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Indonesia Tax Guide 2020-2021

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General Indonesian Tax Provisions

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

Overview

Indonesian taxation system is based on residency.

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

Types of taxes in Indonesia are, among others:

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

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

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

Administration, bookkeeping and records

A taxpayer is required to maintain proper bookkeeping in Indonesia for at least 10 years including all supporting documents that form the basis for accounting records. All books and records must be prepared in Indonesian language and denominated in IDR currency. These documents are usually required to be provided to the DGT during a tax audit process.

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

Foreign investment companies (*Penanaman Modal Asing* (PMAs)), PEs, taxpayers listed on offshore stock exchanges, subsidiaries of offshore companies, certain collective investment contracts (*Kontrak Investasi Kolektif* (KIKs)), or taxpayers that prepare their financial statements in US Dollar as their functional currency in accordance with the Indonesian Financial Accounting Standards (*Standar Akuntansi Keuangan* (SAK)), may maintain their bookkeeping in English language and US Dollar (USD bookkeeping). Approval from the DGT is required prior to commencement of the USD bookkeeping. Contractors of oil and gas Production Sharing Contracts (PSCs) and companies operating under mining Contracts of Work (CoWs) may decide to maintain USD bookkeeping by notifying the DGT.

The applicable fiscal year is the calendar year or bookkeeping year. An approval from the DGT must be obtained to change the fiscal year period.



Tax Payment and Reporting Obligations

Monthly tax obligation

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

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

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

Late tax payment is subject to a tax surcharge of 2% per month.

Late reporting is subject to a penalty of IDR 500,000 for VAT return and IDR 100,000 for other monthly tax returns.

Annual tax obligation

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

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

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

Late tax payment is subject to a tax surcharge of 2% per month. Tax underpayment arising from voluntary amendment of tax returns is subject to a tax surcharge of 2% per month or 50% or 150%, depending on the case.

Late reporting is subject to a penalty of IDR 100,000 for annual individual income tax return and IDR 1,000,000 for annual CIT return.

Tax controversy

Tax audit and tax assessment

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

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

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

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

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

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

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

For SKPKB, depending on the cases, the underpaid amount is subject to a surcharge penalty of 2% per month for a maximum 24 months or 50% or 100%, depending on the case. The underpaid amount and the surcharge penalty must be settled to the State Treasury within one month from the issuance date of the assessment letter if the assessment is agreed during closing conference in the tax audit process.

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

The DGT may issue an SKPKBT if there is new data (*novum*) or information which has not been fully disclosed during the previous

tax audit. If the SKPKBT is issued within the statute of limitation, there will be a tax surcharge of 100% from the underpaid tax amount. If the SKPKBT is due to criminal act and issued after the statute of limitation elapses, the tax surcharge will be 48% from the underpaid tax amount.

Tax objection

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

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

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

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

Tax appeal

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

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

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

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

Judicial review request

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

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

Lawsuit

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

A lawsuit against an execution of tax collection process must be submitted to the Tax Court within 14 days from the execution date of tax collection procedures. A lawsuit on other than an execution of tax collection process must be submitted within 30 days after the decision letter is received.

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

Other tax dispute resolution

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

- Reduce or cancel an administration sanction in the case the sanction is imposed due to the taxpayer's unintentional mistakes;

- Reduce or cancel an incorrect tax assessment letter or a tax collection letter; or
- Cancel tax audit findings or tax assessment letters that are issued without:
 - Delivering SPHP properly; or
 - Conducting a closing conference with the taxpayer.

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

Tax collection procedures

In addition to tax assessment letters, the DGT issues Tax Collection Letters (*Surat Tagihan Pajak* (STPs)) to collect the tax payables and/ or with tax penalties and surcharges arising from the following conditions:

Circumstances	Penalties and surcharges
Tax underpayment	2% per month for a maximum 24 months or 50% or 100%
Tax penalties and surcharges	-
VAT-able entrepreneur (<i>Pengusaha Kena Pajak</i> (PKP)) that does not issue VAT invoices or issues VAT invoices late	2% from the VAT imposition base
PKP that issues incomplete VAT invoices (with certain limited exception)	2% from the VAT imposition base
PKP that reports VAT invoices not in the period of their issuance	2% from the VAT imposition base
PKP that has obtained a preproduction VAT refund, however it fails to enter into production stage within certain period	2% per month



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

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

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

Tax Crimes

Tax Crimes are subject to criminal sanctions. Some of the criminal acts and the related sanctions are summarized as follows:

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

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

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

Corporate Income Tax

- *Law Number 7 of 1983 regarding Income Tax as most recently amended by Law Number 36 of 2008*
- *Law Number 2 of 2020 regarding the Stipulation of Government Regulation in Lieu of Law Number 1 of 2020 regarding State Financial Policy and Financial System Stability for Handling Corona Virus Disease 2019 (COVID-19) Pandemic and/or in the Context of Facing Threats that Harm National Economy and/or the Financial System Stability to Become Law*

Tax rates

The applicable standard CIT rates are as follows:

Fiscal Year (FY)	Rate
FY2019	25%
FY2020 and FY2021	22%
FY2022 and thereafter	20%

Certain incomes are subject to final income taxes which are calculated from the gross income (please refer to page 42 to 44).

Certain corporate taxpayers (other than PEs of foreign companies) that earn or receive gross income not exceeding IDR 4.8 billion in a fiscal year (small and medium enterprises (SMEs)) are subject to final income tax rate of 0.5% for a certain period of time (please refer to page 43 to 44). However, these taxpayers may opt to apply the standard CIT rate after notifying the DGT.

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

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

Branch profit tax

In addition to CIT, a PE is also subject to branch profit tax (BPT) at a rate of 20%, applicable to the PE's net profit after tax. This rate may be lowered subject to the accessibility of tax treaty benefits (please refer to page 70 to 74).

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

An exemption from BPT applies if the net profit after tax of the PE is reinvested in Indonesia, subject to certain requirements.

Tax residence and registration

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

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

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

Calculation of income—business profits

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

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

Nontaxable income

The following incomes are exempted from income tax:

- Aid, donations, zakat, religious donations or gifts received, provided there is no business, work, or ownership relationship between the parties concerned;
- Inheritances;
- Dividends received by a resident corporate taxpayer from another resident corporate taxpayer, provided that the dividends are sourced from retained earnings and the recipient owns 25% or more in the investee corporate;
- 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 IDR 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 KIKs.

Calculation of income—deductible expenses

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

Depreciation and amortization

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



Group of tangible assets	Useful life	Depreciation rates	
		Straight line method	Double declining method ^{*)}
1. Non-buildings			
Group 1	4 years	25%	50%
Group 2	8 years	12.5%	25%
Group 3	16 years	6.25%	12.5%
Group 4	20 years	5%	10%
2. Buildings			
Permanent	20 years	5%	NA
Non-permanent	10 years	10%	NA

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

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

Group of intangible assets	Useful life	Amortization rates	
		Straight line method	Double declining method ^{*)}
Group 1	4 years	25%	50%
Group 2	8 years	12.5%	25%
Group 3	16 years	6.25%	12.5%
Group 4	20 years	5%	10%

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

The list of asset groupings are regulated by Minister of Finance (MoF) regulations.

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

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

Transfer of assets

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

Promotional expenses

The following promotional expenses are deductible for tax purpose:

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

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

Provision for doubtful debts

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

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

Donations

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

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

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

Calculation of income—nondeductible expenses

Following are the list of some expenses that are not deductible for CIT purpose:

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

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

Debt-to-Equity Ratio

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

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

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

Tax loss carry forward

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

The carryback of losses is not permitted.

Transfer of land and/or building

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

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

Dividend income

Dividend earned by a corporate taxpayer is subject to income tax. Dividend from a domestic corporate to its domestic corporate shareholder is not subject to tax if the shareholding percentage is at least 25% and the dividend is sourced from retained earnings.

Controlled Foreign Company

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

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

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

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

The net passive income include:

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

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

Indirect purchase of Indonesian shares or assets involving special purpose company

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

The following defines the criteria of special relationship for fiscal purpose:

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

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

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

Tax-neutral merger, consolidation, expansion or acquisition

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

The business purpose tests entail the following conditions:

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

Deemed profit margins

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

Type of income	Deemed profit from gross revenue	Effective income tax rate ¹⁾
Foreign oil and gas drilling service operations	15%	FY2019: 3.75% FY2020 and FY2021: 3.3% FY2022 and thereafter: 3.0%
Foreign shipping and airline operations	6%	2.64%

Type of income	Deemed profit from gross revenue	Effective income tax rate ^{*)}
Domestic shipping operations	4%	1.20%
Domestic airline operations	6%	1.80%
Trade representative offices	1% of export value	0.44%

*) The current effective income tax rates above still uses the previous CIT rate at the time the relevant regulations were introduced (i.e., 30%), except for foreign oil and gas drilling service operations. The CIT rate used to calculate the effective income tax rate should have been changed to reflect the new CIT rate. However, since the regulations are not amended yet, the existing effective income tax rates still apply.

Corporate income tax incentives

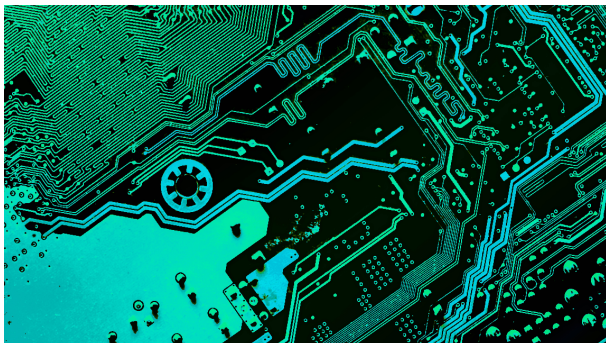
Reduction of corporate income tax rate for public companies

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

FY	Rate
FY2019	20%
FY2020 and FY2021	19%
FY2022 and thereafter	17%

Major income tax incentives available for corporate taxpayers are:

- Tax holiday facility;
- Tax allowance facility;
- Super tax deduction facility; and
- CIT facilities in Special Economic Zone (*Kawasan Ekonomi Khusus* (SEZ)).



Tax holiday facility

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

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

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

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

- a. Taxpayer in pioneer industry;
- b. An Indonesian legal entity;
- c. Minimum investment of IDR 100 billion;
- d. Conducting new investment (new business or expansion) in which a decision on granting or rejection notification of CIT reduction has not been issued by the MoF; and
- e. Fulfilling provision regarding DER.

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

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

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

Tax allowance facility

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

The tax allowance facility includes:

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

In general, the applicant must meet the following criteria:

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

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

Super tax deduction facility

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

- New capital investment or business expansion in labor-intensive industries—This facility is in the form of an investment allowance equals to 60% of the total investment amount of tangible fixed assets, including land used for primary business activities. The investment allowance is allocated equally over six years starting from the fiscal year when the commercial production commences. To be eligible for this facility, taxpayers must fulfill the following cumulative criteria: they constitute domestic corporate taxpayers;

their main business activity is among the 45 eligible industrial sectors; and they employ minimum average of 300 Indonesian employees;

- Apprenticeship, internship, and/or learning programs in human resources development—This facility is in the form of additional deduction of the qualifying expenses for a maximum 100%. Therefore, the total maximum deduction is 200% of the total qualifying expenses; and
- Research and development related activities—This facility is in the form of additional deduction of the qualifying expenses for a maximum 200%. Therefore, the total maximum deduction is 300% of the total qualifying expenses.

Corporate income tax facilities in Special Economic Zone

Taxpayers in SEZ investing in main business sectors can apply for tax holiday facility. However, the requirements for the tax holiday facility in SEZ is subject to further implementing regulations.

Tax allowance facility is also available for investments in SEZ in:

- Business activities that are not granted with tax holiday facility; and
- Business activities apart from the main business sector.

The tax allowance facility in SEZ is similar to the regular tax allowance facility.

Similar to tax holiday, the requirements related to tax allowance facility in SEZ is subject to further implementing regulation.

Corporate income tax for certain industries/taxpayers

Taxpayers in certain industries are subject to final income tax based on gross income. Please refer to page 42 to 44 on Article 4(2) income tax.

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



Taxation for general mining and coal mining

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

Taxation for upstream oil and gas

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

Taxation for sharia business

In general, the tax treatments on incomes and expenses for sharia-based banking and financial services are similar to conventional banking and financial services, which can be summarized as follows:

1. Sharia banking

Income recipient	Type of income	Tax treatment
Bank	Bonus, profit sharing, and margin from transactions of facilitated customer	Treated as interest
	Income other than those mentioned above	Treated in accordance with the normal income tax regulation for the relevant transaction

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

Individual Income Tax

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

Tax rates

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

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

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

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

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



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

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

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

All income earned or received by an individual doing business (except certain independent personal services) that does not exceed IDR 4.8 billion within a fiscal year is subject to 0.5% final income tax and this can be applied for maximum seven years. Individual tax residents may opt to be subject to the standard individual income tax rate by submitting a notification to the DGT.

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

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

Tax residency, registration, and filing

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

- Resides in Indonesia;
- Presents in Indonesia for 183 days or more in any twelve-month period; or
- Presents and intends to reside in Indonesia.

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

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

Taxable income and personal tax reliefs

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

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

Basis of deduction	Deductible amount (per year)
Taxpayer	IDR 54,000,000
Spouse	IDR 4,500,000 (additional IDR 54,000,000 for a wife whose income is combined with her husband's)
Dependents	IDR 4,500,000 for each dependent, maximum three dependents
Occupational expense (<i>Biaya Jabatan</i>)	5% of gross income up to a maximum of IDR 6,000,000
Pension contribution	5% of gross income up to a maximum of IDR 2,400,000
Employee contribution to an approved pension fund, e.g., manpower social security scheme (<i>Badan Penyelenggara Jaminan Sosial (BPJS) Ketenagakerjaan</i>)	Actual amount
Compulsory tithe (<i>zakat</i>) or religious contributions	Actual amount, if valid supporting evidence is available and all requirements are met.

The MoF is authorized to re-determine the amounts of the above personal deductions.

Social security schemes

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

Below is the list of premium contributions for the schemes:

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

Notes:

- 1) The regular salary/wage cap for calculating the pension insurance contribution is IDR 8,939,700 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/wage cap for calculating the healthcare contributions is IDR 12,000,000 per month. The amount may change in the future.
- 4) The mandatory premiums cover husband, wife, and three dependents. Additional family members can be covered with additional premiums.

Withholding Tax

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

Overview

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

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

Article 21 employee income tax

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

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

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

Please refer to page 34 for the progressive tax rates. For those individuals who do not have NPWPs, the rates are 20% higher than the standard rates. The EIT withheld is creditable by the individuals against the annual individual income tax. The tax office can re-determine the amount of income received by an individual taxpayer from an employer that has a special relationship with an offshore company.

Article 22 income tax

Article 22 income tax is a tax withheld by:

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

Taxpayers who engage in PSCs, CoWs or mining cooperation contracts are appointed as income tax collectors.

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

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

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

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

Type of payments	WHT base	WHT rate
Sale of certain vehicles sold by sole agent (<i>Agen Tunggal Pemegang Merek (ATPM)</i>), agent (<i>Agen Pemegang Merek (APM)</i>), and vehicle general importer, excluding heavy equipment	VAT base	0.45%
Purchase of forestry, plantation, agriculture, farm, and fishery raw products by manufacturer or exporter	Purchase value (exclude VAT)	0.25%
Purchase of coal, metal minerals and nonmetal minerals from corporate or individual holding a mining license (<i>Izin Usaha Pertambangan</i>) by an industry or corporate	Purchase value (exclude VAT)	1.5%
Sale of gold bar	Selling price	0.45%
<ul style="list-style-type: none"> • Sale of luxurious housing and land exceeding IDR 30 billion or 400m² • Sale of apartment, condominium and similar items exceeding IDR 30 billion or 150m² 	Selling price (exclude VAT and LST)	1%

Type of payments	WHT base	WHT rate
<ul style="list-style-type: none"> • Private airplane and helicopter • Cruise ship, yacht, and other similar items • Certain four-wheeled vehicles with selling price exceeding IDR 2 billion or 3,000 cc • Two or three-wheeled vehicles with selling price exceeding IDR 300 million or 250 cc 	Selling price (exclude VAT and LST)	5%

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

The following activities are exempted from Article 22 income tax:

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

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

Article 4(2) income tax

Article 4(2) income tax is a final income tax. Expenses related to income that is subject to Article 4(2) income tax are not deductible. Article 4(2) income tax that has been withheld through self-

assessment or by other parties cannot be accounted for or credited in the taxpayer's CIT return calculation.

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

Type of payments	Effective WHT rate
Interest or discount on Bank Indonesia Certificates (<i>Surat Bank Indonesia</i>), time and saving deposits ¹⁾	20% ²⁾
Sale of shares listed on Indonesia Stock Exchange: <ul style="list-style-type: none"> • Sale of non-founder's shares • Sale of founder's shares 	0.1% ³⁾ 0.1% + 0.5% ⁴⁾
Interest or discount on bonds ¹⁾	15% ⁵⁾
Lottery prizes	25%
Rental of land and/or buildings	10% ⁶⁾
Construction service: <ul style="list-style-type: none"> • Planning and supervision of construction works • Performance of construction works 	4%/6% ⁷⁾ 2%/3%/4% ⁸⁾
Transfer of land and/or buildings	2.5%/1%/0.5%/0% ⁹⁾
Interest on deposit paid by a cooperative to its members	10%
Dividends paid to individuals	10%
Income earned by a venture capital company on the transfer of shares in its partner	0.1%
Income earned or received by an individual or corporate taxpayer (other than PE), which total revenue does not exceed IDR 4.8 billion within a fiscal year ¹⁰⁾	0.5%

Notes:

- 1) WHT is not applicable for the following income recipients: banks operating in Indonesia and government-approved pension funds.
- 2) Different rates apply on interests received from time deposits sourced from proceeds of exports (*devisa hasil ekspor*), ranging from 0% - 10% for deposits in USD currency, and 0% - 7.5% for time deposits in IDR currency.
- 3) Tax rate of 0.1% from the gross transaction amount.
- 4) Tax rate of 0.1% from the gross transaction amount + 0.5% from the share price at the Initial Public Offering.
- 5) Interests and/or discounts for debt securities earned by certain taxpayers registered with Financial Service Authority of Indonesia (*Otoritas Jasa Keuangan* (OJK)) will be subject to lower WHT rate, i.e., 5% (until FY2020) and 10% (for FY2021 and thereafter).
- 6) The tax base includes all service charges related to land and/or building rental (i.e., cost of maintenance and upkeep, security fees, service fees and other facility fees). The tax object includes income received by the landowner in relation to build-operate-transfer arrangement.
- 7) Effective tax rates:
 - 4% for contractors with qualification issued by the Construction Service Development Institute (*Lembaga Pengembangan Jasa Konstruksi* (LPJK))
 - 6% for contractors without qualification issued by LPJK
- 8) Effective tax rates:
 - 2% for small-scale contractors with qualification issued by LPJK
 - 3% for medium and large contractors with qualification issued by LPJK
 - 4% for contractors without qualification issued by LPJK
- 9) Applicable tax rates:
 - 1% on the transfer of simple houses (*rumah sederhana*) and simple apartments (*rumah sederhana*) by taxpayer whose main business is to engage in transfer of land and/or buildings.
 - 2.5% on the transfer of land and/or buildings other than simple houses and simple apartments by taxpayer whose main business is to engage in transfer of land and/or buildings.
 - 0% on the transfer of land and/or building to government, state-owned enterprise (*Badan Usaha Milik Negara* (BUMN)) or regional government-owned enterprises (*Badan Usaha Milik Daerah*) under special assignment.
 - 0.5% on the transfer of real estate to certain SPCs or Real Estate Investment Fund (*Dana Investasi Real Estate*).
- 10) The final income tax applies for no longer than:
 - Seven fiscal years for individual taxpayers;
 - Four years for corporate taxpayers in the form of cooperatives, limited partnerships or firms (*firma*); and
 - Three years for limited liability corporate taxpayers, starting from FY2018 or the fiscal year when the taxpayer is registered.

Article 23 income tax

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

Type of payments	WHT base	WHT rate
<ul style="list-style-type: none">• Dividends¹⁾• Interests²⁾• Royalties• Gifts, awards, bonuses and similar items, except for those that have been subject to EIT	Gross amount	15%
Rental or compensation for the use of assets, except for rental or compensation that has been subject to Article 4(2) income tax and finance leases (<i>sewa guna usaha dengan hak opsi</i>)	Gross amount	2%
Remuneration related to the following services, except for those that have been subject to EIT: <ul style="list-style-type: none">• Appraisal services• Actuarial services• Accounting/audit/attest services• Legal services• Architecture services• Urban planning and landscape architecture services• Design services• Drilling services in the oil/gas industry, except for those services provided by a PE• Auxiliary services in the geothermal and oil/gas mining industry• Mining and support services in non-geothermal and oil/gas mining industry	Gross amount	2%

Type of payments	WHT base	WHT rate
<ul style="list-style-type: none"> • Airline and airport support services • Logging services • Waste management services • Manpower outsourcing services • Brokerage/agency services • Services in securities trading, except for trading performed by the Indonesia Stock Exchange, Indonesia Central Securities Depository (<i>Kustodian Sentral Efek Indonesia</i> (KSEI)), and Indonesia Clearing and Guarantee Corporation (<i>Kliring dan Penjaminan Efek Indonesia</i>) • Custodian services, except for services provided by KSEI • Dubbing services • Film mixing services • Promotion services including film promotions, posters for advertisement, photos, slides, banners, pamphlets, billboards, and folders • Services related to computer software or hardware or systems, including repairs and maintenance • Website creation and/or management services • Internet and its connection services • Storage, processing and/or distribution of data, information, and/or program 	Gross amount	2%

Type of payments	WHT base	WHT rate
<ul style="list-style-type: none"> • Installation services, except for installation services performed by construction companies • Repair and maintenance services, except for building repair and maintenance services performed by construction companies • Maintenance services for vehicle and/or land, marine, and air transportation • Toll-manufacturing (<i>maklon</i>) services • Investigation and security services • Event organizer services • Services related to provision of space and/or time in mass media, outdoor media, or other media for the delivery of information and/or advertisement • Pest eradication services • Cleaning services • Vacuum septic tank services • Pool maintenance services • Catering services • Freight forwarding services • Logistics services • Document handling services • Packaging services • Loading and unloading services • Laboratory services and/or laboratory test services, except for laboratory services conducted by an educational institution for academic research 		

Type of payments	WHT base	WHT rate
<ul style="list-style-type: none"> • Parking management services • Soil testing services • Land preparation and management services • Seeding and planting services • Maintenance services for trees and plants • Harvesting services • Processing services for agricultural, plantation, fishery, livestock, and/or forestry products • Decoration services • Printing/publishing services • Translation services • Transportation/expedition services, except for services regulated under Article 15 income tax • Port services • Transportation services through pipeline • Childcare services • Training and/or course services • ATM cash delivery and loading services • Certification services • Survey services • Testing services • Services other than the above, for which the payments are charged to the State Budget and/or Regional Budgets <i>(Anggaran Pendapatan dan Belanja Negara and Anggaran Pendapatan Belanja Daerah)</i> 		

Notes:

- 1) Dividends paid by Indonesian limited liability companies to another Indonesian limited liability companies are exempted from Article 23 income tax, provided that the shareholding is at least 25% and the dividend is declared from retained earnings. Net profit distribution by certain entities is exempted from Article 23 income tax. Dividends received/earned by individual taxpayers are subject to Article 4(2) income tax.
- 2) WHT does not apply to payments to banks operating in Indonesia.

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

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

Article 26 income tax

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

Type of payments	WHT base	Effective tax rate ¹⁾
Dividends	Gross amount	20% of gross amount
Interests		
Royalties, rentals, and other payments related to utilization of assets		
Compensation for services, labor, and activities		
Gifts and rewards		
Pension and other period payments		
Swap premiums and hedging transactions		
Gain from debt forgiveness		

Type of payments	WHT base	Effective tax rate ¹⁾
Sales of assets in Indonesia exceeding IDR 10,000,000, except for those that are subject to Article 4(2) income tax	25% of selling price	5% of selling price
Insurance/reinsurance premium: <ul style="list-style-type: none"> • The insured's premium is paid to an overseas insurance company • The premium is paid by an Indonesian insurance company to an overseas insurance company • The premium is paid by an Indonesian reinsurance company to an overseas insurance company 	50% of premium amount 10% of premium amount 5% of premium amount	10% of premium amount 2% of premium amount 1% of premium amount
Sale of shares of a non-listed company in Indonesia	25% of selling price	5% of selling price
BPT ²⁾	Net profit after tax	20% of net profit after tax

Notes:

- 1) The tax rate may be lowered or exempted subject to the accessibility of tax treaty benefits. Please refer to page 70 to 74 for the list of treaty rates.
- 2) Please refer to page 18 on BPT.

Transfer Pricing

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

Overview

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

The DGT is authorized to adjust taxpayers' incomes or expenses, where transactions with related parties (special relationship) are not in accordance with "fair and common business practices". A special relationship is deemed to exist in the following circumstances:

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

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

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

Application of arm's-length principle

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

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

In principle, the Indonesian transfer pricing rules lay down the onus on taxpayers to undertake a transfer pricing analysis with regard to their transactions with related parties to ensure that the transactions conform to the arm's-length principle. This involves, inter alia, conducting a comparability analysis and determining the comparable transactions; identifying the most appropriate transfer pricing method; and applying the arm's-length principle based on the results of the comparability analysis and based on the most appropriate transfer pricing method. The rules also outlines specific requirements for intra-group services and intangibles transactions.

Transfer pricing documentation requirements

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

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

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

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

Master File and Local File

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

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

Notes:

- 1) In the event that the preceding fiscal year covers a period of less than 12 months, the gross revenue and/or the related party transactions are required to be annualized.
- 2) For bookkeeping in currency other than IDR, the monetary value of the threshold is to be calculated using the exchange rate set by the MoF for tax calculation at the end of the fiscal year.
- 3) Gross revenue is defined as the gross amount of revenue received or accrued in connection to the taxpayer's business or main activities before deduction of discounts, rebates, and other reductions.
- 4) Parent Entity is defined as an entity that directly or indirectly controls a group of businesses, which is required to prepare consolidated financial statements under SAK.

Arm's-length principle must be adhered for related party transactions, even if the taxpayer does not meet the threshold above.

Country-by-Country Report

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

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

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

The CbCR must be submitted within 12 months after the end of the fiscal year. The first year of coverage was financial year 2016.

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

Mutual Agreement Procedures

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

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

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

Any request for MAP should be filed within the timeline specified in the double tax avoidance agreements (tax treaty) from the first notification of the action resulting in taxation not to be in accordance with the provisions of the agreement. The deadline to submit an MAP request is three years if the tax treaty does not specify a deadline. The timeline refers to the date of the tax assessment letter or the date of the payment receipt, WHT slip or from the occurrence of the tax treatment inconsistent with the tax treaty. The DGT must conclude the negotiations with the competent/tax authority of the treaty partner country within 24 months.

Advance Pricing Agreement

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

Negotiation in relation to a unilateral APA must commence at the latest six months from the date the supporting documents to the application are submitted by the taxpayer and must be concluded within 12 months after it commences. Negotiations in relation to a bilateral APA are conducted in accordance with the prevailing rules and regulations concerning MAP, which imply a time-limit of 24 months for the overall process.

An APA is valid for five fiscal years plus rollback. Rollback can be applied subject to fulfillment of the following conditions:

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

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

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

Automatic Exchange of Information

The Organization for Economic Co-operation and Development (OECD) has developed a Common Reporting Standard (CRS) for the automatic exchange of tax and financial information on a global level with the intention to reduce the possibility of tax evasion. This provides an exchange of nonresident 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. Indonesia has started the exchange of information from September 2018. Currently, the number of reporting countries receiving information from Indonesia is 85 countries.

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

Value Added Tax

- *Law Number 8 of 1983 regarding Value Added Tax as most recently amended by Law Number 42 of 2009*
- *Law Number 2 of 2020 regarding the Stipulation of Government Regulation in Lieu of Law Number 1 of 2020 regarding State Financial Policy and Financial System Stability for Handling Covid-19 Pandemic and/or in the Context of Facing Threats that Harm National Economy and/or the Financial System Stability to Become Law*

Overview

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

A PKP carrying out business activities in Indonesia through business units located in multiple jurisdictions under different tax offices has to register each business unit with respective tax office. The PKP may request the DGT to centralize the VAT administration under one location. Previously, the VAT centralization statement letter from the DGT was valid for five years. However, VAT centralization statement letter issued after 1 July 2020 do not expire until the submission of revocation request.

Taxable events

The taxable events consist of the following:

- Delivery of taxable goods and/or taxable services within Indonesian customs territory (a territory in Indonesia that is subject to Indonesian Customs Law);
- Import of taxable goods;
- Utilization of offshore taxable intangible goods and/or offshore taxable services in Indonesia; and
- Export of taxable goods and/or taxable services by a PKP.

Goods and services not subject to Value Added Tax

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

Nontaxable goods consist of:

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

Nontaxable services includes:

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

Value Added Tax rates

The standard VAT rate is 10%. The VAT rate is reduced to 0% for the following taxable events:

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

Value Added Tax imposition base

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

Special VAT imposition bases are:

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

Type of delivery	Special VAT imposition base
Delivery of taxable goods through an auctioneer	Auction price
Delivery of package delivery services	10% of the amount invoiced or amount that should be invoiced
Delivery of travel bureau service or travel agent service such as travel packages and booking of transportation and accommodation, whose delivery is not based on commission/ brokerage fee arrangement	10% of the invoice amount or amount that should be invoiced
Delivery of gold jewelry by a gold jewelry entrepreneur	20% of the selling price of the gold jewelry or the value of compensation
Delivery of freight forwarding services which contains freight charges in the invoice	10% of the invoice amount or the amount that should be invoiced
Delivery of taxable goods by a certain small-scale entrepreneur	30% of business turnover amount
Delivery of taxable services by a certain small-scale entrepreneur	40% of business turnover amount
Self-construction activities not in respect of a job or occupation by an individual or an organization, and the construction result will be self-used or used by another party (<i>kegiatan membangun sendiri</i>)	20% of the cost incurred or paid, excluding the price of the land
Importation of intangible goods in the form of movie cinema and the subsequent delivery from the importer to movie cinema theater	IDR 12 million per copy of imported movie

Value Added Tax invoice

General Value Added Tax invoice

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

The format and content of a VAT invoice must meet the guidelines set by the DGT. Failure to meet the guidelines will cause the VAT invoice to be considered as an incomplete VAT Invoice. Issuance of an invalid VAT invoice is subject to penalty of 2% from VAT imposition base. Invalid VAT invoice is not creditable for the buyer.

A VAT invoice must be issued:

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

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

Combined Value Added Tax invoice (Faktur Pajak Gabungan)

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

Value Added Tax invoice collection (Faktur Pajak Digunggung)

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

A retail PKP who delivers taxable goods must issue VAT invoice collection (*Faktur Pajak Digunggung*), which can be in the form of bills, sale invoices, cash register receipts, or other similar proofs of deliveries or payments.

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

Documents below are treated as equivalent to VAT invoices:

- Goods Delivery Order (*Surat Perintah Penyerahan Barang*) from BULOG/DOLOG for delivery of wheat;
- Invoice issued by a telecommunication company;
- Ticket, airway bill, or delivery bill issued for domestic air transport services;
- Invoice issued in relation to the delivery of port services;
- Invoice issued by an electricity company;
- Invoice issued by a drinking water company for delivery of taxable goods and/or taxable services;
- Trading confirmation on the delivery of taxable services from a stock brokerage company;
- Invoice issued by a bank for delivery of taxable services;
- Document used for ordering tobacco products excise tape (CK-1 Document);
- Export Declaration on Goods (*Pemberitahuan Ekspor Barang*) (accompanied with certain supporting documents).
- Export Declaration on Intangible Goods and/or Export Declaration of Services (*Pemberitahuan Ekspor Jasa* (PEJ)) (accompanied with invoice);
- Import Declaration on Goods (*Pemberitahuan Impor Barang*) (accompanied with certain supporting documents);
- Tax payment slip (*Surat Setoran Pajak* (SSP)) for payment of self-assessed VAT on the utilization of offshore taxable intangible goods and/or offshore taxable services;
- SSP for the payment of VAT on delivery of taxable goods through an auctioneer (accompanied with the minutes of auction);
- SSP for VAT payment on the delivery of taxable goods and/or taxable services from Free Trade Zone to other places within Indonesian customs territory (accompanied with certain supporting documents); and
- VAT collection system evidence in relation to transaction through electronic system (*penyerahan melalui saluran elektronik* (PMSE)).

Self-assessed Value Added Tax

Utilization of taxable intangible goods and/or taxable services from offshore or from a Free Trade Zone is subject to self-assessed VAT, in which the buyer is obliged to self-assess, report, and pay the 10% VAT calculated from the gross amount paid or payable.

The VAT on the import of taxable goods is due when the goods enter Indonesian customs territory. The self-assessed VAT on utilization of taxable intangible goods and/or taxable services is due upon:

- The purchase price is declared as being payable;
- The amount is invoiced by the vendor;
- Payment, either partially or fully; or
- If the events above are unknown, the VAT is deemed to occur at the time the agreement is signed.

Value Added Tax reporting

Output-input Mechanism

From the supplier/seller's perspective, the VAT levied is considered as output VAT. Whereas from the buyer's perspective, the VAT paid is an input VAT. The output VAT can be offset against input VAT. Where the amount of output VAT exceeds the amount of input VAT, the difference constitutes a VAT underpayment that has to be settled to the State Treasury by the end of the following month prior to the submission of VAT return. On the other hand, if the amount of output VAT is less than the amount input of VAT, the PKP can carry the excess amount to the following period or request for a refund.

The input VAT invoice received by a PKP is creditable in its VAT return at a maximum three months since the month when the relevant VAT becomes due.

Non-creditable input Value Added Tax

Input VAT arising from the following purchases is not creditable:

- Purchase of taxable goods and/or taxable services before the entrepreneur is registered as PKP;
- Purchase of non-capital taxable goods that are purchased before the start of commercial production;
- Purchase of taxable goods and/or taxable services without direct connection to the PKP's business;

- Purchase of taxable goods and/or taxable services, whose VAT is collected by way of tax assessment;
- Purchase of taxable goods and/or taxable services, whose VAT invoice is incomplete;
- Purchase and maintenance of sedan and station wagon type of vehicles, unless they are inventories for sale or rental;
- Purchase of taxable goods and/or taxable services, whose input VAT is not yet credited and subsequently discovered during a tax audit; or
- Purchase of taxable goods and/or taxable services related to delivery that is not subject to output VAT.

Export of services

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

- a. Services related to movable goods that are to be utilized outside of Indonesian customs territory, covering:
 - Toll manufacturing services (*jasa maklon*);
 - Repair and maintenance services; and
 - Provision of freight forwarding service for export purposes;
- b. Services related to immovable goods that are located outside Indonesian customs territory, such as construction consultation services, which cover assessment, planning, and design of construction related to building or plan for building outside Indonesian customs territory.
- c. Services that are delivered to be utilized outside Indonesian customs territory as requested by customers, such as:
 - Technology and information services;
 - Research and development services;
 - Charters of airplanes and/or sea vessels, for international flights or shipping activities;
 - Business and management consultancy services, legal consultancy services, architectural and interior design consultancy services, human resource consultancy services, engineering consultancy services, marketing consultancy services, accounting or bookkeeping services, financial statements audit services, and tax services;
 - Trading services, i.e., services to search for sellers within

- Indonesian customs territory for export purposes; and
- Interconnection, provision of satellite and/or data communication/connectivity services.

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

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

Value Added Tax collectors

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

Value Added Tax on transaction through electronic system

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

The DGT can appoint an e-commerce party that meet the following criteria as a PMSE VAT collector:

- An e-commerce party whose transactions with customers in Indonesia exceed IDR 600 million in a twelve-month period or IDR 50 million in a month; or
- An e-commerce party whose transactions exceed 12,000 traffics or accesses in a twelve-month period or 1,000 traffics or accesses in a month.

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

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

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

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

Value Added Tax refund

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

VAT paid by foreign individuals on purchase in designated retail stores can be refunded upon leaving Indonesia. The minimum amount for VAT that can be refunded by foreign individuals is IDR 500,000.

Available Value Added Tax facilities

Certain imports or purchases of taxable goods and/or taxable services are eligible for VAT facilities, either in the form of VAT exemption or VAT not-collected. The facilities are applicable to the imports or deliveries of the following (but not limited to):

- Strategic goods, such as machinery, factory equipment, animal husbandry products, seeds and seedlings, liquefied natural gas, and others;
- Goods aimed to support certain national objectives, such as weaponry, general educational and religious books, polio vaccines, and others;
- Import of certain goods, in which the import duty is exempted;
- Import and/or delivery of taxable goods into a Free Trade Zone or bonded zones;
- Import or delivery of certain transportation equipment and spare parts as well as the related services; and

- Certain import or purchase of taxable goods and/or taxable services by PSC contractors during the exploration and exploitation stages until the start of commercial production.

Free Trade Zone

The government appoints certain areas, such as Sabang, Batam, Bintan and Karimun, as Free Trade Zones (Free Trade and Free Port Zones). Free Trade Zones are regarded as located outside Indonesian customs territory. Deliveries within Free Trade Zones are exempted from VAT and/or LST. Entities in Free Trade Zones do not need to register as PKPs.

Import of certain goods or utilization of offshore taxable intangible goods and/or offshore taxable services into a Free Trade Zone is exempted from VAT and/or LST. The delivery of taxable goods and/or taxable services from Indonesian customs territory into Free Trade Zone is eligible for VAT not-collected facility.

Delivery of taxable goods or taxable services from Free Trade Zone into other places within Indonesian customs territory is subject to VAT and/or LST. The VAT and/or LST shall be paid by the party who releases the taxable goods using SSP for taxable goods or by the purchaser through self-assessed VAT mechanism for taxable services.

Luxury-goods Sales Tax

In addition to the general VAT rate of 10%, certain “luxury” goods are subject to LST ranging from 10% to 200%. Luxury-goods are goods that meet the following criteria:

- Does not constitute a basic commodity;
- Consumed by certain group;
- Generally consumed by an exclusive group of (upper income) consumers; and/or
- Goods consumed to show status rather than for their utility.

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

Summary of Double Tax Avoidance Agreements

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

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

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

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

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

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

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

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

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

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

Indonesia has signed tax treaties with many countries all around the world. The summary of the various reduced tax rates under the tax treaties is provided is presented in the following table.

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

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

No.	Country ¹⁾	Dividends ²⁾		Interest ³⁾ (%)	Royalties ⁴⁾ (%)	BPT ⁵⁾ (%)
		For investor companies (%)	Other (%)			
46	Russia	15	15	15	15	12.5 ⁷⁾
47	Serbia	15	15	10	15	15 ⁷⁾
48	Seychelles	10	10	10	10	20 ⁸⁾
49	Singapore ²⁴⁾	10	15	10	15	15 ⁷⁾
50	Slovakia	10	10	10	10/15 ²⁵⁾	10 ⁷⁾
51	South Africa	10	15	10	10	10
52	Spain	10	15	10	10	10 ⁷⁾
53	Sri Lanka	15	15	15	15	20 ⁸⁾
54	Sudan	10	10	15	10	10 ⁷⁾
55	Suriname	15	15	15	15	15 ⁷⁾
56	Sweden	10	15	10	10/15 ²⁶⁾	15 ⁷⁾
57	Switzerland	10	15	10	10 ²⁷⁾	10 ⁷⁾
58	Syria	10	10	10	15/20 ²⁸⁾	10 ⁷⁾
59	Taiwan	10	10	10	10	5 ⁷⁾
60	Tajikistan	10	10	10	10	10 ⁷⁾
61	Thailand	15/20 ²⁹⁾	15/20 ²⁹⁾	15	15	20 ⁸⁾
62	Tunisia	12	12	12	15	12 ⁷⁾
63	Turkey	10	15	10	10	20 ⁷⁾⁸⁾
64	Ukraine	10	15	10	10	10 ⁷⁾
65	United Arab Emirates	10	10	5	5	5
66	United Kingdom	10	15	10	10/15 ²⁶⁾	10 ⁷⁾
67	United States of America	10	15	10	10	10 ⁷⁾

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

Notes:

- 1) This is a general summary of the current treaty provisions. For more comprehensive information, please refer to the relevant treaty.
- 2) These rates are applicable only if the shareholders are the beneficial owner of the dividends. The lower rate applies where the dividend recipient holds at a minimum 25% of the capital of the paying company (voting shares in Japan or voting power in UK; 10% in the case of South Africa, Venezuela and Bangladesh; 20% in the case of Czech Republic, Poland and Ukraine; 15% in the case of UK).
- 3) These rates are applicable only where the recipient is the beneficial owner of the interest. With the exception of Switzerland, interest paid to the government, the central bank, or a bank or financial institution specifically mentioned in the treaty is exempted from WHT.
- 4) These rates are applicable only where the recipient is the beneficial owner of the royalty. Royalty paid to the government of Brunei is exempted.
- 5) BPT is levied on total after-tax profits.
- 6) 10% applies to payments of certain royalties. 15% in all other cases.
- 7) There is a specific provision regarding the application of BPT in PSCs and/or mining CoWs (or similar contracts) in the oil and gas and/or mining sectors.
- 8) The treaty is silent on the BPT rate. In the absence of the specific reference to BPT rate in the treaty, the DGT may view that the rate of 20% should apply.
- 9) The treaty was in force on 9 May 2018, and came into effect starting from 1 January 2019.
- 10) The treaty is not yet in force.
- 11) 10% applies to royalties and fees for technical services.
- 12) 10% applies to copyright of literary and artistic or scientific works, including cinematographic films, and films or tapes for television or radio broadcasting. 15% applies to patents, trademarks, designs or models, plans, secret formula or process, or any industrial, commercial, or scientific equipment, and for information concerning industrial, commercial or scientific experience.
- 13) 10% applies if the interest is paid by a bank or financial institution, or by an enterprise 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% applies to interest on other types of debt.
- 14) 10% applies to the use of, right to use, or information regarding industrial, commercial or scientific equipment or experience. 15% applies to copyrights, patents, trademarks, designs or models, plans, secret formulas or processes, secret formulas, literary, and artistic works. 7.5% applies to technical, managerial or consulting services.
 - 15) 10% applies to the use of or information regarding industrial, commercial or scientific equipment or experience. 15% applies to all other royalties.
 - 16) Tax is only applicable if profits are remitted to head office within 12 months after the profits are accrued.
 - 17) 10% applies to fees for technical services. 12.5% applies to royalties.
 - 18) The tax treaty with Malaysia does not cover business activity conducted in Labuan offshore, as defined in the Malaysian Labuan Offshore Business Activity Act of 1990.
 - 19) 10% applies if the beneficial owner is a pension fund meeting certain requirements.
 - 20) The rate may be reduced to 5% if the interest is paid on a loan made for a period of more than two years or is paid in connection with the sale on credit of any industrial, commercial or scientific equipment.
 - 21) 10% applies to patents, trademarks, secret formulas, designs or models, plans, or processes, and the use of, or right to use, or for information concerning industrial, commercial or scientific equipment or experience. 15% applies to copyrights of literary, artistic or scientific works.
 - 22) 10% applies to interest on public issues of bonds, debentures and similar obligations. 15% applies to interest on other types of debt with certain exceptions.
 - 23) 12.5% applies to patents, trademarks, designs or models, plans, secret formulas, or processes, or for information concerning industrial, commercial or scientific equipment or experience. 15% applies to copyrights of literary, artistic or scientific works. 10% applies for commission payments.
 - 24) Indonesia and Singapore signed an updated treaty on 4 February 2020. Under the new treaty, the tax on royalty becomes 8% or 10%, and the BPT rate becomes 10%. The new treaty has not been ratified, therefore it is not yet effective.
 - 25) 10% applies to the use of or the right to use motion picture films, films or videos for use in connection with television, or tapes for use in connection with radio broadcasting. 15% applies in all other cases.
 - 26) 10% applies to the use of or the right to use industrial, commercial, or scientific equipment. 15% applies to copyrights of literary, artistic or scientific works, or any patents, know-how, designs or models, trademarks, plans, secret formulas, or processes.
 - 27) 10% applies to royalties. 5% applies to payments for furnishing of services, including consulting services.
 - 28) 15% applies to copyrights of literary, artistic or scientific works. 20% applies to patents, trademarks, designs or models, plans, or any industrial or scientific equipment, or for information concerning industrial or scientific experience.
 - 29) 15% applies to dividends paid to shareholders by companies engaged in industrial undertakings; 20% in other cases.
 - 30) 20% applies to royalties. 10% applies to fees for technical services.

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

No.	Country	Construction	Installation	Assembly	Supervisory	Other Services
1	Algeria	3 months	3 months	3 months	3 months	3 months
2	Armenia	6 months	6 months	6 months	6 months	120 days
3	Australia	120 days	120 days	120 days	120 days	120 days
4	Austria	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	Cambodia	183 days	183 days	183 days	183 days	183 days
11	Canada	120 days	120 days	120 days	120 days	120 days
12	China	6 months	6 months	6 months	6 months	6 months
13	Croatia	6 months	6 months	6 months	6 months	3 months
14	Czech Republic	6 months	6 months	6 months	6 months	3 months
15	Denmark	6 months	3 months	3 months	6 months	3 months
16	Egypt	6 months	4 months	4 months	6 months	3 months
17	Finland	6 months	6 months	6 months	6 months	3 months
18	France	6 months	-	6 months	183 days	183 days
19	Germany	6 months	6 months	-	-	-
20	Hong Kong	183 days	183 days	183 days	183 days	183 days
21	Hungary	3 months	3 months	3 months	3 months	4 months
22	India	183 days	183 days	183 days	183 days	91 days
23	Iran	6 months	6 months	6 months	6 months	183 days
24	Italy	6 months	6 months	6 months	6 months	3 months
25	Japan	6 months	6 months	-	6 months	-

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

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

Base Erosion and Profit Shifting and Multilateral Instrument consideration

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

The MLI entered into force for Indonesia on 1 August 2020 (three months after the deposit of its instrument ratification) and it will be effective on or after:

- 1 January of the year following the year the MLI entered into force for WHTs; and
- Six months after the MLI entered into force for other taxes.



Tax Facilities during COVID-19 Pandemic

The Coronavirus Disease 2019 (COVID-19) pandemic has severely affected the global economy, including Indonesia. Since March 2020, the Indonesian government has issued various regulations to provide income tax and VAT incentives to taxpayers to support businesses and individuals. As of 30 June 2020, some of the regulations that introduced tax incentives related to COVID-19 pandemic are:

- MoF Regulation Number 44/PMK.03/2020 revoking MoF Regulation Number 23/PMK.03/2020 (PMK-44);
- MoF Regulation Number 28/PMK.03/2020 (PMK-28); and
- Government Regulation Number 29 of 2020 (PP-29).

Tax incentives under PMK-44

PMK-44 provides the following tax incentives to certain sectors:

- EIT borne by the government;
- 0.5% final tax for SMEs borne by the government;
- Exemption of Article 22 income tax on import;
- 30% reduction of monthly tax installments; and
- Preliminary refund of VAT overpayment.

The incentives above were to be valid until September 2020.

Article 21 employee income tax borne by the government

Under PMK-44, EIT will be borne by the government on income received by employees who fulfill the following criteria:

- a. The income is received from:
 - An employer (including branches) whose Business Classification (*Klasifikasi Lapangan Usaha* (KLU)) is included in the list provided in the regulation. Under PMK-44, there were 1,062 KLU eligible for the incentive;
 - An employer that is a KITE company (i.e., a company who is entitled to relaxation of conditions for importation of goods for export purposes); or

- An employer that has obtained Bonded Zone (*Kawasan Berikat*) license; and
- b. The employee has an NPWP; and
- c. The annualized fixed and regular gross employment income for the month is not more than IDR 200 million.

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

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

Final tax for small and medium enterprises borne by the government

As mentioned on page 17, certain corporate taxpayers (other than PEs of foreign companies) that earn or receive gross income not exceeding IDR 4.8 billion (SMEs) in a fiscal year are subject to final income tax rate of 0.5% for a certain period of time. PMK-44 provides tax relief in the form of final tax borne by the government. To enjoy this incentive, the SME has to submit an application for statement letter to the DGT.

Exemption of Article 22 income tax on import

The exemption facility from Article 22 income tax on import will be available to taxpayers that fulfill the following criteria:

- The taxpayer whose KLU is in the list of the regulation. Under PMK-44, there were 431 KLUs eligible for the incentive;
- A KITE company; or
- A company that has obtained bonded zone license.

In order to enjoy the facility, the taxpayer must request for an SKB through DGT's online channel.

30% reduction of monthly tax installments

A 30% reduction of monthly tax installments for taxpayers that fulfill the following criteria:

- The taxpayer whose KLU is in the list of the regulation. Under PMK-44, there were 846 KLUs eligible for the incentive;
- A KITE company; or
- A company that has obtained bonded zone license.

30% reduction of monthly tax installment is applicable to:

- a. Calculation of monthly tax installment based on FY2019 CITR;
- b. Monthly tax installment using the corresponding amount to December 2019 in case the FY2019 CITR has not been submitted;
- c. Calculation of monthly tax installment based on DGT's Decision Letter for reduction of monthly tax installment due to weakening of business condition; or
- d. Calculation of monthly tax installment based on MoF regulation for certain taxpayers.

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

Preliminary refund of Value Added Tax overpayment

Preliminary VAT refund shall follow low-risk PKP procedures (i.e., one-month refund process), provided the PKP fulfills the following criteria (including branches):

- a. The taxpayer whose KLU is in the list of the regulation. Under PMK-44, there were 431 KLUs eligible for the incentive;
- b. A KITE company; or
- c. A company that has obtained bonded zone license.

The maximum amount of VAT overpayment stated in the VAT return, for which preliminary VAT refund may be made, is IDR 5 billion and applicable for VAT returns for April 2020 to September 2020 fiscal periods. The refund request must be submitted by 31 October 2020 through submission of VAT return or a request letter for preliminary refund to the tax office where the PKP is registered.

Note:

After 30 June 2020, the MoF issued regulation number 86/PMK.03/2020 which was amended by regulation number 110/PMK.03/2020 (PMK-86). PMK-86 revoked PMK-44. The incentives under PMK-86 are similar to PMK-44. Some major changes are:

- The reduction of monthly tax installments is changed from 30% to 50%;
- The number of KLUs eligible for the incentives are expanded (1,189 KLUs are eligible for EIT borne by the government, 721 KLUs eligible for incentive on exemption from Article 22 income tax for import, 1,013 KLUs are eligible for reduction of monthly tax installments, 716 KLUs are eligible for preliminary VAT refund);
- SMEs wishing to claim the tax relief in the form of final tax

borne by the government no longer have to apply separately for statement letters as required by PMK-44. Instead, when performing a transaction subject to WHT with a party that is a tax withholder, the SME must provide a copy of the statement letter issued under Government Regulation Number 23/2018 (general regulation regarding final tax for SMEs);

- An introduction to final income tax borne by government facility for certain construction business sectors; and
- The incentive utilization period is extended to December 2020.

Tax incentives under PMK-28

In order to support the quick provision of medicines, medical equipment, and other supplies essential for handling the COVID-19 pandemic (essential goods and/or services), the MoF issued PMK-28 to provide VAT and WHT incentives to Certain Parties, and other third parties with whom the Certain Parties transact.

Certain Parties are defined as:

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

Value Added Tax not-collected

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

Government-borne Value Added Tax

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

Value Added Tax exemption

VAT on import of essential taxable goods used for the utilization of essential taxable services is exempted, provided that the importer has obtained a Statement Letter on Utilization of Offshore Taxable

Services within Customs Area (*Surat Keterangan Jasa Luar Negeri*) before importation can be VAT exempted.

Article 21 employee income tax exemption

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

Article 22 income tax exemption

Certain Parties who import goods essential for handling the COVID-19 pandemic are automatically exempted from Article 22 income tax. Sale of goods essential for handling the COVID-19 pandemic to Certain Parties may be requested for Article 22 income tax exemption.

Article 23 income tax exemption

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

Tax incentives under PP-29

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

The tax reliefs under PP-29 include:

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

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

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

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

Additional deduction for donations to certain institutions

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

Final 0% income tax for additional income of healthcare workers

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

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

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

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

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

If a share buy-back is carried out by a publicly listed corporate taxpayer due to a policy of the central government or OJK, the taxpayer may be considered a shareholder for the purpose of meeting the certain criteria to enjoy the 3% CIT rate reduction facility. To enjoy this facility under PP-29, the share buy-back must be completed by 30 September 2020 for the publicly listed corporate taxpayer to be eligible for the 3% CIT rate reduction for FY2020 and FY2021. For FY2022, the publicly listed corporate taxpayer may still enjoy the 3% CIT rate reduction if the bought-back shares are disposed of by 30 September 2022 and the publicly listed corporate taxpayer still meets the certain criteria after that date.

The tax reliefs under PP-29 are valid until 30 September 2020. The MoF may extend the tax reliefs beyond 30 September 2020, with the exception of the relief provided for share buy-backs.



Draft Omnibus Law on Taxation

The Indonesian government has informed its plan to issue an “Omnibus Law” related to taxation. This Omnibus Law is in the priority list of the government program to be released as soon as possible. We understand that the Law has been drafted by the MoF and has been submitted to the People’s Representative Council (*Dewan Perwakilan Rakyat* (DPR)) in early 2020 for further review and hearing. However, due to the COVID-19 pandemic, the review and hearing of draft Omnibus Law on Taxation has been sidetracked. Instead, some of the provisions in the draft Omnibus Law on Taxation have been passed through Law Number 2 of 2020.

Some of the tax reforms that will be covered under the draft Omnibus Law on Taxation that have not been passed as laws or implemented include the following items:

- Income tax and WHT on dividends are planned to be exempted if the dividend is re-invested in Indonesia within a certain period of time.
- The WHT rate for payment of interest to offshore party is planned to be reduced.
- Indonesian citizen staying outside Indonesia for more than 183 days may be treated as foreign taxpayer. Foreign individual who is an Indonesian tax resident may be taxed only on income sourced from Indonesia (changing from worldwide income basis to territorial basis).
- There will be relaxation to the VAT treatment, especially during the pre-production stage. Under the draft Omnibus Law on Taxation, it appears that subject to certain conditions, input VAT incurred prior to the production stage can be compensated to the next period and claimed for a refund at the end of the year.
- Sanctions for the tax underpayment will be revised from a fixed rate of 2% per month to a fluctuated rate following MoF’s predetermined monthly interest rate. The same also applies to interest compensation for tax overpayment. Also, the penalty for the issuance of incorrect/late issuance VAT invoice will be reduced

form 2% from the VAT imposition base to 1% from the VAT imposition base.

- All of the income tax facilities will be compiled under the Omnibus Law on Taxation to provide a strong legal footing to the facilities.
- Re-definition of PE to be based on both physical presence and significant economic presence for e-commerce parties, and introduction of new type of tax, i.e., electronic transaction tax (*pajak transaksi elektronik*) (Note: this provision has been included in Law Number 2 of 2020 but not yet implemented due to pending of further regulations).
- Central government will be authorized to control and evaluate regulations on regional taxes and retributions. If the regulations on regional taxes and retributions are deemed to hinder the ease of business, they have to be revised.

Nevertheless, the draft Omnibus Law on Taxation will still be reviewed and discussed with the DPR. Changes from the above are possible, which mean there are uncertainties in the content of the draft Omnibus Law on Taxation currently being considered. Development in this area should be monitored.



List of Abbreviations

AEOI	: Automatic Exchange of Information
APA	: Advance Pricing Agreement
API	: Importer Identification Number (<i>Angka Pengenal Impor</i>)
APM	: Agent (<i>Agen Pemegang Merek</i>)
ATPM	: Sole agent (<i>Agen Tunggal Pemegang Merek</i>)
BEPS	: Base Erosion and Profit Shifting
BPJS	: Social security scheme (<i>Badan Penyelenggara Jaminan Sosial</i>)
BPT	: Branch profit tax
BUMN	: State-owned enterprise (<i>Badan Usaha Milik Negara</i>)
CbCR	: Country-by-Country Report
CFC	: Controlled Foreign Company
CIT	: Corporate income tax
CoD	: Certificate of Domicile
CoR	: Certificate of Residence
COVID-19	: Coronavirus Disease 2019
CoW	: Contracts of Work
CRS	: Common Reporting Standard
DER	: Debt-to-Equity Ratio
DGT	: Directorate General of Taxation
DPR	: People's Representative Council (<i>Dewan Perwakilan Rakyat</i>)
EIT	: Article 21/26 employee income tax

IDR	: Indonesian Rupiah
KIK	: Collective investment contract (<i>Kontrak Investasi Kolektif</i>)
KLU	: Business Classification (<i>Klasifikasi Lapangan Usaha</i>)
KSEI	: Indonesia Central Securities Depository (<i>Kustodian Sentral Efek Indonesia</i>)
LPJK	: Construction Service Development Institute (<i>Lembaga Pengembangan Jasa Konstruksi</i>)
LST	: Luxury-goods Sales Tax (<i>Pajak Penjualan atas Barang Mewah</i>)
MAP	: Mutual Agreement Procedures
MLI	: Multilateral Instrument
MoF	: Minister of Finance
NPWP	: Tax identification number (<i>Nomor Pokok Wajib Pajak</i>)
OECD	: Organization for Economic Co-operation and Development
OJK	: Financial Service Authority of Indonesia (<i>Otoritas Jasa Keuangan</i>)
PE	: Permanent establishment (<i>Bentuk Usaha Tetap</i>)
PEJ	: Export Declaration of Services (<i>Pemberitahuan Ekspor Jasa</i>)
PKP	: VAT-able entrepreneur (<i>Pengusaha Kena Pajak</i>)
PMA	: Foreign investment company (<i>Penanaman Modal Asing</i>)
PMSE	: Transaction through electronic system (<i>penyerahan melalui saluran elektronik</i>)
PPMSE	: PMSE providers (<i>Penyelenggara PMSE</i>)
PSC	: Production Sharing Contract
PTKP	: Nontaxable income (<i>Penghasilan Tidak Kena Pajak</i>)
SAK	: Indonesian Financial Accounting Standards (<i>Standar Akuntansi Keuangan</i>)

SEZ	: Special Economic Zone (<i>Kawasan Ekonomi Khusus</i>)
SKPKB	: Underpaid Tax Assessment Letter (<i>Surat Ketetapan Pajak Kurang Bayar</i>)
SKPKBT	: Additional Underpaid Tax Assessment Letter (<i>Surat Ketetapan Pajak Kurang Bayar Tambahan</i>)
SKPLB	: Overpaid Tax Assessment Letter (<i>Surat Ketetapan Pajak Lebih Bayar</i>)
SKPN	: Nil Tax Assessment Letter (<i>Surat Ketetapan Pajak Nihil</i>)
SME	: Small and medium enterprise
SPC	: Special purpose company
SPHP	: Tax audit findings (<i>Surat Pemberitahuan Hasil Pemeriksaan</i>)
SSP	: Tax payment slip (<i>Surat Setoran Pajak</i>)
STP	: Tax Collection Letter (<i>Surat Tagihan Pajak</i>)
VAT	: Value Added Tax (<i>Pajak Pertambahan Nilai</i>)
USD	: United States Dollar
WHT	: Withholding tax

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