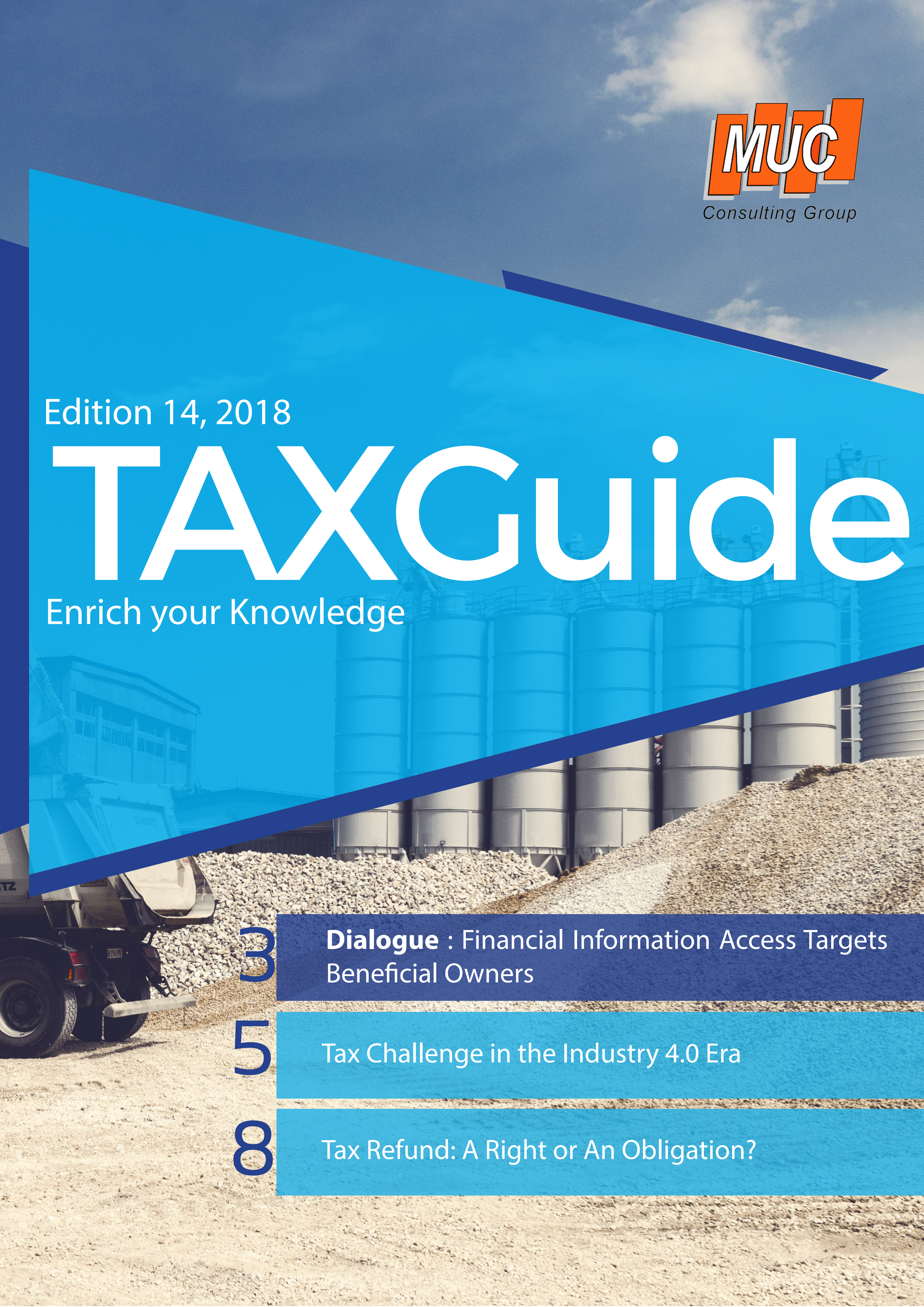

Consulting Group

Edition 14, 2018

TAXGuide

Enrich your Knowledge

EditorialNotes

Assalamualaikum Wr. Wb. May peace and prosperity befall upon all of us. All praise and thanks be to Almighty God that through his grace, Tax Guide is still consistently published for the taxation people.

In this 14th edition, Tax Guide highlights a number of new policies in taxation sector, among others concerning the financial information access for taxation purpose and multilateral financial data exchange.

To explore more about this policy, Tax Guide had a direct dialogue with the Head of Subdirectorate of Information Exchange, Directorate of International Taxation of Directorate General of Taxes (DGT) Leli Listianawati. The main points of such dialogue are summarized in exclusive interview rubric.

Furthermore, we also discuss about the policy of pre-audit refund process acceleration from various point of views, both taxpayers and tax authority. Related to this policy, the tax authority deserves an appreciation although critics are also necessary for the goodness.

Another interesting issue to discuss is about the effect of industry 4.0 that brings out challenge and chance, both for tax authority and taxpayers. The mastery of technology is a must for all parties if they do not want to get lost in digital globalization era. The question is, how ready is the DGT as the tax authority in utilizing the technology advancement for the improvement of service, operation, and tax revenue?

Another interesting thing to read is our infographic, which presents various policies of Bonded Logistics Center (PLB) in an illustration. The policy description in visual form is also our effort to keep up with the digital technology trend.

Hopefully, what we present will be useful for all parties. Critics and suggestion are always welcome for our further improvement. Wassalamualaikum Wr. WB.

Jakarta, Juni 2018

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DIALOGUE

Financial Information Access Targets Beneficial Owners

Law Number 9 Year 2017 obliges bank and non-bank financial institutions to report their customers' account data, either automatically or by request of the tax authority. Therefore, effective from fiscal year 2018, Directorate General of Taxes (DGT) may access the financial information in which confidentiality was under the protection of Banking Law.

The policy is the implementation of multilateral agreement on automatic financial information exchange or Automatic Exchange of Information (AEoI) initiated by OECD and G-20. Not only aimed at fighting against the global tax avoidance, the policy is also aimed at disclosing the actual owner of income in the form of devidend, interest, and/or royalty (Beneficial Owner).

To find out more about the customer's financial account reporting system and the technical procedure for the multilateral information exchange, Tax Guide had the chance to engage in a dialogue with the Head of Subdirectorate of Information Exchange, **Directorate of International Taxation DGT Leli Listianawati,** on Wednesday, 11 April 2018. Below is the conversation:

How ready is Indonesia in implementing AEoI?

There are requirements of AEOI that we should fulfill. First, there shall be the legal basis for exchanging information between countries. There are three legal bases for international agreement that we can use for information exchange. The most prioritized one is by (using) MAC (Mutual Administrative Assistance in Tax Matters), then Tax Treaty, then it can also be (using) TIA (Tax Implementation Agreements). Indonesia had signed the MAC. We has also entered into Tax Treaty with 65 countries.

To implement it, we oblige any financial institution to automatically submit the information to the tax authority. The regulation is complete, starting from Government Regulation in Lieu of Law (Perppu) stipulated as Law Number 9 Year 2017; PMK (Minister of Finance Regulation) Number 70/PMK.03/2017 as amended by PMK Number 73/PMK.03/2017 and last (amended) by PMK Number 19/PMK.03/2018 with only minor changes; also its implementing regulation that is Directore General of Taxes Regulation Number 04/PJ/2018. Those domestic regulations have been in compliance with the standard of CRS (Common Reporting Standard).

How about the Taxpayer's data confidentiality?

Confidentiality is also a concern of global forum. So, all countries shall be assessed in terms of their confidentiality and data safeguard. All countries shall be subject to assessment. If a country does not meet the international standard, the country will be deemed non-reciprocal. It means that the country is only obliged to provide (the financial data), but will not receive any (data exchange) until (the country) passes the assessment test.

So, there are three assessment stages conducted by OECD who will directly come here and give questionnaires. First, it is related to the legislative attempt in protecting the confidentiality of such data. Is there any sanction imposed to those who reveal (the data)? What is the sanction? Is the sanction effective or not? The legislation is thus reviewed.

After that, the second, (the assessment) is related to the enforcement problem. Besides, *the human resource is also observed. We have gone through those (assessments) and been declared qualified. Therefore, we can exhange data reciprocally.*

The last regulation issued is PMK Number 19/PMK.03/2018, what is the most substantial change from the previous PMK?

Well, after the checklist assessment by OECD global forum, one matter is recommended to be changed because it was not in accordance with provisions in CRS. For example, it is regarding the retention period of information. In PMK Number 73/PMK.03/2017, we stated that the retention period of the documentation is five years "since the document is received". (But), it is supposed to be "since the reporting year".

So, if the year of the report is, let's say, we received the document in 2017, but the report is in 2018, so it (the retention period) shall be started from 2018. Therefore, the due date (based on the previous PMK) is in 2022. But, if we count it from the time of the reception, it is going to be a year less (than it is supposed to be). That was the only finding regarding the international exchange.

Even for the domestic interest, (it shall be) in compliance with CRS, unless otherwise stipulated. Even though it is not entirely the same, we mostly follow the CRS.

How about the change of the ownership term to *"held by"*, what is the reason?

(The change) was a note (from OECD), not a recommendation. It was a mere note. Actually it doesn't need to be changed, but the interpretation of the implementation may not be different. However, we chose to change it. It was because, at first, we translated the word "dipegang" as "on by", (yet) it is supposed to be "held by". Therefore, (the change) is for the purpose that the reported party is the actual owner, not only the one recorded on (the document).

So, is it connected with Beneficial Ownership?

Yes, (the change of term) is related to Beneficial Ownership. Let's say, (the ownership) is recorded under the name of A, while in fact it is (owned by) B. The one referred to by CRS is not the party recorded, but the B (the actual owner). Thus, the term used is "held by" instead of "dipegang".

How to identify the Beneficial Owner, considering that the one recorded on the document is "dipegang"?

It will be identified by the time of due diligent.

How about the data reporting of undivided inheritance? Is it only for Non-resident Taxpayer or including the Resident Taxpayer?

Since now the reference is the same, CRS, (the reporting is obliged) also for the Resident Taxpayer. Nevertheless, the concept is already on the CRS. On PMK Number 73/PMK.03/2017 (the concept) has also been stipulated, but in the appendix. Now we state (the concept) in the body (of the regulation), so it can be clearer.

So, it is not a new regulation, it has been regulated before. This is also the issue questioned by industries on the dissemination. Most of international industries must have been referring to CRS abroad. Due to such question, we got the idea to state it in the body, so that not many (people) bring up (the same) question.

It (the account) shall also be reported (even) when the owner, let's say Mr. A has an account in Bank X, passed away. The account still has to be reported as long as the beneficiary has not submitted some kind of death certificate. If the beneficiary has submitted the certificate explaining that Mr. A had passed away, for example those (issued) by RT/RW (neighborhood association/community association), to the Bank, the account is excluded from the reporting obligation.

Does this mean that the undivided inheritance data is not only for multilateral financial information exchange, but also for domestic interest?

It is for both. Actually, this has been in line with the provision of Income Tax Law stating that the undivided inheritance is also subject to tax. This is because DGT needs certainty. It is because (the account) is possibly misused.

(The undivided inheritance is subject to tax) unless there is a deed of inheritance, (so) it is clear who the heirs of such inheritance are. Therefore, as long as the institution records that the account is owned by the deceased, (the account) is deemed still valid. The purpose is actually so that there will be no misuse of such inheritance.

Does this mean that there is similarity between the interest of Income Tax and AEoI ?

It is maybe slightly different. For Income Tax interest, the inheritance is considered generating (earning) and becomes an income. Nonetheless, in CRS, the regulation is like that (explained before) and we really have to follow it. If we take a look at it, it is very clear that as long as there is no notification from the beneficiary that the account owner had passed away, (the account) still remains to be reported.

It is because the bank does not know. Even if, let's say that (the account owner) is a public figure, but no proof (that the account owner had passed away). The beneficiary shall still submit the death certificate. So, we made the PMK under some bases.

Why Collective Investment Contract (CIC) shall also be reported?

Yes, (it is for) CIC included as the part of custodian, mutual funds income, and the one obliged to report it is an Investment Manager. Investment Manager must have known who the holders of the accounts are.

How many institutions having registered to DGT?

If I'm not mistaken, it has been around 3,400 and will still grow. This is because DGT also has the authority to stipulate ex officio, if we have the data, whether a financial institution shall be categorized as a reporting or non-reporting institution.

We collect the population beforehand from every Tax Office (Kantor Pelayanan Pajak/KPP). Any Taxpayer engaging in financial sector must have been registered in KPP, we will surely cross-check them with those already registered.

Is there any time limit for the financial institutions to register before it is stipulated ex officio?

There is no time limit. However, the (state of) registration will not postpone the reporting obligation. In the PMK, there is an article stating that even though (an institution) has not registered yet, the reporting obligation is still running. Therefore, the loss is on the institution if they are not making registration, for example, (because) they are waiting to be stipulated ex officio. The financial institution may be imposed by criminal sanctions because they have to register before reporting. We will persuasively disseminate (this issue) with KPP. This is because there is a reporting obligation due in April of this year both for domestic and international, for other financial service institutions or other entities.

We have provided the criteria of financial institutions categorized as reporting and non-reporting (institutions). Since that time, (the institution) shall understand that they are (categorized as those) obliged (to report). Therefore, although the due date of the registration was on the last March, (the registration) will still open for the financial institutions who intend to register, specifically (for) those who just knew (about the regulation).

Tax Challenge in the Industry 4.0 Era

The world faces a new structure of civilization as information technology and communication develop rapidly. The advent of supercomputer, smart robot, self-driving car, and artificial intelligence marks a new digital era, known as industry 4.0.

This digital revolution does not only change the human behaviour, but also significantly changes current business ways and fundamentals. Such disruption does not only open up bigger economic opportunity, but is also potential to make threat if it is not managed well.

Learning from the last three industrial revolution phases in which technology advancement was successfully proven increasing efficiency, productivity, and the smoothness of supply chain, it also happens in industry 4.0. However, one thing that should be taken into account is the implication that may arise from the utilization of technology that is being dominant.

Slow but sure, automation is forecast to replace human resource and mind, especially for the type of clerical jobs or those required operationally, daily administration, or works that do not need any decision making process. Meanwhile, the jobs that possibly survive are the types of jobs collaborating with machine but still involving cognitive skills and social interaction, like medical.

In 2016, World Economic Forum (WEF) estimated that the global digitalization will eliminate approximately 2 million to 2 billion of jobs until 2030.

On the other hand, digitalization opens up business opportunity and creates new types of jobs, specifically related to machine and data management, logistics, and artist. WEF estimates that there will be 6 million new jobs in logistics and technology sectors by 2025.

For business world, digital revolution will break through traditional marketing channel by utilizing the world space that is getting narrower. On the one hand, the space of expansion and efficiency is getting wider. On the other side the digital globalization gives a myriad of information access that may confuse or even mislead.

Therefore, planning is the key. By figuring out the shift, role, and impact resulting from industry 4.0, businessman can design business strategy in line with current dynamics.

It is very likely that entrepreneurs are facing the challenge of how to realize the efficiency and advantage potential offered by technology advancement, like in expanding market access, creating new product, or offering additional value to consumers.

In this context, it is not only about expense and profit potentials, but also about the taxation consequence likely raising and should be anticipated.

In the era of industry 4.0, the competition is no longer between the Big vs the Small, but it is time for the Fast vs the Slow to compete. It is not only about business matters, anyone who quickly responds to the technology development will certainly leave behind their enemies who adapt slowly.

It also applies to tax, when the Tax Authority could not keep up with the digital trend development, it will be a disadvantage for a country due to the risk of bigger tax revenue loss. It becomes a serious challenge for legislator provided that the prevailing taxation regulation, when it was arranged, has not considered the effect of digital revolution. As a result, the old taxation law product will be easily manipulated by Taxpayers misusing the technology and regulation.

The importance of technology involvement in tax reform has actually been noticed by Directorate General of Taxes (DGT). The DGT's information technology development basically started in the beginning of 90s when they established the new payment control system (NPCS). The system was then updated in 1994, in which the supervision was expanded and it finally includes the monitoring of Taxpayer's compliance in reporting Tax Return by introducing the Taxation Information System.

The update of technology is continuously developed through the development of various taxation application programs such as application of Monitoring Statement/Report of Tax Payment (MP3), e-registration (e-reg), online Tax Return submission (e-filing), Geographic Information System, DGT Information System (SI-DJP). Last, in 2016, DGT launched Taxpayer mapping program using information technology called Geo-Tagging.

However, the development of information & technology infrastructure performed by DGT is left behind compared to the development of digital technology and the result has not been significant, both for the state revenue and tax basis expansion.

established the new payment control system (NPCS). The system was then updated in 1994, in which the supervision was expanded and it finally includes the monitoring of Taxpayer's compliance in reporting Tax Return by introducing the Taxation Information System.

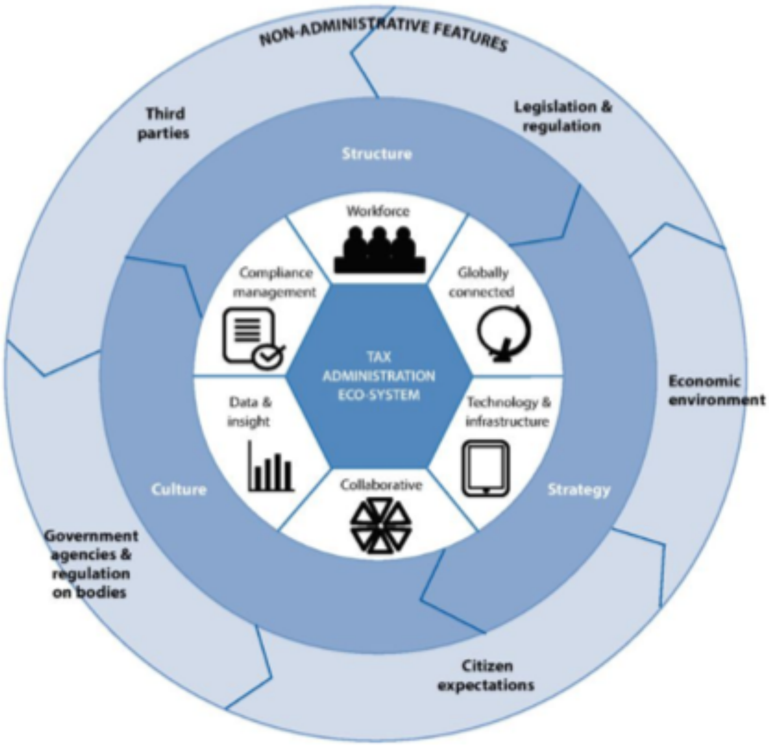
Adaptive

The tax authority should be careful in analyzing the changing business model and human life style, as well as its impact on taxation that should be seriously reviewed. In various aspects, the tax authority should be one step ahead or even two-three steps ahead Taxpayers by designing tax system that is more adaptive and solutive (can provide solutions) in responding developing taxation dynamic. It is not only by introducing new types of tax (e-commerce, etc.), but the tax authority is expected to change the paradigm of service towards Taxpayers from compulsion to persuasion.

One thing to keep in mind, the technology development is the answer to a demand of society that is longing for an easy, cheap, and efficient life. In the taxation context, industry 4.0 comes as a warning for the tax authority to move from the conventional ways to a connected operational and service system in digital platform or application, minimizing the physical interaction between the tax authority and the Taxpayers but facilitating more intensive virtual interaction. The taxation system shall not only ease the Taxpayer, but could also ensure that the Taxpayers fulfill their obligations correctly as there is no space and option to avoid the regulation.

However, the success of policy transformation process in a country depends on the formulation of etiquette rules and norms that could increase the public trust. In the taxation scope, the system transition from conventional to digital should be followed by the regulation set-up that could win and comfort all parties.

Learning from the newest case in which the absence of regulation that could become the base of online transaction taxation results in dispute between the tax authorities in



many countries and some global giant technology companies such as Google, Yahoo, and Facebook. Including in Indonesia, the absence of strict legal basis to tax Over the Top (OTT) companies becomes a valuable lesson for the government to design flexible regulation to face the new era.

In its research, OECD (2017) emphasized that tax system must be transformed and changed continuously, in line with rapid growth in technology and digitalization, as well as development in business patterns. The main objective is to improve effectiveness and efficiency in taxation, or reduce costs and increase voluntary compliance of tax payers. Thus, it could help promote economic and investment growth.

According to OECD, an ideal tax system in the digital era should meet below criteria: (1) globally connected; (2) technologically enabled; (3) collaborative and integrated; (4) prioritizing data and insight; (5) better informed compliance management and has qualified human resources; (6) and finally, continuing the transformation and keep changing significantly in accordance to the latest business and digital technology trend.

As the closing, the disruption has produced a new generation that is creative, having high awareness of technology, and exceeding the unexpected limit of compliance. The disruption also destroys old businesses, the entrepreneurs who are not willing to change, and jobs that are easily replaced by machine. When the worldwide society changes its face to keep up with digitalization, the tax authority should do it too.

Reference:

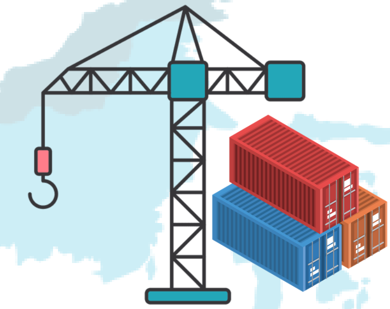
- *OECD, Tax Administration 2017: Comparative Information on OECD and Other Advanced and Emerging Economies, OECD Publishing, Paris, 2017.*

PLB Regulation is Reaffimed, Industry Scope is Expanded

The Government affirms the regulation and expands development of bonded storage for goods from outside customs area and/or goods from other places inside customs area or Bonded Logistics Center (PLB).

Types of Taxation Incentive:

- Deferment of customs duty
- Exemption from Value Added Tax/VAT and Income Tax on import
- Exemption from VAT on incoming goods from domestic to PLB



PLB PLB is a Bonded Storage for storing goods from outside customs area and/or goods from other places inside customs area, may be accompanied by 1 or more simple activity within a certain period to be re-taken out.

Types of PLB Are Added

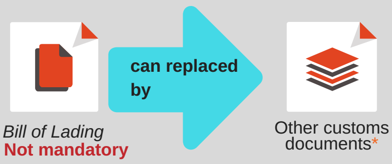
- Large Industry PLB*
- Small Industry PLB
- Hub Air Cargo PLB
- E-commerce PLB
- Finished Goods PLB
- Basic Materials PLB
- Floating Storage PLB
- Commodity Exchange PLB

***Has existed since PLB first generation**

Provision of Permanent Establishment (PE)

- PLB storing goods from outside customs area or overseas shall refer to Double Taxation Avoidance Agreement (DTAA) or Tax Treaty between the country of origin of the supplier and Indonesia.
- If there is no Tax Treaty, PLB shall refer to Income Tax Laws.

Exemption Certificate (SKB)



*Document of customs declaration for imported goods to be stored in PLB

Requirements for Being PLB Entrepreneur & Operator

- Having internal controlling system
- Having 10,000 m2 land and/or building at minimum
- Having evidence of ownership over a place, building or zone with specific border and width
- Having building business location permit (SITU), environmental document and other permits
- Has been confirmed as a Taxable Entrepreneur
- Having no arrears for the payment of tax, customs duty, export duty and excise
- Having clear business process
- Having Authorized Economic Operator certificate or other certificates related to management performance
- Having logistics management experience, human resources (HR), and supply chain

Special Requirements for Being PLB Operator Also Acting as Entrepreneur

- Obtaining recommendation from a PLB operator and mandatory to have computerized inventory system

The Requirements Are Simplified:

- The process of document review and approval for being
- PLB operator/entrepreneur are shortened.

The process of document review and approval for being PLB operator/entrepreneur are shortened.

From 15 days
To 3 days

Tax Refund:
A Right or An Obligati

Not long ago, President Joko Widodo confided his feeling about the complexity in handling taxation. The former carpenter admitted that he was once frustrated while taking care of a year-long tax overpayment refund. Whereas, the amount of money refunded was insignificant compared to the complicated refund process.

Ever since, Jokowi gave up claiming refund and chose to disregard any tax overpayment. In his opinion, it gives him more nuisance than the amount of overpayment tax refunded.

The complexity of tax refund is a long-drawn issue and Jokowi is not the only one having trouble with that. Not only about the long duration, the incomplete tax overpayment refund due to correction during the audit process is also a common complaint from the Taxpayers. However, in some cases, the use of fake tax invoice to manipulate the Value Added Tax (VAT) refund was discovered.

Fundamentally, refund is a basic right for Taxpayers and, in the opposite, an obligation for the tax authority. To ensure that the right and obligation are well implemented, Taxation General Provisions and Procedures Law (UU KUP) firmly stipulates the procedures for and the term of the tax refund. This is mainly for the pre-audit overpayment tax refund, which is 3 (three) months at maximum for Income Tax refund and 1 (one) month for VAT refund for a Taxpayer deemed compliant or a VAT-Registered Person (PKP) with low risk.

on?

Opportunity Loss

In practice, the process of tax overpayment refund is not as fast as that mandated by UU KUP. The tax authority always has consideration to collide the right and obligation of the Taxpayers while processing refund application. Consequently, a prolonged dispute will arise and it will take a lot of time, mind, and even cost for its settlement.

For the Taxpayer, a fast and easy refund is really needed to enhance their financial ability and smooth cash flow. In fact, the tax overpayment refunded by the State may be a stimulus for the business world if it is used for increasing capital expenditure.

However, the tax authority also has interest in maintaining the state's revenue, so that the money deposited into the state treasury does not get out of it again. This orientation then raised a public opinion that the tax authority perhaps intentionally adhere to a belief: "*if we can complicate the refund process, why simplify it?*"

To prove that such assumption is not true, the tax authority needs to change the refund policy paradigm. If now the orientation is focusing more on maintaining the state revenue, it has to be changed to focus more on servicing the Taxpayers. One of the proofs is to simplify as well as quicken the process of tax overpayment refund.

By the issuance of Minister of Finance Regulation (PMK) Number 39/PMK.03/2018 on Procedures for Pre-audit Refund of Tax Overpayment, the Government is apparently trying to restore the tasks and functions of Directorate General of Taxes (DGT) in accordance with its basic goals. The policy, which was issued on and effective since 12 April 2018, guarantees that the pre-audit refund process will be in compliance with the UU KUP mandate, which is 15 (fifteen) days at minimum and 3 (three) months at maximum—depending on the type of tax and the criteria of the Taxpayer.

The mechanism and steps of the tax refund process are relatively the same. Only, related to pre-audit refund, the document verification process is easier, by only conducting a simple administrative review.

However, it does not mean that the audit will not be conducted. It is only postponed after the pre-audit refund of tax overpayment is given. Therefore, it does not omit the consequence of administrative sanction in the form of 100% increase from the tax base if based on the audit result any tax underpayment is discovered. So, make sure that the bookkeeping and supporting evidences are complete when submitting a refund request. If the Taxpayer is not ready for audit, instead of getting tax refund, the Taxpayer will be subject to penalty.

The PMK also broadens the maximum limit of tax overpayment amount that can be given the pre-audit refund facility. For Individual Taxpayers running business or freelancers, the amount of tax overpayment that can be given the pre-audit refund facility is increased from previously IDR10 million at maximum to IDR100 million. Meanwhile, for Corporate Taxpayers, the amount of tax overpayment that can be given the pre-audit refund facility is of IDR1 billion at maximum, increasing from the previous amount that was only IDR100 million. Similarly, for PKP deemed bearing low risk, the amount of tax overpayment that can be given the pre-audit refund facility increases from previously IDR100 million to IDR1 billion at maximum.

Questioning Justice

The acceleration of tax refund shall be positively interpreted, not only by the Taxpayers but also by the tax officers. Not only reducing the burden of audit for the tax authority, the tax overpayment refund will also reduce the interest compensation to be paid by the Government to the Taxpayers.

Article 11 paragraph 3 of UU KUP asserts that: "*If the refund of tax overpayment is made after 1 (one) month period, the Government shall pay interest of 2% (two percent) per month on any late refund…*"

Furthermore, the regulation is confirmed in Article 17B paragraph 4 of UU KUP: *"...the taxpayer shall be given interest compensation of 2% (two percent)* *per month for a period of 24 (twenty four) months at the maximum, starting from the date of expiration of the 12 (twelve) month period..."*

Therefore, there is no excuse for the tax authority to postpone the pre-audit refund even though the justice side of such is still questionable. This is because the privilege seems to be given only for the selected Taxpayers or Golden Taxpayers.

Regarding the right, the refund acceleration is supposed to be applied systematically equal, without considering the status or track record of the Taxpayers. This is a "homework" for DGT to create a systematic and automatic refund procedure, without discriminating the recipient candidates.

Regarding the fake invoice manipulation and usage, they are in a different case. Such things are simply bad intention of certain Taxpayers to harm the State and categorized as criminal act and the tax authority shall act decisively. However, in the era e-tax invoice, the manipulating using fictitious tax invoices should be eliminated automatically.

The State indeed has the authority to collect tax and to demand for the compliance to the Taxpayer. Yet, we need to keep in mind that the Taxpayers also have the rights to claim their overpaid tax or the tax that is not supposed to be paid. Those two rights shall be equally exercised if the tax authority does not want to be considered unfair.

*Short version of this article has been published in CNBC Indonesia, May 28, 2018

	Taxpayers with Certain Criteria	Taxpayers Meeting Certain Requirements	PKP with Low Risk
Criteria	a. submitting the Tax Return timely; b. not having tax arrears; c. having the last 3 consecutive years financial statements with unqualified opinion audited by public accountant or governmental financial supervisory institution; and d. over the last 5 years never been convicted for committing any tax crime based on permanent court judgment.	a. Individual Taxpayers-not performing business or freelancers-submitting Annual Income Tax Return showing refund of tax overpayment; b. Individual Taxpayers-performing business or freelancers-submitting Annual Income Tax Return with the tax overpayment amount of maximum IDR100 million; c. Corporate Taxpayers submitting Annual Income Tax Return with the tax overpayment amount of maximum IDR1 billion; or d. PKP submitting Periodic VAT Return with the tax overpayment amount up to IDR1 billion.	a. companies whose shares are traded in stock exchange in Indonesia; b. companies whose majority of shares are owned directly by central government and/or local government; c. Main Customs Partner; d. Authorized Economic Operator (AEO); e. manufacturer or producer (other than PKP as referred to above) having place to run production activities and submitting Periodic VAT Return timely for the last 12 months; or f. PKP submitting Periodic VAT Return with the tax overpayment amount of maximum IDR1 billion

	Taxpayers with Certain Criteria	Taxpayers Meeting Certain Requirements	PKP with Low Risk
Process Time	• At the least 3 months for Income Tax • At the least 1 month for VAT	• At the least 15 business days for Individual Taxpayer Income Tax; • At the least 1 month for Corporate Income Tax; • At the least 1 month for VAT.	• At the least 1 month.