

taxBlitz

Tax & Customs Update

Boosting Investment, Tax Holiday Coverage Is Expanded

Indonesian Government simplifies the procedure for corporate income tax reduction for certain period (tax holiday) facility granting as well as expands the coverage of business fields to 17 pioneer industries.

The simplification is mainly in the percentage of corporate income tax reduction, with a single rate of 100% (full exemption), from the previous range of 10-100%.

Other than that, the time span of corporate income tax exemption is also extended, from previously around 5-15 years to 5-20 years with the transition period for 2 (two) years of 50% reduction. The stipulation of tax holiday granting period depends on the amount of investment value, with minimum investment value of IDR500 billion or smaller than the previous minimum requirement of IDR1 trillion.

TAX HOLIDAY REGULATIONS	PREVIOUS (PMK No. 103/2016)	NEW (PMK No. 35/2018)												
Subject	New Taxpayer	New Capital Investment												
Tax Reduction	10-100%	100%												
Time Span	5-15 years (can be extended to 20 years with discretion of Minister of Finance)	5-20 years depending on the investment value <table border="1" data-bbox="711 1115 1414 1352"> <thead> <tr> <th>Investment Plan</th> <th>Tax Holiday Time Span</th> </tr> </thead> <tbody> <tr> <td>IDR500 billion to less than IDR1 trillion</td> <td>5 years</td> </tr> <tr> <td>IDR1 trillion to less than IDR5 trillion</td> <td>7 years</td> </tr> <tr> <td>IDR5 trillion to less than IDR15 trillion</td> <td>10 years</td> </tr> <tr> <td>IDR15 trillion to less than IDR30 trillion</td> <td>15 years</td> </tr> <tr> <td>IDR30 trillion or more</td> <td>20 years</td> </tr> </tbody> </table>	Investment Plan	Tax Holiday Time Span	IDR500 billion to less than IDR1 trillion	5 years	IDR1 trillion to less than IDR5 trillion	7 years	IDR5 trillion to less than IDR15 trillion	10 years	IDR15 trillion to less than IDR30 trillion	15 years	IDR30 trillion or more	20 years
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Transition	Not regulated	50% for 2 years												

The policy is stipulated in Minister of Finance Regulation (PMK) Number 35/PMK.010/2018 on Corporate Income Tax Reduction Facility that was issued on and effective as of 4 April 2018. This policy also revokes PMK Number 103/PMK.010/2016 on Amendment to Minister of Finance Regulation Number 159/PMK.010/2015 on Corporate Income Tax Reduction Facility.

The policy affirms several requirements for the Corporate Taxpayer to obtain the tax holiday facility, except for Taxpayer whose request has ever been or was rejected. Among others, the Corporate Taxpayer shall fulfil the provision of Debt to Equity Ratio (DER) 4:1.

Other requirement also mandated in the PMK Number 35/PMK.010/2018 is that, inter alia, Corporate Taxpayer who is a tax holiday receiver candidate shall prove that all shareholders recorded in their latest deed of establishment have met all of their tax obligations. The tax

obligation fulfillment of the shareholders shall be proven by tax clearance issued by Directorate General of Taxes (DGT).

However, the obligation to submit a promissary note to make deposit in bank of minimum 10% of the investment plan is deleted from the new policy. Thus, there is no obligation for investor candidates to put 10% of their capital in national bank to obtain tax holiday.

The tax holiday facility can be utilized by Corporate Taxpayer since the beginning of its commercial production. The certainty of the commercial production commencement is determined by DGT based on the result of field audit.

Possibly Increase

Referring to the previous provision, there were only 8 (eight) pioneer industries targetted for tax holiday granting. By the issuance of PMK Number 35/PMK.010/2018, the coverage of tax holiday is expanded to 17 pioneer industries (see table).

Nevertheless, the number of the pioneer industries may increase if Taxpayers file tax holiday request for industries not yet listed on the 17 pioneer industry coverage but fulfilling the criteria of investment required.

Upon the request of the Taxpayers, discussion will be held between ministries—at the least involving Ministry of Finance and Ministry of sector builder—under the coordination of Indonesia Investment Coordinating Board (BKPM) to decide the possibility of 100% income tax reduction granting for certain period.

To obtain the tax holiday, the Taxpayer shall submit income tax reduction request to BKPM before commencing its commercial production or simultaneous with the request of capital investment registration; or at least 1 (one) year after the issuance of capital investment registration.

DGT may adjust the amount of tax holiday facility granted to the Corporate Taxpayer if the result of field audit shows that the investment realization value is less than or exceed the minimum limit of the new capital investment plan stipulated.

Aside from that, DGT may revoke the tax holiday facility if, based on the result of field audit, it is found that the investment realization is less than the minimum limit of the new capital investment plan required (IDR500 billion), or an inconsistency between the realization and the plan of Main Business Activity is found.

The revocation of tax holiday facility may also be conducted if it is found that the Taxpayer is importing or buying secondhand raw materials for the new investment, except relocated goods from other countries that are not domestically produced and/or related to national strategic project that is an order from the Government.

Other conditions that may lead to the revocation of tax holiday are, among others, when the Taxpayer transfers the assets during the utilization period of corporate income tax reduction,

unless the transfer is conducted for efficiency enhancement and not causing the number of new capital investment realization value to be less than the new capital investment plan; and/or when the Taxpayer conducts new capital investment relocation abroad.

Pioneer Industry Coverage

1. Upstream base metal industry (steel and non-steel) with or without its derivatives;
2. Oil and gas purification and/or refinery industry with or without its derivatives;
3. Petrochemical based on petroleum, natural gas, or coal industry with or without its derivatives;
4. Inorganic basic chemical industry with or without its derivatives;
5. Organic basic chemical derived from agricultural, plantation, or forestry product industry with or without their derivatives;
6. Pharmaceutical raw material industry;
7. Semiconductor and other computer main component manufacturing industry;
8. Manufacture of communication equipment main component industry;
9. Manufacture of health equipment main component industry;
10. Manufacture of industrial machinery main component industry;
11. Manufacture of machinery main component industry;
12. Manufacture of robotic component industry;
13. Manufacture of ship main component industry;
14. Manufacture of aircraft main component industry;
15. Manufacture of train main component industry;
16. Manufacture of power plant machinery industry;
17. Economic infrastructure.

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