



## Tax Regulation Harmonization Law (Income Tax Law)

### Law No. 7 year 2021 ("7/2021")

On 29 October 2021, the Indonesia Government has issued the Law No 7 year 2021 regarding the Tax Regulation Harmonization. This new tax law consist of 6 clusters as follows:

- 1) General Tax Provision (*Ketentuan Umum dan Tata Cara Perpajakan*)
- 2) Income Tax (*Pajak Penghasilan*)
- 3) VAT (*Pajak Pertambahan Nilai*)
- 4) Taxpayer Voluntary Disclosure Program (*Program Pengungkapan Sukarela Wajib Pajak*)
- 5) Carbon Tax (*Pajak Karbon*)
- 6) Excise (*Cukai*)

The **Income Tax Law** has the key features as follows:

No	Key Features	Description
1	The Benefit in Kind (BIK) is taxable as the employees' income	<p>The BIK is generally taxable as the employees' income, however, the BIK can be deductible on the employer's Corporate Income Tax calculation.</p> <p>There are some limited exception for BIK as non-taxable income:</p> <ol style="list-style-type: none"> <li>a) Food and beverages provided for all employees</li> <li>b) BIK in certain area</li> <li>c) BIK provided by employer to carry out the work</li> <li>d) BIK financed by the State and/or Regional Budget</li> <li>e) Certain types of BIKs with certain threshold</li> </ol>
2	Non-Taxable Income for Individual with certain gross income	The individual with certain gross income will not be taxed for the gross income up to IDR 500 million.
3	Useful life of permanent building	The permanent building can be depreciated for 20 years OR based on the actual useful life based on the taxpayer's bookkeeping (if more than 20 years).
4	Changes on Individual Income Tax rate	<p>The applicable tax rate for individual taxpayer's taxable income is:</p> <ul style="list-style-type: none"> <li>• <b>5%</b> : ≤ IDR 60 million</li> <li>• <b>15%</b> : &gt; IDR 60 million - ≤ IDR 250 million</li> <li>• <b>25%</b> : &gt; IDR 250 million - ≤ IDR 500 million</li> <li>• <b>30%</b> : &gt; IDR 500 million - ≤ IDR 5 billion</li> <li>• <b>35%</b> : ≥ IDR 5 billion</li> </ul>
5	Corporate Income Tax rate	The Corporate Income Tax rate for 2022 onwards will remain 22% instead of reduced to 20%.

No	Key Features	Description
6	<b>Transfer Pricing on related party transactions</b>	<ul style="list-style-type: none"> <li>• There are several transfer pricing methods can be used to re-determine the income and/or expense to calculate the taxable income:                             <ol style="list-style-type: none"> <li>a) Comparable uncontrolled price method</li> <li>b) Resale price method</li> <li>c) Cost-plus method</li> <li>d) Other method, e.g.                                     <ol style="list-style-type: none"> <li>1) Profit split method</li> <li>2) Transactional net margin method</li> <li>3) Comparable uncontrolled transaction method</li> <li>4) Tangible asset and intangible asset valuation</li> <li>5) Business valuation</li> </ol> </li> </ol> </li> <li>• If the taxpayer reports the profit too low compared to the other taxpayers in the similar industries or reporting unreasonable losses although the taxpayer has been in the commercial operation for 5 years, the DGT can benchmark the financial performance with the similar comparable companies.</li> <li>• The difference between related party transaction value and the arm's length value will deemed as dividend which subject to tax.</li> </ul>

For additional information, please contact us:

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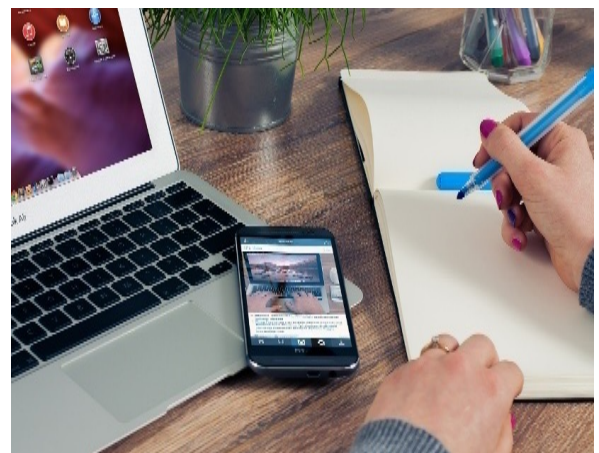
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The information in this document is intended for general information only based on our understanding of the interpretation of those provisions. There is no guarantee the Tax Office will have the same view from those expressed in this document. When specific problems occur in practice, it is suggested to obtain appropriate advice from the tax advisor.