

Indonesia updates tax holiday incentive and provides guidance for 300% R&D super deduction

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Indonesia issued new regulations for the tax holiday incentive on 18 September 2020 and on 9 October 2020 released implementing regulations for the 300% super deduction incentive for research and development (R&D) activities. The regulations are effective from 8 October and 9 October 2020, respectively.

This Tax Alert highlights the key aspects of these regulations.

Tax holiday incentive

1. Benefits and investment value thresholds

The benefits and investment value thresholds are unchanged in the new regulation.

| Investment (US\$*) | CIT** exemption | Period |
|----------------------|-----------------|----------|
| \$6.7 < \$33 million | 50% | 5 years |
| \$33 < \$68 million | 100% | 5 years |
| \$68 < \$338 million | | 7 years |
| \$0.34 < \$1 billion | | 10 years |
| \$1 < \$2 billion | | 15 years |
| > \$2 billion | | 20 years |

* Approximate translations of Indonesian Rupiah thresholds

** Corporate Income Tax

2. Eligible pioneer sectors

The new regulation reconfirms 18 predetermined pioneer sectors.¹ In addition, it provides significant clarifications for the discretionary tax holiday procedures for other pioneer sectors outside the 18 predetermined pioneer sectors. Any new company or investment in pioneer sectors may apply for the tax holiday incentive if it meets the minimum requirements across the following quantitative criteria: (1) high integration; (2) high value added; (3) use of new technology; and (4) a national priority.

3. Application procedures

The incentive application is required to be submitted by the company online through the Online Single Submission (OSS) website. To provide more certainty to the investors, the application process is now streamlined and centralized within Indonesia's Investment Coordination Board (whereas previously several authorities were involved in the approval process).

300% super deduction incentive for R&D activities

Certain R&D activities² carried out by a taxpayer on or after 26 June 2019³ focusing on promoted sectors⁴ may qualify for a super deduction of up to 300% of the R&D costs incurred, based on the following qualifying conditions (separately or in aggregate):

- a. 100% ordinary deduction for actual qualified costs incurred.
- b. 50% bonus deduction if patent or plant variety protection rights (PVT rights) are registered in Indonesia.
- c. 25% bonus deduction if patent or PVT rights are registered in both Indonesia and overseas.
- d. 100% bonus deduction if R&D activities reach commercialization stage.
- e. 25% bonus deduction if R&D activities involve collaboration with Indonesia's government R&D institution(s) and/or higher education institution(s) in Indonesia.

The application for the incentive is required to be submitted by the company online through the OSS website and an attachment of the R&D proposal and other supporting documents. The proposal will be reviewed and approved by the Ministry of Research and Technology together with the relevant ministry before the companies are granted super deduction benefits.

Endnotes

1. A pioneer sector is defined as a sector that is vastly interconnected, provides a high value add, introduces new technology or has strategic value for the national economy. The 18 predetermined pioneer sectors are:
 1. Integrated upstream base metal industry (steel and non-steel), with or without its derivatives
 2. Integrated purification and/or refinery of oil and gas industry, with or without its derivatives
 3. Integrated petrochemical industry with oil, natural gas or coal based, with or without its derivatives
 4. Integrated basic organic chemical industry sourced from agriculture, plantation or forestry, with or without its derivatives

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