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Indonesia Tax Guide 2021 - 2022

Deloitte Touche Solutions



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General Indonesian Tax Provisions

Law Number 6 of 1983 regarding General Tax Provisions and Procedures as most recently amended by Law Number 11 of 2020 regarding Omnibus Law on Job Creation

Overview

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

Types of taxes in Indonesia are, among others:

- Income tax (*Pajak Penghasilan*);
- Value Added Tax (*Pajak Pertambahan Nilai* (VAT)) and Luxury-goods Sales Tax (*Pajak Penjualan atas Barang Mewah* (LST));
- Land and building tax (*Pajak Bumi dan Bangunan*); and
- Regional taxes (*Pajak Daerah dan Retribusi Daerah*).

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

Indonesian tax laws are based on self-assessment principle. Control of the Directorate General of Taxation (DGT) over tax compliance is exercised through tax audits, which are generally followed by the issuance of tax assessment letters. The statute of limitation for the DGT to issue an Underpaid Tax Assessment Letter (*Surat Ketetapan Pajak Kurang Bayar* (SKPKB)) and Additional Underpaid Tax Assessment Letter (*Surat Ketetapan Pajak Kurang Bayar Tambahan* (SKPKBT)) is five years. Under the criminal act, the statute of limitation can be extended to ten years.

Administration, bookkeeping, and records

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

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

Foreign investment companies (*Penanaman Modal Asing* (PMAs)), PEs, taxpayers listed on offshore stock exchanges, subsidiaries of offshore companies, certain collective investment contracts (*Kontrak Investasi Kolektif* (KIKs)), or taxpayers that prepare their financial statements in US Dollar as their functional currency in accordance with the SAK, may maintain their bookkeeping in English and use the US Dollar denomination (USD bookkeeping) by firstly obtaining an approval from the DGT before commencing the bookkeeping preparation. Contractors of oil and gas Production Sharing Contracts (PSCs) and companies operating under mining Contracts of Works (CoWs) may decide to maintain USD bookkeeping by notifying the DGT.

A fiscal year is the calendar year or bookkeeping year. An approval from the DGT must be obtained in order to change the fiscal year period.

Tax payment and reporting obligations

Monthly tax obligation

The tax payment and reporting deadlines for monthly income tax and VAT obligations are summarized below:

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

An exception applies for self-assessed VAT on the utilization of taxable intangible goods and/or taxable services from offshore and VAT collected by VAT collectors other than State Treasurer, in which the payment is due by the 15th of the following month.

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

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

Annual tax obligation

The tax payment and reporting deadlines for annual income tax obligations are summarized as follows:

Type of tax	Payment deadline	Filing deadline
Corporate income tax	Before the submission of the annual tax return	The end of the fourth month after the fiscal year ends
Individual income tax	Before the submission of the annual tax return	The end of the third month after the fiscal year ends

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

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

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

Tax controversy

Tax audit and tax assessment

The DGT may conduct a tax audit on a taxpayer within the statute of limitation. The audit can be carried out to:

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

Typically, the tax auditor will request for the taxpayer's books, records, and other supporting documents that form the basis for the tax calculation. The taxpayer is required to submit the requested information and data within one month since the request date. Information and data that are not provided within the time frame will not be considered in the tax audit and tax objection processes.

The tax auditor will deliver the tax audit findings (*Surat Pemberitahuan Hasil Pemeriksaan (SPHP)*) to the taxpayer, which should be responded by the taxpayer. The tax auditor will then invite the taxpayer for a closing conference to discuss the SPHP and the response letter.

The taxpayer may request for a review from a Quality Assurance Team if there is a dispute between the taxpayer and the tax auditor regarding the legal basis for the correction during the closing conference.

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

- Nil Tax Assessment Letter (*Surat Ketetapan Pajak Nihil (SKPN)*)—the amount of tax paid or credited equals to the amount of tax payable;
- Overpaid Tax Assessment Letter (*Surat Ketetapan Pajak Lebih Bayar (SKPLB)*)—the amount of tax paid and/or prepaid tax credited exceeds the amount of tax payable; or
- SKPKB—the amount of tax paid and/or prepaid tax is less than the amount of tax payable.

For SKPKB, the underpaid amount is subject to a surcharge penalty of SBA plus uplift of 15% divided by 12 months for a maximum of 24 months; or a surcharge of 50% or 100%, depending on the case. The underpaid amount and the surcharge penalty should be settled to the State Treasury within one month since the issuance date of the assessment letter, if the assessment has been agreed upon by the taxpayer during closing conference in the tax audit process.

If a tax audit results in an imposition of interest penalty (for VAT underpayment) plus an incremental penalty (for input VAT that should not be credited or subject to 0%), only the higher of the two penalties will be imposed.

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

SKPKBT can only be issued based on a tax re-audit (*pemeriksaan ulang*). If the SKPKBT is issued, there will be a tax surcharge of 100% of the underpaid tax amount.

Tax objection

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

An objection letter must be submitted within three months since the delivery date of tax assessment letter or the date of tax withholding. If the objection is filed over a tax assessment letter, the taxpayer must settle at least the amount that has been agreed upon during the tax audit closing conference. The payment of any amount that has not been agreed upon during the closing conference is deferred until one month after the issuance date of Tax Objection Decision Letter (*Surat Keputusan Keberatan*).

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

In the case the objection request is rejected or partially approved, an additional tax surcharge of 50% will be imposed on the tax amount that must be paid, deducted by the tax amount paid before the submission of objection letter. However, if the taxpayer appeals the decision to the Tax Court, the tax surcharge of 50% will not be imposed and the payment of the tax is deferred until one month after the issuance of Tax Court Decision Letter (*Putusan Pengadilan Pajak*).

Tax appeal

A taxpayer can appeal against a Tax Objection Decision Letter to the Tax Court.

The request for an appeal (*banding*) must be submitted at the latest three months since the Tax Objection Decision Letter is received.

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

In the case the appeal request is rejected or partially approved, an additional tax surcharge of 100% will be imposed on the tax amount that must be paid, deducted by the tax amount paid before the submission of relevant objection letter.

Judicial review request

In some cases, a taxpayer or the DGT may challenge the Tax Court Decision Letter by filing a judicial review (*peninjauan kembali*) request to the Supreme Court.

The judicial review request should be concluded within six months since the review request is accepted. However, there is no consequence if the deadline elapses. A request for judicial review does not postpone the execution of Tax Court Decision Letter.

Lawsuit

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

A lawsuit against an execution of tax collection process must be submitted to the Tax Court within 14 days since the execution date of tax collection procedures. A lawsuit against issues other than the execution of tax collection process must be submitted within 30 days since the receipt of decision letter.

The Tax Court must conclude the lawsuit case within six months since the request is received.

Other tax dispute resolution

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

- Reduce or cancel an administration sanction in the case the sanction is imposed due to the taxpayer's unintentional mistakes;
- Reduce or cancel an incorrect tax assessment letter or tax collection letter; or
- Cancel tax audit findings or tax assessment letters that are issued without:
 - Delivering SPHP properly; or
 - Conducting a closing conference with the taxpayer.

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

Tax collection procedures

In addition to tax assessment letters, the DGT can issue tax collection letters (*Surat Tagihan Pajak (STPs)*) to collect the tax payables and/or tax penalties and surcharges arising from the following conditions:

Condition	Penalties and surcharges
Tax underpayment	SBA plus uplift of 5% divided by 12 months, for a maximum of 24 months; or a surcharge of 50% or 100%
Tax penalties and surcharges	-
VAT-able entrepreneur (<i>Pengusaha Kena Pajak (PKP)</i>) that does not issue VAT invoices or is late in issuing VAT invoices	1% of the VAT imposition base
PKP that issues incomplete VAT invoices (with certain limited exception)	1% of the VAT imposition base
Interest compensation that should not have been granted	-

An STP can be issued maximum five years after the tax, the fiscal period, the part of fiscal year, or the fiscal year is due. Under certain conditions, the statute of limitation can be extended.

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

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

1. The entire tax payable, along with the tax penalties and surcharges—if the tax bearer is acting as the corporate taxpayer itself or as the management of the corporate taxpayer; and
2. A prorated amount of the tax payable, along with the tax penalties and surcharges—if the tax bearer is the shareholder or capital owner that is not a member of corporate taxpayer management.

Tax crimes

Tax crimes are subject to criminal sanctions. Some of the criminal acts and the related sanctions are summarized below:

Condition	Sanctions
The taxpayer fails to submit a tax return due to negligence; or submits an incorrect or incomplete tax return; or attaches incorrect information.	<ul style="list-style-type: none">• Penalty of one to two times of the underpaid tax amount; or• Prison sentence of at least three months up to one year.

Condition	Sanctions
<p>The taxpayer deliberately:</p> <ul style="list-style-type: none"> • Does not register for an NPWP or PKP; • Abuses NPWP or PKP; • Does not file a tax return; • Submits an incorrect or incomplete tax return; • Refuses a tax audit; • Does not maintain bookkeeping, records, or supporting documents in Indonesia; • Shows false or falsified bookkeeping/records; or • Does not remit taxes withheld or collected. 	<ul style="list-style-type: none"> • Penalty of two to four times of the underpaid tax amount; and • Prison sentence of at least six months up to six years. <p>The sentence will be doubled if the taxpayer commits another tax crime within one year after the first prison sentence has been served.</p>
<p>The taxpayer abuses NPWP or PKP, or submits an incorrect or incomplete tax return and/or information in the effort to claim a tax refund, or tax compensation, or tax credit.</p>	<ul style="list-style-type: none"> • Penalty of two to four times of the amount of tax refund/compensation/credit; and • Prison sentence of at least six months up to two years.
<p>The taxpayer deliberately:</p> <ul style="list-style-type: none"> • Issues and/or uses tax documents that are not based on the actual transactions; or • Issues VAT invoice before being established as a PKP. 	<ul style="list-style-type: none"> • Penalty of two to six times of the tax amount; and • Prison sentence of at least two years up to six years.

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

Corporate Income Tax

- *Law Number 7 of 1983 regarding Income Tax as most recently amended by Law Number 11 of 2020 regarding Omnibus Law on Job Creation*
- *Law Number 2 of 2020 regarding the Stipulation of Government Regulation in Lieu of Law Number 1 of 2020 regarding State Financial Policy and Financial System Stability for Handling Corona Virus Disease 2019 (COVID-19) Pandemic and/or in the Context of Facing Threats that Harm National Economy and/or the Financial System Stability to Become Law*

Tax rates

The applicable standard CIT rates are as follows:

Fiscal Year (FY)	Rate
FY2020 and FY2021	22%
FY2022 and thereafter ^{*)}	20%

^{*)}Please refer to page 103.

Certain incomes are subject to final income taxes that are calculated from the gross income (please refer to page 48 to 50).

Certain corporate taxpayers (other than PEs of foreign companies) that earn or receive gross income not exceeding IDR 4.8 billion in a fiscal year (small and medium enterprises (SMEs)) are subject to final income tax rate of 0.5% for a certain period of time (please refer to page 49 to 50). However, these taxpayers may opt to apply the standard CIT rate after notifying the DGT.

Corporate taxpayers with gross income of up to IDR 50 billion shall receive a 50% reduction of CIT for the initial gross income of IDR 4.8 billion.

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

Branch profit tax

In addition to CIT, a PE is also subject to branch profit tax (BPT) at a rate of 20%, applicable to the PE's net profit after tax (PAT). This rate may be lowered subject to the accessibility of tax treaty benefits (please refer to page 78 to 83).

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

An exemption from BPT applies if the net PAT of the PE is reinvested into Indonesia, subject to certain requirements.

Tax residence and registration

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

A corporate tax resident that has the obligation to pay or withhold taxes shall be obliged to register for an NPWP. For a corporate taxpayer with business activities in several places, aside from having to register for an NPWP for its place of domicile, it shall also be obliged to register for NPWPs for its branches for each of their place of business activity.

A foreign corporate carrying certain business activities in Indonesia over the PE time test within a period of 12 months shall be regarded to exist in Indonesia through a PE and has to register for an NPWP.

Calculation of income—business profits

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

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

Nontaxable income

The following incomes are exempted from income tax:

- Aid, donations, *zakat*, religious donations, or gifts received, provided that there is no business, work, or ownership relationship between the parties concerned;
- Dividends received by a resident corporate taxpayer from another resident corporate taxpayer, dividend income from an offshore subsidiary, PE's PAT, and income from foreign active business without a PE that are reinvested into Indonesia for a certain period of time;
- Assets, including cash, received by an entity in exchange for shares or capital contribution;
- Profits distributed to a venture-capital company by a small or medium-sized enterprise (annual turnover of less than IDR 50 billion) engaging in certain businesses in Indonesia;
- Certain income earned by institutions managing Hajj Finance (*Badan Pengelola Keuangan Haji*);
- Surplus earned by registered social and religious bodies that fulfill certain conditions; and
- Share of profit received by a member of a limited partnership without share capital, cooperation, partnership, association, or firm, including the participation unit holders of KIKs.

Calculation of income—deductible expenses

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

Depreciation and amortization

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

Group of tangible assets	Useful life	Depreciation rates	
		Straight line method	Double declining method ^{*)}
1. 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%	NA
Non-permanent	10 years	10%	NA

*⁾ The remaining book value would be depreciated in full at the end of the useful life.

The taxpayer can claim 50% of the expenses (and depreciation expenses) for mobile phones and vehicles that are provided to the employees due to their job positions. These expenses include repair and maintenance of the mobile phones and vehicles.

Group of intangible assets	Useful life	Amortization rates	
		Straight line method	Double declining method ^{*)}
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%

*⁾ The remaining book value would be depreciated in full at the end of the useful life.

The lists of asset groupings are regulated by MoF regulations.

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

Expenses related to business establishment or expansion can either be claimed as an expense during the year or amortized. Pre-operational expenses with useful life of more than one year should be capitalized and amortized accordingly. Spending related to the acquisition of oil and natural gas mining rights as well as other related expenses with useful life of more than one year should be amortized using the unit of production method. Likewise, spending related to the purchase of non-oil and gas mining rights, forestry concession rights, and rights to exploit natural resources or other natural products should be amortized using the unit of production method capped at 20% annually.

Transfer of assets

Generally, gain arising from the transfer of asset is subject to income tax. Likewise, loss arising from the transfer of asset is tax deductible. The gain or loss from the transfer is calculated from the proceeds minus the fiscal net book value of the asset.

Promotional expenses

The following promotional expenses are deductible for tax purpose:

- Costs of advertisement;
- Costs of product exhibition;
- Costs related to introducing new products; and/or
- Costs of sponsorships associated with product promotion.

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

Provision for doubtful debts

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

- a. The write-off has been booked as an expense in the commercial income statement;
- b. The taxpayer must submit the list of uncollectible receivables to the DGT; and
- c. The collection effort of the uncollectible receivables has been brought to the district court or other relevant authority; or there is a written agreement for the write-off between the creditor and debtor concerned; or it has been announced in general or certain publications; or the debtor has acknowledged that a certain amount of the debt has been written-off.

Donations

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

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

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

Calculation of income—nondeductible expenses

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

- Expenses incurred for the interest of shareholders or partners;
- Provisions, except for provisions for doubtful accounts for banks and other financial institutions, provisions for insurance companies, deposit security provisions for the Deposit Insurance Agency (*Lembaga Penjamin Simpanan*), reclamation provisions for

- mining business, rehabilitation for forestry business; and area closure and maintenance for industrial waste processing business;
- Benefits-in-kind (BIK), with certain exceptions such as meals provided to all employees, uniforms necessary for works and provided to all employees, as well as benefits provided in certain qualifying remote areas;
- Amount in excess of normal compensation payable to shareholders or other parties having a special relationship;
- Grant, aid, or donation, except for those allowed to be deductible (please refer to page 22);
- Income tax;
- Salaries payable to members of a partnership, or certain types of business where the equity is not divided into shares;
- Tax administrative sanctions; and
- Expenses that are deferred for tax purpose.

Debt-to-Equity Ratio

A taxpayer with loan is subject to Debt-to-Equity Ratio (DER) of 4:1. In the case the DER exceeds 4:1, the borrowing costs have to be proportionated and the borrowing costs exceeding the DER of 4:1 are not tax deductible. For taxpayer that shows zero or deficit in its equity balance, the entire borrowing costs are not tax deductible. An exemption from DER requirement may apply for certain taxpayers.

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

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

Tax loss carry forward

Tax losses may be carried forward for five years following the year when the losses incurred. Subject to approval from the DGT, this period may be extended for up to 10 years for certain industries, and for the operations of specific industries in certain remote area.

The carryback of losses is not permitted.

Transfer of land and/or building

In general, transfer of land and/or building is subject to a final tax at a rate of 2.5% of the transaction value. Transfer of basic houses (*rumah sederhana*) and basic apartments (*rumah susun sederhana*) by a taxpayer whose main business is in transfer of land and buildings is subject to 1% final tax. A 0% rate is applicable on transfer of land and building to the government for public interest. A transfer duty of 5% is payable by the purchaser.

Exemptions are granted for certain types of transfer of land and buildings, such as grant, inheritance, merger with book value approved by the MoF, transfer of land and/or building by a non-taxpayer, and sale of land and/or building with a value less than IDR 60 million by an individual taxpayer whose annual income does not exceed the threshold of nontaxable income (*Penghasilan Tidak Kena Pajak* (PTKP)).

Dividend income

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

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

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

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

- a. Indonesian government securities (including sharia securities);
- b. State-owned enterprise bonds, in which the trading is supervised by the Financial Services Authority of Indonesia (*Otoritas Jasa Keuangan* (OJK));
- c. Bonds issued by government-owned financial institutions, in which

- the trading is supervised by OJK;
- d. Financial investment in banks, including sharia banks;
 - e. Bonds issued by private companies, in which the trading is supervised by OJK;
 - f. Infrastructure investment via public-private placement (*Kerjasama Pemerintah - Badan Usaha*);
 - g. Real sector investment based on priority set by the government;
 - h. Capital contribution (as a shareholder) in a newly established company domiciled in Indonesia;
 - i. Capital contribution (as a shareholder) in an existing company domiciled in Indonesia;
 - j. Cooperation with sovereign wealth fund;
 - k. Utilization to support other business activities in the form of loan to micro and small businesses in Indonesia in accordance with the regulation on micro, small and medium businesses; and/or
 - l. Other legitimate form of investment pursuant to the laws and regulations.

Reinvestments in instruments as referred to in points a to e and point l above must be conducted in certain financial markets. Reinvestments in instruments as referred to in points f to k above must be conducted in certain nonfinancial markets.

Controlled Foreign Company

Under the Controlled Foreign Company (CFC) rules, the MoF is authorized to determine when a dividend is deemed to be earned from a non-listed company established in another country, where an Indonesian resident taxpayer (alone or collectively with other Indonesian resident taxpayers) holds, directly or indirectly, at least 50% of the total paid-in-capital or voting rights of an unquoted foreign company, with the 50% threshold criteria applied at each level.

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

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

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

The net passive incomes include:

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

The deemed dividend can be offset against the actual dividend received from a direct CFC within the past five consecutive years. In the case that the actual dividend received is higher than the deemed dividend, the excess is subject to income tax. The income tax paid or withheld for dividends received from a direct CFC is creditable.

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

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

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

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

Sales of shares in an SPC established or domiciled in a tax haven country and has a special relationship with the Indonesian taxpayer or a PE in Indonesia may be deemed sales of shares in the Indonesian company or the PE.

A tax haven country is viewed by the DGT as a country that has a corporate tax rate of 50% lower than that of Indonesia, or a country that has bank secrecy law and does not have a provision for exchange of information with Indonesia.

Tax-neutral merger, consolidation, expansion, or acquisition

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

The business purpose tests entail the following conditions:

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

Deemed profit margins

Incomes derived from the following businesses are subject to deemed profit margin.

Type of income	Deemed profit from gross revenue	Effective income tax rate ¹⁾
Foreign oil and gas drilling service operations	15%	FY2020 and FY2021: 3.3% FY2022 and thereafter: 3% ²⁾
Foreign shipping and airline operations	6%	2.64%

Type of income	Deemed profit from gross revenue	Effective income tax rate ¹⁾
Domestic shipping operations	4%	1.20%
Domestic airline operations	6%	1.80%
Trade representative offices	1% of export value	0.44%
Build, operate, and transfer of a building construction by an investor to a land owner		5%
International toll manufacturing (<i>jasa maklon</i>) for toys	7% of manufacturing or assembly costs, excluding direct material costs	2.1%

Notes:

- 1) The current effective income tax rates above still use the CIT rates at the time the relevant regulations were introduced, except for foreign oil and gas drilling service operations. The CIT rate used to calculate the effective income tax rate should have been changed to reflect the new CIT rate. However, since the regulations are not amended yet, the existing effective income tax rates still apply in practice.
- 2) Please refer to page 103.

Corporate income tax incentives

Reduction of corporate income tax rate for public companies

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

FY	Rate
FY2020 and FY2021	19%
FY2022 and thereafter ^{*)}	17%

*) Please refer to page 103.

Major income tax incentives available for corporate taxpayers are:

- Tax holiday facility;
- Tax allowance facility;
- Super tax deduction facility; and
- CIT facilities in special economic zone (*Kawasan Ekonomi Khusus* (SEZ)).

Tax holiday facility

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

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

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

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

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

- a. A taxpayer in pioneer industry;
- b. An Indonesian legal entity;
- c. A minimum investment of IDR 100 billion;
- d. Conducting new investment, in which the decision on granting or rejecting notification of tax holiday or tax allowance facility or

- super tax deduction facility for labor-intensive project or tax facility for special economic zone has not been issued by the MoF;
- e. Fulfilling the provisions regarding DER; and
 - f. The taxpayer is committed to initiating the realization of the investment plan at the latest one year after tax holiday facility is granted.

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

 <p>Integrated upstream metals industry</p>	 <p>Integrated crude oil and natural gas refinery industry</p>	 <p>Integrated crude oil/natural gas/coal-based petrochemicals industry</p>
 <p>Integrated basic organic chemicals industry sourced from agriculture/plantation/forestry</p>	 <p>Integrated basic inorganic chemicals industry</p>	 <p>Integrated pharmaceutical main raw materials industry</p>
 <p>Irradiation, electro-medical or electrotherapy equipment manufacturing industry</p>	 <p>Manufacturing industry for electronic or telematics equipment's main components,</p>	 <p>Machine and machinery main components manufacturing industry</p>
 <p>Manufacturing industry for robotic components that supports the production of machinery in the manufacturing industry</p>	 <p>Main components manufacturing industry for electricity generator machinery</p>	 <p>Automotive and automotive main components manufacturing industry</p>
 <p>Vessel main components manufacturing industry</p>	 <p>Railway main components manufacturing industry</p>	 <p>Aircraft main components manufacturing industry and aerospace industry auxiliary activities</p>
 <p>Agriculture/plantation/forestry-based paper pulp industry</p>	 <p>Economic infrastructure</p>	 <p>Digital economy covering data processing, hosting, and the related activities</p>

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

Tax allowance facility

Tax allowances are available to companies with a specified minimum level of capital investment in certain industry sectors, or those operating in certain geographic locations where the necessary conditions are satisfied. This facility is applicable for new investment or expansion of the corporate taxpayer's main business activities.

The tax allowance facility includes:

- An investment allowance (a reduction in taxable income equivalent to 30% of the total investment amount of tangible fixed assets, including land used for primary business activities, allocated equally over six years starting from the fiscal year when the commercial production commences);
- Accelerated depreciation and/or amortization;
- Tax loss carry forward which may be extended for up to 10 years; and
- A reduced WHT rate to 10% on dividends paid to nonresidents.

In general, the applicant must meet the following criteria:

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

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

Super tax deduction facility

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

- New capital investment or business expansion in labor-intensive industries—This facility is in the form of an investment allowance equivalent to 60% of the total investment amount of tangible fixed assets, including land used for primary business activities. The investment allowance is allocated equally over six years, starting from the fiscal year when the commercial production commences.

- To be eligible for this facility, taxpayers must fulfill the following cumulative criteria: they constitute domestic corporate taxpayers; their main business activity is among the eligible industrial sectors; and they employ minimum average of 300 Indonesian employees;
- Apprenticeship, internship, and/or learning programs in human resources development—This facility is in the form of additional deduction of the qualifying expenses for a maximum 100%. Therefore, the total maximum deduction is 200% of the total qualifying expenses; and
 - Research and development related activities—This facility is in the form of additional deduction of the qualifying expenses for a maximum 200%. Therefore, the total maximum deduction is 300% of the total qualifying expenses.

Corporate income tax facilities in special economic zone

A taxpayer in an SEZ can be classified as either:

- a business entity (*badan usaha*), i.e., a legal entity that manages an SEZ; or
- a business player (*pelaku usaha*), i.e., an enterprise that carries out business in an SEZ.



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

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

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

Corporate income tax for certain industries/taxpayers

Taxpayers in certain industries are subject to final income tax based on gross income. Please refer to pages 48 to 50 on Article 4(2) income tax.

The tax provisions for minerals and coal mining, upstream oil and gas, geothermal, and sharia-based industries are regulated separately by the government and MoF regulations. To date, the regulations for geothermal and coal mining sectors not under the framework of CoWs have not been issued yet.

Taxation for general mining and coal mining

Taxation for general mining and coal mining under CoW framework follows the tax provisions in the respective CoW. Non-CoW mineral mining business is subject to a specific government regulation.

Taxation for upstream oil and gas

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

Taxation for sharia business

In general, the tax treatments for incomes and expenses of sharia-based banking and financial services are similar to conventional banking and financial services, which can be summarized 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 (<i>Ijarah</i>)	Normal operating lease, and the leased asset is non-depreciable
Financial lease (<i>Ijarah Muntahiyah Bittamlik</i>)	Similar to financial lease with option, and the leased asset is non-depreciable

Type of income	Tax treatment
Factoring (<i>Wakalah bil Ujrah</i>)	Gain or profit is treated as interest
Consumer financing (<i>Murabahah, Salam, Istishna</i>)	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 (<i>Mudharabah, Mudharabah Musytarakah, Musyarakah</i>)	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



Individual Income Tax

Law Number 7 of 1983 regarding Income Tax as most recently amended by Law Number 11 of 2020 regarding Omnibus Law on Job Creation

Tax rates

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

Taxable income ^{*)}	Rate
Up to IDR 50 million	5%
More than IDR 50 million but not exceeding IDR 250 million	15%
More than IDR 250 million but not exceeding IDR 500 million	25%
More than IDR 500 million	30%

*) Please refer to page 103.

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

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

*) Payments made in the third year and thereafter shall be subject to normal tax rates and can be claimed as tax credit.

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

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

*) Payments made in the third year and thereafter shall be subject to normal tax rates and can be claimed as tax credit.

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

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

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

Tax residency, registration, and filing

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

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

An individual tax resident who carries out business or freelance activities, or obtains income exceeding the threshold of PTKP for individual taxpayer is obliged to register for an NPWP. A married woman who fulfills her tax obligation separately from her husband is also obliged to register for an NPWP.

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

An Indonesian citizen staying outside Indonesia for more than 183 days within a 12-month period can apply for a confirmation from the DGT on his/her tax status as a foreign tax resident if the citizen meets certain requirements and can prove the intention of becoming a foreign tax resident when leaving Indonesia (such as by providing a long-term working contract or proof of residency in the other country). If the DGT approves the application, the Indonesian citizen is treated as a non-Indonesian taxpayer since the date of his/her departure from Indonesia. As such, any Indonesian-sourced income earned or received by the citizen concerned will be subject to the withholding of Article 26 income tax. In addition, the citizen can also apply to the DGT for a noneffective taxpayer status so that the citizen does not have to file annual individual income tax return during the stay outside Indonesia.

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

Taxable income and personal tax reliefs

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

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

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

Please refer to pages 24 to 25 for the list of eligible instruments of reinvestments.

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

Basis of deduction	Deductible amount (per year)
Taxpayer	IDR 54 million
Spouse	IDR 4.5 million (additional IDR 54 million for a wife whose income is combined with her husband's)
Dependents	IDR 4.5 million for each dependent, maximum three dependents
Occupational expense (<i>Biaya Jabatan</i>)	5% of gross income up to a maximum of IDR 6 million
Pension contribution	5% of gross income up to a maximum of IDR 2.4 million
Employee contribution to an approved pension fund, e.g., manpower social security scheme (<i>Badan Penyelenggara Jaminan Sosial (BPJS) Ketenagakerjaan</i>)	Actual amount
Compulsory tithes (<i>zakat</i>) or religious contributions	Actual amount, if valid supporting evidence is available and all requirements are met

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

Social security schemes

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

Below is the list of premium contributions for the schemes:

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

Notes:

- 1) The job loss security scheme is a new scheme under BPJS *Ketenagakerjaan* introduced by the government in the Law Number 11 of 2020 (Omnibus Law). This scheme is intended to give compensation in the form of cash benefits, access to labor market information, and job trading to workers/ labors who are terminated from their employment. There is no additional contribution that needs to be paid by both the employers and employees on this new scheme, as the contribution for the job loss security scheme is already inclusive in the existing contributions for working accidents and death insurance, plus subsidy from the government.
- 2) The regular salary/wage cap for calculating the pension insurance contribution is IDR 8,754,600 per month, which is valid from March 2021. The amount may be updated from time to time.
- 3) Contribution to the pension plan is not mandatory for expatriates.
- 4) The regular salary/wage cap for calculating the healthcare contribution is, at the minimum, the amount of regional minimum wage and, at the maximum, IDR 12 million per month. The amount may be updated from time to time.
- 5) The mandatory premiums cover husband, wife, and three dependents. Additional family members can be covered with additional premiums.

Withholding Tax

Law Number 7 of 1983 regarding Income Tax as most recently amended by Law Number 11 of 2020 regarding Omnibus Law on Job Creation

Overview

To facilitate the DGT's effort to collect taxes, taxpayers are subject to a number of obligations to WHT on various payments made to residents and nonresidents. Tax withheld may represent either a final income tax for the payment recipient, which is a domestic taxpayer, or (advance) prepaid tax that is either creditable or refundable by the payment recipient, which is a domestic taxpayer, against its tax liability.

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

Article 21 employee income tax

An employer is obliged to withhold and remit EIT to the State Treasury on remunerations (including cash allowances) as well as certain performance fees accrued or paid to the following individuals:

- Employees;
- Recipients of severance payment, pensions or pension benefits, and old-age benefits, including their heirs;
- Freelancers; and
- Event participants.

BIK (e.g., housing, cars) provided by an employer are not taxable to the employees and are not tax deductible for the employer.

Please refer to page 37 for the progressive tax rates. For individuals who do not have an NPWP, the rates are 20% higher than the standard rates. The EIT withheld is creditable by the individuals against the annual individual income tax. The tax office can redetermine the amount of income received by an individual taxpayer from an employer that has a special relationship with an offshore company.

Article 22 income tax

Article 22 income tax is a tax withheld by:

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

In general, except for certain final taxes, Article 22 income tax withheld are creditable by the taxpayer against its CIT.

Major type of payments subject to Article 22 income tax and the applicable rates are as follows:

Type of payments	WHT base	WHT rate
Import of certain consumer goods with or without Importer Identification Number (<i>Angka Pengenal Impor</i> (API))	Import value	7.5% or 10%
Import of soybean, wheat, and wheat flour with API	Import value	0.5%
Import of other goods (not in the list of: certain consumer goods, soybean, wheat, and wheat flour) with API	Import value	2.5%
Import of other goods (not included in the list of: certain consumer goods, soybean, wheat, and wheat flour) without API	Import value	7.5%
Import of auctioned goods	Auctioned price	7.5%

Type of payments	WHT base	WHT rate
Export of commodities, such as coal and metal and nonmetal minerals, except where export is done by the taxpayer under a mining cooperation or CoW arrangement	Export value	1.5%
Purchase of goods by state and regional treasurer or certain government institutions, of which the payments are made by State Treasury and certain state-owned enterprises (with certain exceptions)	Purchase price (exclude VAT)	1.5%
Sale of fuel oil to Pertamina fuel stations	Selling price (exclude VAT)	0.25%
Sale of fuel oil to non-Pertamina fuel stations	Selling price (exclude VAT)	0.3%
Sale of fuel gas	Selling price (exclude VAT)	0.3%
Sale of lubricants	Selling price (exclude VAT)	0.3%
Sale of cement to distributors	Selling price	0.25%
Sale of paper products to distributors	Selling price	0.1%
Sale of steel products to distributors	Selling price	0.3%
Sale of certain automotive products to distributors	Selling price	0.45%

Type of payments	WHT base	WHT rate
Sale of medicines to distributors	VAT base	0.3%
Sale of certain vehicles by sole agents (<i>Agen Tunggal Pemegang Merek (ATPM)</i>), agents (<i>Agen Pemegang Merek (APM)</i>), and vehicle general importers, excluding heavy equipment	VAT base	0.45%
Purchase of forestry, plantation, agriculture, farm, and fishery raw products by manufacturers or exporters	Purchase value (exclude VAT)	0.25%
Purchase of coal, metal, and nonmetal minerals from a corporate or an individual holding a mining license (<i>Izin Usaha Pertambangan</i>) by an industry or a corporate	Purchase value (exclude VAT)	1.5%
Sale of gold bars	Selling price	0.45%
Sale of phone credits and starter packs by a second-layer distribution agents that is an Article 22 withholder	Amount stated in the invoice by the second-layer distribution agent to the next level distribution channel, or selling price to end consumers	0.5%

Type of payments	WHT base	WHT rate
<ul style="list-style-type: none"> • Sale of luxurious houses and land exceeding IDR 30 billion or 400 sqm • Sale of apartments, condominiums, and similar items exceeding IDR 30 billion or 150 sqm 	Selling price (exclude VAT and LST)	1%
<ul style="list-style-type: none"> • Private airplanes and helicopters • Cruise ships, yachts, and other similar items • Certain four-wheeled vehicles with selling price exceeding IDR 2 billion or 3,000 cc • Two or three-wheeled vehicles with selling price exceeding IDR 300 million or 250 cc 	Selling price (exclude VAT and LST)	5%

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

The following activities are exempted from Article 22 income tax:

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

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

Article 4(2) income tax

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

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

Type of payments	Effective WHT rate
Interest or discount on Bank Indonesia Certificates (<i>Surat Bank Indonesia</i>), time and saving deposits, and government bonds ¹⁾	20% ²⁾
Sale of shares listed on Indonesia Stock Exchange: <ul style="list-style-type: none"> • Sale of non-founder's shares • Sale of founder's shares 	0.1% ³⁾ 0.1% + 0.5% ⁴⁾
Interest or discount on bonds ¹⁾	15% ⁵⁾
Lottery prize	25%
Rental of land and/or buildings	10% ⁶⁾
Construction service: <ul style="list-style-type: none"> • Planning and supervision of construction works • Performance of construction works 	4%/6% ⁷⁾ 2%/3%/4% ⁸⁾
Transfer of land and/or buildings	2.5%/1%/0.5%/0% ⁹⁾
Interest on deposit paid by a cooperative to its members	10%
Dividend paid to individuals	10% or exempted ¹⁰⁾

Type of payments	Effective WHT rate
Dividend paid in relation to cooperation with Indonesia Investment Authority (<i>Lembaga Pengelola Investasi</i> (LPI))	7.5% ¹¹⁾
Income earned by a venture capital company on the transfer of shares in its partner	0.1%
Income earned or received by an individual or corporate taxpayer (other than PE), which total revenue does not exceed IDR 4.8 billion within a fiscal year ¹²⁾	0.5%

Notes:

- 1) WHT is not applicable for the following income recipients: banks operating in Indonesia and government-approved pension funds.
- 2) Different rates apply on interests received from time deposits sourced from proceeds of exports (*devisa hasil ekspor*), ranging from 0% to 10% for deposits in USD currency, and 0% to 7.5% for time deposits in IDR currency.
- 3) Tax rate of 0.1% of the gross transaction amount.
- 4) Tax rate of 0.1% of the gross transaction amount + 0.5% from the share price at the Initial Public Offering.
- 5) Interests and/or discounts for debt securities earned by certain taxpayers registered with the OJK will be subject to lower WHT rate, i.e., 10% for FY2021 and thereafter.
- 6) The tax base includes all service charges related to land and/or building rental (i.e., cost of maintenance and upkeep, security fees, service fees, and other facility fees). The tax object includes income received by the landowner in relation to build-operate-transfer arrangement.
- 7) Effective tax rates shall be:
 - 4% for contractors with qualifications issued by the Construction Service Development Institute (*Lembaga Pengembangan Jasa Konstruksi* (LPJK)); and
 - 6% for contractors without qualifications issued by the LPJK.
- 8) Effective tax rates shall be:
 - 2% for small-scale contractors with qualifications issued by the LPJK;
 - 3% for medium and large contractors with qualifications issued by the LPJK; and
 - 4% for contractors without qualifications issued by the LPJK.
- 9) Applicable tax rates shall be:
 - 1% for the transfer of basic houses and basic apartments by taxpayers engaging in transfer of land and/or buildings as its main business activities;
 - 2.5% for the transfer of land and/or buildings other than basic houses and basic apartments by taxpayers engaging in transfer of land and/or buildings as its main business activities;
 - 0% for the transfer of land and/or building to the government, state-owned enterprises (*Badan Usaha Milik Negara* (BUMN)), or regional government-owned enterprises (*Badan Usaha Milik Daerah*) under special assignments; and

- 0.5% for the transfer of real estates to certain SPCs or Real Estate Investment Fund (*Dana Investasi Real Estate*).
- 10) In order to obtain the exemption, the individual needs to reinvest the dividend into Indonesia in approved instruments for three consecutive years and report the reinvestment annually. Please refer to pages 39 to 40 for the tax treatment on dividend income for individual taxpayers.
- 11) Applicable tax rates:
- 7.5% (or lower rate subject to the accessibility of tax treaty benefits) on dividend income arising from cooperation with LPI that is earned/received by foreign partners. Certain exceptions and requirements apply.
 - Dividend income arising from cooperation with LPI that is earned/received by an Indonesian tax resident is tax exempted.
- 12) The final income tax applies for no longer than:
- Seven fiscal years for individual taxpayers;
 - Four years for corporate taxpayers in the form of cooperatives, limited partnerships, or firms (*firma*); and
 - Three years for limited liability corporate taxpayers, starting from FY2018 or the fiscal year when the taxpayer is registered.

Article 23 income tax

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

Type of payments	WHT base	WHT rate
<ul style="list-style-type: none"> • Dividends¹⁾ • Interests²⁾ • Royalties • Gifts, awards, bonuses, and similar items, except for those that have been subject to EIT 	Gross amount	15%
Rental or compensation for the use of assets, except for rental or compensation that has been subject to Article 4(2) income tax and finance leases (<i>sewa guna usaha dengan hak opsi</i>)	Gross amount	2%

Type of payments	WHT base	WHT rate
<p>Remuneration related to the following services, except for those that have been subject to EIT:</p> <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 for those services provided by a PE; • Auxiliary services in the geothermal and oil/gas mining industry; • Mining and support services in non-geothermal and oil/gas mining industry; • Airline and airport support services; • Logging services; • Waste management services • Manpower outsourcing services; • Brokerage/agency services; • Services in securities trading, except for trading performed by the Indonesia Stock Exchange, Indonesia Central Securities Depository (<i>Kustodian Sentral Efek Indonesia</i> (KSEI)), and Indonesia Clearing and Guarantee Corporation (<i>Kliring dan Penjaminan Efek Indonesia</i>); 	Gross amount	2%

Type of payments	WHT base	WHT rate
<ul style="list-style-type: none"> • Custodian services, except for services provided by KSEI; • Dubbing services; • Film mixing services; • Promotion services including film promotions, posters for advertisement, photos, slides, banners, pamphlets, billboards, and folders; • Services related to computer software or hardware or systems, including repairs and maintenance; • Website creation and/or management services; • Internet and its connection services; • Storage, processing and/or distribution of data, information, and/or program; • Installation services, except for installation services performed by construction companies; • Repair and maintenance services, except for building repair and maintenance services performed by construction companies; • Maintenance services for vehicle and/or land, water, and air transportation; • Toll-manufacturing services; • Investigation and security services; • Event organizer services; 	Gross amount	2%

Type of payments	WHT base	WHT rate
<ul style="list-style-type: none"> • Services related to provision of space and/or time in mass media, outdoor media, or other media for the delivery of information and/or advertisement; • Pest eradication services; • Cleaning services; • Vacuum septic tank services; • Pool maintenance services; • Catering services; • Freight forwarding services; • Logistics services; • Document-handling services; • Packaging services; • Loading and unloading services; • Laboratory services and/or laboratory test services, except for laboratory services conducted by an educational institution for academic research; • Parking management services; • Soil-testing services; • Land preparation and management services; • Seeding and planting services; • Maintenance services for trees and plants; • Harvesting services; • Processing services for agricultural, plantation, fishery, livestock, and/or forestry products; • Decoration services; • Printing/publishing services; • Translation services; 		

Type of payments	WHT base	WHT rate
<ul style="list-style-type: none"> • Transportation/expedition services, except for services regulated under Article 15 income tax; • Port services; • Transportation services through pipeline; • Childcare services; • Training and/or course services; • ATM cash delivery and loading services; • Certification services; • Survey services; • Testing services; • Services other than the above, for which the payments are charged to the State Budget (<i>Anggaran Pendapatan Belanja Negara</i>) and/or Regional Budgets (<i>Anggaran Pendapatan Belanja Daerah</i>); • Payment services related to the distribution of prepaid electricity token; • Marketing services using vouchers; • Payment services related to voucher distributions; and • Consumer loyalty/rewards program services. 		

Notes:

- 1) Dividends, in whatever names and forms, are subject to income tax, except for Indonesian sourced dividends received by Indonesian companies (please refer to pages 24 to 25 for tax treatment for dividend income on corporate taxpayers).
- 2) WHT does not apply to payments to banks operating in Indonesia.

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

Article 23 income tax withheld are creditable by the taxpayer against its CIT.

Article 26 income tax

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

Type of payments	WHT base	Effective tax rate ¹⁾
Dividends	Gross amount	20% of gross amount
Royalties, rentals, and other payments related to utilization of assets		
Compensation for services, labor, and activities		
Gifts and rewards		
Pension and other period payments		
Swap premiums and hedging transactions		
Gains from debt forgiveness		
Interests ²⁾		
Sales of assets in Indonesia exceeding IDR 10 million except for those that are subject to Article 4(2) income tax	25% of selling price	5% of selling price

Type of payments	WHT base	Effective tax rate ¹⁾
Insurance/reinsurance premium: <ul style="list-style-type: none"> • The insured's premium is paid to an overseas insurance company • The premium is paid by an Indonesian insurance company to an overseas insurance company • The premium is paid by an Indonesian reinsurance company to an overseas insurance company 	50% of premium amount 10% of premium amount 5% of premium amount	10% of premium amount 2% of premium amount 1% of premium amount
Sales of shares of a non-listed company in Indonesia	25% of selling price	5% of selling price
BPT ³⁾	Net profit after tax	20% of net profit after tax

Notes:

- 1) The tax rate may be lowered or exempted subject to the accessibility of tax treaty benefits. Please refer to pages 78 to 83 for the list of treaty rates.
- 2) Interest income from bonds paid to or earned by an offshore party is subject to WHT rate of 10% (or rate based on tax treaty). This rate comes into effect from 2 August 2021 and is applicable to bonds issued by the government and nongovernment agencies, including sharia bonds. Other types of interest income paid to or earned by an offshore party is subject to WHT rate of 20% (or rate based on the tax treaty).
- 3) Please refer to page 18 on BPT.

Transfer Pricing

Law Number 7 of 1983 regarding Income Tax as most recently amended by Law Number 11 of 2020 regarding Omnibus Law on Job Creation

Overview

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

The DGT is authorized to adjust taxpayers' incomes or expenses, where transactions with related parties (special relationship) are not in accordance with "fair and common business practices". 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 as 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, either biological or by marriage, in vertical and/or horizontal lineage of the first degree.

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

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

Application of arm's-length principle

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

- Comparable uncontrolled price method;
- Resale price method;
- Cost plus method;
- Profit split method; and
- Transactional net margin method.

In principle, the Indonesian transfer pricing rules lay down 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. This involves, inter alia, conducting a comparability analysis and determining the comparable transactions; identifying the most appropriate transfer pricing method; and applying the arm's-length principle based on the results of the comparability analysis and the most appropriate transfer pricing method. The rules also outline specific requirements for intra-group services and intangibles transactions.

Transfer pricing documentation requirements

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

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

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

There is no statutory deadline for the submission of transfer pricing documentation, but the documentation must be provided when requested by the DGT. Generally, the DGT provides 14 days upon request in case of regular compliance checks, whereas in the case of tax audits, the timeline to submit the documentation is 30 days upon request. Failure to furnish the documentation within the stipulated time may prompt a detailed transfer pricing audit. It also allows the DGT to disregard any subsequent documentation and determine tax

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

Master File and Local File

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

Condition ¹⁾	Threshold ²⁾
Gross revenue in the preceding year ³⁾	Exceeds IDR 50 billion
<ul style="list-style-type: none"> • Related party transactions of tangible goods in the preceding fiscal year; or • Related party transactions of services, royalties, interests, or other transactions in the preceding fiscal year 	<p>Exceeds IDR 20 billion</p> <p>Exceeds IDR 5 billion</p>
Related party transactions with affiliated party located in a jurisdiction with tax rate lower than Indonesia (i.e., 25% for fiscal years until 2019; reduced to 22% for FY2020 and FY2021, and 20% for FY2022 onwards) ⁴⁾ .	No minimum threshold
A taxpayer that qualifies as a Parent Entity of a business group ⁵⁾	Consolidated gross revenue of IDR 11 trillion

Notes:

- 1) In the event that the preceding fiscal year covers a period of less than 12 months, the gross revenue and/or the related party transactions are required to be annualized.
- 2) For bookkeeping in currency other than IDR, the monetary value of the threshold is to be calculated using the exchange rate set by the MoF for tax calculation at the end of the fiscal year.
- 3) Gross revenue is defined as the gross amount of revenue received or accrued in connection with the taxpayer's business or main activities, before the deduction of discounts, rebates, and other reductions.
- 4) Please refer to page 103.

- 5) Parent Entity is defined as an entity that directly or indirectly controls a group of businesses, which is required to prepare consolidated financial statements under SAK.

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

Country-by-Country Report

Aside from the Master File and the Local File, a taxpayer qualifying as a Parent Entity of a business group having a consolidated gross revenue of IDR 11 trillion is also required to prepare and submit a CbCR. In the event the Parent Entity (or a Surrogate Parent Entity appointed by the Parent Entity) is located in a foreign jurisdiction, the resident taxpayer is required to submit the CbCR when the country of the Parent Entity (or the Surrogate Parent Entity):

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

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

The CbCR must be submitted within 12 months after the end of the fiscal year. The first year of coverage was FY2016.

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

Mutual Agreement Procedures

As a member of G20 countries, Indonesia is committed to implementing the minimum standards under the BEPS project,

including Action 14 on dispute resolution mechanism.

Request for a Mutual Agreement Procedures (MAP) can be filed by:

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

Any request for MAP should be filed within the timeline specified in the double tax avoidance agreements (tax treaty) from the first notification of the action resulting in taxation not to be in accordance with the provisions of the agreement. The deadline to submit an MAP request is three years if the tax treaty does not specify a deadline. The timeline refers to the date of the tax assessment letter or the date of the payment receipt, WHT slip, or from the occurrence of the tax treatment inconsistent with the tax treaty. There is a defined time limit of 24 months for the authorized officials to conclude the negotiations. Failure to meet this time limit will cause the MAP to be deemed to result in “disagreement”. There is a provision that allows for extensions, but only in limited cases where the in-principle agreement has already been reached on certain issues, such as the existence of the transaction, the approach for transfer pricing analysis, the transfer pricing method, the tested party, and the profit level indicator.

Advance Pricing Agreement

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

A negotiation in relation to a unilateral APA must commence, at the latest, six months from the date the supporting documents to the application are submitted by the taxpayer, and must be concluded within 12 months after the commencement. Meanwhile, a negotiation in relation to a bilateral APA is conducted in accordance with the prevailing regulations concerning MAP, which imply a time limit of 24 months for the overall process. There is a provision that allows for extensions, but only in limited bilateral cases where the in-principle agreement has already been reached on certain issues, such as the existence of the transaction, the approach for the transfer pricing analysis, the transfer pricing method, the tested party, and the profit level indicator.

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

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

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

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

The Indonesian APA regulations recognize the fact that businesses may be negatively impacted by COVID-19 pandemic and may include special provisions to address such situation.

Automatic Exchange of Information

The Organization for Economic Co-operation and Development (OECD) has developed a Common Reporting Standard (CRS) for the automatic exchange of tax and financial information on a global level, with the intention to minimize the possibility of tax evasion. This provides an exchange of information about nonresident financial account with the tax authorities in the account holders' country of residence. Participating jurisdictions that implement the Automatic Exchange of Information (AEOI) send and receive pre-agreed information each year without having to send a specific request. Indonesia has started the exchange of information as of September 2018. Currently, the number of reporting countries receiving information from Indonesia is 85 countries.

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



Value Added Tax

- *Law Number 8 of 1983 regarding Value Added Tax as most recently amended by Law Number 11 of 2020 regarding Omnibus Law on Job Creation*
- *Law Number 2 of 2020 regarding the Stipulation of Government Regulation in Lieu of Law Number 1 of 2020 regarding State Financial Policy and Financial System Stability for Handling COVID-19 Pandemic and/or in the Context of Facing Threats that Harm National Economy and/or the Financial System Stability to Become Law*

Overview

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

Generally, a PKP carrying out business activities in Indonesia through business units located in multiple jurisdictions under different tax offices has to register each of its business unit with the respective tax office. The PKP may request the DGT to centralize the VAT administration under one location. However, if the PKP is registered in certain tax offices, such as Madya Tax Office and Large Tax Office, the VAT administration is automatically centralized and the PKP does not need to request for VAT centralization. Previously, the VAT centralization statement letter from the DGT was valid for five years. However, VAT centralization statement letter issued after 1 July 2020 will not expire until the PKP is no longer qualified for VAT centralization or the PKP submits a revocation request.

Taxable events

The taxable events consist of the following:

- Delivery of taxable goods and/or taxable services within Indonesian customs territory (a territory in Indonesia that is subject to Indonesian Customs Law);
- Import of taxable tangible goods;

- Utilization of offshore taxable intangible goods and/or offshore taxable services in Indonesia; and
- Export of taxable goods and/or taxable services by a PKP.

Goods and services not subject to Value Added Tax

In essence, all deliveries of goods and/or services by a PKP are taxable, unless the goods and/or taxable services are listed as being nontaxable.

Nontaxable goods consist of:

- Mining or drilling products that are extracted directly from the source, such as crude oil, geothermal energy, and others, excluding coal.
- Basic commodities essential to the public, such as rice, soybeans, corns, and others.
- Food and beverages served at hotels, restaurants, eateries, stalls, and the like, which consist of food and beverages consumed at dine-in places and others, including food and beverages delivered by catering service businesses; and
- Money, gold bars, and securities.

Nontaxable services include:

- Medical/health services;
- Social services;
- Mail delivery service using stamps;
- Financial services;
- Insurance services;
- Religious services;
- Educational services;
- Art and entertainment services;
- Noncommercial broadcast services;
- Public transport services on land and on water and domestic air transport services that are inseparable from international air transport services;
- Labor services;
- Hotel services;
- Services provided by the government in respect of carrying out general governmental administration;
- Provision of parking area services;
- Public telephone services using coins;
- Money transfer services using postal money orders; and
- Food and catering services.

Value Added Tax rates

The standard VAT rate is 10% (please refer to page 104). The VAT rate is reduced to 0% for the following taxable events:

- Export of taxable tangible goods;
- Export of certain taxable intangible goods; and
- Export of certain taxable services

Value Added Tax imposition base

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

Special VAT imposition bases are listed in the following table:

Type of delivery	Special VAT imposition base
Taxable goods/services for own use or free gifts	Selling price or compensation after deduction of gross profit (i.e., cost of sales)
Delivery of films	Estimated average proceeds per film title
Delivery of tobacco products	Retail selling price, with an effective VAT rate of 9.1%
Taxable goods in the form of inventories and/or assets that are not for sale, according to their initial purpose, and remain at the time the company dissolves	Fair market value of the goods
Delivery of taxable goods from the head office to a branch, or vice versa, and/or delivery of taxable goods between branches	Cost of sales or acquisition price of the goods
Delivery of taxable goods through a broker/agent	Price agreed between the broker/agent and the purchaser
Delivery of taxable goods through an auctioneer	Auctioned price

Type of delivery	Special VAT imposition base
Delivery of package delivery services	10% of the invoice amount or the amount that should be invoiced
Delivery of travel bureau service or travel agent service, such as travel packages and booking of transportation and accommodation, in which the delivery is not based on commission/brokerage fee arrangement	10% of the invoice amount or the amount that should be invoiced
Delivery of gold jewelry by a gold jewelry entrepreneur	20% of the selling price of the gold jewelry or the value of compensation
Delivery of freight forwarding services which contains freight charges in the invoice	10% of the invoice amount or the amount that should be invoiced
Self-construction activities not in respect of a job or occupation by an individual or an organization, where the construction result will be used by the individual or organization itself or used by another party (<i>kegiatan membangun sendiri</i>)	20% of the cost incurred or paid, excluding the price of the land
Importation of intangible goods in the form of movie and the subsequent delivery from the importer to a movie theater	IDR 12 million per copy of imported movie

Type of delivery	Special VAT imposition base
Delivery of certain nonsubsidized liquefied petroleum gas (LPG) by: <ul style="list-style-type: none"> • Companies appointed by the government to provide and distribute LPG; • Distribution agents; and • Sub-agents 	<ul style="list-style-type: none"> • 100/110 of the retail selling price • 10/101 of the excess difference between agent's selling price and retail selling price • 10/101 of the excess difference between sub-agent's selling price and agent's selling price
Delivery of certain agricultural products	10% of the selling price or to follow normal VAT imposition base
Delivery of phone credits and starter packs by second-layer distribution agents	Amount stated in the invoice by the second-layer distribution agent to the next level distribution channel, or selling price to end consumers
Delivery of marketing services using vouchers, delivery of payment services related to voucher distribution, or delivery of consumer loyalty/reward programs, in which the delivery is not based on commission and without margin	10% of the invoice amount or the amount that should be invoiced

Value Added Tax invoice

General Value Added Tax invoice

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

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

A VAT invoice must be issued:

- Upon the delivery of taxable goods and/or taxable services;
- Upon receiving payment, in the event that the payment occurs before the delivery of taxable goods and/or taxable services;
- Upon receiving installment payment, in the event that the delivery is done in phases; or
- Upon other events as determined by the MoF.

A VAT invoice that is issued exceeding a three-month period since the moment the VAT is due and should be prepared cannot be treated as a valid VAT invoice. The seller will be considered as not issuing a VAT invoice and the recipient of such VAT invoice cannot claim the input VAT.

Combined Value Added Tax invoice

For ease of administration purpose, a PKP is allowed to issue one VAT invoice at the end of the month covering several deliveries to the same buyer for one calendar month. Such VAT invoice is called a combined VAT invoice (*Faktur Pajak Gabungan*).

Value Added Tax invoice collection

A PKP qualifying as a retail business (*pedagang eceran* (retail PKP)) is allowed to issue VAT invoices without having to include the buyer's identity information and the seller's name as well as the signature of either party for the delivery of taxable goods and/or taxable services, provided that the retail PKP criteria have been satisfied.

A retail PKP delivering taxable goods and/or taxable services (with certain exceptions) must issue a VAT invoice collection (*Faktur Pajak Digunggung*), which can be in the form of bills, sale invoices, cash register receipts, or other similar proof of deliveries or payments.

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

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

- Export Declaration on Goods (*Pemberitahuan Ekspor Barang*) (accompanied with certain supporting documents).
- Export Declaration on Intangible Goods and/or Export Declaration of Services (*Pemberitahuan Ekspor Jasa* (PEJ)) (accompanied with invoice);
- Import Declaration on Goods (*Pemberitahuan Impor Barang*) (accompanied with certain supporting documents);
- Tax payment slip (*Surat Setoran Pajak* (SSP)) for the payment of self-assessed VAT on the utilization of offshore taxable intangible goods and/or offshore taxable services; and
- VAT collection evidence in relation to transaction through electronic system (*penyerahan melalui saluran elektronik* (PMSE)).

Self-assessed Value Added Tax

The utilization of taxable intangible goods and/or taxable services from offshore or from an free trade zone (FTZ) is subject to self-assessed VAT, in which the buyer is obliged to self-assess, report, and pay the VAT calculated from the gross amount paid or payable.

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

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

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

Value Added Tax reporting

Output-input mechanism

From the supplier/seller's perspective, the VAT levied is considered as an output VAT. Meanwhile, from the buyer's perspective, the VAT paid is an input VAT. The output VAT can be offset against the input VAT. If the amount of output VAT exceeds the amount of input VAT,

the difference constitutes a VAT underpayment that has to be settled to the State Treasury by the end of the following month prior to the submission of VAT return. On the other hand, if the amount of output VAT is less than the amount input of VAT, the PKP can carry the excess amount to the following period or request for a refund.

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

Non-creditable input Value Added Tax

Input VAT arising from the following purchases is not creditable:

- Purchase of taxable goods or taxable services without a direct connection to the PKP's business;
- Purchase and maintenance of sedan and station wagon type of vehicles, unless they are inventories for sale or rental businesses;
- Purchase of taxable goods and/or taxable services of which the VAT invoice is incomplete; or
- Purchase of taxable goods and/or taxable services related to a delivery that is not subject to an output VAT.

Export of services

Export of services shall be taxable on services furnished/rendered within Indonesian customs territory for the benefit of recipient located outside Indonesian customs territory. Export of services are subject to VAT at a rate of 10% (please refer to page 104). However, exports of services below are subject to 0% VAT and the PKP must issue a PEJ for such deliveries:

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

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

To apply the 0% VAT on such export of services, the offshore service recipient must also meet the following cumulative requirements:

- The recipient engages directly with the service provider;
- The recipient enjoys the benefits of the service directly; and
- The offshore service recipient does not have a PE in Indonesia.

Value Added Tax collectors

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

Value Added Tax on transaction through electronic system

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

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

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

The rate of VAT on PMSE is 10% (please refer to page 104) and the VAT imposition base shall be the amount paid by the customers (excluding VAT). The PMSE VAT collector may use its usual billing documents as proof of PMSE VAT collection as long as it contains the minimum required information.

The PMSE VAT collected must be settled to the State Treasury on a monthly basis by the end of the following month via electronic transfer.

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

- Mandatory Quarterly PMSE VAT Return (*SPT Masa PPN PMSE*); and
- Annual PMSE VAT Report (*Laporan Tahunan PPN PMSE*)—only if requested by the tax office.

Value Added Tax refund

The excess of input VAT over output VAT can be carried forward to the next period or requested for refund. The claim for VAT refund can only be made at the end of a fiscal year, except for a PKP that is eligible to claim tax refund monthly. The request for VAT refund is subject to a tax audit. The time frame to obtain a refund decision varies depending on the category of business applying for the refund. In general, it takes 12 months from the submission of VAT refund request for the tax auditor to issue the decision letter.

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

Available Value Added Tax facilities

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

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

- Import or delivery of certain transportation equipment and spare parts as well as the related services;
- Delivery of certain fuel to foreign airlines and foreign vessels;
- Delivery of certain strategic goods, such as anode slime and gold granule; and
- Import or delivery of taxable goods and/or taxable services to government's projects financed with grants or foreign loans.

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

- Strategic goods, such as machinery, factory equipment, animal husbandry products, seeds and seedlings, liquefied natural gas, and others;
- Goods aimed to support certain national objectives, such as weaponry, general educational and religious books, polio vaccines, rental of basic houses, and others;
- Delivery of clean water, including its connection/installation and subscription fees, excluding bottled drinking water;
- Certain port and airport services to foreign airlines and foreign shipping companies;
- Import or delivery of certain taxable goods and/or taxable services to representatives of foreign countries and certain international organizations; and
- Delivery of certain basic houses, boarding houses, and the like.

Free trade zone

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

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

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

Luxury-goods Sales Tax

In addition to the general VAT rate of 10% (please refer to page 104), certain “luxury” goods are subject to LST with a rate ranging from 10% to 200%. Luxury-goods are goods that meet the following criteria:

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

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



Summary of Double Tax Avoidance Agreements

Law Number 7 of 1983 regarding Income Tax as most recently amended by Law Number 11 of 2020 regarding Omnibus Law on Job Creation

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

A non-Indonesian tax resident wishing to access tax treaty benefits must provide a Certificate of Domicile (CoD) in a prescribed format, known as the DGT Form. To apply for a lower WHT rate, the foreign income recipient has to meet the substance and administrative requirements.

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

- a. The entity has relevant economic substance, either in the entity's establishment or the execution of its transaction;
- b. The legal form is not different from its economic substance, either in the entity's establishment or the execution of its transaction;
- c. The entity has its own management in conducting business, and such management has an independent discretion;
- d. The entity has sufficient assets to conduct business other than the assets intended to generate income from Indonesia;
- e. The entity has sufficient employees with certain expertise and skill in accordance with the business it carries out;
- f. The entity has business activities other than receiving dividend, interest, and royalty sourced from Indonesia, and such activities are in accordance with the actual conditions as shown by the existence of costs incurred, efforts undertaken, or sacrifices made, which are directly related to business or activities for the purpose of earning, collecting, and maintaining income, including significant activities conducted to maintain the entity's survival.

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

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

- a. The entity is not acting as an agent, nominee, or conduit;
- b. The entity has controlling rights or disposal rights on the income or the assets, or rights to generate income;
- c. No more than 50% of the entity's income is used to satisfy claims by other persons;
- d. The entity bears the risk on its own asset, capital, or liability; and
- e. The entity has no contract(s) that obligates the entity to transfer the income received to a resident of third country.

The CoD must be endorsed by the competent/tax authority of the foreign income recipient's jurisdiction. In the case that the foreign income recipient is unable to obtain the endorsement, a Certificate of Residence (CoR) commonly verified or issued by the competent/tax authority of its jurisdiction can be attached to the CoD to substitute the endorsement. The CoR must meet the following requirements:

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

Indonesia has signed tax treaties with a number of countries around the globe. The summary of various reduced tax rates under the tax treaties is presented in the following table.

No.	Country ¹⁾	Dividends ²⁾		Interest ³⁾ (%)	Royalties ⁴⁾ (%)	BPT ⁵⁾ (%)
		For investor companies (%)	Other (%)			
1	Algeria	15	15	15	15	10
2	Armenia	10	15	10	10	10
3	Australia ³¹⁾	15	15	10	10/15 ⁶⁾	15 ⁷⁾
4	Austria	10	15	10	10	12 ⁷⁾
5	Bangladesh	10	15	10	10	10 ⁸⁾
6	Belarus ⁹⁾	10	10	10	10	10 ⁷⁾
7	Belgium ³¹⁾	10	15	10	10	10 ⁷⁾
8	Brunei Darussalam	15	15	15	15	10 ⁷⁾
9	Bulgaria	15	15	10	10	15 ⁷⁾
10	Cambodia ¹⁰⁾	10	10	10	10 ¹¹⁾	10 ⁷⁾
11	Canada ³¹⁾	10	15	10	10	15
12	China	10	10	10	10	10
13	Croatia	10	10	10	10	10 ⁷⁾
14	Czech Republic	10	15	12.5	12.5	12.5 ⁷⁾
15	Denmark ³¹⁾	10	20	10	15	15 ⁷⁾
16	Egypt	15	15	15	15	15 ⁷⁾
17	Finland ³¹⁾	10	15	10	10/15 ¹²⁾	15 ⁷⁾
18	France ³¹⁾	10	15	10/15 ¹³⁾	10	10
19	Germany	10	15	10	7.5/10/15 ¹⁴⁾	10
20	Hong Kong	5	10	10	5	5 ⁷⁾
21	Hungary	15	15	15	15	20 ⁸⁾
22	India ³¹⁾	10	10	10	10 ¹¹⁾	15 ⁷⁾
23	Iran	7	7	10	12	7

No.	Country ¹⁾	Dividends ²⁾		Interest ³⁾ (%)	Royalties ⁴⁾ (%)	BPT ⁵⁾ (%)
		For investor companies (%)	Other (%)			
24	Italy	10	15	10	10/15 ¹⁵⁾	12 ⁷⁾
25	Japan ³¹⁾	10	15	10	10	10 ⁷⁾
26	Jordan	10	10	10	10	20 ⁸⁾
27	Korea (North)	10	10	10	10	10
28	Korea (South) ³¹⁾	10	15	10	15	10 ⁷⁾
29	Kuwait	10	10	5	20	10 ⁷⁾ ¹⁶⁾
30	Laos	10	15	10	10	10
31	Luxembourg ³¹⁾	10	15	10	10/12.5 ¹⁷⁾	10 ⁷⁾
32	Malaysia ¹⁸⁾	10	10	10	10	12.5 ⁷⁾
33	Mexico	10	10	10	10	10 ⁷⁾
34	Mongolia	10	10	10	10	10 ⁷⁾
35	Morocco	10	10	10	10	10 ⁷⁾
36	Netherlands ³¹⁾	5	10/15 ¹⁹⁾	5/10 ²⁰⁾	10	10
37	New Zealand ³¹⁾	15	15	10	15	20 ⁸⁾
38	Norway	15	15	10	10/15 ²¹⁾	15 ⁷⁾
39	Pakistan	10	15	15	15	10
40	Papua New Guinea	15	15	10	10	15 ⁷⁾
41	Philippines	15	20	10/15 ²²⁾	15	20 ⁷⁾
42	Poland ³¹⁾	10	15	10	15	10 ⁷⁾
43	Portugal ³¹⁾	10	10	10	10	10 ⁷⁾
44	Qatar ³¹⁾	10	10	10	5	10 ⁷⁾
45	Romania	12.5	15	12.5	12.5/15 ²³⁾	12.5
46	Russia ³¹⁾	15	15	15	15	12.5 ⁷⁾

No.	Country ¹⁾	Dividends ²⁾		Interest ³⁾ (%)	Royalties ⁴⁾ (%)	BPT ⁵⁾ (%)
		For investor companies (%)	Other (%)			
47	Serbia ³¹⁾	15	15	10	15	15 ⁷⁾
48	Seychelles	10	10	10	10	20 ⁸⁾
49	Singapore ^{24) 31)}	10	15	10	15	15 ⁷⁾
50	Slovakia ³¹⁾	10	10	10	10/15 ²⁵⁾	10 ⁷⁾
51	South Africa	10	15	10	10	10
52	Spain	10	15	10	10	10 ⁷⁾
53	Sri Lanka	15	15	15	15	20 ⁸⁾
54	Sudan	10	10	15	10	10 ⁷⁾
55	Suriname	15	15	15	15	15 ⁷⁾
56	Sweden	10	15	10	10/15 ²⁶⁾	15 ⁷⁾
57	Switzerland	10	15	10	10 ²⁷⁾	10 ⁷⁾
58	Syria	10	10	10	15/20 ²⁸⁾	10 ⁷⁾
59	Taiwan	10	10	10	10	5 ⁷⁾
60	Tajikistan	10	10	10	10	10 ⁷⁾
61	Thailand	15/20 ²⁹⁾	15/20 ²⁹⁾	15	15	20 ⁸⁾
62	Tunisia	12	12	12	15	12 ⁷⁾
63	Turkey	10	15	10	10	20 ⁷⁾⁸⁾
64	Ukraine	10	15	10	10	10 ⁷⁾
65	United Arab Emirates ^{31) 32)}	10	10	5	5	5
66	United Kingdom ³¹⁾	10	15	10	10/15 ²⁶⁾	10 ⁷⁾
67	United States of America	10	15	10	10	10 ⁷⁾
68	Uzbekistan	10	10	10	10	10 ⁷⁾

No.	Country ¹⁾	Dividends ²⁾		Interest ³⁾ (%)	Royalties ⁴⁾ (%)	BPT ⁵⁾ (%)
		For investor companies (%)	Other (%)			
69	Venezuela	10	15	10	10/20 ³⁰⁾	10 ⁷⁾
70	Vietnam	15	15	15	15	10 ⁷⁾
71	Zimbabwe ³³⁾	10	20	10	15	10

Notes:

- 1) This is a general summary of the current treaty provisions. For more comprehensive information, please refer to the relevant treaty.
- 2) These rates are applicable only if the shareholder is the beneficial owner of the dividends. The lower rate applies where the dividend recipient holds, at minimum, 25% of the capital of the paying company (voting shares in Japan or voting power in UK; 10% in the case of South Africa, Venezuela and Bangladesh; 20% in the case of Czech Republic, Poland and Ukraine; and 15% in the case of UK).
- 3) These rates are applicable only if the recipient is the beneficial owner of the interest. With the exception of Switzerland, interest paid to the government, the central bank, or a bank or financial institution specifically mentioned in the treaty is exempted from WHT.
- 4) These rates are applicable only if the recipient is the beneficial owner of the royalty. Royalty paid to the government of Brunei is exempted.
- 5) BPT is levied on total profit after tax.
- 6) 10% applies to payments of certain royalties. 15% in all other cases.
- 7) There is a specific provision regarding the application of BPT in PSCs and/or mining CoWs (or similar contracts) in the oil and gas and/or mining sectors.
- 8) The treaty is silent on the BPT rate. In the absence of the specific reference to BPT rate in the treaty, the DGT may view that the rate of 20% should apply.
- 9) The treaty has entered into force since 9 May 2018 and become effective as of 1 January 2019.
- 10) The treaty has entered into force since 28 July 2020 and become effective as of 1 January 2021.
- 11) 10% applies to royalties and fees for technical services.
- 12) 10% applies to copyright of literary and artistic or scientific works, including cinematographic films, and films or tapes for television or radio broadcasting. 15% applies to patents, trademarks, designs or models, plans, secret formula or process, or any industrial, commercial, or scientific equipment, and for information concerning industrial, commercial, or scientific experience.
- 13) 10% applies if the interest is paid by a bank or financial institution, or by an enterprise of which the activities are mainly to carry out business in the fields of agriculture, plantation, forestry, fishery, mining, manufacturing, industries, transportation, low-cost housing projects, tourism, and infrastructure, and is paid to a bank or to another enterprise. 15% applies to interest on other types of debt.

- 14) 10% applies to the use of, right to use, or information regarding industrial, commercial, or scientific equipment, or experience. 15% applies to copyrights, patents, trademarks, designs or models, plans, secret formulas or processes, secret formulas, literary, and artistic works. 7.5% applies to technical, managerial, or consulting services.
- 15) 10% applies to the use of or information regarding industrial, commercial, or scientific equipment, or experience. 15% applies to all other royalties.
- 16) Tax is only applicable if profits are remitted to the head office within 12 months after the profits are accrued.
- 17) 10% applies to fees for technical services. 12.5% applies to royalties.
- 18) 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.
- 19) 10% applies if the beneficial owner is a pension fund meeting certain requirement.
- 20) The rate may be reduced to 5% if the interest is paid on a loan made for a period of more than two years, or is paid in connection with the sale on credit of any industrial, commercial, or scientific equipment.
- 21) 10% applies to patents, trademarks, secret formulas, designs or models, plans, or processes, and the use of, or right to use, or for information concerning industrial, commercial, or scientific equipment, or experience. 15% applies to copyrights of literary, artistic, or scientific works.
- 22) 10% applies to interest on public issuance of bonds, debentures, and similar obligations. 15% applies to interest on other types of debt with certain exceptions.
- 23) 12.5% applies to patents, trademarks, designs or models, plans, secret formulas, or processes, or for information concerning industrial, commercial, or scientific equipment, or experience. 15% applies to copyrights of literary, artistic, or scientific works. 10% applies for commission payments.
- 24) Indonesia and Singapore signed an updated treaty on 4 February 2020. Under the new treaty, the tax on royalty becomes 8% or 10%, and the BPT rate becomes 10%. The new treaty is effective from 23 July 2021.
- 25) 10% applies to 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. 15% applies in certain other cases.
- 26) 10% applies to the use of or the right to use industrial, commercial, or scientific equipment. 15% applies to copyrights of literary, artistic, or scientific works, or any patents, know-how, designs or models, trademarks, plans, secret formulas, or processes.
- 27) 10% applies to royalties. 5% applies to payments for furnishing of services, including consulting services.
- 28) 15% applies to copyrights of literary, artistic, or scientific works. 20% applies to patents, trademarks, designs or models, plans, or any industrial or scientific equipment, or for information concerning industrial or scientific experience.
- 29) 15% applies to dividends paid to shareholders by companies engaged in industrial undertakings. 20% applies in other cases.
- 30) 20% applies to royalties. 10% applies to fees for technical services.
- 31) The MLI becomes effective for these treaties starting from 1 January 2021 for WHT and from 1 January 2022 for other taxes.

- 32) Indonesia and UAE signed an updated treaty on 24 July 2019. Under the new treaty, the tax on interest becomes 7% and the tax rate of 5% applies to technical fees. The new treaty is not yet effective.
- 33) The treaty is not yet in force.

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

No.	Country	Construction	Installation	Assembly	Supervisory	Other Services
1	Algeria	3 months	3 months	3 months	3 months	3 months
2	Armenia	6 months	6 months	6 months	6 months	120 days
3	Australia	120 days	120 days	120 days	120 days	120 days
4	Austria ¹⁾	6 months	6 months	6 months	6 months	3 months
5	Bangladesh	183 days	183 days	183 days	183 days	91 days
6	Belarus	6 months	6 months	6 months	6 months	120 days
7	Belgium ¹⁾	6 months	6 months	6 months	6 months	3 months
8	Brunei Darussalam	183 days	3 months	3 months	183 days	3 months
9	Bulgaria	6 months	6 months	6 months	6 months	120 days
10	Cambodia ²⁾	183 days	183 days	183 days	183 days	183 days
11	Canada ¹⁾	120 days	120 days	120 days	120 days	120 days
12	China	6 months	6 months	6 months	6 months	6 months
13	Croatia	6 months	6 months	6 months	6 months	3 months
14	Czech Republic	6 months	6 months	6 months	6 months	3 months
15	Denmark ¹⁾	6 months	3 months / 6 months	3 months / 6 months	6 months	3 months
16	Egypt	6 months	4 months	4 months	6 months	3 months
17	Finland ¹⁾	6 months	6 months	6 months	6 months	3 months
18	France ¹⁾	6 months	-	6 months	183 days	183 days
19	Germany	6 months	6 months	-	-	-
20	Hong Kong	183 days	183 days	183 days	183 days	183 days
21	Hungary	3 months	3 months	3 months	3 months	4 months
22	India ¹⁾	183 days	183 days	183 days	183 days	91 days

No.	Country	Construction	Installation	Assembly	Supervisory	Other Services
23	Iran	6 months	6 months	6 months	6 months	183 days
24	Italy	6 months	6 months	6 months	6 months	3 months
25	Japan ¹⁾	6 months	6 months	-	6 months	-
26	Jordan	6 months	6 months	6 months	6 months	1 month
27	Korea (North)	12 months	12 months	12 months	12 months	6 months
28	Korea (South) ¹⁾	6 months	6 months	6 months	6 months	3 months
29	Kuwait	3 months	3 months	3 months	3 months	3 months
30	Laos	6 months	6 months	6 months	6 months	6 months
31	Luxembourg ¹⁾	5 months	5 months	5 months	5 months	-
32	Malaysia	6 months	6 months	6 months	6 months	3 months
33	Mexico	6 months	6 months	6 months	6 months	91 days
34	Mongolia	6 months	6 months	6 months	6 months	3 months
35	Morocco	6 months	-	6 months	6 months	60 days
36	Netherlands ¹⁾	6 months	6 months	6 months	6 months	3 months
37	New Zealand ¹⁾	6 months	6 months	6 months	6 months	3 months
38	Norway	6 months	6 months	6 months	6 months	3 months
39	Pakistan	3 months	3 months	3 months	3 months	-
40	Papua New Guinea	120 days	120 days	120 days	120 days	120 days
41	Philippines	6 months	3 months	3 months	6 months	183 days
42	Poland ¹⁾	183 days	183 day	183 days	183 days	120 days
43	Portugal ¹⁾	6 months	6 months	6 months	6 months	183 days
44	Qatar ¹⁾	6 months	6 months	6 months	6 months	6 months
45	Romania	6 months	6 months	6 months	6 months	4 months
46	Russia ¹⁾	3 months	3 months	3 months	3 months	-
47	Serbia ¹⁾	6 months	6 months	6 months	6 months	6 months
48	Seychelles	6 months	6 months	6 months	6 months	3 months
49	Singapore ¹⁾	183 days	183 days / 3 months	183 days / 3 months	6 months	90 days

No.	Country	Construction	Installation	Assembly	Supervisory	Other Services
50	Slovakia ¹⁾	6 months	6 months	6 months	6 months	91 days
51	South Africa	6 months	6 months	6 months	6 months	120 days
52	Spain	183 days	183 days	183 days	183 days	3 months
53	Sri Lanka	90 days	90 days	90 days	90 days	90 days
54	Sudan	6 months	6 months	6 months	6 months	3 months
55	Suriname	6 months	6 months	6 months	6 months	91 days
56	Sweden	6 months	6 months	6 months	6 months	3 months
57	Switzerland	183 days	183 days	183 days	183 days	-
58	Syria	6 months	6 months	6 months	6 months	183 days
59	Taiwan	6 months	6 months	6 months	6 months	120 days
60	Tajikistan	6 months	6 months	6 months	6 months	91 days
61	Thailand	6 months	6 months	6 months	6 months	6 months
62	Tunisia	3 months	3 months	3 months	3 months	3 months
63	Turkey	6 months	6 months	6 months	6 months	183 days
64	Ukraine	6 months	6 months	6 months	6 months	4 months
65	United Arab Emirates ¹⁾	6 months	6 months	6 months	6 months	6 months
66	United Kingdom ¹⁾	183 days	183 days	183 days	183 days	91 days
67	United States of America	120 days	120 days	120 days	120 days	120 days
68	Uzbekistan	6 months	6 months	6 months	6 months	3 months
69	Venezuela	6 months	6 months	6 months	6 months	-
70	Vietnam	6 months	6 months	6 months	6 months	3 months
71	Zimbabwe	6 months	6 months	6 months	6 months	183 days

Notes:

- 1) The MLI becomes effective for these treaties starting from 1 January 2021 for WHT and from 1 January 2022 for other taxes.
- 2) The treaty has entered into force since 28 July 2020 and become effective as of 1 January 2021

Base Erosion and Profit Shifting, and Multilateral Instrument consideration

Indonesia ratified the Multilateral Convention to Implement Tax Treaty-Related Measures to Prevent BEPS in November 2019 and deposited its instrument of ratification for the MLI with the OECD on 28 April 2020. Indonesia identifies 47 tax treaties to be covered under the Convention.

The MLI entered into force for Indonesia on 1 August 2020 (three months after the deposit of its instrument ratification).

The MLI entered into effect in Indonesia for certain tax treaties on the following dates:

- 1 January 2021 for WHTs; and
- 1 January 2022 for other taxes.



Tax Facilities during COVID-19 Pandemic

COVID-19 pandemic has severely affected the global economy, including Indonesia. Since March 2020, the Indonesian government has issued various regulations to provide income tax and VAT incentives to taxpayers to support businesses and individuals. Some of the regulations introducing tax incentives related to COVID-19 pandemic that are still valid as of 30 June 2021 are:

- MoF Regulation Number 9/PMK.03/2021 (PMK-9), revoking MoF Regulations Number 23/PMK.03/2020, 44/PMK.03/2020, 86/PMK.03/2020, and 110/PMK.03/2020;
- MoF Regulation Number 239/PMK.03/2020 (PMK-239), revoking MoF Regulations Number 28/PMK.03/2020 and 143/PMK.03/2020;
- Government Regulation Number 29 of 2020 (PP-29) as amended by MoF Regulation Number 239/PMK.03/2020;
- MoF Regulation Number 20/PMK.010/2021 (PMK-20) as replaced by MoF Regulations Number 31/PMK.010/2021, 77/PMK.010/2021, and 120/PMK.010/2021; and
- MoF Regulation Number 21/PMK.010/2021 (PMK-21) as amended by MoF Regulation Number 103/PMK.010/2021.

Tax incentives under PMK-9

PMK-9 provides the following tax incentives to certain sectors:

- EIT borne by the government;
- 0.5% final tax for SMEs borne by the government;
- Exemption from Article 22 income tax on import;
- 50% reduction of monthly tax installments; and
- Preliminary refund of VAT overpayment.

The incentives above were valid until 30 June 2021. However, they have been extended to 31 December 2021 (please refer to page 90).

Article 21 employee income tax borne by the government

Under PMK-9, EIT will be borne by the government on income received by employees who fulfill the following criteria:

- a. The income is received from:
 - An employer (including branches) of which the Business Classification (*Klasifikasi Lapangan Usaha* (KLU)) is included in the list provided in the regulation. Under PMK-9, there are 1,189 KLU eligible for the incentive;
 - An employer that is a KITE company (i.e., a company entitled to the relaxation of conditions for importation of goods for export purposes (*Kemudahan Impor Tujuan Ekspor*)); or
 - An employer that has obtained a bonded zone (*Kawasan Berikat*) license; and
- b. The employee has an NPWP; and
- c. The annualized fixed and regular gross employment income for the relevant month is not more than IDR 200 million.

The amount of EIT borne by the government must be paid to the employee and is not regarded as part of the employee's taxable income.

To enjoy this incentive, the taxpayer has to submit a notification letter to the tax office through the DGT's online channel.

Final tax for small and medium enterprises borne by the government

As mentioned on page 17, certain corporate taxpayers (other than PEs of foreign companies) that earn or receive gross income not exceeding IDR 4.8 billion (SMEs) in a fiscal year are subject to final income tax rate of 0.5% for a certain period of time. PMK-9 provides tax relief in the form of final tax borne by the government. When performing a transaction subject to WHT with a party that is a tax withholder, the SME must provide a copy of the statement letter issued under Government Regulation Number 23 of 2018 (general regulation regarding final tax for SMEs).

Article 4(2) final income tax on certain construction services borne by the government

Article 4(2) income tax on certain construction activities may be borne by the government. The taxpayers eligible for this incentive are those that are instructed by the relevant government institutions

to carry out a specific labor-intensive program considered as vital for agricultural sector, i.e., the Acceleration Program to Improve Irrigation Water (*Program Percepatan Peningkatan Tata Guna Air Irigasi*).

Exemption from Article 22 income tax on import

The facility of exemption from Article 22 income tax on import is available for taxpayers that fulfill the following criteria:

- A taxpayer of which the KLU is in the list of the regulation. Under PMK-9, there were 730 KLUs eligible for the incentive;
- A KITE company; or
- A company that has obtained a bonded zone license.

To enjoy this facility, the taxpayer has to submit a request for an SKB through the DGT's online channel.

50% reduction of monthly tax installments

A 50% reduction of monthly tax installments will be provided to taxpayers that fulfill the following criteria:

- A taxpayer of which the KLU is in the list of the regulation. Under PMK-9, there were 1,018 KLUs eligible for the incentive;
- A KITE company; or
- A company that has obtained a bonded zone license.

To enjoy this incentive, the taxpayer has to submit a notification letter to the tax office through the DGT's online channel.

Preliminary refund of Value Added Tax overpayment

The provision of preliminary VAT refund facility shall follow low-risk PKP procedures (i.e., one-month refund process), provided that the PKP fulfills the following criteria (including branches):

- a. A taxpayer of which the KLU is in the list of the regulation. Under PMK-9, there were 725 KLUs eligible for the incentive;
- b. A KITE company; or
- c. A company that has obtained a bonded zone license.

The maximum amount of VAT overpayment stated in the VAT return, for which the preliminary VAT refund may be made, is IDR 5 billion and applicable for VAT returns for January 2021 to June 2021 fiscal periods.

Note:

On 1 July 2021, the MoF issued Regulation Number 82/PMK.03/2021 to extend the incentives under PMK-9 until 31 December 2021. It also updates the number of KLUs eligible for the incentives as follows: exemption from Article 22 income tax on import for eligible taxpayers (from 730 KLUs to 132 KLUs), 50% reduction of monthly tax installments for eligible taxpayers (from 1,018 KLUs to 216 KLUs), and preliminary refund of VAT overpayment for eligible PKPs meeting certain conditions (from 725 KLUs to 132 KLUs). Taxpayers that have been granted with KITE facility and taxpayers that have obtained bonded zone licenses are no longer eligible to apply for the incentives.

Tax incentives under PMK-239

In order to support the swift provision of medicines, medical equipment, and other supplies essential for handling the COVID-19 pandemic (essential goods and/or services), the MoF has issued PMK-28 to provide VAT and WHT incentives to Certain Parties, and other third parties with whom the Certain Parties transact. Facilities introduced via PMK-239 are valid until 31 December 2021.

Certain Parties are defined as:

- a. Government bodies or institutions (central or local) appointed to handle the COVID-19 pandemic;
- b. Hospitals appointed as referral hospitals for COVID-19 patients; or
- c. Other parties appointed by government bodies or institutions or by hospitals to assist in handling the COVID-19 pandemic.

Value Added Tax not-collected

Import of essential taxable goods by Certain Parties is eligible for the VAT not-collected incentive.

Government-borne Value Added Tax

Delivery of essential taxable goods and/or services by PKPs to Certain Parties, including free gifts and utilization of offshore taxable services within Indonesian customs territory, is eligible for the government-borne VAT facility.

The following activities are eligible for the government-borne VAT facility, provided that the taxpayers in pharmaceutical industry have obtained a recommendation letter from the National Disaster Management Agency (*Badan Penanggulangan Bencana Nasional* (BPBN)):

- The import and/or delivery of raw materials for production of vaccines and/or medicines for COVID-19 by the taxpayers in pharmaceutical industry; and
- The delivery of vaccines and/or medicines for COVID-19 by a PKP to the taxpayers in pharmaceutical industry.

Article 21 employee income tax exemption

Income received by resident individuals from Certain Parties related to the provision of services essential for handling the COVID-19 pandemic (other than services subject to Article 4(2) income tax) can automatically receive EIT exemption.

Article 22 income tax exemption

Certain Parties that import goods essential for handling the COVID-19 pandemic and have obtained a recommendation letter from the BPBN are automatically exempted from Article 22 income tax. Sales of goods essential for handling the COVID-19 pandemic to Certain Parties may also request for and exemption from Article 22 income tax.

Article 23 income tax exemption

Income received by domestic corporate taxpayers or PEs from Certain Parties related to services essential for handling the COVID-19 pandemic may request for an exemption from Article 23 income tax.

Tax incentives under PP-29

To encourage public contributions to the fight against the COVID-19 pandemic, the government has issued PP-29 that provides tax reliefs for certain activities carried out during a certain period of time in relation to the pandemic situation in Indonesia.

The tax reliefs under PP-29 include:

- Additional deduction for taxpayers producing certain medical equipment and/or household health supplies;
- Deduction for donations to certain organizations;
- 0% final income tax for additional income of healthcare workers;
- 0% final income tax on compensation for the use of assets to support health services; and
- Incentive for share buy-backs of listed companies.

Additional deduction for taxpayers producing certain medical equipment and/or household health supplies

Taxpayers are entitled to an additional 30% deduction for certain qualifying expenses in relation to the manufacture of certain medical equipment and/or household health supplies used for fighting COVID-19 pandemic. The expenses are allocated proportionally where:

- The expenses incurred are not solely related to the production of eligible equipment and supplies; or
- The expenses incurred are dedicated for the production of eligible equipment and supplies; however, not all of the products are sold or donated in Indonesia.

Additional deduction for donations to certain institutions

Donations to certain donation collection organizers in Indonesia are deductible for income tax purposes. To be deductible, donations made to the organizers must be supported by proof of donation, and the donation collection organizers receiving the donation must be registered for tax purposes.

0% final income tax for additional income of healthcare workers

Additional income received by the healthcare workers and workers engaged by the government to provide health support services specifically relating to the COVID-19 pandemic, including compensation paid by the government to their heirs, is entitled to a final income tax rate of 0%. A 0% income tax rate also applies to the healthcare workers and health support workers who are active or retired state officials, civil servants, army personnel, or police officers.

0% final income tax rate on compensation for the use of assets to support health services

In the event the government pays rent for land, buildings or other assets for the purpose of handling the COVID-19 pandemic, such rental income received by the landlord/lessor is subject to Article 4(2) final income tax at a rate of 0%. Normally, rental income from assets other than land and buildings is subject to regular (non-final) income tax.

Since the rental income is subject to final income tax, any expenses related to this income are not deductible.

Share buy-backs by taxpayers listed on the Indonesia Stock Exchange

If a share buy-back is carried out by a publicly listed corporate taxpayer due to a policy of the central government or OJK, the taxpayer may be considered a shareholder for the purpose of meeting certain criteria to enjoy the 3% CIT rate reduction facility. To enjoy this facility under PP-29, the share buy-back must be completed by 30 September 2020 for the publicly listed corporate taxpayer to be eligible for the 3% CIT rate reduction for FY2020 and FY2021.

For FY2022, the publicly listed corporate taxpayer may still enjoy the 3% CIT rate reduction if the bought-back shares are disposed of by 30 September 2022 and the publicly listed corporate taxpayer still meets the relevant criteria after that date.

The tax reliefs under PP-29 are valid until 30 June 2021. The MoF may extend the tax reliefs beyond 30 June 2021, with the exception of the relief provided for share buy-backs.

Note:

On 1 July 2021, the MoF issued Regulation Number 83/PMK.03/2021 extending the incentives provided under PP-29 (with the exception of the relief provided for share buy-backs) until 31 December 2021.

Tax incentives under PMK-20

Sales of certain types of vehicle, which have met the requirement of a minimum of 60% local content (i.e., at least 60% of the components used to build the vehicle are produced domestically), are eligible for its LST to be borne by the government ranging from 12.5% to 100%.

Tax incentives under PMK-21

VAT on the sales of landed houses and residential units by a VAT-registered business to an individual homeowner (purchaser), taking place between 1 March 2021 and 31 December 2021, may be eligible for a government-borne VAT facility. The government will bear 100% of the VAT if the selling price of the property does not exceed IDR 2 billion, and 50% of the VAT if the selling price is between IDR 2 billion and IDR 5 billion.

Note:

On 30 July 2021, the MoF issued Regulation Number 103/PMK.010/2021 to extend the tax incentives under PMK-21 to 31 December 2021.



Quick Comparison between the Omnibus Law and the Existing Tax Laws

General tax provisions and procedures

Topic	Omnibus Law ¹⁾	Existing KUP Law ²⁾	Reference to page
Surcharge penalty arising from late tax settlement	SBA plus uplift of 5% divided by 12 months for a maximum of 24 months	2% per month	9, 10
Surcharge penalty arising from tax underpayment due to self-revision of tax returns	SBA plus uplift of 5% divided by 12 months for a maximum of 24 months	2% per month	10
Surcharge penalty arising from voluntary disclosure	SBA plus uplift of 10% divided by 12 months for a maximum of 24 months; or a surcharge of 100%	50%/150%	10

Topic	Omnibus Law ¹⁾	Existing KUP Law ²⁾	Reference to page
Surcharge penalty arising from the issuance of an SKPKB	<p>SBA plus uplift of 15% divided by 12 months for a maximum of 24 months; or a surcharge of 50% or 100%</p> <p>If a tax audit results in an imposition of an interest penalty (for VAT underpayment) plus an incremental penalty (for input VAT that should not be credited or subject to 0%), only the higher of the two penalties will be imposed.</p>	2% per month for a maximum of 24 months; or 48%; or 50%; or 100%	11
Surcharge penalty arising from the issuance of an SKPKBT	100%	48% or 100%	12
Issuance of an STP	<p>SBA plus uplift of 5% divided by 12 months for a maximum of 24 months or 1% of the VAT imposition base</p> <p>The statute of limitation for the issuance of an STP is five years.</p>	2% per month for a maximum 24 months; or 2% of the VAT imposition base	14

Topic	Omnibus Law ¹⁾	Existing KUP Law ²⁾	Reference to page
Surcharge penalty arising from settlement of tax and penalty by taxpayer undergoing tax crime investigation which cause the investigation to cease	Penalty of three times of the underpaid tax amount	Penalty of four times of the underpaid tax amount	
Rate for interest compensation	SBA divided by 12 months for a maximum of 24 months	2% per month for a maximum of 24 months	
Surcharge penalty arising from tax deferment or tax installment	SBA divided by 12 months, for a maximum of 24 months	2% per month	

Notes:

- 1) Law Number 11 of 2020 regarding Omnibus Law on Job Creation
- 2) Law Number 6 of 1983 regarding General Tax Provisions and Procedures as amended by Law Number 9 of 1994, Law Number 16 of 2000, Law Number 28 of 2007, and Law Number 16 of 2009

Income tax

Topic	Omnibus Law ¹⁾	Existing Income Tax Law ²⁾	Reference to page
Dividend received by a resident corporate taxpayer from another resident corporate taxpayer	This income is tax exempted without any restriction.	<p>Dividend earned by a corporate taxpayer is subject to income tax.</p> <p>Dividend from a domestic corporate to its domestic shareholder is not subject to tax if the shareholding percentage is at least 25% and the dividend is sourced from retained earnings.</p>	24, 25
Dividend income from overseas sources, PE's PAT, and income from foreign active business without a PE	These incomes are still subject to income tax. However, a tax exemption is available when these incomes are reinvested into Indonesia for a certain period of time.	These incomes are subject to income tax and there is no tax exemption available.	24, 25, 39
An Indonesian citizen as a foreign tax resident	An Indonesian citizen staying outside Indonesia for more than 183 days within a 12-month period can apply for a confirmation to be a foreign tax resident subject to certain requirements.	An individual remains a domestic tax resident until that individual passes away/ leaves Indonesia permanently.	39

Topic	Omnibus Law ¹⁾	Existing Income Tax Law ²⁾	Reference to page
A foreigner as an Indonesian tax resident	A foreign citizen staying in Indonesia for more than 183 days within a 12-month period can be treated as an Indonesian tax resident and taxed on Indonesian-sourced income only (territorial basis) for the first four years from being a tax resident. Certain requirements apply.	A foreign citizen staying in Indonesia more than 183 days within a 12-month period is treated as an Indonesian tax resident and taxed on worldwide income.	39
Dividend received by a resident individual taxpayer from another resident corporate taxpayer	This income is subject to income tax. However, it can be tax exempted if reinvested into Indonesia for a certain period of time.	This income is subject to final tax with a rate of 10%.	39
WHT rate for payment of interest income from bonds payable to an offshore party	10%/20%	20%	55

Notes:

- 1) Law Number 11 of 2020 regarding Omnibus Law on Job Creation
- 2) Law Number 7 of 1983 regarding Income Tax as amended by Law Number 7 of 1991, Law Number 10 of 1994, Law Number 17 of 2000, and Law Number 36 of 2008

Value Added Tax

Topic	Omnibus Law ¹⁾	Existing VAT Law ²⁾	Reference to page
VAT treatment on coal products	Coal mining products extracted directly from the source are subject to VAT.	Coal that has not been processed to briquette is not subject to VAT.	65
Information required to be disclosed in a VAT invoice in place of an NPWP	In certain cases, national identity number (<i>Nomor Induk Kependudukan</i>), passport number, or name and address is used to replace the NPWP requirement.	An NPWP is required to be included in the VAT invoice.	69
Crediting input VAT in a different period	The input VAT can be credited within three months as long as it has not been expensed or capitalized.	The input VAT can be credited within three months as long as it has not been expensed or tax audited.	71
Deliveries of taxable goods on consignment arrangements	The deliveries are not subject to VAT.	The deliveries are subject to VAT.	
VAT treatment on <i>inbreg</i> (in-kind capital contributions)	<i>Inbreg</i> is VAT exempt if both the transferor and the transferee are PKPs.	<i>Inbreg</i> is subject to VAT.	
Creditable input VAT during pre-production	All input VAT during pre-production are creditable.	Only input VAT on purchases and/or imports of capital goods are creditable.	

Topic	Omnibus Law ¹⁾	Existing VAT Law ²⁾	Reference to page
Limitation on creditable input VAT during pre-production	<p>The creditable input VAT during pre-production is limited to three years. However, this time period is extended up to five years for manufacturer of taxable goods, or up to six years for certain national strategic projects.</p> <p>A PKP can request for a VAT refund at the end of a fiscal year.</p>	<p>The creditable input VAT during pre-production is limited to three years, which may be extended for two more years under certain conditions.</p> <p>A PKP can request for a VAT refund in every fiscal period.</p>	
Input VAT on procurement of taxable goods and/or taxable services before the entrepreneur is registered as a PKP	The input VAT is creditable up to 80% of the output VAT that is supposed to be collected.	The input VAT is not creditable.	
Input VAT that has not been reported in the VAT return or notified/ discovered in a tax audit, and input VAT collected through a tax assessment	The input VAT is creditable as long as it meets the general input VAT crediting requirements, the assessment has been paid, and the assessment is not in dispute.	The input VAT is not creditable.	

Notes:

- 1) Law Number 11 of 2020 regarding Omnibus Law on Job Creation
- 2) Law Number 8 of 1983 regarding Value Added Tax as amended by Law Number 11 of 1994, Law Number 18 of 2000, and Law Number 42 of 2009

Draft Law on Harmonization of Tax Regulations

On 7 October 2021, the Indonesian People's Representative Council (Dewan Perwakilan Rakyat (DPR)) passed the Draft Law on Harmonization of Tax Regulations (Rancangan Undang-Undang Harmonisasi Peraturan Perpajakan (RUU HPP)). The bill is part of the government's strategy to encourage continuous economic growth and to expedite the national economic recovery by reducing the state budget deficit and improving the national tax-to-GDP ratio through tax reforms.

RUU HPP harmonizes various fiscal laws and regulations, including the:

- Income Tax Law;
- VAT Law;
- General Taxation Provision and Procedures Law;
- Excise Law;
- Carbon tax (new); and
- Voluntary disclosure program (*Program Pengungkapan Sukarela (VDP)*) (new).

Below is the summary of the key features of RUU HPP based on the 29 September 2021 version of the draft law (225 pages). Reference ultimately should be made to the final law, which will be issued shortly by the government. The bill is awaiting the president's signature and it is possible that some amendments may still be made.

Income Tax Law

- Individual income tax rates are planned to be updated as follows:

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

- Through RUU HPP, the government intends to maintain the CIT rate at 22% (as for fiscal year 2021) for fiscal year 2022 and the subsequent years.
- In principle, BIK related to the activities of earning, collecting, or maintaining income would be tax deductible for employers and taxable for employees. BIK that are not taxable for employees would be limited to:
 - Food and beverages provided to all employees;
 - BIK in certain remote areas;
 - BIK necessary to carry out work assignments;
 - Certain BIK funded from state budget, regional state budget, or village budget; and
 - Certain BIK subject to specific limitations.
- The calculation of deductible provision on nonperforming loan for banks and multi-finance companies would follow the prevailing SAK with certain limitations after coordination with the OJK.
- The MoF would be authorized to specify the limitation on deductible borrowing costs based on internationally accepted methods, such as DER, borrowing costs compared to EBITDA (earnings before interest, taxes, depreciation, and amortization), or other methods.
- RUU HPP would provide a more flexibility in determining the useful life for depreciation and amortization of certain fixed assets.

- RUU HPP would provide that the first IDR 500 million of gross revenue of an individual SME taxpayer would not be subject to tax.
- New methods for determining arm's-length transactions would be permitted, i.e., comparable uncontrolled transaction method, tangible and intangible asset valuation, and business valuation.
- Under RUU HPP, discrepancies from transfer pricing adjustments would be considered as taxable dividends in accordance with the prevailing tax laws and regulations.
- The authority to enter into fiscal-related cooperation with other tax jurisdictions would be widened to include bilateral and multilateral cooperation related to the avoidance of double taxation and the prevention of tax evasion, BEPS, exchange of information, assistance in tax collection, and other tax cooperation.
- Some articles would be updated to align with the development of the tax regulations.

Value Added Tax

- As from 1 April 2022, the standard VAT rate would increase to 11%; and by 1 January 2025, at the latest, the standard VAT rate would rise to 12%.
- All goods and services would be subject to VAT, except:
 - Items that are already subject to regional tax (i.e., food and beverages served at a restaurant or hotel or for catering, art and entertainment services, hotel services, and parking services);
 - Money, gold bars (representing Indonesia's state gold reserves), and securities;
 - Religious services; and
 - Government administrative services that cannot be provided by other parties.
- The following goods and services, currently outside the scope of VAT, would become taxable but eligible for the VAT exemption facility:
 - Basic commodities;
 - Medical/health services;
 - Social services;
 - Financial services;
 - Insurance services;
 - Educational services;
 - Certain public transport services on land and on water, and certain domestic air transport services; and
 - Labor services.

- RUU HPP would revoke some items in the current list of goods eligible for VAT exemption or VAT not-collected facility; however, the revised treatment of such goods has not yet been confirmed. The VAT not-collected facility would be more selectively applied.
- Certain PKPs would be subject to the final VAT mechanism.
- Input VAT related to the purchase of taxable goods and/or taxable services in which the VAT is calculated using a special VAT imposition base would be creditable.
- Input VAT related to the purchase and maintenance of sedan vehicles and station wagons would be creditable.

General Taxation Provision and Procedures Law

- National identification numbers (*Nomor Induk Kependudukan*) would replace NPWPs for individual taxpayers.
- The DGT would be able to assist another country to collect tax, and vice versa; provided that the authority to do so is included in the relevant international agreement. The treatment must be reciprocal.
- Penalties related to SKPKB, tax objection, and tax appeal are reduced. RUU HPP would provide more certainty on the penalty related to judicial review.
- The MAP process would be able to be conducted alongside an objection, appeal, or request for reduction or cancelation of an incorrect tax assessment letter.
- The MoF would be allowed to appoint a domestic party or a foreign party that is directly involved in or facilitates a transaction to withhold taxes.
- The authority given to a tax investigator would be extended to include blocking or confiscating a tax criminal's assets.
- In certain cases, the penalty related to tax crime would have to be paid and cannot be replaced by a prison sentence.

Excise Law

- RUU HPP would introduce excise duty on e-cigarettes.
- The government would be authorized to add items to or remove items from the list of goods subject to excise after submitting its proposals to the DPR, to be discussed and decided during the drafting of state budget.

Carbon tax

- A carbon tax subject would be an individual or entity that buys goods containing carbon or producing carbon emissions; whereas a carbon tax object would be a purchase of goods containing carbon or an activity that emits a certain quantity of carbon within a certain period.
- RUU HPP would provide for the lowest carbon tax rate of IDR 30/kg CO₂e or equivalent unit.

Voluntary Disclosure Program

- RUU HPP proposes the introduction of VDP to provide an opportunity for taxpayers to disclose their assets that have not yet been disclosed.
- There would be two VDP schemes covering the disclosure period between 1 January and 30 June 2022:
 - Scheme 1: for Tax Amnesty program participants (individuals and corporates) that have not fully disclosed their assets acquired between 1 January 1985 and 31 December 2015 in the Asset Declaration Letters (Surat Pengungkapan Harta), their final tax rates would range from 6% to 11% depending on whether the asset is located in Indonesia and whether it will be invested in certain investment instruments; and
 - Scheme 2: for certain individual taxpayers with net assets acquired between 1 January 2016 and 31 December 2020 that have not yet been reported in the 2020 annual income tax return, their final tax rates would range from 12% to 18% depending on whether the asset is located in Indonesia and whether it will be invested in certain investment instruments.
- Certain investment instruments would include natural resources processing and renewable energy sectors and/or certain state securities.
- The investment must be held for five years, at the minimum.
- Sanction for taxpayers that participate in VDP but do not comply with the provisions would vary depending on the incompliance.

Implementation

When RUU HPP comes into effect:

- Implementing regulations of Law Number 11 of 2016 regarding Tax Amnesty would become invalid, provided that the disclosure is made between 1 January and 30 June 2022;
- All existing implementing regulations would remain valid provided that they do not contradict with RUU HPP or have not been replaced in accordance with RUU HPP; and
- Articles in Law Number 2 of 2020 related to the CIT rate would be revoked as from fiscal year 2022.

Once promulgated, the provisions in RUU HPP would come into effect in accordance with the following schedule:

- Income tax provisions: as from fiscal year 2022;
- VAT provisions: as from 1 April 2022;
- Carbon tax provisions: as from 1 April 2022 to coal-fired power plants with a tariff of IDR 30/kg CO₂e; and
- Other provisions: as from the date of promulgation.

For more information on RUU HPP, please refer to Deloitte Indonesia's Tax Info October 2021 or scan the QR code below.





List of Abbreviations

AEOI	: Automatic Exchange of Information
APA	: Advance Pricing Agreement
API	: Importer Identification Number (<i>Angka Pengenal Impor</i>)
APM	: Agent (<i>Agen Pemegang Merek</i>)
ATPM	: Sole agent (<i>Agen Tunggal Pemegang Merek</i>)
BEPS	: Base Erosion and Profit Shifting
BIK	: Benefit-in-kind
BPBN	: National Disaster Management Agency (<i>Badan Penanggulangan Bencana Nasional</i>)
BPJS	: Social security scheme (<i>Badan Penyelenggara Jaminan Sosial</i>)
BPT	: Branch profit tax
BUMN	: State-owned enterprise (<i>Badan Usaha Milik Negara</i>)
CbCR	: Country-by-Country Report
CFC	: Controlled Foreign Company
CIT	: Corporate income tax
CoD	: Certificate of Domicile
CoR	: Certificate of Residence
COVID-19	: Corona virus Disease 2019
CoW	: Contract of Work
CRS	: Common Reporting Standard
DER	: Debt-to-Equity Ratio
DGT	: Directorate General of Taxation

DPR	: Indonesian People's Representative Council (<i>Dewan Perwakilan Rakyat</i>)
EIT	: Article 21/26 employee income tax
FTZ	: free trade zone
IDR	: Indonesian Rupiah
KIK	: Collective investment contract (<i>Kontrak Investasi Kolektif</i>)
KITE	: Relaxation of conditions for importation of goods for export purposes (<i>Kemudahan Impor Tujuan Ekspor</i>)
KLU	: Business Classification (<i>Klasifikasi Lapangan Usaha</i>)
KSEI	: Indonesia Central Securities Depository (<i>Kustodian Sentral Efek Indonesia</i>)
LPG	: Liquefied petroleum gas
LPI	: Indonesia Investment Authority (<i>Lembaga Pengelola Investasi</i>)
LPJK	: Construction Service Development Institute (<i>Lembaga Pengembangan Jasa Konstruksi</i>)
LST	: Luxury-goods Sales Tax (<i>Pajak Penjualan atas Barang Mewah</i>)
MAP	: Mutual Agreement Procedures
MLI	: Multilateral Instrument
MoF	: Minister of Finance
NPWP	: Tax identification number (<i>Nomor Pokok Wajib Pajak</i>)
OECD	: Organization for Economic Co-operation and Development
OJK	: Financial Services Authority of Indonesia (<i>Otoritas Jasa Keuangan</i>)
PAT	: Profit after tax
PE	: Permanent establishment (<i>Bentuk Usaha Tetap</i>)

PEJ	: Export Declaration of Services (<i>Pemberitahuan Ekspor Jasa</i>)
PKP	: VAT-able entrepreneur (<i>Pengusaha Kena Pajak</i>)
PMA	: Foreign investment company (<i>Penanaman Modal Asing</i>)
PMSE	: Transaction through electronic system (<i>penyerahan melalui saluran elektronik</i>)
PPMSE	: PMSE providers (<i>Penyelenggara PMSE</i>)
PSC	: Production Sharing Contract
PTKP	: Nontaxable income (Penghasilan Tidak Kena Pajak)
RUU HPP	: Draft Law on Harmonization of Tax Regulations (<i>Rancangan Undang-Undang Harmonisasi Peraturan Perpajakan</i>)
SAK	: Indonesian Financial Accounting Standards (<i>Standar Akuntansi Keuangan</i>)
SBA	: Reference interest rate issued monthly by the MoF (<i>Suku Bunga Acuan</i>)
SEZ	: Special economic zone (<i>Kawasan Ekonomi Khusus</i>)
SKB	: Tax exemption letter (<i>Surat Keterangan Bebas</i>)
SKPKB	: Underpaid Tax Assessment Letter (<i>Surat Ketetapan Pajak Kurang Bayar</i>)
SKPKBT	: Additional Underpaid Tax Assessment Letter (<i>Surat Ketetapan Pajak Kurang Bayar Tambahan</i>)
SKPLB	: Overpaid Tax Assessment Letter (<i>Surat Ketetapan Pajak Lebih Bayar</i>)
SKPN	: Nil Tax Assessment Letter (<i>Surat Ketetapan Pajak Nihil</i>)
SME	: Small and medium enterprise
SPC	: Special purpose company
SPHP	: Tax audit findings (<i>Surat Pemberitahuan Hasil Pemeriksaan</i>)
SSP	: Tax payment slip (<i>Surat Setoran Pajak</i>)

STP	:	Tax Collection Letter (<i>Surat Tagihan Pajak</i>)
VAT	:	Value Added Tax (<i>Pajak Pertambahan Nilai</i>)
VDP	:	Voluntary Disclosure Program (<i>Program Pengungkapan Sukarela</i>)
USD	:	United States Dollar
WHT	:	Withholding tax



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