

## SIGNIFICANT NEW TRANSFER PRICING AND TREATY ADMINISTRATION DEVELOPMENTS IN INDONESIA

**Jakarta, December 2009** – In recent months, there have been some significant and far-reaching developments in the area of transfer pricing and tax treaty administration in Indonesia. All multinationals operating in Indonesia and entering into domestic or overseas related party transactions are now required to prepare OECD-compliant transfer pricing documentation, and need to be prepared for much more rigorous enforcement of the arm's length principle by the Indonesian Tax Office (ITO) with a program of reviews and audits already taking place. In a separate but connected development, the ITO has introduced tough new rules designed to deny treaty benefits for companies other than bone fide companies that are the real beneficial owner of the payments concerned. Both provisions illustrate that the true economic substance of transactions is the paramount consideration for the ITO from now on.

All multinationals in Indonesia should be aware of these developments and take appropriate action to reduce and manage their risks of transfer pricing adjustments and denial of important treaty benefits. Please refer to the newsletters and tax alerts prepared by Harsono Hermanto Strategic Consulting (HHSC), the exclusive alliance partner of Transfer Pricing Associates (TPA) for the Indonesian market.

For more information regarding the comprehensive tax and transfer pricing services of TPA/HHSC in Indonesia, please contact:

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