

Tax News Flash

December 2019



Expanded Business Sectors and Regions Now Providing Tax Benefits For New Investments

As we approach the end of 2019, a new Government Regulation has been issued expanding the business sectors and regions in which income tax benefits are available for new investments. This Government Regulation No. 78 Year 2019 ("PP-78") is intended to attract more foreign and domestic business investments in specific industries and regions.

To qualify for the available tax benefits, a business must:

- A. Have a high investment value; or
- B. Be export orientated; or
- C. Create a higher employment level; or
- D. Have a high local content ratio.

The available tax benefits are:

1. New investments or expansion of existing businesses will be entitled to additional loss carry forward periods (more than five years but not more than ten years), as follows:
 - An additional year if investing in the renewable energy sector;
 - An additional year if by the end of the second tax year at least 70% of raw materials and/or components used in production are sourced domestically;
 - For businesses with high employee levels:
 - a. One additional year if hiring at least 300 employees and maintaining that same number of employees for four consecutive years; or
 - b. Two additional years if hiring at least 600 employees and maintaining that same number of employees for four consecutive years.
2. A taxable income reduction of 30% (5% a year) of the tangible fixed assets value, excluding new fixed assets for existing businesses. PP-78 also includes an additional article to clarify that:
 - The land must be newly obtained by the taxpayer, except if it is a complete relocation as a foreign investment package;
 - The land is listed in the official principle permit, investment permit or investment registration or included in the business permit issued by the Investment Coordinating Board's Online Single Submission ("OSS") system;
 - The land is owned and used for the taxpayer's main business activities;
 - The fixed assets are obtained after the principle permit, investment permit or investment registration is issued or after the business permit issued by OSS.
3. Additional accelerated tax depreciation/amortization of fixed and intangible assets can be applied if owned and used for the taxpayer's main business activities. The use of these assets must be solely for the business activities as stated in the approval and cannot be transferred (except if replaced by newer assets) for a period of six years from the start of commercial production or the useful life of the assets, whichever is longer.

The application to obtain the income tax benefits should be submitted electronically, utilizing the OSS system, together with an application for a business identification number or within one year after OSS issues a business license for the investment and/or expansion. If the OSS is unavailable, the application may be submitted offline as per BKPM regulation.

KPMG Notes:

PP-78 updates and replaces Government Regulation No.18 Year 2015.

The required qualification requirements and tax benefits remain the same under PP-78, which also provides some additional clarifications.

This new regulation formalizes the Government's previous commitment to improve the business climate in Indonesia. It is expected to be viewed positively both internationally and domestically.

The nine additional business sectors and 100 additional sub-business sectors provide more opportunity alternatives for prospective investors.

The utilization of the OSS system should make the business licensing and tax benefits application processes easier, given that the system is accessible online and already integrated with the relevant government institutions.

For more details regarding PP-78, please refer to this Tax News Flash's Appendix.



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Income Tax Facilities

The income tax facilities granted under PP-78/2019 are:

Main Incentives			
No	Type	Requirements	Applicability
1	Annual additional deduction (the "Investment Allowance") of 5% of the total investment in fixed assets, including land, ("Approved Assets") for six years following commencement of commercial operations	Approved Assets are limited to operation of the approved business	<ul style="list-style-type: none"> Acquisition costs of the Approved Assets used for the approved business activities Effective from the date commercial production begins, as determined and approved by the Directorate General of Tax ("DGT"). <p>Notes: Approved Assets must not be transferred, partially or in full, except for new replacements, during the 6-year period after commencement of commercial production or their useful lives, whichever is longer. If transferred, the income tax facilities will be revoked, the company will be penalized under the general tax regulations and no income tax facilities can be obtained by the company.</p>
2	Accelerated depreciation of Approved Assets and amortization of approved related intangible assets	Use of Approved Assets as intended	<p>Applicable from the month when the income tax facilities approval is effective.</p> <p>Notes: Approved Intangible Assets must be used until the end of their useful lives and cannot be transferred until then.</p>
3	Withholding tax rate reduction on offshore dividend payments to 10% or the rate in the prevailing tax treaty, whichever is lower	None	When the dividends are declared as payable (not the payment date).
4	Up to an additional five years for tax loss carry forward utilization, to a maximum of ten years, can be claimed on a piece-meal basis if/as the following requirements are met:		
No	Additional Years	Requirements	Applicability
a.	1	Domestic corporate taxpayer who make a new investment or expansion of existing businesses	Applicable to tax loss in three years with DGT approval.
b.	1	Approved investment is located in an industrial zone and/or bonded zone	Applicable to tax loss in three years with DGT approval.

No	Additional Years	Requirements	Applicability
c.	1	Approved investment in new and renewable energy	Applicable to the tax loss in the financial year when operation of the new and renewable energy is carried out.
d.	1	At least IDR10 billion is spent for economic and social infrastructures at the business location	Applicable to the tax loss in the financial year when the IDR10 billion has been entirely spent.
e.	1	Use of local raw materials and/or components for at least 70% of the finished products, starting in the 2 nd year (or before) after BKPM approval	Applicable to the tax loss in the financial year when meeting the 70% local content requirement.
f.	1 and/or 2	<ul style="list-style-type: none"> • Employment of at least 300 Indonesian employees for four consecutive years • Employment of at least 600 Indonesian employees for four consecutive years 	Applicable to the tax loss in the financial year after meeting the requirement based on PPh 21 returns.
g.	2	Spend at least 5% of the total investment within five years for research and development in Indonesia for product development and production efficiency	Applicable to the tax loss in the year when this 5% research and development expense has been entirely spent.
h.	2	Export sales are at least 30% of total sales in a fiscal year for qualified business sectors outside bonded zones	Applicable to tax loss in the year when the 30% export level is achieved.

Certain Business Sectors in which Tax Benefits are Available

There are 166 qualified sub-business sectors within the 33 qualified general business sectors listed below that are applicable to all regions in Indonesia:

01. Agriculture, farming, hunting and related activities

- Corn Agriculture
- Soy Agriculture
- Hybrid Rice Agriculture
- Inbred Rice Agriculture
- Tuber Agriculture
- Sugarcane Plantation
- Fibrous Crop Agriculture
- Tropical and Subtropical Fruit Agriculture
- Agriculture for Beverage Crops
- Pepper Plantation
- Spices, Aromatic/Refreshing, Narcotics, and Other Medicinal Crop Agriculture
- Ornamental Plant Agriculture
- Breeding and raising beef cattle
- Breeding and raising dairy cows

02. Forestry, wood logging and other than wood

- Teak forest cultivation
- Pine Forest cultivation

- Mahogany Forest cultivation
- Sonokeling Forest cultivation
- Sengon/Albasia/Jeunjing Forests cultivation
- Sandalwood Forest cultivation
- Acacia Forest cultivation
- Eucalyptus Forest cultivation

03. Fishery

- Catching Pisces/Finned Fish in the Sea
- Catching Crustaceans in the Sea
- Catching Mollusca in the Sea
- Raising Pisces/Finned Fish in the Sea
- Raising Crustaceans in the Sea
- Raising Molluscs in the Sea

04. Coal Gasification

- Coal Gasification at the Mining Location

05. Geothermal mining

- Geothermal cultivation

06. Metal Ore Mining

- Iron Sand Mining
- Iron Ore Mining
- Uranium and Thorium Ore Mining
- Tin Ore Mining
- Black Tin Ore Mining

- Bauxite/Aluminum Ore Mining
- Copper Ore Mining
- Nickel Ore Mining
- Manganese Ore Mining
- Non-Iron Ore Mining
- Gold and Silver Mining

07. Food products manufacturing

- Fish Freezing manufacturing
- Mince-meat Based manufacturing
- Seaweed Processing manufacturing
- Canned Fruit and Vegetable manufacturing
- Margarine manufacturing
- Crude Coconut Oil manufacturing
- Coconut Cooking Oil manufacturing
- Coconut Flour and Pellet manufacturing
- Crude and Vegetable Oil and other animal fats manufacturing
- Fresh and Cream Milk Processing manufacturing
- Cereal manufacturing
- Cassava Starch manufacturing
- Palma Starches manufacturing
- Glucose manufacturing
- Bread and Cake Products manufacturing
- Sugar manufacturing
- Food industry from chocolate and sugar
- Coconut Cook Products manufacturing
- Baby Food manufacturing
- Vegetable Creamer manufacturing
- Corn Processing manufacturing

08. Textile manufacturing

- Yarn spinning manufacturing
- Weaving manufacturing
- Fabric improvement manufacturing
- Fabric printing manufacturing
- Batik manufacturing
- Knitted Fabric manufacturing
- Carpet and Rug manufacturing
- Industries that Produce Industrial Use Fabrics
- Non Woven manufacturing

09. Confection manufacturing

- Textile convection manufacturing
- Leather convection manufacturing
- Knitted Garments manufacturing

10. Leather, leather products and footwear manufacturing

- Footwear Industry for Daily Use
- Sports Shoes manufacturing
- Field Technical/Industrial Needs Shoes Industry manufacturing

11. Coal and petroleum refining products manufacturing

- Coal Product manufacturing
- Lubricating oils manufacturing
- Coal Briquette manufacturing

12. Chemicals and chemical products manufacturing

- Chlorine and Alkali Inorganic Basic Chemical manufacturing
- Other Inorganic Basic Chemical manufacturing
- Organic Basic Chemical Industry Sourced from Agricultural Products
- Organic Basic Chemical Industry Sourced from Petroleum, Natural Gas and Coal
- Other Basic Organic Chemical manufacturing
- Urea fertilizer manufacturing
- Manufacture of artificial resin (synthetic resins) and plastic raw materials
- Soap Industry and Household Cleaning Needs Industry
- Cosmetics and cosmetic ingredients industries, including toothpaste
- Industrial fiber/yarn/artificial filament strips
- Artificial staple fiber manufacturing

13. Pharmaceuticals, medicinal chemicals and traditional medicine manufacturing

- Pharmaceutical ingredients manufacturing
- Pharmaceutical Products Industry for Humans
- Traditional Medicine Product manufacturing

14. Rubber, rubber products and plastics products manufacturing

- Outer tires and inner tires manufacturing
- Manufacture of Plastic Products for Buildings
- Plastic Sheet manufacturing

15. Non-metal mining

- Sheet Glass manufacturing
- Safety Glass manufacturing
- Porcelain Sanitary Equipment manufacturing
- Building Material Industry from Clay/Ceramic Not Bricks and Tiles

- Home Appliance Industry from Porcelain
- Laboratory Equipment and Electric/Engineering Equipment Manufacturing from Porcelain

16. Basic metals manufacturing

- Basic Iron and Steel manufacturing
- Steel Rolling manufacturing
- Precious Base Metal Manufacturing
- Non-Iron Base Metal Manufacturing

17. Metal products, non-machine and related products manufacturing

- Wire manufacturing
- Other Metalwork manufacturing

18. Computer, electronic and optical equipment manufacturing

- Semi-conductor and other electronic components manufacturing
- Computer and computer assembly manufacturing
- Computer Equipment manufacturing
- Wireless communication equipment manufacturing
- Smart Card manufacturing
- Other communication equipment manufacturing
- Television industry and television assembly
- Audio and Video Recording, Receiver and Multiplier Equipment Industry, non Television manufacturing
- Other Electronic Audio and Video Equipment manufacturing
- Measuring instruments and electronic test equipment manufacturing
- Photographic equipment manufacturing

19. Electrical equipment manufacturing

- Transformer, rectifier, voltage stabilizer
- Electricity Control and Distribution Equipment manufacturing
- Battery manufacturing
- Fiber Optic Cable manufacturing
- Other Electrical and Electronic Cable manufacturing
- LED Lighting manufacturing
- Household electrical equipment manufacturing

20. Machinery and equipment manufacturing

- Engine Parts and Turbine manufacturing
- Other Pump Industry, Compressors, Faucets, and Valves
- Lifting and Moving Equipment manufacturing
- Photocopy machine manufacturing
- Cooling machine manufacturing
- Agricultural machinery manufacturing
- Manufacture of machinery and machine tools for metalworking
- Mining, quarrying and construction machinery manufacturing
- Textile machinery manufacturing
- Injection Moulding Machine manufacturing

21. Motor vehicle, trailer and semi-trailer manufacturing

- Manufacture of motor vehicles with 4-wheels or more
- The car body industry of motor vehicles with 4-wheels or more and the trailer and semi trailer industry
- Manufacture of spare-parts and accessories for motor vehicles with 4-wheels or more

22. Other transportation equipment manufacturing

- Ship and boat industry
- Manufacture of Equipment, Supplies and Ship Parts
- Manufacture of two-and three-wheeled motorcycles Components and Equipment
- Bicycles and Wheelchairs Industry, including Pedicab

23. Furniture manufacturing

- Wood Furniture manufacturing
- Rattan and/or Bamboo Furniture manufacturing

24. Other processing manufacturing

- Precious Metal Jewelry Industry for Personal Purposes
- Toy manufacturing
- Coconut Fiber manufacturing

25. Construction and machinery and equipment repair services

- Ship, boat and floating building repair services

26. Supplying electricity, gas, steam and cold air

- Electric power generation
- Procurement of natural and artificial gas

27. Water supply

- Collection, purification and distribution of clean water

28. Wastewater management

- Non-Hazardous Wastewater Management and Disposal

29. Waste management and recycling

- Hazardous Waste Management and Disposal
- Organic Waste Compost Production
- Hazardous Waste Management and Disposal

30. Remediation activities and management of other waste

- Remediation and Other Waste Management Activities

31. Land transportation and pipeline transportation

- Long-distance Railroad Transportation for Passengers

32. Warehouse and transportation support services

- Cargo Handling

33. Programming, computer consultancy and other computer related activities

- Video game developer
- e-commerce
- Other Computer Programming Activities

34. Real estate activities

- Tourism area

Certain Business Sectors in Very Specific Locations in which Tax Benefits are Available

There are 17 qualified sub-business sectors within the 7 qualified general business sectors listed below that are limited to very specific locations in various regions in Indonesia mostly outside Jakarta:

01. Fishery

- Raising Freshwater Fish in Floating Net Karamba

02. Coal liquefaction and coal upgrading

- Coal Mining

03. Food manufacturing

- Fish and Aquatic (Non-Shrimp) Biota Canning Processing and Preservation Industry
- Shrimp Canning Processing and Preservation Industry in Cans
- Other Aquatic Biota Freezing manufacturing
- Other Processing and Preservation manufacturing
- Coffee processing manufacturing

04. Paper and paper products manufacturing

- Culture Paper manufacturing
- Other Paper manufacturing
- Corrugated Paper and Paper Board manufacturing
- Cardboard Packaging manufacturing
- Tissue manufacturing

05. Rubber and goods made from rubber and plastic manufacturing

- Other rubber goods manufacturing (which cannot be classified elsewhere)

06. Accommodation

- Five star hotel
- Four star hotel

07. Sporting activities and other recreation

- Golf course
- Theme Park

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