

200% super deduction tax incentive on apprenticeship, internship and teaching activities



On 9 September 2019, the Minister of Finance (MoF) issued regulation No 128/PMK.010/2019 ("PMK-128") regarding the 200% super deduction tax incentive on apprenticeship, internship and teaching activities. PMK-128 is one of the implementing regulations of Government Regulation No 45/ 2019 ("GR-45"), which was issued and became effective 25 June 2019.

The key aspects of PMK-128 are as follows:

A. Important definitions

The important definitions under PMK-128 are:

1. Taxpayer is local corporate taxpayer that disburses expenses for apprenticeship, internship and/ or teaching activities in order to coach and develop human resources based on certain competencies.
2. Gross revenue is all the revenue earned and/ or received from both business and non-business activities originating from both Indonesia or outside of Indonesia, after deductions for sales returns and reduction as well as cash discounts in the Fiscal Year, before deductions for expenses to earn, collect and maintain the revenue.
3. Online Single Submission ("OSS") is the license to conduct business issued by the OSS Agency for and on behalf of the minister, head of institutions, governor, or mayor to the businessmen through an integrated electronic system.

4. Cooperation Agreement ("CA") is an agreement between the Taxpayer with a vocational high school, vocational *madrasah aliyah*, university on vocational teaching diploma program, vocational training center, or State and/ or Regional government agencies that carries out employment affairs for individuals who are not bound by work relationship with any parties, in order to conduct apprenticeship, internship and/ or teaching activities in order to coach and develop human resources based on certain competencies.
5. Fiscal Statement Letter (*Surat Keterangan Fiskal* - "SKF") is a letter given by the Directorate General of Taxation (DGT) with regard to the Taxpayer's obedience during certain period to fulfill some conditions to obtain services or in order to conduct certain activities.

B. Details of super deduction tax incentive

1. Taxpayer can be given a maximum of 200% reduction on the gross revenue for the costs incurred to conduct apprenticeship, internship and/ or teaching activities. The maximum 200% reduction of gross revenue covers:
 - a) 100% reduction on the gross revenue for the costs incurred to conduct apprenticeship, internship and/ or teaching activities; and
 - b) A maximum of 100% additional reduction on the gross revenue for the costs incurred to conduct apprenticeship, internship and/ or teaching activities as stated in B. 1(a).
2. Taxpayer can utilize the additional reduction on the gross revenue as stated in B. 1(b) by meeting the following conditions:
 - a) It has conducted apprenticeship, internship and/ or teaching activities to coach and develop human resources based on certain competencies;
 - b) It has a CA;
 - c) It is not in the tax loss position in the Fiscal Year when it utilizes the additional reduction on the gross revenue; and
 - d) It has submitted the SKF.
3. Certain competencies (which details are attached in the PMK-128) for the apprenticeship and/ or internship program are competencies taught to:
 - a) a vocational high school and/ or vocational *madrasah aliyah* for student, teachers and/ or educational staff;
 - b) university on vocational teaching diploma program for college student, teachers and/ or educational staff; and/ or

- c) training centers for individuals, trainees, instructor and/ or trainers.

4. Apprenticeship and/ or internship program that can be given a maximum of 200% reduction on gross revenue is a program that are participated by:
 - a) student, teachers and/ or educational staff in a vocational high school and/ or vocational *madrasah aliyah*;
 - b) college student, teachers and/ or educational staff in a university on vocational teaching diploma program;
 - c) trainees, instructor and/ or trainers in a training center; and/ or
 - d) individuals who are not bound by work relationship with any parties that are coordinated by the Ministry of Human Resources

which the activities are conducted by the Taxpayer in its business premises, as part of the vocational education curriculum in order to master certain skills or expertise.

5. Teaching activities that can be given a maximum of 200% reduction on gross revenue are teaching activities that are performed by a party assigned by the Taxpayer to teach in the vocational high school and/ or vocational *madrasah aliyah*, university on vocational teaching diploma program and/ or training centers.

C. Qualified expenses for additional reduction on gross revenue

1. Expenses incurred for the apprenticeship, internship and/ or teaching activities that can be given additional reduction on gross revenue cover as follows:
 - a) Any cost to provide special physical facilities in the form of premises and supporting facilities such as electricity, water, fuel, maintenance fee, and any other related expenses to conduct apprenticeship and/ or internship activities;
 - b) Any cost related to instructors or teachers appointed by the Taxpayer;
 - c) Any goods or materials to conduct apprenticeship, internship and/ or teaching activities;
 - d) Any cash incentives paid to the apprenticeship, internship and/ or teaching activities participants;
 - e) Any cost for obtaining certifications for the apprenticeship, internship and/ or teaching activities participants from the authorized agency.

2. Additional reduction on gross revenue does not apply for cash incentive incurred for apprenticeship, internship and/ or teaching activities participant that has certain special relationship with the owner, commissioner, director, and/ or management of the Taxpayer. The general deductibility rule will apply.
3. Additional reduction on gross revenue can be charged as deductible expenses provided such additional reduction on gross revenue does not trigger a tax loss for current Fiscal Year. In case such additional reduction on gross revenue trigger a tax loss for current Fiscal Year, the additional reduction is capped within the amount that does not trigger the tax loss for current Fiscal Year.
4. Additional reduction on gross revenue is not allowed for costs related to physical infrastructure which has been granted with tax allowance or tax holiday incentives and super deduction incentive for labor intensive sector.

D. Procedures to obtain additional reduction on gross revenue

To obtain additional reduction on gross revenue, the following procedures must be followed by the Taxpayer:

1. Taxpayer must submit a notification along with CA and a valid SKF, to the following channel before the program is initiated:
 - a) OSS; or
 - b) If OSS channel does not work properly due to any reason, the notification along with the attachments can be submitted manually to the Regional Tax Office that authorized a tax office where the Taxpayer is registered.
2. In case the notification submitted via OSS is completely received, OSS issues a notification stating that the Taxpayer has fulfilled the criteria to obtain an additional reduction on gross revenue to the said Taxpayer. Or in case the notification is submitted manually, if the notification is completely received, the Taxpayer is stated to be met the criteria to obtain an additional reduction on gross revenue.

E. Obligation to submit annual report to DGT

1. Taxpayer who has utilized the additional reduction on gross revenue, must submit an annual report on the apprenticeship, internship and/ or teaching activities program in a prescribed format under PMK-128 to the DGT through the tax office where the Taxpayer is registered along with the submission of its Corporate Income Tax (CIT) return for the Fiscal Year the incentive is utilized.

2. In case the Taxpayer fails to submit the annual report or submit the annual report without using the prescribed format under PMK-128, the tax office will issue a warning letter which the Taxpayer must submit its annual report within 14 days after the warning letter is issued.

F. Authority to deny the utilization of additional reduction on gross revenue

1. The DGT may deny giving additional reduction on gross revenue to the Taxpayer if:
 - a) The prerequisite Cooperation Agreement is not available;
 - b) The activities performed deviates from the competency plan outlined in the CA;
 - c) The notification along with the attachments is not submitted to OSS or Regional Tax Office; or
 - d) The annual report is not submitted within the timeline or does not meet the prerequisite information.
2. Relevant ministry or government institution may provide recommendation to DGT to cancel the super deduction incentive given to the Taxpayer for the following tax years if after their evaluation the program is considered not effective in increasing the competency of the apprenticeship, internship and/ or teaching activities participants; or increasing the employment opportunity for the apprenticeship, internship and/ or teaching activities participants.

For further information of the above, please do not hesitate to contact our Tax Partners or engagement teams.

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Contact us

Tax Services Leader	Phone	Mobile	E-mail
Santoso Goentoro	+62 21 5289 5584	+62 816 893 648	santoso.goentoro@id.ey.com

Partner / Director / Senior Advisor	Phone	Mobile	E-mail
A. Business Tax			
Yudie Paimanta	+62 21 5289 5585	+62 816 893 687	yudie.paimanta@id.ey.com
Dodi Suryadarma	+62 21 5289 5236	+62 815 10000 490	dodi.suryadarma@id.ey.com
Bambang Suprijanto	+62 21 5289 5060	+62 811 326 597	bambang.suprijanto@id.ey.com
Nathanael Albert	+62 21 5289 5265	+62 811 950 926	nathanael.albert@id.ey.com
Sri Rahayu	+62 21 5289 5485	+62 816 883 281	sri.rahayu@id.ey.com
Henry Tambingon	+62 21 5289 5033	+62 816 166 1142	henry.tambingon@id.ey.com
B. International Tax and Transaction Services			
Ben Koesmoeljana	+62 21 5289 5030	+62 819 0569 8899	ben.koesmoeljana@id.ey.com
Triadi Mukti	+62 21 5289 5090	+62 816 186 0037	triadi.mukti@id.ey.com
Prasetya H. Lam	+62 21 5289 5022	+62 812 9900 8168	prasetya.h.lam@id.ey.com
Peter Ng	+62 21 5289 5228	+62 815 1800 790	peter.ng@id.ey.com
Jonathon McCarthy	+62 21 5289 5599	+62 815 1909 0233	jonathon.mccarthy@id.ey.com
Peter Mitchell	+62 21 5289 5232	+62 813 8185 4671	peter.mitchell@id.ey.com
Micky M Soeradiredja	+62 21 5289 5245	+62 812 8007 510	micky.mintarsyah@id.ey.com
C. Indirect Tax			
Iman Santoso	+62 21 5289 5250	+62 811 884 267	iman.santoso@id.ey.com
Elly Djoenaidi	+62 21 5289 5590	+62 816 893 689	elly.djoenaidi@id.ey.com
D. People Advisory Services			
Lusi Lubis	+62 21 5289 5262	+62 811 875 479	lusi.lubis@id.ey.com
Kartina Indriyani	+62 21 5289 5240	+62 811 868 336	kartina.indriyani@id.ey.com
E. Japanese Client Contact			
Sachiko Hamada	+62 21 5289 5015	+62 815 1835 404	sachiko.hamada@id.ey.com
Yuichi Ohashi	+62 21 5289 4080	+61 821 1895 3653	yuichi.ohashi@id.ey.com

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