

In order to encourage growth to support development in the long term, many countries, especially developing countries, need numerous production economic activities in their respective territories that come from investments by both domestic and foreign business actors. In order to attract direct investments, various kinds of facilities are often provided in a number of sectors to help the development of the real industry, including in the field of taxation, namely with tax exemption or reduction incentives for a certain period at the beginning of the operation of new investments, whether it is for the establishment of new entities or the expansion of existing entities.

## CORPORATE INCOME TAX INCENTIVE STILL A STIMULUS FOR DIRECT INVESTMENT

Several types of corporate income tax (PPh) incentive policies provided by the current government are as follows:

1. Provision of corporate income tax reduction facilities for pioneer industries (Minister of Finance Regulation (PMK) Number 130/PMK.010/2020 concerning Provision of Corporate Income Tax Reduction Facilities, and BKPM Regulation Number 7 of 2020 concerning Details of Business Fields and Production Types of Pioneer Industries and Procedures for Providing Corporate Income Tax Reduction Facilities).



- Given to Corporate Taxpayers which are making new investments in Pioneer Industries, namely industries that have broad linkages, provide added value and high externalities, introduce new technologies, and possess strategic values for the national economy, they consist of 18 industrial sectors with 185 business groups.
- The value of new investment is at least Rp100,000,000,000.00 (one hundred billion rupiah).
- Facilities provided:

a. for new investment with a value of at least Rp500,000,000,000.00 (five hundred billion rupiah), reduction of Corporate Income Tax by 100% (one hundred percent) of the amount payable for 5 (five) to 20 (twenty) years, with an additional transition of 50% (fifty percent) of the amount payable for 2 (two) years after the incentive period ends, or

b. for new investment with a value of at least Rp100,000,000,000.00 (one hundred billion rupiah) and in a maximum of less than Rp500,000,000,000.00 (five hundred billion rupiah), a reduction in Corporate Income Tax of 50% (fifty percent) of the amount payable for 5 (five) years, with an additional transition of 25% (twenty-five percent) of the amount payable for 2 (two) years after the incentive period ends.

This type of incentive is referred to as **Tax Holiday**.

2. Provision of net income reduction facilities for Certain Industries (PMK Number 96/PMK.010/2020 concerning Income Tax Facilities for Investment in Certain Business Fields and/or in Certain Regions, and BKPM Regulation Number 5 of 2020 concerning Procedures for Submitting Applications for Corporate Income Tax Facilities for Investment in Certain Business Fields and/or in Certain Regions Off-Network).

- Provided for Corporate Taxpayers which are making new investments in Certain Industries, namely industries with high investment value that are export-oriented,



absorb extensive manpower, and have high local content, consisting of 16 industrial sectors with 183 business groups.

- Facilities provided:

Net income reduction of 30% (thirty percent) of the total value of new capital in fixed assets for 6 (six) years or 5% (five percent) per year, or in the form of accelerated depreciation of tangible assets and amortization of intangible assets, or extension of loss compensation for 5 (five) to 10 (ten) years.

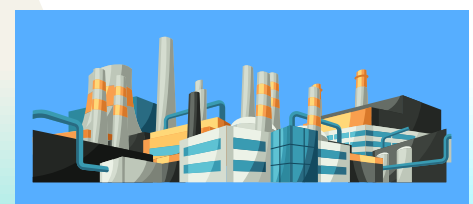
This type of incentive is referred to as **Tax Allowance**.

3. Provision of net income reduction facilities for labor-intensive industries (PMK Number 16/PMK.010/2020 concerning Provision of Net Income Reduction Facilities for New Capital Investment or Business Expansion in Certain Business Fields that Constitute Labor-Intensive Industries)

- Provided for Corporate Taxpayers which are making new investments in Labor-Intensive Industries, namely industries that employ local workers of at least 300 people, consisting of 17 industrial sectors with 45 business groups.
- Facilities provided:

Net income reduction of 60% (sixty percent) of the total value of new capital in fixed assets for 6 (six) years or 10% (ten percent) per year.

This type of incentive is referred to as **Investment Allowance**.



4. Provision of gross income reduction facilities for certain research and development activities (PMK Number 153 / PMK.010 / 2020 concerning Provision of Gross Income Deduction for Certain Research and Development Activity Costs in Indonesia)

- Provided for Corporate Taxpayers which are conducting certain research and development activities in Indonesia.
- Facilities provided:

Gross income deduction of up to 300% (three hundred percent) of the total costs incurred for certain research and development activities.

This type of incentive is referred to as **R&D Super Tax Deduction**.



5. Provision of gross income reduction facilities for work practice, apprenticeship and/or learning activities (PMK Number 128/PMK.010/2019 concerning Provision of Gross Income Reduction for the Implementation of Work Practices, Apprenticeship, and/or Learning Activities in the Context of Development and Development of Certain Competency-Based Human Resources).

- Provided for Corporate Taxpayers which are organizing work practice, apprenticeship and/or learning activities.
- Facilities provided:

Gross income deduction of up to 200% (two hundred percent) of the total costs incurred for work practice, apprenticeship and/or learning activities.

This type of incentive is referred to as **Vocational Super Tax Deduction**.

Application for the provision of Corporate Income Tax incentive facilities is submitted through Online Single Submission (OSS) with the following stages:

- 1) Uploading the required documents, namely:

- Details of assets in capital investment, or R&D proposal for R&D super tax deduction, or cooperation agreement for Vocational super tax deduction,
  - DER 4:1 statement letter, and National Strategic Project designation letter or independent calculation of quantitative criteria & pioneer industry study or business entity designation letter, for Tax Holiday,
  - MSME commitment, for Tax Holiday and Tax Allowance.
- 2) Verification process by DGT within 5 (five) working days, or by BRIN for R&D super tax deduction, (returned if there is anything which needs to be corrected, return to stage 2); or returned if not in accordance with the provisions, return to stage 1)
  - 3) Issuance of Decree of the Minister of Finance (KMK) on the Granting of facilities or Notification of the suitability of the facility application for R&D or Vocational Super tax deduction; copies of which are sent to the business entity, the Ministry of Finance, the Director General of Taxes or BRIN for R&D Super tax deduction, and sector Ministries/Institutions.

Application for utilization of Corporate Income Tax incentive facilities is also submitted through the OSS with the following stages:

- 1) Field inspection and verification by DGT within 45 (forty-five) working days,
- 2) Issuance of KMK on Utilization, if any adjustments are needed, the KMK Amendment on Facility Granting is also issued; or Issuance of KMK on Rejection of utilization for R&D Super tax deduction if it does not meet the provisions.

The decision shall contain detailed information such as the Taxpayer Identification Number (NPWP) and the taxpayer's address, details of the facility type, Business Identification Number (NIB), principle permit, investment permit, time on which the incentive comes into effect, obligations and prohibitions for taxpayers who obtain incentives, business fields, Indonesian Standard Business Field Classification (KBLI), product scope, and investment plans. The procedures and provisions of each incentive shall be carried out according to their respective technical regulations.



Tax Holiday for instance, after fulfilling the criteria of an incentive and becoming a legal entity and having never been granted an incentive decision letter, a taxpayer may can submit an application along with the complete requirements to obtain facility approval. After the investment realization obligation is fulfilled, the taxpayer needs to submit a utilization application to start utilizing the incentive.

Field inspection will be carried out in relation to examining the conformity of realization with the plan, namely in terms of the investment value, business activities and product coverage, as well as related to the fulfillment of the quantitative criteria of the industry in question, as well as determining the Time to Start Production (SMB). There are several other restrictions that taxpayers must be aware of in order that the incentives are not revoked before the period ends, including not using used assets, not exchanging assets for used ones, not transferring assets, not relocating businesses abroad, and so on. In addition to bookkeeping obligations and withholding and collection of other parties' taxes, it is also required to report on the investment realization and production realization every tax year of the incentive period.

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