Profile—— Republic of Indonesia (Indonesia for short)

Ⅰ. Jurisdiction Background

The Republic of Indonesia (familiarly known as Indonesia) is a country located in the Asia-Pacific region. Jakarta serves as the capital of Indonesia and is the nation's political, economic, and cultural center. Indonesian is the official language of the country.

Indonesia is the largest country in the Association of Southeast Asian Nations (ASEAN). Agriculture, industry, and the service sector all play significant roles in its national economy. Foreign trade is a key component of Indonesia's economy, and foreign investment has a substantial impact on promoting its economic development.

Ⅱ. Organizational Structure

Indonesia’s tax authorities are divided into two tiers according to the administrative level, those are Central and Local Tax Authorities. While the central government, through the Directorate General of Taxes (DGT), oversees the majority of tax collection and administration, local governments possess the authority to impose and manage certain local taxes. This dual structure is designed to ensure the fulfillment of tax obligations at both the national and regional levels, emphasizing a clear delineation of taxable objects between central and local authorities to avoid overlapping tax collection.

DGT of Indonesia mainly has the following institutions:

- **Head Office**
  Responsible for policy formulation, technical standardization, analysis, development, and administrative support.

- **Regional Tax Offices**
  Responsible for coordination, guidance, and monitoring of tax administration, comprising 34 units across different regions in Indonesia. Additionally, responsible for conducting analysis, evaluating task execution, and interpreting policies from the Head Office.

- **Tax Offices**
  Responsible for providing guidance, services, and oversight to taxpayers, comprising 4 Large Taxpayers Tax Offices, 9 Special Tax Offices, 38 Medium Taxpayers Tax Offices, and 301 Tax Offices.

- **Tax Service, Dissemination, and Consultation Offices**
  Responsible for services, counseling, and tax consultation, comprising 204 offices to reach people in remote areas not covered by Tax Offices.

- **Technical Implementation Units**
  Consist of Taxation Data and Document Processing Center, Taxation Data and Document Processing Offices, and the Office for Information and Complaints Services.

Ⅲ. Current Tax System

Types of taxes in Indonesia managed by the DGT include, among others:

1. Corporate Income Tax;
2. Individual Income Tax;
3. Value Added Tax (VAT) and Luxury-goods Sales Tax;
4. Land and Building Tax; and
5. Stamp Duty.

The tax on land and building transfers is classified as Income Tax and is managed by DGT, while the duty on the acquisition of land and building rights is managed by the local government. Customs and excise are regulated by the Directorate General of Customs and Excise.

Ⅳ.Overview of tax preference policies

To attract foreign investment, the Indonesian government has issued Regulation of the Ministry of Finance No. 96/PMK.010/2020 and Regulation of the Ministry of Finance No. 130/PMK.010/2020. These regulations outline preferential policies, including tax exemptions and subsidies, to encourage investment. Additionally, preferential policies are provided for special economic zones and import taxes, which can be applied through the Ministry of Investment. Investors are required to fulfil their investment commitments within one year after applying for tax incentives.

In 2020, the Ministry of Finance of Indonesia also issued regulation No. 11/PMK.010/2020, which addresses preferential corporate income tax policies for specific regions and industries.

- Corporate Income Tax (CIT)
  To attract foreign investment, the Indonesian government has several corporate income tax incentive schemes, e.g.:
  1. Tax Holiday

Based on Government Regulation No.45 of 2019 and Minister of Finance Regulation No.130/PMK.010/2020 as amended by Minister of Finance Regulation No.69 of 2024, corporate income tax payers making new investment in pioneer industries are eligible for corporate income tax reduction at a rate of 50% or 100% for the period of 5 to 20 years, depending on the amount of the investment. The corporate income tax reduction can be utilized since the commencement of commercial production. After the period of tax holiday ends, the tax payer still benefits from a 25% or 50% corporate income tax reduction in the subsequent two years. However, if the taxpayer benefitting from the tax holiday is also part of MNE Group that is subject to Pillar 2 (Global Minimum Tax), the aforementioned taxpayer is potentially subject to Domestic Top-up Tax under the Pillar 2 rule.

2. Tax Allowance

   Based on Government Regulation No.78 of 2019 and Minister of Finance Regulation No.81 of 2024, corporate income tax payers making investments in certain sectors or regions as listed in the annex of Government Regulation No.78 of 2019 are eligible for incentives as follows:

   a. Net income reduction at a maximum of 30% of total investment. The reduction shall be utilized at 5% annually over 6 years.
   b. Accelerated depreciation and amortisation for tangible or intangible assets.
   c. 10% withholding tax rate on dividends (or lower rate based on tax treaty).
   d. Extension of loss carry-forward period for up to 10 years.

3. Investment Allowance

   Based on Government Regulation No.45 of 2019 and Minister of Finance Regulation No.81 of 2024, corporate income tax payers making investments in labour-intensive industries as listed in the annex of Minister of Finance Regulation No.81 of 2024 and not benefitting from Tax Allowance are eligible for net income reduction at 60% of total investment. Such reduction shall be utilized at 10% annually over 6 years.

4. Income Tax Incentive in Special Economic Zone (SEZ)

   a. Tax Holiday in SEZ

      Based on Government Regulation No.12 of 2020 and Minister of Finance Regulation No. 237/PMK.010/2020, SEZ Developer Entity investing at least IDR 100 billion is eligible for 100$ corporate income tax reduction for 10 years. On the other hand, the Business Entities making investments and carrying out business in the SEZ are eligible for a 100% corporate income tax reduction for 10 up to 20 years, depending on the amount of investment.

There is an additional 2-year transitional period after the tax holiday period ends, but the reduction rate is 50%.

b. Tax Allowance in SEZ

Based on Government Regulation No.12 of 2020, Business Entities investing in SEZ but not benefitting from the Tax Holiday is eligible for:

1) Net income reduction at a maximum of 30% of total investment. The reduction shall be utilized at 5% annually over 6 years.
2) Accelerated depreciation and amortization for tangible or intangible assets.
3) 10% withholding tax rate on dividends (or lower rate based on tax treaty).
4) Extension of loss carry-forward period for up to 10 years.

5. Income Tax Incentive in the Capital City of Nusantara

a. Tax Holiday on Investment in the Capital City of Nusantara.

Based on Government Regulation No.12 of 2023 and Minister of Finance Regulation No.28 of 2024, corporate income tax payers making investments of at least IDR 10billion in sectors of infrastructure and public service sectors, economic generation/revival, and other priority sectors in the Capital City of Nusantara are eligible for 100% corporate income tax reduction for a period of 10 up to 30 years depending on the business sectors.

b. Tax Holiday in the Financial Centre of the Capital City of Nusantara.

Based on Government Regulation No.12 of 2023 and Minister of Finance Regulation No.28 of 2024, Corporate income tax payers making investments in financial sectors in the Financial Centre of the Capital City of Nusantara is eligible for 85% or 100% corporate income tax reduction for 20 or 25 years, depending on the type of financial sectors and the year of investment.

Banking, insurance and sharia finance are eligible for 100% corporate income tax reduction. On the other hand, other financial sectors, such as capital market, pension fund, etc are eligible for 85% corporate income tax reduction.

In addition, the income that non-resident investors earn from their investment in the financial sectors in the Financial Centre of the Capital City of Nusantara is eligible for withholding tax exemption for 10 years.

c. Tax Holiday for the Establishment of the Head Quarter or Regional Office in the Capital City of Nusantara.

Based on Government Regulation No.12 of 2023 and Minister of Finance Regulation No.28 of 2024:

1) non-resident corporate taxpayer that establishes or moves its headquarters or regional office to the Capital City of Nusantara; or
2) Resident corporate taxpayer that is newly established and acts as headquarters or regional office in the Capital City of Nusantara,

is granted a 100% corporate income tax reduction for 10 years and another 50% corporate income tax reduction for the subsequent 10 years.

The headquarters or regional office shall carry out substantial economic activities in the Capital City of Nusantara.

- Individual Income Tax (IIT)

  The important exclusions from taxable income are:

  1) inheritances;
  2) donated assets received by biological families within one degree of direct lineage or individuals who run micro and small businesses;
  3) limited compensation for work or services received in kind and/or in the form of privileges, which are:
     a. meals, food ingredients, beverage ingredients, and/or drinks for all employees;
     b. kind and/or enjoyment provided in certain regions;
     c. kind and/or enjoyment that must be provided by the employer in the implementation of work;
     d. kind and/or enjoyment derived from or financed by the State Budget, the Regional Budget, and/or the Village Budget; or
     e. kind and/or enjoyment with certain types and/or limitations;
  4) payments from insurance companies due to an accident, ill health or death of the insured person and payments of scholarship insurance;
  5) dividends that meet certain requirements, such as invested in Indonesia within a certain period of time;
  6) a share of profit or the remaining operating results received or obtained by members of cooperatives, limited liability companies whose capital is not divided into shares, partnerships, associations, firms, and joint ventures, including holders of participation units of collective investment contracts; and
  7) scholarships that meet certain requirements.

- Value Added Tax (VAT)

  In accordance with Article 4A paragraph (2) and paragraph (3) of Law 8 of 1983 concerning Goods and Services Value Added Tax and Sales Tax on Luxury Goods as amended several times lastly by Law 6 of 2023 concerning Stipulation of Government Regulation in Lieu of Law Number 2 of 2022 concerning Job Creation, non-taxable goods and services are outside the scope of VAT. VAT is not payable on the following goods and services:

1) food and beverages served in hotels and restaurants either consumed on location or not, including food and beverages that are served by catering services, which are subject to local tax;
2) money, gold ingots for foreign exchange reserve and commercial paper;
3) religion services;
4) culture and entertainment services which are subject to local tax;
5) hotel room rental services which are subject to local tax;
6) government related services;
7) parking services which are subject to local tax; and
8) catering services which are subject to local tax.

Ⅴ. Tax Collection and Administration

The General Provision and Procedure on Taxes Law 6 of 1983, as amended several times, lastly by Law 6 of 2023, sets out administrative rules and is intended to streamline tax collection and refunds of income tax and VAT. In an attempt to simplify the tax framework in Indonesia, the DGT has issued DGT Regulation No. PER-6/PJ/2024 to merge the individual tax ID numbers (NPWP) with the national ID (KTP) number (NIK). The regulation is the implementing regulation of Minister of Finance Regulation No. 112/PMK.03/2022, as lastly amended by Minister of Finance Regulation No. 136 of 2023.

- Corporate Income Tax (CIT)

  Indonesia operates a self-assessment system whereby all companies are required to complete a tax return and compute their tax liability not later than 4 months after the end of the tax year (calendar year, unless the Taxpayer uses a book year that is different from the calendar year). According to Article 163 of Minister of Finance Regulation No.81 of 2024, electronic filing is compulsory for all corporate income taxpayers for fiscal year 2025 and beyond. An annual income tax return that is incomplete will be deemed not to have been submitted. A taxpayer's self-assessment is deemed to be final provided the legislative requirements have been complied with.

  Electronic withholding tax payment slips are required by certain tax offices and apply to taxpayers who meet the criteria to submit tax returns electronically and taxpayers issued with digital certificates. However, starting from January 2025, according to Minister of Finance Regulation No.81 of 2024, electronic withholding tax payment slips are required for all withholding agents.

Corporate taxpayers are also required to attach the country-by-country reporting notification submission slip, a debt-to-equity ratio calculation, a foreign private loan report, and the annual income tax return. Public companies that are eligible for a 3% reduction in the corporate income tax rate are required to submit share ownership reports in the prescribed format together with their annual income tax returns.

- Value Added Tax (VAT)

  In general, enterprises in Indonesia should be registered for VAT (as Taxable Enterprises) when their gross revenue from the delivery of taxable goods and/or taxable services exceeds IDR 4.8 billion in a fiscal year. Intentional failure to register for VAT is punishable by imprisonment for up to 6 years and/or a fine of up to four times the amount of unreported tax. Where the company has other offices or work locations within Indonesia, such other offices or work locations should also be registered for VAT (as Taxable Enterprises). VAT activities can be centralized in the head office, subject to certain conditions. However, pursuant to Minister of Finance Regulation No. 68/PMK.03/2010, as amended several times and most recently by Minister of Finance Regulation No.164 of 2023, enterprises that deliver taxable goods and/or taxable services worth less than IDR 4.8 billion in a financial year may choose to register for VAT (as Taxable Enterprises). The tax office will oversee the registered taxable enterprises' compliance based on their VAT returns and any tax information, following DGT Regulation No. PER-40/PJ/2013 of 26 November 2013, effective since 1 January 2014, as amended by DGT Regulation No. PER-30/PJ/2014 of 21 November 2014. Overseeing is performed every 6 months and will be carried out on taxpayers who:

  1. do not file VAT returns for 3 months, whether consecutively or not;
  2. file nil VAT returns for 3 months;
  3. file VAT returns with overpayment-refund positions.

  The overseeing could result in, but is not limited to, warning letters, tax collection notices, requests to amend VAT returns, verifications, proposals for a tax audit or an analysis of a VAT refund.

Ⅵ. Taxpayer Services

DGT provides digital-based tax services through the Click, Call, Counter (3C) program. The 3C program prioritizes service channels based on a hierarchy. The main priority is the online channel via website or mobile application (click). In case it cannot be resolved, the taxpayer can contact the contact center (call) and the last priority channel is meeting the tax officer at the tax office (counter).

One of DGT's main services is e-tax returns reporting (e-Filing), which can be accessed through DGT's website or Application Service Provider. E-filing is mandatory for certain types of taxes for certain taxpayers.
For continuous improvement, DGT improve the service through the development of a new system called Core Tax. Some of the tax service features in the Core Tax System are:

1. Expansion of service channels;
2. Borderless services (for counter channel);
3. Service automation;
4. Self-service document download;
5. Application tracking; and
6. Access tax classes.

Ⅶ. Tax Legislation Process

The tax legislation is supplemented by various implementing regulations, ministerial orders, and directives. Basic tax laws approved by parliament and enacted by the President are implemented by Government Regulations issued by the President. Ministerial orders may be issued by the Minister of Finance (Regulation of the Ministry of Finance and Decree of the Ministry of Finance) to govern the implementation of the tax law in order to ensure uniform interpretation and application of the laws and ordinances. The DGT may also issue directives to officials of the tax administrations and to taxpayers (Decision of the DGT, Regulation of the DGT, and Circular).

In accordance with the Decree of the Minister of Finance Number 9/KMK.01/2011 on the Formulation of Taxation Policy Recommendations, beginning 10 January 2011, these directives must be formulated jointly with
the Ministry of Finance's Fiscal Policy Agency. In addition, tax legislation process in Indonesia refers to the Law 12 of 2011 as amended several times and most recently by Law 13 of 2022 on the Second Amendment to Law 12 of 2011 on the Formation of Legislation.

Ⅷ. Future Tax Reform Plan

As part of Indonesia's broader tax reform initiative, the DGT is in the process of implementing a Core Tax Administration System (CTAS). The system is a significant modernization effort aimed at enhancing tax compliance, streamlining administration, and improving taxpayer services. Key aspects include:

1. System Objectives
   - Centralizing and digitizing tax data for enhanced accessibility and accuracy.
   - Automating various tax processes to reduce manual interventions and minimize errors.

- Enabling real-time monitoring and reporting of tax compliance.

2. Several Features of Core Tax System
   - Taxpayer Account Management: Comprehensive, consolidated profiles for taxpayers, combining historical and current data.
   - Enhancements to the Tax Return process include expanded capabilities such as the simplification of the Personal Tax Return form, integration with payment systems, electronic withholding tax receipt and electronic invoice, as well as reminders for taxpayers about tax return deadlines.
   - Risk-Based Audits: Advanced analytics to identify high-risk taxpayers for targeted audits.
   - Improved Interaction: Facilitates borderless taxpayer communication with tax authorities via online platforms.
3. Benefits for Stakeholders
   - For the Government: Increased revenue collection through better compliance and reduced tax evasion.
   - For Taxpayers: Simplified processes, improved services, and reduced administrative burden.

By integrating CTAS into its operations, Indonesia aims to align its tax administration with international best practices and ensure that its tax system can support the demands of a rapidly evolving economic environment.

Ⅸ. International tax cooperation

- Expansion of the tax treaty network

  Indonesia has signed tax treaties with around 71 countries or jurisdictions.

- Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting

  Indonesia signed and ratified the Multilateral Instrument (MLI) on 7 June 2017 and 13 November 2019 respectively. Indonesia has submitted notification to OECD (as the depositary of the MLI) to confirm the completion of internal procedures on 28 April 2020. This MLI has entered into force on 1 August 2020. By 1 January 2024, Indonesia has put 60 tax treaties to be covered by the Convention, whereby the applicability of the MLI is subject to whether or not those countries or jurisdictions also included Indonesia in their notifications.

  Indonesia officially signed the Multilateral Instrument Subject to Tax Rule (MLI STTR) on 19 September 2024. In line with other international agreements, the implementation of the MLI STTR will proceed following the completion of the ratification process, which is currently underway, in accordance with applicable legal provisions.

- Tax Agreements regarding Exchange of Information
  1. Indonesia has an EOI article in the Tax Treaty that regulates the exchange of information with 69 countries or jurisdictions.
  2. Indonesia has Tax Information Exchange Agreements (TIEAs) with the Bahamas, Bermuda, Guernsey, Isle of Man, Jersey, and San Marino.
  3. Indonesia signed the Convention on Mutual Administrative Assistance in Tax Matters (MAAC) on 3 November 2011 and ratified it on 17 October 2014. There are 149 signatories as of 3 December 2024.
  4. Indonesia has signed Multilateral Competent Authority Agreements (MCAA) on the automatic exchange of information (AEOI):
     a. Financial Account Information using the Common Reporting Standard (CRS), there are 123 signatories as of 16 May 2024.
     b. Transfer pricing documentation in the form of a country-by-country report (CbCR), which has 103 signatories as of 30 April 2024.
  5. The Bilateral Competent Authority Agreement (BCAA) regulates AEOI on Financial Information with Hong Kong and AEOI on CbCR with USA.
  6. Memorandum of Understanding (MoU) regarding AEOI on Withholding Tax with Australia and Argentina.

  Indonesia is also included in the list of countries or jurisdictions that will participate in the automatic exchange of information for crypto assets under the Crypto Assets Reporting Framework (CARF), which is expected to commence the first exchange in 2027 or 2028.

  Indonesia has formally withdrawn its reservation on cross-border assistance in recovering tax claims under the OECD Convention on Mutual Administrative Assistance in Tax Matters by enacting Presidential Decree No. 56 of 2024. This represents a substantial advancement in Indonesia's dedication to international tax cooperation and the improvement of tax collection enforcement since it was registered at the Secretariat General of OECD on 30 July 2024.

X. Others

None.