Indonesia:  
New tax incentives for investment in specified sectors

The Indonesian Minister of Finance issued the long-awaited regulation on a tax holiday regime for new domestic or foreign investment in certain business sectors on 15 August 2011 (Regulation No. 130/PMK.011/2011). The regulation, which applies as from the date it was issued, provides beneficial tax treatment to manufacturing projects in high priority sectors (i.e. base metals, oil refining, petrochemicals, machine tools and renewable energy) and remote areas.

The tax incentives are as follows:

1. An exemption from corporate income tax for five to 10 years beginning from the date commercial production commences;
2. A two-year 50% reduction in corporate income tax liability after the end of the tax holiday period; and
3. An extension of the exemption or reduction in corporate income tax, depending on the competitiveness and strategic value of the industry.

To qualify, the company must meet the following requirements:

- Invest at least INR 1 trillion (approximately USD 117 million) in a qualified pioneer industry;
- Deposit at least 10% of the total investment in an Indonesian bank, which cannot be withdrawn before the company undertakes its investment plan; and
- Be a new taxpayer with Indonesian legal entity status (however, existing investors that have operated for less than 12 months also may qualify for the tax holiday).

Application for the tax holiday under PMK-130 must be made to the Minister of Industry or the Head of the Capital Investment Coordinating Board by 15 August 2014, i.e. within three years from the date the regulation was issued. The Minister will submit its recommendation to the Minister of Finance, who will issue a decision on the application in the form of a decree. The following factors will then be taken into account in granting the tax holiday:

- The availability of infrastructure where the investment is located;
- The use of local labor;
- The completion of a study that shows the criteria for a pioneer industry are met;
- Clear plans for a transfer of technology; and
- The availability of “tax sparing,” i.e. the granting of tax relief in the country of residence of the investor that fully takes into account the amount of the tax benefit granted in Indonesia.

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