

June 2017
NEWS ALERT



CHANGES TO AUDIT PROCEDURES

*DGT Regulation 07/PJ/2017 and
DGT Circular Letter SE-10/PJ/2017*

The tax audit procedures have been revised in an effort to provide better oversight, maintain the integrity and professionalism of tax auditors, and improve the quality of audit results.

There is now a requirement for an initial meeting to be held at the tax office. In addition to the tax audit instruction letter there will be an invitation letter to attend the initial meeting. This meeting is essentially to confirm the legal basis for conducting the tax audit and to review compliance with tax obligations. The signed minutes of this meeting are the basis to begin the tax audit.

With respect to the initial meeting, note the following:

- **Invitation:** Notification of the meeting must state the time, place, purpose of the meeting and documents required to be taken to the examination. The invitation letter must be delivered by fax, mail or other delivery service.
- **Party required to attend:** The taxpayer is required to attend in person and cannot be represented by a third party. For a corporate taxpayer, a director or authorized representative as stipulated in Article 32.1 of the tax administration/KUP law must attend this initial meeting; for an individual, the individual concerned must attend. However, a tax consultant or knowledgeable employee is permitted to accompany the taxpayer.
- **Place and timing:** The initial meeting must take place at the DGT's office within five business days from when the invitation letter was issued. The taxpayer must bring all requested documents and be prepared to explain about the following:
 - Taxpayer's identity
 - Business process
 - Bookkeeping and documentation
 - Information on main customers and suppliers
 - Special transactions
 - Clarification on any differences discovered by the auditor and what is contained in the tax return
- **Recording: The meeting will be recorded using audio and visual recording equipment.**

The taxpayer may propose a different date and time for the initial meeting. If the taxpayer fails to appear at the time stated in the invitation, or as otherwise agreed, the taxpayer is considered to have failed to attend the initial meeting. In that case, a statement to that effect is issued and an audit will be conducted at the taxpayer's premises, beginning within one month after the meeting. If the taxpayer is uncooperative at the audit, the documents and other information are sealed. If the taxpayer remains uncooperative, the auditor can either calculate the taxable income as deemed appropriate or initiate a preliminary audit of a tax crime.

With the new procedure, taxpayers will need to be more careful in documenting all correspondence with the tax office and preparing the required documentation requested. The five business day deadline could be problematic, in particular if the letter is sent by post or other delivery service. The taxpayer must ensure that the date of receipt is properly documented.

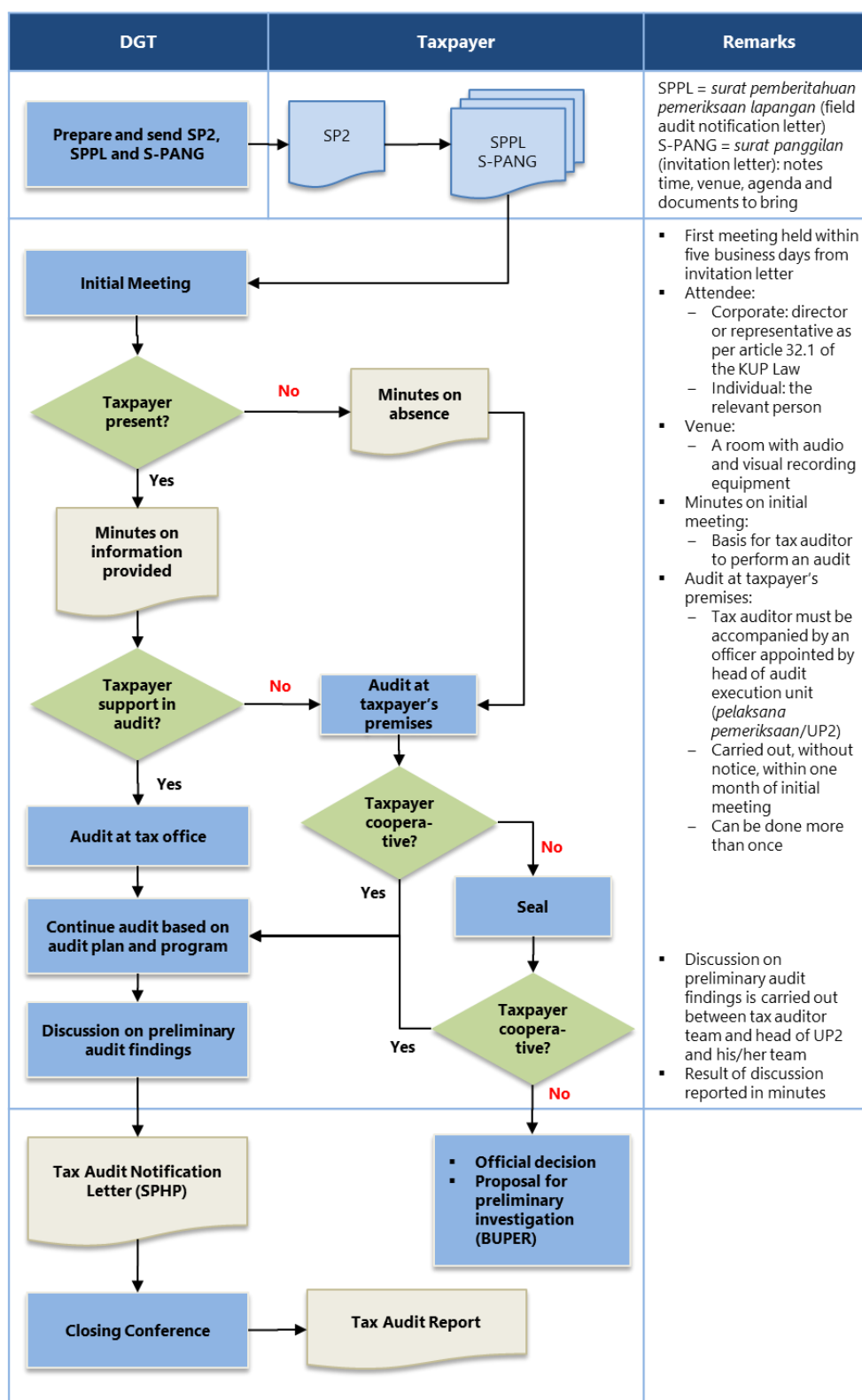
CHANGES TO AUDIT PROCEDURES (CONT.)

If an expatriate wants to revoke his/her tax ID (NPWP), that individual should plan to attend the initial meeting and not leave the country before the tax audit has begun.

We suggest that the appointed director/authorized representative seek legal and/or tax advice prior to attending the initial meeting in order to understand its implications. This will help ensure that the explanation of the appointed director/authorized representative is in accordance with the company's tax situation as he/she may have limited understanding of the issues being raised by the tax auditor.

Below is a diagram outlining the tax audit procedure.

2017 FIELD AUDIT PROCEDURE



2017 TAX AUDIT STRATEGY

DGT Circular Letter No.
SE-11/PJ/2017

SE-11 was issued to improve the quality of tax audits for tax compliance purposes. This circular explains (i) audit planning, (ii) audit strategy, (iii) audit performance measurements and (iv) audit monitoring, control, evaluation and follow-up.

Tax audits conducted in 2017 will focus on the following taxpayers:

- Taxpayers who did not join the tax amnesty program
- Infrastructure supporting industries (construction industry suppliers)
- Digital industry
- Groups and affiliates
- Mining, plantation and fishery industries
- Taxpayers who obtained tax facilities or were granted preliminary tax refunds
- Taxpayers with a significant tax gap, based on the criteria set out in SE-11
- 2013, 2014 and 2015 tax years
- Other taxpayers as determined by the Director of Audit and Collection

Regional and local tax offices will also focus on companies engaged in sectors important to their specific location.

To improve the quality of audits, a number of strategies will be implemented, including:

- Preparing a list of audit priorities and goals
- Improving the refund process for preliminary refunds for taxpayers who meet certain criteria
- Conducting simultaneous audits to create a deterrent effect for certain dominant industries
- Prioritizing to focus on taxpayers who did not join the tax amnesty program

To improve the quality of inspections, tax auditors will be subject to review on a number of performance indicators with certain targets, including:

- *Extra effort*: Measured by payments received for underpaid tax assessment letters/SKPKB, additional underpaid tax assessment letters/SKPKBT and tax collection letters/STP issued in 2017 and prior years. Target is 100%.
- *Account coverage ratio*: The ACR measures the number of taxpayers examined/the number of taxpayers registered. This applies only to compliance tax audits (routine and special audits). Target is 100%.
- *Payment percentage*: Measures the tax payable paid compared to the total assessment value during 2017. Target is 100%.
- *Completion percentage*: Measured by the number of completed audits. Target is 100%.
- *Percentage of approved tax assessment letters/SKP*: Measured by the number of tax assessment letters for which no objection was filed by the taxpayer. Target is 85%.
- *Refund discrepancy percentage*: Measured by the amount of refunds not granted compared to the amount of refunds requested in tax returns. Target is 15%.

Tax audits which are carried out based on tax audit instruction letters issued before 2017 must be completed by 31 May 2017.

Related to the tax amnesty program, tax auditors are permitted to undertake asset tracing in order to identify assets that were not disclosed, or not fully disclosed, in the tax amnesty declaration or the annual tax return. Any assets which are discovered may be subject to a special tax audit, to be concluded within 15 business days.



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