



TAXATION IN INDONESIA

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- Value Added Tax (VAT)
- Transfer Pricing (TP)



BASIC INFORMATION

A. Indonesia has adopted the Self-Assessment system on its taxation system

The Self-Assessment System is a taxation method where taxpayers are entrusted with the responsibility to calculate, report, and pay their own tax obligations in accordance with applicable tax laws and regulations.



B. Hierarchy of Indonesian Tax Regulation:

- 1) Constitution (Undang-Undang Dasar);
- 2) Law (Undang-Undang);
- 3) Government Regulation (Peraturan Pemerintah / PP);
- 4) President Decree (Keputusan Presiden / Keppres);
- 5) Minister of Finance Decree (Peraturan Menteri Keuangan / PMK);
- 6) Directorate General Decree (Peraturan Dirjen Pajak)

C. Tax Law Rules:

- 1) General Rules (Ketentuan Umum dan Tata Cara Perpajakan / UU KUP);
- 2) Income Tax Rules (Undang-Undang Pajak Penghasilan / UU PPh);
- 3) Value Added Tax Rules (Undang-Undang Pajak Pertambahan Nilai / UU PPN).

For each Tax Laws will be follow by other regulation as stated on point B above.

D. Tax Subjects:

Tax Subjects consist of Individuals, undivided inheritance represented by heir(s) or heiress (es), entities incorporated or domiciled in Indonesia and Permanent Establishment (Bentuk Usaha Tetap / BUT in Indonesian). Any individual and entity that has fulfilled subjective and objective requirements stipulated in Income Tax Law is obliged to self-register to the tax office (Kantor Pelayanan Pajak/KPP in Indonesian) to be registered as a taxpayer and obtain Tax Identification Number (TIN)



E. Taxpayer Responsibility:

- Taxpayers are responsible for calculating their own tax liability.
- They must pay taxes directly to the state treasury.
- Taxes must be reported via tax returns (Surat Pemberitahuan or SPT).

F. Types of Tax Returns (SPT):

- SPT Tahunan (Annual Return): Submitted once a year (March 31 for individuals; April 30 for entities).
- SPT Masa (Periodic Return): Monthly reports, especially for VAT, employee income tax (PPH 21), and other withholding taxes.



G. Common Taxes under Self-Assessment:

1. Income Tax (PPh);
 - a. PPh 21: Employee income tax (withheld by employers);
 - b. PPh Article 22;
 - c. PPh Article 23 and/or Article 26;
 - d. PPh Article 24;
 - e. PPh 25/29: Installments and final settlement of income tax;
 - f. PPh Article 4 (2) Final;
 - g. PPh Final: For small businesses under UMKM rules.



Common Taxes under Self-Assessment...Cont'd

2. Value-Added Tax (VAT/PPN): For registered taxable entrepreneurs (PKP).

3. Transfer Pricing

Transfer pricing in Indonesian taxation is a key compliance area, particularly for multinational companies and businesses that engage in transactions with related parties (affiliates). Indonesia follows the arm's length principle and has implemented comprehensive regulations to prevent base erosion and profit shifting (BEPS) through intercompany transactions.

❖ Electronic Filing and Payment:

- CoreTax System
- e-Filing and e-Billing systems are mandatory for most taxpayers (will be delegate to CoreTax System – by partial)
- Use the DJP Online portal: <https://djponline.pajak.go.id> (will be delegate to CoreTax System – by partial)



Corporate Tax

- a. The SPT Tahunan PPh Badan (Annual Corporate Income Tax Return) is the yearly report that corporate taxpayers must submit to declare:
- Total income and allowable expenses
 - Taxable income
 - Corporate income tax (PPh Badan) liability
 - Tax credits (PPh Pasal 22, PPh Pasal 23 and PPh Pasal 24), prepayments (PPh Pasal 25), or tax under/overpayment
- b. Tariff for common CITR is 22% from Taxable Income


Corporate Tax...Cont'd

- c. Small Medium Enterprise with Gross Turn Over \leq IDR 50 billion is eligible for 50% rate reduction on the first IDR. 4.8 billion of taxable income. (Income Tax Law Article 31E)
- d. Final Tax for certain sectors (example for UMKM using 0.5% of turnover will be calculate by monthly basis)
- e. The due date for reporting of CITR is at the latest of April 30 or 4 month after fiscal year ended. Can be extension (if needed) until 2 months after the due date and must submitted the request before the original due date.
- f. CITR of underpayment shall be paid on or before the filling deadline.
- g. The amount of Taxable Income for resident Taxpayers and permanent establishments shall be determined based on gross income deducted by the costs to obtain, collect and maintain income. (the detail stated on Income Tax Law Art. 6 Par 1)
- h. To determine the amount of Taxable Income for resident Taxpayers and permanent establishments, the following are non-deductible expenses such as profit sharing in whatever name and form, such as dividends, including dividends paid by insurance companies to policyholders and profit sharing by cooperatives; expenses charged or incurred for the personal benefit of shareholders, partners or members; Income Taxes etc ((the detail stated on Income Tax Law Art. 9 Par 1)



Withholding Income Tax (WHT) Article 21

Withholding Tax Article 21 (PPh Pasal 21) in Indonesian taxation refers to the income tax withheld by employers or other payers on income received by individual taxpayers (Indonesian residents) for services rendered in Indonesia.



Withholding Income Tax (WHT) Article 21...Cont'd

1. The scope of Income Tax article 21 is not limited only to salaries received by employees of a company but also includes various types of income received by resident individual taxpayers from various types of activities or businesses.
2. The Income Tax art.21 will be withholding by:
 - Employers (for employee salaries)
 - Government agencies
 - Companies, cooperatives, firms, partnerships
 - Individuals designated as tax withholders
 - Payers of professional service fees (e.g., to consultants, freelancers).
3. Tax withheld under PPh 21 is a prepayment of income tax for the individual
4. Employers are required to issue a Form 1721-A1 at year-end for employees (used in annual tax return filing)
5. Monthly withholding income tax return art. 21 must be withhold and paid by the 15th of the following of the month and reporting on 20th of the following of the month



Withholding Income Tax (WHT) Article 22

1. Income Tax Article 22 (PPH Pasal 22) deals with withholding tax on certain business activities related to import-export, government procurement, and specific industries. It is designed to ensure tax collection at the source for specific economic activities, particularly those involving goods and trade.
2. The entities who to collect the income tax art. 22
 - Government institutions (exp. Minister Department);
 - State-owned enterprise (BUMN/BUMD);
 - Certain private companies in sector
 - Banks and other financial institutions (for specific transactions)

Withholding Income Tax (WHT) Article 22...Cont'd

3. Tariff of the income tax art. 22:

EVENT	TAX RATES	TAX BASE
IMPORT (WITH API ID)	2.5%	IMPORT VALUE (CIF+DUTIES)
IMPORT (WITHOUT API ID)	7.5%	IMPORT VALUE (CIF+DUTIES)
SALE OF GOODS TO GOV (BUDGET USER/KPA)	1.5%	SELLING PRICE
PURCHASE OF FUEL (SPBU PERT.)	0.25%	
PURCHASE OF FUEL (NON SPBU)	0.30%	
<i>BELOW IS BASED ON APPOINTMENT FROM DIRECTOR GENERAL OF TAX ONLY:</i>		
PURCHASING OF STEEL PROD	0.30%	SELLING PRICE
PURCH. AUTOMOTIVE PROD	0.45%	
PURCH. PAPER PRODUCT	0.10%	
PURCH. CEMENT	0.25%	
PURCH. LUXURY GOODS	5%	

4. Monthly withholding income tax return art. 22 must be withhold and paid by the 15th of the following of the month and reporting on 20th of the following of the month



Withholding Income Tax (WHT) Article 23

1. Withholding income tax article 23 is income tax that is withheld by Government agencies, corporate taxpayers, event organizers, Permanent Establishment or Representative Office on Income paid or payable or due for payments to other taxpayers or Permanent Establishment on the gross income from following Income:

Withholding Income Tax (WHT) Article 23...Cont'd

No	Type of Income	Tax Rate	Remarks
1	Dividends	15%	Calculate on the Gross Amount Paid
2	Interest (including discount, premiums)	15%	
3	Royalties	15%	
4	Prize, awards and bonuses and the like other than those have been subject to art. 21	15%	
5	Service fees (technical, consulting, management, etc)	2%	
6	Rental (beside Land and/or buildings)	2%	
7	Other Income for services other than those that have been subject to Art. 21 WHT	2%	

2. Fees in connection with technical services, management services, construction services as stated on Minister of Finance regulation number PMK 141/PMK.03/2015
3. Monthly withholding income tax return art. 23 must be withhold and paid by the 15th of the following of the month and reporting on 20th of the following of the month



Withholding Income Tax (WHT) Article 4 par 2 Final Tax

1. WHT Article 4 par 2 Final Tax is certain types of income that are subject to final income tax. The final income tax withheld by the income payer cannot be used as a tax credit against income tax payable for the income recipient. The final income tax are imposed on several income as follows:

No	Description	Final Income Tax Rate	Remarks
1	Rent of Land and/or Buildings	10%	
2	Transfer of land/building rights	2.5%	
3	Lottery Prizes	25%	
4	Interest on time deposits and savings	20%	
5	Interest or discount on bonds	10%	
6	Construction services	1.75% / 2.65% / 3.5% / 4% / 6%	Varies of tariff depends on classification
7	Dividends paid to individual	10% or exempt	to obtain the exemption, the dividends need to be reinvested in Indonesia for three consecutive years and the reinvestment must be reported annually
8	Income from Micro, Small and Medium Enterprise (MMEs)	0.5%	On turnover ≤ IDR 4.8 billion/year (for eligible taxpayers)

Withholding Income Tax (WHT) Article 4 Par 2 Final...Cont'd

2. Characteristics of Final Tax are:

- Not Creditable or deductible. Cannot be credited against annual income tax liability;
- Gross Basis. No deductions allowed from Income (e.g. cost, expenses);
- Reporting: Generally, these are reported only as informative income in the Annual Tax Return (SPT), unless stated otherwise;
- Simplifies tax compliance, especially for small businesses and passive income earners.

3. Monthly withholding income tax final (WHT art. 4 par 2) must be withhold and paid by the 15th of the following of the month and reporting on 20th of the following of the month





Withholding Income Tax (WHT) Article 26

1. WHT Article 26 is a withholding tax (WHT) imposed on income earned in Indonesia by non-resident individuals or foreign companies, which does not have a permanent establishment (BUT - Bentuk Usaha Tetap) in Indonesia.
2. The WHT Art. 26 are imposed on several income as follows:

Withholding Income Tax (WHT) Article 26...Cont'd

No	Description	Final Income Tax Rate	Remarks
1	Dividends	20%	Tax Base from Gross Amount and must be withheld by the Indonesian payer
2	Interest	20%	
3	Royalties	20%	
4	Fees for Services (technical, management consulting etc)	20%	
5	Prizes, Bonuses	20%	
6	Rents or income from property/assets	20%	
7	Gains from sale of assets in Indonesia	20%	

3. Tax Treaty (P3B) Reductions: Indonesia has signed double taxation agreements (DTAs) with many countries. If the recipient is a tax resident of a treaty partner country, the 20% rate may be reduced. To claim treaty benefits, the foreign taxpayer must submit a Certificate of Domicile (SKD - Surat Keterangan Domisili) using Form DGT-1 or DGT-2
4. Monthly withholding income tax art. 26 must be withhold and paid by the 15th of the following of the month and reporting on 20th of the following of the month





Value Added Tax

1. Value Added Tax (VAT) is imposed on supplies of taxable supplies and/or utilization of taxable supplies from outside or within Indonesia occurring in the Indonesian custom territory.
2. VAT Rate and Tax Base:
 - Tax Base $= 11/12 \times \text{Selling Price}$
 - VAT Rate $= 12\%$ (starting January 2025)
 - VAT calculation (Tax Base x Vat Rate) $= \text{Selling Price} \times 11/12 \times 12\%$



Transfer Pricing

1. Transfer pricing refers to the pricing of goods, services, or intangibles transferred between related parties, especially across borders.

The concern: Is the price fair ("arm's length"), or is it manipulated to reduce taxable income in Indonesia?

2. Transfer pricing in Indonesian taxation refers to the rules and practices that govern pricing transactions between related parties, particularly in cross-border dealings. Indonesia, like many other countries, closely monitors transfer pricing to prevent tax avoidance and ensure that profits are properly reported and taxed in the correct jurisdiction
3. Indonesia refer to OECD Transfer Pricing Guidelines (Indonesia aligns broadly with OECD principles).

Transfer Pricing...Cont'd

4. Related parties are defined by ownership or control relationships, including:
 - a. Parent-subsidiary;
 - b. Sibling companies under common control;
 - c. Significant influence/shareholding (>25%); or
 - d. Related through management or ownership
5. Transfer Pricing Documentation Requirements (TP Doc);
 - a. Local File;
 - b. Master File; and
 - c. Country by Country (CbCr) Report.



Transfer Pricing...Cont'd

6. Indonesian tax law requires that transactions between related parties follow the ALP.

Accepted methods include:

- a. Comparable Uncontrolled Price (CUP)
- b. Resale Price Method
- c. Cost Plus Method
- d. Profit Split Method
- e. Transactional Net Margin Method (TNMM)

7. Advance Pricing Agreements (APA) – Indonesia allows;

- a. a. Unilateral APA; and
- b. b. Bilateral/Multilateral APA (with treaty partner's)



Thank you



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