

Tax facilities granted to new investment projects



By Eugene V Flynn

In a continuing effort to attract fresh investment, the Indonesian Government has recently issued a regulation granting favourable tax facilities to new investment projects in a broad range of business sectors and regions throughout the country.

Government Regulation No. 1 of 2007 regarding Income Tax Facilities for Capital Investments in Certain Business Lines and/or Certain Regions applies to all new investments and expansion projects undertaken by companies formed under the auspices of the Capital Investment Coordinating Board (BKPM), ie, including both foreign capital investment (PMA) and domestic capital investment (PMDN) companies

Four basic facilities are offered:

- (a) an annual reduction of net (taxable) income for a period of six years in an amount equal to five percent of the eligible capital investment;
- (b) accelerated rates of amortization and depreciation of eligible tangible fixed assets;
- (c) a ten percent cap on withholding tax applicable to dividends paid to non-resident tax payers (compared to a statutory rate of 20 percent); and
- (d) a 10-year tax loss carry-forward period (compared to a statutory period of five years).

The basis for calculating the income tax facility (item (a) above) is the value of the tangible fixed assets constituting part of the overall investment. 'Tangible fixed asset' is defined as a tangible asset having a useful life of more than one year that is purchased in a fully built or prefabricated condition to be used for operational purposes rather than trade or transfer. Claw-back and penalty provisions apply if the assets are transferred or used for purposes other than originally intended.

The tax loss carry-forward incentive (item (d) above) may be extended for an additional year in some circumstances, for example, the project is located in an industrial estate or bonded

zone or the investment exceeds 10 billion rupiah (US\$1.1 million). A two-year extension is available for projects employing at least 500 workers for five consecutive years.

The facilities are extended to all new investment projects, that is, projects undertaken by newly formed PMA or PMDN companies, as well as expansion projects of existing PMA or PMDN companies.

Fifteen different business sectors are eligible for these facilities regardless of the location of the project. Among these sectors are food seasonings, textile fibre processing, pulp and paper, industrial chemicals, certain pharmaceuticals, industrial rubber goods, electrical and technical ceramic components, certain iron, steel and other metal projects, and manufacturing of certain types of machinery, vehicles, electric motors, generators and transformers, and shipbuilding exceeding 50,000 dead-weight tonnage.

Another nine business sectors are eligible for these incentives if the project is located in specified locations within Indonesia. Briefly stated, these sectors include processing of certain agricultural and marine products, manufacturing of packaging materials and carton boxes, some types of plastic goods, cement and furniture (including wood, rattan and bamboo).

In line with other incentive programmes of this nature, there are numerous stipulations, conditions, and limitations that apply, all of which narrow the application of this regulation. Nonetheless, it represents a further effort from the government to make Indonesia a more attractive destination for direct capital investment.

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