

# Global Mobility Services Bulletin

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## New Requirements for Tax Audits of Individuals as the Tax Office Gears Up Pressure on Tax Compliance

Indonesia follows the 'self-assessment' method for all tax payments and reporting. This means that individual taxpayers are responsible to calculate, settle and report their tax obligations on their worldwide income, i.e., income generated within and outside Indonesia.

The tax authorities monitor the accuracy of tax calculations and/or whether tax regulations have been properly adhered to by taxpayers by conducting tax return audits.

Following completion of the Tax Amnesty Program, the Director General of Taxation (DGT) issued PER-07/PJ/2017 (PER-07), Guidelines for Field Audits for Tax Compliance Assessments, which sets out clear procedures so that all taxpayers, individual and corporate, are aware of their rights and obligations in a tax audit.

Below are brief descriptions of the revised procedures and requirements for initiating tax audits of individual taxpayers:

### Initial audit kick-off meeting moved to the Tax Office

Previously<sup>1</sup>, Field Audits (*Pemeriksaan Lapangan*) were begun at the taxpayer's domicile, following the issuance of a Notification Letter to the taxpayer, and an official report was prepared after the meeting.

However, under PER-07, the commencement of a Field Audit now requires the taxpayer to be present at the Tax Office at the date and time indicated in the Notification Letter.

### Initial audit meeting location flexibility

Circular Letter SE-10/PJ/2017, which provides further explanation of the same topic, states that the initial audit meeting does not have to be at the Tax Office where the taxpayer is registered. If the taxpayer's current domicile/working location is in a different city or region from the Tax Office where the taxpayer is registered, the initial meeting may be conducted at the Tax Office closest to the taxpayer's current domicile/working location.

### Timing constraints

The initial meeting between the tax auditor and the taxpayer should be held within five days after the issuance of the Notification Letter.

### Taxpayer participation now required at the initial meeting

For individual taxpayers, the initial meeting has to be attended by the taxpayer him/herself. Thus the taxpayer can no longer be represented at the meeting by 'proxy'. However, a Tax Consultant may accompany the taxpayer to the meeting.

### Audio-Visual recording of initial meeting

Another new requirement is that the meeting be recorded by audio-visual recording equipment.

<sup>1</sup> As per the Regulation of the Minister of Finance no 17/PMK.03/2013 as amended by regulation no 184/PMK.03/2015

## KPMG Note:

In addition to improving taxpayer compliance, this regulation is intended to increase taxpayer trust in the Tax Authority. For example, PER-07 Article 6 requires that the tax auditor must be accompanied at the initial meeting by an officer appointed directly by the Head of Audit Executing Unit. This special officer is responsible to ensure that the audit is carried out in accordance with the prevailing procedures and good governance, as well as to ensure that taxpayer rights are maintained.

However, with the timing constraints, further guidance is needed regarding the flexibility of the initial audit kick-off meeting date. If the taxpayer is out of the country, hospitalized, has other commitments or does not receive the Notification Letter on a timely basis, these may hinder the

meeting to proceed as scheduled. Additionally, it is important that individual taxpayer's current address is provided to the Tax Office where the taxpayer is registered.

It is recommended for taxpayers to discuss the information declared in the audited tax return with their tax advisors prior to attending the meeting. It would be preferable to have the tax advisor join the meeting as well, in order to corroborate the topics discussed in the meeting.

There is no indication whether the taxpayer will be provided a copy of the recording after the meeting has taken place. It is unclear whether the taxpayer and/or tax office would be able to refer back to the recording in case of any dispute.

# Contact us

## KPMG Advisory Indonesia

### Tax Services

33<sup>rd</sup> Floor, Wisma GKBI  
28, Jl. Jend. Sudirman  
Jakarta 10210, Indonesia  
**T:** +62 (0) 21 570 4888  
**F:** +62 (0) 21 570 5888

### Abraham Pierre

#### Partner In Charge, Tax Services

Abraham.Pierre@kpmg.co.id

### Aaron Brunier

Aaron.Brunier@kpmg.co.id

### Hamdanus Lukman

Hamdanus.Lukman@kpmg.co.id

### Natalia Yamin

Natalia.Yamin@kpmg.co.id

### Anita Priyanti

Anita.Priyanti@kpmg.co.id

### Ichwan Sukardi

Ichwan.Sukardi@kpmg.co.id

### Steven Derek Solomon

Steven.Solomon@kpmg.co.id

### Bambang Budiman

Bambang.Budiman@kpmg.co.id

### Irwan Setiawan

Irwan.Setiawan@kpmg.co.id

### Sontang Ruli Siregar

Sontang.Siregar@kpmg.co.id

### Collin Goh

Collin.Goh@kpmg.co.id

### Iwan Hoo

Iwan.Hoo@kpmg.co.id

### Sutedjo

Sutedjo@kpmg.co.id

### Eko Prajanto

Eko.Prajanto@kpmg.co.id

### Jacob Zwaan

Jacob.Zwaan@kpmg.co.id

### Tonggo Aritonang

Tonggo.Aritonang@kpmg.co.id

### Esther Kwok

Esther.Kwok@kpmg.co.id

### Julya Permata Tjen

Tjen.Permata@kpmg.co.id

### Yoshiyuki Misao

Yoshiyuki.Misao@kpmg.co.id

**kpmg.com/id**

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