www.pwc.com/taxsummaries

Worldwide Tax Summaries

Corporate Taxes 2014/15

Quick access to information about corporate tax systems in 155 countries worldwide.

pwc

All information in this book, unless otherwise stated, is up to date as of 1 June 2014.

Contents

1. Indonesia

Indonesia

PwC contact

Ay Tjhing Phan
PricewaterhouseCoopers
JI HR Rasuna Said Kav X-7 No. 6
Jakarta 12940, Indonesia
Tel: +62 21 521 2901
Email: ay.tjhing.phan@id.pwc.com

Significant developments

Over the past 12 months, the government has issued several regulations that include, among others, those addressing enhancement of digital use for tax compliance and several regulations under the economic policy packages.

The enhancement of digital use was reflected in the introduction of electronic value-added tax (VAT) invoices, improvement in e-Filing, and an e-payment system for tax and social security contributions.

In the second half of 2013, the government released economic policy packages in two phases, with the aim to (i) maintain the stability of the national economy following the weakening of the rupiah (IDR), (ii) increase the competitiveness of national industries, (iii) increase the absorption of manpower, and (iv) support export-oriented sectors. Several tax-related action plans under the economic policy packages include:

- Relaxing the facilities restrictions in bonded zones for domestic products.
- Eliminating luxury-goods sales tax (LST) for certain products.
- Eliminating VAT on certain books.
- Providing tax reliefs for labour-intensive companies in certain industries.
- Relaxing tax exemption and drawback facilities for exports.
- Increasing the income tax rate on imports of consumer products.

Indonesia also increased the number of its double taxation agreements (DTAs) through the enforcement of a DTA with Suriname in 2014. In regard to tax information exchange agreements (TIEAs), San Marino recently ratified its TIEA with Indonesia. Other than San Marino, Indonesia has signed TIEAs with Bermuda, Guernsey, Jersey, and the Isle of Man.

Since Indonesia is largely a self-assessment tax environment, enforcement remains a priority of the tax authorities; consequently, the Indonesian Tax Office (ITO) continues its efforts in combating abuse by targeting tax audits on certain industries and high-wealth individuals, while transfer pricing audits are also on the increase and a primary area of concern for multi-nationals.

Particularly in investment areas, the government has recently issued the long-awaited new Negative List of Investment, which provides more flexibility on investment in certain businesses, such as power plants and port business operated under a Public Private Partnership scheme, which are offered a higher foreign ownership level.

Taxes on corporate income

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 expenditures 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 (*see the Deductions section*).

Resident corporations are taxed based on worldwide income. A foreign company carrying out business activities through a permanent establishment (PE) in Indonesia will generally be required to assume the same tax obligations as a resident taxpayer.

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.

Corporate income tax (CIT) rates

A flat CIT rate of 25% applies to net taxable income.

Public company discount

Public companies that satisfy a minimum listing requirement of 40% (being put in the collective custody of a custody and settlement institution) and certain other conditions are entitled to a tax discount of 5% off the standard rate, providing an effective tax rate of 20%.

Small company discount

Small enterprises (i.e. corporate taxpayers with an annual turnover of not more than IDR 50 billion) are entitled to a 50% tax discount of the standard rate, which is imposed proportionally on taxable income on the part of gross turnover up to IDR 4.8 billion. Certain enterprises with gross turnover of not more than IDR 4.8 billion are subject to final income tax at 1% of turnover.

Final income tax

Certain types of income are subject to a final income tax at a specified percentage of the gross amount of income, without regard to any attributable expenses.

Income	Tax rate (%)
Rental of land and/or building	10
Proceeds from transfers of land and building rights	5
Fees for construction work performance	2/3/4
Fees for construction work planning	4/6
Fees for construction work supervision	4/6
Interest on time or saving deposits and on Bank of Indonesia Certificates (SBIs), other than that payable to banks operating in Indonesia and to government-approved pension funds	20
Interest on bonds, other than that payable to banks operating in Indonesia and government-approved pension funds	15
Sale of exchange-traded shares on the Indonesian stock exchange	0.1
Income from lottery prizes	25

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

Special industries and activities

Companies engaged in upstream oil and gas and geothermal industries typically have to calculate CIT in accordance with their production sharing contracts (PSCs). Certain companies engaged in metal, mineral, and coal mining are governed by a contract of work (CoW) for the income tax calculation. Different provisions may apply to them, pertaining to corporate tax rates, deductible expenses, and how to calculate taxable income.

Note that 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; consequently, any tax facilities should be provided accordingly, except as otherwise stated in a particular mining licence.

Local income taxes

There are no local taxes on income in Indonesia. *For a list of other local taxes, see Regional taxes in the Other taxes section*.

Corporate residence

A company is treated as a resident of Indonesia for tax purposes by virtue of having its establishment or its place of management in Indonesia.

Permanent establishment (PE)

Under the Income Tax Law, a non-resident company may be treated as having a taxable presence if it runs a business or conducts activities in Indonesia, which can be in the form of:

- a place of management
- a branch of the company
- a representative office
- an office building
- a factory
- a workshop
- a warehouse
- a room for promotion and selling
- a mining and extraction of natural resources
- a mining working area for oil and natural gas
- a fishery, animal husbandry, agriculture, plantation, or forestry location
- a project of construction, installation, or assembly
- the furnishing of services in whatever form by employees or other person, insofar conducted not more than 60 days within a 12-month period
- a person or corporation acting as a dependent agent
- an agent or employee of an insurance company that is not established and domiciled in Indonesia that receives insurance premiums or insures risk in Indonesia, and
- the computers, electronic agent, or automated equipment owned, leased, or used by an electronic transactions provider to conduct business via the internet.

Where the non-resident company is resident in a country that has a tax treaty with Indonesia, the rules on a PE creation may be changed; usually there is a longer 'time test' for certain activities performed in Indonesia.

Other taxes

Value-added tax (VAT)

With a few exceptions, VAT is applicable on deliveries (sales) of goods and services within Indonesia at a rate of 10%. VAT on export of goods is zero-rated while the import of goods is subject to VAT at a rate of 10%. Zero-rated VAT is also applicable on exported services, but subject to a Ministry of Finance (MoF) limitation. Currently, only certain exported services, including toll manufacturing services, are subject to the 0% VAT rate. Services performed within the Customs Area for customers outside of the Customs Area are considered as locally delivered and are therefore subject to the regular VAT rate of 10%. Inbound use or consumption of foreign services or intangible goods, with a few exceptions, is also subject to a self-assessed VAT at a rate of 10%.

The VAT law allows the government to change the VAT rate within the range of 5% to 15%. However, since the enactment of the VAT law in 1984, the government has never changed the VAT rate.

In general, VAT collection is based on the accrual principle, whereby VAT must be collected at the time of delivery of taxable goods or services. The term delivery, in this case, is defined as the time when risk and ownership of goods have been transferred or when income from a service delivery can be reliably estimated or measured. In the accrual system, income or receivables are acknowledged when a transaction takes place, regardless of whether the transaction has been paid for or not. The recognition of revenue or receivables is indicated by the issue of a commercial invoice, which is a source document for this recognition and a basis for recording it.

VAT filing is done on a monthly basis, with payment and filing being due no later than the last day of the month following the taxable delivery.

Luxury-goods sales tax (LST)

In addition to VAT, some goods (e.g. certain household appliances, sport equipment, motor vehicles, luxury residences) are subject to LST upon import or delivery by the manufacturer to another party at rates currently ranging from 10% to 125%.

Import duty

Import duty is payable at rates from 0% to 150% on the customs value of imported goods. Customs value is calculated on the cost, insurance, and freight (CIF) level.

Group	Good	Rate (%)
Automobiles	Passenger and commercial vehicles	5 to 40
Automobile parts		0 to 10
Vessels	Ships, boats, and floating structures	0 to 5
Electronic goods		0 to 12.5
Footwear		5 to 25
Beverages, ethyl alcohol, and alcoholic drinks	Ethyl alcohol, beer, wine, spirits, and other beverages	5 to 30, IDR 14,000 to IDR 125,000/litre
Essential oils and resinoids	Odoriferous substances	5 to 150
Agricultural products	Animal and vegetable products	0 to 25
Textile, textile products, and accessories	Bags, harnesses, apparels, and clothing accessories, etc.	5 to 15
Others	Chemicals, pharmaceutical products, plastic, and rubber products, etc.	0 to 25

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.

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. Such concessions include the *Badan Koordinasi Penanaman Modal* (BKPM) Masterlist, Bonded Zone, Bonded Warehouse, import duty exemption and drawback for exports, Free Trade Zone (FTZ) in Batam, Bintan, and Karimun, Association of Southeast Asian Nations (ASEAN) duty rates, Free Trade Area (FTA) agreement duty rates, Indonesia-Japan Economic Partnership Agreement (IJEPA), and MITA (main partners) lanes.

Land and building tax

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

The scope of PBB under PDRD Law covers all land and building except for forestry, plantation, and mining areas, which are governed by separate regulations.

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* or NJOP) deducted by non-taxable NJOP. The non-taxable NJOP is set at minimum of IDR 10 million. Any changes are to be made by issuing a PERDA.

Tax on land and building transfer

A transfer of land and building will cause 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 or the government-determined value, whichever is greater (*see Final income tax in the Taxes on corporate income section*).

Duty on the acquisition of land and building rights

In a land and building transfer, the acquirer is liable for duty on the acquisition of land and building rights (*Bea Pengalihan Hak atas Tanah dan Bangunan* or BPHTB) at a maximum of 5% of the greater of the transaction value or the government-determined value. Similar to PBB, BPHTB has been made a part of regional taxes.

Stamp duty

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

Regional taxes

A corporate taxpayer may be liable for a number of regional taxes and retributions. The rates range from 1.5% to 35% of a wide number of reference values determined by the relevant regional governments. The following are regional taxes, other than PBB and BPHTB, that may apply:

- Motor vehicle tax.
- Motor vehicle ownership transfer fee.
- Motor vehicle fuel tax.
- Surface water tax.
- Cigarette tax.
- Hotel tax.
- Restaurant tax.
- Entertainment tax.
- Advertisement tax.
- Road illumination tax.
- Non-metal and rock minerals tax.
- Parking tax.
- Ground water tax.
- Swallow-nest tax.

Social security contributions

Employers are responsible for ascertaining that their employees are covered by the workers social security program managed by *Badan Penyelenggara Jaminan Sosial* (BPJS), which provides compensation in the event of working accidents, deaths, and old age (55 years), as well as sickness or hospitalisation. The program calls for premium contributions from both the employers and the employees. Employees' contributions are collected through payroll deductions. The premium contributions borne by employers are calculated as a percentage of regular salaries/wages, ranging from 0.24% to 4%.

As of 1 January 2014, the scheme applies to all employees, including expatriates who have been working in Indonesia for more than six months. Previously, the scheme was not compulsory for such expatriates.

Branch income

Branch profits are subject to the ordinary CIT rate of 25%. The after-tax profits are subject to a withholding tax (WHT) (i.e. branch profits tax or BPT) at 20%, regardless of whether the profits are remitted to the home country. However, a concessional WHT rate may be applicable where a tax treaty is in force (*see the Withholding taxes section for more information*). The BPT may be exempt if the profits are entirely reinvested in Indonesia (*see the Tax credits and incentives section for more information*).

Income determination

Inventory valuation

Inventories must be measured at cost by using either the average or first in first out (FIFO) method. Once a costing method is adopted, it must be applied consistently.

Capital gains

Capital gains are generally assessable together with ordinary income and subject to tax at the standard CIT rate. However, gains from the transfer of land and buildings are not subject to regular CIT but rather are subject to final income tax at a rate of 5% of the transaction value or the government-determined value, whichever is higher.

The proceeds from sales of shares listed on the Indonesian stock exchange are not subject to normal CIT. Instead, the proceeds are subject only to a final WHT of 0.1% of the gross sales consideration. An additional tax of 0.5% applies to the share value of founder shares at the time an initial public offering takes place, irrespective of whether the shares are held or sold. Shareholders may elect not to pay this tax, in which case the actual gain will be subject to normal tax at the time the shares are sold.

Dividend income

In principle, dividend income received by a resident taxpayer from a limited liability company (generally referred to as a *Perseroan Terbatas* or PT) is taxable as ordinary income for the taxpayer receiving the dividend. However, if the dividend recipient is a PT with a minimum shareholding of 25% in the company paying the dividend and the dividend is paid out of retained earnings, it is exempt from CIT.

Where the recipient is not resident in Indonesia, a WHT rate of 20% applies, subject to variation by tax treaties (*see the Withholding taxes section for more information*).

The same rules apply to stock dividends (bonus shares), including dividends paid out of share premium (*agio*).

Interest income
Interest income on time or saving deposits and on Bank of Indonesia Certificates (SBIs) received by a resident company or a PE is taxed at a final tax rate of 20%.

Exchange gains and losses
Gains and losses arising from currency fluctuations are generally recognised on an accrual basis in accordance with the prevailing Indonesian Accounting Standards, which resemble International Accounting Standards in most respects.

Foreign income
Foreign branch income of an Indonesian company must be accounted for as Indonesian taxable income under the controlled foreign companies (CFCs) regulation. These rules apply to Indonesian tax residents owning at least 50% of the paid-up capital (shares) in a CFC. The rules make no reference to such terms as tax avoidance or tax evasion and therefore apply even if the CFC is domiciled in a non-tax haven country. The only situation in which the rules do not apply is when the CFC's shares are listed on a recognised stock exchange. In very broad terms, under the CFC rules, the Indonesian shareholder of the CFC is deemed to receive a dividend with respect to the CFC profits based on a shareholding proportional calculation.

Deductions

In general, expenses incurred in the ordinary course of business (to obtain, collect, and maintain taxable income) are deductible, subject to the requirements for documentary support.

Note that expenses relating to gross income subject to final income tax are not deductible for CIT purposes.

Depreciation, amortisation, and depletion
Depreciable/amortisable assets include both tangible and 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, except land that is owned and used in business. Depreciation and amortisation may be calculated under the straight-line method or the declining-balance method on an individual asset basis. Once a method is chosen, it should be applied consistently. In calculating depreciation, depreciable assets are divided into the following classes:

	Depreciation/amortisation rate (%)	
Class	**Straight-line method**	**Declining-balance method**
Property:		
Useful life of four years	25	50
Useful life of eight years	12.5	25
Useful life of 16 years	6.25	12.5
Useful life of 20 years	5	10
Buildings:		
Permanent	5	-
Non-permanent	10	-

Special rules apply for assets used in certain business fields and/or certain areas. Tax depreciation need not conform to book depreciation.

The costs incurred for acquiring rights, with a beneficial life of more than one year, for mining, oil, and natural gas concessions; forest concessions; and other rights to exploit natural resources should be amortised by the production-unit method. Except for the right to acquire oil and natural gas concessions, the depletion rate used should not exceed 20% per annum.

Organisational and start-up expenses

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 above rates.

Costs incurred before the commencement of commercial operations with a useful life of longer than one year are capitalised and amortised according to the above rates.

Interest expense

Interest incurred in the ordinary course of business is deductible as long as the related loan is used for business purposes.

Interest on loans relating to time deposits (which income is subject to a final tax) is not deductible.

Interest on loans used to buy shares where dividends to be received are not subject to income tax is also not deductible.

Bad debts

Uncollectible debts are deductible for tax purposes, with the following conditions:

- The creditor has recognised the amount of uncollectible receivables as expenses in the commercial income statement.
- The taxpayer must submit a list of uncollectible account receivables to the Directorate General of Tax.
- A legal case to enforce collection has been brought to a District Court or government agency that handles state receivables, there is a written agreement on cancellation of receivables/debt release and discharge between the concerned creditor and debtor, it has been publicised in a general or a special publication, or the debtor has otherwise acknowledged that his/her debts have been cancelled.

Charitable contributions

Donations for national disasters, education facilities, sport development, and social infrastructures, with certain conditions, may be deductible in the fiscal year when the donations are provided.

Benefits in kind

Most benefits received in kind by employees, such as free housing, are not tax-deductible to the entity providing the benefit. Free motor vehicle and telephone expenses, including depreciation, are tax-deductible but only for 50% of the total expenses incurred. Expenses for meals and transportation made available to all staff are tax-deductible. Apart from these, certain benefits in kind (e.g. housing provided in remote areas as designated by the MoF, Integrated Economic Development Areas as designated by Presidential Decree) can also be claimed as tax-deductible expenses.

Fines and penalties

Fines, penalties, and interest on underpayment of taxes are not deductible.

Taxes

Land and buildings tax and regional taxes may be deducted from taxable income. With several exceptions, input VAT is also deductible against taxable income as long as it is not claimed as a credit against output VAT.

Net operating losses
Losses may be carried forward for a maximum period of five years. Carrying back of losses is not permitted. Offsetting losses within a corporate group is not permitted.

Payments to foreign affiliates
WHT is applied as a final tax on the recipient for payments of royalties, interest, and service fees to foreign non-resident companies. Excessive and non-arm's-length payments to related parties are disallowed as deductions. The tax law denies deductions for all payments from a branch to its head office for royalties, interest, and services provided by the head office (exceptions apply for loans between bank branches and their head offices).

Group taxation

Consolidated returns are not allowed in Indonesia.

Transfer pricing
Transactions between related parties must be consistent with the arm's-length principle. If the arm's-length principle is not followed, the Director General of Tax (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 Law, the government requires specific transfer pricing documentation to prove the arm's-length nature of related-party transactions.

Detailed transfer pricing disclosures are required in the CIT return, which include the following:

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

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. Taxpayers may apply for an MAP and continue the domestic dispute resolution process at the same time. An MAP application shall be discontinued if an appeal decision is declared by the Tax Court prior to the finalisation of the MAP.

The tax law authorises the DGT to enter into Advance Pricing Agreements (APAs) with taxpayers and/or another tax country's tax authority on the future application of the arm's-length principle to transactions between related parties. The process may or may not involve cooperation with foreign tax authorities. 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. The APA can also be applied to tax years before it was agreed if certain conditions are met, such as the tax year has not been audited and there is no indication of tax crime. However, the rollback of an APA to prior years is not automatic and will be subject to agreement between the taxpayer and the DGT.

Increase in transfer pricing focused investigations
The number of tax audits with transfer pricing as the key focus area has significantly increased following the issuance of new regulations relating to transfer pricing. Transactions under particularly close scrutiny include payments of royalties and

technical or management services fees, inter-company services, royalty and financing transactions, and exports to related parties.

Where a taxpayer has no documentation available to substantiate these transactions, there is a high risk that deductions for the payments will be denied in full. In this regard, the 30-day time limit within which a taxpayer must produce any documentation requested by the ITO during an audit is being strictly enforced. Any documentation provided after the 30-day time limit is being disregarded by the ITO in its decision making process.

Several transfer pricing specific audits have been conducted by the ITO for the past year. The ITO will identify high priority targets for transfer pricing specific audits based on:

- profit performance of the company (companies that have incurred consistent losses will be the highest priority, but there is also a risk of being selected for companies with profits below industry norms) and
- materiality of the company's related party transactions.

The ITO has issued questionnaires to several taxpayers who are not under an audit that focus primarily on transfer pricing issues. It is possible that the information gathered by the ITO from these questionnaires will lead to follow-up investigations or audits in some cases.

Effective from 1 July 2013, the DGT has reinforced new tax audit procedures for taxpayers with related party transactions. This new regulation provides more clarity and is more relevant with the current transfer pricing issues in practice (e.g. the use of the median point as the basis of correction, mandatory use of the comparable uncontrolled price (CUP) method for interest and the use of multiple year data for comparables). New comprehensive forms required to be completed by the taxpayers during a tax audit are also provided in the regulation.

Thin capitalisation

The MoF is authorised to make a determination on an appropriate ratio of debt to equity. Under the law, debt between related parties may be re-characterised as equity, thus giving rise to the disallowance of a tax deduction for related costs. However, the MoF has not yet issued a ruling on these matters.

Controlled foreign companies (CFCs)

See Foreign income in the Income determination section for a description of the CFC regime.

Tax credits and incentives

Foreign tax credit

Tax paid or payable in foreign countries upon income from abroad received or obtained by a resident taxpayer may be credited against tax payable in Indonesia in the same fiscal year.

The amount of tax credit is the same amount as income tax paid or payable abroad, but shall not exceed tax payable calculated according to the Indonesian tax law.

Tax holiday

Several companies have recently been granted tax facilities by the government in the form of a CIT exemption or reduction for a period of five to ten years from the start of commercial production. After the end of the CIT exemption, the company will receive a 50% CIT reduction for two years. These facilities are provided to firms in pioneer industries that have a wide range of connections, provide additional value and high externalities, introduce new technologies, and have strategic value for the national economy. Currently, five business sectors may enjoy the tax holiday: base metals, oil refinery and/or base organic chemicals sourced from oil and gas, renewable energy, machinery, and telecommunication.

To be eligible for the above facilities, taxpayers should be newly incorporated in Indonesia no earlier than 14 August 2010, should have a legalised new capital investment plan of a minimum IDR 1 trillion, should deposit a minimum of 10% of their planned investment value in banks located in Indonesia, and should not withdraw the deposit prior to the realisation of the investment plan.

An application must be submitted to the Minister of Industry (MoI) or to the BKPM Chairman. A proposal for the MoF's approval will be made by the MoI or the BKPM Chairman after carrying out research on the applicant. Tax holiday proposals must be submitted to the MoF by 15 August 2014.

If the facilities are granted, taxpayers should submit periodic reports on the realisation of their investment plans and the use of their funds deposited in the Indonesian bank or banks. Failure to realise the investment plan and to submit the above periodic reports will result in the termination of the tax facilities.

Inbound investment incentives
The DGT, on behalf of the MoF and based on the recommendation of the BKPM Chairman, may provide the following tax concessions to PT companies following their investment in certain designated business areas and/or in certain designated regions with a high priority on the national scale:

- A reduction in net income of up to 30% of the amount invested (generally amount spent on assets), prorated at 5% for six years from commercial production date, and provided that the assets invested are not transferred out within six years.
- Acceleration of fiscal depreciation deductions.
- Extension of tax loss carryforwards for up to ten years.
- A reduction of the WHT rate on dividends paid to non-residents to 10%.

The tax facilities will be provided for investment in the form of tangible fixed assets, including land to be used for conducting the business.

The tax facilities can be used in the tax year when the taxpayer has realised at least 80% of their investment plan and after a decision letter on the realisation is issued by the DGT. The decision letter can only be issued after the DGT has performed a field audit.

After the tax facilities are granted, the taxpayers must submit to the DGT certain regular reports (e.g. investment realisation reports). Taxpayers must also maintain separate records for assets eligible to receive the facilities and for those that are not, and enclose audited financial statements when submitting their CIT return.

The list of investments eligible for the tax facilities covers 129 types of investment, which include 52 types of investment in particular sectors and 77 types of investment in particular sectors and regions.

Taxpayers who have enjoyed the income tax facilities above cannot enjoy the tax holiday facility, and vice versa.

The same tax facilities may be granted by the DGT to companies conducting business in an Integrated Economic Development Area (*Kawasan Pengembangan Ekonomi Terpadu* or KAPET). Specific approval must be obtained from the DGT for these tax facilities. If the company has bonded zone (*Kawasan Berikat* or KB) status, the tax facilities will also include those typically enjoyed by a KB company, for example:

- Non-collection of VAT and sales tax on certain luxury goods transactions.
- Exemption from prepaid income tax on the importation of capital goods and other equipment directly relating 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.

The designation of an area as a KAPET is set out in a specific presidential decree. Currently, there are approximately 13 areas designated as KAPETs.

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.

Other incentives
Income earned by venture capital companies in the form of profit sharing from their investments in Indonesia is exempt from tax, provided that the following conditions are met:

- Entities are small or medium-scale businesses in one of the sectors designated by the Indonesian government.
- Investments are not listed on the Indonesian stock exchange.

Withholding taxes

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

Article 23/26 Income Tax (PPh 23/26)
PPh 23/26 is levied on a variety of payments to corporations and individuals, resident and non-resident, at the following rates:

Indonesia

	WHT (%)				
	Dividends				
Recipient	Portfolio	Substantial holdings	Interest (7)	Royalties (8)	Branch profits (9)
Resident corporations (5)	15	0	15	15	N/A
Resident individuals	10	10	15	15	N/A
Non-resident corporations and individuals					
Non-treaty	20	20	20	20	0/20
Treaty:					
Algeria	15	15	0/15	15	10
Australia	15	15	0/10	10/15	15
Austria	15	10	0/10	10	12
Bangladesh	15	10	0/10	10	10
Belgium	15	10	0/10	10	10
Brunei	15	15	0/15	15	10
Bulgaria	15	15	0/10	10	15
Canada	15	10	0/10	10	15
China	10	10	0/10	10	10
Croatia	10	10	0/10	10	10
Czech Republic	15	10	0/12.5	12.5	12.5
Denmark	20	10	0/10	15	15
Egypt	15	15	0/15	15	15
Finland	15	10	0/10	10/15	15
France	15	10	0/10/15	10	10
Germany (1)	15	10	0/10	10/15	10
Hong Kong	10	5	0/10	5	5
Hungary (3)	15	15	0/15	15	20
India	15	10	0/10	15	10
Iran	7	7	0/10	12	7
Italy	15	10	0/10	10/15	12
Japan	15	10	0/10	10	10
Jordan (3)	10	10	0/10	10	20
Korea (North)	10	10	0/10	10	10
Korea (South) (2)	15	10	0/10	15	10
Kuwait	10	10	0/5	20	0/10
Luxembourg (1)	15	10	0/10	12.5	10
Malaysia (4)	10	10	0/10	10	12.5
Mexico	10	10	0/10	10	10
Mongolia	10	10	0/10	10	10
Morocco	10	10	0/10	10	10
Netherlands	10	10	0/10	10	10
New Zealand (3)	15	15	0/10	15	20
Norway	15	15	0/10	10/15	15
Pakistan (1)	15	10	0/15	15	10
Papua New Guinea (1, 6)	15	15	0/10	10	15
Philippines	20	15	0/10/15	15	20
Poland	15	10	0/10	15	10

	WHT (%)				
	Dividends				
Recipient	Portfolio	Substantial holdings	Interest (7)	Royalties (8)	Branch profits (9)
Portugal	10	10	0/10	10	10
Qatar	10	10	0/10	5	10
Romania	15	12.5	0/12.5	12.5/15	12.5
Russia	15	15	0/15	15	12.5
Seychelles (3)	10	10	0/10	10	20
Singapore	15	10	0/10	15	15
Slovakia	10	10	0/10	10/15	10
South Africa (3)	15	10	0/10	10	20
Spain	15	10	0/10	10	10
Sri Lanka	15	15	0/15	15	20
Sudan	10	10	0/15	10	10
Suriname	15	15	0/15	15	15
Sweden	15	10	0/10	10/15	15
Switzerland (1)	15	10	0/10	10	10
Syria	10	10	10	15/20	10
Taiwan	10	10	0/10	10	5
Thailand	20	15	0/15	15	20
Tunisia	12	12	0/12	15	12
Turkey	15	10	0/10	10	10
Ukraine	15	10	0/10	10	10
United Arab Emirates	10	10	0/5	5	5
United Kingdom	15	10	0/10	10/15	10
United States of America	15	10	0/10	10	10
Uzbekistan	10	10	0/10	10	10
Venezuela (1)	15	10	0/10	20	10
Vietnam	15	15	0/15	15	10
Zimbabwe (1, 6)	20	10	0/10	15	10

Domestic Article 23 WHT is also payable at the rate of 2% for most types of services where the recipient of the payment is an Indonesian resident.

Notes

1. Service fees, including for technical, management, and consulting services, rendered in Indonesia are subject to WHT 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 exempt from the income earned on the operation of ships or aircraft in international lanes.
3. The treaty is silent concerning 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. In the case of dividends received by a resident shareholder, 'portfolio shareholding' refers to share ownership of less than 25% of the paid-up capital. In this respect, the dividend tax withheld by the payer constitutes a prepayment of the income tax liability of the shareholder. 'Substantial shareholding' refers to the share ownership of 25% of the paid-up capital or more.
6. Ratified but not yet effective, pending the exchange of ratification documents. Expected effective date is 1 January 2015.
7. Interest:
   - Lower rate or exemption if received by a financial institution.
   - Exempt if paid to the government.
   - Lower rate or exemption if paid by an approved industrial undertaking.
   - Exempt if paid by a bank and received by a bank.
   - Exempt if paid to a bank but linked to a government loan agreement or paid to specific financial institutions/banks.

8. Royalties:
   - Lower rate for payments in connection with literary or artistic copyrights, including film royalties.
   - Lower rate for payments in connection with industrial, commercial, or scientific equipment.
   - Lower rate for payments in connection with patents, designs, secret formulas/processes, or industrial, commercial, or scientific equipment/experience.
9. 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 (*see the Tax credits and incentives section*).

The issue of beneficial ownership has come under tax office scrutiny. For treaty WHT rates to apply to passive income such as interests, dividends, and royalties, the recipient of such income must be the beneficial owner. The recipient must also provide a Certificate of Domicile (CoD) in the form required by the ITO and certified by their home country tax authority that the recipient is a tax resident of that country. The CoD in the form prepared by the other country's tax authority may only be used in limited circumstances. Further, the CoD form also requires a number of declarations to be made by the recipient that acknowledges that the use of the treaty jurisdiction was not merely for obtaining the benefit of the treaty. These declarations place onerous obligations on both the Indonesian payer and the recipient entity. Without a certified CoD, a WHT at a rate of 20% will apply. These aspects need to be considered when paying income of this nature.

Article 22 Income Tax (PPh 22)

PPh 22 is typically applicable to the following:

Event		Tax rate (%)	Tax base
1.	The import of goods using an Importer Identification Number (*Angka Pengenal Impor* or API):		Import value (i.e. CIF value plus duties payable)
	i. Certain end customer goods	7.5	
	ii. Soybeans, wheat, and flour wheat	0.5	
	iii. Other than (i) and (ii)	2.5	
2.	The import of goods without an API	7.5	Import value (i.e. CIF value plus duties payable)
3.	The auctioned imported goods	7.5	Auction prices
4.	The sale of goods to the government requiring payment from the State Treasury and Proxy of Budget User (*Kuasa Pengguna Anggaran* or KPA) (1)	1.5	Selling prices
5.	The sale of goods to State Owner Enterprises (*Badan Usaha Milik Negara* or BUMN) (1)	1.5	Selling prices
6.	The purchase of oil fuel by state-owned gas stations (2)	0.25	Selling prices
7.	The purchase of oil fuel by private gas stations (2)	0.3	Selling prices
8.	The purchase of oil fuel by parties other than state and private gas stations (2)	0.3	Selling prices
9.	The purchase of gas fuel (2)	0.3	Selling prices
10.	The purchase of lubricants (2)	0.3	Selling prices
11.	The purchase of cement by local distributors	0.25	Selling prices
12.	The purchase of paper products by local distributors	0.1	Selling prices
13.	The purchase of steel products by local distributors	0.3	Selling prices
14.	The purchase of automotive products by local distributors	0.45	Selling prices
15.	The purchase of pharmaceutical products by local distributors	0.3	Selling prices
16.	The purchase of motor vehicles from Sole Agents (*Agen Tunggal Pemegang Merek* or ATPM), Agents (*Agen Pemegang Merek* or APM), and general importers (3)	0.45	Selling prices

Event		Tax rate (%)	Tax base
17.	The purchase of materials by manufacturers or exporters in forestry, plantation, agriculture, cattle breeding, and fishery from wholesalers	0.25	Selling prices
18.	The purchase of very luxurious goods	5	Selling prices

Notes

1. In events 4 and 5, the PPh 22 collectors (State Treasury, BUMN, etc.) must withhold PPh 22 from the amount payable to a particular vendor, except payments for the purchase/use of: (i) oil fuel, gas fuel, lubricants, postal products; (ii) water and electricity; (iii) oil, gas (including upstream by products) from a contractor of a PSC or contractor's head office; and (iv) geothermal and electricity from a contractor of a joint operation contract. There is also an exemption for the purchase of goods with a value of up to IDR 2 million and IDR 10 million for events 4 and 5, 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 fuel, gas fuel, and lubricants 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 18.
4. The tax does not apply, either automatically or with an Exemption Certificate issued by the DGT, on the following types of imports:
   - Import/purchase of goods not subject to income tax.
   - Import of goods exempted from import duties and/or VAT or subject to 0% import duty.
   - Goods that have been temporarily imported (i.e. goods for re-export).
   - Goods for re-importing (i.e. exported and re-imported in the same quality or to be repaired/tested for subsequent re-exporting).
   - The PPh 22 exemption also applies to the import/purchase of gold bars for the production of jewellery for re-export and related to the use of the government school operations subsidy (*Bantuan Operasional Sekolah* or BOS) fund.

Tax administration

Payments of tax and tax returns 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 at the DGT office through the filing of the relevant tax returns. The tax payments and tax return filing for a particular tax must be undertaken monthly or annually, depending upon the tax obligation in question.

Corporate tax liabilities may be settled either by direct payments, third party withholdings, or a combination of both. Monthly tax instalments constitute the first part of tax payments to be made by taxpayers as a prepayment of their current year CIT liability. A monthly tax instalment is generally calculated using the most recent CIT return. The tax withheld by third parties on certain income or tax to be paid in advance on certain transactions (i.e. imports) also constitute prepayments for the current year corporate tax liability of the income recipient or the party conducting the import. If the total amounts of tax paid in advance through the year are less than the total CIT due, the company concerned has to settle the shortfall before filing its CIT return. Returns for transaction taxes, such as WHT, must be filed on a monthly basis.

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 (Payroll) WHT	The 10th of the following month	The 20th of the following month
Article 23/26 Income Tax	The 10th of the following month	The 20th of the following month
Article 25 Income Tax Instalment	The 15th of the following month	The 20th of the following month

Type of tax	Tax payment deadline	Tax return filing deadline
Article 22 Income Tax on imports/payments to Tax Collectors	The 10th of the following month	The 20th of the following month
Article 4(2) Final Income Tax	The 10th of the following month	The 20th of the following month
VAT and LST	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
Land and Building Tax (PBB)	Six months after the receipt of a Tax Due Notification Letter from the ITO	N/A

Penalties

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	IDR
VAT return	500,000
Other monthly tax returns	100,000
CIT return	1,000,000

Tax assessments

Indonesia uses a self-assessment system under which taxpayers are trusted to calculate, pay, and report their own taxes in accordance with prevailing tax laws and regulations. However, the DGT may issue tax assessment letters to a particular taxpayer if it finds that, based on a tax audit or on other information, the taxpayer has not fully paid all tax liabilities. A tax assessment letter may also be issued by the DGT to a taxpayer who ignores a warning letter to file a tax return within a specified period. Failure to maintain books in accordance with the prescribed standards is another condition that may lead the DGT to issue an official tax assessment.

Tax audit process

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 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 that may trigger a tax audit include the following:

- 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.

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

Other issues

Business combinations and splits
Transfers of assets in business mergers, consolidations, or business splits must generally be dealt with 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 are 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 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 that 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 regarding registration for an IPO with the Financial Services Authority (*Otoritas Jasa Keuangan* or OJK). In the event of complications beyond the company's control, the period may be extended by the DGT for up to four years.

Tax information exchange agreements (TIEAs)
Recently, San Marino ratified its TIEA with Indonesia. Other than San Marino, Indonesia has signed TIEAs with Bermuda, Guernsey, Jersey, and the Isle of Man.

Exchange of Information (EOI)
Indonesia, along with 34 Organisation for Economic Co-operation and Development (OECD) member countries and 12 other countries, has committed to a new global standard to carry out automatic EOI through the Declaration on Automatic EOI in Tax Matters during a recent OECD annual Ministerial Council Meeting.

This commitment is supported by a new comprehensive EOI procedure issued by the MoF, which is applicable for international tax agreements (e.g. DTAs and TIEAs) in place prior to or after 1 April 2014.

EOI can be carried out through several channels, which may be initiated by a relevant unit under the DGT (domestic request) or initiated by a country/jurisdiction partner (foreign request). The competent authority to manage EOI in Indonesia is the Director of Tax Regulation II under the DGT.

Worldwide Tax Summaries Editorial Team

Worldwide Tax Summaries Operations Director and Executive Editor
Chris Wooley
PwC US
+1 813 222 7097
christopher.j.wooley@us.pwc.com

Director, Global Tax Knowledge Management
Jim Calderon
PwC US
+1 202 414 1612
james.d.calderon@us.pwc.com

The *Worldwide Tax Summaries – Corporate Taxes 2014/15* guide represents the combined efforts of more than 500 local PwC tax specialists in over 150 countries and territories. While too numerous to name individually, we thank them for their efforts in preparing this guide.

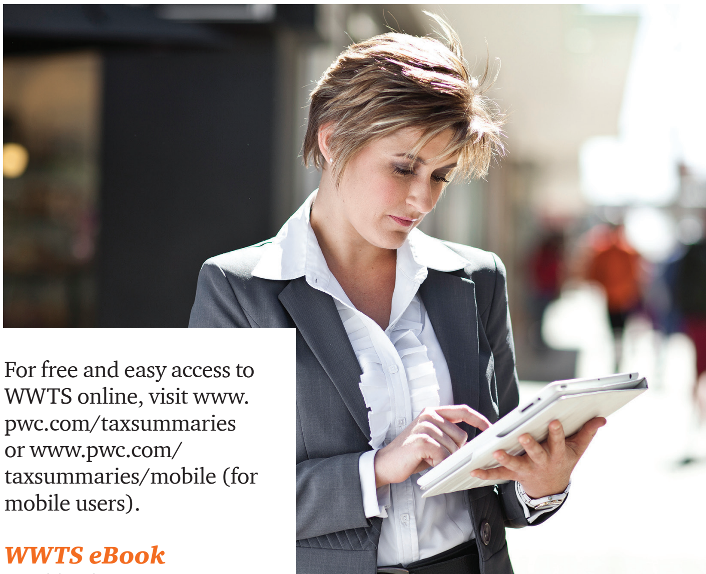
To obtain regularly updated information on the corporate and individual tax rules in operation in over 150 countries, please visit the Worldwide Tax Summaries online at *www.pwc.com/taxsummaries*.

To download an eBook version of the *Worldwide Tax Summaries - Corporate Taxes 2014/15*, please visit *www.pwc.com/taxsummaries/ebook*.

Prior-year editions of *Worldwide Tax Summaries – Corporate Taxes* (dating back to 2010/11) are available in the Archives section on Worldwide Tax Summaries online.

To contact the editorial team, please email us at worldwide.tax.summaries@us.pwc.com.

Essential tax tools, always up-to-date



WWTS online

The free online version of WWTS offers quick access to information about corporate and individual tax systems in over 150 countries, updated regularly by local PwC tax specialists.

WWTS online also includes an archive of prior-year editions of *Worldwide Tax Summaries – Corporate Taxes* and Quick Charts, which provide access to country-by-country tax rate and due date information in an easy-to-use chart format.

For free and easy access to WWTS online, visit www.pwc.com/taxsummaries or www.pwc.com/taxsummaries/mobile (for mobile users).

WWTS eBook

Worldwide Tax Summaries – Corporate Taxes 2014/15 is available for download in ePub or PDF format for most digital devices (e.g. desktops, laptops, tablets, smartphones).

Visit www.pwc.com/taxsummaries/ebook to download the ePub or PDF. WWTS is also available in the iBooks store for iOS device users.

Scan for WWTS online

Scan for WWTS eBook

pwc

The world's taxes at your fingertips

If you are responsible for managing taxes in a business that trades or operates across a number of different countries, you will recognise how much of a challenge it can be trying to keep on top of the corporate tax rates and rules in each of them, notwithstanding the fact that these frequently change.

Worldwide Tax Summaries – Corporate Taxes 2014/15 is a useful reference tool, to help you manage taxes around the world. It offers quick access to information about corporate tax systems in 155 countries worldwide, in an easily digestible format.

Written by local PwC[1] tax specialists in each country, this guide covers recent changes in tax legislation as well as key information about income taxes, residency, income determination, deductions, group taxation, credits and incentives, withholding taxes, indirect taxes, and tax administration, up to date (unless otherwise stated) as of 1 June 2014. Also included is a global directory of PwC contacts organised by their tax speciality area.

Visit our online version, which is updated regularly throughout the year, at www.pwc.com/taxsummaries.

9780957546325