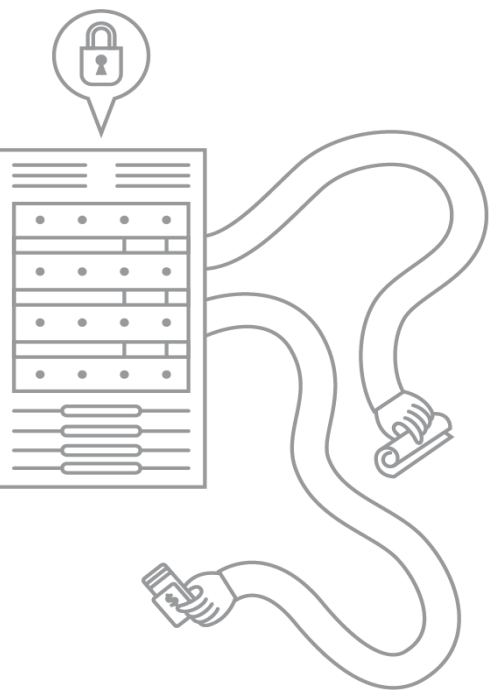


WAKE UP CALL

Welcome to issue 43 of Wake Up Call—RSM Indonesia newsletter covering topics on audit, accounting, business, corporate finance, governance, internal control, management, risk, taxation.

In this issue:

- Managing Tax Risks on Outbound Investment
- Innovate or Die !
- The End of Tax Planning
- Our Activities



Unless you have just arrived in Indonesia, you are probably aware from the publicity regarding the tax amnesty program that Indonesia taxes its tax residents on a worldwide basis. That is, once you are an Indonesian tax resident then you should include in your Personal Tax Return your worldwide income, such as income from overseas rental properties, share portfolios, bank deposits and debt securities. The same applies if your company has similar investments overseas.

To the extent that foreign tax was assessed and paid on these (e.g. as withholding tax) then, in principle, an income tax credit can be claimed in Indonesia. I write "in principle" because the rules for claiming the tax credits might prevent the full credit being received.

What is less well known is that Indonesia has rules regarding Controlled Foreign Corporations (CFC) that require tax residents to report income on an accrual basis if they invest in overseas non-public companies where, separately or together with other tax residents, they hold at least 50% of the share capital. Until recently

the tax resident investors were required to report in their tax return their share of the after-tax profit of that company, as though a dividend had been declared and paid equal to the entire after-tax profit. An adjustment would then be made to the extent that a dividend was eventually declared and paid.

These rules applied whether the equity investment was into a company undertaking active business activities, such as manufacturing, or only passive activities (e.g. holding a property portfolio) and, commencing 2009, equally applied to investments in companies in tax havens compared to higher-taxing jurisdictions.

The issuance of 107/PMK.03/2017 on 26 July 2017 includes indirect equity investments in the definition of CFC if the shareholding in an indirect entity is at least 50%. Therefore, if you held 50% of a Malaysian company that owned 50% of a Singapore company then you should report a deemed dividend equal to 50% of the after-tax profit of the Malaysian company and 25% (50% x 50%) of the after-tax profit of the Singapore company.

Unfortunately the regulation is silent on important issues, such as how to treat prior year losses which may occur when setting up an overseas business, and whether it is possible to consider losses incurred in an overseas group holding company that has invested into profitable subsidiaries. The absence of provisions regarding

losses creates a corporate tax result that would not occur if the business had been established in Indonesia.

Potentially the operation of the deemed dividend rules creates a higher tax burden compared to where a tax resident individual owns shares in an Indonesian company or an Indonesian company owns at least 25% of another Indonesian company. This begs the question as to whether the deemed dividend rules discourage investment overseas even though the Government has indicated that it wants Indonesian companies to become international players so they can leverage their Indonesian products, access new markets and know-how.

We can only hope that the eventual amendment of the Income Tax Law will see a revised CFC regulation that is more consistent with other jurisdictions and does not penalize outbound investment. In the meantime, tax residents should consider whether any existing equity investments overseas are being properly reported and what steps can be taken to mitigate the implications of the CFC rules for future investments overseas.

MANAGING TAX RISKS ON OUTBOUND INVESTMENT

Nick Graham, Tax Practice

The Indonesian tax implications of investments overseas by Indonesian tax residents (including expatriates) are not as obvious as you might think.

For further information, please contact:

inquiry@rsm.id

INNOVATE OR DIE !

Angela Simatupang, Consulting Practice

Too often we hear the term 'innovate or die', off course we don't want our business to die, and we choose to innovate. But do we really know how we embark this journey?

The Innovation Policy Platform (IPP) study revealed that human resources are a major weakness of Indonesia's STI (science, technology and innovation) system. Indonesia is now aiming to build a stronger culture for innovation through education, awareness-raising and the design of more participatory policies.

Innovation could be in form of product innovation or process innovation. Both entail different activities, though some might be related. IPP, which developed by OECD and the World Bank, defines product innovation as the introduction of a good or service that is new or has significantly improved characteristics or intended uses; whilst process innovation refers to the implementation of a new or significantly improved production or delivery method.

Let's put product innovation aside in this discussion, and have a simpler discussion on process innovation, or to make it more earthly, let's call it process improvement, where most of us, ordinary people, can do.

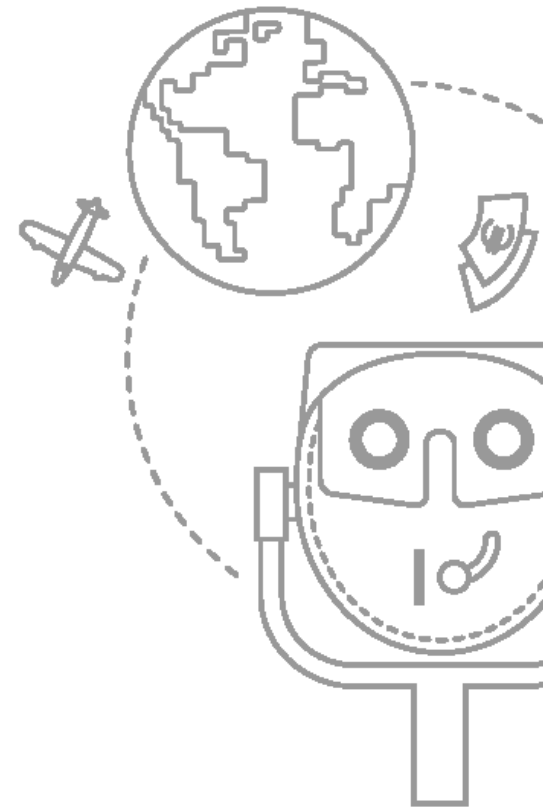
Process innovation or process improvement start with identifying all processes that can be considered for innovation or improvement, this is like identifying possible candidates when you do your employee recruitment. However, in process improvement, your focus will be on which process that needs immediate improvement initiatives that are critical to your

business. This selection process helps us to priorities our efforts, energies, and resources on the exact process (or processes) that urgently need change. Hence, identifying and selecting processes for improvement is a prerequisite to any change.

Key Steps

It is very human of us to want more and more, but what do you think the success rate will be in when we want to improve all of our processes at the same time, with limited resources? I do not have the statistics, but my gut feeling it will not be high. So, we need to count how many key processes can we really handle, as key process is really a sum of many (and sometime invisible) processes. The fewer and broader the processes, the greater the possibility of improvement through process integration; as it reduces the problems of understanding, measuring and changing the process and culture. Most organizations cannot successfully deal with improvement on a large scale.

Once the processes have been identified at a high level, we need to identify the challenges between those processes to enable us in managing it. Then, we start to select individual processes within to improve. Improvement effort should be based on organizations capabilities and resources. An organization must understand the level of change it can



determine how many processes it can successfully improve. One critical consideration in process selection is the assessment and judgment on the importance and strategic relevance of that process to support achievement of intended goals.

Now you can embark on the journey. Don't throw out the scoped out processes, as it might still be important to your business, and could be the next phase in your business improvement phase. Lastly, throughout the process, don't forget to execute a good project management to assist you in safeguarding the execution of your plan.

For further information, please contact:

inquiry@rsm.id

THE END OF TAX PLANNING

Nick Graham, Tax Practice

In recent months a series of international agreements have been signed by the Government and regulations issued directed at minimizing tax evasion. These provoke the question – “Is this the end to tax planning?”

The short answer is yes and, well, no. “Yes”, if your concept of tax planning involved setting up a company in an exotic Caribbean location, transferring income to this and then living the life of Riley using a credit card from a helpful financial institution. The answer is “no”, however, if the planning was a consequence of and supportive to your commercial activities.

Compared to the usual drip-drip of regulations and their amendments, there has been a recent deluge of announcements, signings, laws and regulations targeting tax evasion. The first and foremost was the tax amnesty that provided a genuine carrot for taxpayers to resolve past non-compliance, with the stick that incomplete declarations would expose the taxpayer to significant additional sanctions, whilst those that did not follow the tax amnesty might need to prove that any asset acquired during 1 January 1985 – 31 December 2015 was not acquired using untaxed income.

As promised throughout the tax amnesty period, the Government is now taking action to detect non-declared offshore assets. It has recently signed a bilateral agreement with Hong Kong on the Automatic Exchange of Financial Account Information (“AEOI”) and it is working with Singapore to facilitate information sharing following Singapore’s signing of the Multilateral Competent Authority Agreement on the AEOI on 21 June. Singapore is

committed to this, whilst noting that finalization is subject to Indonesia passing the necessary laws to implement AEOI and ensuring the required confidentiality and data protection safeguards are in place. In this regard, PERPPU 1/2017, recently approved by the House of Representatives on 27 July, was an important step to establish a legal basis for financial institutions to provide account data to the Tax Office without risk of this being a breach of other laws.

Although the provision of assurance regarding confidentiality and data protection might take time, no one should assume that AEOI will not commence with Singapore. And when it does 2017 information will be the first data to be exchanged.

To address concerns regarding abuse of tax treaties through aggressive planning, on 19 June the Director-General of Taxation issued PER-10, which replaced the existing anti-abuse regulations. Of particular note is the addition of a principal purpose test consistent with OECD best practice. This test requires that any tax structuring should not have inappropriate access to tax treaty benefits as one of its principal purposes. If this does occur then the foreign taxpayer will not be eligible to access the benefits under that tax treaty.

As a consequence of these changes (with more likely to come) taxpayers should review their existing transac-



tions and structures to ensure these reflect the commercial activities being undertaken rather than the structuring is driving the commercial activities. In addition because a company’s tax position will reflect its operations it is crucial that relevant non-finance managers are aware of the need to act within the established structure and not create accidental tax risk by acting contrary to the agreed and documented processes. It is not unusual for Tax Offices to deem a taxable Permanent Establishment exists because the local managers went beyond their permitted activities – unfortunately “going the extra mile” for a customer might cost Head Office an “extra mill”.

For further information, please contact:

inquiry@rsm.id

Our Activities :

Independence Day at RSM

Indonesia's Independence day celebrated every 17th of August. RSM Indonesia celebrated the occasion with several activities. We started it with a flag-raising ceremony and our national anthem.

After the ceremony, we held various games which are make up contest, pinch the balloon, and ping pong relay. Those various games has been held to bring togetherness and increase the bonding among staff.



RSM was a proud sponsor of the International Accounting Conference

RSM recently participated as the main sponsor for the International Accounting Conference, which is annual conference organized by Department of Accounting University of Indonesia. The International Accounting Conference aims to facilitate the presentation and discussion of research and recent scientific studies in the field of accounting and finance.

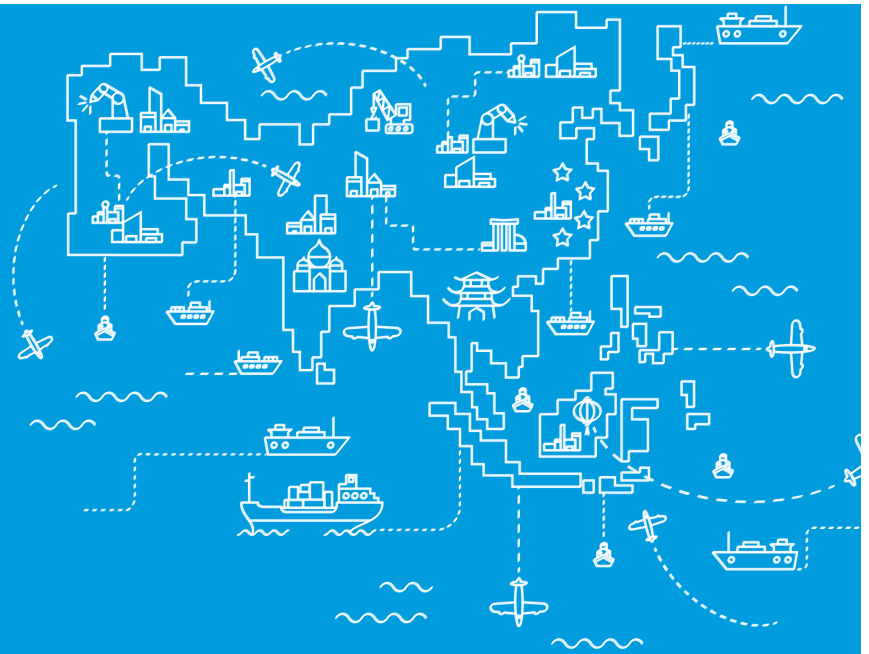
This year was the 6th international accounting conference and was held in Yogyakarta, Indonesia on 27-29 August 2017. The theme for the conference was "The Growth Game Changer : How Accounting Works in the Digital Era" which was attended by approximately 300 of lecturers and accountants.

Senior partner of RSM Indonesia, Agung Nugroho Soedibyo as one of the conference's speaker delivered a presentation on "The Role of Accounting Profession in the Digital Era". The conference was opened by Senior Deputy Governor of the Central Bank of Indonesia, Mirza Adityaswara.

In this prestigious event, there were also some awards for the writers of best papers, "Amir Abadi Jusuf Award" and "Wahjudi Prakasa Award", named by prominent accountant figures in Indonesia. The writers for the best paper who received "Amir Abadi Jusuf Award" was a student from Hitotsubashi University, Takuma Kochiyama and a lecturer from Tsukuba University, Ryosuke Nakamura.



RSM World Day 2017



On 19 September 2017, RSM celebrated its sixth annual RSM World Day, a global celebration of the network's shared vision, values and purpose.

'Innovation Through Collaboration' was the theme of RSM World Day 2017 and at the same date RSM firms from around the globe came together to explore ways to create an environment within each firm that is conducive to innovation.

Through a wide variety of different activities staff in RSM firms across more than 70 countries united in colleague, client and charity events to celebrate RSM's distinguishing beliefs of collaborative working, deep individual understanding, idea and insight sharing for the benefit of clients.

In Indonesia, we celebrated it by a "give-back community" act through blood donation in corporation with Indonesian Red Cross (PMI), followed by refreshment of RSM core values and RSM's innovation by our International Contact Partner, Angela Simatupang.



Agriculture in Indonesia is one of the key sectors of Indonesian economy. Although the share of agriculture sector contribution to the national gross domestic product has declined significantly in the last half century, today it still provides income for the majority of Indonesian households.

The country possesses vast and abundant arable fertile soils. Indonesia is a world's major key producer of a wide variety of agricultural tropical products. Indonesia's important agricultural commodities include palm oil, natural rubber, cocoa, coffee, tea, cassava, rice and tropical spices.

A large terraced tea plantation on a hillside. The tea bushes are arranged in neat, curved rows that follow the contours of the slope. In the foreground, three workers are visible, each wearing a traditional conical hat and a bright, colorful jacket. They are crouched down, actively picking tea leaves. The background shows more of the terraced fields extending up the hill, with some trees visible at the very top under a clear sky.

is also available in a column published at The Jakarta Post and Bisnis Indonesia

THE POWER OF BEING UNDERSTOOD

New Personnel at RSM Indonesia



Agung Nugroho Soedibyo, Senior Partner

Agung Nugroho Soedibyo has joined RSM Indonesia as a Senior Partner starting from 1 August 2017. Prior to joining RSM Indonesia, he has been a Partner with KPMG Indonesia for 35 years, including 2 years with KPMG Dallas USA. He has more than 40 years experience in accounting, auditing, and consulting specializing in the oil and gas industry.



Chaerul Djakman, Senior Advisor

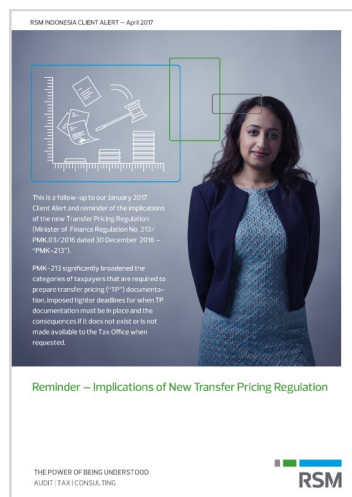
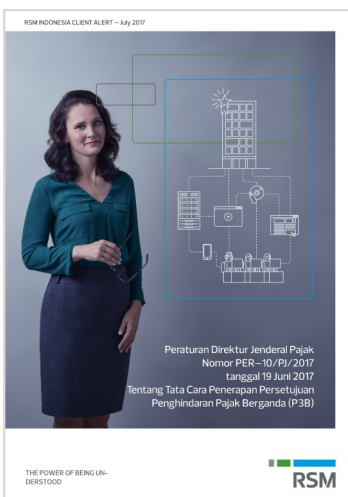
Chaerul Djakman has joined RSM Indonesia as a Senior Advisor starting from 7 August 2017. He graduated from University of Indonesia (UI) majoring Accounting in 1987 and join AAJ Associates as a consultant from 1987 to 1989. He has more than 25 years working experience in various types of assignment : consultant, trainer, assessor in accountancy and business fields.



Donny I Maramis, Partner

Donny I Maramis has joined RSM Indonesia as a Partner starting from 4 September 2017. He will strengthen audit, tax and consulting services, predominantly in the oil & gas sector. Prior to joining RSM Indonesia, he was the Head of Oil and Gas at KPMG Indonesia for 3 years. He also had experience in conducting product costing review project, IFRS conversion project, accounting policy update and chart of account project, XBRL reporting project, accounting advisory and financial due diligence work.

Client Alert



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