



Sets the Standards and Beyond

# INDONESIAN TAX MANUAL BOOK

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**2022**

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**Editors:**

**Darussalam, Danny Septriadi, David Hamzah Damian,  
Romi Irawan and B. Bawono Kristiaji.**



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# Foreword

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We praise and thank God Almighty for all His grace and blessings, Indonesian Tax Manual Book 2022 has finally been published. In the spirit of [the Asia-Pacific Pro Bono Firm of the Year Award](#) recently received by DDTC, the Indonesian Tax Manual Book 2022 embodies DDTC's consistent commitment to providing inclusive tax education and knowledge sharing for all stakeholders of information on the Indonesian tax sector.

Indonesian Tax Manual Book 2022 comprises general normative legal reviews on various areas of taxation, ranging from national, international to sub-national. The contents of this book include personal income tax, corporate income tax, value added tax, sales tax on luxury goods, withholding tax, tax procedures, local taxes, customs, excise, stamp duty, international taxes, transfer pricing, fiscal incentives and the latest developments.

Indonesian Tax Manual Book 2022 is also enriched with links that refer to reliable and comprehensive information sources. The information sources cover the legal basis, news of the latest developments, terminology, literature books, dictionaries and so forth. These sources may also be accessed in various DDTC products, specifically, DDTCNews and Perpajakan ID. The presentation model is intended to facilitate and improve the readers' tax literacy.

The editorial team would like to thank everyone in support of the publication of the Indonesian Tax Manual Book 2022. Special thanks go to family and members of the editorial team for their prayers and moral support in the process of compiling the Indonesian Tax Manual Book 2022.

Finally, with the publication of the Indonesian Tax Manual Book 2022, the authors hope to positively contribute through comprehensive and general guidelines for all stakeholders in Indonesia's tax sector. We look forward to constructive suggestions and criticism from readers.

**Darussalam, Danny Septriadi, David Hamzah Damian,  
Romi Irawan and B. Bawono Kristiaji**

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# Survey of Recent Developments

The year 2022 marks a historic moment for Indonesia. As the host of the G20 meeting and presidency for a full year, not only does Indonesia showcase its [economic and development](#) progress but also presents an opportunity to introduce the country's comparative advantages to the world. The G20 event also constitutes a momentum to disclose the [tax issues](#) of developing countries, specifically, in terms of [international tax](#).

In accordance with the G20 presidency theme “Recover Together, Recover Stronger”, Indonesia's taxation landscape also exhibits [significant improvement](#). In terms of revenue collection, last year's tax revenue realization has exceeded the collection target for the [first time in 12 years](#) amidst the recovering business activities and commodity market boom. The 2021 tax revenues stood at IDR1.277,5 trillion or grow 19,2% (YoY), equivalent to [103,9%](#) of the targets. The high achievement of tax revenues has even reached the pre-pandemic level. Moreover, tax revenues have continued to indicate a [positive trend](#) since the beginning of 2022.

The aforementioned achievement is certainly integral to the government's endeavour to carry on and accelerate [tax reform](#). One of the major reform agendas taking place in 2022 is the [implementation phase](#) of Law Number 7 of 2021 on the Tax Harmonisation Law ([UU HPP](#)). The changes under [UU HPP](#) have a highly significant and wide-reaching impact on prior tax regulations ([income tax](#), [value-added](#)

[tax](#) and the [general provisions and tax procedures law](#)). The most recent news on UU HPP can be found [here](#).

The issuance of the regulation has become a strong foothold to encourage the implementation of reforms by realizing a more equitable, [legally certain](#) and efficiency-enhancing tax system. [Tax reform](#) agendas may also affect the relationship between [taxpayers and the tax authorities](#).

One notable change in UU HPP is in the [VAT regime](#). Starting April 2022, the increase of the statutory VAT [rate to 11%](#) has been officially applied from the current 10% rate, while a [further increase](#) will be applied in January 2025 at the latest. The policy was one of the drivers of the [VAT growth to double digits](#) during the first semester of this year. Moreover, the VAT revenue growth also indicates a strong signal of the recovery of economic activities and the business sector.

In addition, UU HPP has also shifted many former non-taxable goods and services into the taxable goods and services category that may be [exempt from VAT](#) or subject to [non-collectible VAT](#). For instance, [basic necessities](#), mining products, [financial services](#) and social services, are now included in taxable goods.

To align with the latest business model and ensure tax equity, various financial services, including [electronic money/wallet](#) services, switching and [financial technology providers](#), are also obliged to perform VAT withholding on taxable service transactions.

There have also been several important [income-tax](#)-related changes. Formerly, in 2020, [Government Regulation in Lieu of Law No. 1 of 2020](#) lowered the corporate income tax rate from [25% to 22%](#), which has been in effect since April 2020. A further reduction in the rate to 20% was expected in 2022. However, the provisions above were revised based on the HPP law so that the CIT rate remains



at 22% starting in the 2022 fiscal year. The most recent issues on corporate tax may be followed [here](#).

For individual income tax, UU HPP has adjusted the [tax bracket](#) along with the applicable progressive rates. Since January 2022, a new top individual income [tax rate of 35%](#) on income over IDR5 billion has been applicable. In addition, the upper threshold for the 5% rate has increased from IDR50 million to IDR60 million. Most recent issues on individual tax can be accessed [here](#).

The introduction of [fringe benefit tax](#) (FBT) will also change the [individual income tax system](#). As of this year, employee facilities will become taxable when they meet certain criteria and thresholds. Through the FBT, the government aims to render equal treatment between income in the form of money and facilities received by employees.

Another effort to expand the tax base is imposing the withholding tax mechanism on income arising from [crypto asset exchanges](#), peer-to-peer lending and other technology-supported financial applications. Accordingly, the government has also issued the implementing regulation concerning the appointment of third-party income tax withholding agents, such as [peer-to-peer lending companies](#). This is in line with the [government's authority to appoint withholding agents](#) – domestically and globally – to ensure optimum tax collection.

To prevent tax avoidance through thin capitalisation, there is also added flexibility, i.e. the government may opt to use the [debt-to-equity ratio](#) (DER) rule or interest expense limitation through earning stripping rule in the future.

The General Provisions and Tax Procedures Law (UU KUP) has also brought about [several major updates](#) to render more fairness and certainty. The introduction of the [“Indonesian single identity number”](#) (*Nomor Induk Kependudukan/NIK*) to replace the Tax ID Number (*Nomor*

*Pokok Wajib Pajak/NPWP*) for individual taxpayers is one of the spotlights. This policy is to be fully implemented on [1 January 2024](#). In addition, certain [administrative penalties](#) have been reduced to engender fairness.

Simultaneously, there have been two other fundamental changes as a tax law enforcement effort to render [tax certainty](#). First, the government may establish arrangements with other countries or a [global consensus](#) to solve taxation issues. Second, the request for and execution of the [mutual agreement procedure](#) (MAP) is allowed to exist in parallel with the dispute process (tax dispute documentation can be found [here](#)).

This year, the tax stakeholders are also preparing to implement the [carbon tax](#) as mandated in UU HPP. According to the law, the carbon tax will be imposed on the [purchase of carbon-containing goods](#) or any activities that produce a certain amount of carbon emissions. However, the carbon tax was supposed to take [effect in April 2022](#), but was postponed without a specific target [implementation time](#).

The implementation of the [Voluntary Disclosure Program](#) (*Program Pengungkapan Sukarela/PPS*) is also worth mentioning. Held from the [beginning of the year](#) to 30 June, this program allows taxpayers to voluntarily report or disclose assets formerly not listed in their income tax returns. Cumulatively, [247,918 taxpayers](#) have participated in this program and a [total income tax](#) of IDR61,01 trillion has been successfully collected.

The various initiatives contained in UU HPP will be technically outlined in the [derivative or implementing regulations](#). However, only 15 important [regulations](#) have been issued as of the issuance of this publication. [Many more](#) are underway this year.

Aside from UU HPP, the government has also issued Law No. 1 of 2022 concerning Financial Relations between

the Central Government and Local Governments ([UU HKPD](#)). One of the major provisions under UU HKPD is the [restructuring of local taxes](#) and the extension of local governments' ability to broaden the tax base. In addition to enhancing [local taxing power](#), UU HKPD also provides a new [local tax incentive](#) regime to boost the regional investment climate.

The current tax reforms holistically cover the entire Indonesian tax landscape. To reach sustainable compliance, digitisation muscles up the tax authorities to collect taxes in sustainable ways. For instance, with the compliance risk management ([CRM](#)) [approach](#), the tax authority is now able to [apply different treatments to every taxpayer](#) according to their evidence-based compliance risk profile.

The increasingly intense [tax reforms](#)—like it or not—are the answer to the current fiscal economic problems. Accordingly, the tax reforms will also be different depending on the various forms of contextual challenges thereof. At least [five important aspects](#) are to be considered in the foreseeable tax reforms, including digital developments, tax certainty, the rapid flow of information, increased tax bargaining and the urgency of the [tax control framework](#) (TCF).

For the latest information on the tax law topics covered in this publication (e.g. legislation enacted after the publication), go to [Perpajakan ID](#). The tax terminology glossary can be found [here](#).

# Corporate Income Tax

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Corporate income tax applies to corporate taxpayers, including limited liability companies, limited partnerships, firms, joint ventures, foundations or other forms of entities that are established or domiciled in Indonesia. A tax treatment equivalent to corporate taxpayers, however, applies to permanent establishments.

## **A. How to Compute Corporate Income Tax**

Generally, the computation of corporate income tax is based on taxable income in a tax year, wherein income subject to tax is deducted with allowed deductions. In addition, deemed profit applies to certain corporate taxpayers (see [Taxation of Certain Businesses or Transactions](#)). Moreover, final tax is imposed on certain types of income and income not subject to tax. Certain small medium enterprises with a gross turnover of less than IDR4.8 billion may opt to apply a [Final Tax of 0.5% from gross turnover](#) for a period of 3 years for limited liability companies or 4 years for cooperatives, limited partnerships without shared capital, or firms.

The following is an illustration of how to compute corporate income tax under the regular method:

**Table 1 The Computation of Corporate Income Tax**

1	Income subject to tax (excluding income subject to final tax and not subject to tax)
2	Less: Expenses
3	Net Commercial Income
4	Plus: Non-deductible Expenses
5	Net Fiscal Income
6	Less: Loss carry forward
7	Taxable Income
8	Corporate Income Tax (Taxable Income x Tax Rate based on Article 17 of the Income Tax Law) i.e. 22%)
9	Less: Tax Credit and Tax Instalment
10	Net CIT Underpayment/(Overpayment)

## B. Income Classification

Income tax is imposed in respect of income received or accrued in a tax year. Income is defined broadly as any increase in economic capacity which may be used for consumption or increasing wealth. Income may be classified generally as income subject to regular tax, income subject to final tax and income not subject to tax. Income subject to final tax should be withheld by third parties (Article 4(2) Income Tax) and its details can be found [here](#).

Permanent establishments as non-resident taxpayers are taxed only on income sourced from Indonesia. Taxable objects of permanent establishments include:

- Income from business or activities of the permanent establishments and held or controlled property.
- Income of the head office from business or activities, sales of goods or provision of services in Indonesia which are similar to those conducted or carried out by the permanent establishment in Indonesia.
- Income referred to in Article 26 of the Income Tax Law that is received or accrued by the

head office provided that there is an effective relationship between the permanent establishment and the property or activities giving rise to the aforementioned income.

For further details on the concept and application of income taxation, see DDTC e-book [Konsep dan Aplikasi Pajak Penghasilan](#).

The following income is not subject to tax:

- Aid or donations, including compulsory religious donations and grants, provided that there is no business, employment, ownership or control relationship between the parties.
- Assets, including cash received by an entity in exchange for shares or capital contribution.
- Remunerations related to work or services received or accrued in kind or fringe benefits.
- Payments received by an individual from an insurance company.
- Dividends or other income provided that:
  - [Domestically-sourced dividends](#) received or accrued by an individual taxpayer insofar as the dividends are invested in Indonesia within a certain period; received or accrued by a corporate taxpayer.
  - [Foreign-sourced dividends](#) and income after tax from an overseas permanent establishment received or accrued by a corporate taxpayer or an individual taxpayer that fulfils the requirements set out in Article 4 (3) Sub-paragraph f.2. of the Income Tax Law.
- Deposit funds and certain income received by Hajj Financial Management Agency.
- Surplus received by registered social or religious organizations which is reinvested further.
- Contributions received or accrued by an authorized pension fund.
- Income from capital investments in certain sectors of the abovementioned pension fund.

- Profit received or accrued by members of a cooperative, limited partnership without share capital, alliances, firms and joint ventures, including unit holders of collective investment contracts.
- Profit received by a venture capital company from an investee company established and conducting business or engaged in activities in Indonesia with certain conditions.
- Surplus received by a registered institution or a non-profit organization engaged in education and/ or RnD, that is further reinvested.

### **C. Expenses & Non-Deductible Expenses**

Expenses related to the generation of business income that is subject to income tax are deductible, except categorized as non-deductible expenses. Expenses to acquire asset with more than one year of useful life must be capitalized and further depreciated or amortized. Incurred expenses related to income subject to the final tax, or deemed taxed income or non-taxable income are not deductible. Further, incurred joint expenses in respect of obtaining taxable income and income subject to final tax or income not subject to tax must be proportionally allocated. Expenses for remunerations given in kind and fringe benefits are deductible since the 2022 tax year. This was formerly disallowed.

For permanent establishments, administrative expenses of the head office are deductible provided that such expenses are related to the business or activities of the permanent establishments after certain conditions are fulfilled. Non-deductible expenses of a permanent establishment for the head office include royalties or payments related to the use of property, patents or other rights, management services and interest, except for interest in respect of banking business.

To be deductible, certain types of expenses have to fulfill certain conditions, as follows:

- [Entertainment expenses](#) incurred to generate, collect and maintain revenue, in general, are deductible. To be deductible, the complete documentation of the incurred expenses must be available and such expenses must be related to the aforementioned objective. In addition, a nominative entertainment list in a set format is required to be submitted along with the annual tax return.
- [Promotional expense](#) incurred for advertising, product exhibition, to introduce new products or sponsorship to promote product would be deductible. In addition, a nominative promotional list in a set format is required to be submitted along with the annual tax return.
- [Bad debt expenses](#) realized and incurred in commercial profit and loss. In addition, to be claimed as deductible, the list of uncollectible debts must be submitted to the DGT along with the annual tax return, and the collection efforts of uncollectible debt have been filed to the civil court or a certain government body; or such debt relief has been written in an agreement between the creditor and debtor; or it has been publicized in general or certain publication; or the debtor has acknowledged the write-off of the debt up to a certain amount.
- [Donations for national disasters management, research and development and related donations, expenses to build social infrastructure, educational facilities and sports development.](#) To be deductible, such donations must fulfil the following requirements: the preceding tax year's tax return was in a net fiscal profit; not causing any loss in the current tax year; supported with valid evidence; and the institution receiving the donation is registered as a taxpayer, except those that are exempt from taxpayers under the Income Tax Law. On another note, further requirements and details can be accessed [here](#).



Interest expenses for loans exceeding the 4:1 Debt-to-Equity Ratio (DER) have to be proportionally adjusted. [Please note that to apply DER, several conditions must be fulfilled and an exception from the DER requirements may apply to certain taxpayers.](#) In addition to the DER requirement, interests paid to related parties must be at [arm's length](#). The illustration of how to apply DER may be seen [here](#).

## **D. Depreciation & Amortization**

Expenses for the purchase, establishment, addition, repair or changes of tangible assets with a useful life of more than one year, except for land rights, must be capitalized and depreciated over the specified useful life using a consistent straight line or double declining method. The only depreciation method for buildings is the straight line. To be deductible, such assets must be related to the generation of business income that is subject to income tax.

Depreciation commences in the month the costs are incurred, except for assets that are in progress, for which the depreciation commences in the month the assets are finished. Subject to the DGT's approval, taxpayers are allowed to start the depreciation in the month the assets are used to obtain, collect and maintain income or in the month the assets are used in the production.

If a taxpayer performs [an asset revaluation for tax purposes](#) as allowed by the DGT, the depreciation basis for revaluated assets shall be the revaluation amount. The revaluation is of the market value determined by a licensed public appraiser. Please note, however, that the DGT may restipulate the value and apply claw-back rules. The gain difference resulting from revaluation is subject to a final tax of 10% and may be paid in instalments subject to the DGT's approval.

**Table 2 Depreciation Rates per Group of Tangible Assets**

Tangible Assets Group	Useful Life	Depreciation rates	
		Straight line method	Double declining method
<b>Non-buildings</b>			
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%
<b>Buildings</b>			
Permanent	20 years	5%	-
Non-permanent	10 years	10%	-

Tangible assets acquired and utilized in certain business sectors are further regulated by a Government Regulation. This was formerly regulated under a Minister of Finance Regulation. Although the Government Regulation has not been issued, [arguably, the former Minister of Finance Regulation remains applicable](#).

Expenses for the acquisition of intangible assets and other costs to extend the right to build, right to exploit and right to use and goodwill with a useful life of more than 1 year must be capitalized and amortized in equal parts or decreasing parts over the useful life. To be deductible, such intangible assets must be related to the generation of business income that is subject to income tax.

**Table 3 Depreciation Rates per Group of Intangible Assets**

Intangible Assets Group	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%

If a taxpayer obtains a tax allowance, the taxpayer may be entitled to accelerated depreciation and amortization up to 200% for tangible assets and accelerated amortization for intangible assets. More information on tax allowance can be found [here](#).

## **E. Non-Deductible Expenses**

In addition to non-deductible expenses that are not related to business, from which the income is subject to regular tax, the following also constitute non-deductible expenses for CIT purposes:

- Profit sharing in whatever name and form.
- Expenses incurred for the personal benefit of shareholders, partners or members.
- Provisions, except for the following which will require further conditions:
  - Bad debt allowances for banks and other business entities that provide loans, finance leases, consumer finance companies and factoring companies.
  - Reserves for insurance business.
  - Guarantee reserves for the Deposit Insurance Agency.
  - Reclamation reserves for mining businesses.
  - Reforestation reserves for forestry businesses.
  - Reserves for closing and maintaining industrial waste for industrial waste treatment businesses.
- Certain insurance premiums which are paid by individual taxpayers, unless the premiums are paid by the employers, in which case, they shall be treated as income.
- Amount exceeding the reasonable amount paid to shareholders or related parties as the remuneration related to the performed work.
- Grant, aid or donations and inheritance, unless specifically regulated as deductible.
- Income taxes.

- Salaries paid to members of a partnership, firm or limited liability company whose equity is not divided into shares.
- Tax administrative penalties.

## **F. Loss Carry forward**

If after being deducted with allowed deductions, income subject to tax results in a loss position, the loss is set off against taxable income starting the following tax year for 5 consecutive years, [this may be extended up to 10 years under certain conditions](#).

Further, the tax loss that may be utilized will deduct taxable income. If the tax loss is re-computed due to a tax assessment, the re-computed tax loss is one to be utilized.

## **G. Corporate Income Tax Rate**

Resident corporate taxpayers and permanent establishments are subject to a rate of 22% (twenty-two percent). Public-listed companies with total fully paid shares traded on the stock exchange in Indonesia of a minimum of 40% that fulfil certain requirements are eligible for a 3% (three percent) lower rate.

Further, small-and-medium enterprises (SMEs) with annual revenues not exceeding IDR50 billion may apply a 50% lower tax rate of Article 31E of the Income Tax Law that is proportionally imposed on the taxable income of a fraction of the gross turnover of up to IDR4.8 billion.

A tax holiday facility that may reduce corporate income tax payable by 100% or 50% related to new investments subject to a tax holiday is available. More information on tax holiday can be found [here](#).

## H. Tax Instalments

Monthly tax instalments pursuant to Article 25 of the Income Tax Law during the current tax year is to be self-paid and equal to the amount of income tax payable according to the preceding annual income tax return deducted by allowed domestic and foreign tax credits divided by 12 (twelve) months or the number of months in a fraction of a tax year. [Taxpayers may apply to the DGT for a reduction of the monthly tax instalments](#), after 3 months of the current tax year, if the taxpayers are able to substantiate that the hypothetical tax payable for the current tax year will be less than 75% of the tax payable used as the basis of the current monthly tax instalments.

[Tax instalments for certain businesses](#), such as finance lease companies, banks, listed companies, state-owned enterprises and other taxpayers are based on the prepared periodic financial statements.

## I. Domestic Tax Credit

Non-final tax is withheld by third parties on certain types of income under Article 23 of the Income Tax Law (details can be found [here](#)) or taxes paid or collected in respect of imports or by third parties on certain transactions (see details on Article 22 Income Tax [here](#)) may be credited by corporate taxpayers against corporate income tax payable.

## J. Foreign Tax Credit

If a corporate taxpayer pays tax on foreign-sourced income, such a foreign tax credit on the foreign-sourced income is creditable against corporate income tax payable pursuant to Article 24 of the Income Tax Law. The allowed foreign tax credit shall be equal to income tax paid or payable overseas but shall not exceed the calculation of tax payable computed based on the Income Tax Law.

## K. Net CIT Underpayment or Overpayment

Corporate income tax payable after being deducted by tax credits, including monthly tax instalments, that result in nil tax or underpayment tax as per Article 29 of the Income Tax Law must be settled before the annual income tax return is filed, or the tax overpayment as per Article 28A shall be refunded after an audit has been conducted.

## L. Taxation of Certain Businesses or Certain Transactions

Certain businesses or transactions are taxed using a specifically regulated income tax treatment or as per Article 15 of the Income Tax Law using deemed profit margins.

Businesses are taxed on deemed profit margins as follows.

**Table 4 Deemed Profit for Certain Businesses**

Business	Deemed Net Profit from Gross Revenues	Effective Income Tax Rate
<a href="#">Domestic shipping companies</a>	4%	1.2%*
<a href="#">Domestic airline companies</a>	6%	1.8%*
<a href="#">Foreign shipping and airline companies</a>	6%	2.64%*
<a href="#">Foreign oil and gas drilling operations</a>	15%	3.3%**
<a href="#">Certain trade representative offices</a>	1% of export value	0.44%*

\*The effective income tax rate is specified in a Minister of Finance Decree.

\*\* The effective income tax rate is not specified in the Minister of Finance Decree, only deemed net profit is regulated. Thus the effective income tax rate is  $15\% \times 22\% = 3.3\%$

Certain businesses or transactions are taxed using a specifically regulated income tax treatment as follows.

**Table 5 Specifically Regulated Income Tax Treatment for Certain Business or Transactions**

Business	Specific Regulated Income Tax Treatment
<a href="#">Financial lease companies</a>	<ul style="list-style-type: none"> <li>● Financial lease companies must be authorized by the relevant authorities</li> <li>● Financial leases with the option to purchase               <ul style="list-style-type: none"> <li>○ Lessor's income is a portion of the lease payment in the form of lease service income</li> <li>○ Lessor is not allowed to depreciate the leased asset</li> <li>○ Lessor is allowed to do provision for doubtful debt capped max at 2.5% of average beginning and ending of receivables</li> </ul> </li> <li>● Operating lease               <ul style="list-style-type: none"> <li>○ Lessor's income is a portion of the lease payment in the form of lease service income</li> <li>○ Lessor's income is the total amount of lease payment</li> <li>○ Lessor depreciates the asset</li> </ul> </li> </ul>
<a href="#">Mining companies</a>	<ul style="list-style-type: none"> <li>● Taxation of mining companies depends on whether the company is licensed to operate based on the prevailing rules on operating license or is under a special contract with the government, wherein the contract has not ended</li> <li>● If the company is under such special contract, the tax provisions in the special contract apply</li> </ul>
<a href="#">International toll-manufacturing businesses</a>	<ul style="list-style-type: none"> <li>● Special Deemed Profit to compute the net taxable income of international toll manufacturing is 7% of the total manufacturing or assembling goods, not including direct materials and is considered the final tax</li> <li>● Such special deemed profit applies provided that the company has not entered into APA with the DGT</li> </ul>

Business	Specific Regulated Income Tax Treatment
<a href="#">Sharia transactions</a>	<ul style="list-style-type: none"> <li>● Sharia banking <ul style="list-style-type: none"> <li>○ Bonus, profit sharing, margins received by a bank from a client constituting a facility beneficiary is taxed according to income tax on interest</li> <li>○ Other income received by a bank other than the abovementioned is taxed according to applicable income taxes</li> <li>○ Bonus, profit sharing, margins received by a depositor or investor of a sharia bank is taxed according to income tax on interest</li> <li>○ Other income received by a depositor or investor of a sharia bank other than the abovementioned is taxed according to applicable income taxes</li> </ul> </li> <li>● Sharia financial service <ul style="list-style-type: none"> <li>○ <i>Ijarah muntahiyah bittamlik</i> is taxed as a financial lease with the option to purchase</li> <li>○ <i>Ijarah</i> is taxed as an operating lease</li> <li>○ Income in the form of profit margins or gains from account receivable financing or factoring with sharia arrangements as <i>wakalah bil ujarah</i> is taxed according to income tax on interest</li> <li>○ Income in the form of profit margins or gains from consumer financing with sharia arrangements as <i>murabahah, salam</i> or <i>isthisna'</i> is taxed according to income tax on interest</li> <li>○ Income in the form of fees or rewards from sharia-principle-based credit card business or from other sharia-principle-based financing is taxed according to applicable income tax laws</li> <li>○ Income received or accrued by investor in the form of gains and/ or profit sharing from a financing company with sharia arrangements as <i>mudharabah, mudharabah, musytarakah, or musyarakah</i> is taxed according to income tax on interest</li> </ul> </li> </ul>



Business	Specific Regulated Income Tax Treatment
	<ul style="list-style-type: none"> <li>○ Asset transfers from a third party solely for sharia principle purposes within the financing business of a company is not considered an asset transfer under the Income Tax Law. Such is deemed a direct asset transfer from a third party to the company's client</li> </ul>
<p><a href="#">Upstream oil and gas under gross split contracts</a></p>	<p>Tax provisions on income taxation of upstream oil and gas under a gross split contract are specified in detail, the following are several important points therein:</p> <ul style="list-style-type: none"> <li>● Income with regards to profit sharing is computed based on the contractor's portion of the realized value of oil and gas deducted with the realized value of domestic market obligation (DMO), added with DMO fees and added or deducted with the lifting price variance</li> <li>● Generally, operational expenses incurred by the contractor may be computed as a deduction for the computation of taxable income. Certain operational expenses, however, are not allowed</li> <li>● Foreign head office direct expenses charged to projects in Indonesia are only allowed for activities that can neither be performed by domestic suppliers nor the Indonesian workforce and are not routine</li> <li>● Head office allocated expenses are allowed provided that they are used to support the business in Indonesia, audited in the consolidated financial statement of the head office and the allocation base is submitted and the amount does not exceed the threshold set out by the Minister of Finance</li> <li>● Uplift or similar income is taxed at 20% of the gross amount</li> <li>● Transfer of participating interest is subject to a final tax of 5% during the exploration period or 7% during the exploitation period, both of the gross amount. Transfer of participating interest is not taxed under certain criteria</li> </ul>

Business	Specific Regulated Income Tax Treatment
<a href="#">Built-operate and transfer</a>	<ul style="list-style-type: none"> <li>● Built-Operate-and-Transfer is an arrangement between a land owner and investor which stipulates that the land owner confers the right to the investor to construct a building within the BOT agreement period and to transfer the building to the land owner after the BOT agreement ends</li> <li>● Income and expenses for investors. <ul style="list-style-type: none"> <li>○ Rent income and other income related to the use of assets</li> <li>○ Income related to the operation of buildings, such as hotels, sports centres, entertainment centres, etc</li> <li>○ Compensation or income received or accrued from the land owner if the BOT agreement ends earlier</li> <li>○ Business expenses follow the deductible expense rules</li> <li>○ Expenses incurred by an investor to construct a building are the acquisition value to obtain the right to use or the right to operate the building, such an acquisition value is amortized in the same amount every year during the BOT agreement period</li> </ul> </li> <li>● Income and expenses for the land owner <ul style="list-style-type: none"> <li>○ Routine payments from the investor during the BOT agreement period.</li> <li>○ Portion of building rental</li> <li>○ Portion of profit from the operation of the building from the investor in whatever name and form</li> <li>○ Other income related to the BOT agreement</li> <li>○ Business expenses follow the deductible expense rules.</li> <li>○ Building transferred from an investor to the land owner after the BOT period end is subject to income tax of 5% from the gross amount of either the market value or property tax base value and must be paid no later than</li> </ul> </li> </ul>

Business	Specific Regulated Income Tax Treatment
	on the 15th of the following month after BOT period ends. The tax is a final tax for individuals and constitutes a tax credit for corporate taxpayers. <a href="#">If the land owner is a government institution, the tax is exempt</a>

# Individual Income Tax

## A. Overview

Individual income tax is mostly administered with employee Article 21 Income Tax. During the COVID-19 pandemic, in FY20 Article 21 Income Tax revenue hit a -5.20% compared to FY19, while in FY21 in line with the [recovery of workforce utilization, Article 21 Income Tax recorded a growth of 6.16%](#) year-on-year. Further, in FY21, Article 21 Income Tax coupled with individual tax payable, contributed 11.70% and 1.0% respectively with a total of 12.7% to the DGT's total tax revenues.

Under the revision of tax laws by the Law concerning the Harmonization of Tax Regulations, several significant changes evidence the government's efforts to increase the tax revenues from individual income tax, both from Article 21 Income Tax and annual tax payable. First, the [use of single identity number \(NIK\)](#) as the taxpayer identification number which is intended to [enforce tax compliance monitoring](#). Second, the revision of tax bracket rates with the highest at 35% for taxable income over IDR5 billion. Third, the [taxation of benefits in kind](#) which generally applies with certain exceptions. Fourth, to attract [expatriates with certain expertise](#), income tax only applies to income sourced from Indonesia for 4 years.

Generally, [individual income tax is administered by the head of the family or husband](#), on the income of the husband, wife, and children (below 18 years and unmarried). A wife

may administer her income tax on her own based on certain criteria.

## B. How to Compute Individual Income Tax

In general, the calculation of individual income tax is based on taxable income in a tax year by deducting income subject to tax with allowed deductions, including personal tax relief. Individual taxpayers are taxed on their worldwide income, except for [expatriates with certain expertise](#) who are only taxed on Indonesian sourced income for a maximum of 4 years.

The following is an illustration of how to compute individual income tax:

**Table 6 The Computation of Individual Income Tax**

1	Business income and/or income from independent personal services (with a bookkeeping obligation)
2	Less: Expenses
3	Plus: Non-deductible Expenses
4A	Net Income from Business or Independent Personal Services, or
4B	Deemed Net Income from Business or Independent Personal Services
5	Plus: Net Domestic Income related to work or employment
6	Plus: Net Other Domestic Income
7	Plus: Net Other Foreign Income
8	Less: Authorized Compulsory Religious Charity
9	Net Fiscal Income after Charity Deduction
10	Less: Loss carry forward (only applies to individual taxpayers with bookkeeping)
11	Less: Personal tax relief
12	Taxable Income
13	Individual Income Tax (Taxable Income x Progressive Tax Rate based on Article 17 of the Income Tax Law)
14	Less: Tax Credit and Tax Instalment
15	Net Individual tax Underpayment/(Overpayment)

## C. Income Classification & Taxation

The above illustration covers all types of income that may be received by an individual. Please note that for business income or independent personal services, individuals may opt to use deemed net income if their gross income in a year is less than IDR4.8 billion and inform the use of deemed net income to the DGT within the first 3 months of the current tax year. Otherwise, the taxpayers are required to maintain bookkeeping.

Income subject to final tax is generally withheld by third parties. Individual taxpayers are only required to disclose their gross income and the withheld tax. Such is not the case if the final tax, by law, may be self-paid if the third party does not withhold the tax. Certain individual taxpayers with gross income of less than IDR4.8 billion may opt to be taxed at a final tax rate of 0.5% and pay the tax on a monthly basis (or withheld by a third party), after the cumulative income of the current year [exceeds IDR500 million](#). Further, income not subject to tax is only to be disclosed in the annual tax return.

As aforementioned, most individual income taxes are collected by withholding tax on employment income (Article 21 Income Tax) on monthly basis. If an individual only receives income subject to tax (excluding income subject to final tax and income not subject to tax), the annual tax payable will amount to nil as it has been collected by the employer and constitute a tax credit for the individual. If the individual is a husband whose wife only receives income from her employer, the amount of income and tax withheld by the employer is treated as if the income is subject to final tax and this does not affect the amount of her husband's income tax.

Please note that if the individual's wife receives income (i.e. employment income or other taxable income) and the wife decides to administer her income tax separately (*Memilih Terpisah*) or due to a prenuptial agreement to

have separate income and assets (*Pisah Harta*), her income must be consolidated with her husband's and the taxes will be proportionately allocated (see [here](#) for the illustration) and filed separately in the husband's and wife's tax return.

Further, since the amendment to Income Tax Law by the Law concerning the Harmonization of Tax Regulations, benefits in kind (BIK) received or accrued from employment or provision of services (due to independent personal services) are classified as income subject to tax. Certain BIKs that are not subject to tax include food and beverages (as well as the ingredients) provided to all employees; BIKs provided in certain areas; BIKs that must be provided by the employer for performing work; BIKs funded by the government budget; and BIKs of certain types and/or limitation. Please note that to date, the [implementing regulation of BIK taxability has not been issued and this will lead to several issues](#).

## **D. Expenses & Non-deductible Expenses**

Expenses related to the generation of business income or independent personal services with a bookkeeping obligation are deductible. Generally, the rules to determine deductible and non-deductible expenses are similar to Corporate Income Tax (For further details, see 'Expenses and Non-deductible Expenses' in the Corporate Income Tax chapter). There are additional non-deductible expenses that are incurred for the personal purpose of an individual taxpayer or his/her dependents.

## **E. Personal Tax Relief**

Personal tax relief (*Penghasilan Tidak Kena Pajak/PTKP*) is applied as an annual deduction to compute an individual's taxable income. If a wife decides to administer her income tax separately (see above), the personal tax relief for the computation of the proportional tax of wife and husband is the total personal tax relief of both the husband and wife.

For example, a husband and wife (with no dependents) both receive employment income and the wife decides to administer her income tax separately, the total personal tax relief will be IDR54 million x 2 or equivalent to IDR108 million.

**Table 7 Personal Tax Relief**

	IDR
Taxpayer	54,000,000
Spouse	4,500,000
Each dependent (maximum 3)	4,500,000

## F. Individual Income Tax Rate

The abovementioned types of net income are calculated to determine the taxable income. Next, the taxable income is proportionately computed as per the tax rate according to taxable income brackets to determine the tax payable.

**Table 8 Individual Income Tax Rates**

Taxable Income	Rate
Up to IDR60,000,000	5%
Above IDR60,000,000 up to IDR250,000,000	15%
Above IDR250,000,000 up to IDR500,000,000	25%
Above IDR500,000,000 up to IDR5,000,000,000	30%
Above IDR5,000,000,000	35%

## G. Tax Instalments & Tax Credits

Monthly tax instalments pursuant to Article 25 of the Income Tax Law during the current tax year are to be self-paid and equal to the amount of income tax payable according to the preceding annual income tax return deducted by allowed tax credits divided by 12 (twelve) months or the number of months in a fraction of a tax year. [Taxpayers may apply for a reduction of monthly tax instalments to the DGT](#), after 3 months of the current tax year, if the taxpayers can substantiate that the hypothetical tax payable for the current tax year is less



than 75% of the tax payable used as the basis of current monthly tax instalments.

Tax credits for individuals mostly originate from Article 21 of the Income Tax Law withholding tax on employment income. There are other types of tax credits depending on the individuals' activities in accruing the income. If individuals import goods as their business, Article 22 Income Tax collected by the Customs authorities may be taken into account as a tax credit. Further, if the individual accrues foreign-sourced income which is taxed by the foreign tax authorities, the tax may be used as a tax credit.

## **H. Net Tax Underpayment or Overpayment**

Individual income tax payable after being deducted by tax credits, including monthly tax instalments, will result in nil tax or Article 29 of the Income Tax Law tax underpayment which must be settled before the annual income tax return is filed or Article 28A tax overpayment shall be refunded after an audit has been conducted.

# Withholding Tax

## A. Overview

With respect to withholding taxes (“WHT”), it can be argued that the Indonesian tax system is founded on the principle of the “self-assessment system” coupled with a withholding tax regime. Under the WHT tax regime, certain types of income, such as salaries, interests, dividends, etc. are subject to withholding where the payer is required to calculate, withhold, and remit the applicable tax to the DGT periodically.

WHT is imposed on certain payments to residents and non-residents depending on the nature of the WHT which may be final tax or non-final tax. In the case of the latter, non-final tax WHT may be used as a tax credit against tax payable.

## B. Article 21 Income Tax

According to Article 21 (1) of the Income Tax Law, Article 21 Income Tax is withholding tax on income in respect of employment, services or activities in whatever name and for, received or accrued by resident individual taxpayers.

The scope of Article 21 Income Tax is not limited only to salaries received by employees of a company but includes various types of income received by resident individual taxpayers from various types of activities or businesses.

More details on the implementation of Article 21 Income Tax can be seen [here](#).

Article 21 Income Tax applies to the following criteria:

- [Permanent employees and part-time/temporary/contract employees.](#)
- [Non-employees or freelancers.](#)
- [Ex-employees.](#)
- [Activity participants.](#)
- [Commissioners.](#)
- [State officials and their pensioners.](#)
- [Recipients of severance payment, pensions or pension benefits, and old-age benefits.](#)

The employer is required to calculate income tax payable at the following tax rates as regulated in Article 17 (1) of the [Income Tax Law](#):

**Table 9 Taxable Income Brackets**

<b>Taxable Income</b>	<b>Rate</b>
Up to IDR60,000,000	5%
Above IDR60,000,000 up to IDR250,000,000	15%
Above IDR250,000,000 up to IDR500,000,000	25%
Above IDR500,000,000 up to IDR5,000,000,000	30%
Above IDR5,000,000,000	35%

An individual taxpayer without a Tax ID Number (NPWP) is subject to a surcharge of 20% higher than the standard rates.

The employer is required to remit and file the Monthly Tax Return of Article 21 Income Tax by the 10<sup>th</sup> and 20<sup>th</sup> of the month following the date WHT becomes due. The employer is also required to give the WHT Tax Slip to employees, which can be used to file their Annual Individual Tax Returns since Article 21 Income Tax is creditable by the individuals from their tax payable.

Resident individuals are entitled to have the annual PTKP as follows:

**Table 10 Personal Tax Reliefs**

<b>Tax Reliefs</b>	<b>IDR</b>
Taxpayer	54,000,000
Spouse	4,500,000
Each dependent (max. 3)	4,500,000
Employment expenses (5% of gross income, max. IDR500.000/month)	6,000,000
BPJS Ketenagakerjaan or JHT paid by employees (2% of gross income)	Full amount
Pension expenses (5% of gross income, max. IDR200.000/month)	2,400,000

The treatment for other allowances or insurance is as follows:

**Table 11 The Tax Treatment of Allowances & Insurance**

<b>Type of Allowance or Insurance</b>	<b>For the Employer</b>	<b>For Employees</b>
Insurance Premiums for work accidents (JKK), mortality (JK) and health care (JPK) paid by the employer	Deductible expenses	Taxable (increases the gross income)
Insurance Premiums for work accidents, life, health care, dual-use and scholarship paid by the employer	Deductible expenses	Taxable (increases the gross income)
Insurance Premiums for work accidents (JKK), mortality (JK) and health care (JPK) paid by the employee	Non-deductible expenses	Non-deduction
Insurance Premiums for work accidents, life, health care, dual-use and scholarship paid by the employee	Non-deductible expenses	Non-deduction
BPJS Ketenagakerjaan or JHT paid by the employer	Deductible expenses	Non-taxable
Benefits in Kind	Deductible expenses	Non-Taxable or Taxable

## C. Article 22 Income Tax

Article 22 Income Tax occurs upon 4 events, as follows:

- Import activities.
- State Treasurer or State-owned enterprises (“BUMN”) on purchases of goods.
- Local purchase of specific products.
- Purchase of extravagant luxury goods.

Article 22 Income Tax bases include the import value, export value and buying price on the purchase of goods by certain agencies or the selling price on the sales of products by certain business fields at the following tax rates:

**Table 12 Article 22 Income Tax Bases**

Taxable Objects	Tax Rate (%)	Tax Base
Imports of: <ol style="list-style-type: none"> <li>a. Certain goods</li> <li>b. Certain goods other than a</li> <li>c. Soybeans, wheat and flour wheat</li> <li>d. Goods other than a, b and c</li> <li>e. Goods other than c and d without an API (<i>Angka Pengenal Impor</i>)</li> <li>f. Auctioned goods</li> </ol>	10 7.5 0.5 2.5 7.5 7.5	Import value (i.e., CIF value plus duties payable) Auction prices
Purchase of goods by the government requiring payment from the State Treasury, Proxy of Budget User ( <i>Kuasa Pengguna Anggaran/KPA</i> ), and certain state-owned enterprises (with certain exceptions)	1.5	Purchase prices (exclude VAT)
Purchase of products by local distributors of: <ol style="list-style-type: none"> <li>a. Cement</li> <li>b. Paper</li> <li>c. Steel products</li> <li>d. Automotive products</li> <li>e. Pharmaceutical products</li> </ol>	0.25 0.1 0.3 0.45 0.3	Selling prices VAT base
Sale of certain vehicles by sole agents ( <i>Agen Tunggal Pemegang Merek/ATPM</i> ), agents ( <i>Agen Pemegang Merek/APM</i> ) and vehicle general importers, excluding heavy equipment	0.45	VAT base

Taxable Objects	Tax Rate (%)	Tax Base
Purchase of products by local distributors of: <ol style="list-style-type: none"> <li>a. Oil fuel by gas stations from Pertamina and its subsidiaries</li> <li>b. Oil fuel by gas stations other than Pertamina and its subsidiaries</li> <li>c. Oil fuel by parties other than gas stations</li> <li>d. Gas fuel</li> <li>e. Lubricants</li> </ol>	0.25 0.3 0.3 0.3 0.3	Selling prices (exclude VAT)
Purchase of forestry, plantation, agriculture, cattle breeding and fishery products by manufacturers or exporters	0.25	Selling prices
Purchase of coal, metal and non-metallic minerals from companies or individuals holding a mining license ( <i>Izin Usaha Pertambangan/IUP</i> ) by an industry or a corporate	1.5	Selling prices
Exports of coal, metal, and non-metallic minerals by exporters other than those engaged in a Mining Cooperation Agreement or a Contract of Work with the Government	1.5	Selling prices
Purchase of gold bars	0.45	Selling prices
Sales of prepaid phone credit and SIM card starters packs by second-layer distribution agents constituting Article 22 withholding agents	0.5	Invoice amount or selling prices
Purchase of extravagant luxurious goods	5	Selling prices (excluding VAT and STLGs)

Taxpayers without a NPWP will be subject to a surcharge of 100% higher than the standard rates.

Exemption of Article 22 Income Tax is automatically granted with an Exemption Certificate ([Surat Keterangan Bebas/SKB](#)) issued by the DGT, on the following:

- Imports/purchase of goods that are not subject to income tax.

- Imports of goods exempt or subject to non-collected import duties and Value Added Tax (VAT).
- Temporarily imported goods.
- Re-importations of certain goods.
- Imports of gold bullions for the production of jewellery for export objectives.
- Sales of vehicles by the automotive industry, ATPM, APM and vehicle general importers.
- Purchase of gold bullions by Bank Indonesia.
- Goods related to the use of the Government's school operations subsidy (*Bantuan Operasional Sekolah/BOS*) fund;
- Sales of grain or rice to the State Treasury, KPA and the Bureau of Logistics (*Badan Urusan Logistik/ BULOG*), and
- Sales of staple foods to BULOG or appointed state-owned enterprises.

For further information related to Article 22 Income Tax, please [click here](#).

## D. Article 23 Income Tax

Article 23 Income Tax is income tax that is withheld by governmental bodies, corporate taxpayers, event organizers, PEs or foreign company representative offices on income paid or payable or due for payments to other taxpayers or PEs on the gross amount from:

**Table 13 Article 23 Income Tax Rates**

Taxable Objects	Tax Rate (%)
Dividends*	15
Interests**	
Royalties**	
Gifts, awards, bonuses, except for those that have been subject to Article 21 Income Tax*	

Taxable Objects	Tax Rate (%)
Rental or compensation for the use of assets, except those that have been subject to Article 4(2) Income Tax and finance leases*	2
Services fees (also as regulated in <a href="#">MoF Regulation No. 141/2015</a> ), except those that have been subject to Article 21 Income Tax***	

\*For further details, please refer to [Article 23 Income Tax Taxable Objects](#).

\*\*For further details, please refer to [Article 23 Income Tax Non-objects](#).

\*\*\* For further details, please refer to [Article 23 Income Tax Non-objects](#) & [Article 23 Income Tax Service Objects](#).

Taxpayers without a Tax ID Number or NPWP will be subject to a surcharge of 100% higher than the standard rates.

In addition, related to Article 23 Income Tax, DGT has issued [DGT Circular No. SE-24/PJ/2018](#) (“SE-24”) regarding the tax treatment of incentives received by buyers under certain conditions within buy-sell transactions.

SE-24 defines sellers as parties that sell their products to buyers, including manufacturers, distributors and agents, whereas buyers are defined as parties that buy products from sellers for resale objectives, including distributors, agents and retailers.

Certain conditions covered under this regulation are as follows:

- Achievement of certain conditions.
- Provision of space and/or certain equipment, and
- Compensation received in connection with buy-sell transactions.

Further details can be read [here](#).



## E. Article 4(2) Income Tax (Final Income Tax)

Final income tax is imposed on income as follows:

- Interest on deposits and other savings, interest on bonds and government bonds and interest on deposits that have been paid by a cooperative to its members.
- Lottery prizes.
- Stock income and other securities income, derivative transactions traded on IDX, sale of shares transaction or sale of equity in partner company that has been received by the venture capital company
- Transfer or rent of land and buildings.
- Other certain income.

Corporate taxpayers, PEs or representative offices are required to withhold Final Income Tax on gross amounts of payments to resident Indonesian taxpayers and PEs as follows:

**Table 14 Final Withholding Tax**

Payment Events	Final Tax Rate (%)	Notes
Rental of land and/or buildings	10	<a href="#">Includes all service charges and build-operate-transfer arrangement income</a>
Lottery prizes	25	
Interest or discount on Bank Indonesia Certificates (Surat Bank Indonesia), time and saving deposits and government bonds	20	
Interest or discount on bonds	10	
Interest on deposits paid by cooperatives to cooperative members	10	
Transfers of land and/or buildings	2.5/1/ 0.5/0	Details of the tax rate can be found <a href="#">here</a>

Payment Events	Final Tax Rate (%)	Notes
Sale of shares listed on the Indonesia Stock Exchange: <ul style="list-style-type: none"> <li>● Non-founder's shares</li> <li>● Founder's shares</li> </ul>	0.1 0.1 + 0.5	Tax base:  Gross transaction amount Gross transaction amount + 0.5% from the share price at IPO
Construction services: <ul style="list-style-type: none"> <li>● Consulting</li> <li>● Performance</li> <li>● Integrated</li> </ul>	3.5/6 1.75/2.65/4 2.65/4	Details of the tax rate can be found <a href="#">here</a>
Dividends paid to individuals	10 or exempt	<a href="#">To obtain the exemption, the dividend needs to be reinvested in Indonesia for 3 consecutive years and the reinvestment must be reported annually</a>
Dividends paid in connection with cooperation and Indonesia Investment Authority ( <i>Lembaga Pengelola Investasi/LPI</i> )	7.5	Details of the tax rate can be found <a href="#">here</a>
Venture capital company income from the transfer of shares in its partner	0.1	
Indonesia presumptive tax for individual or corporate taxpayers (except for PEs) whose total gross turnover does not exceed IDR4.8 billion/tax year	0.5	According to Article 7 (2a) of the <a href="#">Income Tax Law</a> , Gross Turnover up to IDR500 million is not subject to Article 4 (2) Income Tax  Further details of the provisions are stipulated under <a href="#">Government Regulation (GR) No. 23/2018 ("GR-23")</a> concerning Final Tax on Taxpayers with Certain Gross Turnover

## F. Article 26 Income Tax

Article 26 Income Tax is income tax that is withheld by governmental bodies, corporate taxpayers, event organizers, PEs or foreign company representative offices on income paid to or payable to or due for payment to foreign or non-resident taxpayers.

Article 26 Income Tax is applied to gross amounts of the following income types:

**Table 15 Article 26 Income Tax Bases**

Type of Payments	Effective Tax Rate (%)	Tax Base
Dividends, royalties, rents, and other payments related to the utilization of assets	20	Gross amount
Services, labour and activities fees		
Pension and other periodic payments		
Gift and rewards		
Swap premiums and other hedging transactions	20	Gross amount
Gains from debt write off		
Branch Profit Tax (BPT)	20	Net profit after tax
Interests	10 (For bond interests income) or 20 (Other types of interest income)	Gross amount

Type of Payments	Effective Tax Rate (%)	Tax Base
Sales of shares of a non-listed company in Indonesia	5 of the selling price	25% (Estimated Net Income)
Sales of a conduit company located in a tax haven country (as an intermediary of shares or PEs of Indonesian Company)		
Sales of luxurious assets with a sale value exceeding IDR10 million, other than those subject to Article 4(2) Income Tax		
Insurance premiums paid to an overseas insurance company:		
● By the insured	50	10% of the premium amount
● By an Indonesian insurance company	10	2% of the premium amount
● By an Indonesian reinsurance company	5	1% of the premium amount

The withholding tax rates may be lowered or exempt if the recipient of a country applies for tax treaty benefits. To apply for treaty benefits, the following [administrative requirements](#) should be fulfilled:

- Non-residents must provide the Certificate of Domicile either using the DGT's form or using the treaty partner's CoD with certain conditions.
- Non-residents must declare that there is no treaty abuse and must be declared as beneficial owners (if the treaty requires the beneficial ownership criteria).
- Non-residents using the treaty partner's CoD must continue to complete the DGT's form, except for part II (competent authority declaration).
- The withholding agent must prepare and file a withholding

tax certificate and tax return for the withholding, this also applies even if there is no withholding on income subject to Article 26 Income Tax due to treaty benefits.

# International Tax & Transfer Pricing

## A. Tax Treaty Network

[Indonesia's tax treaties](#) provide several tax benefits, among others:

- Exemption from [withholding tax](#) for service fees (only if the receiver does not have a PE in Indonesia), capital gains from sale/purchase of shares, and
- [Reduced rate](#) of withholding tax for [dividends](#), [interests](#), [royalties](#) and [branch profit tax](#) received by tax residents of treaty partners.

To receive tax treaty benefits, a [Certificate of Residence \(CoR\)](#) is required to be submitted in a prescribed form commonly referred to as the [DGT form](#). The CoR must be submitted electronically to the DGT's site (e-SKD). Failure to provide CoR implies that the foreign party is not entitled to the tax treaty benefit with the consequence that the income will be subject to the full domestic withholding tax rate: generally 20% or 5% for a sale/purchase of shares.

Once submitted, the CoR is valid for a period of 1 year, and in subsequent transactions during that period, the foreign party should only provide the withholding agent with an electronic receipt of e-SKD.

To be entitled to tax benefits, the foreign party shall fulfil the following [anti-abuse tests](#) which apply to all types of income from Indonesia:

- The entity has a relevant economic substance, either in the establishment of the entity or the execution of the relevant transaction.
- The entity has the same legal form and economic substance, either in the establishment of the entity or the execution of the relevant transaction.
- The entity has its own management to conduct its business and such management has an independent discretion.
- The entity has sufficient assets to conduct business, other than the assets generating income from Indonesia.
- The entity has sufficient and qualified personnel to conduct business.
- The entity has business activities other than receiving dividends, interests or royalties sourced from Indonesia.
- The purpose of the transaction is not to directly or indirectly obtain the benefits under the treaty that is contrary to the object and purpose of the treaty.

In the case of dividend, interest or royalty types of income, the foreign party shall also fulfill the following [beneficial ownership](#) test:

- The entity is not acting as an agent, nominee or conduit.
- The entity has controlling rights or disposal rights to the income, the assets or the rights to generate income.
- No more than 50% of the entity's income is used to satisfy claims by other persons.
- The entity assumes the risks of its own assets, capital or liabilities.
- The entity has no contract which requires the entity to transfer the income received to the resident of a third country.

Hereunder is the summary of reduced withholding tax rates for each treaty partner:

**Table 16 Withholding Tax Rates for Treaty Partners**

No.	Treaty Partner	Dividend		Interest		Royalty	Branch Profit Tax
		Substantial Holding	Other	Government /Central bank	Other		
1	<a href="#">Algeria</a>	15%	15%	0%	15%	15%	10%
2	<a href="#">Armenia</a>	10%	15%	0%	10%	10%	10%
3	<a href="#">Australia</a>	15%	15%	0%	10%	15/10%	15%
4	<a href="#">Austria</a>	10%	15%	0%	10%	10%	12%
5	<a href="#">Bangladesh</a>	10%	15%	0%	10%	10%	10%
6	<a href="#">Belarus</a>	10%	10%	0%	10%	10%	10%
7	<a href="#">Belgium</a>	10%	15%	0%	10%	10%	10%
8	<a href="#">Brunei</a>	15%	15%	0%	15%	15%	10%
9	<a href="#">Bulgaria</a>	15%	15%	0%	10%	10%	15%
10	<a href="#">Cambodia</a>	10%	10%	0%	10%	10%	10%
11	<a href="#">Canada</a>	10%	15%	0%	10%	10%	15%
12	<a href="#">China</a>	10%	10%	0%	10%	10%	10%
13	<a href="#">Croatia</a>	10%	10%	0%	10%	10%	10%
14	<a href="#">Czech Republic</a>	10%	15%	0%	12.5%	12.5%	12.5%
15	<a href="#">Denmark</a>	10%	20%	0%	10%	15%	15%
16	<a href="#">Egypt</a>	15%	15%	0%	15%	15%	15%
17	<a href="#">Finland</a>	10%	15%	0%	10%	15/10%	15%
18	<a href="#">France</a>	10%	15%	0%	15/10%	10%	10%
19	<a href="#">Germany</a>	10%	15%	0%	10%	15/10%	10%
20	<a href="#">Hong Kong</a>	5%	10%	0%	10%	5%	5%
21	<a href="#">Hungary</a>	15%	15%	0%	15%	15%	20%
22	<a href="#">India</a>	10%	10%	0%	10%	10%	15%
23	<a href="#">Iran</a>	7%	7%	0%	10%	12%	7%
24	<a href="#">Italy</a>	10%	15%	0%	10%	15/10%	12%
25	<a href="#">Japan</a>	10%	15%	0%	10%	10%	10%
26	<a href="#">Jordan</a>	10%	10%	0%	10%	10%	20%
27	<a href="#">Korea (North)</a>	10%	10%	0%	10%	10%	10%
28	<a href="#">Korea (South)</a>	10%	15%	0%	10%	15%	10%
29	<a href="#">Kuwait</a>	10%	10%	0%	5%	20%	10/0%



No.	Treaty Partner	Dividend		Interest		Royalty	Branch Profit Tax
		Substantial Holding	Other	Government /Central bank	Other		
30	<a href="#">Laos</a>	10%	15%	0%	10%	10%	10%
31	<a href="#">Luxembourg</a>	10%	15%	0%	10%	12.5%	10%
32	<a href="#">Malaysia*</a>	10%	10%	0%	10%	10%	12.5%
33	<a href="#">Mexico</a>	10%	10%	0%	10%	10%	10%
34	<a href="#">Mongolia</a>	10%	10%	0%	10%	10%	10%
35	<a href="#">Morocco</a>	10%	10%	0%	10%	10%	10%
36	<a href="#">Netherlands</a>	5%	10/15%	0%	10/5%	10%	10%
37	<a href="#">New Zealand</a>	15%	15%	0%	10%	15%	-**
38	<a href="#">Norway</a>	15%	15%	0%	10%	15/10%	15%
39	<a href="#">Pakistan</a>	10%	15%	0%	15%	15%	10%
40	<a href="#">Papua New Guinea</a>	15%	15%	0%	10%	10%	15%
41	<a href="#">Philippines</a>	15%	20%	0%	15/10%	15%	20%
42	<a href="#">Poland</a>	10%	15%	0%	10%	15%	10%
43	<a href="#">Portugal</a>	10%	10%	0%	10%	10%	10%
44	<a href="#">Qatar</a>	10%	10%	0%	10%	5%	10%
45	<a href="#">Romania</a>	12.5%	15%	0%	12.5%	15/12.5%	12.5%
46	<a href="#">Russia</a>	15%	15%	0%	15%	15%	12.5%
47	<a href="#">Serbia</a>	15%	15%	0%	10%	15%	15%
48	<a href="#">Seychelles</a>	10%	10%	0%	10%	10%	20%
49	<a href="#">Singapore</a>	10%	15%	0%	10%	8/10%	10%
50	<a href="#">Slovakia</a>	10%	10%	0%	10%	15/10%	10%
51	<a href="#">South Africa</a>	10%	15%	0%	10%	10%	10%
52	<a href="#">Spain</a>	10%	15%	0%	10%	10%	10%
53	<a href="#">Sri Lanka</a>	15%	15%	0%	15%	15%	20%
54	<a href="#">Sudan</a>	10%	10%	0%	15%	10%	10%
55	<a href="#">Suriname</a>	15%	15%	0%	15%	15%	15%
56	<a href="#">Sweden</a>	10%	15%	0%	10%	15/10%	15%
57	<a href="#">Switzerland</a>	10%	15%	0%	10%	10%	10%
58	<a href="#">Syria</a>	10%	10%	0%	10%	20/15%	10%

No.	Treaty Partner	Dividend		Interest		Royalty	Branch Profit Tax
		Substantial Holding	Other	Government /Central bank	Other		
59	<a href="#">Taiwan</a>	10%	10%	0%	10%	10%	5%
60	<a href="#">Tajikistan</a>	10%	10%	0%	10%	10%	10%
61	<a href="#">Thailand</a>	20/15%	20/15%	0%	15%	15%	20%
62	<a href="#">Tunisia</a>	12%	12%	0%	12%	15%	12%
63	<a href="#">Turkey</a>	10%	15%	0%	10%	10%	10%
64	<a href="#">Ukraine</a>	10%	15%	0%	10%	10%	10%
65	<a href="#">United Arab Emirates</a>	10%	10%	0%	5%	5%	5%
66	<a href="#">United Kingdom</a>	10%	15%	0%	10%	15/10%	10%
67	<a href="#">United States of America</a>	10%	15%	0%	10%	10%	10%
68	<a href="#">Uzbekistan</a>	10%	10%	0%	10%	10%	10%
69	<a href="#">Venezuela</a>	10%	15%	0%	10%	20%	10%
70	<a href="#">Vietnam</a>	15%	15%	0%	15%	15%	10%
71	Zimbabwe	10%	20%	0%	10%	15%	10%

\*Companies under the Labuan Offshore Business Activity Tax Act 1990 are not entitled to tax treaty benefits.

\*\* The tax treaty is silent on the rate. DGT usually applies a 20% BPT.

## A.1 PE Time Test

Hereunder is the time-test period for certain activities conducted in Indonesia that may trigger the creation of a [PE](#):

**Table 17 Time-Test Period**

No.	Treaty Partner	Building Site Construction	Installation Assembly	Assembly	Supervisory	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

No.	Treaty Partner	Building Site Construction	Installation Assembly	Assembly	Supervisory	Services
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	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	6 months	6 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	-
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

No.	Treaty Partner	Building Site Construction	Installation Assembly	Assembly	Supervisory	Services
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 days	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
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

No.	Treaty Partner	Building Site Construction	Installation Assembly	Assembly	Supervisory	Services
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

## A.2 Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting

Indonesia includes [47 tax treaties](#) as Covered Tax Agreements (CTA) for the [Multilateral Instrument \(MLI\)](#). The MLI was signed on 7 June 2017 and [ratified on 12 November 2019](#). It has been in force since 1 August 2020. Indonesia [submitted a notification](#) the OECD to confirm the completion of internal procedures for the tax treaties on 26 November 2020.

[Synthesised text of the MLI](#) and tax treaties are published by DGT via Circulars. All of Indonesia's CTA adopts [the principal purpose test \(PPT\)](#) provision.

## A.3 Tax Information Exchange Agreements

Indonesia has established [Tax Information Exchange Agreements](#) with [the following jurisdictions](#):

- [Bahamas](#)
- [Bermuda](#)
- Guernsey
- Isle of Man

- Jersey
- [San Marino](#)

#### **A.4 Mutual Administrative Assistance in Tax Matters**

Indonesia has ratified the Convention on [Mutual Administrative Assistance in Tax Matters](#) through Presidential Decree No. 159 since 2014. In addition, Indonesia signed the Multilateral Competent Authority Agreements on the automatic exchange of:

- [Country-by-Country Reports](#) in 2017.
- Financial Account Information using the [Common Reporting Standard](#) with information exchange starting in 2018.

### **B. Anti-Avoidance Rules**

Since the enactment of the [Harmonization of Tax Regulations Law](#), General Anti Avoidance Rules (GAAR) have been included in the Elucidation of [Article 18](#) of the Income Tax Law although the text of the Law itself is silent on GAAR. The elucidation states that the government is authorized to prevent [tax avoidance](#) practices as an effort made by taxpayers to reduce, avoid or delay the payment of taxes that should otherwise be payable that are contrary to the intent and purpose of the provisions of tax laws and regulations.

#### **B.1 Thin Capitalization**

Effective from the 2016 fiscal year, the Minister of Finance Regulation (MoFR) No. 9/2015 determines the maximum [debt-to-equity ratio \(DER\) for a company to be 4:1](#). Finance expenses related to the part of a debt exceeding the debt-to-equity ratio shall be deemed non-deductible. Included in the meaning of finance expenses are interest on loans, discount and premium on loans, additional expenses to acquire the loans (arrangement of borrowings), finance

charges in financial lease transactions, costs related to obtaining loan repayment guarantees and foreign exchange differences resulting from translating foreign currency loans.

Exceptions for the thin capitalization rules are provided for:

- Banks, including the Bank Indonesia.
- Financing institutions of leasing companies that engage in providing funds and/or capital goods.
- Insurances and reinsurances, including Shariah-compliant insurance and reinsurance companies.
- Oil and gas mining, general mining and other mining companies under a PSC, contract of work or mining exploitation work agreement with the government with specific provisions on DER (if such provisions are not specified in the agreements, the taxpayer is not exempt from the thin capitalization rules).
- Companies subject to the final income regime.
- Companies engaged in the infrastructure business.

[DGT Regulation No. 25/2017](#) clarifies that [intra-group interest expenses](#) must fulfil the [arm's length principle](#), in addition to the thin capitalization rules.

## **B.2 Controlled Foreign Corporation**

A [Controlled Foreign Corporation \(CFC\)](#) is defined as a foreign entity that is at least, directly or indirectly, 50% owned by an Indonesian taxpayer or at least 50% collectively owned by Indonesian taxpayers. The following income of a CFC is subject to Indonesia's deemed dividend rules:

- Dividends, except those received from other CFCs.
- Interests, except those received by the CFC of an Indonesian resident taxpayer with a banking license. However, this exception does not apply if the interest income is received from an Indonesian resident taxpayer that is related to the said CFC.

- Income arising from land and/or building rental and other rental income from related parties.
- Royalties.
- Capital gains.

The CFC rules do not apply if the CFC's shares are listed on a stock exchange.

### **B.3 Indirect Transfer of Shares**

A [sale or transfer of shares](#) of a “special purpose vehicle” or “conduit” company shall be deemed a sale of shares of an Indonesian company or a PE in Indonesia if:

- The “[special purpose](#) vehicle” or “conduit” company is established or domiciled in a [tax haven country](#), and
- The “special purpose vehicle” or “conduit” company is a related party of a resident Taxpayer, including permanent establishments in Indonesia.

Such a sale or transfer shall be subject to a 5% withholding tax in Indonesia. Tax treaty benefits may exempt this tax.

## **C. Transfer Pricing Rules & Documentation**

### **C.1 Legal Basis**

The legal basis of the arm's length principle is stipulated under Article 18(3) of the [Income Tax Law \(ITL\)](#) which states that transactions between taxpayers with a special relationship must be consistent with the arm's length principle. If the arm's length principle is not followed, the Directorate General of Taxation (DGT) is authorized to recalculate taxable income or deductible costs arising from such transactions by applying the arm's length principle.

According to Article 18(4) of the [Income Tax Law \(ITL\)](#), the definition of “a special relationship” applies to circumstances where:



- A taxpayer directly or indirectly owns at least 25% of the equity of another taxpayer, or a relationship exists between two or more taxpayers through ownership of at least 25% of the equity of two or more residents.
- A resident directly or indirectly “controls” another resident or two or more residents, or
- A family relationship exists either through blood or marriage, within one degree of direct or indirect lineage.

Further, the Minister of Finance Regulation Number 22/PMK.03/2020 ([MoF 22/2020](#)) provides that a special relationship is deemed to exist if:

- One party controls or is directly and/or indirectly controlled by another party.
- Two or more of the parties are directly and/or indirectly under the control of the same party.
- The same persons are directly and/or indirectly involved or participating in the managerial or operational decision-making for two or more parties.
- The parties are commercially or financially known or declared to belong to the same group, or
- One party claims to have a relationship with other parties.

As of the issuance of [MoF 22/2020](#), the arm’s length principle shall also be applied to transactions that are affected by related parties which include uncontrolled transactions where an affiliate of one or both parties determine(s) the counterparty and the transaction price. Hereinafter “related party transactions” refer to the transactions governed by transfer pricing rules, including both related party transactions and uncontrolled transactions.

The transfer pricing rules apply to related party transactions. As of the issuance of the Minister of Finance Regulation PMK 213/PMK.03/2016 ([MoF 213/2016](#))

concerning transfer pricing documentation requirements that came into force on 30 December 2016, the obligation to prepare transfer pricing documentation and the obligation to apply the arm's length principle must be distinguished. The obligation to apply the arm's length principle is on all related party transactions (there is no threshold), whereas the obligation to perform transfer pricing documentation has specific thresholds.

DGT Regulation [PER-22/PJ/2013](#) further specifies the types of transactions covered under the Indonesian transfer rules, which include:

- Transactions of sales, purchases, alienations and exploitation of tangible assets.
- Transactions of rendering of intra-group services.
- Transactions of alienation and exploitation of intangible assets.
- Transactions of loan payments of intra-group loans. and
- Transactions of sales or purchases of shares.

## **C.2 Transfer Pricing Documentation**

Since the 2016 tax year, Indonesia has adopted a three-tiered transfer pricing documentation obligation, in line with the agreed standards set out in Action 13 of the OECD Base Erosion and Profit Shifting (BEPS) Action Plan. The transfer pricing documentation obligation is governed under [MoF 213/2016](#). Transfer pricing documentation consists of a master file, local file and country-by-country report (CbCR).

Master and local file documentation obligations are imposed on taxpayers that perform related-party transactions in the current tax year and fulfil the following criteria:

- Taxpayers with gross revenues of more than 50 billion rupiah in the previous tax year.
- Taxpayers with related-party transactions in the previous tax year exceeding 20 billion rupiahs or

exceeding 5 billion rupiahs if the related-party transactions concern intangible assets, services and interest payments, or

- The related-party transactions are conducted with low-tax countries (i.e., jurisdictions with a statutory tax rate lower than 25 percent).

Article 4(1) of [MoF 213/2016](#) states that both master file and local file must be available no later than four months after the end of a taxpayer's fiscal year. However, the regulation does not require that these files need to be filed in the annual tax return. Instead, under Article 7 of [MoF 213/2016](#), a summary of these files using a prescribed form must be submitted as an attachment to the annual tax return. The title of this form is *Ikhtisar Dokumen Induk dan Dokumen Lokal*. While the document is referred to as a "summary", the actual content of the form is, in fact, a statement letter indicating that the taxpayer has prepared the master and local file documentation, including the date when such a document has become available.

CbCR reporting obligations are imposed on taxpayers that fulfil the following criteria:

- Taxpayers considered the ultimate parent entity of a group with consolidated gross revenues in one tax year of at least 11 trillion rupiah; or
- Taxpayers not constituting ultimate parent entities but are member entities of a group with an ultimate parent entity constituting a tax resident in a country that:
  - Does not impose the obligation to file CbCRs;
  - Does not have an exchange-of-information agreement with Indonesia; or
  - Despite having a CbCR reporting obligation and an exchange-of-information agreement in place with Indonesia, does not make CbCRs available to the DGT.

CbC reporting taxpayers or nonreporting taxpayers are all required to file an online notification to the DGT via an

online platform. The online notification must identify which entity in the group has a CbCR prepared, including the country where this is submitted. In addition to the online notification, CbCR reporting entities must file the actual CbCR via the same online platform. Taxpayers that have completed the online notification or online submission of the CbCR will receive a receipt. This receipt must be filed along with the tax return. The CbCR notification and CbCR itself must be submitted to the DGT within 12 months after the end of the taxpayer's fiscal year.

The transfer pricing documentation which includes the master file, local file and CbCR must be written in the Indonesian language. A taxpayer that has obtained prior approval to use the English language needs to submit the documentation in the English language attached with the Indonesian translation.

## **D. Transfer Pricing Audit & Dispute Resolution**

### **D.1 Transfer Pricing Audit**

The DGT has specifically issued guidance on audits in relation to [transfer pricing disputes](#), DGT Regulation [PER-22/PJ./2013](#) and [Circular SE-50/PJ./2013](#). One of the procedures that must be performed by the DGT in conducting [transfer pricing audits](#) is to identify the risks in the related party transaction performed by taxpayers. Since 1984, Indonesia has applied a self-assessment system in which taxpayers are required to calculate, pay and file their own taxes in accordance with prevailing tax laws and regulations. In respect of related party transactions, taxpayers are expected to prepare a transfer pricing report containing the information required by the DGT. The role of the taxpayers in any tax audit is to assist in the process by appearing for investigations and producing books of accounts, documents or other relevant records as requested by the DGT for inspection within the

specified time limit.

The DGT's starting point of the analysis is based on the information provided in the transfer pricing documentation prepared by the taxpayers. However, if the taxpayers do not provide transfer pricing documentation and the explanation thereto, the DGT may establish the facts and analysis based on the information available to the DGT. In this case, the DGT is authorized to propose transfer pricing adjustments and the burden of proof lies on the taxpayer to demonstrate that the notice of assessment is incorrect.

## **D.2 Dispute Resolution**

Three instruments may be used by taxpayers in [transfer pricing disputes: Advance Pricing Agreement \(APA\)](#), [Mutual Agreement Procedure \(MAP\)](#) and appeals to the Tax Court, which may be extended to Supreme Court civil review requests. The tax litigation process in Indonesia takes 12 months each for the objection and appeal, whereas the civil review takes six months. However, in the appeal and civil review processes, some periods may be longer than stipulated.

MAP may be used by taxpayers as a form of alternative dispute resolution, in accordance with the rules contained in the tax-treaty clauses between Indonesia and the partner countries included in the transactions and may be initiated by taxpayers or the DGT. As a general rule, the MAP process may commence if an action of the contracting state results or will result in taxation not in accordance with the provisions under a tax treaty. In practice, taxpayers may initiate a MAP following the issuance of the notification of a tax audit; therefore, the exhaustion of domestic dispute resolution remedies is not necessary to commence a MAP. In domestic proceedings, it is possible to request the commencement of a MAP when the taxpayer is involved in a litigation process challenging the DGT in court (i.e., filing an objection or tax appeal).

APAs may be concluded unilaterally or bilaterally, whereas a multilateral APA is not specifically regulated. Unilateral and bilateral APAs may cover a period of up to five tax years. Pursuant to [MoF 22/2020](#), APAs can now also cover a rollback period for tax years that have not yet expired to be assessed by the DGT (i.e., five years under the current regulations). In addition to [MoF 22/2020](#), DGT Regulation Number [PER-17/PJ/2020](#) has been intentionally enacted to specify procedures for the application settlement, implementation and evaluation of APA.

# Value Added Tax

Value Added Tax (VAT) is imposed on supplies of taxable goods and/or utilization of taxable services occurring in the Indonesian Customs Area. The definition of a supply of Taxable Goods itself is broad; it includes the following events:

- Supplies of rights to Taxable Goods due to an agreement.
- Transfers of Taxable Goods under a hire-purchase agreement and/or a leasing agreement.
- Supplies of Taxable Goods to intermediary traders or through auctioneers.
- Personal use and/or free of charge provision of Taxable Goods.
- Taxable Goods in the form of inventories and/or assets that, according to their original purpose, are not for sale and are remaining at the dissolution of a company.
- Supplies of Taxable Goods from the head office to branches or vice versa and/or supplies of Taxable Goods between branches, and
- Supplies of Taxable Goods by Taxable Persons for VAT Purposes in the context of a financing agreement based on sharia principles, these supplies are considered direct supplies by the Taxable Persons for VAT Purposes to the parties requiring the Taxable Goods.

Further, entrepreneurs conducting supplies of taxable goods/services which exceed IDR4.8 billion in the

following year are obliged to report their businesses to be registered as Taxable Persons for VAT Purposes and are obliged to collect, remit and file VAT. However, business entities or individuals that gain [less than IDR4.8 billion](#) may also apply to be deemed as Taxable Person Persons for VAT Purposes.

In further detail, VAT shall be imposed on:

- Supplies of Taxable Goods within the Customs Area by entrepreneurs.
- Imports of Taxable Goods.
- Supplies of Taxable Services from outside the Customs Area by entrepreneurs.
- Utilization of Intangible Taxable Goods from outside the Customs Area within Customs Area.
- Utilization of Taxable Services from outside the Customs Area within the Customs Area.
- Exports of Tangible Taxable Goods by Taxable Persons for VAT Purposes.
- Exports of Intangible Taxable Goods by Taxable Persons for VAT Purposes, and
- Exports of Taxable Services by Taxable Persons for VAT Purposes.

Taxable supplies of goods must fulfil the following requirements:

- The supplied tangible goods constitute Taxable Goods.
- The supplied intangible goods constitute Taxable Intangible Goods.
- The supplies are carried out within the customs area, and
- The supplies are carried out in the context of business or work.

Excluded from the definition of supplies of Taxable Goods are:

- Supplies of Taxable Goods to a broker as referred to in the Indonesian Commercial Code.



- Supplies of Taxable Goods to guarantee debts.
- Supplies of Taxable Goods as referred to in paragraph 1 sub-paragraph f in the event that Taxable Persons for VAT Purposes centralize the place where taxes are payable.
- Transfers of Taxable Goods in the context of a merger, consolidation, spin-off, split-up and acquisition and transfers of Taxable Goods for paid-up capital in lieu of shares, provided that the parties transferring and receiving such transfers constitute Taxable Persons for VAT Purposes, and
- Taxable Goods in the form of assets that, according to their original purpose, are not for sale and are remaining at the company's dissolution and whose input VAT on acquisitions is non-creditable.

## **A. Non-Taxable Goods & Non-Taxable Services**

Non-Taxable Goods are:

- Food and beverages served in [hotels, restaurants](#), eateries, food stalls and the like, including food and beverages, either consumed on the premises or not, including food and beverages supplied by catering businesses that constitute taxable objects of local taxes and charges pursuant to statutory provisions on local taxes and charges, and
- Money, gold bullion for state foreign exchange reserves and securities.

Non-Taxable Services are:

- Religious services.
- Arts and entertainment services, including all types of services performed by artists and entertainers, that constitute taxable objects of local taxes and charges pursuant to statutory provisions on local taxes and charges.
- Hospitality services, including bedroom rental services and/or room rental services in hotels that constitute

taxable objects of local taxes and charges pursuant to statutory provisions on local taxes and charges.

- Services provided by the government in the context of running the government in general, including all types of services in connection with service activities that may only be carried out by the government in accordance with its authority based on statutory provisions and such services cannot be provided by other forms of business.
- Parking space services, including the provision of parking spaces by parking lot owners and/or parking lot entrepreneurs to parking lot users that constitute taxable objects of local taxes and charges pursuant to statutory provisions on local taxes and charges, and
- Catering services, including all services of providing food and beverage that constitute taxable objects of local taxes and charges pursuant to statutory provisions on local taxes and charges.

## **B. VAT Rate & Calculation**

VAT rates amount to 11% effective from 1 April 2022 and will be increased to 12% no later than 1 January 2025. However, the 0% VAT rate continues to apply to exports of goods and services as further regulated under a [Minister of Finance Regulation \(MoF\)](#).

VAT payable is calculated by multiplying the aforesaid rate by the Tax Base, which includes the Selling Price, Consideration, Import Value, Export Value or other values.

## **C. Input & Output VAT**

VAT Liabilities in respect of which a Taxable Person for VAT Purposes may collect, remit and file VAT payable are usually settled using the input and output method. Input VAT implies that when a Taxable Person for VAT Purposes claims to have bought taxable goods or utilized services from another Taxable Person for VAT Purposes. Output

VAT, on the other hand, occurs when a Taxable Person for VAT Purposes supplies goods or renders services to a counter-party. The Taxable Person for VAT Purposes may claim Input VAT as a tax credit which reduces the total Output VAT as the result. If in a Taxable Period, Output VAT is greater than Input VAT, the difference constitutes Value Added Tax that must be remitted by the Taxable Persons for VAT Purposes. If in a Taxable Period, the creditable Input VAT is greater than the Output VAT, the difference constitutes tax overpayment which is carried forward to the next Taxable Period or an application for a refund may be submitted at the end of the year or every month by certain Taxable Persons for VAT Purposes.

However, there are some terms and conditions in how Input VAT may be credited such as:

- Input VAT that is credited must use a Tax Invoice that fulfils the requirements under the VAT Law.
- Input VAT cannot be applied to expenses for:
  - Acquisitions of Taxable Goods or Services not related to business.
  - Acquisitions of Taxable Goods or Services related to business which render VAT non-collected/exempt goods or VAT non-collected/VAT exempt services.
  - Acquisitions of Taxable Goods or Taxable Services for which the Tax Invoice does not fulfil the provisions or does not include the name, address and Tax Identification Number of the buyer of Taxable Goods or the recipient of Taxable Services.
  - Utilization of Intangible Taxable Goods or utilization of Taxable Services from outside the Customs Area within the Customs Area for which the Tax Invoice does not fulfil the provisions.
- Creditable Input VAT but not yet credited against Output VAT in the same Taxable Period is creditable in the next Taxable Period no later than 3 (three)

- Taxable Periods after the end of the Taxable Period when the Tax Invoice is prepared provided that it has not been expensed or has not been capitalized in the acquisition prices of Taxable Goods or Taxable Services and fulfils the provisions on crediting under this Law.

## **D. VAT Invoice**

Taxable Persons for VAT Purposes are obliged to prepare a Tax Invoice for each:

- Supply of Taxable Goods and/or Services.
- Export of Intangible Taxable Goods and/or export of Taxable Services.

Tax Invoices must include information on supplies of Taxable Goods and/or supplies of Taxable Services which at least contain:

- The name, address and Taxpayer Identification Number of the supplier of Taxable Goods or Taxable Services.
- The identity of the buyer of Taxable Goods or Taxable Services which includes:
  - The name, address and Taxpayer Identification Number or single identity number or passport number for individual non-residents, or
  - The name and address, in the event that the buyer of Taxable Goods or the recipient of Taxable Services is a corporate non-resident or is not a tax subject as referred to in Article 3 of the Law on Income Tax.
  - Types of goods or services, the amount of Selling Price or Consideration and discount.
  - Collected Value Added Tax.
  - Collected Sales Tax on Luxury Goods.
  - Code, serial number and preparation date of the Tax Invoice, and
  - Name and signature of the person entitled to sign the Tax Invoice.

Further provisions on procedures for [the preparation of Tax Invoices](#) and procedures for the rectification or replacement of Tax Invoices shall be stipulated by or based on an MoF.

## E. Filing VAT Returns

VAT Periodic Returns must be filed to the DGT by the end of the following month after the taxable period ends. Although technically, a Taxable Person for VAT Purposes may only [upload Tax Invoices to the system](#) (e-faktur) by the 15<sup>th</sup> of every month after the taxable period ends at the latest.

## F. Other Issues

Post UU HPP, there have been major changes in the VAT Regulation. No fewer than 14 MoFs have been issued to regulate VAT Imposition on specific matters, as follows:

- [MoF No. 58/PMK.03/2022](#) concerning the Appointment of Other Parties as Withholding Agents and Procedures for the Withholding, Remittance and/or Filing of Taxes Withheld by Other Parties for Procurement Transactions of Goods and/or Services through the Government Procurement Information System.

This MoF regulates Taxable Persons for VAT Purposes may constitute the party to withhold VAT instead of the Government. This MoF focuses on rendering legal assurance to counterparties conducting transactions with the Government.

- [MoF No. 59/PMK.03/2022](#) concerning the Amendment to [MoF 231/PMK.03/2019](#) concerning Procedures for Taxpayer Identification Number Registration and Deregistration, VAT Registration and Deregistration and Withholding, Remittance and Filing of Taxes for Government Agencies.

This MoF focuses on regulating how Government Agencies may be deemed Taxable Persons for VAT Purposes.

- [MoF No. 60/PMK.03/2022](#) concerning Procedures for the Appointment of Withholding Agents, Withholding, Remittance and Filing of Value Added Tax on the Utilization of Intangible Taxable Goods and/or Taxable Services from Outside the Customs Area Within the Customs Area Through Electronic Commerce.

The MoF stipulates how a marketplace may be deemed as a Taxable Person for VAT Purposes. If a marketplace or platform is deemed as a Taxable Person for VAT Purposes, it is required to withhold, remit and file VAT based on the Indonesian VAT Law.

- [MoF No. 61/PMK.03/2022](#) concerning Value Added Tax on [Independent Construction](#).

From the MoF, several points concerning VAT on independent construction can be concluded as follows:

- Independent construction refers to the construction, both of new buildings and the expansion of old buildings, which is not carried out in the course of business or work by individuals or entities and whose results are for personal use or used by other parties.
- Buildings are in the form of 1 (one) or more technical constructions which are permanently planted or attached to one unit of land and/or body of water with the following criteria:
  - The main construction consists of wood, concrete, masonry or similar materials and/or steel.
  - Designated for residence or a place of business, and
  - The area of the constructed building is at least 200 m<sup>2</sup>.
- VAT is calculated, withheld and remitted by an individual or entity that carries out independent construction of a certain amount which is the

product of the multiplication of 20% by the effective VAT multiplied by the tax base.

- Tax base is in the form of a certain value amounting to the total costs incurred and/or paid to construct a building for each Taxable Period until the building is completed, excluding land acquisition costs.
- [MoF No. 62/PMK.03/2022](#) concerning Value Added Tax on Supplies of Certain [Liquefied Petroleum Gas](#).

From the MoF, several points can be concluded as follows:

- Value Added Tax payable on supplies of Certain LPG of which part of the price is not subsidized at:
  - The point of supply of the Business Entity, is calculated by multiplying the Value Added Tax rate by Other Values as the Tax Base, and
  - The point of supply of the Agent or Base, is withheld and remitted at a certain amount.
- Other Values are calculated using the following formula:

$$\frac{100}{(100 + t)} \times \text{Retail Selling Price}$$

where t is the figure of the applicable Value Added Tax rate.

- A certain amount of Value Added Tax payable on supplies of Certain LPG is stipulated:
    - At the point of supply of the Agent:
      - To amount to 1.1/101.1 which will take effect on 1 April 2022, and
      - To amount to 1.2/101.2 which will take effect when the application of VAT rates is enacted,
- of the difference between the Agent Selling Price and the Retail Selling Price.

- At the point of supply of the Base:
    - To amount to 1.1/101.1 which will take effect on 1 April 2022, and
    - To amount to 1.2/101.2 which will take effect when the application of VAT rates is enacted,
- of the difference between the Base Selling Price and the Agent Selling Price.
- [MoF No. 63/PMK.03/2022](#) concerning Value Added Tax on Supplies of Tobacco Products.

From the MoF, several points can be concluded as follows:

- Supplies of:
    - Tobacco Products produced domestically by Manufacturers, or
    - Tobacco Products produced overseas by Importers,
- are subject to Value Added Tax.
- VAT imposed on supplies of Tobacco Products is calculated by multiplying the VAT rate by Other Values as the Tax Base.
  - Other Values are determined by the formula of  $100/(100+t)$  multiplied by the Retail Selling Price of Tobacco Products, for supplies of Tobacco Products, in which t is the figure of the effective VAT rate.
  - Based on the VAT Rate and Other Values as the Tax Base, VAT on supplies Tobacco Products is payable based on rounding is calculated:
    - 9.9% multiplied by the Retail Selling Price of Tobacco Products, for supplies of Tobacco Products which will take effect on 1 April 2022, and
    - 10.7% multiplied by the Retail Selling Price of Tobacco Products, for supplies of Tobacco



Products which will take effect when the application of the Value Added Tax rates stipulated under Article 7 (1) Sub-paragraph b of the Value Added Tax Law is enacted.

- [MoF No. 64/PMK.03/2022](#) concerning Value Added Tax on Supplies of Certain Agricultural Products.

From the MoF, several points can be concluded as follows:

- Taxable Persons for VAT Purposes supplying certain agricultural products may use a certain amount to withhold and remit Value Added Tax payable.
- Certain amount referred to in Article 2 (1) is stipulated to:
  - Amount to 1.1% of the Selling Price which will take effect on 1 April 2022, and
  - Amount to 1.2% which will take effect when the application of the Value Added Tax rates stipulated under Article 7 (1) Sub-paragraph b of the Value Added Tax Law is enacted.

- [MoF No. 65/PMK.03/2022](#) concerning Value Added Tax on Supplies of Used Motor Vehicles.

From the MoF, several points can be concluded as follows:

- Taxable Persons for VAT Purposes conducting certain businesses in the form of supplies of used motor vehicles are obliged to withhold and remit Value Added Tax payable on supplies of used motor vehicles at a certain amount
- Certain amount is stipulated to:
  - Amount to 1.1% of the Selling Price, which will take effect on 1 April 2022, and
  - Amount to 1.2%, which will take effect when the application of Value Added Tax rates stipulated under Article 7 (1) Sub-paragraph b of the Value Added Tax Law is enacted.

- [MoF No. 66/PMK.03/2022](#) concerning Value Added Tax on Supplies of Subsidized Fertilizers for the Agricultural Sector.
  - Supplies of Subsidized Fertilizers by Taxable Persons for VAT Purposes are subject to VAT. To VAT on supplies of Subsidized Fertilizers applies the following provisions:
    - For the subsidized part of the price, VAT is paid by the Government, and
    - For the unsubsidized part of the price, VAT is paid by the buyer.
  - The Tax Base for calculating the VAT shall use Other Values.
  - Other Values on the part of the price of Subsidized Fertilizers receiving subsidies shall be calculated using the formula:

$$\frac{100}{(100 + t)} \times \text{Amount of Subsidy Payment, including VAT}$$

where t is the figure of the applicable VAT rate.

- Other Values for the part of the price of Subsidized Fertilizers not receiving subsidies shall be calculated using the formula:

$$\frac{100}{(100 + t)} \times \text{Highest Retail Price}$$

where t is the figure of the applicable Value Added Tax rate.

- [MoF No. 67/PMK.03/2022](#) concerning Value Added Tax on Supplies of Insurance Agent Services, Insurance Brokerage Services and Reinsurance Brokerage Services.

From the MoF, several points can be concluded as follows:

- VAT is payable on supplies of:

- Insurance agency services by Insurance Agents to Insurance Companies or Sharia Insurance Companies.
  - Insurance brokerage services by insurance brokerage companies to Insurance Companies and/or Sharia Insurance Companies, and
  - Reinsurance brokerage services by reinsurance brokerage companies to reinsurance companies and/or sharia reinsurance companies.
- VAT payable shall be withheld and remitted at a certain amount. Certain amount means:
- 10% of the VAT rate multiplied by the commission or remuneration in whatever name and form paid to the Insurance Agent, or
  - 20% of the VAT rate multiplied by the commission or remuneration in whatever name and form received by the insurance brokerage company or reinsurance brokerage company.
- MoF No. 68/PMK.03/2022 concerning Value Added Tax and Income Tax on Crypto Asset Trading Transactions.

From the MoF, several points can be concluded as follows:

- Supplies of intangible Taxable Goods in the form of Crypto Assets by Crypto Asset Sellers are subject to VAT. The VAT payable is withheld and remitted at a certain amount.
- Certain amount referred to in paragraph (1) is stipulated to amount to:
  - 1% of the VAT rate multiplied by the value of Crypto Asset transaction, in the event that the Electronic Commerce Operator is a Crypto Asset Physical Trader, or
  - 2% of the VAT rate multiplied by the value of

Crypto Asset transaction, in the event that the Electronic Commerce Operator is not a Crypto Asset Physical Trader.

- [MoF No. 69/PMK.03/2022](#) concerning Income Tax and Value Added Tax on the Implementation of Financial Technology.

The MoF focuses on how to tax [Financial Technology](#) activities as a whole. This MoF not only elucidates VAT but also outlines the imposition of several income taxes.

- [MoF No. 70/PMK.03/2022](#) concerning the Criteria and/or Details of Food and Beverages, Arts and Entertainment Services, Hotel Services, Parking Space Services and Catering Services Not Subject to Value Added Tax.

The MoF basically further explains the criteria of goods and services supplied by hotels that are exempt from VAT.

- [MoF No. 71/PMK.03/2022](#) concerning Value Added Tax on Supplies of Certain Taxable Services.

The focus of the MoF is to address the so-called certain amount as the VAT base in calculating VAT Payable. This MoF applies to certain services, such as:

- Package delivery services pursuant to statutory provisions in the postal sector.
- Travel agency services and/or travel agent services in the form of tour packages, means of transport booking and accommodation booking, the supply of which is not based on the provision of commission/remuneration for a supply of sales intermediary services.
- Freight forwarding services in which the invoice for freight forwarding services includes freight charges.
- Pilgrimage services that also organize trips to

other places pursuant to statutory provisions on the criteria and/or details of religious services not subject to Value Added Tax, and

- Organization services of:
  - Marketing using the voucher media.
  - Payment transaction services in connection with voucher distribution, and
  - Consumer loyalty and reward programs, the supply of which is not based on the provision of commission and there is no margin, pursuant to statutory provisions on the calculation and withholding of Value Added Tax and income tax on supplies/income in connection with sales of mobile phone credit, starter packs for SIM cards, tokens and vouchers.

# Sales Tax on Luxury Goods

[Sales Tax on Luxury Goods](#) (STLGs) is a tax imposed on taxable goods (BKP) classified as luxurious. STLGs is only imposed once upon the supply of BKP classified as luxurious by the manufacturer or BKP producer or upon imports of BKP classified as luxurious. Therefore, supplies at the next level are no longer subject to STLGs.

The imposition of STLGs is regulated under the Value Added Tax Law of 1984 as amended by Law No. 7 of 2021 concerning the Harmonization of Tax Regulations (UU HPP), hereinafter referred to as the [VAT Law](#). Pursuant to the VAT Law, four considerations underlie the imposition of STLGs by the government.

*First*, the balance of tax burden between low-income consumers and high-income consumers. *Second*, the control of consumption patterns on BKP classified as luxurious. *Third*, protection against small-scale or traditional producers. *Fourth*, securing state revenues.

The STLGs Law also stipulates four criteria for BKP classified as luxurious. The four criteria include: (i) goods that do not constitute staple goods; (ii) goods that are consumed by certain people; (iii) goods that are generally consumed by high-income people; and/or (iv) goods consumed to show status.

Pursuant to the STLGs Law, STLGs rate is set at a minimum of 10% and a maximum of 200%. The STLGs

rates are set differently depending on the classification of luxurious goods. The classification of goods classified as luxurious and the respective rates are mainly based on the ability level of the groups of people utilizing these goods, in addition to being based on their use value for society in general. Goods subject to STLGs are classified after consultation with the House of Representatives of the Republic of Indonesia in charge of finance.

Further regulation of the classification of goods subject to STLGs and the imposed rates are stipulated by government regulations. In this regard, the government generally issues government regulations concerning the imposition of STLGs on luxurious motor vehicles and government regulations concerning the imposition of STLGs on luxurious goods other than motor vehicles.

## **A. Provisions on STLGs on Luxurious Motor Vehicles**

Details of the provisions on the imposition of STLGs on motor vehicles classified as luxurious are regulated under Government Regulation No. [73 of 2019](#) as amended by Government Regulation No. [74 of 2021](#) and Minister of Finance Regulation No. [141/PMK.010/2021](#) as amended by Minister of Finance Regulation No. [42/PMK.010/2022](#).

Based on the regulations, the STLG rates imposed on luxurious motor vehicles vary, namely 15%, 20%, 25%, 40%, 50%, 60%, 70% and 95%. The imposition of STLGs rates depends on the type of vehicle, cylinder capacity, fuel consumption or carbon dioxide emission level and the technology used. Details of the STLGs rates imposed on both four-wheeled and two-wheeled vehicles are listed in the appendix of MoF Reg. No. [141/PMK.010/2021](#).

To encourage the use of energy-efficient and eco-friendly motor vehicles, the government not only differentiates the STLGs rates on eco-friendly motor vehicles but also

the tax base. The tax base (DPP) is set in various ways, ranging from 20% of the selling price to 80% of the selling price. The percentage of DPP is set depending on the type of technology used, engine capacity, fuel consumption and the level of carbon dioxide emissions produced per kilometer.

The provisions on rates and the percentage of DPP for vehicles with low carbon emissions apply to groups of motor vehicles that fulfill the requirements set by the minister of industry after coordinating with the coordinating minister for economic affairs, coordinating minister for maritime affairs and investment and the minister of investment.

Not all motor vehicles classified as luxurious are subject to STLGs. The government has stipulated a number of vehicles that are exempt from the STLGs, including ambulances, fire engines, vehicles for state protocols and the Indonesian National Defense Forces or the State Police of the Republic of Indonesia patrols.

## B. Provisions on STLGs on Luxury Goods Other Than Vehicles

Details of the provisions on the imposition of STLGs on goods classified as luxurious other than motor vehicles are regulated under Government Regulation No. [61 of 2020](#) and Minister of Finance Regulation No. [96/PMK.03/2021](#). Based on the regulation, the list of luxurious BKP subject to STLGs and their respective rates are as follows:

**Table 18 Sales Tax on Luxury Goods Rates**

No	Goods Description	STLGs Rate
1	Luxurious residential groups, such as luxury homes, apartments, condominiums, townhouses and the like with a selling price of IDR30 billion or more.	20%
2	<ul style="list-style-type: none"> <li>● Air and piloted air balloon groups, other aircraft without propulsion.</li> <li>● Bullets for firearms and other firearms, except for state purposes: Bullets and parts thereof, excluding air rifle cartridges</li> </ul>	40%



No	Goods Description	STLGs Rate
3	<ul style="list-style-type: none"> <li>● Aircraft groups other than those subject to the 40% rate, except for state purposes or commercial air transport: helicopters or other aircraft and air vehicles, other than helicopters</li> <li>● Firearms and other firearm group, except for state purposes: artillery guns; revolvers and pistols; firearms (other than artillery guns, revolvers and pistols); and similar equipment operated by firing explosives</li> </ul>	50%
4	<p>Luxury yacht groups, except for state purposes or public transport:</p> <ul style="list-style-type: none"> <li>● Yachts, excursion boats and similar vessels, specifically those primarily designed for the transport of people, ferries of all types except for state purposes or public transport.=</li> <li>● Yachts, except for state purposes or public transport or tourism businesses</li> </ul>	75%

Source: Minister of Finance Regulation No. [96/PMK.03/2021](#).

# General Provisions & Tax Procedures

## A. Overview

Indonesian taxation is based on the self-assessment system wherein taxpayers are required to compute, file and pay the tax payable without relying on the issuance of tax assessments. The tax payable stated in the tax returns filed by taxpayers shall comply with statutory tax provisions. Such an obligation commences since the requirements for constituting a taxpayer (or a Taxable Person for VAT Purposes) are fulfilled, even if the person or entity has not registered for a taxpayer ID or as a Taxable Person for VAT Purposes. The DGT confirms the aforementioned with [DGT circular number S-393/PJ.02/2016](#).

Further, if the Director General of Taxes obtains evidence that the amount of tax payable in the filed tax return is incorrect, the DGT shall determine the amount of tax payable. The preceding sentence is articulated in Article 12 (3) of the General Provisions and Tax Procedures Law (GPRTL) and sets the principle that the burden of proof lies with the DGT provided that the taxpayer abides by statutory tax provisions. The statute of limitations for the DGT to issue a tax assessment is 5 years, however, under tax-crime-related Articles in GPRTL, the statute of limitations is 10 years.

DDTC has published a book on selected details concerning guidelines of tax procedures that may be accessed [here](#).

DDTC has also consolidated GPTRL up to the amendment by the Law on the Harmonization of Tax Regulations and translated GPTRL into English, both may be found [here](#).

## **B. Tax Subjects & Tax Registration**

Any person, including an entity, that has fulfilled subjective and objective qualifications as stipulated in income tax law is obliged to register to the office of the DGT to be registered as a Taxpayer and obtain a Taxpayer Identification Number. The subjective qualification determines the type of [tax subject](#) of the person or entity.

[Resident tax subjects](#) consist of individuals, entities established or domiciled in Indonesia as well as undivided inheritance represented by the beneficiaries. An individual constituting a resident tax subject is an individual, either an Indonesian citizen or a foreign citizen.

The criteria to be determined as resident tax subjects for foreign citizens, including those who reside in Indonesia, or have been present in Indonesia for more than 183 days within any 12 months period, or have been residing in Indonesia within a particular tax year and intend to reside in Indonesia (i.e. having a permanent stay card, visa or any documents that may indicate the intention to reside in Indonesia for more than 183 days). An individual not fulfilling such criteria is considered a non-resident tax subject, including a permanent establishment used by a foreign citizen to conduct business in Indonesia. A foreign entity constitutes a non-resident tax subject if it conducts a business or activities in Indonesia, regardless of whether through a permanent establishment or not.

Objective requirements are fulfilled if tax subjects, both resident or non-resident, receive income or are obliged to withhold taxes pursuant to the Income Tax Law. Resident tax subjects are taxed on worldwide income, except for certain individual resident tax subjects (e.g. migrant

workers). Non-resident tax subjects are taxed only on income sourced from Indonesia.

Under Indonesian tax laws, resident individuals that have fulfilled objective requirements and entities established or domiciled in Indonesia are referred to as [taxpayers](#).

## **C. Taxpayer's Representative & Power of Attorney**

In exercising their rights and fulfilling their obligations, taxpayers may represent themselves, be represented by their representatives or appoint a power of attorney to act on the taxpayers' behalf in exercising their rights and obligations. Further, if taxpayers fail to fulfil their obligations, particularly in respect of tax liabilities or tax penalties, the taxpayers' representatives may be held liable and accountable, unless they can prove and assure the DGT that within their position, it is not possible to assume such a responsibility.

An individual taxpayer's representatives include the individual taxpayer himself/herself, spouse (if tax administratively consolidated), the individual's heir/heirress and so for, further details of whom can be seen [here](#). A corporate taxpayer's representatives generally include the director, commissioner, C-suite and the person authorized to make decisions for the entity. Further details concerning corporate taxpayers' representatives based on different types of entities can be accessed [here](#).

With regards to a taxpayer's power of attorney, in general, licensed tax consultants may be appointed by taxpayers as their power of attorney. There are [3 levels of tax consultant licenses](#) that determine the type of taxpayers the tax consultants may represent as power of attorney. Level A licensed tax consultants may represent individual taxpayers, except for those domiciled in a tax treaty partner country. Level B tax consultants may represent

individual and corporate resident taxpayers, except for foreign investment companies, PEs and those domiciled in a tax treaty partner country. Finally, level C tax consultants may represent all types of taxpayers. The DGT has also published [a list of licensed tax consultants on the DGT's website](#), thereby, taxpayers may confirm tax consultants' level of license. Further, a [Constitutional Court Decision](#) with implications on the criteria of taxpayers' power of attorney has been issued. In general, this decision broadens the criteria of taxpayers' power of attorney stipulated under a [Minister of Finance Regulation](#).

## D. Bookkeeping & Recording

Individual taxpayers conducting business or independent personal services and corporate taxpayers in Indonesia are obliged to maintain bookkeeping. Excluded from the bookkeeping obligation but obliged to maintain recording are individual taxpayers taxed using deemed profit and those not conducting business or independent personal services (i.e. employees). The difference between the obligation of maintaining bookkeeping and recording can be seen [here](#).

The obligation to maintain recording consists of data on turnover or gross revenues/income, including income not subject to tax or subject to final tax. Bookkeeping must be maintained properly together with supporting documentation, [including transfer pricing documentation and information](#) (if required). For further details regarding transfer pricing documentation and information can be found [here](#).

Recording and bookkeeping must be prepared in Indonesian and denominated in IDR, based on the Indonesian accounting standards, unless statutory tax provisions stipulate otherwise. Bookkeeping using a [foreign language \(English\) and USD](#) as the functional currency may apply to foreign investment companies, permanent establishments, listed companies and certain taxpayers,

with prior approval from the DGT. Certain taxpayers may be obliged to prepare audited financial statements as required by certain laws or regulations (i.e. Law on Corporations). Records, books of account and supporting documents must be maintained in Indonesia for 10 years, including the results of data processing using electronic bookkeeping or online application programs.

## **E. Tax Payment & Tax Returns**

Tax returns serve as a means for filling and validating the income tax payable function for taxpayers subject to income tax or Value Added Tax/Sales Tax on Luxury Goods for Taxable Persons for VAT Purposes or taxes withheld/collected by withholding agents. Tax returns must be filed [correctly, completely and clearly](#) to the DGT. Generally, tax returns use electronic applications to be completed and submitted within the statutory deadline. The DGT may allow the manual filing of tax returns under certain conditions. The DGT, however, may deem the filed tax return as not filed. The DGT must notify the taxpayer of this issue. Please note that there are specific guidelines on how to complete each type of tax return.

Tax payable computed in the abovementioned tax returns must be paid to the state treasury through certain tax-payment banks, the deadlines of which are specified in the tax laws. If the payment deadline falls on a holiday (Saturday, Sunday, national holidays, days off to organize general elections or national collective leave), taxes can be paid or remitted no later than the next working day. Generally, taxes are paid electronically using [the DGT's e-billing system](#), except for taxes on imports (for which the payment is administered by the customs e-billing system and taxes for which the payment procedures are specifically regulated).

Each type of tax payment requires [certain codes](#) to identify the type of payment for tax purposes. Taxpayers may not be able to file tax returns or may be subject to

the risk of being assessed by the DGT due to incorrect use of payment codes. However, a refund or overbooking may be requested for any incorrect payment by following certain procedures.

The following is the summary of the tax payment and tax return obligations.

**Table 19 Monthly Tax Obligations**

Type of Tax	Payment Deadline	Filing Deadline
Article 25 Income Tax	15 <sup>th</sup> of the following month	N/A
Withholding Article 15 Income Tax	10 <sup>th</sup> of the following month	20 <sup>th</sup> of the following month
Self-remit Article 15 Income Tax	15 <sup>th</sup> of the following month	20 <sup>th</sup> of the following month
Withholding Article 21/26 Income Tax	10 <sup>th</sup> of the following month	20 <sup>th</sup> of the following month
Withholding Article 23/26 Income Tax	10 <sup>th</sup> of the following month	20 <sup>th</sup> of the following month
Withholding Article 4(2) Income Tax	10 <sup>th</sup> of the following month	20 <sup>th</sup> of the following month
Self-remit Article 4(2) Income Tax	10 <sup>th</sup> of the following month	20 <sup>th</sup> of the following month
VAT taxable person - VAT and STLGs	before the Periodic VAT Return is filed	End of the following month
Self-remit VAT	15 <sup>th</sup> of the following month	End of the following month
Tax Collector – government/ expenditure treasurer - VAT and STLGs	no later than 7 days after the date of payment to a government partner Taxable Person for VAT Purposes through the state treasury office	End of the following month
Tax Collector – non-government / non-expenditure treasurer - VAT and STLGs	15 <sup>th</sup> of the following month	End of the following month

**Table 20 Monthly Tax Obligations**

Type of Tax	Payment Deadline	Filing Deadline
Corporate Income Tax	No later than the end of the fourth month after the accounting year end before the tax return is filed	End of the fourth month after the tax year ends
Individual Income Tax	No later than the end of the third month after the year ends before the tax return is filed	End of the third month after the tax year ends

[Individual taxpayers](#) or [corporate taxpayers](#) may submit a notification to extend the filing of the annual income tax return for a maximum of two months after the statutory deadline. Taxpayers may apply to the DGT for instalments or deferral of tax payable based on the annual income tax return by applying to the DGT no later than the filing due date of the annual tax return. Taxpayers allowed to install or defer tax payments are subject to administrative penalties in the form of interest with monthly rates determined by the Minister of Finance.

Late payments of the above-mentioned taxes and tax payable due to voluntary rectifications of tax returns shall be subject to interest penalties at a monthly reference interest rate stipulated by the Minister of Finance, computed from the payment due date to the actual payment date for a maximum of 24 months. A fraction of a month is treated as 1 full month.

Penalties for late filing are IDR500 thousand for VAT returns, IDR100 thousand for other monthly tax returns, IDR100 thousand for annual individual income tax returns and IDR1 million for annual corporate income tax returns.



## F. Tax Disputes & Litigations

### F.1 Data & Explanation Request

The DGT monitors taxpayers' compliance on regular basis. To some extent, the DGT may issue a [Letter of Inquiry](#) (*Surat Permintaan Penjelasan atas Data dan/ atau Keterangan/SP2DK*) to obtain an explanation, data and information from a taxpayer regarding the allegation of non-compliance based on the initial analysis by the DGT. The taxpayer may respond to such a request and substantiate that the presumption of non-compliance is arbitrary and the taxpayer may prove otherwise, or if the presumption of non-compliance is justifiable, either fully or to some extent, the taxpayer can revise the related tax returns, pay any tax payable discrepancies (if any) and file the tax returns. Please note that the payment of tax payable discrepancies is subject to an interest penalty.

If the DGT, after reviewing the taxpayer's response, is not satisfied or the taxpayer does not file any response, the DGT may raise the level of enforcement into a tax audit or even worse, a preliminary investigation.

### F.2 Tax Audits

[A tax audit](#) is generally initiated by a taxpayer's request for a refund. Every tax refund request is followed by a tax audit prior to receiving the refund except for an advance refund request, whereby the tax audit takes place later after the refund. The tax refund audit timeline is 12 months from the date the tax return requesting a refund is filed. A taxpayer's refund request is deemed granted if the DGT fails to issue a notice of tax assessment within 12 months. In a non-tax refund audit, while there is a procedural timeline, an audit exceeding such a timeline cannot be invalidated. A taxpayer that fulfills [certain criteria may receive an advance tax refund](#), but the DGT remains authorized to audit and issue an assessment. In the case of a notice of tax assessment issued in relation

to the previously administered advance tax refund, if the issued notice of tax assessment shows that the taxpayer has underpaid, a penalty of 75 percent is added to the unpaid tax.

During an audit, a tax audit officer will perform direct and indirect tests as governed by the DGT's audit procedures. In some cases, a tax audit officer will perform indirect testing, such as reconciliation of tax accounts with financial accounts on a tax adjustment basis. During a tax audit, taxpayers may [voluntarily disclose errors in their tax returns](#) by applying Article 8 (4) of the GTPRL. If the submission of voluntary disclosure results in tax underpayment, the tax underpayment is subject to interest equal to the reference interest rate based on a Minister of Finance decree for a maximum period of 24 months. Taxpayers may only disclose errors in the preparation of tax returns before the DGT issues a Notification of Tax Audit Findings.

Prior to the final findings of a tax audit, taxpayers may request a [quality assurance review](#) at the higher level of the DGT. The basis for requesting a quality assurance review is if there is a violation of the law and its application by the tax audit officer. The quality assurance team will issue a legally binding decision as a basis for the final findings of a tax audit and its notice of tax assessment. At the end of a tax audit process, the DGT will issue a notice of tax assessment which may be nil, overpayment or underpayment. In the event of an underpayment tax assessment, the underpaid tax is subject to interest equal to the reference interest rate based on a Minister of Finance decree for a maximum period of 24 months.

### **F.3 Administrative Remedies**

Following the DGT's notice of tax collection, a taxpayer may file for [administrative remedies pursuant to Article 36 of the GTPRL](#) as follows:

- A penalty reduction or write-off (Article 36 (1a) of the GTPRL).
- A reduction or cancellation of the notice of tax collection (Article 36 (1c) of the GTPRL), or
- A cancellation of the notice of tax collection resulting from a tax audit completed without the taxpayer receiving temporary audit findings and the final audit closing conference letter (Article 36(1d) of the GTPRL).

Following the DGT's notice of tax collection, the taxpayer may file administrative remedies pursuant to Article 36 of the GTPRL as follows:

- A penalty reduction or write-off (Article 36 (1a) of the GTPRL).
- A reduction or cancellation of the notice of tax collection (Article 36 (1b) of the GTPRL), or
- Cancellation of the notice of tax collection resulting from a tax audit completed without the taxpayer receiving temporary audit findings and the final audit closing conference letter (Article 36 (1d) of the GTPRL).

Further, following the DGT's notice of tax collection and withholding tax receipt, a taxpayer can request administrative remedies pursuant to Article 25 of the GTPRL by [filing an objection to the DGT](#) within three months since the notice of tax collection is sent or the date of the withholding tax receipt. The three-month timeline does not apply when the taxpayer is able to demonstrate a force majeure situation. Upon filing a tax objection, the administrative remedies set out in Article 36 (1) of the GTPRL will be denied when the two remedies are closely related.

The taxpayer's objection will be deemed granted if the DGT fails to issue an objection decision letter within 12 months since the objection letter is received. Upon the DGT's objection decision, the taxpayer may file an appeal

to the Tax Court. The DGT's objection decision may be in the form of fully accepted, partially accepted or denied or may increase the amount of taxes.

Unpaid taxes or penalties set out in a notice of tax collection, except for one related to a dispute being filed for a tax objection, should be followed by active tax collection efforts, including those that end in a seizure letter. On the other hand, the collection of unpaid taxes and penalties set out in the notice of tax assessment should be postponed pursuant to the taxpayer's objection to the DGT. However, such unpaid taxes and penalties are [subject to a 30 percent penalty](#) of the unpaid amount if the DGT issues a decision partially granting or denying the taxpayer's objection. The 30 percent penalty is not imposed if the taxpayer pays the unpaid taxes and penalties prior to objection or if the taxpayer has filed a tax appeal to the Tax Court. The interest on an unpaid notice of tax assessment will not be imposed if the taxpayer files an objection to the DGT.

#### **F.4 Tax Appeal (*Banding*)**

Upon the DGT's Tax Objection Decision Letter, a taxpayer may file an [appeal to the Tax Court](#). The request letter for an appeal must be submitted latest by three months since the Tax Objection Decision Letter is received (this is defined by the [Tax Court Law](#) as the date the letter is sent by the DGT). The three-month timeline does not apply when the taxpayer is able to demonstrate a force majeure situation.

When filing a tax appeal, the unpaid taxes in dispute are not required to be paid, as the unpaid taxes are postponed until one month after the Tax Court decision is made (Article 27 (5a) of the GTPRL). Prior to an appeal on the DGT objection decision, a taxpayer is only required to pay the amount of unpaid taxes agreed during the tax audit which would have been paid by the taxpayer as such is also required prior to filing the tax objection to the DGT.

In the case of a Tax Court decision that denies or partially grants an appeal, the taxpayer is subject to a penalty of 60 percent of the amount of unpaid taxes less the taxes paid prior to filing an objection to the DGT. Payments made after filing an objection to the DGT will not be considered in the penalty computation. On the other hand, if a Tax Court decision partially or fully grants an appeal on an underpaid objection decision, the taxpayer cannot request interest on the taxes paid prior to the objection or appeal. [Interest for taxpayers is available](#) if a refund is not granted for the overpaid tax in a tax return during a tax audit, but a refund is granted during the tax objection or appeal or civil review. If the DGT is late in issuing a tax refund instruction letter, the taxpayer may also request interest for a maximum period of 24 months.

## **F.5 Lawsuits (*Gugatan*)**

Typically, upon the DGT's decision letter (i.e. the decision on a taxpayer's application of Article 36 (1) of the GTPRL), the taxpayer may [file a lawsuit to the Tax Court](#) appealing the decision. Other letters issued by the DGT to the taxpayer may be resolved by filing a lawsuit to the Tax Court. Generally, the Tax Court will consider the case and decide whether such a letter is subject to resolution in the Tax Court provided that certain criteria are fulfilled, specifically, if such a letter has resulted in specific tax consequences for the taxpayer. A lawsuit regarding such letters should be filed within 30 days from the date the letter is sent.

A seizure letter as a result of tax collection forces a taxpayer to surrender an amount of money or assets to settle the taxes owed. The taxpayer may file a lawsuit on the seizure letter within 14 days since the date of the letter in the following situations: where the taxpayer has filed for dispute resolution on the taxes due and is in financial distress, and thus requests that any tax collection, including seizure, be halted until the relevant

dispute resolution has been issued; or where the process of seizure is procedurally flawed, which may result in the reprocessing of the seizure.

### **F.5 Civil Review (*Peninjauan Kembali*)**

If the Tax Court decision is considered unfavourable to either the taxpayer or the DGT, either or both may file [a civil review application](#) only once to the Supreme Court. Under Article 91 of the Tax Court Law, the grounds for such applications are:

- The Tax Court's decision was based on deception by the counterparty, which was only known after the case was decided, or the Tax Court decision was made based on evidence judged to be inauthentic by a civil court.
- There is new written evidence that is decisive and that, if known during the Tax Court's proceedings, would have resulted in a different decision.
- An *ultra petita* decision.
- Part of the requisition has been decided without consideration, and
- The Tax Court's decision clearly violated the applicable laws.

A civil review application is required to be filed within three months since:

- The discovery of deception or a civil court decision adjudicating that there is inauthentic evidence (Article 91a of the Tax Court Law).
- The discovery of new evidence of which the date of discovery must be made under oath and authorised by a competent authority (Article 91b of the Tax Court Law), or
- The Tax Court decision being sent (Article 91c–e of the Tax Court Law).

## F.6 Tax Crime

In addition to the use of tax audits for official assessment, [tax audits can be used to collect preliminary evidence where a tax crime is suspected](#). Where a tax audit has been completed, provided that a tax crime investigation has not commenced, a taxpayer may voluntarily disclose an inaccuracy and pay any underpaid tax along with a penalty of 100 percent of the underpaid tax. Thus, a tax crime investigation will not commence provided that the DGT accepts such voluntary disclosure.

The punishments for a tax crime would be imprisonment and a financial penalty. Generally, the individual taxpayer or the director of a company and his or her accomplices will be held accountable for the tax crime, and only the person or [company charged with the tax crime](#) will bear the punishment. Not filing a tax return or filing an incorrect or incomplete tax return, or attaching incorrect information in the tax return, are generally considered tax crimes.

[The tax investigation may be terminated if the taxpayer pays the underpaid tax plus a fine](#). If the tax crime is due to negligence, the taxpayer shall pay the underpaid tax plus a fine equal to the amount of the underpaid tax. If the tax crime is found to be caused by deliberate actions, the taxpayer shall pay the underpaid tax plus a fine of three times the amount of the underpaid tax. If the tax crime relates to producing fictitious tax invoices or withholding slips, the taxpayer shall pay the underpaid tax plus a fine of four times the amount of the underpaid tax.

# Customs & Excise

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## A. Export Duties

Export is the activity of releasing goods from the customs area. The government may impose [export duties](#) on exported goods. The imposition of export duties is intended to ensure the fulfillment of domestic needs, conserve natural resources, anticipate fairly drastic price increases of certain export commodities on the international market or maintain the stability of certain commodity prices.

### A.1 Exported Goods Subject to Export Duties

Export duties are not imposed on all types of goods, but only on certain specified goods. Exported goods subject to export duties are stipulated by the Minister of Finance after receiving consideration and/or recommendations from the minister of trade and/or ministers/heads of non-departmental government institutions/heads of related technical agencies. In addition, the Ministry of Finance generally stipulates certain exported goods that may be [excluded from the imposition of export duties](#).

Currently, [exported goods subject to export duties](#) consist of: (i) leather and wood; (ii) cocoa beans; (iv) palm oil, [Crude Palm Oil](#) (CPO) and its derivative products; (v) metallic mineral processing products; and (vi) metallic mineral products with certain criteria.



The export duty rates imposed on these goods may be determined based on a percentage of the export price ([ad valorem](#)) or [specifically](#). In the event that the export duty rate is determined based on *ad valorem*, the highest rate is 60% of the export price. On the other hand, if the export duty rate is specifically determined, the highest rate is set at a certain nominal value equivalent to 60%.

Generally, the Ministry of Finance periodically issues a ministerial regulation stipulating the list of goods subject to export duties and the respective applicable rates.

Furthermore, export duties are calculated using the following formula:

- *Ad valorem*

*Export Duty = Export Duty Rate x Number of Goods x Export Price per Unit of Goods x Currency Exchange Rate*

- Specific

*Export Duty = Export Duty Rate per Unit of Goods in Certain Currency Units x Number of Goods x Currency Exchange Rate*

## **A.2 Export Customs Procedures and Export Procedures**

Exporters are required to declare the goods to be exported to the Customs and Excise Office at the place of loading using the Export Declaration/PEB (BC 3.0). The obligation to submit PEB, however, does not apply to: (i) passengers' personal belongings; (ii) goods belonging to crew members of the means of transport; (iii) goods belonging to [border-crossers](#); or (iv) [goods sent](#) by post weighing not more than 100 kilograms.

PEB is prepared by exporters based on supporting customs documents, including: (i) invoices; (ii) packing lists; and other required documents. Next, PEB must be submitted by the exporters or their [power of attorney](#)

to the customs office of loading no later than 7 days before the estimated date of export and no later than before being admitted into the [customs area](#). In respect of exports of bulk goods, the exporters or their power of attorney may submit PEB before the departure of the means of transport. Even though PEB has been submitted, the exporters may rectify PEB in the event of data errors insofar as the time limit stipulated in [PER-32/BC/2014](#) as amended by PER-07/BC/2019 has not been exceeded.

Exporters are also required to comply with the provisions on [export prohibitions and/or restrictions](#) stipulated by the [relevant technical agencies](#). Next, the exporters must pay export duty payable at the latest when PEB or other export customs declarations are registered with the Customs Office. However, the Minister of Finance may stipulate exported goods with certain characteristics for which export duty is paid after PEB is submitted to the Customs Office. The payment of export duties and the calculation are carried out by the exporters themselves (self-assessment).

In summary, export procedures are as follows:

- The exporter/power of attorney submits the PEB document to the Customs Office of the place of loading.
- The documents for the exported goods declared in PEB shall be verified. Furthermore, if the verification of PEB documents shows that the PEB data is filled in:
  - Incompletely and/or unaccordingly, a [Rejection Notification Note \(NPP\)](#) is issued.
  - Completely and accordingly, but includes goods for which exports are prohibited or restricted and export requirements have not been fulfilled, a Notification of Document Requirements Note (NPPD) is issued.
  - Completely and accordingly, and does not include goods for which exports are prohibited

- or restricted, or includes goods for which exports are prohibited or restricted but the export requirements have been fulfilled, and the exported goods have not been physically inspected, PEB shall be given a number and date of registration and an Export Service Note (NPE) is issued.
- Completely and accordingly, and does not include goods for which exports are prohibited or restricted, or includes goods for which exports are prohibited or restricted but the export requirements have been fulfilled, and the export goods are physically inspected, PEB shall be given a number and date of registration and a Goods Inspection Notice (PPB) is issued.

### **A.3 Facilities**

The government through the Directorate General of Customs and Excise provides a number of facilities and facilities related to exports and the imposition of export duties. These facilities include the provision of payment deferral of export duties for exporters experiencing financial difficulties. In addition, there are also import facilities for export ([KITE](#)) exemption, KITE drawback and Small and Medium Industries ([IKM](#)) KITE.

Further provisions on the imposition of export duty and the provisions on export customs can be seen in: [Customs Law](#); [Government Regulation No. 55/2008](#); [MoF Reg. 145/2007](#) as amended by [MoF Reg. 21/2019](#); [MoF Reg. 106/2022](#); [MoF Reg. 39/2022](#) as amended by [MoF Reg. 123/2022](#); [PER-32/BC/2014](#) as amended by [PER-07/BC/2019](#); [PER No. P-41/BC/2008](#) as amended by [PER-34/BC/2016](#); MoF Reg. 122/2017; and [MoF Reg. 141/2020](#).

## **B. Import Duties**

Goods admitted into the customs area are treated as imported goods and are subject to import duty payable.

Import duties imposed on imported goods may be determined based on a percentage of the export price ([ad valorem](#)) or [specifically](#). The majority of imported goods are subject to *ad valorem* rates. Meanwhile, specific rates are only imposed on a small number of imported goods, such as rice, sugar and some cinematographic products.

Furthermore, import duties are calculated using the following formula:

- *Ad valorem*

$$\text{Import Duty} = \text{Import Duty Rate} \times \text{Customs Value}$$

- Specific

$$\text{Import Duty} = \text{Rate per Unit of Goods} \times \text{the Number of Unit of Goods}$$

Some import duty rates are statutory ([most favoured nation](#)) and some are different from the MFN rates. MFN rates are imposed on all imports that are not covered by a free trade area agreement ([FTA](#)) or other international treaties or agreements. Imports equipped with a [Certificate of Origin](#) (CoO), but the CoO is not accepted or cancelled will also be subject to MFN rates. Details of MFN rates are outlined in the Indonesian Customs Tariff Book ([BTKI](#)).

In addition to the most favoured nation/MFN rates, the Customs Law authorizes the Minister of Finance to set import duty rates that differ from the MFN rates. These different tariffs may apply to imported goods subject to import duty rates based on international treaties or agreements or commonly referred to as the [preferential rates](#).

The use of these preferential rates must be equipped with a CoO. An imported product may obtain a CoO if it fulfills the rules of origin. The [Indonesian government has entered into many international agreements](#) for the use of preferential rates. These international agreements include Asean Trade in Goods ([ATIGA](#)), Asean-China FTA ([ACFTA](#)),

Asean-Korea FTA ([AKFTA](#)), Asean-Australia-New Zealand FTA ([AANZFTA](#)), Indonesia-Australia [CEPA](#) ([IACEPA](#)) and [D8 FTA](#). The amounts of preferential import duty rates are determined separately under a minister of finance regulation.

Further, import duty rates that are different from MFN rates may also apply to [imported goods carried by passengers](#), crew members of means of transport, [border crossers](#) or [goods sent](#) by post or by courier services.

In addition to import duties, imported goods may also be subject to additional import duties. These additional import duties consist of [anti-dumping import duties](#), [countervailing import duties](#), [safeguard import duties](#) and [discriminatory import duties](#). As the name implies, this additional import duty will increase the amount of import duty that must be paid. In contrast to preferential rates, their use replaces MFN rates. Imported goods subject to additional import duties are still required to pay import duties, either using MFN rates or preferential rates.

## **B.1 Customs Procedures in the Import Sector**

In summary, the flow of customs procedures in the import sector commences from the arrival of the means of transport, [unloading](#) and [stockpiling](#) of imported goods, import declaration, inspection and release of goods. Each party involved in the import process has customs obligations to be fulfilled.

In respect of the arrival of the means of transport, the carrier must submit the Inward Notice ([RKSP](#)) or the Inward Schedule (JKSP) to the Officials at the destination Customs Office before the arrival of the means of transport. In addition, the carrier must also submit a customs declaration in the form of a [manifest](#) of the imported goods being transported to the Officials at the destination Customs Office.

Next, the unloading process may be carried out in the customs area or other places after obtaining a permit. Stockpiling, on the other hand, may be carried out in a temporary stockpiling site ([TPS](#)) or other places equivalent to TPS after obtaining a permit.

These imported goods are also subject to selective customs inspections. The customs inspection includes document verification and physical inspection of goods. Selective inspections include the [determination](#) of the red, yellow, green and main partner (Mita) lines.

Further, [imported goods may be released](#) based on a number of purposes, namely imported for use, [temporary imports](#), stockpiled in bonded storage places ([TPB](#)), transported to TPS in other customs areas, [transited and transshipped](#).

The Directorate General of Customs and Excise (DGCE) provides various import conveniences and facilities, including [trucklossing](#), [rush handling](#), release of goods with payment deferral of import duties and taxes on imports ([PDRI](#)). In addition, the government provides [government-borne import duties](#) (DTP) for certain industries as well as exemptions or relief from import duties for certain imports.

### **C. Excise**

Excise has always been one of the government's revenues. Based on the data from the Ministry of Finance, the realization of excise revenue in Indonesia throughout 2021 was IDR195,92 trillion, comprising [more than 15% of taxation revenues](#). As a positive signal, the Ministry of Finance [puts extra effort](#) to reach the revenue target from excise by IDR203,92 trillion, an increase of [8% from the previous year's target](#).

Notably, the government does not treat excise solely for fiscal purposes but primarily [aims to control](#) the

consumption of certain goods. In the future, [excisable goods](#) will be determined based on the Excise Law. Excisable goods, in general, have the nature and characteristics that potentially lead to negative externalities.

The government, therefore, also plans to [expand the scope of excisable](#) objects and provide a clear [roadmap for cigarette excise](#).

The Indonesian government imposes excise duty on products such as ethyl alcohol, beverages containing ethyl alcohol (MMEA), ethyl alcohol concentrate and tobacco products. The [following table details](#) the excise rates that apply to these products:

**Table 21 Excise Rates**

Products	Excise Rate
Ethyl alcohol	IDR20,000/litre
MMEA	IDR15,000 to IDR139,000/litre
Ethyl alcohol concentrate	IDR1,000/gram
Tobacco products	IDR10 to IDR110,000/stick or gram

In further detail, excise on tobacco products are classified based on their tier and category (see the full regulations [here](#)).

**Table 22 Minimum Price and Excise Rate of Tobacco Products**

No	Classification of Tobacco Products Factory		Minimum Retail Price (IDR)	Excise (IDR)
	Type	Category		
1	Machine-made clove cigarettes ( <i>Sigaret Kretek Mesin/SKM</i> )	I	1,905	985
		II	1,140	600
2	Machine-made white cigarettes ( <i>Sigaret Putih Mesin/SPM</i> )	I	2,005	1,065
		II	1,135	635
3	Hand-rolled clove cigarettes ( <i>Sigaret Kretek Tangan/ SKT</i> ) or hand-rolled white cigarettes ( <i>Sigaret Putih Tangan/SPT</i> )	I	1,635	440
			1,135	345
		II	600	205
		III	505	115

For electric cigarettes (e-cigarettes) and other tobacco products, the following excise is applicable (see the full regulations [here](#)).

**Table 23 Excise Rates for E-cigarettes and Other Tobacco Products**

No	Tobacco Product Type	Minimum Retail Price		Excise	
		Value (IDR)	Unit	Value (IDR)	Unit
1	E-cigarette:				
	Solid e-cigarette	5,190	Per gram	2,710	Per gram
	Liquid e-cigarette with open system	785	Per millilitre	445	Per millilitre
	Liquid e-cigarette with closed system	35,250	Per cartridge	6,030	Per millilitre
2	Other Tobacco Products:				
	Molasses tobacco	215	Per gram	120	Per gram
	Snuff tobacco	215	Per gram	120	Per gram
	Chewing tobacco	215	Per gram	120	Per gram



# Fiscal Incentives

## A. Tax Holiday

Up to 100% corporate income tax exemption may be given to investments that fulfil certain criteria of [pioneer industries](#). The application may be submitted through the [Online Single Submission](#) (OSS) (learn more about OSS [here](#)). More information on the regulation can be found [here](#).

**Table 24 Tax Holiday Regime in Indonesia**

Regulation	Mini Tax Holiday	Full Tax Holiday	
% corporate tax reduction	50% for new investment IDR100-Rp500 billion	100% for new investment minimum IDR500 billion	
Period of tax reduction (years)	5	5	IDR500 billion – 1 trillion
		7	IDR1–5 trillion
		10	IDR5–15 trillion
		15	IDR15–30 trillion
		20	> IDR30 trillion
Period of transition	25% corporate tax reduction for the next 2 fiscal years	50% of corporate tax reduction for the next 2 fiscal years	
Applicable industry	18 sectors of pioneer industry and other sectors that fulfil the criteria of a pioneer industry		

## B. Tax Allowances

Capital investments, either new or spin-offs of existing businesses in certain sectors and/or regions that fulfill certain criteria are entitled to the following facilities:

- Reduction of taxable income by 30% of the capital investment for 6 years (5% reduction each year).
- Accelerated depreciation up to 200% for tangible fixed assets and accelerated amortization for intangible assets.
- Loss carry-forward for more than 5 years (maximum 10 years).

Tax allowances may be given to investments that fulfil [certain criteria](#). The application may be submitted through the [Online Single Submission](#) (OSS). More information on the regulation can be found [here](#). The most recent update about the facility can be accessed [here](#).

## C. Investment Allowances

Certain capital investments are eligible for taxable income amounting to 60% of the capital investments for 6 years ([10% of reduction each year](#)). The investments must be in the form of fixed assets that are used for main business activities that produce certain goods in certain regions and employ more than 300 Indonesian workers. Other requirements and further information can be found [here](#).

## D. Supertax Deduction

[Supertax deduction](#) may be given for activities with certain characteristics as follows.

Deductibility of a maximum of 300% may be given for costs incurred for certain [research and development activities](#) performed in Indonesia. The activities should aim for new inventions, based on original hypotheses, contain uncertainties, be well-planned and budgeted and should be aimed at creating transferrable or exchangeable

products. Analysis of incentives for research activities can be accessed [here](#).

Deductibility of a maximum of 200% may be given for costs incurred for [vocational activities](#). They include working practice activities, internships and/or learning processes. Other requirements can be found [here](#).

## **E. Dividend Exemption**

Dividend income may be tax exempt, whether it is received from within or outside Indonesia. The exemption treatment is given on the condition that the [dividends are invested domestically for at least three years](#) (the list of applicable investment instruments can be found [here](#)). If the dividends are received domestically, only the amount invested domestically will be exempt from income tax. The remaining amount will be taxed pursuant to prevailing regulations.

The same treatment is applicable for foreign dividends, where the shares are traded on the stock exchange in a particular country. If they are not listed on the stock exchange, the total amount of invested dividends should be at least equal to 30% of the taxpayer's income after tax. Should the amount of investment fall short of the threshold, the gap will be taxed according to the laws. On the contrary, if the investment amount exceeds the requested level, the whole dividends are exempt from income tax.

Tax-exempt dividends should be [reported](#) by taxpayers afterwards and [included in the tax returns](#).

## **F. VAT Exemption for Certain Strategic Taxable Goods**

Certain imports or domestic procurement of strategic taxable goods may be [VAT exempt](#). They include:

- Machinery and factory tools.
- Goods that are generated from business activities in the marine and fishery sectors.
- Untanned raw skins.
- Certain livestock.
- Seeds and/or seeds from agricultural, plantation, forestry or fishery.
- Animal feeds.
- Raw materials for animal feeds.
- Craft raw materials in the form of granulated silver and/or silver bars.
- Liquified natural gas.

Information on how to obtain the facility can be read [here](#).

## **G. Foreign Income Exemption for Certain Expatriates**

Expatriates constituting resident tax subjects (*subjek pajak dalam negeri/SPDN*) may [obtain tax exemption](#) for their foreign-source income for 4 years. They have to be either foreign workers who hold certain positions or researchers with expertise in certain knowledge, technology, and/or mathematics. The list and procedures can be found [here](#).

Analysis of foreign income exemption for certain expatriates can be accessed [here](#).

## **H. Special Economic Zones**

Businesses performed in Special Economic Zones (*Kawasan Ekonomi Khusus/KEK*) may obtain the following tax incentives:

- Tax holiday.
- Tax allowance.
- Non-collectible Article 22 Income Tax for import activities.
- Non-collectible VAT and Sales Tax for Luxury Goods.

- Duty exemption and other non-collectible Taxes for import activities, and/or
- Excise exemption.

More information, including how to obtain the facilities can be found [here](#). The requirements to obtain the facilities may be submitted through [certain applications](#) provided by the government.

## **I. Tax Facilities for Free Trade Zones & Free Port Area**

Transfer of goods within or into the [free trade zone and free port](#) (*Kawasan Perdagangan dan Pelabuhan Bebas/ KPBPB*) are entitled to the following tax facility:

- VAT exemption.
- Non-collectible VAT and Sales Tax on Luxury Goods.
- Excise exemption.

More info about the facilities can be found [here](#).

The most updated news on tax incentives can be followed [here](#).

# Stamp Duty

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[Stamp duty](#) is a tax on documents. In response to information technology developments, the forms of documents subject to stamp duty are not only printed documents. In the recent regulation, documents subject to stamp duty include handwritten, printed or electronic form documents, which may be used as evidence or information.

Provisions on stamp duty are regulated under a number of regulations, including Law No. 10 of 2020 concerning Stamp Duty ([Stamp Duty Law](#)); Minister of Finance Regulation No. [4/PMK.03/2021](#); Minister of Finance Regulation No. [133/PMK.03/2021](#); and Minister of Finance Regulation No. [134/PMK.03/2021](#).

Broadly speaking, stamp duty is imposed on two types of documents, namely: (i) documents prepared as a tool to explain a civil incident; and (ii) documents used as evidence in court. A detailed explanation of the types of documents subject to stamp duty payable can be found in [this](#) article.

Not all documents, however, are subject to stamp duty. The Stamp Duty Law stipulates a number of [documents that are not subject to stamp duty](#). In addition, the Stamp Duty Law provides the stamp duty exempt facility for certain documents. A detailed explanation of the stamp duty exempt facility can be found in [this](#) article.

Stamp duty is imposed once for each document at [a fixed rate of IDR10,000](#). Although it is permanent, under the Stamp Duty Law, the stamp duty may increase or decrease according to national economic conditions and the people's income levels. Moreover, the government may also set different fixed rates for certain documents to implement government programs and support the implementation of monetary and/or financial sector policies. The government may revise the stamp duty rate after consulting with the Commission in charge of finance and banking of the House of Representatives of the Republic of Indonesia.

The time [when stamp duty becomes payable](#) may vary depending on the type of document. The Stamp Duty Law classifies when stamp duty becomes payable based on 5 momentums, as follows:

**Table 25 The Times When Stamp Duty Becomes Payable**

When Stamp Duty Becomes Payable	Document Type
Documents are affixed with a signature	Agreement letters and copies thereof; notarial deeds and the tenor, copy and extract thereof; conveyancer deeds and the copy and extract thereof
Documents are completed	Securities in whatever name and form; documents of securities transactions, including documents of futures contract transactions, in whatever name and form
Documents are submitted to the party for whom they are prepared	Agreement letters, certificates, statement letters or other similar letters and copies thereof; auction documents; documents stating an amount of money above IDR5 million
Documents submitted to the court	Documents used as evidence in court
Documents used in Indonesia	Civil documents that are prepared overseas

Source: [Stamp Duty Law](#)

In addition to when stamp duty becomes payable, the Stamp Duty Law stipulates [parties liable to stamp duty](#). Parties liable to stamp duty are determined by the beneficiary of the documents. For documents that are prepared unilaterally, stamp duty becomes payable to the party receiving the document.

For documents prepared by two or more parties, on the other hand, stamp duty becomes payable to each party for the documents they receive. However, special exceptions apply to documents in the form of securities because stamp duty becomes payable to the party issuing the securities, instead of the recipient.

Further, for documents used as evidence in court, stamp duty becomes payable to the party submitting the documents. For documents prepared overseas and used in Indonesia, stamp duty becomes payable to the party constituting the beneficiary of the documents.

Parties liable to stamp duty may [pay stamp duty](#) payable using a [stamp duty](#) or tax payment slip (SSP). In further detail, [three types of stamp duties](#) may be used to settle stamp duty payable, namely: (i) adhesive stamps; (ii) electronic stamps; or (iii) stamp duties in other forms as stipulated by the Minister of Finance, namely a stamp made using a [digital stamping machine](#), computerized system, printing technology and other systems or technologies.

Stamp duty may be paid using SSP in the event that the mechanism for paying stamp duty using a stamp is deemed inefficient or even impossible. For example, documents that will be used as evidence in court in large quantities, the payment for which is through post-dated stamp duty.

Each stamp duty payment method has its own procedures. Stamp duty is paid using an adhesive stamp by affixing an adhesive stamp that is valid, in effect and has never been used. Further, [stamp duty payment using an electronic stamp duty](#) may be performed by accessing the [e-meterai.co.id](http://e-meterai.co.id) webpage.



Payment of stamp duty using stamp duties is subject to prior approval to produce [stamp duties in other forms](#). Details of the procedures for the settlement of stamp duty can be found in [MoF Reg. 134/2021](#).

Another provision to be taken into account in respect of stamp duty is [post-dated stamp duty](#). [Post-dated stamp duty](#) is necessary if there are documents that will be used as evidence in court or documents whose stamp duty is not paid or is underpaid.

# Local Taxes

To efficiently allocate national revenues through the relationship between the central and local governments, the government has issued Law No. 1 of 2022 regarding Financial Relations between the Central Government and Local Governments ([UU HKPD](#)).

UU HKPD has been issued to improve the existing provisions, namely Law No. 33 of 2004 concerning Fiscal Balance ([UU 33/2004](#)) and Law No. 28 of 2009 regarding Local Taxes and Charges ([UU 28/2009](#)). Primarily, it is aimed to reinforce local tax revenue performance and increase regions' fiscal capacity. The study on the local tax efforts and performance can be accessed [here](#).

In general, three changes are enshrined in UU HKPD. *First*, [the simplification](#) of the local tax structure. One of the simplifications is evident in the [merger between the restaurant tax and hotel tax](#) into [the tax on certain goods and services](#). This effort aims to [optimize local tax collection](#) and streamline the costs that must be borne by taxpayers in carrying out their tax obligations.

*Second*, the introduction of the [surcharge tax scheme](#). This mechanism allows local governments to collect additional taxes on one tax base. This scheme applies to three types of taxes, namely motor vehicle tax, motor vehicle duty and non-metallic mineral and rock tax. The most recent information concerning surcharges can be followed [here](#).

Third, the introduction of [a new type of tax](#). The UU HKPD introduces a new type of tax, the [heavy equipment tax](#). This tax has been introduced as a follow-up to the mandate of the Constitutional Court Decision No. 15/PUU-XV/2017. More information about heavy equipment tax can be found [here](#).

UU HKPD also stipulates the types of local taxes and their applicable rates (regional regulations may be accessed [here](#)). Applicable local taxes may vary across regions, but the scope and applicable rates must comply with the provisions on the ceiling set out in the UU HKPD. A more comprehensive analysis of how UU HKPD may direct the future of local taxes can be read [here](#) in chapter 10.

Applicable local taxes may vary across regions, but the scope and applicable rates have to be within the scope of Table 8 and Table 9.

**Table 26 Local Taxes at the Provincial Level**

<b>Tax Type</b>	<b>Rate</b>
Motor vehicle tax ( <i>Pajak Kendaraan Bermotor/PKB</i> )	1,2 - 6%/ 2 - 10%*
Transfer of motor vehicle title fee ( <i>Bea Balik Nama Kendaraan Bermotor/BBNKB</i> )	12%/ 20%*
Heavy equipment tax ( <i>Pajak Alat Berat/PAB</i> )	0,2%
Motor vehicle fuel tax ( <i>Pajak Bahan Bakar Kendaraan Bermotor/PBBKB</i> )	10% - 50%
Surface water tax ( <i>Pajak Air Permukaan/PAP</i> )	10%
Cigarette tax ( <i>Pajak Rokok</i> )	10%
Non-metal mineral and rock tax surcharge ( <i>Opsen Pajak Mineral Bukan Logam dan Batuan/MBLB</i> )	25%

\*) The higher rates are applicable for provincial regions that are not divided into autonomous cities/municipalities.

**Table 27 Local Taxes at the Regency/Municipality Level**

<b>Tax Type</b>	<b>Rate</b>
Property tax (rural & urban) ( <i>Pajak Bumi dan Bangunan Perdesaan dan Perkotaan/PBB-P2</i> )	0,5%
Acquisition duty on rights to land and buildings ( <i>Bea Perolehan Hak Atas Tanah dan Bangunan/BPHTB</i> )	5%
Certain goods and services tax ( <i>Pajak Barang dan Jasa Tertentu/PBJT</i> )	1,5% - 75%
Advertisement tax ( <i>Pajak Hiburan</i> )	25%
Groundwater tax ( <i>Pajak Air Tanah/PAT</i> )	20%
Non-metal mineral and rock tax ( <i>Pajak Mineral Bukan Logam dan Batuan/PMBLB</i> )	20% / 25%*
Swiftlet nest tax ( <i>Pajak Sarang Burung Walet</i> )	10%
Motor vehicle tax surcharge ( <i>Opsen Pajak Kendaraan Bermotor/PKB</i> )	66%
Transfer of motor vehicle title fee surcharge ( <i>Opsen Bea Balik Nama Kendaraan Bermotor/BBNKB</i> )	66%

\*) The higher rates are applicable for provincial regions that are not divided into autonomous cities/municipalities.

Local governments have two years from the promulgation of the UU HKPD to implement changes and adjustments to the new provisions. Thus, local governments have to [revise their regional regulations by 5 January 2024](#). Onwards, we may also expect local governments to provide more [tax incentives](#) targeted to improve the economy and social welfare.

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# Overview

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Bearing the *officium nobile* mandate inherent in the tax consultant profession, DDTC consistently focuses on how to promote inclusive tax education and a better tax system for all elements of society. We hereby present this basic tax manual, in particular, to provide guidelines for external parties keen on the Indonesian tax system, either in respect of investing or doing business in Indonesia, and in the long run, to improve tax literacy.

Penned by authors adept at their respective fields, this tax pocket manual book outlines tax-related key issues in the Indonesian tax system as of July 2022. Engaging topics are concisely reviewed therein, ranging from the survey of recent developments, excise, fiscal incentives, local taxes, corporate income tax, withholding tax, value added tax, international taxation to transfer pricing.

The information contained therein constitutes general elucidation that refers to Indonesia's statutory provisions and regulations. The contents of this manual, however, are not binding and subject to the reader's circumstances or context. Thereby, further professional advice is required for any possible issue.



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