

Tax Services

# Indonesian Pocket Tax Book 2023



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# Corporate Income Tax

## Tax rates

Generally a flat rate of 22% applies. 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% (refer to page 75). Small enterprises, i.e. corporate taxpayers with an annual turnover of not more than IDR 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 IDR 4.8 billion. Certain enterprises with gross turnover of not more than IDR 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 CIT 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 34-35 for income items subject to Article 23 income tax and pages 27-32 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 33-34 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 35-36 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 after-tax income from the PE and dividends paid from the non-listed subsidiary, the minimum reinvestment amount is 30% of the profit after tax. Otherwise, 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 categorised 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%
Category 3	16 years	6.25%	12.5%
Category 4	20 years	5%	10%

Tangible Assets Categories	Useful Life	Depreciation rate	
		Straight line method	Declining balance method
II. Building			
Permanent	20 years*	5%*	
Non-permanent	10 years	10%	

**Notes:**

- \* Taxpayers are allowed to use the actual useful life based on taxpayer's bookkeeping if the useful life is more than 20 years subject to DGT's approval.

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. If an intangible asset has a useful life of more than 20 years, the amortisation can be carried out using the straight-line method using a 20-year period or the actual useful life based on taxpayer's bookkeeping subject to DGT's approval.
- 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 and Voluntary Disclosure programmes

Newly declared assets under 2016-2017 Tax Amnesty and 2022 Voluntary Disclosure programmes cannot be depreciated or amortised for tax purposes. The acquisition costs of these assets are based on the value declared in the Asset 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 Taxes (DGT) approval, corporate taxpayers and PEs who maintain Rupiah (IDR) 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. Private expenses;
- b. Non-business gifts and aid, except certain religious contributions/alms and certain donations;
- c. 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;
- d. Income tax payments;
- e. Tax penalties;
- f. Profit distributions;
- g. 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;
- h. Expenses relating to income which is taxed at a final rate, e.g., interest on loans relating to time deposits;
- i. Expenses relating to income which is exempted from tax, e.g., interest on loans used to buy shares where dividends to be received are not subject to income tax;
- j. Salaries or compensation received by partnership or firmas members where their participation is not divided into shares.

## Limitation on interest deduction

The acceptable methods to limit the interest deduction are those commonly used internationally, such as Percentage of EBITDA (Earning Before Interest, Taxes, Depreciation, and Amortisation), Debt-to-Equity Ratio, or other methods.

## 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%	3.3% <sup>2</sup>
Certain Ministry of Trade representative offices	1% of export value	0.22% <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 22%, 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 Licences (*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 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.

Taxpayers under certain criteria are required 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, whilst the summary must be attached to the 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.

Indonesian Tax Office (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. If the MAP process has not reached agreement until the announcement of Tax Court or Judicial Review Decision on a MAP-related content, the DGT may use the Decision result as a position in the MAP negotiation or propose a cessation of negotiation.

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 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), whilst the payment and reporting mechanism will be governed by further implementing regulations.

## Sovereign Wealth Fund

Sovereign Wealth Fund (*Lembaga Pengelola Investasi/LPI*) is an institution that is authorised to manage the sovereign wealth fund investments of the central Government.

For Indonesian tax purposes, LPI is considered as a domestic corporate taxpayer that is subject to general Income Tax treatment, but with several special tax treatments in relation to the deductibility of provision expense and Duty on the acquisition of land and/or building rights (*Bea Perolehan Hak atas Tanah dan Bangunan/BPHTB*), as well as withholding tax exemption on certain loan interest income.

Third parties cooperating with LPI may also receive special tax treatment in relation to their dividend income, which will depend on the fulfilment of certain requirements and the type of the dividend recipient.

# 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
Up to IDR 60,000,000	5%
Above IDR 60,000,000 up to IDR 250,000,000	15%
Above IDR 250,000,000 up to IDR 500,000,000	25%
Above IDR 500,000,000 up to IDR 5,000,000,000	30%
Above IDR 5,000,000,000	35%

## Concessional tax rates

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

Gross Income	Rate
Up to IDR 50,000,000	Nil
Above IDR 50,000,000 up to IDR 100,000,000	5%

Gross Income	Rate
Above IDR 100,000,000 up to IDR 500,000,000	15%
Above IDR 500,000,000	25%

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 programme) if paid within two years are as follows:

Gross Income	Rate
Up to IDR 50,000,000	Nil
Above IDR 50,000,000	5%

Payments for year 3 onwards, the usual normal tax rates (please refer to page 18) will be applied.

## Main Personal Relief

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

	IDR
Taxpayer	54,000,000
Spouse	4,500,000
Each dependant (max. of 3)	4,500,000
Occupational expenses (5% of gross income, max. IDR 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. IDR 200,000/month)	2,400,000

Non-taxable turnover threshold of IDR 500 million per Fiscal Year is also applicable for individual taxpayer on certain income with annual gross turnover of not more than IDR 4.8 billion that is subject to Final Tax (see no. 10 in table in page 34).

## 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 the first four years if they fulfil 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 fulfil 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 35-36).

## 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 Return (AITR) (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. To support the implementation of single identity number, the Indonesian resident number (*Nomor Induk Kependudukan*) will be used as the NPWP for individual Indonesian residents.

## 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 are generally taxable in the hands of the employee. An exception applies to BIKs that are required for the execution of a job, the cost of providing BIKs in certain areas, food and drink provided to all employees, BIKs financed from the Government's budget, and certain types of BIKs with a certain threshold.

### Social security system

Employers are responsible for ensuring that their employees are covered by a social security programme. 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 programme 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 (*BJPS 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 IDR 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 Programme 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 programme 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 programme, 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 18 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:

## Withholding Taxes

No	Event	Tax rate (%)	Tax base	Notes
1	The import of: a. Certain end customer goods b. End consumer goods other than (a) c. Goods other than (a) and (b) using an Importer Identification Number ( <i>Angka Pengenal Impor/API</i> ): i) Soybeans, wheat and flour ii) Other than (i) d. Goods other than (a) and (b) without an API	10 7.5  0.5 2.5 7.5	Import value (i.e., CIF value plus duties payable)	
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
6	The purchase of oil fuel by gas stations from parties other than Pertamina and its subsidiaries	0.3	Selling prices	2

No	Event	Tax rate (%)	Tax base	Notes
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
16	The purchase of forestry, plantation, agriculture, cattle breeding, and fishery products by manufacturers or exporters	0.25	Selling prices	1

## Withholding Taxes

No	Event	Tax rate (%)	Tax base	Notes
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 an IUP	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	
21	The sale of prepaid phone credit and SIM card starter packs conducted by second-tier distribution operators who are also PPh 22 Collectors	0.5	Selling price or invoiced value	



No	Event	Tax rate (%)	Tax base	Notes
22	<p>a. Delivery of goods; b. Delivery of certain services; c. Rental or other income on the use of assets,</p> <p>collected by Other Party on the procurement of goods or services to Government Institutions through the Government Procurement Information System (<i>Sistem Informasi Pengadaan Pemerintah</i>) where the transactions between Vendors and Government Institutions will be facilitated by Other Party and the payments is processed using petty cash or credit card of the relevant Government Institution</p>	0.5	Total payment value	
23	<p>Income received or earned by Crypto Asset Sellers, e-commerce VAT Collectors, or Crypto Asset Miners:</p> <p>a. If e-commerce VAT Collector is a Crypto Asset Physical Trader</p> <p>b. If e-commerce VAT Collector is not a Crypto Asset Physical Trader</p>	0.1 0.2	Transaction value (not including VAT)	
24	Income received or earned by Crypto Asset Miners in relation to Crypto Asset	0.1	Income received (not including VAT)	

### 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 IDR 2 million, IDR 10 million, and IDR 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.

The tax does not apply, either automatically or with an Exemption Certificate issued by the DGT, on certain type of events.

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. Construction work	1.75/2.65/4%
4. Construction consulting	3.5/6%
5. Integrated construction work	2.65/4%
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	10%
8. Proceeds from sale of shares on Indonesia Stock Exchange (IDX). 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 IDR 4.8 billion in one fiscal year	0.5% <sup>4</sup>
11. Certain dividend received by certain non-resident under the cooperation with State Wealth Fund	7.5%

**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. 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 bond interest income, including capital gain upon disposal, that is received or obtained by non-residents can get a lowered rate, currently at 10%;
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 IDR 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 39-43 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		15%	10%	10/0%	8/10%	10%
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	1	10%	10%	7/0%	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 and United Arab Emirates, 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. Amended protocol was signed in 20 October 2011 and ratified in 4 August 2017, but pending the exchange of ratification documents.
5. Ratified but not yet effective, pending 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

## International Tax Agreements

	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. By 10 November 2022, Indonesia has submitted notification to OECD (as the depositary of the MLI) to confirm the completion of internal procedures for more than 30 tax treaties.

## US FATCA

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

# Value Added Tax

## General

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 VATable Entrepreneur (*Pengusaha Kena Pajak/PKP*);
- g. Export of taxable services by a PKP.

The VAT obligations arise upon the above deliveries with the value exceeding IDR 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 PKP in the framework of sharia-based financing, whereby the deliveries are deemed to take place directly from the PKP to the party in need of the taxable goods.

## Non-taxable goods and services

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. The below list refers to the rules as of 1 April 2022.

### *Non-taxable Goods*

- a. 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 which is Regional Tax object; and
- b. money, gold bars for the purpose of Government's forex reserve, and securities.

### *Non-taxable Services*

- a. religious services;
- b. public services provided by the Government to carry out general governmental matters that cannot be provided by other types of business; and
- c. hotel, parking, catering, art and entertainment services that are subject to Regional Tax.

## Tax rates and tax base

The VAT rate is currently 11% and will be increased to 12% by 1 January 2025 at the latest. 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.

### *The use of Other Value as Tax Base*

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. IDR 12 million per copy of imported movies;
- g. 9.9% of the retail selling price for deliveries of tobacco products;
- h. 20% of selling price on the deliveries of gold jewellery, including services carried out by the factory in relation to gold jewellery;
- i. 100/111 of the Government subsidy value and 100/111 of the highest retail price determined by the Minister of Agriculture for deliveries of certain fertiliser for agricultural sector;
- j. 100/111 from the retail selling price charged by Government-appointed entity for the delivery of certain non-subsidised Liquefied Petroleum Gas;

### *“Final” VAT regime*

Under “Final” VAT regime, the prevailing VAT rate is multiplied by a designated percentage resulting in an effective “Final” VAT rate. The tax base is generally the retail selling price unless specifically mentioned. The Input VAT in relation to the acquisition of goods or services related to deliveries under the “Final” VAT regime cannot be credited.

Taxable deliveries under this regime include:

- a. 2.2% of total costs incurred or paid, exclusive of the acquisition price of land, for the self-construction of a building;
- b. 1.1% of selling price on certain deliveries of agricultural products by certain sellers;
- c. 1.1% of selling price on delivery of used motor vehicles;
- d. 1.1% of gross commission/fee (including commission for insurance agent under their management) on delivery of insurance agent services;
- e. 2.2% of gross commission/fee on delivery of insurance/reinsurance brokerage services;
- f. 1.1% of amount billed on package delivery service;
- g. 1.1% of amount billed on freight forwarding service (including freight charges);
- h. 1.1% of selling price for tour packages, transportation facilities, and accommodation on travel agency or provision of travel package;
- i. Religious travel services which include travel service to non-religious places:

- 1.1% of the travel package selling price where the religious travel portion can be separated;
- 0.55% of the whole travel package selling price where the religious travel portion cannot be separated;
- j. 1.1% of voucher selling price on marketing services using vouchers, transaction payment services in relation to voucher distribution, and services related to customer loyalty/reward programme, which are not based on commission and with no margin;
- k. 0.11% of Crypto Asset transaction value if e-commerce VAT Collectors (*Pelaku Perdagangan Melalui Sistem Elektronik/PPMSE*) is a Crypto Asset trader;
- l. 0.22% of Crypto Asset transaction value if PPMSE is not a Crypto Asset trader;
- m. 1.1% of Crypto Assets value received by Crypto Asset Miners.

## VAT reporting

Companies and individuals designated as 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 VAT. The buyer has to pay the VAT to the vendor. From the buyer's perspective, it is an input VAT. To the extent that the goods or services are necessary for running the buyer's business, the input VAT can be credited against the buyer's own output VAT. If the accumulated output VAT for a particular month exceeds the accumulated input VAT 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 VAT 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.

Non-resident vendors or service providers can be appointed to collect VAT on the Indonesian buyer/importer (see section VAT on e-Commerce). If they are not appointed and thus cannot collect the VAT, 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, BUMN and some of their subsidiaries, PSC companies in the oil and gas sector, and mineral mining companies holding certain Special IUP. As the name implies, a VAT Collector is required to collect the VAT due from a PKP (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 58-59 concerning VAT refunds).

### Crediting input VAT

VAT must be accounted for to the DGT every month. Input VAT 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 VAT has not yet been expensed.

If a taxpayer has not moved beyond pre-production (i.e. not delivered or exported VATable goods/services) within a certain period of time, the taxpayer is considered to have failed to produce and any Input VAT that has already been credited can no longer be claimed. The general cut-off for the pre-production stage is three years, with an extension for manufacturing sectors and business sectors under National Strategic Projects, which are five and six years, respectively.

Input VAT may also be credited under certain circumstances such as Input VAT prior to becoming a PKP, Input VAT not reported in a VAT Return and discovered during a tax audit, or Input VAT collected through a tax assessment.

The validity of particular tax invoices is a key to successfully claiming the input VAT 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 Luxury-goods Sales Tax (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 VAT cannot be used as a tax credit. PKPs are required to prepare its tax invoice in electronic format (electronic *Faktur Pajak/e-FP*). Specifically for Retailer PKP, requirements under point b and g are not required.

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 maybe 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 98-99 concerning early tax refunds).

## VAT facilities on certain goods/services

The deliveries and/or import/utilisation of certain taxable goods/services are given VAT facilities in the form of exemption or non-collection. The determination of these goods/services are made through a GR which is based on the limited scope as stipulated under the VAT Law. The below list refers to the rules as of 1 April 2022.

### VAT exemption facilities

#### *Import/delivery of certain taxable goods*

- a. polio vaccine and vaccines in handling COVID-19;
- b. certain general education and religious books; and
- c. taxable goods received by certain parties in handling national disasters.

*Delivery of certain taxable services*

- a. construction services to build religious places; and
- b. certain services in handling national disasters.

*Import of certain strategic taxable goods*

- a. factory machinery and equipment required for manufacturing taxable goods;
- b. goods produced in the marine and fishery sector;
- c. untanned raw hides and skins;
- d. livestock with certain criteria;
- e. seeds and seedlings from agricultural, plantation, forestry, animal husbandry, or fishery goods;
- f. animal feed, not including pet animal feed;
- g. fish feed with certain requirement;
- h. certain materials for manufacturing animal and fish feed;
- i. silver handicraft raw materials in granules and/or bars;
- j. weapons for national security;
- k. certain equipment and spare parts for providing boundary data and aerial photographs used by the armed forces;
- l. special presidential service vehicle imported by certain parties, which is granted import duty exemption;
- m. goods for public places and nature conservation, which are granted import duty exemption;
- n. certain staple goods that are highly needed by the public;
- o. certain white crystal consumption sugar;
- p. goods resulting from mining/drilling taken directly from the source, excluding coal mining products;

- q. liquefied natural gas and compressed natural gas;
- r. goods for public interest imported by the government which are granted import duty exemption;
- s. certain imported medicines, which are granted import duty exemption; and
- t. certain imported human therapy materials, blood grouping materials, and tissue type materials, which are granted import duty exemption.

#### *Delivery of certain strategic taxable goods*

- a. similar taxable goods under point (a) to (i), (k), and (n) to (q) in the list of import of certain strategic taxable goods;
- b. units of public flats financed under certain conditions;
- c. public houses, *pondok boro*, student dormitories, as well as workers' houses with certain limitation;
- d. electricity, including electricity connection and subscription fees, except for houses with power above 6,600 VA;
- e. clean water;
- f. combat gears, special land vehicles, radars, and their spare parts, delivered to certain parties; and
- g. materials for manufacturing goods in point (f) which are imported by and to be submitted to certain parties.

#### *Delivery/utilisation of certain strategic taxable services*

- a. medical health services;
- b. social services;
- c. postal delivery services;

- d. financial services;
- e. insurance services;
- f. educational services;
- g. non-advertising broadcasting services;
- h. land and water public transport services, and domestic leg of foreign air transport services;
- i. labour services;
- j. public telephone services using coins;
- k. money transfer services by postal money orders;
- l. rental services for public flats and houses; and
- m. services received by the armed forces which are utilised to provide boundary data and aerial photographs.

### VAT non-collected facilities

#### *Import/delivery of certain strategic taxable goods and delivery/utilisation of certain strategic taxable services*

- a. transportation vehicles and spare parts thereof, used by the armed forces and the state police;
- b. ships and its spare parts, and certain equipment used by certain water-related industry players;
- c. aircraft and its spare parts, and certain equipment used by national commercial airlines;
- d. trains and its spare parts, certain equipment, and infrastructure used by national train enterprises;
- e. certain services received by certain water-related industry players;
- f. certain services received by national commercial airlines;
- g. train maintenance or repair services received by national train enterprises; and



- h. gold bars other than for the foreign exchange reserves.

*Import of taxable goods exempted from Import Duty*

- a. gifts for public worship, charity, social, or cultural purposes with certain conditions;
- b. goods for scientific research and development purposes by certain parties;
- c. goods for disabled people by the governing body;
- d. crates/other packages containing bodies or ashes;
- e. goods transferred by Indonesian workers and students abroad, civil servants, members of the armed forces and national police with certain requirements;
- f. personal belongings of passengers, carrier crew, border crossers, and parcels up to a certain amount limit;
- g. temporary imported goods;
- h. goods used by the upstream oil and gas business or geothermal business contractors;
- i. re-imported goods in the same quality as when they were exported;
- j. re-imported goods that have been exported for the purposes of repair, work, and testing;
- k. goods and materials to be processed, assembled, or installed on other goods that have KITE facilities;
- l. goods and materials or machines imported by small businesses under KITE facilities;
- m. goods used by the contractors of certain coal mining contracts; and
- n. gifts for natural disaster relief by certain parties.

## 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.

## Luxury-goods Sales Tax

In addition to VAT, deliveries or imports of certain manufactured taxable goods may be subject to LST. A particular item will only attract LST once, i.e., tax will be charged either on importation of the goods 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 and LST Law, the LST rate may be increased up to 200%, however currently the LST rates are between 10% to 95%.

Group	LST Rates (%)											
	10	12	15	20	25	30	40	50	60	70	75	95
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	●	●	●	●	●	●	●	●	●	●		●

## Carbon Tax

Carbon Tax is to be imposed on carbon emissions, which have a negative impact on the environment. The subjects of Carbon Tax are individuals or companies purchasing goods containing carbon or carrying out activities that result in a certain level of carbon emissions within a certain period. Carbon taxpayers consist of Carbon Tax Collectors and the above Carbon Tax subjects. These taxpayers are subject to reporting, payment, and recording obligations.

The rate of Carbon Tax shall be at least the carbon price in the domestic carbon market per kg CO<sub>2</sub>e. However, the rate shall not be less than IDR 30/kg CO<sub>2</sub>e. The Carbon Tax is due upon the purchase of goods containing carbon, at the end of each calendar year during which the carbon emitting activity is carried out, or other designated timing. The implementation of Carbon Tax will be in stages according to market readiness.

Taxpayers who participate in trading and offsetting carbon emissions, as well as other mechanisms in accordance with laws and regulations in the environmental sector, can be granted a Carbon Tax reduction and/or other benefits for the fulfilment of Carbon Tax obligations.

# 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	Goods	Rate (%)
Automobiles	Passenger and 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 20 or, IDR 21,450/minute
Textile, textile products and accessories	Bags, footwear, harnesses, apparels, and clothing accessories, etc.	5 to 35
Beverages, ethyl alcohol and alcoholic drinks	Ethyl alcohol, juice, beer, wine, spirits and other beverages	5 to 150 or, IDR 14,000/ltr

Group	Goods	Rate (%)
Essential oils and resinoids	Odoriferous substances	5 to 150
Agricultural products	Animal and vegetable products	0 to 20 or, IDR 450/kg
Furniture	Bedding, mattresses, lamp and lighting fittings, and others	0 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 preferential duty rates agreements with other countries, either through trade agreements or economic partnership agreements that is carried out bilaterally or through regional agreements.

### 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 77-85 on the relevant tax concession). Certain entities that import goods related to Research and Development (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 Minister 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 431 / 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	IDR 20,000/litre
Alcoholic drink	IDR 15,000/litre to IDR 139,000/litre
Ethyl alcohol concentrate	IDR 1,000/gram
Tobacco products	IDR 10 to IDR 110,000/stick or gram or millilitre 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 limited liability companies (*Perseroan Terbatas*) 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 10 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 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, whilst 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 IDX, with certain requirements, are non-taxable.

### Reinvestment of branch profits

Profit after tax of PE in Indonesia are exempted 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 0% to 93<sup>1/3</sup>% 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 and 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 dan Pelabuhan 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 services; and
- Transactions of intangible goods and taxable services are exempted from VAT, except for those delivered to Other Places within 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 74-75 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 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.

## Regional Taxes

Regional Taxes is governed under the Financial Relationships between the Central Government and the Regional Government (*Hubungan Keuangan antara Pemerintah Pusat dan Pemerintahan Daerah/HKPD*) Law. This Pocket Tax Book only provides an overview of the Regional Taxes with more details on Land and Building (L&B) tax, tax on transfer of L&B and duty on the acquisition of L&B rights.

### The Regional Tax/Duty rates and “Opsen”

Below is a summary of the tax rates under HKPD Law:

No.	Type of Tax/Duty	HKPD rate
1	Rural and Urban Land and Building Tax ( <i>Pajak Bumi dan Bangunan Perdesaan dan Perkotaan/PBB-P2</i> )	Max. 0.5%
2	Duty on the Acquisition of Land and Building Rights ( <i>Bea Perolehan Hak atas Tanah dan Bangunan/BPHTB</i> )	Max. 5%
3	Motor Vehicle Tax ( <i>Pajak Kendaraan Bermotor/PKB</i> )	
	1 <sup>st</sup> ownership – general	Max. 1.2%
	2 <sup>nd</sup> ownership onwards – general	Max. 6%
	1 <sup>st</sup> ownership – Special Region	Max. 2%



No.	Type of Tax/Duty	HKPD rate
	2 <sup>nd</sup> ownership onwards – Special Region	Max. 10%
	Specified uses (e.g. public transportation, fire trucks, school buses, ambulances, etc.)	Max. 0.5%
	Opsen	66% of PKB
4	Heavy Equipment Tax ( <i>Pajak Alat Berat/PAB</i> )	Max. 0.2%
5	Duty on the Transfer of Motor Vehicle Title ( <i>Bea Balik Nama Kendaraan Bermotor/BBNKB</i> )	
	1 <sup>st</sup> ownership – general	Max. 12%
	2 <sup>nd</sup> ownership onwards – general	
	Special Region	Max. 20%
	Opsen	66% of BBNKB
6	Motor Vehicle Fuel Tax ( <i>Pajak Bahan Bakar Kendaraan Bermotor</i> )	Max. 10%
7	Non-metal Minerals and Rocks Tax ( <i>Pajak Mineral Bukan Logam dan Batuan/MBLB</i> )	
	General	Max. 20%
	Special Region	Max. 25%
	Opsen	25% of Pajak MBLB
8	Surface Water Tax ( <i>Pajak Air Permukaan</i> )	Max. 10%
9	Cigarette Tax ( <i>Pajak Rokok</i> )	10%
10	Advertisement Tax ( <i>Pajak Reklame</i> )	Max. 25%
11	Groundwater Tax ( <i>Pajak Air Tanah</i> )	Max. 20%

No.	Type of Tax/Duty	HKPD rate
12	Swallow's Nest Tax ( <i>Pajak Sarang Burung Walet</i> )	Max. 10%
13	Certain Goods and Services Tax ( <i>Pajak Barang dan Jasa Tertentu/PBJT</i> )	
	Food and Beverage	Max. 10%
	Electric Power	
	General use of electricity	Max. 10%
	Electricity from other sources by industries and Oil and Gas mining	Max. 3%
	Self-produced electricity	Max. 1.5%
	Hotel services	Max. 10%
	Parking services	Max. 10%
	Art and Entertainment services	
	General	Max. 10%
	Karaoke, night clubs, etc.	40% - 75%

## 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. Each regional Government has to issue a regulation (*Peraturan Daerah/PERDA*) to regulate PBB in its territory.

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

- forestry;
- plantation;
- mining;
- other industries located in national waters outside the territory of regional area.

The negative list setting out land and buildings not subject to PBB under HKPD Law includes those:

- Used by central and regional Government that are registered as state property or regional property;
- Used for public interest in the areas of religious, social care, health, education, and national culture, which are not intended to gain profit;
- Used as a cemetery, ancient heritage site, or the like;
- 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;
- Used for railway lines, Mass Rapid Transit, Light Rail Transit, or the like;
- Other residential buildings based on a certain sale value of the tax object (*Nilai Jual Objek Pajak/NJOP*) determined by the Head of Region.

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 of 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 HKPD Law, the PBB rate is maximum 0.5% and the tax due is calculated by applying the tax rate on a certain percentage of NJOP (ranging from 20% to 100%) deducted by non-taxable NJOP. Any changes are to be made by issuing a PERDA. The non-taxable NJOP is set at IDR 10 million at the minimum. In the event that a taxpayer owns or controls more than one PBB object in one area, the non-taxable NJOP is only given to one PBB object for each fiscal year.

### 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 HKPD 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 of a maximum of 5% to the relevant NPOP, minus an allowable non-taxable threshold. The non-taxable threshold amount varies by region: the minimum is IDR 80 million, except in the case of an inheritance, for which starts from IDR 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.

## Stamp Duty

Stamp duty is nominal, and payable as a fixed amount of IDR 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 IDR 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 programmes.

## 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 – PKP	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
CIT	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
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	IDR
VAT return	500,000
Other monthly tax returns	100,000
Individual income tax return	100,000
CIT return	1,000,000

For AITR, 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 54-55 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 electronically (e-filing) 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 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;
  - 3) Companies that apply for an income tax refund in their AITR of a maximum of IDR 1 billion; or

- 4) PKPs that apply for VAT refund in their VAT Return of a maximum of IDR 5 billion.
- C. Low-risk PKPs
- Companies that engage in the following business activities are considered as low-risk PKPs:
- 1) Export Activities;
  - 2) Delivering VATable goods and/or services to a VAT Collector; and/or
  - 3) Delivering VATable 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 bookkeeping must be maintained in accordance with the prevailing accounting standards unless the tax law stipulates otherwise. Individuals who carry out business or freelance activities must maintain bookkeeping. However, if the gross turnover from the main business or freelance activities has been subjected to final tax or non-tax object and are below IDR 4.8 billion in a year, the taxpayer only needs to conduct recording.

By default, the bookkeeping 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 bookkeeping 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.

PSCs, CoWs, and IUPs 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 bookkeeping is prohibited. Irrespective of the currency and the language used, companies typically have to settle their tax liabilities in IDR (except for PSC companies) and file tax returns in Indonesian. For CIT, the assertions must be presented in USD side by side with IDR in the annual CITR.

A company that has obtained approval to maintain USD accounting may return to IDR 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

Most tax refund request will trigger a tax audit, except for taxpayers eligible for early tax refunds (see page 98-99). 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 CIT 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 summarised 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. The disagreed portion has not become a tax arrears until the issuance of the Objection Decision or Tax Court Decision if the taxpayer files for Objection or Appeal respectively.

### 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

An SKP 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 an SKP refers to the resulting balance between the tax due and the tax credits. Accordingly, there are three types of SKPs:

- 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 administrative penalties in the form of interest based on the applicable MoF Interest Rate, plus a surcharge for a maximum of 24 months, or a 75% surcharge.

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.

### Payments of tax assessment

Tax due based on an SKP must be paid within one month after the issuance of the relevant SKP. 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

The DGT can issue an SKPKB 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 an SKP for a particular tax of a particular month or year has been issued, additional SKPs 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 SKP 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:

- STP;
- SKPKB;
- 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 SKP.

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

### Objections

A taxpayer who does not agree with an SKP can submit an Objection (*Keberatan*) to the DGT within three months of the date of issue of the SKP. 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 30%. 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 60%.

## 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 an SKP, 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.

Any underpaid tax resulting from the Supreme Court Decision is subject to a surcharge of 60%.

## 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 2022.

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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