MUC Consulting Group

February 2017 Edition

TAXGuide

Enrich your Knowledge

EXCLUSIVE INTERVIEW

DGT: WON'T GO EASY AFTER TAX AMNESTY

Directorate General of Taxes (DGT) has arranged 2017 as the year of law enforcement. There is still one more month left until March for Taxpayers to take the opportunity to repent by using the tax amnesty facility. After that, DGT make sure that they will be stricter and more intensive in conducting audits, especially to those not participating in the program of tax amnesty.

Meanwhile, for Taxpayers already obtaining the amnesty from the government, DGT suggest that they should not feel relieved too soon. Because, in case additional assets are discovered later but not yet reported, a heavier sanction may still be awaiting at the end of the tunnel.

Further related to the audit policy to be conducted by DGT after the tax amnesty program, the following is Tax Guide's interview with **Deputy Director of Audit Planning of the Directorate General of Taxes , Muhammad Tunjung Nugroho**, Monday (13/2):

The tax amnesty program is coming to an end, what is the audit strategy to be conducted by DGT?

We pay attention to 2 (two) things. First, for Taxpayers participating in the tax amnesty, and second, for those not participating. For those participating (in the tax amnesty), it is impossible for us to check their past tax compliance, especially for taxes before the year 2015, such as Income Tax, Value Added Tax (VAT) and Sales Tax on Luxury Goods. However, we are still authorized, under Law Number 11 Year 2016 on Tax Amnesty, to check their assets. We will ensure that the assets reported in the tax amnesty have included the whole assets, especially, the assets acquired before the year 2015 but not yet reported in the Monthly Tax Return and not included in the tax amnesty.

What is the sanction in case of discovery of assets not yet declared by tax amnesty participant Taxpayers?

We will apply (that of stated) in Article 18 of the regulation (Law Number 11/2016), that (the Taxpayers) will be subject to administration sanction of 200%. We will implement the law enforcement.

Of course, we have a standard operating procedure in conducting an audit. We will consider prioritizing certain assets like those meeting the materiality aspect.
Taxpayers participating in the tax amnesty?

Yes, for the tax obligation, we give amnesty, and will not touch (the Taxpayers). We will only cross-check the assets to ensure that there are no more assets hidden. If they have reported all of the assets owned, they may feel relieved. But if there are still assets not yet reported, it is better to report it immediately, especially since the third period of tax amnesty will remain until 31 March 2017.

So, what is the point of tax amnesty if the Taxpayers remain haunted by the audit risk in the year of law enforcement?

We would like to encourage improvement in the future. Through tax amnesty, DGT hope to end the past taxation problem, but the Taxpayers shall commit to improve themselves and their compliance in the future. If there is shortcoming in the past that made the Income Tax Return was filled inaccurately, it should not be repeated. Thus, continuous and sustainable compliance can be created. That is our message for Taxpayers participating in the tax amnesty.

Then, how is the audit strategy for Taxpayers not participating in the tax amnesty?

Indeed, the Taxpayers not participating are our focus. We will check the data of those not participating, and will go through the assets owned but not included in the Income Tax Return up to the year 2015.

What is the sanction for the Taxpayers not yet complied?

We will treat them in accordance with Law Number 11 Year 2016 on Tax Amnesty. They will be subject to administration sanction. Not only that, we will also investigate their tax obligation. They can be charged under 2 (two) laws, namely, Taxation Law and Tax Amnesty Law. Thus, the assets will be audited, and the tax obligation will be investigated as long as the stipulation or the prosecution has not expired.

So, the sanction will be more serious for Taxpayers not participating in the tax amnesty?

Yes, it is a must, since they are not taking the opportunity to participate in the tax amnesty, while the reporting of assets and taxation (obligation) is not proper yet. The government has provided amnesty facility, but (they) still do not take it. As a consequence, we will conduct an audit and the sanction will be higher. However, if the Taxpayers do not participate in the tax amnesty but have complied in the asset reporting and in paying tax, (then) there will not be any sanction. It is important to note, that even though the third period of tax amnesty will end in March, we are authorized to conduct an audit to the Taxpayers not participating and will deal with them at maximum up to 2.5 (two and half) years ahead.

What is the strategy for these 2.5 years?

Technically the strategy becomes our domain only. But, we will use various data sources that we own as comparable to the assets owned by the Taxpayers. The data can be obtained from any source, including both internal and external data.

Is banking data included?

Yes, we will inquire the data from any source, as long as it is possible to conduct. We will also use the Money Laundering Law to capture the Taxpayers proven committing tax crime. We are allowed to do it, since the tax crime is one of the basic crimes to charge money laundering offense.

How DGT detect the relation between the tax fraud and money laundering crime?

Any tax crime (or) tax fraud will output in life style. For instance, buying other items or assets. The money is less likely being kept. The correlation is that the life style is like consumption and investment.

How DGT ensure that the tax auditors will work maximally and professionally, thus, their regular works will not be interrupted with extra demands after tax amnesty?

Sure, it can run as usual, by ensuring that the auditors will do the works in parallel. Because, when conducting a regular audit, (they) can go through the assets. It is like killing two birds with one stone. We are used to it, because the tax subject is similar. The difference is only the object. One is the asset of Taxpayers, the other is the tax of theirs. Two different things, but correlate to each other.

“We are authorized to audit taxpayers not participating (in the tax amnesty) and to deal with them at maximum 2.5 years ahead.”

Transfer Pricing Documentation Tests

Indonesian government has officially adopted Action 13 of Base Erosion and Profit Shifting (BEPS) on the Country-by-Country Report (CbCR). Starting Fiscal Year 2016, any affiliated transactions between companies, both inland and overseas, are obliged to prepare and submit a new concept of Transfer Pricing Document to the Directorate General of Tax.

Business and tax are interconnected inseparably. Business usually takes place where the potential of economic benefits exists. The same applies to tax in which it represents a country's interest when a business activity runs. Globalization demands both things to improve in coping up with market and era development.

From business perspective, the spreading economic sources have encouraged many companies to widen their business wings by establishing affiliated companies or branches across nations. Further to win this tighter business competition, business expansion became the primary option to do for a company. It is not solely for profits, but an affiliated transaction may be useful for a business doer in spreading the cost and minimizing the tax through the transfer pricing policy.

Transfer pricing is a business practice commonly conducted in a business world, and is not something illegal in the eyes of law. However, it could be a problem if the transfer pricing is used to reduce the amount of tax, or even to avoid it. This business phenomenon is then becoming a concern of tax authorities around the world, following the affiliated transactions that are increasing from time to time.

Organization for Economic Cooperation and Development (OECD) has estimated that appx. 60% of the world trade total are the value from business intragroup affiliated transactions. Nevertheless, the amount of affiliated transactions is considered incomparable with the amount of tax that should be paid by the corporates. This is what eventually has pushed the G20 countries and OECD to curb the diminishment of tax revenue potential due to the Base Erosion and Profit Shifting (BEPS).

Accordingly, 15 anti-BEPS action plans are created, in which one of the recommendations (BEPS Action 13) obliges companies having affiliated transaction to prepare and report transfer pricing documentation with three standard approaches: Local file, Master file, and Country by Country Report (CbCR). Thus far, most of jurisdictions only require the preparation of local file as a form of transfer pricing documentation.

So far there have been 57 countries that have committed to adopt BEPS Action 13 and agreed on the CbCR exchange, even though some of them have not officially implemented it. Indonesia is one of the countries that has implemented the three approaches of transfer pricing documentation. The provision is stated in Minister of Finance Regulation (MoFR) Number 213/PMK.03/2016, issued and effective since December 30, 2016.

This MoFR 213 states that the taxpayers obliged to prepare and report CbCR are the parent companies with revenue more than IDR11 trillion or equivalent to EUR750 million (OECD recommendation). CbCR must be ready 12 months at the latest after the end of fiscal year, and it shall become the attachment of Corporate Income Tax Return (CITR) of the following year.

Meanwhile for master and local file, all companies that conduct affiliated transaction and have revenue more than IDR50 billion in the prior fiscal year are obliged to make and prepare both files. This obligation also applies for companies that in the prior fiscal year have affiliated transactions in the form of tangible goods in the amount of IDR20 billion or other transactions, such as service transaction, interest payment, dividend payment, and utilization of other intangible goods, amounting to more than IDR5 billion respectively. Both local and master file shall be available four months at the latest after the end of fiscal year. Even so, both documents are not necessary to be submitted to the tax office, since only the summaries that are required to be attached to the CITR of the related year. Local and master file shall only be submitted upon the request of the auditor.

The premiere objects of MoFR 213 are the affiliated transactions occurring during fiscal year 2016. Therefore, taxpayers whose book year ended on December 31, 2016, the local and master file must be available in April 2017 at the latest, and the summaries must be submitted along with the 2016 CITR. Meanwhile for CbCR, 12 month-period is given to prepare it. The parent companies still have more time until December 2017 to make sure its availability and to submit it to the tax office in April 2018 at the latest.

Secondary Filling Mechanism

Even though there are generally three types of transfer

Corporates' Transparency

pricing documentations suggested by OECD and regulated in MoFR 213, Indonesia is actually not fully adopting BEPS Action 13. Directorate General of Taxes (DGT) states that appx. 70%-80% of BEPS Action 13 are accommodated in the MoFR 213. While, the remaining differs since it has to adjust with Indonesian business law condition.

As an example, there is no definition on ultimate parent company. As a matter of fact, DGT considered the necessity to request for CbCR from the subsidiaries under certain condition. Particularly for entities whose parent company is located in countries or jurisdiction that do not oblige the submission of CbCR. This is especially for subsidiaries whose parent entities are located in the country or the jurisdiction that does not require the preparation of CbCR.

The obligation to prepare for CbCR automatically becomes the responsibility of subsidiaries if DGT cannot obtain the document from the countries where the parent entities are domiciled, even though the domicile country's government has executed the agreement on tax information exchange. This scheme is called Secondary Filling Mechanism.

DGT explains that it is not only Indonesia that implements the Secondary Filling Mechanism. The scheme is also applied by many countries because ideally BEPS Action 13 is adopted and CbCR is exchanged by countries across the world.

DGT also affirms that the obligation to prepare CbCR should only be borne by parent entities, regardless they conduct affiliated transaction or not. Therefore, it is possible if the parent entity is not required to prepare local and master file since they do not conduct affiliated transaction, but still obliged to report CbCR since the revenue has exceeded IDR11 trillion.

Speaking of the threshold of IDR11 trillion, it allows the requirement of several CbCRs in one business group. This condition occurs when there are some companies, in one business group, having consolidated revenue surpassing the threshold.

In doing so, the threshold of revenue of EUR750 million (equivalent to IDR11 trillion) as stated in BEPS Action 13 cannot be treated as basic standard. Because in practice in Indonesia, the companies that are not included in that qualification may still be obliged to prepare the transfer pricing documentation if referring to certain conditions stipulated by the government. To clarify this matter, within a short term, DGT will issue DGT Regulation to stipulate further the CbCR preparation and reporting procedure.

In addition, DGT will also launch a list of countries that have succeeded in conducting CbCR exchange. Therefore, the subsidiaries whose parent entity is domiciled in the country not in that list shall take initiative to prepare the CbCR. The problem is that CbCR is a policy newly applied globally in fiscal year 2016. Thus, the success of this exchange of CbCR across nations can be published by DGT next year, the soonest. In other words, while waiting for DGT's releasing the technical regulation and the list of CbCR exchanger countries, the subsidiary in Indonesia is still mandatory to prepare the CbCR starting from now, in case of any urgent condition next year.

It is because, there is consequence for companies that are late in preparing the transfer pricing documentation, which is that the report will be deemed ex officio or become discretion of tax auditor whether to regard the document package or not. More serious sanction threatens the companies that do not prepare CbCR in spite of being obliged. Referring to Article 13 paragraph 13 of Taxation General Provision and Procedure Law (KUP Law), the taxpayers not complying with the reporting provision shall be subject to administration sanction in the form of increment of 50% of the tax payable

Change of Basis

In compliance with the latest provision, the transfer pricing documentation must explain the transfer pricing process based on the condition at the time of the affiliated transaction (ex-ante basis). It is unlike the preceding provision which did not require it, thus the practice more focused on the transfer price test (ex-post basis).

The change in the approach is good to create a transfer pricing transparency culture in the corporates. Yet for the first year, the transfer pricing documentation with a new format becomes a big challenge for taxpayers. The cost of the compliance must be increasing to conform to this provision considering the duration given is limited, especially to prepare the master and local file.

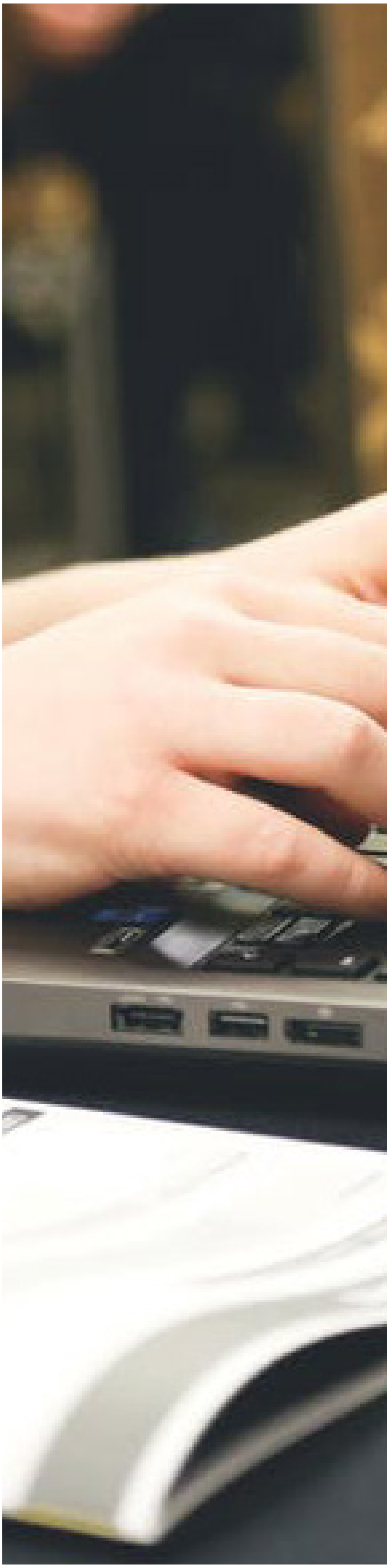
As mentioned earlier, business and tax ideally should go hand in hand since both are considered strategic and affecting each other. However in reality, the business and the tax interest often contradicts in the area of law. The key is trust and transparency that should be maintained both by the authority and the taxpayers. If the tax provision is clear and the officer works professionally, the taxpayers' trust to DGT will increase. The same applies to the taxpayers, if they comply with the tax provision and conduct their business transparently, there is no reason for them to worry about facing the taxation issues.

BEPS Action 13 Implementation in Some Countries

Country	CbCR			Master File			Local File			Penalties
	Threshold	Effective date	Deadline	Threshold	Effective date	Deadline	Threshold	Effective date	Deadline	
Indonesia	Turnover ≥ Rp 11 Trillion	01-Jan-16	12 months	• Turnover > Rp50 Billion • Intangible Trans > Rp20 Billion • Non-intangible Trans > Rp5 Billion	01-Jan-16	4 months	• Turnover > Rp50 Billion • Intangible Transaction > Rp20 Billion • Non-intangible Transaction > Rp5 Billion	01-Jan-16	4 months	Up to 50% from tax correction
Malaysia	Turnover ≥ RM 3 Billion	01-Jan-17	12 months	Not required	Expected 2017	Not required	Not required	Expected 2017	Not required	RM 20.000-RM100.000
Japan	Turnover ≥ JPY 100 Billion	01-Apr-16	12 months	Turnover > JPY 100 Billion	01-Apr-16	12 months	• Affiliate transaction > JPY 5 Billion • Intangible transaction > JPY300 Million	01-Apr-16	45-60 days (by request)	Max JPY 300.000
China	Turnover ≥ RMB 5,5 Billion	01-Jan-16	31 May (each year)	Affiliate transaction > 1 Billion	01-Jan-16	12 months	• Intangible transaction > RMB200 Million • Financial transaction > RMB 100 Million • Others transaction > RMB 40 Million	30-Jun-16	30 days (by request)	RMB 10.000-RMB 50.000
India	Turnover ≥ EUR 750 Million	01-Apr-16	30-Nov-16 (each year)	Not required	Not required	Not required	Not required	Not required	Not required	INR 5.000 - INR 50.000/day or max INR500.000
Korsel	Turnover ≥ KRW 1 Trillion	01-Jan-16	12 months	• Net sales > KRW 100 Billion • Affiliate transac-tion > KRW 50 Billion	01-Jan-16	12 months	• Net sales > KRW 100 Billion • Affiliate transaction > KRW 50 Billion	01-Jan-16	12 months	KRW 10 Million
Australia	Turnover ≥ AU$ 1 Billion	01-Jan-16	12 months	Turnover ≥ AU$ 1 Billion	01-Jan-16	12 months	**AU$ 1 Billion**	01-Jan-16	12 months	Max AU$ 450.000
Germany	Turnover ≥ EUR 750 Million	01-Jan-16	12 months	Sales EUR 100 Billion	01-Jan-16	60 days upon request	Not required	Expected 2017	Not required	Max EUR 10.000
United kingdom	Turnover ≥ EUR 750 Million	01-Jan-16	12 months	Not required	Not required	Not required	Not required	Not required	Not required	GBP300 – GBP3000
United States	Turnover ≥ US$850 Million	01-Jul-2016	Before the due date annual tax return	x	x	x	x	x	x	US$10.000-US$50.000

(compiled from various sources)

Time for ITR Reporting, Time to Check All These



Several new policies in taxation lead to a more complicated annual tax form for companies or corporates this year. These policies include tax amnesty, Country-by-Country Reporting, and the obligation for private entities to report their overseas debts.

There is a saying: *those who do not learn from history are condemned to repeat it*. It simply means that people should learn from their past mistakes and not repeat it. This saying, one of which, can reflect the obligation to fill and report the Annual Income Tax Return (ITR) correctly.

In reference to Taxation General Provision and Procedure Law (KUP), Taxpayers negligent in preparing their ITR shall be subject to criminal penalty, as well as administrative sanction and fine. Thus, the carelessness in the ITR filling should not become a boomerang for the taxpayers in the future

To avoid the consequence, it is better to set all things required in preparing the 2016 ITR based on the prevailing regulations considering that deadline of ITR submission is getting closer. Individual Taxpayers shall submit its ITR to the Tax Authority on 31 March 2017 at the latest. Meanwhile, Corporate Taxpayers have longer deadline until 30 April 2017 to ensure that their ITRs have been filled and reported in a correct and timely manner.

For Individual Taxpayers, there is no specific note to be taken into account for the filling and the reporting of their 2016 ITRs. On the other hand, for Corporate Taxpayers, the ITR will not be as simple as the prior years.

It is due to several new policies in taxation which significantly make the Corporate Income Tax Return (CITR) reporting become more complicated. One of which, the implementation of tax amnesty program. This program actually does not only affect CITR, but also the Individual ITR.

As widely known, the Tax Authority intends to waive the Taxpayers' negligence in their past ITR submission and reporting through the disclosure of assets not reported yet in their ITRs.

Those assets shall be reported in Statement of Assets. Further, Taxpayers' participation in Tax Amnesty program obliges them to report all those assets in their 2016 ITRs . It is under Law No. 11 Year 2016 on Tax Amnesty.

Each asset disclosed in tax amnesty program shall be periodically reported to the Tax Authority through the ITR reporting each year. This aims at locating the assets repatriated or disclosed by the Taxpayers. Particularly, it ensures that the assets are inland for three years. However, the Tax Authority, hitherto, has not rendered any further explanation regarding the assets that are passed under title transfer. It is important, so the Taxpayers do not violate the tax amnesty regulation. Especially, as it seems that the status of the asset second owner is not a subject bound in tax amnesty policy. In addition, the depreciation expense on assets

disclosed in tax amnesty cannot be treated as deductible expense.

Summary of Transfer Pricing Documentation

For Corporate Taxpayers conducting affiliated transaction, they are obliged to prepare transfer pricing documentation in a new format. This is crucial for the preparation of 2016 ITR.

Unlike the prior transfer pricing documentation that only required Local File, starting from FY 2016, there are two additional supporting documents to be submitted: Master File and Country by Country Report (CbCR). The obligation is only borne by Taxpayers included in the criteria as stated in the Minister of Finance Regulation (MoFR) Number 231 Year 2016.

Local File and Master File shall be available within four months, at the latest, after the end of fiscal year. Although those files are submitted only upon the Tax Office's request, the summary of its availability shall be attached on the Annual ITR FY 2016 (in April 2017). It seems to be a challenge for Taxpayers since the duration between the issuance of MoFR 213 (30 December 2016) and its deadline is less than four months, especially since the dissemination of this policy has just started in February, and is still ongoing up to this point of time.

Meanwhile, the duration for preparing CbCR is longer. Taxpayers shall make it available twelve months at the latest, after the end of fiscal year. Corporate Taxpayers are obliged to submit this document at the same time with the ITR FY 2017 reporting (in April 2018).

Due to the new transfer pricing documentation policy, Taxpayers require extra time in preparing their ITR reporting. It is particularly when Taxpayers have not been accustomed to preparing Master File and CbCR. Be mindful of the fact that if Taxpayers fail to meet this obligation, sanction is awaiting ahead.
This policy is issued not without any rationale. The government aims at minimizing tax evasion activity commonly conducted by utilizing transfer pricing loopholes. This issue has been a concern and an agreement among G20 countries. Initiated by OECD, these countries have created fifteen action plans of anti-Base Erosion Profit Shifting (BEPS). CbCR is one of BEPS action plan (Action 13**).**

Attachment of Foreign Debt List

As a flashback, the government has issued a regulation on foreign debt prior to the issuance of tax amnesty and transfer pricing document policies. Under MoF Regulation Number 169 Year 2015, the government obliges every company to retain its Debt to Equity Ratio (DER) 4:1.

Likewise, the MoF Regulation obliges companies to attach all kinds of its foreign debt in its CITR. This regulation becomes effective as of FY 2016, in which the ITR reporting is conducted in the beginning of FY 2017.

If Taxpayers are still inattentive by not reporting the foreign debts, every interest expense arising from the debt is non-deductible from the revenue. Thus, if the Taxpayers persist in treating it as expense, it will raise fiscal correction.

The foreign private debt reporting procedure shall be regulated further through a DGT Regulation, as stated in Article 5 (3) of MoF Regulation Number 169 Year 2015. However, the awaited regulation has never come yet. This might be the reason why many Taxpayers are less likely to pay attention or even unaware of the provision. Instead, they more focus on retaining their DER 4:1.

DGT through the Head of Dissemination, Service and Public Relation (P2 Humas) Hestu Yoga Saksama has affirmed that the policy under this regulation is considered sufficiently clear. Hence, they do not need to issue any additional regulation as the technical procedure.

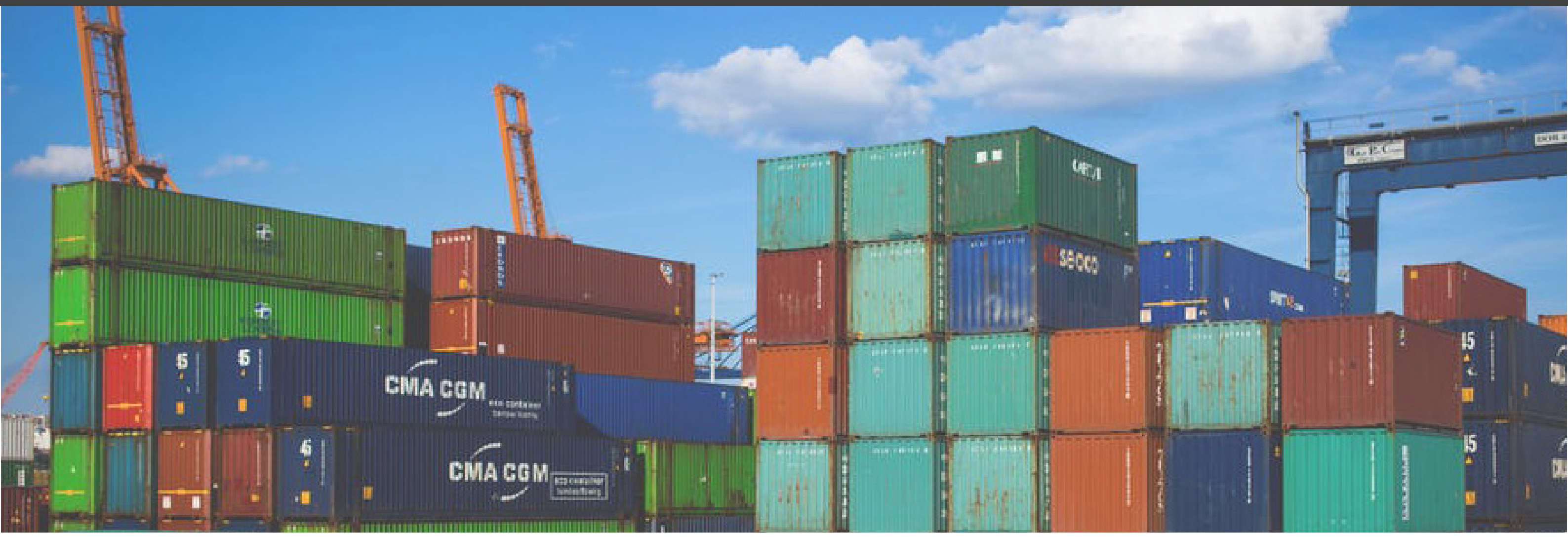
Aside from that, Taxpayers should be more proactive in inquiring the Tax Authority regarding those regulations and its implication on the Annual ITR for FY 2016.

The proactiveness becomes so significant since the Tax Authority has been tied up to many agendas: from the closing period of tax amnesty, tax reformation, to some cases related to tax addressed by Corruption Eradication Commission (Komisi Pemberantasan Korupsi/KPK).

In a nutshell, an accurate preparation of Annual Income Tax Return for FY 2016 will become a crucial determinant for the future's sake of the Taxpayers. It is better to learn from the past mistake than condemned to repeat it, isn't it?

Customs Tariff Book Revised, Import Duty Tariff Soared to 10%

The new Indonesia's Customs Tariff Book (BTKI) will be enacted starting from March 1, 2017, in which digits for the code of Harmonized System (HS) will be changed from 10 to 8 digits. Amendments also include the increase in the average import duty tariff, from 8.81% to 10.08%.



Free Trading is a reality in a modern era. Flows of goods and service or even humans are increasingly free to travel from time to time following the demands of world's market that is inevitable more competitive as well. All regulations and agreements of international trading have become crucial to ensure the competition in trading to run fairly.

In 1986, a study group of Customs Cooperation Council—nowadays known as World Customs Organization (WCO)—made global trading six digit classification of goods or commodity well known as Harmonized System (HS). The purpose of the HS creation is to simplify trade transactions, transportation, and pricing as well as data collection and trading analysis, which is further used as guidelines for international trading policy making.

All countries across the world have ratified the HS, including Indonesia (1993). Each country signing the HS convention or called as a contracting party may develop the six digit classification of the HS to be more specific according to its country's policy. Indonesia has developed the HS codes as listed in the Indonesian Customs Tariff Book (BTKI).

For regional uniformity of the HS Code, Indonesia along with other ASEAN WCO member countries also signed the protocol of ASEAN Harmonized Tariff Nomenclature (AHTN) in August 2003. In the protocol, ASEAN agreed with the use of the HS up to eight digits, comprising HS six digits from WCO and two digits from AHTN applicable for all countries within the region. Prior to the protocol application, all ASEAN countries employed HS Code with different numbers of digits. Indonesia, for example, used up to ten digits of the HS classification code, where the last two digits represented national tariff section classification. Malaysia and Philippine applied nine digits, whereas Singapore and Laos applied eight digits.

Tariff Adjustment

Revision to BTKI has become regular agenda for every five year to adjust it with the HS amendment schedule by WCO and to follow the AHTN protocol. The latest BTKI revision made by Indonesia was in 2012. The next amendment shall be in this year, precisely on 1 March 2017, by applying shorter HS codes, covering eight digits only to comply with AHTN. With the last two digit reduction, the newest HS code will automatically put off the risk of different tariff sections used throughout the ASEAN countries. However, this will also affect to combination, splitting and addition of some tariff sections as those applied in the previous BTKI.

There are four sector founder institutions playing the role in the amendment to BKTI, namely the Ministry of Industry, the Ministry of Agriculture, the National Agency of Drug and Food Control, and the Ministry of Marine and Fishery. During the amendment process, the proposal of customs duty tariff increment was emerged on 1,089 tariff sections of mainstream and downstream products, which later was reduced to only 996 tariff sections.

After an in depth analysis performed, the Ministry of Finance decided to raise import duty tariff for 300 tariff sections only. Averagely speaking, the import duty tariffs of all countries or the Most Favorable Nations (MFN) in BKTI are generally increased, from 8.81% into 10.08%. This policy is stipulated in the Minister of Finance Regulation Number 6/PMK.010/2017 concerning Determination of Goods Classification and Import Duty Tariff Imposition, effective per 1 March 2017.

The Ministry of Finance explained that the tariff adjustment policy was made by considering the relation between the import tariff and some variables of industrial performance covering: output, manpower, productivity, exportation and importation. In seeing from the spirit, the simplification of the HS along with the import duty tariff increment can be acknowledged as a form of trade protectionism by the Government.

There is nothing wrong about trade protectionism since it is a country's authority and so long as it does not breach the free trading agreement. The main objective is to protect industries within the country from negative impacts of imported goods attack. Increased import duty tariffs ideally encourage the domestic industrial players to reconsider before importing raw materials, by prioritizing local products (import substitution). From the macro perspective, this policy is expected to reduce imports in order to maintain the surplus of balance of trade and foreign exchange reserve at a save level.

Carefully Thinking Before Importing

For industrial players and importers, it is recommended to carefully consider the policy before making imports. It is important to note the changes in the customs system developed electronically by the Directorate General of Customs and Excise (DGCE) and the Indonesia's National Single Window (INSW).

Importers should check in details the new HS goods classification, specifically those experiencing combination, splitting or addition of new groups. They should also be aware of the fact whether their usual imported commodities are included in the list of 300 tariff sections whose import duty tariffs are increased. Being failed to understand the 2017 BKTI, taxpayers may end up receiving a revision letter on underpaid import duty due to incorrect use of the HS classification on their imported goods.

The first step is to understand the type of goods to be imported, whether it is single or mixed goods. For single goods, their materials, characteristics and intended uses should be clearly identified. For mixed goods, the aspects to be well recognized are their components, composition, characteristics, and intended uses. Basically, there are three approaches to apply: (i) type of goods approach, (ii) goods material approach, and (iii) goods function approach.

The next step is to discover the chapter related to the type of goods to be imported in the 2017 BKTI. During this process, it is crucial to ascertain that the goods are accordance with the description of the goods type in the HS tariff section. When none of the description is suitable for the goods imported, the section notes and the chapter notes are the parts to be carefully looked at as to find alternatives of relevant chapter and legal basis. If necessary, other supporting elements of the HS can be used, such as Explanatory Notes and Compendium of Classification Opinions. In short, it is a must to read and comprehend the 2017 BKTI properly, as well as to carry out a well systematic study of the HS code without a rush.

Details of Changes in Harmonized System (HS) Code

	2012 BKTI	2017 BKTI
Classification Structure	• 10 digits	• 8 digits
Number of Chapter	• XXXX.XX.XX.XX	• XXXX.XX.XX
Number of WCO Sub Section	• 98 Chapters • 5,205 • 6 digits of HS sub section	• 98 Chapters • 5,387 • 6 digits of HS sub section
Number of BTKI Tariff Section	• 10,025	• 10,826

Notes:
BKTI: Indonesia's Customs Tariff Book
WCO: World's Customs Organization

MUC EVENT

MUC Book Release: KUP Comprehensive Guideline

MUC Consulting Group published another taxation book. This time, the title of the book is Panduan Komprehensif Ketentuan Umum Perpajakan (KUP) (KUP Comprehensive Guideline). This book completes the collection of taxation books published earlier by MUC.

The book was written by MUC's Senior Advisor, who is also the Professor of Faculty of Administrations Science, University of Indonesia, Prof. Dr. Gunadi M. Sc. Ak.. The book release took place at Hotel Santika TMII, Jakarta, Tuesday (24/1), and was attended by tax academicians and practitioners, as well as the Board of Directors of MUC Consulting Group.

In this 800-page book, Prof. Gunadi states his argumentation on taxation system in Indonesia comprehensively in accordance with the latest updates, thus, very relevant to the real practice. He expects that this book becomes the reference of government, academicians, and taxpayers in creating equitable taxation condition.

MUC Tax Research Institute, Officially Published

MUC Tax Research Institute is officially announced on February 14, 2017 at Hotel Gran Melia, Jakarta. This non-profit institution was established to run educational mission and to spread positive info related to taxation, through various activities like discussions, trainings and seminars. Besides, this institution is also actively conducting research and review on taxation, which will be documented in the form of journals and other publication materials.

Despite its newly-establishment, the members of MUC Tax Research Institute comprise practitioners and academicians experienced and long involved in taxation. Their willingness to join was initiated by their same vision in creating a better tax environment in Indonesia.

Training and Seminar of Transfer Pricing Documentation

MUC Consulting Group, for the ninth time, held the training on the implementation of new transfer pricing regulation on Tuesday (14/2), at Hotel Gran Melia, Jakarta. The training was closed with a seminar that succeeded stimulating interest from many tax practitioners and academicians.

The seminar "Implementation of New Transfer Pricing Regulation, Obstacles and Solutions" presented numbers of speakers, namely DGT's Deputy Director for Tax Treaty and International Tax Cooperation Achmad Amin; Head of Indonesian Institute of Certified Public Accountants (IICPA) Tarkosunaryo; and Executive Directors of MUC Tax Research Institute Wahyu Nuryanto and Karsino.
