Wake Up Call

SURVIVING AN AGGRESSIVE TAX ENVIRONMENT

The Government has set a very high target for collection of taxes for this Budget Year. Is this likely to create problems for my business? What should I do?

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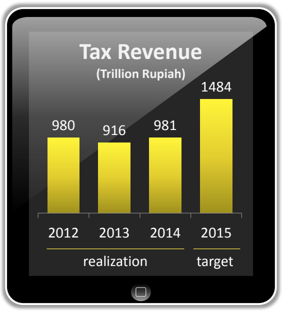
The proposed target for collection of taxes for 2015 is 19 % higher than the target for 2014 and 30 % higher than the actual realisation for 2014. This is a difficult target for the new Director General of Taxes, Sigit Priadi Pramudito, and his team when you consider that the economic growth for 2014 was weaker than recent years and the projection for 2015 (5.4%-5.8%) is not as strong as 2010-2013 (5.8%-6.5%).



As a consequence the Tax Office will not be able to simply rely upon natural growth in corporate profits and personal incomes – in my opinion the Tax Office will be focusing on identifying new taxpayers and ensuring that existing taxpayers are fully complying with the tax laws and regulations.

The areas where you are mostly likely to be impacted by the Tax Office's revenue-drive are in relation to tax audits and transfer-pricing because the typical tax audit arises from a taxpayer's claim for a refund from State Treasury and transfer-pricing is often assumed to result in the artificial shifting of profits overseas (branded by the OECD as Base Erosion & Profits Shifting – BEPS).

In both cases the Tax Office's objective appears will be to minimize refunds and maximize adjustments against transfer-pricing.

Taxes are a cost of business and these should be actively managed - just as you would for any other cost.

Therefore it is important that you understand when and how taxes apply to your business (i.e. to ensure that you do not fail to comply due to ignorance). We continue to be amazed that many taxpayers get the basics wrong and then wonder why they have unexpected tax bills!

It is equally important that you engage proactively with the Tax Office if you do have a tax audit. Either you, or your authorized consultant, must maintain contact with the tax auditors throughout the tax audit rather than waiting passively for the bomb to drop.

We often find the biggest problems have occurred because the tax auditors have been left alone to form wrong perceptions and make invalid assumptions; it then becomes very difficult to reverse these once the Notification Letter of Audit Findings (SPHP) is issued.

As mentioned, transfer-pricing has become a focus area. This applies in particular for transactions with related parties overseas but can also apply in limited circumstances to related party transactions within Indonesia.

You are required to prepare a formal Transfer-Pricing Report if your transactions with a related party exceed IDR 10 billion during the tax year.

If the amount of the transactions is less than you are only required to maintain documents to support that the pricing for those transactions was on an arms-length basis.

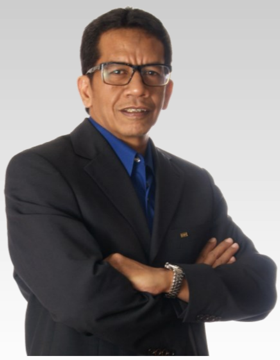
In all cases you are also required to complete various schedules to the Annual Corporate Tax Return that disclose certain information about your transactions with related parties and/or tax havens.

These disclosures need to be carefully considered because the Tax Office will use these as ammunition during a tax audit – especially if you have not disclosed any related party transactions or you have (and these exceed IDR 10 billion) but you have no Transfer Pricing Report.

In summary preparation and engagement are the key to managing taxes in 2015 and beyond.

KEY POINTS

- Understand when and how taxes apply to your business.
- Pay more attention on areas related to tax audit and transfer pricing.
- Engage proactively with Tax Office.
- Ensure existence of a sound tax records management.



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