

Indonesia

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What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

The Indonesian government has issued several new regulations to provide incentives to encourage investment. One of the most recent incentives is the super tax deduction, which applies to labor intensive industries, human development, and R&D activities. The government also regularly updates the tax holiday and tax allowance regulations to ease the application process and expand the business sectors eligible for the incentives. These include a tax incentive for new investments or expansions in certain businesses that are considered labor intensive and reduced corporate income tax (CIT) rates for Go Public entities.

The government also has issued regulations to provide incentives relating to income taxation, customs and excise, traffic of goods, employment, immigration, land and spatial planning, business licenses, and other areas to entities that operate within certain business sectors as determined by Indonesia's National Council in the Kawasan Ekonomi Khusus special economic zone (SEZ).

In addition, the government has introduced several tax and customs incentives to reduce the impact of COVID-19, the details of which are not provided in this survey.

Featured government incentives

| Incentive name | Description | Maximum percentage | Qualification standards | Key exclusions or issues |
|----------------------|--|---|--|---|
| Tax holiday | <ul style="list-style-type: none"> A 50% or 100% CIT reduction is available for five to 20 years from the beginning of commercial production, depending on the value of the planned investment Half of the CIT reduction applies for the following two subsequent years | Reduction of up to 100% of CIT due | The business activities and scope of products eligible for a tax holiday are listed in Appendix 1 of the Indonesia Investment Coordinating Board (BKPM) Regulation Number 1 of 2019. PMA companies (foreign investment companies) with business activities that are not listed in the appendix may still be able to apply if certain pioneer industry criteria are fulfilled | Uncertainties exist for companies that have business activities that are not listed in the relevant BKPM regulation |
| Tax allowance | <p>The available tax allowances include:</p> <ul style="list-style-type: none"> A reduction in net income of 30% of investments in tangible fixed assets and land, prorated over six years of commercial production (5% per year) Accelerated depreciation and/or amortization for fixed assets and intangible assets A reduced 10% withholding tax (WHT) rate (or lower treaty rate) on dividends distributed to nonresidents An extended tax loss carry forward period of greater than five years but no longer than 10 years under certain conditions | 30% of qualifying investments; accelerated depreciation; reduced 10% WHT on dividends; and an extended tax loss carry forward | A tax allowance may be granted to Indonesian legal entities (including PMA companies) that make new investments that fall within certain lines of business and, in some cases, are in certain locations | Tax allowances are limited to listed business activities |

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Featured government incentives (continued)

| Incentive name | Description | Maximum percentage | Qualification standards | Key exclusions or issues |
|----------------------------|--|---|---|--|
| Super tax deduction | <ul style="list-style-type: none"> A reduction in net income of 60% of investments in tangible fixed assets and land used for main business activities is available for labor intensive industries, prorated over six years from the start of commercial production (at 10% per year) | Labor intensive industries: 60% of qualifying investments | Domestic taxpayers with main business activities listed in Appendix A of Ministry of Finance (MOF) Regulation Number 16/PMK.010/2020 and employing at least 300 Indonesian employees are eligible for the super tax deduction for labor intensive industries | No guidelines or implementing regulations have been issued |
| | <ul style="list-style-type: none"> A reduction in gross income of up to 200% is available on expenditure incurred for human development (apprenticeship, internship, and/or learning activities) | Human development expenditure: 200% of qualifying expenditure | All companies are eligible to obtain a reduction in gross income of 100% of the total costs incurred for human development. An additional reduction for 100% of these costs will be granted to companies that conduct human development activities in relation to certain competencies listed in Appendix A of MOF Regulation Number 128/PMK.010/2019 | |
| | <ul style="list-style-type: none"> A reduction in gross income of up to 300% is available on expenditure incurred for certain R&D activities in Indonesia | R&D expenditure: 300% of qualifying expenditure | Companies that conduct certain R&D activities in Indonesia are eligible for the super tax deduction on R&D expenditure | |

Industries most often affected by government incentives in country

| Technology, Media & Telecom | Financial Services |
|--|-----------------------------------|
| ● Telecom, Media & Entertainment | Banking & Capital Markets |
| ● Technology | Insurance |
| Consumer | Investment Management |
| Consumer Products | Real Estate |
| Retail, Wholesale & Distribution | Life Sciences & Health Care |
| ● Automotive | ● Health Care |
| ● Transportation, Hospitality & Services | ● Life Sciences |
| Energy, Resources & Industrial | Government & Public Services |
| ● Power & Utilities | ● Health & Social Care |
| ● Mining & Metals | Defense, Security & Justice |
| ● Oil, Gas, & Chemicals | Civil Government |
| ● Industrial Products & Construction | International Donor Organizations |
| | ● Transport |

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| Type | National incentive? | State, provincial, regional or local incentives? ¹ | Filing deadlines imposed? | Is the claim made in advance or arrears? ² | Nature of incentive | Maximum benefit available to large enterprises | Maximum benefit available to small and medium-sized enterprises |
|---|---------------------|---|---------------------------|---|--|--|---|
| Innovation | | | | | | | |
| Research & development (R&D) | ● | ● | ● | National: Not applicable Local: Not applicable | Enhanced tax deduction for companies that conduct certain R&D activities in Indonesia, with further details to be regulated by the government | Up to 300% of qualifying R&D expenditure | Up to 300% of qualifying R&D expenditure |
| Investment | | | | | | | |
| Capex | ● | ● | ● | National: Advance Local: Not applicable | Reduced CIT for companies that meet certain criteria for pioneer industries | 50% or 100% CIT reduction for five to 20 years from the beginning of commercial production | N/A |
| Employment | ● | ● | ● | National: Advance Local: Not applicable | Tax deduction on investments in tangible fixed assets including land used for main business activities, allocated over the first six years of commercial production, for companies that employ at least 300 people | 60% of qualifying investment (10% per year) | 60% of qualifying investment (10% per year) |
| Training | ● | ● | ● | National: Advance Local: Not applicable | Enhanced tax deduction on expenditure incurred for apprenticeship, internship, and/or learning activities | 200% of qualifying expenditure | 200% of qualifying expenditure |

Key: ● = PERMANENT INCENTIVE (■) = TEMPORARY INCENTIVE (■) = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

Notes:

- Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
- If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.



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| Type | National incentive? | State, provincial, regional or local incentives? ¹ | Filing deadlines imposed? | Is the claim made in advance or arrears? ² | Nature of incentive | Maximum benefit available to large enterprises | Maximum benefit available to small and medium-sized enterprises |
|-----------------------|---------------------|---|---------------------------|---|--|---|---|
| Investment | | | | | | | |
| Tax allowance | ● | ● | ● | National: Advance | Incentives for new investments in certain lines of business and, in some cases, certain locations. Incentives include deductions of qualifying investments in fixed assets and land, accelerated depreciation/ amortization on qualifying assets, reduced WHT on distributions to nonresidents, and enhanced tax loss carryforward periods | Deduction of 30% of qualifying investment, accelerated depreciation/ amortization on qualifying assets, 10% WHT on distributions to nonresidents, and tax loss carryforward periods of up to 10 years | Deduction of 30% of qualifying investment, accelerated depreciation/ amortization on qualifying assets, 10% WHT on distributions to nonresidents, and tax loss carryforward periods of up to 10 years |
| | | | ● | Local: Not applicable | | | |
| Import duty exemption | ● | ● | ● | National: Advance | Import duty exemption for imported machinery and equipment, goods, materials, and raw materials to be used in the production of goods or the provision of services | 100% exemption for up to four years | 100% exemption for up to four years |
| | | | ● | Local: Not applicable | | | |
| Bonded zone | ● | ● | ● | National: No | Incentives for entities located in an industrial area with bonded zone status and whose products are mainly for export | Customs exemption and non-collected import VAT | Customs exemption and non-collected import VAT |
| | | | ● | Local: Not applicable | | | |
| Free trade zone | ● | ● | ● | National: Not applicable | Incentives for entities located in designated free trade areas and free ports (free zones) | Free from customs and exempted from VAT | Free from customs and exempted from VAT |
| | | | ● | Local: Not applicable | | | |
| Special economic zone | ● | ● | ● | National: Advance | Incentives for entities in certain business sectors located in designated special economic zones. Incentives may include tax, customs, employment, immigration and others | Various | Various |
| | | | ● | Local: Not applicable | | | |

Key: ● = PERMANENT INCENTIVE ■■■ = TEMPORARY INCENTIVE ■■■ = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

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Investment and Innovation incentives

Tax holiday

Nature of incentives

A tax holiday will be granted to any Indonesian legal entity (including a PMA company) with new investment (either via setting up a new company or expanding a business), subject to the following requirements:

- The proposed business falls within the category of “pioneer industry”;
- The investment value of the proposed business is at least IDR 100 billion;
- The company is able to maintain the debt to equity ratio requirement determined by the Indonesian government for CIT calculation purposes, i.e., a 4:1 debt to equity ratio; and
- The company has never received a tax holiday application approval or rejection from the Indonesian MOF.

The tax holiday may be granted in the form of:

- A 50% reduction of CIT for a five- year period for investment of at least IDR 100 billion but less than IDR 500 billion; and
- A 100% reduction of CIT for the following levels of investment:

| Period (tax years) | Investment value (IDR) |
|--------------------|--|
| 5 | At least 500 billion but less than 1 trillion |
| 7 | At least 1 trillion but less than 5 trillion |
| 10 | At least 5 trillion but less than 15 trillion |
| 15 | At least 15 trillion but less than 30 trillion |
| 20 | 30 trillion or more |

In addition, half of the CIT reduction percentages are granted for two years following the above CIT reduction periods.

Eligible industries

The business activities and products that are eligible for the tax holiday are listed in Appendix 1 of BKPM Regulation Number 1 of 2019. However, PMA companies with business activities that are not

listed in the appendix may still be able to file an application to obtain a tax holiday, provided the PMA company fulfills the following criteria for pioneer industries:

- Has broad linkages;
- Provides high added value and high externality;
- Introduces new technology; and
- Has a strategic value for the national economy.

Tax allowance

Nature of incentives

Certain industries and/or locations may be eligible for a tax allowance in the form of the following benefits:

- A reduction in net income of 30% of the actual amount invested in tangible fixed assets including land, allocated over the six years of commercial production after receiving the tax allowance approval (i.e., 5% per year);
- Accelerated depreciation and/or amortization of eligible fixed assets and intangible assets;
- A 10% reduced WHT rate on dividends distributed to nonresidents (or a lower rate under a relevant tax treaty); and
- An enhanced tax loss carry forward period of greater than five years but no longer than 10 years under certain conditions.

Eligible industries

Tax allowance facilities may be granted to Indonesian legal entities (including PMA companies) that make new investments (either via setting up a new company or expanding a business) that meet the following criteria:

- Fall within certain lines of business listed in Appendix I of Government Regulation Number 78 of 2019; or
- Fall within certain lines of business and are located in certain locations listed in Appendix II of Government Regulation Number 78 of 2019.



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Import duty exemption

Nature of incentives

The following goods are eligible for an exemption from import duties:

- Capital goods, such as machinery, equipment and auxiliary equipment, for a period of two years as from the effective date of the exemption decision; and
- Goods, materials, and raw materials that are to be used in the production of finished goods or in the provision of services for two full years of production. For companies that use machinery that is at least 30% locally manufactured, the period of exemption is up to four years.

The imported machinery, goods, and raw materials must fulfill the following requirements:

- Are not of the kind being produced in Indonesia;
- Are being produced in Indonesia, but do not meet the required production specifications; or
- Are being produced in Indonesia, but not in the required quantities.

Eligible industries

Generally, all industries that produce goods and/or services are eligible for the import duty exemption. These industries include but are not limited to the following:

- Tourism and culture;
- Public transportation;
- Public health services;
- Mining;
- Construction;
- Telecommunication;
- Ports, etc.

Super tax deduction

Nature of incentives

The Indonesian government offers a super tax deduction facility that includes the following tax incentives:

- Labor intensive industries: An additional deduction of 60% of the total investment in tangible fixed assets including land used for main business activities, allocated over six years from the start of commercial production (i.e., 10% per year);
- Human development: A deduction of up to 200% of the total expenditure incurred for apprenticeship, internship, and/or learning activities; and
- Research and development (R&D): A deduction of up to 300% of the total expenditure incurred for certain R&D activities in Indonesia, which are charged as an expense within a certain period. Qualifying R&D activities are those carried out to produce inventions, produce innovations, master new technologies, and/or transfer technology for industrial development to increase the competitiveness of national industries.

Eligible industries

Labor intensive industries

To be eligible to obtain the super tax deduction for labor intensive industries:

- The company must be a domestic taxpayer;
- The company's main business must be listed in Appendix A of MOF Regulation Number 16/PMK.010/2020; and
- The company must employ at least 300 Indonesian employees.

Human development

All companies are eligible to obtain a deduction of 100% of the total costs incurred for human development, i.e., apprenticeship, internship, and/or learning activities. An additional deduction for 100% of the costs will be granted to companies that conduct apprenticeship, internship, and/or learning activities in relation to certain competencies listed in the Appendix A of MOF Regulation Number 128/PMK.010/2019.



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R&D

The R&D super deduction is available to companies that conduct qualifying R&D activities in Indonesia.

The super tax deduction for R&D activities is expected to be regulated under an MOF implementing regulation that has yet to be issued.

Reduced CIT rate for Go Public Companies

Nature of incentives

A 3% reduction of the normal CIT rate is provided to a public company fulfilling certain requirements. (Under current law, the normal CIT rates are 22% for the 2020 and 2021 tax years and 20% for the 2022 tax year.)

Eligible industries

Taxpayers eligible for the 3% CIT rate reduction include domestic public companies:

- With at least 40% of the total number of paid-up shares traded on the stock exchange in Indonesia; and
- That meet the following requirements:
 - A. Their shares are owned by at least 300 parties;
 - B. Each party referred to in a) owns less than 5% of the total issued and fully paid shares;
 - C. The requirements in a) and b) are fulfilled for at least 183 calendar days within one fiscal year; and
 - D. The public company submits a report to the Directorate General of Taxes on the fulfillment of the above requirements.

The parties referred to in a) and b) above do not include:

- Public companies that buy back their shares; and/or
- A party that is considered related to the public company under the income tax law.

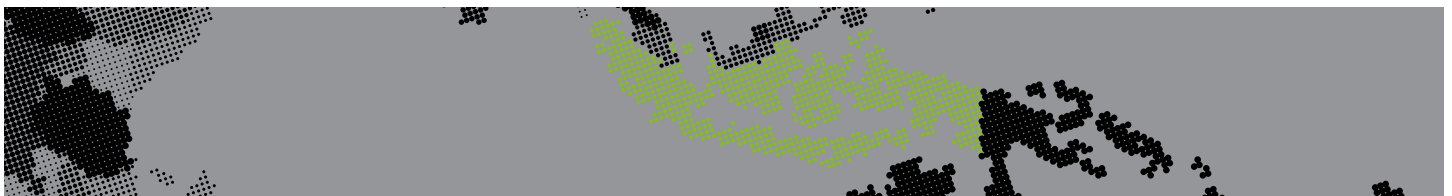
Bonded Stockpile Facility

Nature of incentives

Incentives are provided based on the status and function of the bonded stockpile. In general, the incentives granted are deferred customs duty, non-collected import taxes, and/or an excise tax exemption.

Currently, a bonded stockpile includes the following:

- A bonded warehouse used to store imported goods, where additional activities (packaging/repackaging, sorting, kitting, packing, adjusting, cutting, etc.) may be performed for certain goods to be re-exported within a certain period of time;
- A bonded zone where imported goods and/or goods originating from other places in the customs area are stored to be processed or combined before being exported or imported for use;
- A place for bonded exhibition used to store imported goods for a certain period of time, with or without goods from within the customs area, for display;
- A duty free shop used to store imported goods and/or goods from within the customs area to be sold to certain people and located at:
 - An international airport departure terminal in the customs area;
 - A main port in the customs area;
 - A transit point at an international airport departure terminal that is a designated place for transit passengers with foreign destinations in the customs area;
 - A main port that is a designated place for transit passengers with foreign destinations in the customs area;
 - Within the city; or
 - An arrival terminal at an international airport in the customs area;
- A bonded auction place used to store imported goods for a certain period of time to be sold by auction;
- A bonded recycling area used to store imported goods for a certain period of time and in which activities are carried out by recycling the waste from imports and/or from the customs area so that it becomes a product that has added value as well as higher economic value; and
- A bonded logistics center used to store goods from outside the customs area and/or goods originating from other places in the customs area, and where one or more simple activities may be performed within a certain period of time for goods to be re-exported.



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Eligible industries

Indonesian legal entities that are domiciled in Indonesia and located in an industrial area are eligible for bonded stockpile incentives. In addition, the entities must fulfill certain requirements specified in the regulation relating to their functions and activities.

Free zones

Nature of incentives

Free trade areas and free ports (free zones) are areas located in Indonesia that are outside the customs area (i.e., Batam, Bintan, and Karimun) and are free from the imposition of import duties, value added tax, sales tax on luxury goods, and excise tax.

Eligible industries

Indonesian legal entities located in an area designed as a free zone and that have obtained a business license from the Zone Exploitation Agency are eligible for free zone incentives.

Special economic zones

Nature of incentives

A special economic zone (SEZ) is an area with certain boundaries within Indonesia that is designated to carry out economic functions and benefit from certain facilities. Entities located in an SEZ that carry out certain businesses may be eligible for incentives in the following areas:

- Tax, customs and excise (e.g., reduction of the CIT rate, non-collected VAT, customs/excise exemption, and non-collected import taxes);
- Traffic of goods (restrictions on imports and exports do not apply in the SEZ);
- Employment (ease of expatriate employee utilization);

- Immigration (ease of immigration process);
- Land and spatial planning;
- Business licenses (ease of issuance of business licenses via the Online Single Submission (OSS) website); and/or
- Other facilities and conveniences.

Eligible industries

Entities in the following business sectors that are located in an SEZ are eligible for SEZ incentives:

- SEZ development and management;
- Provision of SEZ infrastructure;
- Upstream to downstream processing of certain commodities;
- Manufacturing of certain products;
- Energy development;
- Logistics centers;
- Tourism;
- Health;
- Education;
- Technology research and development;
- Financial services;
- Creative industries (architecture, culinary, design, etc.); and
- Other business sectors as determined by Indonesia's National Council.

