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Tax & Customs Update

Indonesia Officially Adopts the CBC Report, TP Document Is a Must for Business Groups

Starting Fiscal Year 2016, Indonesian government obliges companies conducting related party transactions, both inland and overseas, to prepare and submit a new concept Transfer Pricing (TP) Document to the Directorate General of Taxes.

The document is a part of the TP documentation that comprises of master and local files as well as country by country report (CbC Report). The document shall be made in Indonesian language.

The provision is regulated by Minister of Finance (MoF) Regulation Number 213/PMK.03/2016 (PMK-213) on the Document Type and/or Other Additional Information Essential to Be Saved by Any Taxpayer Conducting Related Party Transactions, along with the Procedure. The PMK was issued and has become effective as of December 30, 2016.

The Taxpayer Criteria

The Corporate Taxpayer obliged to prepare the master and local files is companies conducting related party transactions under the following criteria:

- The turnover gross value of prior fiscal year is more than IDR50 billion; or
- The related party transaction value of the prior year is more than IDR20 billion in the form of tangible goods; or
- The related party transaction value of the

prior year is more than IDR5 billion for each service, interest payment, utilization of intangible goods or other related party transactions; or

- Related party (both parent and subsidiary business) is located in countries applying lower income tax rate; or
- Parent entity or holding company is located in Indonesia with consolidated turnover value of the current year at least IDR11 trillion for 1 (one) year.

Specifically for CbC Report, the parent entity of the business group with consolidated turnover value of at least IDR11 trillion is automatically obliged to submit CbC Report.

The obligation of CbC Report submission also applies to members of business group in which the parent entity is located in the country or the jurisdiction not obliging any CbC Report or not entering into information exchange agreement with Indonesian government.

The government can also request for the members of business group to submit CbC

Report if the report is not obtained from the country partner that has executed tax information exchange agreement.

The implementation of this policy depicts that Indonesian government officially adopts Base Erosion and Profit Shifting (BEPS) action 13 on the CbC Report.

Master File

PMK-213 stipulates that the master file shall contain information regarding the business group, at least:

- a. Structure and chart of ownership and countries or jurisdictions of each member;
- b. Business activities performed;
- c. Intangible assets owned;
- d. Financial and financing activities; and
- e. Parent Entity's Consolidated Financial Statements and tax information of related party transaction.

Local File

Data and information recorded and reported in the local documents shall at least cover:

- a. Business identity and activities;
- b. Related party and independent transaction information;
- c. Determination of arm's length principle;
- d. Financial information; and
- e. Non-financial events or facts affecting the determination of price or profit rate.

If a taxpayer owns more than 1 (one) business activities under different business characteristics,

the local file shall be provided in segmentation based on the business characteristics.

CbC Report

CbC Report will only be utilized in the event of assessment on tax avoidance risk. Moreover, information and data that shall be covered include:

- a. Income allocation;
- b. Paid tax;
- c. Business activity of each country;
- d. Accumulation of retained earnings;
- e. Number of employees;
- f. Tangible assets; and
- g. List of business group members.

Due Date and Sanction

The taxpayer meeting the criteria shall provide both master and local files no later than 4 (four) months after the end of fiscal year. Further, the summary of the files shall be attached in the Corporate Income Tax Return (CITR) of the current year under the standardized format in the PMK-213 attachments.

Meanwhile, the period for the CbC Report documentation is longer, which is within 12 (twelve) months after the end of fiscal year. The CbC Report, then, shall be reported as an attachment of CITR of the following year.

In case of failing to comply with the obligation to report the TP document, the Taxpayer is subject to sanction stipulated in the tax provisions.

Contact :

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