Update on Mutual Agreement Procedure implementation

The Director General of Taxation (DGT) has issued Regulation No. PER-16/PJ/2020 (PER-16) to provide further guidance in relation to the renewal of a Mutual Agreement Procedure (MAP) implementation request.

Previously, the general procedures of MAP (such as MAP request, MAP negotiation, MAP withdrawal, etc.) were stipulated in Minister of Finance Regulation No.49/PMK.03/2019 (PMK-49). Please refer to our TaxFlash No. 08/2019 for the discussion on PMK-49.

PER-16 is effective from 11 August 2020 and adds to PMK-49. The key highlights stipulated in PER-16 are as follows:

MAP renewal/time extension

PER-16 stipulates that MAP request for which a MAP discussion has been held but has not resulted in a Mutual Agreement within a two year timeline (as per PMK-49), a renewal of request for MAP implementation may be submitted to the DGT through the Director of International Tax.

The renewal of MAP implementation request (which essentially is a time extension request) can be conducted as long as it fulfills the following requirements:

a. The MAP process has reached an initial agreement set out in the minutes of meeting, which regards to:
   1) For MAP process related to a correction on transfer pricing, or bilateral advance pricing agreement:
      a) existence of the transaction;
      b) selection of analysis for the transaction;
      c) selection of the tested party;
      d) selection of transfer pricing method; and
      e) selection of profit level indicator, if the agreed transfer pricing method is Transactional Net Margin Method (TNMM); and/or
   2) For other MAP process – the interpretation of Tax Treaty provisions;
b. The renewal of MAP implementation request is submitted in writing by the Competent Authority (CA) of the Tax Treaty Partner;
c. The renewal of MAP implementation to be submitted after reaching the initial agreement as per point (a) and to be submitted at the latest six months prior to the end of MAP negotiation period; and
d. maximum one filing for every MAP request.

After examining the MAP renewal request, the DGT will issue a written notification to the CA of the treaty partner and to the relevant Indonesian taxpayer whether or not the MAP renewal request is approved. If approved, MAP negotiation period can be extended for a maximum of 24 months from the submission of the MAP renewal request.

Transitional and other provisions

PER-16 reiterates that MAP implementation request can be filed by the DGT upon recommendation from the Indonesian taxpayer in the case of a transfer pricing correction applied by the DGT. This gives more flexibility in resolving a double taxation issue rather than just relying on the resident taxpayer of the tax treaty partner and the tax treaty partner in initiating the MAP request.

PER-16 also clarifies that in the event that the MAP negotiation has exceeded the prescribed timeline (i.e. 24 months) and the MAP negotiation has not resulted in a Mutual Agreement, the DGT will issue a written notification regarding the termination of the MAP negotiation process to the CA of the treaty partner and to the relevant Indonesian taxpayer.

MAP implementation requests submitted prior to the enactment of PMK-49 (i.e. 26 April 2019) can also be renewed if the above requirements are met and the renewal request is submitted until 25 April 2021. Hence, for MAP requests that are about to expire but have not been discussed to date, the Indonesian taxpayer and the corresponding counter party in the tax treaty partner’s jurisdiction, are encouraged to proactively follow up with their respective tax authorities to assess compliance with PER-16 prior to lapse of the 24-month term or 25 April 2021, whichever is earlier. Nevertheless, we understand that the DGT is committed in doing its own follow up of the discussions for ongoing MAP requests.
Your PwC Indonesia contacts:

Abdullah Azis
abdullah.azis@pwc.com

Gerardus Mahendra
gerardus.mahendra@pwc.com

Peter Hohtoulas
peter.hohtoulas@pwc.com

Adi Poernomo
adi.poernomo@pwc.com

Hasan Chandra
hasan.chandra@pwc.com

Raemon Utama
raemon.utama@pwc.com

Adi Pratikto
adi.pratikto@pwc.com

Hendra Lie
hendra.lie@pwc.com

Runi Tusita
runi.tusita@pwc.com

Alexander Lukito
alexander.lukito@pwc.com

Hisni Jessca
hisni.jessca@pwc.com

Ryuji Sugawara
ryuji.sugawara@pwc.com

Ali Widodo
ali.widodo@pwc.com

Hyang Augustiana
hyang.augustiana@pwc.com

Soeryo Adjie
soeryo.adjie@pwc.com

Amit Sharma
amit.xz.sharma@pwc.com

Kianwei Chong
kianwei.chong@pwc.com

Sujadi Lee
sujadi.lee@pwc.com

Andrias Hendrik
andrias.hendrik@pwc.com

Laksmi Djuwita
laksmi.djuwita@pwc.com

Sutrisno Ali
sutrisno.ali@pwc.com

Anton Manik
anton.a.manik@pwc.com

Lukman Budiman
lukman.budiman@pwc.com

Suyanti Halim
suyanti.halim@pwc.com

Antonius Sanyojaya
antonius.sanyojaya@pwc.com

Mardianto
mardianto.mardianto@pwc.com

Tim Watson
tim.robert.watson@pwc.com

Ay Tjihing Phan
ay.tjihing.phan@pwc.com

Margie Margaret
margie.margaret@pwc.com

Tjen She Siung
tjen.she.siung@pwc.com

Brian Arnold
brian.arnold@pwc.com

Oki Octabiyanto
oki.octabiyanto@pwc.com

Turino Suyatman
turino.suyatman@pwc.com

Dexter Pagayonan
dexter.pagayonan@pwc.com

Omar Abdulkadir
omar.abdulkadir@pwc.com

Yessy Anggraini
yessy.anggraini@pwc.com

Enna Budiman
enna.budiman@pwc.com

Otto Sumaryoto
otto.sumaryoto@pwc.com

Yuliana Kurniadjaja
yuliana.kurniadjaja@pwc.com

Gadis Nurhidayah
gadis.nurhidayah@pwc.com

Parluhutan Simbolon
parluhutan.simbolon@pwc.com

Yunita Wahadaniah
yunita.wahadaniah@pwc.com

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