



Indonesia Tax Alert September 2021 Energy, Resources and Industrial (ER&I)

New regulation issued on transfer of participating interest in an oil and gas block

The Indonesian tax treatment of upstream oil and gas production sharing contracts (PSCs) under a cost-recovery arrangement is regulated by Government Regulation (GR) Number 79 of 2010, as amended by GR Number 27 of 2017 (PP-79); whereas the tax treatment of PSCs under a gross-split arrangement is regulated by GR Number 53 of 2017 (PP-53).

Although the tax treatment related to the transfer of a participating interest (PI) in a PSC is covered by both PP-79 and PP-53 as well as the implementing Minister of Finance (MoF) Regulation Number 257/PMK.011/2011 (PMK-257), on 31 August 2021, the Indonesian government issued GR Number 93 of 2021 (PP-93) superseding the relevant PI transfer provisions in PP-79 and PP-53. The purpose of the issuance of PP-93 is to provide legal certainty, create a conducive investment climate in the upstream sector, and support the restructuring of the state-owned oil and gas company.

PP-93 clarifies that a PI in a PSC is an immovable asset that may be owned directly or indirectly. The transfer of a PI is deemed to generate income for the contractor of the PSC and thus, it is subject to final income tax. PP-93 also provides a tax exemption if the transfer satisfies certain conditions.

The following table summarizes the key provisions of PP-93:

Topic	Direct transfer	Indirect transfer
Description of transfer (PP-93 provides further guidance on indirect transfers)	The contractor transfers its own PI in a PSC block to another party.	The PI in a PSC block is transferred to another party by selling the shares in the contractor owning the PI or the shares in the direct or indirect owner of the contractor, regardless of the number of levels of ownership.
Final income tax rate (no change in PP-93 from PP-79/PP-53)	<ul style="list-style-type: none"> • 5%, if the transfer is carried out during the exploration stage; or • 7%, if the transfer is carried out during the exploitation stage. 	
Tax base (PP-93 clarifies the tax base on an indirect PI transfer)	<ul style="list-style-type: none"> • The actual transfer price by any name and in any form; or • The arm's-length value (for a related party transfer). 	The fair market value of the PSC, taking into account the proportion of the share ownership and the PI percentage being transferred.
Timing of tax is due (PP-93 amends the time the tax is due on an indirect PI transfer)	<p>The earlier of:</p> <ul style="list-style-type: none"> • The time of payment for the PI; • When the transfer of the PI becomes effective; or • When the transfer of the PI has been approved by the Ministry of Energy and Mineral Resources. 	The end of the fiscal year in which the transfer of the PI occurs.
Conditions for the transfer of PIs to qualify for exemption from final income tax (PP-93 introduces a new tax exemption for indirect PI transfers)	<p>A direct transfer of a PI during the exploration stage may be tax-exempt if all of the following conditions are met:</p> <ul style="list-style-type: none"> • The contractor does not transfer its entire PI to the other party; • The contractor has owned the PI for more than three years; • Exploration activities have been conducted; and • The transfer is not carried out for profit. <p>A direct transfer of a PI during the exploitation stage that is carried out to meet the contractor's obligation under a PSC contract or relevant law may be tax-exempt.</p>	<p>An indirect transfer of a PI during the exploration and exploitation stages may be tax-exempt if one or more of the following conditions are met:</p> <ol style="list-style-type: none"> (a) The gain from the transfer of shares has already been subject to income tax under the prevailing regular income tax regime; (b) The transfer has already been subject to final income tax in Indonesia under the prevailing Income Tax Law; (c) The transfer is conducted as part of a restructuring, in which an approval for a tax-neutral restructuring has been obtained from the Directorate General of Taxation (DGT); and/or (d) The transfer is conducted as part of a restructuring, which is not for profit, and the ultimate parent entity remains unchanged. <p>PP-93 provides examples for each of the conditions above.</p> <p>With respect to transfers that fall within point (d) above:</p> <ul style="list-style-type: none"> • The transfer must be notified to the DGT by the fourth month after the fiscal year ends; • The notification to the DGT must be accompanied by certain supporting documents, such as transaction documents, audited financial statements, restructuring approval, etc.; and • The DGT has the authority to audit the contractor to ensure that the transfer is not conducted to generate a profit and that the ultimate parent entity remains unchanged.

Some high-level observations on PP-93 include:

- Following the issuance of PP-93, the provisions relating to the transfer of PI in PP-79 and PP-53 are revoked. An MoF regulation will be issued as the implementing regulation for PP-93;
- In 2011, the MoF issued PMK-257 as the implementing regulation for the original PP-79. Under PMK-257 (which refers to the original PP-79), the profit after final income tax on the transfer of a PI is subject to Article 26(4) income tax (branch profit tax (BPT)). Although the requirement for BPT was removed in 2017 when PP-79 was amended, PMK-257 has not been updated to reflect the change. PP-93 includes a provision where the implementing regulations for PP-79 and PP-53 relating to the transfer of PI remain valid, unless they contradict PP-93. Since PP-93 clearly states that income from the transfer of PI after being subject to final income tax is not subject to further income tax, the BPT requirement under PMK-257 should no longer be valid; and
- Under PMK-257, the actual transfer value is used as the basis for calculating the final income tax for an indirect transfer of a PI. This value may not necessarily reflect the market value of the block being transferred. PP-93 addresses this issue by stating that the fair market value of the oil and gas block (taking into account the proportion of the share ownership and the PI percentage being transferred) is used as the basis for calculating the final income tax on an indirect transfer of a PI. However, PP-93 is silent on whether a valuation report from an independent third-party is required to determine the market value of the PSC.

PP-93 has a significant effect on the upstream oil and gas business. PSC contractors and potential investors that wish to transfer or acquire a PI in a PSC should review the tax implications of PP-93 on the PI transaction. Please contact your usual tax professionals at Deloitte Touche Solutions should you have any questions on PP-93 and its effect on your business.

Energy, Resources and Industrials (ER&I) Partners

Questions concerning any of the subjects or issues contained in this **Tax Alert** should be directed to our Energy, Resources and Industrial (ER&I) tax specialists below:



Cindy Sukiman
Partner, Indonesia ER&I Leader
Business Tax and International Tax
csukiman@deloitte.com



Ali Mardi Djohardi
Partner, Indonesia ER&I Tax Leader
Business Tax
alimardi@deloitte.com



John Lauwrenz
Partner
Business Tax and M&A
jlauwrenz@deloitte.com



Turmanto
Partner
Business Tax, Indirect Tax and
Global Trade Advisory (Customs)
tturmanto@deloitte.com

You may also get in touch with your usual contact in our firm, or any of the following Tax Partners:

Business Tax

Melisa Himawan
Tax & Legal Leader
mehimawan@deloitte.com

Business Tax, Business Process Solutions and Gi3

Roy Sidharta Tedja
roytedja@deloitte.com

Transfer Pricing

Roy David Kiantiong
rkiantiong@deloitte.com

Business Tax

Dionisius Damijanto
ddamijanto@deloitte.com

Business Tax and Tax Management Consulting

Yan Hardyana
yhardyana@deloitte.com

Transfer Pricing

Balim
bbalim@deloitte.com

Business Tax

Heru Supriyanto
hsupriyanto@deloitte.com

Global Employer Services and Business Process Solutions

Irene Atmawijaya
iatmawijaya@deloitte.com

Transfer Pricing

Sandra Suhenda
ssuhenda@deloitte.com

Business Tax and Business Process Solutions

Ratna Lie
ratnalie@deloitte.com

Global Employer Services

Sri Juliarti Hariani
shariani@deloitte.com

Transfer Pricing

Shivaji Das
shivdas@deloitte.com

Business Tax

Reggy Widodo
rwidodo@deloitte.com

Deloitte Touche Solutions

The Plaza Office Tower, 32nd Floor
Jl. M.H. Thamrin Kav 28-30
Jakarta 10350, Indonesia
Tel: +62 21 5081 8000
Fax: +62 21 2992 8303
Email: iddttl@deloitte.com
www.deloitte.com/id

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which are separate and independent legal entities, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

About Deloitte Indonesia

In Indonesia, services are provided by Deloitte Touche Solutions.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organization”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.