

Tax Services

Indonesian Pocket Tax Book 2016



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Corporate Income Tax

Tax rates

Generally, a flat rate of 25% applies. Public companies that satisfy a minimum listing requirement of 40% and other conditions are entitled to a tax cut of 5% off the standard rate, giving them an effective tax rate of 20% (refer to pages 68-69). Small enterprises, i.e. corporate taxpayers with an annual turnover of not more than Rp50 billion, are entitled to a 50% discount of the standard tax rate which is imposed proportionally on taxable income of the part of gross turnover up to Rp4.8 billion. Certain enterprises with gross turnover of not more than Rp 4.8 billion are subject to Final Tax at 1% of turnover.

Tax residence

A company is treated as a resident of Indonesia for tax purposes by virtue of having its incorporation or its domicile is in Indonesia. A foreign company carrying out business activities through a permanent establishment (PE) in Indonesia will generally have to assume the same tax obligations as a resident taxpayer.

Tax payments

Resident taxpayers and Indonesian PEs of foreign companies have to settle their tax liabilities either by direct payments,

third party withholdings, or a combination of both. Foreign companies without a PE in Indonesia have to settle their tax liabilities for their Indonesian-sourced income through withholding of the tax by the Indonesian party paying the income.

Monthly tax instalments (Article 25 income tax) constitute the first part of tax payments to be made by resident taxpayers and Indonesian PEs as a prepayment of their current year Corporate Income Tax (CIT) liability. A monthly tax instalment is generally calculated using the most recent Corporate Income Tax Return (CITR). Special instalment calculations apply for new taxpayers, finance lease companies, banks, state-owned companies, listed companies and other taxpayers with periodical reporting requirements.

The tax withheld by third parties on certain income (Article 23 income tax) or tax to be paid in advance on certain transactions (e.g., Article 22 income tax on imports) also constitute prepayments for the current year CIT liability of the income recipient or the party conducting the import (refer to page 30 for income items subject to Article 23 income tax and pages 24-28 for transactions subject to Article 22 income tax).

If the total amount of tax paid in advance through the year (Articles 22, 23, and 25 income taxes) and the tax paid abroad (Article 24 income tax) is less than the total CIT due, the taxpayer has to settle the shortfall before filing its CITR. Such a payment is referred to as Article 29 income tax.

Certain types of income earned by resident taxpayers or Indonesian PEs are subject to final income tax. In this respect, the tax withheld by third parties (referred to as Article 4(2) income tax) constitutes the final settlement of the income tax for that particular income (refer to pages 28-29 for income items subject to final income tax under Article 4(2) income tax).

For foreign companies without a PE in Indonesia, the tax withheld from their Indonesia-sourced income by the Indonesian party paying the income (Article 26 income tax) constitutes a final settlement of their income tax due (refer to pages 30-32 for income items subject to Article 26 income tax).

Business profits

Taxable business profits are calculated on the basis of normal accounting principles as modified by certain tax adjustments. Generally, a deduction is allowed for all expenditure incurred to obtain, collect and maintain taxable business profits. A timing difference may arise if an expenditure recorded as an expense for accounting cannot be immediately claimed as a deduction for tax.

Capital allowances

Depreciation

Expenditure incurred in relation to assets with a beneficial life of more than one year are categorized and depreciated from

the month of acquisition by the consistent use of either the straight-line or the declining-balance method, as follows:

1. **Category 1 – 50%** (declining-balance) or **25%** (straight-line) on assets with a beneficial life of four years. Examples of assets in this category are computers, printers, scanners, furniture and equipment constructed of wood/rattan, office equipment, motorcycles, special tools for specific industries/services, kitchen equipment, manual equipment for agriculture, farming, forestry and fishery industries, light machinery for the food and drink industries, motor vehicles for public transportation, equipment for the semi-conductor industry, tools and accessories for deep water anchor equipment rentals, and base station controller for the cellular telecommunication services.
2. **Category 2 – 25%** (declining-balance) or **12.5%** (straight-line) on assets with a beneficial life of eight years. Examples of assets in this category are furniture and equipment constructed of metal, air conditioners, cars, buses, trucks, speed-boats, containers and the like. The category also covers machinery for agriculture, plantations, forestry activity, fisheries, for food and drink, light machinery, logging equipment, equipment for construction, heavy vehicles for transportation, warehousing, and communication, telecommunications equipment, equipment for the semi-conductor industry, tools for deep water anchor equipment rentals, and tools for cellular telecommunication services.

3. **Category 3 – 12.5%** (declining-balance) or **6.25%** (straight-line) on assets with a beneficial life of 16 years. Examples of assets in this category are machines for general mining other than in the oil and gas sector, machines for the textile, timber, chemical and machinery industries, heavy equipment, docks and vessels for transportation and communication, and other assets not included in the other categories.
4. **Category 4 – 10%** (declining-balance) or **5%** (straight-line) on assets with a beneficial life of twenty years. Examples of assets in this category are heavy construction machinery, locomotives, railway coaches, heavy vessels, and docks.
5. **Building category – 5%** (straight-line) on assets in the permanent building category with a useful life of 20 years; or **10%** (straight-line) on assets in the non-permanent building category with a useful life of ten years. Included in the cost of the buildings is the Duty on the Acquisition of Land and Building Rights (*Bea Pengalihan Hak atas Tanah dan Bangunan/BPHTB*).

More comprehensive lists of the assets included in each category are set out in certain Minister of Finance (MoF) regulations. Separate lists of assets and depreciation rates for the oil and gas sector are also specified in a MoF regulation. Special rules apply to assets used for certain industries (i.e., forestry, plantation and cattle breeding) and assets used in certain areas for KAPETs (see page 74).

Amortisation

Intangible property or costs, including the cost of extending building use rights, rights for business use, rights for use and goodwill with a useful life of more than one year, should be amortised on the following bases, as appropriate:

- a. By using the straight-line or the declining-balance method at the rates specified in categories 1, 2, 3, and 4 under Depreciation (above), based on the useful life of the property:

Category 1: 4 years

Category 2: 8 years

Category 3: 16 years

Category 4: 20 years

Classification into the appropriate category is determined on the basis of the nearest useful life (e.g., an intangible asset with a useful life of six years may fall under Category 1 or Category 2, while an intangible asset with a useful life of five years is under Category 1).

- b. The costs of incorporation and expansion of the capital of an enterprise are claimed in full in the year in which the expenditure is incurred or are amortised using either the declining-balance or straight-line method at the following rates:

Category 1: 50% declining-balance; 25% straight-line
Category 2: 25% declining-balance; 12.5% straight-line
Category 3: 12.5% declining-balance; 6.25% straight-line
Category 4: 10% declining-balance; 5% straight-line

- c. Costs incurred for acquiring the right to oil and natural gas concessions with a beneficial life of longer than one year are amortised using the production-unit method.
- d. Costs incurred in the acquisition of mining rights, forest concessions, and other rights to exploit natural resources and natural products with a beneficial life of longer than one year are amortised using the production-unit method but may not exceed 20% per annum.
- e. Costs incurred before the commencement of commercial operations with a useful life of longer than one year are capitalised and amortised according to the rates set out in point b (above).

Asset transfers

Sales of a company's assets (other than land and building) may result in capital gains or losses, calculated as the difference between the sales proceeds and the tax written-down value of the assets concerned. Capital gains are assessable whilst a capital loss is tax-deductible only if the asset concerned is used in the running of the business, i.e., for obtaining, collecting, and securing assessable income.

Revaluation of fixed assets

Subject to the Director General of Tax (DGT) approval, corporate taxpayers and PEs who maintain rupiah accounting may undertake a revaluation of their non-current tangible assets for tax purposes. This may be carried out once every five years. Each revaluation must include all business-related assets which are owned by the company and located in Indonesia, except for land (this may be omitted). Before requesting the DGT's approval, the company concerned must determine that it has settled all of its outstanding tax liabilities.

The revaluation must be conducted on a market or fair value basis. The market values must be determined by a government-approved appraiser. These are subject to DGT adjustments if the values, in the DGT's view, do not represent the fair or market values of the assets.

Once approved, the depreciation applied to depreciable assets must be based on the new tax book values (approved values) on the basis of a full useful life (in other words, as if the assets were new).

The excess of the fair market value over the old tax book value of the revalued assets is subject to final income tax at a rate of 10%. Subject to the DGT approval, taxpayers facing financial difficulties may pay this tax in instalments over 12 months. Fixed assets falling under categories 1 and 2 must be retained at least to the end of their useful life. Land, buildings, and assets falling under categories 3 and 4 must be retained

for at least 10 years after the revaluation date. Additional final income tax at a rate of 10% is imposed on the original revaluation gains if the revalued assets are sold or transferred before the end of this minimum retention period. This does not apply to:

- a. Transfer of assets because of force majeure or based on a Government decision/policy or a court decision;
- b. Transferred in the course of a tax-neutral business merger, consolidation, or business split;
- c. Withdrawal of fixed assets of a company because of irreparable damage.

Please note that there is a special program on revaluation of fixed assets for submission period of 20 October 2015 up to 31 December 2016 which is subject to different rules.

Below are the key features of this special program:

- Lower final income tax rate at 4% and 6% applies for the application submitted in the first half and second half of 2016, respectively.
- Revaluation can be conducted on some or all tangible fixed assets owned by the taxpayer.
- Additional eligible taxpayers, as follows:
 - Corporate taxpayers who maintain English bookkeeping and USD currency;
 - Corporate taxpayers who have not passed five years since their last asset revaluation;
 - Individual taxpayers who maintain bookkeeping.

Disallowed deductions

These include:

- a. Benefits-in-kind (BIKs) (e.g., free housing, 50% of the acquisition and maintenance costs of certain company provided cars), except food and drink provided to all employees, employee benefits required for job performance such as protective clothing and uniforms, transportation costs to and from the place of work, accommodation for ship crew and the likes, the cost of providing BIKs in remote areas, and 50% of the acquisition and maintenance costs of cellular phones;
- b. Private expenses;
- c. Non-business gifts and aid, except certain religious contributions/alms and certain donations;
- d. Provisions, except for: provision for doubtful accounts for banking and certain financial institutions, provision for insurance companies, deposit security provision for the Deposit Insurance Corporation (*Lembaga Penjamin Simpanan/LPS*), reclamation provision for mining companies, forestation provision for forestry companies, and area closure and maintenance provision for industrial waste processing businesses;
- e. Income tax payments;
- f. Tax penalties;
- g. Profit distributions;
- h. Employer contributions for life, health and accident insurance and contributions to unapproved pension funds, unless the contributions are treated as part of the taxable income of employees;

- i. Expenses relating to income which is taxed at a final rate, e.g., interest on loans relating to time deposits;
- j. Expenses relating to income which is exempt from tax, e.g., interest on loans used to buy shares where dividends to be received are not subject to income tax;
- k. Salaries or compensation received by partnership or firmas members where their participation is not divided into shares.

Debt to Equity Ratio

A single ratio of 4:1 is generally applicable, which means the amount of debt allowable in order to obtain full deductibility of the financing cost is limited to four times the equity amount. Exemption applies to certain taxpayers.

Losses

Losses may be carried forward for a maximum of five years. However, for a limited category of businesses in certain regions or businesses subject to certain concessions, the period can be extended for up to ten years. The carrying back of losses is not allowed. Tax consolidation and group relief is not available.

Profit distributions

Tax is liable to be withheld from dividends as follows:

- a. Resident recipients

Dividends received from an Indonesian company by a limited liability company incorporated in Indonesia (*Perseroan Terbatas/PT*), a cooperative, or a state owned company, are exempt from income tax if the following conditions are met:

- the dividends are paid out of retained earnings; and
- for PTs and state owned companies, the company earning the dividends holds at least 25% of the paid-in capital in the company distributing the dividends.

If these conditions are not met, the dividends are assessable to the company earning the dividends at the ordinary tax rate together with the company's other income. Upon declaration, dividends are subject to Article 23 income tax withholding at 15%. The amount withheld constitutes a prepayment of the CIT liability for the company earning the dividends. Dividends received by resident individual taxpayers are subject to final income tax at a maximum rate of 10%.

- b. Non-resident recipients:
20% (lower for treaty countries) final withholding tax is due on dividends paid to a non-resident recipient.

Deemed profit margins

The following businesses have deemed profit margins for tax purposes:

	Deemed Profit in Gross Revenue	Effective Income Tax Rate
Domestic shipping operations	4%	1.20% ¹
Domestic airline operations	6%	1.80% ¹

	Deemed Profit in Gross Revenue	Effective Income Tax Rate
Foreign shipping and airline operations	6%	2.64% ¹
Foreign oil and gas drilling operations	15%	3.75% ²
Certain Ministry of Trade representative offices	1% of export value	0.25% ²

Notes:

1 The effective income tax rate (eitr) is calculated using the old tax rate of 30% because the MoF has not revised the decrees which regulate the deemed profit margins.

2 The eitr is calculated using the current tax rate of 25%, Branch Profit Tax (BPT) rate varies according to availability of a reduced rate based on tax treaties.

Special industries and activities

Certain contractual based concessions are available in Indonesia. These include Production Sharing Contracts (PSCs) and Contract of Works (CoWs). Companies engaged in upstream oil, gas and geothermal industries typically have to calculate CIT in accordance with their PSCs. Certain companies engaged in metal, mineral and coal mining are governed by a CoW for the CIT calculation. Different provisions may apply to them pertaining to corporate tax rates, deductible expenses and how taxable income is calculated. Such contractual-based concessions are no longer available to new mining projects since the enactment of the Mining Law in 2009. The Mining Law stipulates that general prevailing tax laws/regulations apply to mining projects, and

hence any tax facilities should be provided accordingly, except as otherwise stated in a particular mining license.

Transfer pricing

The Income Tax Law defines related parties as:

- a. Taxpayer has capital participation directly or indirectly at least 25% upon another Taxpayers; the relationship between Taxpayers through ownership at least 25% upon two or more Taxpayers; or relationship between two or more Taxpayers mentioned later;
- b. Taxpayer controls the other Taxpayer or two or more Taxpayers are under the same control, either directly or indirectly; or
- c. There are family relationship either blood relationship or by marriage in vertical and/or horizontal lineage of one degree.

Transactions between related parties 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.

Under the General Tax Provisions and Procedures (*Ketentuan Umum dan Tata Cara Perpajakan/KUP*) Law, the government requires specific transfer pricing documentation to prove the arm's length nature of related-party transactions. Transfer pricing documentation is frequently requested during tax audits because transfer pricing issues are subject to close scrutiny by the Indonesian Tax Office (ITO).

Detailed transfer pricing disclosures are required in the CITR. These include:

- The nature and value of transactions with related parties;
- The transfer pricing methods applied to those transactions and the rationale for selecting the methods; and
- Whether the company has prepared transfer pricing documentation.

The transfer pricing documentation must be prepared where there are related party transactions above a threshold of Rp 10 billion (approximately USD1 million) per entity per year and must be available in the event of tax audit.

ITO provides specific technical guidelines to carry out transfer pricing audits.

Transfer pricing disputes may be resolved through the domestic objection and appeal process or, where the dispute involves a transaction with a related party in a country that is one of Indonesia's tax treaty partners, the parties may request double tax relief under the Mutual Agreement Procedures (MAP) article of the relevant tax treaty. MAP may be applied concurrently with domestic dispute resolution process. There is a restriction that a MAP application cannot be lodged when the Tax Court has declared an end to the court hearing process and an existing MAP will cease when the Tax Court announces its decision.

The tax law authorises the DGT to enter into Advance Pricing Agreements (APAs) with taxpayers and/or another country's tax authority on the future application of the arm's length principle to transactions between related parties and therefore taxpayers should not expect an APA to be 'rolled-back' to address any transfer pricing matters in open years in relation to the same/similar transactions. Once agreed, an APA will typically be valid for a maximum of three tax years after the tax year in which the APA is agreed or four years if the process involving cooperation with foreign tax authorities that escalate an APA application to be a MAP in order to settle any ongoing double taxation in accordance with a relevant tax treaty.

Individual Income Tax

Normal tax rates

Most income earned by individual tax residents is subject to income tax at the following normal tax rates:

Taxable Income	Rate	Tax Rp.
On the first Rp. 50,000,000	5%	2,500,000
On the next Rp. 200,000,000	15%	30,000,000
On the next Rp. 250,000,000	25%	62,500,000
On the next amount of over Rp.500,000,000	30%	30% of the relevant amount

Concessional tax rates

The final tax rates for severance payments (if paid within 2 years) are as follows:

Taxable Income	Rate	Tax Rp.
On the first Rp. 50,000,000	Nil	Nil
On the second Rp. 50,000,000	5%	2,500,000
On the next Rp. 400,000,000	15%	60,000,000
On the next amount of over Rp.500,000,000	25%	25% of the relevant amount

The final tax rates for lump-sum pension payments from a government-approved pension fund, old-age security saving payments from *BPJS Ketenagakerjaan* (workers' social security program) if paid within 2 years are as follows:

Taxable Income	Rate	Tax Rp.
On the first Rp. 50,000,000	Nil	Nil
On the next amount of over Rp. 50,000,000	5%	5% of the relevant amount

Payments for year 3 onwards, the usual normal tax rates (please refer to page 17) will be applied.

Main Personal Relief

Annual non-taxable income (*Penghasilan Tidak Kena Pajak/PTKP*) for resident individuals is as follows:

	Rp.
Taxpayer	36,000,000
Spouse	3,000,000
Each dependant (max. of 3)	3,000,000
Occupational expenses (5% of gross income, max. Rp. 500,000/month)	6,000,000
Employee contribution to <i>BPJS Ketenagakerjaan</i> for old age security savings (2% of gross income)	Full amount
Pension maintenance expenses (5% of gross income, max. Rp 200,000/month)	2,400,000

Tax residence

An individual is regarded as a tax resident if he/she fulfils any of the following conditions:

- He/she resides in Indonesia;
- He/she is present in Indonesia for more than 183 days in any 12-month period;
- He/she is present in Indonesia during a fiscal year and intends to reside in Indonesia.

Note: The provisions of tax treaties may override these rules.

Non-resident individuals are subject to withholding tax at a rate of 20% (Article 26 income tax, subject to a relevant tax treaty provisions) on Indonesia-sourced income (as specified on pages 30-32).

Registration and filing

Resident individual taxpayers who receive or earn annual income exceeding the PTKP threshold must register with the ITO and file annual income tax returns (Form 1770). The tax return should disclose all the individual's income, including compensation from employment, investment income, capital gains, overseas income and other income, as well as providing a summary of the individual's assets and liabilities.

A family is generally regarded as a single tax reporting unit with a single tax identity number (*Nomor Pokok Wajib Pajak/ NPWP*) in the name of the head of the family (typically the husband). His wife and his dependant children's income must

be reported on the same tax return in his name; they may or may not be taxed together with his income depending on whether their income is subject to Article 21 income tax.

Tax payments

A substantial part of individual income tax is collected through withholding by third parties. Employers are required to withhold Article 21/26 income tax on a monthly basis from the salaries and other compensation payable to their employees. If an employee is a resident taxpayer, the amount of tax withheld should be based on the normal tax rates (as set out above). If he/she is a non-resident taxpayer, the withholding tax is 20% of the gross amount (and may be set at a lower rate under a tax treaty).

Various other payments to individuals also call for withholding tax obligations from the payers. These include, among others:

- Pension payments made by government-approved pension funds;
- Severance payments;
- Old-age security saving payments from *BPJS Ketenagakerjaan*;
- Fees for services;
- Prizes/awards.

Typically the amount of tax withheld from these types of income (Article 21 income tax) is based on normal tax rates as set out above.

The tax withheld on fees for non-employee individuals and certain professionals, such as lawyers, notaries, accountants, architects, doctors, actuaries and appraisers, are required to be calculated based on 50% of the gross income at the prevailing rates.

Interest earned on severance payments transferred to a manpower severance pay management board is subject to a final tax of 20% if the board is a bank, or to a 15% withholding tax under Article 23 income tax in other cases.

Benefits-in-kind (BIKs)

BIKs, such as cars, housing, education, home leave and reimbursement of an employee's Indonesian tax liability provided by the employer, are typically not assessable in the hands of the employee. This also applies to BIKs which are required for the execution of a job, for example protective clothing, uniforms, transportation costs to and from the place of work and accommodation for ship crew and the likes, and the cost of providing BIKs in remote areas.

However, BIKs are taxable in the hands of the employee if they are provided by:

- Mining companies and production sharing contractors which are subject to tax under the old tax laws, (i.e., pre-1984 income tax laws);
- Representative offices of offshore companies which do not constitute taxpayers;
- Final-taxed companies; and

- Companies taxed at a deemed-profit (includes airline and shipping companies).

Social security system

Employers are responsible for ensuring that their employees are covered by a social security program. Employees' contributions are collected by the employers through payroll deductions. These must be paid together with the employer's contributions.

From 1 January 2014, a comprehensive social security program cover all Indonesian citizens is in place. The transition from the previous system is being done gradually. The new social security system is administered by:

1. Social Security Agency for health insurance (*BPJS Kesehatan*) - covering health insurance
2. Social Security Agency for worker's social security (*BPJS Ketenagakerjaan*) - covering accidents, insurance, old age savings, death insurance and pensions

The current premium contributions are as follows:

Areas covered	As a percentage of regular salaries/wages	
	Borne by employers	Borne by employees
Working accident protection	0.24-1.74%	-
Death insurance	0.3%	-
Old age savings	3.7%	2%
Health care*	4%	1%
Pension**	2%	1%

*) Maximum calculation base is two times of PTKP of a married employee with one child

***) Maximum calculation base is Rp 7,000,000/month as of 31 December 2015

The compulsory requirement to join the new social security scheme applies to all employees, including expatriates who have been working in Indonesia for more than six months.

The compulsory requirement for health insurance will be applicable from:

- 1 January 2015 : for state-owned enterprises, large, medium and small enterprises
- 1 January 2016 : for micro enterprises
- 1 January 2019 : for independent workers and non-workers.

Withholding Taxes

General

Indonesian income tax is collected mainly through a system of withholding taxes. Where a particular item of income is subject to withholding tax, the payer is generally held responsible for withholding or collection of the tax. These withholding taxes are commonly referred to using the relevant article of the Income Tax (*Pajak Penghasilan/PPH*) Law, as follows:

(i) **Article 21 income tax (PPH 21)**

Employers are required to withhold PPh 21 from the salaries payable to their employees and pay the tax to the State Treasury on their behalf. The same withholding tax is applicable to other payments to non-employee individuals (e.g., fees payable to individual consultants or service providers) (see page 17 for the relevant tax rates). Resident individual taxpayers without an NPWP are subject to a surcharge of 20% in addition to the standard withholding tax.

(ii) **Article 22 income tax (PPH 22)**

PPH 22 is typically applicable to the payments of the following events:

No	Event	Tax rate (%)	Tax base	Notes
1	The import of:			
	a. Certain end customer goods	10	Import value (i.e., CIF value plus duties payable)	
	b. End consumer goods other than (a)	7.5		
	c. goods other than (a) and (b) using an Importer Identification Number (<i>Angka Pengenal Impor/API</i>):			
	1) Soybeans, wheat and flour wheat	0.5		
2) Other than (1)	2.5			
d. goods other than (a) and (b) without an API	7.5			
2	The auctioned imported goods	7.5	Auction prices	
3	The sale of goods to the Government requiring payment from the State Treasury and Proxy of Budget User (<i>Kuasa Pengguna Anggaran/KPA</i>)	1.5	Selling prices	1
4	The sale of goods to State Owned Enterprises (<i>Badan Usaha Milik Negara/BUMN</i>) and some of their subsidiaries	1.5	Selling prices	1
5	The purchase of oil fuel by state-owned gas stations	0.25	Selling prices	2

No	Event	Tax rate (%)	Tax base	Notes
6	The purchase of oil fuel by private gas stations	0.3	Selling prices	2
7	The purchase of oil fuel by parties other than state and private gas stations	0.3	Selling prices	2
8	The purchase of gas fuel	0.3	Selling prices	2
9	The purchase of lubricants	0.3	Selling prices	
10	The purchase of cement by local distributors	0.25	Selling prices	
11	The purchase of paper products by local distributors	0.1	Selling prices	
12	The purchase of steel products by local distributors	0.3	Selling prices	
13	The purchase of automotive products by local distributors	0.45	Selling prices	
14	The purchase of pharmaceutical products by local distributors	0.3	Selling prices	
15	The purchase of motor vehicles from Sole Agents (<i>Agen Tunggal Pemegang Merek/ATPM</i>), Agents (<i>Agen Pemegang Merek/APM</i>) and general importers	0.45	Selling prices	3

No	Event	Tax rate (%)	Tax base	Notes
16	The purchase of materials by manufacturers or exporters in forestry, plantation, agriculture, cattle breeding and fishery	0.25	Selling prices	1
17	The export of coal, metal and non-metal minerals by exporters other than those engaged in a Mining Cooperation Agreement or a Contract of Work with the Government	1.5	Export value	
18	The purchase of coal, metal and non-metal minerals from companies or individuals holding a mining license (<i>Izin Usaha Pertambangan/IUP</i>)	1.5	Selling prices	1
19	The sale of gold bars from manufacturers	0.45	Selling prices	4
20	The purchase of very luxurious goods	5	Selling prices	

Notes:

- In events (3), (4), (16), and (18), the PPh 22 collectors must withhold PPh 22 from the amount payable to a particular vendor, except payments for the purchase/use of:
 - oil fuel, gas fuel, lubricants, postal products;
 - water and electricity;
 - oil, gas (including upstream by products) from a Contractor of a PSC or Contractor's head office; and
 - geothermal and electricity from a Contractor of a Join Operation Contract.

There is also an exemption for the purchase of goods with a value of up to Rp 2 million, Rp 10 million, and Rp 20 million for events (3), (4), and (16) respectively. In the other events, the importer or the buyer of the designated goods must pay PPh 22 in addition to the amounts payable for the goods imported or purchased.

2. The withheld PPh 22 constitutes a pre-payment of corporate/individual income tax liabilities, except for the purchase of oil and gas fuel by distributors/agents, which is categorised as final tax.
3. Exemption applies on the purchase of very luxurious motor vehicles since it is already subject to PPh 22 in event (20).
4. Exemption applies on the sale to Bank Indonesia.
5. The tax does not apply, either automatically or with an Exemption Certificate issued by the DGT, on the following types of events :
 - a) Import/purchase of goods not subject to income tax.
 - b) Import of goods exempted from import duties and/or Value Added Tax (VAT), subject to 0% import duty, or VAT is not collected.
 - c) Goods that have been temporarily imported (i.e. goods for re-export).
 - d) Goods for re-importing (i.e., exported and re-imported in the same quality or to be repaired/tested for subsequent re-exporting).
 - e) Import of gold bars for the production of jewellery for re-export.
 - f) purchase of goods related to the use of the government school operations subsidy (*Bantuan Operasional Sekolah/BOS*) fund.

Taxpayers without a NPWP will be subject to a surcharge of 100% in addition to the standard tax rate.

(iii) Article 4 (2) – final income tax (*PPh Final*)

Resident companies, PEs, representatives of foreign companies, organisations and appointed individuals are required to withhold final tax from the following gross payments to resident taxpayers and PEs:

Description	Tax rate
1. Rental of land and/or buildings	10%
2. Proceeds from transfers of land and building rights (through a signing of Deeds of Sale and Purchase)	5%
3. Fees for construction work performance	2/3/4%
4. Fees for construction work planning	4/6%
5. Fees for construction work supervision	4/6%
6. Interest on time or saving deposits and on Bank Indonesia Certificates (SBIs) other than that payable to banks operating in Indonesia and to government-approved pension funds	20% ¹
7. Interest on bonds other than that payable to banks operating in Indonesia and government-approved pension funds	15% ²
8. Proceeds from sale of shares on Indonesian stock exchanges. To use this rate, founder shareholders must pay tax at 0.5% of the market price of their shares upon listing, otherwise, gains on subsequent sales are taxed under normal rules	0.1%
9. Income from lottery prizes	25%
10. Certain income received by individuals and corporate (except PEs) with gross turnover of not more than Rp 4.8 billion in one fiscal year	1% ³

Notes:

1. Different rates apply on interest received from time deposits sourced from export proceeds (*Devisa Hasil Ekspor*).
2. If the recipient is a mutual fund registered with the Financial Services Authority (*Otoritas Jasa Keuangan/OJK*), the tax rate is 5% until 2020 and 10% thereafter. If the recipient is a non-resident taxpayer, the tax rate is 20% or a lower rate in accordance with the relevant tax treaty.
3. Taxpayers must calculate, pay and report the tax due, to the ITO by themselves.

(iv) Article 23 income tax (PPh 23)

Certain types of income paid or payable to resident taxpayers are subject to PPh 23 at a rate of either 15% or 2% of the gross amounts:

- a. PPh 23 is due at a rate of 15% of the gross amounts on the following:
 1. Dividends (but see pages 11-12 concerning profit distributions);
 2. Interest, including premiums, discounts and loan guarantee fees;
 3. Royalties;
 4. Prizes and awards.

- b. PPh 23 is due at a rate of 2% of the gross amounts on the fees for the following:
 1. Rentals of assets other than land and buildings;
 2. Compensation with respect to technical services, management services, consultation services and other services, except those have been withheld of Income Tax as referred to Article 21.

(v) Article 26 income tax (PPh 26)

Resident taxpayers, organisations and representatives of foreign companies are required to withhold tax at a rate of 20% from the following payments to non-residents:

- a. On gross amounts:
 1. Dividends;

2. Interest, including premiums, discounts and guarantee fees;
3. Royalties, rents and payments for the use of assets;
4. Fees for services, work, and activities;
5. Prizes and awards;
6. Pensions and any other periodic payments;
7. Swap premiums and other hedging transactions;
8. Gains from debt write-offs;
9. After-tax profits of a branch or PE.

- b. On Estimated Net Income (ENI), being a specified percentage of the gross amount:

	ENI	Effective tax rate
Insurance premiums paid to insurance companies:		
• by the insured	50%	10%
• by Indonesian insurance companies	10%	2%
• by Indonesian reinsurance companies	5%	1%
Sale of non-listed Indonesian company shares	25%	5%
Sale of a conduit company located in tax haven country where this company serves as an intermediary for the holding of Indonesian company shares or a PE	25%	5%
Sale of luxurious jewellerys, diamonds, gold, luxurious watches, antiques, paintings, cars, motorcycles, yachts and light aircrafts with sale value of above Rp 10 million	25%	5%

Where the recipient is resident in a country which has a tax treaty with Indonesia, the withholding tax rates may be reduced or exempted. See pages 35-38 for withholding tax rates under tax treaties.

International Tax Agreements

Double Taxation Agreements

Indonesia's Double Taxation Agreements (DTAs/tax treaties) provide for tax benefits in the form of withholding tax exemptions for service fees and for reduced withholding tax rates on dividends, interest, royalties and branch profits received by tax residents of its treaty partners. Tax exemption on service fees is typically granted only if the foreign party earning the income does not have a PE in Indonesia.

To claim the reduced rates, the foreign party must, at a minimum, present its Certificate of Domicile (CoD) to the ITO through the Indonesian party paying the income. Without this document, either in the form prescribed by the DGT or in the form of the treaty partner country (subject to certain conditions), the party is not entitled to the tax benefit and tax is withheld at a rate of 20%.

For interest, dividends and royalties, usually only the beneficial owner is acknowledged as the party entitled to the tax treaty benefits. The beneficial ownership requirement is only applied to foreign taxpayers' income if the relevant treaty refers to beneficial ownership. In order to be the "beneficial owner", the following criteria should be satisfied:

- a. For individuals, that they are not receiving income as an agent or a nominee.
- b. An institution that is explicitly named in the tax treaty or one that has been agreed to by the Competent Authority in Indonesia and its treaty country partner.
- c. An offshore person which earns income through a custodian from share or bond transactions made on the Indonesian Stock Exchange (except interest and dividends), that is not an agent or a nominee.
- d. A company whose shares are listed on the stock exchange and traded regularly.
- e. A licensed pension fund which is a tax subject in the treaty partner country.
- f. A bank, or
- g. Any other company which meets the following requirements:
 - 1. the establishment of the company in the tax treaty partner country and the way the transaction is structured/undertaken are not merely done to enjoy tax treaty benefits, the business activities are managed by the company's own management which has sufficient authority to carry out transactions.
 - 2. the company has employee(s).
 - 3. the company has activities or an active business.
 - 4. income derived from Indonesia is taxable in the recipient's country.
 - 5. the company does not use more than 50% of its total income to fulfill its obligations to other parties, such as interest, royalty, or other payments.

The withholding tax rates applicable under tax treaties are summarised below:

	Notes	Dividends		Interest	Royalties	Branch Profit Tax
		Portfolio	Substantial holdings			
1. Algeria		15%	15%	15/0%	15%	10%
2. Australia		15%	15%	10/0%	15/10%	15%
3. Austria		15%	10%	10/0%	10%	12%
4. Bangladesh		15%	10%	10/0%	10%	10%
5. Belgium		15%	10%	10/0%	10%	10%
6. Brunei		15%	15%	15/0%	15%	10%
7. Bulgaria		15%	15%	10/0%	10%	15%
8. Canada		15%	10%	10/0%	10%	15%
9. China	6	10%	10%	10/0%	10%	10%
10. Croatia		10%	10%	10/0%	10%	10%
11. Czech Republic		15%	10%	12.5/0%	12.5%	12.5%
12. Denmark		20%	10%	10/0%	15%	15%
13. Egypt		15%	15%	15/0%	15%	15%
14. Finland		15%	10%	10/0%	15/10%	15%
15. France		15%	10%	15/10/0%	10%	10%
16. Germany	1	15%	10%	10/0%	15/10%	10%
17. Hong Kong		10%	5%	10/0%	5%	5%
18. Hungary	3	15%	15%	15/0%	15%	20%

	Notes	Dividends		Interest	Royalties	Branch Profit Tax
		Portfolio	Substantial holdings			
19. India	7	15%	10%	10/0%	15%	10%
20. Iran		7%	7%	10/0%	12%	7%
21. Italy		15%	10%	10/0%	15/10%	12%
22. Japan		15%	10%	10/0%	10%	10%
23. Jordan	3	10%	10%	10/0%	10%	20%
24. Korea (North)		10%	10%	10/0%	10%	10%
25. Korea (South)	2	15%	10%	10/0%	15%	10%
26. Kuwait		10%	10%	5/0%	20%	10/0%
27. Luxembourg	1	15%	10%	10/0%	12.5%	10%
28. Malaysia	4	10%	10%	10/0%	10%	12.5%
29. Mexico		10%	10%	10/0%	10%	10%
30. Mongolia		10%	10%	10/0%	10%	10%
31. Morocco		10%	10%	10/0%	10%	10%
32. Netherlands	6	10%	10%	10/0%	10%	10%
33. New Zealand	3	15%	15%	10/0%	15%	20%
34. Norway		15%	15%	10/0%	15/10%	15%
35. Pakistan	1	15%	10%	15/0%	15%	10%
36. Papua New Guinea	1	15%	15%	10/0%	10%	15%

	Notes	Dividends		Interest	Royalties	Branch Profit Tax
		Portfolio	Substantial holdings			
37. Philippines		20%	15%	15/10/0%	15%	20%
38. Poland		15%	10%	10/0%	15%	10%
39. Portugal		10%	10%	10/0%	10%	10%
40. Qatar		10%	10%	10/0%	5%	10%
41. Romania		15%	12.5%	12.5/0%	15/12.5%	12.5%
42. Russia		15%	15%	15/0%	15%	12.5%
43. Seychelles	3	10%	10%	10/0%	10%	20%
44. Singapore		15%	10%	10/0%	15%	15%
45. Slovakia		10%	10%	10/0%	15/10%	10%
46. South Africa	3	15%	10%	10/0%	10%	20%
47. Spain		15%	10%	10/0%	10%	10%
48. Sri Lanka		15%	15%	15/0%	15%	20%
49. Sudan		10%	10%	15/0%	10%	10%
50. Suriname		15%	15%	15/0%	15%	15%
51. Sweden		15%	10%	10/0%	15/10%	15%
52. Switzerland	1	15%	10%	10/0%	10%	10%
53. Syria		10%	10%	10/0%	20/15%	10%
54. Taiwan		10%	10%	10/0%	10%	5%
55. Thailand		20%	15%	15/0%	15%	20%

	Notes	Dividends		Interest	Royalties	Branch Profit Tax
		Portfolio	Substantial holdings			
56. Tunisia		12%	12%	12/0%	15%	12%
57. Turkey		15%	10%	10/0%	10%	10%
58. Ukraine		15%	10%	10/0%	10%	10%
59. United Arab Emirates		10%	10%	5/0%	5%	5%
60. United Kingdom		15%	10%	10/0%	15/10%	10%
61. United States of America		15%	10%	10/0%	10%	10%
62. Uzbekistan		10%	10%	10/0%	10%	10%
63. Venezuela	1	15%	10%	10/0%	20%	10%
64. Vietnam		15%	15%	15/0%	15%	10%
65. Zimbabwe	1,5	20%	10%	10/0%	15%	10%

Notes:

1. Service fees including for technical, management and consulting services rendered in Indonesia are subject to withholding tax at rates of 5% for Switzerland, 7.5% for Germany, 10% for Luxembourg, Papua New Guinea, Venezuela and Zimbabwe, and 15% for Pakistan.
2. VAT is reciprocally exempted from the income earned on the operation of ships or aircraft in international lanes.
3. The treaty is silent concerning the branch profit tax rate. The ITO interprets this to mean that the tax rate under Indonesian Tax Law (20%) should apply.
4. Labuan offshore companies (under the Labuan Offshore Business Activity Tax Act 1990) are not entitled to the tax treaty benefits.
5. Ratified but not yet effective, pending the exchange of ratification documents.
6. A protocol amending the tax treaty has been signed, pending the ratification of the protocol and the exchange of ratification documents.
7. A revised tax treaty has been signed, pending the ratification of the revised tax treaty and the exchange of ratification documents.

Permanent establishment time test

Certain activities may give rise to the creation of a PE if they are conducted in Indonesia for more than a certain period of time. The following is a summary of these periods for the activities specified in the relevant tax treaties:

	Bldg. Site Construction	Installation	Assembly	Supervisory Activities	Other Services
1. Algeria	3 months	3 months	3 months	3 months	3 months
2. Australia	120 days	120 days	120 days	120 days	120 days
3. Austria	6 months	6 months	6 months	6 months	3 months
4. Bangladesh	183 days	183 days	183 days	183 days	91 days
5. Belgium	6 months	6 months	6 months	6 months	3 months
6. Brunei	183 days	3 months	3 months	183 days	3 months
7. Bulgaria	6 months	6 months	6 months	6 months	120 days
8. Canada	120 days	120 days	120 days	120 days	120 days
9. China	6 months	6 months	6 month	6 months	6 months
10. Croatia	6 months	6 months	6 months	6 months	3 months
11. Czech Republic	6 months	6 months	6 months	6 months	3 months
12. Denmark	6 months	6 months	6 months	6 months	3 months
13. Egypt	6 months	4 months	4 months	6 months	3 months
14. Finland	6 months	6 months	6 months	6 months	3 months
15. France	6 months	---	6 months	183 days	183 days
16. Germany	6 months	6 months	---	---	---

	Bldg. Site Construction	Installation	Assembly	Supervisory Activities	Other Services
17. Hong Kong	183 days	183 days	183 days	183 days	183 days
18. Hungary	3 months	3 months	3 months	3 months	4 months
19. India	183 days	183 days	183 days	183 days	91 days
20. Iran	6 months	6 months	6 months	6 months	183 days
21. Italy	6 months	6 months	6 months	6 months	3 months
22. Japan	6 months	6 months	---	6 months	---
23. Jordan	6 months	6 months	6 months	6 months	1 month
24. Korea (North)	12 months	12 months	12 months	12 months	6 months
25. Korea (South)	6 months	6 months	6 months	6 months	3 months
26. Kuwait	3 months	3 months	3 months	3 months	3 months
27. Luxembourg	5 months	5 months	5 months	5 months	---
28. Malaysia	6 months	6 months	6 months	6 months	3 months
29. Mexico	6 months	6 months	6 months	6 months	91 days
30. Mongolia	6 months	6 months	6 months	6 months	3 months
31. Morocco	6 months	---	6 months	6 months	60 days
32. Netherlands	6 months	6 months	6 months	6 months	3 months
33. New Zealand	6 months	6 months	6 months	6 months	3 months
34. Norway	6 months	6 months	6 months	6 months	3 months
35. Pakistan	3 months	3 months	3 months	3 months	---
36. Papua New Guinea	120 days	120 days	120 days	120 days	120 days

	Bldg. Site Construction	Installation	Assembly	Supervisory Activities	Other Services
37. Philippines	6 months	3 months	3 months	6 months	183 days
38. Poland	183 days	183 days	183 days	183 days	120 days
39. Portugal	6 months	6 months	6 months	6 months	183 days
40. Qatar	6 months	6 months	6 months	6 months	6 months
41. Romania	6 months	6 months	6 months	6 months	4 months
42. Russia	3 months	3 months	3 months	3 months	---
43. Seychelles	6 months	6 months	6 months	6 months	3 months
44. Singapore	183 days	183 days	183 days	6 months	90 days
45. Slovakia	6 months	6 months	6 months	6 months	91 days
46. South Africa	6 months	6 months	6 months	6 months	120 days
47. Spain	183 days	183 days	183 days	183 days	3 months
48. Sri Lanka	90 days	90 days	90 days	90 days	90 days
49. Sudan	6 months	6 months	6 months	6 months	3 months
50. Suriname	6 months	6 months	6 months	6 months	91 days
51. Sweden	6 months	6 months	6 months	6 months	3 months

	Bldg. Site Construction	Installation	Assembly	Supervisory Activities	Other Services
52. Switzerland	183 days	183 days	183 days	183 days	---
53. Syria	6 months	6 months	6 months	6 months	183 days
54. Taiwan	6 months	6 months	6 months	6 months	120 days
55. Thailand	6 months	6 months	6 months	6 months	6 months
56. Tunisia	3 months	3 months	3 months	3 months	3 months
57. Turkey	6 months	6 months	6 months	6 months	183 days
58. Ukraine	6 months	6 months	6 months	6 months	4 months
59. United Arab Emirates	6 months	6 months	6 months	6 months	6 months
60. United Kingdom	183 days	183 days	183 days	183 days	91 days
61. United States of America	120 days	120 days	120 days	120 days	120 days
62. Uzbekistan	6 months	6 months	6 months	6 months	3 months
63. Venezuela	6 months	6 months	6 months	6 months	---
64. Vietnam	6 months	6 months	6 months	6 months	3 months
65. Zimbabwe	6 months	6 months	6 months	6 months	183 days

Tax Information Exchange Agreements

Indonesia has Tax Information Exchange Agreements (TIEAs) with the following jurisdictions:

Jurisdictions	Notes
1. Bahamas	2
2. Bermuda	1
3. Guernsey	
4. Isle of Man	
5. Jersey	
6. San Marino	1

Notes:

1. Ratified but not yet effective, pending the exchange of ratification documents.
2. The TIEA has been signed, pending the ratification of the TIEA and the exchange of ratification documents.

Mutual Administrative Assistance in Tax Matters

Indonesia signed the Convention on Mutual Administrative Assistance in Tax Matters on 3 November 2011 and ratified it on 17 October 2014. Indonesia has also signed a Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information on 4 June 2015 and committed to apply this using the Common Reporting Standard (CRS) issued by OECD.

US FATCA

Indonesia has principally agreed to sign the InterGovernmental Agreement (IGA) 1 for FATCA compliance purposes.

Value Added Tax

General

Value Added Tax (VAT) is typically due on events involving the transfer of taxable goods or the provision of taxable services in the Indonesian Customs Area. The taxable events are:

- a. Deliveries of taxable goods in the Customs Area by an enterprise;
- b. Import of taxable goods;
- c. Deliveries of taxable services in the Customs Area by an enterprise;
- d. Use or consumption of taxable intangible goods originating from outside the Customs Area in the Customs Area;
- e. Use or consumption of taxable services originating from outside the Customs Area in the Customs Area;
- f. Export of taxable goods (tangible and intangible) by a taxable enterprise.
- g. Export of taxable services by a taxable enterprise.

The VAT obligations arise upon the above deliveries with the value exceeding Rp 4.8 billion per annum.

The delivery of taxable goods is defined very broadly; it includes the following:

- a. Deliveries of a title to taxable goods according to an agreement;

- b. Transfers of taxable goods according to a hire-purchase or a finance-lease agreement;
- c. Deliveries of taxable goods to an intermediary trader or through an auction official;
- d. Own-use and/or free gift of taxable goods;
- e. Remaining taxable goods in the form of inventories and/ or assets, which were originally not for sale, upon a company's dissolution;
- f. Deliveries of taxable goods within a company (e.g., between branches, or between the head office and its branches) unless the company, subject to the DGT's approval, centralises its VAT reporting;
- g. Deliveries of taxable goods on consignment;
- h. Deliveries of taxable goods by a taxable entrepreneur in the framework of sharia-based financing, whereby the deliveries are deemed to take place directly from the taxable entrepreneur to the party in need of the taxable goods.

Tax rates and tax base

The VAT rate is typically 10%. This may be increased or decreased to 15% or 5% according to a government regulation. However, VAT on the export of taxable tangible and intangible goods as well as export of services is fixed at 0%. Certain limitations for the zero-rated VAT apply to export of services.

VAT is calculated by applying the VAT rate to a relevant tax base. In most cases, the tax base is the transaction value agreed between the parties concerned. For certain events

or situations, other criteria must be used as the tax base, including:

- a. Market value for transactions between related parties, remaining inventories of taxable goods upon a company's dissolution, and sales of (non-inventory) assets originally not for sale;
- b. Cost of sales (selling price minus gross margin) for own-use or free gifts and internal deliveries of taxable goods (e.g., between branches, or from the head office to branches);
- c. Auction price for deliveries of taxable goods through an auction officer;
- d. Agreed price for deliveries of taxable goods through an intermediary trader;
- e. Average result per film for movies;
- f. Rp 12 million per copy of imported movies;
- g. 20% of total costs incurred or paid, exclusive of the acquisition price of land, for the self-construction of a building;
- h. Retail selling prices for deliveries or imports of tobacco products;
- i. 10% of the actual billing for package shipment services;
- j. 10% of the actual billing for tour and tourism agency services whose deliveries are not based on commissions;
- k. 20% of selling price on the deliveries of gold jewellery, including services carried out by the factory in relation to gold jewellery;
- l. 10% of the actual billing on the deliveries of freight forwarding services in which billing includes freight charges;

- m. 100/110 of the Government subsidy value and 100/110 of the highest retail price determined by the Minister of Agriculture for deliveries of certain fertilizer for agricultural sector.

By law, all goods and services, unless otherwise stated, constitute taxable goods or taxable services. The legal negative list sets out which goods and services are categorised as non-taxable with certain exceptions, as follows:

Non-taxable Goods

- a. mining or drilling products extracted directly from their sources, for example crude oil, natural gas, geothermal energy, sand and gravel, coal (before processing into coal briquettes), iron ore, tin ore, copper ore, gold ore, silver ore and bauxite ore;
- b. basic commodities, for example rice, salt, corn, sago and soy beans;
- c. food and drink served in hotels, restaurants and the like, either consumed in the vicinity or taken away, including food and drink delivered by caterers; and
- d. money, gold bars and securities.

Non-taxable Services

- a. medical health services;
- b. social services, for example orphanages and funeral services;
- c. mail services using stamps;
- d. financial services;
- e. insurance services;

- f. religious services;
- g. educational services;
- h. art and entertainment services;
- i. broadcasting services which are not used for advertising;
- j. public transportation on land and water and domestic air transport that is an integral part of international air transport;
- k. manpower services;
- l. hotel services;
- m. public services provided by the government;
- n. parking area services;
- o. public telephone services using coins;
- p. remittance services by money orders; and
- q. food or catering services.

VAT reporting

Companies and individuals designated as taxable enterprises (*Pengusaha Kena Pajak/ PKP*) are required to report their business activities and settle the VAT liabilities on these every month. VAT is usually to be accounted for on a decentralization basis. As a result, a company carrying out business activities through a number of business units (branches) in the jurisdiction of different district tax service offices (*Kantor Pelayanan Pajak/ KPP*) must register each unit with the relevant KPP. It is in this context that internal deliveries of taxable goods within a company are subject to VAT.

However, a company may centralise its VAT reporting and exclude internal deliveries of taxable goods from the scope of

VAT by submitting a written notification to the DGT.

Companies registered with the following KPP are required to centralise their VAT reporting:

- a. KPP for large taxpayers/LTO;
- b. KPP for foreign investment companies (*Penanaman Modal Asing/PMA*);
- c. KPP for certain foreign companies and foreigners (*Badan dan Orang Asing/Badora*);
- d. KPP for listed companies (*Perusahaan Masuk Bursa/PMB*); and
- e. KPP for medium-sized taxpayers/MTO.

Input-output mechanism

VAT liabilities are typically settled by using an input-output mechanism. A vendor of taxable goods or taxable services must typically charge VAT to the buyer. From the vendor's perspective, it is an output tax. The buyer has to pay the VAT to the vendor. From the buyer's perspective, it is an input tax. To the extent that the goods or services are necessary for running the buyer's business, the input tax can be credited against the buyer's own output tax. If the accumulated output tax for a particular month exceeds the accumulated input tax for the same period, the taxpayer in question has to settle the difference by the end of the following month and prior to the VAT return filing deadline. If, however, the accumulated input tax for a particular month exceeds the accumulated output VAT, the taxpayer may carry over the overpaid VAT to the following months or ask for a yearly refund at the end of book year.

Import and self-assessed VAT

Import VAT on goods and self-assessed VAT (also commonly known as reverse charge) on the consumption or use of foreign taxable services or intangible goods should be understood in the context of the standard input-output mechanism.

Because the non-resident vendor or service provider cannot charge VAT (in other words, cannot issue tax invoices) to the Indonesian buyer/importer, the Indonesian buyer/importer has to pay the VAT for and on behalf of the non-resident vendor or service provider.

VAT Collector

A deviation from the standard mechanism, however, is in force for deliveries of taxable goods and services to VAT Collectors. The VAT Collectors are currently the State Treasury, State Owned Enterprises (*Badan Usaha Milik Negara/BUMN*) and some of their subsidiaries, and PSC (Production Sharing Contract) companies. As the name implies, a VAT Collector is required to collect the VAT due from a taxable enterprise (vendor) on the delivery to it of taxable goods or services and to pass the VAT payment directly to the government, rather than to the vendor or the service provider. A company engaged in deliveries of taxable goods or services mainly to a VAT Collector tends accordingly to be in an overpaid VAT position (see pages 52-53 concerning VAT refunds).

Crediting input VAT

VAT must be accounted for to the DGT every month. Input tax for a particular tax period (month), in principle, must be claimed as a tax credit against the output VAT for the same tax period. However, the claim can still be made within three months of the end of the particular tax period if the input tax has not yet been expensed or if a tax audit has not yet been started.

The validity of particular tax invoices is a key to successfully claiming the input tax as a tax credit. A tax invoice must contain the following minimum information:

- a. the name, address and NPWP of the taxpayer delivering the taxable goods or services;
- b. the name, address and NPWP of the purchaser;
- c. the type of goods or services, the quantity, the sales price or compensation and any discounts;
- d. the VAT that has been collected;
- e. the LST collected (if any) on luxury goods;
- f. the code, serial number and date of issue of the invoice;
and
- g. the name and signature of the authorised signatory to the invoice.

Failure to satisfy the minimum information requirement will mean that the input tax cannot be used as a tax credit. Certain PKPs are required to prepare its tax invoice in electronic format (electronic *Faktur Pajak/e-FP*). This requirement will gradually be applicable to all PKPs by 1 July 2016.

A tax invoice must be issued at:

- a. the time of delivery of taxable goods or services;
- b. the time a payment is received if the payment is received prior to the delivery of taxable goods or services;
- c. the time a term-payment is received in the case of delivery of a part of the work phase; or
- d. such other time as maybe stipulated by a MoF regulation.

VAT refunds

Refund applications can be made at the end of a book year. The DGT is required to make a decision on a VAT refund application, on the basis of a VAT audit, within 12 months of the receipt of a complete application. If no decision has been made within 12 months, the application is considered to have been approved.

Relevant supporting documents for a VAT refund must be delivered to the DGT within one month of the application date. Any documents delivered after that period may be ignored by the DGT in the VAT refund calculation.

A taxpayer classified as a golden taxpayer is entitled to obtain early (pre-audit) VAT refunds. The golden taxpayer designation is a status granted by the DGT to taxpayers who fulfil certain criteria, such as the filing of tax returns on time, the absence of tax in arrears and the lack of any criminal involvement. The DGT annually designates, on the basis of the criteria, certain taxpayers as golden taxpayers. Once a taxpayer is granted this status, the company is eligible to

apply for early VAT refunds. For this type of VAT refunds, the relevant documents must be attached to the VAT return requesting for such refunds. It must notify the DGT in writing if it does not want to make use of the privilege.

A pre-audit refund must be granted within a month after the completed VAT refund application is received. The DGT may conduct a tax audit after the early VAT refund is granted. If it proves, on the basis of the tax audit, that the taxpayer has received a higher VAT refund than it should have done, the excess amount is subject to an administrative penalty of 100%.

Monthly refunds are possible for certain taxpayers (exporters of goods or services, suppliers to VAT Collectors, companies in the pre-production stage and suppliers of goods or services for which VAT is not collected, if they meet certain criteria).

VAT exemption facilities

Strategic goods

The deliveries and/or import of taxable goods designated as strategic goods are exempt from VAT. The designation of strategic goods is made through a government regulation.

Currently, the following goods are included:

- a. capital goods in the form of machinery and plant and equipment required for the manufacturing of taxable goods (please refer to page 77 on the relevant tax concession);

- b. animal husbandry products, including hunting and trapping, and fishery products, including the capture and cultivation of fish;
- c. raw hides and skins which were not tanned;
- d. seeds and seedlings for agricultural, plantation, forestry, farm and animal husbandry products
- e. cattle, poultry and fish feed, and the raw materials for manufacturing these;
- f. raw materials of silver craft in the form of granules and/or bars;
- g. basic flats with size 21m² up to 36m²;
- h. electricity, except household electricity exceeding 6,600 VA;
- i. clean water distributed by water companies.

Other VAT exemption schemes

To support the achievement of certain national objectives, VAT is exempt on the imports and/or deliveries of the following taxable goods or taxable services:

- a. weapons, ammunition, and various other appliances for use by the armed forces and the state police;
- b. equipment and spare parts for providing boundary data and aerial photographs used by the armed forces;
- c. polio vaccines for use in the National Immunisation Program;
- d. general education and religious books;
- e. low-cost houses, low-cost flats with size less than 21m², labor low-cost accommodation, and student accommodation with certain threshold;

- f. services rendered for the construction of low-cost accommodations in point (e) and places of worship;
- g. rental of low-cost houses and low-cost flats less than 21m²;
- h. certain port services rendered to shipping companies that are serving international routes.

VAT not-collected facilities

Certain means of transport and related taxable services

To strengthen the national transportation industry, VAT is not-collected on the imports and/or deliveries of the following taxable goods or taxable services:

- a. transportation vehicles and spare parts thereof, used by the armed forces and the state police;
- b. ships and spare parts thereof, as well as navigational or personal safety equipment used by national commercial shipping companies, national fishing companies, national seaport operators or national river, lake and ferry operators;
- c. aircraft and spare parts thereof, as well as aviation and personal safety equipment, and repair and maintenance equipment used by national commercial airlines;
- d. trains and spare parts thereof, as well as equipment for repair, maintenance and infrastructure used by national train enterprises (*Badan Usaha Penyelenggara Sarana atau Prasarana Perkeretaapian Umum*);
- e. services received by national commercial shipping companies, national fishing companies, national seaport operators or national river, lake crossing and ferry operators, covering vessel leasing services, port services,

- and vessel maintenance or docking services;
- f. services received by national commercial airlines, covering aircraft leasing services, aircraft maintenance or repair services;
- g. train maintenance or repair services received by national train enterprises.

Other VAT not-collected schemes

VAT is also not-collected on the following events:

- a. the traffic of goods or services under the concessions on special projects and special zones (please refer to page 71-77 on the relevant tax concession);
- b. deliveries of certain fuels for petrol-fuelled ships that transport goods to or from overseas ports;
- c. deliveries of anode slime to be further processed in producing gold bars.

Luxury-goods Sales Tax

In addition to VAT, deliveries or imports of certain manufactured taxable goods may be subject to Luxury-goods Sales Tax (LST). A particular item will only attract LST once, i.e., tax will be charged either on importation of the good or on delivery by the (resident) manufacturer to another party.

LST must be accounted for every month together with VAT. The importer or the manufacturer of the goods is held responsible for the settlement of the LST.

A summary of the indicative LST rates is set out below. It should be noted that the inclusion of a particular item in the summary does not necessarily mean that the item will always be subject to LST. Whether or not the particular item is subject to LST depends on other factors, including capacity, size, or price.

To ascertain whether or not a particular item is subject to LST and to identify the LST rate, reference should be made to the Customs Book using the relevant harmonised system (HS) code.

According to the VAT & LST Law, the LST rate may be increased up to 200%, however currently the LST rates are between 10% to 125%.

Taxable goods other than motor vehicles

Group	LST Rates (%)					
	10	20	30	40	50	75
Luxury residences such as luxury houses, apartments, condominiums, town houses and the like.		●				
Balloons, dirigibles, and other un-powered aircraft.				●		
Shotguns and other arm cartridges, firearms and other arms, except for the state purposes.				●	●	
Aircraft other than those for the state or commercial air-transport purposes.					●	
Luxury cruisers, except for the need of the state and public transport.						●

Motor vehicles

Vehicle Type	Wheel Driver System	Motor System Engine	Cylinder Capacity (CC)	LST Rate
Passenger vehicles, capacity fewer than ten people				

Vehicle Type	Wheel Driver System	Motor System Engine	Cylinder Capacity (CC)	LST Rate
• Sedan/ station wagon	All types	Spark ignition	≤ 1500 > 1500 up to 3000 > 3000	30% 40% 125%
		Compression ignition (diesel/semi diesel)	≤ 1500 > 1500 up to 2500 > 2500	30% 40% 125%
• Other than sedan/ station wagon	4X2	Spark ignition	≤ 1500 > 1500 up to 2500 > 2500 up to 3000 > 3000	10% 20% 40% 125%
		Compression ignition (diesel/ semi diesel)	≤ 1500 > 1500 up to 2500 > 2500	10% 20% 125%
	4X4	Spark ignition	≤ 1500 > 1500 up to 3000 > 3000	30% 40% 125%
		Compression ignition (diesel/ semi diesel)	≤ 1500 > 1500 up to 2500 > 2500	30% 40% 125%
Passenger vehicles, capacity 10 to 15 people	All types	All types	All types	10%

Vehicle Type	Wheel Driver System	Motor System Engine	Cylinder Capacity (CC)	LST Rate
Double-cabin vehicles	All types	All types	All types	20%
Special-purpose vehicles				
<ul style="list-style-type: none"> All types of vehicles for golf Vehicles used to travel on snow, beaches, and mountains Caravan-type trailers and semi-trailers for residential and camping purposes 				50% 60% 125%
Two-wheel motor vehicles			>250 up to 500 >500	60% 125%

Customs and Excise

Import Duty

Import duty is payable at rates from 0% - 150% on the customs value of imported goods, although currently the highest rate is 40%. Customs value is calculated on Cost, Insurance and Freight level (CIF).

Group	Goods	Rate (%)
Automobiles	Passenger & commercial	5 to 50
Automobile components	Incompletely Knocked Down	0 to 10
Vessels	Ships, boats and floating structures	0 to 5
Electronic goods	Camera, television, refrigerator, cellular phone and others	0 to 15
Footwear		5 to 30
Beverages, ethyl alcohol & alcoholic drinks	Ethyl alcohol, juice, beer, wine, spirits and other beverages	5 to 150 or, Rp. 14,000/ltr
Essential oils and resinoids	Odoriferous substances	5 to 150
Agricultural products	Animal & vegetable products	0 to 30
Textile, textile products and accessories	Bags, harnesses, apparels, and clothing accessories, etc	5 to 35
Others	Chemicals, pharmaceutical products, plastic, rubber, and others	0 to 30

As a commitment to liberalising trade, the Indonesian government is progressively lowering import duty rates on most products. Higher duty rates remain to protect certain industries and goods regarded as sensitive for security or social and cultural reasons. Anti-dumping import duty rates are applicable on certain products originating from certain countries.

ASEAN duty rates

Limited relief is given to Association of South East Asian Nations (ASEAN) countries on imports of goods that have at least 40% ASEAN content and have been directly shipped between such countries. Indonesian government implements the ASEAN Trade In Goods Agreement (ATIGA) since 1 January 2010.

This scheme is intended to increase inter-ASEAN trade by reducing duty rates on most goods to 0% import duty.

Free Trade Area (FTA) Agreement duty rates

Indonesia has also implemented the following FTA duty rates with other countries:

- a. ASEAN – China FTA (ACFTA)
- b. ASEAN – Korea FTA (AKFTA)
- c. ASEAN – India FTA (AIFTA)
- d. ASEAN - Australia - New Zealand FTA (AANZFTA)
- e. Indonesia – Pakistan FTA (IPFTA)
- f. Indonesia – Japan Economic Partnership Agreement (JEPA).

Duty relief/exemption/deferral

The Indonesian government offers duty relief, duty exemption and duty deferral concessions to foreign and domestic investors in order to promote the development of local and export industries. This concession usually combined with other tax facilities such as VAT and income tax (please refer to pages 71-77 on the relevant tax concession).

Export Duty

Export duty can be calculated based on a certain percentage of customs value (*ad valorem*) or specifically based on duty rate/quantity in a certain currency. Customs value is determined by the Director General of Customs and Excise in accordance with the price benchmark.

Group	Goods	Rate (%)
Leather and wood	Leather made from certain furry animals, veneer, chip wood, processed wood	2 to 25
Cocoa beans		0 to 15
Palm fruit, Crude Palm Oil (CPO) and its derivative products	Fresh fruit bars, CPO, Crude Palm Kernel Oil (CPKO), hydrogenated CPO/CPKO, Palm Fatty Acid Distillate (PFAD), biodiesel	0 to 40
Mineral concentrates	Metals, non-metals, stones	50 to 60*

*The export duty rates are increased progressively on a semi-annual basis starting from 2014 and the rate above is applicable for 2016.

Excise

Excise is imposed on certain goods for which distribution and consumption needs to be controlled due to their potential negative effect on society. Currently, goods subject to excise are ethyl alcohol, alcoholic drinks and tobacco products. The excise rate varies based on the origin of ethyl alcohol and alcoholic drinks (from Rp 13,000 to Rp 139,000 per liter) and based on the classification of tobacco manufacturers for tobacco products (from Rp 6 to Rp 110,000 per stick or gram). Particularly for tobacco products, the applicable excise rate for a group of related manufacturers will be calculated based on the manufacturers' total production volume. The definition of related manufacturers is different from a general related party definition for income tax purposes (please see page 14) and is specified in a MoF regulation.

Tax Concessions

Income tax concessions

Corporate Income Tax reduction

The MoF may provide an avenue for CIT reduction of 10% – 100% of the CIT due for 5 – 15 years from the start of commercial production. Maximum reduction of 50% may be provided to telecommunication and information industries with new capital investment plan of Rp 500 billion – Rp 1 trillion. The period can be extended to 20 years if it is deemed necessary for the national interest.

This facility is provided to firms in pioneer industries which have a wide range of connections, provide additional value and high externalities, introduce new technologies, and have strategic value for the national economy. Currently this facility is available for the following business sectors:

- upstream metal;
- oil refinery;
- base organic chemicals sourced from oil and gas;
- machinery;
- telecommunication and information;
- sea transportation;
- processing industry on agriculture, forestry, and fishery products;

- processing industry in Special Economic Zone (*Kawasan Ekonomi Khusus/KEK*);
- Economic infrastructure other than those under the Government Cooperation with Business Entities (*Kerjasama Pemerintah dengan Badan Usaha*).

The applicant must meet the following criteria to be eligible for this tax facility:

- should be incorporated in Indonesia no earlier than 15 August 2011,
- should have a legalised new capital investment plan of a minimum Rp 1 trillion (approximately USD 74 million) or Rp 500 billion for telecommunication and information industries,
- meet the applicable debt to equity ratio as required by the MoF, and
- must provide a commitment letter to deposit a minimum of 10% of their planned investment value in a bank/banks located in Indonesia.

An application must be submitted to the Investment Coordinating Board (*Badan Koordinasi Penanaman Modal/BKPM*) Chairman. A proposal for the MoF's approval will be made by the BKPM Chairman after carrying out research on the applicant. Under the latest regulation, the proposal can be submitted to the MoF until 15 August 2018.

If the facilities are granted, taxpayers should submit periodic reports on the realisation of their investment plans, the use of

their funds deposited in the Indonesian bank/banks, and the realisation of production. Failure to realise the investment plan and to submit the above periodic reports will result in the termination of the tax facilities.

Income tax allowance

The MoF may provide the following tax concessions to PT companies following their investment in certain designated business areas or in certain designated regions:

- A reduction in net income of up to 30% of the amount invested, prorated at 5% for six years of the commercial production, provided that the assets invested are not transferred out within six years;
- Accelerated depreciation and/or amortisation deductions;
- Extension of tax losses carry-forward for up to ten years;
- A reduction of the withholding tax rate on dividends paid to non-residents to 10% (or lower if treaty relief is available).

The applicant must meet the following high level criteria to be eligible for the above tax facilities:

- high investment value or for export purposes;
- high absorption of manpower; or
- high local content.

Recommendation from the BKPM Chairman must firstly be obtained, together with the application of the investment approval, before MoF approval for the tax facilities can be sought.

Reinvestment of branch profits

PEs that reinvest their after-tax profits in Indonesia within the same year or no later than the following year are exempt from branch profit tax on these profits. The reinvestment should be one of the following forms:

- As a founder or a participant founder in a newly established Indonesian company through capital participation.
- As a shareholder of an established Indonesian company through capital participation.
- Acquisition of a fixed asset used by the PE to conduct its business or activities in Indonesia.
- Investment in the form of an intangible asset used by the PE to conduct its business or activities in Indonesia.

Shares in a newly established company shall not be transferred until, at a minimum, two years from the date that the company commences commercial production. With regard to the investment in an established Indonesian company, acquisition of a fixed asset, or investment of an intangible asset, the investment shall not be transferred until, at a minimum, three years after the investment.

Tax cut for public companies

A 5% corporate tax cut can be granted to public companies which satisfy the following conditions:

- At least 40% of their paid-in shares are listed for trading in the Indonesian Stock Exchange (IDX);
- The public should consist of at least 300 individuals, each holding less than 5% of the paid-in shares;

These two conditions must be maintained for at least 183 days in a tax year. If in a particular year either or both of the conditions are not met, the facility is not applicable for that year.

Tax neutral mergers

Generally, transfers of assets in business mergers, consolidations, or business splits must be at market value. Gains resulting from this kind of restructuring are assessable, while losses are generally claimable as a deduction from income.

However, a tax-neutral merger or consolidation, under which assets are transferred at book value, can be conducted but subject to the approval of the DGT. To obtain this approval, the merger or consolidation plan in question must pass a business-purpose test. Tax-driven arrangements are prohibited and therefore tax losses from the combining companies may not be passed to the surviving company.

Subject to a similar, specific DGT approval, the same concession is also available for business splits which constitute part of an initial public offering (IPO) plan. In this case, within one year of the DGT's approval being given, the company concerned must have made an effective declaration about registration for an IPO with the Financial Services Authority (*Otoritas Jasa Keuangan/OJK*). In the event of complications beyond the company's control, the period can be extended by the DGT for up to four years.

LST concessions

LST incentive for motor vehicles

The following LST incentive is available for “green” motor vehicles with LST rates of 10%, 20%, 30%, 40%, and 125%. The LST base is reduced from the sales price that will effectively lower the applied LST or mean there is even no LST for certain motor vehicles.

LST Base	Incentive Program
75%	Motor vehicles using advance diesel/petrol engine technology, dual petrol gas engines (converter kit CNG/LGV), biofuel engines, hybrid engines, CNG/LGV dedicated engines with oil fuel consumption (and other similar fuel) of 20 to 28 km/litre
50%	Motor vehicles using advance diesel/petrol engine technology, biofuel engines, hybrid engines, CNG/LGV dedicated engines with oil fuel consumption (and other similar fuel) of more than 28 km/litre
0%	Motor vehicles under Low Cost Green Car and Low Carbon Emission programs, other than sedans or station wagons, with the following requirements: <ol style="list-style-type: none"> 1. spark ignition up to 1200 CC, or 2. compression ignition (diesel/semi diesel) up to 1500 CC with oil fuel consumption (and other similar fuel) of at least 20 km/litre

Concessions on special projects and special zones

Foreign loan-funded and foreign grant-funded government projects

Government projects funded with foreign loans or foreign grants may be eligible for special tax treatment for the income derived from that funding. The projects that typically qualify are set out in the state Project Table of Contents (*Daftar Isian Proyek/DIP*) or other similar documents.

Main contractors, consultants and suppliers for foreign grant-funded or loan-funded government projects may have their income tax liability borne by the government. This facility is not available for second-level contractors, consultants and suppliers.

Apart from the above concessions, the main contractors, consultants and suppliers also enjoy the following tax facilities on the importation of goods and the use of foreign taxable services and/or foreign intangible goods for foreign grant-funded or foreign loan-funded government projects:

- Exemption from import duty;
- Non-collection of VAT and LST;
- Non-collection of import income tax (Article 22).

In the event that the deliverables of a qualifying project are goods or services subject to VAT, the main contractors, consultants and suppliers are required to issue appropriate tax invoices although the VAT is not collected.

If a qualifying project is only partially funded by a foreign loan or a foreign grant, the tax facilities are determined proportionally to the amount of the foreign loan or foreign grant.

Special Economic Zones

Taxpayers conducting business in Special Economic Zones (Kawasan Ekonomi Khusus/KEK) may enjoy tax facilities. The business should cover the main activities determined for each KEK and other activities in each KEK. The designation of an area as a KEK is set out in a specific government regulation. Currently there are eight areas designated as KEKs.

The taxpayer must meet the following criteria to be eligible for tax facilities in KEK:

- a. For taxpayers organising KEK's business activity:
 - have been stipulated by the relevant government agency to be a Business Entity that develop or manage a KEK;
 - have an agreement on KEK with the relevant government agency; and
 - create area boundaries of KEK's activities.
- b. For taxpayers carrying out business activity in KEK:
 - are a domestic taxpayer;
 - have a legalised new capital investment plan from the Administrator of KEK; and
 - have an information system connected to the Directorate General of Customs and Excise.

CIT reduction facility may be granted for new taxpayers with new capital invested in the production chain of main activities in KEK, as described below:

Investment plan (Rp in billion)	Reduction period (in years)	CIT reduction
> Rp 1,000	10 – 25	20% – 100%
Rp 500 up to Rp 1,000	5 – 15	
< Rp 500	5 – 15	MoF discretion

Taxpayers being rejected for the CIT reduction facility and taxpayers carrying out other activities in KEK, may apply for similar income tax allowance under the Income Tax Concessions (please refer to page 67 on the relevant tax concession).

On top of the above income tax facilities, taxpayers in KEK are also entitled to the following tax facilities:

- Non-collection of VAT and LST on importation or domestic purchases of certain goods;
- Non-collection of VAT and LST on the delivery of certain goods between taxpayers in KEK;
- Non-collection of import income tax (Article 22);
- Postponement of import duty on capital goods and equipment, and goods and material for processing;
- Exemption of excise on goods to be used to produce non-excisable goods.

Integrated Economic Development Zones

Companies conducting business in an Integrated Economic Development Zone (*Kawasan Pengembangan Ekonomi Terpadu/KAPET*) may enjoy tax facilities. The designation of an area as a KAPET is set out in a specific presidential decree. Currently there are 13 areas designated as KAPETs.

The tax facilities are as follows:

- Non-collection of VAT and LST on certain luxury goods transactions;
- Exemption from prepaid income tax on the importation of capital goods and other equipment (Article 22) directly related to production activities;
- Postponement of import duty on capital goods and equipment, and goods and materials for processing;
- Exemption from import duty for four years on machinery and certain spare parts.

Bonded Zones

Bonded zone (*Kawasan Berikat /KB*) facility is provided to companies producing finished goods which are mainly for export, with the domestic sales quota of 50% of the previous year export realisation value and/or sales value to other Bonded Zones.

The tax facilities are as follows:

- Postponement of import duty;
- Non-collection of VAT, LST and Article 22 Income Tax;
- Exemption of excise.

The facility is provided in respect of:

- Importation or domestic purchases of goods for further processing;
- Importation of office equipment to be used only by the KB company concerned;
- Importation of plant equipment and machinery related directly to manufacturing activities to be used only within or by the KB company concerned.

The traffic of goods between KB companies as well as between a KB company and its supporting contractors is also facilitated by means of the same tax facility. As a result, VAT and LST do not need to be collected for the following traffic of goods:

- Shipments of products from a KB company to another KB company for further processing;
- Shipments of goods and/or materials from a KB company to a non-KB company within the Customs Area in a subcontract arrangement, as well reshipments of goods processed by the non-KB company to the KB company;
- The lending of plant, machinery or equipment by a KB company to another KB company or non-KB company within the Customs Area, and the reshipment of the same machinery or equipment to the KB company in a subcontract arrangement.

Bonded warehouse

The bonded warehouse concession is applicable for goods that support the manufacturing industry. The tax facilities are as follows:

- Postponement of import duty;
- Non-collection of VAT, LST and Article 22 Income Tax;
- Exemption of excise.

FTZ in Batam, Bintan and Karimun

Goods entered into and goods delivered amongst companies inside Free Trade Zone (FTZ) or *Kawasan Perdagangan Bebas/KPB* may also enjoy tax facility.

Some administrative requirements in FTZ are:

1. Business License from the Management Board of FTZ (*Badan Pengusahaan Kawasan/BPK*)
2. The imported goods must be in line with the business license.
3. Customs procedures (including customs audit, customs penalties) are applicable in FTZ.
4. No requirement to be registered as a Taxable Enterprise (*Pengusaha Kena Pajak/PKP*) for VAT purposes.

The goods entered into and delivered amongst companies inside FTZ are exempted from import duty, and excise. In addition, the import taxes (i.e., VAT, LST and Article 22 Income Tax) are not collected.

Transactions of intangible goods and taxable services are exempted from VAT, except for those delivered to other Indonesia Customs area and Bonded Zone companies.

Goods exit from FTZ to other Indonesia Customs area, the liable import duty and import taxes should be paid.

BKPM Masterlist facility

BKPM may also provide tax concession through the issuance of a Masterlist facility for certain strategic goods. The tax concession provides VAT, LST, Article 22 Income Tax and import duty exemption for eligible machinery and raw materials.

Tax exemption and drawback facilities for exports

Tax facilities under the scheme of ease of imports for the production of goods to be fully exported (*Kemudahan Impor Tujuan Ekspor/KITE*) are as follows:

Import duty, VAT and LST exemption

This exemption facility allows for most raw materials to be imported without payment of import duty, provided that the finished products are exported.

Import duty drawback

This drawback facility allows for the recovery of import duty paid on imported raw materials that are incorporated into finished products which are subsequently exported.

Land and Building

Land and Building Tax

Land and building tax (*Pajak Bumi dan Bangunan/PBB*) is a tax on property chargeable on all land and/or buildings, unless exempted. The negative list setting out land and buildings not subject to PBB includes those:

- Used by central and regional Government for governance purposes;
- Used for public interest in the areas of religious and social affairs, health, education and national culture, and non-profit making purposes;
- Used as a cemetery, ancient heritage site or similar;
- Constituting protected forests, natural reserve forests, tourism forests, national parks, grazing land controlled by a village, and state land with no right imposed on it;
- Used by a diplomatic representative, based on the reciprocal treatment principle;
- Used by an agency or representative of an international organisation, as determined by the MoF.

PBB is a part of regional taxes which are governed under Regional Taxes and Retribution (*Pajak Daerah dan Retribusi Daerah/PDRD*) Law in which each regional government has to issue a regulation (*Peraturan Daerah/PERDA*) to regulate PBB in its territory.

The scope of PBB under PDRD Law covers all land and building except for the following industries which are governed by separate regulations:

- forestry;
- plantation;
- mineral and coal mining;
- oil, gas and geothermal mining;
- other industries located in national waters outside the territory of regional area.

PBB is payable annually following a Tax Due Notification Letter (*Surat Pemberitahuan Pajak Terhutang/SPPT*) issued by the Regional Government.

An individual or an organisation that owns a right to a piece land, and/or takes benefits there from, and/or owns, controls, and/or takes benefits from a building can by law be regarded as the PBB taxpayer for that piece of land and/or building.

Under PDRD Law, the PBB rate is maximum 0.3% and the tax due is calculated by applying the tax rate on the sale value of the tax object (*Nilai Jual Objek Pajak/NJOP*) deducted by non-taxable NJOP. The non-taxable NJOP is set at Rp 10 million at the minimum. Any changes are to be made by issuing a PERDA.

Tax on land and building transfer

A transfer of rights to land and building will give rise to income tax on the deemed gain on the transfer/sale to be charged to the transferor (seller). The tax is set at 5% of the gross transfer value (tax base). However, for transfers of simple houses and simple apartments conducted by taxpayers engaged in a property development business, the tax rate is 1%. This tax must be paid by the time the rights to land and building are transferred to the transferee. All the tax paid constitutes a final tax.

In general, the tax base is the higher of the transaction values stated in the relevant land and building right transfer deed, based on actual transaction amount or NJOP. However, in a transfer to the government, the tax base is the amount officially stipulated by the government officer in question in the relevant document. In a government-organised auction, the gross transfer value is the value stipulated in the relevant deed of auction.

A notary is prohibited from signing a transfer of rights deed until the income tax has been paid in full.

Duty on the acquisition of land and building rights

A transfer of land and building rights will typically also give rise to duty on the acquisition of land and building rights (*Bea Pengalihan Hak atas Tanah dan Bangunan/BPHTB*) liability for the party receiving or obtaining the rights. BPHTB is also a part of regional taxes which are governed under PDRD Law.

Qualifying land and building rights transfers include sale-purchase and trade-in transactions, grants, inheritances, contributions to a corporation, rights separations, buyer designation in an auction, the execution of a court decision with full legal force, business mergers, consolidations, expansions, and prize deliveries.

BPHTB is based on the Tax Object Acquisition Value (*Nilai Perolehan Objek Pajak/NPOP*), which in most cases is the higher of the market (transaction) value or the NJOP of the land and building rights concerned. The tax due on a particular event is determined by applying the applicable duty rate (5%) to the relevant NPOP, minus an allowable non-taxable threshold. The non-taxable threshold amount varies by region: the minimum is Rp. 60 million, except in the case of an inheritance, for which starts from Rp. 300 million. The government may change the non-taxable threshold via regulation.

BPHTB is typically due on the date that the relevant deed of land and building right transfer is signed before a public notary. In a business merger, consolidation, or expansion, the duty is due on the date of signing of the merger, consolidation or expansion act. In an auction, the duty is due on the date of signing date of the Auction Report by the authorised officer.

A notary is prohibited from signing a deed transferring rights until the BPHTB has been paid.

Stamp Duty

Stamp duty is nominal, and payable as a fixed amount of either Rp. 6,000 or Rp. 3,000 on certain documents.

Examples of documents subject to stamp duty are as follows:

- a. Letters of agreement and other letters (such as authorisation letters, letters bestowing gifts, or declarations) which are prepared for the purpose of being used as evidence of act, fact, or condition of a civil nature.
- b. Notarial deeds and their copies.
- c. Deeds prepared by a designated land notary (*Pejabat Pembuat Akta Tanah/PPAT*).
- d. All documents bearing a sum of money which:
 - state the receipt of money
 - state the recording or deposit of money in a bank
 - contain notification of a bank balance
 - contain the acknowledgement of debt wholly or partly paid or compensated
 - are in the form of valuable documents such as drafts, promissory notes, or acceptances
 - are in the form of securities, in whatever name or form
 - are in the form of cheques.

- e. Documents to be used as instruments of evidence before a court:
- ordinary letters or internal papers
 - papers originally exempt from stamp duty on the basis of their purpose of use, if they serve other aims or are used by other parties, and deviate from their original purpose.

The Rp. 6,000 rate is applicable to (a), (b), (c), and (e). For (d), the rate is Rp. 6,000 when the money value stated in the document is more than Rp. 1 million, and Rp. 3,000 when the value is between Rp. 250,000 and Rp. 1 million. Values below Rp. 250,000 are not subject to stamp duty. For cheques, the rate is Rp. 3,000 regardless of the monetary value stated.

Tax Payments and Tax Return Filing

Tax liabilities for a particular period or year must typically be paid to the State Treasury through a designated tax-payment bank (*bank persepsi*) and then accounted for to the ITO through the filing of the relevant tax returns. Tax payments and tax returns filing for a particular tax must be undertaken monthly or annually, or both monthly and annually (depending upon the tax obligation in question). These payments and filing obligations can also be conducted electronically. Tax payments should generally be conducted electronically starting 1 July 2016.

A summary of these tax obligations is as follows:

Monthly tax obligations

Type of tax	Tax payment deadline	Tax return filing deadline
Article 21/26 Income Tax	The 10 th of the following month	The 20 th of the following month
Article 23/26 Income Tax	The 10 th of the following month	The 20 th of the following month

Type of tax	Tax payment deadline	Tax return filing deadline
Article 25 Income Tax	The 15 th of the following month	The 20 th of the following month
Article 22 Income Tax – Tax Collector	The 10 th of the following month	The 20 th of the following month
Article 4(2) Income Tax	The 10 th of the following month	The 20 th of the following month
VAT and LST – Taxable Enterprise	Prior to the tax return filing deadline	The end of the following month
VAT and LST – VAT Collector	Prior to the tax return filing deadline	The end of the following month

Annual tax obligations

Type of tax	Tax payment deadline	Tax return filing deadline
Corporate Income Tax	The end of the fourth month after the book year end before filing the tax return	The end of the fourth month after the book year end

Type of tax	Tax payment deadline	Tax return filing deadline
Individual Income Tax	The end of the third month after the year end before filing the tax return	The end of the third month after the year end
Land and Building Tax (PBB)	Six months after the receipt of a Tax Due Notification Letter (SPPT) from the Regional Government	N/A

Late payments of the above taxes incur interest penalties at 2% per month, with a maximum of 48%. Part of a month, for example a single day, is considered a full month.

Late filing of a tax return or failure to file a tax return incurs an administrative penalty at the following amounts:

Type of tax return	Rupiah
VAT return	500,000
Other monthly tax returns	100,000
Individual income tax return	100,000
Corporate income tax return	1,000,000

For annual income tax returns, taxpayers may extend the filing deadline by up to two months. This may be done by filing a written notification to the DGT before the deadline, together

with a tentative tax calculation. The tax due according to the tentative calculation (if any) must be settled before submitting the extension notification. If the actual tax due based on the final tax calculation is higher than the tentative calculation, an interest penalty of 2% per month will apply to the difference until the shortfall is paid.

Failure to file a tax return by the relevant deadline may result in the DGT to issue a warning letter to the taxpayer in question. The warning letter will typically require the taxpayer to file the tax return within 30 days of the warning letter date. Ignoring such a letter can prompt the DGT to issue an official tax assessment along with an administrative penalty of 50% of the assessed tax.

Except for corporate and individual income taxes, taxes are to be accounted for on a decentralised basis. A company with business units (branches) spread over the country must accordingly account for the tax obligations to the district service tax offices with which the branches are registered. Please refer to pages 48-49 regarding centralisation of VAT reporting.

In general, the main form of a tax return must be prepared in electronic format (e-tax returns), except for certain taxpayers. E-tax returns can be filed to the ITO either in the conventional manner, i.e., submitting the hard copy and the soft copy of the tax returns to the relevant ITO, by submitting the e-tax returns through DGT's website (for individuals), or by using an application service provider (e-filing).

Accounting for Tax

Generally, for tax purposes, a company's books must be maintained in accordance with the prevailing accounting standards unless the tax law stipulates otherwise. By default, the books must be maintained in Rupiah, composed in Indonesian, and stored in Indonesia.

Subject to specific DGT approval, foreign-investment (*Penanaman Modal Asing/PMA*) companies, PEs, subsidiaries of foreign companies, taxpayers listed overseas, and taxpayers presenting their financial statements in their functional currency of USD in accordance with the Financial Accounting Standards (*Standar Akuntansi Keuangan/SAK*) applicable in Indonesia can maintain their books in USD and compose them in English. A collective investment contract (*Kontrak Investasi Kolektif/KIK*) is allowed to use USD accounting to the extent that it issues USD-denominated investment funds.

An application for DGT approval must be filed with the DGT's office no later than three months before the beginning of the USD accounting year. The DGT is required to decide on the application within a month. If no decision is made within that time, the application is automatically approved.

Companies governed by a Production Sharing Contract (PSC) or a Contract of Work (CoW) with the government may decide to apply USD accounting in English simply by notifying the DGT in writing. This notification must be submitted to the DGT office no later than three months before the beginning of the USD accounting year.

The use of a foreign language other than English and a foreign currency other than USD in a company's books is prohibited. Irrespective of the currency and the language used, companies typically have to settle their tax liabilities in Rupiah (except for PSC companies) and file tax returns in Indonesian. For corporate income tax, the assertions must be presented in USD side by side with Rupiah in the annual CITR.

A company that has obtained approval to maintain USD accounting may return to Rupiah accounting subject to DGT approval. Once approval is granted, the company may not reapply for USD accounting approval during the five years after the cancellation of the USD accounting.

Tax Audits and Tax Assessments

Indonesia uses a self-assessment system under which taxpayers are required to calculate, pay, and report their tax liabilities in accordance with prevailing tax laws and regulations. The DGT may then conduct a tax audit to test this self-assessment compliance with the tax obligations and issue tax assessment as a result of tax audit.

Tax audits

The tax audit of a company may cover only a particular tax or all taxes for a particular tax period (a tax month) or tax year. It may be conducted at the company's premises, at the DGT offices, or at both.

Conditions triggering a tax audit

A tax refund request will always trigger a tax audit. Due to the requirement for the DGT to decide on a refund request within 12 months, a tax audit will typically begin from a few weeks to several months from the refund request date. A corporate income tax refund request will normally trigger a complete tax audit covering all taxes. A refund request of any other tax will normally trigger a tax audit covering only one particular tax. The DGT will likely broaden the tax audit scope to include other taxes.

Other events may trigger a tax audit, these include:

- A tax return in an overpayment position (not necessarily accompanied by a refund request);
- An annual income tax return presenting/claiming a tax loss;
- The taxpayer has changed its fiscal year or bookkeeping method or performed fixed assets revaluation;
- A tax return not filed within the prescribed time or filed after the deadline stated in a warning letter, which has been selected to be audited based on a risk analysis;
- A tax return meeting certain (undisclosed) DGT criteria.

Special tax audit may be conducted for certain purposes and will be subject to different timeline and procedures from the general tax audit.

One-month rule

Taxpayers being audited are required to provide documents and information requested by the tax auditors within a month of the request date. This may include transfer pricing documentation if the taxpayers are engaged in related-party transactions. Failure to provide the documents or information within a month may prompt the DGT to determine the tax liabilities on a deemed profit basis. Where documents and information are not supplied within the one month period, they cannot be used later by the taxpayer to dispute the amount of tax assessed.

Closing conference

At the end of a tax audit, the tax auditors will provide the taxpayer being audited with a written notification of the tax audit findings containing their proposed tax audit corrections. If there is a disagreement regarding the tax audit findings, the taxpayer must respond to the notification in writing within seven to ten working days prior to attending a closing conference (the final discussion) with the tax auditors.

In the closing conference the taxpayer may reassert its position with regard to the tax audit corrections and present the relevant supporting documents. If there is still a dispute surrounding a legal basis of an adjustment during the discussion of the tax audit findings, the taxpayer may request a discussion with the Quality Assurance Team (QAT) from the Regional Tax Office. The Discussion will be recorded in a memorandum prepared by the QAT.

The tax auditors may change some of the suggested corrections in light of the taxpayer's response to the tax audit findings notification, the discussion result with the QAT and the closing conference discussion.

The results of the final discussion are then summarised in a closing conference document. The taxpayer will have to state Agree or Disagree to each of the proposed corrections in the document. The document should also set out which part of the taxpayer's arguments are accepted by the tax auditors and accordingly lead to the cancellation or reduction of some

particular suggested corrections. By the end of the closing conference, the tax auditors and the taxpayer have to sign the closing conference document.

The closing conference is to be completed within a maximum period of three weeks from the initial invitation.

The corrections agreed to in the closing conference document will constitute a basis for the minimum amount the taxpayer must pay of the tax assessment issued based on the document.

Products of a tax audit

The legal products of a tax audit consist mainly of Tax Assessment Letters (*Surat Ketetapan Pajak/SKP*) as mentioned above and Tax Collection Letters (*Surat Tagihan Pajak/STP*), which must be based on the closing conference document. A STP typically serves as a legal instrument to collect administrative tax sanctions not covered in a SKP. In certain other situations, it may also be used by the DGT to collect tax due in a particular tax period (month) within the current year and the interest penalty on this.

Tax assessments

A tax assessment letter applies only to one specific tax for one particular tax period or year and typically takes into account the following factors:

- The tax due;
- The applicable tax credits;

- The resulting balance between the tax due and the tax credits (overpaid, nil, or underpaid);
- The administrative penalty (interest or a surcharge).

Types of tax assessment letters

The name of a tax assessment letter refers to the resulting balance between the tax due and the tax credits. Accordingly, there are three types of tax assessment letters:

- Overpaid Tax Assessment Letter (*Surat Ketetapan Pajak Lebih Bayar/SKPLB*) if the tax due is less than the tax credit amount;
- Underpaid Tax Assessment Letter (*Surat Ketetapan Pajak Kurang Bayar/SKPKB*) if the tax due exceeds the tax credit amount;
- Nil Tax Assessment Letter (*Surat Ketetapan Pajak Nihil/SKPN*) if the tax due amount is equal to the tax credit amount.

If a SKPKB is issued, this may include one of the following administrative penalties:

- Interest at 2% per month for a maximum of 24 months;
- A 50% surcharge for income tax liability;
- A 100% surcharge for withholding tax liability;
- A 100% surcharge for VAT and LST liabilities.

Which penalties are applicable will depend on the type of wrongdoing the taxpayer has committed. The penalty amounts are determined by the application of the relevant rate to the underpaid tax amounts.

Apart from issuing a tax assessment based on tax audit, the DGT may also issue an ex-officio tax assessment letter to a taxpayer who ignores a warning letter to file a tax return within a specified period or fail to maintain books in accordance with the prescribed standards.

Payments of tax assessment

Tax due based on a tax assessment letter must be paid within one month after the issuance of the relevant tax assessment letter. If the taxpayer does not pay the tax due and not apply for an objection, the tax due will be collected using a Distress Warrant.

Statute of limitation

Under the current Tax Administration Law, the DGT can issue an underpaid tax assessment letter for years 2008 onwards within five years after the incurrance of a tax liability, the end of a tax period (month) or the end of (part of) a tax year.

Once a tax assessment letter for a particular tax of a particular month or year has been issued, additional tax assessment letters may still be issued within the specified time limits (five or ten years depending on the tax years) to the extent there is new data (novum) or information which was not disclosed (or not adequately disclosed) in the tax returns and/or during tax audits. The issue of an Additional Underpaid Tax Assessment Letter (*Surat Ketetapan Pajak Kurang Bayar Tambahan/SKPKBT*) calls for a 100% surcharge on the tax due

as an administrative penalty. However, a taxpayer may avoid the surcharge if the SKPKBT was issued based on taxpayer's voluntary disclosures prior to DGT conducting a tax audit to issue the SKPKBT.

The tax due reported in a tax return is considered certain if no tax assessment letter is issued within the specified time limit. Nevertheless, a SKPKB or SKPKBT can still be issued beyond the specified time limit to a taxpayer who, by virtue of a court verdict, is found guilty of a taxation crime after the specified time limits. A SKPKB or a SKPKBT issued in such a situation will include an interest penalty totaling 48% of the underpaid tax.

Tax Collection Using Distress Warrant

If a legal tax collection instrument is not paid within the required time, the DGT may by law issue a Distress Warrant (*Surat Paksa*) to a taxpayer. The instruments include the following documents:

- Tax Collection Letters/STP;
- Underpaid Tax Assessment Letters/SKPKB;
- Additional Underpaid Tax Assessment Letters/SKPKBT;
- Tax Objection Decision Letters (which demand an additional payment from the taxpayer);
- Tax Court Decisions (which demand an additional payment from the taxpayer);
- Correction Decision Letters (which demand an additional payment from the taxpayer).

The relevant taxpayer is required to pay the underpaid tax stated in a tax collection instrument within a month of the instrument date. Any late payments trigger an interest penalty at 2% per month.

Under the current Tax Administration Law, taxpayers are bound to pay only the minimum amount they have agreed to in the tax audit closing conference, provided that they file an objection or at a later stage, an appeal in respect to the particular tax assessment letter.

The remaining part of the assessment not agreed during the closing conference will only be due after the DGT has made a decision on the objection or the tax court makes a decision on the appeal that is not in the taxpayer's favour.

If the underpaid tax is not paid within the stipulated time period, the DGT may undertake the following steps as part of the execution of the Distress Warrant:

- a. Issue a Warning Letter (*Surat Teguran*) if the underpaid tax is not settled within seven days of the due date;
- b. Issue a Distress Warrant if the underpaid tax is not settled within 21 days of the issuing of the Warning Letter;
- c. Issue a Confiscation Order (*Surat Sita*) if the underpaid tax is not settled within 48 hours of the issuing of the Distress Warrant;
- d. Publish an auction announcement with respect to the confiscated assets if the underpaid tax is not settled within 14 days of the issuing of the Confiscation Order;
- e. Undertake a public auction if the underpaid tax is not settled within 14 days of the auction announcement.

Tax Dispute and Resolution

A tax dispute between a taxpayer and the DGT will typically arise following the issuance of a tax assessment letter (SKP) by the DGT which the taxpayer disputes. A SKPKB, an SKPKBT, and a STP constitute legal tax collection instruments on the basis of which the DGT may issue a Distress Warrant if the taxpayer fails to settle the underpaid tax on time. The way the DGT executes the Distress Warrant may give rise to another tax dispute between the parties.

The ways available to resolve such tax disputes are as follows.

Objections

A taxpayer who does not agree with a tax assessment letter can submit an Objection (*Keberatan*) to the DGT within three months of the date of issue of the assessment letter. The Objection must state the amount the taxpayer has calculated as the tax due and set out the reasons for its disagreement with the DGT tax assessment.

The DGT has to issue a decision on the tax Objection within 12 months of the filing date of the Objection. If no decision is issued by the DGT within 12 months, the objection is automatically deemed approved by the DGT.

If the objection is rejected by the DGT, any underpayment is subject to a surcharge of 50%. However, the underpaid tax and the surcharge are not payable if the taxpayer files an appeal with the tax court in respect of the objection decision.

An Objection may also be filed by a taxpayer with the DGT office with respect to tax withheld by a third party. The same time limits on filing the Objection and for the DGT's decision apply to this type of Objection.

Appeals

A taxpayer who does not accept the DGT's Objection decision can file an Appeal (*Banding*) with the Tax Court within three months of the receipt of the DGT Objection. To the extent that the DGT Objection Decision calls for a payment of tax due, according to the Tax Court Law, at least 50% of the tax due must be settled before filing the Appeal. As set out in the current Tax Administration Law, the taxpayer is only required to pay an amount agreed in the tax audit closing conference. This creates a mismatch, however currently the Tax Court generally follows the Tax Administration Law.

The Tax Court will typically have to decide on an Appeal within 12 months. Any underpaid tax resulting from the tax court decision is subject to a surcharge of 100%.

Other avenues for tax dispute resolution

The DGT, following a taxpayer's Correction Request, or by virtue of its official position (*ex-officio*), may correct or cancel a tax assessment letter, a STP, or their derivatives issued on the basis of those letters. The derivatives include, among others:

- Objection Decision Letters;
- Decision Letters on the Reduction or Cancellation of Administrative Sanctions;
- Decision Letters on the Reduction or Cancellation of Tax Assessment;
- Decision Letters on an Early Refund of Overpaid Tax.

The DGT must issue a decision on a Correction Request within six months of the date of filing. If no decision is issued by the DGT within six months, the Correction Request is automatically deemed to have been approved by the DGT.

Taxpayers who do not (fully) accept the DGT Decision on a Correction Request can file a lawsuit (*Gugatan*) with the Tax Court within 30 days of the receipt of the DGT decision. A lawsuit against the DGT can also be filed with the Tax Court for the execution of Distress Warrant. In this case, the lawsuit must be filed no later than 14 days after the execution date.

The Tax Court must decide on a lawsuit within six months.

Judicial Review Requests to the Supreme Court

A Tax Court Decision is considered to be a final decision with full legal force. However, the parties involved in a tax dispute may file a Judicial Review Request (*Peninjauan Kembali/PK*) on a Tax Court Decision with the Supreme Court. This can be done only if any of the following conditions prevail:

1. The Decision has been based on a perjury, a deception, or false evidence on the part of the opposing party;
2. A piece of important written evidence is found which, had it been considered previously, would have led to a different Decision;
3. Some part of the claim has been ignored without reason;
4. Something which was not demanded was granted;
5. The Decision is clearly inconsistent with prevailing tax regulations.

A Judicial Review Request must be filed with the Supreme Court within an allowable request time limit. For conditions 1 and 2, the time limit is three months after the condition is identified. For conditions 3, 4 and 5, the time limit is three months after the Tax Court decision.

Contacts

Our Tax professionals are available to advise and help you with all aspects of taxation and to ensure that you meet your commitments efficiently and promptly.

If you have any queries, contact your usual consultant or any of the following tax professionals:

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