IN-DEPTH

# Inward Investment And International Taxation

## INDONESIA

LEXOLOGY

# Inward Investment and International Taxation

EDITION 15

Contributing Editor

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In-Depth: Inward Investment and International Taxation (formerly The Inward Investment and International Taxation Review) is a practical overview of the business tax regimes in key jurisdictions worldwide, with a focus on the implications for international organisations seeking to expand into new markets. It offers topical and current insights on the most pressing tax issues and opportunities, including those relating to fiscal residence rules, business holding structures and cross-border activity.

**Generated: April 11, 2025**

# Indonesia

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## Summary

# Introduction

Indonesia is a unitary state consisting of 38 provinces, and 514 regencies and municipalities. In addition to national taxes such as income tax[1] and value added tax (VAT),[2] others are taxes imposed by the regional governments, such as taxes on land and buildings (except for areas used for plantation, forestry and mining, which are still maintained as national taxes), motor vehicles, advertising and consumption-based tax objects, which encompass restaurants and catering services, electricity consumption by end-users, hotels, parking services, and arts and entertainment.[3]

Under Article 23A of the Indonesian Constitution, every tax and other impositions that are compelling in nature for the needs of the state must be regulated by law. In many cases, the tax laws delegate to lower regulations, such as government regulations or even ministerial regulations, as implementing regulations to further regulate the subject matter. The Director General of Tax also issues many circular letters on certain subjects to subordinates as internal direction or guidelines. While these circular letters are not regulations and are technically non-binding on taxpayers, the tax offices very often follow these. However, problems arise when the provisions in lower regulations or these circular letters of the tax authority conflict with those provided in the tax laws. As a general principle of Indonesian law, a regulation higher in hierarchy will take precedence over a regulation lower in hierarchy (*lex superior derogat legi inferiori*). It has been more than three decades since Indonesia adopted a self-assessment system to replace the official assessment system in its tax legal system (except for tax on land and buildings, which still uses the official assessment system). Under the self-assessment system, taxpayers must themselves calculate, pay and report their own tax obligations in accordance with the prevailing laws and regulations.

In 2002, Indonesia enacted Law No. 14 of 2002 on the Tax Court (the Tax Court Law), and also established a Tax Court (replacing the Board of Tax Dispute Settlement) to examine and decide tax disputes between taxpayers and the tax authorities. Under the Tax Court Law, based on limited grounds, taxpayers and the tax authorities, if not satisfied with a Tax Court decision, also have the right to request a civil review application to the Supreme Court against that Tax Court decision.[4] Many tax disputes have been brought by taxpayers before the Tax Court regarding transfer pricing issues as a result of the price adjustment of, or non-recognition by, the tax authorities of the expenses in transactions between taxpayers and their foreign shareholders or affiliated companies. Tax disputes can also arise owing to different interpretations of laws and regulations between taxpayers and the tax authorities, or a conflict between laws and regulations affecting the rights and obligations of taxpayers.

The Indonesian government has been steadily churning out major regulatory reforms since 2020, including an overhaul of the tax law regime, all with the aim to reduce red tape and foster an attractive business environment. The reforms on Indonesia's fiscal policy include:

1. Law No. 2 of 2020 on the Stipulation of Government Regulation in Lieu of Law No. 1 of 2020 on State Financial and Financial System Stability Policies for the Mitigation of Corona Virus Disease 2019 (Covid-19) Pandemic or the Handling of Threats that are Potentially Harmful to National Economy and/or Financial System Stability to Become a Law (Law 2/2020), which took effect on 18 May 2020. Law 2/2020

amended certain provisions of the General Provisions and Procedures of Taxation Law, Income Tax Law and VAT Law, including reducing corporate income tax rate, expanding VAT credit applicability and reducing sanctions for tax non-compliance;

2. Law No. 7 of 2021 on Harmonised Tax Rules (Law 7/2021), promulgated on 29 October 2021 and addressed the corporate income tax reduction, introduced a higher income tax on the wealthy, raised VAT tarifs, made several previously exempted activities subject to VAT and imposed taxation on carbon-intensive activities;
3. Government Regulation in Lieu of Law No. 2 of 2022 on Job Creation, which took effect on 2 November 2020 and has been ratified as a Law by virtue of Law No. 6 of 2023 on 31 March 2023 (the Job Creation Law). The Job Creation Law is commonly referred to as the Omnibus Law because it contains various laws and has amended more than 70 laws, all with the aim to boost investments and create jobs by streamlining regulations and simplifying licensing processes across various sectors; and
4. Law No. 1 of 2022 on Financial Relationship between the Central Government and Regional Governments (Law 1/2022), which seeks to strengthen fiscal decentralisation through, among other things, enhancing local taxing powers by regional governments. Under Law 1/2022, administration and compliance costs for local taxation are reduced by reclassifying and integrating consumption-based regional taxes to provide ease of payment and reporting by taxpayers and improve efficiency in tax monitoring by local governments. Law 1/2022 also introduces additional objects for regional taxation, including taxes on valet parking and the renting of sports facilities.

The fiscal reforms continued in 2024 with the issuance of Minister of Finance Regulation No. 81 of 2024 on Tax Provisions for the Implementation of the Core Tax Administration System (MOF Regulation 81/2024). MOF Regulation 81/2024 revokes 42 existing MOF regulations and, most notably, introduces Core Tax Administration System (Coretax). Coretax refers to a centralised, technology-driven platform for tax processes (ranging from registration, filing and payments to refunds) for all major tax categories, including income tax, VAT, luxury goods sales tax, land and building tax, stamp duty and carbon tax. Coretax was launched on 1 January 2025. On 31 December 2024, the Minister of Finance also issued Regulation No. 136 of 2024 on Imposition of Global Minimum Tax based on International Agreements (MOF Regulation 136/2024). MOF Regulation 136/2024 was issued to combat tax avoidance and base erosion in alignment with the Pillar Two Global Anti-Base Erosion (GloBE) Rules under the Economic Co-operation and Development (OECD)'s framework. Entering into force on 1 January 2025, MOF Regulation 136/2024 ensures a minimum taxation of 15 per cent for multinational enterprises with a global consolidated turnover of at least €750 million within at least two of the four preceding fiscal years. A top-up tax is also imposed on multinational enterprises operating in low or zero-tax jurisdictions to bring the effective tax rate to the 15 per cent minimum.

In addition, positive institutional reforms also took place in the tax sector, notably by virtue of Minister of Finance Regulation No. 2/PMK/09/2023 on Tax Supervisory Committee (MOF Regulation 2/2023) and Constitutional Court Decision No. 26/PUU-XXI/2023 dated

25 May 2023, which transfers the authority over the Tax Court from being shared between the Supreme Court and Ministry of Finance to solely the Supreme Court.

Effective on 17 January 2023, MOF Regulation 2/2023 aims to enhance the effectiveness and efficiency of tax monitoring by strengthening the role of the Tax Supervisory Committee in protecting the rights of taxpayers. The Tax Supervisory Committee is an independent agency directly responsible to the Minister of Finance, and it is tasked with reviewing and monitoring policies and administration on tax, customs and excise by the Fiscal Policy Agency, the Directorate General of Tax and the Directorate General of Customs and Excise, respectively. The Tax Supervisory Committee also accepts tax, customs and excise-related complaints and is authorised to monitor the handling of these complaints by the relevant tax authorities. Furthermore, as noted above, Indonesia's Constitutional Court on 25 May 2023 rendered its Decision No. 26/PUU-XXI/2023, which transfers the authority gradually (to be completed by 31 December 2026) over the organisation, administration and finances of the Tax Court from the Ministry of Finance to the Supreme Court. The ruling is widely seen as a move to a more independent judiciary in the tax sector, ending the dualism between the executive and judicial powers over the Tax Court.

## Common forms of business organisation and their tax treatment

The types of business entity commonly used in Indonesia take the form of sole proprietorship, general partnership, firm partnership, limited partnership (CV), limited liability company (PT) or cooperative.

A sole proprietorship is carried out by a natural person in his or her personal capacity. This form is typical for small to medium-sized businesses such as stores, restaurants and small repair shops.

A general partnership is the most basic form of partnership under Indonesian law. The general partnership is an association of persons for the carrying out of a joint enterprise. The members of the general partnership are not personally liable for the liabilities of the general partnership, and each member cannot bind the other member unless specifically authorised by the other member or unless the transaction is of benefit to the general partnership. A general partnership is the form of organisation that is typically used by professional experts, such as law firms or accounting firms.

A firm partnership is the form used by commercial partnerships, such as trading or commercial services firms. Each partner in the firm partnership has the right to act in the name of the partnership within the scope of its business. Liability of the partners in the firm partnership with third parties is on a joint and several basis.

A CV differs from a firm partnership; while all partners are active partners in a firm partnership, in a CV there is also a non-active or 'sleeping' partner (limited partner). The liability of the limited partner is only to the extent of the sum that he or she has pledged to contribute to the CV.

Major companies in Indonesia mostly take the form of a PT. The main characteristics of a PT are that it owns its assets and holds liabilities separately from its shareholders.

Generally speaking, the shareholders of a PT have no liability for acts carried out for and on behalf of the PT. Their liability is limited to the shares that they have subscribed. However, under certain circumstances, the court may pierce the veil or disregard the corporate entity, and hold that the shareholders are personally liable for acts carried out in the name of the PT. Those circumstances are are follows:

1. where the requirements for the PT to be established as a legal entity have not been made or are not met (e.g., approval of the Minister of Law has not been obtained);
2. the shareholders in question, directly or indirectly, in bad faith exploit the PT for their personal interest;
3. the shareholders in question are involved in an unlawful act committed by the PT; or
4. the shareholders in question, directly or indirectly, in an unlawful act make use of the assets of the PT in such a way that the PT assets become insufficient to settle the PT's debts.

The Indonesian Company Law (Law No. 40 of 2007) also provides that if there is only one shareholder in the PT for a period of not more than six months, the shareholder must transfer a part of its shares to another party. Otherwise, the sole shareholder becomes personally liable for all of the obligations and losses suffered by the PT. Note, however, that the Job Creation Law has introduced the concept of an individual-founded legal entity under the micro and small enterprise framework. In this regard, the Job Creation Law has also expanded the definition of PT to comprise both the conventional PT founded by at least two shareholders and the individual-founded legal entity that meets the micro and small enterprise criteria.

A cooperative is an association of persons, and its objective is the enhancement of the welfare of its members through engagement in a specific business as authorised in its charter. A cooperative has the status of legal entity after it is legalised by the relevant minister.

Previously, the basic tax treatment for all forms of businesses, except for the sole proprietorship, was a flat tax rate of 25 per cent of the net income. The rate has since 2020 been reduced to 22 per cent by virtue of Law 2/2020 and Law 7/2021. In the sole proprietorship, the person's tax rates are calculated on a progressive basis ranging from 5 to 35 per cent. To calculate the tax obligation, in addition to the permissible deductible expenses, the natural person must also deduct a non-taxable income threshold for himself or herself, his or her spouse and up to three dependants.

## Corporate

Most large companies adopt a corporate form. Like its predecessor, the 1967 Foreign Investment Law, the Indonesian Investment Law of 2007 requires business entities engaged in almost all business sectors (including manufacturing and trading of goods and services) to take the form of a PT if there is a foreign ownership participation in that entity in the framework of foreign direct investment (a PMA company). The same requirement also applies to the financial sector (except for banking). For the oil and gas sector, a foreign corporation can be used. Banking business can take the form of a branch office of the

foreign bank, but the banking authority no longer issues new business licences to a branch office of a foreign bank. On the basis of the foregoing, the discussion below focuses on the PT corporate form.

### Non-corporate

Non-corporate entities such as a general partnership, firm partnership and limited partnership are not permissible for foreign-owned equity. Generally, the Indonesian Income Tax Law treats all entities, regardless of whether they are incorporated, in the same manner.

## Direct taxation of businesses

Since the 2020 tax year, the flat tax rate of 22 per cent of net income applied for all businesses that take the form of an entity (regardless of whether they are incorporated), subject to some exceptions, including:

1. a public company that satisfies a minimum listing requirement of 40 per cent and other requirements can obtain a 3 per cent reduction from the standard tax rate;
2. corporate taxpayers with gross revenue up to 50 billion rupiahs are entitled to a 50 per cent reduction of the standard tax rate imposed on the taxable income for gross revenue up to 4.8 billion rupiahs;
3. companies engaged in upstream oil and gas and geothermal industries must calculate their corporate income tax pursuant to the terms of their production-sharing contracts; and
4. companies engaged in mining activities that are parties to the contract of work with the government must calculate their corporate income tax pursuant to the terms of the contract of work.

There are also businesses that have deemed profit margins for tax purposes. For such businesses, their respective deemed profit on gross revenue and effective income tax rate are, inter alia, domestic shipping operations (4 per cent; 1.2 per cent) and foreign shipping and airline operations (acting through a permanent establishment (PE) in Indonesia) (6 per cent; 2.64 per cent).

### Tax on profits

#### Determination of taxable profit

Indonesian tax residents are taxed on their worldwide income,[5] and foreign tax credits are available for the foreign income of tax residents subject to certain criteria. The taxable profit is calculated on the basis of the gross income deducted with allowed expenses. Pursuant to the Income Tax Law, deductible expenses are expenses for the purposes of earning, collecting or maintaining income, including:

1. expenses that are directly or indirectly related to the business activities, such as material expenses, salaries, wages, allowances, interest, royalties, travelling expenses, waste management expenses, insurance premiums, promotion and selling expenses, administration expenses, and taxes (except income tax);
2. depreciation and amortisation expenses;
3. contributions to the pension fund;
4. losses;
5. expenses for R&D conducted in Indonesia; and
6. replacement costs or rewards given in kind or for enjoyment.

Non-deductible expenses include:

1. distributions of profit in any form, such as dividends;
2. expenses for personal interests of shareholders, partners or members;
3. establishment of reserves or provisions, with some exceptions, such as provisions for doubtful accounts for banking and financing companies, reclamation provisions for mining companies, forestation provisions for forestry companies, and provisions for closure and maintenance for industrial waste processing businesses;
4. income tax payments; and
5. tax penalties.

Pursuant to Article 11 of the Income Tax Law, expenditure incurred in relation to tangible assets with a useful life of more than one year (except for land titles) can be depreciated. Depreciation is commenced from the month of the acquisition of the assets by using the straight-line method or the declining method consistently. Buildings can be depreciated by using the straight-line method only.

Pursuant to Article 11A of the Income Tax Law, amortisation for expenditure to acquire intangible assets, including expenses for extension of land titles and goodwill that has a useful life of more than one year, can be carried out by the straight-line method or declining method during the useful life by way of applying an amortisation tariff for such expenditure or on the remainder of the book value; provided that this is carried out consistently, it is all amortised at the same time at the end of the useful life. The amortisation is commenced in the month in which the expenditure is incurred, except for in certain business sectors.

Basically, taxable profits are based on accounting profits. However, for the calculation of the tax obligation, some adjustments may be required, as certain expenses are not tax-deductible. Profits are taxed on an accruals or receipts basis, depending upon which book method the taxpayer has adopted. The book method must be conducted consistently by the taxpayer. A change of the book method must obtain the approval of the Director General of Tax.

Capital and income

In practice, there is still a distinction between the taxation of income and capital gain (profit). Currently, the income tax on income arises from the sale of shares in the stock exchange and is a final tax of 0.1 per cent of the gross amount of the sale of shares. In the case of the sale of shares by founding shareholders in publicly listed companies, there is an additional tax of 0.5 per cent of the sale transaction value.

Tax on capital gains from the sale of shares in closely held companies by a foreign shareholder is 5 per cent of the value of the sale transaction, unless provided otherwise by a relevant tax treaty if the taxing authority is not Indonesia.

Losses

Pursuant to Article 6(2) of the Income Tax Law, losses may be carried forward for a maximum of five years. For a limited category of businesses in certain regions, or businesses subject to certain concessions , however, the period can extend up to 10 years. The carry-back of losses is not allowed. Losses can survive a change in shareholders of the PT.

Rates

Previously, pursuant to Article 17 of the Income Tax Law, the flat tax rate for tax-resident entities (whether corporate or non-corporate) was generally 25 per cent. However, as discussed above, Law 2/2020 and Law 7/2021 have reduced the income tax rate of domestic corporate taxpayers and permanent establishments to become 22 per cent for the 2020 tax year onwards. Certain corporate taxpayers can also obtain an additional 3 per cent reduction, subject to the following requirements:

1. it is in the limited liability company form;
2. it has at least 40 per cent of its paid-up capital traded in Indonesia stock exchange; and
3. it meets certain requirements, namely:
    - its shares are owned by at least 300 parties;
    - each shareholder has less than 5 per cent shares of the company;
    - the requirements (a) and (b) above have been fulfilled for at least 183 days within one tax year; and
    - the company is to report the fulfilment of the above criteria to the Directorate General of Tax.

The reduction of the corporate income tax rate to 22 per cent in Law 7/2021 is reiterated in its implementing regulation, Government Regulation No. 55 of 2022 on Adjustment of Rules in the Income Tax Sector (GR 55/2022).

For individual tax residents, the Income Tax Law, as amended by Law 7/2021, has introduced a tax cut for the country's population (i.e., raising the threshold for annual taxable income subject to 5 per cent rate from the previous threshold of 50 million rupiahs to 60 million rupiahs). However, it adds a 35 per cent tax rate for individuals earning more

than 5 billion rupiahs per year. The current tax rates for individual tax residents are as follows.

### Current tax rates for individual tax residents

| Taxable income | Rate (per cent) |
|---|---|
| Up to 60 million rupiahs | 5 |
| Over 60 million rupiahs but not exceeding 250 million rupiahs | 15 |
| Over 250 million rupiahs but not exceeding 500 million rupiahs | 25 |
| Over 500 million rupiahs but not exceeding 5 billion rupiahs | 30 |
| Over 5 billion rupiahs | 35 |

Administration

Businesses must pay tax and file tax returns for particular taxes either monthly or annually, depending on the tax obligation in question. Under MOF Regulation 81/2024, the tax payment and tax return filing deadline for many withholding taxes is the 15th day of the following month. For corporate income tax, the tax payment deadline is at the end of the fourth month after the book year end before filing the tax return, and the deadline for filing the tax return is the fourth month after the book year end.

There are two kinds of tax authorities:

1. at the national level (i.e., the Directorate General of Tax and the Directorate General of Customs and Excise, both under the Ministry of Finance: this chapter focuses on the authority of the Directorate General of Tax only); and
2. at the local (regional) level.

The tax authorities may audit businesses from time to time at random to check the compliance of taxpayers. If a business requests a tax refund, this will always trigger a tax audit.

In practice, it is possible to obtain guidance or clearance from the tax authorities where there is uncertainty as to the correct tax treatment or if the tax treatment could apply in a way that would not seem to be intended. Normally, the tax authorities follow the written guidance or clearance that they have issued to the taxpayer in treating the taxpayer. Since some of this written guidance and clearance has been made publicly available, taxpayers who believe that such guidance or clearance may also be beneficial to them usually attempt to rely on these documents in convincing the tax authorities that they are eligible for the same tax treatment. Complaints relating to tax-related policies and administration may also be submitted to the Tax Supervisory Committee, where the Committee will, inter alia, forward these complaints to the relevant tax authorities for further handling. Pursuant

to newly issued MOF Regulation 2/2023, tax authorities are responsible for providing reports on the handling of these complaints to the Tax Supervisory Committee.

In cases where a taxpayer does not agree with a tax position taken by the tax office as stipulated in the tax assessment letter, the taxpayer has the right to submit an objection application to the Director General of Tax to annul the tax assessment letter within three months of the sending date of the tax assessment letter. If the taxpayer is not satisfied with the objection decree of the Director General of Tax, the taxpayer can ask for an appeal against such an objection decree to the Tax Court within three months of the receipt of the objection decree. As noted above, Constitutional Court Decision No. 26/PUU-XXI/2023 (dated 25 May 2023) has transferred the authority over the organisation, administration and finances of the Tax Court from the Ministry of Finance to the Supreme Court. Pursuant to the Decision, the transfer will be carried out gradually not later than 31 December 2026.

Under the Tax Court Law of 2002, Tax Court decisions are final and binding, but are still subject to an extraordinary legal remedy for civil review to the Supreme Court based on limited grounds as provided for in the Tax Court Law.[6] Under Article 91 of the Tax Court Law, those grounds are as follows:

1. if the Tax Court decision is based on a lie or fraud by the counterparty that is known after the rendering of the decision, or based on evidence that later is declared forged by the criminal judge;
2. if there is new written evidence that is important and decisive that, if it is known in the proceedings at the Tax Court, will result in a different decision;
3. if something is granted that was not claimed, or that is more than what was claimed by a party;
4. where it concerns a part of the claim that has not been decided without considering the causes; or
5. if there is a decision that is clearly not in accordance with the provision of the prevailing laws and regulations.

Looking at the Supreme Court level, and from decisions of the Supreme Court on tax disputes on the Supreme Court website,[7] the ground in item (e) above is always used in civil review applications. Other grounds are very rarely used and, if they are, they are used only as an additional ground.

As a note, on 20 March 2024, the Constitutional Court rendered its Decision No. 24/PUU-XXII/2024, which in effect removed the right of administrative (government) officials and agencies to file a civil review application with the Supreme Court against a final and binding court decision in state administrative disputes. The Constitutional Court ruling was later affirmed by the Supreme Court in its Circular No. 2 of 2024 dated 17 December 2024 subject to the following exceptions:

1. new evidence (*novum*) is discovered;
2. there are two or more final and binding court decisions that are contradictory; and
3. the civil right interests of state administrative bodies or officials (state or regional assets) are to be defended.

Arguably, the tax authorities no longer have the right to file a civil review application to the Supreme Court against a decision of the Tax Court. However, up to January 2025, the Director General of Tax still filed some civil review applications to the Supreme Court against Tax Court decisions.

Pursuant to Article 93 of the Tax Court Law, the Supreme Court examines and renders a decision within six months from the date the dossier is received by the Supreme Court, in the event that the Tax Court has rendered its decision through an ordinary procedure examination, or within one month if the Tax Court has rendered its decision through an expediting procedure examination.

In recent practice, often the Supreme Court renders its decisions within those timelines. However, sometimes there are still delays that are caused particularly by the administrative processing and sending of case dossiers by the Tax Court to the Supreme Court.

Tax grouping

There are no group tax relief provisions available in Indonesia. As a result, members of a group of companies are taxed individually.

## Other relevant taxes

Other taxes relevant for businesses are, inter alia, VAT and luxury goods sales tax, land and building tax, income tax on land and building transfers, duty on the acquisition of land and building rights,[8] and stamp duty. Carbon tax was also introduced by Law 7/2021.

VAT is imposed on the transfer of taxable goods or the provision of taxable services in the Indonesian customs area. The current VAT rate (since 1 January 2025) is 12 per cent . However, goods and services outside luxury items are ultimately only subject to an effective 11 per cent rate as the government sets an alternative tax base (11/12 of the sales price or import value) for the VAT calculation. Pursuant to the VAT Law (as amended by Law 7/2021), a government regulation can provide for a VAT rate ranging from 5 to 15 per cent, provided that the said government regulation has been submitted to, and agreed by, the parliament during the state budgeting process. Law 7/2021 also removes the VAT exemptions previously applied to basic goods and services, such as staple food, health and education services. The VAT Law has also been amended by the Job Creation Law. This Law allows for the crediting (subject to certain conditions) of input VAT that previously could not be credited under the VAT Law. VAT is also now levied on digital economy (i.e., on the use of taxable intangible goods or services derived from outside of customs areas through e-commerce). In consideration of the many disputes regarding the chargeability of VAT on transfers of collateral sold by financial institutions, the government has issued Minister of Finance Regulation No. 41 of 2023 on Value-Added Tax on the Delivery of Foreclosed Collateral, which affirms that VAT is payable on transfer of collateral sold at an effective rate of 1.1 per cent of its selling price.

In addition to VAT, certain goods regarded as luxury goods are subject to an additional luxury goods sales tax ranging from 10 to 75 per cent. Pursuant to the VAT Law, the rate of the luxury goods sales tax may be increased by the government up to 200 per cent.

Land and building tax (PBB) is divided into two categories,[9] as follows.

1. PBB on general area: this PBB is imposed annually on property in the form of land or a building based on an official assessment issued by the head of the region. The rate of this PBB is to be determined by the regional regulation, but it should not be more than 0.5 per cent. The tax due is calculated by applying the tax rate on the tax object sale value (NJOP) deducted with non-taxable NJOP, which is set at a minimum of 10 million rupiahs. Any change to the non-taxable NJOP must be stipulated in a regional regulation.
2. PBB on plantation, forestry and mining areas: this PBB is imposed annually on property in the form of land or a building based on an official assessment issued by the Director General of Tax. The rate of this tax is 0.5 per cent, and the tax due is calculated by applying the tax rate on the taxable sale value (NJKP). The NJKP is a predetermined portion of the NJOP. Currently, the NJKP is 40 per cent of the NJOP. The government can increase the NJKP rate by up to 100 per cent of the NJOP. The NJOP rates are determined by the Director General of Tax on behalf of the Minister of Finance. They may be adjusted every year or every three years, depending on the economic development of the region.

Income tax on land and building transfers is imposed on the seller for the transfer of land and buildings. The rate of this tax is 2.5 per cent of the gross transfer value unless such value is lower than the NJOP of the object. In the latter case, the tax base is the NJOP. The tax paid is a final tax.

Duty on the acquisition of land and buildings is imposed on the buyer to acquire land and buildings. The rate of this duty is 5 per cent of the acquisition value of the object, unless such value is lower than the NJOP of the object. In the latter case, the tax base is the NJOP.

As provided in Law No. 10 of 2020 on Stamp Duty, stamp duty of 10,000 rupiahs is imposed for each of the documents prepared with the purposes of being used as an evidence instrument concerning an act, fact or situation that is civil in nature, such as agreements, notarial deeds and their copies, and every document to be presented as evidence before the courts.

Law 7/2021 has introduced a tax aimed at reducing carbon emissions; these inflict adverse impacts on the environment. The carbon tax will be imposed on individuals and companies buying goods containing carbon or conducting activities that emit carbon. The carbon tax will be determined by carbon market price, with a minimum rate of 30 rupiahs per kilogram of $CO_2$ equivalent. Coal power plants will be the first to be subjected to carbon tax, beginning April 2022. Details on the rights and obligations relating to carbon tax are set out in Government Regulation No. 50 of 2022 on the Procedures for the Implementation of Tax Rights and Obligations (GR 50/2022).

## Tax residence and fiscal domicile

### Corporate residence

A company is treated as an Indonesian tax resident if it is established or has its place of management in Indonesia. A foreign corporation can become a tax resident of Indonesia if it has a presence in Indonesia through a PE. Generally, a PE assumes the same tax obligations as a resident taxpayer.

### Branch or permanent establishment

A foreign company can have a fiscal presence in Indonesia in the form of PE if it has or performs any of the following in Indonesia:

1. a place of management;
2. a branch office;
3. a representative office;
4. an office building;
5. a factory, workshop or warehouse;
6. a site for promotion and sales;
7. a mining site;
8. a working area of oil and gas;
9. fishery, husbandry, agriculture, plantation or forestry activities;
10. construction, installation or assembly projects;
11. provides services through employees or others for more than 60 days in any 12-month period;
12. a dependent agent;
13. an insurance company agent or employee receiving premiums or taking risks in Indonesia; or
14. computer, electronic or internet devices used in Indonesia for internet (e-commerce) transactions.

The above, however, are subject to the provisions of a relevant tax treaty.

By virtue of Law 2/2020, significant economic presence can also constitute a PE and is therefore subject to Indonesia's income tax regime. Pursuant to Law 2/2020, e-commerce activities of foreign parties that have a significant economic presence are subject to income tax or electronic transaction tax. The 'significant economic presence' is determined based on the business group consolidated gross circulation, sales and active users in Indonesia.

In addition to the standard corporate income tax, a PE is subject to 20 per cent branch profit tax, which is applied to the net profit after tax of the PE unless the profit is reinvested in Indonesia.

## Tax incentives, special regimes and relief that may encourage inward investment

## Holding company regimes

The Income Tax Law previously applied dividend tax exemption only in the event that dividend was received by a corporate tax resident, provided that the dividend derived from the retained earnings and the corporate tax resident had at least 25 per cent of the paid-up capital in that company. The Job Creation Law has expanded the dividend tax exemption under the Income Tax Law to also include:

1. dividends paid by a domestic company and received by a corporate tax resident (without any prerequisite);
2. dividends paid by a domestic company and received by a domestic individual taxpayer insofar as the dividend is invested in Indonesia for a certain period of time; and
3. foreign dividends received by domestic corporate or individual tax resident insofar as the dividend is invested in Indonesia for a certain time period and subject to certain requirements.

## IP regimes

Currently, there are no IP regimes that are subject to special tax treatment in Indonesia.

## State aid

There may be special tax treatment for the income tax of government projects funded by foreign loans or grants. For such projects, the income tax liability of the main contractors, consultants and suppliers may be borne by the government.

## General

The fiscal incentives of import duty, or import-related tax relief or exemption, are generally applicable to foreign direct investment in manufacturing or processing for imports of capital equipment, spare parts and basic materials during the initial start-up period. The government has also provided income tax incentives and tax holidays.

Income tax incentives

In 2019, the government issued Government Regulation No. 45 of 2019 on Amendment to Government Regulation No. 94 of 2010 on the Calculation of Taxable Income and Settlement of Income Tax in the Current Year (taking effect on 26 June 2019), which provides the following tax incentives allowing corporate taxpayers who:

1. open a new business or expand their existing businesses in labour-intensive sectors to offset 60 per cent of their investment against their taxable net income;
2.

conduct work practices, internships or training for human resources development purposes to offset up to 200 per cent of the cost of their activities against their taxable gross income; and

3. conduct R&D activities in Indonesia to offset up to 300 per cent of the cost of their activities against their taxable gross income.

The government also issued Government Regulation No. 78 of 2019 on Income Tax Facilities for Investments in Particular Business Sectors or Particular Regions (taking effect on 13 December 2019), which replaced Government Regulation No. 18 of 2015 as amended by Government Regulation No. 9 of 2016 on the same matter. Under this Regulation, 183 business sectors are eligible for income tax facilities, which comprise 166 particular business sectors and 17 business sectors located in particular regions. These include certain businesses in a number of industries (e.g., agriculture and forestry industries, the chemical industry, the mining industry and the electronics industry). As a general rule, the income tax facilities available under Government Regulation No. 78 of 2019 are as follows:

1. net income deductions;
2. accelerated depreciation of fixed tangible assets and accelerated amortisation of intangible assets;
3. 10 per cent income tax (or lower) on dividends paid to foreign taxpayers not operating as permanent establishments within Indonesia; and
4. compensations for losses.

Tax holiday

The Minister of Finance issued Regulation No. 130/PMK.010/2020 on Facility on Corporate Income Tax Reduction and its amendment in Regulation No. 69 of 2024. Under these Regulations, income tax reductions can be granted to business entities for a maximum of 20 fiscal years or a minimum of five fiscal years.

The criteria established for business entities that qualify for income tax reductions are as follows:

1. the business is categorised as a pioneering industry, such as:
    - integrated upstream basic metal industry;
    - integrated petroleum refinery industry;
    - integrated basic petrochemical industry;
    - integrated pharmaceutical raw material industry;
    - machinery industry;
    - robotic component industry that supports the production of manufacture machines;
    - automotive manufacturing industry;

- ship parts manufacturing industry;
- train parts manufacturing industry;
- agriculture, farming or forestry-based processing industries;
- economic infrastructure; or
- digital economy;

2. the business is an Indonesian legal entity;
3. the business is a new investment that has not yet been issued a decree on the giving or notice of rejection to corporate income tax reduction;
4. the business has a new investment plan with a minimum value of 100 billion rupiahs;
5. the business meets the debt-to-equity ratio requirement as referred to in a Minister of Finance regulation; and
6. the business is committed to realise its investment within one year of the issuance of the income tax reduction decree.

Detailed rules on the procedures for the granting of the tax reduction are set out in Indonesian Investment Coordinating Board Regulation No. 7 of 2020 on Details of the Pioneering Industry Business Sectors and Production Types and Procedures for the Granting of Corporate Income Tax Reduction Facilities (taking effect on 4 December 2020).

Tax amnesty

Pursuant to Law 7/2021, as an extension of the tax amnesty carried out in 2016 and 2017, a second chapter of tax amnesty was conducted from 1 January 2022 to 30 June 2022, which allowed taxpayers' disclosure of unreported assets prior to 2016, and between 2016 and 2020. Assets obtained from 1985 to 2015 were charged with an income tax rate of 6 per cent to 11 per cent of the asset value, while those obtained from 2016 to 2020 were subject to 12 per cent to 18 per cent tax. A proposed amendment to Law No. 11 of 2016 on Tax Amnesty has been listed in the 2025 List of Prioritized National Legislations, raising possibilities for a third round of tax amnesty.

## Withholding and taxation of non-local source income streams

### Withholding on outward-bound payments (domestic law)

Withholding tax at a rate of 15 per cent of the gross amount applies to dividends, interest and royalties paid by a company in Indonesia to Indonesian taxpayers or PEs. As discussed above, the Job Creation Law has expanded the dividend tax exemption under the Income Tax Law to also include:

1.

dividends paid by a domestic company and received by a corporate tax resident (without any prerequisite);

2. dividends paid by a domestic company and received by a domestic individual taxpayer insofar as the dividend is invested in Indonesia for a certain period of time; and
3. foreign dividends received by domestic corporate or individual tax resident insofar as the dividend is invested in Indonesia for a certain time period and subject to certain requirements.

Detailed requirements on dividend tax exemption are set out in Government Regulation No. 55 of 2022 regarding Adjustment of Rules in the Income Tax Sector.

## Domestic law exclusions or exemptions from withholding on outward-bound payments

As discussed the section 'Income tax incentives', for investments in certain industries and certain regions there are income tax incentives that also cover a reduction in the withholding tax tariff on dividends payable to foreign investors to 10 per cent (subject to a lower rate under a relevant tax treaty). Contracts of work entered into by mining companies and the government prior to the 2009 Mining Law may provide such exclusions or exemptions from withholding.

## Double tax treaties

Pursuant to Article 26 of the Income Tax Law, withholding tax at a rate of 20 per cent of the gross amount applies to distributions such as dividends, interest and royalties paid by resident taxpayers to non-residents, unless a relevant tax treaty provides otherwise. As a note, the Job Creation Law and its implementing regulation, Government Regulation No. 9 of 2021 on Tax Treatment in Support of Ease of Business, provide for a reduction of Article 26 withholding tax on interests including premiums, discounts and returns in connection with debt repayment guarantees to a 10 per cent rate or as determined by a tax treaty. Currently, Indonesia has entered into tax treaties with more than 60 countries.

The tax treaties provide withholding tax exemptions for service fees, and reduced withholding tax rates on dividends, interest, royalties and branch profits received by residents of countries with which Indonesia is a party to such tax treaties. To claim the tax treaty benefits, the foreign taxpayer must present a certificate of domicile to the tax authority.

## Taxation on receipt

Indonesian tax residents are taxed on their worldwide income. Pursuant to Article 24 of the Income Tax Law, the tax paid for income from foreign sources can be credited to the tax owed under the Income Tax Law in the same tax year. The amount of the tax credit is the amount of the foreign income tax paid abroad but must not exceed the tax owed under the Indonesian Income Tax Law.

# Taxation of funding structures

Indonesian PTs are usually funded by capital pay-ins and loans. The Job Creation Law has amended the rule on minimum authorised capital of PTs under the Indonesian Company Law of 2007. Accordingly, the minimum authorised capital of PTs is subject to the resolution of the PT founders. Further rules on authorised capital are regulated in Government Regulation No. 8 of 2021 on Authorized Capital and Registration of the Establishment, Amendment and Dissolution of Small and Micro Enterprises. Previously, the minimum authorised capital of PTs under the 2007 Company Law was 50 million rupiahs. However, laws and regulations governing certain types of businesses may determine a minimum capital higher than this figure.

## Thin capitalisation

For foreign direct investment companies, there are requirements as to the debt-to-equity ratios depending on the type of the business in which they will be engaged. Pursuant to Minister of Finance Regulation No. 169/PMK.010/2015 on Determination of the Amount of Debt-to-Equity Ratio of Companies for the Purpose of the Calculation of the Income Tax (taking effect from tax year 2016), the maximum debt-to-equity ratio for companies is 4:1, except for certain taxpayers such as banking, finance and insurance companies, and taxpayers engaging in the business of oil and gas, mining and infrastructure. In cases where the debt-to-equity ratio of the taxpayers exceeds the maximum figure, the expense to service the loan that is tax-deductible is only up to the expense to service the loan up to the maximum debt-to-equity ratio.

## Deduction of finance costs

Finance costs, such as interest and bank arrangement fees, can be deducted if these are expenses for the purposes of earnings, or collecting or maintaining income.

## Restrictions on payments

There are some rules on payments of dividends to shareholders of a PT under Indonesian company law. Pursuant to the Indonesian Company Law of 2007, a PT can only declare and distribute dividends out of its net profits to its shareholders provided that the requirement for setting aside sums to the reserve fund has been satisfied. The Company Law does not provide what particular percentage of the PT's net profits in any one financial year must be set aside for the reserve fund. The setting aside of net profits for the reserve fund shall be carried out until the reserve fund reaches at least 20 per cent of the issued and paid-up capital of the PT. This does not mean that in one financial year a PT must set aside its net profits for the reserve funds to reach 20 per cent of its issued and paid-up capital. However, reserve funds that have not reached 20 per cent of the issued and paid-up capital can only be used by the PT to cover losses that cannot be covered by other reserves. The use of net profits, including determination of the amount for the reserve fund, must be decided by a general shareholders' meeting.

## Return of capital

Return of capital can be achieved by a company purchasing its own shares from shareholders. Pursuant to Article 37(1) of the Company Law, a PT can purchase its own shares based on a resolution of the general shareholders' meeting provided that:

1. the repurchase of the shares does not cause the net assets of the PT to become smaller than the issued capital plus the mandatory reserve fund that has been set aside; and
2. the total amount of all shares repurchased by the PT, and the pledge of shares or the fiduciary encumbrance over the shares held by the PT or other companies, or both, whose shares, directly or indirectly owned by the PT, do not exceed 10 per cent of the issued capital of the PT, unless provided otherwise in capital market laws and regulations.

For tax purposes, the payment by a PT to a shareholder for purchasing the shares owned by such a shareholder in the PT will be treated in the same manner as a distribution of dividends to a shareholder.

## Acquisition structures, restructuring and exit charges

### Acquisition

Foreign companies acquiring local businesses generally structure transactions by acquiring shares in the Indonesian target company (share deals) or by purchasing assets of the target company (asset deals).

#### Share deals

A foreign entity may acquire shares in an Indonesian target company directly or indirectly through another foreign entity provided that the business sector of the target company is open for foreign investment. For the transfer of shares in a closely held company, if the seller is another foreign entity, such a seller will have a final income tax of 5 per cent of the share price (withholding tax of 20 per cent and net deemed profit of 25 per cent of the share price) imposed on it, unless, pursuant to the relevant tax treaty, the taxing authority is not Indonesia.

The PT should only record the transfer of the shares in the shareholders' register if evidence is presented to it that the income tax has been completely settled. In cases where the purchaser of the shares is a foreign entity, the PT is deemed as the party who has the obligation to collect the income tax.

Pursuant to Article 18(3c) of the Income Tax Law, the sale of shares in an Indonesian (target) company by a conduit company, or special purpose company established or domiciled in a tax-haven country that has a special relationship with an entity established

or domiciled in Indonesia or a PE in Indonesia can be deemed as the sale or transfer of shares by the Indonesian entity or PE in Indonesia.

### Asset deals

A foreign entity is not allowed to acquire assets of an Indonesian entity directly to operate a business in Indonesia. As discussed above, except for certain limited business sectors, foreign entities are not eligible to obtain business licences in Indonesia. To acquire assets of the Indonesian (target) company and operate a business in Indonesia, a foreign entity must use its Indonesian company, or must first establish a PMA company, to acquire such assets. If the acquired assets are land and buildings, the purchaser of the assets will have duty imposed on the acquisition of land and buildings at a rate of 5 per cent of the price of the assets imposed on it.

Pursuant to Article 18(3b) of the Income Tax Law, the indirect purchase of shares or assets of an Indonesian (target) company by an Indonesian entity through a special purpose company can be deemed as the purchase of shares or assets by the Indonesian entity if the special purpose company has a special relationship with the Indonesian entity or if there is unreasonable pricing.

### Reorganisation

As a general rule, the transfer of assets in business mergers, consolidations or spin-offs is conducted at market value. This results in taxable gain or loss. This loss is basically tax-deductible. Upon approval of the Director General of Tax, the assets can be transferred at book value for a tax-neutral merger or consolidation provided that the business purpose tests are satisfied.

In Indonesia, there is no provision that can allow a merger of a local entity with a foreign entity.

### Exit

If a business decides to relocate to another country, the Indonesian entity must be dissolved and must further be liquidated. As one of the exercises in the liquidation process, that entity must also resolve its tax liability, and for these purposes there will be a tax audit. Upon the settlement of the tax obligation, the tax authority will issue a tax clearance. Once the tax clearance has been obtained, the Indonesian entity can completely dissolve and cease to exist as a legal entity.

There is no tax penalty merely for relocation of a business to another country.

## Anti-avoidance and other relevant legislation

### General anti-avoidance

As discussed in the section 'Acquisition', the Indonesian Income Tax Law provides avoidance rules for the sale of shares or assets meeting certain requirements.

Pursuant to Article 18(3b) of the Income Tax Law, the indirect purchase of shares or assets of an Indonesian (target) company by an Indonesian entity through a special purpose company can be deemed as the purchase of shares or assets by the Indonesian entity if the special purpose company has a special relationship with the Indonesian entity or if there is unreasonable pricing.

Pursuant to Article 18(3c) of the Income Tax Law, the sale of shares in an Indonesian (target) company by a conduit company or special purpose company established or domiciled in a tax-haven country that has a special relationship with an entity established or domiciled in Indonesia, or a PE in Indonesia, can be deemed as the sale or transfer of shares by the Indonesian entity or PE in Indonesia.

Indonesia no longer has a tax treaty with Mauritius, a low-tax jurisdiction.

## Controlled foreign corporations

As discussed above, in most business sectors, controlled foreign corporations must take the form of a PT. As such, the rules for the distribution of dividends to a shareholder that is a foreign entity are basically the same as those that apply to shareholders of a closely held PT.

## Transfer pricing

Pursuant to Article 18(3) of the Income Tax Law, the Director General of Tax has the authority to adjust taxpayers' income or costs in transactions with related parties not carried out under the arm's-length principle by using the comparable uncontrolled price method, resale price method, cost plus method, transactional net margin method and other methods. Currently, the transfer pricing documentation must also be attached to the corporate income tax return for any transaction with a related party that exceeds:

1. 20 billion rupiahs for tangible goods transactions; or
2. 5 billion rupiahs for service provision, interest payment, intangible goods utilisation or other affiliated transactions per entity per year.

For such a purpose, the taxpayer must conduct a comparable analysis or determine comparable data to show that the transaction with the related party conforms to the arm's-length principle.

Pursuant to Article 18(3a) of the Income Tax Law, the Director General of Tax also has the authority to enter into advance pricing agreements with taxpayers or the tax authority of another country on the application of the arm's-length principle to transactions between related parties.

## Tax clearances and rulings

It is possible to obtain advance tax rulings from the tax authority to secure certainty. Tax rulings may also be required to acquire a local business.

To issue a tax clearance, the tax authority will need to conduct a tax audit. In the acquisition of a local business, the seller of the local business is usually reluctant if the tax clearance is required as a condition precedent for the conclusion of the transaction.

### Mutual agreement procedures

In an effort to more effectively prevent and settle international taxation disputes, a mechanism of mutual agreement procedure (MAP) is also available by virtue of Minister of Finance Regulation No. 172 of 2023 on the Application of the Principles of Fairness and Business Fairness in Transactions Affected by Special Relationships (taking effect on 29 December 2023). The MAP refers to an administrative procedure provided for under a tax treaty for the settlement of disputes that arise during the implementation of a tax treaty. As a general rule, Minister of Finance Regulation No. 172 of 2023 provides opportunities for Indonesian domestic taxpayers to submit requests to the Director General of Tax for the implementation of a MAP, in the event that a tax treatment by a tax treaty partner state is in contradiction to the relevant tax treaty. In addition to Indonesian domestic taxpayers, the request for the implementation of a MAP can also be filed by:

1. Indonesian citizens;
2. the Director General of Tax; or
3. the tax authority of the tax treaty partner state (the request is to be filed via the authorised official in the tax treaty partner state in accordance with the tax treaty).

Pursuant to Minister of Finance Regulation No. 172 of 2023, following the application for a MAP, the requests will be reviewed by the Director General of Tax. Subsequently, there will be a follow-up (e.g., notification to the authorised official in the tax treaty partner state) and a negotiation conducted between the Director General of Tax and the tax treaty partner authority. The outcome of the negotiation will be set out in a mutual agreement that sets out the agreement or disagreement on the points requested for a MAP. If an agreement is reached between the parties, a decree confirming the implementation of the mutual agreement is then delivered to the requesting parties.

## Year in review

Indonesia, despite its populous market and rich natural resources, has long been a complex market for investments. It has been struggling with an over-regulation problem that led to many missed investment opportunities in the country. Overlapping (often, conflicting) and taxing regulations as well as a lack of coordination between government authorities were some of the classic problems that undermined the attractiveness of Indonesia's market. It is also struggling with a declining tax-to-GDP ratio, standing at only 12.1 per cent in 2022 behind the Asia and Pacific average of 19.3 per cent.

In response to these pressing problems, since 2020 the government has been introducing wide-ranging reform packages that include sweeping reforms of the country's tax policies. The year 2024 also saw another overhaul of the tax administration system through the launch of Coretax, which is an integrated and automated tax processing system. In line with the OECD's initiative to end the taxation 'race to the bottom', anti-base erosion rules were also introduced to ensure a minimum of 15 per cent taxation for multinational enterprises subject to certain criteria. The VAT rate was also hiked to 12 per cent, although only on luxury goods.

On another note, transfer pricing issues involved in transactions between related parties have been the dominant tax disputes for many years. Many taxpayers have challenged the adjustments made by the tax authority to the Tax Court for nullification.

There is only one Tax Court in Indonesia, which is situated in Jakarta. However, the Tax Court has also held sessions in Yogyakarta and Surabaya since 7 June 2012 and 14 March 2013, respectively.

## Outlook and conclusions

Indonesia welcomed former General, Prabowo Subianto, as its new President on 20 October 2024, succeeding a decade-long presidency of Joko Widodo (popularly known as Jokowi). Promising that Indonesia will achieve the ultimate goal of 8 per cent-economic growth, a major theme of Prabowo’s vision for Indonesia is to become self-sufficient in key areas, particularly food and energy as well as expediting the down streaming of various commodities. Consistent and substantial income stream will therefore be pivotal to realising these ambitious goals. The VAT increase (although limited to luxury items for the time being) and the implementation of the global minimum taxation for multinational enterprises are expected to improve the country’s revenue. The government, however, needs to ensure that its efforts to boost fiscal revenues will not undermine the attractiveness of Indonesia's business environment. In addition, the launch of Coretax at the beginning of 2025 also looks promising and is expected to improve efficiency in tax processing and compliance oversight. Nevertheless, a successful transition from the previously manual tax administration to the digitalised Coretax is crucial in order to ensure the realisation of a more attractive business environment and boost Indonesia’s economy.

## Endnotes

1 Set out in Law No. 7 of 1983 on Income Tax as amended by Law No. 7 of 1991, Law No. 10 of 1994, Law No. 17 of 2000, Law No. 36 of 2008, Law No. 11 of 2020, Law No. 7 of 2021 on Harmonised Tax Rules (Law 7/2021) and Government Regulation in Lieu of Law No. 2 of 2022 on Job Creation (the GR in Lieu of Law 2/2022) as ratified by Law No. 6 of 2023 to become a Law. ^ Back to section

**2** Set out in Law No. 8 of 1983 on Value Added Tax on Goods and Services and Luxury-goods Sales Tax as amended by Law No. 11 of 1994, Law No. 18 of 2000, Law No. 42 of 2009, Law 7/2021 and the GR in Lieu of Law 2/2022 as ratified by Law No. 6 of 2023 to become a Law. ^ Back to section

**3** Set out in Law No. 1 of 2022 on Financial Relationship between the Central Government and Regional Governments, which revokes and replaces Law No. 28 of 2009 on Regional Taxes. ^ Back to section

**4** Also note, specifically with regard to tax authorities, Constitutional Court Decision No. 24/PUU-XXII/2024 and Supreme Court Circular No. 2 of 2024 dated 17 December 2024. ^ Back to section

**5** There have been reports that, in an effort to further encourage the movement of capital into Indonesia, the government is planning to change the taxation regime for individual (non-corporate) taxpayers from the (currently) worldwide system to the territorial basis. When applied, this proposed change would result in the taxation of income deriving only from Indonesia. ^ Back to section

**6** This extraordinary legal remedy is available for both taxpayers and the tax authorities, such as the Director General of Tax and the Director General of Customs and Excise. Note also Constitutional Court Decision No. 24/PUU-XXII/2024 and Supreme Court Circular No. 2 of 2024 dated 17 December 2024 . ^ Back to section

**7** www.mahkamahagung.go.id. ^ Back to section

**8** By Law No. 1 of 2022, the duty on the acquisition of land and building rights became a local (regional) tax levied by regency and municipal governments. ^ Back to section

**9** PBB was historically governed by Law No. 12 of 1985 on Tax on Land and Buildings, as amended by Law No. 12 of 1994 (the PBB Law) and was part of the national taxes. Starting from 1 January 2010, by virtue of Law No. 28 of 2009 on Regional Taxes and Dues (the Regional Tax Law), PBB became part of the local taxes governed thereunder with the exception of areas used for plantation, forestry and mining, where PBB remains part of the national taxes. Law 1/2022 (which revokes and replaces the Regional Tax Law) reiterates the authority of regional governments over PBB. ^ Back to section


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