

Tax Amnesty Implications for Expatriates

As an expatriate working and living in Indonesia, the Tax Amnesty is not relevant for me; or is it?

Michelle, Jakarta

If you are an expatriate in Indonesia then the Indonesian Tax Office (ITO) will probably regard you as a tax resident. This assumption would be further strengthened if you have obtained an NPWP. There might still be a question as to whether you are a "true" Indonesian tax resident if you remain a tax resident of another country, but that is a complication for another day.

As a taxpayer you must declare your worldwide income, assets and liabilities in your Personal Tax Return.

The income is subject to Indonesian tax with a credit for foreign taxes. The tax credit is subject to certain requirements and is limited to the Indonesian tax that would otherwise have been payable on the income. Therefore if the foreign tax rate was 47% then, in theory, the maximum credit is 30% because 30% is the highest marginal tax rate for an individual.

The Tax Amnesty (TA) is open to all taxpayers – not just Indonesian citizens and companies.

If you have not been declaring your worldwide income and assets then the TA offers an opportunity to "come clean".

Under the TA you declare the unreported assets and then

pay a Redemption Fee based on the net assets (the undeclared assets less any liabilities directly connected to these assets – but subject to a thin capitalization limit).

The Redemption Fee is calculated by applying a tariff to the net assets. Depending on the date of declaration (the TA period is 1 July, 2016 – 31 March, 2017) the tariff rates range from 2–5% if the assets already exist here or are repatriated to Indonesia for at least 3 years and invested into stipulated products, or 4–10% if the declared assets will not be repatriated.

The Redemption Fee is calculated on the net assets rather than the underlying income. If the net asset was generated from untaxed income while you were working in Indonesia then the "tax" under the TA is very low compared to the marginal tax rate. However, if the net assets existed before becoming an Indonesian tax resident then there might be an element of double taxation (from your home country and now through the TA process).

A further benefit of declaration under the TA process is that the ITO is not permitted to audit the assets that were declared.

Even if there is some double taxation you should weigh this against the consequen-

ces if you do not declare the assets.

Indonesia and other countries are moving towards the implementation of Automatic Exchange of Information regarding Financial Accounts (AEOI). This will see financial account information (e.g. bank accounts, bond and share trading accounts, etc.) being shared with the tax authority where the account owner is tax resident.

This is in addition to existing exchanges of information for specific taxpayers that can occur under prevailing tax treaties.

If the ITO becomes aware of the unreported assets then they will deem these to be unreported income and impose income tax and penalties. It is expected that the Tax Office will be aggressive in the imposition of full penalties rather than only imposing the standard 2% per month interest sanctions.

Once the asset is declared then do not forget that future income generated from that asset will need to be reported in your Personal Tax Return and income tax paid (after deducting applicable foreign tax credits). This will continue until you cease to be an Indonesian taxpayer (... and another tax authority then lays claim to your hard earned wealth ...).

KEY POINTS

- The Tax Amnesty program is open to all taxpayers, not just Indonesian citizens and companies, and it is an opportunity to "come clean" if you have not been declaring your worldwide income and assets.
- Under the tax amnesty program, the tax rate is very low compared to the marginal tax rate and assets declared will not be audited by the Indonesian Tax Office.



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