2 Indonesia

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I. Introduction

The Republic of Indonesia, known as Indonesia, is the biggest archipelagic island country in world consisting of more than 13.000 islands. It lies in the southeast part of Asia and locates between two oceans: Indian and Pacific and two continents: Asia and Australia. There are five biggest islands spreading from west to east, sequentially named Sumatra, Java, Borneo, Sulawesi and Papua.

Indonesia also is home of around 250 million people, making it as the world's fourth most populous country. Nearly over half of the population inhabits Java Island as the most density island among five major islands. The population consists of around 300 different ethnic groups with its own different cultures and languages. Therefore, Indonesia has official motto so called "Bhinneka Tunggal Ika" derives from *Old Javanese* language meaning "Unity in Diversity".

In terms of economy, Indonesia is a developing country which recorded a rapid economic growth since 1990s. In 2015, it constitutes as the world 16th biggest economy related to nominal Gross Domestic Product (GDP). However, it has been struggling to increase the GDP per capita which is still lower than neighboring country such as Malaysia, Singapura and Thailand.

The governmental system of Indonesia is presidential, whereby the President is both head of state and head of government. The President also leads the executive branch of the Indonesian government and is the commander-in-chief of the Indonesian National Armed Forces. The incumbent President of Indonesia is his Excellency Joko Widodo who won the presidential election in 2014 accompanied by Jusuf Kalla as his Vice President. Together, they will serve the nation until October 2019.

I. 1 Geography and Climate

Geographically, Indonesia lies between latitudes 11°S and 6°N, and longitudes 95°E and 141°E, straddling over both side of the equator. It extends 5,120 kilometers (3,181 mi) from east to west and 1,760 kilometers (1,094 mi) from north to south. Its land area reaches 1.922.570 square kilometers while oceans area reaches around 3.257.483 square kilometers, making Indonesia as the 7th largest country in the world. Its land border to the north is Malaysia (on the Borneo Island), to the east is Papua New Guinea on the (New Guinea Island) and to the south is East Timor (on the Timor Island).

Indonesia's location on the edges of the Pacific, Eurasian, and Australian tectonic plates makes it the site of numerous volcanoes and frequent earthquakes. It has at least 150 active volcanoes, making it contains the most volcanoes in the world. As a tropical country, Indonesia has a high rainfall throughout the year, reflected by vast tropical forest in all major islands.

Indonesia has a wet tropical climate affected by the east monsoonal wind and the west monsoonal wind. Rainy season usually occurs in November through May, while drought season occurs in June through October. Recently, nature anomalies so-called La-Nina and El-Nino also affects Indonesia's climate. La-Nina causes longer rainy season, while El-Nino causes longer drought season.

In terms of natural resources, Indonesia has abundant mineral resources including crude oil, tin, natural gas, nickel, timber, bauxite, coal, gold, and silver. Indonesia is also known as the major palm oil producer and exporter, providing about half the world supply. The division of the land consists of agricultural land by 10%, plantation of 7%, pastures of 7%, forests and wooded area by 62%, and another 14% with irrigated land area of 45.970 square kilometers.

I. 2 Demography

According to Statistics Indonesia, Indonesia's population reached 252.2 million in 2014, making Indonesia the fourth most populated country in the world. In fact, the number is expected to continue growing as big as 313 million in 2050. In terms of density, Indonesia had 132 person per square kilometers in 2014. Its life expectancy was 71.2 for woman, 67.1 for man and 69.1 for both sexes. In total, there are 64 million household throughout the country.

Indonesian population consists of hundreds of ethnic groups, however more than half of the population is dominated by two major ethnics, Java (41%) and Sunda (15%). Both of these groups are originated from Java Island which constitutes 60% of total population. When combined with Sumatra Island, the amount reaches 80%. This situation may indicate that the economic development is still heavily concentrated in the west part of Indonesia.

One important strength in the demographic composition of Indonesia related to the economic is a young population in Indonesia. The average age of the Indonesian population is 28.6 years (estimated in 2016). It means that half of Indonesia's population aged 28.6 years and the other half under the age of 28.6 years. Regarding gender, the average median age of Indonesian women is 29.1 years, while the median age of men is a year younger (28.1 years). This composition shows that Indonesia has an advantages in terms of workforce.

In terms of religion, the majority of Indonesia's population adheres to Islam. Approximately 87.2 percent of the total Indonesian population or 207.2 million people are Muslims. However, Indonesia is not an Islamic state (only in Aceh sharia law is applied). Even though the government running in secular democracy, the principles of Islamic plays an important role in the fields of politics, economy and society of Indonesia.

There are also approximately 16.5 million Protestants (6.9% of the total population of Indonesia), 6.9 million Catholics (2.9% of the population), and 4 million Hindus (1.7 per cent) living in Indonesia. Lastly, there is a small minority of Buddhists as well as those who embrace Confucianism, mostly ethnic Chinese community.

I. 3 Government and Political Situation

Indonesia is a democratic constitutional state marked by popular sovereignty in which manifested in parliamentary and presidential elections every five years. As in other democratic countries, the political system in Indonesia is also based on Trias Politica, namely the legislative, executive and judicial. The legislative power is held by an organization called the People's Consultative Assembly (MPR).

Since independence in 1945, Indonesia has had seven difference governances and presidents. There are at least three major eras since independence, the Old Order started in 1945, the New Order started in 1967 and the Reforms Order started in 1999. The famous presidents on each order are Soekarno, Soeharto and Abdurrahman Wahid, respectively. Since 1999 Indonesia has had a multi-party system. In the two legislative elections since the fall of the New Order regime, no political party has managed to win an overall majority of seats, resulting in coalition governments.

The executive institution centered on the president, vice president, and the cabinet. Cabinet in Indonesia is the Presidential Cabinet in which the ministers responsible to the president and does not represent a political party in the parliament. Nonetheless, the current President Joko Widodo promoted by the Indonesian Democratic Party of Struggle also pointed to a number of leaders of Political Parties to sit in the cabinet. The goal is to maintain the stability of government given the strong position of the legislature in Indonesia. However, the importance and strategic post are generally filled by the minister who is considered an expert in the field.

I.4 Administrative Divisions

Indonesia is currently consists of 34 provinces, five of which have a different status (Aceh, Yogyakarta, West Papua, Papua and Jakarta). The provinces are subdivided into 416 districts, 98 cities, 7024 sub-district level and 81.626 village-level areas. Each province has a Provincial Parliament and governor, while the district has a local parliament and governors, then the city has the City Council and mayor, all of them elected directly by the people through electoral and local elections. However there is no Parliament in Jakarta district or city, because the District Administration and State Administration in Jakarta is not autonomous region.

II. Overview of Macroeconomic Activity and Fiscal Position

According to Bank Indonesia annual report of 2015, Indonesia's economy managed to record positive growth amidst challenges faced in 2015. This is reflected from the achieved 2015 inflation target of 4%±1%, declining current account deficit, controllable Rupiah pressure in the fourth quarter of 2015, and maintained financial system stability. The achievements were the results of synergy between Bank Indonesia and the Government in maintaining macroeconomic stability and financial system as well as boosting economic growth.

In 2015, Indonesia faced challenges stemming from weakening global economic growth, widening monetary policy divergence among developed countries, and increasing uncertainty in the global financial market. Still weak global economic growth led to the continued decline in global oil prices and non-oil and gas commodity prices. However, uncertainty in the global financial market subsided from the fourth quarter of 2015, along with positive sentiment from the Fed rate hike plan and gradual normalization process.

Domestically, Indonesia still faced structural problems. Economic structure was still concentrated on commodities so declining global commodity prices negatively impacted not only the commodity sector, but spreading to non-commodity sector. Import contents in Indonesian export goods which remained high reduced the positive effect of Rupiah depreciation to improved export performance. The financial sector still faced structural issues mainly from the shallow domestic financial market. This shallow market caused relatively high dependency of corporations to external financing, making them vulnerable to changes in global conditions.

However, the economic growth achieved in 2015 is below the government's target of between 5.4% and 5.8% (Bank Indonesia, 2015). It also is far lower than the projection the IMF and ADB (April, 2015) which has established that the Indonesian economy will grow respectively by 5.2% and 5.5%. Income per capita in 2015 increased in real terms. Based on current prices, GDP per capita reached Rp

45.18 million or higher when compared to GDP per capita in 2014 which amounted to Rp 41.90 million. It indicates that there has been an increase in GDP per capita amounted to Rp 3.28 million.

Although income per capita shows an upward trend, welfare has not reach the poor marked by Gini index ratio that show no improvement since the year 2011. The increase in GDP per capita occurs because 20 percent of the top income grow much faster than the bottom of society. In other words, the increase of income per capita was only enjoyed by the top 20 percent of society. Based on Statistics Indonesia, the Gini index ratio from 2011 through 2015 are at the level of 0.41.

II.1 International Environment

Global economic recovery in 2015 was slower than expected. Global growth only reached 3.1%, lower than initial forecast of 3.5% or realized economic growth in 2014 at 3.4%. The efforts to boost growth by loosening monetary policy was not optimal because it was not fully supported by fiscal stimulus and structural reform. The difference in economic recovery triggered monetary policy divergence between developed countries. The US central bank had begun normalizing monetary policy, while European and Japan central banks continued with loose monetary policy.

Growth divergence also happened between developed countries and developing countries. Developed countries grew 1.9% in 2015, slightly higher than the previous year of 1.8%. Meanwhile, developing economies slowed to 4.0% in 2015 compared to 4.7% growth in 2014. Nevertheless, the contribution of developing economies to global growth was still dominant at 58%.

Global economic slowdown in 2015 was affected by cyclical and structural factors. Cyclical factors mainly came from China's economic slowdown, continued decline of commodity prices, and uncertainties on US monetary policy normalization. Meanwhile, structural factor mainly happened in developed economies, led by the decline in output potential due to demographic factor (aging population) and decline in investment level post-financial crisis. Declining output potential and policy response pursued by developing countries created quite significant spillover effects to developing nations, either through trade or financial channels.

The decline in China's economic performance was in line with the transformation to change its economic structure from investment-based to consumption-based. In 2015, China's economy only grew 6.8%, down from 7.4% in 2014. This impacted to the weakening global trade and declining export commodity prices, especially mining and plantation products. The declining commodity prices were exacerbated with oversupply and declining demand of global crude oil.

Table 1. Realization of Global Economic Growth

GDP (% yoy)	2014	2015*	
	Growth (%)	Growth (%)	Contribution (%)
World	3,4	3,1	100
Developed Country	1,8	1,9	42
Japan	-0,03	0,6	4
United Stated	2,4	2,4	16
Euro Zone	0,9	1,6	11
France	0,2	1,4	2
Germany	1,6	1,3	3
Italia	-0,4	1,0	2
Spain	1,4	3,5	1
Developing Country	4,6	4,0	58
China	7,3	6,9	17
India	7,3	7,5	7

*provisional Figures
Source: Bank of Indonesia, 2016

Economic slowdown followed by declining commodity prices affected global inflation. Global inflation rate in 2015 was 3.3%, down from the previous year of 3.5%. Inflation in developed economies reached 0.4%, far below the 2014 inflation rate at 1.4%. Meanwhile in developing countries, inflation rose from 5.1% to 5.6% along with their weakening currencies.

In the financial sector, global financial market in 2015 was affected by rising volatility due to high uncertainties. Increasing volatilities in the global financial market in 2015 were mainly affected by three factors: (i) sentiment on the US monetary policy normalization which impacted global financial market since the beginning of 2015; (ii) sentiment stemming from worries over the settlement of Greek crisis in the first quarter of 2015; and (iii) Yuan devaluation conducted by China's monetary authority in August 2015. Uncertainties over the US rate hike caused investors tend to withdraw their funds from the financial market of emerging countries.

Several emerging economies responded to this global phenomenon by mixing monetary, macro prudential, fiscal policies, and structural reform in parallel. China, India, and Indonesia were example of emerging countries which consistently implemented this policy mix. Healthy macroeconomic management coupled with structural reform agenda were believed could increase efficiency and economic competitiveness so that growth momentum can be sustainably maintained.

International cooperation was strengthened to anticipate global economic challenges in 2015. G20 forum emphasized on the efforts to achieve strong and inclusive growth, while the IMF pushed member countries to strengthen demand through macroeconomic policy mix and structural reform acceleration. International cooperation was also made to make financial system stability remain resilient in facing shocks. These efforts are expected to support the global economy to grow higher in 2016, forecast reaching 3.4%.

II.1.1 The Performance of Indonesia's Balance of Payments

In 2015, Indonesia's balance of payments recorded a deficit despite significant improvement that took place in the current account deficit, which came down from 3.1% of GDP in 2014 to 2.1% of

GDP. The amelioration in the current account deficit was achieved mainly in the oil and gas trade balance and the non-oil and gas trade balance. In the oil and gas sector, the fall in world oil and gas prices and shrinking domestic consumption of fuels led to a significant reduction in oil and gas imports. The steeper drop in imports of oil and gas compared to oil and gas exports resulted from the combination of falling oil and gas prices and higher export volume from increased lifting of domestic oil.

In the non-oil and gas sector, the trade balance recorded an enlarged surplus resulting mainly from contraction in non-oil and gas imports in line with weakening domestic demand and depreciation of the rupiah. This reduction in non-oil and gas imports outweighed the decline in non-oil and gas exports triggered by flagging global economic growth and commodity prices. Regarding the capital and financial account, the uncertainty on global financial markets led to significant decline in capital flows until the third quarter of 2015.

Nevertheless, the easing of uncertainties on global financial markets and improving confidence in the outlook for the domestic economy from the fourth quarter of 2015 prompted a significant rise in capital inflows, particularly for portfolio investment in government bonds and direct investment. In line with the increased surplus in the capital and financial account, Indonesia's balance of payments posted a substantial surplus in the fourth quarter of 2015. For 2015 overall, the balance of payments recorded a deficit of about USD1.1 billion.

Slowing global economic growth and declining commodity prices throughout 2015 caused Indonesian exports to weaken. As the composition of Indonesian exports was still dominated by natural resources, declining global commodity prices caused quite a steep drop in trade. This was mainly felt by commodity-based exports such as mining, with coal recording the steepest drop. Manufacturing exports also hadn't shown improvement amidst weakening Rupiah, which could not be separated from low global demand and high import contents in export products. Export weakening was especially seen in export drop to one of the major trading partners, China, almost 20% compared to the previous year, due to domination of commodity-based exports in export structure to China. However, Indonesian automotive exports showed positive performance with decent growth in the past two years.

Table 2. Balance of Payment

In US$ million

Items	2011	2012	2013	2014	2015
I. Current Account	1,685.08	-24,418.12	-29,114.92	-27,499.21	-17,760.61
A. Goods	33,825.00	8,679.52	5,833.23	6,982.57	13,281.02
- Exports, fob	191,108.71	187,346.48	182,089.23	175,292.79	148,340.62
- Imports, fob	-157,283.71	-178,666.96	-176,255.99	-168,310.22	-135,059.60
1. General Merchandise	32,215.37	6,710.91	4,068.67	5,474.03	12,551.49
- Exports	189,432.27	185,337.19	180,293.99	173,759.96	146,940.79
- Imports	-157,216.90	-178,626.28	-176,225.32	-168,285.94	-134,389.29
a. Non-Oil and Gas	32,865.50	11,949.85	13,777.23	17,303.64	19,023.88
- Exports	151,365.60	149,765.76	146,705.57	145,007.89	130,526.04
- Imports	-118,500.10	-137,815.90	-132,928.34	-127,704.25	-111,502.16
b. Oil and Gas	-650.13	-5,238.94	-9,708.56	-11,829.61	-6,472.39
- Exports	38,066.67	35,571.43	33,588.42	28,752.07	16,414.74
- Imports	-38,716.80	-40,810.38	-43,296.98	-40,581.68	-22,887.14
2. Other Goods	1,609.64	1,968.61	1,764.56	1,508.54	729.53
- Exports	1,676.44	2,009.29	1,795.23	1,532.83	1,399.84
- Imports	-66.80	-40.67	-30.67	-24.29	-670.30
B. Services	-9,803.27	-10,564.20	-12,071.65	-10,009.69	-8,493.36
- Exports	21,888.15	23,660.23	22,944.08	23,530.93	21,890.86
- Imports	-31,691.42	-34,224.43	-35,015.73	-33,540.62	-30,384.22
C. Primary Income	-26,547.17	-26,627.83	-27,054.65	-29,691.96	-28,027.76
- Receipts	2,581.12	2,649.63	2,602.36	2,129.61	2,825.97
- Payments	-29,128.28	-29,277.45	-29,657.01	-31,821.57	-30,853.73
D. Secondary Income	4,210.51	4,094.38	4,178.15	5,219.87	5,479.48
- Receipts	7,635.63	8,066.75	8,508.30	9,373.54	10,332.53
- Payments	-3,425.12	-3,972.37	-4,330.15	-4,153.67	-4,853.04
II. Capital Account	32.89	50.57	45.29	26.57	16.63
- Receipts	32.89	50.57	45.29	26.57	16.63
- Payments	-	-	-	-	-
III. Financial Account [1]	13,603.33	24,858.06	21,964.42	44,962.07	17,119.80
- Assets	-16,453.46	-17,971.27	-15,467.05	-10,785.81	-20,273.27
- Liabilities	30,056.80	42,829.33	37,431.47	55,747.88	37,393.07
1. Direct Investment	11,528.39	13,716.23	12,295.44	14,788.34	9,258.54
a. Assets	-9,036.54	-7,484.55	-11,111.69	-10,387.53	-9,427.22
b. Liabilities	20,564.94	21,200.78	23,407.13	25,175.87	18,685.76
2. Portfolio Investment	3,806.37	9,206.43	10,874.79	26,067.40	16,706.88
a. Assets	-1,189.45	-5,467.02	-1,272.76	2,586.74	-1,002.53
b. Liabilities	4,995.82	14,673.45	12,147.55	23,480.66	17,709.41
- Public Sector	826.50	9,251.20	10,257.27	15,379.83	17,368.68
- Private Sector	4,169.31	5,422.25	1,890.28	8,100.83	340.73
3. Financial Derivatives	69.35	12.99	-334.36	-155.55	19.96
4. Other Investment	-1,800.78	1,922.42	-871.45	4,261.88	-8,865.58
a. Assets	-6,754.48	-5,352.99	-3,427.38	-3,426.43	-10,510.09
b. Liabilities	4,953.69	7,275.42	2,555.93	7,688.31	1,644.52
- Public Sector	-2,258.17	2,453.31	-1,375.64	-4,208.60	-468.91
- Private Sector	7,211.87	4,822.11	3,931.58	11,896.91	2,113.42
IV. Total (I + II + III)	15,321.30	490.50	-7,105.20	17,489.43	-624.18
V. Net Error and Omissions	-3,464.68	-275.38	-219.52	-2,240.84	-473.87
VI. Overall Balance (IV+V)	11,856.61	215.12	-7,324.73	15,248.59	-1,098.05
VII. Reserves and Related Items [2]	-11,856.61	-215.12	7,324.73	-15,248.59	1,098.05
Memorandum:					
- Reserve Assets Positon	110,123.00	112,781.03	99,386.71	111,861.60	105,931.02
In Months of Imports & Official Debt Repayment	6.74	6.15	5.47	6.45	6.45
- Current Account (% GDP)	0.20	-2.78	-3.19	-3.09	-2.06

*) Provisional figures

1) Excludes reserves and related items

2) Negative represents surplus and positive represents deficit

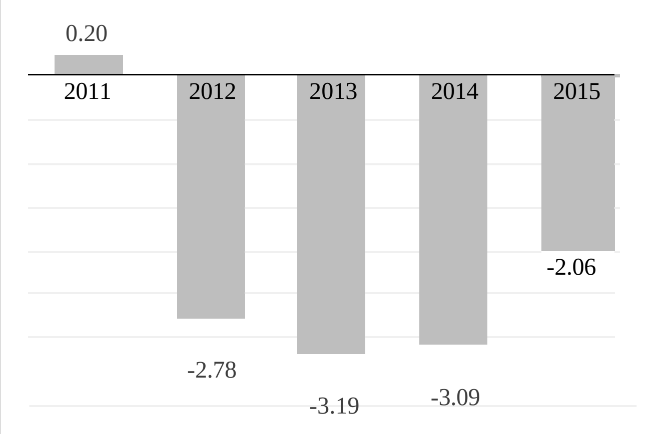
Source: Bank of Indonesia, 2016

II.1.2 Current Account

Against the inauspicious backdrop of global economic moderation, tumbling international commodity prices, and a domestic economic slowdown, the current account deficit improved in 2015. The current account recorded a deficit of USD17.8 billion in 2015, equivalent to 2.1% of GDP, down from USD27.5 billion the year earlier or 3.1% of GDP. The current account gains were supported by larger surpluses reported in the trade balance and secondary income account as well as narrower deficits in the services account and primary income account.

The trade balance posted a growing surplus in 2015 on the back of a larger non-oil and gas trade balance surplus combined with a narrower oil and gas trade balance deficit. The increase in non- oil and gas trade balance surplus in 2015 was driven by a decline in non-oil and gas imports that surpassed the corresponding export decline, affecting all goods, including consumer goods, raw materials, and capital goods. Dwindling domestic demand prompted the decline of consumer goods imports in line with less household consumption, which was accompanied by weaker sales data amidst economic moderation, thus suppressing demand for investment and working capital.

Figure 1. Current Account (% GDP)



The oil and gas trade balance deficit narrowed after oil imports decreased as a result of energy price reforms that reduced oil consumption and, therefore, the need for imports. Policy to remove energy subsidies and provide fixed fuel subsidies by the Government, which ultimately raised fuel prices, successfully depressed domestic fuel consumption. The domestic economic slowdown also reduced fuel consumption through lower demand. In addition, the significant drop in the international oil price throughout 2015 also lowered oil imports.

Further improvements on the current account were supported by narrower services account and income account deficits. The services account in 2015 was bolstered by lower payments of freight transportation services together with a growing travel services surplus. Meanwhile, the income account benefitted from a smaller primary income account deficit due to fewer direct investment dividend payments and a wider secondary income account surplus as a result of increasing remittances from Indonesian migrant workers (TKI).

II.1.3 Export

The downturn in global growth, particularly in China, led to a sustained fall in world commodity prices during 2015. Commodity exporting countries, including Indonesia, suffered from the twin impacts of diminishing volume of demand and falling commodity prices that hit export performance. In 2015, the Indonesia Export Commodity Price Index plunged 14.9%, a markedly greater loss than the index contraction in 2014 that reached 4.2%. The fall in commodity prices in response to the economic slowdown in China was exacerbated by tumbling world oil prices, which are closely linked to the prices of certain commodities.

The weakening in world oil prices represents the effect of oversupply from both OPEC members and non-OPEC countries amid shrinking demand brought about by the global economic slowdown. Contributing to the glut in the world oil supply were the policies of oil-producing countries who have maintained production levels despite falling oil prices in order to maintain their market share on the world oil market.

The non-oil and gas trade balance registered a growing surplus in 2015 as the main contributor to the narrower current account deficit and continued the prevailing upward trend since 2013. In 2015, the non-oil and gas trade balance recorded a surplus totaling USD19.8 billion, up from USD18.8 billion the year earlier. A 12.4% decline in non-oil and gas imports that exceeded the 10.0% drop in exports was instrumental in the larger surplus.

Demand for CPO exports remained resilient despite global economic moderation and lower international prices. The export price of CPO in Indonesia fell by 18.1% in 2015, which prompted a 10.7% drop in CPO exports. The lower CPO price in Indonesia was in line with sliding international CPO prices according to World Bank data, falling from an average of USD821 per metric ton (MT) in 2014 to USD623 per MT in 2015.

Table 3. Export of Non-Oil and Gas Commodities

value in US$ million

Commodities	2011						2014		2015*	
	Value	(%)	Value	(%)	Value	(%)	Value	(%)		
Agricultural Products	5,078	3.32	5,584	3.68	5,788	3.90	5,927	4.0		4
Manufacturing Products	111,461	72.83	112,171	73.91	109,321	73.62	115,438	78.78	104,808	79.44
Mining Products	34,271	22.39	31,366	20.67	30,946	20.84	22,839	15.5		9
UnclassifiedExports3)	1,676	1.10	2,009	1.32	1,795	1.21	1,533	1.0		5
Total, fob	153,042	100.00	151,775	100.00	148,501	100.00	146,541	100.0		0

*provisional figure
Source: Bank of Indonesia, 2016

Manufacturing export prices were relatively unaffected by the global economic slowdown but manufacturing exports were still plagued by structural issues. The structure of manufacturing products was still dominated natural resources, which left exports exposed to changes in commodity prices. Lower commodity prices, similar to trends throughout 2015, place pressures on manufacturing exports. Moreover, the import content of manufacturing products in Indonesia is high, thus preventing optimal exploitation of rupiah depreciation as raw materials become relatively more expensive. The manufacturing products that suffered the largest declines in 2015 include rubber products, clothing, and organic chemicals.

Meanwhile, the oil and gas trade balance recorded a deficit totaling USD6.5 billion in 2015, improving on the USD11.8 billion deficit posted in 2014. The gains were mainly supported by a narrower oil deficit stemming from a deeper oil import trade deficit narrowed 45.1% from USD23.9 billion to USD13.1 billion over the same period. The global oil price tumbled throughout 2015 due to oversupply from OPEC and non-OPEC countries, which was a salient factor of lower oil exports. Oil exports halved from USD13.8 billion in 2014 to USD7.8 billion in 2015. Nonetheless, oil export volume actually increased from 142.7 million barrels in 2014 to 155.7 million in 2015 as oil lifting surged from 788 thousand barrels per day to 791 thousand barrels per day respectively. In addition, weaker domestic demand for fuel provided the opportunity for a greater oil export growth.

Table 4. Export by Regional Origin

Value in US$ million

Region	2011		2012		2013		2014		2015*	
	Value	(%)	Value	(%)	Value	(%)	Value	(%)	Value	(%)
America	19,750	12.90	18,825	12.40	19,402	13.07	20,328	13.87	19,272	14.61
Europe	22,381	14.62	20,828	13.72	19,998	13.47	20,044	13.68	18,474	14.00
Asia and Middle East	103,157	67.40	102,731	67.69	99,945	67.30	95,974	65.49	86,416	65.50
Australia and Oceania	3,236	2.11	4,026	2.65	3,923	2.64	4,519	3.08	3,730	2.83
Africa	3,962	2.59	4,553	3.00	4,400	2.96	4,858	3.31	3,504	2.66
Unclassified destinations	556	0.36	812	0.53	833	0.56	818	0.56	530	0.40
Exports Total, fob	153,042	100.00	151,775	100.00	148,501	100.00	146,541	100.00	131,926	100.00

*) Provisional figures
Source, Bank of Indonesia, 2016

II.1.4 Import

Regarding imports, domestic economic moderation, rupiah depreciation, and energy subsidies reforms affected import performance. Rupiah depreciation triggered relatively more expensive import prices, thus reducing shipments. Furthermore, government policy to cut energy subsidies raised the price of fuel and, therefore, lowered domestic consumption and reduced the need for oil imports. Such developments led to a steeper decrease in imports than the corresponding export decline, thereby boosting the trade surplus in 2015. The import decline began to ease in the fourth quarter of 2015 as the domestic economy rebounded, which curbed the overall import decline for the year.

Non-oil and gas imports fell by 12.4% in 2015 compared to 3.9% the year earlier, affecting all commodity groups due to lower prices and volume. Fewer imports of consumer goods were the result of dwindling demand in line with less household consumption. Lower consumption was accompanied by weaker sales while player's confidence in the domestic economy were limited, thereby undermining demand for investment and working capital. Less demand for investment ultimately eroded imports, particularly of raw materials and capital goods.

Table 5. Value of Import by Broad Economy Categories

Value in US$ million

Items	2011		2012		2013		2014		2015*	
	Value	(%)	Value	(%)	Value	(%)	Value	(%)	Value	(%)
Consumption Goods	22,612	14.38	25,533	14.29	26,880	15.25	25,908	15.39	18,461	13.67
Raw Materials and Auxiliary Good	113,151	71.94	126,732	70.93	127,650	72.42	121,678	72.29	97,933	72.51
Capital Goods	30,490	19.39	36,086	20.20	30,910	17.54	29,448	17.50	24,842	18.39
Total, cif	167,048	106.21	189,138	105.86	186,186	105.63	177,813	105.65	142,362	105.41
Insurance and Freight	9,765	6.21	10,471	5.86	9,930	5.63	9,503	5.65	7,302	5.41
Total, fob	157,284	100.00	178,667	100.00	176,256	100.00	168,310	100.00	135,060	100.00

*) Provisional figures
Source, Bank of Indonesia, 2016

Imports of consumer goods contracted by 9.9% in 2015 due to volume as a result of less household consumption. Meanwhile, import prices fell in line with lower global prices. The import decline of consumer goods was attributed primarily to fresh/dried fruits (dropping 15.7% on 2014), fresh/frozen vegetables (13.6%), and processed edibles (3.0%). Further import declines were offset by medicaments (including veterinary medicaments) that surged 5.8% as well as imports of weapons and ammunition (9.7%).

Low international oil prices dragged the imported oil price down 42.1%. Consequently, oil imports fell sharply from USD37.7 billion in 2014 to USD20.9 billion in 2015. In addition to price corrections, fewer oil imports were also the result of a decline in import volume from 356.7 million barrels to 345.6 million barrels over the same period in line with less domestic fuel consumption stemming from economic moderation and government energy reforms. The energy reform policy applied by the government since the end of 2014 drove up fuel prices and reduced consumption, thereby narrowing the oil trade deficit.

II.1.5 Services Account, Primary Income Account, and Secondary Income Account

The services account performed better in 2015, recording a narrower deficit and thus supporting gains in the current account. The services account deficit reduced 15.1% on the previous year due to a smaller transportation services deficit, specifically freight, consistent with fewer imports of goods. In addition, the services account was further bolstered by travel services receipts, which enjoyed a bump as visits by international travelers increased.

In terms of services, Indonesia remains an attractive tourist destination. Tourist visitors to the archipelago increased from 9.5 million in 2014 to 9.7 million in 2015. The increase, however, was not accompanied by a commensurate rise in tourist spending while visiting Indonesia due to U.S. dollar appreciation against the rupiah. Most foreign travelers visiting Indonesia originated from Singapore, Australia, Malaysia, Japan, and China, with Bali, Jakarta, and Batam cited as the favorite destinations. Consequently, travel services receipts in 2015 increased from USD10.3 billion the year earlier to USD10.7 billion.

The primary income account also improved, with the deficit narrowing from USD29.7 billion in 2014 to USD28.0 billion. The narrower deficit stemmed from a decline in the position of Foreign Financial Liabilities (FFL) as less non-resident investment entered Indonesia. Accordingly, a lower attribution of direct investment income was recorded in line with less direct investment activity in 2015. Further gains in the primary income account were stifled by an increase in interest payments on government bonds, consistent with the larger position of public portfolio investment liabilities. Current account performance was also bolstered by a growing secondary income account surplus. In 2015, the secondary income account surplus stood at USD5.5 billion, up from USD5.2 billion the year earlier.

II.1.6 Capital and Financial Account

Global economic moderation, uncertainty in global financial markets, and the domestic economic slowdown placed pressures on capital and financial account performance. Notwithstanding, the economic rebound late in the year served to boost the capital and financial account surplus significantly in 2015. Bureaucratic reforms and efforts to improve the investment climate garnered domestic investment. The net liability of non-resident investment in Indonesia in 2015 decreased in line with the smaller capital and financial account surplus. Such conditions were reflected in the declining net liability of Indonesia's International Investment Position (IIP).

II.1.7 Direct Investment

Non-resident direct investment (on the liabilities side) recorded a net inflow of USD18.7 billion as non-residents remained upbeat concerning the domestic economic outlook. Therefore, actual foreign direct investment (FDI) recorded by the Indonesia Investment Coordinating Board (BKPM) increased 17.8% on the previous year.

Based on country of origin, most foreign direct investment (FDI) flowed from Singapore, followed by Japan. The value of investment from the two countries amounted to USD12.1 billion in 2015, representing 84.2% of total FDI. On the other hand, ASEAN member countries were remain leading investors in Indonesia with a share of 61.3% of foreign direct investment (FDI), totaling USD8.8 billion.

II.1.8 Portfolio Investment

Non-resident portfolio investment in Indonesia still recorded a surplus in 2015, totaling USD17.7 billion, for which the position gained momentum in the fourth quarter of 2015. The surplus was, however, still lower than that recorded in the previous year, standing at USD23.5 billion. Global economic developments, including the global economic slowdown and potential speculation on the proposed FFR hike along with escalating global financial risks after the People's Bank of China (PBoC) devalued the yuan, precipitated more prudent investment activity in developing countries. Nevertheless, attractive returns and the favorable perception of non-resident investors in the economic outlook of Indonesia, coupled with stronger growth in the fourth quarter of 2015, boosted global investor interest in Indonesia towards the end of year. On the assets side, resident portfolio investments abroad recorded a deficit of USD1.0 billion, consistent with the net buy of foreign portfolio instruments by residents.

II.1.9 Other Investment

Other investment transactions experienced pressures in the first semester of 2015, when a significant deficit was recorded. In 2015, other investments posted a deficit of USD8.9 billion, contrasting the USD4.3 billion surplus registered in the previous year. The deficit primarily stemmed from a deficit of other Indonesian investments abroad (assets side), which expanded considerably from USD3.4 billion in 2014 to USD10.5 billion.

Furthermore, the deficit was also contributed by a decline in the other investments surplus of non-residents in Indonesia (liabilities side) from USD7.7 billion to USD1.6 billion. Nonetheless, the other investments surplus began to recover in the third quarter and subsequently gained momentum in the fourth quarter on the assets and liabilities sides. Against this background, a deeper deficit of other investment transactions was avoided and the net liability of other investments in Indonesia's International Investment Position (IIP) fell from USD111.3 billion in 2014 to USD102.7 billion in 2015.

II.1.10 External Debt

Based on the original maturity profile, the external debt in Indonesia increased during 2015 due to long-term external debt in both the private and public sectors. Conversely, the position of short-term external debt declined in the private and public sectors as the domestic economy cooled. The structure of external debt was sound, with long-term debt dominating short-term debt in both the private and public sectors. In general, the external debt increased from USD293.8 billion in 2014 to USD310.7 billion. Congruous with the increase of external debt accompanied by slower GDP growth, the ratio of external debt to GDP was observed to rise from 33.0% to 36.1% over the same period but remained relatively sound and comparable to other peer group countries. In addition, Indonesia's external debt growth slowed from 10.4% in 2014 to just 5.8% in 2015 due to the domestic economic slowdown.

The private sector continued to dominate external debt in 2015 with a share of 54.0% of the total, the majority of which was long-term (72.5% of total private external debt). The private external debt at the end of 2015 was USD167.7 billion, up from USD164.0 billion the year earlier due to an increase in long-term debt. Growth of private external debt slowed significantly, however, from 15.1% in 2014 to 2.2% due to fewer loan agreements and debt securities as the need for funding eased in line with economic moderation.

Conversely, the growth of public external debt, accounting for 46.0% of the total, accelerated from 5.0% in 2014 to 10.2% due to an increase in long-term debt (93.4% of total public external debt) as the Government sought to accelerate economic development.

II.1.11 External Sustainability

In general, external sustainability indicators were sound in 2015. Sources of long-term financing to manage the current account deficit improved in line with the capital and financial account surplus as well as a smaller current account deficit. Consequently, the basic balance, which deteriorated in the second quarter of 2015, rebounded in the final two periods of the year.

Table 6. External Solvency Indicators

	Indicator	2010	2011	2012	2013	2014*	2015*
Solvency ratio							
1	Indonesia's Net IIP / GDP	38.2	35.3	36.4	35.9	44.3	44.2
2	External Debt / GDP	26.5	25.0	27.4	29.1	33.0	36.1
3	External Debt / Goods and Services Exports	121.5	105.8	119.6	129.8	147.8	182.5
4	Net External Debt / Current Account Receipts	35.5	31.2	36.8	49.6	57.2	71.7
5	Net Direct Investment Liabilites / GDP	22.7	22.1	21.5	21.9	26.9	27.5
6	Non-debt creatng inflow / GDP	34.4	32.0	32.5	30.4	38.4	37.3

* preliminary figure
Source, Bank of Indonesia, 2016

In terms of solvency, a smaller portion of net liabilities in Indonesia's International Investment Position (IIP) to GDP evidenced gains. Regarding liquidity, external pressures on Indonesia's economy remained at normal levels. At the end of 2015, the amount of official reserve assets stood at USD105.9 billion, falling from USD111.9 billion the year earlier. Nonetheless, recent trends in the fourth quarter of 2015 indicated incremental growth in the position of foreign exchange reserves in line with accelerating domestic economic growth.

Table 7. External Liquidity Indicators

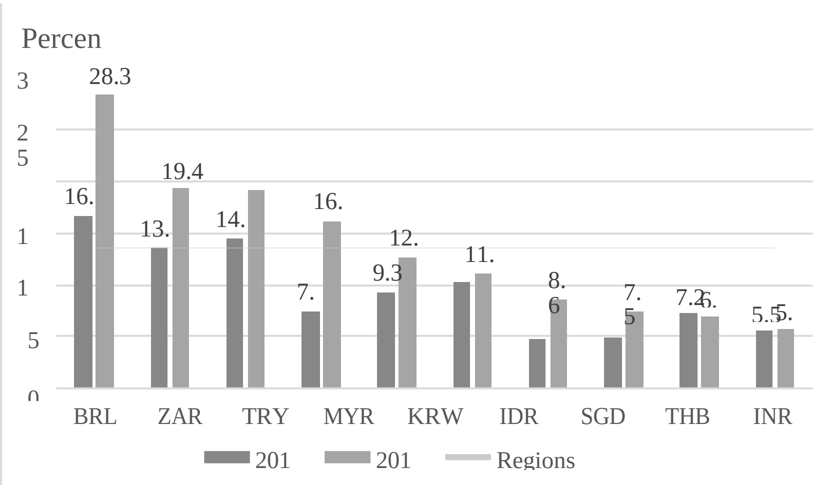
	Indicator Liquidity Rato	2010	2011	2012	2013	2014*	2015**
1	Foreign Exchange Reserves Imports of Goods and Services	66.2	58.3	53.0	47.0	55.4	64.0
2	Foreign Exchange Reserves Broad Money (M2)	35.4	33.3	31.9	27.8	31.8	31.2
3	Foreign Exchange Reserves Short-Term Foreign Debt (remaining maturity)	224.2	235.5	206.4	176.6	188.8	190.7

*preliminary figure
** very preliminary figure
Source, Bank of Indonesia, 2016

II.1.12 Exchange Rate

In 2015, the rupiah was subjected to intense depreciatory pressures stemming primarily from external pressures. The main external sources of exchange rate pressures were linked to the U.S. monetary policy normalization, the debt crisis in Greece, yuan devaluation, and the global monetary policy divergence. Meanwhile on the domestic front, pressures originated from the domestic economic slowdown. Depreciatory pressures on the rupiah were prevalent from the first until third quarter of the year, peaking in September 2015. The rupiah subsequently entered a more stable period after Bank Indonesia, the Government, and the Financial Services Authority (OJK) announced a series of stabilization policies and uncertainty eased on global financial markets in relation to the timing of the Federal Funds Rate (FFR) hike.

Figure 2. Volatility and Peers



Source: Bank of Indonesia, 2016

Rupiah stability encountered a variety of escalating risks throughout 2015, mostly external. Uncertainty surrounding the timing of FFR hike as a part of U.S. monetary policy normalization, the Greek debt crisis, unexpected yuan devaluation, and global monetary policy divergence were cited as the primary external factors affecting the rupiah movement. The ubiquitous uncertainty exacerbated volatility on global financial markets and affected negatively on non-resident capital inflows to financial assets in emerging economies, including Indonesia. Against a backdrop of widespread global uncertainties, rupiah exchange rates were further pressured by domestic economic moderation that had spilled over in part from the global economy. In addition, dwindling Indonesia's exports performance undermined the supply of foreign exchange, thus further compounding rupiah performance.

II.2 Domestic Environment

II.2.1 Growth

The Indonesian economy posted 4.8% (yoy) growth in 2015, down from 5.0% (yoy) the year earlier and below the Bank Indonesia projection of 5.4-5.8%. External sector performance decreased significantly, reflecting the deep export contraction. Due to the heavy reliance on natural resources exports, rupiah depreciation did not improve export performance in general.

Meanwhile, manufacturing exports confronted a range of challenges stemming from sluggish demand for exports and a large import content amidst exchange rate depreciation. A decline in export earnings also affected domestic demand, particularly private consumption and non-building investment. In line with the export contraction and drop in domestic demand, imports also experienced a sufficiently deep contraction. By sector, economic moderation that initially affected the primary sector ultimately spread to other sectors.

Global economic moderation and the declining of global commodity prices in 2015, weakened export performance in Indonesia. Exports from Indonesia were dominated by natural resources and as a consequence, falling global commodity prices significantly undermined the terms of trade (ToT). Lower global commodity prices also led to export contraction, particularly for mining commodities, most notably affecting coal. Nonetheless, policy to extend export licenses for mineral concentrates (particularly copper) after smelter development had proceeded, successfully offset a deeper export contraction. Meanwhile, manufacturing exports failed to recover despite rupiah depreciation due to weak global demand and the large import content of exports. The export decline was evidenced by the steep decline in exports to a leading trade partner, namely China, falling 20% on the year earlier. The drop stemmed primarily from commodity-based exports that dominate the export structure to China. Nevertheless, automotive exports from Indonesia performed positively, with robust growth reported over the past two years.

Table 8. GDP Growth by Expenditure

Percent, yoy

	2012	2013	2014	2015*
Household Consumption	5.49	5.43	5.16	4.96
Non - Profit Institution Serving Household (NPISH) Consumption	6.68	8.18	12.19	-0.63
Government Expenditure	4.53	6.75	1.16	5.38
Gross Fixed Capital Formation	9.13	5.01	4.57	5.07
Building	8.13	6.74	5.52	6.23
Non Building	11.73	0.63	2.03	1.87
Export	1.61	4.17	1.00	-1.97
Import	8.00	1.86	2.19	-5.84
GDP	6.03	5.56	5.02	4.79

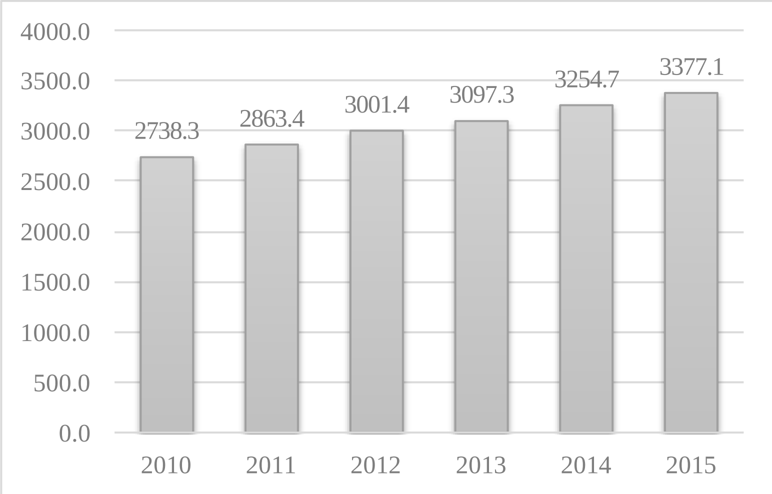
*preliminary

Source: BPS - Statistics Indonesia

In line with lower revenues triggered by the export decline, households were also less inclined to consume. The downward consumption trend affected secondary and tertiary goods (non-food consumption) despite rebounding slightly towards the end of the year. In general, household consumption remained solid, surpassing conditions immediately after the global financial crisis, when growth of just 4% was reported at the end of 2009.

A number of macro indicators supported resilient consumption, including per capita income that followed an upward trend. Per capita income increased from Rp41.8 million in 2014 to Rp45.2 million (USD3.377) in 2015. In addition, public purchasing power was maintained on the back of a hike in the real Provincial Minimum Wage (UMP). Over the past five years, the average increase in the provincial minimum wage has exceeded 7%, further jumping to 8.9% in 2015. The increase in the provincial minimum wage has become a reference for wage hikes in various sectors, particularly formal labor.

Figure 3. Income per capita (constant 2010 US$)



Source: World Bank

II.2.2 Corporate and Household Performance

Corporate performance deteriorated as a result of economic moderation. Weak external and domestic demand reduced production, reflecting declines in the production index and production capacity utilization in 2015. Less production drained corporate revenues as reported in the financial statements, particularly of commodity-based corporations. This condition was further compounded by sliding global commodity prices. Consequently, as the performance of the commodity sector declined, the commodity-driven domestic economy weakened public purchasing power. Furthermore, the revenues of other sectors also suffered, with some firms operating in the manufacturing industry reporting income contractions. Nevertheless, corporate revenues, particularly in the construction sector, began to rebound in the final quarter of the year.

The production slump also led to a decline in household income, which indicated by the decrease in the index of consumer income. Lower consumer income triggered a shift in household behavior in terms of consumption and saving. Survey results revealed that the buying of durable goods index declined, confirming less non-food consumption. Furthermore, significant declines in household consumption were seen to affect clothing, housing and household equipment, contrasting robust consumption of basic necessities.

II.2.3 Employment and Welfare

Domestic economic moderation undermined employment conditions. Therefore, the unemployment rate increased in August 2015 to 6.2% from 5.9% the year earlier, with unemployment up from 7.5 million persons in 2014 to 7.6 million in 2015. The rise in unemployment stemmed from low additional labor absorption in line with the domestic economic slowdown. With growth of just under 5%, the domestic economy only absorbed an additional 200 thousand workers in 2015 (August 2014 – August 2015).

Table 9. Labor Force and Unemployment

No.	Main Actvites	2013		2014		2015	
		Feb	Aug	Feb	Aug	Feb	Aug
1	Productive Age (above 15 years)	178.1	180.0	181.2	183.0	184.6	186.1
	- Labor Force Participation (%)	69.2	66.8	69.2	66.6	69.5	65.8
2	Labor Force	123.2	120.2	125.3	121.9	128.3	122.4
	- Full Time Worker (%)	64.6	62.4	64.8	64.7	66.4	65.8
	- Part Time Worker (%)	18.4	22.3	21.1	21.4	20.0	20.1
	- Partal Unemployment (%)	11.1	9.2	8.4	7.9	7.8	8.0
	- Open Unemployment (%)	5.9	6.2	5.7	5.9	5.8	6.2

Source: BPS - Statistics Indonesia

Indicators of employment growth also demonstrated a low level of labor absorption in 2015. Job openings (vacancies) followed a downward trend in 2015. Slowing employment growth was in line with sluggish economic growth and also a decline in the elasticity of labor absorption in regard to economic growth. From 2010- 500,000 workers, halving thereafter to just 250,000 in 2013-2015.

Hence, the fiscal stimuli introduced in 2015 had a positive impact on employment. By sector, most additional workers were absorbed into the construction sector as public investment picked up in the third quarter of 2015, in line with the implementation of government infrastructure projects. In line with the increase in unemployment, public welfare also deteriorated, reflecting a bump in the percentage of the poor population on the previous year.

II.2.4 Inflation

The consistent monetary policy to safeguard macroeconomic stability, accompanied with policy coordination between Bank Indonesia and the Government, succeeded in curbing inflation in 2015. The Consumer Price Index (CPI) inflation at 3.35% (yoy) in 2015 was within the inflation target range (4%±1%, yoy) and represented the lowest level of inflation in the past five years. The curbing of inflation in 2015 is observed in the monthly inflation dynamics during the second half of the year, consistent with the historical trend but at a much lower level.

Table 10. Indonesia's Consumer Price Index

Period	Food Stuff	Food, Beverage, Cigarette	House, Water, Electricity, Gas, Fuel	Clothing	Medical Care	Education, Recreation and Sports	Transport. Comm. And Finan. Serv	CPI	CPI Inflation
2006	142.92	139.93	148.34	129.50	127.03	147.70	167.06	145.89	6.60
2007	159.01	148.90	155.58	140.41	132.51	160.74	169.15	155.50	6.59
2008	122.70	114.98	113.02	112.27	109.13	109.84	107.26	113.86	11.06
2009	127.46	123.96	115.09	119.01	113.38	114.11	103.32	117.03	0.33
2010	147.39	132.59	119.79	126.76	115.86	117.86	106.10	125.17	0.92
2011	148.62	135.84	122.24	131.36	119.03	120.85	107.34	127.45	3.79
2012	157.32	143.41	126.35	139.21	122.81	126.22	109.41	132.90	4.30
2013	176.13	152.50	132.44	141.07	126.88	131.45	118.95	142.18	8.38
2014	119.45	113.86	111.03	105.14	108.18	107.86	116.34	113.22	8.36
2015	128.01	123.08	118.05	108.92	114.42	112.42	123.74	120.42	3.35

Source: BPS-Statistics Indonesia

Despite the low inflation in 2015, measures for controlling inflation face considerable challenges in the future. The challenge in controlling core inflation lies mainly in managing inflation expectations to be more in line with the Government-set inflation target and safeguarding exchange rate stability.

The lower level of core inflation was in line with the moderate level of cost push pressure. Cost push pressure driven by increases in fuel prices and VF prices fluctuations was quite limited. Low world oil prices kept upward pressure on administered prices inflation to a minimum. Government policy for curbing fluctuations in transportation fares also helped control second-round effects during the fuel price hikes. Ongoing correction in global food commodity prices and plentiful domestic supply also resulted in a decline in core food inflation.

II. 3 Fiscal Position

In 2015, the deficit of the Revised State Budget (APBN-P) was successfully secured at the level of 2.5% of the gross domestic product (GDP) amid domestic economic slowdown and falling commodity prices. The increase in the deficit was attributable to the lower domestic revenues than the target amid government attempts to boost fiscal stimulus. Even though the fiscal stimulus failed to deliver in the first half of 2015, government spending picked up rapidly in the other half. The increase in government expenditure, especially capital expenditure, in the second half of the year was instrumental in building up a momentum for domestic economic growth.

Amid pressures on the economy, the Government was still able to prop it up by keeping the deficit below 3% of GDP. The continuing decline in commodity prices that began in 2011 had elevated taxes to an increasingly significant position in state revenue. Due to economic slowdown and tax compliance issues, the tax revenue target that was put on a higher growth path under the Revised State Budget (APBN-P) could not be reached. Recognizing the importance of government spending as part of counter-cyclical measures in the economy, the Government opted for the consequences of the widening of deficit to 2.5% from 1.9% of GDP in the Revised State Budget (APBN-P). With sub-national fiscal realization estimated to remain in surplus at 0.2% of GDP, the overall deficit became lower than 2.5% of GDP. Such deficit was well below the maximum limit of 3% of GDP stipulated under the Law on State Finances.

Realization of macro assumptions that was quite different from that of the assumptions under the 2015 Revised State Budget (APBN-P) was the main reason for the failure to reach government revenue target.

Table 11. Macroeconomic Assumption

Macroeconomic Assumption	2014			2015		
	State Budget	Revised Budget	Realization	State Budget	Revised Budget	Realization*
Economic growth yoy (%)	6.0	5.5	5.0	5.8	5.7	4.8
Inflation yoy (%)	5.5	5.3	8.4	4.4	5.0	3.4
Exchange rate (Rp to USD)	10,500	11,600	11,870	11,900	12,500	13,392
Average of 3-month SPN (Government Treasury Bills) interest rate (%)	5.5	6.0	5.8	6.0	6.2	5.97
Indonesia Crude Oil Price-ICP (U.S. dollar/barrel)	105	105	97	105	60	49.2
Indonesia Oil Lifting (thousand barrels per day)	870	818	794	900	825	777.6
Indonesia Gas Lifting (thousand barrels oil equivalence per day)	1,240	1,224	1,221	1,248	1,221	1,195

Source: LKPP 2014 and *Press Release of Ministry of Finance on January 22, 2016

Meanwhile, tax revenue in 2015 was still capable of chalking up a positive growth of 8.2%, higher than that in 2014, which stood at 6.5%. In spite of this, however, with a higher tax revenue target set under the 2015 Revised State Budget, taxes could only reach 83.3% of the target (a tax shortfall of around IDR 250 billion), lower than that achieved in 2014, which accounted for 92.0% of the target.

Realized deficit that was higher than targeted under the 2015 Revised State Budget had led to a significant increase in financing needs, especially in the second half of 2015. Widening to IDR 292.1 trillion, the deficit was financed with the issuance of additional Government Securities (SBN) amounting to IDR416 trillion, program-based loans and standby loans that impacted on the increase in debt service ratio to around 26% of GDP.

Table 12. State Budget Realization 2014-2015

Items	Revised	Budget Realization 2014				Revised	Budget Realization 2015*			
	Rp Trillion	Rp Trillion	%GDP **	% yoy	% Revised Budget	Rp Trillion	Rp Trillion	%GDP **	% yoy	% Revised Budget
A. Total Revenue	1,635.40	1,550.50	14.7	7.8	94.8	1,761.70	1,504.50	13.0	-3.0	85.4
I. Domestic Revenue	1,633.10	1,545.50	14.7	7.9	94.6	1,758.40	1,494.10	12.9	-3.3	85.0
1. Tax Revenue	1,246.10	1,146.90	10.9	6.5	92.0	1,489.30	1,240.40	10.7	8.2	83.3
- Domestic Taxes	1,189.80	1,103.20	10.5	7.1	92.7	1,440.0	1,206	10.4	9.3	83.7
- International Trade Taxes	56.3	43.6	0.4	-8.0	77.6	49.3	35	0.3	-20.0	70.8
2. Nontax Revenue	386.9	398.6	3.8	12.4	103.0	269.1	253.7	2.2	-36.4	94.3
II. Grants	2.3	5.0	0.0	-26.3	216.5	3.3	10.4	0.1	105.6	313.6
B. Total Expenditure	1,876.80	1,777.20	16.9	7.7	94.7	1,984.10	1,796.60	15.6	1.1	90.5
I. Central Government Expenditures	1,280.30	1,203.60	11.4	5.8	94.0	1,319.50	1,173.60	10.2	-2.5	88.9
1. Ministries /Institutions Expenditure	678.1	626.4	5.9	13.1	2.4	795.5	724.7	6.3	15.7	91.1
2. Non-ministries/ Institutions Expenditure	602.2	577.2	5.5	-1.1	95.8	524.1	448.9	3.9	-22.2	85.7
II. Transfer to Regions and Village Fund	596.5	573.7	5.4	11.8	96.2	664.6	623.0	5.4	8.6	93.7
1. Transfer to Regions	596.5	573.7	5.4	11.8	96.2	664.6	623.0	5.4	8.6	93.7
2. Village Fund	-	0.0	-	-	-	20.8	20.8	0.2	-	100.0
C. Primary Balance	(106.00)	-93.3	-0.9	-5.3	88.0	(66.70)	-136	-1.2	45.9	204.0
D. Surplus/Deficit	(241.50)	-226.7	-2.2	7.2	93.9	(222.50)	-292	-2.5	28.9	131.3
E. Financing (Net)	241.5	248.9	2.4	5.1	103.1	267.0	329	2.9	32.3	123.4
I. Domestic Financing	254.9	261.2	2.5	7.6	102.5	287.0	307	2.7	17.7	107.1
II. Foreign Financing	(13.40)	-12.3	-0.1	112.4	92.0	(20.00)	10	0.1	10.1	-52.0

Source: Ministry of Finance
*Based on realization update per January 22, 2016

**Based on GDP nominal base year 2010

II.3.1 State Revenue

Global economic slowdown, decreased lifting costs and commodity price correction that increases in tax revenue could not offset were the reason for the failure to reach Government revenue target. State revenue only accounted for 85.4% of the target set under the Revised State Budget (APBN- P), which was quite low compared with the one achieved in 2014 that amounted to 94.8% and got contracted by 3.0% compared to the corresponding period last year. This development was mainly due to declining commodity prices and global economic condition that remained weak and thus impacted on Non-Tax State Revenue (PNPB) that went down significantly. The decrease was primarily due to revenues from natural resources that recorded a negative growth of 57.5%.

The decline in Non-Tax State Revenue (PNPB) could not be offset by increased tax revenues. The tax revenue growth of 8.2% in 2015 was in line with realized economic growth of 4.79% and inflation of 3.35%. Of the high tax revenue target of IDR1.489 trillion, however, only 83.3% was realized, lower than last year's that accounted for 92% of the target set under the Revised State Budget (APBN-P). With this target, government tax ratio was targeted to increase by 2% of GDP from 10.9% in 2014 to 12.9% in 2015. Some analysts believed that this tax revenue target was way too high given the ongoing economic slowdown.

The Government had rolled out a series of policies in order to anticipate the downward trend in the tax to GDP ratio, in line with the inauguration of the year 2015 as the Tax Education Year. The policies included, among other things, a tax penalty relief policy introduced through the issuance of Finance Minister Regulation No. 91/PMK.03/2015 on the Reduction or Elimination of Administrative Sanctions due to Late Filing of Tax Returns, Tax Return Corrections, and Late Payment or Deposit of Taxes. The regulation was a legal means to provide incentives for the elimination of administrative sanctions if taxpayers made corrections to their tax returns (SPT).

Table 13. State Revenue 2010-2016

in billion IDR

Description	2010 Real.	2011 Real.	2012 Real.	2013 Real.	2014 Real.	2015 APBNP	2016 RAPBN
I. Domestic Revenue	992.248	1205.345	1332.322	1432.058	1545.456	1758.33	1846.075
1. Tax Revenue	723.306	873.873	980.518	1077.306	1146.865	1489.255	1565.784
a. Domestic Tax	694.392	819.752	930.861	1029.85	1103.217	1439.998	1524.012
1) Income Tax	357.045	431.121	465.069	506.442	546.18	679.37	763.47
a) Oil and Gas	58.872	73.095	83.46	88.747	87.445	49.534	48.461
b) Non-Oil and Gas	298.172	358.026	381.608	417.695	458.735	629.835	715.008
2) Value Added Tax	230.604	277.8	337.584	384.713	409.181	576.469	573.69
3) Building and Land Tax	28.58	29.893	28.968	25.304	23.476	26.689	19.433
4) Duties on Land and Building Transfer	8.026	-	-	-	-	-	-
5) Excise	66.165	77.01	95.027	108.452	118.085	145.739	155.519
6) Other Taxes	3.968	3.928	4.21	4.937	6.293	11.729	11.898
b. International Trade Tax	28.914	54.121	49.656	47.456	43.648	49.256	41.771
1) Import Duties	20.016	25.265	28.418	31.621	32.319	37.203	38.902
2) Export Duties	8.897	28.855	21.237	15.835	11.329	12.053	2.869
2. Non-Tax Revenue	268.941	331.471	351.804	354.751	398.59	269.075	280.291
a. Natural ResourcesRevenue	168.825	213.823	225.844	226.406	240.848	118.919	130.951
1) Oil and Gas	152.733	193.49	205.823	203.629	216.876	81.364	84.822
2) Non-Oil and Gas	16.092	20.332	20.02	22.776	23.972	37.554	46.128
b. Dividend from Stated Owned Enterprise	30.096	28.184	30.798	34.025	40.314	36.956	31.164
c. Other Non-Tax Revenue	59.428	69.36	73.458	69.671	87.746	90.109	82.816
d. BLU Revenue	10.59	20.104	21.704	24.648	29.681	23.09	35.359
3.Grant	3.023	5.253	5.786	6.832	5.034	3.311	2.031
Total	995.271	1210.599	1338.109	1438.891	1550.49	1761.642	1848.107

Source: Ministry of Finance

In addition, the Government had also adopted some law enforcement measures including, among others, *gijzeling* (incarceration) or corporal punishment forcibly imposed on taxpayers for failure to pay off their tax liability. The government had also issued the so-called reinventing policy including the provision of incentives for companies registering for revaluation of assets in 2015. This policy had been able to generate a tax revenue of IDR20.1 trillion. With these various policies, the Non-Oil and Gas Income Tax (PPh) posted a better performance compared to other types of state revenue. In terms of its composition, the non-oil and gas income tax revenue provided the greatest contribution to the domestic tax revenue. The portion of non-oil and gas income taxes accounted for 45.8% of all domestic tax revenues, followed by revenue gains from Value Added Taxes (VAT) and taxes on the sale of luxury goods (PPnBM) that amounted to 35.1%.

II.3.2 State Expenditure

Achievement of state spending in 2015 was lower than the achievements of 2014 and 2013. It reached 90.5% of the ceiling of the Revised State Budget with Central Government spending being realized at 88.9% of the target set under the Revised State Budget. This was mainly due to budget absorption being hampered by nomenclature issues throughout the first semester of 2015. Although the 2015 Revised State Budget was approved in February 2015, issues arising from changes in the nomenclature for ministries/government agencies (K/L) and preparations for the Islamic Idul Fitri holidays had made absorption become truly effective only after entering the second half of 2015.

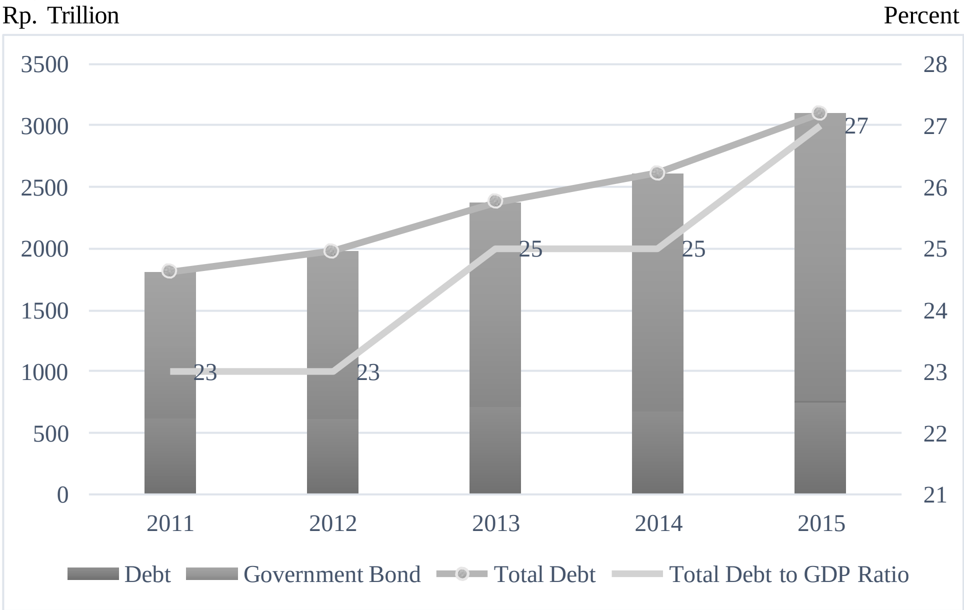
Overall, K/L spending absorption reached 91.1% while non K/L spending absorption reached 85.7%. K/L spending realization grew by 15.6%, compared to the 2014 growth of 13.1%. Meanwhile, the contraction of non K/L spending reached 19.8%, more than the 2014 contraction of 1.1%. Shifting in K/L and non K/L spending items reflected the continuation of reallocation of spending, visible from government policies to reallocate spending from energy subsidies to more productive types of spending, such as capital expenditures.

II.3.3 Financing

Substantial tax shortfall had affected on increasing financing. Such additional deficit was subsequently addressed by expanding the issuance of state securities and loans. The press release issued by the Ministry of Finance on January 22, 2016 said that the actual deficit on December 31, 2015 reached IDR292.1 trillion or 2.5% of GDP.

With such development, fiscal financing realization in 2015 reached IDR318.1 trillion, increasing by 34% (yoy) and exceeding the 43.0% target. Domestic financing went up by 23.4%, exceeding the 22.9% target while net foreign financing reached IDR20.0 trillion instead of the negative turnout of the same amount initially predicted. The exceeding of such financing generated a Budget Financing Surplus (SiLPA) of IDR26.1 trillion.

Figure 4. Government Debt to GDP Ratio



Source: Ministry of Finance

In order to meet its financing needs, the Government re-implemented the front loading strategy. Overall, the net issuance of Government Securities (SBN) throughout 2015 reached IDR361.6 trillion.

The portion of Central Government debts derived from state securities increased from 74.2% in 2014 to 75.7% in 2015, with the portion of rupiah-denominated SBN slightly down compared to 2014, that is, to 56% from 57%. The portion of SBN denominated in foreign currencies increased in line with the Government's diversification efforts including the issuance of Samurai Bonds. Yields on state securities rose for different loan tenures compared to 2014.

Realization of financing had impacted on the increase in government debt ratios, though still being far from the maximum limit of 60% of GDP. The ratio of Central Government debts to GDP as of December 31, 2015 stood at 26.8% of GDP, which was a slight increase compared to the 2014 ratio of 24.7% (Figure 4). The ratio was still below the maximum limit of debt ratio set under Law No.17 of 2003 on State Finances of 60% of GDP, and was better than those of other countries.

III. Tax Structure: Institution and Reality

III.1 Historical Background

Pre Independence Day

Indonesia has a long history of colonization by the European. It was during the era of Dutch and Britain Colonials rules that land tax and income tax were introduced. Since 1600s, the Dutch Government through the VOC (*Vereenigde Oost-Indische Compagnie*), its delegating authority, issued policies to increase the colony revenue through some taxes such as agricultural products tax. During the period of 1811-1816, British rule with Thomas Stamford Raffles as a governor was changing the patterns of land tax applied by the Dutch into a new *landrent* (land tax). In 1836 when the Dutch ruled again, Governor Van Den Bosch started enforcing the *cultuurstelsel* (forced cultivation system), which aimed to produce various commodities that had strong demand in world markets. Under the *cultuurstelsel*, villagers should sell those commodities to the Dutch Government in fixed price and then the earnings from those sales canbe used to pay the land tax and farms tax. When the exports fell during the worldwide economic depression in the 1930s, the Dutch revenues depend largely from taxes upon income and expenditure.

After Independence Day

During the occupation of the Netherlands, the tax system emphasizes its function for the sake of development in the Netherlands. The amount of tax payable is entirely determined by the tax authorities. After Indonesia's independence, the changes were not so fundamentally and tax laws application were still in the hands of the tax administration authority. In 1967, a new system of tax collection called MPS (Menghitung Pajak Sendiri) or calculating your own taxes was introduced in 1967. Under this system taxpayers can calculate their own tax liabilities and at the end of the year the amount of tax payable reassessed by the tax authorities. This system is the pioneer of self-assessment system in Indonesia.

Tax Reform

Fundamental and comprehensive changes in Indonesia tax administration took place in 1984 with the first tax reform. Since then, gradually the laws routinely amended to accommodate the country's rapidly changing business environment, as well as to support the government's objectives of improving the investment climate while increasing tax revenues.

The first tax reform came into force on January 1, 1984 with the implementation of three primary laws: General Tax Provisions and Procedures (*Ketentuan Umum dan Tata Cara Perpajakan, KUP*) Law, the Income Tax Law, and the Value-Added Tax (VAT) and Luxury Sales Tax (LST) Law. The principle amendment under these laws was the change of official assessment into self-assessment system. The reform continued in 1985 with the enactment of land and Building Tax Law and The Stamp Duty Law. This era was the beginning of voluntary compliance of taxpayer.

The year 1994 was the commencement of the second tax reform. Some regulations were amended, they are: General Tax Provisions and Procedures Law, VAT and LST Law, Income Tax Law and Land and Building tax law. The second reform came into effect on January 1, 1995, with changes, additions and deletions of several articles from previous legislation.

Under the third tax reform, three new tax laws were introduced in 1997. The first one is Tax Dispute Settlement Agency Law. This Law became a basis to the birth of the new agency and at the same time replaced the legacy from Dutch Law. The provisions concerning appeal in Indonesia law were previously set in *Regeling van het Beroep in Belastingzaken* which last amended in 1959. The two other tax laws that enacted in the third tax reform were Tax Collection through Distress Warrants Law and The Law of Acquisition Duty of Right on Land and Buildings.

Almost all the tax laws were amended in the fourth tax reform which came into effect in 2001. Beside the second amendment of Indonesia primary tax laws (General Tax Provisions and Procedures Law, VAT and LST Law, and Income Tax Law), the new Tax Court Law was also enacted to replace The Tax Dispute Settlement Agency Law. Based on Tax Court Law, the administrative appeal body (that accepts taxpayer's request to review tax assessment made by the tax authority) is not a part of the tax authority institution. Tax Court is under The Tax Court Secretary, Ministry of Finance. The Trial is conducted in Jakarta, and currently there are two courts placed outside Jakarta, they are in the city of Yogyakarta and Surabaya.

III.2 Tax Structure

Tax Administration

Based on the imposing and collecting authority, taxes in Indonesia levied by central and local government.

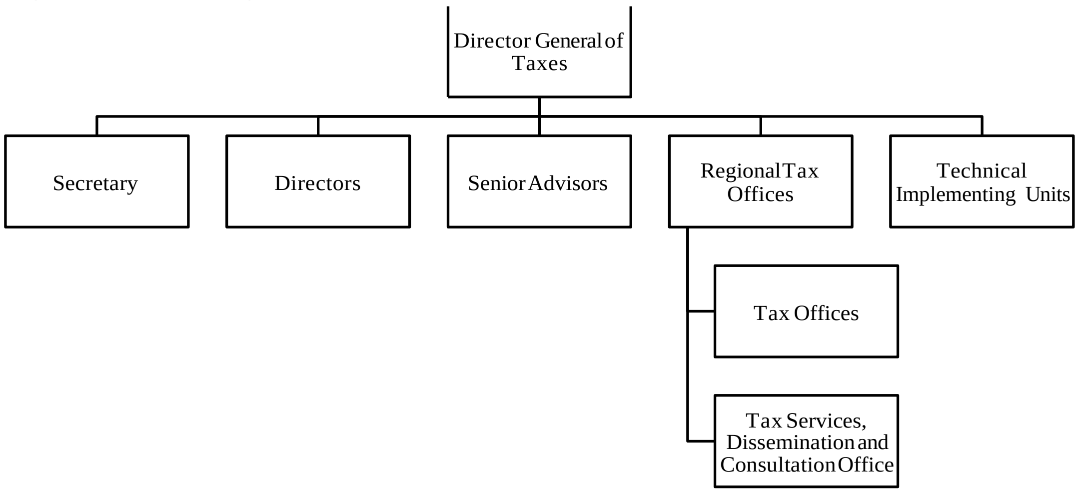
1. Central Government in this regard managed by Directorate General of Tax (DGT) levies the central taxes which include Income Tax, VAT, LST, Stamp Duty, also Land and Building Tax regarding Plantation, Forestry and Mining.
2. Taxes levied by Local Government consist of provincial Taxes and Regency/Municipal Taxes. The province government manages 5 types of taxes, Vehicle Tax, Transfer of Motor Vehicle Title Fee, Fuel Tax, Surface Water Tax and Cigarette Tax. Local Tax administrated by Regency/Municipal Government comprises Hotel Tax, Restaurant Tax, Entertainment Tax, Advertising Tax, Street Lighting Tax, Tax on Non-Metallic Mineral and Rocks, Parking Tax, Groundwater tax, Swallow's Nest Tax, Land and Building Tax in Rural and Urban Regions and Tax on Acquisition of Land and Buildings.

Since 1 January 2014, rural and urban land tax managed by local government. Transfer of administration and collection of this tax to local government was in conjunction with Land Tax on Plantation, Forestry and Mining remains managed by the central Government.

Profile of Directorate General of Taxes

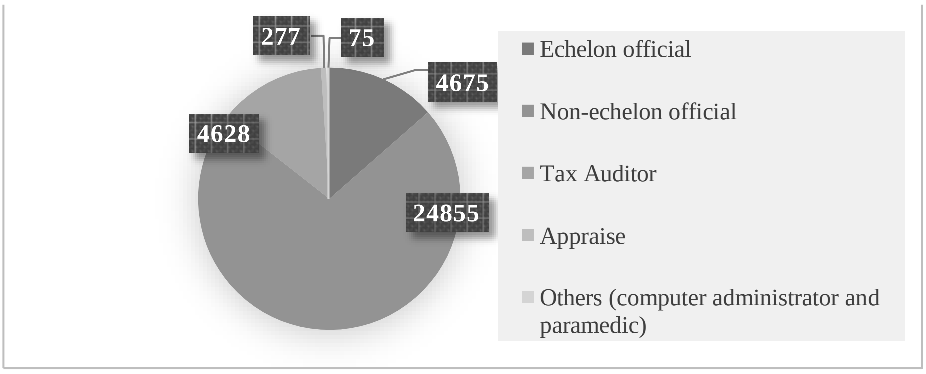
Directorate General of Taxes (DGT) is Indonesia's tax collection agency that responsible to formulate and implement policies in terms of taxes based on legislation. The Agency was organized as an Echelon I-unit under the Ministry of Finance. The DGT consists of the head office and operational offices. It supervises 33 Regional Taxation Offices, 1 Data Processing Center, 335 Tax offices throughout Indonesia, and 207 Tax Service, Dissemination, and Consultation Offices.

Figure 5. DGT Organization Chart



The number of personnel at DGT is around 34.510. Distribution based on gender is 73.55% male and 26.45% is female.

Figure 6. Number of DGT Personnel



Source: Directorate General of Tax, annual report 2014

Tax Revenue Collection

According to World Bank Toolkit for Tax Administration, Revenue performance is an important indicator for the efficiency of the tax administration while tax revenue as a percentage of GDP indicates the success of the tax administration and reflects the demands its faced to improve the tax collection performance.

Table 14. Tax Ratio (%)

Description	2014	2013	2012	2011	2010
Gross Domestic Product of Current Price (IDR trillion)	10,094.93	9,087.28	8,230.93	7,419.19	6,446.85
A State Tax Revenue (IDR trillion)	1,146.87	1,077.31	980.52	873.87	723.31
B Local Tax Revenue (IDR trillion)	103.49	86.98	73.00	62.76	47.30
C Natural Resources Revenue (IDR trillion)	240.85	226.41	225.84	213.82	168.83
Tax Ratio					
A+B+C to GDP Ratio (%)	14.77	15.30	15.54	15.51	14.57
A+B to GDP Ratio (%)	12.39	12.81	12.80	12.62	11.95
A to GDP Ratio (%)	11.36	11.86	11.91	11.78	11.22

Source: Directorate General of Tax, annual report 2014

Taxpayers' Compliance

Taxes are the backbone of state revenue. More Than 75 Percent of National revenue derived from taxes. DGT continues to provide insight to the public awareness of paying and reporting taxes in continuing the sustainable development. To Improve Taxpayer compliance, DGT perform a variety efforts of creating simpler tax return submission. Besides by coming directly to the Tax Office (KPP) nearby, taxpayers may enter their tax return through the tax return drop box placed in various offices and shopping centers. With the growing use of the Internet in Indonesia, DGT also facilitate the delivery of tax return through the application of e-SPT which was developed since 2004.

Table 15. Compliance Ratio of Annual Income Tax Return Filling, 2010-2014

Taxpayers Category	2014	2013	2012
Corporate	47.05 %	51.88%	53.36%
Individual	59.67 %	61.72%	53.72%
Overall Compliance Ratio	58.87 %	60.80%	53.70%

Source: Directorate General of Tax, annual report 2014

To be a registered taxpayer, the registration can be done via e-registration or through the service counter in every district tax office. E-registration is one of the facility provided by DGT to increase the number of registered taxpayer. DGT also performs other efforts to arouse the awareness of the unregistered taxpayer through intensive socialization conducted in each level of institution, by tax district units at the local level, by the Counseling, Service and Public Relation field at Regional Office level, and by the Directorate of Counseling, Service and Public Relation at the head quarter level. The socialization programs range from face to face through various workshops, seminars, sports events, car free day and other outdoor activities or indirect contact through www.pajak.go.id sites, television and radio electronic, print media newspapers, school text books and booklets, and by using online and social media.

Table 16. Registered Taxpayer

Type of Taxpayers	2014	2013	2012	2011	2010
Individual	27,687,515	25,109,959	22,131,323	19,881,684	16,880,649
Treasurer	412,827	563,737	545,232	507,882	471,833
Corporate	2,474,086	2,328,509	2,136,014	1,929,507	1,760,108
Total	30,574,428	28,002,205	24,812,569	22,319,073	19,112,590

Source: Directorate General of Tax, annual report 2014

socialization very intensively conducted by the unit of KPP, and units of Field Services, Education and Public Relations (P2Humas) Regional Office (Regional Office-Regional Office), as well as by the Directorate P2Humas Office DJP either through socializing face to face through various workshops, seminars, sports together, Car Free Day and many other outdoor activities, or socializing without face to face through www.pajak.go.id sites, television and radio electronic media, print media newspapers, school text books and booklets, and through online media and social media (medsos), have not been able to arouse awareness of the tens of millions of taxpayer

III.3 Current Tax Law

III.3.1 Taxes on Income

A. Corporate Income Tax

Overview of Corporate Income Tax

A company will be considered taxable in Indonesia if it has a presence and conducts business in the country. This definition includes a place of management, branch, representative office, office building, agent, factory or workshop, construction or mining site. A firm required to register at the relevant DGT's office for their location/status on or shortly after establishment. Tax return should be filed annually by corporations to compute the income tax payable. The reported income includes all overseas income as the Indonesian tax law adopts the worldwide income basis. Tax paid offshore in relation to foreign source income can be credited in the same tax year subject to certain limitations.

a) Tax Rates

A single flat rate of 25 percent applies since 2010. Public company that satisfy a minimum listing requirement of 40 percent and other conditions are entitled to a tax discount of 5 percent off the standard rate, giving an effective tax rate of 20 percent. To be eligible, a public company must have at least 40 percent of the outstanding shares owned by at least 300 persons, each holding less than 5 percent of the paid-in shares, and this condition must be maintained for at least 183 days in a tax year. Small enterprises, i.e. corporate taxpayers with an annual turnover of not more than IDR 50 billion, are entitled to a tax discount of 50 percent of the standard rate for taxable income of up to IDR 4.8 billion.

b) Tax Residence

A company is treated as a resident of Indonesia for tax purposes by virtue of having its establishment or its place of management in Indonesia. A foreign company carrying out business activities through a permanent establishment (PE) in Indonesia will generally have to assume the same tax obligations as a resident taxpayer.

c) Taxable Income

The object of tax is income, which is defined as any economic benefit received or accrued by a taxpayer, whether originating from within or outside of Indonesia, which is used for consumption, or which increases the wealth of the taxpayer, in whatever name or form. For a company, income can be defined as follows:

i. Gross profits from business;
ii. Gains upon the sale or transfer of property (realized capital gains);

iii. Interest, dividends, and royalties (subject to certain exceptions);
iv. Rents;
v. Income from debt forgiveness and;
vi. Surplus on revaluation of assets (favorable tax rate may apply).

Exchange gains or losses resulting from normal movements in currency exchange rates are, in most cases, included in taxable income in the current fiscal year irrespective of whether they are realized or unrealized. Gains or losses arising from a change in currency rates resulting from a government regulation or decree (revaluation or devaluation) may be subject to special concessions.

d) Exempt Income

Excluded from the definition of taxable income are, among others:

i. Gifts or donations that are not related to the business or profession of the parties involved;
ii. Dividends received by a resident company from another resident company, provided:
The dividend is sourced from retained earnings, the recipient owns at least 25 percent of paid up capital.
The holding companies no longer need to undertake any other business activities due to removal of the "active business" criteria for holding companies. Therefore any interest expense incurred in relation to the holding company's investment will not be deductible since the dividends received are not taxable.
iii. Income received by venture capital companies in the form of profits or dividends, as long as the investee companies meet certain requirements and the companies are not listed on the stock exchange and.
iv. Income From The capital invested by the Pension Fund, in the fields of certain specified by regulation of the Minister of Finance

e) Capital Gains Tax

Capital gains or losses may come from sales of a company's assets. It is calculated as the difference between the sales proceeds and the tax written down value of the assets concerned. Capital gains are assessable while a capital loss is tax-deductible only if the asset concerned is used in the running of the business, i.e. for obtaining, collecting, and securing assessable income. The exemptions are for transactions in stock on the Indonesian stock market and on private property. The gain or loss is ignored and tax is instead charged on the transaction value. The tax rate is 0.1% of transaction value of stock, except for founder shares sold by founder 0.5% of transaction value. For Land and building, tax rate is 5 % of transfer value – final tax for individuals, foundations and for corporations.

f) Dividend

Tax is withheld from dividends as follows:

i. Resident recipients. Dividends received from an Indonesian company by a limited liability company incorporated in Indonesia (*Perseroan Terbatas*/PT), a cooperative, or a state-owned company (BUMN/BUMD), are exempt from income tax if the following conditions are met: the dividends are paid out of retained earnings; and the company earning the dividends holds at least 25 percent of the paid-in capital in the company distributing the dividends;
If these conditions are not met, the dividends are assessable to the company earning the dividends at the ordinary tax rates alongside the company's other income. Upon declaration, dividends are subject to Article 23 income tax at 15 percent, which constitutes a prepayment of the corporate tax liability for the company earning the dividends. Dividends received by firma, commanditaires, foundations and similar organizations are always subject to 15 percent withholding tax. Dividends received by resident individual taxpayers are subject to final income tax at a maximum rate of 10 percent.
ii. Non-resident recipients: 20 percent (lower for treaty countries) final withholding tax is due on dividends paid to a non-resident recipient.

g) Deductions

The taxable income is determined after deducting allowable deduction cost from gross income. The lists of allowable deduction cost are as follows:

i. The costs of deriving, recovering and conserving such income including, the costs of materials, wages, salaries of employees, employee bonuses, honoraria, cash allowances, interest, rent, royalties, travel expenses, waste treatment costs, insurance premiums, administrative costs, and taxes other than income tax;
ii. Promotional and sales costs;
iii. Bad debts, provided strict conditions are fulfilled;
iv. Depreciation of the acquisition cost of property and amortization of costs incurred in obtaining rights and other costs that have a useful life of more than one year;
v. "Zakat" donations if paid to an approved body by a Moslem individual or Moslem-owned business;
vi. Losses from the sale or transfer of assets;
vii. Foreign exchange losses;
viii. Costs of research and development performed in Indonesia;
ix. Scholarships, apprenticeships and training costs;
x. Donations (as regulated by Government Decree) in relation to: National disasters, Research and development in Indonesia, The provision of educational facilities, and Development of sports;
xi. The provisioning of reserves for re-forestation and closure/maintenance of industrial waste storage locations are deductible for these business sectors (as further regulated by Minister of Finance Decree);
xii. Goodwill can be capitalized and amortized;
xiii. Office refreshments;
xiv. Prior year losses;
xv. Contributions to a pension fund approved by the MOF.

Additionally, entertainment costs are an allowable deduction where they relate to securing, acquiring and collecting income, but substantiation requirements exist. Full details of each expense are required to be lodged with the annual tax return.

Moreover there are also some non-allowable deductions cost from gross income, the list as follows:

i. Benefits-in-kind (BIKs) (e.g., free housing, 50 percent of the acquisition and maintenance costs of certain company provided cars), except food and drink provided to employees in the workplace, employee benefits required for job performance, such as protective clothing and uniforms, transportation costs to and from the place of work, accommodation for ship crews and the likes, the cost of providing BIKs in remote areas, and 50 percent of the acquisition and maintenance costs of cellular phones;
ii. Private expenses;
iii. Non-business gifts and aid, except Islamic alms ("Zakat");
iv. Provisions: However, certain types of provision d. are claimable as deductible expenses: provision for doubtful accounts for banking and financing companies, insurance claims provision for insurance companies, deposit security provision for the Deposit Security Blanket Institution (LPS), reclamation provision for mining companies, forestation provision for forestry companies, and area closure and maintenance provision for industrial waste processing businesses;
v. Income tax payments;
vi. Tax penalties;
vii. Profit distributions;
viii. Employer contributions for life, health and accident insurance and contributions to unapproved pension funds, unless the contributions are treated as part of the taxable income of employees;
ix. Expenses relating to income which is taxed at a final rate, e.g., interest on loans relating to time deposits;

x. Expenses relating to income which is exempt from tax, e.g., interest on loans used to buy shares where dividends to be received are not subject to income tax;
xi. Salaries or compensation received by partnership or firm as members where their participation is not divided into shares.

h) Losses

Losses may be carried forward for a maximum of five years. However, for a limited category of businesses in certain regions or businesses subject to certain concessions, the period can be extended for up to ten years. The carrying-back of losses is not allowed. Tax consolidation is not available.

i) Capital Allowances

Expenditure incurred in relation to assets with a beneficial life of more than one year are categorized and depreciated from the month of acquisition by the consistent use of either the straight-line or the declining-balance method, as follows:

i. Category 1 – 50 percent (declining-balance) or 25 percent (straight-line) on assets with a beneficial life of four years. Examples of assets in this category are computers, printers, scanners, furniture and equipment constructed of wood/rattan, office equipment, motorcycles, special tools for specific industries/services, kitchen equipment, manual equipment for agriculture, farming, forestry and fishery industries, light machinery for the food and drink industries, motor vehicles for public transportation, and equipment for the semi-conductor industry.
ii. Category 2 – 25 percent (declining-balance) or 12.5 percent (straight-line) on assets with a beneficial life of eight years. Examples of assets in this category are furniture and equipment constructed of metal, air conditioners, cars, buses, trucks, speed-boats, containers and the like. The category also covers machinery for agriculture, plantations, forestry activity, fisheries, and for food and drink, and light machinery, logging equipment, equipment for construction, heavy vehicles for transportation, warehousing, and communication, telecommunications equipment, and equipment for the semi-conductor industry.
iii. Category 3 – 12.5 percent (declining-balance) or 6.25 percent (straight-line) on assets with a beneficial life of 16 years. Examples of assets in this category are machines for general mining other than in the oil and gas sector, machines for the textile, timber, chemical, and machinery industries, heavy equipment, docks and vessels for transportation and communication, and other assets not included in the other categories.
iv. Category 4 – 10 percent (declining-balance) or 5 percent (straight-line) on assets with a beneficial life of twenty years. Examples of assets in this category are heavy construction machinery, locomotives, railway coaches, heavy vessels, and docks.
v. Building category – 5 percent (straight-line) on assets in the permanent building category with a useful life of 20 years; or 10 percent (straight-line) on assets in the non-permanent building category with a useful life of ten years. Included in the cost of the buildings is the land and building transfer duty (DAL&BR) on building rights.

Intangible property or costs, including the cost of extending building use rights, rights for business use, rights for use and DAL&BR on land rights with a useful life of more than one year, should be amortized on the following bases, as appropriate:

i. By using the straight-line or the declining-balance method at the rates specified in categories 1, 2, 3, and 4 under Depreciation, based on the useful life of the property:

Category 1 - 4 years;

Category 2 - 8 years;

Category 3 - 16 years;

Category 4 - 20 years.

Membership of the category is determined on the basis of the nearest useful life (e. g., an intangible asset with a useful life of six years may fall under Category 1 or Category 2, while an intangible asset with a useful life of five years is under Category 1).

ii. The costs of incorporation and expansion of the capital of an enterprise are claimed in full in the year in which the expenditure is incurred or are amortized using either the declining-balance or straight-line method at the following rates:

Category 1 – 50 percent declining-balance; 25 percent straight-line Category 2 – 25percent declining-balance; 12.5percent straight-line Category 3 - 12.5 percent declining-balance; 6.25 percent straight-line

Category 4 – 10 percent declining-balance; 5 percent straight-line

iii. Costs incurred for acquiring the right to oil and natural gas concessions with a beneficial life of longer than one year are amortized using the production-unit method.

iv. Costs incurred in the acquisition of mining rights, forest concessions, and other rights to exploit natural resources and natural products with a beneficial life of longer than one year are amortized using the production-unit method but not may not exceed 20 percent per annum.

v. Costs incurred before the commencement of commercial operations with a useful life of longer than one year are capitalized and amortized according to the rates set out.

Subject to DGT approval, corporate taxpayers and PEs who maintain rupiah accounting may undertake a revaluation of their non-current tangible assets for tax purposes. This may be carried out once every five years. Each revaluation must include all business-related assets which are owned by the company and located in Indonesia, except for land and buildings (these may be omitted). Before requesting the DGT's approval, the company concerned must determine that it has settled all of its outstanding tax liabilities

The revaluation must be conducted on a market or fair value basis. The market values must be determined by a government-approved appraiser. These are subject to DGT adjustments if the values, in DGT's view, do not represent the fair or market values of the assets. Once approved, the depreciation applied to depreciable assets must be based on the new tax book values (approved values) on the basis of a full useful life (in other words, as if the assets were new). The excess of the fair market value over the old tax book value of the revalued assets is subject to final income tax at a rate of 10 percent. Subject to DGT approval, taxpayers facing financial difficulties may pay this tax in installments over 12 months.

Fixed assets falling under categories 1 and 2 must be retained at least to the end of their useful life. Land, buildings, and assets falling under categories 3 and 4 must be retained for at least 10 years of the revaluation date. Additional final income tax at a rate of 10 percent is imposed on the original revaluation gains if the revalued assets are sold or transferred before the end of this minimum retention period (this does not apply to assets transferred because of force *majeur*, assets transferred based on government decision/policy/court decision or assets transferred in the course of a tax-neutral business merger, a consolidation, or a business split and fixed asset withdrawal because of irreparable damage).

j) Tax Payments

Resident taxpayers and Indonesian PEs of foreign companies have to settle their tax liabilities either by direct payments, third party withholdings, or a combination of both. Foreign companies without a PE in Indonesia have to settle their tax liabilities for their Indonesian-sourced income through withholding of the tax by the Indonesian party paying the income.

i. Monthly tax installments (Article 25 income tax) constitute the first part of tax payments to be made by resident taxpayers and Indonesian PEs. As a prepayment of their current year corporate income tax liability, a monthly tax installment is generally calculated using the most recent corporate tax return. Special installment calculations apply for new taxpayers, finance lease companies, banks and state-owned companies, listed companies and other taxpayers with periodical reporting requirements.

ii. The tax withheld by third parties on certain income (Article 23 income tax) or tax to be paid in advance on certain transactions (e.g., Article 22 income tax on imports) constitute other prepayments for the current year corporate tax liability of the income recipient or the party conducting the import.

iii. If the total amounts of tax paid in advance through the year (Articles 22, 23, and 25 income taxes) and the tax paid abroad (Article 24 income tax) are less than the total corporate tax due, the company concerned has to settle the shortfall before filing its corporate income tax return.

Such a payment is referred to as Article 29 income tax.

iv. Certain types of income earned by resident taxpayers or Indonesian PEs are subject to final income tax. In this respect, the tax withheld by third parties (referred to as Article 4.2 income tax) constitutes the final settlement of the income tax for that particular income.

v. For foreign companies without a PE in Indonesia, the tax withheld from their Indonesia-sourced income by the Indonesian party paying the income (Article 26 income tax) constitutes a final settlement of their income tax due.

B. Individual Income Tax

Overview of Individual Income Tax

The extent of the Indonesian income tax liability depends upon the individual's residence status in Indonesia. Resident individuals are taxed on their worldwide income, regardless of where such income arises or for whom work or services are performed. For Indonesian-source income, there is an extensive framework of withholding taxes so that income tax is often collected by deduction at source, for example in relation to employment income, interest, dividends, royalties, rent and income from sales of property, and listed shares.

Non-resident individuals are exempted from the worldwide income reporting obligation and tax is imposed only on income derived in Indonesia. Deductions are limited to individual personal allowances. Resident individual taxpayer who receive or earn annual income exceeding the income threshold must register with the tax office and file annual income tax returns. The tax return should state the individual's income, including compensation from employment, investment income, capital gains, overseas income, and other income. Tax return also provides a summary of the individual's assets and liabilities.

A family is generally regarded as a single tax reporting unit with only a single Tax Identification Number in the name of the head of the family (typically the husband). His wife and his dependent children's income must be reported on the same tax return in his name. A married woman has two options. She can choose to have her own tax identification number and report her own income tax return separately from her husband. Otherwise, she can merge her income to her husband's tax return.

a) Tax Rates

Most income earned by individual tax residents is subject to income tax at the normal tax rates:

Table 17. Individual Income Tax Rate

Taxable Income	Rate
Up to IDR 50,000,000	5%
Above IDR 50,000,000 up to IDR 250,000,000	15%
Above IDR 250,000,000 up to IDR 500,000,000	25%
Above Rp 500,000,000	30%

Source: Directorate General of Taxes.

b) Main Personal Relief

A new Annual non-taxable income (PTKP) for resident individuals started to implement on June 27 2016 are as follows:

Table 18. Individual Main Personal Relief

	Amount
Taxpayer	54,000,000
Spouse	4,500,000
Each dependent (max of 3)	4,500,000
Occupational expenses (5% of gross income, max Rp.500,000/month)	6,000,000
Employee contribution to Jamsostek for pension fund (2% of gross income)	Full amount
Pension maintenance expenses (5% of gross income, max Rp.200,000/month)	2,400,000

Source: Directorate General of Taxes.

c) Tax Residence

Indonesian tax law distinguishes between resident and nonresident taxpayers. Residents are defined as individual if he/she fulfills any of the following conditions:

i. resides in Indonesia;
ii. present in Indonesia for 183 days or more in any continuous 12-month period;
iii. present and reside in Indonesia during the fiscal years and intend to remain there.

Nonresident taxpayers are individuals present in Indonesia for fewer than 183 days with no intention to reside. Nonresidents need not register for tax purposes. Resident individual taxpayers are taxed on their worldwide gross income less allowable deductions and nontaxable income. Nonresident employees in the oil and gas sectors are taxed on deemed salaries based on job titles. The provisions of tax treaties may override these rules.

d) Taxable Income

Income is defined as any economic benefit received or accrued by a taxpayer that is used for consumption or that increases the wealth of the taxpayer, in whatever name or form. The following types of income are subject to tax:

i. Compensation or payments received or earned in connection with work or services.
ii. Lottery, prizes, and awards.
iii. Gross profits from individual business activities.
iv. Gains from the sale or transfer of assets.
v. Refunds of tax payments already deducted as expenses.
vi. Interest.
vii. Dividends, in whatever name or form, paid by a corporation, payments of dividends by an insurance company to policy holders.

e) Benefits-in-kind

Benefits in kind received by employees, including discounted or free housing, are not taxable to the employee nor deductible to the provider/employer. However, company cars and cellular phones provided to the employee are deductible at 50% of the acquisition cost by way of depreciating those assets over their useful lives (8 years and 4 years), while cellular phone refill vouchers and repair expenses can be claimed as deduction at 50%. A full deduction however applies to food and drinks provided to employees in the workplace and employee benefits required for job performance such as protective clothing and uniforms, transportation costs to and from the place of work, accommodation for ship crews and the like, and also for housing provided in remote areas approved by the Minister of Finance

f) Tax Payments

A substantial part of individual income is collected through withholding by third parties. Employers are required to Withhold Article 21/26 income tax on a monthly basis from the salaries and other compensation payable to their employees. If an employee is a resident taxpayer, the amount of tax withheld should be based on the normal tax rates (as set out above). If he/she is a non-resident taxpayer, the withholding tax is 20 percent of the gross amount (and may be set at a lower rate under a tax treaty). Various other payments to individuals also call for withholding tax obligations from the payers. These include, among others: pension payments made by government-approved pension funds; severance payments; old-age security saving payments from Jamsostek; scholarships; fees for services; prizes/awards.

Typically the amount of tax withheld from this income is based on normal tax rates. Fees for certain professionals, such as lawyers, notaries, accountants, architects, doctors, actuaries and appraisers, are required to be calculated based on 50% of the gross income.

III.3 Tax rate for Small and Medium Enterprises and Individual Business

On 12 June 2013, Government Regulation No. 46 Year 2013 (GR-46) has been issued and effected from 1 July 2013. The regulation stipulates that individual and corporate taxpayers, except permanent establishments, with annual income up to IDR 4.8 billion are subject to final tax at 1%. It is intended for small and medium enterprises (SMEs), including individual businesses with small to medium range trading and services activities (other than professional services, such as: lawyers, accountants, translators, insurance agents, etc.). GR-46 is not applicable to construction services which the income is subject to final tax under the Government Regulation No. 51 Year 2008 as latest amended by the Government Regulation No. 40 Year 2009. Some categories of income also excluded from this rule such as employment income, capital income (interest, dividends, and royalties), non-business – related capital gains, and other income such as: debt forgiveness and/or gifts. However, they are subject to normal income tax rates.

III.4 Withholding Tax

Indonesian income tax is collected mainly through a system of withholding taxes. Where a particular income item is subject to withholding tax, the payer is generally held responsible for withholding or collecting the tax.

a) Article 21 – Salaries and Other Payments to Individuals

Employers are required to withhold Article 21 income tax from the salaries payable to their employees and pay the tax to the State Treasury on their behalf. The same withholding tax is applicable to other payments to non-employee individuals (e.g., fees payable to individual consultants or service providers). Resident individual taxpayers without Taxpayer Identification Number (TIN / NPWP) are subject to a surcharge of 20 percent in addition to the standard withholding tax.

b) Article 22 - Imports

Article 22 income tax is typically applicable in the following events:

i. Import of goods;
ii. Sale of goods to the government calling for payments from the State Treasury, the State Budget General Directorate, or certain state-owned companies;
iii. Sale/purchase transactions of steel, automotive, cigarettes, cement, and paper products.
iv. The sale/purchasing of very luxurious goods.

c) Article 4 (2) – Final Income Tax

Resident companies, PEs, representatives of foreign companies, organizations, and appointed individuals are required to withhold final tax from the following gross payments to resident taxpayers and PEs:

Table 19. Final Income Tax Rate

Description	Tax Rate
Rental of land and/or buildings	10%
Proceeds from transfer of land and building right	5%
Fees for constructions work performance	2/3/4%
Fees for constructions work planning	4/6%
Fees for constructions work supervision	4/6%
Interest on time or saving deposits and on Bank Indonesia Certificates (SBIs) other than that payable to bank operating in Indonesia and to government-approved pension funds	20%
Interest on bonds other than that payable to banks operating in Indonesia and government-approved pension funds	15%
Proceeds from sale of shares on Indonesian stock exchanges. Founder shareholders may opt to pay tax at 0.5% of the market price of their shares upon listing, otherwise, gains on subsequent sales are taxed under normal rules	0.1%
Income from lottery prizes	25%
Certain income received by individuals and corporate (except PEs) with gross turnover of not more than IDR 4.8 billion in one fiscal year.	1%

d) Article 23 – Residents

Certain types of income paid or payable to resident taxpayers are subject to Article 23 income tax at a rate of either 15 percent or 2 percent of the gross amounts. Income Tax Article 23 set at 15 percent rate of the gross amounts on dividends, interest (including premiums, discounts and loan guarantees fees), royalties, prizes and awards.

e) Article 26 – Non-Residents

Resident taxpayers, organizations, and representatives of foreign companies are required to withhold 20 percent tax from the following payments to non-residents:

i. On Estimated Net Income (ENI), being a specified percentage of the gross amount:

Table 20. Non Resident Estimated Net Income

Description	ENI	Effective Tax Rate
Insurance premiums paid to non-resident insurance		
By the insured	50%	20%
By Indonesian insurance companies	10%	2%
By Indonesian reinsurance companies	5%	1%
Sale of non-listed shares by non-residents	25%	5%
Sale for by the non-residents holding of Indonesian of a conduit company companys hares/where PE serves as an intermediary	25%	5%

Where the recipient is resident in a country which has a tax treaty with Indonesia, the withholding tax rates may be reduced or exempted. Refer to withholding tax rates under treaties.

ii. On gross amount, the object of tax would be: Dividends; Interest, including premiums, discounts (interest), swap premiums, and guarantee fees; Royalties, rents and payments for the use of assets; Fees for services, work, and activities; Prizes and awards; and Pensions and any other periodic payments. The notional annual is distributions of after-tax profits of a branch or PE. After-tax profits of a PE are exempt from withholding tax if they are reinvested in Indonesia in the form of equity participation in a company established and domiciled in Indonesia for which the PE acts as the founder or one of the founders.

III.5 Value Added Tax and Sales Tax on Luxury Goods

Both Entity and individual, in whatever form, which in the course of its operations, produces, imports or exports taxable goods, conducts trading activities or renders taxable services, is required to register as a Taxable Entrepreneur with the DGT. However, only a resident or a PE can obtain a VAT registration. Registration by non-residents is not allowed.

a) Taxable Goods and Services

Value Added Tax (VAT) is typically due on events involving transfers of taxable goods or provisions of taxable services in the Indonesian Customs Area. The taxable events include:

i. Deliveries of taxable goods in the Customs Area by an enterprise;
ii. Importation of taxable goods;
iii. Deliveries of taxable services in the Customs Area;
iv. Use or consumption of taxable intangible goods originating from outside the Customs Area in the Customs Area;
v. Use or consumption of taxable services originating from outside the Customs Area in the Customs Area;
vi. Export of taxable goods (tangible and intangible) by an enterprise;
vii. Export of taxable services by an enterprise.

Deliveries of taxable goods are defined very broadly and include the following:

i. Deliveries of a title to taxable goods according to an agreement;
ii. Transfers of taxable goods according to a leasing-with-option or finance-lease agreement;
iii. Deliveries of taxable goods to an intermediary trader or an auction official;
iv. Own-use and/or free gift of taxable goods;
v. Remaining taxable goods and certain assets originally not for sale at a company's dissolution;
vi. Deliveries of taxable goods within a company (e.g., between branches, or between the head office and its branches) unless the company, at the DGT's approval, centralizes its VAT reporting;
vii. Deliveries of taxable goods on consignment;

viii. Deliveries of taxable goods by a taxable entrepreneur in the framework of *syariah-based* financing, whereby the deliveries are deemed to take place directly from the taxable entrepreneur to the party in need of the taxable goods.

Indonesia have exemption on goods for basic necessities, mining taken from natural resources, food served in hotels and restaurants, including food and drinks provided by catering services, money, gold and securities. Some broad area of service fields also exempted under VAT law, they are medical, social and religious services, postal and account transfer services, banking, insurance and non-banking financial leasing, educational services, finance leasing, art and entertainment services, radio and television broadcasting services, other than advertisements, public transportation services, i.e. land, sea and domestic air transportation, manpower and recruitment services, hotel and boarding house services, services provided by the government relating to public administration and formality requirements, parking services, public telephone (by coin) services, food and catering services.

b) Tax Rates and Tax Base

VAT at the general rate of 10% is imposed on importers, manufacturers, wholesalers and retailers and on the provision of most services. While the VAT laws permit amendments of the rates for individual items, currently the products with a rate other than 10% are cigarettes and used cars. Services such as package deliveries and travel agents are taxed at 1%, while factoring is imposed at 5% on the fees received. Exports of taxable goods are effectively excluded from VAT by being subject to the tax at a nil rate.

By law all goods and services, unless stated differently, constitute taxable goods or taxable services. VAT for a particular taxable event is calculated by applying the VAT rate to the relevant tax base. In most cases, the tax base is the transaction value agreed between the parties concerned. For certain events or situations, other parameters must be used as the tax base, including:

i. Market value for transactions between related parties, remaining inventories of taxable goods at a company's dissolution, and sales of (non-inventorial) assets originally not for sale;
ii. Cost of sales for own-use or free gifts and internal deliveries of taxable goods (e.g., between branches, from the head office to branches);
iii. Auction price for deliveries of taxable goods to an intermediary trader of an auction officer;
iv. Agreed price for deliveries of taxable goods through an intermediary trader
v. Average result per film for movies
vi. IDR 12 million per copy of imported movies
vii. 0% of total costs incurred or paid, exclusive of the acquisition price of land, for the self-construction of a building
viii. Retail selling prices for deliveries or imports of tobacco products
ix. 10% of the actual billing for package shipment services
x. 10% of the actual billing for tour and tourism agency services whose deliveries are not based on commissions
xi. 20% of selling price on the deliveries of gold jewelry, including services carried out by the factory in relation to gold jewelry
xii. 0% of actual billing on the deliveries of freight forwarding services in which billing includes freight charges.

c) Relief for Export Manufacturers

There are a number of relief schemes to allow exporter manufacturers to operate on a virtually VAT and duty-free basis. Such schemes include bonded zones, economic development zones (KAPET) and free trade areas. The Government has approved a number of Bonded Areas located throughout Indonesia. Free trade areas and free ports are located in Indonesia but are considered outside the customs area and, therefore, goods brought into these areas are exempt from import duties, VAT and STLG. Business activities that can be carried out in a free trade area include, among others, trade, services, mining, transportation, banking and manufacturing. Sabang, Batam, Bintan and Karimun are currently the free trade areas in operation.

d) VAT Reporting

Companies and individuals designated as taxable enterprises are bound to report their business activities and settle VAT liabilities thereon on a monthly basis. Typically VAT is to be accounted for on a decentralization basis. Hence, a company carrying out business activities through a number of business units (branches) in the working areas of different tax offices (KPP) must register each with the relevant KPP. It is in this context that internal deliveries of taxable goods within a company are subject to VAT.

Based on specific DGT approval, a company may centralize its VAT reporting and thereby may exclude internal deliveries of taxable goods from the VAT scope. To obtain DGT approval, a company must satisfy a number of conditions, including sales administration centralization and the restriction of the business units to be centralized from any deliveries of taxable goods. However, companies who file e-tax returns may choose to centralize their VAT reporting without regard to the fulfillment of the other conditions, merely by submitting a written notification to the DGT.

Despite this default VAT reporting basis, companies registered with certain tax service offices (Special Tax Office, Large Tax Office, and Medium Tax Office) are required to centralize their VAT reporting. VAT liabilities are typically to be settled by an input-output mechanism. A vendor of taxable goods or a taxable service is typically to charge VAT to the buyer. From the vendor's perspective, it is an output tax. The buyer has to pay the VAT to the vendor which, from its perspective, is an input tax. To the extent that the goods are relevant for running the buyer's business, the input tax can be credited against its own output tax. Similarly, the vendor will also offset the output tax against its own input tax on the acquisition of taxable goods or taxable services. If the accumulated output tax for a particular month exceeds the accumulated input tax for the same period, the taxpayer concerned has to settle the difference by the following month. On the contrary, if the accumulated input tax for a particular month exceeds the accumulated output VAT, the taxpayer may ask for a refund on the end of tax year or carry over the overpaid VAT to the following months.

Import VAT on goods and self-assessed VAT on the consumption or use of foreign taxable services or intangible goods may be understood in the context of the standard input-output mechanism. Because the non-resident vendor or service provider cannot charge VAT (issue tax invoices) to the Indonesian buyer/importer, the Indonesian buyer/importer has to pay the VAT for and on behalf of the non-resident vendor or service provider. To the extent that goods/services imported or procured are relevant for running the importer/service recipient's business, the input VAT (import VAT and self-assessed VAT) should be claimable as a tax credit. A deviation from the standard mechanism, however, prevails for deliveries of taxable goods and services to VAT collectors. Presently, a VAT Collector can be either the State Treasury or a Production Sharing Contract (PSC) company including Pertamina.

e) Input-Output Mechanism

As the name implies, a VAT Collector is required to collect the VAT due through a taxable enterprise (vendor) on the delivery of taxable goods or services to it and to pass the VAT payment directly to the government rather than to the vendor or the service provider. A company engaged in deliveries of taxable goods or services to a VAT Collector tends accordingly to be in an overpaid VAT position.

VAT must be accounted for to the DGT on a monthly basis. Input tax for a particular tax period (month) in principle must be claimed as a tax credit against the output VAT of the same tax period. However, the claim can still be made within three months after the end of that particular tax period to the extent that the input tax has not yet been expensed or a tax audit has not yet commenced.

Since July 1, 2016, DGT implementing the use of electronic VAT invoices (e-VAT invoice) for all VAT registered taxpayers. Similar to hard-copy VAT invoices, the VAT payer should also obtain the VAT serial numbers by requesting through the tax office where the VAT payer us registered and/or website provided by the DGT. The e-VAT invoice shall use IDR currency and apply electronic signature.

f) VAT Refunds

Refund application can be made at the end of a book year. The DGT has to decide on a VAT refund application within 12 months after receipt of the complete set of the application on the basis of a VAT audit. If no decision is made within 12 months, the application is considered to have been approved. Monthly refunds are possible for certain taxpayers such as exporters of goods or services, suppliers to the VAT collectors in the pre-production stage and suppliers of goods and services for which VAT is not collected.

Relevant supporting documents for a VAT refund must be delivered to the DGT within a month of the application date. Any documents delivered beyond a month may be ignored by the DGT in the calculation of the VAT refund.

A taxpayer designated as an obedient taxpayer is entitled to obtain early (pre-audit) VAT refunds. Such a refund is to be based only on a verification of the VAT returns and must be granted within a month after a completed VAT refund application is received. The DGT may conduct a tax audit after the early VAT refund is granted. If it proves, based on the tax audit, that the taxpayer has received a higher VAT refund than it should, the excess amount is subject to an administrative penalty at 100 percent. The obedient taxpayer designation is a status granted by the DGT to taxpayers who fulfill certain criteria, such as filing of tax returns on time within a certain period, no tax in arrears, no criminal involvement, etc. With reference to these criteria, the DGT every year designates certain taxpayers as obedient taxpayers. Once a taxpayer is granted this status, the company is eligible to apply for early VAT refunds. It has to notify the DGT in writing if it does not want to use the privilege.

g) Sales Tax on Luxury Goods (STLG)

The VAT law also imposes a STLG on deliveries of luxury goods by manufacturers in Indonesia and on the importation of luxury goods. The rates vary depending on the category of the goods. According to the VAT and LST Law, the LST rate may be increased up to 200%, however currently the LST rates are between 10 percent to 125 percent. Conceptually, this tax is charged only once. Like VAT, no STLG is charged on the export of luxury goods. STLG is calculated by multiplying the applicable rate against the sales price or import price, excluding VAT. The STLG payable on the purchase of luxury goods cannot be credited against the VAT collectable when the goods are subsequently sold.

In broad terms, some of the main types of goods subject to STLG include:

i. passenger vehicles;
ii. alcoholic beverages;
iii. certain food and non-alcoholic beverage products;
iv. household appliances and electronic goods;
v. cosmetics;
vi. luxury homes and apartments.
vii. It is necessary to determine the applicability of the STGL on a case by case basis as the rules are complex and subject to change. There is an exemption from STGL on certain items for public use.

III.6 Treaties

Indonesia’s tax treaties provide for tax benefits in the form of withholding tax exemptions for service fees and for reduced withholding tax rates on dividends, interest, royalties, and branch profits received by residents of a country with which Indonesia has signed a tax treaty. Tax exemption on the service fees is typically granted only if the foreign party earning the income does not have a PE in Indonesia.

To claim the reduced rates, the foreign party must, at a minimum, present its certificate of residence (CoR) to the DGT through the Indonesian party paying the income. Without this document, the party isnot entitled to the tax benefit and tax is withheld at a rate of 20%. For interest, dividends, and royalties, only the beneficial owner is acknowledged as the party entitled to the tax treaty benefits.

a) To be the beneficial owner, the following criteria should be satisfied:

i. For individuals, that they are not receiving income as an agent or nominee
ii. An institution that is explicitly named in the tax treaty or one that has been agreed to by the Competent Authority in Indonesia and its treaty country partner
iii. An offshore company which earns income through a custodian from share or bond transactions made on the Indonesian Stock Exchange (except interest and dividends), that is not an agent or nominee.

iv. A company whose shares are listed on the stock exchange and traded regularly.
v. A bank, or
vi. Any other company which meets specific requirements:
i) establishment of the company in the tax treaty partner country and the way he transaction is structured or undertaken are not merely done to enjoy tax treaty benefits, the business activities are managed by the company's own management which has sufficient authority to carry out transactions;
ii) The company has employee(s);
iii) The company has activities or an active business;
iv) Income derived from Indonesia is taxable in the recipient's country.
v) The company does not use more than 50% of its total income to fulfill its obligations to other parties, such as interest, royalty, or other payments.

b) Thin Capitalization

Indonesia started to implement new rule on thin capitalization in the beginning of fiscal year 2016. Based on Minister of Finance Regulation number 169/PMK.010/2015, the ratio of debt to equity has set as 4 to 1. The ratio used to limit the amount of deductible interest expense related to income tax calculation. Any borrowing cost on debt which exceeds this ratio will not be tax deductible for corporate income tax purpose. The rule applies to both related- and third-party debt, whether foreign or domestically availed. Some sectors are exempted from this regulation, such as banks, financial institutions, insurance and re-insurance companies, mining, oil and gas enterprises that are bound by production sharing contract, Contract of Work or Coal Contract of Work which itself governs the DER. If the contract does not include a provision for the Debt to Equity Ratio or the contract has expired, PMK-169 will prevail. The exempted companies subject to final income tax and infrastructure companies.

c) Controlled Foreign Companies

The Ministry of Finance is authorized to determine when a dividend is deemed to be derived from a foreign company established in certain countries where an Indonesian resident taxpayer holds at least 50 percent of the paid-up capital of the foreign company or together with other resident taxpayers, holds at least 50 percent of the paid-up capital. This measure is established in order to curb tax evasion by resident taxpayers through offshore investments. This applies only if the foreign company does not trade its share on the stock exchange.

If no dividends are derived from offshore company, the resident taxpayers must calculate and report the deemed dividend in its tax return; otherwise, the Ministry of Finance will do so. The dividend is deemed to be derived either in the fourth month following the deadline for filling the tax return in the offshore country, or seven months after the offshore company's tax year ends if the country does not have specific tax filing deadline requirement.

The withholding tax rates applicable under tax treaties are summarized below:

Table 21. Indonesia Tax Treaties

Country	Dividends		Interest	Royalties	Branch Profit Tax
	Portfolio	Substantial Holdings			
Algeria	15%	15%	15%/0%	15%	10%
Australia	15%	15%	10%/0%	15%/10%	15%
Austria	15%	10%	10%/0%	10%	12%
Belgium	15%	10%	10%/0%	10%	10%
Brunei	15%	15%	15%/0%	15%	10%
Bulgaria	15%	15%	10%/0%	10%	15%
Canada	15%	10%	10%/0%	10%	15%
China	10%	10%	10%/0%	10%	10%
Czech Republic	15%	10%	12.5%/0%	12.5%	12.5%
Denmark	20%	10%	10%/0%	15%	15%
Egypt	15%	15%	15%/0%	15%	15%
Finland	15%	10%	10%/0%	15%/10%	15%
France	15%	10%	15%/10%/0%	10%	10%
Germany	15%	10%	10%/0%	15%/10%	10%
Hungary	15%	15%	15%/0%	15%	20%
India	15%	10%	10%/0%	15%	10%
Iran	7%	7%	10%/0%	12%	7%
Italy	15%	10%	10%/0%	15%/10%	12%
Japan	15%	10%	10%/0%	10%	10%
Jordan	10%	10%	10%/0%	10%	20%
North Korea	10%	10%	10%/0%	10%	10%
South Korea	15%	10%	10%/0%	15%	10%
Kuwait	10%	10%	5%/0%	20%	10%/0%
Luxembourg	15%	10%	10%/0%	2.50%	10%
Malaysia	15%	15%	15%/0%	15%	12.50%
Mexico	10%	10%	10%/0%	10%	10%
Mongolia	10%	10%	10%/0%	10%	10%
Netherlands	10%	10%	10%/0%	10%	10%
New Zealand	15%	15%	10%/0%	15%	20%
Norway	15%	15%	10%/0%	15%/0%	15%
Pakistan	15%	10%	15%/0%	15%	10%
Papua New Guinea	20%	15%	15%/10%/0%	15%	20%
Philippines	20%	15%	15%/10%/0%	15%	20%
Poland	15%	10%	10%/0%	15%	10%
Portuguese	10%	10%	10%/0%	15%	10%
Qatar	10%	10%	10%	5%	10%
Romania	15%	12.50%	12.5%/0%	12.5%/15%	12.50%
Russia	15%	15%	15%	15%	12.50%
Seychelles	10%	10%	10%/0%	10%	20%
Singapore	15%	10%	10%/0%	15%	15%
Slovakia	10%	10%	10%/0%	15%/10%	10%
South Africa	15%	10%	10%/0%	10%	20%
Spain	15%	10%	10%/0%	10%	10%
Sri Lanka	15%	15%	15%/0%	15%	20%
Sudan	10%	10%	15%/0%	10%	10%
Sweden	15%	10%	10%/0%	15%/10%	15%
Switzerland	15%	10%	10%/0%	12.50%	10%
Syria	10%	10%	10%	20%/15%	10%
Taiwan	10%	10%	10%/0%	10%	5%
Thailand	20%	15%	15%	15%	20%
Tunisia	12%	12%	12%/0%	15%	12%
Turkey	15%	10%	10%/0%	10%	10%
Ukraine	15%	10%	10%/0%	10%	10%
United Arab Emirates	10%	10%	5%/0%	5%	5%
United Kingdom	15%	10%	10%/0%	15%/10%	10%
United States	15%	10%	10%/0%	10%/0%	10%
Uzbekistan	10%	10%	10%/0%	10%/0%	10%
Venezuela	15%	10%	10%/0%	20%/10%	10%
Vietnam	15%	15%	15%/0%	15%	10%

III.7 Stamp Duty

Stamp duty is nominal and payable as a fixed amount of either Rp 6,000 or Rp 3,000 on certain documents. Examples of documents subject to stamp duty are as follows:

a) Letters of agreement and other letters (such as authorization letters, letters bestowing gifts, or declarations) which are prepared for the purpose of being used as evidence of act, fact, or condition of a civil nature.

b) Notary's deeds and their copies.

c) Deeds prepared by a designated land notary ("Pejabat Pembuat Akta Tanah").

d) All documents bearing a sum of money which:

i. State the receipt of money;
ii. State the recording or deposit of money in a bank;
iii. Contain notification of a bank balance;
iv. Contain the acknowledgement of debt wholly or partly paid or compensated;
v. Are in the form of valuable documents such as drafts, promissory notes, or acceptances;
vi. Are in the form of securities, in whatever name or form;
vii. Are in the form of cheque.

e) Documents to be used as instruments of evidence before a court:

i. Ordinary letters or internal papers
ii. Paper originally exempt from stamp duty on the basis of their purpose of use, if they serve other aims or are used by other parties, and deviate from their original purpose.

The Rp 6,000 rate is applicable to (a), (b), (c), and (e). For (d), the rate is Rp 6,000 when the money value stated in the document is more than Rp 1 million, and Rp 3,000 when the value is between Rp 250,000 and Rp1 million. Values below Rp 250,000 are not subject to stamp duty. For cheque, the rate is Rp 3,000 regardless of the monetary value stated.

III.8 Tax Incentives

a) Taxation on Merger and Acquisition

Gains resulting from restructuring which involves transfer of assets are assessable and based on market value. It includes business mergers, consolidations, or business splits. On the other hand, losses are generally claimable as a deduction from income. However, a tax-neutral merger or consolidation, under which assets are transferred at book value, can be conducted but subject to the approval of Director General of Taxes. The merger or consolidation plan in question must pass a business-purpose test in order to get this approval. Furthermore, the approval is also available for business splits which constitute part of an Initial Public Offering (IPO) plan.

b) Investment in Certain Business Fields and or Certain Regions

Special treatments are granted to taxpayers who invest capital in certain sectors and or in certain regions, regardless they are domestic corporation (domestic capital or foreign capital) or foreign corporations. Generally, a taxpayer will qualify for the Incentives below if they can fulfill the requirements that investment in certain business anywhere in Indonesia or investment in the certain business in certain area in Indonesia. Within 6 years after the receiving the approval on such incentives, the Company is not allowed to use the Approved Assets for other purposes or transfer all or part of the Approved Assets unless they are replaced with other new assets.

Companies investing in certain business sectors and/or in certain less developed regions having high priority on a national scale can be granted tax facilities in the form of:

i. Additional deductible expense in the form of Investment Allowance in the amount of 5 percent of Investment per year up to maximum of 6 years. The Investment shall be the cost of acquisition of fixed assets including land for main business activities (Approved Assets).
ii. Accelerated depreciation or amortization of assets.
iii. Withholding tax on dividend paid or payable to offshore at 10 percent or at the rate of prevailing tax treaty, whichever is lower.
iv. Maximum 10 years of loss carry forward.

Based on Government Rule number 9 Year 2016, there are 145 business fields which can get tax allowance. Some of those fields are food industries, garment and textile, pulp and paper, industrial chemical materials; pharmaceutical industries; rubber and products made from rubber; iron and steel, machines and equipment; electronics; land transportation vehicles; ship building and reparation; cement (in papua, sulawesi, and nusa tenggara); products and packaging made from plastic (outside java); geothermal exploitation; oil refining; and mini natural gas refining.

c) Bonded Zones

The industrial companies which are located in the bonded areas are provided with many tax incentives as follows;

i. Postponement of import duty;
ii. Non-collection of VAT, LST and article 22 Income Tax;
iii. Exemption of excise.

Exemption of Value Added Tax and Sales Tax on Luxury Goods on the delivery of products for further processing from bonded zones to their subcontractors outside the bonded zones or the other way around as well as among companies in these areas.

d) Foreign-Grant or Foreign-Loan-Funded Governmental Projects

Goods, materials and construction equipment imported by a main contractor in connection with an approved government project funded by foreign loans or grants are entitled to the following relief:

i. Exemption from import duty;
ii. Non-collection of VAT and LST and
iii. Non-collection of import income tax (article 22)

If a qualifying project is only partially funded by a foreign loan or a foreign grant, the tax facilities are determined proportionate to the amount of loan or grant.

III. 9 Tax Assessments and Tax Audits

a) Tax Assessments

Indonesian taxation relies on a self-assessment system under which taxpayers are trusted to calculate, pay, and report their own taxes by themselves in accordance with prevailing tax laws and regulations. However, the DGT may issue tax assessment letters to a particular taxpayer if it finds that, based on a tax audit or other information the taxpayer has not fully paid its tax liabilities. A tax assessment letter may also be issued by the DGT to a taxpayer who ignores a warning letter to file a tax return in a specified period. Failure to maintain books in accordance with the prescribed standards is another condition that may lead the DGT to issue an official tax assessment.

One tax assessment letter pertains only to one specific tax for one particular tax period or year and typically takes into account the following factors such as the tax due, the applicable tax credits, the resulting balance between the tax due and the tax credits (overpaid, nil, or underpaid) and the administrative penalty (interest or a surcharge).

b) Types of Tax Assessment Letter

The name of a tax assessment letter refers to the resulting balance between the tax due and the tax credits and accordingly there are three types of tax assessment letters:

i. Overpaid Tax Assessment Letter (OTAL) if the tax due is less than the tax credit amount;
ii. Underpaid Tax Assessment Letter (UTAL) if the tax due exceeds the tax credit amount;
iii. Nil Tax Assessment Letter (NTAL) if the tax due amount is equal to the tax credit amount.

c) Tax Audits

According to Article 29 of Law concerning the General Provisions and Tax Procedures, the Directorate General of Taxes is authorized to perform audit to assess tax compliance (consist of risk based audit and routine audit) and for other purposes in respect of the implementation of the tax laws and regulations. Tax compliance audit is generated by 2 cases. The first case is mandatory by tax law in respect to the taxpayer's rights and obligations, and the second case is audit which performed when DGT detect the risks or tax gap from the business sector or specific tax payer which proposed by bottom-up risk analysis and top-down risk analysis.

d) The Objectives of Tax Audit

In the framework of exercising administrative supervision, the Directorate General of Taxes shall undertake audit for the purpose of assessing tax compliance and for other purposes in respect of the implementation of the tax laws and regulations.

i. Audit for the Purpose of Assessing Taxpayer's Compliance

Audit to assess taxpayer's compliance is conducted to certain categories:

i) overpayments tax return including those that have been granted preliminary tax returns;
ii) loss reported tax return;
iii) overdue or not-submitted tax return (beyond the time period specified in the Letter of Reprimand) delivered;
iv) Doing a merger, consolidation, division, liquidation, dissolution, or intend to leave Indonesia permanently;
v) Tax return that meet the selection criteria based on the results of the analysis (risk based selection) indicating of non-compliance to the tax regulation.

ii.Audit for Other Purposes

The audit for other purposes shall be conducted with regard to implementing of tax laws or tax regulations regarding the following criteria:

i) Issuing taxpayer identification number ex-officio;
ii) Terminating taxpayer identification number;
iii) Confirming or revoking taxable person for Value Added Tax (VAT) purposes;
iv) Taxpayer lodges objection;
v) Collecting material for determination of net deemed profit;
vi) Verifying data and or information;
vii) Determining whether taxpayer is located at remote area;
viii) Designating one or more places where VAT is payable;
ix) Audit in the framework of tax collection;
x) Determining the commencement of production or extending the time period of loss compensation relating to granting tax incentives; and or
xi) Fulfilling information request from treaty partner country with respect to the implementation of exchange of information of the tax treaty.

The scope of audit for other purposes in respect of the implementation of the tax laws and regulations may cover determination, verification, or collection data and information in accordance to the purpose of audit.

e) Closing conference

At the end of a tax audit, the tax auditors will provide the taxpayer being audited with a written notification of the tax audit findings containing their proposed tax audit corrections. The taxpayer will typically have to respond to the notification in writing within 7 days. In certain cases, at the tax auditors' discretion, the time limit can be extended up to 21 days. By the end of the third week of the notification, a final discussion about the tax audit findings (closing conference) will be held between the tax auditors and the taxpayer.

A closing conference will serve as the last opportunity for the taxpayer to reassert its position with regard to the tax audit corrections and to present the relevant supporting documents. The tax auditors may change some of the suggested corrections in light of the taxpayer's response to the tax audit findings notification and the closing conference discussion. The results of the final discussion are then summarized in a closing conference document. The taxpayer will have to state agree or disagree with each of the proposed corrections therein. The document should also set out which part of the taxpayer's arguments are accepted by the tax auditors and accordingly lead to the cancellation or reduction of some particular suggested corrections. By the end of the closing conference, the tax auditors and the taxpayer have to sign the closing conference document. The correction agreed to in the closing conference document will constitute a basis for the minimum amount the taxpayer must pay of the tax assessment issued based on document.

III.10 Tax Dispute and Resolution

A tax dispute between a taxpayer and the DGT will typically arise following the issuing of a Tax

Collection Letter (TCL) by the DGT which the taxpayer does not agree with. A UTAL, an AUTAL, and a TCL constitute legal tax collection instruments based on which the DGT may issue a Distress Warrant if the taxpayer fails to settle the underpaid tax on time. The way the DGT executes the Distress Warrant may still give rise to another tax dispute between the parties. Apart from this, a tax dispute may also arise between 2 taxpayers because one taxpayer has withheld too much tax from the income payable to the other taxpayer. What follows is a discussion on the ways available to resolve such tax disputes.

a) Objections and appeals

A taxpayer who does not agree with a tax assessment letter can file an objection to the DGT office within three months of the issue date. The Objection must state the tax due in accordance with the taxpayer's calculation and set out the reasons for his/her disagreement with the DGT tax assessment. A taxpayer that is going to file a tax objection with the DGT over an assessment letter must pay at least amount payable that has been agreed by the taxpayer in the closing conference during tax audit or verification process, before submitting the objection letter. With respect the unpaid portion of the assessment penalties will subsequently be applied if the taxpayer's objection is rejected or a subsequent tax appeal to the Tax Court is unsuccessful. The DGT has to issue a decision on the tax Objection within 12 months of the filing date of the Objection. If no decision is issued by the DGT within 12 months, the objection is automatically deemed approved by the DGT. If the objection is rejected by the DGT, any underpayment is subject to a surcharged of 50 percent. However, the underpaid tax and the surcharge are not payable if the taxpayer files an appeal with the tax court in respect of the objection decision.

An Objection may also be filed by a taxpayer with the DGT office with respect to tax withheld by a third party. The same time limits to file the Objection and for the DGT to decide upon it apply to this type of Objection. A taxpayer who does not (fully) accept the DGT Objection decision can file an Appeal with the Tax Court within three months of the receipt of the DGT Objection. To the extent the DGT Objection Decision calls for a payment of tax due, according to the tax court law, at least 50 percent of the tax due must be settled before filing the Appeal. According to the 2007 tax administration law, this requirement is no longer applicable. The Tax Court will typically have to decide on an Appeal within 12 months. Any underpaid tax amounts resulting from the tax court decision are subject to a surcharge of 100 percent.

b) Another avenue for tax dispute resolution

The DGT, following a taxpayer request or by virtue of its official position, may correct or cancel a TCL, or their derivatives issued based on those letters. The derivatives include, among others:

i. Objection Decision Letters;

ii. Decision Letters on the Reduction or Cancellation of Administrative Sanctions;

iii. Decision Letters on the Reduction or Cancellation of a Tax Assessment;

iv. Decision Letters on an Early Refund of Overpaid Tax.

A Correction Request is an alternative for a taxpayer to the Objection by which to solve a dispute with the DGT in respect of a particular tax assessment letter. This avenue is also applicable for other tax disputes arising from virtually any other DGT decision. However, lodging an objection is generally regarded as a more robust approach. The DGT has to issue a decision on an Amendment Request within 6 months of the filing date. If no decision is issued by the DGT within 6 months, the Correction Request is automatically deemed to be approved by the DGT.

Taxpayers who do not (fully) accept the DGT Decision on an Correction Request can file a lawsuit with the Tax Court within 30 days of the receipt of the DGT decision. A lawsuit against the DGT can also be filed with the Tax Court with respect to the execution of Distress Warrant. In this respect, the lawsuit must be filed no later than 14 days of the execution date. The Tax Court will typically have to decide on an appeal within 6 months.

c) Judicial Review Request to the Supreme Court

A Tax Court Decision is considered to be a final decision bearing full legal force. However, the parties involved in a tax dispute may file a Judicial Review Request related to a Tax Court Decision.

This can be done only if any of the following conditions prevail:

i. Tax Court Decisions based on falsehood or trickery;
ii. There is written evidence of new important and decisive;
iii. Granted something that is not accused or more than accused;
iv. There is a part of the claim has not been concluded without considering its causes;
v. Decision on manifestly incompatible with the provisions of applicable law.

III.11 Taxpayer rights

Based on the law, the taxpayer rights can be compiling as follows:

1. To obtain TIN and or taxable person for VAT purpose Identification number after registering and reporting his business.
2. On a request, to extend the period to file annual tax return.
3. To receive a proof of receipt for a tax return filed directly to the DGT.
4. To amend the tax return.
5. On a request, the right to install or postpone the tax payment.
6. To request for correction of a notice of tax assessment.
7. The right for a refund of a tax overpayment within a maximum period of one month since the request is received due to the issuance of a notice of tax overpayment assessment.
8. To appoint a proxy by a power of attorney to exercise rights and fulfill tax obligations.
9. To obtain secrecy guarantee through official secrecy provisions.
10. To file a request for deduction or annulment of administrative penalties in the form of interest, fine and surcharge due to taxpayer's disregard or other than his intentional faults.
11. To file a request for deduction or cancellation of incorrect tax assessment.
12. To refuse a tax auditor who doesn't possess an auditor identity card, is not provided with an audit order or doesn't show them to the audited taxpayer.
13. To file a request for appeals to the tax court against decision on objection which is still considered in appropriated.
14. To file additional reasons or written explanations before a decision on objection is issued.
15. The right to file an objection on a notice of tax assessment.
16. The right to extend the period to file an objection due to circumstances beyond his control.
17. The right to obtain written information on matters which constitute the basis for imposition of tax in order to file a objection.
18. The right to obtain a decision on objection no latter 12 months since the date the objection is received by DGT. If after the time limit has elapsed, there is no decision issued, the objection shall be considered to be granted.
19. The right for a statute of limitation in a law suit of tax crime , that is a period of 10 years after the date a tax is payable or after the end of a taxable period, a fraction of a taxable period or a taxable year.
20. The right for termination of tax crime investigation when the taxpayer has paid in full the unpaid or underpaid tax or the tax which should have not been refunded, added with administrative penalty in the form of fine of 4 times of the amount of the unpaid or underpaid tax or the tax which should have not been refunded.

III.12 Taxpayer obligations

On the other hand, taxpayer must fulfill the obligations as follows:

1. To register and/or report his business.
2. To obtain and fill out his annual tax return correctly, completely and clearly and sign and file it to the DGT before the due date.
3. To submit a statement estimating the amount of a tax payable for a taxable year and proof of settlement of the tax payable in the case that the taxpayer files a request to extend the period to file annual tax return.

4. In case a taxpayer is an entity, the tax return must be signed by any member of the management or board of directors.
5. In case a tax return is completed and signed by other than the taxpayer, a power attorney must be attached.
6. For a taxpayer who maintains bookkeeping, his annual tax return must be accompanied with financial statement in the form of balance sheet and income statement and other information.
7. To pay an administrative penalty of 2% interest per month o the amount of tax under paid if the taxpayer voluntary amends his tax return resulting an increase in the amount of tax payable.
8. To pay or remit tax payable at state treasury or any other place of payment stipulated by Minister of Finance.
9. To pay any underpaid tax as stated in annual tax return at the latest of the 25th of the third month after the end of a taxable year.
10. Taxpayer conducting business activities or independent personal services in Indonesia is obliged to keep book and record pursuant to the provisions of the tax laws.
11. Individual taxpayer who according to the provisions of the tax laws is permitted to calculate net income by using the calculation norm is obliged to maintain records.
12. To store books, records and documents used as a basis of bookkeeping or recording for 10 years in Indonesia.
13. Keep book and record or recording in good faith, which reflects the facts or the real business activity.
14. Secure approval from DGT on changing in the method of bookkeeping and or accounting year.

IV. Country Specific Fiscal Issues

IV.1 Tax Amnesty Background

"*Pengampunan Pajak*", Indonesia term for Tax Amnesty, came into force on July 1, 2016. This program released as government effort to anticipate global economy condition. Some new international agreement cooperation, decreasing in world commodity price, the exit of Britain from European Union and the condition of international trading that still has not recovered to the condition before the crisis might influence Indonesia economy directly and indirectly. The impacts for Indonesia that should be anticipated are the probability of slowdown in economic growth, deficit in trade balance, increasing of budget deficit, decline in the growth of manufacturing industry and the high level of infrastructure gap. To improve Indonesia economic structure and to find the more sustainable source of revenue, the government together with the parliament finally agreed to commence the Tax Amnesty Law.

Bank Indonesia (Indonesia Central Bank) estimates that the number of abroad illicit funds held by Indonesian is IDR 3,147 trillion. The government aimed to repatriate Indonesia funds stored overseas under the Tax Amnesty scheme. Based on data from Central Bureau of Statistics Republic of Indonesia, household consumption contributes to the biggest portion of economic growth but on the other side the slower growth in global economic condition also weaken Indonesia investment growth. That means the opportunity to invest in Indonesia is still wide open. The public and private investments are needed to change the structure of economic growth source from consumption-led growth to investment-led growth. The considerable amount of overseas funds will provide investment opportunities in Indonesia.

The Purpose

The Tax Amnesty Program is intended to reach three main objectives, those are:

1. To accelerate economic growth through asset repatriation. Economic growth expected to achieve are in terms of increase in domestic liquidity, strengthen the exchange rates and increase in investment.
2. To strengthen the tax reform towards fairer justice system. The law will contribute to more valid, comprehensive, integrated data and reliable calculation of tax potential.
3. To increase the tax revenue both short and long term. Short term revenue through inflow of redemption money and long term acceptance by more accurate tax base.

Important Feature of the Law

Under the Law No.11/2016, Tax Amnesty stated as the waiver of tax liability, tax administration sanctions and criminal sanctions in the field of taxation, by uncovering assets and paying the redemption money. The scope of the law covers Income Tax, Value Added Tax and Luxury Sales Tax.

The law basically applicable to all taxpayers, except for those who:

1. In the investigation process and the investigation file has been declared complete by the Prosecutor,
2. under the judicial process,
3. already sentenced for criminal penalties in taxation

Tax Amnesty implemented in three periods based on the rate of redemption money:

Table 22. Redemption Money Rate

Type of Declaration	Period of Declaration Letter Submission		
	July-September 2016	October-December 2016	January-March 2017
Declaration of domestic asset	2%	3%	5%
Declaration of offshore assets without repatriation	4%	6%	10%
Declaration of offshore assets with repatriation	2%	3%	5%

The Taxpayers who apply for repatriation required to attach a statement to transfer and invest the assets to Indonesia territory for minimum period of three years since the assets transferred. The ones who disclose domestic assets must attach a statement that they will not transfer the assets outside the territory of the Republic of Indonesia for minimum period of three years since the issuance of the Tax Amnesty Approval Certificate.

Other than the classification above, the law also set provision for taxpayers with turnover up to IDR 4.8 billion. The rate of redemption money is 0.5% for assets declaration with value up to IDR 10 billion and 2% for above IDR 10 billion.

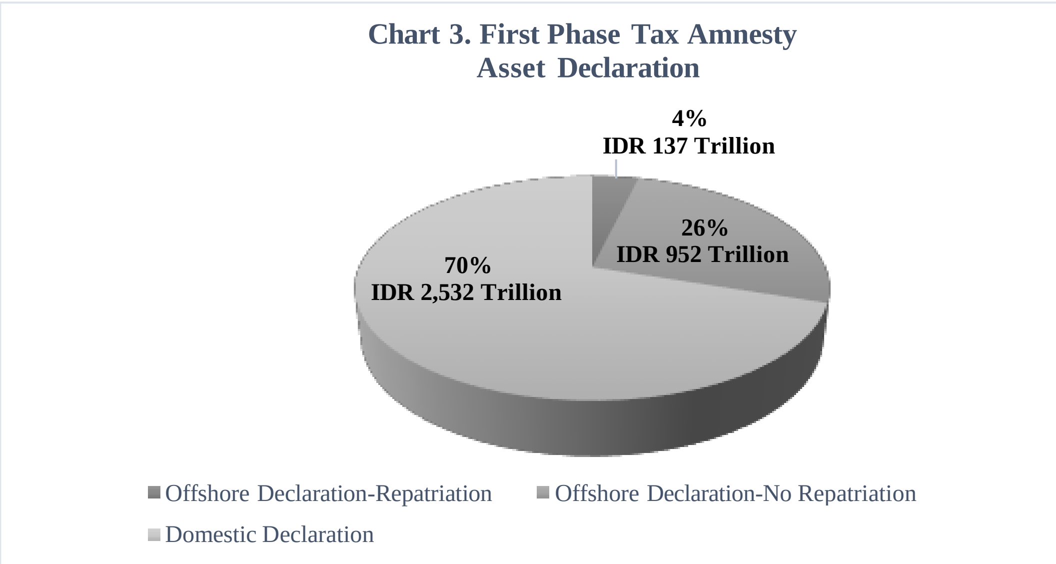
Additional requirements for taxpayers who apply for Tax Amnesty is to revoke any legal process (As long as the applications are still in process and the result of the application has not been decided) in regards of taxpayer's application for:

a. Tax refund including tax overbooking
b. Reduction and cancelation of administration sanction
c. Reduction of incorrect tax assessment letters
d. Tax Objection
e. Revision of assessment letters and decision letters
f. Tax Appeal
g. Tax Lawsuit and/or Judicial review

Revenue from Tax Amnesty

Tax Amnesty Program is targeted to collect IDR 165 trillion (US $12.68 billion) for nine months. More than 350,000 taxpayers declared their assets in the first phase of the amnesty, which covered the period of July to September 2016. Based on Asset Declaration Letter for Tax Amnesty, the amount of redemption fund collected in the first phase was IDR 89.1 trillion but the actual revenue collected through redemption fund inflow (based on tax payment slip data) was IDR 97.2 trillion (US $7.49 billion) or more than 50% of the targeted amount. Asset declared through the same phase was IDR 3,621 trillion (US$ 279 billion) as described in the chart.

Figure 7 First Phase Tax Amnesty Asset Declaration



The Tax Amnesty Program has revealed billions of dollar assets stored overseas. It turns out not in tax heaven countries, Indonesian wealthy citizens and business mostly store their assets in the neighbor country. Of the IDR 137 trillion (US $ 10.5 billion) offshore assets brought back to Indonesia, 57,71 % came from Singapore.

Table 23. The Source Country of Repatriation Fund

Country	Repatriation Fund (IDR Trillion)	Percentage
Singapore	79.13	57.71%
Cayman Islands	16.50	12.04%
Hong Kong	14.05	10.25%
China	3.56	2.60%
Virgin Islands	2.49	1.82%
Others	21.37	15.59%
Total	137	100%

Not only the amount of repatriation fund, Singapore also held the first place for the value of declared overseas-asset. Of the IDR 952 trillion (US $ 73.23 billion) in total offshore assets declared under, 68.51% per cent was kept in Singapore.

Table 24. The Source Country of Asset Declaration

Country	Asset Declared (IDR Trillion)	Percentage
Singapore	652.03	68.51%
Virgin Islands	72.67	7.64%
Cayman Islands	52.23	5.52%
Hong Kong	38.7	4.07%
Australia	33.15	3.48%
Others	103.22	10.78%
Total	951	100%

Tax Amnesty shall be a new breakthrough to broaden Indonesia tax base, considering its law tax ratio to GDP, lower than the neighboring countries. The long queue of taxpayers participating in the first phase of the program represents that above all interests and benefits to the national revenue, the government might earn something that also valuable for sustainable of development, mutual trust between the government and the taxpayers.

IV.2 E-Tax Invoice

Tax Invoice in electronic form or the so-called e-Tax Invoice is a tax invoice prepared through the application or electronic system determined and/or provided by the DGT. e-Tax Invoice is an electronic document which could be printed in paper form or in the form of pdf format file.

The first phase of e-Tax Invoices was implemented in 1 July 2014 for certain Taxable Person for VAT Purposes confirmed in Tax Office such as Large Taxpayers Regional Tax Office, Jakarta Special Regional Tax Office, and Jakarta Medium Tax Office. The second phase of implementation was conducted in 1 July 2015 for Taxable Person for VAT Purposes that were confirmed in Tax Offices in Java and Bali and the last stage of implementation will be conducted in 1 July 2016 for the entire Taxable Person for VAT Purposes.

Some of the benefits and convenience of e-Tax Invoice are:

a. handwrite signature is substituted with electronic signature;

b. e-Tax Invoice is not required to be printed, thus reducing the cost of paper, printing, and storage;

c. e-Tax Invoice application is also part of e-SPT application, thus making it easier for register VAT Taxpayer in submitting VAT Period Tax Return; and

d. request of Tax Invoice Serial Number is provided online through DGT website so it is time saving from long queue in tax office counter

For DGT side, e-Tax Invoice will facilitate in providing administration services of Tax Invoice serial number and reporting of e-SPT as well as facilitate the monitoring of Taxable Person for VAT.

V. Conclusion: Where We Stand and Where We Go?

Based on Bank of Indonesia and Ministry of Finance Annual Report, Indonesia's economy managed to record positive growth amidst challenges faced in 2015. This is reflected from the achieved 2015 inflation target of 4%±1%, declining current account deficit, controllable Rupiah pressure in the fourth quarter of 2015, and maintained financial system stability. The achievements were the results of synergy between Bank Indonesia and the Government in maintaining macroeconomic stability and financial system as well as boosting economic growth.

V1. Global Environment

Global economic recovery in 2015 was slower than expected. Global growth only reached 3.1%, lower than initial forecast of 3.5% or realized economic growth in 2014 at 3.4%. Developed countries grew 1.9% in 2015, slightly higher than the previous year of 1.8%. Meanwhile, developing economies slowed to 4.0% in 2015 compared to 4.7% growth in 2014. Nevertheless, the contribution of developing economies to global growth was still dominant at 58%.

In 2015, Indonesia faced challenges stemming from weakening global economic growth, widening monetary policy divergence among developed countries, and increasing uncertainty in the global financial market. The Indonesian economy posted 4.8% (yoy) growth in 2015, down from 5.0% (yoy) the year earlier and below the Bank Indonesia projection of 5.4-5.8%. Current account deficit in 2015 reached USD17.8 billion or equal to 2.1% of GDP, better than the previous year deficit of USD27.5 billion or equal to 3.1% of GDP.

The forecast for global economic growth in 2016 is 3.4%, bolstered by the continued recovery in the U.S. economy. Domestic demand will continue to provide the main driver for economic growth in 2016, which is expected to reach 5.2-5.6% amid the limited recovery in external conditions. Overall growth in household consumption in 2016 is forecasted to reach 5.0-5.4%. In 2016, investment is projected to grow more robust at 7.2-7.6%, up from the preceding year. Similar to 2015, infrastructure investment will become the leading contribution to future investment growth.

V2. Fiscal Policy

In the short-term, the Government aims to increase production capacity and competitiveness and to promote the implementation of development priorities with use of the fiscal stimulus. Concerning revenues, the Government focus on revenue enhancements is directed toward policies for tax revenues and non-tax revenues.

In addition, targets for taxation receipts will be achieved under an extra efforts policy with the following actions: (i) optimizing audits with focus on individual high-performing sectors, transfer pricing and fraud; (ii) broadening of the tax base and intensification of tax receipts through measures to optimize use of IT, e-tax invoices and improvements to regulations; and (iii) campaigning 2016 as the year of law enforcement.

The 2016 state budget draft is based on the principal of fiscal policy with a theme "Strengthening Fiscal Management in the Context of Solidifying Fundamental Development and Quality Economic Growth". In line with this, the strategies pursued are: (1) strengthening the stimulus directed to increase production capacity and strengthening competitiveness, (2) improving fiscal sustainability and safeguard the implementation of priority programs in the midst of challenges in the global economy, and (3) control risk and maintaining fiscal sustainability in the medium and long term. Through this strategy of fiscal management is expected to be more productive, resilient, controllable risks and sustainable.

V3. Challenge on Tax Administration

Indonesia signed a multilateral competent authority agreement on automatic exchange of financial account information on 4 June 2015 and committed to apply the common reporting standard (CRS) issued by OECD. The implementation of exchange of information that will come into effect on September 2018. With the upcoming implementation of the global automatic exchange of information (AEOI) between tax authorities, Indonesia government will have more access to increase tax compliance and reduce tax evasion. Before the implementation of AEOI, Indonesia will begin a gradual exchange of information with the US government in September 2016 under the FATCA scheme. FATCA requires the FFI should report to the US government for information related to the financial accounts owned by US residents or other entity in which the US citizen holds a substantial ownership interest. The exchange of information could strengthen the position of the government in preventing tax base erosion cause by the transfer of funds to the low tax jurisdiction. Indonesia's participation in international cooperation is one of the efforts to overcome the world financial crisis.

Entering the end of second phase of Tax Amnesty, the government still struggle to meet the tax amnesty target. Until 11 December 2016, the revenue received under this scheme is IDR 100 trillion or 61.6 percent from the target. The program itself will end on March 2017. Beside some strategies to attract taxpayers' participation in the rest period of the program, the government also coordinate to allocate the tax amnesty funds toward strategic sectors to accelerate economic growth. Financial Services Authority (FSA) is in the process of preparing a scheme to accommodate the flow of repatriation funds. The authority still need to finalize and socialize the technical implementation of this scheme to investment managers and brokers. FSA also has set up a capital market policies adjustment to accommodate funds repatriation through some adjustment on the fund management contract (Kontrak Pengelolaan Dana/KPD), limited mutual funds (Reksa Dana Penyertaan Terbatas /RDPT) and real estate investments (Investasi Real Estat /DIRE). KPD managed by investment manager will be lowered than the original minimum limit of IDR 10 billion to IDR 5 billion.

Based on the results of cabinet meeting, the redemption funds allocated to the Ministry of Public Works and Housing (PUPR) amounts to IDR 60.79 trillion, or 62.5 percent of the total, first phase redemption funds. The funds comprise IDR 10.45 trillion for projects under Directorate General of Water Resources, such as dams and irrigation, IDR 47.25 trillion for Directorate General of Highways projects, such as roads, and IDR 3.09 trillion for Water Supply System (SPAM) projects under the Directorate General of Human Settlements. Meanwhile, the repatriation funds allocated to infrastructure projects under the Ministry of PUPR reaches an amount of IDR 32.94 trillion, consisting of IDR 32.148 trillion for the Trans Sumatera toll road, and IDR 800 billion for PDAMs. The tax amnesty will be able to restore the targets [infrastructure project works] that have indeed been constrained due to the budget cuts. The use of the repatriation funds is possible for projects funded entirely by the state budget (APBN) or which constitute an assignment to State-Owned Enterprises (BUMNs), but not for projects with the scheme of Government Cooperation with Business Entities.

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