

GRANTING OF DEDUCTION AND/OR EXEMPTION IN INCOME TAX

Did you know IGTax Fellows, that in Income Tax (PPh) --both non-final and final-- the reduction and/or exemption of Income Tax intended for taxpayers with certain conditions are also regulated. Let's check out the review in this edition!

A. Installment Deduction and/or Exemption of Withholding/Collection in Non-Final Income Tax

The provisions are set forth in order to accommodate the needs of taxpayers for adjustments between Income Tax installments paid directly and/or Income Tax withheld/collected through customers with Income Tax that will be payable at the end of the current year, the purposes is that the taxpayers who are in certain conditions would not have to experience an Overpayment of Income Tax for the tax year concerned.

1. Deduction of Income Tax Article 25 Installments

When there is a decrease in business and it is estimated that the payment of Income Tax Article 25 for the current year will exceed the Income Tax payable at the end of the year, taxpayers cannot immediately stop the installment of Income Tax Article 25, but rather, they need to apply for a reduction in Income Tax Article 25 installments first, as stipulated in Decision of the Director General of Taxes Number KEP-537/PJ/2000 concerning Calculation of the Amount of Tax Installments in the Current Tax Year in Certain Cases. The provisions for the reduction of Income Tax installments are as follows:

- The taxpayer has reported the Annual Income Tax Return (SPT) for the last tax year before the submission of the application, and has paid off the installment of Income Tax Article 25 up to the period when the application is submitted,
- The application can be submitted after 3 (three) months or more of the tax year, provided that the taxpayer can show that the Income Tax which will be payable is less than 75% (seventy-five percent) of the Income Tax payable which serves as basis for calculating the amount of Income Tax Article 25,
- The application is submitted in writing to the Head of the Tax Office (KPP) where the taxpayer is registered, accompanied by a calculation of the amount of Income Tax that will be payable based on the estimated income to be received or earned and the amount of Income Tax Article 25 for the remaining months of the tax year concerned,



d. The Head of the Tax Office will issue a decision within 1 (one) month as from the date of receipt of the application, if a decision has not been issued after that period, the application shall be deemed as accepted and the taxpayer may make payment of installments of Income Tax Article 25 in accordance with the calculation for the remaining months of the relevant tax year,

e. The readjustment/recalculation of the amount of Income Tax Article 25 for the remaining months of the relevant tax year must be made, by the taxpayer him-

self or the Head of the Tax Office where the taxpayer is registered based on the estimated increase in Income Tax payable, if it is subsequently estimated that the Income Tax payable will be more than 150% (one hundred and fifty percent) of the Income Tax payable which serves as basis for calculating the amount of Income Tax Article 25, due to an increase in business in the current tax year.

2. Exemption from Withholding/Collection of Income Tax Article 23, Article 22, Article 21

Taxpayers can apply for a Certificate of Exemption (SKB) for exemption of Withholding Income Tax for the relevant tax year, as provided for in Regulation of the Director General of Taxes Number PER-1/PJ/2011 concerning Procedures for Submitting Applications for Exemption from Withholding and/or Collection of Income Tax by Other Parties as most recently amended by PER-21/PJ/2014, if the taxpayers can prove that they will not owe Income Tax due to, among others, the following factors:

- experienced a fiscal loss, in the case that it is newly established and still in the investment stage, or it has not yet reached the commercial production stage, or experienced an event that is beyond its capabilities (*force majeure*),
- is entitled to make fiscal loss compensation, by calculating the amount of losses for previous tax years that can still be compensated, which are stated in the Annual Income Tax Return or tax assessment letter or objection decision letter or appeal decision or judicial review decision,
- the Income Tax that has been paid is greater than the Income Tax that will be payable, or

- its income is only subject to final tax, as provided for in Regulation of the Director General of Taxes Number PER-32/PJ/2013, in which the submitted application is also accompanied by a statement letter that the business gross turnover is included in the criteria to be subject to final Income Tax, the amount of gross turnover every month until the month before the submission of the application, and transaction supporting documents.



The provisions for exemption from Income Tax withholding/collection are as follows:

- The taxpayer has reported the Annual Income Tax Return for the last tax year before the submission of the application (exempted for newly established taxpayers who are still in the investment stage),
- The application is submitted in writing to the Head of the Tax Office where the taxpayer is registered, the application of Certificate of Exemption from Income Tax withholding/collection is made for each type of Income Tax, the format of the application letter is as set out in the example in Appendix of PER-01/PJ/2011,
- The application is accompanied by a calculation of the estimated amount of Income Tax that will be payable for the tax year in which the application of Certificate of Exemption is submitted, which at least contains:
 - 1) Current year's business and non-business turnover and estimated business and non-business turnover in one tax year
 - 2) Fiscal costs for the current year and estimated fiscal costs in one tax year, except for taxpayers who use the net income calculation norm
 - 3) Estimated Income Tax that will be payable in one tax year
 - 4) Income Tax that has been withheld/collected and/or paid by the taxpayer himself in the current year
 - 5) Estimated Income Tax to be withheld/collected and/or paid by the taxpayer himself in the current year
- The Head of the Tax Office will give a decision within 5 (five) working days since the application is fully received, the Head of the Tax Office will issue a rejection letter if the application of Certificate of Exemption is rejected,
- If no decision is issued after this period, the application will be deemed as accepted, and subsequently the Head of the Tax Office must issue a Certificate of Exemption within 2 (two) working days thereafter,

- Certificate of Exemption is valid until the end of the relevant tax year, the taxpayer must ensure to provide a copy of the Certificate of Exemption at the time of transactions with Income Tax withholding/collecting customers.

B. Exemption from Final Income Tax Withholding

For final Income Taxes the payments of which are made through deductions and deposits by the customer, exemptions can be granted with the provisions based on the respective regulations as follows.

1. Exemption from final Income Tax withholding on income with a certain gross circulation, for MSME taxpayers with a final Income Tax Certificate of 0.5% for their transactions with Income Tax withholding customers, can be given **without Certificate of Exemption** if the taxpayer concerned is an Individual and the business turnover has not exceeded Rp500,000,000.00 (five hundred million rupiah) in 1 (one) tax year, as stipulated in the Government Regulation Number 55 Year 2022 concerning Adjusted Regulations in the Field of Income Tax.

2. Exemption from final Income Tax withholding on interest income on deposits and savings and Bank Indonesia (BI) Certificate discounts, received or obtained by a Pension Fund the establishment of which has been authorized by the Minister of Finance, which is regulated by Regulation of the Director General of Taxes Number PER-01/PJ/2013. The provisions for exemption from final Income Tax withholding are as follows:

- The application shall be submitted in writing to the Head of the Tax Office where the taxpayer is registered, the Head of the Tax Office shall give a decision within 7 (seven) working days since the application is completely received;
- The application for Certificate of Exemption from final Income Tax is attached with:
 - 1) Copy of Decision of the Minister of Finance on the Ratification of the Establishment of Pension Fund; and copy of Balance Sheet, Report of Residual Income from Operations, Cash Flow and Bank Statements, Investment Report;
 - 2) List of Certificates/*Bilyet*/Book of deposits, savings, and BI Certificate which includes all that will be submitted for Certificate of Exemption



application; and contains the name and Tax Identification Number (*NPWP*) of the bank branch office of the type of investment; number of certificate/*bilyet*/book of deposits, savings, and BI Certificate; amount for each type of investment; date of placement.

3. Exemption from final Income Tax withholding on income from transfer of land and/or building rights, which is provided for in Regulation of the Director General of Taxes Number PER-30/PJ/2009. The provisions for exemption from final Income Tax withholding are as follows:

- a. The application shall be submitted in writing to the Head of the Tax Office where the taxpayer is registered, the Head of the Tax Office shall give a decision within 3 (three) working days since the application is completely received.
- b. Entities or Individuals that transfer assets in the form of buildings in the context of implementing a build-to-lease or build-to-use agreement, or utilization of state property in the form of land and/or buildings, the application for Certificate of Exemption from final Income Tax shall be accompanied by:
 - 1) Documents indicating that the Entity or Individual is not a tax subject, such as diplomatic member documents or permits to establish embassy offices of other countries.



- c. Entities conducting transfer of assets in the form of land and/or building in the context of merger, consolidation, or business expansion that has been determined by the Minister of Finance to use book value, the application for Certificate of Exemption from final Income Tax shall be accompanied by:
 - 1) approval letter for the use of book value in the context of merger, consolidation, or business expansion.
- d. Transfer of assets in the form of land and/or buildings by way of grants to religious bodies, educational bodies, social bodies including foundations, cooperatives or Individuals that run micro and small businesses, the provisions of which are further regulated by the Minister of Finance Regulation, insofar as the grant is not related to business, work, ownership, or control between the parties involved,
 - conducted by an Entity, the application for Certificate of Exemption from final Income Tax is attached with:
 - 1) grant declaration letter.
 - carried out by Individual, including the transfer of assets in the form of land and/or buildings by way of grants to blood relatives in a straight line of descent of one degree, the application for Certificate of Exemption from final Income Tax shall be accompanied by:
 - 1) grant declaration letter;
 - 2) photocopy of Tax Notification Letter (*SPPT*) of Land and Building Tax (*PBB*)



- for the last year;
- 3) photocopy of the Annual Income Tax Return on behalf of the grantor, or a Certificate that the grantor has an income below the Non-Taxable Income (*PTKP*).
- e. Heirs, the application for Certificate of Exemption from final Income Tax shall be accompanied by:
 - 1) statement letter of inheritance division;
 - 2) photocopy of family card (*KK*);
 - 3) photocopy of Tax Notification Letter of Land and Building Tax of the latest year;
 - 4) photocopy of Annual Income Tax Return for the last tax year on behalf of the heir, or a Certificate that the heir has an income below the Non-Taxable Income.
- f. Individual with income below the Non-Taxable Income who transfers rights to land and/or building with gross transfer amount of less than Rp60,000,000.00 (sixty million rupiah) and is not a fragmented amount, the application for Certificate of Exemption from final Income Tax shall be accompanied by:
 - 1) a certificate of income below the Non-Taxable Income from the local government at the lowest sub-district where the taxpayer resides;
 - 2) a statement letter that the gross amount of transfer value of rights to land and/or building, or agreement of binding of sale and purchase of land and/or building and its amendment, is less than Rp60,000,000.00 (sixty million rupiah).

Well, that's a little bit about the provision of reduction and/or exemption in Income Tax that we need to know, hopefully it's useful.

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