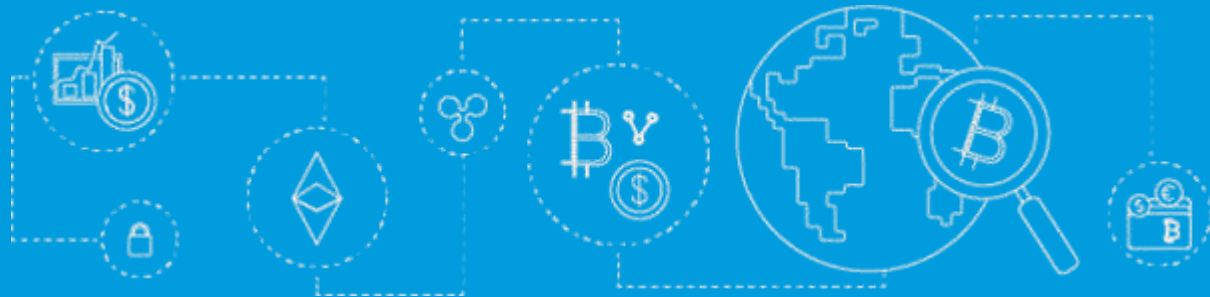


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TAX INCENTIVES IN INDONESIA

Overview of Tax Incentives in Indonesia

Incentives in Indonesia can be broadly categorized into two types:

Discretionary Incentives

Tax Holiday
Mini Tax Holiday
Tax Allowance
Super Deduction
Tax Facilities on Importation
...
Requires evaluation and review from BKPM and/or DGT, and approval from MoF

Statutory Incentives

As per Income Tax Law
e.g. Concessional tax rate for listed entities; 0.5% final income tax for Small & Medium-sized Enterprises
...
No approval from governments required



To meet various economic and social objectives

Tax Incentives: New Tax Holiday

Tax Holiday
MoF Regulation No. 150 of 2018

Mini Tax Holiday
MoF Regulation No. 150 of 2018



Subject

Minimum investment of
IDR 500 billion (US\$36m)

Minimum investment of
IDR 100 billion to < IDR 500 billion
(US\$7m to < US\$36m)



Industry

Applied to **18** industry groups



Income Tax
Reduction Rate

100% **Reduction Rate**
(single rate)

50% **Reduction Rate**
(single rate)



Concession
Period

Time Period	Investment Value
5 years	IDR 500 billion up to less than IDR 1 trillion
7 years	IDR 1 trillion up to less than IDR 5 trillion
10 years	IDR 5 trillion up to less than IDR 15 trillion
15 years	IDR 15 trillion up to less than IDR 30 trillion
20 years	IDR 30 trillion and above

5 Year concession period



Transition

50% CIT Reduction for the
next 2 years

25% CIT Reduction for
the next 2 years

Tax Incentives: New Tax Holiday (Cont'd)

General Criteria

1. The company is incorporated in Indonesia
2. Met DER Ratio for income tax purposes as per MoF regulation No. 105/2018
3. Has never had its tax holiday application granted or rejected by the MoF
4. Obtain tax clearance certificate (SKF) issued by the DGT

How to Apply

1. Through OSS online
2. Along with taxpayer's application for Single Business Number (NIB) to BKPM
3. Apply within 1 year after the issuance of Business Permit (Izin Usaha) is issued by the BKPM

Upstream Metal Industry

Oil and Gas Refinery Industry

Non-Organic Chemical Industry

Organic Chemical Industry

Industrial Machinery Production

Oil Gas and Coal based Petrochemical Industry

Raw Materials for Pharmaceuticals Industry

Economic Infrastructure

Robotic Component Industry

Motor Vehicles and Main Components

Main Component for Shipping Industry

Main Component for Train Industry

Main Component for Aeroplane Industry

Semi-Conductor & Other Main Computer Component

Main Components of Machinery of Electric Generator

Agricultural, Plantation, or Forestry Processing

Irradiation, Electromedical Equipment

Digital Economy

Investment Commitments from Tax Holiday Beneficiaries



Since the issuance of the tax holiday provisions, **42 investors** have received a tax holiday facility - 40 are new investors and 2 are existing businesses expanding in Indonesia

2

Total investment commitments reached **Rp507.2 trillion** as of mid October (Rp208.5 trillion from commitments made by tax holiday beneficiaries last year and Rp298.2 trillion from commitments issued this year)

3

four main upstream industry sectors which dominantly receive a tax holiday facility are **electricity** infrastructure sector, **upstream iron and steel** industry, **petrochemical** industry and **base chemical** industry based on oil and gas

4

the investment commitments are spread across **Java, Sumatra, Kalimantan, Sulawesi** and **North Maluku Islands**

Tax Incentives: Tax Allowance

Government Regulation No. 9 of 2016

30% Investment Value Reduction of corporate net income for 6 years, 5% each year.

145 business fields eligible for tax allowance, expanded from 143 segments in previous regulation with additional segment: clothing industry

Under certain requirements, amongst others: investment value or export orientation, manpower absorption, local content, and project location (especially outside Java)

SOP to process TA facility is 25 working days

Equitable and non-discriminatory treatment against country of origin

Manufacturing Industry

- Iron and steel
- Clothing
- Semi conductors
- Electronic components
- Computer
- Communication devices
- Television
- Wheel
- Pharmaceutical
- Cosmetics
- Fish and shrimp processing

Transportation and Warehouse

- Urban transportation
- Cargo handling

Power Generation

- Geothermal
- Renewable Energy

Oil and Gas Industry

- Oil refineries
- Liquefied Natural & Petroleum
- Gas lubricant

Note: certain business fields and locations are based on Attachment I and II of GR No. 18 of 2015 Jo. No.9 of 2016

Note

- The MoF is currently finalizing new regulations for tax allowance, tax holidays, and tax deductions for Small & Medium Enterprises (SME), as well as incentives for companies that carry out R&D activities
- The government would expand the number of business sectors qualifying for the incentives
- There will be simpler procedures to obtain the incentives

Tax Incentives: Super Deductible Tax

Government Regulation No. 45 Year 2019

On Vocational Education

On Research and Development (R&D)



Subject

Corporate Taxpayers who provide internship or vocation training

Corporate Taxpayers who conducts Research and Development activities in Indonesia



Industry

Manufacturing, Automotive, Furniture, Shipping, Textile & Garments, Industrial Logistics

The R&D activities must be conducted in Indonesia and produce new inventions, innovations, technologies



Income Tax Reduction Rate

200% **Reduction Rate**

- 100% of real cost of physical laboratory facility/workshop, materials used, instructor fee and honorarium or the other alike
- Additional deduction from net income of 100% of the real cost

300% **Reduction Rate**

- 100% in real R&D costs in Indonesia
- The additional deduction for net income is the highest of 200% of the real R&D in Indonesia



Concession Period

- The cost of building, physical facilities is charged according to the useful life of the fixed assets
- For other fees, it is charged in the year concerned, so long as the additional deduction does not cause a fiscal loss

Tax Incentives: Super Deductible Tax (Cont'd)

Government Regulation No. 45 Year 2019

GR No.45 also stipulates Super Deduction facility applicable to **labour-intensive industry**:

- A **reduction in net income** of **60%** of the amount invested in the form of tangible fixed assets (including land utilized for main business)
 - Eligible companies that carry out a new investment or expansion of certain business **must be a labour-intensive industry**
- Facility for labour-intensive industry appears similar to the Tax Allowance facility under GR No.9 of Year 2016

Note

- The MoF is currently drafting PMK regulation in implementing the facilities for R&D activities and labour-intensive industry
- MoF implementing regulation for vocational education is already available (128-PMK)
- The Super Deduction facility is not based on the type of entity, but rather based on the type of eligible expenses

Geographic Area Specific Incentives

Special Economic Zones (KEK)

- Designation of KEK area is set out by specific government regulation
- CIT reduction up to 100% for a period of maximum 25 years (similar to Tax Holiday)
- VAT and import duty facilities

Bonded Stockpiling Area (TPB)

- Consist of different types of Bonded areas
- Non-collection of VAT, WHT 22 and LST on importation; defer payment of import duties; exemption of excise; non-collection of VAT

Free Trade Zones (FTZ)

- Designation of area as FTZ is regulation by specific government regulation
- Exemption of VAT, import duty, excise and LST on importation; non-collection of WHT 22 on importation

Industrial Zone (KIs)

- Determination and licensing of a KI is as granted by the government
- The applicable tax facilities depend on the classification of the Industrial Development Area (IDA) (WPI) of the KI: WPIM, WPIB, WPIP I, and WPIP II

The incentives granted under this category are primarily introduced to encourage export-oriented industries, investment in certain specific region or province to accelerate development of local infrastructure, economy and labour productivity

Import Facilities Incentives

Laws and regulations	Tax facilities
WHT Import Exemption <ul style="list-style-type: none">➤ GR No. 94 Year 2010	<ul style="list-style-type: none">• WHT exemption application on import transactions• Taxpayers can apply to its registered tax office - process usually takes a month from when the complete application is submitted• Certain requirements have been fulfilled, among others: no tax is payable at the end of the fiscal year or the CIT returns show a loss position
Import Duty Exemption <ul style="list-style-type: none">➤ MoF Regulation No. 176/PMK.011/2009 (amended by MoF 188/PMK.010/2015)	<ul style="list-style-type: none">• Import duty exemption is given on machinery, goods, and material used by company producing goods or services and assembling industry includes the industry of motor components• The application must be made to BKPM
VAT Exemption on Strategic Goods <ul style="list-style-type: none">➤ GR No. 81 Year 2015➤ MoF Regulation No. 268/PMK.03/2015	<ul style="list-style-type: none">• VAT exemption on the import and/or delivery of certain strategic taxable goods• An application must be made on each shipment and needs to be supported by import documents such as invoices, bills of lading, etc
Temporary Imported Goods <ul style="list-style-type: none">➤ MoF Regulation No. 178/PMK.04/2017	<ul style="list-style-type: none">• Import duty exemption for temporary imported goods - Machinery and equipment for infrastructure projects or goods used for repair or testing• WHT 22 can be not collected• VAT is still applicable if the taxable goods are utilized within customs region in Indonesia

Thank you
for your time
and attention