

Indonesia announces 300% super deduction for R&D and other incentives

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The Indonesian Government issued Government Regulation (GR) No. 45/2019 (GR-45) on 25 June 2019. GR-45 provides new tax incentives to Indonesian corporations to: (i) encourage investment in labor intensive industries; (ii) support job creation and employment in Indonesia; (iii) encourage involvement of business and industry sectors to develop high quality human resources; (iv) increase competitiveness; and (v) encourage businesses to conduct research and development (R&D) activities.

These incentives have been under consideration for some time and therefore will be a welcome development for many taxpayers. The fundamental aspects of the concessions will be governed by implementing regulations.

Under GR-45, the following income tax incentives are available to Indonesian corporations:

1. 60% additional cost recovery for new asset acquisitions or business expansion in a business sector which is both:
 - a) A labor-intensive industry sector
 - b) Not eligible for another tax allowance or tax holiday incentive

The income tax incentive is a deduction from gross income of 60% of the investment made in tangible fixed assets, including land, used for primary business activities, resulting in additional cost recovery deduction that is over a period.¹

2. 200% deduction for apprenticeship, internship and/or teaching activities to develop human resources based on "certain competencies"²: a maximum reduction³ of 200% of the total expenses incurred for the apprenticeship, internship and /or teaching activities.
3. 300% R&D deduction for certain R&D activities carried out in Indonesia:⁴ a maximum reduction⁵ of 300% of the total expenses incurred for certain R&D activities performed in Indonesia over a period.⁶

Endnotes

1. "A period" is not defined.
2. "Certain competencies" required for participants are defined as competencies to increase human resources quality through work practice, internship and/or strategic teaching to achieve human resources effectiveness and efficiency as part of human resources investment, and to meet the structure of labor requirements that are needed by the business and/or industry sectors.
3. The implementing regulations are expected to provide further clarification on whether the incentive is a reduction from gross revenue or deduction from income.
4. To produce invention, innovation, mastery of new technology, and/or transfer of technology for industrial development to increase the competitiveness of national industry.
5. See Endnote 3 above.
6. See Endnote 1 above.

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