

# International Tax

## Indonesia Highlights

In Plain English



CASTRO  
& CO  
INTERNATIONAL

1701 Pennsylvania Ave NW, Suite 200  
Washington, DC.  
20006, USA

Phone : +1 202 792 6600  
[www.CastroAndCo.com](http://www.CastroAndCo.com)

## Investment basics:

**Currency** – Indonesian Rupiah (IDR)

**Foreign exchange control** – The rupiah is freely convertible. However, approval of Bank Indonesia (the central bank) must be obtained before taking IDR 100 million (or its equivalent in foreign currency) or more out of the country. A person carrying IDR 100 million (or its equivalent in foreign currency) or more into the Indonesian customs territory must verify the authenticity of the funds with Indonesian customs upon arrival.

Indonesia does not restrict the transfer of funds to or from foreign countries, but banks must report any transfers of funds to foreign countries to Bank Indonesia.

IDR must be used in all transactions that are used as a payment, the settlement of obligations that must be satisfied with a cash payment and other financial transactions conducted in Indonesia. Exemptions are provided for the following transactions: certain transactions related to the implementation of the state budget; the receipt or award of offshore grants; international trade transactions; bank deposits in foreign currency; and offshore loan transactions.

**Accounting principles/financial statements** – Indonesian GAAP applies.

**Principal business entities** – The limited liability company (Perseroan Terbatas, or PT) is the most common form of business entity in Indonesia. A branch of a foreign corporation normally is not permitted, except for entities operating in the oil and gas sector and those providing banking services. A negative investment list is used for sectors that are closed (in whole or in part) to foreign investment.

## Corporate taxation:

**Residence** – A company is a resident if it is established or domiciled in Indonesia, or if its place of effective management or control

is in Indonesia.

**Basis** – Resident companies are taxed on worldwide income. Nonresident companies are taxed only on income sourced in Indonesia, including income attributable to a permanent establishment (PE) in the country.

**Taxable income** – Taxable income is defined as assessable income less tax-deductible expenses. Assessable income includes (but is not limited to) income from the carrying on of a business; gains from the sale of property; and passive income, such as dividends, interest, royalties, etc.

**Taxation of dividends** – Dividends received by a resident company are considered ordinary income, but may be exempt under the domestic participation exemption (see also “Participation exemption”).

**Capital gains** – Capital gains are considered ordinary income and are taxed at the standard corporate income tax rate. Capital losses are tax-deductible. Certain transactions are taxed under a special regime (e.g. income from disposals of land and/or buildings, see “Transfer tax”).

**Losses** – Losses may be carried forward for five years following the year the losses were incurred. Subject to approval from the relevant authority, this period may be extended up to 10 years for certain industries and for operations in remote areas. The carryback of losses is not permitted.

**Rate** – The standard corporate tax rate is 25%. Certain resident corporate taxpayers (other than PEs of foreign companies) that earn or receive gross income that does not exceed IDR 4.8 billion in a fiscal year are subject to a reduced corporate income tax of 0.5% of gross income for a certain period of time. Resident corporate taxpayers with gross revenue between IDR 4.8 billion and IDR 50 billion receive a 50% reduction in the corporate tax rate imposed on taxable income that is attributable to gross revenue

up to IDR 4.8 billion.

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – Resident companies that derive income from foreign sources are entitled to a unilateral tax credit with respect to foreign tax paid on the income. The credit is limited to the amount of Indonesian tax payable on the income.

**Participation exemption** – Dividends received or derived by a resident company from a participation in an Indonesian limited liability company are exempt from tax if the recipient holds at least 25% of the shares of the payer and the dividends are distributed from retained earnings.

**Holding company regime** – No

**Incentives** – Tax incentives are available to entities with capital investments in certain approved industry sectors or those operating in certain geographic locations if certain conditions are satisfied. Incentives include a 30% tax investment allowance (5% per year over six years), accelerated depreciation/amortization, an extended carryforward of losses up to 10 years and a reduced withholding tax rate of 10% on dividends paid to nonresidents.

An income tax rate reduction of 5% may be available to a public company that has at least 40% of its total paid-up shares traded on the Indonesian stock exchange if certain requirements are met.

A tax holiday regime is available for new or increased investment in specified business sectors (e.g. pioneer industries), but companies that use this regime are not entitled to the tax incentives mentioned above. Qualifying projects in high-priority sectors may be granted a 100% exemption from corporate income tax for a minimum of five years up to a maximum of 20 years from the commencement of commercial

operations, depending on the value of the investment (the minimum investment is IDR 500 billion), and a 50% reduction in corporate income tax for the next two years. A 50% reduction in corporate income tax for five years from the commencement of commercial operations may be granted for projects with a minimum investment of IDR 100 billion but less than IDR 500 billion, with a 25% reduction in corporate income tax for the next two years.

### **Withholding tax:**

**Dividends** – Dividends paid to a nonresident are subject to a 20% withholding tax (which is considered a final tax) unless the rate is reduced under a tax treaty. Dividends paid by a domestic corporate taxpayer to a resident company are subject to a 15% withholding tax (unless the participation exemption applies), which represents an advance payment of tax liability. A 10% final withholding tax is imposed on dividends paid to a tax resident individual.

**Interest** – Interest paid to a nonresident is subject to a 20% withholding tax unless the rate is reduced under a tax treaty.

Interest paid by a domestic taxpayer to a resident is subject to a 15% withholding tax, which generally represents an advance payment of tax liability. Certain recipients are exempt from withholding tax (e.g. resident banks). Interest paid by a bank in Indonesia to a tax resident is subject to a 20% final withholding tax.

**Royalties** – A 20% withholding tax is imposed on royalties remitted abroad unless the rate is reduced under a tax treaty. For tax purposes, “royalties” generally refers to any charge for the right to use certain tangible or intangible assets, as well as the transfer of a right to use intangible assets.

Royalties paid by a domestic taxpayer to a resident are subject to a 15% withholding tax, which represents an advance payment of tax liability.

**Technical service fees** – A 2% withholding tax applies on gross payments made by a domestic taxpayer to a resident taxpayer for technical, management and consulting services and rentals (except for land and building rentals, which are subject to a 10% final withholding tax). A 20% withholding tax is imposed on technical service fees remitted abroad unless the rate is reduced or eliminated under a tax treaty.

**Branch remittance tax** – A 20% branch profits tax is imposed on the taxable income after income tax of a PE. This rate may be reduced under a tax treaty.

### Other taxes on corporations:

**Capital duty** – No, but various registration fees apply.

**Payroll tax** – An employer is required to withhold, remit and report income tax on the employment income of its employees.

**Real property tax** – Land and building tax is payable annually on land, buildings and permanent structures.

The rate typically is not more than 0.3% of the estimated sales value of the property, which is determined by the relevant authority. The land and building tax for certain businesses (i.e. upstream oil and gas, geothermal, mining, plantation, forestry) is regulated under a specific regime.

**Social security** – Two comprehensive social security schemes, i.e. a manpower scheme and a healthcare scheme, are applicable for Indonesian nationals and foreigners who work in Indonesia for at least six months. Contributions to the manpower scheme are intended to provide security insurance for work accidents, death, old age and pensions. The employer contributions are 0.24%- 1.74% for work accident protection; 0.3% for death insurance; 3.7% for old age savings; and 2%, with a certain cap on the salary, for the pension plan. The employer contribution for the healthcare scheme is 4%, with a certain salary cap. Contribution

to the pension plan is not mandatory for expatriates.

**Stamp duty** – Certain documents are subject to stamp duty at a nominal amount of IDR 3,000 or IDR 6,000.

**Transfer tax** – The disposal of land and/or buildings generally is subject to a final tax of 2.5% of the transaction value. The acquisition of land or a building is subject to a duty up to a maximum of 5% of the acquisition value or the sales value (“NJOP”) of the property, whichever is higher.

**Other** – The sale of shares listed on the Indonesian stock exchange is subject to a final tax of 0.1% of the transaction value. An additional tax of 0.5% applies to the share value of founder shares at the time of an initial public offering. The transfer of the shares of an unlisted resident company by a foreign shareholder is subject to a withholding tax of 5% of the transfer value unless an exemption applies under a tax treaty.

### Anti-avoidance rules:

**Transfer pricing** – Transactions between parties that have a special relationship must be carried out in a “commercially justifiable way” and on an arm’s length basis.

Certain documentation is required if the total transactions with a related counterparty exceed a certain threshold. The documentation must include, at a minimum, an overview of the taxpayer’s business operations and structure, its transfer pricing policy, a comparability analysis, selected comparables and an explanation of how the arm’s length price or profit was determined (including the transfer pricing methodology). The Indonesian tax authorities have issued detailed transfer pricing guidelines that generally are in line with the OECD approach.

**Thin capitalization** – A certain portion of interest arising from debt is nondeductible

for tax purposes if the taxpayer's debt-to-equity ratio exceeds 4:1. Exceptions apply for certain industries.

**Controlled foreign companies** – The Ministry of Finance is authorized to determine when a dividend is deemed to be derived from a foreign company established in another country, where an Indonesian resident taxpayer (or together with other resident taxpayers) holds, directly or indirectly, at least 50% of the total paid-in capital or voting rights of the foreign company, with the 50% threshold criterion applied at each level. This applies only if the foreign company does not trade its shares on the stock exchange. If no dividends are declared or derived from the offshore company, the Indonesian resident taxpayer must calculate and report a deemed dividend in its tax return; otherwise, the Ministry of Finance will do so. The dividend will be deemed to be derived either in the fourth month following the deadline for filing the tax return in the foreign country or seven months after the foreign company's tax year ends if the country does not have a specific tax filing deadline.

**Disclosure requirements** – A taxpayer must provide certain information regarding transfer pricing transactions with related parties and related documentation as attachments to the annual tax return. The information will be maintained by the tax authorities and may be tested in a tax audit.

Indonesia has introduced the three-tiered approach to transfer pricing documentation, i.e. the master file, local file and country-by-country (CbC) report. A master file and a local file are mandatory if the taxpayer had (i) gross revenue in the preceding tax year exceeding IDR 50 billion; (ii) tangible goods transactions with a related party in the preceding tax year exceeding IDR 20 billion; (iii) interest, royalties, services or other transactions involving intangibles in the preceding tax year with a related party exceeding IDR 5 billion; or (iv) transactions with an affiliated party located in a

jurisdiction with a tax rate lower than that in Indonesia.

In addition, an Indonesian taxpayer that qualifies as a parent entity of a business group with consolidated gross revenue of at least IDR 11 trillion must submit a CbC report, as well as a master file and a local file.

Taxpayers must provide the necessary information to ascertain whether they have an obligation to submit a CbC report by filing an electronic notification through the Director General of Taxation's online platform. The receipt for the filing must be attached to the annual corporate income tax return.

### **Compliance for corporations:**

**Tax year** – The tax year generally is the calendar year, although a corporate taxpayer can elect to file a corporate tax return based on its book year (subject to approval from the tax authorities).

**Consolidated returns** – Consolidated returns are not permitted; each company must file a separate return.

**Filing requirements** – The monthly tax installment system is a self-assessment system, with tax due on the 15th day of the calendar month following the tax-assessment month. Monthly tax returns must be filed by the 20th day of the following month, except for the monthly VAT return, which is due by end of the following month. Annual corporate tax returns must be filed within four months of the end of the book year, but the deadline can be extended up to two months.

**Penalties** – Penalties vary depending on the situation, such as late tax payment, late filing, tax underpayment and voluntary amendment of returns. The most common penalty is 2% monthly interest on tax underpaid.

**Rulings** – The Director General of Taxation

may issue rulings in certain cases, such as on the tax effects of a certain transaction.

## **Personal taxation:**

**Basis** – A resident individual is taxed on his/her worldwide gross income, less allowable deductions and nontaxable income. A nonresident is taxed only on Indonesia-source income.

**Residence** – An individual is resident if he/she is present in Indonesia for 183 days or more in any 12-month period, or present in Indonesia in the fiscal year and intends to reside in Indonesia. An individual is nonresident if he/she is present in Indonesia for less than 183 days with no intention to reside in the country. A nonresident is not required to register for tax purposes.

**Filing status** – All individual tax residents (including expatriates) must register for tax purposes. An exemption is available for individuals earning less than the nontaxable income threshold, those who do not qualify as individual tax residents or a married woman who will fulfill her tax obligation jointly with her husband. A family is considered a single economic unit, and separate filing is allowed only if there is a prenuptial agreement between the spouses.

**Taxable income** – Taxable income includes profits from employment, a business, capital gains, etc.

**Capital gains** – Capital gains derived by an individual generally are taxed as ordinary income at the normal rates; gains on shares listed in Indonesia are taxed at

0.1% (final tax) of the transaction value. An additional tax of 0.5% applies to the share value of founder shares at the time of an initial public offering. Gains on the disposal of land and/or buildings are taxed at 2.5% (final tax) of the transaction value.

**Deductions and allowances** – An individual who carries on a business may deduct expenses from business income. Expenses

generally are deductible if they are incurred for purposes of generating income. Allowances are provided for the taxpayer, the taxpayer's spouse and up to three dependent children.

**Rates** – Personal tax rates are 5% on the first IDR 50 million of annual taxable income; 15% on amounts exceeding IDR 50 million up to IDR 250 million; 25% on amounts exceeding IDR 250 million up to IDR 500 million; and 30% on amounts exceeding IDR 500 million.

All income earned or received by an individual doing business (except certain independent personal services) that does not exceed IDR 4.8 billion within a fiscal year is subject to a reduced 1% final tax.

## **Other taxes on individuals:**

**Capital duty** – There are no duties on capital or assets, apart from the land and building tax.

**Stamp duty** – Certain documents are subject to stamp duty at a nominal amount of IDR 3,000 or IDR 6,000.

**Capital acquisitions tax** – The acquisition of land or a building is subject to a duty of a maximum of 5% of the acquisition value or the NJOP, whichever is higher. Certain thresholds apply.

**Real property tax** – Land and building tax is payable annually on land, buildings and permanent structures. The rate typically is no more than 0.3% of the NJOP.

**Inheritance/estate tax** – No

**Net wealth/net worth tax** – No

**Social security** – Employed resident individuals must make social security contributions (old age savings) in an amount equal to 2% of monthly compensation, and a pension plan contribution of 1%. An employed individual also must make a healthcare contribution of 1% of monthly compensation (subject to a certain monthly

cap). An employee may add other family members, but he/she will be liable to make an additional 1% contribution per family member per month. The contribution to the pension plan is not mandatory for expatriates.

### **Compliance for individuals:**

**Tax year** – Calendar year

**Filing and payment** – Personal income taxes in Indonesia are levied only at the national level. The employer is responsible for calculating, deducting and remitting tax due on employees' salaries and other remuneration. Most nonsalaried taxpayers assess their own taxable income. The annual tax return is due by 31 March after the close of the previous tax year, but the deadline can be extended up to two months. Individual taxpayers who conduct a business or independent profession with turnover up to certain threshold may elect to be exempt from the bookkeeping requirement and only maintain records of revenue. In such cases, taxable income is assessed based on certain deemed profits.

**Penalties** – Penalties vary depending on the situation, such as late tax payment, late filing, tax underpayment and voluntary amendment of returns. The most common penalty is 2% monthly interest on the tax underpaid.

### **Value added tax:**

**Taxable transactions** – VAT is levied on the “delivery” of taxable goods and the provision of taxable services. VAT also applies to intangible goods (including royalties) and to virtually all services provided outside Indonesia to Indonesian businesses. VAT applies equally to all manufactured goods, whether produced locally or imported. Manufacturing is defined as any activity that changes the original form or nature of a good, creates a new good or increases its productivity. Deliveries to certain areas (e.g. a free zone or bonded zone) may enjoy certain VAT incentives. Certain goods and

services are nontaxable for VAT purposes.

In addition to VAT, certain goods considered as “luxury” items are subject to Luxury Goods Sales Tax (LGST).

**Rates** – The standard rate is 10%. VAT on exports of taxable goods and certain taxable services is zero rated. Zero-rated export services are limited to: toll manufacturing services; repair and maintenance services attached to or for movable goods utilized outside the Indonesian customs area; and construction services attached to or for immovable goods located outside the Indonesian customs area. Certain deliveries of taxable goods and/or taxable services are subject to special VAT base.

LGST rates range up to a maximum of 200%, depending on the type of luxury goods.

**Registration** – Entrepreneurs whose annual delivery of taxable goods and/or taxable services exceed IDR 4.8 billion must register for VAT purposes and issue a VAT invoice on the delivery of taxable goods and/or taxable services.

**Filing and payment** – A monthly VAT return must be filed by the end of the following month, while the monthly VAT payment deadline is before the VAT return is filed. The deadline for payment of self-assessed VAT on the utilization of taxable intangible goods or services from abroad is no later than the 15th day of the month following the time when the VAT becomes due.

**Source of tax law:** VAT Law 8/1983, as amended by Law 42/2009; Income Tax Law 7/1983, as amended by Law 36/2008; General Rules & Procedures of Taxation Law 6/1983, as amended by Law 16/2009

**Tax treaties:** Indonesia has concluded more than 68 tax treaties. Indonesia signed the OECD multilateral instrument on 7 June 2017.

**Tax authorities:** Director General of Taxation

This communication contains general information only, and none of Castro & Co. International, its member firms or their related entities (collectively, “Codex International”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Castro & Co. International network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2020. For information, contact Castro & Co. International.