

KPMG Advisory Indonesia

Indonesian Mutual Agreement Procedure ("MAP")

In line with the tax transparency embodied in the "Action Plan: Base Erosion and Profit Shifting" issued by the Organization for Economic Co-operation and Development (OECD), and to implement GR-74/2011, the Minister of Finance has issued regulation No. PMK-240/2014.

A MAP is an agreement between the Indonesian Director General of Taxes ("DGT") and the Competent Authority of another country ("Treaty Country") that has signed a Double Tax Avoidance Agreement ("Tax Treaty") with Indonesia.

A MAP is used to resolve issues arising from provisions in a TaxTreaty; the DGT has an obligation to enter into discussions with the Competent Authorities of a Treaty Country to explore the possibilities to come to a mutual agreement in cases of a tax dispute.

A MAP can only be requested after the Indonesian taxpayer has received a tax assessment notification related to transfer pricing from the Tax Office.

MAP requestors

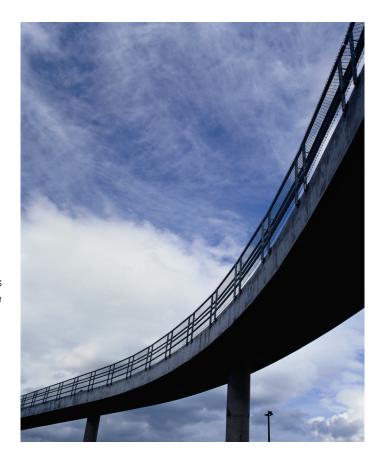
Subject to any MAP application limitations included in a Tax Treaty, a request for the initiation of a MAP can be made by:

- 1. Indonesian taxpayers, through the DGT;
- 2. The DGT itself; or
- 3. The Competent Authority of a Treaty Country.

A MAP requested by an Indonesian taxpayer

An Indonesian taxpayer may apply to the Director of Tax Regulation II of the DGT, acting as the Competent Authority of Indonesia, for a MAP for any of the following reasons:

- Transfer Pricing ("TP") adjustments imposed by a Treaty Country's tax authorities on an Indonesian taxpayer that are related to transactions with tax residents in the Treaty Country that resulted in or will result in double taxation;
- Actions taken by a Treaty Country's tax authorities on a Permanent Establishment ("PE") of an Indonesian taxpayer in the Treaty Country that resulted in or will result in taxation not in accordance with the Tax Treaty;
- 3. Dual tax residence status; or
- 4. Taxation of income derived by an Indonesian taxpayer from sources within the jurisdiction of the Treaty Country, including withholding taxes, which is not in accordance with the Tax Treaty.



A MAP requested by the DGT

The DGT may apply for a MAP with a Treaty Country for any of the following reasons:

- To review an existing MAP because of invalid information or documents submitted by an Indonesian taxpayer and/or by the Treaty Country and/or new information that was not available during a previous MAP process;
- A request for a Corresponding Adjustment (to make TP adjustments consistent in both jurisdictions to avoid double taxation);
- 3. A follow up on a request from an Indonesian taxpayer for an Advance Pricing Agreement ("APA");
- 4. To interpret certain provisions in the Tax Treaty in order to carry out such provisions properly;
- 5. To follow up on a MAP requested by an Indonesian who is a resident taxpayer in the Treaty Country because of higher taxes to be paid than taxes paid by a Treaty Country citizen (non-discrimination rule under the Tax Treaty), or
- 6. Any other matters necessary to implement the Tax Treaty provisions.

A MAP requested by the Treaty Country

A Treaty Country may request the DGT to initiate a MAP for any of the following reasons:

- Tax assessments issued in Indonesia to (i) a PE of a Treaty Country taxpayer or (ii) an Indonesian taxpayer in relation to transactions with a Treaty Country taxpayer which are considered not to be in accordance with the Tax Treaty provisions, including TP adjustments;
- Tax assessments issued to Indonesian taxpayers in relation to transactions with taxpayers in a Treaty Country which are considered not to be in accordance with Tax Treaty provisions, including TP adjustments
- 3. A request for a Corresponding Adjustment;
- Income tax withheld by an Indonesian taxpayer which is considered not to be in accordance with the Tax Treaty provisions;
- 5. Interpretation of a Tax Treaty provision that may lead to double-taxation and/or tax avoidance issues;
- 6. Dual tax residence status;
- 7. A follow up request for APA from its resident taxpayers; or
- 8. In a case where a Treaty Country citizen, as a resident taxpayer in Indonesia, will pay higher taxes than an Indonesian Citizen (non-discrimination rule under the Tax Treaty).

Cancellation of A MAP

DGT may reject/stop the MAP process if:

- The requestor, i.e., an Indonesian taxpayer, a foreign PE in Indonesia or Indonesian Citizen does not or cannot provide complete documentation or information requested by the DGT:
- 2. The required documentation or information needed for MAP consultation cannot be provided;
- 3. There is a strong indication, based on the DGT's judgment, that the MAP process will not result in an agreement;
- 4. The requestor withdraws the MAP request;
- 5. The Indonesian taxpayer, Indonesian Citizen or related Indonesian taxpayer or PE in Indonesia disagrees with the draft MAP agreement, or
- 6. The Tax Court issues its verdict on the tax dispute before the MAP is agreed.

Other Provisions

- 1. A MAP cannot be applied by Indonesian taxpayers if the Tax Court has declared that court proceedings on the related tax assessments have been sufficient.
- 2. A MAP requested by an Indonesian taxpayer, under certain conditions, can be withdrawn by the requestor as long as the MAP agreement has not been concluded.
- 3. If a MAP is requested by a Treaty Country regarding a TP adjustment, the DGT will review the Tax Treaty provisions regarding a Corresponding Adjustment. Such a MAP request can be processed by the DGT even if the related Indonesian taxpayer is also proposing the same MAP request to the DGT.

- 4. A MAP requested by a Treaty Country on APA can be processed by the DGT even if the related Indonesian taxpayer is also proposing the same APA to the DGT.
- 5. A MAP can only be applied for after the date of a transfer pricing tax assessment which is not considered to be in accordance with the Tax Treaty provisions but before the expiration of the Tax Treaty.
- 6. A MAP request can be submitted by an Indonesian taxpayer regardless of a submission of objection, appeal and/or an application to reduce or cancel incorrect tax assessments.
- 7. There must be another MAP discussion/consultation with the other Treaty Country within 3 years after the first discussion (which can be in the form of a meeting, electronic communication or other means of correspondence). However, it can be deferred upon agreement between the DGT and the Treaty Country.

KPMG comments:

The most critical MAP issue to consider relates to timing and cost.

Tax Court decisions currently may take less than 2 years to be finalized, but the MAP process period is 3 years and therefore risks cancelation.

Indonesian taxpayers must carefully consider the possibility of having a favorable decision as a result of the MAP or the Tax Court's verdict.

The Indonesian taxpayers will be facing the dilemmatic situation between either the "Appeal" and "MAP" process.

Contact us

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