All information shared on our Investment Guides is reported in good faith and is up to date to the best of our knowledge. Visi Jabon endeavours to keep you informed with the most current laws & regulations by constantly reviewing the most reliable links and information provided. We have sourced the best up to date information for this Guideline- **Tax Guidelines** from '**Indonesia- Investments**' website as it provides comprehensive advice.
www.indonesia-investments.com

For further information and or comments readers can also contact us at- **info@visi-jabon.com**

Tax system of Indonesia

There is a wide variety of taxes in Indonesia that companies, investors, and individuals need to comply with. This includes corporate income tax, individual income tax, withholding taxes, international tax agreements, value-added tax (VAT), luxury-goods sales tax, customs & excise, tax concessions, and land & building tax. Our tax section aims to provide detailed information about taxes that are in effect and should be considered when investing in Indonesia.

Of the many varieties of taxes, the most relevant to current and potential property investors are annual land and building object tax, duty on the acquisition of land and building rights, land and building transfer tax, as well as tax on rental income.

Land and Building Object Tax (PBB)

Land and building object tax (Pajak Bumi dan Bangunan/PBB) is payable annually on land, buildings and permanent structures.

The typical rate is a maximum of 0.3% of the estimated sales value of the property (Nilai Jual Objek Pajak, NJOP), although higher rates apply to certain high-value housing and large estates.

PBB in practical terms is a very small fee. When purchasing or selling land the Seller should provide proof from the regional tax department of fully paid historical annual land and building object tax.

PBB is payable annually following a Tax Due Notification Letter (Surat Pemberitahuan Pajak Terhutang/SPPT) issued by the Regional Government. The previous year's SPPT will typically be issued in April of the following year, the tax fee should be paid to the regional tax department during the fiscal year. Note, if your land and building asset is in Central Lombok Regency your SPPT letter will likely be distributed from regional tax department to the Village Office (Kantor Desa) where your asset is located and it should be collected there.

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Tax on Land and Building Transfer (Seller Tax PPH)

Certain disposals of land and/or buildings are subject to a final tax of 2.5% of the gross transaction value. The tax must be paid by the time the rights to land and building are transferred to the transferee. All tax paid constitutes a final tax – A capital gain tax is not charged to the Seller at time of transfer.

In general, the tax base is the higher of the transaction values stated in the relevant land and building right transfer deed and Sale and Purchase Binding Agreement (Perjanjian Pengikatan Jual Beli/ PPJB) based on actual transaction value or amount that should have been received.

A notary is prohibited from signing a transfer of rights deed until the income tax has been paid in full.

Duty On The Acquisition Of Land and Building Rights (Buyer Tax BPHTB)

A land and building acquisition duty (Bea Pengalihan Hak atas Tanah dan Bangunan/BPHTB) of a maximum of 5% of the acquisition value or the NJOP, whichever is the highest, is payable when a person obtains rights to land or a building with a value greater than IDR 60 million.

Qualifying land and building rights transfers include sale-purchase and trade-in transactions, grants, inheritances, contributions to a corporation, rights separations, buyer designation in an auction, the execution of a court decision with full legal force, business mergers, consolidations, expansions, and prize deliveries.

The BPHTB due on a particular event is determined by applying the applicable duty rate (5%) to the relevant Tax Object Acquisition Value, minus an allowable non-taxable threshold. The non-taxable threshold amount varies by region: the minimum is Rp. 60 million, except in the case of an inheritance, for which starts from Rp. 300 million. The government may change the non-taxable threshold via regulation.

BPHTB is typically due on the date that the relevant deed of land and building right transfer is signed before a public notary. A notary is prohibited from signing a deed transferring rights until the BPHTB has been paid.

Corporate Income Tax

A company is subject to the tax obligations set by the Indonesian government if the company's domicile is in Indonesia. Similarly, a foreign company that has a (permanent) establishment in Indonesia – and carries out business activities through this local entity – falls under the Indonesian tax regime. If the foreign company does not have a permanent establishment in Indonesia but does generate income through business activities in Indonesia, then it needs to settle its tax liabilities through withholding of the tax by the Indonesian party paying the income.

In general, a corporate income tax rate of 25 percent applies in Indonesia. However, there are several exemptions:

- Companies listed on the Indonesia Stock Exchange (IDX) that offer at least 40 percent of their total share capital to the public obtain a 5 percent tax cut (hence a tax rate of 20 percent applies for these public companies).

- Small and medium-enterprises with an annual turnover below IDR 50 billion (approx. USD $3.8 million) obtain a 50 percent tax discount (imposed proportionally on taxable income of the part of gross turnover up to IDR 4.8 billion). In 2013, Indonesia's Finance Ministry issued a regulation that set a one percent income tax tariff on individual and institutional taxpayers with an annual gross turnover below IDR 4.8 billion (approx. USD $363,636).

Corporate Income Tax	Tax Rate
• normal rate	25%
• Public company with >40% of its shares traded on the IDX	20%
• Companies with a gross turnover below IDR 50 billion	12.5%
• Companies with a gross turnover below IDR 4.8 billion	1%

Individual Income Tax

If an individual fulfills any of the following conditions, then he/she is regarded a tax resident in Indonesia (except if a tax treaty overrides these rules):

- the individual lives in Indonesia;
- the individual is in Indonesia for more than 183 days within a 12-month period;
- the individual is in Indonesia during a fiscal year and intends to reside in Indonesia.

Meanwhile, non-resident individuals are subject to a 20 percent withholding tax on Indonesia-sourced income. Nearly all income earned by individual taxpayers in Indonesia is subject to income tax. The following progressive rates are charged to taxable annual income:

Individual Income Tax	Tax Rate
• Up to IDR 50 million	5%
• Over IDR 50 million to IDR 250 million	15%
• Over IDR 250 million to IDR 500 million	25%
• Over IDR 500 million	30%

A large part of individual income tax is collected through withholding by employers. Employers withhold income tax on a monthly basis from the salaries and other compensation paid to the employees. In case the employee is a resident taxpayer (living in Indonesia), the above-mentioned tax rates apply. If the individual is a non-resident taxpayer, the withholding tax is 20 percent of the gross amount (in case of a tax treaty the amount may vary).

Withholding Tax (for payments to residents)	Tax Rate
• For interest, dividends & royalties	15%
• For services	2%
• for land and building rental (final tax)	10%
• These withholding taxes are considered corporate tax prepayments	
• Withholding tax calculated on sales/revenue is considered a final tax	

Withholding Tax (for payments to non-residents)	Tax Rate
• normal rate (can be reduced by using tax treaty provisions, or exempt services that qualify as business profits)	20%

Annual non-taxable income was originally set at IDR 36 million (approx. USD $2,727) in 2016. However, in April 2016 Finance Minister Bambang Brodjonegoro said the government plans to raise non-taxable income by 50 percent to IDR 54 million (approx. USD $4,090) in a bid to strengthen people's purchasing power and encourage household consumption.

Value-Added Tax (VAT)

Value Added Tax (VAT) involves the transfer of taxable goods or the provision of taxable services in Indonesia. Events/services that are taxable:

- Deliveries of taxable goods in by an enterprise;
- Import of taxable goods;
- Deliveries of taxable services by an enterprise;
- Use or consumption of taxable intangible goods/ser vices originating from abroad;
- Export of taxable goods (tangible and intangible) or services by a taxable enterprise

Value-Added Tax (VAT)	Tax Rate
• normal rate	10%

Generally, the VAT rate is 10 percent in Indonesia. However, the exact rate may be increased or decreased to 15 percent or 5 percent according to government regulation. VAT on the export of taxable tangible and intangible goods as well as export of services is fixed at 0 percent. Certain limitations for the zero-rated VAT apply to exports of services.

Luxury-Goods Sales Tax

In addition to VAT, Indonesia has a so-called luxury-goods sales tax (LGST), a tax that was introduced in the Suharto era and meant to create a more just society. This tax implies that the deliveries or imports of certain manufactured taxable goods - for example luxury cars, apartments and houses - are subject to an extra tax. Currently, LGST rates are set between 10 - 125 percent (the law allows for a maximum LGST rate of 200 percent).

Customs & Excise

Although Indonesian law allows import duties to range between 0 and 150 percent (of the customs value of the imported good, the highest rate currently set is at 40 percent. Due to the globalizing economy, Indonesia has signed a number of free-trade agreements, effectively scrapping or significantly lowering import duty rates. However, for protectionist strategies the government still applies high rates for specific goods. There are also anti-dumping import duty rates applicable on certain products from certain countries.

Tax Losses
• Can be carried forward for 5 years

We have also provided the direct link for this Guideline Reference:

CLICK HERE