



PRESIDENT OF THE REPUBLIC OF INDONESIA

REGULATION OF THE GOVERNMENT OF THE REPUBLIC OF INDONESIA

NUMBER 1 OF 2007

REGARDING

INCOME TAX FACILITIES FOR INVESTMENT IN CERTAIN BUSINESS

FIELDS AND/OR CERTAIN REGIONS

BY THE MERCY OF THE ONE SUPREME GOD

PRESIDENT OF THE REPUBLIC OF INDONESIA,

- Considering** :
- a. that direct investment both foreign and domestic investments is one of important factors supporting economic growth, development distribution and development acceleration for certain business fields and/or certain regions;
 - b. whereas based on Article 31A of Law Number 7 of 1984 regarding Income Tax as already amended with Law Number 17 of 2000, Taxpayer investing in certain business fields and/or in certain regions could be awarded Income Tax facilities;
 - c. whereas Government Regulation Number 148 of 2000 regarding Income Tax Facilities for Investment in Certain Business Fields

And/Or In Certain Regions is no longer in accordance with the situational demands and development thereby must be revoked and replaced with the new one;

d. whereas based on considerations as referred to in items a, b, and c above, it is deemed necessary to establish Government Regulation regarding Income Tax Facilities for Investment in Certain Business Fields and/or in Certain Regions;

In view of : 1. Article 5 paragraph (2) of 1945 Constitution of the Republic of Indonesia;

2. Law Number 6 of 1983 regarding General Provision and Taxation Procedure (State Gazette of the Republic of Indonesia, Supplement Number 3262) as already amended by Law Number 16 of 2000 (State Gazette of the Republic of Indonesia of 2000 Number 126, Supplement Number 3984);

3. Law Number 7 of 1983 regarding Income Tax (State Gazette of the Republic of Indonesia of 1983 Number 50, Supplement Number 3263) as already amended by Law

Number 17 of 2000 (State Gazette of the Republic of Indonesia of 2000 Number 127, Supplement Number 3985);

HAS DECIDED:

To Stipulate: GOVERNMENT REGULATION REGARDING INCOME TAX FOR INVESTMENT IN CERTAIN BUSINESS FIELDS AND/OR CERTAIN REGIONS

Article 1

In this Government Regulation, by:

1. Investment shall mean investment in form of fixed tangible assets including land used mainly for business both for new investment and expansion of existing business.
2. Fixed tangible assets shall mean tangible assets with benefit period more than 1 (one) year derived in the form of ready to use or previously built used for business operation, unintended for sale or transfer of ownership.
3. Expansion of existing business shall mean an activity in order to improve product quality/quantity, product diversification, or expansion of operational region for activity development and business production.
4. Certain business fields shall mean any business fields in economic sector with high priority of national scale.

5. Certain regions shall mean any regions with economic potential qualified to develop.

Article 2

(1) Taxpayer of domestic agencies in the form of limited company and cooperation investing on:

- a. certain business fields as stipulated in Appendix I of this Government Regulation; or
- b. certain business fields and certain regions as stipulated in Appendix II of this Government Regulation,

can be awarded Income Tax facilities.

(2) Income Tax facilities as intended in paragraph (1) above shall be as follows:

- a. 30% (thirty percent) net tax deduction of the total Investment, charged for 6 (six) years for 5% (five percent) annually;
- b. accelerated depreciation and amortization shall be as follows:

Tangible Fixed Assets Group	Benefit Period Becomes	Depreciation and Amortization Tariff Based on Method	
		Straight Line	Decreasing Balance
I. Non Building: Group I	2 years	50%	100% (charged all at once)

Group II	4 years	25%	50%
Group III	8 years	12,5%	25%
Group IV	10 years	10%	20%
II. Building :			
Permanent	10 years	10%	-
Non-Permanent	5 years	20%	-

c. income tax charge for dividend paid to Foreign Tax Subject shall be 10% (ten percent), or lower tariff according to effective Double Taxation Avoid Agreement; and

d. loss compensation for more than 5 (five) years but not more than 10 (ten) years with the following provisions:

1) 1 year extra: in case the new investment in business field stipulated in Article 2 paragraph (1) item a is conducted in industrial estate and bonded zone;

2) 1 year extra: in case it hires at least 500 (five hundred) Indonesian work forces for 5 (five) consecutive years;

3) 1 year extra: in case the new investment requires investment/cost for economic and social infrastructure in business

location minimum
Rp.10,000,000,000.00 (ten
billions Rupiah);

4) 1 year extra: in case domestic research and
development costs for product
development or production
efficiency at least 5% (five
percent) from investment for 5
(five) years period; and/or

5) 1 year extra: in case it uses raw materials and
or domestic products at least 70%
(seventy percent) since the
fourth year.

(3) Minister of Finance shall publish decree on awarding
Income Tax facilities after considering proposal of
Capital Investment Coordinating Board.

Article 3

Taxpayers receiving facilities as referred to in Article
paragraph (2) before 6 (six) years since date of facilities
delivery may not:

- a. use fixed assets receiving facilities for any objectives
other than awarded by the facilities; or
- b. transfer parts or all fixed assets receiving facilities
but the transferred fixed assets are changed with new
fixed assets.

Article 4

In case Taxpayer receiving facilities does not fulfill the stipulations in Article 3, then:

- a. any facilities provided based on this Government Regulation will be revoked;
- b. related Taxpayer will be sanctioned according to effective regulations on taxation; and
- c. no more facilities based on this Government Regulation.

Article 5

- (1) Implementation of this Government Regulation herein will be evaluated maximum 1 (one) year since the stipulation of this Government Regulation.
- (2) Evaluation as referred to in paragraph (1) above will be conducted by Monitoring and Evaluation Team formed through a Decree of Coordinating Minister for Public Health.

Article 6

In respect of Taxpayer receiving taxation facilities for business activities in Integrated Economic Development Region (KAPET) based on Government Regulation Number 20 of 2000 regarding Taxation Treatment in Integrated Economic Development Region as amended by Government Regulation Number 147 of 2000, the business activities will not get any

taxation facilities as referred to in this Government Regulation herein.

Article 7

Further provisions required for execution of this Government Regulation shall be stipulated by or based on Regulation of Minister of Finance.

Article 8

At the time this Government Regulation comes into force, Government Regulation Number 148 of 2000 regarding Income Tax Facilities for Investment in Certain Business Fields and or in Certain Regions (State Gazette of the Republic of Indonesia Number 265, Supplement Number 4066), shall become null and void.

Article 9

This Government Regulation shall become effective upon January 1, 2007.

For public cognizance, it is instructed to promulgate this Government Regulation by inserting the same in State Gazette of the Republic of Indonesia.

Stipulated in Jakarta

on January 2, 2007

PRESIDENT OF THE REPUBLIC OF INDONESIA

signed

DR. H. SUSILO BAMBANG YUDHOYONO

Promulgated in Jakarta

on January 2, 2007

MINISTER OF LAW AND HUMAN RIGHTS OF

THE REPUBLIC OF INDONESIA

AD INTERIM,

signed

YUSRIL IHZA MAHENDRA

STATE GAZETTE OF THE REPUBLIC OF INDONESIA OF 2007 NUMBER 1

Copy serves as original version

STATE SECRETARIAT OF THE REPUBLIC OF INDONESIA

Chief of Bureau of Legislation

Economic and Industry Department

signed and sealed

M. SAPTA MURTI, SH., MA, MKn

**ELUCIDATION TO
REGULATION OF THE GOVERNMENT OF THE REPUBLIC OF INDONESIA
NUMBER 1 OF 2007
REGARDING
INCOME TAX FACILITIES FOR INVESTMENT IN CERTAIN BUSINESS
FIELDS AND/OR CERTAIN REGIONS**

I. GENERAL

In order to encourage economic growth, development distribution, and development acceleration in certain regions, deepening industrial structure, supporting foreign and domestic investments in certain business fields and or certain regions, Taxpayer investing or expanding investment in certain business fields and/or certain regions will be awarded Tax Income facilities.

II. ARTICLE BY ARTICLE

Article 1

Self-Explanatory;

Article 2

Paragraph (1)

Income Tax facilities as stipulated in this Government Regulation herein can only be awarded to taxpayer in the form of Limited Liability Company (PT) and Cooperatives investing in any business

fields as stipulated in Appendix I and Appendix II to this Government Regulation.

Investment on business fields as stipulated in Appendix I can be conducted in all Indonesian regions while investment on business fields as stipulated in Appendix II must be conducted in regions determined in Appendix II herein.

Paragraph (2)

Item a

Net income tax deduction facility shall be given for 6 (six) years from the year of commercial production of 5% (five percent) of total investment in the form of fixed tangible assets including land for main business activities.

Such facility herein shall deduct net income (in case it gets business profit) or increase fiscal loss (in case it gets business loss).

Example:

PT ABC invested Rp 100,000,000,000 for fixed assets in the form of land, building and machine. It may be given investment allowance for $5\% \times \text{Rp } 100,000,000,000 = \text{Rp } 5,000,000,000$

annually for 6 (six) years since the year of facilities award.

Item b

Accelerated depreciation and amortization facilities shall be given for fixed assets gained and used for investment.

Item c

For example, investor from X country gains dividend from domestic Taxpayer body determined to gain facilities based on this Government Regulation. In case investor X herein is located in a country without Double Taxation Avoid Agreement (P3B) with Government of the Republic of Indonesia, or located in a country with P3B with Government of the Republic of Indonesia with dividend tax tariff for Foreign Taxpayer of 10% (ten percent) or more, thus, dividend herein will only be charged Indonesian Tax Income for 10% (ten percent). However, in case investor X herein is located in a country with P3B with Government of the Republic of Indonesia dividend tax tariff will be charged with Indonesian Tax Income as stipulated in the P3B.

Item d

Fiscal loss which is able to compensate with 5 (five) years benefit as referred to in provision of Article 6 paragraph (2) of Law on Tax Income, in the frame of investment given with longer fiscal loss compensation facilities namely in the event the following requirements/criteria are fulfilled:

1. 1 year extra: in case the new investment in business field ruled in Article 2 paragraph (1) item a is conducted in industrial estate and bonded zone;
2. 1 year extra: in case it hires at least 500 (five hundred) Indonesian employees for 5 (five) years in a row. Indonesian employees shall mean employees of all levels.
3. 1 year extra: in case the new investment requires investment/cost for economic and social infrastructure in business location minimum Rp

10,000,000,000.00 (ten billions Rupiah);

4. 1 year extra: in case during 5 (five) tax years period, it issues domestic research and development costs for product development or production efficiency at least 5% (five percent) of total investment.

5. 1 year extra: in case it uses raw materials and or domestic products at least 70% (seventy percent) since the fourth year.

Paragraph (3)

Self-Explanatory.

Article 3

Self-Explanatory.

Article 4

Self-Explanatory.

Article 5

Self-Explanatory.

Article 6

Self-Explanatory.

Article 7

Self-Explanatory.

Article 8

Self-Explanatory.

Article 9

Self-Explanatory.

SUPPLEMENT TO STATE GAZETTEE OF THE REPUBLIC OF INDONESIA

NUMBER 4675