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Indonesia Tax Guide 2024 - 2025

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General Provisions and Procedures for Taxation

Law Number 6 of 1983 regarding General Provisions and Procedures for Taxation, as amended several times, lastly by Law Number 6 of 2023

Overview

An individual or entity that has fulfilled certain criteria must register for a tax identification number (*Nomor Pokok Wajib Pajak* (NPWP)) to carry out its taxation rights and obligations. Members of a corporate group are taxed individually since there are no provisions on relief available for corporate groups.

Types of taxes in Indonesia are, among others:

- Income tax (*Pajak Penghasilan*);
- Value added tax (*Pajak Pertambahan Nilai* (VAT)) and luxury-goods sales tax (*Pajak Penjualan atas Barang Mewah* (LST));
- Land and building tax (*Pajak Bumi dan Bangunan*);
- Carbon tax (*Pajak Karbon*); and
- Regional taxes and retributions (*Pajak Daerah dan Retribusi Daerah*).

Indonesian tax residents are taxed on their worldwide income, with certain exceptions for qualifying individual tax residents. Non-Indonesian tax residents are taxed only on incomes sourced from Indonesia, including income attributable to permanent establishments (*Bentuk Usaha Tetap* (PE)) in Indonesia.

Indonesia applies a self-assessment system in fulfilling income tax and VAT obligations. Control of the Directorate General of Taxes (DGT) over taxpayers' compliance is exercised through tax audits, which are generally followed by the issuance of tax assessment letters. The statute of limitation for the DGT to issue an underpaid tax assessment letter (*Surat Ketetapan Pajak Kurang Bayar* (SKPKB)) and additional underpaid tax assessment letter (*Surat Ketetapan Pajak Kurang Bayar Tambahan* (SKPKBT)) is five years. Under the tax criminal act, the statute of limitation can be extended up to 10 years.

For supervisory and monitoring purposes, the tax authorities may issue a letter requesting data and/or explanations from the taxpayer (*Surat Permintaan Penjelasan atas Data dan/atau Keterangan*). The taxpayer should respond to the request within 14 days. If the taxpayer does not respond or the response is considered inadequate, the tax authorities may escalate the issue to a formal tax audit procedure.

Administration, bookkeeping, and records

A taxpayer is required to maintain proper bookkeeping in Indonesia for at least 10 years, including all supporting documents that form the basis for accounting records. All books and records must be prepared in Indonesian language and denominated in IDR currency and must be conducted in accordance with the Indonesian Financial Accounting Standards (*Standar Akuntansi Keuangan* (SAK)), unless otherwise specifically regulated in tax regulations. The DGT usually requires these documents to be provided during a tax audit process.

There is a statutory requirement for the taxpayer's accounting records to be audited by a public accountant under certain circumstances. If the books and records are audited, the DGT requires the audited financial statements to be attached along with the filing of annual corporate income tax (CIT) return.

Foreign investment companies (*Penanaman Modal Asing*), PE, taxpayers that are listed on offshore stock exchanges, subsidiaries of offshore companies, certain collective investment contracts (*Kontrak Investasi Kolektif* (KIK)), or taxpayers that prepare their financial statements in US Dollar as their functional currency in accordance with the SAK may maintain their bookkeeping in English and use the US Dollar denomination (USD bookkeeping) by firstly obtaining the DGT's approval before commencing the USD bookkeeping preparation.

Contractors of oil and gas production sharing contract (PSC) and companies operating under mining contracts of work (CoW) may decide to maintain USD bookkeeping by notifying the DGT.

Generally, a fiscal year constitutes a calendar year. An approval from the DGT must be obtained in order to change the fiscal year period.

Tax payment and reporting obligations

Monthly tax obligation

In general, tax payment and reporting deadlines for monthly income tax and VAT obligations are summarized below:

Type of tax	Monthly payment deadline	Monthly reporting deadline
CIT (Article 25 monthly tax installment)	The 15th of the following month	The 20th of the following month
Individual income tax (Article 25 monthly tax installment)	The 15th of the following month	The 20th of the following month
Article 21/26 income tax	The 10th of the following month	The 20th of the following month
Withholding taxes (WHT) (other than Article 21/26 income tax)	The 10th of the following month	The 20th of the following month
VAT and LST	Before the submission of VAT and LST returns	The end of the following month

Different payment deadlines apply to certain types of tax payment, such as self-assessed VAT on the utilization of taxable intangible goods and/or taxable services from offshore, VAT collected by VAT collectors other than the State Treasurer, and some WHT.

Taxpayer that has settled an Article 25 monthly tax installment and received a state revenue transaction number (*Nomor Transaksi Penerimaan Negara*) is treated

as having already reported the tax with the payment validation date considered as the submission date.

Late tax payment is subject to a tax surcharge of reference interest rate issued monthly by the Minister of Finance (MoF) (*Suku Bunga Acuan* (SBA)) plus uplift of 5% divided by 12 months for a maximum of 24 months.

Late reporting is subject to a penalty of IDR 500 thousand for VAT return and IDR 100 thousand for other monthly tax returns.

Annual tax obligation

Tax payment and reporting deadlines for annual income tax obligations are summarized below:

Type of tax	Payment deadline	Reporting deadline
CIT	Before the submission of the CIT return	The end of the fourth month after the fiscal year ends
Individual income tax	Before the submission of the individual income tax return	The end of the third month after the fiscal year ends

Taxpayer can extend the submission of annual income tax returns for a maximum of two months from the original deadlines by submitting a notification to the DGT.

Late tax payment is subject to a tax surcharge of SBA plus uplift of 5% divided by 12 months for a maximum of 24 months. Tax underpayment arising from voluntary amendment of tax returns is subject to a tax surcharge of SBA plus uplift of 5% or 10% divided by 12 months for a maximum of 24 months, or a surcharge of 100%

depending on the case. Late reporting is subject to a penalty of IDR 100 thousand for individual income tax return and IDR 1 million for CIT return.

Appointment of another party as a tax withholder/collector

The MoF is allowed to appoint a domestic party or a foreign party that is directly involved in or facilitates certain transactions to withhold/collect the relevant income tax and VAT.

The provisions regarding tax assessment and collection, legal action, and imposition of penalties are extended to a foreign party appointed as a tax withholder by the MoF.

Tax controversy

Tax audit and tax assessment

The DGT may conduct a tax audit on a taxpayer within the statute of limitation. The tax audit aims to:

- Test the tax compliance of the taxpayer; or
- Serve other purposes (such as audit upon request for revocation of an NPWP, audit to determine the commencement of commercial production for the utilization of tax facilities, and others).

Typically, the tax auditor will request to borrow the taxpayer's books, records, and other supporting documents that form the basis for tax calculation. The taxpayer is required to submit the requested information and data within one month since the request date.

Information and data that are not provided within the time frame will not be considered in the tax audit and tax objection processes.

The tax auditor will deliver a notification of tax audit findings (*Surat Pemberitahuan Hasil Pemeriksaan (SPHP)*) to the taxpayer, which shall be responded by the taxpayer.

The tax auditor will then invite the taxpayer for a closing conference to discuss the SPHP and the taxpayer's response letter.

During the closing conference, the taxpayer may submit a request for a review by a quality assurance team if there is a dispute between the taxpayer and the tax auditor regarding the legal basis for the proposed correction.

The product of the tax audit is tax assessment(s) that will be one of the following:

- Nil tax assessment letter (*Surat Ketetapan Pajak Nihil*)—the amount of tax paid and/or credited equals to the amount of tax payable;
- Overpaid tax assessment letter (*Surat Ketetapan Pajak Lebih Bayar*)—the amount of tax paid and/or tax credit exceeds the amount of tax payable; or
- SKPKB—the amount of tax paid and/or tax credit is less than the amount of tax payable.

For SKPKB, the underpaid amount is subject to a surcharge penalty of SBA plus uplift of 15% or 20%, divided by 12 months for a maximum of 24 months; or a surcharge of 75%, depending on the case. The underpaid amount and the surcharge penalty shall be settled to the State Treasury within one month since the issuance date of the assessment letter, if the assessment has been agreed upon by the taxpayer during the closing conference in the tax audit process.

If the tax audit on VAT results in an imposition of interest penalty and incremental penalty, only the higher of the two penalties will be imposed.

Tax assessment letter arising from audit upon request for a tax refund must be issued within 12 months since the complete request is submitted by the taxpayer. Otherwise, the refund request will be deemed to be approved.

In the event that an indication of tax crime is found during a tax audit, the audit will be deferred and an audit on preliminary evidence for tax crime (*pemeriksaan bukti permulaan (bukper audit)*) is instigated. A bukper audit can be halted or proceeded with a tax investigation process.

An SKPKBT can only be issued based on a tax re-audit (*pemeriksaan ulang*), which is carried out when new data is discovered, when data that was not revealed in the previous tax audit is uncovered, or when the taxpayer provides a written statement of their own will. If the SKPKBT is issued, there will be a tax surcharge of 100% of the underpaid tax amount.

Tax objection

A taxpayer may file a request for an objection (*keberatan*) to a tax assessment letter or tax withheld/collected by a third party.

The objection letter has to meet the specified formal requirements so that it can be processed and considered. In addition, the objection letter must be filed within three months since the delivery date of tax assessment letter or the date of tax withholding/

collection. If the objection is filed against a tax assessment letter, the taxpayer must settle, at least, the amount that has been agreed upon during the tax audit closing conference.

The payment of any amount that has not been agreed upon during the closing conference may be deferred until one month after the issuance date of tax objection decision letter (*Surat Keputusan Keberatan*). Taxpayers can pay any amount that has not been agreed upon before filing an objection letter to avoid additional tax surcharge if the objection is rejected.

A tax objection decision letter must be issued within 12 months since the filing date of the objection letter. If the decision letter has not been issued by the deadline, the objection request will be deemed to be approved.

In the case the objection request is rejected or partially approved, an additional tax surcharge of 30% will be imposed on the tax amount that has not been paid before the filing of the objection letter. However, if the taxpayer appeals the decision to the tax court, the tax surcharge of 30% will not be imposed and the payment due date of the tax is deferred until one month after the issuance of tax court verdict (*Putusan Pengadilan Pajak*).

Furthermore, if an objection is withdrawn or rejected due to the taxpayer's failure to fulfill the formal requirements, the 30% penalty is not applicable since the objection is considered to be never filed; however, the tax payable would be due by referring to the issuance date of the assessment letter.

Tax appeal

A taxpayer can file an appeal (*banding*) against a tax objection decision letter to the tax court.

The appeal letter must be prepared in certain format and according to regulated procedures to meet formal requirements and must be filed, at the latest, three months since the delivery date of tax objection decision letter.

The tax court will conduct hearings and deliver a verdict within 12 months since the appeal letter is received. In some cases, this deadline may be extended for three months. There is no consequence if the deadline elapses.

In the case the appeal is not granted (either entirely or partially) or results in an increased amount of tax payable due to certain reasons, an additional tax surcharge of 60% will be imposed on the tax amount that must be paid, deducted by the tax amount paid before the filing of relevant objection letter.

If the appeal is not accepted under the Tax Court Law due to the taxpayer's failure to comply with the formal requirements, the applicable tax surcharge will remain at 30% and the tax payable would be due by referring to the issuance date of the objection decision.

Judicial review request

In some cases, a taxpayer or the DGT may challenge the tax court verdict by filing a judicial review (*peninjauan kembali*) petition to the Supreme Court.

The judicial review proceeding should be concluded within six months since the review request is lodged. However, there is no consequence if the deadline elapses. A request for judicial review does not postpone the execution of tax court verdict.

If a judicial review results in an increased amount of tax payable, the additional amount over the tax settled prior to the filing of the objection request shall be subject to a tax surcharge of 60%.

Lawsuit

A taxpayer or tax bearer can file a lawsuit (*gugatan*) to the tax court against an execution of tax collection procedure or a tax decision letter that is not properly issued in accordance with applicable tax regulations.

A lawsuit against an execution of tax collection procedure must be filed to the tax court within 14 days since the execution date of tax collection procedure. A lawsuit against matters other than the execution of tax collection procedure must be filed within 30 days since the receipt of decision letter. The tax court will conduct hearings and deliver a verdict within six months since the lawsuit letter is received.

Other tax dispute resolution

Following a taxpayer's request or by virtue of the DGT, the DGT can:

- Reduce or cancel an administrative sanction, in the case the sanction is imposed due to the taxpayer's unintentional mistakes;
- Reduce or cancel an incorrect tax assessment letter or a tax collection letter (*Surat Tagihan Pajak (STP)*); or

- Cancel tax audit findings or tax assessment letters that are issued without:
 - Delivering SPHP properly; or
 - Conducting a closing conference with the taxpayer.

The DGT must respond to the taxpayer's request submitted based on the above reasons within six months. If the decision letter has not been issued by the deadline, the taxpayer's request will be deemed to be approved.

Tax collection procedures

In addition to the tax assessment letter, the DGT can issue an STP to collect tax payable and/or tax penalty and surcharge arising from the following conditions:

- There is underpaid or unpaid tax;
- There is tax penalty and surcharge;
- VAT-able entrepreneur (*Pengusaha Kena Pajak* (PKP)) does not issue VAT invoices or are late in issuing VAT invoices;
- PKP issues incomplete VAT invoices (with certain exception);
- There is interest compensation that should not have been granted; or
- Taxpayer is granted a tax deferment or tax installment for certain period but then fail to pay by the due date.

An STP for collecting tax penalty and surcharge may also be issued to stamp duty collectors, carbon tax collectors, and/or taxpayers carrying out activities generating carbon emission.

In general, an STP can be issued maximum five years after the tax, the fiscal period, the part of fiscal year,

or the fiscal year is due. Under certain conditions, the statute of limitation can be extended.

A distress warrant (*Surat Paksa*) may be issued if the taxpayer does not settle the tax payable along with the tax penalty and surcharge, despite the DGT's effort for collection. If the taxpayer still does not settle the tax payable along with the tax penalty and surcharge, the DGT can seize the taxpayer's assets for auction.

In the event that the tax bearer is a shareholder or capital owner while also acting as the corporate management, the settlement of tax payable should consider the following levels of responsibility of the tax bearer:

- The entire tax payable, along with the tax penalty and surcharge—if the tax bearer is acting as the corporate taxpayer itself or as the management of a corporate taxpayer; and
- The prorated amount of the tax payable, along with the tax penalty and surcharge—if the tax bearer is the shareholder or capital owner that is not a member of corporate taxpayer's management.



Tax crimes

The DGT can carry out an investigation if evidence of a tax crime is found, which is deemed to cause loss of state revenue. Tax crimes are subject to criminal sanctions. Some tax criminal acts and the related sanctions are summarized below:

Conditions	Sanctions
<p>The taxpayer, due to negligence:</p> <ul style="list-style-type: none">• Fails to submit a tax return; or• Submits an incorrect or incomplete tax return or attaches incorrect information	<ul style="list-style-type: none">• Penalty of one to two times the underpaid tax amount; or• Prison sentence of at least three months up to one year.
<p>The taxpayer deliberately:</p> <ul style="list-style-type: none">• Does not register for an NPWP or as a PKP;• Abuses NPWP or PKP status;• Does not file a tax return;• Submits an incorrect or incomplete tax return;• Refuses a tax audit;• Does not maintain bookkeeping, records, or supporting documents in Indonesia;• Shows false or falsified bookkeeping/records; or• Does not remit taxes withheld or collected.	<ul style="list-style-type: none">• Penalty of two to four times the underpaid tax amount; and• Prison sentence of at least six months up to six years. <p>The sentence will be doubled if the taxpayer commits another tax crime within one year after the first prison sentence has been served.</p>
<p>The taxpayer abuses NPWP or PKP status or submits an incorrect or incomplete tax return and/or information in order to claim a tax refund or tax compensation or tax credit.</p>	<ul style="list-style-type: none">• Penalty of two to four times the amount of tax refund/compensation/credit; and• Prison sentence of at least six months up to two years.

Conditions	Sanctions
<p>The taxpayer deliberately:</p> <ul style="list-style-type: none"> • Issues and/or uses tax documents that are not based on the actual transactions; or • Issues VAT invoices before being established as a PKP. 	<ul style="list-style-type: none"> • Penalty of two to six times the tax amount; and • Prison sentence of at least two years up to six years.

More severe penalties, surcharges, and prison sentences are imposed for improper bookkeeping, fraud, and embezzlement. The criminal sanctions can only be imposed through a decision issued by a civil court.

Corporate Income Tax

Law Number 7 of 1983 regarding Income Tax, as amended several times, lastly by Law Number 6 of 2023

Tax rates

The standard CIT rate is 22%.

Certain incomes are subject to final income taxes that are calculated from the gross revenue (please refer to page 63 to 66).

Certain corporate taxpayers that earn or receive a gross revenue not exceeding IDR 4.8 billion in a fiscal year (small and medium enterprises) are subject to final income tax rate of 0.5% on the gross revenue for a certain period of time (please refer to page 64 and 66). However, these taxpayers may opt to apply the standard CIT rate after notifying the DGT.

Corporate taxpayers with a gross revenue of up to IDR 50 billion in a fiscal year receive a 50% reduction of CIT rate for the initial gross revenue of IDR 4.8 billion.

Following the self-assessment principle, taxpayers are required to pay the CIT in installment on a monthly basis (Article 25 monthly tax installments) in the current year.

Branch profit tax

In addition to CIT, a PE is subject to branch profit tax (BPT) at a rate of 20%, applicable to the PE's taxable

income after tax. This rate may be lowered subject to the accessibility of tax treaty benefits (please refer to page 102 to 107).

For a PE that is subject to the final income tax regime, the BPT should be calculated from the accounting profits that have been adjusted for fiscal correction, minus the final income tax paid.

An exemption from BPT applies if the PE's taxable income after tax is reinvested into Indonesia, subject to certain requirements.

Tax residence and registration

A corporation shall be regarded as an Indonesian tax resident if it is established or domiciled, or has a place of management or control, in Indonesia.

A corporate tax resident that has the obligation to pay or withhold taxes shall be obliged to register for an NPWP. For a corporate taxpayer with business activities in several places, aside from having to register for an NPWP for its headquarters, it is also obliged to register for identification number for place of business activity (*Nomor Identitas Tempat Kegiatan Usaha*) for each of their places of business activity.

A foreign corporation carrying out certain business activities in Indonesia over the PE time test within a period of 12 months is regarded as having taxable presence in Indonesia through a PE and/or qualifying for being considered to have a PE in Indonesia has to register for an NPWP.

Calculation of income—business profits

Taxable income constitutes any increase in economic capability received or earned by a taxpayer, either sourced from within or outside Indonesia, which can be used for consumption or increasing the wealth of the taxpayer, in any form and name.

For a corporate taxpayer, the taxable income is calculated from the accounting profits with stipulated fiscal adjustments. The fiscal adjustments can create either a temporary or permanent difference to the taxable income.

Nontaxable income

The following incomes are exempt from income tax, among others:

- Aid or donations, including *zakat*, *infak*, charity, religious donations, and granted assets (*harta hibahan*) received, provided that there is no business, work, or ownership relation between the parties concerned;
- Dividends received by a resident corporate taxpayer from another resident corporate taxpayer;
- Dividend income from an offshore subsidiary, PE's income after tax, and income from foreign active business without a PE, that are reinvested into Indonesia for a certain period of time;
- Assets, including cash, received by an entity in exchange for shares or capital contributions;
- Contributions received or collected by a pension fund, the establishment of which has been approved by the Indonesian Financial Services Authority (*Otoritas Jasa Keuangan* (OJK));

- Return of investments in specific fields by a pension fund, the establishment of which has been approved by the OJK;
- Profits distributed to a venture-capital company by a micro, small, or medium-sized enterprise (*usaha mikro, kecil, atau menengah* (UMKM)) or enterprise engaging in certain businesses in Indonesia;
- Certain incomes earned by the Hajj Finance Management Agency (*Badan Pengelola Keuangan Haji*);
- Surpluses that fulfill certain conditions and are earned by a registered social and religious body and educational/research and development institution; and
- Shares of profit received by a member of a limited partnership without share capital, cooperation, partnership, association, or firm, including a participation unit holder of KIK.

Calculation of income—deductible expenses

In general, all business expenses directly or indirectly related to the activities of earning, collecting, and maintaining income are deductible from the assessable income to calculate the taxable income.

Depreciation and amortization

Assets and/or expenses with a useful life of more than one year, except land rights, are to be depreciated or amortized according to their useful lives using the straight line or double declining depreciation method. Depreciation and amortization methods chosen must be applied consistently.

Group of tangible assets	Useful life	Depreciation rates	
		Straight line method	Double declining method ¹⁾
1. Nonbuildings			
Group 1	4 years	25%	50%
Group 2	8 years	12.5%	25%
Group 3	16 years	6.25%	12.5%
Group 4	20 years	5%	10%
2. Buildings			
Permanent ²⁾	20 years	5%	N/A
Nonpermanent	10 years	10%	N/A

Notes:

- 1) The remaining book value would be fully depreciated at the end of the useful life.
- 2) A permanent building with a useful life of more than 20 years can be depreciated over 20 years or over the actual useful life based on the taxpayer's books.

The list of asset groupings is regulated by MoF regulations.

Group of intangible assets	Useful life	Amortization rates	
		Straight line method	Double declining method ¹⁾
Group 1	4 years	25%	50%
Group 2	8 years	12.5%	25%
Group 3	16 years	6.25%	12.5%
Group 4 ²⁾	20 years	5%	10%

Notes:

- 1) The remaining book value would be fully depreciated at the end of the useful life.
- 2) An intangible asset with a useful life of more than 20 years can be amortized over 20 years, or over the actual useful life based on the taxpayer's books.

Depreciation starts either in the month the expense is incurred or in the month the construction/installation of an asset is completed. Subject to approval from the DGT, the taxpayer may start depreciating its asset in the month the asset is used to earn, collect, and maintain income or in the month the asset starts producing. If the asset is revaluated (subject to approval from the DGT), the basis for the depreciation will be the revaluated value of the asset.

Expenses related to business establishment or expansion are either claimed as an expense during the year or amortized.

Preoperational expenses with a useful life of more than one year should be capitalized and amortized accordingly. Spending related to the acquisition of oil and natural gas mining rights as well as other related expenses with a useful life of more than one year should be amortized using the unit of production method. Likewise, spending related to the purchase of non-oil-and-gas mining rights, forestry concession rights, and rights to exploit natural resources or other natural products should be amortized using the unit of production method capped at 20% annually.

Newly declared assets under 2016-2017 Tax Amnesty (TA) program and 2022 Voluntary Disclosure Program (*Program Pengungkapan Sukarela Wajib Pajak* (VDP)) cannot be depreciated or amortised for tax purposes.

The acquisition costs of these assets are based on the value declared in the assets declaration letter.

Transfer of assets

Generally, gains from transfer of assets (please refer to page 32 to 33) are subject to income tax. Likewise, losses incurred from transfer of assets are tax deductible. Such gains or losses are calculated from the proceeds minus the fiscal net book value of the assets.

Promotional expenses

The following promotional expenses are deductible for tax purposes:

- Cost of advertisement;
- Cost of product exhibition;
- Cost related to new product introduction; and/or
- Cost of sponsorship associated with product promotion.

For these expenses to be claimed as tax deductible, the taxpayer has to attach a nominative list of promotional expenses, in a prescribed format, to the submitted CIT return.

Provision for doubtful debts

Provision for doubtful debts is not tax deductible, except for banks, certain financial institutions, and insurance companies. However, the write-off of doubtful accounts from transactions with a nonrelated party is tax deductible, provided that the following conditions are met:

- a. The write-off has been booked as an expense in the commercial income statements;

- b. The list of uncollectible receivables must be submitted to the DGT by the taxpayer; and
- c. The collection effort of the uncollectible receivables has been brought to the district court or other relevant authority; or there is a written agreement for the write-off between the creditor and debtor concerned; or the doubtful debts have been announced in general or certain publications; or the debtor has acknowledged that a certain amount of the debt has been written off.

Donations

Certain donations or expenses related to national disaster management, research and development, provision of educational facility, sports development, and construction of social infrastructure are tax deductible, if the following requirements are met:

- The previous year's CIT return is in a fiscal net profit position;
- The donation does not result in a loss position;
- The donation is supported by valid documentation; and
- The institution that receives the donation must have registered as a taxpayer (with a certain exception).

The total donations and/or social infrastructure construction expenses for one fiscal year should not exceed 5% of the previous year's fiscal net profit.

Calculation of income—nondeductible expenses

The following list describes expenses that are not deductible for CIT purposes:

- Distribution of profits in any form and name, such as distribution of dividends and profits from a cooperation;

- Expenses incurred for the personal interest of shareholders or partners;
- Provisions, with certain exceptions;
- Amount in excess of normal compensation payable to shareholders or other parties having a special relationship;
- Grants, aid, or donations, except those allowed to be deductible (please refer to page 30);
- Income taxes;
- Salaries payable to members of a partnership or certain types of business where the equity is not divided into shares;
- Tax administrative sanctions;
- Excess of commercial depreciation over fiscal depreciation;
- Excess of commercial amortization over fiscal amortization; and
- Expenses that are deferred for tax purposes.

Borrowing costs

The MoF is authorized to specify the limitation on deductible borrowing costs based on internationally accepted methods, such as debt-to-equity ratio (DER), borrowing costs compared to earnings before interest, taxes, depreciation, and amortization, or other methods.

So far, the MoF has introduced a DER of 4:1. In the case the DER exceeds 4:1, the borrowing costs have to be proportionated and the borrowing costs exceeding the DER of 4:1 are not tax deductible. For a taxpayer with a zero or deficit value in its equity balance, the entire borrowing costs are not tax deductible. An exemption from the DER requirement may apply for certain taxpayers.

A taxpayer that obtains loan and would like to utilize the relevant interest as deduction is required to submit a DER calculation report. If the loan is from overseas, the taxpayer has to attach a report of foreign loan along with its CIT return submission.

In the case the loan is procured from a related party, the taxpayer has to ensure that the interest charged is on an arm's-length basis, otherwise, the interest can be deemed as dividend distribution.

Tax loss carryforward

A tax loss may be carried forward for five years following the year when the loss incurs. Subject to approval from the DGT, this period may be extended up to 10 years for certain industries and operations of specific industries in certain remote areas that enjoy the tax allowance facility. Please refer to page 42 for further details on tax allowance facility.

The carryback of losses is not permitted.

Transfer of land and/or buildings

In general, transfer of land and/or buildings is subject to a final income tax at the rate of 2.5% of the transaction value. Transfer of basic house (*rumah sederhana*) and basic apartment (*rumah susun sederhana*) by a taxpayer whose main business is in the transfer of land and/or buildings is subject to 1% final tax. A 0% rate is applicable to transfer of land and/or buildings to the government for public interest. Meanwhile, the purchaser or recipient of the land and/or buildings will give rise to the duty on the acquisition of land and/or buildings rights of up to 5% of the transaction value or the tax object sale value

(*Nilai Jual Objek Pajak (NJOP)*), whichever is higher.

Exemptions are granted for certain types of transfer of land and/or buildings, such as grant, inheritance, merger using the book value approved by the MoF, transfer of land and/or buildings by a nontaxpayer, and sale of land and/or buildings with a value of less than IDR 60 million by an individual taxpayer whose annual income does not exceed the threshold of nontaxable income.

Dividend income

Dividend income earned or received from domestic listed and non-listed companies is exempt from tax if the recipient is a domestic corporation.

Dividend from an offshore listed company and income from a foreign active business without a PE that are reinvested into Indonesia within a certain period of time may be tax exempt. The portion of dividend and income that is not reinvested into Indonesia within a certain period of time is subject to income tax.

Dividend from an offshore non-listed company and PE's income after tax may be tax exempt if the reinvested dividend or income after tax is at least 30% of profit after tax (PAT), proportionated in accordance with the shareholding percentage. The difference between the reinvested amount and the 30% threshold of the PAT is subject to income tax.

Below is the list of reinvestment instruments for the dividend to qualify for income tax exemption:

- a. Indonesian government securities (including sharia securities);
- b. Bonds issued by state-owned enterprise (*Badan*

- Usaha Milik Negara (BUMN)*), the trading of which is supervised by the OJK;
- c. Bonds issued by government-owned financial institutions, the trading of which is supervised by the OJK;
 - d. Financial investments in banks, including sharia banks;
 - e. Bonds issued by private companies, the trading of which is supervised by the OJK;
 - f. Infrastructure investments via public-private placements (*kerja sama pemerintah-badan usaha*);
 - g. Real sector investments based on the priority set by the government;
 - h. Capital contributions (as a shareholder) in newly established companies domiciled in Indonesia;
 - i. Capital contributions (as a shareholder) in existing companies domiciled in Indonesia;
 - j. Cooperation with sovereign wealth funds;
 - k. Utilization to support other business activities in the form of loan to micro and small businesses in Indonesia, in accordance with the regulation on UMKM; and/or
 - l. Other legitimate forms of investment pursuant to the laws and regulations.

Reinvestment in instruments as referred to in points (a) to (e) and point (l) above has to be conducted in certain financial markets. Reinvestment in instruments as referred to in points (f) to (k) above has to be conducted in certain nonfinancial markets.

Controlled Foreign Company

Under Controlled Foreign Company (CFC) rules, the MoF is authorized to determine when a dividend is deemed to be earned from a non-listed company established in

another country, where an Indonesian resident taxpayer (either alone or collectively with other Indonesian resident taxpayers) holds, directly or indirectly, at least 50% of the total paid-in capital or voting rights of a non-listed foreign company, with the 50% threshold criteria applied at each level.

If no dividends are declared or earned from the foreign company, the Indonesian resident taxpayer needs to calculate and report a deemed dividend in its annual CIT return. The dividend will be deemed to be received either:

- In the fourth month following the tax return filing deadline in the foreign country; or
- Seven months after the foreign company's fiscal year ends if the country does not have a specific tax return filing deadline.

The amount of the deemed dividend is the total dividends to which the Indonesian resident taxpayer is entitled. This has to be determined in proportion to the taxpayer's capital participation in the foreign company from the net passive income of the foreign company.

The net passive income includes:

- Dividend, with certain exceptions;
- Interest, with certain exceptions;
- Rent of land and/or buildings;
- Rent of other assets to related parties;
- Royalty; and
- Gain on sale or transfer of assets.

The deemed dividend can be offset against the actual dividend received from a direct CFC within the past five consecutive years. In the case that the actual dividend

received is higher than the deemed dividend, the excess is subject to income tax. The income tax paid or withheld for dividends received from a direct CFC is creditable.

Indirect purchase of Indonesian shares or assets involving a special-purpose company

An Indonesian taxpayer that purchases the shares or assets of an Indonesian company through a special-purpose company (SPC) may be deemed as the party doing the actual purchase, as long as the purchaser has a special relationship with the SPC and the purchase is not carried out on an arm's-length basis.

The following points define the criteria of a special relationship for fiscal purposes:

- Share ownership of the other party is 25% at minimum, either directly or indirectly;
- There is a relationship through direct or indirect management or through technology control by the other party; or
- There is a family relationship either through blood or through marriage within one degree of direct or indirect lineage.

Sale or transfer of shares in an SPC that is established or domiciled in a tax haven country and has a special relationship with an Indonesian taxpayer or a PE in Indonesia may be deemed as a sale or transfer of shares in the Indonesian company or the PE.

The DGT often views a tax haven country as a country that has a corporate tax rate of 50% lower than that of Indonesia or a country that has bank secrecy law and does not have a provision on exchange of information with Indonesia.

Tax-neutral merger, consolidation, expansion, or acquisition

Generally, transfer of assets in relation to business mergers, consolidations, expansions, or acquisitions should be conducted at market value, which may result in taxable gains. Upon the approval from the DGT, the assets can be transferred at fiscal book value, subject to several requirements, including the business purpose test.

Business purpose tests entail the following conditions:

- a. The main purpose of the merger, consolidation, expansion, or acquisition is to create a robust business synergy and strengthen the capital structure, not to seek tax avoidance;
- b. The business activities of the taxpayer that transfers the assets are still ongoing until the effective date of the business merger, consolidation, expansion, or acquisition;
- c. The business activities of the dissolving and surviving taxpayers must be continued for at least five years after the effective date; and
- d. The assets cannot be transferred for at least two years after the effective date of the business merger, consolidation, expansion, or acquisition, unless the purpose of the transfer is to increase efficiency.

Deemed profit margin

Income derived from the following businesses is subject to the deemed profit margin.

Type of income	Deemed profit from gross revenue	Effective income tax rate ^{*)}
Foreign oil and gas drilling service operations	15%	3.3%
Foreign shipping and airline operations	6%	2.64%
Domestic shipping operations	4%	1.20%
Domestic airline operations	6%	1.80%
Trade representative offices	1% of gross export value	0.44%
Build, operate, and transfer of a building construction activities by an investor to a landowner	Market value or NJOP	5%
International toll manufacturing services (<i>jasa maklon</i>) for toys	7% of manufacturing or assembly costs, excluding direct material costs	2.1%

Notes:

*) Some of the current effective income tax rates above still use the CIT rates at the time the relevant regulations were introduced, except for foreign oil and gas drilling service operations. The CIT rate used to calculate the effective income tax rate should have been changed to

reflect the new CIT rate. However, since the regulations have not been amended yet, the existing effective income tax rates still apply in practice.

Corporate income tax incentives

Reduction of corporate income tax rate for public companies

For publicly listed corporate taxpayers with a minimum of 40% of the shares held by public investors that meet certain criteria, the applicable CIT rate is lower than the regular rate, i.e., 19%.

Major income tax incentives available for corporate taxpayers are:

- Tax holiday facility;
- Tax allowance facility;
- Super tax deduction facility;
- CIT facilities in special economic zones (*Kawasan Ekonomi Khusus* (SEZ)); and
- CIT facilities in Indonesia's new capital city (Ibu Kota Nusantara (IKN)).



Tax holiday facility

A tax holiday regime is available for a new investment or business expansion in certain pioneer industries.

Qualifying projects in pioneer industries may be granted a CIT reduction of 100% for a minimum of five years up to a maximum of 20 years, followed by a 50% reduction in CIT for the subsequent two years, starting from the commencement of commercial operations. The minimum investment is IDR 500 billion and the length of the tax holiday depends on the value of the investment.

A 50% reduction in CIT for five years from the commencement of commercial operations may be granted for projects with a minimum investment of IDR 100 billion but less than IDR 500 billion, with a 25% reduction in CIT for the subsequent two years.

The tax holiday period commences from the year of commercial production.

The prerequisites to apply for the tax holiday facility are as follows:

- a. A taxpayer in pioneer industry;
- b. An Indonesian legal entity;
- c. A minimum new investment of IDR 100 billion;
- d. Conducting a new investment in which the decision on granting or rejecting tax holiday or tax allowance facility, or super tax deduction facility for labor-intensive project, or income tax facility for SEZ has not been issued by the MoF;
- e. Fulfilling provisions regarding DER; and
- f. The taxpayer is committed to initiating the realization of the investment plan, at the latest, one year after the tax holiday facility is granted.

Below is the list of pioneer industries qualified for the tax holiday facility:

 <p>Integrated upstream metals industry</p>	 <p>Integrated crude oil and natural gas refinery industry</p>	 <p>Integrated basic organic chemical industry sourced from crude oil, natural gas, and/or coal</p>
 <p>Integrated basic organic chemical industry sourced from agriculture, plantation, or forestry products</p>	 <p>Integrated basic inorganic chemical industry</p>	 <p>Integrated pharmaceutical main raw materials industry</p>
 <p>Irradiation, electromedical, or electrotherapy equipment manufacturing industry</p>	 <p>Main components manufacturing industry for electronic or telematics equipment</p>	 <p>Machine and machinery main components manufacturing industry</p>
 <p>Robotic component manufacturing industry supporting the machinery production industry</p>	 <p>Main components manufacturing industry for electricity generator machinery</p>	 <p>Automotive and automotive main components manufacturing industry</p>
 <p>Vessel main components manufacturing industry</p>	 <p>Train main components manufacturing industry</p>	 <p>Aircraft main components manufacturing industry and aerospace industry auxiliary activities</p>
 <p>Agriculture, plantation, forestry products-based processing industry producing paper pulp</p>	 <p>Economic infrastructure</p>	 <p>Digital economy covering data processing, hosting, and the related activities</p>

Income received/earned by the taxpayer from other than main business activity that has been granted with tax holiday will be subject to normal income tax provisions.

Tax allowance facility

Tax allowance is available to company with an investment in certain industry sectors or those operating in certain geographic locations where the necessary conditions are satisfied. This facility is applicable to a new investment or expansion of the corporate taxpayer's main business activities.

The tax allowance facility includes:

- An investment allowance (a reduction in taxable income equivalent to 30% of the total investment amount of tangible fixed assets used for main business activities, including land, that is allocated equally over six years starting from the fiscal year when the commercial production commences, with the rate of 5% per year);
- Accelerated depreciation and/or amortization of assets obtained for capital investment purposes;
- Tax loss carried forward, which may be extended for up to 10 years; and
- A reduced WHT rate of up to 10% on dividends paid to foreign taxpayers other than PE.

In general, the applicant must meet the following criteria:

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

Currently, there are 166 business sectors and 17 business sectors operating in certain geographic locations that are eligible for this facility.

Super tax deduction facility

For a taxpayer that does not obtain the tax holiday or tax allowance facility, a “super tax deduction facility” is available for the following business activities or expenditures:

- New capital investment or business expansion in labor-intensive industries—This facility is in the form of an investment allowance equivalent to 60% of the total investment amount of tangible fixed assets used for main business activities, including land. The investment allowance is allocated equally over six years, starting from the fiscal year when the commercial production commences. To be eligible for this facility, taxpayers have to fulfill the following cumulative criteria: they constitute domestic corporate taxpayers, their main business activity is among the eligible industrial sectors, and they employ a minimum average of 300 Indonesian employees;
- Apprenticeship, internship, and/or learning programs in human resources development—This facility is in the form of additional deduction of the qualifying expenses for a maximum 100%. Therefore, the total maximum deduction is 200% of the total qualifying expenses; and
- Research and development related activities—This facility is in the form of additional deduction of the qualifying expenses for a maximum 200%. Therefore, the total maximum deduction is 300% of the total qualifying expenses.

Corporate income tax facilities in special economic zones

A taxpayer in an SEZ can be classified as either:

- A business entity (*badan usaha*), i.e., a legal entity that manages an SEZ; or

- A business player (*pelaku usaha*), i.e., an enterprise that carries out business in an SEZ.

The following table sets out the income tax facilities for business entities and business players:

Business entity	Business player	
Tax holiday	Tax holiday	Tax allowance
<ul style="list-style-type: none"> • CIT rate reduction of 100% for 10 years for a minimum investment of IDR 100 billion; • Income eligible for the relief includes: <ul style="list-style-type: none"> - Income from the sale of land and/or buildings in the SEZ; - Rental income from land and/or buildings in the SEZ; and - Income from main business activities in the SEZ (activities and the type of production that are mentioned in the business license), excluding the sale or rental of land and/or buildings; • CIT reduction of 50% for two years following the end of the 10-year tax holiday period; 	<ul style="list-style-type: none"> • CIT rate reduction of 100% for a period depending on the amount of the investment: <ul style="list-style-type: none"> - 10 years for an investment of at least IDR 100 billion but less than IDR 500 billion; - 15 years for an investment of at least IDR 500 billion but less than IDR 1 trillion; and - 20 years for an investment of IDR 1 trillion and above; • CIT reduction of 50% for two years following the end of the tax holiday period; • Eligible income is not subject to WHT for a business player that carries out an SEZ's main activity during the facility period. 	<ul style="list-style-type: none"> • An investment allowance in the form of a reduction of net income equivalent to 30% of the cost of tangible fixed assets, including land; • Accelerated depreciation and amortization; • A maximum 10% WHT rate on dividends paid to foreign shareholders; • Tax loss carried forward is extended to 10 years (normally five years); • Available to business players that carry out either an SEZ's main activity or a non-SEZ's main activity.

Business entity	Business player	
Tax holiday	Tax holiday	Tax allowance
<ul style="list-style-type: none"> Eligible income is not subject to WHT for a business entity that carries out an SEZ's main activity (the business activity and associated chain of production that is the main focus of the SEZ) during the facility period. 		

Corporate income tax facilities in Ibu Kota Nusantara

To expedite the construction and development process of IKN, the government has decided to provide various incentives and facilities for investments and business activities in IKN.

Please refer to page 115 to 120 on tax facilities in IKN.

Corporate income tax for certain industries/ taxpayers

Taxpayers in certain industries are subject to final income tax based on their gross income. Please refer to page 63 to 66 on Article 4(2) income tax.

Tax provisions for mineral and coal mining, upstream oil and gas, geothermal, and sharia-based industries are regulated separately by the government and MoF regulations. To date, the regulation for geothermal industry has not been issued yet.

Taxation for general mining and coal mining industries

Taxation for general mining and coal mining under the CoW framework generally follows the tax provisions stated in the respective CoW. Other holders of general and special mining business licenses (*Izin Usaha Pertambangan* (IUP)) are subject to a specific government regulation.

Taxation for upstream oil and gas industry

An upstream oil and gas company typically has to calculate its CIT in accordance with its PSC. Several regulations have been issued to provide guidance on cost recovery items, other incomes, and tax reporting. A regulation on taxation for gross-split arrangement has also been issued, enabling contractors engaging in upstream oil and gas activities to be more flexible in their business planning.

Taxation for sharia business

In general, tax treatments for incomes and expenses of sharia-based banking and financial services are similar to those of conventional banking and financial services, which can be summarized as follows:

1. Sharia banking services

Income recipient	Type of income	Tax treatment
Bank	Bonus, profit sharing, and margin from transactions of facilitated customer	Treated as interest
	Income other than those mentioned above	Treated in accordance with the provisions regarding transactions between sharia banking and customer that receives the facility
Investor/ depositor customer	Bonus, profit sharing, and any other income from funds entrusted and placed offshore through an Indonesian sharia bank or an Indonesian branch of an offshore sharia bank	Treated as interest
	Income other than those mentioned above	Treated in accordance with the normal income tax regulation for the relevant transaction

2. Sharia financial services

Type of income	Tax treatment
Leasing (<i>Ijarah</i>)	Normal operating lease, and the leased asset is non depreciable
Financial lease (<i>Ijarah Muntahiyah Bittamlik</i>)	Similar to financial lease with option, and the leased asset is non depreciable
Factoring (<i>Wakalah bil Ujrah</i>)	Remuneration or profit is treated as interest

Type of income	Tax treatment
Consumer financing (<i>Murabahah, Salam, Istishna'</i>)	Gain or profit margin is treated as interest
Other sharia financing	Fee or remuneration in any form and name is treated in accordance with the normal income tax regulation for the relevant transaction
Corporate financing from investors (<i>Mudharabah, Mudharabah Musytarakah, Musyarakah</i>)	Gain and/or profit sharing is treated as interest
Transfer of assets (deemed to be transferred directly from a third party to corporation's customers)	Treated in accordance with the normal income tax regulation for the relevant transaction

Individual Income Tax

Law Number 7 of 1983 regarding Income Tax, as amended several times, lastly by Law Number 6 of 2023

Tax rates

Normal income tax rates applicable to individual taxpayers are as follows:

Taxable income	Rate
Up to IDR 60 million	5%
More than IDR 60 million but not exceeding IDR 250 million	15%
More than IDR 250 million but not exceeding IDR 500 million	25%
More than IDR 500 million but not exceeding IDR 5 billion	30%
More than IDR 5 billion	35%

Final tax rates on severance pay given in lump-sum within two years are as follows:

Taxable income	Rate ^{*)}
Up to IDR 50 million	0%
More than IDR 50 million but not exceeding IDR 100 million	5%
More than IDR 100 million but not exceeding IDR 500 million	15%
More than IDR 500 million	25%

Notes:

*) Payments made in the third year and thereafter shall be subject to normal tax rates which are not final and can be claimed as tax credit.

Final tax rates on pension fund or old-age saving fund paid in lump-sum within two years are as follows:

Taxable income	Rate ^{*)}
Up to IDR 50 million	0%
More than IDR 50 million	5%

Notes:

*) Payments made in the third year and thereafter shall be subject to normal tax rates which are not final and can be claimed as tax credit.

All incomes earned or received by an individual carrying out business activities (except certain independent personal services) that do not exceed IDR 4.8 billion within a fiscal year are subject to 0.5% final income tax, applicable for maximum seven years. This 0.5% final income tax rate will be imposed on the gross revenue exceeding IDR 500 million. Individual tax residents may opt to be subject to the standard individual income tax rate by submitting a notification to the DGT.

Nonresident individuals are generally subject to a 20% WHT on income sourced from Indonesia (Article 26 income tax). However, this rate may vary depending on the circumstances and applicable tax treaty provisions.

Certain tax rates apply to incomes that are subject to final tax.

Tax residency, registration, and filing

An individual is deemed to be an Indonesian tax resident if he/she:

- Resides in Indonesia;
- Is present in Indonesia for 183 days or more in any 12-month period; or
- Is present in Indonesia and intends to reside in Indonesia.

An individual tax resident carrying out businesses or freelance activities or earning income exceeding the threshold of individual taxpayer's nontaxable income (*Penghasilan Tidak Kena Pajak* (PTKP)) is obliged to register for an NPWP. A married woman who fulfills her tax obligation separately from her husband's is also obliged to register for an NPWP.

Starting from 1 July 2024, the national identification number (*Nomor Induk Kependudukan* (NIK)) replaces NPWP for individual taxpayers (Indonesian nationals and foreigners who live in Indonesia). Practically, individuals who are non-Indonesian citizens can either put '0' at the beginning of their existing NPWP to create a 16-digit NPWP or use the NIK provided in their residency certificate (*Surat Keterangan Tempat Tinggal*).

Individual taxpayers are required to file annual individual income tax returns (Form SPT 1770 or 1770 S or 1770 SS) electronically through the e-filing system.

An Indonesian citizen staying outside Indonesia for more than 183 days within a 12-month period can apply for a confirmation from the DGT of his/her tax status as a foreign tax resident, if the citizen meets certain requirements and can prove the intention to become a foreign tax resident when leaving Indonesia (such as by providing a long-term working contract), including obtaining a residency certificate issued by the tax authority in the other country. If the DGT approves the application, the Indonesian citizen is treated as a non-Indonesian taxpayer since the date of his/her departure from Indonesia. As such, any Indonesian-sourced income earned or received by the citizen concerned will be subject to the withholding of Article 26 income

tax. In addition, the citizen can apply to the DGT for a noneffective taxpayer status so that he/she does not have to file annual individual income tax returns during his/her stay outside Indonesia.

A foreign citizen staying in Indonesia for more than 183 days within a 12-month period may be treated as an Indonesian tax resident and taxed on his/her Indonesian-sourced income only (territorial basis), if the foreigner has certain skills as defined by the government. Territorial basis taxation is valid for the first four years after the foreign citizen becomes an Indonesian tax resident. The Indonesian-sourced income includes income earned from employment performed in Indonesia but paid overseas. The territorial basis taxation will not apply if the foreigner claims benefits from a tax treaty.

Taxable income and personal tax reliefs

Individual taxpayers are taxed on their worldwide income regardless of the source. They are also required to declare their worldwide assets and liabilities.

In general, benefits-in-kind (BIK) are taxable on employees (with certain exception) (please refer to page 57) as from 1 January 2022 (for employers whose financial year 2022 started before 1 January 2022) or as from the start of the employer's financial year 2022 (if the financial year 2022 starts on or after 1 January 2022). However, the MoF has provided a list of BIK exempted from tax along with each of their conditions and limitations. This includes BIK received or earned by employees in 2022 to be included in the list of nontaxable BIK.

Dividend income earned/received from domestic companies, dividend income from offshore listed companies, and income from foreign active businesses without a PE that are reinvested into Indonesia within a certain period of time are not subject to income tax. The portion of dividend or income not reinvested into Indonesia for a certain period of time is subject to income tax.

Dividend from offshore non-listed companies and PE's income after tax may be tax exempt if the reinvested dividend or income after tax is at least 30% of the PAT, proportionated in accordance with the shareholding percentage. The difference between the reinvested amount and the 30% threshold of the PAT is subject to income tax.

Please refer to page 33 to 34 for the list of eligible instruments of reinvestment.

The following personal tax reliefs are available for individual taxpayers in calculating their taxable income, depending on their personal circumstances.

Basis of deduction	Deductible amount (per year)
Taxpayer	IDR 54 million
Spouse	IDR 4.5 million (additional IDR 54 million for a wife whose income is combined with her husband's)
Dependents	IDR 4.5 million for each dependent, maximum three dependents
Occupational expense (<i>Biaya Jabatan</i>)	5% of gross income up to a maximum of IDR 6 million

Basis of deduction	Deductible amount (per year)
Pension cost	5% of gross income up to a maximum of IDR 2.4 million
Employee contribution to an approved pension fund, e.g., manpower social security scheme (<i>Badan Penyelenggara Jaminan Sosial (BPJS) Ketenagakerjaan</i>)	Actual amount
Compulsory tithe (<i>zakat</i>) or religious contributions	Actual amount, if valid supporting evidence is available and all requirements are met

The MoF is authorized to redetermine the amount of the personal deductions above.

Social security schemes

The national social security schemes comprise manpower scheme (BPJS *Ketenagakerjaan*) and healthcare scheme (BPJS *Kesehatan*). These schemes are mandatory for Indonesian nationals as well as foreigners working in Indonesia for at least six months. Expatriates are required to prove their participation in BPJS when renewing their work permits.

Following is the list of premium contributions for the schemes:

Social security scheme	Areas covered	As a percentage of regular salaries/wages	
		Borne by employers	Borne by employees
BPJS <i>Ketenagakerjaan</i>	Occupational accident protection	0.24 - 1.74%	-
	Death insurance	0.3%	-
	Job loss insurance	- ¹⁾	-
	Old-age saving	3.7%	2%
	Pension plan ²⁾³⁾	2%	1%
BPJS <i>Kesehatan</i> ⁴⁾		4%	1%
			1% for additional family member ⁵⁾

Notes:

- 1) The job loss insurance scheme is a new scheme under BPJS *Ketenagakerjaan* introduced by the government through Law Number 11 of 2020 (Omnibus Law). This scheme is intended to give compensation in the form of cash benefits, access to labor market information, and job trading to workers/labors who are terminated from their employment. There is no additional contribution that needs to be paid by both the employers and employees with regard to this new scheme, as its contribution payment is already inclusive in the existing contributions paid for occupational accident and death insurance, plus subsidy from the government.
- 2) The regular salary/wage cap for calculating the pension plan contribution is IDR 10,042,300 per month, which is valid as from March 2024. The amount may be updated from time to time.
- 3) Contribution to the pension plan is not mandatory for expatriates.
- 4) The regular salary/wage cap for calculating contributions for the healthcare scheme is, at minimum, the amount of regional minimum wage and, at maximum, IDR 12 million per month. The amount may be updated from time to time.
- 5) The mandatory premiums cover husband, wife, and three dependents. Additional family members can be covered with additional premiums.

Withholding Taxes

Law Number 7 of 1983 regarding Income Tax, as amended several times, lastly by Law Number 6 of 2023

Overview

To facilitate the DGT's effort to collect taxes, taxpayers are subject to a number of obligations to withhold income tax on various payments made to residents and nonresidents. Tax withheld may represent either a final income tax for the income recipients or income tax prepayment for the resident taxpayers receiving income. The tax prepayment can be credited against the taxpayer's annual tax liability and/or refunded.

If a payment is subject to WHT, the responsibility to withhold and settle the tax to the State Treasury rests with the payer.

Article 21 income tax

Article 21 income tax must be withheld and remitted to the state treasury on remunerations (including cash allowances) as well as certain performance fees accrued or paid to the following individuals:

- Permanent and nonpermanent employees;
- Pensioners;
- Members of a board of commissioners or supervisory board receiving irregular income;
- Individuals other than employees (nonemployees);
- Event participants;

- Pension program participants (employees); and
- Former employees.

In principle, BIK are taxable for employees.

BIK that are not taxable for employees are limited to:

- Food and beverages provided to all employees;
- Certain facilities, infrastructure, and/or facilities at the employer's work site for employees and their families, provided that the work site has been approved as a remote area by the DGT;
- BIK necessary to carry out work assignments;
- Certain BIK funded by the state budget (*Anggaran Pendapatan dan Belanja Negara* (APBN)), regional state budget (*Anggaran Pendapatan dan Belanja Daerah* (APBD)), or village budget (*Anggaran Pendapatan dan Belanja Desa*); and
- Certain BIK subject to specific limitations.

In December 2023, the Indonesian government introduced the use of an effective tax rate (ETR) to calculate the Article 21 income tax required to be withheld from an employee's remuneration for the fiscal period of January up to November. The employer is still required to calculate Article 21 income tax for employees (EIT) for the entire fiscal year by using the progressive income tax rate(s) applicable to an individual taxpayer in the Article 21 income tax calculation for the fiscal period of December. Please refer to page 49 for the progressive income tax rates.

This new Article 21 income tax calculation scheme is also applicable for income recipients other than employees, i.e., pensioners and members of a board of commissioners or supervisory board receiving irregular income.

The ETR, which is effective from January 2024, comprises:

- Monthly ETR—applicable to employees receiving income on a monthly basis; and
- Daily ETR—applicable to nonpermanent employees receiving income other than on a monthly basis (e.g., daily, weekly, individually, or in a lump sum).

The monthly ETR is divided into three categories based on the taxpayer's PTKP status at the beginning of a fiscal year.

The Article 21 income tax withheld is creditable by the individuals against their annual individual income tax. The tax office can redetermine the amount of income received by an individual taxpayer from an employer that has a special relationship with an offshore company.

Article 22 income tax

Article 22 income tax is collected by:

- Central or regional government treasurers on purchases of goods;
- Certain institutions appointed to collect tax from taxpayers carrying out import activities or engaging in certain business activities; and
- Certain corporate taxpayers selling luxurious goods.

In general, except for those considered as final taxes, Article 22 income tax withheld is creditable by taxpayers against their CIT.

The following table summarizes major type of payments subject to Article 22 income tax and their applicable rates.

Type of payments	WHT base	WHT rate
Import of certain consumer goods with or without an importer's identification number (<i>Angka Pengenal Impor (API)</i>)	Import value	7.5%/10%
Import of soybean, wheat, and wheat flour with an API	Import value	0.5%
Import of other goods (not on the list of certain consumer goods, soybean, wheat, and wheat flour) with an API	Import value	2.5%
Import of other goods (not included on the list of certain consumer goods, soybean, wheat, and wheat flour) without an API	Import value	7.5%
Import of auctioned goods	Auctioned price	7.5%
Export of commodities, such as coal and metal and nonmetal minerals, unless the export is done by taxpayers under a mining cooperation or CoW arrangement	Export value	1.5%

Type of payments	WHT base	WHT rate
Purchase of goods by the state and regional treasurers or certain government institutions, of which the payments are made by the State Treasury and BUMN (with certain exceptions)	Purchase price (exclude VAT)	1.5%
Sale of fuel oil to Pertamina fuel stations	Selling price (exclude VAT)	0.25%
Sale of fuel oil to non-Pertamina fuel stations	Selling price (exclude VAT)	0.3%
Sale of fuel gas	Selling price (exclude VAT)	0.3%
Sale of lubricants	Selling price (exclude VAT)	0.3%
Sale of cement to distributors	Selling price	0.25%
Sale of paper products to distributors	Selling price	0.1%
Sale of steel products to distributors	Selling price	0.3%
Sale of certain automotive products to distributors	Selling price	0.45%
Sale of medicines to distributors	VAT base	0.3%
Sale of certain vehicles by sole agents (<i>Agen Tunggal Pemegang Merek</i> (ATPM)), agents (<i>Agen Pemegang Merek</i> (APM)), and vehicle general importers, excluding heavy equipment	VAT base	0.45%

Type of payments	WHT base	WHT rate
Purchase of forestry, plantation, agriculture, farm, and fishery raw products by manufacturers or exporters	Purchase value (exclude VAT)	0.25%
Purchase of coal and metal and nonmetal minerals from a company or an individual holding an IUP by an industry or a company	Purchase value (exclude VAT)	1.5%
Sale of gold bars and gold and nongold jewelry	Selling price	0.25%
Sale of phone credits and starter packs by a second-layer distribution agent that is an Article 22 income tax withholder	Amount stated in the invoice by the second-layer distribution agent to the next level distribution channel, or selling price to end-consumers	0.5%
<ul style="list-style-type: none"> • Sale of luxurious houses and land exceeding IDR 30 billion or 400 sqm • Sale of apartments, condominiums, and similar items exceeding IDR 30 billion or 150 sqm 	Selling price (exclude VAT and LST)	1%

Type of payments	WHT base	WHT rate
<ul style="list-style-type: none"> • Sale of private airplanes and helicopters • Sale of cruise ships, yachts, and other similar items • Sale of certain four-wheeled vehicles with selling price exceeding IDR 2 billion or 3,000 cc • Sale of two-wheeled or three-wheeled vehicles with selling price exceeding IDR 300 million or 250 cc 	Selling price (exclude VAT and LST)	5%
Delivery of cryptoassets by a seller through a cryptoasset exchanger	Transaction value (exclude VAT and LST)	0.1%/0.2% ^{*)}
Income received by a cryptoasset miner from cryptoasset transactions	Income value (exclude VAT and LST)	0.1%
Income received from the provision of goods and services to government institutions through marketplaces or online retails connected to the government procurement information system	Transaction amount (exclude VAT and LST)	0.5%

Notes:

*) Final Article 22 income tax rates:

- 0.1%, if the exchanger has obtained authorization from the relevant government authorities; and
- 0.2%, if the exchanger has not obtained authorization from the relevant government authorities.

The rates above will be 100% higher if the party being tax withheld does not have an NPWP.

Below are some of the activities that are exempted from Article 22 income tax:

- Import and/or delivery of goods that are not subject to income tax;
- Import of goods in which the import duty and VAT are exempted;
- Temporary import;
- Certain re-importation;
- Purchase of certain goods by certain Article 22 income tax withholders;
- Import of gold bars to be processed into jewelry for export purposes;
- Sale of vehicles by the automotive industry, ATPM, APM, and vehicle general importers that have already been subject to Article 22 income tax on sales of highly luxurious goods; and
- Sale of gold bars to Bank Indonesia.

Some of the exemptions above are automatically granted while some are subject to the availability of tax exemption letter (*Surat Keterangan Bebas*).

Article 4(2) income tax

Article 4(2) income tax is a final income tax. Expenses related to income subject to Article 4(2) income tax are not deductible. Article 4(2) income tax that has been paid through self-assessment or withheld by other parties cannot be accounted for or credited in the taxpayer's CIT return calculation.

The following incomes are subject to Article 4(2) income tax, either through self-assessment or withholding by other parties:

Type of payments	Effective WHT rate
Interest or discount on Bank Indonesia Certificates (<i>Sertifikat Bank Indonesia</i>), time and saving deposits, and government bonds ¹⁾	20% ²⁾
Sale of shares listed on the Indonesia Stock Exchange: <ul style="list-style-type: none"> • Sale of non-founder's shares • Sale of founder's shares 	0.1% ³⁾ 0.1% + 0.5% ⁴⁾
Interest or discount on bonds ¹⁾	10%
Lottery prize	25%
Rental of land and/or buildings	10% ⁵⁾
Construction service: <ul style="list-style-type: none"> • Performance of construction work • Performance of integrated construction work • Consultation regarding construction work 	1.75%/2.65%/4% ⁶⁾ 2.65%/4% ⁷⁾ 3.5%/6% ⁸⁾
Transfer of land and/or buildings	0%/0.5%/1%/2.5% ⁹⁾
Interest on deposits paid by a cooperative to its members	0%/10% ¹⁰⁾
Dividend paid in relation to cooperation with the Indonesia Investment Authority (<i>Lembaga Pengelola Investasi</i> (LPI))	7.5% or exempt ¹¹⁾
Income earned by a venture capital company from the transfer of shares in its partner	0.1%
Income earned or received by an individual or certain corporate taxpayer (other than a PE), of which the total revenue does not exceed IDR 4.8 billion within a fiscal year ¹²⁾	0.5%

Notes:

- 1) WHT is not applicable for the following income recipients: banks operating in Indonesia and government-approved pension funds.
- 2) Different rates may apply to interest received from time deposits sourced from proceeds of exports (*devisa hasil ekspor*), ranging from

- 0% to 10% for deposits in foreign currency and from 0% to 5% for time deposits in IDR currency.
- 3) Tax rate of 0.1% of the gross transaction amount.
 - 4) Tax rate of 0.1% of the gross transaction amount + 0.5% from the share price at the initial public offering (IPO).
 - 5) The tax base includes land and/or building rental expense and all service charges related to land and/or building rental (i.e., costs of maintenance and upkeep, security fees, service fees, and other facility fees). It also includes income received by the landowner in relation to build-operate-transfer arrangement.
 - 6) Applicable tax rates shall be:
 - 1.75% for a contractor with a small-corporate business qualification certificate (*sertifikat badan usaha kualifikasi kecil*) or certificate of work competency for individuals (*sertifikat kompetensi kerja untuk usaha orang perseorangan*);
 - 4% for a contractor without a corporate business qualification certificate or certificate of work competency for individuals; and
 - 2.65% for a contractor with other type of corporate business qualification or certificate of work competency.
 - 7) Applicable tax rates shall be:
 - 2.65% for a contractor with a corporate business qualification certificate; and
 - 4% for a contractor without a corporate business qualification certificate.
 - 8) Applicable tax rates shall be:
 - 3.5% for a contractor with a corporate business qualification certificate or certificate of work competency for individuals; and
 - 6% for a contractor without a corporate business qualification certificate or certificate of work competency for individuals.
 - 9) Applicable tax rates shall be:
 - 0% for the transfer of land and/or building to the government, BUMN, or regional government-owned enterprises (*Badan Usaha Milik Daerah*) under special assignments;
 - 0.5% for the transfer of real estates to certain SPCs or Real Estate Investment Fund (*Dana Investasi Real Estate*)
 - 1% for the transfer of basic houses and basic apartments by taxpayers engaging in transfer of land and/or buildings as their main business activities; and
 - 2.5% for the transfer of land and/or buildings other than basic houses and basic apartments by taxpayers engaging in transfer of land and/or buildings as their main business activities and transfer of lands and/or building to certain government institutions/enterprises under special assignments.
 - 10) Applicable tax rates shall be:
 - 0% for interest income earned up to IDR 240 thousand per month; and

- 10% for interest income earned more than IDR 240 thousand per month.
- 11) Applicable tax rates shall be:
- 7.5% (or lower rate subject to the accessibility of tax treaty benefits) on dividend income arising from cooperation with LPI that is earned/received by foreign partners. Certain exceptions and requirements apply; and
 - Dividend income arising from cooperation with LPI that is earned/received by an Indonesian tax resident is tax exempt.
- 12) The final income tax applies for no longer than:
- Seven fiscal years for individual taxpayers;
 - Four years for corporate taxpayers in the form of cooperations, limited partnerships, or firms (*firma*), village-owned enterprises (*Badan Usaha Milik Desa*) and joint village-owned enterprises (*Badan Usaha Milik Desa Bersama*), or individual companies (*perseroan perorangan*); and
 - Three years for limited liability corporate taxpayers, starting from FY2018 or the fiscal year when the taxpayer is registered.

Article 23 income tax

Taxpayers are obliged to withhold Article 23 income tax on the following payments made to domestic taxpayers:

Type of payments	WHT base	WHT rate
<ul style="list-style-type: none"> • Dividends¹⁾ • Interest²⁾ • Royalties³⁾ • Gifts, awards, bonuses, and similar items, except for those that have been subject to Article 21 income tax 	Gross amount	15%
Rental or compensation for the use of assets, except for rental or compensation that has been subject to Article 4(2) income tax and finance leases (<i>sewa guna usaha dengan hak opsi</i>)	Gross amount	2%

Type of payments	WHT base	WHT rate
<p>Remuneration related to the following services, except for those that have been subject to Article 21 income tax:</p> <ul style="list-style-type: none"> • Appraisal services; • Actuary services; • Accounting, bookkeeping, and financial statement attestation services; • Legal services; • Architecture services; • Urban planning and landscape architecture services; • Design services; • Drilling services in the oil and gas mining industry, except for those services provided by a PE; • Auxiliary services in geothermal and oil and/or gas industry; • Mining and support services in non-geothermal and non-oil and/or gas mining industry; • Auxiliary services in the airline and airport industry; • Logging services; • Waste management services; • Brokerage/agency services; • Services in securities trading, except for trading performed by the Indonesia Stock Exchange, Indonesia Central Securities Depository (<i>Kustodian Sentral Efek Indonesia (KSEI)</i>), and Indonesia Clearing and Guarantee Corporation (<i>Kliring dan Penjaminan Efek Indonesia</i>); 	Gross amount	2%

Type of payments	WHT base	WHT rate
<ul style="list-style-type: none"> • Custodian/depository services, except for services provided by KSEI; • Dubbing and/or voice-over services; • Film-mixing services; • Services for making promotional facilities for films, advertisements, posters, photos, slides, clichés, banners, pamphlets, billboards, and folders; • Services related to computer software or hardware or systems, including repair and maintenance; • Website creation and/or maintenance services; • Internet and its connection services; • Storage, processing, and/or distribution services for data, information, and/or programs; • Installation services, except for installation services performed by construction companies; • Repair/maintenance services, except for repair/maintenance services performed by construction companies; • Maintenance services for vehicles and/or land, water, and air transportation; • Toll-manufacturing services; • Investigation and security services; 	Gross amount	2%

Type of payments	WHT base	WHT rate
<ul style="list-style-type: none"> • Manpower outsourcing services; • Event organizer services; • Services related to provision of space and/or time in mass media, outdoor media, or other media for the delivery of information and/or advertisement; • Pest eradication services; • Cleaning services; • Septic tank-siphoning services; • Pool maintenance services; • Catering services; • Freight forwarding services; • Logistics services; • Document-handling services; • Packing services; • Loading and unloading services; • Laboratory services and/or laboratory test services, except for laboratory services conducted by educational institutions for academic research purposes; • Parking management services; • Soil cone penetration test services; • Land preparation and cultivation services; • Seedling nursery and seeding services; • Crop maintenance services; • Harvesting services; • Processing services for agricultural, plantation, fishery, livestock, and/or forestry products; • Decoration services; 	Gross amount	2%

Type of payments	WHT base	WHT rate
<ul style="list-style-type: none"> • Printing/publishing services; • Translation services; • Shipping/expedition (courier) services, except for services regulated under Article 15 income tax; • Port services; • Transportation services through pipeline; • Childcare services; • Training and/or course services; • ATM cash delivery and replenishment services; • Certification services; • Survey services; • Testing services; • Services other than the above, for which the payments are charged to APBN and/or APBD; • Payment services related to the distribution of prepaid electricity token; • Marketing services using vouchers; • Payment transaction services related to voucher distribution; • Consumer loyalty/reward program services; and • Jewelry services 	Gross amount	2%

Notes:

- 1) Dividends, in any name and form, are subject to income tax, except for Indonesian-sourced dividends received by Indonesian companies (please refer to page 33 to 34 for tax treatment of dividend income for corporate taxpayers).
- 2) WHT does not apply to payments made to banks operating in Indonesia.
- 3) If the recipients of royalty income are domestic individual taxpayers who calculate their income tax using the net income calculation method, the gross royalty amount will be 40% of the royalty amount.

The rates above are 100% higher if the party being tax withheld does not have an NPWP.

Article 23 income tax withheld is creditable by taxpayers against their CIT.

Article 26 income tax

Taxpayers are required to withhold Article 26 income tax at a rate of 20% for the following payments/accruals to non-Indonesian tax residents:

Type of payments	WHT base	Effective tax rate ¹⁾
Dividends	Gross amount	20% of gross amount
Royalties, rentals, and other payments related to utilization of assets		
Compensation in relation to services, work, and activities		
Gifts and rewards		
Pension and other periodic payments		
Swap premiums and hedging transactions		
Gains from debt forgiveness		
Interest ²⁾ including premium, discount and compensation related to debt repayment guarantee	10% or 20% of gross amount	

Type of payments	WHT base	Effective tax rate ¹⁾
Sales of assets in Indonesia exceeding IDR 10 million, except for those that are subject to Article 4(2) income tax	25% of selling price	5% of selling price
Insurance/reinsurance premiums: <ul style="list-style-type: none"> • The insured's premium is paid to an overseas insurance company • The premium is paid by an Indonesian insurance company to an overseas insurance company • The premium is paid by an Indonesian reinsurance company to an overseas insurance company 	50% of premium amount 10% of premium amount 5% of premium amount	10% of premium amount 2% of premium amount 1% of premium amount
Direct and indirect sales/transfers of shares of a non listed company in Indonesia	25% of selling price	5% of selling price
BPT ³⁾	Taxable income after tax	20% of taxable income after tax

Notes:

- 1) The tax rate may be reduced or exempted, subject to the accessibility of tax treaty benefits. Please refer to page 102 to 107 for the list of treaty rates.
- 2) Interest income from bonds paid to or earned by an offshore party is subject to WHT at the rate of 10% (or the rate based on the tax treaty). This rate has come into effect as from 2 August 2021 and applies to bonds issued by government and nongovernment agencies, including sharia bonds. Other types of interest income paid to or earned by an offshore party is subject to WHT at the rate of 20% (or the rate based on the tax treaty).
- 3) Please refer to page 23 to 24 on BPT.

Transfer Pricing

Law Number 7 of 1983 regarding Income Tax, as amended several times, lastly by Law Number 6 of 2023

Overview

Since 2010, the DGT has issued guidelines and regulations to provide greater certainty to businesses on transfer pricing rules.

The DGT is authorized to adjust taxpayers' incomes or expenses, where transactions with related parties (special relationship) are not in accordance with "fair and common business practices". The DGT is also authorized to treat the excess between transaction value that is not arm's-length and the arm's-length price as dividend, and subject the same to income tax (i.e., secondary adjustment).

A related party relationship may result from:

- a. Ownership or participation in capital;
- b. Control; or
- c. Family relationship, biological or by marriage, in vertical and/or horizontal lineage of the first degree.

A related party relationship by ownership or participation in capital exists if one taxpayer owns at least 25% of another taxpayer's capital, directly or indirectly, or if a single taxpayer owns at least 25% of the capital in multiple taxpayers.

A related party relationship by control exists if one party directly or indirectly controls another party, two or more parties are controlled by the same entity, control is through management or technology, the same person(s) influence multiple parties' decisions, several parties belong to or declare themselves part of the same business group, or one party declares itself being related to the other.

Corporate taxpayers are required to disclose their related party transactions in a separate attachment to the CIT. The disclosure includes various information, such as type of transactions, nature of relationship, questionnaire on documentation prepared to support the implementation of arm's-length principle, as well as transactions with parties from tax haven countries.

Application of arm's-length principle

Methods for determining arm's-length transactions in Indonesia are as follows:

- Comparable uncontrolled price method;
- Resale price method;
- Cost plus method;
- Profit split method;
- Transactional net margin method; and
- Other methods, such as tangible and intangible asset valuation and business valuation.

In principle, the Indonesian transfer pricing rules lay down the onus on taxpayers to undertake a transfer pricing analysis regarding their transactions with related parties to ensure that the transactions conform to the arm's-length principle. The arm's-length principle also applies to transactions involving parties without a special relationship where a party related to one or both of the

transacting parties determines the counterparty and the transaction price. This involves, inter alia, conducting a comparability analysis and determining the comparable transactions, identifying the most appropriate transfer pricing method, and applying the arm's-length principle based on the results of the comparability analysis and the most appropriate transfer pricing method. The rules also outline specific requirements for intra-group services and intangibles transactions.

Transfer pricing documentation requirements

The DGT adopts a three-tiered approach to transfer pricing documentation, namely:

- Local File;
- Master File; and
- Country-by-Country Report (CbCR).

The Master File and the Local File must be available within four months after the end of a fiscal year and must be accompanied by a statement letter concerning the time of the availability of such documents. The statement letter needs to be signed by the party providing the transfer pricing documentation.

In addition, a declaration regarding the availability of the required information in the Master File and the Local File must also be attached to the CIT return in the specified form.

Generally, the DGT provides seven to 14 days upon request in case of regular compliance checks, while the maximum allowable time is 30 days upon request. Failure to furnish the documentation within the stipulated time may prompt a detailed transfer pricing audit. It also allows the DGT to disregard any subsequent

documentation and determine tax liability based on the data available to the DGT. Any corrections by the tax office may lead to administrative sanctions and additional penalties in the case of tax underpayment.

Master File and Local File

Taxpayers having related party transactions and meeting any one of the following thresholds are required to prepare both a Master File and a Local File in Indonesian language:

Condition ¹⁾	Threshold ²⁾
Gross revenue in the preceding year ³⁾	Exceeds IDR 50 billion
<ul style="list-style-type: none"> • Related party transactions of tangible goods in the preceding fiscal year; or • Related party transactions of services, royalties, interests, or other transactions in the preceding fiscal year 	Exceeds IDR 20 billion Exceeds IDR 5 billion
Related party transactions with an affiliated party located in a jurisdiction with a tax rate lower than Indonesia's (i.e., 22%).	No minimum threshold
A taxpayer that qualifies as a Parent Entity of a business group ⁴⁾	Consolidated gross revenue of at least IDR 11 trillion in the preceding year

Notes:

- 1) In the event that the preceding fiscal year covers a period of less than 12 months, the gross revenue and/or the related party transactions are required to be annualized.
- 2) For bookkeeping in currency other than IDR, the monetary value of the threshold is to be calculated using the exchange rate set by the MoF for tax calculation purposes at the end of the fiscal year.

- 3) Gross revenue is defined as the gross amount of revenue received or accrued in connection with the taxpayer's businesses or main activities, before the deduction of discounts, rebates, and other reductions.
- 4) Parent Entity is defined as an entity that directly or indirectly controls a group of businesses, which is required to prepare consolidated financial statements under SAK.

The arm's-length principle must be adhered to for related party transactions, even if the taxpayer does not meet any of the thresholds above.

Country-by-Country Report

Aside from the Master File and the Local File, a taxpayer qualifying as a Parent Entity of a business group having a consolidated gross revenue of at least IDR 11 trillion in the fiscal year preceding the reported fiscal year is required to prepare and submit a CbCR.

In the event the Parent Entity (or a Surrogate Parent Entity appointed by the Parent Entity) is located in a foreign jurisdiction, the resident taxpayer is required to submit the CbCR when the country of the Parent Entity (or the Surrogate Parent Entity):

- Does not require the submission of CbCR; or
- Does not have an agreement with the Indonesian government on information exchange; or
- Has an agreement but the CbCR cannot be obtained by the Indonesian government.

In other cases, the resident taxpayer is required to submit a notification to the DGT specifying the Parent Entity (or Surrogate Parent Entity) and the country where the CbCR is filed.

The CbCR or the notification, as the case may be, must be submitted within 12 months after the end of the relevant fiscal year.

The CbCR is required to be prepared in a prescribed format, which is broadly aligned with the Base Erosion and Profit Shifting (BEPS) Action 13 format. The CbCR or the notification, as the case may be, is required to be submitted electronically through an online platform provided by the DGT. The online notification form generally requires the taxpayer to provide the necessary information to ascertain whether they have the obligation to submit a CbCR. The receipt confirming the submission of notification and/or CbCR has to be attached to the CIT return.

Advance Pricing Agreement

An Indonesian resident taxpayer can initiate a unilateral, bilateral, or multilateral Advance Pricing Agreement (APA), whereas a foreign resident taxpayer, which is a transaction counterparty of an Indonesian resident taxpayer, can initiate a bilateral or multilateral APA.

A negotiation in relation to a unilateral APA must commence, at the latest, six months from the taxpayer's submission date of supporting documents to the application and must conclude within 12 months after the commencement. Meanwhile, a negotiation in relation to a bilateral or multilateral APA is conducted in accordance with the prevailing regulations concerning mutual agreement procedure (MAP), which imply a time limit of 24 months for the overall process. There is a provision that allows for extensions, but only in limited bilateral cases where the in-principle agreement

has already been reached on certain issues, such as existence of the transaction, approach for transfer pricing analysis, transfer pricing method, tested party, and profit level indicator.

An APA is valid for five fiscal years plus rollback. The rollback can be applied if it fulfills the following conditions:

- The facts and conditions of the related party transactions do not differ materially from the facts and conditions of the related party transactions covered in the APA;
- The statute of limitation has not passed;
- The CIT assessment letter for the relevant fiscal year has not been issued; and
- The taxpayer is not charged with a tax crime or is not under a tax crime investigation or initial evidence examination for tax crime investigation.

Taxpayers are required to document the implementation of APA in their transfer pricing documentation for the covered APA period. The existing APA is renewable for one consecutive APA period if the facts and conditions of the APA remain the same.

Once an APA has been entered into, the DGT may conduct an APA evaluation, which, depending on the results, may lead to an APA judicial review or APA cancellation before the APA period ends. The APA judicial review can also be conducted upon the taxpayer's request or due to changes in critical assumptions. The result of APA judicial review negotiation shall be in the form of revised APA document/Mutual Agreement.

Value Added Tax

- *Law Number 8 of 1983 regarding Value Added Tax on Goods and Services and Luxury-goods Sales Tax, as amended several times, lastly by Law Number 6 of 2023*
- *Law Number 2 of 2020 regarding Stipulation of Government Regulation in Lieu of Law Number 1 of 2020 regarding State Financial Policy and Financial System Stability for Handling COVID-19 Pandemic and/or in the Context of Facing Threats that Harm National Economy and/or Financial System Stability to Become Law, as amended by Law Number 7 of 2021 regarding Law on Harmonization of Tax Regulations*

Overview

VAT is levied on taxable events, i.e., on the “delivery” of taxable goods and/or taxable services. Entrepreneurs delivering taxable goods and/or taxable services of which the value exceeds IDR 4.8 billion in a fiscal year are required to register for VAT purposes (i.e., register as PKPs) and issue VAT invoices for the delivery of taxable goods and/or taxable services.

Generally, a PKP carrying out business activities in Indonesia through business units located in multiple jurisdictions under different tax offices has to register each of its business units with the respective tax office. The PKP may request the DGT to centralize the VAT administration under one location or more. However, if the PKP is registered with certain tax offices, i.e., large taxpayers tax office, special tax office, and *madya* tax office (*Kantor Pelayanan Pajak untuk Wajib Pajak Besar* /

Khusus/Madya (KPP BKM)), the VAT administration is automatically centralized and the PKP does not need to request for VAT centralization. Previously, the VAT centralization statement letter from the DGT was valid for five years. However, VAT centralization statement letter issued after 1 July 2020 will not expire until the PKP is no longer qualified for VAT centralization or the PKP submits a revocation request.

Taxable events

The taxable events consist of the following:

- Delivery of taxable goods and/or taxable services within the Indonesian customs territory (a territory in Indonesia that is subject to Indonesian Customs Law);
- Import of taxable tangible goods;
- Utilization of offshore taxable intangible goods and/or offshore taxable services within the Indonesian customs territory; and
- Export of taxable goods and/or taxable services by a PKP.

Goods and services not subject to Value Added Tax

All goods and services shall be subject to VAT, except:

- Items that are already subject to regional tax (i.e., food and beverages served at restaurants or hotels, or for catering, art and entertainment services, hotel services, and parking services);
- Money, gold bars (representing Indonesia's state gold reserves), and securities;
- Religious services; and
- Government administrative services that cannot be provided by other parties.

Value Added Tax rates

The standard VAT rate is 11%. This rate will be increased to 12% by 1 January 2025, at the latest.

The VAT rate is reduced to 0% for the following taxable events:

- Export of taxable tangible goods;
- Export of taxable intangible goods; and
- Export of taxable services (please refer to page 92 to 94).

Starting from 1 April 2022, the government implements final VAT mechanism (*menggunakan besaran tertentu untuk memungut dan menyetorkan PPN*) for the following deliveries:

Type of delivery	Final VAT calculation ¹⁾
Postal package delivery services	1.1% of the compensation amount
Certain travel agency services and/or provision of travel packages	1.1% of the selling price of the travel package, transport, and accommodation
Freight forwarding services (including freight charges)	1.1% of the amount billed

Type of delivery	Final VAT calculation ¹⁾
Religious mixed with non-religious tour package services	<ul style="list-style-type: none"> • 1.1% of the tour package price for non-religious tour (if the tour package price can be separated between the religious tour portion (which is not subject to VAT) and non-religious tour portion (which is subject to VAT)) • 0.55% of the entire tour package price (if the tour package price cannot be separated between the religious tour portion and the non-religious tour portion)
Marketing services using vouchers, transaction payment services in relation to voucher distribution, and services related to consumer loyalty/ reward programs, which are not based on commission and without any margin	1.1% of the voucher sales price
Self-construction activities not in respect of a job or occupation by an individual or an organization, where the construction result will be used by the individual or organization itself or by another party (<i>kegiatan membangun sendiri</i>)	2.2% of expenses incurred for construction activities (excluding land's acquisition cost)

Type of delivery	Final VAT calculation ¹⁾
Certain nonsubsidized liquefied petroleum gas (LPG) by: <ul style="list-style-type: none"> • Distribution agents; and • Sub-agents 	<ul style="list-style-type: none"> • 1.1/101.1 of the excess of the distribution agent's selling price over the retail selling price • 1.1/101.1 of the excess of the sub-distribution agent's selling price over the distribution agent's selling price
Certain agricultural products	1.1% of sales price ²⁾
Insurance commissions received by: <ul style="list-style-type: none"> • Agents • Brokers 	<ul style="list-style-type: none"> • 1.1% of the gross commission amount, in any form and name, excluding income tax and other tax collection • 2.2% of gross commission amount, in any form and name, excluding income tax and other tax collection
Used motor vehicles	1.1% of selling price
Trade of cryptoassets by cryptoasset exchangers	0.11% or 0.22% of the cryptoasset transaction value
Cryptoasset mining services	1.1% of the cryptoasset conversion value

Type of delivery	Final VAT calculation ¹⁾
<p>Gold and nongold jewelry, and jewelry services:</p> <ul style="list-style-type: none"> • Self-produced gold jewelry by manufacturers to other manufacturers and/or traders • Self-produced gold jewelry by manufacturers to end-consumers • Nongold jewelry by manufacturers and traders • Jewelry services by manufacturers and traders • Gold jewelry by traders to other traders and/or end-consumers if the deliverer has a VAT invoice on the acquisition/import of the jewelry being delivered • Gold jewelry by traders to other traders and/or end-consumers if the deliverer does not have a VAT invoice on the acquisition/import of the jewelry being delivered • Gold jewelry by traders to manufacturers 	<ul style="list-style-type: none"> • 1.1% of the selling price • 1.65% of the selling price • 1.1% of the selling price • 1.1% of the remuneration received • 1.1% of selling price • 1.65% of the selling price • 0%

Notes:

- 1) The final VAT rate listed is based on the standard VAT rate of 11%. The final rate will increase when the standard VAT rate is increased to 12% by 1 January 2025, at the latest.
- 2) The PKP may choose to use either the final or standard VAT mechanism. A PKP that uses the final VAT mechanism can choose to use the general VAT regime by submitting a notification to the tax office by the end of the first fiscal period after the end of the fiscal year that uses the final VAT mechanism. Such PKP can no longer revert to using the final VAT mechanism.

Value Added Tax imposition base

VAT is imposed on the VAT imposition base, which consists of selling price, compensation price, import value, export value, or other value (special VAT imposition base).

Type of delivery	Special VAT imposition base
Taxable goods and/or taxable services for self-use or free gifts	Selling price or compensation after deduction of gross profit (i.e., cost of sales)
Movies	Estimated average proceeds per movie title
Tobacco products	Retail selling price, with an effective VAT rate of 9.9% (to be increased to 10.7% by 1 January 2025, at the latest)
Taxable goods in the form of inventories and/or assets that are not for sale, according to their initial purpose, and remain at the time the company dissolves	Fair market value of the goods
Taxable goods from the headquarters to a branch, or vice versa, and/or inter-branches	Cost of sales or acquisition price of the goods
Taxable goods through a broker/agent	Price agreed between the broker/agent and the purchaser
Taxable goods through an auctioneer	Auctioned price
Imported intangible goods in the form of movies and the subsequent delivery from the importer to a movie theater	IDR 12 million per copy of imported movies

Type of delivery	Special VAT imposition base
Certain nonsubsidized LPG by companies appointed by the government to provide and distribute LPG	100/(100 + applicable standard VAT rate) of retail selling price
Phone credits and starter packs by second-layer distribution agents	Amount stated in the invoice issued by the second-layer distribution agent to the next level distribution channel, or selling price to end-consumers
Subsidized fertilizer for the agricultural sector	<ul style="list-style-type: none"> • Subsidized portion: 100/(100 + standard VAT rate) of subsidized amount (which already includes VAT); • Nonsubsidized portion: 100/(100 + standard VAT rate) of highest retail sales price (<i>harga eceran tertinggi</i>).

Value Added Tax invoice

General Value Added Tax invoice

A VAT invoice is an instrument to levy VAT (for the seller) and to claim VAT credit (for the buyer). The DGT has adopted an electronic VAT invoice mechanism (*e-Faktur*) to directly validate the issuance of VAT invoices.

The format and content of a VAT invoice have to meet the guidelines set by the DGT. Failure to meet these guidelines will cause the VAT invoice to be considered as an incomplete VAT invoice. The issuance of an invalid VAT invoice is subject to a penalty of 1% of the VAT imposition base and the invalid VAT invoice is not creditable for the buyer.

If a PKP delivers taxable goods and/or taxable services to a branch of a buyer that is a PKP registered with KPP BKM and the branch itself has been registered for tax purposes with its local tax office, the identity of the buyer/service recipient stated in the VAT invoice must comprise:

- Name of the central PKP;
- NPWP of the central PKP; and
- Address where the actual delivery is made.

Starting from 1 September 2022, the provision in the paragraph above is limited to the delivery of taxable goods and/or taxable services to a branch of a buyer that is a PKP registered with KPP BKM and located in a certain zone/area. The delivery is eligible for the VAT not-collected facility.

An *e-Faktur* prepared during a particular month must be uploaded by the PKP and validated by the DGT no later than the 15th day of the following month; otherwise, the VAT invoice will not be treated as a VAT invoice.

A VAT invoice must be issued:

- Upon the delivery of taxable goods and/or taxable services;
- Upon receiving payment, in the event that the payment occurs prior to the delivery of taxable goods and/or taxable services;
- Upon receiving a term-payment, in the event that the delivery is made in phases;
- Upon the export of taxable goods and/or taxable services; or
- Upon other events as determined by the MoF.

A VAT invoice that is issued exceeding a three-month period since the moment the VAT invoice should be

prepared cannot be treated as a valid VAT invoice. The seller will be considered as not issuing a VAT invoice and the recipient of such VAT invoice cannot claim the input VAT.

Combined Value Added Tax invoice

For ease of administration purposes, a PKP is allowed to issue one VAT invoice at the end of the month, covering several deliveries to the same buyer in one calendar month. Such VAT invoice is called a combined VAT invoice (*faktur pajak gabungan*).

A combined VAT invoice can only cover transactions under the same transaction code. If the deliveries to the same customer fall under several transaction codes, only transactions under the same transaction code can be combined.

A combined VAT invoice cannot be used in the event the delivery of taxable goods and/or taxable services is already subject to the VAT not-collected facility in a certain area.

Value Added Tax invoice for retail business

A PKP qualifying as a retail business (*pedagang eceran* (retail PKP)) is allowed to issue VAT invoices without having to include the buyer's identity information and the seller's name as well as the signature of either party for the delivery of taxable goods and/or taxable services, provided that the retail PKP criteria have been satisfied. The criteria of a retail PKP are defined by whether the delivery of taxable goods and/or taxable services is to a buyer with end-consumer characteristics, including e-commerce transactions, with certain exception. The

end-consumer characteristics are as follows:

- The buyer and/or service recipient consumes or utilizes the purchased taxable goods and/or taxable services directly; and
- The buyer and/or service recipient does not utilize the taxable goods and/or taxable services for business activities.

Certain documents that are treated as equivalent to Value Added Tax invoices

Examples of documents treated as equivalent to VAT invoices are as follows:

- Export declaration of goods (*Pemberitahuan Ekspor Barang*) (accompanied by certain supporting documents).
- Export declaration of intangible goods and/or export declaration of services (*Pemberitahuan Ekspor Jasa*) (accompanied by invoices);
- Import declaration of goods (*Pemberitahuan Impor Barang*) (accompanied by certain supporting documents);
- Tax payment slip (*Surat Setoran Pajak (SSP)*) for the payment of self-assessed VAT on utilization of offshore taxable intangible goods and/or offshore taxable services; and
- VAT collection evidence in relation to transaction through the electronic system (*perdagangan melalui sistem elektronik (PMSE)*).

Self-assessed Value Added Tax

The utilization of offshore taxable intangible goods and/or taxable services is subject to self-assessed VAT, in which the buyer is obliged to self-assess, report, and pay

the VAT calculated from the gross amount paid or payable.

The self-assessed VAT on utilization of taxable intangible goods and/or taxable services is due when:

- The purchase price is declared as being payable;
- The amount is invoiced by the vendor; or
- The payment is made, either partially or fully, whichever occurs first.

If the events above are unknown, the VAT is deemed as due at the time the agreement is signed.

Value Added Tax reporting

Output-input mechanism

From the supplier/seller's perspective, the VAT levied is considered as an output VAT while from the buyer's perspective, the VAT paid is an input VAT. The input VAT can be offset against the output VAT. If the amount of output VAT exceeds the amount of input VAT, the difference constitutes a VAT underpayment that has to be settled to the state treasury by the end of the following month prior to the submission of VAT return. On the other hand, if the amount of output VAT is less than the amount input of VAT, the PKP can carry the excess amount to the following period or request a refund.

An input VAT invoice received by a PKP is creditable in its VAT return, at maximum, three months after the end of the month when the relevant VAT invoice is issued and if the VAT invoice has not been expensed or capitalized to the acquisition cost of taxable goods and/or taxable services.

However, an input VAT paid by a PKP shall not be creditable if the PKP later on charges an output VAT calculated using the final VAT mechanism.

Noncreditable input Value Added Tax

Input VAT arising from the following purchases is not creditable:

- Purchase of taxable goods or taxable services without a direct connection to the PKP's business;
- Purchase of taxable goods or taxable services of which the VAT invoice is incomplete;
- Utilization of taxable intangible goods or taxable services of which the VAT invoice does not fulfill certain requirements; or
- Purchase/utilization of taxable goods and/or taxable services related to a delivery that is not subject to an output VAT.

Export of taxable services

VAT is imposed on export of taxable services that are furnished/rendered within the Indonesian customs territory for the benefit of recipients located outside the Indonesian customs territory. Certain types of export of taxable services that can enjoy a 0% VAT are as follows:

- a. Taxable services related to movable goods for utilization outside the Indonesian customs territory, covering:
 - Toll manufacturing services;
 - Repair and maintenance services; and
 - Provision of freight forwarding services for export purposes;
- b. Taxable services related to immovable goods located outside the Indonesian customs territory, such as construction consultation services, covering

assessment, planning, and design of construction related to building or plan for building outside the Indonesian customs territory;

- c. Taxable services delivered for utilization outside the Indonesian customs territory as requested by customers, such as:
- Technology and information services;
 - Research and development services;
 - Rental of airplanes and/or sea vessels for international flights or shipping activities;
 - Business and management consultancy services, legal consultancy services, architectural and interior design consultancy services, human resource consultancy services, engineering consultancy services, marketing consultancy services, accounting or bookkeeping services, audit services for financial statements, and tax services;
 - Trading services, i.e., services to seek sellers within the Indonesian customs territory for export purposes; and
 - Interconnection, provision of satellite, and/or data communication/connectivity services.

To apply for the 0% VAT on such export of taxable services, the following cumulative criteria must be fulfilled:

- The recipient engages with the service provider and enjoys the benefits of the service directly;
- The recipient must be outside the Indonesian customs territory;
- The offshore service recipient does not have a PE in Indonesia;
- The delivery is based on a written agreement between the PKP and the offshore service recipient; and
- The payment is accompanied by valid proof of

payment from the offshore service recipient to the PKP.

If the conditions above are not fulfilled, the delivery of export services will be deemed as delivery of taxable services within the Indonesian customs territory and subject to the standard VAT rate.

Value Added Tax collectors

Certain entities, such as government treasurers, state cash and treasury offices, PSC contractors, geothermal energy contractors or license holders (including headquarters, branches, or units), BUMN, and other appointed entities, are appointed as VAT collectors. A VAT collector is obliged to collect the VAT due from a vendor on the purchase of taxable goods and/or taxable services and to remit the VAT directly to the state treasury as opposed to the vendor. As such, a PKP primarily engaging in deliveries of taxable goods and/or taxable services to VAT collectors will be in a perpetual VAT overpayment position.

Value Added Tax on transaction through electronic system

Starting from July 2020, any transaction made through the electronic system is subject to VAT on PMSE. VAT on PMSE is to be collected, remitted, and reported by foreign traders, foreign service providers, foreign PMSE providers (*Penyelenggara PMSE (PPMSE)*), and/ or domestic PPMSEs (collectively referred to as “e-commerce parties”).

The DGT can appoint an e-commerce party as a PMSE VAT collector if such party meets the following criteria:

- The e-commerce party has transactions with customers in Indonesia exceeding IDR 600 million in a twelve-month period or IDR 50 million in a month; and/or
- The e-commerce party has transactions exceeding 12,000 traffics or accesses in a twelve-month period or 1,000 traffics or accesses in a month.

The rate of VAT on PMSE is 11% (to be increased to 12% by 1 January 2025, at the latest). The VAT imposition base shall be the amount paid by the customers (excluding VAT). The PMSE VAT collector may use its usual billing documents as proof of PMSE VAT collection, provided that it contains the minimum required information.

The PMSE VAT collected must be remitted to the state treasury monthly by the end of the following month via electronic transfer.

The PMSE VAT reporting is different from general VAT returns. There are two reports to be submitted by a PMSE VAT collector, namely:

- Mandatory quarterly PMSE VAT return (SPT *masa* PPN PMSE); and
- Annual PMSE VAT report (*laporan tahunan* PPN PMSE)—only if requested by the tax office.

Value Added Tax refund

The excess of input VAT over output VAT can be carried forward to the next period or requested to be refunded. The claim for VAT refund can only be made at the end of a fiscal year, except for a PKP that is eligible to claim tax

refund monthly. The request for VAT refund is subject to a tax audit. The time frame to obtain a refund decision varies depending on the category of business applying for the refund. In general, it takes 12 months from the submission of VAT refund request for the tax auditor to issue the decision letter.

VAT paid by foreign individuals on purchase at designated retail stores can be refunded upon leaving Indonesia. The minimum amount for VAT refundable by foreign individuals is IDR 500 thousand.

Available Value Added Tax facilities

Certain imports or purchases of taxable goods and/or taxable services are eligible for VAT facilities, either in the form of VAT exemption facility (PPN *dibebaskan*) or VAT not-collected facility (PPN *tidak dipungut*).

For deliveries of which the VAT is not collected, the related input VAT is creditable.

For deliveries of which the VAT is exempted, the related input VAT is not creditable. The VAT exemption facility is applicable (but not limited) to the following imports or deliveries:

- Basic commodities essential to the public, such as rice, soybean, corn, and others;
- Certain strategic taxable goods, such as mining or drilling products taken directly from the source, machinery, factory equipment, animal husbandry products, seeds and seedlings, liquefied natural gas, and others;
- Certain medical/health services and those within the national health insurance program;

- Social services;
- Financial services;
- Insurance services;
- Educational services;
- Public transport services on land and on water and domestic air transport services that are inseparable from international air transport services; and
- Labor services.

Free trade zones and free port zones

The government appoints certain areas, such as Sabang, Batam, Bintan, and Karimun, as free trade zones and free port zones (FTZs). FTZs are regarded as locations outside the Indonesian customs territory, and deliveries made within FTZs are exempted from VAT and/or LST. Entities in FTZs do not need to register as PKP.

Import of certain goods into or utilization of offshore taxable intangible goods and/or offshore taxable services in an FTZ is exempted from VAT and/or LST. Delivery of taxable goods and/or certain taxable services from the Indonesian customs territory into an FTZ is eligible for the VAT not-collected facility.

In general, the delivery of taxable goods and/or taxable services from an FTZ into other places within the Indonesian customs territory is subject to VAT and/or LST. The VAT and/or LST shall be settled by the party releasing the taxable goods using an SSP for taxable goods or by the receiving party through a self-assessed VAT mechanism for taxable intangible goods and/or taxable services.

Luxury-goods Sales Tax

In addition to the general VAT rate, certain “luxury” goods are subject to LST with a rate ranging from 10% to 200%. Luxury-goods are goods that meet the following criteria:

- They do not constitute basic commodities;
- They are consumed by certain groups;
- They are generally consumed by an exclusive group of (upper income) consumers; and/or
- They are consumed to show status rather than for their utility.

Export of luxury-goods is subject to 0% LST.

Value Added Tax facilities in Ibu Kota Nusantara

Various VAT and LST facilities are provided for businesses in IKN and certain surrounding regions until 2035.

Please refer to page 115 to 120 on VAT and LST facilities available in IKN.

Summary of Double Tax Avoidance Agreements

Law Number 7 of 1983 regarding Income Tax, as amended several times, lastly by Law Number 6 of 2023

Taxpayers are required to withhold Article 26 income tax at the rate of 20% for payments of services, dividends, interest (10% for certain interest on bonds), and royalties to non-Indonesian tax residents. The tax rate may be lowered subject to the applicability of tax treaty benefits.

A non-Indonesian tax resident wishing to access tax treaty benefits is required to provide a certificate of domicile in a prescribed format, known as the DGT Form. To apply for a lower WHT rate, the foreign income recipient has to meet the substance and administrative requirements.

The foreign income recipient is considered meeting the substance requirements if:

- a. The entity has relevant economic substance, either in the entity's establishment or the execution of its transaction;
- b. The legal form is not different from its economic substance, either in the entity's establishment or the execution of its transaction;
- c. The entity has its own management in conducting business, and such management has an independent discretion;
- d. The entity has sufficient assets to conduct business

other than the assets intended to generate income from Indonesia;

- e. The entity has sufficient employees with certain expertise and skill in accordance with the business it carries out; and
- f. The entity has business activities other than receiving dividend, interest, and royalty sourced from Indonesia, and such activities are in accordance with the actual conditions as shown by the existence of costs incurred, efforts undertaken, or sacrifices made, which are directly related to the business or activities for the purpose of earning, collecting, and maintaining income, including significant activities conducted to maintain the entity's survival.

In addition, the purpose/arrangement of the transaction is not to directly or indirectly obtain benefits under the tax treaty (among others, reduction of tax burden or double non-taxation) that are not in accordance or conflict with the objective and purpose of the tax treaty establishment. This is similar to the principle purpose test adopted by Indonesia through the multilateral instrument (MLI) on tax treaty.

To apply for a lower WHT rate on passive income, in addition to the substance requirements above, the foreign income recipient has to meet the following beneficial ownership requirements:

- a. The entity is not acting as an agent, nominee, or conduit;
- b. The entity has the rights to control or dispose of the income or the assets, or the rights that generate the income;
- c. No more than 50% of the entity's income is used to satisfy claims by other persons;

- d. The entity bears the risk on its own assets, capitals, or liabilities; and
- e. The entity has no contract(s) that obliges the entity to transfer the income received to a resident of third-party country.

The DGT Form must be endorsed by the competent/tax authorities of the foreign income recipient's jurisdiction. In the case that the foreign income recipient is unable to obtain the endorsement, a certificate of residence (CoR) commonly verified or issued by the competent/tax authorities of the recipient's jurisdiction can be attached to the DGT Form to substitute for the endorsement. The CoR must meet the following requirements:

- The CoR is presented in English;
- The CoR contains, at least, the following information: the name of the foreign income recipient, the issuance date, and the applicable fiscal year of the CoR; and
- The original or copy document must be legalized by the competent/tax authorities of the foreign income recipient's jurisdiction.

Indonesia has signed tax treaties with a number of countries around the globe. The following table summarizes various reduced tax rates under the available tax treaties.

No.	Country ¹⁾	Dividends ²⁾		Interest ³⁾ (%)	Royalty ⁴⁾ (%)	BPT ⁵⁾ (%)
		For investor companies (%)	Other (%)			
1	Algeria	15	15	15	15	10
2	Armenia	10	15	10	10	10 ⁷⁾
3	Australia	15	15	10	10/15 ⁶⁾	15 ⁷⁾
4	Austria	10	15	10	10	12 ⁷⁾
5	Bangladesh	10	15	10	10	10 ⁷⁾
6	Belarus	10	10	10	10	10 ⁷⁾
7	Belgium	10	15	10	10	10 ⁷⁾
8	Brunei Darussalam	15	15	15	15	10 ⁷⁾
9	Bulgaria	15	15	10	10	15 ⁷⁾
10	Cambodia	10	10	10	10 ⁸⁾	10 ⁷⁾
11	Canada	10	15	10	10	15
12	China	10	10	10	10	10
13	Croatia	10	10	10	10	10 ⁷⁾
14	Czech Republic	10	15	12.5	12.5	12.5 ⁷⁾
15	Denmark	10	20	10	15	15 ⁷⁾
16	Egypt	15	15	15	15	15 ⁷⁾
17	Finland	10	15	10	10/15 ⁹⁾	15 ⁷⁾
18	France	10	15	10/15 ¹⁰⁾	10	10
19	Germany	10	15	10	7.5/10/15 ¹¹⁾	10
20	Hong Kong	5	10	10	5	5 ⁷⁾
21	Hungary	15	15	15	15	20 ¹²⁾
22	India	10	10	10	10 ⁸⁾	15 ⁷⁾
23	Iran	7	7	10	12	7

No.	Country ¹⁾	Dividends ²⁾		Interest ³⁾ (%)	Royalty ⁴⁾ (%)	BPT ⁵⁾ (%)
		For investor companies (%)	Other (%)			
24	Italy	10	15	10	10/15 ¹³⁾	12 ⁷⁾
25	Japan	10	15	10	10	10 ⁷⁾
26	Jordan	10	10	10	10	20 ¹²⁾
27	Korea (North)	10	10	10	10	10
28	Korea (South)	10	15	10	15	10 ⁷⁾
29	Kuwait	10	10	5	20	10 ⁷⁾¹⁴⁾
30	Laos	10	15	10	10	10 ⁷⁾
31	Luxembourg	10	15	10	10/12.5 ¹⁵⁾	10 ⁷⁾
32	Malaysia ¹⁶⁾	10	10	10	10	12.5 ⁷⁾
33	Mexico	10	10	10	10	10 ⁷⁾
34	Mongolia	10	10	10	10	10 ⁷⁾
35	Morocco	10	10	10	10	10 ⁷⁾
36	Netherlands	5	10/15 ¹⁷⁾	5/10 ¹⁸⁾	10	10
37	New Zealand	15	15	10	15	20 ¹²⁾
38	Norway	15	15	10	10/15 ¹⁹⁾	15 ⁷⁾
39	Pakistan	10	15	15	15 ²⁰⁾	10
40	Papua New Guinea	15	15	10	10 ⁸⁾	15 ⁷⁾
41	Philippines	15	20	10/15 ²¹⁾	15	20
42	Poland	10	15	10	15	10 ⁷⁾
43	Portugal	10	10	10	10	10 ⁷⁾
44	Qatar	10	10	10	5	10 ⁷⁾
45	Romania	12.5	15	12.5	12.5/15 ²²⁾	12.5
46	Russia	15	15	15	15	12.5 ⁷⁾

No.	Country ¹⁾	Dividends ²⁾		Interest ³⁾ (%)	Royalty ⁴⁾ (%)	BPT ⁵⁾ (%)
		For investor companies (%)	Other (%)			
47	Serbia	15	15	10	15	15 ⁷⁾
48	Seychelles	10	10	10	10	20 ¹²⁾
49	Singapore	10	15	10	8/10 ²³⁾	10 ⁷⁾
50	Slovakia	10	10	10	10/15 ²⁴⁾	10 ⁷⁾
51	South Africa	10	15	10	10	10 ⁷⁾
52	Spain	10	15	10	10	10 ⁷⁾
53	Sri Lanka	15	15	15	15	20 ¹²⁾
54	Sudan	10	10	15	10	10 ⁷⁾
55	Suriname	15	15	15	15	15 ⁷⁾
56	Sweden	10	15	10	10/15 ²⁵⁾	15 ⁷⁾
57	Switzerland	10	15	10	10 ²⁶⁾	10 ⁷⁾
58	Syria	10	10	10	15/20 ²⁷⁾	10 ⁷⁾
59	Taiwan	10	10	10	10	5 ⁷⁾
60	Tajikistan	10	10	10	10	10 ⁷⁾
61	Thailand	15	15	15	15	20 ¹²⁾
62	Tunisia	12	12	12	15	12 ⁷⁾
63	Turkey	10	15	10	10	10/15 ⁷⁾
64	Ukraine	10	15	10	10	10 ⁷⁾
65	United Arab Emirates	10	10	7	5 ²⁸⁾	5 ⁷⁾
66	United Kingdom	10	15	10	10/15 ²⁵⁾	10 ⁷⁾
67	United States of America	10	15	10	10	10 ⁷⁾
68	Uzbekistan	10	10	10	10	10 ⁷⁾

No.	Country ¹⁾	Dividends ²⁾		Interest ³⁾ (%)	Royalty ⁴⁾ (%)	BPT ⁵⁾ (%)
		For investor companies (%)	Other (%)			
69	Venezuela	10	15	10	10/20 ²⁹⁾	10 ⁷⁾
70	Vietnam	15	15	15	15	10 ⁷⁾
71	Zimbabwe ³⁰⁾	10	20	10	15 ⁸⁾	10 ⁷⁾

Notes:

- 1) This is a general summary of the current treaty provisions. For more comprehensive information, please refer to the relevant treaty.
- 2) These rates are applicable only if the shareholder is the beneficial owner of the dividends. The lower rate applies where the dividend recipient holds, at minimum, 25% of the capital of the paying company (voting shares in Japan or voting power in the UK; 10% in the case of South Africa, Venezuela, Laos, and Bangladesh; 20% in the case of Czech Republic, Poland, and Ukraine; and 15% in the case of the UK).
- 3) These rates are applicable only if the recipient is the beneficial owner of the interest. Many of the treaties provide exemption for certain types of interest, such as interest paid to the government, central banks, banks, or financial institutions. Such exemptions are not considered in this column.
- 4) These rates are applicable only if the recipient is the beneficial owner of the royalty. Royalty paid to the government of Brunei is exempted.
- 5) BPT is levied on taxable income after tax.
- 6) 10% applies to payments of certain royalties. 15% in all other cases.
- 7) There is a specific provision regarding the application of BPT in PSCs and/or mining CoW (or similar contracts) in the oil and gas and/or mining sectors.
- 8) 10% applies to royalties and fees for technical services.
- 9) 10% applies to the use of, or the right to use copyright of literary and artistic or scientific works, including cinematographic films, and films or tapes for television or radio broadcasting. 15% applies to the use of or the right to use patents, trademarks, designs or models, plans, secret formula or process, or any industrial, commercial or scientific equipment, for information concerning industrial, commercial, or scientific experience.
- 10) 10% applies if the interest is paid by a bank, or financial institution, or by an enterprise of which the activities are mainly to carry out business in the fields of agriculture, plantation, forestry, fishery, mining, manufacturing, industries, transportation, low-cost housing projects,

- tourism, and infrastructure, and is paid to a bank or to another enterprise. 15% applies to interest on other types of debt.
- 11) 10% applies to the use of, right to use, or for information regarding industrial, commercial, or scientific equipment or experience. 15% applies to the use of, or the right to use copyrights of literary, artistic, or scientific work, patents, trademarks, designs or models, plans, secret formulas, or processes. 7.5% applies to technical, managerial, or consulting services.
 - 12) The treaty is silent on the BPT rate. In the absence of the specific reference to BPT rate in the treaty, the DGT may view that the rate of 20% should apply.
 - 13) 10% applies to the use of, right to use, or for information regarding industrial, commercial, or scientific equipment or experience. 15% applies to all other royalties.
 - 14) Tax is only applicable if profits are remitted to the head office within 12 months after the profits are accrued.
 - 15) 12.5% applies to royalties. 10% applies to fees for technical services.
 - 16) The tax treaty with Malaysia does not cover business activities conducted in Labuan offshore, as defined in the Malaysian Labuan Offshore Business Activity Act of 1990.
 - 17) 10% applies if the beneficial owner is a pension fund meeting certain requirements. 15% applies in all other cases.
 - 18) 5% applies to the interest paid on a loan made for a period of more than two years or is paid in connection with the sale on credit of any industrial, commercial, or scientific equipment. 10% applies to interest on other types of debts with certain exceptions.
 - 19) 10% applies to patents, trademarks, secret formulas, designs or models, plans, or processes, and for the use of, or right to use, or for information concerning industrial, commercial, or scientific equipment or experience. 15% applies to copyrights of literary, artistic, or scientific works.
 - 20) 15% applies to royalties and fees for technical services.
 - 21) 10% applies to interest on public issuance of bonds, debentures, or similar obligations. 15% applies to interest on other types of debt with certain exceptions.
 - 22) 12.5% applies to the use of or the right to use patents, trademarks, designs or models, plans, secret formulas, or processes, or the use of, right to use, or information concerning industrial, commercial, or scientific equipment or experience. 15% applies to the use of or the right to use copyrights of literary, artistic, or scientific works. 10% applies to commission payments.
 - 23) 8% applies to the use of, or right to use, or information concerning industrial, commercial, or scientific equipment or experience. 10% applies to the use of or the right to use any copyright of literary, artistic or scientific work, any patent, trademark, design or model, plan, secret formula, or process.

- 24) 10% applies to the use of or the right to use motion picture films, film, or videos for use in connection with television, or tapes for use in connection with radio broadcasting, or total or partial forbearance in respect of the use or supply or any property or right. 15% applies in certain other cases.
- 25) 10% applies to the use of or right to use industrial, commercial, or scientific equipment or for information concerning industrial, commercial or scientific experience. 15% applies to the use of or the right to use copyrights of literary, artistic, or scientific works, or any patent, trademark, design or model, plan, secret formula, or process.
- 26) 10% applies to royalties. 5% applies to payments for furnishing of services, including consulting services.
- 27) 15% applies to the use of or the right to use any copyright of literary, artistic, or scientific work. 20% applies to the use of or the right to use any patent, trademark, design or model, plan, or any industrial or scientific equipment, or for information concerning industrial or scientific experience.
- 28) 5% applies to royalties and fees for technical services.
- 29) 20% applies to royalties. 10% applies to fees for technical services.
- 30) The treaty is not yet in force.

Certain activities conducted in Indonesia for more than a certain period may trigger the creation of a PE. The following table summarizes the period specified in available tax treaties:

No.	Country	Construction	Installation	Assembly	Supervisory	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
8	Brunei Darussalam	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

No.	Country	Construction	Installation	Assembly	Supervisory	Other Services
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	3 months	3 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
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	3 months/ 6 months	3 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

No.	Country	Construction	Installation	Assembly	Supervisory	Other Services
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
48	Seychelles	6 months	6 months	6 months	6 months	3 months
49	Singapore	183 days	183 days / 3 months	183 days / 3 months	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

No.	Country	Construction	Installation	Assembly	Supervisory	Other Services
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
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

Base erosion and profit shifting and multilateral instrument consideration

Indonesia ratified the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS in November 2019 and deposited its instrument of ratification for the MLI with the Organization for Economic Co-operation and Development (OECD) on 28 April 2020. Indonesia identifies 60 tax treaties as covered tax agreements under the convention. MLIs for the following treaties have come into effect:

No.	Country	MLI's effective date	
		For WHT	For other taxes
1	Australia	1 January 2021	1 January 2022
2	Belgium	1 January 2021	1 January 2022
3	Bulgaria	1 January 2024	1 January 2025
4	Canada	1 January 2021	1 January 2022
5	China	1 January 2023	1 January 2024
6	Denmark	1 January 2021	1 January 2022

No.	Country	MLI's effective date	
		For WHT	For Other Taxes
7	Finland	1 January 2021	1 January 2022
8	France	1 January 2021	1 January 2022
9	Hong Kong	1 January 2024	1 January 2024
10	India	1 January 2021	1 January 2022
11	Japan	1 January 2021	1 January 2022
12	Korea (South)	1 January 2021	1 January 2022
13	Luxembourg	1 January 2021	1 January 2022
14	Mexico	1 January 2024	1 January 2025
15	Netherlands	1 January 2021	1 January 2022
16	New Zealand	1 January 2021	1 January 2022
17	Pakistan	1 January 2022	1 January 2023
18	Poland	1 January 2021	1 January 2022
19	Portugal	1 January 2021	1 January 2022
20	Qatar	1 January 2021	1 January 2022
21	Russia	1 January 2021	1 January 2022
22	Serbia	1 January 2021	1 January 2022
23	Seychelles	1 January 2023	1 January 2024
24	Singapore	1 January 2021	1 January 2022
25	Slovakia	1 January 2021	1 January 2022
26	South Africa	1 January 2024	1 January 2025
27	Spain	1 January 2023	1 January 2024
28	Thailand	1 January 2023	1 January 2024
29	United Arab Emirates	1 January 2021	1 January 2022
30	United Kingdom	1 January 2021	1 January 2022
31	Vietnam	1 January 2024	1 January 2025

In addition, the DGT is authorized to enter into bilateral or multilateral agreements in relation to taxation, which

can be in the form of:

- Double tax avoidance agreements;
- The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS;
- Agreements to exchange tax information;
- The Convention on Mutual Administrative Assistance in Tax Matters;
- Bilateral or multilateral agreements between competent authorities; and
- Agreements for the purpose of tackling the taxation issues related to the digitalization of economy and/or BEPS.

Mutual Agreement Procedures

As a member of G20 countries, Indonesia is committed to implementing the minimum standards under the BEPS project, including Action 14 on the dispute resolution mechanism.

A request for an MAP can be filed by:

- An Indonesian resident taxpayer;
- An Indonesian citizen through the DGT;
- The DGT itself; or
- The tax authority of a treaty partner country.

MAP request should be filed within the timeline specified in the tax treaty, i.e., from the first notification of the action that results in taxation not to be imposed, in accordance with the provisions of the agreement. The deadline to submit an MAP request is three years if the tax treaty does not specify a deadline.

The timeline refers to the date of the tax assessment letter or the date of the payment receipt or the WHT

slip, or from the occurrence of inconsistency of tax treatment with the tax treaty. There is a defined time limit of 24 months for authorized officials to conclude the negotiations. Failure to meet this time limit will cause the MAP to be deemed to result in “disagreement”. There is a provision that allows for extensions, but only in limited cases where the in-principle agreement has already been reached on certain issues, such as the existence of the transaction, approach for transfer pricing analysis, transfer pricing method, tested party, and profit level indicator.

An MAP may also be pursued in parallel to the domestic dispute process. The MAP process does not postpone the tax payments or refunds, as the case may be, in accordance with the tax assessment.

Automatic Exchange of Information

The OECD has developed a global Common Reporting Standard (CRS) for automatic exchange of tax and financial information, aiming at minimizing the possibility of tax evasion. This provides a facility for exchange of information on nonresident financial accounts with the tax authorities in the account holders’ country of residence. Participating jurisdictions implementing the Automatic Exchange of Information (AEOI) send and receive pre-agreed information each year without having to make a specific request.

Since September 2018, Indonesia has been implementing the AEOI and to date, 83 reporting destination countries have received information from Indonesia as part of the AEOI process.

To support the CRS implementation, the MoF, DGT, and OJK have issued several regulations requiring the reporting financial institutions (such as banks and insurance companies) to submit CRS reports to the OJK (which will be passed to the DGT to be exchanged with the tax authorities of the reporting destination countries). The DGT will use the CRS reports to monitor the tax compliance of Indonesian taxpayers. In addition, the DGT is authorized to audit the CRS reports and impose sanctions on the reporting financial institutions for noncompliance with the CRS.

Assistance with global tax collection

The DGT and a partner jurisdiction may assist each other with regard to tax collection, provided that the collection powers are specified in the relevant international agreements and the assistance is reciprocal.



Tax facilities in Ibu Kota Nusantara

- *Government Regulation Number 12 of 2023 regarding Granting of Business License, Ease of Doing Business and Investment Facility to Business Players in Ibu Kota Nusantara*
- *Minister of Finance Regulation Number 28 of 2024 regarding Tax and Customs Incentives in Ibu Kota Nusantara*

As the government is planning to move Indonesia's capital from Jakarta to IKN, various tax incentives and facilities are provided for investments and business activities carried out in both IKN and the partner regions (*daerah mitra*) (i.e., certain areas in Kalimantan Island that will be developed as economic superhubs for IKN). These incentives and facilities are provided to expedite the construction and development process in IKN.

The tax facilities provided are as follows:

- CIT rate reduction;
- "Super tax deduction" facility for certain activities or expenditures;
- EIT borne by the government;
- Final income tax of 0% on certain gross income of UMKM;
- Income tax exemption on the transfer of rights over land and/or buildings; and
- VAT and LST facilities.

CIT rate reduction

The CIT rate for eligible taxpayers that invest a minimum of IDR 10 billion in certain business sectors may be reduced by up to 100% for a specific period of time:

- In IKN and/or the partner regions: A CIT rate reduction of 100% (or 50% in certain circumstances) for the periods of 10 to 30 years depending on business sectors;
- In financial centers (areas designated as concentrations of financial services as well as centers of technology development and supporting services in the financial services sector): A CIT rate reduction of 85% or 100% (depending on the financial sectors) for the period of 20 or 25 years; and
- For the establishment and/or relocation of head and/or regional offices to IKN until 31 December 2045: A CIT rate reduction of 100% for the first 10 years, followed by a 50% reduction for the following 10 years.

This CIT rate reduction applies as from the fiscal year in which the commercial operation commences.

For main business activities that have already benefited from the reduced CIT rate, a WHT exemption facility is available for income from the main business activities or the purchase or import of goods or materials related to those activities. The exempted portion of the WHT is aligned with the reduced CIT rate.

To encourage foreign investments in the financial center, a 10-year WHT exemption facility applies on income earned from such investments, provided that the foreign investor (either an entity or an individual, but not a PE) is the beneficial owner of the income.

Super tax deduction facility

A “super tax deduction” facility is available until 2035 for the following business activities or expenses:

- Apprenticeship, internship, and/or learning programs in human resources development—Domestic taxpayers that carry out certain apprenticeship, internship, and/or learning programs for human resources development in IKN are eligible for an income tax facility in the form of a maximum deduction of 250% of the total qualifying expenses.
- Activities related to research and development (R&D)—Domestic taxpayers having a domicile and/or place of business in IKN while carrying out R&D activities in IKN are eligible for an income tax facility in the form of a maximum deduction of 350% of the total qualifying expenses.
- Donations and/or nonprofit construction of public and social facilities—Certain donations and/or nonprofit construction of public and social facilities are eligible for an income tax facility in the form of a maximum deduction of 200% of the total qualifying expenses. The donations and/or expenses can be in the form of money, goods, and/or construction expenses.

Employee income tax borne by the government

The government will bear the EIT for permanent and/or nonpermanent employees earning income from certain qualifying employers until 2035.

Income tax borne by the government is not a taxable income for the employees; however, other types of income received by employees that are not eligible for this facility will be subject to income tax in accordance with the prevailing regulations.

Final income tax of 0% on certain gross income of micro, small, and medium-sized enterprises

Domestic taxpayers (excluding PEs) that qualify as UMKM and invest less than IDR 10 billion in IKN are subject to a 0% final income tax on the first IDR 50 billion of gross income per fiscal year. If the taxpayers have several places of business or branches in IKN, the investment amount has to be aggregated for the purpose of checking the eligible limit. The same concept applies when calculating the gross revenue threshold.

Certain types of revenue are not eligible for this facility, including:

- Income earned by an individual taxpayer in relation to freelance activities;
- Income earned by CV (*commanditaire vennootschap*) or firm (*firma*) taxpayers established by several individual taxpayers that provide the same type of freelance activities;
- Income sourced from services provided outside IKN and/or utilized by service recipients living or domiciled outside IKN; and
- Income subject to final income tax in accordance with the prevailing regulations (with certain exceptions).

Income that is not eligible for this facility and gross income exceeding the IDR 50 billion threshold will be subject to income tax in accordance with the prevailing tax regulations. Taxpayers utilizing the facility are required to maintain separate bookkeeping for business activities that are eligible and not eligible for the facility.

The income tax facility can be utilized as from the date the approval is obtained from the DGT until 2035.

Income tax exemption on the transfer of rights over land and/or buildings

A transfer of rights over land and/or buildings, including transfer through a sale and purchase commitment agreement (*perjanjian pengikatan jual beli*), to a buyer that is purchasing land and/or buildings in IKN for the first time is exempt from income tax until 2035. The reduction is applicable upon obtaining a tax exemption letter from the DGT.

VAT and LST facilities

Business activities carried out in IKN and/or the partner regions may be eligible for the VAT not-collected facility until 2035. The VAT not-collected facility is available for:

- Delivery of certain strategic taxable goods and certain strategic taxable services; and
- Import of certain strategic taxable goods.

Qualifying strategic taxable goods include:

- New buildings handed over to qualifying buyers;
- Certain domestically manufactured battery electric vehicles registered in IKN that are delivered to qualifying buyers; and
- Strategic taxable goods required for the purpose of preparation, construction, relocation, and development in IKN.

Qualifying strategic taxable services include:

- Space rental services provided to renters doing business in IKN;
- Construction services for certain infrastructures and landed houses, apartments, offices, shops, and/or warehouses; and

- Management of garbage and/or waste generated in IKN.

Sales of certain luxury residential housing located in IKN are exempt from LST.



Voluntary Disclosure Program

Law Number 7 of 2021 regarding Law on Harmonization of Tax Regulations

Overview

From 1 January through 30 June 2022, the government had implemented VDP to allow taxpayers to declare assets that had not been disclosed previously in their participation in the TA program or in their 2020 tax return.

There were two VDP schemes available depending on the type of taxpayers.

Topic	VDP I	VDP II
Type of participants	Ex-TA program participants (individuals and corporations) that had not fully disclosed their assets acquired between 1 January 1985 and 31 December 2015 in the asset declaration letter for TA (<i>Surat Pernyataan Harta untuk Pengampunan Pajak</i>)	Certain individual taxpayers with net assets that were acquired between 1 January 2016 and 31 December 2020 and still owned on 31 December 2020 and had not yet been reported in the 2020 annual income tax return
Final tax rate	6% - 11%	12% - 18%

Participation in VDP I resulted in the waiver of taxes and sanctions under the TA Law, which would have been imposed if the DGT found the not-fully-disclosed assets beforehand.

For participation in VDP II, the DGT would not issue tax assessment letters for FY2016 through FY2020 unless the DGT obtained information on the existence of additional assets that had not been fully disclosed by the participants via the program.

Taxpayers that had declared their commitment to repatriate their offshore assets to Indonesia, had to repatriate such assets to Indonesia by 30 September 2022 through banks. Declared assets that had been already located in Indonesia or offshore assets repatriated to Indonesia must be held in Indonesia for at least five years from the date of the statement letter.

Taxpayers that have declared their intention to repatriate their offshore net assets to Indonesia and/or commitment to invest in eligible investment projects or instruments are required to submit an annual repatriation and/or investment realization report electronically to the DGT until the required investment holding period has been fulfilled. The reported amount would be the value at the end of the fiscal year prior to the year of report submission.

Significant penalties may apply in cases where the DGT becomes aware of any incomplete or incorrect disclosure of assets by VDP participants via the notification of asset declaration (*Surat Pemberitahuan Pengungkapan Harta*) and nonfulfillment of the repatriation and investment commitments.

Carbon Tax

Law Number 7 of 2021 regarding Law on Harmonization of Tax Regulations.

Carbon tax is defined as a tax levied on carbon dioxide emissions resulting from burning fuel.

A carbon tax subject is an individual or entity that purchases goods containing carbon or producing carbon emissions. Meanwhile, a carbon tax object is a purchase of goods containing carbon or an activity producing a certain quantity of carbon within a certain period.

For carbon tax purposes, a taxpayer is defined as an individual or corporate that meets subjective and objective requirements stipulated in the Law on Harmonization of Tax Regulations (carbon taxpayer) or a carbon tax collector.

Carbon tax is due at:

- The time of the purchase of goods containing carbon;
- The end of the calendar year in which the activities result in a certain amount of carbon emissions; or
- Another time as specified by a government regulation.

There are two types of carbon tax reports, namely:

- Annual carbon tax return that must be submitted by a carbon taxpayer (with certain exception) by the end of the fourth month after the calendar year ends; and
- Periodic carbon tax return that must be submitted by a carbon tax collector by the 20th day after a fiscal period ends.

Late submission of carbon tax reports will be subject to a late submission penalty.

Carbon taxpayers and carbon tax collectors are required to maintain a record (*pencatatan*) of the activities that result in carbon emissions and/or sales of goods containing carbon. Carbon taxpayers are also required to retain the data used for calculating the carbon tax for 10 years.

The carbon tax rate of IDR 30/kg CO₂e or equivalent unit is applied as from 1 July 2022. However, as of 30 June 2024, the implementation of carbon tax has been postponed.





List of Abbreviations

AEOI	: Automatic exchange of information
APA	: Advance Pricing Agreement
APBD	: Regional state budget (<i>Anggaran Pendapatan dan Belanja Daerah</i>)
APBN	: State budget (<i>Anggaran Pendapatan dan Belanja Negara</i>)
API	: Importer Identification Number (<i>Angka Pengenal Impor</i>)
APM	: Agent (<i>Agen Pemegang Merek</i>)
ATPM	: Sole agent (<i>Agen Tunggal Pemegang Merek</i>)
BEPS	: Base Erosion and Profit Shifting
BIK	: Benefits-in-kind
BPJS	: Social security scheme (<i>Badan Penyelenggara Jaminan Sosial</i>)
BPT	: Branch profit tax
BUMN	: State-owned enterprise (<i>Badan Usaha Milik Negara</i>)
CbCR	: Country-by-Country Report
CFC	: Controlled Foreign Company
CIT	: Corporate income tax
CoR	: Certificate of Residence
CoW	: Contract of Work
CRS	: Common Reporting Standard
DER	: Debt-to-equity ratio
DGT	: Directorate General of Taxes
EIT	: Article 21/26 income tax for employee
ETR	: Effective tax rate
FTZ	: Free trade zone and free port zone

FY	: Fiscal year
IDR	: Indonesian Rupiah
IKN	: Indonesia's new capital city (Ibu Kota Nusantara)
IPO	: Initial public offering
IUP	: Mining business license (<i>izin usaha pertambangan</i>)
KIK	: Collective investment contract (<i>Kontrak Investasi Kolektif</i>)
KPP BKM	: Large Tax Office, Special Tax Office, and Madya Tax Office (<i>Kantor Pelayanan Pajak untuk Wajib Pajak Besar/Khusus/Madya</i>)
KSEI	: Indonesia Central Securities Depository (<i>Kustodian Sentral Efek Indonesia</i>)
LPG	: Liquefied petroleum gas
LPI	: Indonesia Investment Authority (<i>Lembaga Pengelola Investasi</i>)
LST	: Luxury-goods Sales Tax (<i>Pajak Penjualan atas Barang Mewah</i>)
MAP	: Mutual Agreement Procedure
MLI	: Multilateral Instrument
MoF	: Minister of Finance
NIK	: National identification number (<i>Nomor Induk Kependudukan</i>)
NJOP	: Tax object sale value (<i>Nilai Jual Objek Pajak</i>)
NPWP	: Tax identification number (<i>Nomor Pokok Wajib Pajak</i>)
OECD	: Organization for Economic Co-operation and Development
OJK	: Indonesian Financial Services Authority (<i>Otoritas Jasa Keuangan</i>)
PAT	: Profit after tax

PE	: Permanent establishment (<i>Bentuk Usaha Tetap</i>)
PKP	: VAT-able entrepreneur (<i>Pengusaha Kena Pajak</i>)
PMSE	: Transaction through electronic system (<i>predagangan melalui sistem elektronik</i>)
PPMSE	: PMSE provider (<i>Penyelenggara PMSE</i>)
PSC	: Production Sharing Contract
PTKP	: Nontaxable income (<i>Penghasilan Tidak Kena Pajak</i>)
SAK	: Indonesian Financial Accounting Standards (<i>Standar Akuntansi Keuangan</i>)
SBA	: Reference interest rate issued monthly by the MoF (<i>Suku Bunga Acuan</i>)
SEZ	: Special economic zone (<i>Kawasan Ekonomi Khusus</i>)
SKPKB	: Underpaid Tax Assessment Letter (<i>Surat Ketetapan Pajak Kurang Bayar</i>)
SKPKBT	: Additional Underpaid Tax Assessment Letter (<i>Surat Ketetapan Pajak Kurang Bayar Tambahan</i>)
SPC	: Special-purpose company
SPHP	: Tax audit findings notification letter (<i>Surat Pemberitahuan Hasil Pemeriksaan</i>)
SSP	: Tax payment slip (<i>Surat Setoran Pajak</i>)
STP	: Tax Collection Letter (<i>Surat Tagihan Pajak</i>)
UMKM	: Micro, small, or medium-sized enterprise (<i>usaha mikro, kecil atau menengah</i>)
TA	: Tax Amnesty Program
USD	: United States Dollar
VAT	: Value Added Tax (<i>Pajak Pertambahan Nilai</i>)
VDP	: Voluntary Disclosure Program (<i>Program Pengungkapan Sukarela</i>)
WHT	: Withholding tax



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