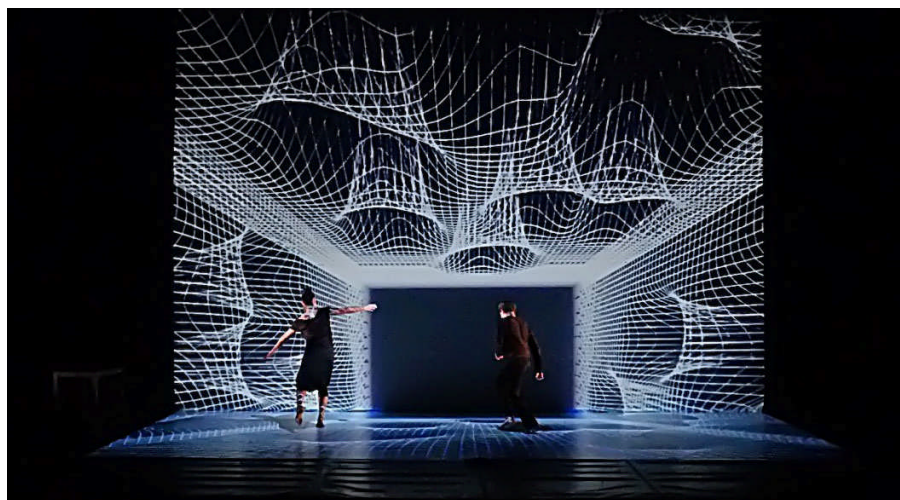


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***Verification, a new approach to be understood***

Verification was reintroduced in Government Regulation No.74/2011 (GR-74) which is the main implementing regulation of the Tax Administration Law. Verification is defined as a series of activities to test the fulfillment of subjective and objective obligations or tax calculations and payments, based on the taxpayer's request or data and tax information which either belongs to or is obtained by the Director General of Taxes (DGT).

To provide guidance on verification, the Minister of Finance (MoF) issued Regulation No.146/PMK.03/2012 (PMK-146) regarding Verification Procedures. PMK-146 is dated 10 September 2012 and entered into force on 25 September 2012.

Based on PMK-146, the DGT has the right to conduct verification prior to :

- a. issuing a Tax ID Number based on ex-officio assessment;
- b. revoking a Tax ID Number based on ex-officio assessment or taxpayer's application;
- c. affirming a Value Added Tax (VAT)-able Entrepreneur status based on ex-officio assessment or taxpayer's application;
- d. revoking a VAT-able Entrepreneur status based on ex-officio assessment or taxpayer's application; and/or
- e. issuing a tax assessment letter.

Detailed verification procedures for each of the purposes above are laid down in PMK-146. Specifically for point (a) to (d) above, PMK-146 confirms that verification will be conducted for certain taxpayers as listed in the regulation, while for other taxpayers the processes will be carried out through either a field or office tax audit.

Verification may also be conducted on other information which either belongs to or is obtained by the DGT, as follows:

- a. clarification results/confirmation of VAT invoices;
- b. withholding tax slips;
- c. taxation data relating to taxpayers not submitting tax returns on time, having received a written reminder and still not submitting a tax return within the period specified in the Warning Letter; or
- d. transaction evidence or taxation data that can be used to calculate the taxpayer's obligation.

Verification procedures in general are more or less similar to those of an office tax audit conducted for other purposes (e.g., to issue a Tax ID Number based on ex-officio assessment, to revoke a Tax ID Number, to affirm or to revoke a VAT-able

Entrepreneur status). However, there are several important differences in verification procedures compared to those of field tax audits, as follows:

- a. tax verification officers do not visit taxpayers' locations, they invite the taxpayers instead to come and provide clarification on the matters being verified;
- b. there is no Quality Assurance Team provided by the relevant Regional Tax Office for verification; and
- c. there will be no Nil Tax Assessment issued should the verification result show no underpaid or overpaid tax.

The DGT may cancel a tax assessment letter resulting from verification if the tax office issued it without providing any notification of verification findings to the taxpayer or without conducting a closing conference, except for an Additional Underpayment Tax Assessment Letter resulting from verification on the taxpayer's voluntary confirmation and an Overpayment Tax Assessment Letter resulting from verification on tax payment.

## ***Procedures on the issue of tax assessment letters and tax collection letters***

In order to update new provisions based on GR-74, the MoF issued Regulation No.145/PMK.03/2012 (PMK-145) as the new implementing regulation regarding the issue of tax assessment letters and tax collection letters. PMK-145 is dated 10 September 2012 and entered into force on 25 September 2012.

PMK-145 revokes the following regulations that were based on the previous implementing regulation of the Tax Administration Law (i.e., GR No.80/2007):

- a. MoF Regulation No.189/PMK.03/2007 regarding Procedures on the Issue of Tax Collection Letters as last amended by Regulation No.84/PMK.03/2010; and
- b. MoF Regulation No.23/PMK.03/2008 regarding Procedures on the Issue of Tax Assessment Letters as last amended by Regulation No.83/PMK.03/2010.

The basic rules are generally the same as those of the revoked MoF regulations. As the term verification is reintroduced in GR-74 and may result in a tax assessment letter, PMK-145 also stipulates the relevant procedures on this matter.

## ***Annual confirmation of income tax borne by government in relation to bonds***

On 10 September 2012, the MoF issued Regulation No.147/PMK.011/2012 (PMK-147) regarding Income Tax Borne by the Government on Interest Received from Government Bonds on the International Market, and Third Parties' Income on the Services Provided to the Government in regard to the Issue of Government Bonds on the International Market for Year 2012.

PMK-147 was issued as part of the government's annual procedure of providing income tax facilities for government bonds, applicable on tax due on interest received from government bonds on the international market, and on tax due on fees received by third parties for the services provided to government in relation to the issue of government bonds on the international market.

The subsidy threshold was based on Law No.22/2011 regarding the State Budget for Financial Year 2012, along with its amendment.

## ***Eligible State Owned Enterprises as VAT Collectors***

Following the issue of MoF Regulation No.85/PMK.03/2012 (PMK-85) and MoF Regulation No.136/PMK.03/2012 (PMK-136) (please refer to our TaxFlash No.7/2012 and No.8/2012), on reappointment of State Owned Enterprises (*Badan Usaha Milik Negara* or *BUMN*), the DGT issued SE-45/PJ/2012 (SE-45), dated 27 September 2012, which provides further clarification on the definition of BUMN, i.e., the government must own at least 51% of the shares, and it will not include the enterprise's subsidiary, joint operation or other forms of cooperation.

The VAT Collector status of a BUMN will be automatically revoked if there is a change in the shareholding structure causing the enterprise to no longer be eligible as a BUMN. The converse will also automatically apply.

## Your PwC Indonesia contacts

**Abdullah Azis**  
abdullah.azis@id.pwc.com

**Adi Poernomo**  
adi.poernomo@id.pwc.com

**Adi Pratikto**  
adi.pratikto@id.pwc.com

**Ali Mardi**  
ali.mardi@id.pwc.com

**Ali Widodo**  
ali.widodo@id.pwc.com

**Anthony J. Anderson**  
anthony.j.anderson@id.pwc.com

**Anton Manik**  
anton.a.manik@id.pwc.com

**Antonius Sanyojaya**  
antonius.sanyojaya@id.pwc.com

**Ay-Tjhing Phan**  
ay.tjhing.phan@id.pwc.com

**Brian Arnold**  
brian.arnold@id.pwc.com

**Engeline Siagian**  
engeline.siagian@id.pwc.com

**Gadis Nurhidayah**  
gadis.nurhidayah@id.pwc.com

**Hendra Lie**  
hendra.lie@id.pwc.com

**Irene Atmawijaya**  
irene.atmawijaya@id.pwc.com

**Ita Budhi**  
ita.budhi@id.pwc.com

**Ivan Budiarnawan**  
ivan.budiarnawan@id.pwc.com

**Laksmi Djuwita**  
laksmi.djuwita@id.pwc.com

**Mardianto**  
mardianto.mardianto@id.pwc.com

**Margie Margaret**  
margie.margaret@id.pwc.com

**Michelle Mianova**  
michelle.mianova@id.pwc.com

**Nazly Siregar**  
nazly.siregar@id.pwc.com

**Paul Raman**  
paul.raman@id.pwc.com

**Parluhutan Simbolon**  
parluhutan.simbolon@id.pwc.com

**Ravi Gupta**  
ravi.r.gupta@id.pwc.com

**Ray Headifen**  
ray.headifen@id.pwc.com

**Sutrisno Ali**  
sutrisno.ali@id.pwc.com

**Suyanti Halim**  
suyanti.halim@id.pwc.com

**Tim Watson**  
tim.robert.watson@id.pwc.com

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

**Triadi Mukti**  
triadi.mukti@id.pwc.com

**Yessy Anggraini**  
yessy.anggraini@id.pwc.com

**Yuliana Kurniadjaja**  
yuliana.kurniadjaja@id.pwc.com

[www.pwc.com/id](http://www.pwc.com/id)

If you would like to be removed from this mailing list, please reply and write UNSUBSCRIBE in the subject line, or send an email to [maria.purwaningsih@id.pwc.com](mailto:maria.purwaningsih@id.pwc.com).

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