Facilities and Incentives of Indonesian Income Tax
Facilities and Incentives of Indonesian Income Tax

1st Edition - 2012
FOREWORD BY THE DIRECTOR GENERAL OF TAXES

There are various ways taken by a country to attract investment that is necessarily needed to gear economic growth. Easiness of business permit, legal certainty, infrastructure availability, and fiscal policy are often considered as critical factors for investors to decide their investment destination.

Fiscal policy transformed into a set of pro-investment tax laws and regulations is regarded as a potential instrument to encourage investors. It is because high tax rates may reduce economical capability of investors and to some extent, it may cause prospective investors to choose another country to invest, and therefore, the expected multiplier of the investment might be missed.

Relating to that, Indonesia as similar as any other countries, is continuously improving her tax rate to be more attractive and competitive. One of the examples of this consistent effort is the reduction of Corporate Income Tax rate, which is now at 25% from the previous rate at 28%. Such reduction is stipulated in Article 17 paragraph 2a of the Income Tax Law.

In addition to the corporate income tax rate reduction, Indonesia also offers various tax facilities, namely Corporate Income Tax rate reduction for listed companies, Tax Holiday, Investment Allowance, and other facilities. These facilities are all stipulated in the Income Tax Law and/or its implementing regulations.

It is our hope that the tax facilities and incentives offered will spur the investment activities in Indonesia even further. This due to many exciting facts such as the upgrades of Indonesian credit ratings, outstanding performance of Indonesian Stock Exchange, and the fact that Indonesia is one of few countries that was able to maintain positive economic growth despite the massive global economic crisis in 2008.
Apart from various tax facilities available and her excellent performance aforementioned, Indonesia’s unique characteristics also offer various advantages for sustainable investments.

Indonesia’s geographical situation as the greatest archipelago in the world, surrounded by two oceans, blessed with abundant natural resources, provides its own comparative advantages. The potentials of natural gas, geothermal, and other renewable energy resources, as well as fishery, tourism, are just few among many sectors that may be chosen as investment destination.

From the competitive advantage perspectives, Indonesia as a country with 240-million population and significant growth of middle class is undoubtedly a promising market. Such socio-demographical condition also provides sustained availability of professional and skilled manpower for manufacturing or high-tech industries.

This books in your hand attempts to provide information regarding tax facilities and incentives in Indonesia, and it is our hope that it may guide taxpayers, especially investors and prospective investors who seek to invest in Indonesia with all the benefits she provides.

Finally, my sincere gratitude and appreciation are for all parties who contribute to this book. Keep up the spirit and let us continue the hard work for our beloved country. For taxpayers and investors, I would like to thank you for your contribution for the development of our nation and may your investment in Indonesia be prosperous and sustained for a long time.

Jakarta, February 2012
Director General of Taxes

A. Fuad Rahmany
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Tax Incentives and facilities are often considered as one of many efforts opted by various countries in order to attract investors, especially those who bring investments with significant multiplier effect to the national economy. Such investments are expected to deliver new technology, to gear undeveloped sectors, as well as certain sectors and certain regions of national priority, to provide jobs, and eventually, to contribute in increasing national income and national self-reliance.

In principle, incentives and facilities are dynamic in nature, because they should be hand in hand with development of national economy, regional economy, and also the continuously changing global economy. Nevertheless, one of the principles to be upheld in formulizing and implementing incentives and facilities of taxation is that of equality in treatment for all taxpayers or all cases of taxation, which is the same as holding firmly to the valid law. Therefore, each incentive must be guided by the above principle and requires overseeing to ensure there is no divergence in its application from the meaning and purpose for which the incentives are granted.

Unfortunately, it becomes our concern that there are still many investors uninformed of various facilities and incentives provided in Indonesia, perhaps due to the dynamic and evolving nature of the regulation on which the incentives and facilities based. Therefore, this book is one of many synergic and comprehensive efforts taken by Directorate General of Taxes to encourage taxpayers, investors, and potential investors to comprehend and eventually to take the advantage of the facilities and incentives provided in Indonesia.
This book is designed with simple layout as our intention to make this book to be your easy-to-read reference concerning incentives and facilities of taxation in Indonesia. Each of facilities and incentives is detailed further regarding the background, the form of the incentives/facilities provided, the eligible tax payers, and also the procedures to obtain the facilities or incentives.

Finally it is my honour to express my appreciation to everyone in DGT, especially for Director General of Taxes who was willing to deliver his foreword. In addition, I would like to express my very sincere gratitude for all of my fellow-workers in Directorate Tax Regulation II, particularly the Division of Corporate Income Tax who have put their dedication to make this book possible. Hopefully each and every effort we have made shall be beneficial for better Indonesia.

Jakarta, February 2012
Director of Tax Regulations II

A. Sjarifuddin Alsah
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A-1. Tax Holiday

Capital investment has an important role in gearing sustainable national economic growth as well as increasing national technological ability and capacity.

To stimulate capital investment in Indonesia, the Government of the Republic of Indonesia through its fiscal policy provides tax facilities in form of tax holiday for pioneer industry that is more attractively offered than that of other countries.

**Eligible Taxpayer**

Corporate taxpayer that is newly established or established in Indonesia in a period of no more than 12 (twelve) months before the August 15th 2011, with below prerequisites:

a. The taxpayer conducts business that is included in the scope of pioneer industries, i.e.: basic metal industries, oil refinery and/or oil and gas sourced basic organic chemical, machinery, renewable resources industries, and/or communication equipment;

b. The taxpayer has minimum investment of 1 trillion IDR;

c. The taxpayer deposits a fund at minimum 10% of the amount of investment plan in Indonesian Banks.

*In consideration of national industry competitiveness and strategic value of a certain industry, the Minister of Finance (MOF) may provide the facility for other than aforementioned pioneer industries;*
- Corporate Income Tax Exemption (tax holiday) for 5 up to 10 years, started from initial commercial production.
- 50% Corporate Income Tax reduction for 2 years after tax holiday period ended.
- In consideration of national industry competitiveness and strategic value of a certain industry, the Minister of Finance (MOF) may grant the facilities in an extended period.

- Taxpayer’s application shall be submitted to the Minister of Industry or the Head of the Investment Coordinating Board (Badan Koordinasi Penanaman Modal/BKPM) to be examined regarding:
  a. availability of infrastructure in the investment location;
  b. absorption of domestic manpower;
  c. fulfilment of pioneer industry criteria;
  d. a clear and concise plan of transfer of technology;
  e. availability of tax-sparing provision in the domicile country.
- Based on the examination, the application will be forwarded to the MOF.
- Should the request be approved, the MOF will issue the MOF Decree concerning approval of tax holiday facility.
- The entitled taxpayer is obliged to submit periodical reports to the DGT and the Committee of Verification concerning:
  a. quarterly report of fund usage attached with current bank account; and
  b. annual audited and quarterly unaudited report of capital investment realization.

- The entitled taxpayer may utilize tax holiday facility, provided that:
  a. the taxpayer has fully realized the investment plan;
  b. the taxpayer has initiated commercial production.

- For the initial commercial production status to be recognized, the entitled taxpayer shall submit an application to DGT with the following attachments:
  a. copy of articles of establishment of the company;
  b. copy of the MOF decree concerning approval of tax holiday facility;
  c. recent three years audited financial statements;
  d. a power of attorney if the applicant is represented by another party; and
  e. documents related to sold products (e.g.: commercial and tax invoices, and proof of delivery of the sold products).
- Government Regulation No. 94 of 2010
- MoF Regulation No. 130/PMK.011/2011
- DGT Regulation No. PER-44/PJ/2011
- DGT Regulation No. PER-45/PJ/2011
A-2. Tax Allowance for Investment in Certain Business Sectors and/or Certain Regions

In order to increase direct investment for promoting the growth of national economy, as well as equality and acceleration of development, it is necessary to provide income tax incentives for taxpayers who are doing business in certain industries and/or certain regions.

- Corporate taxpayer in form of corporation or cooperative who invests in:
  a. 52 business sectors as stipulated in Attachment I; or
  b. 77 business sectors in certain regions as stipulated in Attachment II of GR No 52 of 2011.

- Above mentioned taxpayer also includes taxpayer who has obtained investment permit license before the effective date of the GR No 52 of 2011, provided that:
  a. The taxpayer has minimum investment plan of Rp1 trillion; and
  b. The taxpayer has not commercially operated before the effective date of the GR No 52 of 2011.

Eligible Taxpayer
Facilities and Incentives of Indonesian Income Tax

Tax Facility

- Investment allowance at 30% of the total investment, charged for 6 years for 5% annually;
- Accelerated depreciation and amortization;
- Income tax for dividend paid to non-resident tax subject shall be 10%, or lower tariff according to effective Double Taxation Avoidance Agreement.
- Loss compensation for 5 years up to 10 years, depending on the following conditions:
  a. the investment is conducted in industrial estate or bonded zone;
  b. it hires at least 500 Indonesian work forces for 5 consecutive years;
  c. expense of economic and social infrastructure in the investment location amounts at least 10 billion IDR;
  d. domestic R&D expense amounts at least 5% of total investment during 5 year period; and/or
  e. it utilizes domestic raw materials/components at least 70% since the 4th year.
Facilities and Incentives of Indonesian Income Tax

Procedure

- Taxpayer’s application shall be submitted to the Head of BKPM, and it will be proposed by the Head of BKPM to the MOF through DGT with the following attachments:
  a. copy of Taxpayer Identification Number (TIN) identity/ Nomor Pokok Wajib Pajak (NPWP)
  b. permit license of new investment or additional investment, including the details.
- The proposal received by the DGT will be further examined and the decree concerning the facility entitlement/rejection will be published at most 10 days after the proposal received.

Utilization

The facility may be utilized after the taxpayer realizing 80% of the investment plan. This provision is not applied to the taxpayers who are already granted with the facility based on the GR No. 1 of 2007 and GR No. 62 of 2008.

Reference

- Article 31A of Income Tax Law
- Government Regulation No. 1 of 2007 a.l.a.w Government Regulation No. 52 of 2011
- MoF Regulation No. 16/PMK.03/2007
Facilities and Incentives of Indonesian Income Tax

A-3. Special Economic Zone (SEZ)

In order to accelerate economic development in certain regions that are strategically important in increasing overall national economy growth, it is necessary to provide tax incentives to support development in Special Economic Zone.

Eligible Taxpayer

Taxpayer whose business located in Special Economic Zone

Tax Facility

- Income tax facility;
- Additional income tax facilities can be given in regard to special characteristics of the zone;
- Importing goods to SEZ may be granted a facility income tax on which will not be withheld.

Reference

Law No. 39 of 2009
A-4. Income Tax Reduction for Public Listed Company

In order to improve the role of capital market as the source of business financing and to increase the number of public listed companies and their public ownership, it is necessary to grant income tax facilities for public listed companies.

Eligible Taxpayer

Resident corporate taxpayer in form of public listed company, provided that:

- A minimum of 40% of all stocks are paid and traded in stock exchange in Indonesia;
- The stocks are owned by at least 300 parties;
- Each party is only allowed to own less than 5% of all paid stocks;
- Aforementioned requirements should be fulfilled in a period of at least 6 months within one fiscal year.

Tax Facility

Corporate Income tax rate reduction 5% lower than the highest rate of resident corporate income tax rate as stipulated in Article 17 Paragraph (1) letter b of Income Tax Law.
This facility is utilized by self assessment when submitting annual corporate income tax return, and enclosing:

a. Notification letter obtained from the Stock Administrative Bureau (Biro Administrasi Efek) (form X.H.1-6), as stipulated in the Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) Regulation No X.H.1, for each related taxable years;

b. The notification letter should disclose taxpayer’s name, TIN, fiscal year, also a declaration that aforementioned requirements have been fulfilled in a period of at least 6 months within one fiscal year.

Reference

- Article 17 Paragraph (2b) of Income Tax Law
- Government Regulation No. 81 of 2007
- MoF Regulation No. 238/PMK.03/2008
In order to accelerate national economy growth that is supported by small and medium enterprises, it is necessary to grant tax incentives in the form of 50% Corporate Income Tax reduction for enterprises with limited business scale.

**A-5. 50% Income Tax Reduction for Resident Corporate Taxpayers**

**Eligible Taxpayer**

- Resident corporate taxpayer with gross income up to 50 billion IDR per year.
- Gross income in this context means income received or accrued from business activity before deducted with expenses to earn, to collect, and to secure income that is generated from Indonesia or outside Indonesia, including:
  a. Income imposed by final income tax;
  b. Income imposed by non-final income tax;
  c. Income exempted from tax object.

**Tax Facility**

Rate reduction 50% of Resident Corporate Income Tax rate imposed on taxable income from the part of the gross revenue of 4.8 billion IDR.
This facility is utilized by self-assessment when the eligible taxpayer is submitting annual Corporate Income Tax return. Therefore, the eligible taxpayer is not necessary to submit application for this facility.

Reference

- Article 31E of Income Tax Law
- DGT Circulation Letter No. SE-66/PJ/2010
A-6. Facilities for Renewable Energy Resources Utilization

The depletion of fossil-based energy reserves requires innovation to ensure sustainable energy supplies. Indonesia is very potential to utilize renewable energy, such as geothermal, wind, bio-energy, solar energy, water flow and other hydro powers. Therefore, tax incentive is necessary to support utilization of renewable energy resources that requires high-technology investment and bears high risk.

Eligible Taxpayer

Taxpayer who conducts activities on renewable energy resources utilization
- Investment allowance at 30% of total investment, for period of 6 years;
- Accelerated depreciation and amortization;
- Withholding tax rate on dividends paid to non-resident at 10%, or at lower applicable tax treaty rate.
- Extended carried forward loss period from 5 years up to 10 years, depending on the following conditions:
  a. the investment is located in industrial or bonded zone;
  b. employs at least 500 Indonesian manpower during 5 consecutive years;
  c. expense of economic and social infrastructure in the investment location amounts at least 10 billion IDR;
  d. domestic R&D expense amounts at least 5% of total investment during 5 year period; and/or
  e. utilizes domestic raw materials/components at least 70% since the 4th year.
- Exemption of withholding income tax Article 22 for import of machinery and equipment (assembled or not assembled), but not including spare parts.
Facilities and Incentives of Indonesian Income Tax

Procedure

- Taxpayer’s application shall be submitted the Head of BKPM, and it will be proposed by the Head of BKPM to the MOF through DGT with the following attachments:
  a. Copy of Taxpayer Identification Number (TIN) identity/Nomor Pokok Wajib Pajak (NPWP)
  b. Permit license of new investment or additional investment, including the details.

- The proposal received by the DGT will be further examined and the decree concerning the facility entitlement/rejection will be published at most 10 days after the proposal received.

Utilization

- Facility of investment allowance may be utilized after the taxpayer realizes 80% of the investment plan. This provision is not applied to the taxpayers who are already granted with the facility based on the GR No. 1 of 2007 and GR No. 62 of 2008.

- Facility of exemption from Income Tax Article 22 is utilized automatically without requiring a certificate of exemption.

Reference

MoF Regulation No. 21/PMK.011/2010
A-7. Facilities for Business Merger or Spin-Off

In order to harmonize taxation policy with other policies such as social, economy, investment, monetary, and other policies, the Government allows taxpayer to use book value for the transfer of asset during business merger or spin-off with certain conditions.

- Taxpayer who transfers assets during business merger or spin-off.
- The merger in this context means:
  a. a merger of two or more corporate taxpayers with the requirement that the surviving company is the company that has no loss or lesser loss than other companies;
  b. a merger of two or more corporate taxpayers by establishing a new corporate taxpayer.
- The spin-off in this context means spin-off by:
  a. Non-public-listed taxpayer that will conduct Initial Public Offering; or
  b. Public listed taxpayer provided that all companies established from the spin-off also conduct Initial Public Offering.

Eligible Taxpayer
Facilities and Incentives of Indonesian Income Tax

Tax Facility

Taxpayer exercising such business merger or spin-off is allowed to use book value basis during transferring the assets

Procedure

- Submit application to the DGT and enclose the background and intention of conducting merger and spin-off business at no later than six months after the effective date of merger or spin-off
- Pay all tax dues of each relevant corporate taxpayer; and
- Fulfill the business purpose test requirements.
- Enclose the audited Financial Statements from both taxpayers who transfers assets and taxpayer who receives the transferred assets.

Reference

- Article 10 Paragraph (3) of Income Tax Law
- MoF Regulation No. 43/PMK.03/2008
- DGT Regulation No. PER-28/PJ/2008
A-8. Exempted from Taxable Object on Scholarship

To optimize the benefit of scholarship received by Indonesian citizen for formal and/or non-formal education in domestic or abroad, it is necessary to grant fiscal incentive to support capacity building of Indonesian people by exempting certain scholarship from taxable object.

Eligible Taxpayer

Indonesian citizen who receives scholarship provided that:
- the scholarship is for formal and/or non-formal education in domestic or abroad;
- the recipient is not related to the owner, shareholder, director, or management board of the scholarship provider;
- the scholarship components in this context comprise of tuition fee, examination fee, research allowance, book allowance and/or living cost.

Tax Facility

Scholarship is exempted from taxable object.
Facilities and Incentives of Indonesian Income Tax

Article 4 Paragraph (3) Letter I of Income Tax Law
MoF Regulation No. 246/PMK.03/2008 a.l.a.w
MoF Regulation No. 154/PMK.03/2009

Procedure

This facility is utilized by self-assessment. Therefore it is not necessary to submit application for this facility.

Reference
In order to help taxpayers living under poverty line or having accident or experiencing natural disasters, it is necessary to provide tax incentives in the form of exemption from taxable object on aid or compensation that are paid by Social Security Agency.

**Eligible Taxpayer**

Taxpayer receiving aid/compensation paid by:
- Social Security Workers (JAMSOSTEK);
- Civil Servants Pension Fund (TASPER);
- Social Insurances of the Armed Forces of the Republic of Indonesia (ASABRI);
- Health Insurance (PT. ASKES); and/or
- Other social security agencies not mentioned above.
Aid/compensation given to taxpayers and/or society who are:

a. living under poverty line according to data and criteria supplied by National Statistic Agency (BPS);

b. experiencing life threatening natural disaster;

c. having unpredictable and dangerous or life threatening accident

is exempted from taxable object.

This facility is utilized by self-assessment. Therefore, it is not necessary to submit an application.

- Article 4 Paragraph (3) Letter n of Income Tax Law
- MoF Regulation No. 247/PMK.03/2008
Adequate facilities and infrastructures in education, research and development are important elements to improve human resources quality. The Government supports the program by providing tax facility in the form of exemption of the surplus of non-profit organization from taxable object.

Non-profit organization in education and/or R&D registered at the authorized institutions that reinvest its surplus in form of infrastructure, as follows:

a. buildings and education, R&D infrastructures, including land acquisition;
b. office, laboratory, and library infrastructure;
c. student dormitory, official residence for teacher, lecturer or staff and the sport facilities that are located in the complex of formal education institution.

The surplus in this context shall mean all taxable objects other than income already separately taxed (final or deemed profit), subtracted by operational and daily expenses incurred by non-profit organization.
Reinvested surplus in form of infrastructures is exempted from taxable object for 4 years since the surplus is accrued.

**Procedure**

- Taxpayer should submit notification letter to the Head of Tax Service Office where the taxpayer is registered concerning:
  a. physical development plan, and
  b. cost of infrastructure or development procurement plan.
- The notice shall be submitted as follows:
  a. when the taxpayer submit Annual Income Tax Return for taxable year in which the surplus is accrued or at the latest before the development is started, in 4 years period since the surplus is accrued;
  b. copy of the notice also to be submitted to authorized institution.

**Reference**

- Article 4 Paragraph (3) Letter m of Income Tax Law
- MoF Regulation No. 80/PMK.03/2009
- DGT Regulation No. PER-44/PJ/2009
A-11. Exemption from Income Tax Object on Pension Fund Income

Capital investment conducted by pension fund is aimed for expansion and repayment to pension recipients in the future. Therefore, the investment is necessary to be directed to non-speculative and/or non-high risk investment. Based on that, income of pension fund invested in certain sectors is exempted from taxable object.

Eligible Taxpayer

Pension fund incorporated under MOF approval.

Tax Facility

Exemption from taxable object of certain income received or accrued by pension fund, as follows:

a. interest, discount, revenue from deposit, certificate of deposit, and saving in bank in Indonesia, and Bank Indonesia Certificate;

b. interest, discount, revenue from bonds, sharia bonds (sukuk), Government Sharia Bonds, Government Bonds listed on stock exchange in Indonesia; or

c. dividend received from companies listed on stock exchange in Indonesia.
To be exempted from income tax withholding on deposit, savings, and Bank Indonesia Certificate, taxpayer should submit an application for Certificate of Exemption (SKB), with following provisions:

a. First time SKB application shall be submitted at the latest 14 business days before the SKB period is effective;

b. Reapplication of SKB soon to be expired shall be submitted at the latest 14 business days before the expiry date;

c. Head of Tax Service Office shall respond the application at the latest 7 business days after receiving the application. Otherwise, the application is granted and Head of Tax Service Office has to issue SKB in the next 3 business days;

d. Pension Fund granted with SKB is obliged to report its investment every semester on the 30th next month.

- Effective period of SKB starts from March 1st to August 31st and from September 1st to February 28st.

- Article 4 Paragraph (3) Letter h of Income Tax Law
- MoF Regulation No. 234/PMK.03/2009
- DGT Regulation No. PER-160/PJ/2005 a.l.a.w
  DGT Regulation No. PER-39/PJ/2010
A-12. Exemption from Income Tax Object on Gain Derived From Discharged of Small Debtor Indebtedness

In principle, discharge of indebtedness is classified as income for the debtor and as expense for the creditor. However, the Government regulates that the discharged of small debtor indebtedness such as loan for low income family (Kukesra), Farmer Business Loan (KUT), loan for very small housing, loan for debtors of small enterprise (KUR), and other small loans with certain limit are exempted from taxable object.

**Eligible Taxpayer**

Loan of small debtors is business debt in the amount less than 350,000,000 IDR (three hundred and fifty million rupiah), including:

a. Loan for low income family (Kredit Usaha Keluarga Prasejahtera, Kukesra);

b. Farmer Business Loan (Kredit Usaha Tani, KUT);

c. Loan for very small housing;

d. Loan for debtors of small enterprise;

e. Other small loans according to the Bank Indonesia credit policy related to support the small enterprise and cooperative.
Gain derived from indebtedness discharge of small debtor is exempted from taxable object.

This facility is utilized by self-assessment. Therefore it is not necessary to submit an application.

- Article 4 Paragraph (1) of Income Tax Law
- Government Regulation No. 130 of 2000
A-13. Exemption from Income Tax Object on Aid, Gifts, And Donation

Generally, aid, charity, and grant are considered as income tax object for the recipients. However in certain cases, for the purpose of harmonizing with existing norms in the society, aid, charity, and grant are exempted from taxable object.

Eligible Taxpayer

Parties as follows:

a. family member i.e. parents and children;
b. religious organizations;
c. educational organizations;
d. certain non-profit organizations; or
e. individuals conducting micro or small business with certain criteria

who receive the aid, charity, and grant.
Facilities and Incentives of Indonesian Income Tax

**Tax Facility**

Aid, charity, and grant received are exempted from taxable object.

**Procedure**

This facility is utilized by self-assessment. Therefore it is not necessary to submit an application.

**Reference**

- Article 4 Paragraph (1) Letter d Number 4 of Income Tax Law
- Article 4 Paragraph (3) Letter a Number 2 of Income Tax Law
- Article 8 of Government Regulation No. 94 of 2010
- MoF Regulation No. 245/PMK.03/2008
A-14. Deduction of Formation or Accumulation of Reserves

Generally, formation or accumulation of reserve funds may not be deducted from gross income. Nevertheless, taxpayers with certain business activities are allowed to set up a reserve fund. The terms and condition shall be further stipulated based on the Ministry of Finance Regulation.

- Bank and other business, which conduct business as a creditor, financial lease company, consumer finance company and factoring company;
- Insurance company and Social Security Agency;
- Deposit Guarantor Institutions (LPS);
- Mining company;
- Forestry business company; and
- Industrial waste processing business company.
Formation or accumulations of reserves that can be charged as tax deductible are:

a. reserve for bad debt of a bank and other business which conduct business as a creditor, financial lease company, consumer finance company, and factoring company;

b. reserves in an insurance business including reserve for social aid made by Social Security Agency;

c. guarantee reserve for Deposit Guarantor Institutions.

d. reserves for cost of reclamation in general mining,

e. reserve for cost of reforestation in forestry business;

f. reserve for closing and maintaining industrial waste site conducted by industrial waste processing business.

Procedur

This facility is utilized by self-assessment. Therefore it is not necessary to submit an application.

Reference

- Article 9 Paragraph (1) Letter c of Income Tax Law
- MoF Regulation No. 81/PMK.03/2009
- DGT Circulation Letter No. SE-97/PJ/2011
A-15. Deduction of Expenditures on Cellular Phone and Company’s Vehicle

Generally, expenses other than to earn, to collect, and to secure income (3M) are not tax deductible. Such expenses include expenditures for personal uses unrelated to 3M. Nevertheless, in certain cases it is difficult to separate expenditures, which are related or not related to 3M. Therefore, it is necessary to provide regulation concerning expenditures on cellular phone and company’s vehicle as tax deduction.

Eligible Taxpayer

Taxpayer who deducts expenditures on cellular phone and company’s vehicles.

Tax Facility

- Expenditures on cellular phone for certain employees:
  
   a. Purchasing units may be deducted 50% through depreciation of fixed assets of Group I.
   
   b. Subscription fee and mobile phone’s repairing fee may be deducted 50% in the related fiscal year.
Facilities and Incentives of Indonesian Income Tax

Tax Facility

- Expenditures on company vehicles include:
  a. bus, minibus/similar type used for employee’s shuttle:
    • acquisition and overhaul cost may be deducted entirely through depreciation of fixed assets of Group II;
    • maintenance and repairing cost may be deducted entirely in the related fiscal year.
  b. sedan/similar type for certain employee:
    • acquisition and overhaul cost may be deducted 50% through depreciation of fixed assets of Group II;
    • maintenance and repairing cost may be deducted 50% in the related fiscal year.

Procedure

This facility is utilized by self-assessment. Therefore it is not necessary to submit an application

References

- MoF Regulation No. 96/PMK.03/2009
- DGT Decree No. KEP-220/PJ./2002
- DGT Circulation Letter No. SE-09/PJ.42/2002
A-16. Facilities for Donation on National Disaster Relief in NAD and North Sumatera

One among other Government’s efforts to relieving the natural disaster in Aceh Province and North Sumatera occurred in December 2004 was by endorsement of taxpayers’ participation through fiscal incentives in the form of tax borne by the government and fiscal deductibility on aid and charity given to the disasters victims. The incentive is intended to encourage taxpayers to become donator that would ease the burden of those affected by the disasters.

Eligible Taxpayer

Taxpayers who give charity related to the disasters aforementioned, which consist:
- Corporate taxpayers, not including corporate taxpayers which are imposed by final tax; and
- Individual taxpayers, not including individual taxpayers which are imposed by final tax or using deemed profit.
Facilities and Incentives of Indonesian Income Tax

**Charity**

Charity for the natural disaster in Aceh Province and North Sumatera given by taxpayer is tax deductible and the income tax accrued from the charity shall be borne by the Government.

**Tax Facility**
- The donations are deducted as expense and reported in tax return in which it is incurred;
- Donation shall be in form of money and/or goods. If it is in form of goods, the amount that can be charged as expense is based on its fiscal carrying value;
- The donations are recorded under account "natural disaster donation for Aceh Province and North Sumatera";
- The donation should be saved, distributed, and/or managed by;
  a. governmental agency, such as Vice President Office, Coordinating Ministry of welfare, Ministry of social affair, Ministry of Finance, or
  b. other parties that can be accounted for its existence; including Indonesian Red Cross (PMI), print and electronic mass media, and social and/or religious organizations;
- The donation must be supported by legal documents.
- Government institution or other parties as collector, distributor and/or manager of donation are required to register to Head Office of DGT and submit quarterly report to DGT about the collection and distribution of the donation.

**Procedure**
Facilities and Incentives of Indonesian Income Tax

Reference

- MoF Regulation No. 609/PMK.03/2004
- MoF Regulation No. 14/PMK.03/2005
Government of Indonesia offers tax facilities in the framework of Natural Disaster Relief to accelerate the recovery of social economic condition in the disaster area of Aceh Province and Nias Island North Sumatera Province

Eligible Taxpayer

- Taxpayers who give charity related to the disasters aforementioned:
  a. Corporate taxpayers, not including corporate taxpayers which are imposed by final tax; and
  b. Individual Taxpayers, not including individual taxpayer which are imposed by final tax or using deemed profit
- Victims of Aceh Province and Nias Islands natural disasters and their inheritors who receive the charity.
Facilities and Incentives of Indonesian Income Tax

Tax Facility

- Charity distributed for natural disaster relief in Aceh Province and Nias Islands are tax deductible.
- Exempted as Taxable income for:
  a. Aid or charity that are collected, distributed, and/or managed by Government bodies and parties as stipulated by or based on MOF Decree, in the form of money and/or goods, land, and/or building with its document/certificate received by the victims of natural disaster in Aceh Province and Nias Islands
  b. Inheritance including saving and/or deposit received by inheritors of the victims of natural disaster in Aceh Province and Nias Islands.

References

Government Regulation No. 32 of 2007
*Note:
This regulation was valid from 1 January 2005 until 1 May 2009.
A-18. Incentives for Donation for Earthquake Relief in DIY and Central Java, and Tsunami in South Coast of Java Island

Basically, Resident Taxpayers and permanent establishments are entitled to claim the deductions in the form of expenses to earn collect and secure income from their gross income. Thus, any expenses that have no correlation with income generation are not allowed to be deducted from gross income. However, as enormous earthquake struck Yogyakarta province and part of Central Java Province on May 27 2006, and also tsunami hit south coast of Java island on July 17 2006, Government of Indonesia offers tax incentives in the form of aid allowed as tax deductible. It is intended to increase the participation of taxpayers to give aid and to accelerate the recovery of the struck area.

Eligible Taxpayer

All taxpayers who make aid for:

- earthquake relief in DIY and some part of Central Java on May 27 2006 and
- earthquake and tsunami relief in south coast of Java Island on July 17 2006.
Facilities and Incentives of Indonesian Income Tax

**Tax Facilities**

Aid made by taxpayers for relief of aforementioned disasters is allowed as tax deductible expense.

**Procedur**

This facility is utilized by self-assessment; therefore, it is not necessary to submit an application.

**Reference**

MoF Regulation No. 93/PMK.03/2006
A-19. Deduction of Donation or Social Cost

To endorse taxpayers’ participation in contributing relief of national disasters and the development of science, technology, education, and sports, as well as to support the government in financing social infrastructure development in Indonesia, taxpayers’ expenditure for such charity may be deducted from gross income.

**Eligible Taxpayer**

Taxpayer who contributes:

a. charity for national disaster relief;
b. charity for R&D in Indonesia;
c. charity for educational facility;
d. charity for sports development; and
e. expenditure for social infrastructure development,

provided that:

a. The Taxpayer generated profit based on previous fiscal year taxpayer’s annual income tax;
b. The charity/expenditure does not cause loss of the fiscal year in which charity/expenditure contribution is conducted.
Following charities/expenditures are tax deductible:

a. Charity for national disaster relief, to the disaster management agency or authorized institutions;

b. Charity for R&D in Indonesia, to R&D institute;

c. Charity for educational facility, to educational institutions;

d. Charity for sports development, to sports development agency;

e. Expenditure for social infrastructure development, by building infrastructure that is intended for non-profit and public interest,

provided that the total amount of such charity/expenditure should not be more than 5% from previous year fiscal net income.

Taxpayer should enclose receipt of charity/expenditure as stipulated in MOF Regulation No. 76/PMK.03/2011 when submitting annual tax return.

References

- Government Regulation No. 93 of 2010
- MoF Regulation No. 76/PMK.03/2011
A-20. Deduction of Uncollectible Debt as Tax Deductible

Generally, tax deductible expenses comprise expenditures to earn, collect, and to secure income (3M). Nevertheless, bad debt write-off is also tax deductible expense, provided that the write-off meets certain requirements.

Eligible Taxpayer

Taxpayer who writes-off bad debt provided that the write-off meets following requirements:

a. The bad debt has been reported as expense in commercial income statement;

b. list of the bad debts is submitted to DGT; and

c. One or some of the conditions below are performed:
   - the bad debt has already been taken over by the state court or institution authorized for government’s receivable; or
   - there is a covenant of debt relief; or
   - the bad debt has been published in general or special publisher; or
   - there is a statement from debtor about the amount of debt being relieved.
Facilities and Incentives of Indonesian Income Tax

**Tax Facility**

Bad debt write-off is tax deductible expense provided that the write-off meets the requirements.

**Procedure**

When submitting annual income tax return, the taxpayer shall enclose:

- list of the bad debt (hard copy/soft copy) containing the identity of the debtor i.e: name, Taxpayer Identity Number, address, and the amount of the bad debt, and
- copy of the proof of bad debt take over by the state court or institution authorized for government’s receivable; or
- copy of covenant of debt relief; or
- copy of publication proof from a general or special publisher; or
- a statement from debtor about the amount of debt relieved.

**Reference**

- Article 6 Paragraph (1) Letter h of Income Tax Law
- MoF Regulation No. 105/PMK.03/2009 a.l.a.w
  MoF Regulation No. 57/PMK.03/2010
A-21. Facilities for Foreign Grants and Loans

In order to achieve sustainable national development and to recover economic activities, as well as to ensure the continuity of certain projects that may not be fully financed from domestic revenues, the foreign aid in the form of foreign loans and grants are still viewed necessary. Therefore, the government provides facilities such as income tax borne by the government for foreign grants or loans. However, such facilities are only temporary and will be reconsidered in accordance with the financing capacity of domestic sources and national economic and social development.

Eligibility and Terms of Conditions

- contractors, consultants, and suppliers stated on contract to carry out government projects, which are funded by grants or foreign loans, including experts and trainers which are financed with foreign grants.
Facilities and Incentives of Indonesian Income Tax

Tax Facility

Income Tax from income received or accrued by aforementioned contractors, consultants, and suppliers shall be borne by the Government.

Procedures

This facility is utilized by self-assessment when submitting annual income tax returns. Therefore, it is not necessary to submit an application.

References

- Government Regulation No. 42 of 1995 a.l.a.w
- Government Regulation No. 25 of 2001
- MoF Decree No. 239/KMK.01/1996 a.l.a.w
- MoF Decree No. 486/KMK.04/2000
- DGT Decree No. PER-526/PJ./2000
- DGT Circulation Letter No. SE-05/PJ.42/2001
The role of international organizations in helping the Government to create sustainable development in many sectors is becoming more important, especially in today’s era of globalization. To facilitate the positive role of such international organizations and to harmonize with international norms, Article 3 paragraph (1) letter c, Indonesian Income Tax Law stipulates that international organizations and officials representatives of international organizations are excluded from Income Tax Subjects.

**Eligible Taxpayer**

- International organization, provided that:
  a. Indonesia is the member of the organization; and
  b. It does not conduct business or other activities to earn income from Indonesia other than lending to the Government with funds derived from dues of members.

- International organization in the form of technical and/or cultural cooperation, provided that:
  a. The technical cooperation is beneficent to Indonesian Government;
  b. The International organization does not conduct other business or other activities to earn income from Indonesia.
Facilities and Incentives of Indonesian Income Tax

**Eligible Taxpayer (cont’d)**

Official representatives of international organizations, provided that:

a. They are not Indonesian citizens; and

b. Not conducting other business or activity to earn income from Indonesia.

International organizations that meet the criteria aforementioned shall be stipulated in Minister of Finance Regulation.

**Tax Facility**

International organizations that meet requirements aforementioned are not subject of income tax.

**Procedure**

To be enacted as international organization excluded as subject of income tax, the international organization shall receive recommendation from State Secretary of The Republic of Indonesia and fulfill the registration procedures of international organization in Indonesia as stipulated in current and valid provisions (e.g.: Law No 37 Year 1999 concerning Foreign Relations)
Facilities and Incentives of Indonesian Income Tax

Reference

- Article 3 Paragraph (1) Letter c Income Tax Law
- Law No 37 Year 1999
- MoF Regulation No. 215/PMK.03/2008 a.l.a.w
  MoF Regulation No. 142/PMK.03/2010
A-23. Deduction of Benefit-In-Kinds for Employees

In general, providing consideration or compensation in the form of benefits in kinds may not be considered as tax deductible for the employers. Therefore, benefits in kinds received are not taxable income for the employees. However, in order to accelerate development in remote areas, to create safety working environment, and to support daily works of the employees, providing certain benefits-in-kinds may be deducted from gross income for the employers.

Eligible Taxpayer

Taxpayer who provides certain benefits-in-kinds for the employees.

Tax Facility

Providing certain benefits-in-kinds as follows:

a. Food and/or beverages for employees
b. Infrastructures related to work implementation, which are not yet available in certain areas
c. Necessities or equipment for the implementation of work as means for safety work

may be deducted from the gross income of the employers and is not taxable object for the employees.
Procedure

- Tax deduction of benefits-in-kinds in form of:
  a. Food and beverages for the employees; and
  b. necessities or equipment for the implementation of work
     as means for safety work
     may be utilized by self-assessment when submitting annual
     income tax returns. Therefore, it is not necessary to submit
     an application.

- Tax deduction of benefits-in-kinds in form of infrastructures
  aforementioned, may be utilized by submitting request to
  the Head of the Regional Tax Office which covers Tax
  Office where the taxpayer is registered.
  Tax payers shall fill out and enclose the forms as follow:
  a. Copy of investment permit license from BKPM;
  b. Copy of location map;
  c. Copy of the latest financial statements prior to the year
     in which taxpayer submit request;
  d. Statements concerning the condition of economic
     infrastructure and public transportations using the form
     provided.

Reference

- Article 9 Paragraph (1) Letter e of Income Tax Law
- MOF Regulation No. 83/PMK.03/2009
- DGT Regulation No. PER-51/PJ./2009
Facilities and Incentives of Indonesian Income Tax

A-24. Facilities For Fixed Asset Revaluation

Rapid price increase or changes in monetary policy may lead to disharmony between costs and income, which could result in an unreasonable tax burden. In such circumstances, certain domestic corporate taxpayers and permanent establishments (PEs) may perform Fixed Asset Revaluation for tax purposes. The income tax from the revaluation can be paid by installments not more than 12-month period.

Eligible Taxpayer

Domestic corporate taxpayers or PEs, not included taxpayers which are granted the license to perform bookkeeping in English and U.S. Dollars, who have fulfilled all of their tax obligations up to last tax period prior the tax revaluation period.

Tax Facility

Gain from Fixed Asset Revaluation above fiscal book value is subject to 10% Final Income Tax which can be paid by installments not more than 12-month period.
To perform Fixed Asset Revaluation, Taxpayer has to apply to DGT through the Head of Regional Office by filling out form and attaching:

a. Photocopy of legalized business license for appraisal service or expert appraiser;
b. Valuation Report by Appraisal Service Company;
c. List of Fixed Asset Revaluation for tax purposes;

Provisions for Fixed Asset Revaluation for tax purposes are as follows:

a. Revaluation is performed to all tangible assets including land or other than land;
b. Revaluation cannot be re-performed before the end of 5 years starting the last revaluation;
c. Revaluation is based on market value or fair value of fixed assets with valuation (appraisal) by appraisal service or expert appraiser who obtained license from government;
d. Revaluation is performed at the latest 1 year after appraisal.
To be approved for instalment of 10% final income tax on gains from Fixed Asset Revaluation, taxpayer must submit request for instalment and the request for Fixed Asset Revaluation to the Head of Regional Office of DGT.

Application for instalment is submitted using the form provided in the DGT Regulation and by attaching cash flow projection, which shows financial condition that causes taxpayer is unable to pay 10% final income tax at once.

Reference
- Article 19 of Income Tax Law
- MOF Regulation No. 79/PMK.03/2008
- DGT Regulation No. PER-12/PJ./2009
- SE-56/PJ./2009
Tax treatment of interest income received or accrued by banks from non-performing loan is specifically regulated in order to support the acceleration of bank restructuring process in accordance with Government policy and with the change of SFAS / PSAK No. 31 concerning Banking Accounting (revised in 2000). Accordingly, DGT determines the time to recognize income for taxpayers (Banks) in the form of interest income from non-performing loans at the time the interest income is received.

Eligible Taxpayer

Banks

Tax Facility

- Interest income from non-performing loans is recognized at the time the interest income is received by the bank (cash basis).

- If bank recorded interest income from non-performing loan as a reduction of principal, the time to recognize interest income is postponed until interest income is received after repayment of loan principal.
This facility is operated in a self-assessment system at the submission of corporate income tax return and attaching a list of debtors who has credits classified as substandard, doubtful, and default, which contains:

a. Serial number;

b. Debtors' name;

c. Tax Identification Number;

d. The number of non-performing loans classified as substandard, doubtful, and default;

e. The amount of interest accrued, which has not been recognized as income in the financial statement.

Reference

- DGT Decree No. KEP-184/PJ./2002
- DGT Circulation Letter No. SE-08/PJ.42/2002
A-26 Facilities for Gains from Debt Discharge Received or Accrued by Certain Debtors

In order to harmonize economic policy and tax policy as a result from monetary crisis of 2008, the Government provides facilities related to the allocation of income recognition on gains from business debt exemption for domestic debtor taxpayers who conduct business debt restructuring agreement with Indonesian Bank Restructuring Agency (IBRA) in accordance with government policy within a maximum period of 5 years.

**Eligible Taxpayer**

- Domestic debtor taxpayers who conduct business debt restructuring agreement with IBRA in accordance with Government policy.

**Tax Facility**

Revenue recognition on gains from debt exemption can be allocated in a period of 5 years, in the same portion every year and starting from taxable year at the time the debt exemption is derived.
**Facilities and Incentives of Indonesian Income Tax**

**Procedure**

- Propose a written application to the Head of Tax Office where debtor is registered as a Taxpayer;
- The application must be submitted no later than the deadline of submission of income tax return, with a photocopy of the business debt restructuring agreement legalized by IBRA.

**Reference**

DGT Decree No. KEP -563/PJ./2001
A-27. Facilities for Income from Transfer of Property/Collateral in the form of Land and/or Building for certain Taxpayers

In order to support the continuity of corporate restructuring process as well as settlement of bank credit as an impact from financial crisis, tax facilities should be given in the form of deferral for revenue recognition on transfer of collateral such as land or buildings owned by certain taxpayers and it is conducted by commercial banks which carry out appropriate government restructuring program until commercial banks transfer such collateral to the real buyer.

Eligibility and Terms of Conditions

- Restructured Bank in IBRA;
- Bank-affiliated companies in Restructuring;
- Debtor who has a direct or indirect payment obligations to the Bank Restructuring, IBRA, and the Company or the Affiliated Bank Restructuring or IBRA, including Banks which have obligation to Bank Indonesia in connection with Bank Indonesia’s Facility;
- Stockholders, Director or Restructured Bank Commissioner;
- Debtor/Collateral owner to General Bank; where its property/collateral is taken over in order to conduct restructuring of the company.
Postponement of income recognition on transfer of:
- assets in the form of land and/or buildings owned by certain taxpayers, conducted by IBRA until IBRA transfers the assets to the real buyer.
- collateral in the form of land or buildings owned by certain taxpayers, conducted by general bank until the general bank transfer the collateral to the real buyer.

This facility is utilized by self-assessment system. Therefore it is not necessary to submit an application.

References
- DGT Decree No. KEP-141/PJ./1999
- DGT Circulation Letter No. SE-27/PJ.42/1999
B-1. Exclusion from Lodging Tax Return

In order to provide simplicity to taxpayers to submit monthly and/or annual tax return, the government gives facility in the form of exclusion for taxpayers with certain income tax from the obligation to submit tax return which is mandated under Article 3 Paragraph (8) law number 6 of 1983 concerning General Provisions and Tax Procedures as lastly amended by the law number 16 of 2009.

Eligible Taxpayer

Taxpayers with certain income tax, i.e.:

a. Individual taxpayers below personal exemption i.e. individual taxpayers who receive or derive taxable income in a fiscal year not exceed personal exemption; or

b. Individual taxpayers who do not carrying on a business or do not perform independent services.

Tax Facility

1. Individual taxpayers below personal exemption do not have the obligation to submit monthly tax return Article 25 and personal annual income tax return.

2. Personal taxpayers who do not carrying on a business / do not perform independent services, are excluded from the obligation to submit Monthly tax return Article 25.
Taxpayers with certain income tax which are eligible to these facilities do not have to make any request.

Reference

- Article 3 Paragraph (8) of Income Tax Law
- MoF Regulation No.183/PMK.03/2007
B-2. The Increase of Personal Exemptions

The amount of personal exemption (PTKP) should be adjusted accordingly with economic and monetary development as well as the increase of basic necessities prices. Therefore, the amendments of Income Tax Law No. 36 Year 2008 stipulate the amount of personal exemptions is increased for individual resident taxpayer himself and also for every extended of dependent.

Eligible Taxpayer

Individual resident taxpayer

Tax facility

The amount of personal exemptions per year is as follows:

a. 15.840.000 IDR for an individual taxpayer;

b. additional 1.320.000 IDR for a married taxpayer;

c. additional 15.840.000 IDR for married taxpayers’ spouse, provided that they file a joint tax return; and

d. additional 1.320.000 IDR for each dependent family member related by blood and by marriage in a direct lineage, and an adopted child with maximum of three dependents.
This facility is utilized by self-assessment. Therefore, it is not necessary to submit an application.

Reference

Article 7 of Income Tax Law
C-1. Income Tax Art 21 Borne By Government for State Officials, Civil Servants, Members of The Armed Forces, And Retirees

Government realizes that income or pensions received by state officials, civil servants, members of the armed forces, and retirees are viewed inadequate. Therefore, the government bears the taxes imposed on the aforementioned income which are received regularly and the fund is disbursed from state budget or regional budget.

Eligible Taxpayer

a. State Official, for:
   1) salary and other allowance, which are fixed and received monthly; or
   2) other fixed remuneration

b. Civil servants, member of armed forces, and member of National Police (POLRI), for salary and other allowances which are fixed and received monthly; and

c. Retirees, for pension and other allowances, which are fixed and received monthly.
Facilities and Incentives of Indonesian Income Tax

Tax Facility

Article 21 Income tax on fixed and regular income received monthly which source is derived from state budget and regional budget that is borne by government.

Procedure

This facility is utilized by self-assessment. Therefore, it is not necessary to submit an application.

Reference

- Government Regulation No. 80 of 2010
- MoF Regulation No. 262/PMK.03/2010
C-2. Exclusion for International Organization to Withhold Income Tax Article 21/26

In order to provide legal certainty, representative offices of foreign countries and international organizations, which are excluded as subjects of income tax as stipulated in the Minister of Finance Regulation, are also excluded from the obligation to withhold Article 21/26 Income Tax article 21/26 for income received or accrued by officials/employees working in the international organizations.

Eligible Taxpayer

Representative office of foreign countries and international organizations as stipulated in the Minister of Finance Regulation

Tax Facility

The exclusion to withhold Article 21/26 Income Tax on income received or accrued by officials/employees working in the international organizations
This facility is utilized by self-assessment. Therefore, it is not necessary to submit an application.

Referensi

- Article 21 Paragraph (2) of Income Tax Law
- MoF Decree No. 649/KMK.04/1994
- MoF Regulation No. 215/PMK.03/2008 a.la.w
  MoF Regulation No. 142/PMK.03/2010
C-3. Lower Rate or Final of Withholding Tax on Certain Income Received by Retirees or Dismissed Workers

In order to ease the burden on retirees or workers whose contracts are terminated (PHK), to them are imposed a lower income tax rates facility and final in nature. Lower progressive tax rate which is also final may offer greater monetary benefit for the workers or the retirees as well as simplicity and certainty in legal aspects.

Eligible Taxpayer

Employee who receives or derives income in the form of Severance Payment, Pension Cash Benefit, Annuity, or Warranty Annuity which is paid at once

Tax facility

Final Article 21 Income Tax rate on income in the form of Severance Payment is determined as follows:
- 0% for gross income up to 50 millions IDR;
- 5% for gross income more than 50 millions IDR up to 100 millions IDR;
- 15% for gross income above 100 millions IDR up to 500 millions IDR;
- 25% for gross income more than 500 millions IDR.
Facilities and Incentives of Indonesian Income Tax

Tax Facility (cont)

Final Article 21 Income Tax rate on income in the form of pension cash benefit, annuity, warranty annuity is determined as much as
- 0% for gross income up to 50 millions IDR;
- 5% for gross income above 50 millions IDR.

Procedure

This facility is utilized by self-assessment; therefore it is not necessary to submit an application.

Reference

- Government Regulation No. 68 of 2009
- MoF Regulation No. 16/PMK.03/2010
C-4. Exemption form Witholding Tax on Certain Income Received by Daily/Weekly/Temporary Workers

In accordance with regulation concerning personal exemption, income received or accrued by daily employees, weekly employees, and other temporary employees is not imposed by withholding Article 21 Income Tax for certain level of income.

Eligible Taxpayer

Daily employees, weekly employees, and other temporary employees who receive income up to 150 thousand IDR a day.

Tax Facility

Income received or derived by daily employee, weekly employee, and other temporary employee up to 150 thousand IDR a day is not imposed by withholding Article 21 Income Tax.

However, this condition is not applicable if the gross income mentioned exceeds 1.32 million IDR a month or if it is paid monthly.
Facilities and Incentives of Indonesian Income Tax

**Procedure**

This facility is utilized by self-assessment. Therefore it is not necessary to submit an application.

**Reference**

- MoF Regulation No. 254/PMK.03/2008
D-1. Exemption from Withholding Tax on Certain Import or Business Activities in Other Sectors

Based on Article 22 of the Income Tax Law, payment of delivery of goods and activities on import or business activities in other sectors is subject to withholding Income Tax. However, due to the national economic interests, some of the aforementioned activities are exempted from the provision.

Eligible Taxpayer

Taxpayers who conduct certain activities exempted from the collection of Income Tax of Article 22

Tax Facility

Except for collection of Income Tax Article 22:

a. Imported goods and/or delivery of goods exempted from Income Tax based on the provisions in the statutory regulation;

b. Imported goods exempted from collection of Import Duty and/or Value Added Tax:
   - goods belonging to foreign country’s representative and its officials assigned on duty in Indonesia based on mutual principle
Facilities and Incentives of Indonesian Income Tax

- goods for the need of international agency and its officials assigned on duty in Indonesia and not holding Indonesian passport
- goods in the form of gift parcel for general need for religious matter, charity, social, culture or for control of disaster;
- goods for the need of museum, zoo, natural conservation and other places of the same kind that are open to public;
- goods for the purpose of research and development of science;
- goods for special need of the blinds and other incapables;
- case or other packages containing corpse or urn for corpse ash;
- removal goods;
- goods belonging to passengers, transporting facility crew, border crosser, and shipment up to a certain limit based on the provisions in the statutory regulation;
- goods imported by the Central Government or Regional Government for the purpose of public interest;
- weapons, ammunition, and military equipment, including spare parts allocated for States defense and security;
- goods and material used to produce goods for defense and security of the country;
- Polio vaccine in the context of implementing Week of National Immunization program (PIN);
- public text books; holy books and religious text books;
- ship, river transporting boat, lake transporting boat, ferry, piloting boat, towing boat, fishing boat, tug boat, and spare parts and navigation safety equipment or human safety equipment imported and used by National Commercial Navigation Company or national fishing company;
- aircraft and spare parts and flight safety equipment or human safety equipment, equipment for repair or maintenance imported and used by National Commercial Air Transporting Company;
- railway and spare parts and equipment for repair or maintenance and infrastructure imported and used by PT Kereta Api Indonesia;
- equipment used to provide data on borders and air photo of the territory of the State by the Indonesian National Army; and/or
- goods for Natural Oil and Gas upstream activities imported by Cooperation Contract Contractors.
c. Temporary import, if during the import is clearly declared for re-export;

d. Re-import, covering goods that have been re-exported and later re-imported in the same quality or the goods that have been exported for repair, work and test, that have complied with the terms stipulated by the Directorate General of Customs and Excise;

e. Payment made by the tax collector, which are Government Treasurer and Budget User Proxy (KPA), treasurer for expenditure for payment made using mechanism on stock money (UP); Budget User Authority (KPA) or Pay Instruction Letter Issuing Official as delegated by the KPA, pertaining to:

1. payment which amount is maximum 2,000,000 IDR (two million Rupiahs) but not constituting undivided payments;

2. Payment for purchase of oil fuel, electricity, gas, lubrication, potable water/PDAM and postal items.

f. Payment for purchase of paddy and/or rice by Public Logistic Company (BULOG);

g. Gold ingot to be processed to produce jewellery for export;

h. payment for purchase of goods to the use of fund for School Operational Assistance (BOS).
This facility can be utilized:

- without using Certificates of Exemption (COE), for:
  a. import that is not Liable of Customs and Value Added Tax; and
  b. Temporary importation,

  Which the provision is carried out at Directorate General of Customs and Excise and the procedure is regulated by Directorate General of Customs and Excise and or Directorate General of Taxes

- using COE, for:
  a. import that is not liable of income Tax; and
  b. import of gold bullion.

Reference

- MoF Regulation No. PMK-154/PMK.03/2010
- DGT Regulation No. PER-57/PJ/2010 a.l.a.w
  DGT Regulation No. PER-15/PJ/2011
E-1. Exemption from Withholding Tax on Deposits and Savings Interest, and Central Bank Certificate Discount

Interest from deposits and savings, and the discount from the central bank’s certificate are income subjected by 20% of final tax, for resident taxpayers and permanent establishments. However, it’s viewed necessary that the provision to exclude small savings and deposits from the exemption, in order to protect people with low-income who are usually the ones who own such savings/deposits.

Aside from that, the tax exemption is also applied for a pension fund, which its establishment is approved by the Minister of Finance, as incentives to steer the pension fund to invest in low-risk and non-speculative financial instruments.

Eligible Taxpayer

- An individual who is resident taxpayer, whose income for one fiscal year including interest and discount does not exceed his/her personal exemption.
- a pension fund which its establishment is approved by the Minister of Finance

Tax Facility

Exemption from withholding tax for certain income derived from interest of deposit/savings, and the discount of central bank’s certificate.
The exemption from withholding tax for certain income can be utilized without request, for:

- interest of deposit/savings, and the discount of central bank’s certificate provided that the amount of deposit/savings, and the of central bank’s certificate are less than 7,5million IDR
- the interest and discount, which are received or accrued by banks incorporated in Indonesia or branch of foreign bank in Indonesia;
- the interest from savings in banks, which are appointed by the Government in context of purchasing simple and very simple houses, lots to build simple and very simple houses, or simple flats.

The exemption from withholding tax for interest of deposit/savings, and the discount of central bank’s certificate received by a pension fund, can be utilized using a certificate of exemption (SKB). The SKB can be obtained by submitting a request to the tax office in which the pension fund is registered.
E-2. Exemption from Withholding Tax on Income after Tax of Permanent Establishment

Taxable Income after deducted from income tax of a permanent establishment in Indonesia is subject to be taxed of 20% (twenty percent), unless the profit is re-invested in Indonesia. The further regulation is stipulated by or based on the Minister of Finance Regulation. The provision is intended to encourage permanent establishment to do re-investment in Indonesia and to support the growth of national economy.

Permanent Establishments that conduct re-investment in Indonesia, in the form of:

a. equity participation in new companies in Indonesia as a founder;

b. equity participation in new companies in Indonesia as a shareholder;

c. fixed asset acquisition/purchasing; or

d. investment on intangible asset,

The re-investment shall be conducted no later than the end of the next tax year, after obtaining income.

Exemption from Article 26 Paragraph (4) of Income Tax Law,
Submit a written notice regarding:

a. The form of re-investment. The writing notice is attached to Income Tax Return of the fiscal year in which income is received.

b. The realization of investment and/or the time of commercial production started. The writing notice is attached to Income Tax Return of the next fiscal year after income is received.

Note:
This notice shall be submitted at least for 3 years consecutively.

Reference

- Article 26 Paragraph (4) of Income Tax Law
- MoF Regulation No. 14/PMK.03/2011
- DGT Regulation No. PER-16/PJ/2011
Withholding tax is one of tax collection system applied in Indonesia, which has purpose of immediate tax collection and increasing public participation in the collection of fund through tax collection system. By this system, there is a possibility that income tax withheld will be bigger than income tax accrued at the end of the tax year (over income tax paid). To deter the condition, it is viewed necessary that a special provision should be governed to give exemption from withholding tax in certain conditions.

Eligible Taxpayer

All Taxpayers, provided that:

a. They are able to provide evidence that there would be no income tax accrued in the end of tax year, because of: experiencing fiscal loss; fiscal loss carry forward that can be accounted; tax that had been paid and would have been paid are bigger than income tax accrued in the end of tax period; or

b. Their income is solely levied by final tax.

c. They have already submitted tax return of last fiscal year (except for new Taxpayer).

Note:
Taxpayers experiencing fiscal loss aforementioned may be granted with the facilities, provided that:

a. They are newly established and still in the progress of investment;

b. They have not accomplished the phase of commercially production; or

c. They experience force major condition.
Tax Facility

Exemption from Withholding Tax by Third Party.

Procedure

- Taxpayers must submit a written application to Tax Office in which they are administered.
- The application shall be submitted for each of withholding tax exemption of Article 21, Article 22, Article 22 import, and/or Article 23 of Income Tax Law, by using prearranged form.
- The application must be attached with predicted accrued income tax for the year (except for taxpayers whose income is solely levied by final tax).
- If the application is approved, Tax Office shall issue an certificate of exemption (SKB).

Reference

- Government Regulation No. 94 of 2010
- DGT Regulation No. PER-1/PJ/2011
E.4. Exemption from Withholding Tax on Interest and/or Discount Received from Bond

Interest and discount of bond is subject to final tax, as governed by the Government Regulation Number 16 year 2009. Nonetheless, there is exemption of the liability for interest and discount earned by certain Taxpayer.

**Eligible Taxpayer**

- Pension fund, which its establishment is approved by the Minister of Finance (as governed by Article 4 Paragraph 3 letter h of Income Tax Law); and
- Bank that is established in Indonesia or branch of a foreign bank in Indonesia.

**Tax Facility**

- Interest and discount from bond that are received or earned by Pension Fund and Bank in Indonesia are not subjected to final tax.
- Interest and discount earned by Pension fund from bond that is traded or reported at stock exchange in Indonesia are not subject to income tax.
Facilities and Incentives of Indonesian Income Tax

Procedure

This facility is utilized by self-assessment. Therefore, it is not necessary to submit an application.

Reference

- Article 4 Paragraph (2) Letter a and Article 17 Paragraph (7) of Income Tax Law
- Government Regulation No. 16 of 2009
- MoF Regulation No. 234/PMK.03/2009
- MoF Regulation No. 85/PMK.03/2011 a.l.a.w
  MoF Regulation No. 07/PMK.03/2012
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