

Deloitte.



Indonesia Tax Guide 2019-2020

Deloitte Touche Solutions

This publication is prepared based on the prevailing laws, regulations and publications available as at **15 July 2019**. These materials and the information contained herein are provided by Deloitte Touche Solutions and are intended to provide general information on a particular subject or subjects and are not an exhaustive treatment of such subject(s).

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the “Deloitte Network”) is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

Contents

About Deloitte	4
General Indonesian Tax Provisions	7
Corporate Income Tax	14
Individual Income Tax	29
Withholding Tax and Final Tax	33
Value Added Tax	45
Transfer Pricing	55
Summary of Double Tax Avoidance Agreements (Tax Treaties)	68
Automatic Exchange of Information (AEOI)	78
List of Abbreviations	81
Contacts	82

About Deloitte

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax & legal and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the “Deloitte organisation”) serves four out of five Fortune Global 500® companies. Deloitte’s approximately 312,000 people are committed to making an impact that matters.

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

Deloitte Southeast Asia Ltd comprises Deloitte practices operating in Brunei, Cambodia, Guam, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. It was established to deliver measurable value to the particular demands of increasingly intra-regional and fast growing companies and enterprises. Comprising over 380 partners and 10,000 professionals in 25 office locations, the subsidiaries and affiliates of Deloitte Southeast Asia Ltd combine their technical expertise and deep industry knowledge to deliver consistent high quality services to companies in the region.

About Deloitte Indonesia

In Indonesia, Deloitte is represented by the following:

- Imelda & Rekan (IR), Registered Public Accountants
- Deloitte Touche Solutions (DTS), Tax Services
- PT Deloitte Konsultan Indonesia (DKI), Financial Advisory and Risk Advisory Services
- KJPP Lauw & Rekan, Valuation Advisory
- Hermawan Juniarto & Partners, Lawyers
- PT Deloitte Consulting, part of the world's largest management consulting business

Deloitte Indonesia has over 1,600 Partners and Staff located in Jakarta and Surabaya, serving companies listed on the Indonesia Stock Exchange as well as multinational and large national enterprises, public institutions, and fast growing companies.

Our Tax and Legal Service

Virtually all business decisions today have tax and legal implications and the rules are in constant flux. Increasingly, companies face a daunting task in managing their tax and legal requirements efficiently. Thus, practical and well-crafted tax and legal solutions are now a critical part of an effective business strategy.

Deloitte offers clients a broad range of fully integrated tax and legal services. Our approach combines insight and innovation from multiple disciplines with business and industry knowledge to help companies excel globally.

In Indonesia, tax services are provided by Deloitte Touche Solutions, while legal services are provided by Hermawan Juniarto & Partners.

Our professionals guide clients through the tax and legal maze by applying their specialist skills in the following areas:

- Business Tax Services
- Mergers and Acquisitions
- Transfer Pricing
- Global Employer Services
- Business Process Solutions
- Indirect Tax
- Global Trade Advisory
- Legal Services

We also serve a wide range of industries and group services, including:

- Consumer Products (CP)
- Energy, Resources and Industrials (ER&I)
- Financial Services (FS)
- Government and Public Services (GPS)
- Life Sciences and Health Care (LSHC)
- Technology, Media and Telecommunications (TMT)
- Japanese Services Group (JSG)
- Korean Services Group (KSG)
- Chinese Service Group (CSG)
- State-owned Enterprises (SOE)
- Deloitte Private (DP)
- Dispute

General Indonesian Tax Provisions

Law Number 6 of 1983 regarding General Procedures and Provisions for Taxation as most recently amended by Law Number 16 of 2009.

Residency

Taxation in Indonesia is determined on the basis of residency.

Residency tests are applied as follows:

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

Basics of the Tax System

- Tax returns are filed by taxpayers based on a self-assessment system.
- Members of a group of companies are taxed individually, as there are no group relief provisions available.
- The statute of limitations for the Indonesian Tax Authority ("ITA") to issue a tax assessment is 5 (five) years, except for criminal acts, for which it is 10 years.
- Indonesia imposes a range of taxes on individuals and corporate taxpayers. These are summarized below:
 - a. Income Tax, which includes:
 - Corporate Income Tax ("CIT");
 - Individual Income Tax;
 - Withholding Tax on employees' remuneration;
 - Withholding Tax on various payments to third parties.
 - b. Value Added Tax (VAT) and Luxury Goods Sales Tax (LGST), subject to certain criteria.
 - c. Regional taxes, subject to certain criteria.

Income Recognition

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

Compliance Reporting

In general, tax returns (monthly and annual) are required to be submitted to the ITA in the form of electronic document through e-filing.

Compliance Timetable

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

Notes:

1. Any underpayment of tax must be settled before submission of the annual tax return.
2. Taxpayers can extend the period of submission of the annual income tax return for 2 (two) months at the maximum by submitting notification to the ITA.

3. Except for self-assessed VAT on utilization of intangible taxable goods and/or taxable services from offshore and VAT collected by VAT Collector other than State Treasurer, which is due by the 15th of the following month.

Administration, Books and Records

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

Tax Audit

- The ITA may conduct a tax audit within the period before the statutory limitation has ended.
- Where a return is lodged showing a tax refund request, this will automatically trigger a tax audit.
- The taxpayer is required to submit all data/documents within 1 (one) month from the request date. Data/documents that were not provided will not be considered in the tax objection process.
- If there is still a dispute over the legal basis of any adjustment, before the completion of a tax audit, the taxpayer may request a review by the Quality Assurance Team from the Regional ITA. Certain deadline and formalities need to be fulfilled.
- The ITA will issue a tax assessment as a result of the tax audit, which can be a nil, underpayment, or overpayment (refund) tax assessment.
- In case of tax audit due to tax refund request, if the ITA does not issue the tax assessment within 12 months since the refund request was filed, the tax refund request will be assumed to be granted.

Tax Disputes – Objection process

- A taxpayer may file a tax objection with the Directorate General of Taxation (“DGT”) against any tax assessment within 3 (three) months from the date the ITA sends the tax assessment letter to the taxpayer.
- A taxpayer that is going to file a tax objection with the DGT over an assessment letter must pay at least the amount of tax payable that has been agreed by the taxpayer in the closing conference during the tax audit, before submitting the objection letter.
- If the objection is rejected or approved in part by the DGT, the taxpayer will be subject to an administrative sanction in the form of a penalty amounting to 50% of the tax assessment unpaid at the time the objection was submitted, unless the taxpayer files for a tax appeal.
- The DGT should make its decision on the objection within 12 months after receiving the objection. If the DGT fails to issue a decision within this period, the taxpayer’s objection will be assumed to be accepted and granted.

Tax Disputes – Appeal process

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

Tax Disputes - Request for Judicial Review by the Supreme Court

- Either the taxpayer or the DGT may further challenge the Tax Court’s decision on an appeal by filing a request for judicial review to the Supreme Court.
- Such request for judicial review can only be proposed for specific circumstances. Depending on the type of circumstances, the request should be filed no later than 3 (three) months after:
 - a. the time the condition is identified (e.g., in the event a Tax

Court decision that was based on perjury or deceit by the opponent and this is only known after the verdict or based on false evidence) or significant new written evidence is found (based on which, had it been known earlier during the trial, the tax court verdict could have been different); or

- b. the time the tax court verdict is delivered, for other reasons (e.g., where the verdict was clearly issued not in accordance with the prevailing laws and regulations, or where the court verdict does not correspond to the matter being claimed or if part of a claim has not been decided without any consideration of the reasons).
- Filing a request for review does not postpone the execution of the Tax Court decision, including interest compensation due to the taxpayer.
- The Supreme Court should investigate the case and present its decision within 6 (six) months of the filing of the request for review. However, there is no consequence if the deadline has elapsed.

Tax Penalties and Sanctions

Circumstances	Penalties and Surcharges
Late reporting	Rp 500,000 for monthly VAT return; Rp 100,000 for other monthly tax return; Rp 100,000 for annual individual tax return; Rp 1,000,000 for annual corporate tax return
Late payments in general	2% per month
Tax underpayment resulting from issuance of tax assessments	2% per month for a maximum of 24 months or 50% or 100% surcharge of the tax underpayment, depending on the case
Voluntary amendments of returns	2% per month or 50% or 150% surcharge of the tax underpayment, depending on the case

Circumstances	Penalties and Surcharges
Issuing incomplete VAT invoice, or not issuing or late in issuing VAT invoice, or reporting VAT invoice not in accordance with the period of issuance of VAT invoice	2% of the taxable base

Criminal Sanctions

Circumstances	Fines and Imprisonment
Fails to submit a tax return through negligence; or submits an incorrect or incomplete tax return or attaches incorrect information.	1 to 2 times the tax underpaid or imprisonment from 3 (three) months to 1 (one) year.
Deliberately does not register for Tax ID Number ("NPWP") or as taxable entrepreneur; improper use of NPWP or taxable entrepreneur number; does not file a tax return; submits an incorrect or incomplete tax return; refuses a tax audit; does not maintain bookkeeping; does not keep books, records or documents supporting bookkeeping in Indonesia; shows false or falsified bookkeeping/records; does not remit taxes withheld or collected.	2 to 4 times the tax underpaid and imprisonment from 6 (six) months to 6 (six) years. The sentence will be doubled if commits another criminal act in the taxation field before a period of 1 (one) year has passed, i.e., since the first sentenced period has been served.
Misuses or uses without right the NPWP or taxable entrepreneur number, or submits an incorrect or incomplete tax return and/ or information for restitution or compensating or crediting tax.	2 to 4 times the tax refund requested/ compensated/ credited and imprisonment from 6 (six) months to 2 (two) years.

Circumstances	Fines and Imprisonment
Intentionally issues and/or uses tax documents which are not based on the actual transaction; issues tax invoice but is not yet confirmed as taxable entrepreneur.	2 to 6 times the tax amount and imprisonment from 2 (two) years to 6 (six) years.

Notes:

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



Corporate Income Tax

Law Number 7 of 1983 regarding Income Tax as most recently amended by Law Number 36 of 2008.

Tax Rates

The current applicable standard CIT rate is 25%. Resident corporate taxpayers with gross revenue up to Rp 50 billion receive a 50% reduction in the corporate tax rate imposed on the taxable income for gross revenue up to Rp 4.8 billion.

Taxpayers who fulfil certain criteria with gross revenue not exceeding Rp 4.8 billion in one tax year are subject to final income tax of 0.5% of the gross revenues. These taxpayers may opt to be subject to the standard Income Tax rate by submitting a notification to the ITA.

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

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

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

Final Income Tax

Certain incomes are subject to a fixed percentage of gross income (final tax - see page 41-44).

Corporate Tax Incentives

A public company which has a minimum of 40% of its total paid-up shares traded on an Indonesian stock exchange and complies with the associated requirements can obtain a 5% reduction from the applicable standard CIT rate.

Tax Objects

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

Calculation of Income – Deductible Expenses

All legitimate business expenses directly or indirectly related to earning, collecting, or maintaining income are deductible from the assessable income to calculate the taxable income. These expenses include but are not limited to:

- Expenses that are directly or indirectly related to business activity such as:
 - a. Material expense;
 - b. Salary / wages expense;
 - c. Interest, rental and royalty;
 - d. Travelling expense;
 - e. Insurance premium;
- Depreciation and amortisation expense;
- Promotion and selling expenses, provided that a nominative list in a required format is available and the expenses constitute the cumulative amount of the following costs:
 - a. Costs of advertising in electronic media, print media, and/or other media;
 - b. Costs of product exhibition;
 - c. Costs of introducing new products;
 - d. Costs of sponsorship associated with product promotion;
- Losses from the sale or transfer of assets that are owned and used in a company or that are owned to obtain collect and maintain income;
- Write-off of uncollectible receivables for certain transactions with non-related party, provided that the following conditions are met:
 - a. The write-off must have already been booked as expense in the

- commercial income statement of the creditor;
- b. The taxpayer must submit a list of uncollectible receivables to the ITA; and
- c. The collection case has been brought to the District Court or the government; or there is a written agreement on nullification of accounts receivables / debt release and discharge between the creditor and debtor concerned; or it has been announced in general or special publications; or the debtor acknowledges that its debts have been nullified for a certain amount;
- Donations and expenses for handling national disasters, research and development, educational facilities, sports development, and construction of social infrastructure, as long as the fund/donations are made directly through the relevant authorized institution and the following requirements are met:
 - a. The previous year's CIT return of the taxpayer that claims such donation expense must be in a fiscal profit position;
 - b. The donation is supported with sufficient supporting documentation;
 - c. The institution that receives the donation must be registered as a taxpayer, except for those that are exempted by law, and not a related party of the donor;
 - d. The total donations or expenses for one fiscal year should not exceed 5% of the previous year's fiscal profit.

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

- Compulsory Tithe ("*zakat*") or religious contribution, provided that valid supporting evidence is available and certain requirements are met;
- Non-creditable input VAT that has been paid and incurred from a transaction that is related to the activity of generating, collecting, and maintaining income. If the input VAT relates to an asset that has useful life of more than 1 (one) year, it must be capitalized and expensed through amortization or depreciation.

Calculation of Income – Non-Deductible Expenses

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

- Benefits-in-kind provided by an employer to employees (however, this is also subject to certain exceptions, e.g., certain benefits-

in-kind due to requirements from authority in-charge of labour matters, meals and uniforms provided to all employees are deductible, as well as benefits provided in certain qualifying remote areas);

- 50% of depreciation, operating and maintenance costs for cars and mobile telephones provided to employees;
- Distribution of profits in the form of dividend;
- Gifts and donations, except those that are required by religion (*zakat*, etc.) and donations for handling national disasters, research and development performed in Indonesia, social infrastructure development, educational facilities, and sports development;
- The creation of general provisions/reserves, except for doubtful debts provisions for banks, credit providers, financial lease companies, financing companies, factoring companies, Savings and Loan Cooperatives, PT Permodalan Nasional Madani (PNM), and insurance companies (except life insurance reserves related to unit link, which are accumulated in accordance with income that is subject to final tax and/or not subject to tax, which shall be treated as non-deductible expenses), including provisions for social assistance formed by a Social Security Administration Agency, provisions for underwriting of the Deposit Insurance Corporation, provisions for the reclamation costs of mining companies, provisions for reforestation costs for forestry companies, and provisions for closing and maintenance costs of waste disposal facilities of waste processing companies;
- Income tax;
- Tax penalties;
- Expenses relating to income which is taxed through a final-rate withholding tax system, income that is subject to tax based on the Net Income Calculation Norm (deemed profit margin), and income which is otherwise exempt from tax (non-tax object);
- Salaries received by partners in a partnership or members of a firm where their participation is not divided into shares; and
- In respect of interest deductibility, the acceptable Debt-to-Equity Ratio ("DER") is 4:1, except for certain capital intensive industries.

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

DER

The amount of deductible borrowing costs arising from debt is limited to a maximum DER of 4:1 (except for certain capital intensive sectors). As such, if a taxpayer's DER exceeds the prescribed 4:1 threshold, the excess borrowing costs are non-deductible for income tax calculation. It is important to note that the rule applies to domestic and foreign debts from both related and non-related parties. Definitions of debt and equity as well as the components of borrowing costs for this purpose are further governed under MoF regulation and regulation of ITA. Furthermore, for taxpayers that have zero or deficit in equity balance, the entire borrowing costs are not deductible.

Besides complying with the prescribed DER, taxpayers are also required to submit a report on DER calculation and a summary of overseas debt (if applicable) using the prescribed form as attachments to the annual CIT Return.

Depreciation/Amortization

Either straight-line or declining balance method of depreciation is allowable, except for buildings, for which only the straight-line method is permitted. The chosen depreciation method must be applied consistently. When adopting a declining balance method, the remaining book value at the end of the useful life of an asset must be depreciated in full.

Depreciation commences either in the month the expenditure occurs or in the month construction/installation of an asset is completed. With the approval of the ITA, however, depreciation may commence in the year the asset is first used or when production starts or when business income is first earned.

The useful life and tariffs of depreciation of tangible assets are governed as follows:

Group of Tangible Assets	Useful Life	Tariff of Depreciation	
		Straight Line Method	Double Declining Method
1. Non-Buildings			
Group 1	4 (four) Years	25%	50%
Group 2	8 (eight) Years	12.5%	25%
Group 3	16 Years	6.25%	12.5%
Group 4	20 Years	5%	10%
2. Buildings			
Permanent	20 Years	5%	N/A
Non-Permanent	10 Years	10%	N/A

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

Loss Carried Forward

Losses are available to be carried forward for a maximum of 5 (five) years. Carry back of losses is not allowed.

Non-Taxable Income

Applicable to corporate and individual taxpayers, the law specifies a number of categories of income that are exempted from tax. These are:

- Aid, donations, *zakat*, religious donations or gifts received, provided there is no business, work, or ownership relationship between the parties concerned;
- Inheritances;
- Dividends received by a resident company from another resident company, provided that the dividends are paid out from retained earnings and the recipient owns 25% or more of the investee company;

- Payments by an insurance company to an individual in connection with health, accident, life, or education insurance;
- Assets, including cash, received by an entity in exchange for shares or capital contribution;
- Profits distributed to a venture-capital company by a small or medium-size enterprise (annual turnover less than Rp 50 billion) engaging in certain businesses in Indonesia; and
- The share of profit received by a member of a limited partnership without share capital, partnership, association, or firm, including the participation unit holders of collective investment agreements.

Sale of Land and/or Building

A final tax at 2.5% is generally imposed on taxpayers, while 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. Transfer duty of 5% is payable by the purchaser. A 0% rate is also applicable on transfer of land and building to the Government for the public interest.

Exemptions are granted for certain types of transfer of land and buildings, including grant, inheritance, merger with book value approved by the Ministry of Finance, non-tax subject transferring land and building, and sale of land with value less than Rp 60 million by an individual taxpayer whose annual income does not exceed the non-taxable income threshold.

Income from Derivative Transactions

Income from derivative transactions in stock exchange and future market is subject to normal CIT. In this case, the gain on such transactions shall be recognized as taxable income that is subject to the standard CIT rate.

Tax Allowance Facility

Companies investing in certain business sectors and/or in certain less developed regions having high priority on a national scale can be granted tax allowance facility in the form of:

- a. Additional net income reduction, up to a maximum of 30% of the amount of investment in tangible fixed assets (including land), which shall be charged at 5% per annum over 6 (six) years;
- b. Accelerated depreciation and amortization;
- c. The period of loss carry forward being extended up to ten years (certain additional years can be given if the taxpayer meets the requirements) and;

d. Withholding tax on dividend distributed to foreign shareholder at 10%, unless the relevant tax treaty stipulates a lower rate.

In order to apply for the tax allowance facility, certain detailed requirements must be met. Qualitative criteria, such as high investment value or export-oriented, high labour absorption, and high local content, must also be met.

The industry sectors that are eligible for the income tax allowance facility are listed in the relevant MoF regulation and these are updated periodically to accommodate the needs to entice investments in certain types of business and selected regions.

Tax Holiday Facility

Taxpayers making a new investment in a pioneer industry may obtain exemption or reduction of income tax. The said pioneer industries are defined as industries possessing broad linkages, giving added value and high externality, introducing new technology, as well as possessing strategic value for the national economy.



The tax exemption or reduction facility (tax holiday) applies to the following 18 certain industries:

 <p>Integrated upstream metals industry</p>	 <p>Electronic or telematics equipment main components manufacturing industry, such as semiconductor wafer, backlight for Liquid Crystall Display (LCD), electronic driver, or display</p>	 <p>Vessel main components manufacturing industry</p>
 <p>Integrated crude oil purification or refinery industry</p>	 <p>Agriculture/plantation/forestry-based pulp industry</p>	 <p>Aircraft main components manufacturing industry and aerospace industry auxiliary activities</p>
 <p>Integrated crude oil/natural gas/coal-based petrochemicals industry</p>	 <p>Irradiation, electromedical or electrotherapy equipment manufacturing industry</p>	 <p>Railway main components manufacturing industry</p>
 <p>Integrated basic inorganic chemicals industry</p>	 <p>Machine and machinery main components manufacturing industry</p>	 <p>Main components manufacturing industry for electricity generator machinery</p>
 <p>Integrated basic organic chemicals sourced from agriculture/plantation/forestry industry</p>	 <p>Automotive and automotive main components manufacturing industry</p>	 <p>Economic infrastructure</p>
 <p>Pharmaceutical main raw materials industry</p>	 <p>Robotic components manufacturing industry that supports the production of machinery in the manufacturing industry</p>	
 <p>Digital economy covering data processing, hosting, and related activities</p>		

The tax facilities provided are:

- a. a five-year 50% reduction in CIT liability for investment of Rp 100 billion to below Rp 500 billion;
- b. a five to twenty-year 100% reduction in CIT liability for minimum investment of Rp 500 billion;
- c. during the next 2 (two) years subsequent to the end of the CIT reduction periods above, the taxpayers are eligible for half of the CIT reduction percentages as stipulated above; and
- d. the tax holiday period commences from the year of commercial operation.

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

- a. a new investment;
- b. holds principal license or business license which falls under Pioneer Industry;
- c. invests at least Rp 100 billion in a qualified Pioneer Industry;
- d. satisfies DER as prescribed by the Ministry of Finance;
- e. has not been issued a decision on granting or rejection notification of CIT reduction by the Ministry of Finance; and
- f. must have legal status as an Indonesian legal entity.

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

Corporate Tax for Certain Industries / Taxpayers

The tax provisions for minerals and coal mining, upstream oil and gas, geothermal, and sharia-based industries are stipulated separately through government regulations and Ministry of Finance regulations (to date, the regulation for geothermal and coal mining sectors have not been issued yet).

Taxation of general mining and coal mining under the framework of Contracts of Work is stipulated in the relevant Contract of Work. Certain taxpayers in certain industries are subject to final income tax based on gross income (see page 41-44).

Small-scale entrepreneurs, both individual and corporate, are subject to 0.5% tax on gross revenue (see page 43).

Taxpayers operating in specific areas, such as Special Economic Zone/*Kawasan Ekonomi Khusus* (KEK) will be eligible for certain CIT, VAT, and import facilities.

Super Deduction Facility

The Government introduces income tax facility for labor-intensive industries and certain types of expenditure incurred by Indonesian taxpayers, which will be soon regulated under MoF regulation. There are 3 (three) business activities eligible for this new income tax facility:

1. New capital investment or business expansion in labor-intensive industry (eligible for 60% tax allowance);
2. Apprenticeship, internship, and/or learning program in human resources development (eligible for a maximum 200% deduction of total expenditures); and
3. Research and development related activities (eligible for a maximum 300% deduction of total expenditures).

Corporate Tax for Sharia Business

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

Income Recipient	Type of Income	Tax Treatment
Investor/ Depositor Customer	Bonus, profit sharing, and any other income from funds entrusted and placed offshore through an Indonesian sharia bank or an Indonesian branch of an offshore sharia bank	Treated as interest
	Income other than those mentioned above	Treated in accordance with the normal income tax regulation for the relevant transaction

2. Sharia Financial Services

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

Type of Income	Tax Treatment
Delivery of Assets (deemed to be delivered directly from supplier to end user)	Treated in accordance with the normal income tax regulation for the relevant transaction

Deemed Profit Margins

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

Type of Income	On Gross Revenue	Effective Income Tax Rate ^{*)}
Foreign oil and gas drilling service operations	15%	3.75%
Foreign shipping and airline operations	6%	2.64%
Domestic shipping operations	4%	1.20%
Domestic airline operations	6%	1.80%
Trade representative offices	1% of export value	0.44%

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

Controlled Foreign Company ("CFC") Rules

Indonesia has adopted CFC rules that determines the time of receipt of dividend by a resident taxpayer from capital participation in a non-listed foreign company, which:

- is owned by an Indonesia taxpayer, or together with other Indonesian taxpayer(s), with direct ownership of at least 50% of the total paid-up share capital; or
- is jointly owned with other resident taxpayer(s) with direct or indirect ownership of at least 50% of the total paid-up share capital at each shareholding level.

The amount of the capital participation is the percentage of ownership measured at the end of the fiscal year of the Indonesian taxpayer, either:

- a. total paid-up capital issued by the non-listed company; or
- b. total paid-up capital with voting rights issued by the non-listed foreign company, which is applicable to multiple layers of subsidiaries, with a 50% threshold criterion applied at each level.

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

- a. in the 4th month after the deadline for the submission of the Annual CIT Return of the foreign company for the fiscal year concerned; or
- b. in the 7th month after the end of a fiscal year if such foreign company does not have an obligation to submit an Annual CIT Return or if there is no deadline for the submission of the Annual CIT Return.

The amount of deemed dividend shall be the total amount of dividend that the Indonesian taxpayer is entitled to in proportion to its capital participation in the foreign company from the net passive income of the foreign company, which covers:

- a. Dividend;
- b. Interest, except interest earned by a foreign company with banking licence;
- c. Rent of land and/ or buildings;
- d. Rent of other assets to related parties;
- e. Royalty; and
- f. Gain on sale or transfer of assets.

The deemed dividend can be offset against the actual dividend received from the direct CFC within the past 5 (five) consecutive years. In the case that the actual dividend received is greater than the deemed dividend, the discrepancy is subject to income tax and shall be declared in the annual income tax return for the fiscal year when the actual dividend is received. Further, the Indonesian taxpayer may credit the income tax paid or withheld for dividends received from a direct CFC in the fiscal year when the tax is paid or withheld, with certain limitations and documentation requirements.

Indirect Purchase of Indonesian Shares or Assets Involving Special Purpose Company ("SPC")

The indirect purchase of shares or assets by an Indonesian taxpayer through an SPC can be stipulated as the purchase of shares or assets by the Indonesian taxpayer if the SPC has a special relationship with the Indonesian taxpayer and where there is unreasonable pricing.

Indirect Sale of Indonesian Shares Involving SPC

Sales of shares of a SPC established or domiciled in a tax haven country having special relation (related party) with Indonesian company or PE by a non-Indonesian tax resident can be deemed as a sale of shares in the Indonesian company or PE by the non-Indonesian tax resident.

Tax haven country is defined as a country that has a corporate tax rate 50% lower than that of Indonesia or a country that does not have a provision for exchange of information with Indonesia.

Tax-Neutral Mergers

Generally, transfers of assets in business mergers, consolidations, or business spin-offs are conducted at market value, which may result in taxable gain. The assets can be transferred at book value for a tax-neutral merger, consolidation, expansion, or business acquisition upon approval from the ITA, provided that business purpose tests are fulfilled.

Cross-border merger and consolidation at book value is also allowed, provided that business purpose tests are fulfilled and a resident taxpayer is the surviving entity.

This facility is also available for business spin-offs as part of an Initial Public Offering ("IPO") plan, spin-offs of a sharia business unit, spin-off of a corporate taxpayer where the new entity receives additional capital injection from foreign investor with minimum value of Rp 500 billion, and spin-off of a state-owner enterprise that receives capital injection from the Government of Indonesia for the purpose of establishing a state-owned holding company.

Individual Income Tax

Law Number 7 of 1983 regarding Income Tax as most recently amended by Law Number 36 of 2008.

Tax Rates

The applicable tax rates are as follows:

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

The applicable tax rates on severance payment are as follows:

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

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

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

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

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

Tax Registration and Tax Filing

- All individual tax residents (including expatriates) are obliged to register with the ITA and obtain a Tax ID number. An exemption from registration is available for those earning below the non-taxable income threshold, those who do not qualify as individual tax residents, and married women who will fulfill their individual tax obligation jointly with their husband.
- Tax residents are taxed on their worldwide income, regardless of the source, and they are also required to declare their worldwide assets and liabilities.
- Individual taxpayers are required to file annual individual income tax returns (Form SPT 1770 or 1770 S or 1770 SS). In certain cases, monthly instalment tax payments are also required.
- Individual taxpayers are encouraged to file their individual tax returns electronically through the e-Filing system. They need to separately obtain an e-Filing Number (e-FIN) from the ITA in order to access the system.

Tax Payments

For processing tax payment, a billing code must first be generated. The specific billing code is valid for 30 days and will need to be given to the bank so that the bank can process the tax payment.

Personal Deductions

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

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

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

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



Social Security

The national social security schemes are the Manpower scheme (BPJS Ketenagakerjaan) and Healthcare scheme (BPJS Kesehatan), which are mandatory for Indonesian nationals as well as foreigners who work in Indonesia for at least 6 (six) months. Expatriates need to be able to prove their participation in the social security schemes when renewing their work permits.

The premium contributions for each scheme are as follows:

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

Notes:

1. From March 2019, the regular salary/wages cap for calculating the pension insurance contribution is increased from Rp 8,094,000 to Rp 8,512,400 per month. The amount may be updated from time to time.
2. Contribution to the pension plan is not mandatory for expatriates.
3. The regular salary/wages cap for calculating the healthcare contributions is Rp 8,000,000 per month. The amount may change in the future.
4. The mandatory premium covers husband, wife, and three dependents. Additional family members can be covered with additional premium.

Withholding Tax and Final Tax

System

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

Withholding Tax under Article 21

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

Withholding Tax under Article 22

- A creditable withholding tax of 2.5% (or up to 10% if the importer does not hold an import license) applies upon importation of certain goods;
- A creditable withholding tax of 1.5% is collected by State Treasurers and State-Owned enterprises on the purchase of goods;
- Article 22 tax is also due on the local purchase of certain commodities and sale of vehicles made by Sole Agents (*Agen*

Tunggal Pemegang Merek or “ATPM”), Agents (*Agent Pemegang Merek* or “APM”), and general importers for vehicle sales in Indonesia;

- Rates are 100% higher for taxpayers that do not have Tax ID numbers.

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

WHT Rate ^{(1) (2)} (on gross amounts)	Type of Payment
7.5% or 10% of import value	Import of certain consumer goods with Importer Identification Number (<i>Angka Pengenal Importir</i> /"API")
0.5% of import value	Import of soybeans, wheat, and wheat flour with API
2.5% of import value	Other than the above goods with API
7.5% of import value	Import of goods without API
7.5% of auctioned price	Auctioned imported goods
1.5% of the sales value	Sale of goods to the Government that involves payment from the State Treasury and certain State-Owned Enterprises
1.5% of the export value	Export of coal commodity, metallic mineral and non-metallic mineral ³
0.3% of the sales value	Purchase of steel products by distributor
0.45% of the sales value	Purchase of automotive products by distributor
0.1% of the sales value	Purchase of paper products by distributor
0.25% of the sales value	Purchase of cement by distributor
0.3% of the sales value	Purchase of medicine products by distributor

WHT Rate ^{(1) (2)} (on gross amounts)	Type of Payment
5% of the sales value	Purchase of highly luxurious goods ⁴
0.45% of the sales value	Of vehicle sold by a sole agent (ATPM), agent (APM), or general importer in Indonesia
0.25% of the purchase value	Purchase of material by manufacturers or exporters in forestry, plantation, agriculture, farm, fishery from wholesale
0.3% of the sales value	Sales of gas fuel
0.25% of the sales value	Sales of kerosene made to Pertamina fuel stations
0.3% of the sales value	Sales of kerosene made to non-Pertamina fuel stations
0.3% of the sales value	Sales of lubricants
1.5% of the sales value	Purchase of coal, metallic mineral and non-metallic mineral from companies or individual holding a mining license (Izin Usaha Pertambangan)
0.45% of the sales value	Sales of gold bar from manufacturers (except sales made to Bank Indonesia)

Notes:

1. Rates are 100% higher for taxpayers that do not have tax ID.
2. MoF has added the following entities as Article 22 income tax collectors: Authorized Budget User (*Kuasa Pengguna Anggaran*/"KPA"), KPA or government officials authorized by KPA to issue Payment Order Instruction, and Treasurer that makes payments using the reserve money (*Uang Persediaan*/"UP") method.
3. Applicable for tax exporters, except those engaging in business activities under Mining Cooperation Agreement or Contract of Work.
4. "Highly Luxurious Goods" refers to private airplane, yacht, luxurious building complex such as house, apartment, condominium, townhouse and the like with selling price at Rp 30,000,000,000 or more, four-wheeled vehicle (with selling price of more than Rp 2,000,000,000 or cylinder capacity of more than 3,000 cc), and two and three-wheeled vehicle (with selling price of more than Rp 300,000,000 or cylinder capacity of more than 250cc) – subject to certain selling prices as stipulated through MoF regulation.

The following are exempted from Article 22 income tax:

- Import of goods related to donations for disaster relief;
- Import of goods for nature conservation;
- Import of goods used in upstream oil and natural gas activities by certain Production Sharing Contractors; and
- Payments for purchase of goods using School Operational Assistance (*Bantuan Operasional Sekolah/BOS*) funds; and
- Payment by a State-Owned Enterprise for a maximum of Rp 100,000,000 and not being a separate payment.
- Import of science and technology books and other scientific books;
- Certain payments made by a government body acting as WHT collector.



Withholding Tax under Articles 23/26

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

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

Article 23 WHT on Payment to Indonesia Tax Resident

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

Article 23 WHT on Payment to Indonesia Tax Resident

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

Article 23 WHT on Payment to Indonesia Tax Resident

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

Article 26 WHT on Payment to Non-Indonesian Tax Resident

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

Notes:

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

Final Tax collected through withholding and self-assessment

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

Type of Income	Effective Withholding Tax Rates	
	Resident Recipient & PE	Non-Resident Recipient ⁽¹⁾
Dividends paid to Individuals	10%	20%
Lottery prizes	25%	20%
Interest or discount on bonds, including zero coupon bonds	15% ⁽²⁾	20%
Interest or discount on bonds, received by a registered mutual fund: For year 2014 to 2020 For year 2021 onwards	5% 10%	N/A N/A
Interest on deposit paid by a cooperative to its members > Rp 240,000	10%	20%

Type of Income	Effective Withholding Tax Rates	
	Resident Recipient & PE	Non-Resident Recipient ⁽¹⁾
Airline/Shipping Services: <ul style="list-style-type: none"> international airline & shipping operations domestic airline operations (charter only) domestic shipping operations 	- 1.8% ⁽³⁾ 1.2% ⁽³⁾	2.64% ⁽³⁾ - -
Insurance premium paid to offshore companies	N/A	1%, 2% or 10% ⁽⁴⁾
Construction Planning & Supervisory Services	4% / 6% ⁽⁵⁾	20%
Construction Contracting Services	2% / 3% / 4% ⁽⁶⁾	20%
Sale of listed shares (of the gross proceeds) ⁽⁷⁾	0.1%	0.1%
Additional tax on sale of Founder shares' at IPO price	0.5%	0.5%
Sale of land and/or buildings	2.5% / 1% / 0.5% / 0% ⁽⁸⁾	N/A ⁽⁸⁾
Rental of land and/or buildings	10% ⁽¹³⁾⁽¹⁴⁾	20%
Interest or discount on Bank Indonesia Certificates (SBI), savings & fixed deposits ⁽⁹⁾	20% ⁽¹⁰⁾	20%
Gain on approved asset revaluation	10% or 15% ⁽¹¹⁾	N/A
Sharia business income	20% ⁽¹²⁾	20% ⁽¹²⁾

Type of Income	Effective Withholding Tax Rates	
	Resident Recipient & PE	Non-Resident Recipient ⁽¹⁾
All income earned or received by individual or corporate tax payers doing business (other than PE) that does not exceed Rp 4.8 billion within a fiscal year (subject to certain conditions)	0.5% ⁽¹⁵⁾	-

Notes:

- Subject to reduced rate or exemption based on applicable Tax Treaty.
- On the gross amount of interest, or on excess of nominal value over the acquisition value.
- Effective tax rate after applying a deemed profit margin. For international airline & shipping operations, the withholding is done through the PE.
- If the payer is an Indonesian insurance company, 10%.
- Effective tax rates:
 - 4% for certified contractors
 - 6% for non-certified contractors
 The rate does not include the branch profit tax for PE service providers.
- Effective tax rates:
 - 2% for small-scale certified contractors
 - 3% for medium and large certified contractors
 - 4% for non-certified contractors
 The rate does not include the branch profit tax for PE service providers.
- Applies to non-residents, unless the seller is resident in a country that has a tax treaty with Indonesia, in which case an exemption may apply.
- Tax rate:
 - 1% for sale of simple houses and basic apartments by taxpayer whose main business is to engage in transfer of land and/or buildings; 2.5% for sale of land and/or buildings other than above; 0% for sale of land and/or building to government, state-owned enterprise with special assignment from government and regional-owned enterprise with special assignment from the head of district.
 - Exemptions are granted for transfer of land and/or buildings in the cases of grant, inheritance, and sale of land with value < Rp 60 million by an individual taxpayer whose annual income does not exceed the non-taxable income threshold.
 - 0.5% for the transfer of real estate to an SPC or Dana Investasi Real Estate (DIRE or Real Estate Investment Trust or REIT).
- For amounts above Rp 7.5 million (the total of time deposits, saving accounts, and Bank Indonesia Certificates); exceptions apply for banks and certain approved pension and mutual funds for certain periods. Gift from depositing

money in a bank for certain amount and period is considered as interest on savings.

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

Interest from deposits in US dollar currency:

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

Interest from deposits in Rupiah currency:

- 7.5% for deposit with tenor of 1 (one) month
- 5% for deposit with tenor of 3 (three) months; and
- 0% for deposit with tenor more than 6 (six) months

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

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

12. Income in the form of bonus, profit sharing, and any other income from funds entrusted; and placed offshore through an Indonesian sharia bank or an Indonesian branch of an offshore sharia bank; and/or gain or profit derived from Sharia Financial Service such as Factoring (Wakalah bil Ujrah), Corporate Financing from investor (Mudharabah, Mudharabah Musytarakah, Musytarakah), Consumer Financing (Murabahah, Salam, Istishna) – are treated as interest, that is, taxed in the same manner as interest in conventional banking/financial services.

13. The object includes income received by landlords from investors related to the Build Operator Transfer (BOT) agreements, BTS rental and tank rental.

14. The tax base also covers all service charges related to land and/or building rental (i.e. cost of maintenance and upkeep, security fees, service fees and other facility cost), regardless whether the agreements are made separately or not.

15. Additional conditions that must be met in applying 0.5% final income tax and limitation of periods to the type of taxpayer:

- a. seven (7) years for individual taxpayer;
- b. four (4) years for corporate taxpayer in the form of cooperation, CV, or firm;
- c. three (3) years for limited liability taxpayer.

Taxpayer who receives income under this category has the option to choose:

1. applying final income tax treatment, or
2. applying the tax treatment under Article 31E of Income Tax Law Number 7 of 1983 as most recently amended by Law Number 36 of 2008, i.e. 50% reduction of normal corporate tax rate subject to the maintaining of proper bookkeeping.

Value Added Tax

Law Number 8 of 1983 as most recently amended by Law Number 42 of 2009.

Threshold for Value Added Tax ("VAT") Registration

An Entrepreneur that delivers taxable goods and/ or services exceeding a certain amount in one fiscal year is required to register as a VAT-able Entrepreneur. Currently, the threshold is Rp 4.8 billion per annum. However, entrepreneurs domiciled in a Free Trade Zone are not required to register.

Taxable Events

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

- Local delivery of taxable goods and/or services;
- Import and export of taxable goods;
- Consumption of services and/or intangible goods from offshore within the Indonesian customs territory;
- Export of intangible taxable goods and taxable services.

Local delivery of taxable goods includes the following:

- Transfer of title to Taxable Goods because of an agreement;
- Supply of goods through a finance lease arrangement;
- Supply of goods through a third party or a Government auctioneer;
- Self-use of taxable goods or Taxable goods given away at no charge;
- Remaining assets/inventories in the course of a company's dissolution;
- Movement of taxable goods between the head office and a branch and between branches of the same legal entity;
- Movement of goods on consignment;
- Delivery of taxable goods in the context of a Sharia financing arrangement, which delivery is considered to be directly from the VAT-able entrepreneur to the party that needs the taxable goods.

VAT Invoice

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

The format and contents of a VAT invoice must follow guidelines set by the ITA. Failure to meet the guidelines will cause the VAT invoice to be considered as an Incomplete VAT Invoice and thus subject to penalties for the seller and disallowed as credit for the buyer.

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

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

VAT Invoice is required to be produced through an electronic system (e-VAT Invoices) designated by ITA, including generating replacement or cancellation of VAT invoices.

VAT invoices must bear Rupiah currency, electronic signature, and a VAT serial numbers. VAT-able entrepreneur must file application to the ITA to request for this predetermined range of VAT serial numbers. Prior to submitting such request, the VAT-able entrepreneur must first request for Activation Code and Password from the ITA, as these will be required when filing a request for VAT invoice serial numbers.

Retail entrepreneurs and entrepreneurs that issue documents treated as VAT invoices are exempted from the obligation to issue e-VAT invoices.

Certain documents are treated as VAT invoices. These include:

- Export Declaration on taxable goods, taxable services and intangible goods (with accompanying invoice);
- Import Declaration (with accompanying payment slips);
- Goods Delivery Order (SPPB) from BULOG/DOLOG for wheat delivery;
- Delivery Note (PNBP) issued by Pertamina;
- Invoice issued by a Telecommunication Company;
- Ticket, airway bill or delivery bill issued for domestic air transport services;

- Service Delivery Note issued for port service;
- Invoice issued by an Electricity Company;
- Tax payment slip (SSP) for payment of self-assessed VAT on the use of offshore intangible goods and/or services;
- Invoice issued by a Drinking Water Company for delivery of taxable goods or services;
- Trading confirmation from stock brokerage company;
- Invoice issued by a Bank for delivery of VATable services;
- Tax payment slip (SSP) for the payment of VAT on delivery of taxable goods through auctioneer accompanied with the Minutes of the Auction;
- Document used for ordering tobacco products excise tape (CK-1 Document).

VAT Rates

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

- a. Export of taxable goods;
- b. Export of intangible taxable goods; and
- c. Export of certain taxable services (refer below).

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

Export Services

Definition of export of services shall be taxable services furnished/ rendered within Indonesian customs territory for the benefit of recipient located outside Indonesian customs territory. Certain types of taxable services considered as export that could enjoy a zero-rated VAT are as follows:

- a. Services in connection with movable goods exported for use outside Indonesian customs territory, covering:
 - Toll manufacturing services ("maklon"), for which further criteria are provided under a MoF regulation;
 - Repair and maintenance services;
 - Freight forwarding services for goods to be exported.
- b. Services in connection with immovable goods located outside Indonesian customs territory, i.e., construction consultation services, which cover assessment, planning, and design of construction related to building or plan for building outside Indonesian customs territory.
- c. Services utilized outside Indonesian customs territory, covering:

- Technology and information services;
- Research and development services;
- Charter of airplane and/or sea vessel, for international flight or shipping activities;
- Business and management consulting, legal consulting, architectural and interior design activity, human resources consulting, engineering, marketing, accounting or bookkeeping, financial statements audit, and taxation;
- Intermediary services, i.e., services to search for a seller of goods for export in Indonesian customs territory; and
- Interconnection, satellite, and/or data communication/connectivity services provider.

To apply 0% VAT on such export services, the following cumulative conditions must be satisfied:

- a. The services must be based on written agreement or contract between the Indonesian service provider and the services recipient, and it must contain:
 - Category of services;
 - Details of activity furnished/rendered within Indonesian customs territory for the use/benefit outside Indonesian customs territory by the recipient; and
 - Value of the delivery.
- b. There is payment from the recipient received by the Indonesian service provider, proven by valid evidence.
- c. The service recipient has no PE in Indonesia.

If the above conditions are not met, the delivery of Export Services will be deemed by the ITA as delivery of taxable services within Indonesia customs territory subject to 10% VAT.

VAT-able entrepreneur who delivers export services must issue Services Export Notification (“Pemberitahuan Ekspor Jasa Kena Pajak” or “PEJ”) using a prescribed form that can be treated as VAT Invoice, attached together with the commercial invoice upon delivery of export services.

Special VAT Base

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

- a. for own use of Taxable Goods and/or Taxable Services, it shall be the Selling Price or Compensation after deduction of gross profit;
- b. for free-of-charge granting of Taxable Goods and/or Taxable Services, it shall be the Selling Price or Compensation after deduction of gross profit;
- c. for delivery of motion picture, it shall be the estimated average proceeds per film title;
- d. for delivery of tobacco products, it shall be the retail selling price at the effective VAT rate of 9.1%;
- e. for Taxable Goods in the form of supplies and/or assets that according to their initial purpose are not for sale, which are still remaining at the time of dissolution of a company, it shall be the fair market price;
- f. for delivery of Taxable Goods from the head office to a branch or vice versa and/or delivery of Taxable Goods between branches, it shall be the basic selling price or acquisition price;
- g. for delivery of Taxable Goods through a broker, it shall be the price agreed upon by the broker and the purchaser;
- h. for delivery of Taxable Goods through an auctioneer, it shall be the auction price;
- i. for delivery of package delivery service, it shall be 10% of the amount invoiced or the amount that should be invoiced;
- j. for delivery of travel bureau service or tourism bureau service such as travel agents' travel packages, booking transportation, accommodation and booking facilities whose delivery is not based on the provision of the commission/ brokerage fee, it shall be 10% of the amount invoiced or the amount that should be invoiced;
- k. for delivery of gold jewellery, including delivery of services of repair or modification of gold jewellery and other services associated with gold jewellery, which are performed by a gold jewellery manufacturer or trader, it shall be 20% of the selling price of the gold jewellery or the value of compensation, while for delivery of gold jewellery by a gold jewellery entrepreneur which is performed by replacing or exchanging gold jewellery with gold bullion of 24 carats as replacement of all raw materials of production of Gold Jewellery, it shall be 20% of the difference between the selling price of the gold jewellery less the price of the 24 carat gold bullion which is contained in the gold jewellery;
- l. for delivery of freight forwarding services which contain freight charges in the invoice for the freight forwarding services, it shall be 10% of the amount invoiced or the amount that should be invoiced;

- m. for delivery of goods by a small-scale entrepreneur, it shall be 30% of the amount of business turnover;
- n. for delivery of services by a small-scale entrepreneur, it shall be 40% of the amount of business turnover;
- o. for private construction carried out not in respect of a job or occupation by an individual or an organization, the result of which will be self-used or used by another party, it shall be 20% of the cost incurred or paid.

Self-Assessed VAT

Resident taxpayers receiving and utilizing taxable services and/or taxable intangible goods from offshore or from a Free Trade Zone are obliged to self-assess, report and pay 10% VAT calculated from the gross amount paid or payable. The self-assessed VAT is due when the goods or services are:

- a. actually used or utilized by the user;
- b. declared as payable by the user;
- c. invoiced by the service provider/seller; or
- d. fully or partly paid by the user.

VAT Collectors

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

Goods and Services Not Subject to VAT

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

Non-Taxable Goods

- Goods produced from mining or from drilling that are extracted directly from the source such as:
 - a. crude oil;
 - b. natural gas, excluding natural gas such as LPG that is ready to be consumed directly by the public;
 - c. geothermal energy;
 - d. asbestos, slate, semiprecious stone, limestone, pumice, gemstone, bentonite, dolomite, feldspar, halite, graphite, granite/andesite, gypsum, calcite, kaolin, leucite, magnesite, mica, marble, nitrate, obsidian, ochre, sand and gravel, quartz

- sand, perlite, phosphate, talc, fuller's earth, diatomaceous earth, clay, alum, trass, jarosite, zeolite, basalt, and trachyte;
 - e. coal not yet processed into coal briquettes; and
 - f. iron ores, tin ores, gold ores, copper ores, nickel ores, silver ores, and bauxite ores.
- Basic commodities vital to the general public such as:
 - a. rice and unhusked rice-grains;
 - b. corn;
 - c. sago;
 - d. soybeans;
 - e. salt for consumption;
 - f. meat, namely uncooked fresh meat, packaged or not packaged, but having gone through processes of slaughtering, skinning, cutting, cooling, freezing, salting, liming, pickling, preservation by other methods, and/or boiling;
 - g. eggs, namely unprocessed eggs, including cleaned, salted, or packaged eggs;
 - h. milk, namely animal's milk that has gone through a cooling or heating process, containing no additional sugar or other ingredients, and/or packaged or unpackaged;
 - i. fruit, namely picked fresh fruit, including that which has gone through washing, sorting, peeling, cutting, slicing, grading, and/or packing or non-packing processes;
 - j. vegetables, namely fresh vegetables that are picked, washed, drained, and/or stored at low temperature, including chopped fresh vegetables;
 - k. tubers;
 - l. ingredients; and
 - m. sugar for consumption.
- Food and beverages served in restaurants, including food and beverages delivered by catering businesses; and
- Money, gold bars, and commercial paper.

Non-Taxable Services

- Medical/health services;
- Social services;
- Mail delivery service using stamps;
- Financial services¹⁾;
- Insurance services;
- Religious services;
- Educational services²⁾;
- Arts and entertainment services;
- Non-commercial broadcast services;

- Public transport services on land and on water and air transport services within the country which are an inseparable part of air transport services to abroad;
- Labour services;
- Hotel services³⁾;
- Services provided by the government in respect of carrying out general governmental administration;
- Parking provision services;
- Public telephone services using coins;
- Money transfer services using postal money orders; and
- Catering services.

Notes:

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

Other banking services that are not subject to VAT include:

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

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

- facilities based on its business license;
- Tour and travel services organized by hotel service management.

Available VAT Incentives

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

- Strategic goods, such as machinery, factory equipment, etc.;
- Raw materials for processing by companies inside a Bonded Zone;
- Imports and delivery of services, equipment, and other supplies required to perform a project financed by foreign aid;
- Imports and purchases made by companies in certain industries such as national shipping or airline companies, etc.;
- Import of certain goods on which the duty is exempted;
- Delivery and/or import of taxable goods into a Free Trade Zone.

VAT Refund

- Excess of input VAT over output VAT can be requested for refund or carried forward without limitation.
- Claims for VAT refund can only be made at the end of a tax year, except for certain VATable entrepreneurs that are eligible to claim tax refund at each monthly period.
- A refund request usually results in a tax audit, and such reviews are very strict on the quality of documentation. It is important for taxpayers to reconcile their corporate tax returns and books for the year-end VAT Return. E-VAT invoice is not required to be attached in the VAT Return in the event of the VAT Refund request.
- The time frame to obtain a refund decision varies, depending on the category of business applying for the refund. In general, it takes 12 months from the submission of the VAT refund request for the tax auditor to issue the decision letter.
- Failure of production: For those VATable entrepreneurs that are in the pre-production stage, if they fail to commence production within 3 (three) years from when the input VAT is credited, the VAT that has been refunded must be repaid. If no refund has been made, the VAT can still be credited and claimed for refund after the initial three-year period. The extension is provided for up to 2 (two) years after the initial three-year period has elapsed.
- VAT refund for foreigners: VAT paid by foreign individuals on purchases in designated retail stores can be claimed for refund by the foreigners upon leaving Indonesia. The minimum amount for a claim is Rp 500,000.

Input VAT Not Allowed for Credit

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

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

Luxury Goods Sales Tax

In addition to the general VAT rate of 10%, certain goods considered as "luxury" items are subject to a surcharge of 10% to 200%. Luxury goods are those that fulfil certain criteria, i.e.:

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

Free Trade Zone

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

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

Transfer Pricing

Overview

Since 2010, the ITA has issued a spate of guidelines and regulations to provide greater certainty to businesses subject to transfer pricing rules. The updates and revisions to transfer pricing guidelines issued from time to time indicate ITA's increased attention to transfer pricing issues as well as the evolving nature of the rules in Indonesia. This section discusses taxpayers' transfer pricing obligations in Indonesia and how the requirements have evolved.

General

- Article 18 of the Income Tax Law authorizes the ITA to adjust taxpayers' income or costs, 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 to be related parties; or
 - b. where there is a control through management or the use of technology, even though ownership relations are not present; or
 - c. where there is a family relationship, biological or by marriage, in vertical and/or horizontal lineage of the first degree.
- Corporate taxpayers are required to disclose their related party transactions in a separate attachment¹ to the corporate tax return. The disclosure includes information such as type of transactions, nature of relationship, questionnaire on documentation prepared to support the arm's length principle, transactions with parties from tax haven countries, etc. Attachment 3A/3A-1/3A-2 would be applicable for taxpayers that maintain their books of accounts in Indonesian Rupiah, while attachment 3B/3B- 1/3B-2 is applicable

¹ Attachments 3A/3B, 3A-1/3B-1, 3A-2/3B-2).

for taxpayers that maintain books of accounts in United States Dollar currency.

- MoF issued Regulation Number 213/PMK.03/2016 ("PMK-213") dated and effective 30 December 2016, implementing the three-tiered documentation requirement i.e., Master File, Local File and Country-by-Country Report ("CbCR") as recommended by the Organization for Economic Co-operation and Development ("OECD") in Action 13 (Transfer Pricing Documentation) of Base Erosion and Profit Shifting ("BEPS") project. Under the new regulation, taxpayers are required to file a summary of the Master File and Local File as an attachment to the corporate tax return in the format prescribed. The summary requires taxpayers to declare that the Master File and Local File contain the bare minimum content as per the requirement and to provide the date on which the Master File and Local File became available. This summary is in addition to the Special Attachment Forms (Forms 3A/3A-1 and Forms 3B/3B-1) mentioned above.
- Filing an incorrect or incomplete tax return may result in penalty.

Application of Arm's Length Principle

- The Income Tax Law introduces methods for determining arm's length transactions, e.g. comparable uncontrolled price method, resale price method, cost plus method and other methods (i.e., profit split method and transactional net margin method). These methods are broadly in line with the OECD guidelines.
- In order to provide detailed guidelines on transfer pricing matters, the ITA promulgated separate regulations² regarding the application of arm's length principle in related party transactions. In these regulations, the ITA provided guidance on several matters including selection of transfer pricing method, cost contribution arrangement, trade and marketing intangibles, and corresponding adjustment amongst others.
- The aforesaid regulations outline the following:
 - a. Lays the onus on taxpayers to undertake a transfer pricing analysis with regard to their transactions with related parties to ensure that the transactions conform to the arm's length principle. 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 based on the most appropriate transfer pricing method.

² Regulation No. PER-43/PJ/2010 ("PER-43") and PER-32/PJ/2011.

- b. Taxpayers must document the steps taken in determining the above in accordance with the provisions of the prevailing tax regulations.
 - c. Provides an overview of the authority of ITA and the taxpayers' rights.
 - d. Outlines specific requirements for intra-group services and intangibles transactions.
- There is no statutory deadline for submission of the transfer pricing documentation, but the documentation must be provided when requested by the ITA. Generally, the ITA provides a one-month deadline to provide the documentation in the tax audit. Failure to furnish documentation within the stipulated time may prompt the ITA to disregard any documentation afterward and determine tax liability based on the data available to the ITA.
 - Updated transfer pricing documentation requirement effective from 30 December 2016 (provided below)

Transfer Pricing Documentation requirement

As part of the BEPS Action 13, the OECD as has recommended a three-tiered approach to documentation, which includes: a) Local File b) Master File and c) CbCR to provide transparency for tax administration as well as to provide governments with needed information on the global allocation of the income, economic activity and taxes paid among countries according to a common template (Action 13 on the BEPS initiative).

To this end, Action 13 suggests that this three-tiered approach to transfer pricing documentation be adopted and incorporated into the domestic legislation of the participating countries. This, in fact, is one of the minimum standards agreed by the participating countries.

The salient features of PMK-213 are:

1. Master File and Local File

Taxpayers having related party transactions and meeting any one of the following thresholds / conditions are required to prepare the Master File and Local File:

Item	Threshold
Gross Revenue ³ in the preceding tax year	Exceeding Rp 50,000,000,000 (fifty billion Rupiah)
Tangible goods transactions in the preceding tax year OR Services, Royalties, Interest or other transactions in the preceding tax year	Exceeding Rp 20,000,000,000 (twenty billion Rupiah) Exceeding Rp 5,000,000,000 (five billion Rupiah)
Related party transactions with affiliated party located in a jurisdiction with tax rate lower than Indonesia (i.e. currently at 25%)	Any value

In addition, a taxpayer that qualifies as a Parent Entity⁴ of a Business Group having consolidated gross revenue of Rp 11,000,000,000,000 (eleven trillion Rupiah) is also required to maintain Master File and Local File.

In the event that the preceding tax year covers a period less than 12 months, the gross revenue and/or the related party transactions are required to be annualized.

For bookkeeping in currency other than Rupiah, the monetary value of the threshold is to be calculated using the exchange rate set by MoF for tax calculation at the end of the tax year.

The regulation clearly specifies that even if the taxpayers do not meet the above threshold to maintain Master File and Local File, they are still required to adhere to the arm's length principle for the related party transactions.

³ Gross Revenue is defined as the gross amount of revenue received or accrued in connection with the Taxpayer's work, business or main activities before deduction of discount, rebates, and other deductions.

⁴ Parent entity is defined as the Entity directly or indirectly controlling the Business Group and is required to prepare consolidated financial statements under Indonesian Financial Accounting Standards.

The regulation also mandates the following:

- a. Master File and Local File is to be prepared based on the data and information available at the time the related party transactions are conducted.
- b. If the above is not satisfied, the taxpayer shall be deemed not to apply the arm's length principle.
- c. Master File and Local File must be available within 4 (four) months after the end of the tax 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 Document.
- d. Master File and Local File are required to be submitted in the local language, i.e. Bahasa Indonesia.
- e. Master File and Local File are required to be submitted to the ITA upon request within the time specified under the provisions of tax laws and regulations.
- f. In the case of delayed submission, Master File and Local File reports shall not be considered. Further penal implications as regulated in the prevailing tax laws may apply in case of non-compliance.
- g. The Master File and Local File are broadly aligned with the BEPS Action 13 recommendations, with certain additional requirements.

2. CbCR

- a. CbCR is required to be prepared and submitted by a taxpayer that qualifies as the Parent Entity of a Business Group having consolidated gross revenue of Rp 11,000,000,000,000 (eleven trillion Rupiah).
- b. Where 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:
 - Does not require submission of CbCR; or
 - Does not have an agreement with the Government of Indonesia on exchange of information; or
 - Has an agreement but the CbCR cannot be obtained by the Government of Indonesia.
- c. The CbCR is to be based on the data and information available up to the end of the Tax Year.
- d. If the above is not satisfied, the taxpayer shall be deemed not to apply the arm's length principle.
- e. The CbCR must be submitted within 12 months after the end of the tax year. The first year of coverage was financial year 2016.

- f. The CbCR is required to be prepared in the form / format prescribed as an attachment to PMK-213. The format is broadly aligned with the CbCR template prescribed in BEPS Action 13 with certain additional requirements. An exemption is provided to a local Taxpayer with an overseas Parent Entity, if the Parent Entity assigns a Surrogate Parent Entity⁵ and fulfils the following conditions:
- i. The local Taxpayer submits a notification on the Surrogate Parent Entity to the ITA; and
 - ii. The country/ jurisdiction in which the Surrogate Parent Entity is domiciled:
 - Requires the filing of CbCR; and
 - Has an agreement with the Government of Indonesia on exchange of information.
- g. Indonesia also requires taxpayers to file a Notification electronically through an online platform provided by the ITA. The form generally requires the local Taxpayers to provide the information necessary to ascertain whether they have the obligation to submit a CbCR.
- h. Upon the filing of Notification and/or CbCR, the Taxpayer shall receive a receipt. This receipt has to be attached to the Annual CIT Return.

Audits of taxpayers with special relationships

Emphasizing the heightened focus on transfer pricing, the ITA issued a separate regulation⁶ and technical guidelines⁷ providing guidelines for audits of taxpayers with special relationships. The guidance is provided on the following, among other matters:

The aforementioned regulation was further supplemented by the release of SE-50, which provided technical guidelines to tax auditors for audits of taxpayers with special relationships. SE-50 contains guidance on the following, among other matters:

- Stages involved in a transfer pricing audit (viz., preparation stage, implementation stage and reporting stage) and information to be reviewed in each stage.
- Scrutiny of taxpayers' counterparties – Specific attention to be given for transactions with counterparties in tax havens or low-tax jurisdictions.

⁵ Where a Parent Entity that is a foreign tax subject has appointed a foreign Constituent Entity as a substitute of the Parent Entity.

⁶ Regulation No. PER-22/PJ/2013 ("PER-22").

⁷ Circular Letter No. SE-50/PJ/2013 ("SE-50"), which officially revoked SE-04/PJ.7/1993.

- Taxpayers' preliminary examination using industry (comparables) average financial ratios: a) Gross margin b) Gross mark-up c) Operating margin d) Mark-up on total costs e) Return on assets f) Return on capital employed g) Berry ratio h) DER i) Ratio of R&D expense to sales and j) Ratio of marketing expense to sales.
- Taxpayer's information to be collated in the specified forms and format (discussed below).
- Applicability of transfer pricing methods by using detailed illustrations – including guidance on tested parties, authorized databases, multiple-year analysis.
- Transfer of intangibles – In addition to the 5 (five) prescribed transfer pricing methods, to test the arm's length nature, this regulation also introduced other methods such as a) cost-based method, b) income- based method and c) market-based method.
- Intra-group services – Guidance on the transfer pricing methods which would be applicable and the review of service provider's cost base: a) comparable uncontrolled price method; b) Cost Plus method; and c) Transactional Profit Method.
- Intra-group financing transactions – Guidance on the transfer pricing methods that would be most suited in undertaking an analysis of an intra-group financing arrangement. Additional requirements posed by this regulation include a) performing analysis on the need for the debt, b) ensuring that the loan from related party actually occurred, c) testing the fairness of DER, and d) testing the arm's length nature of the interest expense.
- Introduced the concept of secondary adjustments in addition to the primary and corresponding adjustments.

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

Form	Description
A	Letter of request for information/evidence – This form provides a format of the letter that will be issued by the tax auditor to request information/ evidence. The format mentions a 7 (seven) working day time limit to be provided to taxpayer to respond to the request

Form	Description
B	Statement letter – This forms the cover letter to provide information requested by the tax auditor in Forms C to H
C	Related-party transactions – Requires the taxpayer to provide the details of the related-party transactions, such as type of transaction, transaction counterpart, value, nature of relationship, transfer pricing method, etc.
D	Segmented Financial Statements – Provides a format for the taxpayer to present the segmented financial statements between related parties and third parties
E	Supply Chain Management Analysis – Requires the taxpayer to provide details (including financial information) of parties which undertake functions in the overall supply chain
F	Function, Asset and Risk Analysis – Requires the taxpayer to provide the functions, assets and risks of the taxpayer and the related party
G	Characterization form – Requires the taxpayer to tick the characterizations relevant to the taxpayer
H	Comparability Analysis – Requires the taxpayer to provide information on the 5 (five) comparability factors between transactions with third parties and with related parties
I	Summons to provide information on affiliated transactions – Form requesting taxpayer to be present on a specified date, time and location in order to provide information/ explanation/ presentation to the tax audit team
J	Minutes of Taxpayer's provision of information regarding affiliated transactions – Format to present the minutes of the tax audit proceedings

⁸ MoF Regulation No. 49/PMK.03/2019 concerning "The Implementation Guidelines of Mutual Agreement Procedure" ("PMK-49"). Effective from 26 April 2019, PMK-49 replaces the previous MAP regulation, i.e. MoF Regulation No. 240/PMK.03/2014 ("PMK-240"), which was issued before the final BEPS reports were delivered in 2015.

Mutual Agreement Procedure ("MAP")

Indonesia is a member of G20 countries and as such, committed to implement the minimum standards under the BEPS project including amongst others, Action 14 on dispute resolution mechanism.

Indonesia has a well-defined MAP framework⁸ issued with a view to meet the minimum standards set out in BEPS Action 14. The regulation specifies that any request for MAP should be filed within the timeline specified in the Double Tax Avoidance Agreement ("DTA") from the first notification of the action resulting in taxation not in accordance with the provisions of this agreement. A deadline of 3 (three) years is introduced for submitting the MAP application in Indonesia if the prevailing DTA does not specify the deadline. The timelines refer to the date of the tax assessment letter or the date of the payment receipt, withholding income tax slip or from the occurrence of the tax treatment inconsistent with the DTA.

The regulation reinforces what had been stipulated in PMK-240: the flexibility for taxpayers to apply for an MAP and to pursue domestic resolution process at the same time. This includes applying for a tax objection, appealing to the Tax Court, and requesting reduction or cancellation of an incorrect tax assessment. However, in such cases, the regulation stipulates that the matter of which the MAP application is lodged should be included in the matter of dispute for which the domestic dispute resolution is filed. It further reiterates that, in a case where the tax court issues an appeal decision before the MAP negotiations are concluded, the MAP process will be deemed to result in a disagreement and the process will accordingly be terminated. However, in case the MAP is concluded before the tax court issues an appeal decision, the Taxpayer has to withdraw the appeal and upon receiving the Tax Court's written approval on the withdrawal of appeal, the ITA would issue the revised Objection Decision.

The regulation stipulates the following:

1. The request for an MAP can be filed by:
 - An Indonesian resident taxpayer
 - Indonesian citizens through the ITA;
 - The ITA itself; or
 - The tax authority of a treaty partner country.

2. Clear timelines for the follow-up actions to be taken by the ITA and the taxpayer in relation to the MAP application. As one of the key points, the regulation provides a time limit of 24 months for the Authorized Officials to conclude the negotiations (against 3 (three) years under PMK-240) from the receipt/submission of the written MAP request from the Authorized Official of treaty partner country. Unlike the previous MAP regulation, the new regulation does not provide for any extension to this timeline and is explicit in saying that the MAP will result in “disagreement” if an agreement is not reached within the 24 months period.
3. The regulation includes certain provisions and prescribed process for revocation of the MAP application. However, the notable difference in this regulation vis-à-vis the erstwhile regulation is the provision which states that revocation of the MAP application by the Indonesian Applicant could only be done within the time limit of first 6 (six) months.

Advance Pricing Agreement (“APA”)

Indonesia has a well-defined APA framework⁹ the salient features of which are discussed in the table below:

Topic	Details
Who can apply	<ul style="list-style-type: none"> • An Indonesian resident taxpayer or an Indonesian PE of a foreign taxpayer is eligible to apply for an APA as long as its operations or business activities have been carried on for at least 3 (three) years • An APA may also be initiated by a foreign resident Taxpayer that is a transaction counterparty of an Indonesian resident taxpayer
Validity period	<ul style="list-style-type: none"> • Unilateral – 3 (three) tax years • Bilateral – 4 (four) tax years

⁹ MoF Regulation Number 07/ PMK.03/2015 (“PMK-7”).

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

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

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

DER

Effective from fiscal year 2016, part of the borrowing cost arising from debt is non-tax deductible if DER exceeds 4:1. MoF regulation¹⁰ provides detailed guidance on the scope of related parties, definition of debts and equity, prescribed threshold for DER, and other compliance requirements. Please also refer to the discussion in the earlier section under CIT (page 18).

¹⁰ MoF Regulation No. 169/PMK.010/2015.

Summary of Double Tax Avoidance Agreements (Tax Treaties)

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

In order to claim the relief under the DTA, a foreign taxpayer has to complete and submit a specific document issued by the ITA, i.e. Form DGT. This form contains certain declarations to be made by the foreign income recipient related to its substance and beneficial ownership of income, as well as a Certificate of Domicile (CoD) which must be endorsed by the ITA of the DTA partner country.

In the case that the foreign taxpayer is unable to obtain the endorsement, the foreign taxpayer can use any form of Certificate of Residence (CoR) commonly verified or issued by the DTA partner's ITA. This document must meet the following requirements:

- presented in English;
- contains at least the name of the foreign taxpayer, the issuance date and the applicable tax year of the CoR;
- the original or copy document must be legalized by the ITA where the withholding tax agent is registered;
- the document is signed by the relevant competent ITA.

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

No.	Country (1)	Dividends		Interest (3) %	Royalties (4) %	PE Tax (5) %	PE Time Test (6) %
		For Investor Companies (2) %	Other				
1	Algeria	15	15	15	15	10	3 months
2	Armenia	10	15	10	10	10	6 months or 120 days
3	Australia	15	15	10	10 or 15 ⁽¹⁰⁾	15 ⁽⁸⁾	120 days
4	Austria	10	15	10	10	12 ⁽⁸⁾	6 or 3 months
5	Bangladesh	10	15	10	10	10 ⁽¹⁹⁾	183 or 91 days
6	Belarus ²⁹	10	10	10	10	10	6 months or 120 days
7	Belgium	10	15	10	10	10	6 or 3 months
8	Brunei Darussalam	15	15	15	15	10	3 months or 183 days
9	Bulgaria	15	15	10	10	15 ⁽⁸⁾	6 months or 120 days
10	Canada	10	15	10	10	15	120 days
11	China	10	10	10	10	10	6 months
12	Croatia	10	10	10	10	10 ⁽⁸⁾	6 or 3 months
13	Czech Republic	10	15	12.5	12.5	12.5	6 or 3 months
14	Denmark	10	20	10	15	15 ⁽⁸⁾	6 or 3 months
15	Egypt	15	15	15	15	15 ⁽⁸⁾	6 or 3 or 4 months
16	Finland	10	15	10	10 or 15 ⁽¹¹⁾	15 ⁽⁸⁾	6 or 3 months
17	France	10	15	10 or 15 ⁽¹⁶⁾	10	10	6 months or 183 days
18	Germany	10	15	10	15, 10, 7.5 ⁽¹²⁾	10	6 months
19	Hungary	15	15	15	15	20 ⁽¹⁹⁾	3 or 4 months
20	Hong Kong	5	10	10	5	5 ⁽⁸⁾	183 days

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

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

No.	Country (1)	Dividends		Interest (3) %	Royalties (4) %	PE Tax (5) %	PE Time Test (6) %
		For Investor Companies (2) %	Other				
60	Turkey	10	15	10	10	10 ⁽⁸⁾	6 months
61	UAE	10	10	5	5	5	6 months
62	Ukraine	10	15	10	10	10 ⁽⁸⁾	6 or 4 months
63	United Kingdom	10	15	10	10 or 15 ⁽¹⁸⁾	10 ⁽⁸⁾	91 or 183 days
64	United States	10	15	10	10	10 ⁽⁸⁾	120 days
65	Uzbekistan	10	10	10	10	10 ⁽⁸⁾	6 or 3 months
66	Venezuela	10	15	10	10 or 20 ⁽²³⁾	10 ⁽⁸⁾	6 months
67	Vietnam	15	15	15	15 ⁽¹⁵⁾	10	6 or 3 months
68	Zimbabwe ⁽²⁵⁾	10	20	10	15	10 or 5 ⁽²⁶⁾	6 months or 183 days
69	Serbia ⁽³⁰⁾	15	15	10	15	15 ⁽⁸⁾	6 months

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

1. This is a general summary of the current treaty provisions. For more comprehensive information, please refer to the relevant treaty.
2. These rates are applicable only if the shareholders are the beneficial owner of the dividends. The lower rate applies where the recipient holds 25% (10% in the case of South Africa, Venezuela and Bangladesh) or more of the capital of the paying company (voting shares in Japan). For Thailand, 15% applies to dividends paid to shareholders by companies engaged in industrial undertakings; 20% in other cases. For the Czech Republic, Poland and Ukraine, the lower rate applies if the recipient controls 20% or more of the capital of the paying company. For the UK, the lower rate applies if the recipient controls 15% or more of the voting power.
3. These rates are applicable only where the recipient is the beneficial owner of the interest. With the exception of Switzerland, if amounts are paid to the Government, the Central Bank, or a bank or financial institution specifically mentioned in the treaty, they will be exempted from interest withholding tax.
4. These rates are applicable only where the recipient is the beneficial owner of the royalties. Royalties paid to the Government of Brunei are exempt.
5. Only on amounts actually remitted for Belgium and the Philippines; levied on total after-tax profits for all other countries.
6. Where two periods are stated, the longer one usually applies to a building, construction, or assembly site or installation project or supervisory services in connection therewith, and the shorter, to consulting and other services.

Details of the time test of those activities for each country shall refer to the table on pages 74 up to 77.

7. The 10% rate applies to royalties for the use of or information regarding industrial, commercial or scientific equipment or experience; the 15% rate applies to all other royalties.
8. There is a specific provision regarding the application of branch profit tax in production-sharing contracts and mining contracts of work (or similar contracts) in the oil and gas or mining sector concluded by the Government of Indonesia.
9. According to the new protocol, the withholding tax rate can be reduced to 5%, as long as certain conditions are met, e.g. interest is paid on long-term borrowings (beyond 2 years).
10. The 10% rate applies to the right to use industrial, commercial and scientific information. In all other cases the rate is 15%.
11. The 10% rate applies to copyright of literary and artistic works, including cinematographic films, films, or tapes for television or radio broadcasting. In all other cases the rate is 15%.
12. The 15% rate applies to copyrights, patents, trademarks, secret formulas, literary and artistic works, or designs; the 10% rate applies to the use of/right to use or information regarding industrial, commercial or scientific equipment or experience; the 7.5% rate applies to technical, managerial or consulting services (Germany); the 5% rate applies to payment for services (Switzerland).
13. The 10% rate applies to fees for technical services; the 12.5% rate applies to royalties.
14. The 10% (20% in the case of Syria) rate applies to patents, trademarks, secret formulas, designs and the use of or right to use industrial, commercial or scientific equipment or experience; the 15% rate applies to copyrights.
15. The 15% rate applies to royalties in all other cases and for technical services as well.
16. The 10% rate is applied if the interest is paid by a bank or financial institution, or by an enterprise the activities of which are mainly carried on in the fields of agriculture, plantation, forestry, fishery, mining, manufacturing, industries, transportation, low- cost housing projects, tourism and infrastructure, and is paid to a bank or to another enterprise; 15% for interest on other types of debt.
17. 10% for interest on public issues of bonds, debentures and similar obligations; 5% for interest on other types of debt.
18. The 10% rate applies to royalties for use of or the right to use industrial, commercial, and scientific equipment; the 15% rate applies to royalties for copyrights, patents, know-how, designs or models, trademarks, plans, secret formulas, or processes.
19. The treaty provisions are silent on the rate. The ITA interprets this to mean that the rate stipulated by Indonesian Tax Law (i.e. 20%) should apply.
20. Tax is only applicable if profits are remitted to head office within 12 months after the profits accrue.
21. The 12.5% rate applies to patents, trademarks, secret formulas, designs and the use of or right to use industrial, commercial or scientific equipment or experience; the 15% rate applies to copyrights. Further, under article 12 of the Romania-Indonesia DTA, the 10% rate is applied for any payment in relation to commissions.

- 22.The 10% rate applies to royalties for the use of or the right to use motion picture films, films or videos for use in connection with television, or tapes for use in connection with radio broadcasting; the 15% rate applies in all other cases.
- 23.The 10% rate applies to fees for technical services; the 20% rate applies to royalties in all other cases.
- 24.The tax treaty with Malaysia does not cover business activity conducted in Labuan offshore, as defined in the Malaysian Labuan Offshore Business Activity Act of 1990.
- 25.The treaty is not yet in force.
- 26.The 10% rate applies in Indonesia; 5% rate applies in Zimbabwe.
- 27.The 10% rate applies to royalties and technical services.
- 28.The 10% rate applies if the beneficial owner is a pension fund.
- 29.The treaty is in force from 9 May 2018, but the effective date is starting from 1 January 2019.
- 30.The treaty is in force from 31 December 2018, but the effective date is starting from 1 January 2019.

PE Time Test

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

No.	Country	Construction	Installation	Assembling	Supervisory	Other Services
1	Algeria	3 months	3 months	3 months	3 months	3 months
2	Armenia	6 months	6 months	6 months	6 months	120 days
3	Australia	120 days	120 days	120 days	120 days	120 days
4	Austria	6 months	6 months	6 months	6 months	3 months
5	Bangladesh	183 days	183 days	183 days	183 days	91 days
6	Belarus	6 months	6 months	6 months	6 months	120 days
7	Belgium	6 months	6 months	6 months	6 months	3 months
8	Brunei Darussalam	183 days	3 months	3 months	183 days	3 months
9	Bulgaria	6 months	6 months	6 months	6 months	120 days
10	Canada	120 days	120 days	120 days	120 days	120 days

No.	Country	Construction	Installation	Assembling	Supervisory	Other Services
11	China	6 months	6 months	6 months	6 months	6 months
12	Croatia	6 months	6 months	6 months	6 months	3 months
13	Czech Republic	6 months	6 months	6 months	6 months	3 months
14	Denmark	6 months	3 months	3 months	6 months	3 months
15	Egypt	6 months	4 months	4 months	6 months	3 months
16	Finland	6 months	6 months	6 months	6 months	3 months
17	France	6 months	-	6 months	183 days	183 days
18	Germany	6 months	6 months	-	-	-
19	Hungary	3 months	3 months	3 months	3 months	4 months
20	Hong Kong	183 days	183 days	183 days	183 days	183 days
21	India	183 days	183 days	183 days	183 days	91 days
22	Iran	6 months	6 months	6 months	6 months	183 days
23	Italy	6 months	6 months	6 months	6 months	3 months
24	Japan	6 months	6 months	-	6 months	-
25	Jordan	6 months	6 months	6 months	6 months	1 month
26	Korea (North)	12 months	12 months	12 months	12 months	6 months
27	Korea (South)	6 months	6 months	6 months	6 months	3 months
28	Kuwait	3 months	3 months	3 months	3 months	3 months
29	Laos	6 months	6 months	6 months	6 months	6 months
30	Luxembourg	5 months	5 months	5 months	5 months	-
31	Malaysia	6 months	6 months	6 months	-	3 months
32	Mexico	6 months	6 months	6 months	6 months	91 days
33	Mongolia	6 months	6 months	6 months	6 months	3 months
34	Morocco	6 months	-	6 months	6 months	60 days
35	Netherlands	6 months	6 months	6 months	6 months	3 months

No.	Country	Construction	Installation	Assembling	Supervisory	Other Services
36	New Zealand	6 months	6 months	6 months	6 months	3 months
37	Norway	6 months	6 months	6 months	6 months	3 months
38	Pakistan	3 months	3 months	3 months	3 months	-
39	Papua New Guinea	120 days	120 days	120 days	120 days	120 days
40	Philippines	6 months	3 months	3 months	6 months	183 days
41	Poland	183 days	183 day	183 days	183 days	120 days
42	Portugal	6 months	6 months	6 months	6 months	183 days
43	Qatar	6 months	6 months	6 months	6 months	6 months
44	Romania	6 months	6 months	6 months	6 months	4 months
45	Russia	3 months	3 months	3 months	3 months	-
46	Seychelles	6 months	6 months	6 months	6 months	3 months
47	Singapore	183 days	183 days	183 days	-	90 days
48	Slovakia	6 months	6 months	6 months	6 months	91 days
49	South Africa	6 months	6 months	6 months	6 months	120 days
50	Spain	183 days	183 days	183 days	183 days	3 months
51	Sri Lanka	90 days	90 days	90 days	90 days	90 days
52	Sudan	6 months	6 months	6 months	6 months	3 months
53	Suriname	6 months	6 months	6 months	6 months	91 days
54	Sweden	6 months	6 months	6 months	6 months	3 months
55	Switzerland	183 days	183 days	183 days	183 days	-
56	Syria	6 months	6 months	6 months	6 months	183 days
57	Taiwan	6 months	6 months	6 months	6 months	120 days
58	Thailand	6 months	6 months	6 months	6 months	6 months
59	Tunisia	3 months	3 months	3 months	3 months	3 months
60	Turkey	6 months	6 months	6 months	6 months	183 days

No.	Country	Construction	Installation	Assembling	Supervisory	Other Services
61	UAE	6 months	6 months	6 months	6 months	6 months
62	Ukraine	6 months	6 months	6 months	6 months	4 months
63	United Kingdom	183 days	183 days	183 days	183 days	91 days
64	United States	120 days	120 days	120 days	120 days	120 days
65	Uzbekistan	6 months	6 months	6 months	6 months	3 months
66	Venezuela	6 months	6 months	6 months	6 months	-
67	Vietnam	6 months	6 months	6 months	6 months	3 months
68	Zimbabwe	6 months	6 months	6 months	6 months	183 days

In April 2019, the Government issued regulation regarding PE determination.¹¹ The regulation sets out more detailed criteria for PE from Indonesia domestic tax law perspective, including the ITA's interpretation of certain PE provisions in tax treaty.

¹¹ MoF Regulation Number 35/PMK.03/2019.

Automatic Exchange of Information (AEOI)

The OECD has developed a Common Reporting Standard (CRS) for the automatic exchange of tax and financial information on a global level, whose intention is to reduce the possibility of tax evasion. It provides for the exchange of non-resident financial account information with the tax authorities in the account holders' country of residence. Participating jurisdictions that implement Automatic Exchange of Information ("AEOI") send and receive pre-agreed information each year, without having to send a specific request.

In preparation for the AEOI, the Government has issued a MoF regulation.¹² This regulation provides instructions to financial institutions to release certain financial information for tax purposes to the ITA. Moreover, the regulations also introduce sanctions for non-compliant financial institutions. Under this regulation, financial accounts that are considered as assets in the form of undistributed inheritance also part of the information that will be automatically exchanged accordingly.

Indonesia, as one of the participants of the AEOI agreement, has conducted the first information exchange per September 2018. Currently, the ITA has started to receive financial information from certain foreign countries; in the future, this information will be utilized for monitoring the tax compliance of taxpayers.

¹² Mof Regulation Number 70/PMK.03/2017, as amended by Mof Regulation Number 19/PMK.03/2018.



List of Abbreviations

AEOI	: Automatic Exchange of Information
ATPM	: Sole Agents (<i>Agen Tunggal Pemegang Merek</i>)
APA	: Advance Pricing Agreement
API	: Importer Identification Number (<i>Angka Pengenal Importir</i>)
APM	: Agents (<i>Agen Pemegang Merek</i>)
BEPS	: Base Erosion and Profit Shifting
CbCR	: Country-by-Country Report
CFC	: Controlled Foreign Company
CIT	: Corporate Income Tax
DER	: Debt-to-Equity Ratio
DGT	: Directorate General of Taxation
DTA	: Double Tax Avoidance Agreement
IPO	: Initial Public Offering
ITA	: Indonesian Tax Authority
KPA	: Authorised Budget (<i>Kuasa Pengguna Anggaran</i>)
MAP	: Mutual Agreement Procedure
MoF	: Minister of Finance
OECD	: The Organization for Economic Co-operation and Development
PE	: Permanent Establishment
SPC	: Special Purpose Company
UP	: Reserve Money (<i>Uang Persediaan</i>)
VAT	: Value Added Tax

Contacts

If you have any queries, please correspond with your usual contact within Deloitte Touche Solutions or with any one of the following Tax Partners:

Melisa Himawan (Tax Managing Partner)	Business Tax and Corporate License	mehimawan@deloitte.com
Ali Mardi Djohardi	Business Tax	alimardi@deloitte.com
Balim	Transfer Pricing	bbalim@deloitte.com
Cindy Sukiman	Business Tax	csukiman@deloitte.com
Dionisius Damijanto	Business Tax	ddamijanto@deloitte.com
Heru Supriyanto	Business Tax	hsupriyanto@deloitte.com
Irene Atmawijaya	Global Employer Services and Business Process Solutions	iatmawijaya@deloitte.com
John Lauwrenz	Business Tax and Merger & Acquisition	jlauwrenz@deloitte.com
Roy David Kiantiong	Transfer Pricing	rkiantiong@deloitte.com
Roy Sidharta Tedja	Business Tax, Indirect Tax and Business Process Solutions	roytedja@deloitte.com
Shivaji Das	Transfer Pricing	shivdas@deloitte.com
Turmanto	Business Tax and Global Trade Advisory (Customs)	tturmanto@deloitte.com
Yan Hardyana	Business Tax	yhardyana@deloitte.com





Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms and their affiliated entities are legally separate and independent entities. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax & legal and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the "Deloitte organisation") serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 312,000 people make an impact that matters at www.deloitte.com.

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

About Deloitte Indonesia

In Indonesia, services are provided by Deloitte Touche Solutions.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.