
PRICEWATERHOUSECOOPERS
PT Prima Wahana Caraka
Indonesian
Pocket Tax Book 2004*
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Indonesian Pocket Tax Book 2004

A Summary of Indonesian Tax

The information in this booklet is based on tax law and practice as of 1 June 2004.

This booklet is intended as a general guide. In specific circumstances, professional advice should be sought.

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Corporate Income Tax

Rates of Tax

For resident companies:

	Taxable Income Rp.	Rate	Tax Rp.
On the first	50,000,000	10%	5,000,000
On the next	50,000,000	15%	7,500,000
Over	100,000,000	30%	-

Tax Residence

A company is treated as a "tax resident" of Indonesia if it is incorporated or domiciled in Indonesia. Although a foreign company does not lose its status as a non-resident taxpayer by operating a permanent establishment (PE) or taxable branch in Indonesia, the PE itself must assume the same tax obligations as a resident taxpayer.

Collection of Tax

Most tax resident companies, businesses and PEs are required to pay monthly instalments of tax (Article 25). These monthly instalments are generally calculated with reference to the most recent corporate tax return. Special calculations of instalments apply to new taxpayers, finance lease companies, banks and state or regional government owned companies, and certain individual traders in the consumer goods retail business with outlets in several locations (excluding restaurants and motor vehicle dealers).

Tax on interest, royalties, rent, dividends, prizes and awards, insurance premiums paid to offshore insurance companies, gains on the sale of property in Indonesia and service fees, including those to non-resident construction contractors is collected by means of withholding tax (Article 4, Articles 23 and 26, see pages 17 - 24). The tax withheld is a prepayment of the recipient's income tax liability (except Article 4, which is a final withholding tax) if the recipient is a tax resident of Indonesia and a final tax if the recipient is a non-resident.

Based on the self-assessment system, when submitting their yearly tax returns, taxpayers have to pay: the amount of tax calculated in the annual tax return (Article 29) to the extent this amount exceeds tax instalments paid during the year (Article 25), tax withheld by third parties (Article 23), tax paid on imports (Article 22), tax paid or due overseas on income obtained overseas (Article 24) and fiscal exit tax (see page 14).

Tax on the income of resident taxpayers subject to final tax (see page 23) is generally collected by designated withholders and treated as exempt income which is excluded from the annual tax return.

Business Profits

Taxable business profits are computed 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.

Deductions Disallowed

These include:

- Benefits-in-kind (BIKs) (e.g. free housing, 50% of the acquisition and maintenance costs of certain company provided cars), except food and drink provided to all employees in the work place, employee benefits required for job performance such as protective clothing and uniforms, transportation costs to and from the place of work, accomodation for ship crews and the like and the cost of providing BIKs in 'remote' areas, 50% of the acquisition and maintenance costs of cellular phones;
- Private expenses;
- Non-business gifts and aid, except 'zakat' (Islamic alms);
- Provisions/reserves, except for the provisions for doubtful debts of banks and finance lease companies, provisions for premiums and claims of insurance companies and provisions for reclamation costs of mining companies;

- Income tax payments;
- Tax penalties;
- Distributions of profits;
- Employer contributions for life, health and accident insurance and contributions to unapproved pension funds, unless the contributions are treated as taxable income of employees;
- Expenses relating to income which is taxed at a final rate, e.g., interest on loans relating to time deposits;
- Expenses relating to income which is exempt from tax, e.g., interest on loans used to buy shares where dividends to be received are not subject to income tax; and
- Salaries or compensation received by partnerships or "firmas" members where their participation is not divided into shares.

Losses

Losses may be carried forward for a maximum of five years. However, for a limited category of businesses in certain regions, the period can be extended up to ten years. A carry-back of losses is not possible. Tax consolidation is not available.

Profit Distribution

Tax is withheld from dividends as follows:

i) Resident recipients

Individuals: 15% withholding tax, which is an advance payment of the recipient's income tax.

Companies: dividends received from Indonesian companies by limited liability companies incorporated in Indonesia (PT), cooperatives, and state or region-owned companies (BUMN/ BUMD) are exempt from income tax if all of the following conditions are met:

- the dividends are paid out of retained earnings;
- the shareholder holds at least 25% of the paid-in capital; and
- the shareholder has an "active business" other than the shareholding.

If the above conditions are not met, the dividends are subject to 15% withholding tax.

Dividends received by "firmas", "commanditaires", foundations and similar organisations are always subject to 15% withholding tax.

ii) Non-resident recipients
20% (lower for treaty countries) withholding tax, which is the final tax liability of the non-resident recipient.

Deemed Profit Margins

The following businesses have deemed profit margins for tax purposes:

	On gross revenues	Effective income tax rate
Domestic shipping operations	4%	1.2%
Domestic airline operations	6%	1.8%
Foreign shipping and airline operations	6%	2.64%
Foreign oil and gas drilling service operations	15%	-
Certain Ministry of Trade representative offices	1% of export value	0.44%

Special Industries and Activities

As with all tax systems, there is a range of exceptions to “normal” treatment. In Indonesia, such exceptions include the tax treatment of production sharing contracts, metal, mineral and coal mining contracts of work, geothermal power plants, companies in bonded zones and bonded warehouses and foreign aid projects. Partnerships, sole proprietorships, and other business forms are also subject to special tax treatment, but are basically within the general tax framework outlined in this booklet. Investment funds and venture capital companies enjoy certain exemptions from income tax.

Land and Building Transfers

A 5% income tax on sales value applies to companies and cooperatives for sales/transfers of land and/or buildings. The tax paid, however, can be credited against the annual corporate income tax payable. Real estate companies holding property as stock in trade are exempt. For foundations or similar organisations holding property as stock in trade, the 5% tax is final.

A notary is prohibited from signing a transfer of title deed until the tax payment has been made.

Land and building transfers are also subject to a 5% transfer duty (see page 37).

Incentives

Corporate Restructuring

Tax-neutral restructuring is available for taxpayers undergoing mergers, consolidations, and certain expansions with the following requirements:

- the taxpayers have paid all outstanding tax debts;
- for taxpayers that will transfer and utilize the balance of the tax losses carried forward to the surviving company in a merger or consolidation: all fixed assets will be revalued, the taxpayer has an active business prior to the merger or consolidation, and the taxpayer receiving the transfered property is actively running the business for at least two years after completion of the merger or consolidation process.

Debt Forgiveness

For specified categories of small-scale debtors, debt-forgiveness income is not taxable. This concession can only be claimed once per annum and only where the debt is not more than Rp. 350,000,000.

Interest on Bonds

Income tax on interest earned on bonds sold on Indonesian stock

exchanges is fixed at a final 20% rate for resident taxpayers and 20% (or a lower treaty rate) for non-resident taxpayers.

Banks operating in Indonesia, Government approved pension funds and mutual fund companies registered with the Capital Market Supervisory Board ("Bapepam") are exempt from this tax within 5 years of their establishment.

Tax Facilities
Investors in certain business sectors and/or locations may be eligible for the following income tax incentives:
- A reduction in net income of up to 30% of the amount invested, prorated at 5% for 6 years provided that the assets invested are not transferred within 6 years;
- Acceleration of fiscal depreciation;
- Extension of tax loss carry-forwards up to 10 years; and
- A reduction to 10% in the withholding tax on dividends paid to non-residents.

Integrated Economic Development Areas (KAPETs)
To encourage the development of the East Indonesia Region, the following tax facilities are available to approved taxpayers:
- VAT and sales tax on luxury goods are not collected on certain transactions;
- A reduction in net income of up to 30% of the amount invested, prorated at 5% for 6 years, provided that the assets invested are not transferred within 6 years;
- Acceleration of fiscal depreciation;
- Extension of tax loss carry-forwards up to 10 years;
- A reduction of withholding tax on dividends paid to non-residents to 10%;
- Exemption from prepaid income tax (Article 22) on the importation of capital goods and other equipment directly related to production activities;
- Postponement of import duties on capital goods and equipment and goods and materials for processing; and

- Exemption from import duties for 4 years on machinery and certain spare parts.

Currently there are approximately 25 areas designated as KAPETs.

Transfer Pricing
The Director General of Tax is authorized to recalculate taxable income or deductible costs arising from transactions between related parties so that they conform with "arm's length principles".

The law authorises the Indonesian Tax Office (ITO) to enter into advance pricing agreements ("APAs"), which are valid for agreed periods, renegotiable and can involve a foreign tax authority. Unilateral or bilateral APAs may be an advantageous way of resolving transfer pricing uncertainties.

Exporters
Exporters are granted special tax concessions designed to encourage exports. These concessions, which include bonded warehouses, generally relate to VAT relief by zero-rating exported goods and the recovery of other indirect taxes (such as import duty and sales tax on luxury goods) relating to the production of goods intended for export.

Foreign Aid Projects
For main contractors, consultants and suppliers, projects that qualify for foreign aid status (FAS) are effectively exempted from:
- Import duty on capital equipment;
- VAT and sales tax on luxury goods;
- Prepaid income tax (Article 22) on imported goods;
- Income tax and withholding tax on profit and gross revenue;
- Employee tax for foreign employees if the project is financed with grants and the contract was signed before 23 June 2000.

In addition, the following exemptions apply to second-level contractors, consultants or suppliers:

- Income tax and withholding tax on profit and gross revenue if the project is funded by a foreign grant and the contract was signed before 23 June 2000;
- Employee income tax for foreign employees if the project is financed with loans or grants and the contract was signed before 23 June 2000.

FAS is granted by the National Development Planning Agency (BAPPENAS) to projects funded by foreign grants and certain foreign loans.

Revaluations of Fixed Assets
Asset revaluations are subject to 10% final tax (see page 33).

Individual Income Tax

Rates of Tax

For resident individuals (general):

	Taxable Income Rp.	Rate	Tax Rp.
On the first	25,000,000	5%	1,250,000
On the next	25,000,000	10%	2,500,000
On the next	50,000,000	15%	7,500,000
On the next	100,000,000	25%	25,000,000
Over	200,000,000	35%	-

Tax is withheld from pensions, old-age security savings and severance payments at the following rates:

	Taxable Income Rp.	Rate	Tax Rp.
On the first	25,000,000	-	Nil
On the next	25,000,000	5%	1,250,000
On the next	50,000,000	10%	5,000,000
On the next	100,000,000	15%	15,000,000
Over	200,000,000	25%	-

Main Personal Reliefs

Annual non-taxable income (PTKP) for resident individuals:

	Rp.
Taxpayer	2,880,000
Spouse	1,440,000
Each dependent (max. of 3)	1,440,000
Occupational expenses (5% of gross income, max Rp. 108,000/month)	1,296,000
Employee contribution to Jamsostek for old age security savings (2% of gross income)	Full amount
Pension expenses (5% of gross income, max Rp. 36,000/month)	432,000

Tax Residence

An individual is regarded as a tax resident if he/she:

- is domiciled in Indonesia; or
- is present in Indonesia for more than 183 days within any 12-month period; or
- is present in Indonesia within a fiscal year and intends to reside in Indonesia.

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

Non-resident individuals are subject to a 20% withholding tax (Article 26, subject to treaty provisions) on Indonesian source income (as specified on page 22).

Registration and Filing

All expatriate and Indonesian individuals who receive or earn income which is higher than the annual non-taxable income (PTKP) threshold must register with the Indonesian Tax Office and file personal tax returns.

The personal tax return should report all of the individual's income, including compensation from employment, investment income, capital gains, overseas income and other income. Starting from 2001, it should also report the assets and liabilities of the individual.

Collection of Tax

Employers are required to withhold tax monthly (Article 21) from salaries and other compensation paid to employees based on their income and personal relief entitlement.

Pension funds approved by the Minister of Finance are required to withhold tax from pension payments using the progressive tax rates specified on page 12.

For severance payments transferred to a Manpower Severance Pay Management Board *(Pengelola Dana Pesangon Tenaga Kerja),* any interest earned from severance pay received by an employee is

subject to 20% final tax if the Board is a bank or 15% withholding tax under Article 23 if the Board is not a bank.

Tax must also be withheld from fees paid to independent, individual professionals such as lawyers, notaries, accountants, architects, doctors, actuaries and appraisers. The effective tax rate is 7.5% of the fees.

Salaries or compensation received by partnership or "firmas" members are not subject to employee withholding tax so long as their participation is not divided into shares.

The Government will bear a portion of the income tax liability for employees whose monthly salaries not exceed Rp. 2,000,000. On this regard, the government will bear the income tax liability on the first Rp. 1,000,000 (or part there of) at such employees monthly salary.

Fiscal exit tax

An “exit tax” (Rp. 1,000,000 per exit from Indonesia by plane, Rp. 500,000 by ship) is another form of prepayment of an individual’s income tax. If the exit tax is borne by an employer and the overseas trip was for business purposes, the amount paid is a prepayment of the employer’s income tax, otherwise the exit tax can be credited against the individual's income tax.

Benefits-in-kind

Benefits-in-kind (BIKs) e.g., car, housing, education, home leave and reimbursement of an employee's Indonesian tax liability provided by the employer, are not taxable in the hands of the employee.

The same principle applies to BIKs required for job performance such as protective clothing, uniforms, transportation costs to and from the place of work and accomodation for ship crews and the like, and the cost of providing BIKs in 'remote' areas.

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

- Mining companies and production sharing contractors which are subject to tax under the 'old' tax laws;
- Representative offices of offshore companies not constituting taxpayers;
- Final-taxed companies; or
- Deemed profit companies.

Jamsostek-Social Security

Indonesia does not have a comprehensive social security system, however, there is a Worker's Social Security program (Jamsostek).

Employers are responsible for the entire amount of contributions to the occupational accident security and death security programs. Contributions for accident security range from 0.24% to 1.74% of an employee's wage, depending on the employer's business (employers are classified under one of five industry categories). The contribution for death security is 0.3% of the employee's wage.

The premium for old age security is jointly borne by the employer and the employee; the employer's share is 3.7% of wages and the employee's share is 2% of wages. Employee contributions to Jamsostek are collected by the employer through payroll deductions. Since 1998, the Jamsostek scheme was optional for expatriate employees. Starting April 2004, expatriate employees are also required to participate in the scheme.

Health maintenance security for up to 3 dependants is another feature of Jamsostek. A company which provides better company health insurance to its employees can elect not to join the health care program under Jamsostek. The contribution for the health care program under Jamsostek is 6.0% for a married employee (max. Rp. 60,000 per month) and 3.0% for an unmarried employee (max. Rp. 30,000 per month).

Payments of old-age security savings to individuals by Jamsostek are subject to income tax (see page 12).

Deemed Salaries

Employees in the oil and gas drilling sector are taxed on deemed salaries according to their job titles, as follows:

	US$ per month
General managers	11,275
Managers	9,350
Supervisors and tool pushers	5,830
Assistant tool pushers	4,510
Other crew	3,245

Land and Building Transfer

A final 5% income tax on the higher of sales/transfer value and the value forming the basis of the land and building tax (NJOP) applies to individuals for sales or transfers of land and/or buildings.

A notary is prohibited from signing a transfer of title deed until tax payment has been made.

Land and building transfers are also subject to a 5% transfer duty (see page 37).

General

Indonesian income tax is collected mainly through a system of withholding taxes. Most withholding taxes must be paid by the 10th day of the month following payment or its accrual in the books whichever is earlier. These withholding taxes are commonly referred to by the relevant article of the Income Tax (PPh) Law.

(i) Article 21 – Salaries

On salaries, as stated in Individual Income Tax (see pages 12 to 16).

(ii) Article 22 – Imports

On imports, payments from the State Treasury and certain state-owned companies for goods, and payments for products sold/delivered locally by specific industries or Government bodies.

Taxpayers are required to prepay income tax by making payments at the rate of 2.5% (or 7.5% if the taxpayer has no import licence) of the CIF value of imports plus any import duty.

Payments from the State Treasury and certain state-owned companies such as PT Telkom, Pertamina, BPPN, Bulog, Bank Indonesia, PLN, PT Indosat, PT Garuda Indonesia, PT Krakatau Steel and state-owned banks, for goods are also subject to Article 22 tax at 1.5%, which is deducted by the State Treasury state-owned companies. Payments from industries and exporters for plantation, forest, fishery goods are also subject to Article 22 tax at 0.5%. The Article 22 tax rates for specific industries are determined by the Ministry of Finance.

Exemptions may apply for the importation of the following goods:

- Those belonging to foreign country representatives and international organisations;
- Scientific books;

- Gift packages for public worship, charities or social purposes;
- Goods for museums, zoos and similar places;
- Sample goods;
- Personal effects;
- Goods imported temporarily for re-export;
- Gold bars to be processed to produce gold jewellery for export; and
- Re-imported goods used for exhibitions or goods that have been repaired or modified.

Final-taxed companies are not subject to Article 22 tax if they have a certificate of exemption from the Tax Office.

Subject to certain requirements, a certificate of exemption may also be granted by the Tax Office provided the taxpayer can show that the estimated corporate tax liability will show an overpayment position.

(iii) Article 23 – Residents

On payment to tax residents of dividends, interest, rents, royalties, prizes and awards, and fees for technical, management or other services.

Resident companies, permanent establishments, representatives of foreign companies, organizations, and appointed individuals are required to withhold 15% tax from the following payments to other residents:

a. On gross amounts:
   - Dividends (however, see page 6 - profit distribution);
   - Interest, including premiums, discounts, and loan guarantee fees (except payments to investment funds within 5 years from the earlier of establishment or business licence and to venture capital companies under certain conditions);
   - Royalties; and
   - Prizes and awards.

Note:
Interest on time deposits, savings accounts and discounts on Bank Indonesia certificates (SBIs) are subject to 20% final tax, except that received or earned by a pension fund registered with the Minister of Finance under certain conditions.

b. On estimated net income (ENI):

	ENI	Actual withholding (% of gross amounts)
Rentals other than land and/or buildings		
• rental of land transportation vehicles	20%	3%
• others	40%	6%
(payments under finance leases are not subject to withholding tax)		

	ENI	Actual withholding (% of gross amounts)
Fees for services:		
• professional services	50%	7.5%
• consulting services, except construction consulting services	50%	7.5%
• construction contracting services, including installation and maintenance services provided by licensed construction companies	13.33%	2%
• construction planning services	26.67%	4%
• construction supervisory services	26.67%	4%
• technical and management services	40%	6%
• design services including interior, landscape, machine, equipment, vehicle, transportation equipment, advertising/logo and packaging design services	40%	6%
• accounting and bookkeeping services	50%	7.5%
• installation services, except those provided by licensed construction companies	40%	6%
• maintenance/repair services, except those provided by licensed construction companies	40%	6%

	ENI	Actual withholding (% of gross amounts)
• support services in flight services and airport, including catering support	40%	6%
• custodial/storage/consignment services (excluding those provided by KSEI and storage rental which is already subject to final tax)	40%	6%
• securities trading services except those provided by BEJ, BES, KSEI and KPEI	40%	6%
• technology information services, including internet services	40%	6%
• telecommunication services not for public purposes	40%	6%
• waste treatment and disposal	40%	6%
• forest felling services, including land clearing	40%	6%
• drilling and support services in mining (excluding drilling services in oil/gas provided by PEs)	40%	6%
• mining and support services in non-oil/gas mining industry	40%	6%
• intermediary services	40%	6%
• appraisal services	50%	7.5%
• actuarial services	50%	7.5%
• film dubbing/mixing services	40%	6%
• contract manufacturing (“maklon”)	40%	6%
• recruitment/manpower supply	40%	6%

	ENI	Actual withholding (% of gross amounts)
• computer software services	40%	6%
• pest control and cleaning services	10%	1.5%
• catering services	10%	1.5%
• services other than the above the payments for which are borne by government budgets (APBN and APBD)	10%	1.5%

Payments to resident banks for (a) and (b) above are exempt from Article 23 withholding.

(iv) Article 26 – Non-residents

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

a. On gross amounts:
- Dividends;
- Interest, including premiums, discounts (interest), swap premiums, and guarantee fees;
- Royalties, rents and payments for the use of assets;
- Fees for services, work, and activities;
- Prizes and awards;
- Pensions and any other periodic payments; and
- The Notional annual distributions of after-tax profits of a branch or PE. After-tax profits of a PE will be exempt from withholding tax if they are reinvested in Indonesia in the form of equity participation in a company established and domiciled in Indonesia for which the PE acts as the founder or one of the founders.

	ENI	Actual withholding (% of gross amounts)
b. On estimated net income (ENI):		
Insurance premiums paid to non-resident insurance companies:		
• by the insured	50%	10%
• by Indonesian insurance companies	10%	2%
• by Indonesian reinsurance companies	5%	1%
Sale of non-listed shares by non-residents	25%	5%

Where the recipient is resident in a country which has a tax treaty with Indonesia, the withholding tax rates may be reduced or exempted.

(v) Article 4 – Final tax

Resident companies, permanent establishments, representatives of foreign companies, organizations, and appointed individuals are required to withhold tax from the following gross payments to residents:

Rentals of land and/or buildings	10%

Fees for the services of “small construction companies” that have obtained a “small-scale enterpreneur's certificate” issued by an authorised institution and have a contract of not more than Rp. 1 billion:

• Construction contracting	2%
• Construction planning	4%
• Construction supervision	4%

Income on prizes from lotteries is subject to 25% final tax on the gross income amount.

Sales of Shares

Sales of listed shares are subject to withholding tax of 0.1% of the transaction value. An additional final tax of 0.5% applies to the value of founder shares at the time an initial public offering is made, irrespective of whether the shares are held or sold. Founding shareholders may elect to pay tax at normal tax rates at the time the shares are actually sold. Residents of tax treaty countries may be entitled to an exemption from these taxes.

Sales of non-listed shares by non-residents are subject to a final tax of 5% of the transaction value unless protected by a tax treaty.

Final withholding tax also applies to bank interest and to interest and discounts on publicly traded bonds (see page 9).

Double Tax Treaties

Indonesia's tax treaties provide for the following reduced rates of withholding tax (1):

	Dividends (portfolio)	Dividends (substantial holdings)	Interest	Royalties	Branch Profit Tax	
1. Australia	15%	15%	10/0%	15/10%	15%	
2. Austria	15%	10%	10/0%	10%	12%	
3. Belgium	15%	10%	10/0%	10%	10%	
4. Brunei	15%	15%	15/0%	15%	10%	
5. Bulgaria	15%	15%	10/0%	10%	15%	
6. Canada	15%	10%	10/0%	10%	15%	
7. China (9)	10%	10%	10/0%	10%	10%	
8. Czech Republic	15%	10%	12.5/0%	12.5%	12.5%	
9. Denmark	20%	10%	10/0%	15%	15%	
10. Egypt	15%	15%	15/0%	15%	15%	
11. Finland	15%	10%	10/0%	15/10%	15%	
12. France	15%	10%	15/10/0%	10%	10%	
13. Germany	15%	10%	10/0%	15/10% (4)	10%	
14. Hungary	15%	15%	15/0%	15%	20%	(5)(6)
15. India	15%	10%	10/0%	15%	10%	
16. Italy	15%	10%	10/0%	15/10%	12%	
17. Japan	15%	10%	10/0%	10%	10%	
18. Jordan	10%	10%	10/0%	10%	20%	(5)
19. Korea (North) (3)	10%	10%	10/0%	10%	10%	
20. Korea (South)	15%	10%	10/0%	15%	10%	
21. Kuwait	10%	10%	5/0%	20%	10/0%	(7)
22. Luxembourg	15%	10%	10/0%	12.5% (4)	10%	
23. Malaysia	15%	15%	15/0%	15%	12.5%	
24. Mauritius (10)	10%	5%	10/0%	10%	10%	
25. Mongolia	10%	10%	10/0%	10%	10%	
26. Netherlands (2)	15%	10%	10/0%	10%	10%	
27. New Zealand	15%	15%	10/0%	15%	20%	(5)
28. Norway	15%	15%	10/0%	15/10%	15%	
29. Pakistan	15%	10%	15/0%	15% (4)	10%	
30. Philippines	20%	15%	15/10/0%	15%	20%	

	Dividends (portfolio)	Dividends (substantial holdings)	Interest	Royalties	Branch Profit Tax
31. Poland	15%	10%	10/0%	15%	10%
32. Romania (8)	15%	12.5%	12.5%	15/12.5%	12.5%
33. Russia	15%	15%	15/0%	15%	12.5%
34. Seychelles	10%	10%	10/0%	10%	20% (5)
35. Singapore	15%	10%	10/0%	15%	15%
36. Slovakia	10%	10%	10/0%	15/10%	10%
37. South Africa	15%	10%	10/0%	10%	20% (5) (6)
38. Spain	15%	10%	10/0%	10%	10%
39. Sri Lanka	15%	15%	15/0%	15%	20% (5)
40. Sudan	10%	10%	15/0%	10%	10%
41. Sweden	15%	10%	10/0%	15/10%	15%
42. Switzerland	15%	10%	10/0%	12.5% (4)	10%
43. Syria	10%	10%	10%	20/15%	10%
44. Taiwan	10%	10%	10/0%	10%	5%
45. Thailand	15%	15%	15/0%	15/10%	20%
46. Tunisia	12%	12%	12/0%	15%	12%
47. Turkey	15%	10%	10/0%	10%	10%
48. Ukraine	15%	10%	10/0%	10%	10%
49. United Arab Emirates	10%	10%	5/0%	5%	5%
50. United Kingdom	15%	10%	10/0%	15/10%	10%
51. United States	15%	10%	10/0%	10/%	10%
52. Uzbekistan	10%	10%	10/0%	10%	10%
53. Venezuela	15%	10%	10/0%	20/10%	10%
54. Vietnam	15%	15%	15/0%	15%	10%

Note: Numbers in parentheses correspond to the following notes:

(1) The withholding tax rates quoted above relate to the treaty presently in force unless indicated otherwise.
(2) The new tax treaty become effective on 1 January 2004
(3) Notice of ratification has been made in 2004 and the tax treaty will be effective from 1 January 2005.

(4) Fees for technical, management and consulting services rendered in Indonesia are subject to withholding tax at the rates of 5%, 7.5%, 10% and 15% for Switzerland, Germany, Luxembourg and Pakistan respectively.
(5) The treaty provisions are silent on the rate. The ITO interprets this to mean that the rate as regulated by Indonesian Tax Law (20%) should apply.
(6) Tax only applies if profits are actually remitted.
(7) Tax is only applicable if profits are remitted to a head office within the 12 month period after the profits accrue.
(8) Includes a 10% withholding tax on commissions.
(9) The ratification of the tax treaty took place in August 2003 and the tax treaty has been effective from 1 January 2004.
(10) No longer effective starting 1 January 2005

In addition to the above treaties, there are agreements with Saudi Arabia, Morocco, Bangladesh, Croatia, South Africa and Laos for the reciprocal exemption of taxes and customs duty on the activities of the two countries' air transport enterprises.

Permanent Establishment Time Test (1) (2) (3)

	Bldg. Site Construction(4)	Installation (4)	Assembly (4)	Supervisory Activities(4)	Other Services{4)
1. Australia	120 days	120 days	120 days	120 days	120 days
2. Austria	6 months	6 months	6 months	6 months	3 months
3. Belgium	6 months	6 months	6 months	6 months	3 months
4. Brunei	183 days	3 months	3 months	183 days	3 months
5. Bulgaria	6 months	6 months	6 months	6 months	120 days
6. Canada	120 days	120 days	120 days	120 days	120 days
7. China	6 months	6 months	6 months	6 months	6 months
8. Czech Republic	6 months	6 months	6 months	6 months	3 months
9. Denmark	6 months	6 months	3 months	6 months	3 months
10. Egypt	6 months	4 months	4 months	6 months	3 months
11. Finland	6 months	6 months	6 months	6 months	3 months
12. France	6 months	-	6 months	183 days	183 days
13. Germany	6 months	6 months	-	-	-
14. Hungary	3 months	3 months	3 months	3 months	4 months
15. India	183 days	183 days	183 days	183 days	91 days
16. Italy	6 months	6 months	6 months	6 months	3 months
17. Japan	6 months	6 months	-	6 months	-
18. Jordan	6 months	6 months	6 months	6 months	1 months
19. Korea (North)(6)	12 months	12 months	12 months	12 months	6 months
20. Korea (South)	6 months	6 months	6 months	6 months	3 months
21. Kuwait	3 months	3 months	3 months	3 months	3 months
22. Luxembourg	5 months	5 months	5 months	5 months	-
23. Malaysia	6 months	6 months	6 months	-	3 months
24. Mauritius	6 months	6 months	6 months	6 months	4 months
25. Mongolia	6 months	6 months	6 months	6 months	3 months
26. Netherlands (5)	6 months	6 months	6 months	6 months	3 months
27. New Zealand	6 months	6 months	6 months	6 months	3 months
28. Norway	6 months	6 months	6 months	6 months	3 months
29. Pakistan	3 months	3 months	3 months	3 months	-
30. Philippines	6 months	3 months	3 months	6 months	183 days
31. Poland	183 days	183 days	183 days	183 days	120 days
32. Romania	6 months	6 months	6 months	6 months	4 months
33. Russia	3 months	3 months	3 months	3 months	-
34. Seychelles	6 months	6 months	6 months	6 months	3 months
35. Singapore	183 days	183 days	183 days	-	90 days

	Bldg.Site Construction(4)	Installation (4)	Assembly (4)	Supervisory Activities(4)	Other Services(4)
36. Slovakia	6 months	6 months	6 months	6 months	91 days
37. South Africa	6 months	6 months	6 months	6 months	120 days
38. Spain	183 days	183 days	183 days	183 days	3 months
39. Sri Lanka	90 days	90 days	90 days	90 days	90 days
40. Sudan	6 months	6 months	6 months	6 months	3 months
41. Sweden	6 months	6 months	6 months	6 months	3 months
42. Switzerland	183 days	183 days	183 days	183 days	-
43. Syria	6 months	6 months	6 months	6 months	183 days
44. Taiwan	6 months	6 months	6 months	6 months	120 days
45. Thailand	6 months	6 months	6 months	6 months	183 days
46. Tunisia	3 months	3 months	3 months	3 months	3 months
47. Turkey	6 months	6 months	6 months	6 months	183 days
48. Ukraine	6 months	6 months	6 months	6 months	4 months
49. United Arab Emirates	6 months	6 months	6 months	6 months	6 months
50. United Kingdom	183 days	183 days	183 days	183 days	91 days
51. United States	120 days	120 days	120 days	120 days	120 days
52. Uzbekistan	6 months	6 months	6 months	6 months	3 months
53. Venezuela	6 months	6 months	6 months	6 months	
54. Vietnam	6 months	6 months	6 months	6 months	3 months

Note: Numbers in parentheses correspond to the following notes:

(1) All tax treaties contain provisions defining the concept of a “permanent establishment” (PE) and stipulating time tests, within which an entity can carry on activities in a contracting state without creating a PE. Where an entity’s corporate presence exceeds the time test as stipulated in the relevant treaty, a PE will be deemed to exist. This results in increased obligations in terms of filing and taxes payable as PEs are considered local taxpayers. As such, a company’s presence in Indonesia should be carefully monitored and kept within time test limits if it wishes to avoid creating a PE in Indonesia.

(2) In the absence of a treaty, Indonesian domestic tax law allows the furnishing of services in whatever form by employees or other people for up to 60 days in any 12-month period, without creating a PE in Indonesia.
(3) To use tax treaty facilities, the Indonesian payer should self-assess and obtain a certificate of residence and other necessary supporting documents from the foreign payee.
(4) There are slight variations in the wording of the PE provisions in each treaty, but the time tests generally relate to various activities which continue for a stipulated period, usually within the time frame of any consecutive 12-month period.
(5) The (new) tax treaty has been effective since 1 January 2004
(6) Notice of ratification has been made in 2004 and the tax treaty will be effective from 1 January 2005.

Depreciation

Expenditures incurred in relation to assets with a beneficial life of more than one year are categorised and depreciated from the month of acquisition by consistently using either the straight-line or declining-balance method as follows:

1. **Category 1** – 50% (declining-balance) or 25% (straight-line) on assets with a beneficial life of four years. Examples of assets in this category are computers, printers, scanners, furniture and equipment constructed of wood/rattan, office equipment, motorcycles, special tools for specific industries/services, kitchen equipment, manual equipment for agriculture, farming, forestry and fishery industries, light machinery for the food and drink industries, motor vehicles for public transportation, and equipment for the semi-conductor industry.

2. **Category 2** – 25% (declining-balance) or 12.5% (straight-line) on assets with a beneficial life of eight years. Examples of assets in this category are furniture and equipment constructed of metal, air conditioners, cars, buses, trucks, speed-boats, containers and the like, machinery for agriculture, plantation, forestry, fishery, food and drink, and light machinery, logging equipment, equipment for construction, heavy vehicles for transportation, warehousing, and communication, telecommunications equipment, and equipment for the semi-conductor industry.

3. **Category 3 –** 12.5% (declining-balance) or 6.25% (straight-line) on assets with a beneficial life of 16 years. Examples of assets in this category are machinery for general mining other than oil and gas, machinery for the textile, timber, chemical, and machinery industries, heavy equipment, docks and vessels for transportation and communication, and other assets not included in the other categories.

4. **Category 4** – 10% (declining-balance) or 5% (straight-line) on assets with a beneficial life of twenty years. Example of assets in this category are heavy machinery for construction, locomotives, railway coaches, heavy vessels, and docks.

5. **Building Category** – 5% (straight-line) on assets in the permanent building category with a useful life of 20 years; or 10% (straight-line) on assets in the non-permanent building category with a useful life of 10 years. Included in the cost of buildings is the land and building transfer duty (BPHTB) on building rights.

Lists of the assets included in each category are set out in Minister of Finance decrees. Separate lists of assets and depreciation rates for the oil and gas sector are also specified in a Minister of Finance decree.

Special rules apply to assets used in certain areas for certain industries and KAPETs (see page 9).

Amortisation

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

1. By using the straight-line or the declining-balance method at the rates specified in categories 1, 2, 3, and 4 under 'Depreciation', based on the useful life of the property:
   Category 1 - Four years
   Category 2 - Eight years
   Category 3 - Sixteen years
   Category 4 - Twenty years

   The category is determined on the basis of the nearest useful life (i.e. an intangible asset with a useful life of 6 years may be

Category 1 or Category 2, while an intangible asset with a useful life of 5 years is Category 1).

2. Costs of incorporation and expansion of the capital of an enterprise are claimed in full in the year the expenditure is incurred or are amortised using either the declining-balance or straight-line method at the following rates:
   Category 1 - 50% declining-balance; 25% straight-line
   Category 2 - 25% declining-balance; 12.5% straight-line
   Category 3 - 12.5% declining-balance; 6.25% straight-line
   Category 4 - 10% declining-balance; 5% straight-line

3. Costs incurred for acquiring the right to oil and natural gas concessions having a beneficial life greater than one year are amortised using the production-unit method.

4. Costs incurred for acquiring mining rights, forest concessions, and other rights to exploit natural resources and natural products with a beneficial life of more than one year are amortised using the production-unit method but not exceeding 20% per annum.

5. Costs incurred before commercial operations commence with a useful life of more than one year are capitalised and amortised according to the rates in paragraph 2.

Asset Transfers

For transfers of property or rights, the remaining book value of the property or rights is deducted and the amount received as compensation constitutes income in the year of the transfer.

Revaluation of Fixed Assets

Resident corporate taxpayers and permanent establishments (PE) may revalue any income-earning tangible fixed asset (not intended for transfer or sale) on a selective basis provided:

- The taxpayer has no outstanding tax obligations;
- The taxpayers are not keeping accounts in US dollars; and

- The revaluation is based on fair value as confirmed by a Government recognised assessor.

The difference between the fair market value and the tax book value of the revalued assets is offset against any current and prior year tax losses. A net gain is then subject to 10% final tax. Taxpayers conducting "business combinations" can spread payment of the final tax over 5 years.

Additional final income tax of 20% is imposed if the revalued assets are sold or transferred within 5 years of the revaluation (does not apply to assets transferred to the Government or transferred in the course of a tax-free business merger, "combination" or "expansion").

Stamp Duty

Stamp duty is nominal, at either Rp. 6,000 or Rp. 3,000 on certain documents.

Examples of documents which are subject to stamp duty include:

a. Letters of agreement and other letters (such as authorization letters, letters bestowing gifts, declarations) which are prepared for the purpose of being used as evidence of act, fact, or condition of a civil nature.
b. Notarial deeds and their copies.
c. Deeds prepared by Pejabat Pembuat Akta Tanah (officers who are responsible for the preparation of land deeds), including their copies.
d. All documents bearing a sum of money which:
   - state the receipt of money
   - state the recording or deposit of money in a bank
   - contain notification of a bank balance
   - contain the acknowledgement of debt wholly or partly paid or compensated
   - are in the form of valuable documents such as drafts, promissory notes, acceptances
   - are in the form of securities in whatever name or form
   - are in the form of cheques.
e. Documents to be used as instruments of evidence before a court:
   - ordinary letters or internal papers
   - papers originally exempt from stamp duty on the basis of their purpose of use, if they serve other aims or are used by other parties, and deviate from their original purpose.

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

Land and Building Tax

Land and building tax is payable annually on land, buildings, and permanent structures. The effective rates are nominal, typically not more than 0.1% per annum of the value of property. An effective rate of 0.2% is applicable to certain tax objects such as forestry, plantations, mining and other objects that have a value of more than Rp 1 billion.

The sales value of property is determined every three years by the Minister of Finance, except in certain regions, where it is determined annually according to development in the region concerned, for example, the addition of toll roads.

Special calculation formulas apply to plantations, mining and forestry businesses. The thresholds of non-taxable tax objects are stipulated by each regional government but may not be more than Rp 12,000,000. Land and buildings used for religious worship, social affairs, health, national education and culture, graveyards, archeological relics, protected forests, nature reserves, tourist forests, national parks, pastures under village control and other state lands, diplomatic offices and consulates (on a reciprocal basis) and designated international organisations are non-taxable. A 50% reduction is given for hospitals.

Taxpayers are those who have “rights over land”, “possess or control buildings” or “obtain benefits from land or buildings”. The law is not clear on whether the landlord or tenant is liable, but the tenant may be taxed if the landlord cannot be traced.

Objections to assessments may be submitted to the Head of the Tax Office for Land and Building Tax (KPP-PBB) in the area where the property is located, who has 12 months to make a decision.

Land and Building Transfer Duty

Land and building transfer duty (BPHTB) of 5% is payable by an individual or corporate entity obtaining rights to land or buildings.

The 5% rate is computed on the transfer value or the value forming the basis of the land and building tax (NJOP), whichever is higher.

BPHTB applies only if the acquisition value is greater than certain value which is stipulated by each regional government but may not be more than Rp. 60,000,000. The non-taxable tax object acquisition value of rights acquired due to an inheritance is stipulated regionally at no more than Rp. 300,000,000.

A number of exemptions or reductions apply, including:

- Transfers to diplomatic representatives and certain international organisations;
- Transfers intended for general government activities or in the public interest;
- Rights conversions without changes in the name of ownership;
- Wakaf (religious donations);
- Transfers for religious purposes;
- Where the land or buildings are used for social or educational activities that are non-profit-seeking – 50% reduction;
- Grants to blood relatives in a straight line, either one step above or below – 75% reduction;
- Where the land and/or buildings are transferred in connection with a merger – 50% reduction;
- Where the land or buildings are auctioned and the purchase price is lower than the NJOP – reduction equal to the difference between the transfer duty according to the NJOP and the transfer duty according to the auction price.

A notary is prohibited from signing a transfer of title deed until duty payment has been made.

Value Added Tax

General

VAT is levied at 10% on imported and locally produced goods, on most services and also at the retail level, including disposals and transfers of assets not originally intended for resale whose input VAT paid at the time of purchase could be credited. VAT is also levied on deliveries of goods from a head office to branches or between branches and on deliveries to intermediaries, except for companies which:

- obtain VAT centralisation approval
- register in Large Tax Office
- file VAT Returns by e-filing

In principle, input VAT on purchases related to a taxpayer's business may be credited against output VAT due on sales with some exceptions, most notably VAT on expenditures associated with making exempt supplies and employee benefits-in-kind. Input VAT on imports paid by an importer on a customs underpayment assessment issued by the Customs Office may also be credited against output VAT. Any excess of output VAT over input VAT must be paid to the Tax Office by the 15th of the following month. A monthly tax return must be lodged by the 20th of that month.

VAT Refund

Where input VAT exceeds output VAT, a refund of input VAT can be requested on a monthly basis or the excess amount can be credited against the output tax in future periods. The approval periods for refunds are determined as follows:

a. Certain qualifying taxpayers will receive approval within 1 month.
b. Exporters and suppliers to VAT collectors who do not qualify for the 1 month approval will receive approval within 2 months.
c. Other taxpayers will receive approval within 6 months.
d. If the Tax Office elects to audit all taxes, the refund in all cases must be determined within 12 months.

Except for (a), VAT refunds are subject to the tax authority's audit/ review before payment.

Crediting Input VAT

An input tax credit must be claimed not later than three months after the end of the tax period in which it should have been claimed. If this deadline is missed, the credit can still be claimed, but only by submitting an amended VAT return for the period when it should have been claimed.

An input VAT invoice issued late for more than 3 months, is considered as an invalid tax invoice. Therefore, it is not creditable.

Exemptions

The following goods and services are not subject to VAT by legislation.

Goods

a. mining or drilling products extracted directly such as crude oil, natural gas, geothermal energy, sand and gravel, coal before being processed into coal briquettes, iron ore, tin ore, copper ore, gold ore, silver ore and bauxite ore;
b. basic commodities needed by society – rice, salt, corn, sago and soya beans;
c. food and drink served in hotels, restaurants and the like; and
d. money, gold bars and securities

Services

a. medical health services;
b. social services such as orphanages and funeral services;
c. mail services with stamps;
d. banks, insurance, and finance leasing services;
e. religious services;
f. educational services;
g. commercial art and entertainment services which are taxed under regional entertainment tax;
h. broadcasting services for advertising;
i. public transportation on land and water and international air transport;

j. manpower services;
k. hotel services; and
l. public services provided by the Government.

The following goods and services are categorised as strategic goods that are exempted from the imposition of VAT, under certain circumstances, on their import and delivery:
a. Certain machinery and factory equipment used to manufacture taxable goods (excluding spare parts)
b. agricultural, plantation and forestry products, animal husbandry products, including hunting and trapping, and cultivation or fishery products, including the catching and cultivation of fish produced by farmers;
c. electricity, except household electricity exceeding 6,600 watts;
d. piped water, or through drinking water tankers;
e. cattle, poultry and fish feed, and the raw materials for manufacturing cattle, poultry and fish feed; and
f. seeds and seedlings for agricultural, plantation, forestry, farm and animal husbandry products.

In addition, imports and local deliveries of the following goods or services are exempted from VAT:
a. weapons, ammunition and transportation for use by the armed forces which are not yet produced in Indonesia;
b. polio vaccines for the National Immunization Program;
c. general textbooks and religious books;
d. ships and spare parts imported for use by national commercial shipping companies or national fishing companies;
e. services received by national commercial shipping companies or national fishing companies, including ship rental, seaport services and ship maintenance or docking services;
f. aircraft and spare parts imported for use by national commercial airline companies;
g. services received by national commercial airline companies including aircraft rental and maintenance services;
h. trains and spare parts imported by PT Kereta Api Indonesia;

i. train maintenance and repair services received by PT Kereta Api Indonesia;
j. low-cost housing, modest flats and student accommodation;
k. services rendered for the construction of low-cost housing, modest flats and places of worship; and
l. leasing services for low-cost housing.

VAT in Batam

For years Batam has been treated as a *special* bonded zone with more VAT facilities than those granted to ordinary bonded zones. After several times of deferment, certain steps have finally been taken to turn Batam into an ordinary bonded zone. Hence, except for companies qualifying for a bonded zone status, starting 1 January 2004 VAT and luxury sales goods tax (LST) will be applied in Batam as follows :

- Starting 1 January 2004 VAT shall be imposed on deliveries of automotive, cigarette and liquor products
- Starting 1 March 2004 the list of taxable goods shall be extended to include electronic products
- Further extensions of the list shall be made no later than every 6 months.

Furnishing of services shall be subject to VAT in the same manner as other parts of Indonesia.

VAT Collectors

Effective from 1 January 2004, only the State Treasury qualifies as a VAT collector. The designation is no longer applicable for any other entities previously appointed as VAT collectors (state-own companies, Production Sharing Contractors, Contract of Work companies, and central banks).

Given the change, the ordinary input - output mechanism should be applicable for any transaction involving VAT except those requiring payments from the State Treasury.

Self-Assessed VAT

Where an Indonesian taxpayer receives and utilises certain services from outside Indonesia, including royalties, the recipient of the services must self-assess, report, and pay VAT by the 15th of the following month. The VAT due under this procedure is available for input tax credit, subject to the normal VAT input tax rules.

Special Rates of Output VAT

Special rates apply to certain goods and services. For example, VAT on:

1. services rendered by a travel agent are levied at 1% of invoice value;
2. cigarettes sold by manufacturers are levied at 8.4% of invoice value;
3. courier services are levied at 1% of invoice value;
4. independent construction (self-building) is levied at 4% of total costs incurred or paid, exclusive of the acquisition price of land;
5. factoring services is levied at 0.5% of the total fee, including service fees, provisions, and discounts;
6. sales of second-hand motor vehicles by motor vehicle dealers is levied at 1% of total sales value.
7. redemption of VAT on "paid" stickers on audio tapes and video recordings;
8. own use and free gifts of taxable goods and/or services are levied at 10% of the cost of sales.

VAT Invoices

VAT invoices must contain the following information:

a. the name, address and tax ID number of the taxpayer delivering the taxable goods or services;
b. the name, address and tax ID number of the purchaser;
c. the type of good or service, the quantity, the sales price or compensation and any discounts;
d. the VAT that has been collected;
e. the sales tax on luxury goods that has been collected (if any);

f. the code, serial number and date of issuance of the invoice; and
g. the name, position and signature of the authorized signatory to the invoice.

Documents that can be considered VAT invoices are:
a. import declarations (PIBs) together with tax payment slips or tax collection slips issued by Customs;
b. export declarations (PEBs);
c. instruction letters for the distribution of milled flour from Bulog or Dolog;
d. Pertamina delivery invoices;
e. telephone/telecommunications service bills, electricity bills, airway bills, or delivery bills issued for domestic air transportation services; and
f. sales invoices issued for deliveries of port services.

VAT Base

Generally, tax imposition base (DPP) is the sales price or compensation paid.

Luxury sales tax is not included in the tax imposition base (DPP) for importers or manufacturers.

Administrative Penalties

An administrative penalty of 2% of the tax imposition base (DPP) is applied in the following circumstances:
a. A qualified taxpayer has not registered as a VAT enterprise ("PKP").
b. A taxpayer issues VAT invoices without being confirmed as a VAT enterprise.
c. A VAT enterprise does not issue VAT invoices or issues incorrect, late, or incomplete VAT invoices.

If a tax overpayment is incorrectly used as an offset or the 0% rate was incorrectly applied, a 100% penalty will be imposed in addition to the tax itself.

Sales Tax on Luxury Goods

Sales tax is levied at 10%, 20%, 30%, 40%, 50%, 60% and 75% on imported and domestically produced luxury goods as stipulated by the Minister of Finance.

Sales tax is collected at the import and manufacturing levels, not at the end-consumer level.

The monthly payment and reporting deadlines are the same as those for VAT, i.e., the 15th of the following month for payment and the 20th for reporting.

Taxable items include the following (note that a number of items are taxed at several rates and specific rates and specific advice should be sought in relation to the appropriate rate):

(1) Taxable at the 10% rate:
   a) fermented cream or milk, nuts or cocoa, yoghurt, kephir, whey, cheese, butter
   b) bottled/packaged fruit or vegetable juices
   c) bottled/packaged non-alcoholic drinks including soda water
   d) certain household utensils, coolers, heaters, and certain TV receivers
   e) equipment and accessories for sports
   f) air conditioners
   g) visual recording or reproducing apparatuses, radio receivers
   h) photography, cinematography apparatuses and their equipment
   i) motor vehicles with more than 10 seats using petrol, diesel or semi-diesel
   j) motor vehicles with less than 10 seats, except sedans and station wagon with 4x2 wheel drive, using petrol, diesel or semi-diesel fuel with a cylinder capacity of less than 1500 cc

(2) Taxable at the 20% rate:
   a) certain household utensils, coolers, certain heaters, except those under (1)
   b) luxury apartments, condominiums, town houses
   c) air conditioning units, washing machines, dryers, electromagnetic instruments, and musical instruments
   d) perfumes
   e) certain carpets, except those made from choir, silk or wool, or animal fur or feathers
   f) motor vehicles with less than 10 seats, except sedans and station wagons with 4X2 wheel drive, using petrol, diesel or semi-diesel with a cylinder capacity of 1500 cc to 2500 c c

(3) Taxable at the 30% rate:
   a) ships, vessels and water vehicles, dugouts, canoes, except those for government and public use
   b) equipment and accessories for sports, except those under (1)
   c) motor vehicles with less than 10 seats in the form of sedans/ station-wagons, or other vehicles having 4X4 wheel drive, with a cylinder capacity of up to 1500 cc

(4) Taxable at the 40% rate:
   a) certain alcoholic beverages
   b) goods made of leather or imitation leather
   c) silk or wool carpets
   d) goods made of crystal for table, kitchen, home or office decoration
   e) goods made of precious metals and/or precious metals or combinations thereof
   f) ships, vessels, and water vehicles, except those for government and public use and those under (3)
   g) balloons and private aircraft
   h) bullets and other weapons, except those for government use

i) footwear
j) household and office furniture and fittings.
k) goods made of porcelain, land, chinese land or ceramic
l) goods made of stone
m) motor vehicles with less than 10 seats, besides sedan and station wagons using petrol with 4X2 wheel drive and having a cylinder capacity of 2500 to 3000 cc
n) motor vehicles with less than 10 seats with 4X4 wheel drive using petrol and having a cylinder capacity of 1500 cc to 3000 cc
o) motor vehicles with less than 10 seats using diesel or semi-diesel and having a cylinder capacity of 1500 cc to 2500 cc

(5) Taxable at the 50% rate:
a) carpets made of animal fur or feathers
b) aircraft, except those under (4) and except those for government and public use
c) equipment and accesories for sports, except those under (1) and (3)
d) weapons and shooting equipment, except those for goverment use
e) all motor vehicles used as golf carts

(6) Taxable at the 60% rate:
a) 2-wheeled motor vehicles with a cylinder capacity of 250 cc to 500 cc
b) special motor vehicles used for the snow or beach

(7) Taxable at the 75% rate:
a) alcoholic beverages, except those under (4)
b) goods made of precious metal, precious stones, pearls or combinations thereof, except those under (4)
c) luxury yachts, except those for government and public use
d) motor vehicles with less than 10 seats using petrol and having a cylinder capacity of more than 3000 cc or using diesel or semi-diesel and having a cylinder capacity of more than 2500 cc

e) 2-wheeled motor vehicles with a cylinder capacity more than 500 cc
f) trailers and semi-trailers for caravans for camping or home use.

Luxury goods exempt from the imposition of luxury sales tax are:
a) motor vehicles used as ambulances, police vans, fire-engines, hearses, and public transportation
b) motor vehicles used for the official duties of State protocol
c) motor vehicles with more than 10 seats using diesel or semi-diesel of all cylinder capacities used for the official duties of the Indonesian Armed Forces/State Police

If the luxury goods which are exempted from luxury sales tax are transferred/sold within 5 years or are not to be used for main purposes, the luxury sales tax exempted must be paid within 1 month after the goods are transferred/sold or not used for main purposes, otherwise the ITO may impose penalties for late or non-payment of such tax.

Import Duty

Import duty is payable at rates from 0% - 170% on the customs value of imported goods. Customs value is calculated of the cost, insurance and freight level (CIF).

Group	Good	Rate (%)
Automobiles	Passenger & commercial vehicles	25 to 80
Automobile Parts		15
Electronic Goods		Mostly 5 to 15
Footwear		10 to 15
Ethyl Alcohol & Alcoholic Drinks	Ethyl alcohol, beer, wine, spirits	30 to 170
Agricultural Products	Animal & vegetable products	Mostly 5
Other	Chemicals, pharmaceutical products, rubber, etc.	Mostly 5

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 for social and cultural reasons.

ASEAN duty rates

Limited relief is given to ASEAN countries on imports of goods that have at least 40% ASEAN content and are directly shipped between such countries.

This scheme is intended to boost inter-ASEAN trade by reducing duty rates on most goods to between 0% and 5% by the year 2003, with the aim of eliminating most duties by 2010.

Duty Relief/Exemption/Deferral
The Indonesian Government offers duty relief, duty exemption and duty deferral facilities to foreign and domestic investors in order to promote the development of local and export industries. Such facilities include the BKPM Masterlist, Bonded Zone, Bonded Warehouse and KITE (*Kemudahan Impor Tujuan Ekspor*, previously BINTEK) facilities.

BKPM Masterlist Facility
The BKPM masterlist facility provides duty relief for eligible machinery and raw materials, with a maximum 5% duty rate payable.

Bonded Zone
A Bonded Zone is a facility for encouraging exports by exempting imported capital equipment and raw materials from import duty, provided at least 66% of the production value of finished goods (or 50% in the case of semi-finished products) is exported.

Bonded Warehouse
The Bonded Warehouse facility allows for the payment of import taxes to be deferred until goods are delivered to the domestic market.

KITE Facilities
The KITE exemption allows for goods to be imported without payment of import taxes, provided the finished products are wholly exported. A KITE drawback allows for the recovery of import taxes paid on imported goods that are incorporated into goods which are subsequently exported.

Import Licenses
Import restrictions apply to certain products, including alcoholic drinks, ammunition and hazardous waste. A special Importer Identification Number (NPIK) also needs to be obtained to import certain items, including textile products, shoes, and electronic goods.

Customs compliance environment and administrative penalties
Customs may re-determine the classification or valuation of an importer's goods within 2 years of the date of an import declaration.

Administrative penalties of up to 500% may be imposed where Customs determines that import duty has been underpaid.

Regional Taxes

This booklet does not cover regional taxes and local charges as determined by Provinces and Regencies/Cities.

Underpayment of Tax

Where a tax assessment has been issued, an interest penalty is chargeable on tax not paid by the due date, calculated from that date until it is paid. The rate of interest is 2% per month for a maximum of 24 months.

Administrative surcharges levied on underreported tax:

- 50% of the income tax not paid or underpaid in a tax year if a tax return is not filed or not filed within the specified period as stated in the reminder letter issued by the Tax Office.

- 100% of the income tax not withheld or underwithheld, not collected or undercollected, or not deposited or underdeposited.

- 100% of any VAT or sales tax on luxury goods not deposited or underdeposited, in certain circumstances.

If a taxpayer corrects its own tax return (2-year limit after the tax is due or after the end of tax period or tax year) with the result that the tax owed increases, a penalty in the form of 2% interest per month is applied to the total tax underpayment (to a maximum of 48%), calculated from the end of the filing date for the period until the date of payment arising from the corrected tax return.

Even though a tax return has been corrected or the 2-year limit has passed, a taxpayer may declare an error in the tax return as long as the Tax Office has not issued a tax assessment and the revision results in a higher taxable profit or a lower tax loss. Any tax underpaid and the administrative surcharge of 50% of the tax underpaid should be paid before the tax return is submitted.

Filing of Tax Returns

A tax return and its attachments not submitted completely will be considered not to have been submitted at all.

Monthly tax returns (corporate/individual Article 25 income tax, VAT, Article 21 employee tax, Article 4(2), Article 15, and Articles 23/26 withholding tax) must be filed by the 20th of the following month. Individual resident taxpayers who do not have any business activities and all of whose regular income has been subject to Article 21, 22, 23 and final withholding taxes are not required to file monthly income tax returns.

Taxpayers who issue 500 or more standard VAT invoices a month must report the VAT return attachments electronically in diskette, digital data storage (DDS), digital audio tape (DAT) or compact disc (CD) format.

Tax payments, if any, for the above monthly tax returns must be made by the 10th of the following month for Article 21 and Article 23/26 and by the 15th of the following month for Article 25 and VAT. VAT collectors must also pay their tax due by the 15th.

Annual corporate income tax returns must be filed within 3 months of the end of a book year.

Annual employee and individual income tax returns must be filed by March 31 of the following year.

Tax payment, if any, for the above annual tax returns must be made by the 25th of the month in which the return is filed.

No annual tax returns are due for VAT, Article 4(2) and Article 23/26 withholding tax.

The administrative fines for late filing are Rp. 50,000 per monthly tax return and Rp. 100,000 per annual tax return.

Recording and Accounting

Generally, accounts and records must be kept in Indonesia, denominated in rupiah, and composed in Indonesian or a foreign language approved by the Minister of Finance.

PMA (foreign investment) companies, permanent establishments of foreign companies, production sharing contractors, contract of work companies and other entities with foreign affiliations are allowed to keep records in English and accounts in US dollars, subject to approval from the Director General of Taxes.

PMA companies, permanent establishments, and other entities with foreign affiliations must obtain this approval at least 3 months before the beginning of the relevant accounting year or within 3 months of a new taxpayer being established.

Production sharing contractors and contract of work companies must notify the Tax Office in writing at least one week before US dollar/English bookkeeping is adopted.

A taxpayer who uses English (only) in its bookkeeping has to submit written notification to the Tax Office within 3 months after the beginning of the book year when English bookkeeping commences.

Tax Audits, Assessments, Objections, and Appeals

Tax Audits and Assessments

The Indonesian tax system is based on the principle of "self-assessment". However, the Tax Office has the right to issue an assessment within a 10-year limitation period ("statute of limitation"), if, after an audit, it considers that the taxpayer has not self-assessed the correct amount or if no tax return has been lodged. However, an assessment can be issued after expiry of the 10-year limitation period if the taxpayer has committed a criminal act.

The Tax Office conducts the following types of audits:

- full audits, which should be completed within 2 months, but may be extended to 8 months;
- simple field audits, which should be completed within 1 to 2 months;
- simple office audits, which should be completed within 4 to 6 weeks;
- if any transfer pricing issues are identified, the tax audit may be extended up to 2 years, although this does not apply if the taxpayer requests a refund.

Additional Assessments

An additional tax assessment letter may be issued within the 10-year limitation period if new data and/or data previously undisclosed is discovered shows that the tax liability has been understated. An administrative surcharge of 100% is levied on such additional assessments. An additional assessment can be issued after expiry of the 10-year limitation period if the taxpayer has committed a criminal act, in which case an administrative (interest) penalty of 48% is applied to the additional assessment in addition to the above surcharge.

Objections

A taxpayer may object to an assessment or an additional assessment within 3 months of its date of issue. The Tax Office has one year in which to issue a decision. The Tax Office may reduce the assessment, confirm it, or even increase it. Failure to issue a decision means the taxpayer's objection is deemed to be accepted.

Upon a partially or fully successful objection, the tax already paid based on a tax underpayment assessment (SKPKB) and/or additional tax underpayment assessment (SKPKBT) will be returned to the taxpayer plus compensation of 2% interest per month up to a maximum of 24 months.

Reduction or Cancellation

A taxpayer may submit an application to reduce or cancel administrative penalties on tax assessments (request for reconsideration) to the Tax Office. The application has to be processed within 12 months, otherwise the application is deemed to be accepted.

Appeals and Suits

A taxpayer may appeal to the Tax Court (Pengadilan Pajak/PP) against a decision of the Tax Office on the taxpayer's objection. This appeal must be made within 3 months of receiving the decision but requires that at least 50% of the assessed tax has first been paid.

A taxpayer may also file a law suit with the PP in relation to the tax collection process for tax assessment decisions other than those against which an objection can be filed and any correction decision issued by the Tax Office with respect to a tax collection letter.

Lawsuit and appeal decisions must be issued within 6 and 12 months respectively, but may be extended by an additional 3 months under certain circumstances.

A decision of the PP can be appealed by filing a request for reconsideration with the Supreme Court (Mahkamah Agung/MA) within 3 months of discovery of one of the following conditions:

- if the decision is considered to be based on perjury or deception on the part of the opposing party or based on evidence that is subsequently found to be invalid by a criminal court judge.
- if there is new very important written evidence that could alter a decision if it had been discovered in an appeal or a law suit.
- if a decision clearly does not conform with prevailing tax regulations.

Upon a partially or fully successful appeal or suit, the tax already paid based on tax underpayment assessment (SKPKB) or additional tax underpayment assessment (SKPKBT) will be returned to the taxpayer plus compensation of 2% interest per month up to a maximum of 24 months even if one of the disputing parties files a request for reconsideration with the MA.

Payments

Payment is due within one month of the issuance of an assessment or additional assessment, even where an objection is lodged. Application may, in certain circumstances, be made to install or postpone payment. The application should be filed at least 15 days before the due date. The application must be processed by the Tax Office within 10 days, otherwise a taxpayer's application is deemed to be accepted, except if the taxpayer submits a request for reconsideration, an objection or an appeal.

Contacts

Our tax department is available to advise and help you with all aspects of taxation and to ensure that you meet your compliance commitments in an orderly and timely manner.

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

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