
Course: Advanced Taxation

Lecture 10: Corporate Income Tax (2) – calculation

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WELCOME!

Corporate Income Tax (2) - calculation

- Every business entity that receives income is obligated to pay taxes, both monthly and annually, to the government. According to Law Number 28 of 2007 concerning General Provisions and Tax Procedures, a body is a collection of persons or capital that forms a unity, whether engaged in business or not, including limited liability companies, limited partnerships, other partnerships, state-owned enterprises, or regional-owned enterprises in any name and form, firms, joint ventures, cooperatives, pension funds, associations, foundations, mass organizations, socio-political organizations, other organizations, institutions, and other forms of bodies, including collective investment contracts and permanent establishments.

- Corporate income tax withheld/collected by other parties: Article 22 Income Tax, Article 23 Income Tax, and Article 24 Income Tax.
- Income tax paid directly: Article 25 Income Tax and Article 29 Income Tax.

- You can also further understand the applicable legal provisions for Corporate Income Tax by referring to the related regulations as follows:
 - Law Number 7 of 1983 as amended by Law Number 36 of 2008 concerning income tax.
 - Government Regulation No. 94/2010 concerning the calculation of taxable income and payment of income tax during the year.
 - Government Regulation No. 56/2015 concerning the reduction of income tax rates for domestic corporate taxpayers in the form of publicly listed companies.
 - Government Regulation No. 36/2017 concerning the imposition of income tax on certain income in the form of net assets considered as income.
 - Government Regulation No. 23/2018 concerning income tax on income from business received or earned by taxpayers with certain gross circulation.
 - Minister of Finance Regulation No. 35/PMK.010/2018 concerning the provision of facilities for the reduction of corporate income tax.
 - Circular Letter of the Director General of Taxes No. SE-02/Pj/2015 concerning the affirmation of the implementation of Article 31E paragraph 1 of Law No. 7 of 1983 concerning income tax as amended several times, most recently by Law No. 36 of 2008.

- In principle, the process of calculating Corporate Income Tax cannot be separated from various other taxation aspects such as final tax objects, income not categorized as taxable income, allowable and non-allowable deductions according to tax regulations, Article 22 Income Tax, Article 23 Income Tax, Article 25 Income Tax, Article 28 Income Tax, Article 29 Income Tax, and so on.

- According to the Income Tax Law, the amount of tax payable on the tax return submitted by corporate taxpayers is the amount of tax payable according to the provisions of the Income Tax Law. This means that financial statements prepared by the company must be adjusted to the tax regulations (fiscal) first when these financial statements are to be used as the basis for tax calculations and the preparation of tax returns submitted to the tax office. This provision is known as fiscal reconciliation.
- Fiscal reconciliation occurs because the company's financial statements are based on Financial Accounting Standards (SAK), which do not always align with tax regulations. Generally, fiscal reconciliation is conducted due to differences in calculations between commercial profit (prepared based on accounting standards) and fiscal profit (prepared based on tax regulations).

- The causes of differences between commercial financial statements and fiscal financial statements are due to Permanent Differences and Timing Differences.
- Permanent differences occur because of differences in the recognition of income and expenses according to SAK with tax regulations that will occur permanently. Permanent differences result in net profit (loss) according to commercial accounting permanently differing from taxable income (profit) according to fiscal rules. Permanent differences generally occur because tax regulations require the following items to be excluded from the calculation of Taxable Income (PKP):

1. Income that has been subjected to final tax, such as bank interest, dividends, land and building rental, and other income as regulated in Article 4 paragraph 2 of the Income Tax Law.
2. Income that is not a taxable object, such as dividends received by limited liability companies, cooperatives, state-owned enterprises, regional-owned enterprises, interest received by mutual fund companies, and other income regulated in Article 4 paragraph 3 of the Income Tax Law.
3. Expenses not allowed as deductions from income, namely expenses related to activities to earn, collect, and maintain income, as well as expenses not related to business activities or expenses that are unreasonable in nature or amount according to Article 9 paragraph 1 of the Income Tax Law.

- Timing differences occur due to differences in the recognition of income and expenses between SAK and tax regulations caused by the shift in the recognition of income or expenses from one tax year to another. These differences are temporary because they will be offset in subsequent periods. Essentially, timing differences mean no difference in the total recognition of income and expenses, but due to the recognition differences divided into several reporting periods, there will still be differences in each period. Generally, the conditions causing timing differences include the following differences between commercial and fiscal recordings:

1. Differences in depreciation methods

According to accounting standards, there are several depreciation methods that can be used, namely: straight-line, declining balance, units of activity, and sum-of-the-years'-digits. While in tax regulations, there are only two depreciation methods that can be used, namely straight-line and declining balance. As a result, the total depreciation value of assets will be the same at the end of the asset's useful life, but in each tax year, there will be a difference in depreciation expense due to the difference in depreciation methods.

2. Differences in inventory valuation methods

Generally, there are two inventory valuation methods that can be used, namely the FIFO method and the average cost method. Overall, the cost calculation results of the two methods will be the same if all product stock has been sold. However, if the company uses different methods for accounting and tax recording, then for the period during which the entire quantity of products has not been sold, there will be a difference/timing difference.

- The differences that occur must be eliminated for the purpose of calculating Corporate Income Tax (CIT). Therefore, companies must make fiscal corrections to adjust the recorded figures according to accounting/commercial standards to figures according to tax/fiscal regulations. Fiscal corrections can be positive or negative.
- Positive fiscal corrections increase taxable income, resulting in a larger tax liability. Positive fiscal corrections generally involve two actions, namely reducing expenses or increasing income.

- Generally, positive fiscal corrections are made to expenses with the following criteria:
 1. Expenses not directly related to the company's business activities to earn, collect, and maintain income.
 2. Expenses not allowed as deductions from taxable income.
 3. Expenses recognized as lower according to tax regulations, such as depreciation, amortization, and deferred costs that, according to taxpayer calculations (commercially), should be charged higher.
 4. Expenses related to income that is not a taxable object.
 5. Expenses related to income that has been subjected to final tax.

- Principally, expenses that can be deducted from gross income as tax deductions are those directly related to the business or activities for 3M (earning, collecting, and maintaining income) during the tax year. Below is an explanation of the expenses that can be charged as deductible expenses and those that cannot:
 - a. **Deductible Expenses:** Expenses that can be deducted from gross income as long as they are directly related to business activities in earning, collecting, and maintaining income, and are supported by adequate evidence (nominative list) as stipulated in Article 6, paragraph 1 and Article 9, paragraph 1 of the Income Tax Law (UU PPh).
 - b. **Non-Deductible Expenses**

c. Expenses that cannot be deducted from income as tax deductions include:

- Profit sharing in any form, such as dividends, including dividends paid by insurance companies to policyholders, and profit-sharing from cooperatives.
- Expenses for personal interests of shareholders, partners, and members.
- Formation or provision of reserve funds, except for:
 - a. Bad debt reserves for banks and other business entities that provide credit, leasing with option rights, consumer finance companies, and factoring companies.
 - b. Reserves for insurance businesses including social assistance reserves formed by the Social Security Administration Agency.
 - c. Guarantee reserves for the Deposit Insurance Agency.
 - d. Reclamation cost reserves for mining businesses.
 - e. Reforestation cost reserves for forestry businesses.
 - f. Closure and maintenance cost reserves for industrial waste disposal sites for waste processing businesses.

- Compensation or remuneration related to work or services provided in kind and benefits, except for the provision of food and drinks for all employees and compensation or remuneration in kind and benefits in certain areas related to job implementation as regulated by or based on the Minister of Finance Regulation.
- Amounts exceeding the reasonable amount paid to shareholders or related parties as compensation for work performed.
- Donated, aided, or inherited assets as referred to in Article 4, paragraph (3) letters a and b, except for donations as referred to in Article 6, paragraph (1) and zakat received by zakat management bodies or zakat collection institutions established or recognized by the government, or mandatory religious donations for adherents of recognized religions in Indonesia, received by religious institutions established or recognized by the government, the provisions of which are regulated by or based on Government Regulation.

- Income tax (PPh).
- Expenses charged or incurred for the personal interests of taxpayers or their dependents.
- Salaries paid to members of partnerships, firms, or limited partnerships with non-share capital.
- Administrative sanctions in the form of interest, fines, and increases as well as criminal sanctions in the form of fines related to the implementation of tax laws.
- Inventory exceeding the amount based on the calculation method stipulated in Article 10 of the Income Tax Law.
- Depreciation exceeding the amount based on the calculation method stipulated in Article 10 of the Income Tax Law.

- Negative Fiscal Adjustments is fiscal corrections that reduce taxable income, thus reducing the owed income tax. Negative fiscal corrections include reducing income or increasing expenses.
- Generally, negative fiscal corrections are applied to income or expenses based on the following criteria:

- Income that is not subject to tax (Article 4, paragraph 3 of the Income Tax Law) includes:
 - a. Assistance or donations and inherited assets.
 - b. Assets, including cash deposits received by an entity as a substitute for shares or as equity participation.
 - c. Dividends or profit-sharing received by domestic taxpayers such as limited liability companies, cooperatives, state-owned enterprises, or regional-owned enterprises from equity participation in business entities established and domiciled in Indonesia under the condition:
 - a. Dividends originate from retained earnings.
 - b. For limited liability companies, state-owned/ regional-owned enterprises receiving dividends must have at least 25% ownership of the shares in the entity distributing the dividends.

- d. Income of pension funds recognized by the Minister of Finance in the form of:
 - i. Contributions received from employers or employees.
 - ii. Income from investments in certain fields as determined by the Minister of Finance.
- e. Profit-sharing received by members of limited partnerships with non-share capital, partnerships, associations, firms, and consortia, including unit holders of collective investment contracts.
- f. Surplus of Bank Indonesia for 5 years from the enactment of these provisions.
- g. Scholarships that meet certain requirements as regulated by the Minister of Finance.
- h. Surplus received by foundations or non-profit organizations engaged in formal education that is reinvested within 4 years, the provisions of which are further regulated by the Minister of Finance.

- i. Assistance or compensation paid by the Social Security Administration Agency to certain taxpayers, the provisions of which are further regulated by the Minister of Finance.
- j. Income received by venture capital companies in the form of profit-sharing from partner companies established and conducting business in Indonesia, under the condition that the partner company:
 - i. Is a small or medium enterprise or operates in sectors determined by the Minister of Finance.
 - ii. Its shares are not traded on the Indonesian stock exchange.

- Income with final tax treatment (Article 4, paragraph 2 of the Income Tax Law):
 - a. Interest income from deposits and other savings, interest from bonds and government securities, and interest on savings paid by cooperatives to individual members.
 - b. Income from lottery prizes.
 - c. Income from stock and securities transactions, derivative transactions traded on the stock exchange, and income from the sale or transfer of shares in partner companies received by venture capital companies.
 - d. Income from the transfer of land and/or building assets, construction services, real estate businesses, and the leasing of land and/or buildings.
 - e. Certain other incomes regulated by Government Regulations.

- Cost of Goods Sold that is less than the amount based on the calculation method stipulated in Article 10 of the Income Tax Law.
- Depreciation cost that is less than the amount based on the calculation method stipulated in Article 10 of the Income Tax Law.

- According to the provisions of Article 16 of the Income Tax Law, taxable income (PKP) as the basis for calculating the amount of owed income tax for a tax year is calculated by subtracting gross income with deductible expenses and fiscal loss compensation.
- Generally, corporate income tax is calculated based on the rate in Article 17 of the Income Tax Law multiplied by net income, after deducting fiscal loss compensation. However, other rates may apply due to tax incentives provided by the government under certain conditions.

1. Article 17, paragraph (1), letter b of the Income Tax Law

This rate is the general rate applied to domestic corporate taxpayers. The general corporate income tax rate according to Article 17, paragraph (1), letter b of the Income Tax Law is:

- 2009 tax year: 28%
- From the 2010 tax year onwards: 25%

The calculation is as follows: owed income tax = 25% x taxable income (PKP). This rate change is based on the principle that a single rate aligns with the neutrality principle in imposing tax on corporate taxpayers.

2. Article 31E, paragraph (1) of the Income Tax Law

This article explains a tax incentive in the form of a 50% rate reduction on net income. This incentive is specifically for domestic corporate taxpayers who maintain books and have gross revenue up to IDR 50 billion in a tax year.

- Tax Incentives under Article 31E, paragraph 1 of the Income Tax Law:
 - A 50% reduction from the general rate on taxable income from gross revenue up to IDR 4.8 billion.
 - A 50% reduction calculated proportionally from the general rate on taxable income from gross revenue between IDR 4.8 billion and IDR 50 billion.
- This rate reduction is implemented through self-assessment when submitting the annual corporate income tax return. This means corporate taxpayers do not need to submit a request to obtain the rate reduction incentive.

- Example 1: Medibest Company is engaged in the sale and purchase of medical equipment and has chosen to maintain bookkeeping in its business. Based on its financial statements, in the tax year 2020, Medibest Company had a gross turnover of Rp 3,600,000,000. Medibest Company earned taxable income from its business amounting to Rp 400,000,000. Based on this data, you are asked to calculate the income tax (PPh) payable by Medibest Company for the 2020 tax year.
 - Since the entire taxable income earned from this gross turnover is subject to a rate of 50% of the applicable corporate income tax rate because Medibest Company's gross turnover does not exceed Rp 4,800,000,000, the calculation is as follows:
 - PPh Payable = $(50\% \times 25\%) \times 400,000,000 = 50,000,000$

- Example 2: TechBro Company is engaged in the sale and purchase of computers and has chosen to maintain bookkeeping in its business. Based on its financial statements, in the tax year 2020, TechBro Company had a gross turnover of Rp 20,000,000,000. TechBro Company earned taxable income from its business amounting to Rp 2,000,000,000. Based on this data, you are asked to calculate the income tax (PPh) payable by TechBro Company for the 2020 tax year.

The income tax payable by TechBro Company is calculated as follows:

a. Taxable Income from the portion of gross turnover that receives tax reduction facilities:

$$\text{PPh} = 4,800,000,000 / 20,000,000,000 \times 2,000,000,000 = 480,000,000$$

a. Taxable Income from the portion of gross turnover that does not receive facilities:

$$\text{PPh} = 2,000,000,000 - 480,000,000 = 1,520,000,000$$

Next, the income tax payable for 2020 by TechBro Company is calculated as follows:

a. $(50\% \times 25\%) \times 480,000,000 = 60,000,000$

b. $25\% \times 1,520,000,000 = 380,000,000 (-)$

c. PPh Payable for 2020 = 440,000,000

3. Final Income Tax Rate (PP 23 of 2018)

- This rate explains a tax facility with a tax rate of 0.5% specifically for Domestic Taxpayers, both individuals and entities, who do not keep books (only record transactions) and have a gross turnover of up to Rp 4,800,000,000 in one tax year.
- The provisions of PP 23 of 2018 are set for business entities with the following time frames:
 - Limited Liability Companies (PT) for a period of 3 years.
 - Cooperatives, Limited Partnerships (CV), or Firms for a period of 4 years.
- After the specified period, taxpayers are required to maintain a bookkeeping system as a basis for tax calculations.

- After the specified period, taxpayers are required to maintain a bookkeeping system as a basis for tax calculations.
- On July 1, 2018, the government officially enacted Government Regulation No. 23 of 2018, which officially replaces and repeals PP 46 of 2013. This change relates to the applicable tax rate. Previously, under PP 46 of 2013, the final income tax rate was 1%, which has now changed to 0.5%.
- Taxpayers exempted from the new final income tax rate are:
 - Taxpayers who choose to be subject to the income tax rate under Article 17 paragraph (1a), Article 17 paragraph (2a), or Article 31E of the Income Tax Law.
 - Permanent Establishments (PEs).
 - Business entities in the form of limited partnerships or firms formed by several individual taxpayers who have special expertise in providing similar services to those related to independent work.
 - Business entities that receive income tax facilities under Article 31A of the Income Tax Law or Government Regulation No. 94 of 2010.

- The tax facility under PP 23 of 2018 is the imposition of a 0.5% rate on gross turnover, calculated as follows: PPh Payable = 0.5% x Gross Turnover.
- Calculation using the PP 23 rate applies only to companies with a gross turnover not exceeding Rp 4.8 billion. This amount is calculated based on the gross turnover of the previous tax year, including from branch businesses, and does not include gross income from:
 - Services related to independent work.
 - Income received or earned from abroad.
 - Businesses whose income is subject to final income tax under specific tax regulations, such as construction services.
 - Income that is excluded as taxable income.

- A tax credit is the tax already paid to another party either through withholding or collection, which can be deducted from the amount of tax payable for the relevant tax year. Tax credits do not apply to income subject to final taxation. Tax credits can include income tax paid directly or income tax withheld or paid abroad by domestic taxpayers. This means that tax paid during the year, whether paid directly by the taxpayer or withheld and collected by another party, can be credited against the tax payable at the end of the tax year.
- Tax Credit Types under Ministry of Finance Decree No. 164/KMK.03/2002
 - Income Tax Credit (PPh) Article 22
 - Income Tax Credit (PPh) Article 23
 - Income Tax Credit (PPh) Article 24
 - Other Prepaid Income Tax Credits.

- Income Tax Credit Article 22 is the amount of income tax collected during the relevant tax year by the collector of Article 22 income tax in relation to payments for the supply of goods, specific entities collecting tax from taxpayers conducting import activities or other business activities. The tax collector must issue a withholding certificate for Article 22 income tax as a condition for crediting Article 22 income tax. Final Article 22 income tax cannot be credited when calculating the tax payable at the end of the tax year.

- Income Tax Credit Article 23 is the amount of income tax withheld during the relevant tax year by the withholding agent of Article 23 income tax on income in the form of dividends, interest, royalties, prizes and awards, rent, compensation for technical services, management services, consulting services, and other services determined by the Directorate General of Taxes received by corporate taxpayers, except for withholding of final income tax. The tax withholding agent must issue a withholding certificate for Article 23 income tax as a condition for crediting Article 23 income tax by the party required to withhold it.
- Income Tax Credit Article 24 is the amount of income tax paid or payable abroad that can be credited against the income tax payable in Indonesia. Crediting of Article 24 income tax is carried out in the tax year in which the foreign income is earned with income in Indonesia, but losses incurred abroad cannot be combined with income in Indonesia.

- The maximum nominal tax credit for Article 24 income tax is the amount of tax paid or payable abroad, but it must not exceed the proportion of Foreign Income to Taxable Income multiplied by the tax payable on Taxable Income. If foreign income is derived from several countries, the calculation of the maximum tax credit limit is performed for each country, illustrated by the following formula: $\text{Maximum Tax Credit} = \text{Foreign Income} / \text{Taxable Income} \times \text{Income Tax Payable}$
- If the tax payable for a tax year is greater than the tax credit, the shortfall is referred to as Underpaid Income Tax (Article 29 Income Tax). This shortfall must be paid by the taxpayer to the state treasury before the Annual Income Tax Return is filed. If the fiscal year coincides with the calendar year, the tax shortfall must be settled by April 30 for Corporate Taxpayers after the Tax Year ends. If the fiscal year does not coincide with the calendar year, for example, starting from July 1 to June 30, the tax shortfall must be settled by October 31 for Corporate Taxpayers.

- Conversely, if the tax payable for a tax year is smaller than the tax credit, after an audit, the surplus is known as Overpaid Income Tax (Article 28A Income Tax). This tax overpayment can be reported to the Tax Office and will be considered a request from the taxpayer for a tax refund (restitution) or the taxpayer can choose to carry the overpayment forward to the next tax period.
- Article 25 Income Tax installments are monthly advance payments made during the fiscal year to ease the burden on the taxpayer, considering that the tax payable must be settled within one year. This payment must be made by the taxpayer and cannot be delegated. At the end of the tax year, Article 25 Income Tax installments can be credited against the tax payable.

- Article 25 Income Tax installments for Corporate Taxpayers for a tax year are calculated as the tax payable according to the previous year's Annual Income Tax Return, minus:
 - a. Income Tax Credit (Article 22)
 - b. Income Tax Credit (Article 23)
 - c. Income Tax Credit (Article 24)
 - d. Other non-routine income components
- The result of this deduction is then divided by twelve (the number of months in a tax year), resulting in the amount of the Article 25 Income Tax installment for the relevant tax year.

- The Directorate General of Taxes is authorized to determine the calculation of tax installments during the current tax year under certain conditions, as follows:
 - a. The taxpayer is entitled to Loss Compensation;
 - b. The taxpayer receives Irregular Income, such as foreign exchange gains from debts/receivables in foreign currency and capital gains from asset transfers, provided they are not income from core business activities, and other incidental income;
 - c. The previous year's Annual Income Tax Return is submitted after the deadline;
 - d. The taxpayer is granted an extension for submitting the Annual Income Tax Return;
 - e. The taxpayer corrects their Annual Income Tax Return, resulting in higher monthly installments than before the correction;
 - f. There are changes in the taxpayer's business or activity conditions.

- The payment of tax payable for Corporate Taxpayers is generally made after knowing the amount of underpaid tax at the end of the period. The deadline for the payment/deposit of Corporate Income Tax is before the Annual Corporate Income Tax Return is submitted, which is before April 30 of the following period.
- Taxpayers can pay the income tax payable using the e-Billing application by first creating a billing ID, then paying it through a designated bank (ATM, bank teller, internet banking) approved by the Ministry of Finance. After making the payment, they will receive a State Revenue Transaction Number (NTPN) as proof of payment, which will be used for tax reporting to the tax office.

- Article 25 Income Tax installments must be paid no later than the 15th of the following month after the due month. Article 25 Income Tax is considered reported if it has been paid and validated with a State Revenue Transaction Number (NTPN), according to the date stated on the Tax Payment Slip or Electronic Receipt, so the taxpayer does not need to file a Monthly Tax Return for Article 25 again to the Tax Office. However, for taxpayers who make payments not online and do not receive NTPN validation, they must still file a Monthly Tax Return for Article 25 to the Tax Office no later than the 20th of the following month.
- Corporate Taxpayers are required to report their income, assets, and liabilities annually in the form of Annual Tax Return Form 1771 to the registered Tax Office. The reporting period for Corporate Income Tax Returns is from January 1 to December 31 and must be reported to the Tax Office before April 30 of the following year.

- Generally, taxpayers are free to choose the form of reporting the Annual Corporate Income Tax Return using a paper form/hard copy to the registered Tax Office or reporting it online through the e-Filing feature as per PMK.09/PMK.03/2018 using the e-SPT Annual Corporate Income Tax application. After reporting through e-Filing, the taxpayer will receive an Electronic Receipt (BPE). However, if the taxpayer chooses to use the paper/hard copy form, the form can be submitted directly to the Tax Office or a designated place for receiving Annual Tax Returns.
- As a Corporate Taxpayer, you must follow the tax calculation provisions for corporate income tax objects according to the stipulated regulations, using the predetermined income tax formula according to its rate. In calculating Corporate Income Tax, Corporate Taxpayers usually cannot avoid bookkeeping.

- This is in accordance with the provisions outlined in the General Provisions and Tax Procedures Law (UU KUP) Article 28 paragraph (1), which mandates that corporate taxpayers must maintain bookkeeping. To calculate Corporate Income Tax, you first need to determine the amount of Taxable Income, hence the need for bookkeeping.
- In Indonesia, various documents, records, and electronic data that form the basis of bookkeeping must be kept for 10 years. This corresponds to the statute of limitations for tax crime investigations.

- Here are the steps to determine the Taxable Income for Corporate Taxpayers in calculating Corporate Income Tax:
 - Calculating annual income
 - Reducing with expenses
 - Non-deductible expenses

- To determine the Corporate Income Tax rate for Corporate Taxpayers, the following factors must be considered:
 - Legal form of the entity
 - Whether the corporate taxpayer meets certain publicly listed company criteria
 - Whether the gross revenue exceeds IDR 50 billion
 - For corporate taxpayers with gross revenue not exceeding IDR 50 billion, there are portions of taxable income that receive facilities and portions that do not receive corporate income tax reduction facilities.

- In addition to the rates explained in the previous section, there are also rate provisions for companies that meet the requirements stipulated in Article 17, paragraph (2b) of the Income Tax Law.
- This provision explains that there are tax facilities specifically for Domestic Corporate Taxpayers in the form of Limited Liability Companies (PT) that meet the following requirements:
 - A minimum of 40% of the total paid-in shares are traded on the Indonesia Stock Exchange.
 - Public share ownership is at least 40% of the total paid-in shares, and these shares are owned by at least 300 parties.
 - Each party may own less than 5% of the total paid-in shares.
 - The above conditions must be met by Domestic Corporate Taxpayers in the form of Public Companies for at least six months within one tax year.

- The tax facility based on Article 17, paragraph (2b) of the Income Tax Law: A reduction in rates lower than the normal rates. This rate reduction is expected to increase the role of the capital market as a source of business financing and encourage the growth of publicly listed companies and public ownership in these companies.
- Based on Article 18, paragraph (4) of the Income Tax Law and Article 2, paragraph (2) of the VAT Law, a Special Relationship between Taxpayers can occur due to dependence or connection between one another. According to Article 8 of Government Regulation No. 94 of 2010 on the Calculation of Taxable Income and Settlement of Income Tax in the Current Year, dependence or connection can be direct or indirect concerning business, employment, ownership, or control carried out by the concerned parties. You can see the explanation of the relationships between the concerned parties as follows:

- a. Concerning business, the relationship between the concerned parties in business between the Giving Taxpayer and the Receiving Taxpayer can occur if there are routine transactions between the two parties. Routine transactions between the two parties include purchases, sales, or the provision of other compensation in any name and form.
- b. Concerning employment, the relationship between the concerned parties in employment between the Giving Taxpayer and the Receiving Taxpayer occurs if there is a relationship in the form of employment, provision of services, or the conduct of activities directly or indirectly between the two parties.
- c. Concerning ownership or capital participation, the relationship between the concerned parties in ownership or control between the Giving Taxpayer and the Receiving Taxpayer occurs if there is ownership or capital participation or control through management or technology use. A special relationship between Individual Taxpayers can also occur due to blood or marriage relationships, with the following criteria:

- A taxpayer has direct or indirect capital participation of at least 25% in another taxpayer; the relationship between taxpayers with at least 25% capital participation in two or more taxpayers; or the relationship between the two or more last-mentioned taxpayers.
- A taxpayer controls another taxpayer or two or more taxpayers are under the same control, directly or indirectly, or a special relationship between taxpayers can also occur due to control through management or technology use even if there is no ownership relationship. A special relationship is considered to exist if one or more companies are under the same control. The same applies to the relationship between several companies under the same control.
- There is a family relationship either by blood or marriage in a straight line and/or to the side one degree. A blood relationship in a straight line one degree is father, mother, and child, while a blood relationship to the side one degree is sibling. A marital relationship in a straight line one degree is parents-in-law and stepchildren, while a marital relationship to the side one degree is siblings-in-law. If a husband and wife have a separation of property and income agreement, the relationship between them is included in the definition of a special relationship.

- Based on the provisions of the Income Tax Law No.36 of 2008, fiscal loss compensation can be explained as follows:
 - a. Fiscal loss is a fiscal loss based on a tax assessment issued by the Director General of Taxes and a fiscal loss based on the Annual Income Tax Return (self-assessment) if no tax assessment has been issued by the Directorate General of Taxes.
 - b. Fiscal loss compensation arises if, for the previous tax year, there is a fiscal loss (the Annual Tax Return is reported as Nil or Overpayment but there is a fiscal loss).
 - c. Fiscal loss occurs because gross income minus expenses (allowed according to fiscal provisions) results in a loss.
 - d. The fiscal loss is compensated with net fiscal profit starting from the next tax year consecutively for up to five years.
 - e. The recognition period for fiscal loss compensation started in 2009, while for previous tax years, the provisions of Law No.17 of 2000 on Income Tax apply.
 - f. If it turns out later that based on a tax assessment resulting from an audit, the amount of fiscal loss differs from the loss according to the Annual Income Tax Return or the audit result shows no loss, the fiscal loss compensation according to the Annual Income Tax Return must be corrected immediately in accordance with the provisions and procedures for correcting the Annual Tax Return as regulated in the General Tax Provisions Law.

THANK YOU

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LECTURER: DIMAZ RAMANANDA