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Indonesian Tax Guide 2016

Deloitte Tax Solutions

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In Indonesia, Deloitte is represented by the following:

- Osman Bing Satrio & Ery (OBS&E), Registered Public Accountants
- Deloitte Tax Solutions (DTS), Tax Consulting
- PT Deloitte Konsultan Indonesia (DKI), Financial&Business Advisory
- PT Deloitte Consulting

Deloitte Indonesia now has over 80 Partners & Directors and over 1,200 Staff, located in Jakarta and Surabaya, serving companies listed in the Indonesian stock exchanges as well as multinational and large national enterprises, public institutions, and fast growing companies.

Our Services

Deloitte Tax Solutions (DTS) provides various tax services to facilitate clients' development and implementation of tax solutions that complement their business strategies and manage the impact of tax on their commercial transactions. DTS offers clients practical solutions that address their tax needs by utilizing our in-depth knowledge of the complex Indonesian tax requirements and increasingly competitive markets. DTS professionals guide clients through the tax maze by applying their specialist skills in the following areas:

- Business Tax Services
- Cross-border Tax
 - International Tax Services
 - Mergers and Acquisitions
 - Transfer Pricing
- Global Employer Services
- Indirect Tax
 - VAT
 - Customs and Global Trade
- Business License and Establishment Services
- Business Processing Solutions

Deloitte Tax Solutions also serves a wide range of industries and group services, including:

- Financial Services Industry (FSI)
- Energy and Resources (E&R)
- Consumer and Industrial Products (C&IP)
- Technology, Media and Telecommunications (TMT)
- Life Science and Health Care (LSHC)
- Infrastructure and Capital Project (I&CP)
- State Owned Enterprises (SOE)
- Dispute and Resolution
- Japanese Service Group (JSG)
- Korean Service Group (KSG)
- Chinese Service Group (CSG)

General Indonesian Tax Provisions

Law No. 6 of 1983 regarding General Procedures and Provisions for Taxation as most recently amended by Law No. 16 of 2009.

Residency

Taxation in Indonesia is determined on the basis of residency. Residency tests are applied as follows:

- Individual resident taxpayers are individuals who:
 - are domiciled in Indonesia; or
 - stay in Indonesia for more than 183 days in any 12-month period;
or
 - are present in Indonesia during a tax year and intending to reside in Indonesia.
- Residency of a corporation is based on place of incorporation or domicile or effective place of management.

Basics of the Tax System

- Tax returns are filed by taxpayers based on a self-assessment system.
- Members of a group of companies are taxed individually, as there are no group relief provisions available.
- The statute of limitations from fiscal year 2008 onwards is five years, except for criminal acts, for which it is 10 years.
- Indonesia imposes a range of taxes on individuals and corporate taxpayers. These are summarised below:
 - a. Income Tax, which includes:
 - Corporate Income Tax;
 - Individual Income Tax;
 - Withholding Tax on employees' remuneration;
 - Withholding Tax on various payments to third parties.
 - b. Value Added Tax (VAT) and Luxury Goods Sales Tax (LGST), subject to certain criteria.
 - c. Land and/or Building Tax, subject to certain criteria.

Income Recognition

- Indonesian tax residents are taxed on their worldwide income (foreign tax credits are available on foreign income of residents under certain criteria).
- Non-residents are taxed on income derived from an Indonesian source, subject to any relief available under applicable tax treaties.

Compliance Timetable

Type of Tax	Monthly Payment Deadline	Monthly Filing Deadline	Annual Filing Deadline ¹
Corporate Income Tax	15 th of the following month	20 th of the following month	End of the 4 th month after the tax year ends ²
Individual Income Tax	15 th of the following month	20 th of the following month	End of the 3 rd month after the tax year ends ²
Employee Withholding Tax	10 th of the following month	20 th of the following month	N/A
Other Withholding Taxes	10 th of the following month	20 th of the following month	N/A
VAT & LGST	Before the VAT return filing deadline ³	End of the following month	N/A

Notes:

1. Any underpayment of tax must be settled before submission of the annual tax return.
2. Taxpayers can extend the period of submission of the annual income tax return for 2 (two) months at the maximum by submitting notification to the Directorate General of Taxation.
3. Except for self-assessed VAT on utilization of intangible taxable goods and/or taxable services from offshore and VAT collected by VAT Collector other than State Treasurer, which is due by the 15th of the following month.

Administration, Books and Records

- Generally, books and records, including those on computers, should be maintained in Rupiah and in the Indonesian language, and kept for 10 years in Indonesia.
- Foreign investment (PMA) companies, permanent establishments, certain entities with foreign affiliations or taxpayers that prepare their financial statements in US Dollar as the functional currency in accordance with the Indonesian financial accounting standards may maintain English language and US Dollar bookkeeping, subject to approval from the Minister of Finance, while for contractors of oil and gas cooperation contracts and companies operating under Mining Contracts of Work, only a notification is required.
- Changing of bookkeeping method or period is possible, subject to approval from the Director General of Taxation (DGT).
- For tax purposes, there is no statutory requirement for an audit of a taxpayer's accounts by a public accountant.
- However, if taxpayers do have audited accounts, the DGT requires them to be submitted upon annual tax filing.

Tax Audit

- The DGT may conduct a tax audit within the period before the statutory limitation has ended.
- Where a return is lodged showing an overpayment of tax, this will automatically trigger a tax audit.
- The taxpayer is required to submit all data/documents within 1 (one) month from the request. Data/documents that were not provided during the tax audit process will not be considered in the tax objection process.
- If there is still a dispute over the legal basis of any adjustment, before the completion of a tax audit, the taxpayer may request that the disputed case be reviewed by the Quality Assurance Team from the Regional Tax Office. Certain deadline and formalities need to be fulfilled.
- The DGT will issue a tax assessment as a result of the tax audit, which can be a nil, underpayment, or overpayment (refund) tax assessment.

Tax Disputes – Objection process

- A taxpayer may file a tax objection with the DGT against any tax assessment through the Tax Office within 3 months from the date the Tax Office sends the tax assessment letter to the taxpayer.
- A taxpayer that is going to file a tax objection with the DGT over an assessment letter must pay at least the amount of tax payable that has been agreed by the taxpayer in the closing conference during the tax audit, before submitting the objection letter.

- If the objection is rejected or approved in part by the DGT, the taxpayer will be subject to an administrative sanction in the form of a penalty amounting to 50% of the tax assessment unpaid at the time the objection was submitted, unless the taxpayer files for a tax appeal.
- The DGT should make its decision on the objection within 12 months after receiving the objection. If the DGT fails to issue a decision within this period, the taxpayer's objection will be assumed to be accepted and granted.

Tax Disputes – Appeal process

- A taxpayer may appeal to the Tax Court against the DGT's decision on the taxpayer's objection within 3 months from the date of receiving the DGT decision.
- The taxpayer is required by the Tax Court Law to pay at least 50% of the tax payable before lodging the appeal.
- The Tax Court will conduct hearings on the appeal and has to conclude within 12 months of the appeal being lodged. In certain special cases, this deadline may be extended up to three months. However, there is no consequence if the deadline has elapsed.
- If the appeal is rejected or approved in part by the Tax Court, the taxpayer must pay the unpaid tax in the tax assessment plus a 100% penalty of the tax assessment unpaid at the time the objection was submitted.

Tax Disputes - Request for Judicial Review by the Supreme Court

- Either the taxpayer or the DGT may further challenge the Tax Court's decision on an appeal by filing a request for judicial review to the Supreme Court.
- This application is subject to certain conditions and it is not automatically available.
- The request for review should be submitted within 3 months of fulfilling the conditions to file the request.
- Filing a request for review does not postpone the execution of the Tax Court decision, including interest compensation due to the taxpayer.
- The Supreme Court should investigate the case and present its decision within 6 months of the filing of the request for review. However, there is no consequence if the deadline has elapsed.

Tax Penalties and Sanctions

Circumstances	Penalties and Surcharges
Late reporting	Rp 500,000 for monthly VAT return; Rp 100,000 for other monthly tax return and annual individual tax return; Rp 1,000,000 for annual corporate tax return
Late payments in general	2% per month
Tax underpayment resulting from issuance of tax assessments	2% per month for a maximum of 24 months or 50% or 100% surcharge of the tax underpayment, depending on the case
Voluntary amendments of returns	2% per month or 50% or 150% surcharge of the tax underpayment, depending on the case
Issuing incomplete VAT invoice, or not issuing or late in issuing VAT invoice, or reporting VAT invoice not in accordance with the period of issuance of VAT invoice	2% of the taxable base

Criminal Sanctions

Circumstances	Fines and Imprisonment
Fails to submit a tax return through negligence; or submits an incorrect or incomplete tax return or attaches incorrect information.	1 to 2 times the tax underpaid or imprisonment from 3 months to 1 year.

Circumstances	Fines and Imprisonment
<p>Deliberately does not register for Tax ID Number (NPWP) or as taxable entrepreneur; improper use of NPWP or taxable entrepreneur number; does not file a tax return; submits an incorrect or incomplete tax return; refuses a tax audit; does not maintain bookkeeping; does not keep books, records or documents supporting bookkeeping in Indonesia; shows false or falsified bookkeeping/records; does not remit taxes withheld or collected.</p>	<p>2 to 4 times the tax underpaid and imprisonment from 6 months to 6 years. The sentence will be doubled if commits another criminal act in the taxation field before a period of 1 (one) year has passed, i.e., since the first sentenced period has been served.</p>
<p>Misuses or uses without right the NPWP or taxable entrepreneur number, or submits an incorrect or incomplete tax return and/ or information for restitution or compensating or crediting tax.</p>	<p>2 to 4 times the tax refund requested/ compensated/ credited and imprisonment from 6 months to 2 years.</p>
<p>Intentionally issues and/or uses tax documents which are not based on the actual transaction; issues tax invoice but is not yet confirmed as taxable entrepreneur.</p>	<p>2 to 6 times the tax amount and imprisonment from 2 years to 6 years.</p>

Notes:

1. More severe penalties, surcharges, and imprisonment are imposed for improper bookkeeping, fraud, and embezzlement.
2. Criminal sanction can only be imposed by a decision issued by a civil court.

Reduction or Waiver of Tax Sanction (Sunset Policy Part II)

The DGT, subject to request from the taxpayer, may reduce or waive the administrative sanctions which were caused by the taxpayer oversight or not because of the taxpayer's fault. These sanctions are limited to those due to late settlement of tax or reporting of tax returns (including those triggered by voluntary amendment of tax returns) for fiscal years or periods prior to 2015, which is performed by the taxpayer in 2015. The taxpayer can submit an application up to two times for the same case.



Corporate Income Tax

Law No. 7 of 1983 regarding Income Tax as most recently amended by Law No. 36 of 2008.

Tax Rates

The applicable standard corporate income tax rate is 25% for fiscal year 2010 onward. Resident corporate taxpayers with gross revenue up to IDR 50 billion receive a 50% reduction in the corporate tax rate imposed on the taxable income for gross revenue up to IDR 4.8 billion. Taxpayers who fulfil certain criteria with gross revenue not exceeding IDR 4.8 billion in one tax year are subject to final income tax of 1% of the gross revenues.

The standard corporate income tax rate also applies to income received or earned by a non-resident through a permanent establishment ("PE") in Indonesia. A PE will also be subject to 20% branch profits tax, which is applied to the PE's net profit after tax. If a PE receives or earns income that is subject to final income tax, the tax base of the branch profits tax shall be the taxable income (after fiscal adjustment) less the amount of final income tax. This general rate of 20% may be reduced pursuant to the applicable tax treaty.

An exemption from branch profits tax applies if all the net profit after tax of a PE is reinvested in Indonesia in the form of:

1. Capital contribution in a newly established company domiciled in Indonesia as a founder or a member of the founders;
2. Capital contribution in an existing company established and domiciled in Indonesia;
3. Fixed assets to be used by the PE to do business or conduct activities of the PE in Indonesia; or
4. Investment in intangible goods to be used by the PE to do business or conduct activities of the PE in Indonesia.

Certain requirements must be met in relation to the reinvestment and/or purchase of assets or intangible goods, among others:

- The timeline to reinvest in Indonesia;

- The length for which the reinvestment/ fixed assets/ intangible goods must be held by the PE;
- Reporting requirement to the Tax Authority.

Final Income Tax

Certain incomes are subject to a fixed percentage of gross income (final tax - see page 38).

Corporate Tax Incentives

A public company which has a minimum of 40% of its total paid-up shares traded on a stock exchange in Indonesia and complies with other requirements, which will be further stipulated through a government regulation, can obtain a 5% reduction from the applicable standard corporate income tax rate.

Tax Objects

Tax Objects are broadly defined as income, that is, any increase in economic capability received or accrued by a Taxpayer from within or outside Indonesia, which can be used for consumption or to increase the wealth of a taxpayer, in whatever name or form.

Additional tax objects under the latest Income Tax Law are as follows:

- Profits from the sale or transfer of part or all of a mining concession or an interest or capital participation in a mining company;
- Income from sharia business;
- Refund of tax payment which has been recorded as expenses, and additional tax refund;
- Interest income as compensation for tax refund;
- Bank Indonesia surplus.

Calculation of Income – Deductible Expenses

Under the latest Income Tax Law, all legitimate business expenses directly or indirectly related to earning, collecting, or maintaining income are deductible from the assessable income to calculate the taxable income. These expenses include but are not limited to:

- Expenses that are directly or indirectly related to business activity such as:
 - a. Material expense;
 - b. Salary / wages expense;
 - c. Interest, rental and royalty;
 - d. Travelling expense;
 - e. Insurance premium;
- Depreciation and amortisation expense;
- Promotion and selling expenses, provided that a nominative list

in a required format is available and the expenses constitute the cumulative amount of the following costs:

- a. Costs of advertising in electronic media, print media, and/or other media;
 - b. Costs of product exhibition;
 - c. Costs of introducing new products;
 - d. Costs of sponsorship associated with product promotion;
- Losses from the sale or transfer of assets that are owned and used in a company or that are owned to obtain collect and maintain income;
 - Write-off of uncollectible receivables for certain transactions, provided that the following conditions are met:
 - a. The write-off must have already been booked as expense in the commercial income statement of the creditor;
 - b. The taxpayer must submit a list of uncollectible receivables to the DGT; and
 - c. The collection case has been brought to the District Court or the government; or there is a written agreement on nullification of accounts receivables / debt release and discharge between the creditor and debtor concerned; or it has been announced in general or special publications; or the debtor acknowledges that its debts have been nullified for a certain amount;
 - Donations and expenses for handling national disasters, research and development, educational facilities, sports development, and construction of social infrastructure, as long as the fund/donations are made directly through the relevant authorised institution and the following requirements are met:
 - a. The previous year's corporate income tax return of the taxpayer that claims such donation expense must be in a fiscal profit position;
 - b. The donation is supported with sufficient supporting documentation;
 - c. The institution that receives the donation must be registered as a taxpayer, except for those that are exempted by law, and not a related party of the donor;
 - d. The total donations or expenses for one fiscal year should not exceed 5% of the previous year's fiscal profit.

There are also certain requirements that must be fulfilled in terms of type or form of donation and how to value the donation that is not made in the form of cash.

- Compulsory Tithe ("zakat") or religious contribution, provided that valid supporting evidence is available and certain requirements are met;

- Non-creditable input VAT that has been paid and incurred from a transaction that is related to the activity of generating, collecting, and maintaining income. If the input VAT relates to an asset that has useful life of more than 1 (one) year, it must be capitalised and expensed through amortisation or depreciation.

Calculation of Income – Non-Deductible Expenses

There are a number of non-deductible expenses. These non-deductible expenses are specified in the law or in associated regulations and pronouncements. Major categories of non-deductible expenses include:

- Benefits-in-kind provided by an employer to employees (however, this is also subject to certain exceptions, e.g., meals and uniforms provided to all employees are deductible, as are benefits provided in certain qualifying remote areas);
- 50% of depreciation, operating and maintenance costs for cars and mobile telephones provided to employees;
- Distribution of profits in the form of dividend;
- Gifts and donations, except those that are required by religion (zakat, etc.) and donations for handling national disasters, research and development performed in Indonesia, social infrastructure development, educational facilities, and sports development;
- The creation of general provisions/reserves, except for doubtful debts provisions for banks, credit providers, financial lease companies, financing companies, factoring companies, Savings and Loan Cooperatives, PT Permodalan Nasional Madani (PNM), and insurance companies (except life insurance reserves related to unit link, which are accumulated in accordance with income that is subject to final tax and/or not subject to tax, which shall be treated as non-deductible expenses), including provisions for social assistance formed by a Social Security Administration Agency, provisions for underwriting of the Deposit Insurance Corporation, provisions for the reclamation costs of mining companies, provisions for reforestation costs for forestry companies, and provisions for closing and maintenance costs of waste disposal facilities of waste processing companies;
- Income tax;
- Tax penalties;
- Expenses relating to income which is taxed through a final-rate withholding tax system, income that is subject to tax based on the Net Income Calculation Norm (deemed profit margin), and income which is otherwise exempt from tax (non-tax object); and
- Salaries received by partners in a partnership or members of a firm where their participation is not divided into shares.

- Starting from fiscal year 2016, in connection with the deductibility of interest, the acceptable debt-to-equity ratio is 4:1, except for certain industries.

Gains from foreign exchange are taxable and losses incurred from foreign exchange can be treated as deductible expense, except for those arising from transactions that are subject to final tax or are non-tax objects.

Debt-to-Equity Ratio

The Indonesian Minister of Finance (MoF) reintroduced the thin capitalization rule in Indonesia on 9 September 2015. “Thin capitalization” refers to the situation in which a company is financed through a relatively high level of debt compared to equity. This regulation, titled “Determination of Company’s Debt and Equity Ratio for Income Tax Calculation Purpose,” is set out in MoF Regulation Number 169/PMK.010/2015 (“PMK-169”). PMK-169, which is effective from Fiscal Year 2016, provides detailed guidance on the scope of related parties, definitions of debt and equity, prescribed threshold for DER, and other compliance requirements.

Among other things, the regulation stipulates that the amount of tax-deductible borrowing cost arising from debt is limited to a maximum debt-to-equity ratio (DER) of 4:1 (except for certain sectors which are guided by special rules). As such, if a taxpayer’s DER exceeds the prescribed 4:1 threshold, the excess interest expenses will be non-deductible for income tax calculation. It is important to note that the rule applies to both related- and third-party debt, whether obtained domestically or from abroad. PMK-169 provides definitions of debt and equity as well as the components of cost of borrowing for this purpose. Furthermore, the regulation emphasizes that for taxpayers which have zero or less than zero equity balance, the entire borrowing expense will be disallowed for income tax calculation purpose.

Besides complying with the prescribed DER under PMK-169, taxpayers with foreign private debt also need to submit a report on the amount of the debt to the DGT.

Depreciation/Amortization

- Either straight-line or declining balance method of depreciation is allowable, except for buildings, for which only the straight-line method is permitted.
- The chosen depreciation method must be applied consistently to

assets.

- When adopting a declining balance method, the remaining book value at the end of the useful life of an asset must be depreciated in a lump sum.
- Depreciation commences either in the year the expenditure occurs or in the year construction/installation of an asset is completed. With the approval of the DGT, however, depreciation may commence in the year the asset is first used or when production starts or when business income is first earned.
- The useful life and tariffs of depreciation of tangible assets are governed as follows:

Group of Tangible Assets	Useful Life	Tariff of Depreciation	
		Straight Line Method	Double Declining Method
1. Non-Buildings			
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	20 Years	5%	
Non-Permanent	10 Years	10%	

- The Minister of Finance determines the asset categories subsumed into the groups of non-building tangible assets.
- Intangible assets (including goodwill) are amortised on the same basis as the non-buildings groups in the table above.

Loss Carried Forward

- Losses are available to be carried forward for a maximum of five years.
- Carry back of losses is not allowed.

Non-Taxable Income

(applies to corporate and individual taxpayers)

The law specifies a number of categories of income that are exempted from tax. These are:

- Aid, donations, zakat, religious donations or gifts received, provided there is no business, work, or ownership relationship between the parties concerned;
- Inheritances;
- Dividends received by a resident company from another resident company, provided that the dividends are paid out from retained earnings and the recipient owns 25% or more of the investee company;
- Payments by an insurance company to an individual in connection with health, accident, life, or education insurance;
- Assets, including cash, received by an entity in exchange for shares or capital contribution;
- Profits distributed to a venture-capital company by a small or medium-size enterprise engaging in certain businesses in Indonesia; and
- The share of profit received by a member of a limited partnership without share capital, partnership, association, or firm, including the participation unit holders of collective investment agreements.

Sale of Land and/or Building

- As of September 2016, a final tax at 2.5% is generally imposed on corporate taxpayers, while transfer of basic houses (rumah sederhana) and basic apartments (rumah susun sederhana) by a taxpayer whose main business is to engage in transfer of land and buildings is subject to 1% final tax. Transfer duty of 5% is payable by the purchaser (see "Land and/or Building Acquisition Duty", page 53). A 0% rate is also applicable on transfer of land and building to the Government for the public interest.
- Exemptions are granted for certain types of transfer of land and buildings, including grant, inheritance, merger with book value approved by the Ministry of Finance, non-tax subject transferring land and building, and sale of land with value less than IDR 60 million by an individual taxpayer whose annual income does not exceed the non-taxable income threshold.

Income from Derivative Transactions

Income from derivative transactions in stock exchange and future market is no longer subject to final income tax, with retroactive effect from 1 January 2009. In this case, the gain on such transactions shall be

recognised as taxable income that is subject to the normal corporate income tax tariff under Article 17 of the Income Tax Law.

Corporate Tax Facilities

Companies investing in certain business sectors and/or in certain less developed regions having high priority on a national scale can be granted tax facilities in accordance with article 31A of the Income Tax Law in the form of:

- a. Additional net income reduction, up to a maximum of 30% of the amount of investment in tangible fixed assets (including land), which shall be charged at 5% per annum over six years;
- b. Accelerated depreciation and amortisation;
- c. The period of loss carry forward being extended up to ten years (certain additional years can be given if the taxpayer meets the requirements); and;
- d. Income tax on dividend as mentioned in Income Tax Law Article 26 at 10%, unless the relevant tax treaty stipulates a lower rate.

In order to apply for the corporate tax facilities, certain detailed requirements must be met. Qualitative criteria, such as high investment value or export-oriented, high labour absorption, and high local content, must also be met. The starting time (fiscal year/month) for applying the facilities depends on the type of facilities.

The industry sectors that are eligible for these income tax facilities are, among others, food; textiles; chemicals and their products; plantation, forestry and logging; coal and lignite mining; oil, natural gas, and geothermal mining.

Tax Holiday Facility

Taxpayers making a new investment in a pioneer industry but not entitled to any tax facilities under Article 31A of the Income Tax Law (as mentioned in the above paragraph) can now obtain exemption or reduction of income tax as mentioned in Article 18(5) of Investment Law No. 25 of 2007. The said pioneer industries are defined as industries possessing broad linkages, giving added value and high externality, introducing new technology, as well as possessing strategic value for the national economy.

The tax exemption or reduction facility (tax holiday) applies for certain industries, such as upstream metals, crude oil refinery industry or crude oil refining industry and infrastructure, including using a cooperation scheme between Government and Business Entity (KPBU), basic

organic chemicals, industrial machinery, agriculture, forestry and fishery based processing industry, telecommunication, information and communication, marine transportation, and/or economic infrastructure (non-government cooperation scheme).

The tax facilities provided are:

- a. 10% to 100% reduction in corporate income tax (CIT) liability for minimum investment of IDR1 trillion;
- b. Up to 50% CIT reduction for telecommunications, information and communication sectors which introduce high technology with minimum investment value of IDR500 billion but less than IDR1 trillion;
- c. The tax holiday period is a minimum of 5 years to a maximum of 15 years from the commencement of commercial operation. An extension of the period of CIT up to 20 years is possible subject to the discretion of the Ministry of Finance, depending on the competitiveness and strategic value of the industry.

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

- a. a new taxpayer;
- b. holds principal license or business license which falls under Pioneer Industry;
- c. invests at least IDR 1 trillion in a qualified Pioneer Industry, or minimum investment of IDR 500 billion for telecommunication, information and communication industries;
- d. if approved, deposits at least 10% of the total investment in an Indonesian bank, which cannot be withdrawn before the company undertakes its investment plan;
- e. satisfies the debt to equity ratio as prescribed by the Ministry of Finance; and
- f. must have legal status as an Indonesian legal entity which was validated on or after 15 August 2011.

Upon approval, the tax holiday facility is only applicable to the income which is granted the facility. Other income (such as capital gain, interest, dividend, royalty, rental, debt waiver, revaluation, etc.) remains subject to tax in accordance with the prevailing tax regulations. Taxpayers that have both types of income stream are required to maintain separate bookkeeping for each income stream.

A taxpayer is only eligible for one type of tax facility.

Corporate Tax for Certain Industries / Tax Payers

- The tax provisions for oil and gas, geothermal, and sharia-based industries are stipulated separately through Government Regulations

and Ministry of Finance Regulations.

- Taxation of general mining and coal mining under the framework of Contracts of Work is stipulated in the relevant Contract of Work.
- Certain taxpayers in certain industries are subject to final income tax based on gross income (see page 39).
- Small-scale entrepreneurs, both individual and corporate, are subject to 1% tax on gross revenue (see page 40).

Corporate Tax for Sharia Business

The treatments on income and expenses as specified in the Income Tax Law also apply to sharia-based business activities in the same manner as in conventional banking/financial services (*mutatis mutandis*). The income tax treatment of sharia banking and sharia financial services can be summarised as follows:

1. Sharia Banking

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 normal income tax regulation for the relevant transaction
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 (Ijarah)	Normal operating lease, and the leased asset is non-depreciable
Financial Lease (Ijarah Muntahiyah Bittamlik/IMB)	Similar to financial lease with option, and the leased asset is non-depreciable
Factoring (Wakalah bil Ujrah)	Gain or profit is treated as interest
Consumer Financing (Murabahah, Salam, Istishna)	Gain or profit margin is treated as interest
Other Sharia Financing	Fee or other income is treated in accordance with the normal income tax regulation for the relevant transaction
Corporate Financing from investor (Mudharabah, Mudharabah Musytarakah, Musyarakah)	Gain or profit sharing is treated as interest
Delivery of Assets (deemed to be delivered directly from supplier to end user)	Treated in accordance with the normal income tax regulation for the relevant transaction

Deemed Profit Margins

The following types of income derived from certain businesses have a deemed profit margin.

Type of Income	On Gross Revenue	Effective Income Tax Rate ^{*)}
Foreign oil and gas drilling service operations	15%	3.75%
Foreign shipping and airline operations	6%	2.64%
Domestic shipping operations	4%	1.20%

Type of Income	On Gross Revenue	Effective Income Tax Rate *)
Domestic airline operations	6%	1.80%
Trade representative offices	1% of export value	0.44%

*) The effective income tax rate may deviate, as it may be subject to tax treaty or any changes of rate in the income tax law and/or regulations.

Controlled Foreign Company (CFC) Rules

- The Income Tax Law, through a Minister of Finance Decree, determines the time of receipt of dividend by a resident taxpayer on capital participation in a business entity abroad other than a business entity that sells its shares on a stock exchange in these cases:
 - a. the amount of capital participation of the resident taxpayer is a minimum of 50% (fifty percent) of the number of paid-up shares; or
 - b. jointly with other resident taxpayer(s) owns a minimum capital participation of 50% (fifty percent) of the number of paid-up shares.

The time of receipt of dividend by a resident taxpayer with the above conditions is as follows:

- a. in the fourth (4th) month after the deadline for the submission of the Annual Corporate Income Tax Return of the foreign entity for the fiscal year concerned; or
 - b. in the seventh (7th) month after the end of a fiscal year if such foreign entity does not have an obligation to submit an Annual Corporate Income Tax Return or if there is no deadline for the submission of the Annual Corporate Income Tax Return.
- The amount of dividend shall be the total amount of dividend that the local taxpayer is entitled to, from the profit after tax, according to its capital participation in the foreign entity other than a business entity that sells its shares on a stock exchange.

Indirect Purchase of Indonesian Shares or Assets Involving Special Purpose Companies

The indirect purchase of shares or assets of an Indonesian taxpayer by another Indonesian party through an entity established especially for such purpose (Special Purpose Company - SPC) can be stipulated as the purchase of shares or assets by the other Indonesian party if the SPC has a special relationship with the other Indonesian party and where there is unreasonable pricing.

Indirect Sale of Indonesian Shares Involving Special Purpose Company

- The sales of shares of a conduit company (SPC) owning Indonesian shares located in a tax haven country by a non-Indonesian tax resident can be deemed as a sale of shares of the Indonesian party by the non-Indonesian tax resident insofar as there is a special relationship between the SPC and the Indonesian party.
- Tax haven country is defined as a country that has a corporate tax rate 50% lower than that of Indonesia or a country that does not have a provision for exchange of information with Indonesia.

Tax-Neutral Mergers

- Generally, transfers of assets in business mergers, consolidations, or business spin-offs are conducted at market value, resulting in taxable gain, while the loss is generally tax deductible.
- The assets can be transferred at book value for a tax-neutral merger or consolidation upon approval from the DGT, provided that business purpose tests are fulfilled.
- This facility is also available for business spin-offs as part of an Initial Public Offering (IPO) plan.

Individual Income Tax

Law No. 7 of 1983 regarding Income Tax as most recently amended by Law No. 36 of 2008.

Tax Rates

The applicable tax rates are as follows:

Taxable Income	Rate
Up to Rp 50,000,000	5%
Over 50,000,000 but not exceeding Rp 250,000,000	15%
Over Rp 250,000,000 but not exceeding Rp 500,000,000	25%
Over Rp 500,000,000	30%

The applicable tax rates on severance payment are as follows:

Taxable Income	Rate^{*)}
Up to Rp 50,000,000	0%
Over Rp 50,000,000 but not exceeding Rp 100,000,000	5%
Over Rp 100,000,000 but not exceeding Rp 500,000,000	15%
Over Rp 500,000,000	25%

The applicable tax rates on payment of pension fund or old age saving funds are as follows:

Taxable Income	Rate^{*)}
Up to Rp 50,000,000	0%
Over Rp 50,000,000	5%

^{*)} These tax rates are final and only applicable on lump sum payment or payment made within a two-year period. Payment made in the third year and thereafter would be subject to normal tax rates and can be claimed as tax credit.

Non-resident individuals are generally subject to a 20% withholding tax on income received from Indonesia (Article 26 withholding tax). However, this rate may vary depending on the circumstances and the applicable tax treaty provisions.

Tax Registration and Tax Filing

- All individual tax residents (including expatriates) are obliged to register with the Tax Office and obtain a Tax ID number. An exemption from registration is available for those earning below the non-taxable income threshold, those who qualify as individual tax residents, and married women who will fulfill their individual tax obligation jointly with their husband.
- Individual taxpayers are required to file annual individual income tax returns (Form SPT 1770 or 1770 S or 1770 SS). In certain cases, monthly instalment tax payments are also required.
- Individual taxpayers are encouraged to file their individual tax returns electronically through the e-Filing system. They need to separately obtain an e-Filing Number (e-FIN) from the Tax Office in order to access the system.

Tax Payments

Effective from 1 January 2016, the Director General of Tax (DGT) has enforced the use of the online e-Billing system for tax payments. This new process replaces the previous process with a hard copy tax payment slip (Surat Setoran Pajak / SSP). Taxpayers will have to generate an e-billing code through the system in order to validate their tax payment. The specific billing code is valid for 7 days and will need to be given to the bank so that the bank can process the tax payment.

Personal Deductions

The following personal deductions for the 2016 tax year are available for resident individual taxpayers in calculating their taxable income, depending on the taxpayer's personal circumstances.

Basis of Deduction	Deductible Amount (per year)
Taxpayer	Rp 54,000,000
Spouse	Rp 4,500,000 (additional Rp 54,000,000 for a wife whose income is combined with her husband's)

Basis of Deduction	Deductible Amount (per year)
Dependents	Rp 4,500,000 each (up to a maximum of 3 individuals related by blood or marriage)
Occupational Support	5% of gross income up to a maximum of Rp 6,000,000
Pension Cost (available to pensioners)	5% of gross income up to a maximum of Rp 2,400,000
Contribution to approved pension fund, e.g. BPJS Ketenagakerjaan	Amount of self-contribution
Compulsory tithe ("zakat") or religious contributions	Actual amount, provided that valid supporting evidence is available and all requirements are met.

The Minister of Finance is authorised to re-determine the amounts of the above personal deductions. The above personal deductions were introduced in June 2016 and apply retrospectively from January 2016.

Social Security

The government of Indonesia has introduced comprehensive social security schemes, i.e. Manpower Scheme (BPJS Ketenagakerjaan) and Healthcare Scheme (BPJS Kesehatan), which are applicable for Indonesian nationals as well as foreigners who work in Indonesia for at least 6 months. Expatriates need to be able to prove their participation in the social security schemes when renewing their work permits.

The premium contributions for each scheme are as follows:

Social Security Scheme	Areas covered	As a percentage of regular salaries/wages	
		Borne by employers	Borne by employees
BPJS Ketenagakerjaan (Manpower Scheme)	Working accident protection	0.24 - 1.74%	-
	Death insurance	0.3%	-
	Old age saving	3.7%	2%
	Pension plan ⁽¹⁾⁽²⁾	2%	1%
BPJS Kesehatan (Healthcare Scheme) ⁽²⁾		4%	1%
			1% for ⁽³⁾ additional family member

Notes:

1. From March 2016, the regular salary/wages cap for calculating the pension insurance contribution is increased from Rp 7.000.000 to Rp. 7.335.300 per month. The amount may change in the future. Contribution to the pension plan is not mandatory for expatriates.
2. From April 2016, the regular salary/wages cap for calculating the healthcare contributions is increased from Rp 4.725.000 to Rp. 8.000.000 per month. The amount may change in the future.
3. The mandatory premium covers husband, wife, and 3 dependents. Additional family members can be covered with additional premium.

Withholding Tax and Final Tax

System

- To facilitate the Director General of Taxation's (DGT's) tax collection, taxpayers are subject to a number of obligations to withhold taxes on various payments to residents and non-residents.
- The tax withheld from payments made to residents may represent either a final income tax on the income for the recipient, or (advance) prepaid tax which is either creditable by the recipients against their final tax liability or refundable.
- Withholding tax on payments made to non-residents is a final tax.

Withholding Tax under Article 21

- Employers are required to withhold tax from remuneration and severance payment paid to employees (the progressive tax rates are as described in the individual income tax section).
- Pension funds approved by the Minister of Finance (MoF) and the State Workers Social Security Company (BPJS) are required to withhold tax from pension and old age saving fund payments, respectively.
- Rates are 20% higher for individuals who do not have Tax ID Numbers.
- According to a MoF regulation, the Tax Authority can re-determine the amount of income received by an individual taxpayer from an employer which has a special relationship with an offshore company.

Withholding Tax under Article 22

- A creditable withholding tax of 2.5% (or 7.5% if the importer does not hold an import license) applies upon importation of goods;
- A creditable withholding tax of 1.5% is collected by State Treasurers and State-Owned enterprises on the purchase of goods;
- Article 22 tax is also due on the local purchase of certain commodities and sale of vehicles made by Sole Agents (Agen Tunggal Pemegang Merek or ATPM), Agents (Agent Pemegang Merek or APM),

- and general importers for vehicle sales in Indonesia;
- Rates are 100% higher for taxpayers that do not have Tax ID numbers.

The major types of payment made to Indonesian tax residents and their applicable rates are:

WHT Rate ^{(1) (2)} (on gross amounts)	Type of Payment
7.5% or 10% of import value	Import of certain consumer goods with Importer Identification Number
0.5% of import value	Import of soybeans, wheat, and wheat flour with Importer Identification Number (API)
2.5% of import value	Other than the above goods with Importer Identification Number
7.5% of import value	Import of goods without Importer Identification Number
7.5% of auctioned price	Auctioned imported goods
1.5% of the sales value	Sale of goods to the Government that involves payment from the State Treasury and certain State-Owned Enterprises
1.5% of the export value	Export of coal commodity, metallic mineral and non-metallic mineral
0.3% of the sales value	Purchase of steel products by distributor
0.45% of the sales value	Purchase of automotive products by distributor
0.1% of the sales value	Purchase of paper products by distributor
0.25% of the sales value	Purchase of cement by distributor
0.3% of the sales value	Purchase of medicine products by distributor

WHT Rate ^{(1) (2)} (on gross amounts)	Type of Payment
5% of the sales value	Purchase of highly luxurious goods ⁽³⁾
0.45% of the sales value	Of vehicle sold by a sole agent (ATPM), agent (APM), or general importer in Indonesia
0.25% of the purchase value	Purchase of material by manufacturers or exporters in forestry, plantation, agriculture, farm, fishery from wholesale
0.3% of the sales value	Sales of gas fuel
0.25% of the sales value	Sales of kerosene made to Pertamina fuel stations
0.3% of the sales value	Sales of kerosene made to non-Pertamina fuel stations
0.3% of the sales value	Sales of lubricants
1.5% of the sales value	Purchase of coal, metallic mineral and non-metallic mineral from companies or individual holding a mining license (Izin Usaha Pertambangan)
0.45% of the sales value	Sales of gold bar from manufacturers (except sales made to Bank Indonesia)

Notes:

1. Rates are 100% higher for taxpayers that do not have tax ID.
2. The Minister of Finance has added the following entities as Article 22 income tax collectors: Authorised Budget User ("Kuasa Pengguna Anggaran"/KPA), KPA or government officials authorised by KPA to issue Payment Order Instruction, and Treasurer that makes payments using the reserve money ("Uang Persediaan"/UP) method.
3. "Highly Luxurious Goods" refers to private airplane, yacht, house along with the land (with selling price of more than Rp 5.000.000.000 or building area of more than 400m²), apartment and condominium (with selling price of more than Rp 5.000.000.000 or building area of more than 150m²), four-wheeled vehicle (with selling price of more than Rp 2.000.000.000 or cylinder capacity of more than 3,000 cc), and two and three-wheeled vehicle (with selling price of more than Rp 300.000.000 or cylinder capacity of more than 250cc) – subject to certain selling prices as stipulated through MoF regulation.

The following are now exempted from Article 22 income tax:

- Import of donations for disaster relief;
- Import of goods for nature conservation;
- Import of goods used in upstream oil and natural gas activities by Production Sharing Contractors; and
- Payments for purchase of goods using School Operational Assistance (BOS) funds; and
- Payment by a State-Owned Enterprise for a maximum of Rp100,000,000 and not being a separate payment.
- Import of science and technology books and other scientific books;
- Certain payments made by a government body acting as WHT collector.



Withholding Tax under Articles 23/26

The other major categories of withholding are referred to as Article 23 or Article 26 Income Tax. The relevant types of payment and their generally applicable rates are as follows:

Article 23 WHT on Payment to Indonesia Tax Resident	
WHT Rate ^{(1) (2)} (on gross amounts)	Type of Payment
15%	Dividends ⁽³⁾ , interest ⁽⁴⁾ , swap premiums, loan guarantee fees, and royalties
2%	Rental and other income for use of property, except rental of land and/ or buildings ⁽⁵⁾
2%	Remuneration for technical, management, construction, consultant services and certain other services, viz.: <ul style="list-style-type: none">• Appraisal services• Actuarial services• Accounting/audit/attest services• Legal services• Architecture services• Urban planning and landscape architecture services• Design services• Drilling services in the oil/gas industry, except those provided by a permanent establishment• Auxiliary services in the geothermal and oil/ gas Mining industry• Mining and support services in the Geothermal and General mining sectors• Airline & airport support services• Forest tree felling services• Waste management services• Manpower supply services• Broker/agency services

Article 23 WHT on Payment to Indonesia Tax Resident

WHT Rate ^{(1) (2)} (on gross amounts)	Type of Payment
2%	<ul style="list-style-type: none"> • Services in securities trading, except for trading performed by the Indonesian Stock Exchange, KSEI (Indonesian Central Securities Depository), and KPEI (Indonesian Clearing and Guarantee Corporation) • Custodian services, except for services provided by KSEI • Dubbing services • Film mixing services • Promotion services including film promotion, advertisement poster, photo, slide, banner, pamphlet, billboard and folder • Service in relation to computer software and hardware, including repairs and maintenance • Website creation and/or management services • Internet services and its connection • Storage, processing and/or distribution of data, information and/or program • Installation services, except for installation services performed by a construction company • Repair and maintenance services, except for building repair and maintenance services performed by a construction company • Maintenance services for vehicle and/or land, marine, and air transportation • Toll-manufacturing (maklon) service • Investigation and security services • Event organizer services • Packaging services

Article 23 WHT on Payment to Indonesia Tax Resident

WHT Rate ^{(1) (2)} (on gross amounts)	Type of Payment
2%	<ul style="list-style-type: none"> • Service in providing space and/or time in mass media, outdoor media or other media for delivering information • Pest eradication services • Cleaning services • Vacuum septic tank services • Pool maintenance services • Catering services • Freight forwarding services • Logistics services • Document handling services • Loading and unloading services • Laboratory services and/or laboratory test services except if conducted by an educational institution for academic research • Parking management services • Soil testing services • Soil preparation and management services • Seeding and planting services • Maintenance of trees and plants • Harvesting services • Processing service for agricultural, plantation, fishery, livestock, and/or forestry products • Decoration services • Printing/ publishing services • Translator services • Transportation/ expedition services except for service regulated under Article 15 • Port services

Article 23 WHT on Payment to Indonesia Tax Resident

WHT Rate ^{(1) (2)} (on gross amounts)	Type of Payment
2%	<ul style="list-style-type: none">• Transportation services through pipeline• Child care services• Training and/or course services• ATM cash delivery and loading services• Certification services• Survey services• Tester services• Services other than above for which the payment is charged to State Budget and/or Local Government Budget

Article 26 WHT on Payment to Non-Indonesian Tax Resident

WHT Rate ^{(1) (2)} (on gross amounts)	Type of Payment
20%	Any payment (other than for purchases of goods) to a non-resident recipient is subject to withholding tax of 20%. ^{(7) (8)}
5%	Sale or transfer of assets in Indonesia in the form of luxury jewellery, polished diamonds, gold, diamonds, luxury watches, antiques, paintings, cars, motorcycles, yachts, and/or light aircraft, other than those subject to article 4 (2) withholding tax, that is received by a Non-Indonesian Tax Resident other than a PE is subject to final tax on the transaction value. ^{(6) (7)}
5%	Sale of non-listed company shares by Non-Indonesian Tax Residents are subject to a final tax on transaction value. ⁽⁷⁾

Notes:

1. The withholding tax does not apply to payments to banks operating in Indonesia.
2. Rates are 100% higher for taxpayers that do not have tax ID.
3. Dividends paid to Indonesian limited liability companies holding at least 25% of shares could be exempt from tax under certain conditions. Dividends paid to individuals are subject to final tax (see below).
4. Certain interest income is subject to final tax (see below).
5. The withholding tax does not apply to payments made in relation to financial leases.
6. Exemptions apply for sale or transfer of assets at Rp 10 million or less per transaction.
7. Subject to reduced rate or exemption based on applicable Tax Treaty (including deemed interest from a shareholders loan that does not meet certain requirements).
8. Purchase of imported film that meets certain conditions is not subject to Article 26 withholding tax.

Final Tax collected through withholding and self-assessment

The following transactions are subject to final tax, either by way of withholding or through self-assessment:

Type of Income	Effective Withholding Tax Rates	
	Resident Recipient & PE	Non-Resident Recipient ⁽¹⁾
Dividends paid to Individuals	10%	20%
Lottery prizes	25%	20%
Interest or discount on bonds, including zero coupon bonds	15% ⁽²⁾	20%
Interest or discount on bonds, received by a registered mutual fund: For year 2014 to 2020 For year 2021 onwards	5% 10%	N/A N/A

Type of Income	Effective Withholding Tax Rates	
	Resident Recipient & PE	Non-Resident Recipient ⁽¹⁾
Interest on deposit paid by a cooperative to its members > IDR 240,000	10%	20%
Airline/Shipping Services: <ul style="list-style-type: none"> international airline & shipping operations domestic airline operations (charter only) domestic shipping operations 	- 1.8% ⁽³⁾ 1.2% ⁽³⁾	2.64% ⁽³⁾ - -
Insurance premium paid to offshore companies	N/A	1%, 2% or 10% ⁽⁴⁾
Construction Planning & Supervisory Services	4% / 6% ⁽⁵⁾	20%
Construction Contracting Services	2% / 3% / 4% ⁽⁶⁾	20%
Sale of listed shares (of the gross proceeds)	0.1%	0.1%
Additional tax on sale of Founder shares' at IPO price ⁽⁷⁾	0.5%	0.5%
Sale of land and/or buildings	2.5% / 1% / 0% ⁽⁸⁾	N/A ⁽⁸⁾
Rental of land and/or buildings	10%	20%
Interest or discount on Bank Indonesia Certificates (SBI), savings & fixed deposits ⁽⁹⁾	20% ⁽¹⁰⁾	20%
Gain on approved asset revaluation	10% or 20% ⁽¹¹⁾	N/A
Sharia business income	20% ⁽¹²⁾	20% ⁽¹²⁾

Type of Income	Effective Withholding Tax Rates	
	Resident Recipient & PE	Non-Resident Recipient ⁽¹⁾
All income earned or received by individual or corporate tax payers doing business (other than PE) that does not exceed IDR 4.8 billion within a fiscal year (subject to certain conditions)	1%	-

Notes:

- Subject to reduced rate or exemption based on applicable Tax Treaty.
- On the gross amount of interest, or on excess of nominal value over the acquisition value.
- Effective tax rate after applying a deemed profit margin. For international airline & shipping operations, the withholding is done through the Permanent Establishment (PE).
- If the payer is an Indonesian insurance company, 10%.
- Effective tax rates:
 - 4% for certified contractors
 - 6% for non-certified contractors
 The rate does not include the branch profit tax for permanent establishment service providers.
- Effective tax rates:
 - 2% for small-scale certified contractors
 - 3% for medium and large certified contractors
 - 4% for non-certified contractors
 The rate does not include the branch profit tax for permanent establishment service providers.
- Applies to non-residents, unless the seller is resident in a country that has a tax treaty with Indonesia, in which case an exemption may apply.
- Tax rate:
 - 1% for sale of simple houses and basic apartments by taxpayer whose main business is to engage in transfer of land and/or buildings; 2.5% for sale of land and/or buildings other than above; 0% for sale of land and/or building to government, state-owned enterprise with special assignment from government and regional-owned enterprise with special assignment from the head of district.
 - Exemptions are granted for transfer of land and/or buildings in the cases of grant, inheritance, and sale of land with value < IDR 60 million by an individual taxpayer whose annual income does not exceed the non-taxable income threshold.
- For amounts above IDR 7.5 million (the total of time deposits, saving accounts, and Bank Indonesia Certificates); exceptions apply for banks and certain

approved pension and mutual funds for certain periods. Gift from depositing money in a bank for certain amount and period is considered as interest on savings.

10. Different rates apply on interest received from time deposits sourced from export proceeds (devisa hasil ekspor)

Interest from deposits in US dollar currency:

- 10% for deposit with tenor of 1 month
- 7.5% for deposit with tenor of 3 months
- 2.5% for deposit with tenor of 6 months; and
- 0% for deposit with tenor more than 6 months.

Interest from deposits in IDR currency:

- 7.5% for deposit with tenor of 1 month
- 5% for deposit with tenor of 3 months; and
- 0% for deposit with tenor more than 6 months

11. Additional final income tax of 15% is imposed if the revalued assets are:

- Sold or
- Transferred prior to expiration of the new useful life of the revalued assets or
- Transferred prior to 10 years for land and/building and fixed assets with tax useful life of more than 8 years (does not apply to certain situations such as assets transferred in the course of a tax-free business merger, combination or expansion, etc.).

12. Income in the form of 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; and/or gain or profit derived from Sharia Financial Service such as Factoring (Wakalah bil Ujrah), Corporate Financing from investor (Mudharabah, Mudharabah Musytarakah, Musyarakah), Consumer Financing (Murabahah, Salam, Istishna) – are treated as interest, that is, taxed in the same manner as interest in conventional banking/financial services.



Value Added Tax

Law No. 8 of 1983 as most recently amended by Law No. 42 of 2009.

Threshold for VAT Registration

Registration as a VAT payer is based on sales of taxable goods and/or services. Entrepreneurs exceeding certain annual sales of taxable goods and/or services are required to register. Currently the threshold is IDR 4.8 billion per annum. However, entrepreneurs domiciled in a Free Trade Zone are not required to register.

Taxable Events

Value Added Tax (VAT) is an indirect tax imposed on taxable goods and/or services and due on the following taxable events, among others:

- Import and export of taxable goods;
- Local supply of taxable goods and/or services;
- Consumption of services and/or intangible goods from offshore within the Indonesian customs territory;
- Movement of taxable goods between the head office and a branch and between branches of the same legal entity;
- Movement of goods on consignment;
- Assets/inventories left behind in the course of a company's dissolution;
- Supply of goods through a third party or a Government auctioneer;
- Supply of goods through a finance lease arrangement;
- Self-use of taxable goods;
- Delivery of taxable goods in the context of a Sharia financing arrangement, which delivery is considered to be directly from the VATable entrepreneur to the party that needs the taxable goods;
- Taxable goods given away at no charge;
- Export of intangible taxable goods and taxable services.

VAT Invoice

A VAT invoice is an instrument to levy VAT (for the seller) and to claim VAT credit (for the buyer).

The format and contents of a VAT invoice must follow guidelines set by the Director General of Taxation (DGT). Incomplete preparation of a VAT invoice can cause it to be considered deficient and thus subject to penalties for the seller and disallowed as credit for the buyer.

A VAT Invoice must be issued at one of the following events:

- Upon the delivery of taxable goods and/or services; or
- When payment is received, if the payment occurs before the delivery of taxable goods and/or services; or
- When a progress payment is received, if the work is delivered on a phase basis; or
- Upon other defined events as determined by the Minister of Finance.

The VAT serial numbers that must be used by each VATable entrepreneur (PKP) are determined individually by the Tax Office.

The VATable entrepreneur must submit an application to request the Activation Code and Password to the Tax Office where it is registered. The Tax Office will process the application within three days and this code will be used by the VATable entrepreneur for requesting the VAT invoice serial numbers. This requirement took effect from 1 March 2013.

Effective from 1 July 2016, all VATable entrepreneurs are required to apply e-VAT invoice.

The procedure to issue e-VAT invoices shall be the same as the one for issuing hardcopy VAT invoices, whereby the VATable Entrepreneur shall first request an activation code and password. The VATable Entrepreneur must also request an electronic certificate from the tax office where it is registered or through the website provided by DGT. The e-VAT invoices shall be produced through an electronic system designated by the DGT, including generating the replacement or cancellation of VAT invoices.

Similar to hard-copy VAT invoices, the VAT payer should also obtain the VAT serial numbers by requesting through:

- a. The Tax Office where the VAT payer is registered; and/or
- b. Website provided by the DGT.

Further, the e-VAT invoice shall use IDR currency and apply electronic signature. VATable Entrepreneurs that are obliged to issue e-VAT Invoices must prepare their VAT Returns using the e-VAT Invoice application provided by the DGT.

Retail entrepreneurs, retail stores whose transactions are with individual holders of foreign passports, and entrepreneurs that issue documents treated as VAT invoices are exempted from the obligation to issue e-VAT invoices.

Certain documents are treated as VAT invoices. These include:

- Export Declaration on taxable goods, taxable services and intangible goods (with accompanying invoice);
- Import Declaration (with accompanying payment slips);
- Goods Delivery Order (SPPB) from BULOG/DOLOG for wheat delivery;
- Delivery Note (PNBP) issued by Pertamina;
- Invoice issued by a Telecommunication Company;
- Ticket, airway bill or delivery bill issued for domestic air transport services;
- Service Delivery Note issued for port service;
- Invoice issued by an Electricity Company;
- Tax payment slip (SSP) for payment of self-assessed VAT on the use of offshore intangible goods and/or services;
- Invoice issued by a Drinking Water Company for delivery of taxable goods or services;
- Trading confirmation from stock brokerage company;
- Invoice issued by a Bank for delivery of VATable services;
- Tax payment slip (SSP) for the payment of VAT on delivery of taxable goods through auctioneer accompanied with the Minutes of the Auction.

VAT Rates

The general VAT rate is 10%. However, a VAT rate of 0% (zero percent) is applied to the following taxable events:

- a. Export of taxable goods;
- b. Export of intangible taxable goods; and
- c. Export of certain taxable services, i.e.:
 - toll manufacturing;
 - repair and maintenance services related to movable goods utilized outside the customs zone; and
 - construction service related to immovable goods that are located outside the customs zone.

The rates are applied on a VAT base equivalent to the sale price/service fee or import/export value.

Special VAT Base

VAT is calculated by applying the VAT rate to a relevant tax base. In most cases, the tax base is the transaction value agreed between the parties concerned. For certain events or situations, other criteria must be used as the tax base, including:

- a. for own use of Taxable Goods and/or Taxable Services, it shall be the Selling Price or Compensation after deduction of gross profit;
- b. for free-of-charge granting of Taxable Goods and/or Taxable Services, it shall be the Selling Price or Compensation after deduction of gross profit;
- c. for delivery of motion picture, it shall be the estimated average proceeds per film title;
- d. for delivery of tobacco products, it shall be the retail selling price;
- e. for Taxable Goods in the form of supplies and/or assets that according to their initial purpose are not for sale, which are still remaining at the time of dissolution of a company, it shall be the fair market price;
- f. for delivery of Taxable Goods from the head office to a branch or vice versa and/or delivery of Taxable Goods between branches, it shall be the basic selling price or acquisition price;
- g. for delivery of Taxable Goods through a broker, it shall be the price agreed upon by the broker and the purchaser;
- h. for delivery of Taxable Goods through an auctioneer, it shall be the auction price;
- i. for delivery of package delivery service, it shall be 10% (ten percent) of the amount invoiced or the amount that should be invoiced;
- j. for delivery of travel bureau service or tourism bureau service such as travel agents' travel packages, booking transportation, accommodation and booking facilities whose delivery is not based on the provision of the commission/ brokerage fee, it shall be 10% (ten percent) of the amount invoiced or the amount that should be invoiced;

- k. for delivery of gold jewellery, including delivery of services of repair or modification of gold jewellery and other services associated with gold jewellery, which are performed by a gold jewellery manufacturer or trader, it shall be 20% (twenty percent) of the selling price of the gold jewellery or the value of compensation, while for delivery of gold jewellery by a gold jewellery entrepreneur which is performed by replacing or exchanging gold jewellery with gold bullion of 24 (twenty-four) carats as replacement of all raw materials of production of Gold Jewellery, it shall be 20% (twenty percent) of the difference between the selling price of the gold jewellery less the price of the 24 (twenty-four) carat gold bullion which is contained in the gold jewellery;
- l. for delivery of freight forwarding services which contain freight charges in the invoice for the freight forwarding services, it shall be 10% (ten percent) of the amount invoiced or the amount that should be invoiced;
- m. for delivery of goods by a small-scale entrepreneur, it shall be 30% (thirty percent) of the amount of business turnover;
- n. for delivery of services by a small-scale entrepreneur, it shall be 40% (forty percent) of the amount of business turnover;
- o. for private construction carried out not in respect of a job or occupation by an individual or an organization, the result of which will be self-used or used by another party, it shall be 20% (twenty percent) of the cost incurred or paid.

Self-Assessed VAT

Resident taxpayers receiving and utilising taxable services and/or taxable intangible goods from offshore or from a Free Trade Zone are obliged to self-assess, report and pay 10% VAT calculated from the gross amount paid or payable. The self-assessed VAT is due when the intangible taxable goods and/or services start to be utilized in Indonesia. The deadline for payment of self-assessed VAT is no later than the 15th of the month following the time when the VAT becomes due. Such self-assessed VAT serves as input VAT, subject to the general rules for creditable input VAT.

VAT Collectors

To safeguard VAT revenues, the Government Treasurer, the State Cash and Treasury Office, Contractors of oil and gas cooperation contracts with the Indonesian Government, and Geothermal Energy Contractors or License Holders (including head office, branches or units) and State-Owned Enterprises are assigned to act as VAT withholding agents (VAT collectors).

Goods and Services Not Subject to VAT

Certain goods and services are not subject to VAT. These include:

Non-Taxable Goods

- Goods produced from mining or from drilling that are extracted directly from the source such as:
 - a. crude oil;
 - b. natural gas, excluding natural gas such as LPG that is ready to be consumed directly by the public;
 - c. geothermal energy;
 - d. asbestos, slate, semiprecious stone, limestone, pumice, gemstone, bentonite, dolomite, feldspar, halite, graphite, granite/andesite, gypsum, calcite, kaolin, leucite, magnesite, mica, marble, nitrate, obsidian, ochre, sand and gravel, quartz sand, perlite, phosphate, talc, fuller's earth, diatomaceous earth, clay, alum, trass, jarosite, zeolite, basalt, and trachyte;
 - e. coal not yet processed into coal briquettes; and
 - f. iron ores, tin ores, gold ores, copper ores, nickel ores, silver ores, and bauxite ores.
- Basic commodities vital to the general public such as:
 - a. rice;
 - b. unhusked rice-grains;
 - c. corn;
 - d. sago;
 - e. soybeans;
 - f. salt, whether iodized or not;
 - g. meat, namely uncooked fresh meat, packaged or not packaged, but having gone through processes of slaughtering, skinning, cutting, cooling, freezing, salting, liming, pickling, preservation by other methods, and/or boiling;
 - h. eggs, namely unprocessed eggs, including cleaned, salted, or packaged eggs;
 - i. milk, namely animal's milk that has gone through a cooling or heating process, containing no additional sugar or other ingredients, and/or packaged or unpackaged;
 - j. fruit, namely picked fresh fruit, including that which has gone through washing, sorting, peeling, cutting, slicing, grading, and/or packing or non-packing processes; and
 - k. vegetables, namely fresh vegetables that are picked, washed, drained, and/or stored at low temperature, including chopped fresh vegetables.

- Food and beverages served in restaurants, including food and beverages delivered by catering businesses; and
- Money, gold bars, and commercial paper.

Non-Taxable Services

- Medical/health services;
- Social services;
- Mail delivery service using stamps;
- Financial services¹⁾;
- Insurance services;
- Religious services;
- Educational services²⁾;
- Arts and entertainment services;
- Non-commercial broadcast services;
- Public transport services on land and on water and air transport services within the country which are an inseparable part of air transport services to abroad;
- Labour services;
- Hotel services³⁾;
- Services provided by the government in respect of carrying out general governmental administration;
- Parking provision services;
- Public telephone services using coins;
- Money transfer services using postal money orders; and
- Catering services.

Notes:

1. The DGT has defined the characteristics of services provided by banks which are not subject to VAT as outlined below:
 - Financial services in the form of financing services that receive compensation in the form of interest, or
 - Financial services provided by a bank directly to its customers that are not financing services.

Other banking services that are not subject to VAT include:

- Factoring activity;
- Credit card business;
- Provision of financing and/or other activity based on sharia principles in accordance with Bank Indonesia (Indonesian Central Bank) regulation.

2. The following services are not qualified as non-taxable education services:
 - Education services other than the following:
 - Formal Education (early age education, elementary education, secondary education, higher education);

- Non-Formal Education (life skill education services, early age education, youth education, women's empowerment education, literacy education, work training and proficiency education, equality education)
 - Informal Education (independent learning activity done by families and communities)
 - Formal or non-formal education services delivered by an educational institution which does not have an education license issued by the relevant central/ local government authority; or
 - Education service which is an integral, inseparable part of the delivery of other goods and/or services.
3. The following services are not qualified as non-taxable hotel services:
- Room rental services other than for meetings or other events, such as space rental for automated teller machines (ATMs), offices, banking, restaurants, places of entertainment, karaoke, pharmacies, retail stores, and clinics;
 - Rental services for units and/or space, including enhancements, in apartments, condominiums, and the like, as well as other related support facilities based on its business license;
 - Tour and travel services organized by hotel service management.

Available VAT Incentives

Certain imports and purchases are exempted from VAT or VAT is not collected, through incentives provided by the government. These include:

- Strategic goods, such as machinery, factory equipment, etc.;
- Raw materials for processing by companies inside a Bonded Zone;
- Imports and delivery of services, equipment, and other supplies required to perform a project financed by foreign aid;
- Imports and purchases made by companies in certain industries such as national shipping or airline companies, etc.;
- Imports of raw materials for processing by an export manufacturer holding an Exemption Decree; and
- Delivery and/or import of taxable goods into a Free Trade Zone.

VAT Refund

- Excess of input VAT over output VAT can be requested for refund or carried forward without limitation.
- Claims for VAT refund can only be made at the end of a tax year, except for certain VATable entrepreneurs that are eligible to claim tax refund at each monthly period.
- A refund request usually results in a tax audit, and such reviews are very strict on the quality of documentation. It is important for taxpayers to reconcile their corporate tax returns and books for the year-end VAT Return. E-VAT invoice is not required to be attached in the VAT Return in the event of the VAT Refund request.

- 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 submission of the VAT refund request.
- Failure of production: For those VATable entrepreneurs that are in the pre-production stage, if they fail to commence production within three years from when the input VAT is credited, the VAT that has been refunded must be repaid. If no refund has been made, the VAT can still be credited and claimed for refund after the initial three-year period. The extension is provided for up to two years after the initial three-year period has elapsed.
- VAT refund for foreigners: VAT paid by foreign individuals on purchases in designated retail stores can be claimed for refund by the foreigners upon leaving Indonesia. The minimum amount for a claim is IDR 500,000.

Input VAT Not Allowed for Credit

Certain transactions may generate VAT that will not be available for credit. These situations include:

- VAT incurred prior to a business being registered for VAT;
- VAT incurred before the entrepreneur starts production and makes taxable delivery, except from the acquisition of capital goods;
- VAT on purchases with no direct connection to the conduct of the company's business;
- VAT imposed by way of tax assessments;
- Defective VAT invoice;
- Purchase & maintenance of sedan and station wagon type of vehicles, unless they are inventory for sale/rental;
- Overlooked input VAT not yet credited and only discovered after a tax audit has commenced;
- Purchases made by those exempted from charging output VAT.

Luxury Goods Sales Tax

In addition to the general VAT rate of 10%, certain goods considered as "luxury" items are subject to a surcharge of 10% to 125%. Luxury goods are those that fulfil certain criteria, i.e.:

- Does not constitute a basic staple;
- Consumed by an exclusive group of (upper income) consumers;
- Goods consumed for status rather than for their utility;
- Certain luxurious residential properties.

Free Trade Zone

Batam Island, Bintan Island and Karimun Island have been designated as Free Trade Zones (Free Trade and Free Port Zones). This provides certain facilities, such as:

- A company domiciled in a Free Trade Zone is not required to register as a VAT-able entity;
- The delivery of taxable goods in a Free Trade Zone is exempted from the imposition of VAT and/or LGST;
- The importation of goods into a Free Trade Zone is exempted from the imposition of import VAT and/or LGST;
- The delivery of intangible taxable goods or taxable services in a Free Trade Zone is exempted from VAT;
- The delivery of taxable services from other places within the customs area into the free trade zone is subject to VAT, except for certain delivery of services pursuant to Minister of Finance regulation.



Land and/or Building Tax and Duties

Land and/or Building Tax

Land and/or Building Tax ("PBB") is generally imposed on land and/ or buildings ("tax object"). Starting from 1 January 2010, PBB for land and/ or buildings other than for plantation, forestry and mining is regulated under the Law on Local Taxes and User Fees (previously it was regulated under the PBB Law). The central government allows a transition period up until 31 December 2013 for the local governments to issue and implement their respective local PBB regulations, and effective 1 January 2014, all local governments must regulate the PBB for land and/or buildings in both urban and rural areas. In the absence of such local regulations during the transition period, the PBB Law will still apply.

The PBB due on a tax object is calculated by applying a tax rate to the taxable sale value ("NJKP"), while the NJKP itself is a predetermined portion of the tax object sale value ("NJOP"). Special NJOP rules apply to specific industries, i.e.:

- Oil & gas and geothermal mining sector;
- Mineral mining sector;
- Coal mining sector;
- Palm oil sector;
- Plantation sector;
- Forestry sector;
- Other sectors include:
 - a. Land in the form of offshore waters that is used for:
 - Catch fishery enterprise;
 - Fish cultivation enterprise;
 - Pipeline network;
 - Telecommunication cable network;
 - Electricity cable network; or
 - Section of toll road;

- b. Buildings in the form of technical constructions that are implanted or permanently placed on the surface of land as mentioned above.

PBB is due annually based on an official assessment, which is stated in a notification letter (SPPT PBB) issued by the local government (except for plantation, forestry and mining).

Although the PBB tariff and the non-taxable threshold can vary from one area to another, the local governments must follow the ceiling on the PBB tariff and non-taxable threshold set by the central government, i.e.:

1. The maximum PBB tariff is 0.3%.
2. The non-taxable NJOP entitlement for each taxpayer is set at a minimum of IDR 10 million.

Land and/or Building Acquisition Duty

Starting from 1 January 2010, Land and/or Building Acquisition Duty ("BPHTB") is regulated by the local governments.

An acquisition or transfer of land and/or building is subject to duty at a maximum of 5% of the acquisition or market value. The duty is charged to the party receiving or obtaining the land and/or building title (the buyer). The duty object's acquisition value is the transaction value or the NJOP (please refer to Land and/or Building Tax, above) of the land and/or building concerned, whichever is higher.

Similar to the PBB, the local government must follow certain ceiling and threshold set by the central government. According to the most recent Government Regulation, effective 28 January 2016, the thresholds are as follows:

1. The maximum BPHTB tariff is 5%.
2. The minimum non-taxable threshold entitlement for each taxpayer is IDR 80 million.
3. The minimum non-taxable threshold for land and/or building acquired through inheritance is IDR 350 million.

As the final income tax on sale of land and/or building (please see “Sale of Land and/or Building”, page 19) and the Land and/or Building Acquisition Duty both relate to the same transaction, a notary public is not allowed to sign a land and/or building title transfer deed unless both the Income Tax and the Land and/or Building Acquisition Duty have been paid. The notary must also ensure that the party transferring title to the land and/or building has obtained a stamp on the final income tax payment slip from the Tax Authority, which serves as evidence of review by the Tax Authority.



Transfer Pricing

Overview

Since 2010, the Director General of Taxation (“DGT”) has issued a spate of guidelines (including revisions to APA & MAP regulations) to provide greater certainty for businesses subject to transfer pricing rules. The tight focus on transfer pricing also indicates DGT’s increased attention to transfer pricing issues as well as the evolving nature of the rules in Indonesia. This section discusses taxpayers’ obligations in Indonesia and how the requirements have evolved.

General

- The Indonesian tax law as embodied in the Income Tax Law No. 7 of 1983, as most recently amended by Law No. 36 of 2008 which became effective on 1 January 2009 (hereinafter referred as the “Income Tax Law”) contains provisions under Article 18 which give the DGT power to adjust taxpayers’ income or costs, where transactions with related parties are not in accordance with “fair and common business practices”.
- Effective from the 2002 tax year, taxpayers are required to attach a statement about transactions conducted with parties which have a “special relationship” to their corporate tax return. However, this disclosure was updated in 2009 with the introduction of a special attachment of related-party transactions in the annual corporate income tax return (in the form of special attachments 3A/3B, 3A-1/3B-1, 3A-2/3B-2), which requires more detailed information such as type of transactions, nature of relationship, questionnaire on documentation prepared to support the arm’s length principle, transactions with parties from tax haven countries, etc. Attachment 3A/3A-1/3A-2 would be applicable for taxpayers that maintain their books of accounts in Indonesian Rupiah, while attachment 3B/3B-1/3B-2 is applicable for taxpayers that maintain books of accounts in United States Dollar currency.
- The Income Tax Law introduces methods for determining arm’s length transactions, e.g. comparable uncontrolled price method, resale price method, cost plus method, and other methods (i.e., profit split method and transactional net margin method). These methods

are broadly in line with the OECD guidelines.

- In order to provide detailed guidelines on transfer pricing matters, the DGT promulgated two major regulations. In September 2010 and in November 2011, the DGT issued regulations No. PER-43/ PJ/2010 ("PER-43") and PER-32/PJ/2011 ("PER-32") respectively. While PER-43 provided initial guidance, it was amended by PER-32 in November 2011. PER-43 (as amended by PER-32) provides guidelines for taxpayers on the application of the arm's length principle.
- PER-43 (as amended by PER-32) mandates the preparation of transfer pricing documentation and provides guidelines for establishing the arm's length nature of the transactions. In particular, the regulations outline the following:
 - a. Lays the onus on taxpayers to undertake a transfer pricing analysis with regard to their transactions with related parties to ensure that the transactions conform to the arm's length principle. The above involves, inter alia, conducting a comparability analysis and determining the comparable transactions; identifying the appropriate transfer pricing method; and applying the arm's length principle based on the results of the comparability analysis and based on the most appropriate transfer pricing method.
 - b. Taxpayers must document the steps taken in determining the above in accordance with the provisions of the prevailing tax regulations.
 - c. Taxpayers must prepare transfer pricing documentation if the total transactions with each related counterparty exceed IDR 10 billion. This threshold is computed on a counterparty by counterparty basis, i.e., if there are two transactions with the same counterparty in which the value of each transaction separately is below IDR 10 billion but collectively in excess of IDR 10 billion, then the taxpayer has to prepare transfer pricing documentation covering both the transactions.
 - d. Provides an overview of the authority of DGT and the taxpayers' rights.
 - e. Domestic related-party transactions are set outside the purview of transfer pricing rules except in the following specific cases:
 1. when availing tax tariff difference arising out of treatment of final or non-final Income Tax imposition in certain business sectors;
 2. when taxpayers are subject to imposition of Luxury Goods Sales Tax (LGST); or
 3. when taxpayers engage in transactions with contractors in the oil and gas industry.
 - f. Outlines specific requirements for intra-group services and

intangibles transactions. PER-43 (as amended by PER-32) also defined intangibles and explained briefly about the concept of cost contribution arrangement.

- There is no statutory deadline for submission of the transfer pricing documentation, but the documentation must be provided when requested by the tax office. Generally, the tax office provides a one-month deadline to provide the documentation in the tax audit. Failure to furnish documentation within the stipulated time may prompt the Indonesian tax authorities to disregard any documentation afterward and determine tax liability based on the data available to the Indonesian tax authorities.
- Based on Regulation No. PER-22/PJ/2013 and Circular Letter No. SE-50/PJ/2013 ("SE-50"), at the time of an audit, taxpayers are required to provide certain information in stipulated forms and formats (discussed below in detail) within a 7 working day deadline. SE-50 also emphasizes the importance of transfer pricing documentation as one of the most important documents which would help in mapping the functional analysis of the taxpayer.
- Filing an incorrect or incomplete tax return may result in penalty.

"Special Relationship"

A special relationship is deemed to exist in the following circumstances:

- a. where a taxpayer directly or indirectly holds 25% or more of the capital of another taxpayer, or where a company holds 25% or more of the capital of two taxpayers, in which case the latter two taxpayers are also considered to be related parties; or
- b. where there is a control through management or the use of technology, even though ownership relations are not present; or
- c. where there is a family relationship, biological or by marriage, in vertical and/or horizontal lineage of the first degree.

The concept of special relationships under Indonesian transfer pricing rules seems to have a wider scope than the concept of "associated enterprise" in the OECD Guidelines. The concept of "associated enterprises" seems to imply that it only covers relationships between enterprises (under management and control), while the concept of special relationship under Indonesian TP rules also covers blood relationship and reliance on technology.

Audits of taxpayers with special relationships

Emphasizing the heightened focus on transfer pricing, the DGT issued regulation No. PER-22/PJ/2013 ("PER-22") on 30 May 2013, providing guidelines for audits of taxpayers with special relationships. Effective

from 1 July 2013, this regulation is also applicable for on-going tax audits, i.e. audits which were initiated prior to the issuance of this regulation but have not been completed.

The aforementioned regulation was further supplemented by the release of SE-50, which provided technical guidelines to tax auditors for audits of taxpayers with special relationships. Released on 24 October 2013, SE-50 officially revoked SE-04/PJ.7/1993. Both these regulations contain guidance on the following, among other matters:

- Stages involved in a transfer pricing audit (viz., preparation stage, implementation stage and reporting stage) and information to be reviewed in each stage.
- Scrutiny of taxpayers' counterparties – Specific attention to be given for transactions with counterparties in tax havens or low-tax jurisdictions.
- Taxpayers' preliminary examination using industry (comparables) average financial ratios: a) Gross margin b) Gross mark-up c) Operating margin d) Mark-up on total costs e) Return on assets f) Return on capital employed g) Berry ratio h) Debt to equity ratio i) Ratio of R&D expense to sales and j) Ratio of marketing expense to sales.
- Applicability of transfer pricing methods by using detailed illustrations – including guidance on tested parties, authorized databases, multiple-year analysis.
- Transfer of intangibles – In addition to the five prescribed transfer pricing methods, to test the arm's length nature, this regulation also introduced other methods such as a) cost-based method, b) income-based method and c) market-based method.
- Intra-group services – Guidance on the transfer pricing methods which would be applicable and the review of service provider's cost base: a) CUP method; b) Cost Plus method; and c) Transactional Profit Method.
- Intra-group financing transactions – Guidance on the transfer pricing methods that would be most suited in undertaking an analysis of an intra-group financing arrangement. Additional requirements posed by this regulation include a) performing analysis on the need for the debt, b) ensuring that the loan from related party actually occurred, c) testing the fairness of the debt to equity ratio, and d) testing the arm's length nature of the interest expense.
- Introduced the concept of secondary adjustments in addition to the primary and corresponding adjustments.

The DGT has also provided forms/formats that will be used in the event of a tax audit. Seven of the prescribed 10 forms will have to be completed by the taxpayer at the time of audit and submitted within 7 days from the request. The purposes of these forms are as follows:

Form	Description
A	Letter of request for information/evidence – This form provides a format of the letter that will be issued by the tax auditor to request information/evidence. The format mentions a seven working day time limit to be provided to taxpayer to respond to the request
B	Statement letter – This forms the cover letter to provide information requested by the tax auditor in Forms C to H
C	Related-party transactions – Requires the taxpayer to provide the details of the related-party transactions, such as type of transaction, transaction counterpart, value, nature of relationship, transfer pricing method, etc.
D	Segmented Financial Statements – Provides a format for the taxpayer to present the segmented financial statements between related parties and third parties
E	Supply Chain Management Analysis – Requires the taxpayer to provide details (including financial information) of parties which undertake functions in the overall supply chain
F	Function, Asset and Risk Analysis – Requires the taxpayer to provide the functions, assets and risks of the taxpayer and the related party
G	Characterization form – Requires the taxpayer to tick the characterizations relevant to the taxpayer
H	Comparability Analysis – Requires the taxpayer to provide information on the five comparability factors between transactions with third parties and with related parties

Form	Description
I	Summons to provide information on affiliated transactions – Form requesting taxpayer to be present on a specified date, time and location in order to provide information/ explanation/ presentation to the tax audit team
J	Minutes of Taxpayer’s provision of information regarding affiliated transactions – Format to present the minutes of the tax audit proceedings

Mutual Agreement Procedure (“MAP”)

The Indonesian Ministry of Finance issued a new Regulation number. 240/PMK.03/2014 (“PMK-240”) on 22 December 2014, which provides new updates to the existing regulations in relation to the implementation of MAP. The regulation is effective from 22 December 2014 and is applicable to any on-going request for MAP which was submitted prior to the issuance of this regulation but not yet concluded.

The regulation specifies that any request for MAP should be filed within the timeline specified in the Double Tax Avoidance Agreement (“DTA”) from the first notification of the action resulting in taxation not in accordance with the provisions of this agreement. The first notification times are: a) date of the tax assessment letter; b) date of withholding/ collection of income tax evidence; c) other time as stipulated by the DGT. A MAP request cannot be submitted when the taxpayer files an appeal to the Tax Court and the hearing is deemed “sufficient” by the Tax Court.

PMK-240 reinforces what had been stipulated in Government Regulation number 74 of 2011 (“GR-74”): the flexibility for taxpayers to apply for an MAP and to continue domestic resolution at the same time. This includes applying for a tax objection, appealing to the Tax Court, and requesting reduction or cancellation of an incorrect tax assessment.

In cases where the MAP results in a mutual agreement after the issuance of a tax assessment but the taxpayer does not file an objection or apply for reduction or cancellation of the tax assessment (or seeks the aforementioned remedies but later this is revoked or rejected due to lack of certain requirements), the DGT will amend the tax assessment letter.

In cases where the MAP results in a mutual agreement and the taxpayer files an objection but the objection result has not been issued, the DGT will take the mutual agreement into account in the objection decision.

Similarly, for an appeal request, where the MAP results in a mutual agreement after the issuance of an objection decision but the taxpayer does not appeal the decision or it is appealed but later revoked, the DGT will amend the objection decision.

In all situations where the MAP does not result in a mutual agreement, all the DGT's assessments or decisions shall remain in force.

The regulation specifies that the request for an MAP can be filed by:

1. An Indonesian resident taxpayer through the DGT;
2. The DGT itself; or
3. The tax authority of a treaty partner country.

The regulation points out that the process of MAP is performed by the MAP Implementation Team. This team is commissioned to examine the MAP application, request supporting documents and additional information, visit the taxpayer's site, prepare a position paper, and perform other actions.

The DGT will also initiate consultation with the tax authority of the treaty partner country, which could be in the form of direct meeting, electronic communication, or correspondence. The consultations should be conducted and completed within 3 years after the first consultation, but could be extended through an agreement made by the DGT and the tax authority of the treaty partner country.

The regulation states clearly that the documents submitted by the taxpayers for the purpose of requesting MAP implementation will be treated with the utmost confidentiality in accordance with the provisions of the law.

Advance Pricing Agreement ("APA")

On 12 January 2015, the Indonesian Ministry of Finance released Minister of Finance Regulation number 07/PMK.03/2015 ("PMK-7") which deals with Advance Pricing Agreements ("APA").

This regulation has come into force from April 2015. All the old applications which were filed before PMK-7 and for which a draft APA has not been issued by the DGT will automatically be processed under PMK-7. The salient features of PMK-7 are shown in the table below:

Topic	Details
Who can apply	<ul style="list-style-type: none"> • An Indonesian resident taxpayer or an Indonesian Permanent Establishment of a foreign taxpayer is eligible to apply for an APA as long as its operations or business activities have been carried on for at least 3 years • An APA may also be initiated by a foreign resident Taxpayer that is a transaction counterparty of an Indonesian resident taxpayer
Validity period	<ul style="list-style-type: none"> • Unilateral – 3 tax years • Bilateral – 4 tax years
Rollback period	<ul style="list-style-type: none"> • Regulation is silent. With respect to bilateral APAs, the APA shall be effective in accordance with the terms of the mutual agreement.

Topic	Details
Deadlines	<ul style="list-style-type: none"> • Deadline for filing request for pre-filing – 6 months before the start of the tax year that is to be covered in the APA. This also applies to cases which are initiated by foreign resident taxpayers. The DGT authorities may also inter alia make site visits during the pre-filing phase. • Deadline for filing formal request for APA – The invitation letter must be provided by the DGT to the taxpayer no later than 1 month before the start of the tax year that is to be covered in the APA. The taxpayer has to file the formal application in the Indonesian language to Director of Tax Regulations II along with the supporting documents no later than the end of the tax year which precedes the tax year covered in the APA. If this deadline is exceeded (by not more than one year), the period covered in the APA will be reduced by one year. The formal request for APA cannot proceed if the delay in submitting the request and supporting documents exceeds one year. • Deadline for APA discussions – Unilateral APAs have a time limit of one year from the date of filing the formal request. An additional extension of one year can be made by the DGT if the circumstance so warrants. In bilateral APA cases, the time limit is as specified in the provisions of the Mutual Agreement Procedure.
Effectivity of an APA	<ul style="list-style-type: none"> • A unilateral APA is effective from the tax year in which the draft APA is agreed on. • A bilateral APA is effective in accordance with the mutual agreement.

Topic	Details
Compliance requirements	<ul style="list-style-type: none"> • During the covered period, an Annual Compliance Report shall be submitted no later than 4 months after the end of the tax year. • Failure to submit the same will result in review or cancellation of the APA.
Confidentiality of information	<ul style="list-style-type: none"> • The information submitted by the taxpayer during the APA is treated as confidential and is prohibited from being disclosed to another party. If the APA request does not result in an agreement between the DGT and the taxpayer, the documents which were submitted by the taxpayer will be returned to the taxpayer. Furthermore, the documents which are submitted by the taxpayer cannot be used by the DGT for conducting an audit, preliminary investigation, or investigation of tax crime.
Audits for covered transactions in the covered period	<ul style="list-style-type: none"> • Having an APA or filing an application for APA does not prevent the DGT from conducting an audit. • In bilateral APAs, the DGT shall correct any tax assessment notice(s) or objection decision letter(s) based on the prevailing tax regulations for the covered period.
Renewal of APA	<ul style="list-style-type: none"> • Renewal of an APA can be applied for in the last tax year of the covered period. The request for renewal will be treated as if it is a fresh application.

Topic	Details
Miscellaneous	<ul style="list-style-type: none"> • PMK 7 has made the APA a procedurally robust process – formation of APA discussion team, review of the APA discussion team’s recommendations with the quality assurance team. • The APA discussion team can constitute both personnel from within the DGT and/ or experts appointed by the DGT. • No discussion on the filing fees is provided in these regulations. • PMK 7 also states that the DGT can issue further provisions concerning formation of discussion team and quality assurance team and the stages of establishment of APA as well as the implementation, evaluation and renewal of APA. • No discussion has been provided on customs and transfer pricing convergence.

Debt-to-Equity Ratio

Effective from fiscal year 2016, a certain portion of borrowing cost arising from debt is non-tax deductible if the debt-to-equity ratio exceeds 4:1. PMK-169 provides detailed guidance on the scope of related parties, definition of debts and equity, prescribed threshold for DER, and other compliance requirements. Please also refer to our earlier section under Corporate Income Tax (page 17).

Summary of Double Tax Avoidance Agreements (Tax Treaties)

Indonesia has signed Double Tax Avoidance Agreements (DTA) with many countries all around the world. The summary of the various reduced tax rates and PE time tests under the DTAs is provided in the table provided below.

In order to claim the relief under the DTA, a foreign taxpayer has to complete and submit a specific document issued by the Directorate General of Taxation (DGT), i.e. Form DGT-1 or Form DGT-2. Form DGT-2 is specifically for a company that is a banking institution or earns income from bonds or stocks listed in the Indonesian Stock Exchange. A company that does not fulfil those criteria must use Form DGT-1. These forms contain a Certificate of Domicile (COD) which must be endorsed by the Tax Authority of the DTA partner country.

In the case that the foreign taxpayer is unable to obtain the endorsement, the foreign taxpayer can use any form of COD commonly verified or issued by the DTA partner's Tax Authority. This document must meet the following requirements:

- presented in English;
- issued on or after 1 January 2010;
- contains at least the name of the foreign taxpayer;
- the original or copy document must be legalised by the Tax Authority where the withholding tax agent is registered;
- the document is signed by the relevant competent Tax Authority.

This form will serve as an attachment to the completed form DGT-1 or DGT-2. The relief under the DTA provisions will be denied by the DGT if the foreign taxpayer fails to fulfil the requirement.

No.	Country (1)	Dividends		Interest (3) %	Royalties (4) %	PE Tax (5) %	Tax on Disposal of Shares %	PE Time Test (6) %
		For Investor Companies (2) %	Other					
1	Algeria	15	15	15	15	10	-	3 months
2	Armenia ⁽²⁸⁾	10	15	10	10	10	- or 5 ⁽²⁵⁾	6 months or 120
3	Australia	15	15	10	10 or 15 ⁽¹⁰⁾	15 ⁽⁸⁾	- or 5 ⁽²⁵⁾	120 days
4	Austria	10	15	10	10	12 ⁽⁸⁾	-	6 or 3 months
5	Bangladesh	10	15	10	10	20 ⁽¹⁹⁾	- or 5 ⁽²⁵⁾	183 or 91 days
6	Belgium	10	15	10	10	10 ⁽¹⁸⁾	-	6 or 3 months
7	Brunei Darussalam	15	15	15	15	10	-	3 months or 183 days
8	Bulgaria	15	15	10	10	15 ⁽⁸⁾	-	6 months or 120 days
9	Canada	10	15	10	10	15	- or 5 ⁽²⁵⁾	120 days
10	China	10	10	10	10	10	- or 5 ⁽²⁵⁾	6 months
11	Croatia	10	10	10	10	10 ⁽⁸⁾	- or 5 ⁽²⁵⁾	6 or 3 months
12	Czech Republic	10	15	12.5	12.5	12.5	-	6 or 3 months
13	Denmark	10	20	10	15	15 ⁽⁸⁾	-	6 or 3 months
14	Egypt	15	15	15	15	15	- or 5 ^(25, 26)	6 or 3 or 4 months
15	Finland	10	15	10	10 or 15 ⁽¹¹⁾	15 ⁽⁸⁾	- or 5 ⁽²⁵⁾	6 or 3 months
16	France	10	15	10 or 15 ⁽¹⁶⁾	10	10	- or 5 ⁽²⁵⁾	6 months or 183 days
17	Germany	10	15	10	15,10, 7,5 ⁽¹²⁾	10	-	6 months
18	Hungary	15	15	15	15	20 ⁽¹⁹⁾	-	3 or 4 months

No.	Country (1)	Dividends		Interest (3) %	Royalties (4) %	PE Tax (5) %	Tax on Disposal of Shares %	PE Time Test (6) %
		For Investor Companies (2) %	Other					
19	Hong Kong	5	10	10	5	5 ⁽⁸⁾	5 ⁽²⁹⁾	183 days
20	India ⁽³³⁾	10	15	10	15	10 ⁽⁸⁾	-	183 or 91 days
21	Iran	7	7	10	12	7	- or 5 ⁽²⁵⁾	6 months or 183 days
22	Italy	10	15	10	10 or 15 ⁽⁷⁾	12 ⁽⁸⁾	-	6 or 3 months
23	Japan	10	15	10	10	10 ⁽⁸⁾	-	6 months
24	Jordan	10	10	10	10	20 ⁽¹⁹⁾	5	6 or 1 month(s)
25	Korea (North)	10	10	10	10	10	- or 5 ⁽²⁵⁾	12 or 6 months
26	Korea (South)	10	15	10	15	10 ⁽⁸⁾	-	6 or 3 months
27	Kuwait	10	10	5	20	10 ⁽²⁰⁾	-	3 months
28	Luxembourg	10	15	10	10 or 12.5 ⁽¹³⁾	10 ⁽⁸⁾	-	5 months
29	Malaysia ⁽²⁴⁾	10	10	10	10	12.5 ⁽⁸⁾	- or 5 ⁽²⁵⁾	6 or 3 months
30	Mexico	10	10	10	10	10 ⁽⁸⁾	- or 5 ⁽²⁵⁾	6 months or 91 days
31	Mongolia	10	10	10	10	10	-	6 or 3 months
32	Morocco	10	10	10	10	10	- or 5 ⁽²⁵⁾	6 months or 60 days
33	Netherlands ⁽³²⁾	10	10	10 ⁽⁹⁾	10	10	-	6 or 3 months
34	New Zealand	15	15	10	15	20 ⁽¹⁹⁾	-	6 or 3 months
35	Norway	15	15	10	10 or 15 ⁽¹⁴⁾	15 ⁽⁸⁾	- or 5 ⁽²⁶⁾	6 or 3 months
36	Pakistan	10	15	15	15 ⁽¹⁵⁾	10	- or 5 ⁽²⁵⁾	3 months
37	Papua New Guinea ⁽³¹⁾	15	15	10	10	15	-	120 days

No.	Country (1)	Dividends		Interest (3) %	Royalties (4) %	PE Tax (5) %	Tax on Disposal of Shares %	PE Time Test (6) %
		For Investor Companies (2) %	Other					
38	Philippines	15	20	10 or 15 ⁽¹⁷⁾	15	20	- or 5 ⁽²⁵⁾	3 or 6 months or 183 days
39	Poland	10	15	10	15	10 ⁽⁸⁾	-	120 or 183 days
40	Portugal	10	10	10	10	10	-	6 months or 183 days
41	Qatar	10	10	10	5	10	-	6 months
42	Romania	12.5	15	12.5	12.5 or 15 ⁽²¹⁾	12.5	-	6 or 4 months
43	Russia	15	15	15	15	12.5	-	3 months
44	Seychelles	10	10	10	10	20	-	6 or 3 months
45	Singapore	10	15	10	15	15 ⁽⁸⁾	5	183 or 90 days
46	Slovakia	10	10	10	10 or 15 ⁽²²⁾	10	-	6 months or 91 days
47	South Africa	10	15	10	10	20 ⁽¹⁹⁾	-	6 months or 120 days
48	Spain	10	15	10	10	10	-	183 days or 3 months
49	Sri Lanka	15	15	15	15	20	-	90 days
50	Sudan	10	10	15	10	10	-	6 or 3 months
51	Suriname	15	15	15	15	15	-	6 months or 91 days
52	Sweden	10	15	10	10 or 15 ⁽¹²⁾	15	-	6 or 3 months
53	Switzerland	10	15	10	10 ⁽¹²⁾	10 ⁽⁸⁾	-	183 days
54	Syria	10	10	10	15 or 20 ⁽¹⁴⁾	10	-	6 months or 183 days

No.	Country (1)	Dividends		Interest (3) %	Royalties (4) %	PE Tax (5) %	Tax on Disposal of Shares %	PE Time Test (6) %
		For Investor Companies (2) %	Other					
55	Taiwan	10	10	10	10	5 ⁽⁸⁾	-	6 months or 120 days
56	Thailand	15	20	15	15	20 ⁽¹⁹⁾	5	6 months or 183 days
57	Tunisia	12	12	12	15	12 ⁽⁸⁾	-	3 months
58	Turkey	10	15	10	10	10 ⁽⁸⁾	-(27)	6 months or 183 days
59	UAE	10	10	5	5	5	-	6 months
60	Ukraine	10	15	10	10	10 ⁽⁸⁾	- or 5 ⁽²⁵⁾	6 or 4 months
61	United Kingdom	10	15	10	10 or 15 ⁽¹⁸⁾	10 ⁽⁸⁾	-	91 or 183 days
62	United States	10	15	10	10	10 ⁽⁸⁾	-	120 days
63	Uzbekistan	10	10	10	10	10 ⁽⁸⁾	-	6 or 3 months
64	Venezuela	10	15	10	10 or 20 ⁽²³⁾	10 ⁽⁸⁾	- or 5 ^(25,26)	6 months
65	Vietnam	15	15	15	15 ⁽¹⁵⁾	10	- or 5 ⁽²⁵⁾	6 or 3 months
66	Zimbabwe	10	20	10	15	10 or 5 ⁽³⁰⁾	- or 5 ⁽²⁵⁾	6 months or 183 days

Notes to summary of DTA Withholding Tax Rate and PE Time Tests:

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 shareholders are the beneficial owner of the dividends. The lower rate applies where the recipient holds 25% (10% in the case of South Africa, Venezuela and Bangladesh) or more of the capital of the paying company (voting shares in Japan). For Thailand, 15% applies to dividends paid to shareholders by companies engaged in industrial undertakings; 20% in other cases. For the Czech Republic, Poland and Ukraine, the lower rate applies if the recipient controls 20% or more of the capital of the paying company. For the UK, the lower rate applies if the recipient controls 15% or more of the voting power.
3. These rates are applicable only where the recipient is the beneficial owner of the interest. With the exception of Switzerland, if amounts are paid to the

- Government, the Central Bank, or a bank or financial institution specifically mentioned in the treaty, they will be exempted from interest withholding tax
4. These rates are applicable only where the recipient is the beneficial owner of the royalties. Royalties paid to the Government of Brunei are exempt.
 5. Only on amounts actually remitted for Belgium and the Philippines; levied on total after-tax profits for all other countries.
 6. Where two periods are stated, the longer one usually applies to a building, construction, or assembly site or installation project or supervisory services in connection therewith, and the shorter, to consulting and other services. Details of the time test of those activities for each country shall refer to the table on pages 73 up to 75.
 7. The 10% rate applies to royalties for the use of or information regarding industrial, commercial or scientific equipment or experience; the 15% rate applies to all other royalties.
 8. There is a specific provision regarding the application of branch profit tax in production-sharing contracts and mining contracts of work (or similar contracts) in the oil and gas or mining sector concluded by the Government of Indonesia.
 9. According to the treaty's provision, the withholding tax rate can be reduced to Nil, as long as certain conditions are met, e.g. interest is paid on long-term borrowings (beyond 2 years). By issuing PER-62/PJ/2009 dated 5 November 2009, the DGT has revoked circular letter number SE-17/PJ./2005 dated 1 June 2005, stipulating that this provision is not yet exercisable in Indonesia, until both countries' competent authorities agree on the procedures for exempting interest from withholding tax. Accordingly, the procedure for exempting interest from withholding tax is yet to be clarified.
 10. The 10% rate applies to the right to use industrial, commercial and scientific information. In all other cases the rate is 15%.
 11. The 10% rate applies to copyright of literary and artistic works, including cinematographic films, films, or tapes for television or radio broadcasting. In all other cases the rate is 15%.
 12. The 15% rate applies to copyrights, patents, trademarks, secret formulas, literary and artistic works, or designs; the 10% rate applies to the use of/right to use or information regarding industrial, commercial or scientific equipment or experience; the 7.5% rate applies to technical, managerial or consulting services (Germany); the 5% rate applies to payment for services (Switzerland).
 13. The 10% rate applies to fees for technical services; the 12.5% rate applies to royalties.
 14. The 10% (20% in the case of Syria) rate applies to patents, trademarks, secret formulas, designs and the use of or right to use industrial, commercial or scientific equipment or experience; the 15% rate applies to copyrights.
 15. The 15% rate applies to royalties in all other cases and for technical services as well.
 16. The 10% rate is applied if the interest is paid by a bank or financial institution, or by an enterprise the activities of which are mainly carried on 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% for interest on other types of debt.
 17. 10% for interest on public issues of bonds, debentures and similar obligations; 5% for interest on other types of debt.
 18. The 10% rate applies to royalties for use of or the right to use industrial,

commercial, and scientific equipment; the 15% rate applies to royalties for copyrights, patents, know-how, designs or models, trademarks, plans, secret formulas, or processes.

19. The treaty provisions are silent on the rate. The tax authority interprets this to mean that the rate stipulated by Indonesian Tax Law (i.e. 20%) should apply.
20. Tax is only applicable if profits are remitted to head office within 12 months after the profits accrue.
21. The 12.5% rate applies to patents, trademarks, secret formulas, designs and the use of or right to use industrial, commercial or scientific equipment or experience; the 15% rate applies to copyrights. Further, under article 12 of the Romania-Indonesia DTA, the 10% rate is applied for any payment in relation to commissions.
22. The 10% rate applies to royalties for the use of or the right to use motion picture films, films or videos for use in connection with television, or tapes for use in connection with radio broadcasting; the 15% rate applies in all other cases.
23. The 10% rate applies to fees for technical services; the 20% rate applies to royalties in all other cases.
24. Rates for Malaysia are based on the newly-signed protocol amending the tax treaty between Indonesia and Malaysia which came into force as of 15 July 2010 and is applied effectively on any tax collected from payments or credited or withheld on or after 1 September 2010. The tax treaty with Malaysia does not cover business activity conducted in Labuan offshore, as defined in the Malaysian Labuan Offshore Business Activity Act of 1990.
25. The 5% rate applies to alienation of shares in a company, the assets of which consist wholly or principally of immovable property or real property situated in Indonesia.
26. The 5% rate applies to alienation of shares that represents a certain percentage participation interest in a company.
27. The exemption applies if the holding period between the acquisition and the alienation exceeds 1 (one) year.
28. The treaty is in force effective from 1 January 2017.
29. The 5% rate applies to alienation of shares of a company deriving more than 50% of its assets value directly or indirectly from immovable property, except for the following:
 - The alienation is in the framework of a reorganization of a company, a merger, scission or a similar operation.
 - The alienation of shares in a company deriving more than 50% of its assets value from immovable property in which it carries on its business.
30. The 10% rate applies in Indonesia; 5% rate applies in Zimbabwe.
31. The treaty is in force effective 1 January 2015.
32. The governments of Indonesia and the Netherlands have signed a protocol to the existing tax treaty and protocol. However, it is not yet in force. The revised rates under the new protocol are 5%/10%/15% for dividend and 10% or 5% for interest paid on a loan made for a period of more than 2 years or paid in connection with the sale on credit of any industrial, commercial or scientific equipment (previously the withholding tax rate could be reduced to Nil).
33. Information in the table shows the applicable rate for transactions before 1 January 2017. A new Tax Treaty has been ratified and will be in force effective from 1 January 2017 for Indonesia; the revised rates under the new DTA are 10% for dividend, 10% for royalties and technical service and 15% for branch profit tax.

Permanent Establishment Time Test

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

No.	Country	Construction	Installation	Assembling	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	Belgium	6 months	6 months	6 months	6 months	3 months
7	Brunei Darussalam	183 days	3 months	3 months	183 days	3 months
8	Bulgaria	6 months	6 months	6 months	6 months	120 days
9	Canada	120 days	120 days	120 days	120 days	120 days
10	China	6 months	6 months	6 months	6 months	6 months
11	Croatia	6 months	6 months	6 months	6 months	3 months
12	Czech Republic	6 months	6 months	6 months	6 months	3 months
13	Denmark	6 months	3 months	3 months	6 months	3 months
14	Egypt	6 months	4 months	4 months	6 months	3 months
15	Finland	6 months	6 months	6 months	6 months	3 months
16	France	6 months	-	6 months	183 days	183 days
17	Germany	6 months	6 months	-	-	-
18	Hungary	3 months	3 months	3 months	3 months	4 months
19	Hong Kong	183 days	183 days	183 days	183 days	183 days
20	India	183 days	183 days	183 days	183 days	91 days
21	Iran	6 months	6 months	6 months	6 months	183 days
22	Italy	6 months	6 months	6 months	6 months	3 months
23	Japan	6 months	6 months	-	6 months	-
24	Jordan	6 months	6 months	6 months	6 months	1 month

No.	Country	Construction	Installation	Assembling	Supervisory	Other Services
25	Korea (North)	12 months	12 months	12 months	12 months	6 months
26	Korea (South)	6 months	6 months	6 months	6 months	3 months
27	Kuwait	3 months	3 months	3 months	3 months	3 months
28	Luxembourg	5 months	5 months	5 months	5 months	-
29	Malaysia	6 months	6 months	6 months	-	3 months
30	Mexico	6 months	6 months	6 months	6 months	91 days
31	Mongolia	6 months	6 months	6 months	6 months	3 months
32	Morocco	6 months	-	6 months	6 months	60 days
33	Netherlands	6 months	6 months	6 months	6 months	3 months
34	New Zealand	6 months	6 months	6 months	6 months	3 months
35	Norway	6 months	6 months	6 months	6 months	3 months
36	Pakistan	3 months	3 months	3 months	3 months	-
37	Papua New Guinea	120 days	120 days	120 days	120 days	120 days
38	Philippines	6 months	3 months	3 months	6 months	183 days
39	Poland	183 days	183 day	183 days	183 days	120 days
40	Portugal	6 months	6 months	6 months	6 months	183 days
41	Qatar	6 months	6 months	6 months	6 months	6 months
42	Romania	6 months	6 months	6 months	6 months	4 months
43	Russia	3 months	3 months	3 months	3 months	-
44	Seychelles	6 months	6 months	6 months	6 months	3 months
45	Singapore	183 days	183 days	183 days	-	90 days
46	Slovakia	6 months	6 months	6 months	6 months	91 days
47	South Africa	6 months	6 months	6 months	6 months	120 days
48	Spain	183 days	183 days	183 days	183 days	3 months
49	Sri Lanka	90 days	90 days	90 days	90 days	90 days
50	Sudan	6 months	6 months	6 months	6 months	3 months
51	Suriname	6 months	6 months	6 months	6 months	91 days
52	Sweden	6 months	6 months	6 months	6 months	3 months

No.	Country	Construction	Installation	Assembling	Supervisory	Other Services
53	Switzerland	183 days	183 days	183 days	183 days	-
54	Syria	6 months	6 months	6 months	6 months	183 days
55	Taiwan	6 months	6 months	6 months	6 months	120 days
56	Thailand	6 months	6 months	6 months	6 months	6 months
57	Tunisia	3 months	3 months	3 months	3 months	3 months
58	Turkey	6 months	6 months	6 months	6 months	183 days
59	UAE	6 months	6 months	6 months	6 months	6 months
60	Ukraine	6 months	6 months	6 months	6 months	4 months
61	United Kingdom	183 days	183 days	183 days	183 days	91 days
62	United States	120 days	120 days	120 days	120 days	120 days
63	Uzbekistan	6 months	6 months	6 months	6 months	3 months
64	Venezuela	6 months	6 months	6 months	6 months	-
65	Vietnam	6 months	6 months	6 months	6 months	3 months
66	Zimbabwe	6 months	6 months	6 months	6 months	183 days

Tax Amnesty

Following almost a year of polemic in the Parliament on the need for the Tax Amnesty Law, on 1 July 2016 the Law finally came into force.

The tax amnesty is to cover fiscal years up to 31 December 2015. This means that taxpayers can report their undisclosed assets from past years up to 31 December 2015. The amnesty is applicable for Indonesian individual or corporate tax residents.

The periods and rate of the tax amnesty

The reporting period of the tax amnesty to the Indonesian tax office is from 1 July 2016 to 31 March 2017.

Assets	1 July 2016 to 30 Sept 2016	1 Oct 2016 to 31 Dec 2016	1 Jan 2017 to 31 Mar 2017
Declaration of Offshore Assets without repatriation	4%	6%	10%
Onshore Assets or Repatriated Offshore Asset	2%	3%	5%

Small Taxpayers	Gross Assets up to IDR10bn	Gross Assets More than IDR10bn
With revenue ≤ IDR4.8billion	0.5%	2%

The lower rate for Small and Medium Entrepreneurs is only applicable for Indonesian tax residents who carry on business with revenue of IDR4.8 billion or less; it is not applicable for employees or for freelance workers who have special expertise such as doctors, notaries, accountants, architects, or lawyers.

Taxpayers are given three opportunities to submit applications to the Indonesian tax office from 1 July 2016 to 31 March 2017.

Cash should be reported using nominal value, while non-cash assets should be reported using fair value. Fair value refers to the condition of assets based on the taxpayer's assessment.

Repatriated assets

Repatriated offshore assets should be invested in Indonesian territory in the following instruments:

- Government bonds
- State-owned enterprise bonds
- Financial investments in appointed banks
- Corporate bonds supervised by the Financial Services Authority (OJK)
- Government-related infrastructure projects
- Sectors to be determined by the Ministry of Finance
- Other investment based on prevailing law

Repatriated offshore assets need to be retained in Indonesia for at least 3 years, while onshore assets cannot be transferred out of Indonesia for at least 3 years. Taxpayers intending to repatriate assets into Indonesia through a branch of an Indonesian Receiving Bank overseas should retain the assets in Indonesia for at least 3 (three) years from the placement in the overseas branch.

The branch must transfer the assets to Indonesia no later than the next working day. The Minister of Finance will determine the Receiving Banks that will receive payments of redemption money and transfer of offshore assets.

Taxpayers in the process of initial investigation or full investigation

Taxpayers intending to participate in the Tax Amnesty must pay the amount of tax payable based on written information from the tax office conducting the initial investigation or full investigation.

Assets owned through Special Purpose Vehicles (SPV)

SPV is defined as an intermediary entity that has no active business and is used solely to carry out certain functions for the interests of its founder such as purchases and/or investment funding.

Assets owned through a SPV must be declared by disclosing the assets and the associated debt. The assets are reported in the list of assets, while the debt is included in the list of debts. The debt is subject to a limitation of 75% of the value of additional assets for an entity or 50% for an individual.

In the case that the assets are Indonesian underlying assets and the SPV is dismantled, the tax amnesty rate uses the onshore rate; otherwise the offshore tax amnesty rate will apply.

When the SPV is dismantled, the title of assets in the form of Indonesian land and/or building or shares should be transferred to the name of the taxpayer that submits declaration of tax amnesty.

Transfer of title of Land and/or Building (L&B) or Shares

Taxpayers having obtained a Certificate must change the title of L&B or Shares into their own names. The L&B or shares must be indirectly owned before the FY15. The income tax from change of title of L&B or shares will be exempted after the issuance of the tax exemption letter (SKB) from the tax office where the taxpayer is registered.

Revision of tax return after FY15 and waived interest penalty

Subsequent to submission of the Declaration for FY15, taxpayers might have to revise the following year tax returns, since the tax loss or overpayment is no longer eligible. The interest penalty due to revision of such tax returns will be waived by the tax office.

Implications for non-participating taxpayers

If the tax office finds assets acquired from 1 January 1985 through 31 December 2015 within 3 years after the Tax Amnesty Law becomes effective, the tax office will issue an underpaid tax assessment notice based on prevailing tax regulations.

Not subject to tax audit

Taxpayers who participate in the Tax Amnesty will not be subjected to a tax audit for their tax obligations in tax year 2015 and earlier, including investigation for criminal act in the field of taxation.



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Notes

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