

Tax audit

Better preparation for better outcome

Tax audit is a risk facing every taxpayer. Well-prepared stance is key to getting good outcome. All the more so with the issuance of Minister of Finance Regulation Number 15/2025 regarding Tax Audit (PMK 15) on 10 Feb 2025, replacing PMK 17/2013 as lastly amended by PMK 18/2021 and PMK 256/2014 addressing specifically land and buildings (L&B) tax audit. What follows tells you why.

1. Tax audit types

When it comes to a tax compliance test, PMK 15 distinguishes a tax audit into three: complete, focused, and specific. A complete tax audit is the one that covers all parts of a tax return, or a tax object notification letter (SPOP) in the case of L&B tax, and is conducted in-depth. A focused tax audit, while still conducted in-depth, covers only one or a few parts of a tax return or SPOP. A specific tax audit is the one covering only one or several parts of a tax return or SPOP and not conducted in depth.

Under PMK 15, a tax audit not only covers income tax, VAT and LST, stamp duties, and L&B tax. It can also reach sales tax, carbon tax, any other taxes administered by the Directorate General of Taxation (DGT) in accordance with the law and regulations.

Apart from testing compliance, a tax audit may also aim at other objectives. To mention a few, these include determining the commercial production starting date, testing the compliance with the Financial Information Access Law, following up and completing a Mutual Agreement Procedure (MAP) request, etc.

2. Tax audit time period and strict time-controlled arrangements

A tax audit under PMK 15 can take up five months max for the testing period plus 30-working days for the Final Results Discussion (FRD). Only tax audits over taxpayers within a business group and the ones with alleged transfer pricing or financial transaction engineering may get time extension, but not more than 4 months. Compare with the time periods under the previous regulations which could take up to six months for the testing period, extendable for two months for most tax audits or six months for certain tax audits (PSC, business groups, and transfer pricing), plus two months for the testing period.

Focused tax audits and specific tax audits take up even much shorter, in general three months and one month max respectively for the testing period plus 30 working date for the FRD.

Concrete data-based specific tax audits are to be completed in yet a shorter time period: 10 working days for each of the testing period and the FRD.

As a tax audit moves on, strict time-controlled arrangement prevail:

- Following the kick-off meeting between the tax auditors and the taxpayer, the tax will prepare pertinent proceedings for the taxpayer to sign within five working days max. If not, the taxpayer may be deemed to refuse to sign the proceedings;
- Any documents or data requested by the tax auditors must be delivered within a month of the request date max. Tax auditors may ignore any data or documents delivered beyond the time limit;
- In response to a Notification of Tax Audit Results (SPHP), taxpayers must deliver their written stance within five working days max of the SPHP submission. No more extension is possible. This must be followed up by the tax auditors submitting an invitation to the taxpayers for a Closing Discussion within the next three working days max. After the completion of the Closing Discussion, the Auditors prepare a Tax Audit Results Discussion Summary (*Risalah*) to be signed by the tax auditors and the taxpayer, and Tax Audit Results Discussion Proceedings. Submission of response letter can only be done via electronic, direct submission and facsimile
- If the taxpayer decides to escalate the *Risalah* to the Quality Assurance Team, the taxpayer must so state during the Closing Discussion followed by submission of a written Request for a QA Review to the Regional Head or the Tax Audit and Tax Collection Director within three working days max of the signing date of the *Risalah*. If within three working days the written request is not submitted, the taxpayer is deemed to back down and is by then required to sign the Tax Audit Results Discussion Proceedings.

3. Tentative tax audit results

For tax compliance audits, taxpayers may provide taxpayers with a set of Tentative Tax Audit Results, something which have been common in practice but only formalized in PMK 15. A discussion thereon should subsequently be held no later than a month before the end of the testing period, i.e. by the end of the fourth month.

During the discussion, taxpayers are allowed to provide data and other supporting documents to the tax auditors including:

- Those never requested by the tax auditors before; and
- Those which have been requested by the tax auditors before but still in a third party's hands by then and, implicitly, the ones the taxpayer has failed to delivered in time.
- If needed, taxpayers may also call upon witnesses or experts during the discussion.

4. Kick-off meeting

There has been a question on whether the taxpayer can appoint a proxy to attend the kick-off meeting and provide explanation on their behalf to the tax auditors. PMK 15 apparently prefers having the taxpayer themselves to attend the meeting and give relevant explanation. However,

it explicitly allows them to let a proxy act on their behalf, including signing the kick-off meeting proceedings. The kick-off meeting itself can be done via on-site and/or on-line by video conference.

5. Transition period

PMK 15 took effect as enacted on 14 Feb. 2025. By then, previous PMK regulations addressing tax audits, i.e., PMK 17/2013 as amended by PMK 184/2015 and PMK 256/2084, as well as PMK 18/2021 regarding the implementation of the Works Creation Law (*Ciptaker*) are declared void.

Ongoing tax audits commencing before the effective date are to go in accordance with the previous tax audit regulations.

Please contact us to get more insight.

PT PRECIOUSNINE CONSULTING

Cyber 2 Tower, 18th Floor
Jl. HR Rasuna Said Blok X-5 Kav. 13,
Jakarta Indonesia
Phone: +62 21 5799 8778, +62 21 2935 2500

Your PreciousNine Contacts

Ananda Chandra ananda.chandra@preciousnine.com	Anindita Hayuningtyas anindita.hayuningtyas@preciousnine.com
Dian Kusuma dian.kusuma@preciousnine.com	Fillyanto Sembiring fillyanto.sembiring@preciousnine.com
Inge Jahja inge.jahja@preciousnine.com	Lili Tjitadewi lili.tjitadewi@preciousnine.com
Lina Rosmiana lina.rosmiana@preciousnine.com	Martias martias@preciousnine.com
Michael Husni michael.husni@Preciousnine.com	Nandha nandha@preciousnine.com
Noviana Tan noviana.tan@preciousnine.com	Randy Adirosa m.adirosa@preciousnine.com
Robertus Winarto robertus.winarto@preciousnine.com	

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