

Come now, let us settle matter: Forgiveness of past tax sins

Period 1 of the Tax Amnesty has passed with good results for asset declaration & redemption fees. What is happening for period 2? Have I missed the chance to follow?

Andi, Jakarta

As we all know, period 1 of tax amnesty ended on 30 September, 2016. During this period it was possible to submit a tax amnesty declaration (TAD) and pay the redemption fee calculated at 2% if the additional assets were in Indonesia or overseas and not repatriated; or 4% if otherwise. Period 1 has achieved great results regarding assets declared and repatriation and redemption fees paid. However, there has been less success in relation to repatriation of overseas assets. It is possible that this reflects taxpayers' wait-and-see attitude to full compliance, difficulties with monetizing overseas assets to repatriate, uncertainty regarding the repatriation process and permitted investments or an overestimate of the amount of liquid assets overseas.

Based on our observation, individual taxpayers were more active in making TAD in Period 1 whilst corporate taxpayers are now more active in Period 2. It is not clear if this was because individuals are more agile and more cost-sensitive, not wanting to miss the chance of getting the lowest rate for redemption fees, or if corporate taxpayers have been waiting to see how the actual tax amnesty process is working before deciding how to proceed. It seems that some corporate tax-

payers had been waiting for confirmation on what accounting treatment should be applied if they make a TAD. These concerns appear to be resolved following the issuance of PSAK No. 70 which regulates the accounting and bookkeeping for companies that submit TAD.

We believe that the clarity of accounting treatment and clarification of special purpose vehicles will add on to the number of companies joining the program. It is likely, also, that fence-sitting individuals might now follow the tax amnesty rather than face future tax uncertainty. Remember that one key benefit of submitting a TAD is that the taxpayer is no longer subject to tax audit for the 2015 tax year and earlier years. If no TAD is submitted then the taxpayer will be part of a smaller pool of tax audit targets where the Tax Office has authority under the tax amnesty law (until 30 June, 2019) to look back to 1985 to determine if the taxpayer has un/under-reported assets.

So, is the tax amnesty still interesting to follow if you have un/under-reported assets? Although the rate for calculation on the redemption fee has now increased to 3% for onshore or repatriated assets and

6% for overseas non-repatriated assets, the answer is YES definitely, because by participating the taxpayer's declared assets (and past income) will no longer be at risk of tax audit. Instead the taxpayer can focus on future planning and compliance.

It is highly likely that the targets will be achieved for asset declaration and redemption fees; however, it is less likely that the target for asset repatriation will be achieved. There is greater likelihood of success if the Tax Office continues to socialize the benefit of tax amnesty and synchronize its administration, so there is more interest in the submission of TAD in the second and third periods, as well as reduce confusion in the minds of taxpayers, where the taxpayers may become reluctant to join the tax amnesty program if they have problems in understanding the regulations. The upcoming financial account exchanges under the Automatic Exchange of Information agreements may add to the incentive to declare and repatriate overseas assets.

By joining tax amnesty program, taxpayers will, be forgiven for their past tax sins, sleep soundly and be more obedient in carrying out future tax obligations.

KEY POINTS

- Individual taxpayers were more active in making TAD in Period 1 whilst corporate taxpayers are now more active in Period 2.
- The clarity of accounting treatment and clarification of special purpose vehicles will add on to the number of companies joining TA.
- By joining tax amnesty program, taxpayers can sleep soundly and be more obedient in carrying out future tax obligations.



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