

taxBlitz

Tax & Customs Update

Boosting Investment, Tax Holiday Requirement is Simplified

Indonesian Government relaxes the requirements and procedures for granting corporate Income Tax reduction facility for pioneer industry actors, among others by lowering the minimum limit of investment value from IDR500 billion to IDR100 billion.

The relaxation is mainly applied in the percentage of corporate Income Tax, which was previously a single rate of 100%, to be divided into two options: 50% tax reduction (tax allowance) and full exemption or 100% tax reduction (tax holiday).

For tax holiday or Income Tax full exemption (100%) facility, the applicable provision requires that the minimum investment value is IDR500 billion. Meanwhile, the tax allowance facility or 50% tax reduction will be given to investment in the range of IDR100 billion to IDR500 billion.

The period of corporate Income Tax exemption or tax holiday is not changed, which is from five years to 20 years, depending on the investment value range of pioneer industry. Meanwhile, the time range of tax allowance (50%) granting is determined for five years.

After the tax holiday is over, transition period in the form of additional facility is applied, which is Income Tax reduction of 50% for two years. Meanwhile, the tax allowance recipient obtains additional facility in the form of Income Tax reduction of 25% for two years.

The policy is expressed in Minister of Finance Regulation (PMK) Number 150/PMK.010/2018 on Corporate Income Tax Reduction Facility promulgated and effectively applied since 27 November 2018. The policy also revokes similar provision in PMK Number 35/PMK.010/2018.

The policy still affirms the same 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.

Another requirement also mandated in the PMK Number 150/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).

CORPORATE INCOME TAX REDUCTION PROVISION		PREVIOUS (PMK No.35/PMK.010/2018)	NEW (PMK No.150/PMK.010/2018)																									
Subject	New Investment		New Investment																									
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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.

Referring to the previous provision, there are 17 pioneer industries targeted to obtain tax holiday. By the issuance of PMK Number 150/PMK.010/2018, the coverage of tax holiday granting is expanded into 18 pioneer industries by the addition of digital economy sector, including data management activity, hosting, and other related activities (see table).

Nevertheless, the number of the pioneer industries may increase if Taxpayers file tax holiday request for industries not yet listed on the 18 pioneer industry coverage but fulfilling the criteria of investment required.

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. Manufacture of radiation, electromedical, or electrotherapy components industry;
8. Manufacture of electronic or telematics main component industry, such as semiconductor wafer, backlight for Liquid Crystal Display (LCD), electrical driver, or display;
9. Manufacture of machinery and machinery main component industry;
10. Manufacture of manufacturing industrial supporting machinery;
11. Manufacture of power plant machinery main component industry;
12. Manufacture of motor vehicle and motor vehicle main component industry;
13. Manufacture of ship main component industry;
14. Manufacture of train main component industry;
15. Manufacture of aircraft main component industry and aerospace industry supporting activity;
16. Manufacture of agricultural, plantation, or pulp-producing forestry-based processing industry with or without their derivatives;
17. Economic infrastructure; and
18. **Digital economy sector, including data management activity, hosting, and other related activities. *(New)**

Online Single Submission

To obtain the tax holiday or tax allowance facility, the Taxpayer has to fulfil the criteria required by accessing the single investment service system or Online Single Submission (OSS). After receiving notification from OSS and declared fulfilling the criteria, the Taxpayer shall submit a softcopy of fixed assets details in the investment value plan and DER, as well as electronic documents of tax clearance of the shareholders before commercial production or along with the investment registration application; or at the latest by one year after the issuance of the investment registration.

After going through the OSS system, the Taxpayer is deemed submitting the application of Income Tax reduction. Therefore, the application of tax holiday or tax allowance facility does not need to be manually filed to Indonesia's Investment Coordinating Board (BKPM) as the previous provision required.

The submission of Income Tax reduction application through OSS system is excluded for Taxpayers obtaining order from the Government related to national strategic project acceleration.

Minister of Finance—through PMK Number 150/PMK.010/2018—entrusts the authority of tax holiday and tax allowance facility granting to the Director General of Taxes for and on behalf of the Minister of Finance. In performing the authority, Director General of Taxes is substantially responsible and cannot transfer the authority to any other party.

The Tax Authority 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 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 findings 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.

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