

The Profile Of Tax Service office For Foreign Investment – One

Tax Service Office For Foreign Investment – One is one of the tax offices under The Special Regional Tax office –VII which consist of tax Service Office for Foreign Investment One to Five, Tax Auditing Office of Special Region I and II, Tax Service Office for State and local Government Owned Company, Tax Service Office for Stock Market Listed Company, and Tax Service Office for Permanent establishment and Expatriate.

Tax Service Office for Foreign Investment – One is a second derivative for foreign Investment District tax office which was established under The Ministry of Finance Decree number 173/KMK.01/1979. At the time of Establishment, the office covered all taxpayers who are foreign investor.

Since 1997, in line with the increase of the foreign investors, Tax Service Office for foreign investor is divided into three. Tax Service Office for Foreign Investment – I maintain service to non-metal manufacturing foreign investor.

At the beginning of July 2001, Tax Service Office for Foreign Investment was restructured to be 5 offices. The Tax Office for Foreign Investment–One only retained chemical and other manufacturing industries, which all under business sector 35000-39000.

The Place

The office is located at B Building, Jl. Taman Makam Pahlawan Kalibata No. 19 Jakarta 12740 Indonesia. Telephone : 62-21-7980023, 7941890, 7983765 fax : 62-21-7975359

The Statistics

The number of taxpayers registered as of January 2003 was 926.

From that number, the effective taxpayers for each type of tax was:

Corporate Income Tax	878
Value Added Tax	331

Withholding Tax:

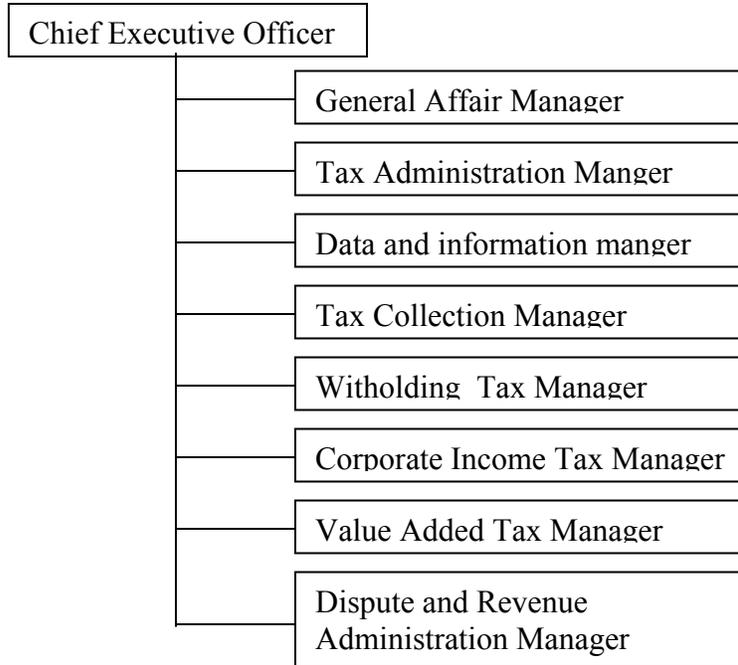
Art 21 (individual remuneration)	418
Art 23 (domestic payments)	498
Art 22 (import, payments from gov't etc)	878

For the fiscal of 2002, the office collected tax revenue of 2,763,664.44 million rupiahs.

The Staff

The office consist of 94 personal, headed by Mr. Winarto Suhendro since November 2002.

The figure below is the organization of the office:



General Provision

What kind of tax does the Director General of Taxes (DGT) administer?

DGT administers income tax, Value Added tax, and Land and Building Tax.

Who qualifies as a Taxpayers?

Taxpayers are individual or corporation who has any tax obligation either income tax or Value Added tax.

REGISTRATION

How do I get a Taxpayer Identification Number (TIN)?

According to the decree of DGT, foreign investment corporation in field of chemical industries, non steel manufacturing industries, and other manufacturing industries that is categorized in the business groups of 35000, and 36000, and 39000 should generally register in KPP PMA Satu. The requirements of registration are:

- Certification from Board of Investment (BKPM)
- Notary deed for establishment of the corporation
- Power of attorney if the application is signed by person who is not the authorized person in the company

Soon after the requirements are fulfilled, KPP PMA Satu will issue a Taxpayers Identification Number. The number is valid for all taxes transaction including Income tax and Value add tax.

New foreign investment corporation, however, may choose to register at the tax service office where the corporation is domiciled.

Where do I have to register if I have several branches?

Taxpayer, who has more than one place of business, branches, representatives which are located outside Jakarta, should register at each tax office which is responsible for each place of business for the purpose of withholding taxes and Value Added tax only.

When do I have to have a TIN?

Corporation and individuals that are liable to be taxed shall have TIN as an and identity for tax purposes. Single TIN will apply for both Income Tax and Withholding Tax.

Is it possible to register via internet?

In the near future, the DGT will launch E-register to make the registration process more convenient to you.

Is there any action taken by DGT if a firm, which have any obligation in VAT does not register?

The director General of Taxes may issue a Taxpayer Identification Number and or to confirm a firm as a Taxable Person for VAT purposes ex-officio in case a Taxpayer for VAT purposes does not fulfill the obligation to register.

How long does the registration process take?

The registration process will take about one working day.

Is there any fee for that service?

The registration process is free of charge.

How do I pay my tax?

The tax due can be paid by taking a payment slip (SSP) to a bank, or just asking your bank to pay with e-payment.

What is MP3?

MP3 is a tax payment-monitoring program, which enables banks or other payment points to connect directly with Directorate General of Budget and DGT on line.

What is the benefit of MP3?

MP3 is an alternative to make tax payment more convenient. This system enables taxpayer to pay tax by using various scheme that is commonly used in banking practice such as phone banking, cash management system, automated teller machine, and etc.

MP3 gives more reliability for the taxpayer to ensure that the payment is remitted to government treasury.

You are exempted from the obligation to report your installment payment of Article 25 of Income tax (monthly corporate income tax prepayment) if you pay by using MP3 system.

When do I have to file the annual corporate tax return?

The corporate tax return should be filed not later than three months after end of a taxable year. For instance, if PT AAA has a taxable year of January – December, then the return should be filed not later than the end of March of the succeeding year.

The taxable year may vary. It depends on the accounting period of a corporation chooses his taxable year, the corporation should continue to use that period unless the accounting period of the corporation is changed.

Any changes of the taxable year is permitted if a corporation submit an application to change the period, and it will be audited by the tax office.

Who should sign the tax return for a corporation?

In case a taxpayer is an entity, the Tax Return must be signed by a member of the management or board of directors.

In case a Tax Return is completed and signed by other than the taxpayer, a power of attorney must be attached.

What should be attached to the annual tax return?

The annual Income Tax Return of a Taxpayer who is obliged to maintain bookkeeping must be accompanied by financial statements in the form of balance sheet and income statement as well as other information required to calculate the amount of Taxable Income.

What is the sanction if we fail a complete tax return?

Incomplete tax return will not be received by the tax office. As a consequence, the taxpayer will be considered as not filing the return and it will be subject to penalty according to the law of General provisions and tax procedures.

What is complete tax return?

Tax return is considered as a complete return if the information listed in the form is all fulfilled, the attachment is complete, and the return is signed by the authorized person.

How do I fulfill my tax return?

Every Taxpayer shall be obliged to complete its Tax Return in Indonesia Language, Latin alphabet, Arabic numerals, and Rupiah currency, and to sign and file it to the district tax office where the taxpayer is registered.

A Taxpayer which has obtained a permission from the Minister of Finance to use foreign language and non-Rupiah currency in its Tax Return, shall file its tax Return in the language and the currency other than Rupiah as permitted, as regulated by a decree of the Minister of Finance.

How do I file the annual tax return?

The tax return should be filed at the tax office with which the taxpayer is registered or sending it by certified delivery either through post office or courier service. If you file directly to the tax office, you will get a receipt of your filing.

If you use a post office or courier service, the documentation received from that office may be used as a filing receipt.

Failure to comply with the filing deadline will be subjected to an administrative sanction of Rp. 100,000.

Can I ask for any extension to file the annual tax return?

Timing to file the corporate tax return has a prescribed due date. However, a corporation may request an extension to file with following documents/condition:

- Letter of request;
- A temporary tax return (code Y);
- An interim financial statement; and
- Pay the estimated tax due based on the temporary tax return.

The extension is given for a maximum of six months after the end of the period of filing.

Is it possible to make any correction if an error (s) is found in my tax return?

Taxpayer may amend a filed tax return voluntarily by submitting written statement, within two years from the end of a taxable period, provided that the Director General of Taxes has not commenced a tax audit.

Is there any penalty for the increase of tax payable due to an amended tax return?

In case a Taxpayer voluntarily amends a filed tax return which result in an increase of the tax payable, the Taxpayer shall be subject to an administrative penalty of 2% (two percent) interest per month on the underpaid tax, calculating from the original due date for filing the Tax Return up to the date of payment of the underpaid tax arising from the correction of the Tax Return.

When do I have to pay the tax?

The tax due based on an annual tax return should be paid not later than the 25th of month in which to file the tax return. For instance, if the taxable year is January – December, payment should be done not later than March 25 of the succeeding year.

Due date for payment of monthly corporate income tax installment is 15 (fifteen) days from the end of a month.

What is the penalty for late payment?

If a payment or remittance of tax payable is made after the due date of the payment or remittance, an administrative penalty in the form of 2% (two percent) interest monthly, calculated from the due date of payment up to the date of payment where fraction of the month is treated as a 1 (one) full month shall be imposed.

What is the statute of limitation for tax matters?

Within ten years from the date a tax is payable, or from the end of a Taxable Period, the Director General of Taxes may issue a Notice of Tax Underpayment Assessment in the following conditions:

- a. based on the result of a tax audit or other information, a tax payable is unpaid or underpaid;
- b. a tax return is not filed within certain period an after being warned in writing, the tax return is not filed within the time specified in the letter or reprimand;
- c. based on the result of a tax audit of VAT and Sales Tax on Luxury Goods, it is found that a tax overpayment should not have been carried over or that the 0% (zero percent) rate should not have been applied;
- d. the obligation to maintain bookkeeping have not been met, so that the amount of tax payable cannot be determined.

Is there any penalty for notice of underpayment issued by tax office?

The amount of tax underpaid in a Notice of Tax Underpayment Assessment shall be increased by an administrative penalty of 2% (two percent) interest per month for a maximum of 24 (twenty four) months, calculated from the date a tax is payable or from the end of a Taxable Period up to the issuance of the notice of tax underpayment assessment.

The amount of tax underpaid in a Notice of Tax Underpayment Assessment above mentioned shall be increased by 50% or 100% under certain condition.

CORPORATE INCOME TAX

Who is the taxpayer for Income tax purpose?

Taxpayers for income tax purpose are individual, undivided inheritance as unit in lieu of the beneficiaries, corporation, and permanent establishment.

How do I calculate my tax due?

Taxable income of a resident taxpayer in a taxable year shall be income* reduced by allowable deductions.

* Income is defined as any increase in economic capability received or accrued by a taxpayer, originating from Indonesian as well as from offshore, in whatever name or form, that can be used to consume or to increase the wealth of the taxpayer

Applicable tax rates for entities other than individuals are:

Taxable income brackets	Tax rate
Rp 50.000.000,00 (fifty million rupiahs) or less	10% (ten percent)
Over Rp 50.000.000,00 (fifty million rupiahs) – Rp 100,000,000.00 (one hundred million rupiahs)	15% (fifteen percent)
Over 100,000,000.00 (one hundred million rupiahs)	30% (thirty percent)

Deductions allowed in calculating taxable income are defined as:

- a. expenses to earn, to collect and to secure income, including cost of materials, costs in connection with employment or services including wages, salaries, honoraria, bonuses, gratuities and remuneration in the form of money, interest, rents, royalties, travel expenses, waste processing expenses, insurance premiums, administrative expenses and taxes other than income tax;
- b. depreciation of tangible asset and amortization or rights and other expenditures, which have useful life or more than 1 (one) year;
- c. contribution to a pension fund approved by the Minister of Finance;
- d. losses incurred from the sale or transfer of properties owned and used in business or used for the purpose of earning, collecting and securing income;
- e. losses from foreign exchange;
- f. costs related to research and development carried out in Indonesia;
- g. scholarships, apprenticeships and training expenses;
- h. debts which are actually uncollectible with certain requirements.

Is it possible to depreciate all assets owned by a corporation?

For calculating tax, it is allowed to depreciate cost of purchasing, erecting, expanding, improving, or replacing tangible assets, except land* that is held for earning, collecting, and securing of income that has a useful life or more than one year.

- * Land titles in Indonesia include ownership right, a right to build, a right to cultivate, and right to use.

What is the method allowed for depreciation?

For building and contraction straight line method is applied, and for other tangible assets double declining balance method may be applied.

What is the percentage of depreciation for each group of assets?

Group of tangible assets	Useful life	Rate of depreciation under	
		Straight line	DDB
I. Non building Class:			
Group 1	4 years	25%	50%
Group 2	8 years	12.5%	25%
Group 3	16 years	6.25%	12.5%
Group 4	20 years	5%	10%
II. building Class:			
permanent	20 years	5%	
Non permanent	10 years	10%	

Note:

According to amendment to decree of the Minister of Finance number 520/KMK.04/2002 on type of assets classified into the group of non-building tangible assets for the purpose of depreciation are (decree of Minister Of Finance number 138/KMK.03/2002);

Group I

- Furniture and wooden/rattan appliance, including table, chair, seat, cupboard, and similar which is not part of the building
- Office machine, such as typewriter, calculator, duplicator, photocopy machine, accounting/bookkeeping machine, computer, printer, scanner and the similar
- Other appliance, such as amplifier, tape/cassette, video recorder, television and the similar
- Motorcycle, bicycle and the pedicab
- Special tools for the relevant industry/service
- Kitchen appliance for cooking, food and beverages
- Dies, jigs and mould

Group II

- Furniture and metal ware, including table, chair, seat, cupboard and the similar, which is not part of the building. Air regulator, such as AC, fan and the similar
- Vehicle, bus, truck, speed boat and the similar
- Container and the similar

Group III for chemical industry

- a) Machine/equipment for processing/producing products of chemical industry and other industries connected with the chemical industry (inorganic chemical essences, organic and inorganic compound and precious metal, radioactive element, isotope, organic chemical essences, pharmaceutical products, fertilizer, varnish, bleaching agent, dyeing agent, paint, etheric oil and perfume resinoids, beautifying and make-up medicines, soap, detergent, albumin essence, glue, alloy piroforis, pyrotechnic product, matches, photographic and cinematographic product.
- b) Machines for processing/producing other industrial product (artificial dammar, plastic material, cellulose ester, synthetic rubber, artificial rubber, tanned leather and skin).

For other industry:

Mining excludes oil and gas:

Machine used in the mining sector, including machines processing mineral product

Spinning, weaving and bleaching:

- a) Machines processing/producing textile products (e.g. cotton, silk, manmade fiber, wool and other animal fur fabrics, jute, carpet and fur fabrics, tile)
- b) Machines for yarn preparation, bleaching, dyeing, printing, finishing, texturing, packaging and the similar

Timber :

- a) Machines processing/producing wooden products, Articles of jute, grass and other mat
- b) Timber sawing machine and equipment

Machinery Industry:

Machines producing/yielding medium and heavy machines (automotive and ship machine)

Transport and communication:

- a) Passenger ships, cargo ships, ships specially designed to carry certain goods (e.g wheat, stones and mineral) including cool storage ship, tanker, fishing ship and the similar, weighing up to 1,000DWT
- b) Ship specially designed to pull or push signaling ship, fire extinguishing ship, dredging ship, floating tap and similar, weighing up to 1,000 DWT
- c) Floating dockyard
- d) Sailing vessel with or without engine, weighing above 250 DWT
- e) Aircraft and helicopters of all kinds

Telecommunication:

Instrumens of navigation radio, radar and long distance controller

How do I pay the tax; annually or installment?

Although, the ultimate corporate income tax amount for taxable year should be calculated based on annual income of that year, taxpayers are required to pay monthly installment (Article 25) during the year, the amount of which is based on the preceding year's annual tax return.

How do I calculate monthly corporate tax installment?

The monthly installment is calculated as follows:

a. Taxable income of previous year (single year)	1,000,000
b. Loss Carry forward	(200,000)
c. Taxable income (a-b)	800,000
d. Tax due (rate xc)	80,000
e. Previous years tax credit	(2,000)
f. Tax due (d-e)	78,000
Installment for this year (Article 25) (1/12 x f)	6,500

Example 1:

Income tax payable based on

Annual income tax return 2000:	Rp 50,000,000
Income tax withheld by other parties:	
Art 22	Rp 10,500,000
Art 23	Rp 2,500,000
Foreign tax credit (art 24)	
	Rp7,500,000 (+)
Total tax credit (Rp 20,500,000)	
Difference	Rp 29,500,000

The amount of tax installment to be paid by taxpayer for year 2001 is Rp 2,458,333 (Rp 29,500,000 : 12)

Example 2:

If the income tax in above example covers income of 6 months in 2000 only (e.g. establishment year), the amount of monthly installment for 2001 is Rp 4,916,666 (Rp29,500,000 : 6)

Is it possible to decrease my monthly installment (Article 25)

Taxpayers under certain circumstances may request an adjustment of the installment of the Article 25. according to the decree of Director General Of Taxes number Kep-537/PJ./2000, taxpayers who can prove that the potential tax due for a taxable year would be less than 75% of

taxable income of the previous year (basis for calculating Article 25 installment) may request for a reduction of the installment, at the earliest three months after a taxable year began.

How long does it take to get a tax refund?

A tax refund shall be given not later than a year after the date of filing a tax return. Before the refund is given, taxpayer will be subject to a tax audit for that taxable year. Process of a tax audit usually takes approximately one to three months depending on data availability.

VALUE ADDED TAX (VAT)

What is VAT?

According to Article 4 the Law Number 18 of the year of 2000, VAT is the tax imposed on:

- a. a supply of Taxable Goods by a Taxable Person for VAT purposes within the Custom Area of Indonesia;
- b. importation of Taxable Goods;
- c. rendering of Taxable Service by a Taxable Person for VAT purposes in the Customs Area of Indonesia;
- d. utilization of intangible Taxable Goods obtained from outside the Customs Area of Indonesia within the Customs Area;
- e. utilization of Taxable Service obtained from outside the Customs Area of Indonesia within the Customs Area; or
- f. exportation of Taxable Goods by a Taxable Person for VAT purposes.

What is a Taxable Person for VAT purposes?

Taxable Person for VAT purposes is a firm which supplies Taxable Goods and or renders Taxable Service according to the VAT Law, excluding small firms with a turnover not exceeding a limit determined by the Minister of Finance Decree. However, small firms may choose to be confirmed as Taxable Person for VAT purposes.

What is a firm?

Firm is an individual or an entity, which in the course of business or work, produced goods, imports goods, export goods, engages in trading activities, utilizes intangible goods obtained from outside the Customs Area, provides business service, or utilizes service obtained from outside the Customs Area.

What is an entity?

Entity is a group of individual and or capital as a union, whether or not conducting business activity, including a limited company, partnership, a state owned enterprise or company owned by a regional government in whatever name and form, "firma", "kongsi" "cooperative"*, permanent establishment, foundation or such kind of organisations, institute and other business form.

* types of organizations under Indonesian Laws.

What is a Taxable Goods?

Taxable Goods are goods, which according to their nature and legal status are movable, or immovable, and intangible assets, which are subject to VAT.

Are there any goods which are not subject to VAT?

Types of good which are not subject to VAT are:

- a. Products of mining and drilling, taken directly from the source;
- b. Daily necessities needed by public;
- c. Food and beverages served in hotel, restaurant, and similar places;
- d. Money, gold, and valuable documents.

What is a Taxable Service?

Taxable Service are any service activity under a contractual agreement or legal arrangement which makes available for use goods, facilities or rights, including services provided on order or request, for which the material is provided by the customer, which are subject to tax according to the VAT law.

Are there any services which are not subject to VAT?

Types or services which are not subject to VAT are:

- a. healthcare;
- b. social welfare;
- c. postal delivery;
- d. banking, insurance and financial leasing;
- e. religion;
- f. education;
- g. culture and entertainment which has been imposed by entertainment tax;
- h. broadcasting, excluding advertising;
- i. shipping and inland public transportation;
- j. manpower;
- k. hotels;
- l. rendering of service by the government in efforts to run the governance in general.

What is the supply of Taxable Goods?

Supply of Taxable Goods is any business activity of supply taxable goods which are subject to tax according to the law.

What is the tax base for VAT?

Tax base for VAT is the sales price or consideration or import value or export value, or such other value as may be determined by the Minister of Finance Decree, to be used as the basis for calculating tax payable.

What is sales tax on Luxury Goods?

Sales Tax on Luxury Goods shall be imposed on:

- a. a supply of Taxable Goods categorized as Luxuries by a firm, which produces the goods within the Customs Area in the course of business or work;
- b. the importation of Taxable Goods categorized as Luxuries.

Sales tax on Luxury Goods shall be imposed only once, either at the time of supply of the Taxable Goods categorized as Luxuries by the firm producing them, or at the time of import.

Where do I have to register as a Taxable Person?

Taxpayer should register at its place of residence, domicile or business activities or such other place as may be determined by the Director General of Taxes, where tax shall be payable.

The Director General of Taxes, upon written request, may determine one place or more as the place or place where tax shall be payable.

Is there any exemption for registration?

Small firms with a turnover not exceeding a limit determined by the Minister of Finance Decree are exempted from the obligation to register their business for VAT purpose.

According to Ministerial Decree number 552/KMK.04/2000 dated 22 December 2000, small firms are those with the turnover in a book year are not exceeding:

- Rp. 360.000.000 for small firms which supply goods only;
- Rp. 180.000.000 for small firms which supply service only;
- Rp. 360.000.000 for small firms which earns more than 50% of total turnover from supply of goods;
- Rp. 180.000.000 for small firms which earns more than 50% of total turnover from supply of services;

Is it possible for small firms to choose to register as a Taxable Person for VAT?

Small firms may choose to be confirmed as a Taxable Person for VAT purposes even though their turnover does not exceed the limit describe in the Ministerial decree.

Once the small firms choose to be confirmed as a Taxable Person for VAT purposes, all the obligation of Taxable Person should be fulfilled.

The confirmation as a Taxable Person for VAT purposes may be cancelled upon a written request.

Is there any option to centralize my place of VAT payable?

According to DGT decree number KEP-334/PJ/2002 taxpayer may request one more places to be tax payable place for VAT purpose. If a VAT centralization (i.e. choosing one place) is desired, an application should be submitted not later than three months before the commencing of the centralization.

What shall I do if the goods, which have already imposed by VAT and Sales tax on Luxury Goods, are returned by the buyer?

Value Added Tax and Sales Tax on Luxury Goods paid on the supply of Taxable Goods, which are subsequently returned, may be deducted from Value Added Tax and Sales Tax on Luxury Goods in the Taxable Period in which the aforesaid Taxable Goods are returned, according to procedures determined by the Minister of Finance.

What is the tax rate for VAT and Sales Tax on Luxury Goods?

- a. The Value Added Tax rate is 10% (ten percent).
- b. The Value Added Tax rate on the export of Taxable Goods is 0% (zero percent)
- c. The rates of Sales Tax on Luxury Goods are between 10% (ten percent) and 75% (seventy-five percent) depending on types of goods.
- d. On the export of Taxable Goods categorized as Luxuries, the Sales Tax on Luxury Goods is 0% (zero percent)

When do I have to life VAT return?

VAT return should be filed on monthly basis. Due date for filing return is 20th day after the Taxable Period ended (i.e. a month). There is no annual VAT return.

Failure to comply with the filing deadline will be subject to an administrative sanction of Rp 50,000.

What is the mechanism to calculate my VAT?

- a. Value Added tax payable shall be calculated by multiplying the tax rate by the Tax Base.
- b. Input tax in one Taxable Period is credited against Output Tax for the same Taxable Period.
- c. In case there is no Output Tax has in one Taxable Period, input tax may still be credited.
- d. In case within a specific Taxable Period, Output Tax is greater than input tax, the difference is Value Added tax, which should be paid by Taxable Person for VAT purposes.
- e. In case within a specific Taxable Period, creditable Input Tax exceeds Output Tax, the difference is surplus tax, which may be refunded or credited in the next Taxable Period.
- f. In case within a specific Taxable Period, a Taxable Person for VAT purposes conducts both taxable and non-taxable supply, insofar as the part of taxable supply can be identified exactly from the bookkeeping, the amount of creditable input tax shall be the input tax related to the taxable supply.
- g. In case within a specific Taxable Period, a Taxable Person for VAT purposes conducts both taxable and non-taxable supply and insofar as the amount of input tax related to the taxable supply can not be identified exactly from the bookkeeping, the amount of input tax which may be credited against taxable supply shall be calculated by using guidelines for crediting input tax determined by the Minister of Finance Decree.
- h. The amount of input tax which may be credited by a Taxable Person for VAT purposes who pays Income Tax by using deemed profit governed by law number 7 of 1983 on Income Tax as amended by law number 17 of 2000, may be calculated by using guidelines for crediting input Tax determined by the Minister of Finance.

Is there any condition that input tax cannot be credited?

Input tax may not be credited for costs incurred for:

- a. the acquisition of Taxable Goods or Taxable Services before firm is registered as Taxable Person for VAT purposes;
- b. the acquisition of Taxable Goods or Taxable Services which do not have direct connection with a firm's business activities;
- c. the acquisition and maintenance of motor vehicles, cars, jeeps, station wagons, vans, and "combi" vehicles, except the vehicles used as merchandised or hired goods;
- d. the utilization of intangible Taxable Goods or Taxable Service from outside the Customs Area prior to confirmation as a Taxable Person for VAT purposes;
- e. the acquisition of Taxable Goods or Taxable Services of which proof of tax is in form of a simple tax invoice;
- f. the acquisition of Taxable Goods or Taxable Services of which tax invoice fails to meet the provision referred to in paragraph (5) or Article 13 of the VAT law;
- g. the utilization of intangible Taxable Goods or Taxable Service from outside the Customs Area for which tax invoice fails to meet the provisions referred to in paragraph (6) of Article 13 of the VAT Law;
- h. the acquisition of Taxable Goods or Taxable Services of which input tax is collected under the issuance of a assessment;
- i. the acquisition of Taxable Goods or Taxable Services of which input tax is not reported in the Value Added tax return, which is found when the return is audited by the tax office;

If I miss the opportunity to credit my input tax for the same taxable period, is there any chance to credit in the other period?

Creditable input tax that has not been credited against output tax for the same taxable period, may be credited in subsequent taxable period, not later than the third month following the end of

the Taxable Period concerned, provided it has not been charged as a cost and has not been tax audited.

What is the mechanism of Sales Tax on Luxury Goods?

- a. Sales Tax on Luxury Goods payable shall be calculated by multiplying the tax rate by the tax Base;
- b. Sales Tax on Luxury Goods, which is paid on the acquisition, or importation of Taxable Goods categorized as Luxuries, may not be credited against either Value Added Tax or Sales tax on Luxury Goods withheld according to the Law.
- c. A Taxable Person for VAT purposes who exports Taxable Goods categorized as Luxuries may request refund on the Sales Tax on Luxury Goods paid on the acquisition of the exported Taxable Goods concerned.

When is the VAT payable ?

- (1) Tax shall be payable at the time of:
 - a. supply of Taxable Goods;
 - b. import of Taxable Goods;
 - c. rendering of Taxable Services;
 - d. utilization of intangible Taxable Goods obtained from outside the Customs Area;
 - e. utilization of Taxable Services obtained from outside the Customs Area; or
 - f. Export of Taxable Goods.
- (2) If payment is received before supply or Taxable Goods, rendering of Taxable Services, the utilization of intangible Taxable Goods or the utilization of Taxable Services obtained from outside the Customs Area, tax shall be payable at the time of payment.

Where is the VAT payable?

- (1) For a Taxable Person for VAT purposes which conduct supply, tax is payable at its place of residence, domicile or business activities or such other place as may be determined by the Director General of Taxes Decree.
- (2) On a written request by a Taxable Person for VAT purposes, the Director General of Taxes may determine one place or more as the places or places where tax should be payable.
- (3) In case of imports, tax shall be payable at the point of entry of the Taxable Goods and shall be withheld through the Directorate General of Customs and Excise.
- (4) For an individual or an entity who uses intangible Taxable Goods and or Taxable Services within the Customs Area which are obtained from outside the Custom Area, tax shall be payable at the place of residence, domicile or business activities of the individual the entity.

Please explain about a VAT invoice?

- (1) A Taxable Person for VAT purposes is obliged to issue a VAT invoice for each supply of Taxable Goods and for rendering of Taxable Services.
- (2) Notwithstanding the provision of paragraph (1), a Taxable Person for VAT purposes may issue a single VAT invoice consisting of all supplies to the same buyer of Taxable Goods or recipient of Taxable Services during one calendar month.
- (3) If payment is received before the supply of Taxable Goods the rendering of Taxable Services, the VAT invoice should be issued at the time of payment.
- (4) The time of issuance, format, size, availability and procedures for submission and correction of a VAT invoice shall be determined by the Director General of Taxes.
- (5) A VAT invoice should include information concerning the supply of Taxable Goods or the rendering of Taxable Services, which at least consist of the following:

- a. The name, address, and taxpayer identification number of the Taxable Person for VAT purposes supplying the Taxable Goods or rendering the Taxable Services.
- b. The name, address, and taxpayer identification number of the buyer of the Taxable Goods or recipient of the Taxable Services;
- c. The type of goods or services, total sales price or consideration, and amount of discount;
- d. The Value Added tax charged;
- e. The sales tax on Luxury Goods charged;
- f. The code, serial number and date of issuance of the VAT invoice; and
- g. The name, position, and signature of person authorized to sign the VAT invoice.

Who is prohibited to issue a tax invoice?

An individual or an entity not registered as a Taxable Person for VAT purposes is prohibited from issuing a VAT invoice.

If a VAT invoice has been issued, the individual or entity should deposit the tax amount written in the VAT invoice to the state treasury.

Is there any condition under which output VAT does not need to be charged?

VAT need not be charged in part or in full, either temporarily or permanently, in respect of:

- a. activities in specified zones or specified places within the Customs Area;
- b. the supply of specified Taxable Goods or rendering of specified Taxable Services;
- c. import of specified Taxable Goods;
- d. the utilization within the Customs Area of specified intangible Taxable Goods obtained from outside the Customs Area;
- e. the utilization within the Customs Area of specified Taxable Services obtained from outside the Customs Area;

Is the input VAT incurred creditable if it relates to the above-mentioned conditions?

Input VAT paid on the acquisition of Taxable Goods and or Taxable Services in connection with the supply for which output VAT is not charged due to the above-mentioned conditions, may still be credited.

Input VAT paid on the acquisition of Taxable Goods and or Taxable Services in connection with the supply, which is exempt from the imposition of output VAT, may not be credited.

Can I file the VAT return using e-filing system?

DGT has launched e-filing system for VAT. To use this system you should contact DGT office for further information.

When do I have to pay VAT?

VAT should be paid not later than 15th day after a Taxable Period (i.e. month) ended.

The method of payment is similar with income tax, i.e. you can pay either manually or on line with E-payment system.

Is there any penalty for late payment of VAT?

Late payment of VAT will be subject to an administrative penalty in the form of 2% (two percent) interest monthly, calculated from the due date of payment up to the date of payment where fraction of the month is treated as a 1 (one) full month shall be imposed.

When can I get my tax refund?

Before the refund is given, tax office will conduct a tax audit for VAT.

According to circular number 1/PJ.7/2002, under normal circumstances, a tax audit should finish not later than 4 weeks if the tax audit is conducted by tax office, and 2 months if the tax audits is conducted by tax audit office starting from the receipt date of formal letter from the tax office. The length of a tax audit period may be extended for 2 weeks to 4 months depending on the complexity of the audit.

STAMP DUTY

What kind of document is subject to stamp duty?

The documentation subject to stamp duty is describe as follows:

1. Agreement or other letters which is made for the purposes of documentation of the fact, action, or civil nature;
2. notarial deeds including their copies;
3. the official land registry (PPAT deeds) including the copies;
4. a letter describe the money more than Rp. 1,000,000 (one million rupiah) which stipulates the following:
 - the evidence of receiving money;
 - the statement of account in a bank;
5. financial instruments such as money order, promissory note, IOU, and check with a nominal value exceeding Rp. 1,000,000 (one million rupiah);

When does the stamp duty due?

1. the due date for document made by one party is the time when the document is delivered;
2. the due date for document made by more than one party, is the time when the document is complete;
3. the due date for document drawn up overseas is time when the document is used in Indonesia.

How do I pay my stamp duty?

1. use of stamp;
2. use of stamped paper;
3. use of stamping machine;
4. further stamp;

How much is the tariff of stamp duty?

1. For the document with the nominal amount not exceeding Rp. 250,000 is not subject to stamp duty.
2. For check, bank notes, stock with the nominal value not more than Rp. 1,000,000 and the document with the nominal value more than Rp. 250,000 but not exceeding Rp. 1,000,000, the tariff is Rp. 3,000.
3. For stock with the nominal value more than Rp. 1,000,000 and the document with the nominal value exceeding Rp. 1,000,000, the tariff is Rp. 6,000.

WITHHOLDING TAX

Withholding is an alternative method to pay tax beside self-assessment. Under the provision of income tax law, certain types of income are subject to withholding tax by withholding agent.

The income, which is subject to withholding tax is categorized as follows:

	Object	Withholding agent
Article 4 paragraph (2) (final tax)	Interest income on deposits and other savings, income from transaction of shares and other securities at the stock exchange, and income from the alienation of property in the form of land and or building and other specific income stipulated by government regulation	Bank, stock Exchange institution, others
Article 15 (final tax)	Income derived by an airline company, and shipping company	Airline and shipping company
Article 21	Remuneration in whatever from derived by individual resident taxpayers in respect of employment, services rendered, or any other similar activities:	Payer of such remuneration
Article 22	Payment for supply of goods paid by government treasurer	Government treasurer
Article 23	Dividends, interest, royalties, rent, compensation for services, paid to resident taxpayer	Payer of such income
Article 26	Dividends, interest, royalties, rent, compensation for services, object	Withholding agent
	Pensions, paid to non resident taxpayer	

When do I have to file Article 21 (remuneration to individuals) withholding tax return?

Similar to VAT return, Article 21 return should be filed by 20th day after the Taxable Period (i.e. month) ended.

When do I have to pay Article 21 withholding tax?

The payment of Article 21 tax should be settled not later than 10 (ten) days from the due date of a tax or the end of a Taxable Period (i.e. month).

Do I have to tax returns for Article 23 and 26 withholding taxes as well?

Yes. If you incur payments, which are subject to Article 23 and/or Article 26 withholding tax, a tax return should be filed not later than 20 (twenty) days from the due date of a tax or the of a Taxable Period (i.e. month).

When is the due date for payment of Article 22, 23, 26, and final tax?

In general, the due date of payment is the 10th day after the due date of or the end of a Taxable Period (i.e. month).

Article 22 withholding tax for importation goods should be paid at the same time with the payment of import duty. If the import duty is deferred or exempted, the payment for Article 22 tax should be made at end of the import documentation's process.

Is there any tax obligation if I transfer the right of land and or building?

The transferor of land and/or building has an obligation to deposit income tax amounting 5% of the gross sales/transfer value.

This 5% tax is treated as a final tax if the seller is an individual.

If the transferor is a corporation, the 5% tax paid can be used as a tax credit in its annual corporate tax return.

LAND AND BUILDING TAX

Is there any tax obligation other than VAT and income tax?

There is another tax called Land and Building Tax, which is administered by the Land and Building Tax office for land and buildings located within its jurisdiction.

What is the definition of land and building according to this law?

Land means the earth surface and earth body to be found underneath;

Building means any technical construction planted into or attached to the earth and/or water permanently;

Who is the Taxable Person for Land and Building Tax?

The Taxable Person is an individual or an entity who owns a right over the land and/or obtains benefits from it, and/or owns, control and/or obtains benefit from a building.

What is the base of Land and Building Tax?

The base of Land and Building Tax is sales value, which is defined as the average price obtained from an arm's length sale and purchase transaction. Should there not be any such transaction, the taxable sales value is determined by a comparison of price with another object of the same kind, or the new acquisition value, or a substitute taxable sales value.

When do I have to pay Land and Building Tax?

Land and Building Tax should be paid at the latest 6 months after the date of receipt of the tax notice by a taxpayer.

ACQUISITION DUTY OF LAND AND BUILDING

Is there any tax obligation related to acquisition of land and building?

The acquisition of right on land and or building is subject to acquisition Duty of Right on Land and Building payable by the buyer

What is the taxable object?

Taxable object shall be an acquisition right on land and or building.

What is the definition of acquisition?

The definition of acquisition of right on land and or building includes transfer of right due to:

buying; bartering; granting; bequeathed granting; inheritance; contribution to company or other legal entity; separation or right causing transfer of right; buyer determination in auction; judge order which has a definite court verdict; merger; consolidation; business expansion; gift and conferral of new right due to: continuation of releasing of right; other.

What is the definition of right on land?

The definition of right on land includes: ownership right; right to cultivate; right to build; right to utilize; ownership right on apartment; and development right.

What is the rate of the acquisition duty of right on land and building?

The rate is 5%

TAX COLLECTIONS

The basis of tax collections are notice of tax collection, notice of tax underpayment assessment, Notice of an Additional Tax Underpayment Assessment, Notice of Tax Correction, Decision on Objection, or Decision on Appeal that increase the amount of tax payable.

According to Article 19 of General Provisions and Tax Procedures Law, if tax payable under a notice of tax Underpayment Assessment or Notice of an Additional Tax Underpayment Assessment, and additional tax payable under a notice of tax Correction, Decision on Objection, or Decision on Appeal, are not paid or underpaid upon the due date, the amounts of underpaid or unpaid tax are subject to an administrative penalty in the form of interest of 2% (two percent) per month calculated from the due date up to the date of payment or the date of issuance of the notice of Tax Collection. Fraction of a month is deemed as 1 (one) month period.

Can I pay the tax due with installment?

Taxpayer is allowed for installment or postponements to pay tax but it subject to an interest of 2% (two percent) per month.

What is the requirement to request an installment scheme?

According to the Ministerial Decree number 541/KMK.04/2000, the application for postponement and installment should be submitted to the tax office not later than 15 days before the due date for tax payment.

The decisions shall be issued within 10 days after the complete document is received. If this time limit elapses, the application shall be considered granted/approved.

TAX DISPUTE

What is the procedure to protest the tax due after the issuance of notice of assessment?

After the issuance of notice of assessment, a taxpayer has the right to protest by filing an objection.

According to Article 25 of law of General Provisions and Tax Procedures, taxpayers can only file objections to the Director General of Taxes for the following matters:

- a. Notice of Tax Underpayment Assessment;
- b. Notice of an Additional Tax Underpayment Assessment;
- c. Notice of Tax Overpayment Assessment;
- d. Notice of Nil Tax Assessment;
- e. Withholding by third parties under the provisions of the tax laws.

Objections should be submitted in writing in Indonesian language by stating the amounts of tax payable or the amounts of tax withheld, or the amounts of losses as calculated by the taxpayers, supported by clear reasons.

Is there a deadline for filling an objection?

The written letter of objection should be filed within 3 (three) months from the date of issuance of assessments.

How long does objection process take?

The Director General of Taxes should decide on objected issues within 12 (twelve) months from the date of receipt of the objection applications. If within 12 months DGT has not decided, the objection is considered to be accepted.

What is the next step if a taxpayer does not agree with the decision on objection?

A taxpayer may submit a request for an appeal to the tax court against the DGT's Decision on Objection.

The appeal request should be submitted in writing in Indonesian language along with clearly stated reasons not later than 3 (three) months after the date of receipt of decision on Objection, attached with a copy of the Decision.

The submission of applications for appeals shall not postpone the obligations to pay taxes.

TAX AUDIT

The Director General of Taxes is authorized to conduct audits to test taxpayer compliance and for other purposes in respect to the implementation of the tax laws.

What is the obligation of a taxpayer in auditing process?

- a. show and/or lend book, record, or documents upon which the tax is based, and other documents related to income received, business activities, independent personal services of the taxpayer, or taxable object;
- b. grant access to places or offices as deemed necessary and assist tax auditors in carrying out the audit;
- c. provide information requested.

What is the obligation of a tax auditor during auditing process?

- a. show the identity as a tax officer
- b. show the identity as a tax auditor
- c. provide the letter of order to conduct tax audit
- d. provide the letter to inform that the taxpayer is being audited
- e. discuss the dispute during audit
- f. inform the legal base of the correction
- g. provide the letter to inform the result of the audit

TAX INCENTIVES

Is there any incentive for comply taxpayers?

Taxpayers who fall under criteria below, will receive the decisions of pre-audit refund of tax overpayment upon request not more than 3 (three) months from the date of receipt of the income tax refund request, and not more than 1 (one) month from the date of receipt of the VAT refund request.

- File tax return for all taxes in time within last 2 years,
- Having no tax arrears,
- Having no tax fraud and crime within last 10 years,
- Having unqualified opinion of certified public accountant,

Is there any incentive for taxpayer who invests in certain region and pioneer industry?

A taxpayer who invest capital in certain sectors and or in certain regions may be granted tax incentives in the from of:

- a. up to 30% (thirty percent) investment allowances;
- b. accelerated depreciation and amortization;
- c. extended loss carried forward up to 10 (ten) years; and
- d. 10% (ten percent) withholding tax on dividends referred to in Article 26 of the income tax law (prescribed rate is 20%), unless the tax rate under the relevant tax treaty is lower.

Is there any incentive for taxpayers who take part in debt restructuring program?

Taxpayers who take part in debt restructuring program through a special institution established by the government may enjoy a limited tax incentive; i.e. in term of the period and its type, tax relief of income tax payable will be granted on:

- a. discharge of indebtedness;
- b. debt to asset swap;
- c. debt to equity swap.

INTERNATIONAL TAXATION ISSUES

How does the government of Indonesia tax the income of foreign investor?

Non Resident Alien (NRA) may derive income from Indonesia by using several schemes; e.g. direct investment, portfolio investment, and establishing a branch or permanent Establishing (PE) in Indonesia. The income derived from Indonesia is taxed based on the nature of income.

Dividend from direct and portfolio investment will be subject to Article 26 withholding tax at 20%. If the NRA recipient of dividend is able to provide Certificate of Domicile from the country which has a bilateral tax treaty with Indonesia, dividend will be taxed based on the Article of 'dividend' in the tax treaty.

A branch a PE of an NRA has the same obligation as Indonesian Corporations to comply with the Indonesian Tax Law is amended lastly in the year of 2000.

Additionally, a branch/PE has a specific obligation to pay a branch profit tax.

What is a Permanent Establishment?

The definition of Permanent Establishment provided in the OECD Model Tax Treaty is usually adopted with minor adjustments to accommodate the necessity of the country.

Under OECD Model Tax Treaty, as well as the UN Model Tax Treaty, a Permanent establishment is deem to exist in a country if one of the three tests below is met.

1. Assets test

Under assets test, a non-resident which has certain asset in a country is deemed to have a Permanent Establishment in that country. The definition of the assets usually includes:

- a. a place of management;
- b. a branch;
- c. an office;
- d. a factory;
- e. a workshop;
- f. a mining and extraction of natural resources, drilling used for mining exploration;
- g. a fishery, animal husbandry, farm, plantation or forestry;

in addition to above, Indonesia deems existence of a representative office in Indonesia to be a permanent establishment under income Tax law s amended lastly in the year of 2000.

2. Activity test

Certain activities performed by a non-resident in a country are deemed to create a permanent establishment in that country. The activities are:

- a. construction, installation or assembly project conducted (for a period exceeding a prescribed limit in a tax treaty);
- b. furnishing of services through employees or other personnel, if conducted for a period exceeding a prescribed limit.

The differences in time test between tax treaties and Indonesia Income Tax Law are as follows (see List of Table – Table 2 for details of each tax treaty's time test):

	Tax treaty	Income tax law
Construction, installation, assembly	90 day to 6 months depending on the treaty country	No time test
Furnishing of services	90 days to 6 months depending on the treaty country	60 days within 12 months

3. Agency Test

A non-resident having a dependent agent in a country is deemed have a permanent establishment. A dependent agent is deemed to exist if there is a person who carries on certain activities such as:

- concluding contract in the name of the non-resident enterprise;
- maintaining stock from which delivery is made regularly for or on behalf of the non-resident enterprise.

What is the taxable income for a Permanent Establishment?

Generally, the Permanent Establishment shall be taxable for the income derived within the country where the permanent establishment is located.

The income derived by a permanent establishment usually consists of (i) income attributable to the permanent establishment (attribution rule), (ii) income of the head office from the activities which are similar with that of the permanent establishment (either sale of goods or furnishing services) (force of attraction rule) , and (iii) income that is effectively connected with the permanent establishment effectively (effectively connected income rule) – (see List of Table – Table V for details of each tax treaty’s applicable rules).

What is the tax consequence if an individual performs services in Indonesia on order of a foreign company?

A non-resident individual who performs services in Indonesia as an employee shall be taxed in Indonesia for the remuneration received if he or she meets one of the conditions as follows:

- a. he/she is present in Indonesia for more than the time test listed in the Indonesian tax law or the relevant tax treaty (see List of Table – Table VI for details of each tax treaty’s time test); or
- b. the remuneration is paid by a resident of Indonesia; or
- c. The remuneration is borne by a permanent establishment which the foreign employer has in Indonesia

How does the above-mentioned employment income taxed?

An individual who is present in Indonesia for more than the time test will be subject to Article 21 of Income Tax Law (i.e. the same progressive income tax rates as applicable to resident individuals).

An individual who is present in Indonesia not more than the time test, will be subject to Article 26 of Income Tax Law (i.e. 20% withholding tax).

Other cases shall be analyze further based on Income Tax Law and relevant tax treaty.

What is my tax obligation if I perform service in Indonesia independently in a field of science, education, lawyer, engineer, accountant, and other similar service?

Individual who performs service in Indonesia as independent personal services as defined in the tax treaty, shall be taxable in Indonesia if he/she is present in Indonesia for a period exceeding the time test listed in the tax treaty.