

Tax Holidays for Investments in Pioneer Industries

Government Regulation No. 94 of 2010 on Taxable Income Calculation and Payment of Income Tax ("Regulation") was recently issued in furtherance of Article 35 of Law No. 7 of 1983, as amended by Law No.7 of 1983, on Income Tax ("Income Tax Law").

The Regulation provides a legal basis for the issuance of tax exemptions for investors in such areas as agriculture and public private partnership (PPP) infrastructure projects, and is one of eight tax reforms recently jointly advanced by the Directorate General of Tax and the Directorate General of Customs and Excise in order to encourage investment and provide support to various Indonesian industries.

Pursuant to Articles 29 (1) and (2), the tax exemption will be granted to taxpayers that make a new investment in a pioneer industry - a wide scale industry, providing value-added and high-externalities, introducing new technologies, as well as having strategic value for the national economy. Excluded from this category are taxpayers who have already been granted income tax exemptions pursuant to Article 31A of the Income Tax Law or Article 18 (5) of Law No. 25 of 2007 on Capital Investment.

Pursuant to Chapter II, the tax base from which a company may gain an exemption under Article 29 includes:

- Dividends - with some exclusions (Article 2);
- Capital gains on the transfer of assets to employees (Article 3);
- Paid up capital and share discounts (Article 4);
- Profit on units of Collective Investment Contracts (Article 5);
- Income distribution derived from retained earnings (Article 6);
- Bank Indonesia surplus (Article 7).

Further provisions regarding the granting of this facility will be issued by the Minister of Finance, while the ultimate provision of the tax holiday, according to the Minister of Finance, Agus Martowardojo, will be discretionary and decided by committee.

The Regulation repeals and replaces Government Regulation No. 138 of 2000 on the same subject matter.

The Regulation has been in force since 30 December 2010. 

❖ Past Issues

- ✍ Bank Indonesia Re-Introduces Limits on Short-Term Offshore Bank Loans (Issue 1597 - 2/9/2011)
- ✍ Technical Guidelines on the Disassembly of Offshore Oil and Gas Installations (Issue 1596 - 2/8/2011)
- ✍ Minister of Finance Suspends Import Duties on Food-Related Items (Issue 1595 - 2/7/2011)
- ✍ Government Regulation Prohibits Collection of Regional Taxes by Third-parties (Issue 1594 -

❖ Documents

Government Regulation No. 94 of 2010
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