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## Fast-track PPh 25 reduction

Amid concerns over tightening liquidity, the director general of tax (DGT) has recently announced two concessions that will help taxpayers seeking a reduction of monthly income tax instalments (PPh 25) due in 2009.

With the first concession, a semi-automatic discount of up to 25% of the standard PPh 25 can be obtained for the PPh 25 due for the January-June 2009 period. The discount does not apply automatically. However taxpayers seeking the discount need only to notify the Director General of Tax (DGT) in writing.

For the second half of the year, the DGT has announced a simplified procedure for applying for a PPh 25 reduction, and the DGT will have to respond within 15 working days of a request for reduction being made. An application is considered to be approved if there is no DGT decision within 15 working days. (This matter is set out in DGT Reg. Per-10/PJ/2009 issued on 11 February 2009.)

The concessions are available for all companies except banks, state-owned companies, go-public companies, and any companies subject to a legal requirement to prepare regular financial statements. These

companies must determine PPh 25 on a regular basis in a year in accordance with their regular financial statements.

### Semi-automatic discount

The DGT has not specified any particular approval process for this discount. Instead, it requires that a company seeking the discount should submit to the DGT office (KPP) a notification setting out its standard PPh 25 calculation, along with the amount of the desired discount. However it appears that automatic approval will be granted if the desired discount is consistent with the projection of the 2009 tax liability attached to the notification. A standard form is available for the calculation of projected tax liability. The notification seeking the discount must be filed no later than 30 April 2009.

In effect, this means taxpayers can seek a 25% reduction of their PPh 25 for the first half of the 2009 year, with automatic approval, and no downside. Accordingly all taxpayers who are eligible for the concession and have a PPh 25 liability for the 2009 year should seek the 25% reduction.

Companies which have not filed their 2008 corporate income tax return (CITR) should use the December 2008 PPh 25 as the standard PPh 25 for the first half of 2009. If the 2008 CITR has been filed before submitting the

application, the PPh 25 calculation set out in the CITR should be used as the standard PPh 25. The monthly PPh 25 due for January-June 2009 is determined by applying the desired discount to the standard PPh 25.

### **PPh 25 for July-December 2009**

Even with the availability of the 25% discount, a company may come to a view in at some point in the year that the PPh 25 payments up to that date, along with other tax credits (Articles 22, 23, and 24 income taxes), will exceed the entire income tax likely to be due for 2009. Hence, a tax overpayment would be unavoidable, unless a further PPh 25 reduction is obtained for the rest of the year.

A company facing such a situation may apply for a PPh 25 reduction for the July-December 2009 period. As a minimum, however, the company must be able to demonstrate in its application that its 2009 estimated income tax due (EITD) will be less than 75% of the notional tax due used as a basis for the calculation of the current PPh 25. The 2009 EITD must take into account the company's income up to the month immediately before the application is filed and the expected income for the rest of the year. A standard form is available for the application.

The application must state the PPh 25 amount considered to be appropriate for the company and must be filed no later than 30 June 2009. The DGT must make a decision on the application within 15 working days of it being lodged. (Under the normal procedure, the DGT must make a decision within 30 days).

If a company does not file any application for a PPh 25 reduction up to 30 June 2009, it must pay the standard PPh 25 payment for the July-December 2009 period, determined in accordance with the normal procedure. Typically, this should be based on the 2008 CITR.

## **Bond interest income tax reduced to 15%**

Effective from 1 January 2009, bond interest is subject to final income tax of 15%, reduced from the 20% that was previously applicable. The new tax rate is applicable if the interest is earned by Indonesian residents or Indonesian permanent establishments (PEs) of foreign companies. If it is earned by a non-resident taxpayer, the tax rate is 20%, subject to possible reduction in light of relevant tax treaties.

Indonesian mutual funds registered with the Capital Market and Financial Institution Supervisory Body (BAPEPAM-LK) continue to enjoy nil income tax on bond interest until 2010. They must bear bond interest income tax at 5% from 2011 to 2013. Starting from 2014, the privilege will no longer be applicable and they must pay the normal final income tax at 15%.

## Government-borne tax in 2009 fiscal stimulus

The government announced a fiscal stimulus package worth Rp71.3t (USD6.5 billion) in the proposed 2009 state budget amendment submitted to the parliament early this month. The stimulus includes a general income tax cut of Rp43t, government borne-tax and import duties of Rp13.3t and infrastructure spending of Rp7.7t. The other portion worth Rp7.3t will serve as an energy subsidy and financing support for small business activities.

The general income tax cut of Rp43t is mainly attributable to some changes set out in the 2008 income tax law amendment (Law No. 36/2008) which is effective from 2009. The corporate tax is set in the law at 28% flat, reduced from the top rate of 30%. The income layers for individual income tax are significantly changed with the top rate being reduced from 35% to 30%. A special tax cut provided to qualifying public companies and small and medium business enterprises is also part of this general tax cut.

The government-borne tax will consist of government-borne VAT and government-borne employee income (payroll) tax. The former worth Rp3.3t is intended for the upstream sector of oil and gas and geothermal industries, and the distribution of low-priced oil palm. This matter is set out in Minister of Finance (MoF) regulation numbers 230/PMK.11/2008, 231/PMK.011/2008 and 242/PMK.011/2008 issued in December 2008.

The implementing regulations for government-borne payroll tax are still pending. The government has indicated that the package (worth Rp6.5t) would be granted mainly to labour-intensive industries which are severely hit by the economic slowdown.

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