax facilities are determined proportionally to the amount of the foreign loan or foreign grant.

### Public Private Partnership/PPP (*Kerjasama Pemerintah dengan Badan Usaha*)

This facility is intended to promote and improve cooperation between the Government and business entities with respect to the provision of infrastructure and social services. The facility can be approved by the MoF based on the proposal

from the responsible institution for cooperation projects.

### Integrated Economic Development Zones

Companies conducting business in an Integrated Economic Development Zone (*Kawasan Pengembangan Ekonomi Terpadu/KAPET*) may enjoy income tax facilities similar to Inbound Investment Incentives under the Income Tax Concessions. The designation of an area as a KAPET is set out in a specific Presidential Decree.

In addition to the above facility, an Entrepreneur in Bonded Zone/*Pengusaha Di Kawasan Berikat* (PDKB) in a KAPET may be granted tax facilities in the form of:

- Non-collection of VAT and LST on importation of certain goods;
- Exemption of Article 22 Income Tax on importation of certain goods;
- Postponement of import duty on capital goods and equipment, and goods and material for processing;
- Non-collection of VAT and LST on the domestic purchases of certain goods.

### Bonded Stockpiling Area

Bonded Stockpiling Area (*Tempat Penimbunan Berikat*) currently consists of:

1. Bonded Zone;
2. Bonded Warehouse;
3. Bonded Exhibition Place;
4. Duty Free Shop;

5. Bonded Auction Place;
6. Bonded Recycling Area; and
7. Bonded Logistic Centre.

We will only highlight three prominent areas in the below sections.

The tax facilities in these areas are as follows:

- Non-collection of VAT and LST on importation of certain goods;
- Non-collection of Article 22 Income Tax on importation of certain goods;
- Postponement of import duty on certain goods;
- Exemption of excise on importation of certain goods; and
- Non-collection of VAT and LST on the domestic purchases of certain goods.

### *Bonded Zones*

The Bonded Zone (*Kawasan Berikat*) facility is provided to manufacturing companies with export orientation, import substitution, supporting downstream industry, and certain industries such as aircraft, shipbuilding, railways, and the defense & security industry. There is a domestic sales quota of 50% of the previous year export realisation value and/or sales value to other Bonded Zones/Free Trade Zones/Special Economic Zones.

### *Bonded Warehouse*

The Bonded Warehouse (*Gudang Berikat*) facility is intended to store imported goods which can be processed with one or more simple activities of certain goods to be released in certain period.

### *Bonded Logistic Centre*

The Bonded Logistic Centre (*Pusat Logistik Berikat*) facility is similar to the Bonded Warehouse facility, however, it is intended to store both imported goods from outside the Customs Area and/or goods from other places within the Indonesia Customs Area which can be processed with one or more simple activities within three years since the goods entering the Bonded Logistic Centre.

### *Free Trade Zones*

Goods entered into and goods delivered amongst companies inside Free Trade Zone (FTZ) or *Kawasan Perdagangan Bebas* may also enjoy tax facility. The designation of an area as an FTZ is set out in a specific presidential decree.

Taxpayers in FTZ are entitled to the following tax facilities:

- Exemption of VAT and LST on importation of certain goods;
- Non-collection of Article 22 Income Tax on importation of certain goods;
- Exemption of import duty on certain goods;
- Exemption of excise on importation of certain goods;

- Non-collection of VAT and LST on the domestic purchases of certain goods; and
- Transactions of intangible goods and taxable services are exempted from VAT, except for those delivered to other Indonesia Customs area and Bonded Stockpiling Area or Special Economic Zones companies.

### Special Economic Zones

Taxpayers conducting business in Special Economic Zones (*Kawasan Ekonomi Khusus/KEK*) may enjoy tax facilities. The business should cover the main activities determined for each KEK. The designation of an area as a KEK is set out in a specific GR.

Tax holiday may be granted for taxpayers conducting main activities in KEK. The potential tax holiday on the CIT due is applicable for 10–20 years from the start of commercial production depending on the investment value. After the period for which the tax holiday is granted, the taxpayer will be provided with CIT reduction of 50% of CIT payable for the following two fiscal years.

Taxpayers being rejected for the CIT Reduction facility and taxpayers carrying out other activities in KEK, may apply for KEK-Tax Allowance facility which facilities are similar to the Tax Allowance facilities under the Income Tax Concessions (please refer to pages 68-69 on the relevant tax concession).

On top of the above income tax facilities, taxpayers in KEK are also entitled to the following tax facilities:

- Non-collection of VAT and LST on importation of certain goods;
- Non-collection of Article 22 Income Tax on importation of certain goods;
- Exemption of import duty on importation of certain goods during the construction and development stage;
- Postponement of import duty for certain entities during the production stage;
- Non-collection of VAT on the utilisation of taxable services and/or intangible taxable goods from outside the Customs Area;
- Exemption of excise on certain goods to be used to produce non-excisable goods;
- Non-collection of VAT and/or LST on the domestic purchases of certain goods or services;
- Non-collection of VAT and/or LST on certain transactions within or between the Special Economic Zones companies;
- Non-collection of income tax on certain land and building transactions;
- Special tax treatments for certain transactions in tourism KEK; and/or
- Potential Regional Tax reduction of 50% up to 100%.

### Industrial Zone

The determination and licensing of an Industrial Zone (*Kawasan Industri/KI*) are as granted by the Government.

The applicable tax facilities depend on the classification of the Industrial Development Area/IDA (*Wilayah Pengembangan Industri/WPI*) of the KI, namely:

1. Advance IDA (*WPI Maju/ WPIM*)
2. Developing IDA (*WPI Berkembang/ WPIB*)
3. Potential I IDA (*WPI Potensial I/ WPIP I*)
4. Potential II IDA (*WPI Potensial II/ WPIP II*)

Below are the available tax facilities for each type of WPI:

Tax and customs facility	WPIM*	WPIB	WPIP I	WPIP II
CIT Reduction of 10% - 100% of the CIT due for 5 – 15 years from the start of commercial production	✓	–	–	✓
Income tax facilities similar to Tax Allowance under the Income Tax Concessions	✓	✓	✓	–
VAT exemption on the imports/purchase of machines and equipment (excluding spare parts) that are directly used to produce VATable goods	✓	✓	✓	✓
Import duty exemption on the imports of machines or materials that are used to produce goods/services**	✓	✓	✓	✓

\* WPIM may choose to apply income tax facility in the form of CIT Reduction or Tax Allowance.

\*\* The applicable period of import duty exemption varies depending on the KI classification and the business cycle of the respective taxpayer, e.g. construction or developing stage.



### BKPM Masterlist facility

BKPM may also provide import duty exemption through the issuance of a Masterlist facility for importing machinery and raw materials. An importer can also obtain an exemption from VAT, LST, and/or Article 22 Income Tax by applying to the DGT for approval.

### Tax Exemption and Drawback Facilities for Exports

Tax facilities under the scheme of ease of imports for the production of goods to be fully exported (*Kemudahan Impor Tujuan Ekspor/KITE*) are as follows:

#### *KITE Exemption*

This exemption facility allows for most raw materials and sample goods to be imported without payment of import duty, provided that the finished products are exported. The VAT and/or LST on such importations are not-collected either.

Further incentives are also available for small to medium enterprises, whereby the operational requirements are less stringent. The import duty exemption and non-collection of VAT and/or LST are available on the importation of raw materials, sample goods, and machinery.

#### *KITE Drawback*

This drawback facility allows for the recovery of import duty paid on imported raw materials that are incorporated into finished products which are subsequently exported.

## Land and Building

### Land and Building Tax

Land and building tax (*Pajak Bumi dan Bangunan/PBB*) is a tax on property chargeable on all land and/or buildings, unless exempted. The negative list setting out land and buildings not subject to PBB includes those:

- Used by central and regional Government for governance purposes;
- Used for public interest in the areas of religious and social affairs, health, education and national culture, and non-profit making purposes;
- Used as a cemetery, ancient heritage site or similar;
- Constituting protected forests, natural reserve forests, tourism forests, national parks, grazing land controlled by a village, and state land with no right imposed on it;
- Used by a diplomatic representative, based on the reciprocal treatment principle;
- Used by an agency or representative of an international organisation, as determined by the MoF.

PBB is a part of regional taxes which are governed under Regional Taxes and Retribution (*Pajak Daerah dan Retribusi Daerah/PDRD*) Law in which each regional Government has to issue a regulation (*Peraturan Daerah/PERDA*) to regulate PBB in its territory.

The scope of PBB under PDRD Law covers all land and building except for the following industries which are governed by separate regulations:

- forestry;
- plantation;
- mineral and coal mining;
- oil, gas and geothermal mining;
- other industries located in national waters outside the territory of regional area.

PBB is payable annually following a Tax Due Notification Letter (*Surat Pemberitahuan Pajak Terhutang/SPPT*) issued by the Regional Government.

An individual or an organisation that owns a right to a piece land, and/or takes benefits there from, and/or owns, controls, and/or takes benefits from a building can by law be regarded as the PBB taxpayer for that piece of land and/or building.

Under PDRD Law, the PBB rate is maximum 0.3% and the tax due is calculated by applying the tax rate on the sale value of the tax object (*Nilai Jual Objek Pajak/NJOP*) deducted by non-taxable NJOP. The non-taxable NJOP is set at Rp 10 million at the minimum. Any changes are to be made by issuing a PERDA.

### Tax on land and building transfer

A transfer of rights to land and building will give rise to income tax on the deemed gain on the transfer/sale to be

charged to the transferor (seller). The tax is set at 2.5% of the gross transfer value (tax base). However, for transfers of simple houses and simple apartments conducted by taxpayers engaged in a property development business, the tax rate is 1%. This tax must be paid by the time the rights to land and building are transferred to the transferee. All the tax paid constitutes a final tax.

In general, the tax base is the higher of the transaction values stated in the relevant land and building right transfer deed and Sale and Purchase Binding Agreement (*Perjanjian Pengikatan Jual Beli*) based on actual transaction value or amount that should have been received. However, in a transfer to the Government, the tax base is the amount officially stipulated by the Government officer in question in the relevant document. In a Government-organised auction, the gross transfer value is the value stipulated in the relevant deed of auction.

### Duty on the acquisition of land and building rights

A transfer of land and building rights will typically also give rise to duty on the acquisition of land and building rights (*Bea Pengalihan Hak atas Tanah dan Bangunan/BPHTB*) liability for the party receiving or obtaining the rights.

BPHTB is also a part of regional taxes which are governed under PDRD Law. Qualifying land and building rights transfers include sale-purchase and trade-in transactions, grants, inheritances, contributions to a corporation, rights separations, buyer designation in an auction, the execution

of a court decision with full legal force, business mergers, consolidations, expansions, and prize deliveries.

BPHTB is based on the Tax Object Acquisition Value (*Nilai Perolehan Objek Pajak/NPOP*), which in most cases is the higher of the market (transaction) value or the NJOP of the land and building rights concerned. The tax due on a particular event is determined by applying the applicable duty rate (5%) to the relevant NPOP, minus an allowable non-taxable threshold. The non-taxable threshold amount varies by region: the minimum is Rp. 60 million, except in the case of an inheritance, for which starts from Rp. 300 million. The Government may change the non-taxable threshold via regulation.

BPHTB is typically due on the date that the relevant deed of land and building right transfer is signed before a public notary. In a business merger, consolidation, or expansion, the duty is due on the date of signing of the merger, consolidation or expansion act. In an auction, the duty is due on the date of signing date of the Auction Report by the authorised officer.

A notary is prohibited from signing a deed transferring rights until the BPHTB has been paid.

## Stamp Duty

Stamp duty is nominal, and payable as a fixed amount of Rp. 10,000 on certain documents.

Examples of documents subject to stamp duty are as follows:

- a. Agreements, certificates, statement letters, or similar documents, and their copies.
- b. Notarial deeds and grosse, and their copies and excerpts.
- c. Deeds of a Land Deed Officer and their copies.
- d. Securities in any form and name.
- e. Securities transaction document.
- f. Auction documents in the form of excerpts, minutes, copies and grosse.
- g. Documents stating a sum of money above Rp. 5,000,000 which describe the receipt of money or contain an acknowledgement of debt payment or settlement, either entirely or partially.
- h. Documents to be used as instruments of evidence before a court.

Stamp duty may be exempted for certain documents, such as documents on the transfer of Land and Building rights solely for religious or non-commercial activities and documents on the implementation of Government programs.

## Tax Payments and Tax Return Filing

Tax liabilities for a particular period or year must typically be paid to the State Treasury through a designated tax-payment bank (*bank persepsi*) and then accounted for to the ITO through the filing of the relevant tax returns. Tax payments and tax returns filing for a particular tax must be undertaken monthly or annually, or both monthly and annually (depending upon the tax obligation in question). Tax payments should generally be conducted electronically. The opportunity to use electronic channels to complete tax filing obligations is also available.

A summary of these tax obligations is as follows:

### Monthly tax obligations

Type of tax	Tax payment deadline	Tax return filing deadline
Article 21/26 Income Tax	The 10 <sup>th</sup> of the following month	The 20 <sup>th</sup> of the following month
Article 23/26 Income Tax	The 10 <sup>th</sup> of the following month	The 20 <sup>th</sup> of the following month

Type of tax	Tax payment deadline	Tax return filing deadline
Article 25 Income Tax	The 15 <sup>th</sup> of the following month	The 20 <sup>th</sup> of the following month
Article 22 Income Tax – Tax Collector	The 10 <sup>th</sup> of the following month	The 20 <sup>th</sup> of the following month
Article 4(2) Income Tax	The 10 <sup>th</sup> of the following month	The 20 <sup>th</sup> of the following month
VAT and LST – Taxable Enterprise	Prior to the tax return filing deadline	The end of the following month
VAT and LST – VAT Collector	Vary depends on the type of Tax Collector	

## Annual tax obligations

Type of tax	Tax payment deadline	Tax return filing deadline
Corporate Income Tax	The end of the fourth month after the book year end before filing the tax return	The end of the fourth month after the book year end



Type of tax	Tax payment deadline	Tax return filing deadline
Individual Income Tax	The end of the third month after the year end before filing the tax return	The end of the third month after the year end
Land and Building Tax (PBB)	Six months after the receipt of a Tax Due Notification Letter (SPPT) from the Regional Government	N/A

Late payments of the above taxes incur interest penalties based on the applicable monthly MoF Interest Rate plus surcharge for a maximum of 24 months. Part of a month, for example a single day, is considered a full month.

Late filing of a tax return or failure to file a tax return incurs an administrative penalty at the following amounts:

Type of tax return	Rupiah
VAT return	500,000
Other monthly tax returns	100,000
Individual income tax return	100,000
Corporate income tax return	1,000,000

For annual income tax returns, taxpayers may extend the filing deadline by up to two months. This may be

done by filing a written notification to the DGT before the deadline, together with a tentative tax calculation. The tax due according to the tentative calculation (if any) must be settled before submitting the extension notification. If the actual tax due based on the final tax calculation is higher than the tentative calculation, an interest penalty based on the applicable monthly MoF Interest Rate will apply to the difference until the shortfall is paid, for a maximum of 24 months.

Failure to file a tax return by the relevant deadline may result in the DGT to issue a warning letter to the taxpayer in question. The warning letter will typically require the taxpayer to file the tax return within 30 days of the warning letter date. Ignoring such a letter can prompt the DGT to issue an official tax assessment along with an administrative penalty of 50% of the assessed tax.

Except for corporate and individual income taxes, taxes are to be accounted for on a decentralised basis. A company with business units (branches) spread over the country must accordingly account for the tax obligations to the district service tax offices with which the branches are registered. Please refer to page 52 regarding centralisation of VAT reporting.

In general, the main form of a tax return must be prepared in electronic format (e-tax returns), except for certain taxpayers. E-tax returns can be filed to the ITO either in the

conventional manner, i.e., submitting the hard copy and the soft copy of the tax returns to the relevant ITO, or through e-filing, i.e., by submitting the e-tax returns through DGT's website or by using an application service provider. E-filing is mandatory for certain type of taxes for certain taxpayers.

### Early tax refunds

An early tax refund is available for taxpayers that meet certain criteria, as follows :

- A. Golden Taxpayers
  - 1) Submit tax returns in a timely manner;
  - 2) Have no tax arrears for all types of taxes, except tax arrears which have obtained a permit to pay tax in instalments or that have been audited;
  - 3) Financial Statement audited by a public accountant or the audit board with an Unqualified Opinion for three consecutive years; and
  - 4) Never have been convicted of a tax crime in the last five years.
- B. Taxpayers with low refund values
  - 1) Individuals that do not have any business or freelance activity that apply for an income tax refund in their Annual Income Tax Return (AITR);
  - 2) Individuals that have business or freelance activities that apply for income tax refund in their AITR of a maximum of IDR 100 million (previously IDR 10 million);

- 3) Companies that apply for an income tax refund in their AITR of a maximum of IDR 1 billion (previously IDR 100 million); or
  - 4) PKPs that apply for VAT refund in their VAT Return of a maximum of IDR 1 billion (previously IDR 100 million).
- C. Low-risk PKPs
- Companies that engage in the following business activities are considered as low-risk PKPs:
- 1) Export Activities
  - 2) Delivering VAT-able goods and/or services to a VAT Collector; and/or
  - 3) Delivering VAT-able goods and/or services for which VAT is not collected.

A preliminary tax refund is requested by way of ticking the refund box in the relevant tax return. If the approved tax refund amount is different from the requested amount, the taxpayer can re-apply using a separate letter. However, the taxpayer needs to revise the relevant tax return if they do not want to re-apply. The DGT will conduct a formal and/or material examination on all applicants.

The tax office can still do a tax audit on the tax year or period that has been granted a preliminary tax refund and the administrative sanctions will be followed if the tax audit results in a tax underpayment positions.

# Accounting for Tax

Generally, for tax purposes, a company's books must be maintained in accordance with the prevailing accounting standards unless the tax law stipulates otherwise. On this point it is worth to notify that, as at the end of 2018, the MoF had issued a specific regulation on the accounting and tax treatment for PPPs in an effort to better support the development of infrastructure projects nationwide.

By default, the books must be maintained in Rupiah, composed in Indonesian, and stored in Indonesia. Subject to specific DGT approval, foreign-investment (*Penanaman Modal Asing/PMA*) companies, PEs, subsidiaries of foreign companies, taxpayers listed overseas, and taxpayers presenting their financial statements in their functional currency of USD in accordance with the Financial Accounting Standards (*Standar Akuntansi Keuangan/SAK*) applicable in Indonesia can maintain their books in USD and compose them in English. A collective investment contract (*Kontrak Investasi Kolektif/KIK*) is allowed to use USD accounting to the extent that it issues USD-denominated investment funds.

An application for DGT approval must be filed with the DGT's office no later than three months before the beginning

of the USD accounting year. The DGT is required to decide on the application within a month. If no decision is made within that time, the application is automatically approved.

Production Sharing Contracts (PSCs), Contract of Works (CoWs), and Mining Business Licenses (*Izin Usaha Pertambangan/IUP*) may decide to apply USD accounting in English simply by notifying the DGT in writing. This notification must be submitted to the DGT office no later than three months before the beginning of the USD accounting year.

The use of a foreign language other than English and a foreign currency other than USD in a company's books is prohibited. Irrespective of the currency and the language used, companies typically have to settle their tax liabilities in Rupiah (except for PSC companies) and file tax returns in Indonesian. For corporate income tax, the assertions must be presented in USD side by side with Rupiah in the annual CITR.

A company that has obtained approval to maintain USD accounting may return to Rupiah accounting subject to DGT approval. Once approval is granted, the company may not reapply for USD accounting approval during the five years after the cancellation of the USD accounting.

# Tax Audits and Tax Assessments

Indonesia uses a self-assessment system under which taxpayers are required to calculate, pay, and report their tax liabilities in accordance with prevailing tax laws and regulations. The DGT may then conduct a tax audit to test this self-assessment compliance with the tax obligations and issue tax assessment as a result of tax audit.

## Tax audits

The tax audit of a company may cover only a particular tax or all taxes for a particular tax period (a tax month) or tax year. It may be conducted at the company's premises, at the DGT offices, or at both.

## Conditions triggering a tax audit

A tax refund request will always trigger a tax audit. Due to the requirement for the DGT to decide on a refund request within 12 months, a tax audit will typically begin from a few weeks to several months from the refund request date. A corporate income tax refund request will normally trigger a complete tax audit covering all taxes. A refund request of any other tax will normally trigger a tax audit covering only one particular tax. The DGT will likely broaden the tax audit scope to include other taxes.

Other than that event, DGT may also set other criteria to select tax audit target based on risk analysis.

Special tax audit may be conducted for certain purposes and will be subject to different timeline and procedures from the general tax audit.

### One-month rule

Taxpayers being audited are required to provide documents and information requested by the tax auditors within a month of the request date. Failure to provide the documents or information within a month may prompt the DGT to determine the tax liabilities on a deemed profit basis. Where documents and information are not supplied within the one month period, they cannot be used later by the taxpayer to dispute the amount of tax assessed.

### Closing conference

At the end of a tax audit, the tax auditors will provide the taxpayer with a written notification of the tax audit findings to which the taxpayer must respond in writing if there is a disagreement. The taxpayer may then reassert its position with regard to the tax audit corrections and present the relevant supporting documents in the closing conference discussion.

If there is still a dispute surrounding a legal basis of an adjustment during the discussion of the tax audit findings, the taxpayer may request a discussion with the Quality



Assurance Team (QAT) appointed by the Regional Tax Office or the Directorate of Tax Audit and Collection.

The tax auditors may change some of the suggested corrections in light of the taxpayer's response to the tax audit findings notification, the discussion result with the QAT, and the closing conference discussion.

The results of the final discussion are then summarized in a closing conference document that is signed by the tax auditors and the taxpayer. The taxpayer will have to state Agree or Disagree to each of the proposed corrections in the document. The corrections agreed to in the closing conference document will constitute a basis for the minimum amount the taxpayer must pay of the tax assessment issued based on the document.

### Products of a tax audit

The legal products of a tax audit consist mainly of Tax Assessment Letters (*Surat Ketetapan Pajak/SKP*) as mentioned above and Tax Collection Letters (*Surat Tagihan Pajak/STP*), which must be based on the closing conference document. An STP typically serves as a legal instrument to collect administrative tax sanctions not covered in an SKP. In certain other situations, it may also be used by the DGT to collect tax due in a particular tax period (month) within the current year and the interest penalty on this.

## Tax assessments

A tax assessment letter applies only to one specific tax for one particular tax period or year and typically takes into account the following factors:

- The tax due;
- The applicable tax credits;
- The resulting balance between the tax due and the tax credits (overpaid, nil, or underpaid);
- The administrative penalty (interest or a surcharge).

### Types of tax assessment letters

The name of a tax assessment letter refers to the resulting balance between the tax due and the tax credits. Accordingly, there are three types of tax assessment letters:

- Overpaid Tax Assessment Letter (*Surat Ketetapan Pajak Lebih Bayar/SKPLB*) if the tax due is less than the tax credit amount;
- Underpaid Tax Assessment Letter (*Surat Ketetapan Pajak Kurang Bayar/SKPKB*) if the tax due exceeds the tax credit amount;
- Nil Tax Assessment Letter (*Surat Ketetapan Pajak Nihil/SKPN*) if the tax due amount is equal to the tax credit amount.

If an SKPKB is issued, this may include one of the following administrative penalties:

- Interest based on the applicable MoF Interest Rate plus surcharge for a maximum of 24 months;

- A 50% surcharge for income tax liability;
- A 100% surcharge for withholding tax liability;
- A 100% surcharge for VAT and LST liabilities.

Which penalties are applicable will depend on the type of wrongdoing the taxpayer has committed. The penalty amounts are determined by the application of the relevant rate to the underpaid tax amounts. Specific on VAT assessment, if the penalty may result in the application of multiple administrative sanction, the DGT will only apply sanction that has the highest value.

Apart from issuing a tax assessment based on tax audit or verification, the DGT may also issue an ex-officio tax assessment letter to a taxpayer who ignores a warning letter to file a tax return within a specified period or fails to maintain books in accordance with the prescribed standards.

### Payments of tax assessment

Tax due based on a tax assessment letter must be paid within one month after the issuance of the relevant tax assessment letter. If the taxpayer does not pay the tax due and not apply for an objection, the tax due will be collected using a Distress Warrant.

### Statute of limitation

Under the current Tax Administration Law, the DGT can issue an underpaid tax assessment letter for years 2008

onwards within five years after the incurrance of a tax liability, the end of a tax period (month), or the end of (part of) a tax year.

Once a tax assessment letter for a particular tax of a particular month or year has been issued, additional tax assessment letters may still be issued within five years to the extent there is new data (novum) or information which was not disclosed (or not adequately disclosed) in the tax returns and/or during tax audits. The issue of an Additional Underpaid Tax Assessment Letter (*Surat Ketetapan Pajak Kurang Bayar Tambahan/SKPKBT*) calls for a 100% surcharge on the tax due as an administrative penalty. However, a taxpayer may avoid the surcharge if the SKPKBT was issued based on taxpayer's voluntary disclosures prior to DGT conducting a tax audit to issue the SKPKBT.

The tax due reported in a tax return is considered certain if no tax assessment letter is issued within five years. Nevertheless, an SKPKB can still be issued beyond five years to a taxpayer who conduct taxation crime on the expired period.

## Tax Collection Using Distress Warrant

If a legal tax collection instrument is not paid within the required time, the DGT may by law issue a Distress Warrant (*Surat Paksa*) to a taxpayer. The instruments include the following documents:

- Tax Collection Letters/STP;
- Underpaid Tax Assessment Letters/SKPKB;
- Additional Underpaid Tax Assessment Letters/SKPKBT;
- Tax Objection Decision Letters (which demand an additional payment from the taxpayer);
- Tax Court Decisions (which demand an additional payment from the taxpayer);
- Correction Decision Letters (which demand an additional payment from the taxpayer).

The relevant taxpayer is required to pay the underpaid tax stated in a tax collection instrument within a month of the instrument date. Any late payments trigger an interest penalty based on the applicable monthly MoF Interest Rate for a maximum of 24 months.

Under the current Tax Administration Law, taxpayers are bound to pay only the minimum amount they have agreed to in the tax audit closing conference, provided that they file an objection or at a later stage, an appeal in respect to the particular tax assessment letter.

The remaining part of the assessment not agreed during the closing conference will only be due after the DGT has made a decision on the objection or the tax court makes a decision on the appeal that is not in the taxpayer's favour.

If the underpaid tax is not paid within the stipulated time period, the DGT may undertake the following steps as part of the execution of the Distress Warrant:

- a. Issue a Warning Letter (*Surat Teguran*) if the underpaid tax is not settled within seven days of the due date;
- b. Issue a Distress Warrant if the underpaid tax is not settled within 21 days of the issuing of the Warning Letter;
- c. Issue a Confiscation Order (*Surat Sita*) if the underpaid tax is not settled within 48 hours of the issuing of the Distress Warrant;
- d. Publish an auction announcement with respect to the confiscated assets if the underpaid tax is not settled within 14 days of the issuing of the Confiscation Order;
- e. Undertake a public auction if the underpaid tax is not settled within 14 days of the auction announcement.

# Tax Dispute and Resolution

A tax dispute between a taxpayer and the DGT will typically arise following the issuance of a tax assessment letter (SKP) by the DGT which the taxpayer disputes. An SKPKB, an SKPKBT, and an STP constitute legal tax collection instruments on the basis of which the DGT may issue a Distress Warrant if the taxpayer fails to settle the underpaid tax on time. The way the DGT executes the Distress Warrant may give rise to another tax dispute between the parties.

The ways available to resolve such tax disputes are as follows:

## Objections

A taxpayer who does not agree with a tax assessment letter can submit an Objection (*Keberatan*) to the DGT within three months of the date of issue of the assessment letter. The Objection must state the amount the taxpayer has calculated as the tax due and set out the reasons for its disagreement with the DGT tax assessment.

The DGT has to issue a decision on the tax Objection within 12 months of the filing date of the Objection. If no decision is issued by the DGT within 12 months, the objection is automatically deemed approved by the DGT.

If the objection is rejected by the DGT, any underpayment is subject to a surcharge of 50%. However, the underpaid tax and the surcharge are not payable if the taxpayer files an appeal with the tax court in respect of the objection decision.

An Objection may also be filed by a taxpayer with the DGT office with respect to tax withheld by a third party. The same time limits on filing the Objection and for the DGT's decision apply to this type of Objection.

## Appeals

A taxpayer who does not accept the DGT's Objection decision can file an Appeal (Banding) with the Tax Court within three months of the receipt of the DGT Objection. To the extent that the DGT Objection Decision calls for a payment of tax due, according to the Tax Court Law, at least 50% of the tax due must be settled before filing the Appeal.

The Tax Court will typically have to decide on an Appeal within 12 months. Any underpaid tax resulting from the tax court decision is subject to a surcharge of 100%.

## Other avenues for tax dispute resolution

The DGT, following a taxpayer's Correction Request, or by virtue of its official position (*ex-officio*), may correct or cancel a tax assessment letter, an STP, or their derivatives issued on the basis of those letters. The derivatives include, among others:



- Objection Decision Letters;
- Decision Letters on the Reduction or Cancellation of Administrative Sanctions;
- Decision Letters on the Reduction or Cancellation of Tax Assessment;
- Decision Letters on an Early Refund of Overpaid Tax.

The DGT must issue a decision on a Correction Request within six months of the date of filing. If no decision is issued by the DGT within six months, the Correction Request is automatically deemed to have been approved by the DGT.

Taxpayers who do not (fully) accept the DGT Decision on a Correction Request can file a lawsuit (*Gugatan*) with the Tax Court within 30 days of the receipt of the DGT decision. A lawsuit against the DGT can also be filed with the Tax Court for the execution of Distress Warrant. In this case, the lawsuit must be filed no later than 14 days after the execution date.

The Tax Court must decide on a lawsuit within six months.

### Judicial Review Requests to the Supreme Court

A Tax Court Decision is considered to be a final decision with full legal force. However, the parties involved in a tax dispute may file a Judicial Review Request (*Peninjauan Kembali/PK*) on a Tax Court Decision with the Supreme Court. This can be done only if any of the following

conditions prevail:

1. The Decision has been based on a perjury, a deception, or false evidence on the part of the opposing party;
2. A piece of important written evidence is found which, had it been considered previously, would have led to a different Decision;
3. Some part of the claim has been ignored without reason;
4. Something which was not demanded was granted;
5. The Decision is clearly inconsistent with prevailing tax regulations.

A Judicial Review Request must be filed with the Supreme Court within an allowable request time limit. For conditions 1 and 2, the time limit is three months after the condition is identified. For conditions 3, 4 and 5, the time limit is three months after the Tax Court decision.

## Contacts

Our Tax professionals are available to advise and help you with all aspects of taxation and to ensure that you meet your commitments efficiently and promptly.

If you have any queries, contact your usual consultant or any of the following tax professionals:

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# A Summary of Indonesian Tax

The information in this booklet sets out tax law and practice as of 31 December 2020.

This booklet is intended to provide a general guide and is not aimed to provide a comprehensive understanding of Indonesia's prevailing tax system. Readers should not act on the basis of this publication without seeking formal professional advice. Whilst every care has been taken in the preparation of this publication, no guarantee is given as to the correctness of the information it contains and no liability is accepted for any statement or opinion, or for any error or omission, in it.

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