Overview: Taxation in Indonesia

Indonesia is one of the investment target in Southeast Asia. With the power of 250 million people, Indonesia is a potential market for all types of products and services. To establish a new company in Indonesia, prospective investor should know about the procedure of set up new company and also have understanding about the tax regulation in Indonesia.

Applicable tax system
- Self assessment system
- Withholding tax system

Indonesian taxation embraces a self assessment system. This system implies that the tax payer have a liberation to calculate, deposit, and report their own tax obligation by themselves. The tax payers need to have adequate knowledge about the Indonesian taxation and its dynamic update regulation.

Withholding tax system
Beside adopting the self assessment system, Indonesia also adopts a withholding tax system, wherein a third party should deduct or collect the tax on income which been paid to the recipient, and deposit the withholding tax into the state treasury. At the end of the tax year, the withholding tax may be credited to corporate income tax calculation.

The Indonesian Taxation Laws
The relevant three fundamental taxation laws of Indonesia include:

- Income Tax Law ("Undang-undang Pajak Penghasilan/UU PPh": Law No. 36/2008;
**Various of Tax**

**Income tax**

Income tax is levied on the taxable income of resident individuals, corporations and non-residents with taxable income from Indonesia.

**Income tax article 4 paragraph (2)**

These following income may be subject to a final income tax:

✓ income in the form of interest from deposit and other savings, interest bonds and state bonds, interest paid by a cooperative to its individual members;

✓ income in the form of lottery prizes;

✓ income from a transaction of shares and other securities, derivative transactions traded in exchange, and sales of share or transfer of capital contribution from its company partner received by a venture-capital company;

✓ income from transfer of property such as land and/or building, construction services business, real estate business, and renting land and/or building; and

✓ other certain incomes; which are stipulated by or based on a Government Regulation.

**Income tax article 15**

Certain incomes that are subject income tax article 15 are:

✓ Payment of charter or rent of ships/aircrafts derived by foreign shipping/airline enterprises;

✓ Payment of charter or rent of ships derived by domestic shipping enterprises;

✓ Payment of charter or rent of aircrafts derived by domestic airline enterprises.

**Income tax article 21**

The following persons are obliged to withhold tax on remuneration in whatever form received or accrued by individual resident Taxpayer in respect of employment, services rendered, or any other similar activities.

✓ an employer who pays salaries, wages, honoraria, allowances, and other similar remuneration in respect of an employment exercised either by permanent employees or non-permanent employees;

✓ a government treasurer who pays salaries, wages, honoraria, allowances, and other similar remuneration in respect of an employment, services, and any other similar activities;

✓ pension fund or other entity that pays pension and any other similar remuneration in whatever form in consideration of past employment;

✓ an entity that pays honoraria or other similar remuneration in respect of services rendered, including professional services or any other activities of an independent character; and

✓ a person who organizes an activity and pays remuneration in respect of services connected therewith.
Income tax article 22

The Minister of Finance may designate:
✓ government treasurers to withhold tax in connection with payment for supply of goods;
✓ certain entities to withhold tax from Taxpayer who conduct in import activities or other business activities; and
✓ certain entities to withhold tax from Taxpayer who purchase very Luxurious Goods.

Income tax article 23

The following income, in whatever name and form, paid, apportioned to be paid, or on the due date of payment by a government institution, a resident taxable entity, a person who organizes an activity, a permanent establishment or a representative of any other nonresident enterprises to a resident Taxpayer or permanent establishment, shall be subject to withholding tax of:
✓ Interest, dividend, royalty;
✓ Interest of cooperatives savings
✓ Rent and other income relating to the utilization of assets;
✓ Compensation relating to technical services, management services, construction services, consultant services, and other services determined by The Director General of Taxes.

The tax rate applicable for unregistered resident Taxpayer is 100% (one hundred percent) higher than those registered resident Taxpayer.

Income tax article 24

Tax paid or tax payable in foreign countries on offshore income by resident Taxpayer may be credited in the same taxable year against the tax payable under this Law.

Income tax article 25

This is the installment of corporate income tax which shall be equal to the tax payable according to the tax return of the preceding year less income tax article 22, article 23, and article 24, and divided by 12 (twelve) or the number of months of a fraction of the taxable year.

Income tax article 26

The following income, in whatever name and form, paid, apportioned to be paid, or on the due date of payment by a government institution, resident taxable entity, a person who organizes activities, permanent establishment, or a representatives of a nonresident company to a non-resident Taxpayer other than a permanent establishment in Indonesia, shall be subject to withholding tax of the gross income:
✓ dividends;
✓ interest including premium, discount and compensation for loan repayment guarantees.
✓ royalties, rent and other income in connection with the use of the property;
✓ compensation in connection with services, works, and activities;
✓ prizes and awards;
✓ pension and other periodic payments premium of swap and other hedging transactions; and/or
✓ gains from the discharge of indebtedness.
Income tax article 28a

In case tax payable in a taxable year is less than the allowable tax credit, then after a tax audit is conducted, the excess tax shall be refunded after being offset against outstanding tax and penalties.

Income tax article 29

In case tax payable in taxable year is greater than the allowable tax credit, the outstanding tax shall be paid before the Annual Tax Return is submitted.

Value Added Tax

Value Added Tax (VAT) is levied on commercial transactions in Indonesia, excluding those of the financial sector.

A Value Added Tax (VAT) is levied at the rate of approx. 10% at point of sale, by major vendors. Sales and services tax are exempt from cottage economies and industries.

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Imprint

ECOVIS IDRIS & SUDIHARTO
Total Building 3rd Floor and 8th Floor
Jl. Letjen S. Parman Kav. 106A
Jakarta Barat 11440 - Indonesia
Phone: +62 21 5695 1568 (hunting)
Fax: +62 21 5695 1567

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