DDTC Indonesian Tax Manual 2023

Last Updated July 2023

Darussalam, Danny Septriadi, David Hamzah Damian, Romi Irawan, B. Bawono Kristiaji and Atika Ritmelina M.

DDTC INDONESIAN TAX MANUAL

2023

Last Updated July 2023

Editors:
Darussalam, Danny Septriadi, David Hamzah Damian, Romi Irawan, B. Bawono Kristiaji and Atika Ritmelina M.

DDTC Indonesian Tax Manual 2023

Darussalam, Danny Septriadi, David Hamzah Damian, Romi Irawan, B. Bawono Kristiaji and Atika Ritmelina M.

ISBN: 978-238-8412-6-4

Publishing and Production
Coordinator : Darussalam
Layout : Gallantino Farman
Cover Illustration : Marsha Audra Hernandya

Menara DDTC
Jl. Raya Boulevard Barat Blok XC 5-6 No B, Kelapa Gading Barat

Kelapa Gading, Jakarta Utara, DKI Jakarta, 14240 - Indonesia
Telp. : +62 21 2938 2700
Fax : +62 21 2938 2699
Website : http://www.ddtc.co.id

DDTC Indonesian Tax Manual 2023

Darussalam, Danny Septriadi, David Hamzah Damian, Romi Irawan, B. Bawono Kristiaji and Atika Ritmelina M.

DDTC (PT Dimensi Internasional Tax), Jakarta, 2023
1 vol., 14,8 x 21 cm, 218 pages

Printed in:
1. Jakarta, July 2023

Foreword

We praise and thank God Almighty for all His grace and blessings, DDTC Indonesian Tax Manual Book 2023 has finally been published. In the spirit of **the Asia-Pacific Pro Bono Firm of the Year Award** recently received by DDTC, this manual book embodies DDTC's consistent commitment to providing inclusive tax education and knowledge sharing for all stakeholders of information on the Indonesian tax sector.

DDTC Indonesian Tax Manual Book 2023 comprises general normative legal reviews of various taxation areas, ranging from national, international to subnational issues. 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.

The editorial team would like to thank everyone in support of the publication of the DDTC Indonesian Tax Manual Book 2023. Special thanks go to family and members of the editorial team for their prayers and moral support in the process of compiling the DDTC Indonesian Tax Manual Book 2023.

Finally, with the publication of the DDTC Indonesian Tax Manual Book 2023, 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, B. Bawono Kristiaji and Atika Ritmelina M.

Guidelines

DDTC Indonesian Tax Manual Book 2023 is also available online on a comprehensive tax database platform in Indonesia, Perpajakan ID. This e-book is enriched with links to reliable and comprehensive information sources, and will be updated biweekly on Perpajakan ID. However, this manual book is released with the last updates from Indonesian tax regulations as of July 2023.

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 e-book of DDTC Indonesian Tax Manual 2023 can be accessed through this QR code.

Table of Contents

Survey of Recent Development

The World Health Organization (WHO) has lifted the status of COVID-19 as a public health emergency of international concern. Along with WHO's decision, the Indonesian government officially revoked the status of the COVID-19 pandemic. As a result, at the end of June 2023, Indonesia entered the COVID-19 endemic period. The increasing mobility is estimated to be followed by a domestic consumption boost and broad-based economic recovery in business sectors.

The government projection for Indonesia's economic growth in 2023 is relatively strong, in an optimistic track of 5.3%. The optimism for this projection is evident when the government records that the State Budget (*Anggaran Pendapatan dan Belanja Negara*/APBN in Indonesian) has a surplus of IDR152.3 trillion in semester I/2023. This figure equals 0.71% of the gross domestic product (GDP).

The surplus generated by the realisation of state revenue was recorded at IDR1,407.9 trillion, equivalent to 57.2% of the target. This surplus reflects the good health of the State Budget. State revenue performance is mainly supported by taxation.

In 2023, the government set a tax revenue target of IDR1,718 trillion, increasing by 0.07% from the 2022 tax revenue realisation, IDR1,716.8 trillion. In terms of taxation revenues, the realisation in the semester I/2023 reached IDR1,105.6 trillion, or 54.7% of the target for 2023. On the

one hand, tax revenue realisation amounts to IDR970.2 trillion. Customs and excise revenue, on the other hand, amounts to IDR135.4 trillion.

Economic growth between countries was mixed in the first quarter of 2023, but national economic growth was strong. However, as the second quarter of 2023 began, tax revenues continued to show positive performance due to improved people's economic activities, which was consistent with the national economic recovery. The government will remain wary of future tax revenue performance in light of global economic volatility and revenue base normalisation.

The modest estimation of tax revenue also reflects an optimistic yet cautious target. Notwithstanding the satisfactory economic performance, the shifting risk from the pandemic to global economic turmoil also needs to be considered. Therefore, the government positions the state budget and fiscal policy as a shock absorber. Consequently, a series of tax reforms will also function as a shield to strengthen fiscal resilience.

One notable reform agenda is the implementation of Law of the Republic of Indonesia Number 7 of 2021 concerning the Harmonisation of Tax Regulations (hereinafter referred to as HPP Law). The government has issued four government regulations, derivative regulations of HPP Law. The regulations stipulate the application of Value Added Tax (VAT), Sales Tax on Luxury Goods (STLGs), income tax and general tax provisions after the implementation of the HPP Law.

Some of the arrangements in the government regulations include the appointment of other parties to collect VAT and STLGs, implementation of an "Indonesian single identity number" (*Nomor Induk Kependudukan*/NIK in Indonesian, hereinafter referred to as ID Number) to replace the Tax ID Number (*Nomor Pokok Wajib Pajak*/

NPWP in Indonesian, hereinafter referred to as TIN) as well as detailed provisions of carbon tax and fringe benefit tax. Some of the regulatory materials in the government regulations will continue to be revealed in other technical regulations such as Minister of Finance (MoF) regulations.

Simultaneously, another key strategy to optimise the tax base expansion is tax extensification strengthening as well as targeted and regional-based supervision. The efforts are carried out by implementing the supervision priority list (*Daftar Prioritas Pengawasan*/DPP in Indonesian), including for high-wealth individuals, groups and digital economy taxpayers. DGT is forming a task force to oversee several groups of these taxpayers.

Furthermore, the issuance of Law of the Republic of Indonesia Number 6 of 2023 concerning the Stipulation of Government Regulation in Lieu of Law Number 2 of 2022 concerning Job Creation into a Law (hereinafter referred to as Law No. 6/2023) also supports the investment growth agenda. The tax provisions contained in Law No. 6 of 2023 have been synchronised and harmonised with the HPP Law and Law of the Republic of Indonesia Number 1 of 2022 on Financial Relations between the Central Government and Regional Governments (hereinafter referred to as HKPD Law) to establish legal certainty.

This year should also be considered a preparation for revamping the tax administration. Accordingly, the acceleration of reforms in human resources, organisation, business processes and regulations is also one of the spotlights. The Directorate General of Taxes (*Direktorat Jenderal Pajak*/DJP in Indonesian, hereinafter referred to as DGT) is preparing the core tax system, which will be fully implemented in January 2024. Through the core tax system, at least 21 business processes will undergo changes, including registration, tax return management, taxpayer account management, exchange of information, business intelligence and compliance risk management (CRM).

In a balanced manner, the government also continues to encourage the growth of certain sectors and provide ease of investment by applying more targeted and measurable tax incentives. The design of the tax incentives policy will be aligned with fiscal policy direction to encourage increased productivity and sustainable economic transformation.

In parallel, responding to the reconstruction of international taxation, Indonesia is also preparing to adopt a 2-pillar solution to implement the global tax consensus. The provisions regarding Pillar 1: Unified Approach and Pillar 2: Global Anti-Base Erosion (GloBE) have been regulated in the Government of the Republic of Indonesia Regulation Number 55 of 2022. Meanwhile, the technical aspects of the global minimum tax imposition will be further regulated in the form of Minister of Finance regulation.

Nevertheless, the government will not rush to take essential actions, including revising the current tax incentives regime or imposing a domestic minimum tax based on the qualified domestic minimum top-up tax (QDMTT) provisions. Indonesia will continue to oversee developments and participate in global tax coordination to avoid uncertainty.

In the excise aspect, the government has also announced an increase in tobacco product rates (*Cukai Hasil Tembakau*/CHT in Indonesian) for the 2023-2024 period, with an average increase of 10%. In addition to rates on tobacco products, the government has targeted revenues from several other types of excises to be implemented in 2023, including plastics and sugar-sweetened beverages excise.

In the regional context, the government has finalised the government regulation on the general provisions of local taxes and charges. The regulation is designed to implement local tax and charge provisions in the HKPD Law. Through the Government of the Republic of Indonesia

Regulation Number 35 of 2023, local tax provisions will be harmonised with tax provisions in the central government as stipulated in the general provisions of taxes law.

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 Value Added Tax Purposes) are fulfiled, even if the person or entity has not registered for a taxpayer ID or as a Taxable Person for Value Added Tax (VAT) Purposes. The Directorate General of Taxes (DGT) confirms the aforementioned with DGT Letter No. S–393/PJ.02/2016.

Further, if the DGT 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 paragraph (3) of the General Provisions and Tax Procedures Law (hereinafter referred to as GPTP Law) 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 five years. However, under tax-crime-related Articles in GPTP Law, the statute of limitations is ten years.

DDTC has published a book on selected details concerning guidelines of tax procedures that may be accessed on Perpajakan ID. DDTC has also consolidated GPTP Law up to the amendment by the Law of the Republic of Indonesia Number 7 of 2021 concerning the Harmonisation of Tax Regulations and translated GPTP Law into English; both may be found on Perpajakan ID. The GPTP Law is implemented in the Government of the Republic of Indonesia Regulation Number 50 of 2022 (hereinafter referred to as Gov. Reg. 50/2022).

B. Tax Subjects and Tax Registration

Any person, including an entity, that has fulfiled subjective and objective qualifications as stipulated in income tax law (hereinafter referred to as ITL) 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 and undivided inheritance represented by the heir 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 include those who reside in Indonesia or have been present in Indonesia for more than 183 days within any 12 months 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 fulfiling such criteria is considered a non-resident tax subject, including a permanent establishment (PE) used by a foreign citizen to conduct business in Indonesia. A foreign entity constitutes a non-resident tax

subject if it conducts business or activities in Indonesia, regardless of whether through a PE or not.

Objective requirements are fulfiled if resident and non-resident tax subjects receive income or are obliged to withhold taxes pursuant to the ITL. 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 fulfiled objective requirements and entities established or domiciled in Indonesia are referred to as taxpayers. If a foreign entity constitutes a resident tax subject through a PE, the tax treatment for this PE is equivalent to a corporate taxpayer.

Resident individuals as taxpayers, as of 14 July 2022, shall use Identification (ID) Number (*Nomor Induk Kependudukan/*NIK in Indonesian). ID Number needs to be activated as a Taxpayer Identification Number, which could be done either by activation by request from a taxpayer or automatically by the DGT.

In the context of taxpayers that no longer fulfil the subjective and/or objective requirements as taxpayers, the tax office may also deregister Taxpayer Identification Numbers. Provisions on the deregistration of Taxpayer Identification Number (TIN) are regulated in Director General of Taxes Regulation Number PER-04/PJ/2020. For individual taxpayers, see the illustration in the case of taxpayers who have reached retirement age or pensioners.

In other cases, if a person who passes away leaves an inheritance, his/her TIN is changed to TIN of Undivided Inheritance. Furthermore, the TIN will be deregistered if the inheritance has been divided. If a person has passed away and left no inheritance, his/her TIN can be deregistered.

C. Taxpayer's Representative and Proxy

In exercising their rights and fulfiling their obligations, taxpayers may represent themselves, be represented by their representatives or appoint a proxy to act on the taxpayers' behalf in exercising their rights and obligations. Further, suppose taxpayers fail to fulfil their obligations, particularly in respect of tax liabilities or tax penalties. In that case, the taxpayers' representatives may be held liable and accountable unless they can prove and assure the DGT that assuming such responsibility within their position is impossible.

An individual taxpayer's representatives include the individual taxpayer himself/herself, spouse (if tax administratively consolidated), the individual's heir/heiress and so forth, further details of whom can be seen in DDTC News' article. A corporate taxpayer's representatives generally include the director, commissioner, C-suite and the person authorised to make decisions for the entity. Further details concerning corporate taxpayers' representatives based on different types of entities can be seen in DDTC News' article.

A taxpayer's proxy includes a tax consultant, other party or family. In general, a proxy is required to have certain competencies in the field of taxation, except for family which consists of a spouse or family by blood or marriage up to the second direct lineage. Taxpayers may appoint other parties or licensed tax consultants as their proxies. There are three levels of tax consultant licenses that determine the type of taxpayers the tax consultants may represent as an attorney.

Level A licensed tax consultants may represent individual taxpayers except 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 Center of Financial Professions Supervisory (*Pusat Pembinaan Profesi Keuangan*/PPPK in Indonesian) under the Ministry of Finance has also published a list of licensed tax consultants on its website. Taxpayers may confirm tax consultants' license level as stipulated in the Minister of Finance of the Republic of Indonesia Regulation Number 175/PMK.01/2022.

Further, a Constitutional Court Decision with implications on the criteria of taxpayers' proxy has been issued. In general, this decision broadens the criteria of taxpayers' proxy stipulated in the Minister of Finance of the Republic of Indonesia Regulation Number 229/PMK.03/2014.

D. Bookkeeping and 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 (*Norma Perhitungan Penghasilan Neto*/NPPN in Indonesian) and those not conducting business or independent personal services (i.e., employees).

Minister of Finance of the Republic of Indonesia Regulation Number 54/PMK.03/2021 shows the difference between the obligation of maintaining bookkeeping and recording. The guidelines for recording for individual taxpayers can be seen in the Director General of Taxes Regulation Number PER-4/PJ/2009.

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 appropriately maintained with supporting documentation, including transfer pricing documentation and information

(if required). For further details regarding transfer pricing documentation and information, see Chapter 6 concerning Transfer Pricing.

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.

Provisions on procedures for bookkeeping using foreign languages and currencies other than rupiah and the obligation to file annual corporate income tax returns are regulated under a number of regulations, including MoF Regulation No. 196/PMK.03/2007 as last amended by MoF Regulation No. 123/PMK.03/2019, DGT Regulation No. PER-24/PJ/2020 and MoF Decree No. 543/KMK.04/2000.

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 ten years, including data processing results using electronic bookkeeping or online application programs.

E. Tax Payment and Tax Returns

Tax returns serve as a means for filing and validating the computation of (i) income tax payable for taxpayers subject to income tax, (ii) VAT or Sales Tax on Luxury Goods (STLGS) for Taxable Persons for VAT Purposes or (iii) taxes withheld/collected for 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 above-mentioned tax returns must be paid to the state treasury through certain tax-payment banks, the deadlines specified in the tax laws. Procedures for the payment and remittance of taxes, along with the procedure for the instalment or deferral of the tax payment, are stipulated in the Minister of Finance Regulation.

If the payment deadline falls on a holiday (Saturday, Sunday, national holidays, days off to organise 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 customs e-billing system administers the payment and taxes for which the payment procedures are specifically regulated).

Each type of tax payment requires certain codes to identify the payment type for tax purposes. Taxpayers may be unable 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 2.1 Monthly Tax Obligations

Type of Tax	Payment Deadline	Filing Deadline
Article 25 Income Tax	15th of the following month	N/A
Withholding Article 15 Income Tax	10th of the following month	20th of the following month

Type of Tax	Payment Deadline	Filing Deadline
Self-remit Article 15 Income Tax	15th of the following month	20th of the following month
Withholding Article 21/26 Income Tax	10th of the following month	20th of the following month
Withholding Article 23/26 Income Tax	10th of the following month	20th of the following month
Article 4 (2) Final Income Tax	10th of the following month	20th of the following month
Self-remit Article 4 (2) Income Tax	15th of the following month	20th 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	15th of the following month	End of the following month
Tax Collector-government/ expenditure treasurer-VAT and STLGs	No later than seven 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	15th of the following month	End of the following month

Table 2.2 Annual 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

Starting January 2022, for several types of Income Taxes, namely Article 4 paragraph (2) Income Tax, Article 15 Income Tax, Article 22 Income Tax, Article 23 Income Tax and Article 26 Income Tax, the preparation of unification withholding receipts and the filing of unification Periodic Income Tax Returns shall come into force. Unification withholding receipts and unification Periodic Income Tax Returns in the form of electronic documents shall be prepared and filed through the *e-bupot unifikasi* application.

Individual 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. 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 one full month.

Penalties for late filing are IDR500,000 for VAT returns, IDR100,000 for other monthly tax returns, IDR100,000 for annual individual income tax returns and IDR1,000,000 for annual corporate income tax returns. See Subchapter F.9 for a summary of administrative and criminal taxation penalties.

Taxpayers may voluntarily rectify filed tax returns by submitting a written statement in the revised tax return. Such could be done if the DGT has not carried out a tax audit or a preliminary investigation. Further, the taxpayers

may rectify their annual tax return if the taxpayer receives an administrative assessment or decision (including one as a result of MAP) or court decision for the prior tax year(s) that stated a tax loss that is different from the tax loss that has been carried forward in the annual tax return. Such could be done no later than three months after receiving the administrative assessment, decision or court decision and does not exceed the deadline of rectifying loss or overpayment stating tax return.

F. Tax Disputes and Litigation

F.1 Tax Compliance Monitoring

The DGT routinely monitors taxpayers' compliance. Recently, the DGT has emphasized monitoring taxpayers' compliance based on geography. The DGT may send a letter of inquiry (*Surat Permintaan Penjelasan atas Data dan/atau Keterangan*/SP2DK in Indonesian) to a taxpayer to obtain an explanation, data and information about the alleged non-compliance based on the DGT's initial analysis. Responses to SP2DK are crucial, specifically, when data and information included in SP2DK need clarification. If there is no response, the DGT will assume that the data contained in the SP2DK is the actual data.

If the presumption of non-compliance is not justified, either fully or partially, the taxpayer may respond to such a request and substantiate that the presumption is arbitrary and the taxpayer may prove otherwise; alternatively, if the presumption of non-compliance is justified, the taxpayer may revise the related tax returns, pay any tax payable discrepancies (if any) and file the tax returns. Please be aware that an interest penalty is associated with the payment of such tax payable discrepancy.

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

F.2 Tax Audit

A taxpayer's request for a tax refund automatically triggers a tax audit. Except for advance refund requests, the tax audit commences later after the refund. The audit time frame for tax refunds is 12 months from the filing date of the tax return requesting a refund. If the DGT fails to send out a notice of tax assessment within 12 months, the taxpayer's request for a refund is deemed approved. While there is a procedural timeline for an audit of a non-tax refund, an audit past the deadline cannot be dismissed.

An advance tax refund may be given to a taxpayer that fulfils certain requirements, but the DGT remains allowed to audit the taxpayer and assess after the advance refund is given. Individual taxpayers who fulfil certain requirements pursuant to the provisions of Article 17D of the GPTP Law, including individual taxpayers filing Annual Income Tax Returns with a maximum overpayment of IDR100,000,000 accompanied by the application for tax refunds by (i) Article 17B or (ii) Article 17D of the GPTP Law, are granted preliminary tax refunds.

Suppose a notice of tax assessment is given in connection with an advance tax refund, revealing that the taxpayer has underpaid taxes. In that case, a 100% penalty will increase the unpaid tax. Taxpayers requesting advance tax refunds are advised to choose either the normal or advance refund carefully. The procedures for advance tax refund can be found in the MoF Regulation No. 39/PMK.03/2018 as last amended by MoF Regulation No. 209/PMK.03/2021.

Moreover, audits to assess tax compliance are generally conducted according to audit standards. Audit standards have three stages, ranging from planning, implementation to reporting. Audit implementation standards include preparing an audit plan and audit program. In general, the tax audit plan will be determined by the DGT based on

initial risk assessment or initial data on non-compliance. On the other hand, the audit program prepares a plan for audit methods and techniques to be conducted, such as equalisation and reconciliation techniques. The overall tax audit business process within the DGT has been digitalised using *Desktop Pemeriksaan* (the DGT's internally developed application).

A tax audit officer will conduct direct and indirect tests during an audit according to the DGT's audit guidelines. A tax audit officer may occasionally carry out indirect testing, such as cash and bank transactions, ratio calculation and/or additional net worth. However, a tax audit officer may use audit techniques, such as reconciling tax accounts against financial accounts.

During a tax audit, taxpayers may voluntarily disclose errors in their tax returns by applying Article 8 paragraph (4) of the GPTP Law. Tax underpayments caused by voluntary disclosure submission are liable to interest equal to the reference interest rate set forth in a Minister of Finance decree for a maximum of 24 months. Only before the DGT issues a notification of tax audit findings that taxpayers may disclose irregularities in the preparation of tax returns.

At the final stage of a tax audit, the DGT will issue a notification of tax audit findings. Suppose the taxpayer found that the tax audit finding is arbitrary. In that case, the taxpayer must file a rebuttal letter within seven working days since receiving notification of tax audit findings, which may be extended for three additional working days by submitting a letter to the DGT.

Before concluding the final result of a tax audit, taxpayers may request a quality assurance review at the higher level of the DGT. The grounds for requesting a quality assurance review are if there is a violation of the law or its application by the tax audit officer. If a taxpayer requests a quality assurance review for any other reason, such a request will

not be considered. 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 Interest Compensation

The scope of interest compensation is generally limited to two scenarios, if the DGT is late in issuing a tax refund administrative letter or if the taxpayer's refund in the tax return (subject to confirmation during final tax audit result) is reduced by the DGT in a tax assessment, and further objection decision or court decision results in favour of the taxpayer with the allowed refund. The interest compensation is equal to the reference interest rate based on a Minister of Finance decree for a maximum period of 24 months.

F.4 Administrative Remedies

Administrative remedies are non-judicial remedies that are allowed by the law to be filed to the DGT. Generally, administrative remedies must be fully undertaken before going to the tax court. Following the DGT's notice of tax collection or tax assessment, a taxpayer may file for administrative remedies pursuant to Article 36 of the GPTP Law as follows:

- a penalty reduction or nullification (Article 36 paragraph (1) letter 'a' of the GPTP Law);
- a reduction or cancellation of the notice of tax assessment (Article 36 paragraph (1) letter 'b' of the GPTP Law);

- a reduction or cancellation of the notice of tax collection (Article 36 paragraph (1) letter 'c' of the GPTP Law); or
- cancellation of the tax audit findings or notice of tax assessment resulting from a tax audit completed without the taxpayer receiving temporary audit findings and the final audit closing conference letter (Article 36 paragraph (1) letter 'd' of the GPTP Law).

Additionally, after receiving a withholding receipt or the DGT's notice of tax assessment, a taxpayer has three months from the date of the receipt or the notice of tax assessment to file a tax objection with the DGT in order to pursue administrative remedies under Article 25 of the GPTP Law. When the taxpayer is able to show a case of force majeure, the three-month deadline does not apply. When a tax objection is filed, the administrative remedies listed in Article 36 paragraph (1) of the GPTP Law will be rejected if there is a close relationship between the two remedies.

In the event that the taxpayer's objection is rejected due to non-compliance with the formal requirements, for example, when filing a tax objection letter exceeding the time limit, the taxpayer may file a reduction or cancellation of the notice of tax assessment pursuant to Article 36 paragraph (1) letter 'b' of the GPTP Law.

If the DGT does not respond to the taxpayer's objection within 12 months after receiving the taxpayer's objection letter, the objection will be deemed accepted. The taxpayer may appeal the DGT's objection decision to the Tax Court. The DGT's objection decision may be accepted entirely, partially or not at all, or result in a tax increase.

Active tax collection efforts, including those resulting in a seizure letter, should be undertaken in response to any unpaid taxes or penalties included in a notice of tax assessment, except those connected to a dispute for which a tax objection is filed. When a taxpayer files

an objection to the DGT, the collection of unpaid taxes and penalties not agreed upon by the taxpayer listed in the tax assessment notice must be delayed. Please note, however, if the DGT delivers a judgement partially granting or refusing the taxpayer's objection, the outstanding taxes and penalties are subject to a 30% penalty of the unpaid sum.

If the taxpayer pays the taxes and penalties before filing the objection, the 30% penalty is not imposed. Such a 30% penalty will not be imposed either when the taxpayer files a tax appeal to the tax court on the objection decision of the DGT. However, please see the subchapter regarding the tax appeal below to be informed on the penalty scheme when a taxpayer files a tax appeal. When a taxpayer files an objection to the DGT, the interest on the overdue tax assessment notice will not be assessed.

F.5 Tax Appeal (*Banding* in Indonesian)

A taxpayer may appeal to the Tax Court following the DGT's Tax Objection Decision Letter.[1] Three months after receiving the Tax Objection Decision Letter is the deadline for submitting the request letter for an appeal (this is defined by the Tax Court Law (TCL) as the date the DGT sends the letter). When the taxpayer is able to show a case of force majeure, the three-month deadline does not apply.

The unpaid taxes in dispute do not need to be paid while filing a tax appeal since they are delayed until one month following the Tax Court's decision (Article 27 paragraph (5) letter 'a' of the GPTP Law). A taxpayer is only liable to pay the amount of unpaid taxes agreed upon during the tax audit and should have been paid by the taxpayer had

1 Please note that since the issuance of the Chairperson of the Tax Court Regulation Number PER-1/PP/2023, trial proceedings of disputes at the level of appeal or lawsuits have been held electronically through the use of the e-Tax Court. These electronic trial proceedings will come into effect as of 31 July 2023.

the tax objection been filed to the DGT prior to an appeal on the DGT objection decision.

The taxpayer is liable for a penalty equal to 60% of the amount of outstanding taxes, less any taxes paid prior to filing an objection to the DGT in the event that the Tax Court rules against or partially grants the taxpayer's appeal that result in a tax payable position. Payments made following the submission of an objection to the DGT will not be taken into account when calculating the penalty. Even if the taxpayer paid the disputed taxes and penalties before filing the tax objection, the taxpayer could not request interest compensation on the tax objection decision or Tax Court decision which partially or entirely accepts an objection or appeal resulting in the DGT refunding the paid taxes.

Interest for taxpayers is available if a refund is not granted for the overpaid tax in a tax return during a tax audit. Yet, a refund is granted during the tax objection, appeal or civil review. If the DGT is late in issuing a tax refund instruction letter, a taxpayer may also request interest for a maximum period of 24 months.

F.6 Lawsuits (*Gugatan* in Indonesian)

Taxpayers may file a lawsuit to the Tax Court challenging the DGT's decision letter (i.e., the decision on a taxpayer's application under Article 36 paragraph (1) of the GPTP Law). Taxpayers may also file a lawsuit to the Tax Court to address other letters the DGT sent them. Other letters may be considered as the objects of a tax lawsuit when certain conditions are met, namely, if such a letter has resulted in particular tax consequences for the taxpayer, the Tax Court will evaluate the issue and decide whether such a letter is subject to lawsuit resolution in the Tax Court. Such letters must be filed for lawsuit within 30 days from the date the letter is sent.

Taxpayers receiving a seizure letter due to tax collection are compelled to give up money or other assets to pay back the taxes they owe. In the following circumstances, the taxpayer may file a lawsuit on the seizure letter within 14 days of the letter's date:

- if the taxpayer has filed for dispute resolution on the taxes owed and is in financial distress and requests that all tax collection efforts, including seizure, be suspended until the pertinent dispute resolution has been issued; or
- if the seizure process was procedurally flawed, which could lead to the seizure being reprocessed.

F.7 Civil Review (*Peninjauan Kembali* in Indonesian)

Taxpayers or the DGT may file a civil review application to the Supreme Court only once if they believe that the Tax Court's ruling is unfavourable to either party. The reasons for such applications are listed in Article 91 of the TCL as follows:

- 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
- 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 91 letter 'a' of the TCL);
- the discovery of new evidence of which the date of discovery must be made under oath and authorised by a competent authority (Article 91 letter 'b' of the TCL); or
- the Tax Court decision being sent (Article 91 letter 'c' to letter 'e' of the TCL).

The civil review must be filed to the Supreme Court via the administration of the Tax Court. Once receiving a civil review memorial letter, the Tax Court administration will forward the petitioner's memorial letter and request the respondent to file a counter-civil review memorial letter to the Tax Court. The Tax Court administration, after compiling all memorial letters and all documents required by the Supreme Court, will then forward the full dossier to the Supreme Court. Once received by the Supreme Court, the administration will register the case in the system which is accessible to the public on the Supreme Court website. Public could monitor the civil review case progress on the Supreme Court website.

In the event of a civil review decision resulting in an additional tax payable, the taxpayer is subject to a penalty of 60% from the taxes payable under the civil review decision deducted with taxes paid prior to submission of tax objection.

F.8 Tax Crime

A tax audit can be used to gather preliminary evidence when a tax crime is suspected, such a tax audit is known as preliminary investigation (*pemeriksaan bukti permulaan* in Indonesian). The regulation of the procedures for preliminary investigations of tax crimes is stipulated under the Minister of Finance of the Republic of Indonesia Regulation Number 177/PMK.03/2022.

During a preliminary investigation, the taxpayer may voluntarily disclose practice to disclose committed tax crime practice and have criminal exposure due to the taxpayer's wilful violation of the tax law. In addition to the voluntary disclosure practice, the taxpayer is also required to pay any underpaid tax as well as a penalty equal to 100% of the underpaid tax. Such disclosure may only be done provided that a tax crime investigation has not yet begun. Further, if the DGT accepts this voluntary disclosure of practice, no tax crime investigation will commence.

A tax crime is punishable by both jail and a monetary fine. Typically, only the person or organisation accused of the tax crime will be subject to a penalty; the individual taxpayer or the director of a corporation and his or her accomplices will be held guilty for the tax offense. Tax crimes typically include entering fictious transactions, issuing or utilising fictious VAT invoices or withholding receipts or tax payment slips, failing to file a tax return, filing a tax return that is erroneous or incomplete or using false information in the tax return all of which resulting in losses to states revenues.

During a tax crime investigation, if the taxpayer pays the underpaid tax plus a fine, the tax crime investigation may be terminated. The taxpayer must pay the underpaid tax as well as a fine in an amount equal to the underpaid tax if the tax offense was the result of negligence. If it is determined that the tax crime was committed on purpose, the taxpayer must pay the unpaid tax as well as a fine equal to three times the unpaid tax. The taxpayer must pay the underpaid tax as well as a fine equal to four times the underpaid tax if the tax offense involves the creation of fraudulent tax invoices or withholding slips.

F.9 Administrative Penalties and Criminal Penalties

Tax law enforcement is classified into administrative law enforcement and criminal law enforcement. Administrative violations will be subject to administrative penalties in the form of fines, interest or surcharges. On the other hand, criminal offenses will be subject to criminal penalties in the form of imprisonment, detention and/or fine sentences.

F.9.1 Administrative Penalties

Separately, below is a summary of interest, fines and surcharges.The DGT may reduce or nullify administrative penalties in the form of fines, interest and *ex-officio* surcharge payable or based on the taxpayer's application pursuant to statutory tax provisions, i.e., in the event of the taxpayer's negligence and not due to willful misconduct. Within six months from the date the application is received, the DGT must decide on the submitted application. If there is no decision after the deadline, the taxpayer's application is deemed granted.

Table 2.3 Fines

Group	Sub Group	Article	Reasons for the Penalties	Amount of Penalties
Administrative Penalties	Monetary Fines	Article 7	Tax Return is not filed within the time limit or the extension.	Fine: ● Periodic VAT Returns IDR500,000; ● Other Periodic Tax Returns and the Annual Individual Income Tax Return IDR100,000; ● Annual Corporate Income Tax Return IDR1,000,000.

Group	Sub Group	Article	Reasons for the Penalties	Amount of Penalties
Administrative Penalties	Fines in a Certain Amount	Article 8 (3)	Disclosure of incorrect completion of Tax Returns after a preliminary investigation has been conducted.	A fine of 100% of the amount of tax underpayment
		Article 14 (4)	Issuance of the Notice of Tax Collection for: ● Taxable Persons for VAT Purposes that do not or are late in preparing tax invoices; ● Taxable Persons for VAT Purposes do not fill out tax invoices completely.	A fine of 1% of the Tax Base
		Article 25 (9)	The filed objection is rejected or partially granted.	A fine of 30%
		Article 27 (5d)	The filed appeal is rejected or partially granted.	A fine of 60%
		Article 27 (5f)	A Civil Review decision increases the amount of outstanding tax.	A fine of 60%

Group	Sub Group	Article	Reasons for the Penalties	Amount of Penalties
Administrative Penalties	Fines in a Certain Amount	Article 44B	Termination of a tax investigation if the taxpayer settles taxes that are not paid or underpaid or that should not be otherwise refunded.	• A fine of one time the underpaid tax for a tax crime due to negligence under Article 38; • A fine of three times the underpaid tax for a tax crime due to willful misconduct under Article 39; • A fine of four times the underpaid tax for a tax crime due to fictious tax invoices or withholding receipts.

Table 2.4 Interest

Article	Reasons for the Penalties	Amount of Penalties
Article 8 (2)	Self-rectification of the Annual Tax Return increases the amount of tax.	Monthly interest amounting to the reference interest rate + uplift factor of 5% and divided by 12 (a maximum for 24 months) of the tax underpayment.
Article 8 (2a)	Self-rectification of Periodic Tax Returns increases the amount of tax.	Monthly interest amounting to the reference interest rate + uplift factor of 5% and divided by 12 (a maximum for 24 months) of the tax underpayment.
Article 8 (5)	Disclosure of incorrect completion of Tax Returns after an audit is conducted but the Notification of Tax Audit Findings has not been submitted.	Monthly interest amounting to the reference interest rate + uplift factor of 10% and divided by 12 (a maximum for 24 months) of the tax underpayment.

Article	Reasons for the Penalties	Amount of Penalties
Article 9 (2a)	Periodic taxes are filed past the deadline.	Monthly interest amounting to the reference interest rate + uplift factor of 5% and divided by 12 (a maximum for 24 months) of the tax underpayment.
Article 9 (2b)	Taxes are remitted past the filing deadline of the Annual Tax Return.	Monthly interest amounting to the reference interest rate + uplift factor of 5% and divided by 12 (a maximum for 24 months) of the tax underpayment.
Article 13 (2)	Notice of Tax Underpayment Assessment is issued after an audit of: ● there are unpaid or underpaid taxes; ● issuance of Taxpayer Identification Numbers for Taxpayers and/or *ex officio* VAT registration.	Monthly interest amounting to the reference interest rate + uplift factor of 15% and divided by 12 (a maximum for 24 months) of the tax underpayment.
Article 13 (2a)	Notice of Tax Underpayment Assessment is issued for Taxable Persons for VAT Purposes that do not supply Taxable Goods and/or Taxable Services and/ or export Taxable Goods and/or Taxable Services and have been given Input VAT refunds or have credited Input VAT.	Monthly interest amounting to the reference interest rate + uplift factor of 15% and divided by 12 (a maximum for 24 months) of the tax underpayment.

Article	Reasons for the Penalties	Amount of Penalties
Article 13 (3)	Notice of Tax Underpayment Assessment is issued after an audit of: ● failure to file Tax Returns within the time limit and after receiving a reprimand letter; ● there are VAT and STLGs that should not be set off, should not be subject to a 0% rate or should not be given a tax refund; ● the obligations of Articles 28 and 29 are not fulfiled.	Monthly interest amounting to the reference interest rate + uplift factor of 20% and divided by 12 (a maximum for 24 months) of the unpaid/ underpaid/under-withheld Income Tax.
Article 14 (3)	Notice of Tax Collection is issued for: ● unpaid or underpaid Income Tax; ● based on verification results, there is tax underpayment due to a typo and/or miscalculation in the Tax Return.	Monthly interest amounting to the reference interest rate + uplift factor of 5% and divided by 12 (a maximum for 24 months) of the tax underpayment.
Article 19 (1)	Payment of tax payable according to the Notice of Tax Underpayment Assessment, Notice of Additional Tax Underpayment Assessment, Rectification Decision Letter, Objection Decision Letter, Appeal Decision or Civil Review Decision is past due or not paid.	Monthly interest amounting to the reference interest rate and divided by 12 (a maximum for 24 months) of the tax underpayment.
Article 19 (2)	The Taxpayer instals or defers tax payments.	Monthly interest amounting to the reference interest rate and divided by 12 (a maximum for 24 months) of the tax underpayment.

Article	Reasons for the Penalties	Amount of Penalties
Article 19 (3)	The Taxpayer defers the filing of the Annual Tax Return and the results of the temporary calculation of tax payable are less than the actual amount of tax payable.	Monthly interest amounting to the reference interest rate and divided by 12 (a maximum for 24 months) of the tax underpayment.

Table 2.5 Surcharges

Article	Reasons for the Penalties	Amount of Penalties
Article 13 (3)	Notice of Tax Underpayment Assessment is issued after an audit of: ● failure to file Tax Returns within the time limit and after receiving a reprimand letter; ● there are VAT and STLGs that should not be set off, should not be subject to a 0% rate or should not be given a tax refund; ● the obligations of Articles 28 and 29 are not fulfiled.	A surcharge of 75% for VAT and STLGs that are not or underpaid as well as withheld Income Tax that is not or under-remitted.
Article 15 (2)	The issuance of Notice of Additional Tax Underpayment Assessment.	A surcharge of 100% of the tax underpayment
Article 17C (5)	Notice of Tax Underpayment Assessment is issued after preliminary tax refunds for Taxpayers that fulfil certain requirements.	A surcharge of 100% of the tax underpayment
Article 17D (5)	Notice of Tax Underpayment Assessment is issued after preliminary tax refunds for Taxpayers that fulfil certain requirements.	A surcharge of 100% of the tax underpayment

F.9.2 Criminal Penalties

Under certain articles, a taxation issue may be subject to administrative and/or criminal penalties.

Table 2.6 Adminstrative and/or Criminal Penalties

Group	Article	Reasons for the Penalties	Amount of Penalties
Administrative Penalties or Criminal Penalties	Article 38	• Failure to file Tax Returns due to negligence; • Filling incorrect or incomplete Tax Returns or attach incorrect due to negligence information.	A minimum fine of one time the amount of tax payable and a maximum of two times the amount of tax payable or imprisonment for a minimum of three months or a maximum of one year.
	Article 41C (1)	Deliberately failed to provide tax data and information to the DGT.	Imprisonment for a maximum of one year or a maximum fine of IDR1,000,000,000
	Article 41C (2)	Deliberately cause the unfulfillment of the obligations of officials or other parties not to provide tax data and information to the DGT.	Imprisonment for a maximum of ten months or a maximum fine of IDR800,000,000
	Article 41C (3)	Deliberately failed to provide data and information requested by the DGT.	Imprisonment for a maximum of ten months or a maximum fine of IDR800,000,000
	Article 41C (4)	Deliberately abuse tax data and information.	Imprisonment for a maximum of one year or a maximum fine of IDR500,000,000
Criminal Penalties	Article 39 (2)	Committing another tax crime before one year elapses.	Criminal penalties shall be extended by two times

Group	Article	Reasons for the Penalties	Amount of Penalties
Administrative Penalties and Criminal Penalties	Article 39 (1)	Deliberately: ● fail to register for Taxpayer Identification Numbers or fail to register their business to be registered as Taxable Persons for VAT Purposes; ● abuse or use without rights thereof, Taxpayer Identification Numbers or VAT Registration; ● fail to file Tax Returns; ● file incorrect or incomplete Tax Returns and/or information; ● refuse to be audited; ● show bookkeeping, recording or other documents that are false or forged or do not reflect the actual circumstances; ● fail to maintain bookkeeping or recording in Indonesia, fail to show or lend books of accounts, records or other documents; ● fail to retain books of accounts, records or documents constituting the basis of bookkeeping or recording and other documents; ● fail to remit withheld taxes.	Imprisonment for a minimum of six months or a maximum of six years and a minimum fine of two times the amount of unpaid or underpaid taxes and a maximum fine of four times the amount of unpaid or underpaid taxes.

Group	Article	Reasons for the Penalties	Amount of Penalties
Administrative Penalties and Criminal Penalties	Article 39 (3)	Attempt to commit tax crime of: ● abusing or using without rights thereof Taxpayer Identification Numbers or VAT Registration; or ● file incorrect or incomplete Tax Returns and/or attach incorrect or incomplete information in the context of applying for tax refunds or carryover of taxes.	Imprisonment for a minimum of six months and a maximum of two years and a minimum fine of two times the amount of the applied tax refunds and/or carryover of taxes and/or tax crediting and a maximum fine of four times the amount of the applied tax refunds and/or carryover or crediting.
	Article 39A	Deliberately: ● issue and/or use tax invoices, withholding receipts and/or tax payment slips that are not based on actual transactions; or ● issue tax invoices before being registered as a Taxable Person for VAT Purposes.	Imprisonment for a minimum of two years and a maximum of six years and a minimum fine of two times the amount of taxes stated in the tax invoices, withholding receipts and/or tax payment slips and a maximum fine of six times the amount of taxes stated in the tax invoices, withholding receipts and/or tax payment slips.
	Article 41 (1)	Officials' negligence in maintaining confidentiality.	Imprisonment for a maximum of one year and a maximum fine of IDR25,000,000
	Article 41 (2)	Officials who deliberately fail to fulfil their obligations or any persons who cause the officials to fail to fulfil officials' obligations.	Imprisonment for a maximum of two years and a maximum fine of IDR50,000,000

Group	Article	Reasons for the Penalties	Amount of Penalties
	Article 41A	Deliberately fail to provide information or evidence or provide false information or evidence.	Imprisonment for a maximum of one year and a maximum fine of IDR25,000,000
	Article 41B	Deliberately obstruct or hinder a tax crime investigation.	Imprisonment for a maximum of three years and a maximum fine of IDR75,000,000
Collateral Penalties	Article 32A (4)	Violations by other parties that provide electronic systems appointed by the Minister of Finance to withhold, collect, remit and/or file taxes.	Access termination

Corporate Income Tax

Since the issuance of Law of the Republic of Indonesia Number 11 of 2020 concerning Job Creation, Indonesia has welcomed a new tax regime; the dividend tax-free era. Through this new regime, Indonesia will automatically transition from a classical system to a one-tier system. Under this regime, corporate income is only subject to a one-time tax at the corporate level. As a result, when the company's profit is distributed as dividends to individual shareholders, the income is no longer subject to individual taxation.

Foreign dividends, on the other hand, are hybrid territorial. More information on dividend income taxation can be found in Chapter 10 Fiscal Incentives.

A. Tax Residence

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

A corporate, regardless of its establishment or domicile status, is considered an Indonesian tax resident subject to corporate income tax if it has a place of management or control in Indonesia. Tax residency status and registration can be found in Chapter 2 General Provisions & Tax Procedures.

B. Income Classification

Income tax is imposed on income received or accrued in a tax year. Income is defined broadly as any increase in economic capacity that may be used for consumption or increasing wealth, either from Indonesia or outside Indonesia. Income may be classified generally as income subject to non-final tax, income subject to final tax and income not subject to tax.

Nonetheless, under Article 4 paragraph (1) letter 'd' of the Income Tax Law, transactions subject to tax (capital gain tax) include the transfer of land and buildings, gains accruing to a corporation from distributions on liquidation or corporate restructuring, disposal of shares, sale/transfer of intangible property or rights and sale/transfer of mining concessions or participation rights.

Generally, corporate income tax computation (excluding income subject to final tax and not subject to tax) is based on taxable income in a tax year. Income subject to final tax should be withheld by third parties (Article 4 paragraph (2) Income Tax); its details can be found in Chapter 5 Withholding Tax.

The following income is not subject to tax:

- aid or donations, including compulsory religious donations and grants, may be in the form of money or in-kind, provided that there is no business, employment, ownership nor control relationship between the parties;
- inheritance;
- 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 (with further criteria);
- 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;
  - domestically-sourced dividends received or accrued by a corporate taxpayer;
  - foreign-sourced dividends and income after tax from an overseas permanent establishment received or accrued by a resident corporate taxpayer or a resident individual taxpayer that fulfils the requirements set out in Article 4 paragraph (3) letter 'f' number 2 of the Income Tax Law;
- contributions received or accrued by an authorised 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;
- scholarships that fulfil certain requirements;
- surplus received by a registered institution or a non-profit organisation engaged in education and/or research and development (R&D), that is further reinvested;
- deposit funds and certain income received by Hajj Financial Management Agency;
- surplus received by registered social or religious organisations which are reinvested further.

Details of income not subject to tax can be found in Government of the Republic of Indonesia Regulation Number 55 of 2022 concerning Adjustments To the

Regulation in the Field of Income Taxes (hereinafter referred to as Gov. Reg. 55/2022).

Moreover, 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 that are similar to those conducted or carried out by the permanent establishment in Indonesia; and
- 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 income as mentioned above.

C. How to Compute Corporate Income Tax

As mentioned above, corporate income tax computation (excluding income subject to final tax and not subject to 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).

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

Table 3.1 The Computation of Corporate Income Tax

1.	Income subject to tax (excluding income subject to final tax and income 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 (Art. 17 of the Income Tax Law i.e., 22%))
9.	Less: Tax Credit and Tax Instalment
10.	Net Corporate Income Tax Underpayment/(Overpayment)

* Fiscal adjustments may result in a temporary or permanent difference in taxable income.

** The amount of Taxable Income shall be rounded down to full thousands.

Certain small and medium-sized 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 three years for limited liability companies or four years for cooperatives, limited partnerships without shared capital or firms. Individual taxpayers with a certain gross turnover, for a fraction of business gross turnover of up to IDR500 million in one-year taxes, are not subject to Income Tax; the details can be found in DDTC News' article.

D. Deductible and Non-deductible Expenses

Expenses related to generating business income subject to income tax are deductible, except for those categorised as expenses with more than one year of useful life, which must be depreciated or amortised or categorised as non-deductible expenses. Therefore, costs to obtain, collect and maintain income, which does not constitute a taxable object may not be charged as expenses.

Incurred expenses related to income subject to the final tax or personal allowance are not deductible. Further,

incurred joint expenses in respect of both taxable income and personal allowance or income subject to the final tax must be proportionally allocated. Expenses for considerations or remunerations given in-kind and/or fringe benefits are deductible as of the 2023 tax year. This was formerly disallowed. See Chapter 4 Individual Income Tax for more information on the income tax treatment of considerations or remunerations received/ acquired in the form of in-kind and/or fringe benefits.

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 fulfiled. 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 fulfil certain conditions, as follows:

- entertainment expenses incurred to generate, collect and maintain revenues generally are deductible. To be deductible, the complete documentation of the incurred expense must be available and such expenses must be related to the objective mentioned above. In addition, a nominative entertainment list in a set format is required to be submitted along with the annual tax return;
- promotional expenses incurred for advertising, product exhibition, introducing new products or sponsorship to promote products are deductible. Promotional and sales expenses constituting deductible expenses must take into account the following:
  - to maintain and/or increase sales;
  - be reasonably incurred; and

O according to sound business practice.
In addition, a nominative promotional list in a set format is required to be submitted along with the annual tax return;

- bad debt expenses realised 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 district 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. These requirements do not apply to bad debts for small debtors and other small debtors;
- establishment or accumulation of reserve funds, to determine the amount of taxable income for resident taxpayers and permanent establishments, the establishment or accumulation of reserve funds cannot be deducted from gross income. Excluded from the provisions are allowances for bad debts for banks and other business entities that provide credit, finance leases, consumer finance companies and factoring companies calculated based on the applicable financial accounting standards, reserves for insurance businesses, guarantee reserves for the Indonesia Deposit Insurance Corporation, reclamation reserves for mining businesses, reforestation reserves for forestry businesses and reserves for closing and maintaining industrial waste disposal sites for industrial waste treatment businesses;
- donations for national disaster 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.

The amount of donations and/or social infrastructure development expenses that may be deducted from gross income for one year is limited not to exceed 5% of the net fiscal income of the previous tax year.

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 fulfiled 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.

Moreover, suppose the average amount of the loan is greater than the average amount of funds placed in the form of deposits or other savings. In that case, the interest on the loan that may be expensed is the interest paid or payable on the average loan, which exceeds the average amount of the funds placed as time deposits or other savings.

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 corporate income tax 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; and
  - 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.

E. Depreciation and Amortisation

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 capitalised and depreciated over the specified useful life using a depreciation method. Depreciation methods allowed under this provision are implemented (i) in equal parts over the useful life of the assets (the straight-line method) or (ii) in

decreasing parts by applying the appropriate depreciation rate to the residual value (the declining balance method). In terms of the declining balance method, the depreciation rate used under Income Tax Law is the double declining balance method.

To be deductible, the tangible 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. For tangible assets that have never been used or produced, taxpayers are allowed to begin depreciation in the month the assets are used to obtain, collect and maintain income or in the month the assets are used in production, subject to DGT approval.

If a taxpayer performs an asset revaluation for tax purposes as allowed by the DGT, the depreciation basis for revaluated assets shall be the value after the revaluation. In this regard, the revaluation shall be performed based on the market value or the reasonable value of the assets, as determined by a licensed public appraiser. However, the DGT may re-stipulate 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 3.2 Depreciation Rates per Group of Tangible Assets

Tangible Assets Group	Useful Life	Depreciation Rates	
		Straight-Line Method	Double Declining Method
Non-buildings			
Group 1	4 years	25%	50%
Group 2	8 years	12.5%	25%
Group 3	16 years	6.25%	12.5%
Group 4	20 years	5%	10%

Tangible Assets Group	Useful Life	Depreciation Rates	
		Straight-Line Method	Double Declining Method
Buildings			
Permanent	20 years	5%	–
Non-permanent	10 years	10%	–

Source: Article 11 of the Income Tax Law.

The list of groups of assets per type of business is outlined in the Appendix of Minister of Finance of the Republic of Indonesia Regulation Number 72 of 2023 (hereinafter referred to as MoF Reg. No. 72/2023). However, if a tangible asset (non-building) cannot be classified into the above four groups, it may be categorised as group 3. In addition, tangible assets acquired and utilised in certain business sectors are further regulated by MoF Reg. No. 72/2023.

In addition, through MoF Reg. No. 72/2023, the government emphasises that repair costs for tangible assets with a useful life of more than one year are capitalised on the fiscal net book value of tangible assets and expensed through depreciation. On the one hand, depreciation is calculated based on the remaining fiscal useful life if the repair does not extend the useful life of the tangible assets. However, if the repair increases the useful life, depreciation is calculated based on the remaining fiscal useful life of the tangible assets plus the additional useful life. The useful life of a group of tangible assets must be considered as the maximum time limit for depreciation.

Further, if a transfer or withdrawal of assets is subject to insurance compensation, the remaining fiscal net book value of the assets transferred or withdrawn is expensed as a loss, and the total selling price or insurance compensation is recorded or recognised as income in the year the withdrawal occurs. However, taxpayers may defer the recognition of the loss by applying for approval from the DGT.

Since the issuance of MoF Reg. No. 72/2023, MoF Reg. No. 248/PMK.03/2008, MoF Reg. No. 96/PMK.03/2009 and MoF Reg. No. 249/PMK.03/2008 as amended by MoF Reg. No. 126/PMK.011/2012 have been revoked.

Expenses for acquiring 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 one year must be capitalised and amortised 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 subject to income tax.

Table 3.3 Amortisation Rates per Group of Intangible Assets

Intangible Assets Group	Useful Life	Amortisation 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%

Source: Article 11A of the Income Tax Law.

Amortisation of costs to acquire intangible assets and other costs for certain business sectors commences in the month the expenditures are incurred or in the month of commercial production, except for certain business sectors. The month of commercial production is the month in which sales commence.

Costs/expenses for acquiring and upgrading computer software in the form of special application programs held and used to obtain, collect and maintain income subject to tax are expensed through the amortisation of intangible assets (Group 1). In the event of costs/expenses for upgrading the special application programs, the costs/expenses are first added to the remaining residual value

and amortisation is carried out with a new/full useful life starting from the month the upgrade is carried out. MoF Reg. No. 72/2023 primarily adopted the previously specified rules on software acquisition costs in DGT Decree Number KEP-316/PJ./2002.

With the enactment of the HPP Law, taxpayers have room to depreciate or amortise according to the actual useful life based on the taxpayers' bookkeeping. This only applies to permanent buildings and intangible assets with more than 20 years of useful life.

During this transitional period, starting from the 2022 tax year, taxpayers can utilise this facility by submitting a notification by April 30, 2024. This notification is submitted for permanent buildings and intangible assets owned and used before the 2022 tax year.

Moreover, if a taxpayer obtains a tax allowance, the taxpayer may be entitled to accelerated depreciation and amortisation of up to 200% for tangible assets and accelerated amortisation for intangible assets. More information on tax allowance can be found in Chapter 10 Fiscal Incentives.

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 five consecutive years, this may be extended up to 10 years under certain conditions.

Further, the tax loss that may be utilised 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 utilised. Lastly, the carryback of losses is prohibited.

G. Corporate Income Tax Rate

Resident corporate taxpayers and permanent establishments are subject to a rate of 22%. 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% lower rate.

Further, small and medium-sized 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.

Moreover, certain SMEs 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 three years for limited liability companies or four years for cooperatives, limited partnerships without shared capital or firms. 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 holidays can be found in Chapter 10 Fiscal Incentives.

H. Branch Profit Tax

Taxable Income for non-resident taxpayers conducting a business or activities through a permanent establishment (PE) in Indonesia in a tax year shall be calculated by deducting from income as referred to in Article 5 paragraph (1) by taking into account the provisions under Article 4 paragraph (1) and the deductions referred to in Article 5 paragraph (2) and (3), Article 6 paragraph (1) and (2) and Article 9 paragraph (1) letter 'c', letter 'd', letter 'e' and letter 'g' of the Income Tax Law.

A PE is subject to branch profit tax (BPT) at 20% on net profit after tax. This rate may be reduced if tax treaty benefits are available. BPT is waived if the net profit after tax of the PE is reinvested in Indonesia, subject to certain conditions.

I. Tax Instalments

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 domestic and foreign tax credits divided by 12 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 three 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.

J. 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 in Chapter 5 Withholding Tax) or taxes paid or collected in respect of imports or by third parties on certain transactions (see details on Article 22 of the Income Tax Law in Chapter 5 Withholding Tax) may be credited by corporate taxpayers against corporate income tax payable.

K. Foreign Tax Credit

Suppose a corporate taxpayer pays tax on foreign-sourced income. In that case, 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 tax payable calculated based on the Income Tax Law. Further regulations regarding foreign tax credits can be found in the Minister of Finance of the Republic of Indonesia Regulation 192/PMK.03/2018.

L. Net Corporate Income Tax 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.

M. 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 3.4 Deemed Profit for Certain Businesses

Business	Deemed Net Profit from Gross Revenues	Effective Income Tax Rate
Domestic shipping companies	4%	1.2%*
Domestic airline companies	6%	1.8%*
Foreign shipping and/or airline companies	6%	2.64%*
Foreign oil and gas drilling operations	15%	3.3%**
Certain trade representative offices	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% X 22% = 3.3%

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

Table 3.5 Specifically Regulated Income Tax Treatment for Certain Businesses or Transactions

Business	Specific Regulated Income Tax Treatment
Financial lease companies	● Financial lease companies must be authorised by the relevant authorities; ● Financial leases with the option to purchase: o Lessor's income is a portion of the lease payment in the form of lease service income; o Lessor is not allowed to depreciate the leased asset; o Lessor is allowed to do provision for doubtful debt capped max at 2.5% of average beginning and ending of receivables; ● Operating lease: o Lessor's income is the total amount of lease payment; o Lessor depreciates the asset. Details regarding the VAT treatment of financial lease transactions and sale and leaseback transactions can be found in Director General of Taxes Circular Number SE-129/PJ/2010.
Mining companies	● 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 contracts of work (CoW) has not ended; ● If the company is under such a special contract, the tax provisions in the special contract apply.
International toll manufacturing businesses	● 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; ● Such special deemed profit applies provided that the company has not entered into an advance pricing agreement with the DGT.

Business	Specific Regulated Income Tax Treatment
Sharia transactions	● Sharia banking o Bonus, profit sharing and margins received by a bank from a client constituting a facility beneficiary are taxed according to income tax on interest; o Other income received by a bank other than the abovementioned is taxed according to applicable income taxes; o Bonus, profit sharing and margins received by a depositor or investor of a Sharia bank are taxed according to income tax on interest; o Other income received by a depositor or investor of a Sharia bank other than the abovementioned is taxed according to applicable income taxes. ● Sharia financial service o *Ijarah muntahiyah bittamlik* is taxed as a financial lease with the option to purchase; o *Ijarah* is taxed as an operating lease; o Income in the form of profit margins or gains from account receivable financing or factoring with sharia arrangements as *wakalah bil ujrah* is taxed according to income tax on interest; o Income in the form of profit margins or gains from consumer financing with sharia arrangements as *murabahah, salam* or *isthisna'* is taxed according to income tax on interest; o Income in the form of fees or rewards from sharia-principle-based credit card business or other sharia-principle-based financing is taxed according to applicable income tax laws; o Income received or accrued by an investor in the form of gains and/or profit-sharing from a financing company with sharia arrangements as *mudharabah, musytarakah* or *musyarakah* is taxed according to income tax on interest; o Asset transfers from a third party solely for Sharia principle purposes within the financing business of a company are 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.

Business	Specific Regulated Income Tax Treatment
Upstream oil and gas under gross split contracts	Tax provisions on upstream oil and gas income taxation under a gross split contract are detailed. The following are several important points therein: ● income with regards to profit sharing is computed based on the contractor's portion of the realised value of oil and gas deducted with the realised value of domestic market obligation (DMO), added with DMO fees and added or deducted with the lifting price variance; ● 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; ● 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; ● 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; ● uplift or similar income is taxed at 20% of the gross amount; ● 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.
Built-operate-transfer	● Built-Operate-Transfer (BOT) is an arrangement between a land owner and investor which stipulating that the land owner confers the right to the investor to construct a building within the BOT agreement period and transfer the building to the land owner after the BOT agreement ends.

Business	Specific Regulated Income Tax Treatment
	● Income and expenses for investors: o rent income and other income related to the use of assets; o income related to the operation of buildings, such as hotels, sports centres, entertainment centres, etc; o compensation or income received or accrued from the land owner if the BOT agreement ends earlier; o business expenses follow the deductible expense rules; o 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 amortised in the same amount every year during the BOT agreement period. ● Income and expenses for the land owner: o routine payments from the investor during the BOT agreement period; o portion of building rental; o portion of profit from the operation of the building from the investor in whatever name and form; o other income related to the BOT agreement; o business expenses follow the deductible expense rules; o 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 on the 15th of the following month after the BOT period ends. The tax is a final tax for individuals and constitutes a tax credit for corporate taxpayers. If the land owner is a government institution, the tax is exempt.

N. Liquidation, Merger, Acquisition or Reorganisation

The acquisition value or transfer of assets transferred in a merger or acquisition context is the amount that must be issued or received based on market prices. If a profit is due to the transfer of assets in a merger or acquisition context, that profit is a tax object.

Taxpayers may use book value in the context of a merger if they have obtained approval from the Minister of Finance. Mergers that are permitted to use book values are mergers between two or more business entities whose capital is divided into shares while keeping one of the business entities with no residual losses (commercial and fiscal) or the business entity with the smallest remaining losses.

To be granted a permit to use book value in the context of a merger, an application must be submitted to the DGT, all tax debts of related parties must be paid off and the requirements of business purpose tests must be met.

The business purpose test requirements are fulfiled if:

- the main purpose of the merger, consolidation, spin-off or acquisition is to establish robust business synergies and strengthen the capital structure and not carried out for tax avoidance;
- the business of the taxpayer transferring the assets remains ongoing until the effective date of the merger, consolidation, spin-off or acquisition;
- the business of the taxpayer transferring the assets before the merger, consolidation or acquisition of business occurs, must be continued by the taxpayer receiving the transfer of assets for a minimum of five years after the effective date of the merger, consolidation or acquisition;
- the business of the taxpayer receiving the assets in the context of the merger, consolidation, spin-off or acquisition continues for a minimum of five years

after the effective date of the merger, consolidation, spin-off or acquisition; and

- assets in the form of fixed assets owned by the taxpayer receiving the assets originating from the merger, consolidation, spin-off or acquisition are not transferred by the taxpayer receiving the assets for a minimum of two years after the effective date of the merger, consolidation, spin-off or acquisition unless the transfer is carried out to increase company efficiency.

Further information on the use of book value for the transfer and acquisition of assets in the context of a merger or acquisition can be seen in MoF Regulation No. 52/PMK.010/2017 as amended several times, last amended by MoF Regulation No. 56/PMK.010/2021. As for the procedures, it can be seen in the DGT Regulation No. PER-03/PJ/2021 as amended by the DGT Regulation No. PER-21/PJ/2021.

Individual Income Tax

A. Overview

Individual income tax is mostly administered with employee Article 21 Income Tax of the Income Tax Law. During the COVID-19 pandemic, in Fiscal Year (FY) 2022, Article 21 Withholding Tax (Art. 21 WHT) revenue hit 16.34% compared to FY 2021, while in FY 2022 in line with the recovery of workforce utilisation, Art. 21 WHT recorded a growth of 16.34% year-on-year. Further, in FY 2022, Art. 21 WHT coupled with individual tax payable, contributed 10.2% and 0.7%, respectively, with a total of 10.9% to the DGT's total tax revenues.

Under the revision of tax laws by Law of the Republic of Indonesia Number 7 of 2021 concerning Harmonisation of Tax Regulations (hereinafter referred to as HPP Law) and Law of the Republic of Indonesia Number 6 of 2023 concerning the Stipulation of Government Regulation in Lieu of Law Number 2 of 2022 concerning Job Creation Into a Law (hereinafter referred to as Job Creation Law), several significant changes evidence the government's efforts to increase the tax revenues from individual income tax, both from Art. 21 WHT and annual tax payable.

First, using the ID Number as the taxpayer identification number (*Nomor Pokok Wajib Pajak*/NPWP in Indonesian) 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

fringe benefits generally applies with certain exceptions. *Fourth*, to attract expatriates with certain expertise, income tax only applies to income sourced from Indonesia for four 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 independently based on certain criteria.

B. Income Classification and Taxation

As aforementioned, most individual income taxes are collected by monthly withholding tax on employment income. 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 the employer has collected it and constitute a tax credit for the individual.

Aside from being an employee (permanent/temporary) in which his/her income is deducted from Art. 21 Income Tax by the employer, an individual may also conduct business, independent personal services and receive other income, such as from royalty, interest or rent. In this regard, DDTC has also summarised several types of individual professions in the non-employee category who conduct business or independent personal services, such as notaries, writers, consultants, musicians, artists, designers, sportsmen, doctors, teachers and others.

In its summary, DDTC describes the statutory tax provisions attached to each type of profession, the rights and obligations related to the scope of tax for each type of profession and how to illustrate the calculation of tax payable. A discussion of each type of profession can be accessed on Perpajakan ID.

B.1 Business Income

Individuals who conduct business (i.e., entrepreneurs and retailers) may opt to (i) maintain bookkeeping and use normal tax calculation on their income (Article 17 of the ITL), (ii) maintain recording and use deemed profit (*Norma Perhitungan Penghasilan Neto*/NPPN in Indonesian), or (iii) to be taxed at a final tax rate of 0.5% if their gross income in a year is less than IDR4.8 billion.

If certain taxpayers opt to use normal tax calculations, they have to inform the DGT. The same applies if they opt to use deemed profit; they have to inform the use of deemed profit to the DGT within the first three months of the current tax year. Otherwise, the taxpayers are required to maintain bookkeeping.

These certain individual taxpayers who conduct business with a gross income of less than IDR4.8 billion may also 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. Income received or accrued by individual taxpayers from independent personal services does not include income from businesses subject to final income tax in this provision.

This income tax incentive may only be enjoyed for a maximum period of seven years since the taxpayer is registered. On the other hand, if the taxpayer's income has exceeded IDR4.8 billion within seven years, this final income tax incentive cannot be used and the taxpayer must use the income tax rates under Article 17 of the ITL.

B.2 Income from Independent Personal Services

Individuals who conduct independent personal services (i.e., notaries, writers, consultants, musicians, artists, designers, sportsmen, doctors, teachers and others) may opt to (i) maintain bookkeeping and use normal tax

calculation on their income or (ii) maintain recording and use deemed profit if their gross income in a year is less than IDR4.8 billion. The obligations are the same as those of individuals who conduct businesses.

Suppose the annual gross income is more than IDR4.8 billion. In that case, individuals who conduct independent personal services (or business as mentioned above) have to maintain bookkeeping and use normal tax calculations on their income. Please note that a final tax rate of 0.5% does not apply to an individual's income from independent personal services even though their gross income in a year is less than IDR4.8 billion.

B.3 Income Subject to Final Tax

In certain conditions, individuals may receive income from dividends, rent of land/building, sales of shares, etc. This type of income will be subject to final tax. Third parties generally withhold income subject to final tax. 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.

Suppose the individual is a husband whose wife only receives income from her employer. In that case, 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.

However, suppose 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* in Indonesian) or due to a prenuptial agreement to have separate income and assets (*Pisah Harta* in Indonesian). In that case, her income must be consolidated with her husband's and the taxes will be proportionately allocated and filed separately in the husband's and wife's tax returns.

B.4 Other Income

Further, since the amendment to Income Tax Law by HPP Law, fringe benefits received or accrued from employment or provision of services (due to independent personal services) are classified as income subject to tax. Certain fringe benefits that are not subject to tax include (i) food and beverages (as well as the ingredients) provided to all employees, (ii) fringe benefits provided in certain areas, (iii) fringe benefits that the employer must provide for performing work, (iv) fringe benefits funded by the government budget and (vi) fringe benefits of certain types and/or thresholds. Please note that the government has issued the implementing regulation concerning the taxability of fringe benefits through the Government of the Republic of Indonesia Regulation Number 55 of 2022. Further, in July 2023, the government issued the technical provisions for withholding tax on fringe benefits as stipulated under the Minister of Finance of the Republic of Indonesia Regulation Number 66 of 2023.

In addition to honoraria or fees subject to Art. 21 Income Tax withholding, if individual taxpayers also receive several types of income, such as rents, royalties and interests, Art. 23 Income Tax will be withheld. Through the Director General of Taxes Regulation Number PER-1/PJ/2023 concerning Technical Guidelines for the Withholding, Remittance and Filing of Article 23 Income Tax on Royalty Income Received or Accrued by Individual Taxpayers Applying Income Tax Calculation Using Deemed Profit, the government officially lowers the Art. 23 Income Tax rate on royalties for individual taxpayers who use deemed profit. The effective rate of Art. 23 Income Tax is now 6%, whereas formerly, it was 15% of the royalty value. An example of calculating the reduction in the effective royalty rate can be seen in DDTC News' article.

C. How to Compute Individual Income Tax

The individual income tax calculation 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 four years.

On the other hand, resident taxpayers who fulfil certain criteria can calculate their net income using deemed profit (4B). The below illustration covers all types of income that an individual may receive.

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

Table 4.1 The Computation of Individual Income Tax

1	Business income and/or income from independent personal services (with a bookkeeping obligation)
2	Less: Deductible Expenses (Article 6 of the Income Tax Law)
3	Plus: Non-deductible Expenses (Article 9 of the Income Tax Law)
4A	Net Income from Business or Independent Personal Services, or
4B	Deemed Profit 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: Authorised Compulsory Religious Donations
9	Net Fiscal Income after Deductible Donations
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 multiplied by the progressive tax rates*) **Article 17 of the Income Tax Law regarding tax brackets*

14	Less: Tax Credit and Tax Instalment
15	Net Individual Tax Underpayment/(Overpayment)

D. Deductible and Non-deductible Expenses

Expenses related to generating 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 'Deductible and Non-deductible Expenses' in the Corporate Income Tax chapter). Additional non-deductible expenses 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 in Indonesian) is applied as an annual deduction to compute an individual's taxable income. Conditions at the beginning of the tax year determine the application for personal tax relief.

Suppose a wife decides to administer her income tax separately (see above). In that case, 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, suppose a husband and wife (with no dependents) both receive employment income and the wife decides to administer her income tax separately. In that case, the total personal tax relief will be IDR54 million x 2 or equivalent to IDR108 million.

Table 4.2 Personal Tax Relief

	in Indonesian Rupiah (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 per the tax rate according to taxable income brackets to determine the tax payable.

Table 4.3 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 and 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 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 three 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. If an individual taxpayer receives royalties subject to Article 23 Income Tax, the withheld tax may constitute 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.

I. Taxation of Expatriates

Foreign citizens residing in Indonesia may be of the resident tax subject or non-resident tax subject status as stipulated in the Income Tax Law which DDTC has also summarised in the Basic Guidelines of Tax Procedures book. It is crucial to determine the status, particularly if the foreign citizen works in Indonesia (an expatriate) and receives or accrues income from Indonesia and outside Indonesia. Different status may imply different treatments in respect of tax obligations. Moreover, if an expatriate's status is unclear, tax disputes, specifically dual resident issues, may occur.

Table 4.4 Differences in the Tax Treatment of Expatriates as Resident Tax Subjects and Non-resident Tax Subjects

	Expatriates as Resident Tax Subjects	Expatriates as Non-resident Tax Subjects
Taxable income	Income received or accrued from Indonesia as well as from overseas	Income received or accrued from Indonesia
Tax base	Net income	Gross income
Tax rate	Statutory tax rates (Article 17 of the Income Tax Law)	Commensurate (proportional) rates or based on the tax treaty
Income tax withheld by the employer	Article 21 of the Income Tax Law (non-final)	Article 26 of the Income Tax Law* (final)
Tax filing obligations	Obliged to file the annual individual income tax return	Not obliged to file the annual individual income tax return

* If there is a change in an expatriate's status from a non-resident tax subject to a resident tax subject within the same year, Article 26 Income Tax which has been withheld and paid by the employer on the expatriate's income may be credited against taxes on the expatriate as a resident taxpayer.

When an expatriate is determined to be of resident tax subject status and has received or accrued income that exceeds personal tax relief (PTKP), the expatriate constitutes a resident taxpayer. An expatriate constituting a resident taxpayer must comply with the applicable statutory tax provisions in Indonesia, which include the obligation to register to obtain a taxpayer identification number (NPWP).

I.1 Foreign Income Exemption for Certain Expatriates

Through the Omnibus Law on Taxation, expatriates are only subject to tax on income received or accrued from Indonesia insofar as two conditions are fulfiled. *First*, the expatriate has certain expertise. *Second*, this treatment only applies for four tax years from the time the expatriate becomes a resident tax subject.

Based on the Indonesian expatriate tax regime, only expatriates constituting resident tax subjects with certain expertise may enjoy tax exemptions on foreign-sourced income received. However, this provision does not apply to expatriates who choose to take advantage of the tax treaty between the Government of Indonesia and the government of the tax treaty partner country or jurisdiction partner where the expatriate earns income from outside Indonesia.

Foreign citizens with certain expertise referred to in this regime include (i) foreign workers who occupy certain positions determined by the Minister of Manpower of the Republic of Indonesia or (ii) foreign researchers appointed by the head of the National Research and Innovation Agency (BRIN) for nuclear energy and space. The criteria for 'certain expertise' include science, technology and/or mathematics expertise. For example, expatriates constitute chemists, geologists and geophysicists, civil engineers, telecommunication engineers, product and apparel designers, university lecturers, system analysts, software developers, mining supervisors, etc. A list of other certain expertise and procedures can be found in the Minister of Finance of the Republic of Indonesia Regulation Number 18/PMK.03/2021.

J. Benefit In-Kind and/or Fringe Benefits

The government has issued the Minister of Finance of the Republic of Indonesia Regulation Number 66 of 2023 concerning the income tax treatment of considerations or remunerations received/accrued in the form of in-kind and/or fringe benefits (hereinafter referred to as MoF Reg. No. 66/2023). On the one hand, considerations or remunerations in the form of in-kind are other than money transferred from the employer or provider to the recipient. They constitute a form of consideration or remuneration for work/services. Considerations or remunerations in the

form of fringe benefits, on the other hand, are the right to use a facility or service. These facilities or services can be sourced from the employer's assets or third-party assets leased by the employer/provider.

Since 1 January 2022, considerations or remunerations given in kind in connection with work or services constitute deductible expenses for employers or providers. The employer or provider of considerations or remunerations is the party that maintains bookkeeping for the 2022 accounting year starting before 1 January 2022; or after the 2022 accounting year begins, for employers or providers of considerations or remunerations providers that maintain bookkeeping for the 2022 accounting year starting 1 January 2022 or thereafter.

However, it should be noted that under MoF Reg. No. 66/2023, all in-kind and/or fringe benefits received or accrued during 2022 are excluded from Income Tax objects. Thus, if taxpayers as recipients/employees have calculated and self-paid the tax on in-kind and/or fringe benefits received in the 2022 tax year (as stipulated under Gov. Reg. 55/2022), for the calculated and self-paid income tax and filed by the taxpayers in the Annual Income Tax Return for the 2022 tax year, a refund for the tax overpayment that should not be payable may be applied for. This exception is regulated under the provisions on the exclusion of income tax objects of in-kind and/or fringe benefits of certain types and/or thresholds under MoF Reg. No. 66/2023.

The provisions on the application for tax refunds are stipulated in MoF Regulation No. 187/2015. The tax refund is requested after the taxpayer has rectified the Annual Income Tax Return. DGT Regulation No. PER-5/2018 also regulates the accelerated tax refund for individual taxpayers. Pursuant to this regulation, all tax refund requests submitted by individual taxpayers with an overpayment of up to IDR100 million will be immediately

followed up pursuant to Article 17D of the Income Tax Law. With the procedures outlined in Article 17D, taxpayers have the right to obtain a tax refund for tax overpayments without undergoing an audit process. Tax refund requests by taxpayers will only be verified by the DGT.

Further, MoF Regulation No. 66/2023 will be effective from 1 July 2023. With the enactment of MoF Reg. No. 66/2023, MoF Reg. No. 167/2018 is revoked and declared invalid.

J.1 The Obligation of Employers/Providers of Considerations or Remunerations to Withhold Article 21 Income Tax

Income Tax on income in the form of in-kind and/or fringe benefits will be withheld by employers/providers starting 1 July 2023. The tax withholding on in-kind and/or fringe benefits will be implemented through the Article 21 Income Tax mechanism. As for the considerations or remunerations related to work or services in the form of in-kind and/or fringe benefits received or accrued from 1 January 2023 until 30 June 2023, for which no tax has been withheld by the employer or provider, tax due must be calculated and paid by the recipient and filed in the Annual Income Tax Return.

J.2 Taxable Event

The withholding by employers is performed at the end of the month when the income is transferred or due, (i) based on whichever event occurs first for considerations or remunerations in the form of in-kind or (ii) the granting of rights or partial rights to the utilisation of a facility and/or service by the provider for considerations or remunerations in the form of fringe benefits.

J.3 Benefit In-kind and/or Fringe Benefits As Income Tax Objects

The employer or provider of considerations or remunerations in the form of in-kind and/or fringe benefits must withhold Income Tax pursuant to statutory tax provisions. In this case, the considerations or remunerations given in the form of in-kind and/or fringe benefits related to work/services can be deducted from gross income to determine taxable income by the employer or provider of the remunerations or considerations, to the extent that they constitute costs to obtain, collect and maintain income. On the other hand, for the recipient of in-kind and/or fringe benefits, they constitute an Income Tax object.

The considerations or remunerations related to work constitute considerations or remunerations relating to the employment relationship between the employer and the employee. Meanwhile, the considerations or remunerations related to services constitute considerations or remunerations due to transactions between taxpayers.

Expenses for considerations or remunerations in the form of fringe benefits that have a useful life of more than one year are expensed through depreciation or amortisation pursuant to the provisions on Income Taxes. Expenses for considerations or remunerations in the form of in-kind and/or fringe benefits that have a useful life of less than one year, on the other hand, are expensed in the year they are incurred.

J.4 Income Tax Objects Exclusion

Excluded from Income Tax objects for considerations or remunerations in connection with work or services received or accrued in-kind and/or fringe benefits include:

- foodstuff, ingredients for food, ingredients for beverages and/or beverages provided for all employees, including:

- food and/or beverages provided by the employer at the workplace;
- food and/or beverage vouchers for employees who due to the nature of their work cannot take advantage of the provision of food and/or beverages provided by the employer at the workplace; and/or
- ingredients for food, ingredients for beverages for all employees with a certain value threshold.

- in-kind and/or fringe benefits provided in certain areas;
- in-kind and/or fringe benefits to be provided by the employer in the implementation of work, including in-kind and/or fringe benefits related to security, health and/or employee safety requirements mandated by ministries or agencies pursuant to statutory provisions. The said in-kind and/or fringe benefits include items such as:
  - uniform;
  - equipment for work safety;
  - employee shuttle service;
  - lodging for crew members and the like; and/or
  - in-kind and/or fringe benefits received in the context of handling endemic, pandemic or national disasters.
- in-kind and/or fringe benefits sourced or financed by the state budget, local budget and/or village budget; or
- in-kind and/or fringe benefits of certain types and/or thresholds.

J.5 Food and/or Beverage Vouchers

A voucher is a non-monetary transaction tool that can be exchanged for food and/or beverages. This voucher applies to employees in marketing, transportation and other external services who conduct offsite assignments. Also included in a voucher is the reimbursement by the employer for the expenses of purchasing or acquiring

food and/or beverages for employees who conduct offsite assignments.

The value of vouchers excluded from Income Tax objects shall not exceed IDR2 million for each employee within a period of one month or the value of expenses for providing food and/or beverages for each employee within a period of one month, provided by the employer at the workplace, in case the value of expenses borne by the employer exceeds IDR2 million for each employee within a period of one month.

The difference in value between the actual voucher and the excluded voucher value from Income Tax objects is subject to Income Tax. In other words, when food and/or beverage vouchers for offsite assignments exceed IDR2 million per month or exceed the maximum value received by employees at the workplace, the excess difference becomes a taxable object and must be subject to Income Tax withholding by the employer.

J.6 Certain Areas

Certain areas are economically potential areas with inadequate infrastructure and are difficult to reach by public transportation. The in-kind and/or fringe benefits provided include facilities, infrastructure and/or facilities at the workplace for employees and their families, including:

- residence, including housing;
- healthcare services;
- education;
- worship;
- transportation; and/or
- sports, excluding golf, power boating, horse racing, gliding or motorsports,

insofar as the employer's business location obtains a certain regional determination from the DGT.

The employer's business location will be designated as a certain area based on MoF Reg. No. 66/2023, depending on the absence or inadequacy of at least 6 out of 11 types of economic infrastructure and public transportation. If the economic infrastructure and public transportation have been independently constructed by the employer, they are considered unavailable infrastructure.

MoF Reg. No. 66/2023 provides more detailed provisions on the exclusion of in-kind and/or fringe benefits from Income Tax objects for considerations or remunerations related to work/services received/accrued in the form of in-kind and/or fringe benefits provided in certain areas.

J.7 Certain Types & Thresholds of In-Kind and/or Fringe Benefits Exclusion

Several certain types and thresholds of in-kind and/or fringe benefits are excluded from Income Tax objects, as follows:

Table 4.5 Certain Types & Thresholds of In-Kind and/or Fringe Benefits

No.	Type	Requirement
1.	Gifts from the employer for religious holidays, i.e., Eid al-Fitr, Christmas, Nyepi, Vesak or Chinese New Year	Received or accrued by all employees
2.	Gifts from employers that are given other than for religious celebrations	● Received or accrued by employees; and ● Maximum IDR3 million/year per employee.
3.	Work equipment and facilities from employers, including computers, laptops or cellular phones and their related costs such as phone credit or internet connection	● Received or accrued by employees; and ● Supporting employees' work.

No.	Type	Requirement
4.	Health and medical treatment facilities from the employer	● Received or accrued by employees; and ● Provided for handling: o work accidents; o occupational diseases; o life-saving emergencies; or o follow-up care and treatment due to work accidents or occupational diseases.
5.	Sports facilities from the employer, other than power boating, horse racing, gliding or motorsports	● Received or accrued by employees; and ● Maximum IDR1.5 million/year per employee.
6.	Communal residential facilities from employers, including dormitories, lodges or barracks	Received or accrued by employees
7.	Residential facilities from employers whose utilisation rights are held by individuals, including apartments/landed houses	● Received or accrued by employees; and ● Maximum IDR2 million/ month per employee.
8.	Vehicle facilities from employer	Received or accrued by employees who: ● do not have capital investment in the employer; and ● have an average gross income of a maximum of IDR100 million/month in the last 12 months from the employer.

No.	Type	Requirement
9.	Employer-borne contributions to pension funds approved by the Financial Services Authority (*Otoritas Jasa Keuangan)*	Received or accrued by employees
10.	Religious facilities, including prayer rooms, mosques, chapels or temples	Intended solely for religious activities
11.	All in-kind and/or fringe benefits received in 2022	Received or accrued by employees or service providers

J.8 Valuation

The procedures for assessing and calculating income on considerations or remunerations in the form of in-kind and/or fringe benefits received/accrued in connection with work or services:

- for income received in the form of in-kind:
  - goods originally intended for sale by the provider in the form of land/buildings, the value used is the market value;
  - goods other than land/buildings originally intended for sale, the value used is the market value. The said market value is the cost of goods sold.
- for income received in the form of fringe benefits, the value of fringe benefits is equal to the amount of costs incurred or should be incurred by the provider. If the fringe benefits related to work are provided with a useful life of more than one month, the assessment is carried out monthly during the utilisation of the fringe benefits in question.

  If fringe benefits are provided to more than one recipient (joint benefits), the basis for assessing the fringe benefits is equal to the total expenses incurred, allocated proportionally to each recipient

of fringe benefits based on the recording of the utilisation of the fringe benefits.

J.9 Other Issues

Currently, endorsement services by influencers on social media are subject to Income Tax, an example of the assessment is listed in Appendix J of MoF Reg. No. 66/2023. This is because endorsement services fall under considerations or remunerations due to transactions between taxpayers. Additionally, facilities or education scholarships received by employees from employers are also subject to Income Tax as in-kind, except for employees in certain areas. Scholarships are considered additional income and subject to tax, such as training or pursuing further education at a higher level.

In contrast, company outing activities will not be subject to Income Tax. Outing or employee recreational activities are not considered in-kind and are part of a company's operational expenses.

Withholding Tax

A. Overview

The Indonesian tax system is founded on the "self-assessment system" principle coupled with a withholding tax (WHT) regime. Under the WHT 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 State through the Directorate General of Taxes (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 withholding tax may be used as a tax credit against tax payable.

B. Article 21 Income Tax

According to Article 21 paragraph (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 form, 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.

Article 21 WHT 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 paragraph (1) letter 'a' of the Income Tax Law:

Table 5.1 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%

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

The parties obliged to withhold taxes are employers, government treasurers, pension funds, entities, companies and event organisers. The employer is required to remit and file the Monthly Tax Return of Article 21 WHT by the 10th and 20th 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 WHT is creditable by the individuals from their tax payable.

Resident individuals are entitled to have the annual personal tax reliefs as follows:

Table 5.2 Personal Tax Relief

Tax Reliefs	IDR
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 Old Age Benefits (*Jaminan Hari Tua*/JHT in Indonesian) 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 5.3 Treatment for Other Allowances or Insurance

Type of Allowance or Insurance (abbreviations in Indonesian)	For the Employer	For Employees
Insurance Premiums for work injury benefits (*Jaminan Kecelakaan Kerja*/JKK), death benefits (*Jaminan Kematian*/JK) and health care benefits (*Jaminan Pemeliharaan Kesehatan*/JPK) paid by the employer	Deductible expenses	Taxable (increases the gross income)
Insurance Premiums for work injury benefits, life, health care benefits and dual-use and scholarship paid by the employer	Deductible expenses	Taxable (increases the gross income)
Insurance Premiums for work injury benefits, death benefits and health care benefits paid by the employee	Non-deductible expenses	Non-deduction

Type of Allowance or Insurance (abbreviations in Indonesian)	For the Employer	For Employees
Insurance Premiums for work injury benefits, life, health care, dual-use and scholarship paid by the employee	Non-deductible expenses	Non-deduction
BPJS Ketenagakerjaan or Old Age Benefits paid by the employer	Deductible expenses	Non-taxable
Fringe benefits (see Chapter 4 Individual Income Tax for more information)	Deductible expenses	Non-taxable or Taxable

C. Article 22 Income Tax

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

- import activities;
- State Treasurers or State-owned Enterprises (*Badan Usaha Milik Negara*/BUMN in Indonesian) on purchases of goods;
- local purchases of specific products;
- purchases 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 5.4 Article 22 Income Tax Rates

Taxable Objects		Tax Rate (%)	Tax Base
Imports of:			
a.	Certain goods	10	Import value
b.	Certain goods other than a	7.5	(i.e., CIF value plus duties payable)
c.	Soybeans, wheat and flour wheat	0.5	
d.	Goods other than a, b and c	2.5	
e.	Goods other than c and d without an API (*Angka Pengenal Impor*)	7.5	

Taxable Objects		Tax Rate (%)	Tax Base
f.	Auctioned goods	7.5	Auction prices
Purchases of goods by the government requiring payment from the State Treasury, Proxy of Budget User (*Kuasa Pengguna Anggaran*/KPA) and certain state-owned enterprises (with certain exceptions)		1.5	Purchase prices (exclude VAT)
Purchases of products by local distributors of:			
a.	Cement	0.25	VAT base
b.	Paper	0.1	
c.	Steel products	0.3	
d.	Automotive products	0.45	
e.	Pharmaceutical products	0.3	
Sales of certain vehicles by sole agents (*Agen Tunggal Pemegang Merek* (ATPM)), agents (*Agen Pemegang Merek* (APM)) and vehicle general importers, excluding heavy equipment		0.45	VAT base
Purchases of products by local distributors of:			
a.	Oil fuel by gas stations from Pertamina and its subsidiaries	0.25	Selling prices (exclude VAT)
b.	Oil fuel by gas stations other than Pertamina and its subsidiaries	0.3	
c.	Oil fuel by parties other than gas stations	0.3	
d.	Gas fuel	0.3	
e.	Lubricants	0.3	
Purchases of forestry, plantation, agriculture, cattle breeding and fishery products by manufacturers or exporters		0.25	Selling prices
Purchases of coal, metal and non-metallic minerals from companies or individuals holding a Mining Business Permit (*Izin Usaha Pertambangan*/IUP) by an industry or a corporate		1.5	Selling prices

Taxable Objects	Tax Rate (%)	Tax Base
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	Export value
Sales of gold bullion* Sales of gold jewellery* **provisions on the exclusion apply to sales to end consumers and some other criteria*	0.25 0.25	Selling prices 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
Purchases of extravagant luxurious goods	5	Selling prices (excluding VAT and STLG)

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

Exemption of Article 22 WHT is automatically granted with a Withholding Exemption Certificate (*Surat Keterangan Bebas*/SKB in Indonesian) issued by the DGT on the following:

- imports/purchases of goods that are not subject to income tax;
- imports of goods exempt or subject to import duty and Value Added Tax (VAT) non-collected;
- temporarily imported goods;
- re-importations of certain goods;
- imports of gold bullion for the production of jewellery for export objectives;
- sales of vehicles by the automotive industry, sales of certain vehicles by sole agents, agents and vehicle general importers;

- purchases of gold bullion by Bank Indonesia;
- goods related to the use of the Government's School Operational Aid (*Bantuan Operasional Sekolah*/BOS in Indonesian) fund;
- sales of grain or rice to the State Treasury, the Proxy of Budget User and Indonesian Bureau of Logistics (*Badan Urusan Logistik*/BULOG in Indonesian); and
- sales of staple foods to Proxy of Budget User and the Bureau of Logistics or appointed state-owned enterprises.

D. Article 23 Income Tax

Article 23 Income Tax is income tax that is withheld by governmental bodies, corporate taxpayers, event organisers, permanent establishments (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 5.5 Article 23 Income Tax Rates

	Taxable Objects	Tax Rate(%)
1.	Dividends paid to corporations	exemption
2.	Interests **including income on loan interest paid through the Lending Service Provider*	15
3.	Royalties **the government officially lowers the Article 23 Income Tax rate on royalties for individual taxpayers who use deemed profit.*	15 / 6*
4.	Gifts, awards and bonuses, except for those that have been subject to Article 21 Income Tax	15
5.	Rental or compensation for the use of assets, except those that have been subject to Article 4 paragraph (2) Income Tax and finance leases	2
6.	Services fees (also as regulated in MoF Reg. No. 141/PMK.03/2015), except those subject to Article 21 Income Tax. Fees related to gold jewellery and gold bullion are also included in this provision	

Taxpayers without a TIN will be subject to a surcharge of 100% higher than the standard rates. Tax withholding shall not be applied to:

- income paid or payable to a bank;
- lease paid or payable in finance lease agreements;
- dividends as referred to in Article 4 paragraph (3) letter 'f' and dividends received by individuals as referred to in Article 17 paragraph (2) letter 'c' of the ITL;
- distributed profit as referred to in Article 4 paragraph (3) letter 'i' of the ITL;
- distribution of net income by a cooperative to its members; and
- income paid or payable to a financial service entity that serves as a loan and/or finance company.

In addition, related to Article 23 Income Tax, the DGT has issued Directorate General of Taxes Circular Number SE-24/PJ/2018 (hereinafter referred to as SE-24/PJ/2018) regarding the tax treatment of incentives received by buyers under certain conditions within buy-sell transactions.

SE-24/PJ/2018 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.

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

Final withholding income tax cannot be used as a tax credit against tax payable. 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 the Indonesian Stock Exchange (IDX), sales of shares transaction or sales of equity in partner company that the venture capital company has received;
- income from transactions of property in the form of land and/or buildings, the construction service business, real estate businesses and land and/or building leases; and
- other certain income, including business income received or accrued by taxpayers with certain gross turnover.

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 5.6 Final Income Tax Rates

Payment Events	Final Tax Rate (%)	Notes
Rental of land and/or buildings	10	Gov. Reg. 34/2017 and MoF Decree No. 120/KMK.03/2002. Includes all service charges and build-operate-transfer arrangement income.
Transfers of land and/or buildings	2.5 / 1 / 0	Gov. Reg. 34/2016 and MoF Reg. No. 261/PMK.03/2016. If two or more taxpayers whose main business is transferring rights to land and/or buildings cooperate to establish a Joint Operation (JO) to transfer rights to land and/or buildings, the Final Income Tax on the transfer of rights to land and/or buildings shall be paid by each JO member according to the share of income received by each JO member.
Lottery prizes	25	Gov. Reg. 132/2000 and DGT Reg. No. PER-11/PJ/2015
Interest or discount on Bank Indonesia Certificates (*Surat Bank Indonesia*/SBI), time and saving deposits and government bonds	20	Gov. Reg. 131/2000 as amended by Gov. Reg. 123/2015 and MoF Reg. No. 212/PMK.03/2018.
Interest or discount on bonds	10	Gov. Reg. 91/2021 and MoF Reg. No. 85/PMK.03/2011 as amended by MoF Reg. No. 7/PMK.011/2012.
Interest on deposits paid by cooperatives to individual cooperative members	0 / 10	Gov. Reg. 15/2009 and MoF Reg. No. 112/PMK.03/2010.
Sale of shares listed on the Indonesia Stock Exchange:		Gov. Reg. 41/1994 as amended by Gov. Reg. 14/1997 and MoF Decree No. 282/KMK.04/1997.
		Tax base:

Payment Events	Final Tax Rate (%)	Notes
● Non-founder's shares	0.1	Gross transaction amount
● Founder's shares	0.1 + 0.5	Gross transaction amount + 0.5% from the share price at IPO
Construction Services:		Gov. Reg. 51/2008 as last amended by Gov. Reg. 9/2022 and MoF Reg. No. 187/PMK.03/2008 as amended by MoF Reg. No. 153/PMK.03/2009.
● Construction consulting	3.5 / 6	● 3.5% for contractors with qualifications issued by Construction Services (*Lembaga Pengembangan Jasa Konstruksi*/ LPJK). ● 6% for contractors without qualifications.
● Construction work	1.75 / 2.65 / 4	● 1.75% (small-scale contractors) and 2.65% (medium-scale, large-scale and specialist contractors) with qualifications. ● 4% for contractors without qualifications.
● Integrated construction	2.65 / 4	● 2.65% for contractors with qualifications. ● 4% for performance contractors without qualifications.
Dividends paid to individuals	10 or exempted	Gov. Reg. 9/2021, MoF Reg. No. 111/PMK.03/2010 and MoF Reg. No. 18/PMK.03/2021. To obtain the exemption, the dividend needs to be reinvested in Indonesia for three consecutive years and the reinvestment must be reported annually.

Payment Events	Final Tax Rate (%)	Notes
Dividends paid in connection with cooperation and Indonesia Investment Authority (*Lembaga Pengelola Investasi*/LPI)	7.5	Gov. Reg. 49/2021
Venture capital company income from the transfer of shares in its partner	0.1	Gov. Reg. 4/1995
Indonesia's 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 paragraph (2) letter 'a' of the ITL, gross turnover up to IDR500 million is not subject to Article 4 paragraph (2) of the ITL. Further details of the provisions are stipulated under Gov. Reg. 55/2022 concerning the Final Tax on taxpayers within a certain turnover.

F. Article 26 Income Tax

Article 26 Income Tax is income tax that is withheld by governmental bodies, corporate taxpayers, event organisers, 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 is applied to gross amounts of the following income types:

Table 5.7 Article 26 Income Tax Rates

Type of Payments	Effective Tax Ratem (%)	Tax Base
Dividends*, royalties, rents and other payments related to the utilisation of assets. **Foreign-sourced dividends may be excluded from Income Tax objects if invested in the territory of the Unitary State of the Republic of Indonesia.*	20	Gross amount
Services, labour and activities fees		
Pension and other periodic payments		
Prizes and awards		
Swap premiums and other hedging transactions		
Gains from debt write off		
Branch Profit Tax (BPT)		Net profit after tax
Interests	10 (for bond interests income) or 20 (other types of interest income*) **including income on loan interest paid through the Lending Service Provider*	Gross amount
Insurance premiums paid to an overseas insurance company		
● by the insured	10% of the premium amount	50% of the premium amount paid
● by an Indonesian insurance company	2% of the premium amount	10% of the premium amount paid
● by an Indonesian reinsurance company	1% of the premium amount	5% of the premium amount paid

Type of Payments	Effective Tax Ratem (%)	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 an Indonesian Company)		
Sales of luxurious assets with a sale value exceeding IDR10 million, other than those subject to Article 4 paragraph (2) Income Tax		

The withholding tax rates may be lowered or exempt if the recipient of a country applies for tax treaty benefits. The following administrative requirements should be fulfiled to apply for treaty benefits.

- Non-residents must provide the Certificate of Domicile (CoD) 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 of withholding tax for service fees (only if the receiver does not have a Permanent Establishment in Indonesia), capital gains from the sales/purchase of shares; and
- reduced withholding tax rate for dividend, interest, royalty and branch profit tax received by tax residents of treaty partners.

In order to receive tax treaty benefits, a Certificate of Residence (CoR) is required to be submitted in a prescribed form commonly referred to as a DGT form. The CoR must be submitted electronically to the e-Certificate of Domicile (electronic *Surat Keterangan Domisili*/e-SKD in Indonesian). Failure to provide CoR means that the foreign party is not entitled to the tax treaty benefit with the consequence that income will be subject to the full domestic withholding tax rate: generally 20%, or 5% for sales/purchase of shares.

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

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

- the entity has 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 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; and
- the entity has business activity other than receiving dividends, interests or royalties sourced from Indonesia.

In case of dividends, interests or royalties type of income, the foreign party shall also fulfil the following beneficial ownership test:

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

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

Table 6.1 Withholding Tax Rates

No.	Treaty Partner	Dividend		Interest		Royalty	Branch Profit Tax
		Substantial Holding	Other	Government/ Central Bank	Other		
1.	Algeria	15%	15%	0%	15%	15%	10%
2.	Armenia	10%	15%	0%	10%	10%	10%
3.	Australia	15%	15%	0%	10%	10% / 15%	15%
4.	Austria	10%	15%	0%	10%	10%	12%
5.	Bangladesh	10%	15%	0%	10%	10%	10%
6.	Belarus	10%	10%	0%	10%	10%	10%
7.	Belgium	10%	15%	0%	10%	10%	10%
8.	Brunei Darussalam	15%	15%	0%	15%	15%	10%
9.	Bulgaria	15%	15%	0%	10%	10%	15%
10.	Cambodia	10%	10%	0%	10%	10%	10%
11.	Canada	10%	15%	0%	10%	10%	15%
12.	China	10%	10%	0%	10%	10%	10%
13.	Croatia	10%	10%	0%	10%	10%	10%
14.	Czech Republic	10%	15%	0%	12.5%	12.5%	12.5%
15.	Denmark	10%	20%	0%	10%	15%	15%
16.	Egypt	15%	15%	0%	15%	15%	15%
17.	Finland	10%	15%	0%	10%	10% / 15%	15%
18.	France	10%	15%	0%	10% / 15%	10%	10%
19.	Germany	10%	15%	0%	10%	10% / 15%	10%
20.	Hong Kong	5%	10%	0%	10%	5%	5%
21.	Hungary	15%	15%	0%	15%	15%	20%
22.	India	10%	10%	0%	10%	10%	15%

No.	Treaty Partner	Dividend		Interest		Royalty	Branch Profit Tax
		Substantial Holding	Other	Government/ Central Bank	Other		
23.	Iran	7%	7%	0%	10%	12%	7%
24.	Italy	10%	15%	0%	10%	10% / 15%	12%
25.	Japan	10%	15%	0%	10%	10%	10%
26.	Jordan	10%	10%	0%	10%	10%	20%
27.	Korea (North)	10%	10%	0%	10%	10%	10%
28.	Korea (South)	10%	15%	0%	10%	15%	10%
29.	Kuwait	10%	10%	0%	5%	20%	0% / 10%
30.	Laos	10%	15%	0%	10%	10%	10%
31.	Luxembourg	10%	15%	0%	10%	10% / 12.5%	10%
32.	Malaysia[2]	10%	10%	0%	10%	10%	12.5%
33.	Mexico	10%	10%	0%	10%	10%	10%
34.	Mongolia	10%	10%	0%	10%	10%	10%
35.	Morocco	10%	10%	0%	10%	10%	10%
36.	Netherlands	5%	10%/ 15%	0%	5% / 10%	10%	10%
37.	New Zealand	15%	15%	0%	10%	15%	-[3]
38.	Norway	15%	15%	0%	10%	10% / 15%	15%
39.	Pakistan	10%	15%	0%	15%	15%	10%
40.	Papua New Guinea	15%	15%	0%	10%	10%	15%
41.	Philippines	15%	20%	0%	10% / 15%	15%	20%

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

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

No.	Treaty Partner	Dividend		Interest		Royalty	Branch Profit Tax
		Substantial Holding	Other	Government/ Central Bank	Other		
42.	Poland	10%	15%	0%	10%	15%	10%
43.	Portugal	10%	10%	0%	10%	10%	10%
44.	Qatar	10%	10%	0%	10%	5%	10%
45.	Romania	12.5%	15%	0%	12.5%	12.5% / 15%	12.5%
46.	Russia	15%	15%	0%	15%	15%	12.5%
47.	Serbia	15%	15%	0%	10%	15%	15%
48.	Seychelles	10%	10%	0%	10%	10%	20%
49.	Singapore	10%	15%	0%	10%	8% / 10%	10%
50.	Slovakia	10%	10%	0%	10%	10% / 15%	10%
51.	South Africa	10%	15%	0%	10%	10%	10%
52.	Spain	10%	15%	0%	10%	10%	10%
53.	Sri Lanka	15%	15%	0%	15%	15%	20%
54.	Sudan	10%	10%	0%	15%	10%	10%
55.	Suriname	15%	15%	0%	15%	15%	15%
56.	Sweden	10%	15%	0%	10%	10% / 15%	15%
57.	Switzerland	10%	15%	0%	10%	10%	10%
58.	Syria	10%	10%	0%	10%	15%/ 20%	10%
59.	Taiwan	10%	10%	0%	10%	10%	5%
60.	Tajikistan	10%	10%	0%	10%	10%	10%
61.	Thailand	15% / 20%	15% / 20%	0%	15%	15%	20%
62.	Tunisia	12%	12%	0%	12%	15%	12%
63.	Turkey	10%	15%	0%	10%	10%	10%
64.	Ukraine	10%	15%	0%	10%	10%	10%
65.	United Arab Emirates	10%	10%	0%	7%	5%	5%

No.	Treaty Partner	Dividend		Interest		Royalty	Branch Profit Tax
		Substantial Holding	Other	Government/ Central Bank	Other		
66.	United Kingdom	10%	15%	0%	10%	10% / 15%	10%
67.	United States of America	10%	15%	0%	10%	10%	10%
68.	Uzbekistan	10%	10%	0%	10%	10%	10%
69.	Venezuela	10%	15%	0%	10%	10% / 20%	10%
70.	Vietnam	15%	15%	0%	15%	15%	10%
71.	Zimbabwe	10%	20%	0%	10%	15%	10%

A.1 Permanent Establishment (PE) Time Test

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

Table 6.2 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
4.	Austria	6 months	6 months	6 months	6 months	3 months
5.	Bangladesh	183 days	183 days	183 days	183 days	91 days
6.	Belarus	6 months	6 months	6 months	6 months	120 days
7.	Belgium	6 months	6 months	6 months	6 months	3 months
8.	Brunei Darussalam	183 days	3 months	3 months	183 days	3 months
9.	Bulgaria	6 months	6 months	6 months	6 months	120 days
10.	Cambodia	183 days	183 days	183 days	183 days	183 days
11.	Canada	120 days	120 days	120 days	120 days	120 days
12.	China	6 months	6 months	6 months	6 months	6 months

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

No.	Treaty Partner	Building Site Construction	Installation Assembly	Assembly	Supervisory	Services
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 / 3 months	183 days / 3 months	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
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

No.	Treaty Partner	Building Site Construction	Installation Assembly	Assembly	Supervisory	Services
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 entered into force since 1 August 2020. Indonesiasubmitted a notification to OECD to confirm the completion of internal procedures for the tax treaty on 26 November 2020.

Synthesised text of the MLI and tax treaties are published by DGT by Circulars. All of Indonesia's CTA adopt the principal purpose test (PPT) provision.

A.3 Tax Information Exchange Agreements

The Tax Information Exchange Agreements Model (TIEA Model) was created to facilitate the exchange of information with countries that do not have tax treaties, which are typically found in tax haven countries. The TIEA Model plays an important role in mitigating the effects of tax haven countries by allowing information questioned by a country's tax authorities to be accessed via the TIEA Model media.

The Committee on Fiscal Affairs (CFA) approved the TIEA Model Protocol titled Model Protocol to allow the Automatic

and Spontaneous Exchange of Information under TIEA in June 2015. This TIEA Protocol model can be used by a country/jurisdiction if it wants to broaden the scope of the existing TIEA to include automatic and/or spontaneous information exchange.

Indonesia has TIEA with the following jurisdictions:

- Bahamas;
- Bermuda;
- Guernsey;
- Isle of Man;
- Jersey;
- San Marino.

A.4 Mutual Administrative Assistance in Tax Matters

A tax collection assistance mechanism is also required to supplement the exchange of information for tax purposes in the context of more effective administrative cooperation between tax authorities. In accordance with Minister of Finance of the Republic of Indonesia Regulation Number 61 of 2023 (hereinafter referred to as MoF Reg. No. 61/2023), the government updated the procedure for implementing tax collection assistance with partner countries/jurisdictions.

The Director General of Taxes responds to requests for and provides tax collection assistance on a reciprocal basis based on international agreements, such as tax treaty, the Convention on Mutual Administrative Assistance in Tax Matters or other bilateral or multilateral agreements. The MoF Reg. No. 61/2023 details the criteria that must be met as well as how technical assistance is provided for tax collection.

Moreover, Indonesia has ratified Convention on Mutual Administrative Assistance in Tax Matters through Presidential Decree No. 159 of 2014. In addition, Indonesia

signed the Multilateral Competent Authority Agreements on the automatic exchange of:

- Country-by-Country Reports (CbCR) in 2017; and
- Financial Account Information using the Common Reporting Standard with information exchange starting in 2018.

By 2022, Indonesia received financial information from 95 partner countries/jurisdictions on Indonesian financial account holders/taxpayers.

B. Anti-Avoidance Rules

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

B.1 General Anti-Avoidance Rule

On 20 December 2022, the government issued Government of the Republic of Indonesia Regulation Number 55 of 2022 (hereinafter referred to as Gov. Reg. 55/2022). Chapter VII of Gov. Reg. 55/2022 provides further regulation on the implementation of anti-avoidance rules, including a clear recognition of the presence of GAAR, i.e., other anti-avoidance practices that are not foreseen in specific anti-avoidance rules (SAAR) will be subject to GAAR in the form of substance over form principle. Therefore, the application of SAAR prevails above GAAR and only in circumstances when SAAR cannot be applied, GAAR may be implemented by DGT.

Presumably, GAAR is only applied in the area of income

taxes since Gov. Reg. 55/2022 is issued further to the delegation by Article 32 of Income Tax Law. Also noteworthy is Article 32 of Income Tax Law in the context of anti-avoidance rules only delegates regulating powers to the government concerning SAAR (i.e., SAAR as regulated in Article 18 paragraph (1), (2), (3a), (3b), (3c), (3d) and (4)) but is silent on GAAR or substance over form principle.

Further, Gov. Reg. 55/2022 states that the implementation of GAAR must consider the (i) limitation of discretion and implementing procedures, (ii) whether activities of the taxpayers are in the scope of tax avoidance, (iii) stages of formal and material examinations and (iv) quality assurance mechanism and the protection of taxpayers' rights. The overall guiding principle is that GAAR or the prevention of tax avoidance is subject to Good Public Governance and access to a dispute resolution procedure.

Indeed, the main concern of GAAR is legal certainty. As such, the introduction of the above principles to steer the application of GAAR only in appropriate cases is not only welcome but a necessity to balance off such wide discretion powers that comes with GAAR. Gov. Reg. 55/2022 states further detailed regulations on the above principles will be regulated via a Minister of Finance Regulation.

B.2 Thin Capitalization

Since Gov. Reg. 55/2022, interest deduction limitation rules are expanded to cover not only debt to equity ratio but also earning stripping rules (a certain percentage of EBITDA determines maximum interest deduction) and other unspecified methods. Further regulations will be issued via a Minister of Finance Regulation.

In contrast, for the debt-to-equity method, the applicable regulations currently continue to refer to the Minister of Finance of the Republic of Indonesia Regulation Number 169/PMK.010/2015. . MoF Regulation No. 169/PMK.010/2015 determines a company's maximum debt-to-equity ratio

(DER) to be 4:1.

Finance expenses related to the part of a debt that exceeds the debt-to-equity ratio shall be regarded as 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 a financial lease transaction, 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 of Indonesia;
- financing institutions of leasing companies that engage in providing funds and/or capital goods;
- insurances and reinsurances, including Sharia-compliant insurance and reinsurance companies;
- oil and gas mining, general mining and other mining companies under a production sharing contracts, contract of work or mining exploitation work agreement with the government that has specific provisions for 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; and
- companies engaged in the infrastructure business.

Director General of Taxes Regulation Number PER-25/PJ/2017 clarifies that intra-group interest expenses must meet the arm's length principle, in addition to the thin capitalization rules.

B.3 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 deemed dividend rules in Indonesia:

- dividends, except those received from other CFCs;
- interest, except that by a 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 that 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. More information on CFC rules can be found in the Minister of Finance of the Republic Indonesia Regulation Number 93/PMK.03/2019.

B.4 Indirect Transfer of Shares

Sales or transfers of shares of a "special purpose vehicle" or "conduit" company shall be deemed as sales of shares of an Indonesian company or a permanent establishment 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 a permanent establishment in Indonesia.

Such sales or transfers shall be subject to a 5% withholding tax in Indonesia. Tax treaty benefits may exempt this tax. The tax rates are listed in Chapter 5 Withholding Tax, specifically Subchapter F. Article 26 Income Tax.

B.5 Redetermination of Taxable Profits for Taxpayers with Consecutive Loss Position

In addition to GAAR, Gov. Reg. 55/2022 introduces a new SAAR that is not previously foreseen in the delegated regulating powers in Article 32C of the Income Tax Law. The new SAAR targets taxpayers that have commercially operated for five years and reported consecutive losses for at least three years, in which case, the DGT has the power to re-determine the taxable profit of the taxpayers based on a benchmark with other taxpayers in the same industry.

The new SAAR applies only to transactions between parties that are influenced by a special relationship. However, since the definition of special relationship also covers de facto control (no clear threshold) besides de jure control (specific share ownership percentage threshold), this new SAAR may have a wide application.

The regulations are silent on whether this new SAAR is part or separate from the transfer regulations since the new SAAR does not refer to the arm's length principle. Taxpayers qualifying for consecutive or abnormal losses, as the new SAAR means, may be benchmarked to "other taxpayers" in the "same" industry. Notably, the rule uses the following terms "other taxpayers" instead of comparables and "the same industry" instead of comparable industry.

At this point, there are no further regulations other than a statement that further regulations will be issued via a Minister of Finance Regulation.

B.6 Hybrid Mismatch Arrangements

Also not foreseen in Article 32C of the Income Tax Law but now regulated in Gov. Reg. 55/2022 is an anti-avoidance rule related to hybrid mismatch arrangements, which may include hybrid financial instruments or hybrid entities. The rule gives the DGT the power to deny deductions on

payments made by a resident taxpayer to a non-resident taxpayer if those payments are not considered taxable income or deductible expense at the hands of the receiving non-resident taxpayer.

C. Transfer Pricing Rules and Documentation

C.1 Legal Basis

The legal basis of the arm's length principle is stipulated in Article 18 paragraph (3) of the Income Tax Law (ITL) where it is stated that transactions between taxpayers that have special relationships must be consistent with the arm's length principle. If the arm's length principle is not followed, the DGT is authorised to recalculate the taxable income or deductible costs arising from such transactions applying the arm's length principle.

According to Article 18 paragraph (4) of the ITL, the definition of "special relationship" applies to circumstances where:

- a taxpayer owns directly or indirectly at least 25% of the equity of the other 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 "controls" another resident or two or more residents directly or indirectly; or
- a family relationship exists through either blood or marriage, within one degree of direct or indirect lineage.

Further, Gov. Reg. 55/2022 provides that a special relationship is deemed to exist if:

- one party controls another party or one party is controlled by another party, directly and/or indirectly;
- two or more taxpayers are under the same control,

either directly and/or indirectly;
- one party controls another party or one party is controlled by another party through management or use of technologies;
- there are the same people who are directly and/or indirectly involved or participating in managerial or operational decision-making on two or more parties;
- parties that are commercially or financially known or claim to be in the same business group; or
- one party claims to have a special relationship with another party.

As of the issuance of Gov. Reg. 55/2022, the arm's length principle shall also be applied to transactions affected by related parties, including 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 Minister of Finance of the Republic of Indonesia Regulation Number 213/PMK.03/2016 (hereinafter referred to as MoF Reg. No. 213/PMK.03/2016) about transfer pricing documentation requirements that came 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 conduct transfer pricing documentation has specific thresholds.

Director General of Taxes Regulation Number PER-22/PJ/2013 further specifies the types of transaction covered under Indonesian transfer pricing rules, which include:

- transactions on sales, purchases, alienations and exploitation of tangible assets;

- transactions on rendering intra-group services;
- transactions on alienation and exploitation of intangible assets;
- transactions on interest payment of intra-group loans; and
- transactions on 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 agreed standards as set out in Action 13 of the OECD Base Erosion and Profit Shifting (BEPS) Action Plan. Transfer pricing documentation obligations are governed under MoF Reg. No. 213/PMK.03/2016. 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 have related-party transactions in the current tax year and that meet the following criteria:

- taxpayers with gross revenue of more than IDR50 billion in the previous tax year;
- taxpayers with related-party transactions in the previous tax year exceeding IDR20 billion or exceeding IDR5 billion if the related-party transaction concerns intangible assets, services and interest payments; or
- if the related-party transaction is conducted with low-tax countries (i.e., jurisdictions with a statutory tax rate lower than 25%).

Article 4 paragraph (1) of MoF Reg. No. 213/PMK.03/2016 states that both the master file and local file must be available no later than four months after the end of the taxpayer's fiscal year. However, the regulation does not require submitting these documents in the annual tax return. Instead, under Article 7 of MoF Reg. No. 213/PMK.03/2016, a summary of these files using a prescribed

form must be attached to the annual tax return. The title of this form is *Ikhtisar Dokumen Induk dan Dokumen Lokal* in Indonesian. While the document is referred to as a "summary", the form's actual content is a statement letter indicating that the taxpayer has prepared master and local file documentation, including the date when such a document has become available.

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

- taxpayers that are considered the ultimate parent entity of a group with a consolidated gross revenue in one tax year of at least IDR11 trillion; or
- taxpayers that are not ultimate parent entities but are member entities of a group with an ultimate parent entity that is tax resident in a country that:
  - do not impose an obligation to file CbCRs;
  - do 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 do not make CbCRs available to the DGT.

CbC reporting taxpayers or non-reporting 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 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 with prior approval to use the English language needs to submit the documentation in the English language attached with an Indonesian translation.

D. Transfer Pricing Audit and Dispute Resolution

D.1 Transfer Pricing Audit

The DGT has specifically issued guidance on audits in relation to transfer pricing disputes, Director General of Taxes Regulation Number PER-22/PJ/2013 and Director General of Taxes Circular Number SE-50/PJ/2013. One of the procedures that the DGT must perform in conducting transfer pricing audits is to identify the risks in the related party transaction performed by the taxpayers.

Since 1984, Indonesia has applied a self-assessment system in which taxpayers are required to calculate, pay and report their own taxes in accordance with prevailing tax laws and regulations. In connection with related party transactions, taxpayers are expected to prepare a transfer pricing report containing the information required by DGT. The role of the taxpayers in any tax audit is to assist in the process by appearing for investigation and producing books of accounts, documents or other relevant records as requested by the DGT for inspection within the specified time limit.

The DGT starting point of analysis is based on the information provided in the transfer pricing documentation prepared by the taxpayers. However, if taxpayers do not provide transfer pricing documentation and its explanation, the DGT may establish the facts and analysis based on information available to the DGT. If this is the case, the DGT has the authority to propose a transfer pricing adjustment and the burden of proof is on the taxpayer to demonstrate that the assessment letter is incorrect.

D.2 Dispute Resolution

Taxpayers may use three instruments in transfer pricing disputes, such as Advance Pricing Agreement (APA), Mutual Agreement Procedure (MAP) and appeals to the Tax Court, which can extend to Supreme Court civil review requests. The tax litigation process in Indonesia takes 12 months respectively for objection and appeal, while civil review takes six months. However, some periods can be longer than stipulated in appeals and civil review processes.

The 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 can 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 provision of a tax treaty.

In practice, taxpayers can initiate a MAP following the issuance of 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 can be concluded unilaterally, bilaterally and multilaterally. APAs can cover a period of up to five tax years. By the Minister of Finance of the Republic of Indonesia Regulation Number 22/PMK.03/2020 (hereinafter referred to as MoF Reg. No. 22/PMK.03/2020), APAs can now also cover a rollback period for tax years that have not yet expired for assessment by the DGT (i.e., five years under the current regulations). In addition to MoF Reg. No. 22/PMK.03/2020, Director General of Taxes Regulation Number PER-17/PJ/2020 has been intentionally enacted to specify procedures on application settlement, implementation and evaluation APA.

D.3 Instruments for the Prevention of Tax Avoidance

The government strengthens instruments for the prevention of tax avoidance through Gov. Reg. 55/2022. The minister is authorised to prevent tax avoidance practices as taxpayers' efforts to reduce, avoid or delay the payment of tax that should otherwise be payable according to the intent and purpose of statutory tax provisions. Tax avoidance practices are prevented by:

- determining when dividends are accrued and the calculation basis by resident taxpayers for equity participation in overseas business entities other than listed business entities;
- re-determining the amount of income and deductions as well as determining debt as capital to calculate the amount of taxable income carried out by the DGT by applying the arm's length principle;
- determining the party purchasing the company's shares or assets through other parties or special purpose companies insofar as there is an irregularity in the pricing;
- determining the party performing the sales or transfer of company shares between those established or domiciled in a country that provides tax havens;
- re-determining the amount of income accrued by resident individual taxpayers from employers that transfer all or part of the resident individual taxpayers' income into costs or other expenses paid to companies that are not established and domiciled in Indonesia;
- recalculating tax that should be payable based on the benchmarking of financial performance with taxpayers in similar business against taxpayers that file operating profits that are too low compared to the financial performance of other taxpayers in similar business files or file unreasonable business

losses even though the taxpayers have made commercial sales for five years and filed tax losses for three consecutive years;

- setting the threshold on the amount of borrowing costs that may be expensed for tax calculation purposes using the method of certain debt-to-equity ratios, the method of determining a certain percentage of borrowing costs compared to operating income before deducted by borrowing costs, income tax, depreciation and amortisation, or other methods; and/or
- recalculating the amount of tax that should be payable by not expensing payments by resident taxpayers to non-resident taxpayers as deductible expenses due to the utilisation of differences in the tax treatment of instruments or entities that may have more than one characteristic in the country or jurisdiction where the taxpayers are domiciled.

Mechanisms for preventing tax avoidance practices may only be applied to independent transactions influenced by a special relationship. If tax avoidance practices cannot be prevented using the mechanisms set out, the DGT may re-determine the amount of tax that should be payable by referring to the principle of substance over form.

The difference between the value of independent transactions influenced by a special relationship that does not comply with the arm's length principle and the value of independent transactions influenced by a special relationship according to the arm's length principle is a form of indirect profit sharing to affiliated parties, thereby, is treated as dividends which are subject to income tax pursuant to statutory tax provisions.

Value Added Tax

VAT is imposed on supplies of taxable supplies and/or utilisation of taxable supplies from outside or within Indonesia occurring in the Indonesian Customs Area. Under Indonesian VAT Law, there is the term 'Taxable Persons for VAT Purposes' (*Pengusaha Kena Pajak*/PKP in Indonesian), which is defined as an entrepreneur supplying Taxable Goods and/or Taxable Services that are subject to taxes pursuant to VAT Law.

An entrepreneur is any individual or entity in whatever form that in the course of business or work produces goods, imports goods, exports goods, conducts trading business, utilises intangible goods from outside the Customs Area, conducts service businesses or utilises services from outside the Customs Area.

Entrepreneurs conducting supplies of taxable goods or services include both (i) entrepreneurs that have been registered as Taxable Persons for VAT Purposes as referred to in Article 3A paragraph (1) of VAT Law and (ii) entrepreneurs that should be registered as Taxable Persons for VAT Purposes but have not been registered.

In general, taxable supplies of goods or services must fulfil the following requirements:

- the supplied tangible goods constitute Taxable Goods (including intangible taxable goods) or Taxable Services;

- the supplies are carried out within the Customs Area; and
- the supplies are carried out in the context of business or work.

Unlike the criteria above, anyone bringing in taxable goods, or utilising taxable intangible goods, or utilising taxable services from outside Indonesia into Indonesia or to be utilised in Indonesia, regardless of whether carried out in the context of their business or work or not, remains subject to tax.

Further, entrepreneurs conducting supplies of taxable goods and/or 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 Persons for VAT Purposes.

A Taxable Person for VAT Purposes typically conducts business in Indonesia through various business units. Due to their dispersed locations, they are required to register each of their business units with the tax office situated there (decentralisation approach). This is because every location where a transaction occurs will be the place where VAT is payable. However, the DGT may receive a request from Taxable Persons for VAT Purposes who has more than one place of business to consolidate the administration of VAT under one location (centralisation).

In certain cases, the DGT may determine a place other than the residence or domicile and place of business as the place where tax becomes payable. Moreover, in respect of (i) holding companies that only hold shares and do not carry out any other activities or (ii) places of activities that solely purchase or collect raw materials does not need to be registered as a Taxable Person for VAT Purposes.

A. Taxable Events

In further detail, VAT is 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;
- utilisation of Intangible Taxable Goods from outside the Customs Area within the Customs Area;
- utilisation 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.

Tax becomes payable upon above mentioned Taxable Events. In the event that (i) payment is received before a supply of Taxable Goods and/or Taxable Services or (ii) the payment is performed before the commencement of utilisation of Intangible Taxable Goods and/or Taxable Services from outside the Customs Area, the tax becomes payable upon the payment.

The DGT may stipulate other times as when tax becomes payable in the event that when tax becomes payable is difficult to determine, such as on supplies of taxable luxury goods from the head office to branches or vice versa and between branches and on supplies of taxable goods in the context of corporate restructuring and business debt restructuring.

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.

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 in the event that Taxable Persons for VAT Purposes centralize the location 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.

B. Non-taxable Goods and 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.

C. VAT Rate and Calculation

The VAT rate amounts 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. Certain limitations for the zero-rated VAT apply to the export of services.

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. Further, other values as tax bases are stipulated under the Minister of Finance of the Republic of Indonesia Regulation Number 121/PMK.03/2015 concerning the Third Amendment to the Minister of Finance of the Republic of Indonesia Regulation Number 75/PMK.03/2010 concerning

Moreover, other values as Tax Bases can also be found under the Minister of Finance of the Republic of Indonesia Regulation Number 71/PMK.03/2022 and the Director General of Taxes Circular Number SE-04/PJ.51/2002. All discounts on the tax invoice are not included in the taxable amount calculation.

D. Input and Output VAT

VAT Liabilities regarding which a Taxable Person for VAT Purposes may collect, remit and file tax payable are usually settled using the input and output method.

Input VAT implies when a Taxable Person for VAT Purposes claims to have bought taxable goods or utilised 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 counterparty. The Taxable Persons for VAT Purposes may claim Input VAT as a tax credit, reducing the total Output VAT.

If in a Taxable Period, Output VAT is greater than Input VAT, the difference constitutes VAT that must be remitted by the Taxable Persons must remit for VAT Purposes. Suppose the creditable Input VAT is greater than the Output VAT in a Taxable Period. In that case, the difference constitutes tax overpayment carried forward to the next Taxable Period or for which a refund may be requested.

To claim Input VAT, there are some terms and conditions, such as:

- input VAT that is credited must use a Tax Invoice that fulfil 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 businesses supplying VAT non-collected/VAT exempt goods or VAT non-collected/VAT exempt services;
  - acquisitions of Taxable Goods or 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;
  - utilisation of Intangible Taxable Goods or utilisation 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 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 capitalised in the acquisition prices of Taxable Goods or Taxable Services and fulfil the provisions on crediting under VAT Law.

E. Reverse Charge

The supplier is typically in charge of obtaining VAT from the customer. However, there are some circumstances, such as the use of offshore services, where the buyer is required to pay the VAT due on a transaction or self-assessed VAT (also referred to as reverse charge) on the consumption or use of foreign taxable services or intangible goods.

Non-resident vendors or service providers may be designated to collect VAT from the Indonesian importer or buyer (see Other Issues below regarding VAT on Electronic Commerce). The Indonesian importer/buyer must pay the VAT for and on behalf of the non-resident vendor or service provider if they are not appointed and are unable to collect it.

The obligation to collect VAT on the use of intangible taxable goods and/or services shall take effect on the first day of the month following the issuance of the decision appointing the person as the VAT collector.

F. VAT Refund

If in a Taxable Period, the creditable Input VAT is greater than the Output VAT, the difference constitutes tax overpayment is entitled to receive refunds from the tax authorities. Based on the VAT Law, the restitution mechanism can be divided into the general mechanism (Article 17 paragraph (1) of the GPTP Law) and the special

mechanism (also known as a preliminary tax refund). The special mechanism is a restitution mechanism that applies to low-risk Taxable Persons for VAT Purposes (Article 9 paragraph (4) letter 'c' of the VAT Law), taxpayers with certain criteria (Article 17C of the GPTP Law) and taxpayers who meet certain requirements (Article 17D of the GPTP Law).

In the general mechanism, after a Taxable Person for VAT Purposes submits a request for restitution, the Taxable Person for VAT Purposes will be audited for a maximum period of 12 months from the receipt of the complete application. In contrast to the general mechanism, in the special mechanism, restitution for certain Taxable Persons for VAT Purposes is carried out through a verification process and Taxable Persons for VAT Purposes can obtain excess VAT payments in a shorter period of time (a decision is issued no later than one month after the return request), provided that several conditions are met.

Procedures for a preliminary tax refund of tax overpayment are further regulated under the Minister of Finance of the Republic of Indonesia Regulation Number 39/PMK.03/2018 as amended by the Minister of Finance of the Republic of Indonesia Regulation Number 209/PMK.03/2021 in conjunction with Director General of Taxes Regulation Number PER-5/PJ/2023 concerning Accelerated Tax Refunds.

Moreover, Article 16E of the VAT Law specifies the VAT treatment for foreign tourists who purchase goods in Indonesia. An individual who is not an Indonesian resident and purchases goods in Indonesia for consumption outside of Indonesia may be eligible for a VAT refund.

The administrative prerequisites for requesting this VAT refund are (i) the VAT minimum value must be IDR500,000, (ii) the purchases of taxable goods must be made within one month of departure from the customs area and (iii)

full tax invoices must be issued. The procedure is set out further in the Minister of Finance of the Republic of Indonesia Regulation Number 120/PMK.03/2019.

G. 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 be prepared or issued upon:

- supply of Taxable Goods and/or Taxable Services;
- the receipt of payment if payment is received before the supply of Taxable Goods and/or before the supply of Taxable Services;
- the receipt of term payment in the event of a supply of part of work phases;
- an export of tangible Taxable Goods, export of intangible Taxable Goods and/or export of Taxable Services; or
- other times regulated by statutory provisions in the field of VAT.

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 Income Tax Law;

- types of goods or services, the amount of Selling Price or Consideration and discount;
- collected VAT;
- 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.

Retailer Taxable Persons for VAT Purposes may prepare Tax Invoices without without including information concerning the identity of the buyer as well as the name and signature of the seller in the event of performing supplies of Taxable Goods and/or Taxable Services to buyers with the characteristics of end consumers. The tax invoice used by Retailer Taxable Persons for VAT Purposes is known as the *Faktur Pajak Digunggung* in Indonesian.

Further, DGT may determine certain documents equivalent to Tax Invoices such as tax payment slips, export and/or import declaration on goods, or export declaration on intangible goods and/or services.

Taxable Persons for VAT Purposes are allowed to prepare one Tax Invoice which includes all supplies of Taxable Goods or supplies of Taxable Services occurring in one calendar month to the same buyer or recipient of the same Taxable Services to ease the administrative burden, which is referred to as a Combined Tax Invoice (*Faktur Pajak Gabungan* in Indonesian).

If Taxable Persons for VAT Purposes supply Taxable Goods and/or Taxable Services for which a Tax Invoice must be prepared using more than one transaction code, Taxable Persons for VAT Purposes may prepare the Combined Tax Invoice only for supplies of the same transaction code, for each of the transaction codes.

Further provisions on procedures for the preparation of Tax Invoices and procedures for the rectification or replacement of Tax Invoices are stipulated by or based on the Minister of Finance of the Republic of Indonesia Regulation Number 18/PMK.03/2021 and the Director General of Taxes Regulation Number 03/PJ/2022 concerning Tax Invoices as amended by Director General of Taxes Regulation Number 11/PJ/2022.

A VAT invoice issued more than three months after the VAT invoice should have been prepared cannot be considered valid. The seller will be considered to have failed to issue a VAT invoice, and the recipient of such a VAT invoice will be unable to claim the input VAT. The VAT invoice will be considered incomplete if the guidelines are not followed. Issuing an invalid VAT invoice carries an administrative penalty of 1% of the Tax Base and to successfully claim input VAT as a tax credit, specific Tax Invoices must be valid. Otherwise, it is not creditable.

H. 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/e-Tax Invoice) by the 15th of every month after the taxable period ends at the latest.

I. Other Issues

After the Harmonisation of Taxation Laws were enacted, major changes in VAT Regulation occurred. In December 2022, the government enacted the implementing regulation of VAT Law by the Government of the Republic of Indonesia Regulation Number 49 of 2022 (hereinafter referred to as Gov. Reg. 49/2022). In addition, at least sixteen Minister of Finance Regulations have been issued to regulate VAT Imposition on specific matters.

- Minister of Finance Regulation 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.

- Minister of Finance Regulation No. 59/PMK.03/2022 concerning the Amendment to Minister of Finance Regulation No. 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.

- Minister of Finance Regulation No. 60/PMK.03/2022 concerning Procedures for the Appointment of Withholding Agents, Withholding, Remittance and Filing of VAT on the Utilisation 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 a Taxable Person for VAT Purposes, it is required to withhold, remit and file VAT based on the Indonesian VAT Law.

  The threshold of certain criteria so that the DGT

can appoint Electronic Commerce Merchant as VAT Withholding Agents on PMSE is as follows:

- the value of transactions with the Buyer in Indonesia exceeds IDR600,000,000 in one year or IDR50,000,000 in one month; and/or
- the amount of traffic or access in Indonesia exceeds 12,000 in one year or 1,000 in one month.

Non-resident suppliers conducting e-commerce in Indonesia designated as VAT collectors by the DGT must appoint a VAT collector and remit any VAT due to the tax authorities by 1 July 2020.

Domestic and/or foreign electronic interface operators/e-commerce trading operators appointed by DGT as VAT collectors must collect, pay and report VAT payable on the usage of intangible taxable goods and/or taxable services from outside the customs area to the customs area (DGT Regulation No. PER-12/PJ/2020).

When the customer pays the electronic interface operators, the VAT is due.

- Minister of Finance Regulation No. 61/PMK.03/2022 concerning VAT on Independent Construction.

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

  - Independent construction refers to the construction 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 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^2.

- 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.

- Minister of Finance Regulation No. 62/PMK.03/2022 concerning VAT on Supplies of Certain Liquefied Petroleum Gas.

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

  - VAT payable on supplies of Certain LPG of which part of the price is not subsidised at:
    - the point of supply of the Business Entity is calculated by multiplying the VAT 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 VAT rate.

- A certain amount of VAT payable on supplies of Certain LPG is stipulated:
  - at the point of supply of the Agent:
    - to amount to 1.1/101.1, which took effect on 1 April 2022; and
    - to amount to 1.2/101.2, which will take effect when the application of VAT rates stipulated under Article 7 paragraph (1) letter 'b' of the VAT Law 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 took effect on 1 April 2022; and
    - to amount to 1.2/101.2, which will take effect when the application of VAT rates stipulated under Article 7 paragraph (1) letter 'b' of the VAT Law is enacted,

    of the difference between the Base Selling Price and the Agent Selling Price.

- Minister of Finance Regulation No. 63/PMK.03/2022 concerning VAT 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 VAT.

- 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 of 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 took 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 VAT rates stipulated under Article 7 paragraph (1) letter 'b' of the VAT Law is enacted.

- Minister of Finance Regulation No. 64/PMK.03/2022 concerning VAT 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 VAT payable.
  - Certain amount referred to in Article 2 paragraph (1) is stipulated to:
    - amount to 1.1% of the Selling Price, which took effect on 1 April 2022; and
    - amount to 1.2%, which will take effect when the application of the VAT rates stipulated under Article 7 paragraph (1) letter 'b' of the VAT Law is enacted.

- Minister of Finance Regulation No. 65/PMK.03/2022 concerning VAT 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 VAT 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 took effect on 1 April 2022; and
    - amount to 1.2%, which will take effect when the application of VAT rates stipulated under Article 7 paragraph (1) letter 'b' of the VAT Law is enacted.

- Minister of Finance Regulation No. 66/PMK.03/2022 concerning VAT 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 VAT rate.

- Minister of Finance Regulation No. 67/PMK.03/2022 concerning VAT 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.

- Minister of Finance Regulation No. 68/PMK.03/2022 concerning VAT 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 abovementioned is stipulated to amount to:
    - 1% of the VAT rate multiplied by the value of the 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 the Crypto Asset transaction, in the event that the Electronic Commerce Operator is not a Crypto Asset Physical Trader.

- Minister of Finance Regulation No. 69/PMK.03/2022 concerning Income Tax and VAT on the Implementation of Financial Technology.

  The MoF focuses on how to tax tax Financial Technology activities as a whole. This MoF elucidates VAT and outlines the imposition of several income taxes.

- Minister of Finance Regulation 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 VAT.

The MoF explains the criteria for goods and services supplied by hotels exempt from VAT.

- Minister of Finance Regulation No. 71/PMK.03/2022 concerning VAT on Supplies of Certain Taxable Services.

  The MoF focuses on 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 organise trips to other places pursuant to statutory provisions on the criteria and/or details of religious services not subject to VAT; and
  - organisation 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 VAT and income tax on supplies/income in connection with sales of mobile phone

credit, starter packs for SIM cards, tokens and vouchers.

- Minister of Finance Regulation No. 48 of 2023 concerning Income Tax and/or Value Added Tax on Sales/Supplies of Gold Jewellery, Gold Bullion, Non-Solid Gold Jewellery, Gemstones and/or Other Similar Stones As Well As Services Related to Gold Jewellery, Gold Bullion, Non-Solid Gold Jewellery and/or Gemstones and/or Other Similar Stones Performed by Gold Jewellery Manufacturers, Gold Jewellery Merchants and/or Gold Bullion Entrepreneurs.

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

  - Taxable Persons for VAT Purposes gold jewellery manufacturers are required to collect VAT at an effective rate of 1.1% of the selling price (for delivery to other gold jewellery manufacturers and gold jewellery merchants) or 1.65% of the selling price (for delivery to end consumers);
  - Taxable Persons for VAT Purposes gold jewellery merchants are required to collect VAT with an effective rate of 1.1% of the selling price (if the gold jewellery merchant Taxable Persons for VAT Purposes have Tax Invoices for the acquisition of the said Gold Jewellery and/or certain documents equivalent to Tax Invoices for imports of the said Gold Jewellery) or 1.65% of the selling price (if they do not have the said Tax Invoices);
  - for supplies of Gold Jewellery Merchants to Gold Jewellery Manufacturers, VAT is imposed at 0% of the VAT rates multiplied by the Selling Price;
  - if Gold Jewellery Manufacturer Taxable Persons for VAT Purposes and Gold Jewellery Merchant Taxable Persons for VAT Purposes also supply

non-solid gold jewellery and/or gemstones and/or other similar stones, the said Taxable Persons for VAT Purposes must collect and remit VAT payable on the supplies of non-solid gold jewellery and/or gemstones and/or other similar stones, at a certain amount;
    - if Gold Jewellery Manufacturer Taxable Persons for VAT Purposes and Gold Jewellery Merchant Taxable Persons for VAT Purposes that supply Gold Jewellery and/or services related to gold jewellery, gold bullion, non-solid gold jewellery and/or gemstones and/or other similar stones, VAT payable on supplies of these is collected with an effective rate of 1.1%;
    - supplies of gold bullion for state foreign exchange reserve purposes are exempt from VAT;
    - under Gov. Reg. 70/2021, the government has provided VAT Exemption facilities on gold granules with conditions that fulfil several criteria; and
    - the obligation to report their businesses to be registered as Taxable Persons for VAT Purposes remains valid for gold Jewellery Manufacturers and Gold Jewellery Merchants that fulfil the criteria for small-scale Entrepreneurs.

- Minister of Finance Regulation No. 60 of 2023 concerning Thresholds of Public Housing, Worker Camps, University Student and Pupil Dormitories, and Workhouses Which Are Exempted From Value Added Tax. See Chapter 10 Fiscal Incentives, for further details.

Along with the major changes in the VAT Regulation through Gov. Reg. 49/2022, there is a need for rules related to applying VAT on goods and services and sales tax on luxury goods. This is further regulated in the Government of the Republic of Indonesia Regulation Number 44 of 2022. In addition, one Minister of Finance Regulation has

been issued to regulate the application of VAT on specific matters:

- Minister of Finance Regulation No. 41 of 2023 concerning Value Added Tax on Supplies of Collateral Acquired by Creditors to Collateral Buyers.

  Supplies of Collateral by Creditors to Collateral Buyers are included in the definition of supplies of rights to Taxable Goods subject to VAT. VAT payable on supplies of acquired Collateral is collected, remitted and filed by the Creditor.

  VAT is collected upon receipt of payment by the Creditor from the Collateral Buyer for the supplies of Collateral. VAT payable is collected and remitted in a certain amount. The certain amount is set at an effective rate of 1.1% of the selling price of the Collateral.

  Input VAT on the acquisition of Taxable Goods and/or Taxable Services in respect of supplies of Collateral cannot be credited by the Creditor. Collateral Buyers constituting Taxable Persons for VAT Purposes may credit VAT listed in the Tax Invoices.

Sales Tax on Luxury Goods

Sales Tax on Luxury Goods (STLGs) is a tax imposed on taxable goods (*Barang Kena Pajak*/BKP in Indonesian) classified as luxurious. STLGs are only imposed once upon a supply of taxable goods classified as luxurious by the manufacturer or taxable goods producer or upon imports of taxable goods classified as luxury. Therefore, supplies at the next level are no longer subject to STLGs and STLGs that have been paid cannot be credited against STLGs payable or VAT.

The imposition of STLGs is stipulated under Law of the Republic of Indonesia Number 8 of 1983 concerning Value Added Tax on Goods and Services and Sales Tax on Luxury Goods as Amended by Law of the Republic of Indonesia Number 7 of 2021 concerning the Harmonisation of Tax Regulations (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 taxable goods classified as luxurious. *Third*, protection against small-scale or traditional producers. *Fourth*, securing state revenues.

The VAT Law also stipulates four criteria for taxable goods classified as luxurious. The four criteria include

(i) goods that do not constitute staple goods, (ii) goods that certain people consume, (iii) goods that high-income people generally consume and/or (iv) goods consumed to show status.

Provisions on VAT registration and the appointment of other parties to collect, remit and/or file VAT and STLGs, calculate VAT and STLGs and determine when and where VAT and STLGs become payable are further regulated in the Government of the Republic of Indonesia Regulation Number 44 of 2022.

Pursuant to the VAT 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. However, exports of Taxable Luxury Goods are subject to a tax rate of 0%.

The classification of goods classified as luxurious and the respective rates are mainly based on the ability to pay different groups of people utilising 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 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 of the Republic of Indonesia Regulation Number 73 of 2019 as amended by Government of the Republic of Indonesia Regulation Number 74 of 2021 (hereinafter referred to as Gov. Reg. 74/2021) and Minister of Finance of the Republic of Indonesia Regulation Number 141/PMK.010/2021 (hereinafter referred to as MoF Reg. No. 141/PMK.010/2021) as amended by the Minister of Finance of the Republic of Indonesia Regulation Number 42/PMK.010/2022.

Based on the regulations, the STLG rates imposed on luxurious motor vehicles vary, namely 10%, 12%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 70% and 95%. The imposition of STLG rates depends on the type of vehicle, cylinder capacity, fuel consumption or carbon dioxide emission level and the technology used. Details of the STLG rates imposed on both four-wheeled and two-wheeled vehicles are listed in the appendix of MoF Reg. No. 141/PMK.010/2021.

The government differentiates the STLGs rates on eco-friendly motor vehicles and the tax base to encourage the use of energy-efficient and eco-friendly motor vehicles. The Tax Base (*Dasar Pengenaan Pajak*/DPP in Indonesian) is set in various ways, ranging from 20% of the selling price to 80% of the selling price. The percentage of Tax Base 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 Tax Base for vehicles with low carbon emissions apply to groups of motor vehicles that fulfil 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.

In respect of electric vehicles, the government, through Gov. Reg. 74/2021, provides STLGs incentives for the

purchase of electric cars. On the other hand, electric battery vehicles and fuel cell electric vehicles are subject to 0% STLGs (15% with a Tax Base of 0% of the selling price). The Tax Base for calculating STLGs can be seen in Gov. Reg. 74/2021 for motor vehicles with plug-in hybrid electric vehicles and full hybrid technology.

Not all motor vehicles classified as luxurious are subject to STLGs. The government has stipulated several vehicles 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 the Government of the Republic of Indonesia Regulation Number 61 of 2020 (hereinafter referred to as Gov. Reg. 61/2020) in conjunction with the Minister of Finance of the Republic of Indonesia Regulation Number 96/PMK.03/2021 as amended by the Minister of Finance of the Republic of Indonesia Regulation Number 15/PMK.03/2023. Based on the regulation, the list of luxurious taxable goods subject to STLGs and their respective rates are as follows:

Table 8.1 STLGs 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.	●	Air and piloted air balloon groups, other aircraft without propulsion.	40%
	●	Bullets for firearms and other firearms, except for state purposes: Bullets and parts thereof, excluding air rifle cartridges.	
3.	●	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.	50%
	●	Firearms and other firearm groups, except for state purposes: artillery guns, revolvers and pistols, firearms (other than artillery guns, revolvers and pistols); and similar equipment operated by firing explosives.	
4.	Luxury yacht groups, except for state purposes or public transport:		75%
	●	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.	
	●	yachts, except for state purposes or public transport or tourism businesses.	

Source: Gov. Reg. 61/2020 in conjunction with MoF Reg. No. 96/PMK.03/2021.

C. Imports of Taxable Goods Exempt from Import Duty where STLGs Are Not Collected

Some taxable goods might be exempt from import duty while VAT remains collected. However, several taxable goods are exempt from both import duty and STLGs.

The list of taxable goods exempt from import duty and STLGs is stipulated in the Government of the Republic of Indonesia Regulation Number 49 of 2022. The goods are varied, such as (i) goods for scientific research and development, (ii) gifts for public worship, charity, social or cultural, (iii) temporary imported goods, (iv) machinery for SMEs and (v) so forth. However, the exclusion from the imposition of STLGs on imports or supplies of taxable luxury goods other than motor vehicles is also stipulated in Gov. Reg. 61/2020.

Import facilities for the abovementioned Taxable Goods are given without using a VAT non-collected certificate (except yachts for tourism businesses). If the imported taxable goods exempt from import duty are not listed as exempt from STLGs, STLGs shall be collected when importing the taxable goods.

Customs & Excise

The Indonesian Customs Tariff Book, hereinafter referred to as BTKI (*Buku Tarif Kepabeanan Indonesia* in Indonesian), contains the nomenclature of the goods classification applicable in Indonesia. The list of types of goods systematically compiled based on their criteria with certain codes is needed in international trade traffic.

BTKI is updated regularly every five years. The Minister of Finance of the Republic of Indonesia Regulation Number 26/PMK.010/2022 stipulates BTKI 2022, which refers to the Harmonised System and the ASEAN Harmonised Tariff Nomenclature (AHTN). Self-checking of tariffs and classification of goods is also possible via the Indonesia National Trade Repository.

As mentioned above, BTKI contains a system of classification of goods and the imposition of import duties on imported and exported goods in Indonesia. There are several functions of BTKI as follows:

- used to collect import duties, export duties and taxes in the context of imports;
- serves as a basis for negotiations in the Free Trade Agreement (FTA) scheme, Rules of Origin and statistical data collection;
- to facilitate monitoring of prohibited and restricted commodities, including products that are considered dangerous both for trade and society, which are embodiments;

- to facilitate the provision of industrial assistance, for example, the determination of commodities for which import duty is exempt and import duty is borne by the government.

In addition to using BTKI, the most favored nation (MFN) is used to determine import and export duty rates. This MFN is a principle in an agreement between countries that are members of WTO. However, besides the MFN tariff, there is also a preferential tariff made because of free trade agreements. The agreement could be made between each country or regionally to provide reduced tariff benefits to parties involved in the transaction. This provision reduces duty tariffs on parties through bilateral or regional agreements.

From the explanation above, the steps used to determine the rates could be summarised as follows. *First*, a BTKI search on the product description is required. *Second*, the MFN clause in any treaty between the countries of origin and destination must be carefully examined. MFN tariffs will be used by all WTO members. However, if a preferential trade agreement exists, the tariff can be used as long as the requirements are met. *Third*, the MFN tariff must be used if the importer does not meet the preferential tariff requirements.

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 fulfilment 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. The Minister of Finance stipulates exported goods subject to export duties 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 Minister 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. If 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 Minister 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 (*Pemberitahuan Ekspor Barang*/PEB in Indonesian) (BC 3.0). The obligation to submit Export Declaration, 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.

Export Declaration is prepared by exporters based on supporting customs documents, including (i) invoices, (ii) packing lists and (iii) other required documents. Next, Export Declaration must be submitted by the exporters or their attorney to the customs office of loading no later than seven 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 attorney may submit Export Declaration before the departure of the means of transport. Even though Export Declaration has been submitted, the exporters may rectify Export Declaration in the event of data errors insofar as the time limit stipulated in Director General of Customs and Excise Regulation Number PER-32/BC/2014 as amended by Director General of Customs and Excise Regulation Number PER-07/BC/2019 has not been exceeded. However, these two regulations' provisions of customs procedures in the export sector have been updated in Director General of Customs and Excise Regulation Number PER-9/BC/2023.

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 Export Declaration 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 Export Declaration 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/attorney submits the Export Declaration document to the Customs Office of the place of loading;
- the documents for the exported goods declared in Export Declaration shall be verified. Furthermore, if the verification of Export Declaration documents shows that the Export Declaration data is filled in:
  - O incompletely and/or unaccordingly, a Notice of Rejection (*Nota Pemberitahuan Penolakan*/NPP in Indonesian) is issued;
  - O completely and accordingly, but includes goods for which exports are prohibited or restricted and export requirements have not been fulfiled, a Memorandum of Notification of Document Requirements (*Nota Pemberitahuan Persyaratan Dokumen*/NPPD in Indonesian) is issued;
  - O 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 fulfiled, and the exported goods have not been physically inspected, Export Declaration shall be given a number and date of registration and an Export Service Note (*Nota Pelayanan Ekspor*/NPE in Indonesian) is issued;
  - O 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 fulfiled, and the export goods are physically inspected, Export

Declaration shall be given a number and date of registration and a Notice of Goods Inspection (*Pemberitahuan Pemeriksaan Barang*/PPB in Indonesian) is issued.

A.3 Facilities

Through the Directorate General of Customs and Excise (DGCE), the government provides several facilities and conveniences 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 exemption import facilities for export (*Kemudahan Impor Tujuan Ekspor*/KITE in Indonesian), drawback import facilities for export and Small and Medium Industries (*Industri Kecil dan Menengah*/IKM in Indonesian) import facilities for export.

Further provisions on the imposition of export duty and the provisions on export customs can be seen in: Customs Law; Gov. Reg. 55/2008; MoF Reg. No. 145/PMK.04/2007 as last amended by MoF Reg. No. 155/PMK.04/2022; MoF Reg. No. 106/PMK.04/2022; MoF Reg. No. 39/PMK.010/2022 as last amended by MoF Reg. No. 71/PMK.03/2022; PER-9/BC/2023; P-41/BC/2008 as amended by PER-34/BC/2016; MoF Reg. No. 122/PMK.04/2017; and MoF Reg. No. 141/PMK.04/2020.

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 few imported goods, such as rice, sugar and some cinematographic products.

Furthermore, import duties are calculated using the following formula:

- *Ad valorem*

  Import Duty = Import Duty Rate x Customs Value

- Specific

  Import Duty = Rate per Unit of Goods x the Number of Unit of Goods

Some import duty rates are statutory (most favored nation) and some differ from MFN rates. MFN rates are imposed on all imports that are not covered by a free trade agreement (FTA) or other international treaties or agreements. Imports equipped with a Certificate of Origin (CoO), but the CoO is not accepted or canceled, will also be subject to MFN rates.

In addition to the MFN rates, the Customs Law authorises 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 preferential rates.

The use of these preferential rates must be equipped with a CoO. An imported product may obtain a CoO if it fulfils the Rules of Origin. The Indonesian Government has entered into many international agreements to use 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 preferential import duty rate amounts are determined separately under a Minister of Finance regulation.

In 2023, the government issued Minister of Finance of the Republic of Indonesia Regulation Number 35 of 2023 (hereinafter referred to as MoF Reg. No 35/2023), which

stipulates the procedure for submitting a Certificate of Origin/CoO (*Surat Keterangan Asal*/SKA in Indonesian[4]) and/or declaration of origin (*Deklarasi Asal Barang*/DAB in Indonesian[5]) in the context of the imposition of import duty rates on imported goods based on international agreements or treaties.

Previously, arrangements for submitting CoO and/or DAB had been stipulated by 17 ministerial regulations governing procedures for imposing import duty rates on imported goods based on the abovementioned international agreements. The presence of MoF Reg. No. 35/2023 simplifies procedural provisions using CoO and/or DAB.

Further, import duty rates that differ 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 courier services.

In addition to import duties, imported goods may 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, these additional import duties 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 remain required to pay import duties, either using MFN or preferential rates.

B.1 Customs Procedures in the Import Sector

In summary, the flow of customs procedures in the import

4 Certificate of Origin is Proof of Origin issued by the CoO issuing agency which will be used as the basis for the granting of Preferential Tariffs.

5 Declaration of Origin is Proof of Origin that contains a statement of the origin of goods prepared by exporters or producers as stipulated in each international agreement or treaty, which will be used as the basis for the granting of Preferential Tariffs.

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 fulfiled.

In respect of the arrival of the means of transport, the carrier must submit the Inward Manifest (*Rencana Kedatangan Sarana Pengangkut*/RKSP in Indonesian) or the Expected Time of Arrival (*Jadwal Kedatangan Sarana Pengangkut*/JKSP in Indonesian) 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 customs or other places after obtaining a permit. On the other hand, stockpiling may be carried out in temporary storage (*Tempat Penimbunan Sementara*/TPS in Indonesian) or other places equivalent to temporary storage 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 of customs (*Mitra Utama*/MITA in Indonesian) lines.

Further, imported goods may be released based on a number of purposes, namely imported for use, temporary imports, stockpiled in bonded storage (*Tempat Penimbunan Berikat*/TPB in Indonesian), transported to temporary storage in other customs areas, transitted and transhipped.

Imported objects are becoming more diverse as time passes because they are no longer limited to physical

objects but can also be digital products. Considering these developments, the government issued Minister of Finance of the Republic of Indonesia Number 190/PMK.04/2022 (hereinafter referred to as MoF Reg. No. 190/PMK.04/2022), which further regulates the release of imported goods for use, including intangible goods.

The Importer prepares the Import Declaration based on the Complementary Customs Documents by self-calculating Import Duty, Excise Duty and/or Taxes on Imports payable. The Import Declaration is submitted before or after the carrier submits the Inward Manifest or other Customs Declarations of transportation.

If the Importer does not manage the Import Declaration, the Importer may authorise a Customs Broker (*Pengusaha Pengurusan Jasa Kepabeanan*/PPJK in Indonesian). Importers or Customs Brokers must submit Complementary Customs Documents used as the basis for preparing the Import Declaration to the Customs Office. In respect of the release of Imported Goods for Use, the release line of Imported Goods for Use is determined in the form of a red line and a green line.

It is important to understand the provisions of MoF Reg. No. 190/PMK.04/2022 because it governs the procedures for releasing imported goods for use from the customs area, excluding bonded storage areas, customs areas in special economic zones, and customs areas in free trade zones and free ports.

Furthermore, each of the provisions in MoF Reg. No. 190/PMK.04/2022 may apply in general or to specific parties, namely importers or Customs Broker with Authorised Economic Operator (AEO) and MITA status or importers without AEO/MITA status. More details on the procedures for releasing imported goods for use can be found in the Director General of Customs and Excise Regulation Number PER-2/BC/2023 and MoF Reg. No. 190/PMK.04/2022.

Moreover, the DGCE provides various import conveniences and facilities, including trucklossing, rush handling, the release of goods with payment deferral of import duties and taxes on imports (*Pajak Dalam Rangka Impor*/PDRI in Indonesian). In addition, the government provides government-borne import duties (*Ditanggung Pemerintah*/DTP in Indonesian) for certain industries as well as exemptions or relief from import duties for certain imports.

B.2 Bonded Storage

Bonded Storage is a building, place or territory that fulfils certain requirements used for stockpiling goods for specific purposes by obtaining an Import Duty deferral. The purpose of establishing Bonded Storage is to improve the competitiveness of Indonesia's exported products by reducing logistics costs, stockpiling costs and dwelling time at ports.

Provisions regarding bonded landfills are stipulated in Government of the Republic of Indonesia Regulation Number 32 of 2009 as amended by Government of the Republic of Indonesia Regulation Number 85 of 2015 and Director General of Customs and Excise Regulation Number PER-6/BC/2023.

In the regulation, it is explained that this bonded storage place consists of seven forms, namely:

- Bonded Warehouses;
- Bonded Zones;
- Bonded Exhibition Places;
- Duty-free Shops;
- Bonded Auction Places;
- Bonded Recycling Areas; and
- Bonded Logistics Centres.

Goods admitted from outside the Customs Area into the aforementioned seven bonded storage facilities:

- are given Import Duty deferral;
- are not subject to Taxes on Imports collection; and/or
- are given Excise exemption.

B.3 Other Issues

The government simplifies the customs inspection provisions by changing the provisions governing customs inspections in the import sector in line with the issuance of Minister of Finance of the Republic of Indonesia Regulation Number 185/PMK.04/2022 (hereinafter referred to as MoF Reg. No. 185/PMK.04/2022). Changes were made to simplify the provisions for the physical inspection of imported goods and document research.

MoF Reg. No. 185/PMK.04/2022 is part of the DGCE bureaucratic reform and institutional transformation program, as well as the alignment of business processes and digital transformation. The instructions for the implementation of the physical inspection of imported goods can also be found in the Director General of Customs and Excise Regulation Number PER-1/BC/2023.

Furthermore, the number of imports of yarn products other than sewing thread from synthetic and artificial staple fiber continues to rise, causing severe losses in the domestic industry. As a result, through the Minister of Finance of the Republic of Indonesia Regulation Number 46 of 2023 (hereinafter referred to as MoF Reg. No. 46/2023), the government will continue to levy a safeguard measure import duty (hereinafter referred to as *Bea Masuk Tindakan Pengamanan*/BMTP in Indonesian) on imports of yarn products other than synthetic and artificial staple fiber sewing threads. The imposition of BMTP is in addition to the MFN or preferential import duty based on the international treaties or agreement that has been imposed.

Imports from all countries are subject to BMTP. The imposition of BMTP, on the other hand, is exempted from the import of goods other than sewing thread made of synthetic and artificial staple fiber if they originate in one of the 120 countries listed in the attachment to MoF Reg. No. 46/2023. Importers must submit a CoO for imports originating in these exempt countries.

C. Excise

C.1 The Growth in Excise Revenue

Based on the Ministry of Finance data, the realisation of excise revenue in Indonesia throughout 2022 was IDR226.9 trillion. Excise realisation has grown 16% compared to the same period last year.

Subsequently, through Presidental Regulation Number 130 of 2022, the government has set a higher excise revenue target of IDR245.45 trillion. In optimising this target achievement, the government has carried out various methods.

First, plans to expand the scope of excisable objects. To date, the Indonesian government imposes excise duty on products, such as ethyl alcohol, beverages containing ethyl alcohol (*Minuman Mengandung Etil Alkohol*/MMEA in Indonesian), ethyl alcohol concentrate and tobacco products. The following table details the excise rates that apply to these products:

Table 9.1 Excise Rate Based on Products

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

Recently, the government plans to expand the scope of excisable objects consisting of plastic and packaged sugar-sweetened beverages (*Minuman Berpemanis Dalam Kemasan*/MBDK in Indonesian). The government targets plastic excise revenues to reach IDR980 billion and packaged sugar-sweetened beverages excise revenue of IDR3.08 trillion in 2023.

Second, increase in tobacco products' excise rates. In order to provide legal certainty, the government has officially announced an increase in tobacco excise rates for two years (2023-2024). In further detail, excise on tobacco products is classified based on their tier and category (see the full regulations in the Minister of Finance of the Republic of Indonesia Regulation Number 191/PMK.010/2022).

Table 9.2 Minimum Price and Excise Rate of Tobacco Products

No.	Classification of Tobacco Products Factory		2023		2024	
	Type (abbreviations in Indonesian)	Category	Minimum Retail Price (IDR)	Excise (IDR)	Minimum Retail Price (IDR)	Excise (IDR)
1.	Machine-made clove cigarettes (*Sigaret Kretek Mesin*/SKM)	I	2,055	1,101	2,260	1,231
		II	1,255	669	1,380	746
2.	Machine-made white cigarettes (*Sigaret Putih Mesin*/SPM)	I	2,165	1,193	2,380	1,336
		II	1,295	710	1,465	794
3.	Hand-rolled clove cigarettes (*Sigaret Kretek Tangan*/SKT) or Hand-rolled white cigarettes (*Sigaret Putih Tangan*/SPT)	I	Above 1,800	461	Above 1,980	483
			1,250 – 1,800	361	1,375 - 1,980	378
		II	720	214	865	223
		III	605	118	725	122

Having the same fate as excise on conventional tobacco products, the government has also increased excise rates on electric cigarettes (e-cigarettes) and other tobacco products for two years (2023-2024). The details of the excise rates of e-cigarettes and other tobacco products are as follows (see the full regulations in the Minister of Finance of the Republic of Indonesia Regulation Number 192/PMK.010/2022).

Table 9.3 Minimum Retail Price and Excise Rates of E-Cigarettes and Other Tobacco Products

No.	Tobacco Product Type		2023				2024			
			Minimum Retail Price (IDR)		Excise		Minimum Retail Price (IDR)		Excise	
			Value	Unit	Value	Unit	Value	Unit	Value	Unit
1.	E-cigarettes:									
	•	Solid e-cigarettes	5,527	Per gram	2,886	Per gram	5,886	Per gram	3,074	Per gram
	•	Liquid e-cigarettes with an open system	938	Per mili-litre	532	Per mililitre	1,121	Per mili-litre	636	Per mili-litre
	•	Liquid e-cigarettes with a closed system	37,365	Per car-tridge	6,392	Per mililitre	39,607	Per car-tridge	6,776	Per car-tridge
2.	Other Tobacco Products:									
	•	Molasses tobacco	228	Per gram	127	Per gram	242	Per gram	135	Per gram
	•	Snuff tobacco	228	Per gram	127	Per gram	242	Per gram	135	Per gram
	•	Chewing tobacco	228	Per gram	127	Per gram	242	Per gram	135	Per gram

C.2 Agglomeration of Tobacco Product Factories

The government's efforts to increase excise revenue are also balanced with government policies in the tobacco industry, namely the Agglomeration of Tobacco Product Factories. This Factory Agglomeration aims to improve Factory Entrepreneurs' coaching, service and

supervision. This program is designed specifically for factory entrepreneurs operating on a micro, small or medium industrial scale. Factory entrepreneurs who conduct business in the Factory Agglomeration area will be provided with the following facilities:

- Excise Licencing
  Permits are exempted from the condition of having a location, building or place of business that will be used as a tobacco products factory.
- Production of Excisable Goods (*Barang Kena Cukai*/ BKC in Indonesian)
  Encourage collaboration in the production of excisable goods such as tobacco. Based on a cooperation agreement, Tobacco Product Factory Entrepreneurs in one factory agglomeration can carry out this cooperation.
- Payment of Excise
  It is permissible to defer payment of the specified excise duty for a period of 90 days from the date of ordering the excise tape.

The Agglomeration of Tobacco Product Factories provisions are stipulated in the Minister of Finance of the Republic of Indonesia Regulation Number 22 of 2023.

C.3 The Tax Stamp Attachment Procedure

Basically, the imposition of excise duty begins when excisable goods manufactured in Indonesia are finished. The term excisable goods have been completed when the manufacturing process of excisable goods is finished with the aim of being used. It is possible to explain the procedure for attaching a tax stamp to excisable goods as follows:

- The materials for the manufacture of goods are processed at the factory
  Processing raw materials in a factory into ready-to-use goods is subject to excise.

- Excisable goods completed
  Following the production of excisable goods, the factory owner must notify the DGCE on a regular basis. Manufacturers' bookkeeping or recording is used to prepare notices of finished excisable goods.
- Excisable goods packed
  The process of packaging and affixing tax stamps is an integral part of the activities; finished excisable goods must be packaged for retail sales and have tax stamps attached.

In order to encourage ease of doing business, the government released Minister of Finance of the Republic of Indonesia Regulation Number 161/PMK.04/2022. This minister of finance regulation was released to provide ease of doing business and ease of administration in the event that the excisable goods notification is completed.

Several minimum criteria that should be included in the notification of excisable goods, which are differentiated based on the type of goods.

Table 9.4 Minimum Requirements for Notification of Finished Excisable Goods

No.	Type of Excisable Goods	Necessary Information
1.	Ethyl Alcohol	● Factory identity; ● The amount of production.
2.	Beverages Containing Ethyl Alcohol	● Factory identity; ● The brands, levels and groups of Beverages Containing Ethyl Alcohol; and ● The type of packaging, contents of each package and the number of packages.

No.	Type of Excisable Goods	Necessary Information
3.	Tobacco Products	● Factory identity; ● The types of tobacco products; and ● The brand of tobacco products, the retail selling price, the contents of each package and the number of packages.
4.	Cut Tobacco packaged not for retail sales	● Factory identity; ● The types of tobacco products; and ● The retail selling price, contents of each package and the number of packages.

The above information must be included in the Manufacturers' notification of excisable goods. The notification can be submitted daily or monthly, depending on the type of excisable goods.

DGCE also issued Director General of Customs and Excise Regulation Number PER-24/BC/2022 concerning the completed procedures for notification of excisable goods. Moreover, details on the technical instructions for excise payment deferral for manufacturers or importers of excisable goods performing settlement by attaching tax stamps can be seen in Director General of Customs and Excise Regulation Number PER-3/BC/2022 as amended by Director General of Customs and Excise Regulation Number PER-4/BC/2023.

C.4 Other Issues

In accommodating developments in technology and information, the DGCE issued Director General of Customs and Excise Regulation Number PER-25/BC/2022 regarding procedures for resolving customs and excise objections (hereinafter referred to as DGCE Reg. No. PER-25/BC/2022), which have to be submitted electronically starting January 1st, 2023. DGCE Reg. No. PER-25/BC/2022

was issued as a derivative regulation of Minister of Finance of the Republic of Indonesia Regulation Number 136/PMK.04/2022, which amends the provisions of Minister of Finance of the Republic of Indonesia Regulation Number 51/PMK.04/2017 regarding the submission and resolution of objections in the customs and excise sector.

Only one objection may be submitted in one submission of an objection letter against one assessment; however, the objection must be submitted to the DGCE in writing and electronically. Manual submissions are no longer accepted.

Furthermore, the DGCE issued the Director General of Customs and Excise Regulation Number PER-10/BC/2023 regarding the procedure for auditing the compliance of excisable goods entrepreneurs. The DGCE can also conduct regular or ad hoc compliance inspections for excisable goods entrepreneurs. Compliance inspections are carried out with the aim of:

- provide recommendations in formulating excise policies;
- handling the compliance issues of excisable goods entrepreneurs;
- testing the compliance of excisable goods entrepreneurs with statutory provisions in the field of excise;
- obtaining facts on the compliance conditions of excisable goods entrepreneurs;
- carry out other activities required in the framework of excisable goods entrepreneurs compliance.

The implementation of excisable goods entrepreneurs' compliance inspections is carried out with the principles of fiscal security, orderly administration and coaching.

Fiscal Incentives

A. Tax Holiday

A.1 Tax Holiday for Pioneer Industries

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). More information on the regulation can be found in the Minister of Finance of the Republic of Indonesia Regulation Number 130/PMK.010/2020.

Table 10.1 Tax Holiday for Pioneer Industries in Indonesia

Regulation	Mini Tax Holiday	Full Tax Holiday	
% corporate tax reduction	50% for new investments IDR100 - 500 billion	100% for new investments of a minimum of 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 two fiscal years	50% of corporate tax reduction for the next two fiscal years	
Applicable industries	18 sectors of pioneer industries and other sectors that fulfil the criteria of pioneer industries.		

A.2 Tax Holiday for Public-listed Companies

The Government also provides reduced Corporate Income Tax (CIT) rates for public-listed companies with total fully paid shares traded on the stock exchange in Indonesia that fulfil certain requirements. These companies are eligible for a 3% lower rate from 22% of the statutory tax rate stipulated in Article 17 paragraph (2) letter 'b' of the Income Tax Law.

To obtain the tax reduction, a resident corporate taxpayer must fulfil certain requirements as follows:

- in the form of public-listed companies;
- with a total number of paid-up shares traded on the stock exchange in Indonesia of a minimum of 40%; and
- fulfil certain requirements, namely:
  - a minimum of 300 Parties must hold shares;
  - each party may only hold shares of less than 5% of the total issued and fully paid shares;
  - two provisions, ‘a’ and ‘b’ mentioned above, must be fulfiled within a minimum period of 183 calendar days within one tax year; and
  - public-listed companies taxpayers fulfil these requirements by submitting a report to the DGT.

The format and procedures for the submission of the report and list of taxpayers in the context of the fulfilment of the requirements for the reduction in income tax rates for resident corporate taxpayers in the form of public companies are stipulated by the Minister of Finance of the Republic of Indonesia Regulation Number 40 of 2023.

B. Tax Allowances

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

- reduction of taxable income by 30% of the capital investment for six years (5% reduction each year);
- accelerated depreciation up to 200% for tangible fixed assets and accelerated amortisation for intangible assets;
- loss carry-forward for more than five years (maximum ten years).

Tax allowances may be given to investments that fulfil certain criteria. The application may be submitted through the OSS. More information on the regulation can be found in the Government of the Republic of Indonesia Regulation Number 78 of 2019.

Further, according to the President of the Republic of Indonesia Decree Number 25 of 2022, several changes will be related to tax allowances through Draft Presidential Decree (*Rancangan Peraturan Pemerintah*/RPP in Indonesian) that will be issued in 2023.

C. Investment Allowances

Certain capital investments are eligible for taxable income amounting to 60% of the capital investments for six 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.

However, as of the end of 2022, no taxpayers have utilised the investment since the Government of the Republic of Indonesia Regulation Number 45 of 2019 was issued, according to the 2021 Tax Expenditure Report. Other requirements and further information to utilise the investment allowances can be found in the Minister of Finance of the Republic of Indonesia Regulation Number 16/PMK.010/2020.

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; and
- 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.

E. Dividend Exemption

Dividend income may be tax-exempt, whether received within or outside Indonesia by the individual and/or company. The exemption treatment for individuals 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 in the Minister of Finance of the Republic of Indonesia Regulation Number 18/PMK.03/2021). 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 applies to 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 equal 30% of the taxpayer's income after tax. The gap will be taxed according to the laws if the investment amount falls short of the threshold. 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 afterward 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 equipment;
- goods that are generated from business activities in the marine and fishery sectors;
- untanned raw hides and skins;
- certain livestock;
- seeds and/or seeds from agriculture, plantation, forestry or fishery;
- animal feeds;
- certain fish feeds;
- raw materials for animal feeds and fish feeds;
- craft raw materials in the form of granulated silver and/or silver bullions;
- weapons, ammunition, bulletproof helmet and vest, special ground vehicles, radars and spare parts;
- components or materials that have not been made domestically used for the manufacture of weapons, ammunition, bulletproof helmet and vest, special ground vehicles, radars and spare parts;
- imports of weapons, ammunition, military equipment and supplies belong to other countries;
- equipment includes spare parts used by the ministry in the field of national defence or Indonesian National Armed Forces (*Tentara Nasional Indonesia*/ TNI in Indonesian) for topographic and hydrographic maps, etc.;
- presidential official vehicle;
- goods for museums, zoos and other similar places

which are open to the public, nature conservation which is granted exemption from import duty;
- certain goods in the group of staple goods that the people need;
- sugar for consumption in the form of white crystals derived from sugar cane without added flavouring or colouring ingredients;
- mining or drilling products extracted directly from the sources, excluding coal mining products;
- liquified natural gas and compressed natural gas;
- goods imported by central or local governments that are intended for public use which are granted exemption from import duty;
- medicines that are imported using the state or local government budget (*Anggaran Pendapatan dan Belanja Negara* (APBN)/*Anggaran Pendapatan dan Belanja Daerah* (APBD) in Indonesian) for the benefit of the public, which is granted exemption from import duty;
- human therapeutic materials, blood grouping and tissue-type materials imported by using state or local government budget (APBN/APBD) for the benefit of the public, which are granted exemption from import duty.

The list, procedures and further information can be found in the Government of the Republic of Indonesia Regulation Number 49 of 2022.

G. VAT Exemption for Certain Strategic Taxable Services

Certain imports or domestic procurement of strategic taxable services may be VAT exempt. They include:

- medical healthcare services;
- social services;
- postage services;

- financial services;
- insurance services;
- educational services;
- non-advertising broadcasting services;
- public transport services on land, water and air;
- labour services;
- public telephone services using coins;
- money transfer services by postal money order;
- rental services for public flats and public houses; and
- services received by the ministry in the field of national defence or the Indonesian National Armed Forces to provide topographic and hydrographic maps, etc.

The list, procedures and further information can be found in the Government of the Republic of Indonesia Regulation Number 49 of 2022.

H. Non-collectible VAT for Certain Strategic Taxable Goods

Certain imports or domestic procurement of strategic taxable goods may be non-collectible VAT. They include:

- equipment of transportation on water, underwater, air and trains, including spare parts, navigation safety equipment and human safety equipment;
- sea transport vessels, river transport vessels, lake transport vessels and ferry vessels, fishing vessels, pilot boats, tugboats, barges including spare parts, ship equipment, navigation safety equipment and human safety equipment;
- aircraft, including spare parts, aviation safety equipment and human safety equipment, and equipment for repair and maintenance;
- aircraft spare parts and equipment for aircraft repair and maintenance;

- trains, including spare parts, equipment for repair and maintenance and infrastructure of railways;
- imported components or materials for manufacturing trains, spare parts, equipment for maintenance, repair and/or railway infrastructure;
- gold bullion other than for the benefit of the country's foreign exchange reserves.

The list, procedures and further information can be found in the Government of the Republic of Indonesia Regulation Number 49 of 2022.

I. Non-collectible VAT for Certain Strategic Taxable Services

Certain imports or domestic procurement of strategic taxable services may be subject to VAT non-collected. They include:

- ship charter, port services, ship maintenance and repair services;
- aircraft charter, repair and maintenance services;
- repair and maintenance of train services.

More info about the facilities can be found in the Government of the Republic of Indonesia Regulation Number 49 of 2022.

J. Foreign Income Exemption for Certain Expatriates

Expatriates constituting resident tax subjects (S*ubjek Pajak Dalam Negeri*/SPDN in Indonesian) may obtain tax exemption for their foreign-sourced income for four years. They have to be foreign workers holding certain positions or researchers with expertise in certain knowledge, technology and/or mathematics. Further details about this tax exemption can be found in Chapter 4 Individual Income Tax.

K. Special Economic Zones

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

- tax holiday;
- tax allowance;
- Article 22 Income Tax non-collected for import activities;
- VAT and Sales Tax on Luxury Goods (STLGs) non-collected;
- duty exemption and other Taxes on Imports Non-collected; and/or
- excise exemption.

Currently, there are 20 Special Economic Zones in Indonesia. These 20 special economic zones are shown in the following table.

Tabel 10.2 Special Economic Zones

No.	Name	Area	Main Activities
1.	Arun Lhokseumawe	North Aceh; Lhokseumawe (Special Region of Aceh Province)	● Energy industry; ● Petrochemical and other chemical industries; ● Palm oil processing industry; ● Wood processing industry; ● Logistics.
2.	Sei Mangkei	Simalungun (North Sumatra Province)	● Palm oil processing industry; ● Rubber processing industry; ● Tourism; ● Logistics.
3.	Batam Aero Technic	Batam (Riau Islands Province)	Aircraft Maintenance, Repair and Overhaul (MRO) industry
4.	Nongsa	Batam (Riau Islands Province)	● IT-digital; ● Tourism.
5.	Galang Batang	Bintan (Riau Islands Province)	● Bauxite processing industry; ● Logistics.
6.	Tanjung Kelayang	Belitung (Bangka Belitung Province)	Tourism

No.	Name	Area	Main Activities
7.	Tanjung Lesung	Pandeglang (Banten Province)	Tourism
8.	Lido	Bogor (West Java Province)	● Tourism; ● Creative industries.
9.	Kendal	Kendal (Central Java Province)	● Textile and fashion industry; ● Furniture and game tools industry; ● Food and beverage industry; ● Automated industry; ● Electronics industry; ● Logistics.
10.	Gresik	Gresik (East Java Province)	● Metal industry; ● Electronics industry; ● Chemical industry; ● Energy industry; ● Logistics.
11.	Singhasari	Malang (East Java Province)	● Tourism; ● Technology development.
12.	Sanur	Denpasar (Bali Province)	● Health; ● Tourism.
13.	Bali Tortoise	Denpasar (Bali Province)	● Tourism; ● Creative industries.
14.	Mandalika	Central Lombok (NTB Province)	Tourism
15.	MBTK	East Kutai (East Kalimantan Province)	● Palm oil processing industry; ● Energy industry; ● Logistics.
16.	Hammer	Palu (Central Sulawesi Province)	● Base metal industry; ● Logistics.
17.	Likupang	North Minahasa (North Sulawesi Province)	Tourism
18.	Bitung	Bitung (North Sulawesi Province)	● Coconut processing industry; ● Fisheries processing industry; ● Logistics.

No.	Name	Area	Main Activities
19.	Morotai	Morotai Island (North Maluku Province)	• Fisheries processing industry; • Tourism; • Logistics.
20.	Sorong	Sorong (West Papua Province)	• Nickel processing industry; • Palm oil processing industry; • Forest and plantation products industry (Sago); • Logistics.

Source: https://kek.go.id/peta-sebaran-kek.

More information can be found in the Government of the Republic of Indonesia Regulation Number 12 of 2020, including how to obtain the facilities. The requirements to obtain the facilities may be submitted through certain applications the government provides.

L. Tax Facilities for Free Trade Zones and Free Port Areas

Transfer of goods within or into the Free Trade Zone and Free Port (*Kawasan Perdagangan dan Pelabuhan Bebas*/ KPBPB in Indonesian) are entitled to the following tax facilities:

- VAT exemption;
- VAT and STLGs non-collected;
- excise exemption.

There are four free trade zones: Sabang, Batam, Bintan and Karimun. More info about the facilities can be found in the Government of the Republic of Indonesia Regulation Number 41 of 2021.

M. Fiscal Incentives to Accelerate the Development of Nusantara Capital

The government provides fiscal and non-fiscal incentives for entrepreneurs to accelerate the development of

Nusantara Capital (IKN). These incentives aim to provide entrepreneurs with greater certainty, opportunity and participation. The fiscal and non-fiscal incentives policies in the context of accelerating the development in Nusantara Capital are stipulated in the Government of the Republic of Indonesia Regulation Number 12 of 2023 (hereinafter referred to as Gov. Reg. 12/2023) concerning the granting of business permits, ease of doing business and investment incentives to entrepreneurs in Nusantara Capital. The entrepreneurs that may take advantage of these incentives are those conducting business in Nusantara Capital.

In the context of investment incentives, the incentive component is divided into two authorities, namely the authority of the Central Government and the authority of the Nusantara Capital authority. The details of fiscal incentives based on their authority are as follows:

Table 10.3 Investment Incentives in Nusantara Capital

The Central Government's Authority	
In Corporate Income Tax (CIT) context, tax incentives are divided into nine components.	
●	The reduction in CIT for resident corporate taxpayers;*
●	Income tax on financial sector activities in the financial centre;*
●	The reduction in CIT for the establishment and/or relocation of the head office and/or regional offices;
●	The reduction in gross income for the implementation of externships, internships and/or apprenticeships in the context of fostering and developing certain-competency-based human resources;
●	The reduction in gross income for certain research and development;
●	The reduction in gross income for donations and/or expenses for the construction of public facilities, social facilities and/or other non-profit facilities;
●	Article 21 Final Income Tax borne by the Government;
●	0% Final Income Tax on income from a certain gross business turnover for micro, small and medium-sized enterprises; and

The Central Government's Authority	
●	The reduction in Income Tax on transferring rights to land and/or buildings.
In the context of VAT and STLG, the provided tax facilities are as follows.	
●	VAT non-collected; and
●	The exclusion from STLGs on supplies of taxable goods.
In the context of customs, facilities are divided into three components below.	
●	Import duty exemption and taxes on imports incentives for imports of goods by the Central Government or Local Governments intended for public interest in Nusantara Capital and Partner Regions;
●	Import duty exemptions and taxes on imports incentives on imports of capital goods for industrial construction and development in Nusantara Capital and Partner Regions; and
●	Import duty exemptions on import goods and materials for industrial construction and development in Nusantara Capital and/or Partner Regions.
The Nusantara Capital Authority's Authority	
Special tax incentives and special revenues of Nusantara Capital.	

* After officially obtaining the incentives, taxpayers must realise their investment in Nusantara Capital no later than two years after the issuance of the tax incentive approval.

In respect of the fiscal incentives, if not stipulated specifically under Gov. Reg. 12/2023, the regulations related to fiscal incentives apply *mutatis mutandis* to Nusantara Capital. However, suppose a fiscal incentives pursuant to Gov. Reg. 12/2023 has the same scope as an incentive outside Nusantara Capital but has different benefits. In that case, the more favourable fiscal incentives provisions shall apply. Furthermore, entrepreneurs wishing to invest in Nusantara Capital must apply for business permits, ease of doing business and investment incentives through the OSS.

N. VAT Borne by the Government for Battery Electric Vehicle

Government support is necessary to encourage policies that accelerate the transition from fuel oil to electrical

energy and increase public interest in purchasing battery-based electric motor vehicles. This support can be provided in the form of VAT incentives, where the government bears the VAT for the delivery of electric vehicles. The policy regarding government-borne VAT incentives is stipulated in the Minister of Finance of the Republic of Indonesia Regulation Number 38 of 2023 (hereinafter referred to as MoF Reg. No. 38/2023).

The electric vehicles eligible for this incentive are battery electric vehicles (BEVs) based on specific four-wheeled batteries and bus batteries that meet the criteria for the domestic component level (DCL) of battery electric vehicles. The DCL serves as the basis for calculating the VAT incentives borne by the government. For further information, please refer to the table below:

Table 10.4 The Amount of VAT Borne by the Government

No.	Type of Battery Electric Vehicle	DCL Value	VAT Borne by the Government
1.	Certain Four-Wheeled	40%	10% of the selling price
2.	Certain Bus	40%	10% of the selling price
		minimum 20% to less than 40%	5% of the selling price

This government-borne VAT incentive is provided from April 2023 until the December 2023 tax period. More information about VAT administration and realisation reports can be found in MoF Reg. No. 38/2023.

O. VAT Exemption on Public Housing, Worker Camps, University Student and Pupil Dormitories and Workhouses

As mentioned in Article 6 paragraph (2) letter 'j' of the Government of the Republic of Indonesia Regulation Number 49 of 2022, public housing, worker camps

(*Pondok Boro* in Indonesian), university student and pupil dormitories, and workhouses are exempt from VAT. The Minister of Finance of the Republic of Indonesia Regulation Number 60 of 2023 (hereinafter referred to as MoF Reg. No. 60/2023) further stipulates the provisions of this VAT exemption. The following criteria must be met in order to obtain this facility.

Table 10.5 VAT Exemption Conditions for Public Housing, Worker Camps, University Student and Pupil Dormitories, and Workhouses

No.	Building Type	Conditions
1.	Public Housing*	• A minimum building area of 21 m^2 to 36 m^2; • A minimum land area of 60 m^2 up to 200 m^2; • The selling price does not exceed the selling price limit; • The first residential unit owned, self-used as a residence and not transferred within four years.
2.	Workhouses*	
3.	University Student and Pupil Dormitories	• Simple buildings, in the form of multi-storey or non-storey buildings; • Specifically intended for student or university student residences; • Not transferred within four years of acquisition.
4.	Worker Camps	• Simple buildings, in the form of multi-storey or non-storey buildings; • Intended for permanent workers or low-income informal sector workers with an agreed rental fee; • Not transferred within four years of acquisition.

* Public housing and workhouses serve only as livable residential buildings, not including shophouses or office buildings.

* Tax identification numbers are required for those who provide public housing, worker camps, university student and pupil dormitories, and workhouses.

More information about VAT exemption on this topic can be found in MoF Reg. No. 60/2023.

Stamp Duty

Stamp duty is a tax on documents. In response to information technology developments, the format of documents subject to stamp duty is not only printed documents. In the recent regulation, documents subject to stamp duty include handwritten, printed or electronic documents, which may be used as evidence or information.

Provisions on stamp duty are regulated under a number of regulations, including Law of the Republic of Indonesia Number 10 of 2020 concerning Stamp Duty (Stamp Duty Law), Minister of Finance of the Republic of Indonesia Regulation Number 133/PMK.03/2021 and Minister of Finance of the Republic of Indonesia Regulation Number 134/PMK.03/2021 (hereinafter referred to as MoF Reg. No. 134/PMK.03/2021). In the latest updates, MoF Reg. No. 134/PMK.03/2021 has revoked Minister of Finance of the Republic of Indonesia Regulation Number 4/PMK.03/2021.

A. Documents Subject to Stamp Duty

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 DDTC News' article.

Not all documents, however, are subject to stamp duty. The Stamp Duty Law stipulates several documents not

subject to stamp duty. Additionally, the Stamp Duty Law provides an exemption facility for certain documents. Please refer to Article 22 of the Stamp Duty Law for information on the Exemption from Stamp Duty Facility.

B. Stamp Duty Rate

Stamp duty is imposed once for each document at a fixed rate of IDR10,000. Although 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.

There is no stamp duty on payment documents with a value of up to IDR5,000,000.

C. Chargeable Event

The time stamp duty becomes payable may vary depending on the document type. The Stamp Duty Law classifies when stamp duty becomes payable based on five momentums, as follows:

Table 11.1 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

When Stamp Duty Becomes Payable	Document Type
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. The beneficiary of the documents determines who is liable for stamp duty. Stamp duty becomes payable to the party receiving the document when documents are prepared unilaterally.

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.

D. Payment of Stamp Duty

Parties liable to stamp duty may pay stamp duty payable using a stamp duty or tax payment slip (*Surat Setoran Pajak*/SSP in Indonesian). 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, computerised system, printing technology, and other systems or technologies.

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

Each stamp duty payment method has its 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 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 settling stamp duty can be found in MoF Reg. No. 134/PMK.03/2021.

As abovementioned, another provision to be considered regarding the payment 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 unpaid or underpaid.

E. Administrative and Criminal Penalty

Concerning the obligation of Stamp Duty collectors, if they fail to fulfil the collection obligation, a notice of tax assessment shall be issued following statutory provisions in the field of GPTP Law. The notice of tax assessment will include the amount of Stamp Duty underpayment, which consists of the Stamp Duty that has not been collected or has been under-collected, as well as the Stamp Duty that has not been remitted or has been under-remitted. Furthermore, an administrative penalty of 100% of the Stamp Duty that has not been collected, under-collected

and/or under-remitted will be added to the notice of tax assessment.

Moreover, criminal sanctions can also be imposed on anyone who violates the rules and/or provisions related to Stamp Duty, such as imitating or falsifying stamps issued by the Indonesian Government and removing marks that indicate a stamp cannot be used anymore on stamps that have been used. Provisions related to criminal sanctions can be found in Articles 24, 25 and 26 of the Stamp Duty Law.

Local Taxes

In 2022, in order to create an efficient allocation of national revenues through the relationship between the central and local governments, the government issued Law of the Republic of Indonesia Number 1 of 2022 regarding Financial Relationships between the Central Government and Local Government (hereinafter referred to as HKPD Law).

HKPD Law was issued to improve the existing provisions, namely Law No. 33 of 2004 regarding Financial Balance and Law No. 28 of 2009 regarding Local Taxes and Local Charges. Primarily, it is aimed to reinforce local tax revenue performance and increase regions' fiscal capacity.

In general, three changes are enshrined in the HKPD Law. *First*, the simplification of local tax structure. One of the simplifications can be seen from the merger between restaurant and hotel taxes into certain goods and services taxes. This effort aims to optimize local tax collection and streamline taxpayers' costs 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: motor vehicle tax, transfer of motor vehicle fee, and non-metallic minerals and rocks tax.

Third, the introduction of a new type of tax. The HKPD Law introduces a new type of tax, namely the heavy equipment tax. This tax was introduced as a follow-up to the Constitutional Court Decision No. 15/PUU-XV/2017 mandate.

HKPD Law also regulates the types of local taxes and the applicable rates. Applicable local taxes may vary across regions, but the scope and applicable rates must comply with the provision of the thresholds set out in the HKPD Law.

Applicable local taxes may vary across regions, but the scope and applicable rates have to be within the scope of Table 12.1 and Table 12.2.

Table 12.1 Local Taxes on the Provincial Level

Tax Type (abbreviations in Indonesian)	Tax Rate
Motor vehicle tax (*Pajak Kendaraan Bermotor*/PKB)	1.2% - 6% / 2% - 10%*
Motor vehicle duty (*Bea Balik Nama Kendaraan Bermotor*/BBNKB)	12% / 20%*
Heavy equipment tax (*Pajak Alat Berat*/PAB)	0.2%
Motor vehicle fuel tax (*Pajak Bahan Bakar Kendaraan Bermotor*/PBBKB)	10% - 50%
Surface water tax (*Pajak Air Permukaan*/PAP)	10%
Cigarette tax (*Pajak Rokok*)	10%
Non-metallic mineral and rock tax surcharge (*Opsen Pajak Mineral Bukan Logam dan Batuan*/MBLB)	25%

* The higher rates are applicable for provincial regions not divided into autonomous regencies/municipalities.

Table 12.2 Local Tax on Regencies/Municipalities Level

Tax Type (abbreviations in Indonesian)	Tax Rate
Rural and urban land and building tax (*Pajak Bumi dan Bangunan Perdesaan dan Perkotaan*/PBB-P2)	0.5%
Acquisition duty on rights to land and/or buildings (*Bea Perolehan Hak Atas Tanah dan/atau Bangunan*/BPHTB)	5%
Taxes on certain goods and services (*Pajak Barang dan Jasa Tertentu*/PBJT)	1.5% - 75%
Advertisement tax (*Pajak Hiburan*)	25%
Groundwater tax (*Pajak Air Tanah*/PAT)	20%
Non-metallic mineral and rock tax (*Pajak Mineral Bukan Logam dan Batuan*/PMBLB)	20% / 25%*
Swiftlet nest tax (*Pajak Sarang Burung Walet*)	10%
Motor vehicle tax surcharge (*Opsen Pajak Kendaraan Bermotor*/PKB)	66%
Motor vehicle duty surcharge (*Opsen Bea Balik Nama Kendaraan Bermotor*/BBNKB)	66%

* The higher rates are applicable for provincial regions not divided into autonomous regencies/municipalities.

Based on Article 114 of Law Number 11 of 2020 concerning Job Creation as last amended by Law Number 6 of 2023 concerning the Stipulation of Government Regulation in Lieu of Law Number 2 of 2022 concerning Job Creation into a Law (hereinafter referred to as Law No. 6/2023), provisions regarding local taxes and charges in the context of job creation have also been adjusted with provisions stipulated in the HKPD Law.

Furthermore, Article 35 of Law Number 39 of 2009 concerning Special Economic Zones (SEZs) as last amended by Article 150 of Government Regulation in Lieu

of Law Number 2 of 2022 as last amended by Law No. 6/2023 also contains changes in provisions regarding local taxes.

The article stipulates that taxpayers conducting business in SEZ may be provided incentives in the form of an exemption or relief from local taxes in accordance with the provisions of laws. Furthermore, the incentives can be in the form of a reduction in acquisition duty on rights to land and/or buildings and rural and urban land and building tax, as well as other incentives and facilities provided by the local governments.

Onwards, we can also expect local governments to provide more tax incentives that are targeted to improve the economy and social welfare. As a follow-up to the HKPD Law, local governments have only one full year of 2023 to implement changes and adjustments to the new provisions. Local governments must revise their regional regulations by 5 January 2024 as regulated.

After the long-awaited, in June 2023, the government issued the government regulation regarding the General Provisions of Local Taxes and Charges (hereinafter referred to as *Ketentuan Umum Pajak Daerah dan Retribusi Daerah*/KUPDRD in Indonesian) as a derivative regulation of the HKPD Law. The provisions are stipulated in the Government of the Republic of Indonesia Regulation Number 35 of 2023 (hereinafter referred to as Gov. Reg. 35/2023).

In turn, the government regulation KUPDRD is designed to provide guidance for local governments in drafting local regulations regarding local taxes and charges. Moreover, the KUPDRD governs cooperation in optimizing tax collection between the central and local governments, as well as between local governments and third parties.

A. Taxes on Certain Goods and Services

The HKPD law restructures taxes by reclassifying five types of consumption-based taxes into one type of tax, namely taxes on certain goods and services. The object of taxes on certain goods and services are sales, supplies and/or consumption of certain goods and services, which include (i) food and/or beverages, (ii) electricity, (iii) hotel services, (iv) parking services and (v) arts and entertainment services.

The implementing regulation is currently available for taxes on certain goods and services on electricity. Further, food and/or beverages, hotel services, parking services and arts and entertainment services are awaiting implementation regulations, both at the level of Government Regulations and Minister of Finance Regulations. The regional regulations for the other four types of taxes remain valid (which implement Law No. 28 of 2009) if they do not contradict the HKPD Law.

A.1 Taxes on Certain Goods and Services on Electricity

Government of the Republic of Indonesia Regulation Number 4 of 2023 (hereinafter referred to as Gov. Reg. 4/2023) stipulates taxes on certain goods and services on electricity. This regulation changes the street lighting tax nomenclature into taxes on certain goods and services on electricity. Therefore, this regulation mandates local governments to adjust regional regulations concerning street lighting tax pursuant to this regulation no later than 5 January 2024.

The object of taxes on certain goods and services on electricity is the use of electricity by end users. However, Gov. Reg. 4/2023 also stipulates several exclusions from taxes on certain goods and services on electricity in certain conditions. For further detail, see Table 12.3 below.

Table 12.3 Electricity Consumption Excluded from Taxes on Certain Goods and Services

No.	Description	Party	Place/Condition
1.	Consumption of electricity by	• Government institutions; • Local governments; and • Other state organisers.	
2.	Consumption of electricity in places used by	• Embassies; • Consulates; and • Foreign representatives based on the principle of reciprocity.	
3.	Electricity consumption in		• Houses of worship; • Nursing homes; • Orphanages; and • Other similar social institutions.
4.	Electricity consumption		Self-generated with a certain capacity that does not require a permit from the relevant technical agency.
5.	Other electricity consumption		Regulated by regional regulations.

In the context of taxes on certain goods and services on electricity, the tax calculation is based on the amount paid by consumers for the selling value of electricity. If there is no payment by the consumer, the tax base is calculated based on the applicable selling value of electricity in the area concerned. In addition, three tax rates apply to taxes on certain goods and services on electricity which are further described in Table 12.4.

Table 12.4 Scheme for Determining the Maximum Tax Rate of Taxes on Certain Goods and Services on Electricity

No.	Condition	Maximum Rate
1.	Statutory rate	10%
2.	Special rate for electricity consumption from other sources by industries and oil and gas mining	3%
3.	Special rate for the consumption of self-generated electricity	1.5%

Further, Gov. Reg. 4/2023 also stipulates local governments' obligations regarding the allocation of taxes on certain goods and services on electricity revenues. The local governments are required to allocate at least 10% of taxes on certain goods and services on electricity revenues for public street lighting.

B. Administrative Sanctions

Compared to the previous regime, the amount of administrative sanctions contained in KUPDRD Gov. Reg. 35/2023 has changed. The Minister of Finance has the authority to review the amount of administrative sanction rates in the form of interest and interest compensation under Article 106 Gov. Reg. 35/2023. A number of articles in Gov. Reg. 35/2023 contain provisions for administrative sanctions.

Table 12.5 Amount of Administrative Sanctions for Each Violation

No.	Condition	Rate
1.	Taxpayers who get instalment facilities or deferral tax payable from the local government	Interest is granted at a rate of 0.6% per month on the amount of tax that must be paid.
2.	Taxpayers who do not pay or remit local taxes payable in a timely manner	The interest of 1% per month on any unpaid or underpaid tax.

No.	Condition	Rate
3.	Rectification of local tax return (*Surat Pemberitahuan Pajak Daerah*/SPTPD in Indonesian) stating underpayments	An interest penalty of 1% per month of the amount of underpaid tax is calculated from the due date of payment to the date of payment.
4.	If the local government audits the local tax return and finds that there is a shortage of payments	The underpaid tax amount will be subject to interest at a rate of 1% per month.
5.	If the local government audits and issues a notice of local tax underpayment assessment (*Surat Ketetapan Pajak Daerah Kurang Bayar*/SKPDKB in Indonesian)	From the time the tax becomes payable or the end of the tax period, part of the tax year or the tax year until the issuance of the notice of local tax underpayment assessment, an interest penalty of 1.8% of the underpaid tax is calculated.
6.	If the local government *ex-officio* taxes and issues a notice of local tax underpayment assessment because the taxpayer does not file the local tax return, does not carry out bookkeeping or fails to show documents when audited	Interest penalty of 2.2% plus a 25% increase (specifically for motor vehicle fuel tax and certain goods and services tax, penalties of 50% increase).

In order to increase voluntary taxpayer compliance, interest sanctions are designed to vary based on the type of violation. This follows the practice of central tax provisions. For minor violations, smaller fines are imposed.

C. Duty on the Acquisition of Land and/or Building Rights

The government has also decided to raise the administrative sanction rates for fines levied against land deed officials (hereinafter referred to as *Pejabat Pembuat Akta Tanah*/PPAT in Indonesian) or notaries who fail to fulfil their obligations relating to land and/or building rights acquisition duties (hereinafter referred to as *Bea Perolehan Hak Atas Tanah dan/atau Bangunan*/BPHTB in Indonesian).

According to Article 60 paragraph (1) letter 'a' Gov. Reg. 35/2023, the land deed official or notary is required to request proof of BPHTB payment from the taxpayer before signing the deed of transfer of rights over land and/or buildings. If this obligation is not met, the land deed official or notary will be fined IDR10 million for each violation. Previously, a fine of IDR7.5 million was imposed.

Furthermore, the land deed official or notary is required to notify the local government of the execution of the binding sales and purchase agreement (*Perjanjian Pengikatan Jual Beli*/PPJB in Indonesian) and the execution of the deed of land and/or buildings by the 10th of the following month. If this obligation is not met, the land deed official or notary will be fined IDR1 million for each report.

According to the KUPDRD, a land deed official or a notary who fails to report the making of a deed by the 10th of the following month is only subject to a fine of IDR250,000 for each report.

BPHTB is a type of self-assessment tax that becomes the authority of the district/city. BPHTB aims to acquire land and/or building rights through transactions such as buying and selling, swaps, grants, wills, inheritance, auctions, prizes, etc.

BPHTB is payable on the date the PPJB is made and signed in the context of buying and selling. If the PPJB is not used in the sales and purchase of land and/or buildings, the BPHTB is payable when the sales and purchase deed (*Akta Jual Beli*/AJB in Indonesian) is signed. Meanwhile, BPHTB taxpayers are individuals or entities who acquire land and/or building rights. As a result, BPHTB must be paid by buyers of land and/or buildings.

Regencies/municipalities set BPHTB rates at a maximum of 5%. Meanwhile, the acquisition value of the tax object, namely the transaction value, market value or transaction price in the auction minutes, serves as the basis for

the imposition of BPHTB. If the acquisition value is less than the tax object value (*Nilai Jual Objek Pajak*/NJOP in Indonesian), the NJOP is used as the basis for imposing the BPHTB.

Carbon Tax

Since the issuance of Law of the Republic of Indonesia Number 7 of 2021 concerning the Harmonisation of Tax Regulations (hereinafter referred to as HPP Law), the Indonesian Government has imposed a carbon tax on taxpayers effective as of April 1st, 2022.

The following are noteworthy tax carbon regulations:

- tax object: carbon taxes are imposed on carbon emissions that have a negative impact on the environment;
- tax subject: individual or entity that purchases carbon-containing goods and/or carries out activities that produce a certain amount of carbon emissions in a certain period;
- carbon tax imposed upon the purchase of carbon-containing goods at the end of the calendar year period from activities that generate a certain amount of carbon emission and other times regulated based on government regulations;
- carbon tax rates are set higher or equal to the carbon price in carbon markets per kg of carbon dioxide equivalent (CO_2e) or equivalent units. If the price of carbon in the carbon market is lower than IDR30.00 per kg of carbon dioxide equivalent or equivalent unit, the carbon tax rate is set at a minimum of IDR30.00;
- a carbon tax can be paid in the following ways:

  - paid by the taxpayer; and/or
  - collected by the carbon tax withholding agents.
- taxpayers conducting activities that produce carbon emissions are required to file the annual tax return to report the calculation and/or payment of carbon tax;
- taxpayers collecting carbon taxes are required to file monthly tax returns to report carbon tax calculation and/or payment;
- taxpayers who carry out activities that produce carbon emissions and carbon tax collectors are required to keep records of activities that produce carbon emissions and/or sales of carbon-containing goods. The records will be used as a basis for calculating the amount of carbon tax payable; and
- taxpayers who participate in carbon emission trading, carbon emission offsets and/or other mechanisms in accordance with laws and regulations in the environmental sector may be granted:
  - carbon tax reductions; and/or
  - other treatment for fulfiling carbon tax obligations.

The Government of the Republic of Indonesia issued Regulation Number 50 of 2022 on December 12th, 2022, as a derivative regulation of the HPP Law, explaining more specifically the regulation of carbon tax.

Moreover, there are several recent issues related to a carbon tax, as follows:

- a carbon tax is an alternative measure by the government to realise net zero emissions at the sectoral or company level. Technically, a cap (the maximum amount of carbon emission per period) will be allowed in every sector;
- further, the differences in cap per sector from the allowed maximum amount of carbon emission per

period can be compensated in two ways, as follows:

- paying carbon tax; or
- purchasing a carbon certificate from the carbon market, which it is currently being prepared by the Financial Services Authority (*Otoritas Jasa Keuangan*/OJK in Indonesian).

List Abbreviations

A	
AANZFTA	Asean-Australia-New Zealand FTA
ACFTA	Asean-China FTA
AEO	Authorised Economic Operator
AHTN	ASEAN Harmonised Tariff Nomenclature
AJB	Sales and Purchase Deed
AKFTA	Asean-Korea FTA
APA	Advance Pricing Agreement
APBN/APBD	State or Local Government Budget
APM	Agents
ATIGA	Asean Trade in Goods
ATPM	Sole Agents
B	
BBNKB	Motor Vehicle Duty
BEPS	Base Erosion and Profit Shifting
BEVs	Battery Electric Vehicles
BKC	Excisable Goods
BKP	Taxable Goods
BMTP	Safeguard Measure Import Duty
BOS	School Operational Aid
BOT	Built-Operate-Transfer
BPHTB	Acquisition Duty on Rights to Land and/or Buildings
BPT	Branch Profit Tax
BRIN	National Research and Innovation Agency
BTKI	Indonesian Customs Tariff Book

BULOG	Indonesian Bureau of Logistic
BUMN	State-owned Enterprises
C	
CbCR	Country-by Country Report
CFA	Committee on Fiscal Affairs
CFC	Controlled Foreign Corporation
CHT	Tobacco Excise
CIF	Cost, Insurance and Freight
CIT	Corporate Income Tax
CO2e	Carbon Dioxide Equivalent
CoD	Certificate of Domicile
CoO	Certificate of Origin
CoR	Certificate of Residence
CRM	Compliance Risk Management
CTA	Covered Tax Agreement
D	
DAB	Declaration of Origin
DCL	Domestic Component Level
DER	Debt-to-Equity Ratio
DGCE	Directorate General of Customs and Excise
DGT	Directorate General of Taxes
DJP	Directorate General of Taxes
DMO	Domestic Market Obligation
DPP	Supervision Priority List
DPP	Tax Base
DTP	Government-borne Import Duties
E	
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
e-faktur	Electronic Tax Invoice
e-SKD	Electronic Certificate of Domicile
F	
FTA	Free Trade Agreement
FTZ	Free Trade Zone
FY	Fiscal Year

G	
GAAR	General Anti-Avoidance Rules
GDP	Gross Domestic Product
GloBE	Global Anti-Base Erosion
Gov. Reg.	Government of the Republic of Indonesia Regulation
GPTP Law	General Provisions and Tax Procedures Law
H	
HKPD Law	Law of the Republic of Indonesia Number 1 of 2022 concerning Financial Relations Between the Central Government and Regional Governments
HPP Law	Law of the Republic of Indonesia Number 7 of 2021 concerning the Harmonisation of Tax Regulations
I	
IACEPA	Indonesia-Australia CEPA
ID Number	Identification Number/Indonesian Single Identity Number
IDR	Indonesian Rupiah
IDX	Indonesian Stock Exchange
IKM	Small and Medium Industries
IKN	Nusantara Capital
INTR	Indonesia National Trade Repository
ITL	Income Tax Law
IUP	Mining Business Permit
J	
JHT	Old Age Benefits
JK	Death Benefit
JKK	Work Injury Benefit
JKSP	Expected Time of Arrival
JO	Joint Operation
JPK	Health Care Benefit
K	
KEK	Special Economic Zones
KITE	Import Facilities for Export
KPA	Proxy of Budget User
KPBPB	Free Trade Zone and Free Port
KUPDRD	General Provisions of Local Taxes and Charges

L	
LPG	Liquefied Petroleum Gas
LPI	Indonesia Investment Authority
LPJK	Construction Services
M	
MAP	Mutual Agreement Procedure
MBDK	Plastic and Packaged Sugar-sweetened Beverages
MBLB	Non-metallic Mineral and Rock Tax Surcharge
MFN	Most Favored Nation
MITA	Main Partner of Customs
MLI	Multilateral Instrument
MMEA	Beverages Containing Ethyl Alcohol
MoF	Minister of Finance
MoF Reg.	Minister of Finance of the Republic of Indonesia Regulation
MRO	Aircraft Maintenance, Repair and Overhaul
N	
NIK	ID Number/Indonesian Single Identity Number
NJOP	Tax Object Value
NPE	Export Service Note
NPP	Notice of Rejection
NPPD	Memorandum of Notification of Document Requirements
NPPN	Deemed Profit
NPWP	Taxpayer ID Number
O	
OJK	Financial Services Authority
OSS	Online Single Submission
P	
PAB	Heavy Equipment Tax
PAP	Surface Water Tax
PAT	Groundwater Tax
PBBKB	Motor Vehicle Fuel Tax
PBB-P2	Rural and Urban Land and Building Tax
PBJT	Taxes on Certain Goods and Services
PDRI	Import Duties and Taxes on Imports

PE	Permanent Establishment
PEB	Export Declaration
PKB	Motor Vehicle Tax
PKP	Taxable Persons for VAT Purposes
PMBLB	Non-metallic Mineral and Rock Tax
PPAT	Land Deed Officials
PPB	Notice of Goods Inspection
PPJB	Binding Sales and Purchase Agreement
PPJK	Customs Broker
PPPK	Center of Financial Professions Supervisory
PPT	Principal Purpose Test
PTKP	Personal Tax Relief
Q	
QDMTT	Qualified Domestic Minimum Top-up Tax
R	
R&D	Research and Development
RKSP	Inward Manifest
RPP	Draft Presidential Decree
S	
SAAR	Specific Anti-Avoidance Rules
SBI	Bank Indonesia Certificate
SEZ	Special Economic Zone
SKB	Withholding Exemption Certificate
SKM	Machine-made Clove Cigarettes
SKPDKB	Notice of Local Tax Underpayment Assessment
SKT	Hand-rolled Clove Cigarettes
SMEs	Small and Medium-sized Enterprises
SP2DK	Letter of Inquiry
SPDN	Resident Tax Subjects
SPM	Machine-made White Cigarettes
SPT	Hand-rolled White Cigarettes
SPTPD	Rectification of Local Tax Return
SSP	Tax Payment Slip
STLG	Sales Tax on Luxury Good

T	
TCL	Tax Court Law
TIEA Model	Tax Information Exchange Agreement Model
TIN	Taxpayer ID Number
TNI	Indonesian National Armed Forces
TPB	Bonded Storage
TPS	Temporary Storage
U	
USD	United States Dollar
V	
VAT	Value Added Tax
W	
WHO	World Health Organization
WHT	Withholding Tax

Founders of DDTC

Our Founders:

Darussalam

Founder of DDTC

Areas of Expertise:

All Taxes

Danny Septriadi

Founder of DDTC

Areas of Expertise:

All Taxes

Meet Our Experts

Our Expert Consultants:

David Hamzah Damian

Managing Partner, DDTC Consulting

Areas of Expertise:

Corporate Income Tax, Corporate Restructuring, Tax Dispute and Litigation

B. Bawono Kristiaji

Director, DDTC Fiscal Research & Advisory

Areas of Expertise:

Tax Policy and System Design, Tax Advisory, International Tax and Transfer Pricing

R. Herjuno Wahyu Aji

Partner, DDTC Consulting

Areas of Expertise:

Transactional Tax, Valuation for Tax Purpose, Tax Dispute, Tax Litigation

Yusuf Wangko Ngantung

Partner, DDTC Consulting

Areas of Expertise:

International Tax, Arbitration, Cross Border Project Management, Dispute Resolution, MAP and APA

Ganda Christian Tobing

Senior Manager, DDTC Consulting

Areas of Expertise:

International Tax, Financial Transactions, Business Restructuring, Tax Litigation

Khisi Armaya Dhora

Senior Manager, DDTC Consulting

Areas of Expertise:

Indirect Tax, International Tax, Tax Advisory and Risk Management

Cindy Kikhonia Febby

Manager, DDTC Consulting

Areas of Expertise:

Transfer Pricing Controversy, Litigation and Audit Support, Dispute Resolution

Veronica Kusumawardani

Manager, DDTC Consulting

Areas of Expertise:

Transfer Pricing Controversy, Litigation and Audit Support, Dispute Resolution

Rinan Auvi Metally

Manager, DDTC Consulting

Areas of Expertise:

Corporate Income Tax, Tax Dispute and Litigation

Puput Bayu Wibowo

Manager, DDTC Consulting

Areas of Expertise:

Tax Compliance, Corporate Restructuring, Tax Dispute and Litigation

Pretty Wulandari

Manager, DDTC Consulting

Areas of Expertise:

Transfer Pricing Issues in Specific Industry: Automotive, Electronics, Pharmacy, Logistics, Consumer Goods

Flouresya Lousha

Manager, DDTC Consulting

Areas of Expertise:

Transfer Pricing Issues in Specific Industry: Commodity, Oil and Gas, Chemical, Digital and Technology, Media and Telecommunications

Muhammad Putrawal Utama

Manager, DDTC Consulting

Areas of Expertise:

Transfer Pricing Issues in Specific Transactions: Financing, IP Licensing, Cost Sharing Arrangement

Riyhan Juli Asyir

Manager, DDTC Consulting

Areas of Expertise:

Tax Compliance, Tax Management, Tax Dispute and Litigation, International Taxation

Erika

Manager, DDTC Consulting

Areas of Expertise:

Individual Income Tax, Corporate Income Tax, Tax Due Diligence

Denny Vissaro

Manager, DDTC Fiscal Research & Advisory

Areas of Expertise:

Tax Facility Support, Tax Advisory, Local Taxes

Senior Advisor:

Romi Irawan

Senior Advisor

Areas of Expertise:

Transfer Pricing Documentation, Transfer Pricing Policy Design, Transfer Pricing Control Framework, Business Restructuring

Other Expert:

Atika Ritmelina Marhani

Tax Expert, CEO Office

Areas of Expertise:

Transfer Pricing, International Taxation, Tax Risk Management, Income Tax

DDTC Indonesian Tax Manual 2023

Indonesia adheres to a complex and dynamic tax system. The DDTC Indonesian Tax Manual Book 2023 (DDTC ITM 2023) summarises and simplifies these various provisions in response to these circumstances. Packaged in a universal language, English, the manual book provides access to Indonesian taxation literature without language barriers to render a better understanding for stakeholders, including those from abroad.

The DDTC ITM 2023 comprises general normative legal reviews of various taxation areas, ranging from national, international to subnational issues. 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.

The manual book is inextricably linked to recent tax reforms. One of the most important agendas in this reform journey is the implementation of Law No. 7/2021 concerning the Harmonisation of Tax Regulations, including the issuance of Law No. 6/2023 concerning the Stipulation of Government Regulation in Lieu of Law No. 2/2022 concerning Job Creation Into a Law. Undoubtedly, Indonesian taxation will continue to evolve dynamically. Therefore, DDTC will continue to update this manual book.

DDTC has paved the way for English-language tax literature. Other countries may study Indonesia's tax system efficiently through DDTC ITM 2023. Moreover, the availability of English-language tax documents in the DDTC ITM 2023 aids the business community worldwide in understanding the Indonesian tax environment.

The development of tax literacy activities by DDTC raises a red thread for the need for up-to-date, comprehensive, bilingual and reliable literature. All of these elements are reflected in DDTC ITM 2023. Finally, the Indonesian tax system is expected to serve as a benchmark or best practice for other countries.

DDTC

Sets the Standards and Beyond

ISBN 978-623-88412-6-4 (PDF)