

## Tax Holidays: An Economic Stimulus?

by Dedi Putra



The Government has recently outlined its plans to allow certain types of businesses to apply for a tax holiday\* (**Regulation 150**). In particular, tax holidays are offered to businesses classed as “industry pioneers” and includes those businesses that operate to promote new technology and encourage economic and infrastructure development. Clearly, the purpose of Regulation 150 is to stimulate increased investment in Indonesia.

In order to be eligible for a tax holiday, Article 3, Paragraph 1 of Regulation 150 states that a tax payer must:

- a) be an industry pioneer;
- b) be a legal entity;
- c) plan to invest at least Rp 100 billion in Indonesia; and
- d) satisfy certain requirements relating to the proportion of debt as compared with capital.

It is worth noting that the level of planned investment of a candidate for a tax holiday correlates with the length of the tax holiday that they are subsequently granted. For example, a legal entity that satisfies all the other criteria, that plans an investment of between Rp 500 billion to Rp one trillion, will be eligible for a 5-year tax holiday. Even more impressive, an investment of Rp 30 trillion, will ensure that the legal entity is eligible for a 20-

year tax holiday, assuming that all other criteria are satisfied. Furthermore, according to a report released by the Director General for Taxation, a taxpayer needs 45 days to process tax holiday, but now, five days will be enough. Tax holidays may be applied for online, making the whole process faster.

The World Bank’s Chief Economist of the East Asia and Pacific Region, Sudhir Shetty, has criticized Regulation 150 as being an ineffective tool to stimulate investment. Without accompanying reform in Indonesia’s business environment, Regulation 150 will not, on its own, make a significant impact. For example, Indonesia can legislate to try and improve its Ease of Doing Business (EODB) ranking. Currently, Indonesia is ranked at the lowest end of countries in the Asia Pacific region for EODB. Consequently,

Regulation 150 clearly needs to be accompanied by reforming legislation. Regulation 150 will not be enough, on its own, to stimulate investment.

*\* Regulation of the Minister for Trade No. 150/PMK.010/2018 concerning Tax Holidays*



## Electronic Certification: Supporting E-government

by Yohannes Halim



To take advantage of all the efficiency enhancements available through technology, the Government has been systematically introducing technology into its administrative processes. The Government calls this system, E-Government. The introduction of technology digitises much of the Government administration previously carried out manually. It covers all areas of Government administration and has improved the flow of information between Government departments.

The Government has also been vigilant in ensuring digital security. To further that end, on 6 September 2018, the Minister for Communication and Information (the **Minister**) has issued Regulation No. 11 to introduce electronic certification.\*

Regulation No. 11 sets out guidelines that entities need to comply with in order to be certified. Certification means that the identity of the entity is officially verified and, as such, an entity with the

correct certification can enter into legal transactions online. Certification is issued by the authorized certification providers and the whole system is supervised by the Minister.

Certification holders should be aware that any transactions carried out using the certification are legally binding and the responsibility for performance of legal responsibilities is with the holder of the electronic certificate.

Administrative sanctions, such as a written warning/temporary suspension, may be handed down by the Minister for any entity abusing its certification.

*\*Regulation of the Minister for Communication and Information Technology, No. 11 of 2018 concerning the Implementation of Electronic Certification.*



## New Sharia Compliant Money Market Products

by Galih Adi Prasetya

On 6 November 2018, the Board of Governors of the Bank Indonesia enacted a regulation introducing certification of Sharia compliant money market deposits\* (**Regulation 20/27**). Regulation 20/27 adds to the suite of recent legislation relating to Sharia compliant investment products.\*\*



Regulation 20/27 sets out penalties for the violation of its provisions including warning letters, fines, temporary cease and desist orders and the revocation of business licenses.

*\* Board of Governors of the Bank Indonesia, Regulation No. 20/27/PADG/2018 relating to Sharia-Based Certificate of Deposit Transaction on the Money Market.*

*\*\* Bank of Indonesia Regulation No. 20/9/PBI/2018 relating to Sharia-Based Certificates of Deposit Transactions on the Money Market.*

Regulation 20/27 sets out:

- the criteria for Sharia-based certificates of deposit, which include that the certificate must be issued using a *mudharabah*; an Islamic contract in which the value of the return is clearly specified;
- requirements of transparency;
- licensing procedures and reporting requirements for issuing institutions;
- registration procedures for settlement institutions; and
- the minimum sums covered by the certificate and its capability of being traded in secondary markets.

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