

**THE ESTABLISHMENT OF
A STATUTORY TAX SAFE HARBOR FRAMEWORK
FOR THE INDONESIAN TEXTILE TOLL MANUFACTURING SECTOR**



Our Team



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Indonesia's Textile Pillar is Cracking

A foundational engine of our industrialization is facing an existential threat, jeopardizing decades of progress and national employment.



50,000 workers laid off in 2024 alone.



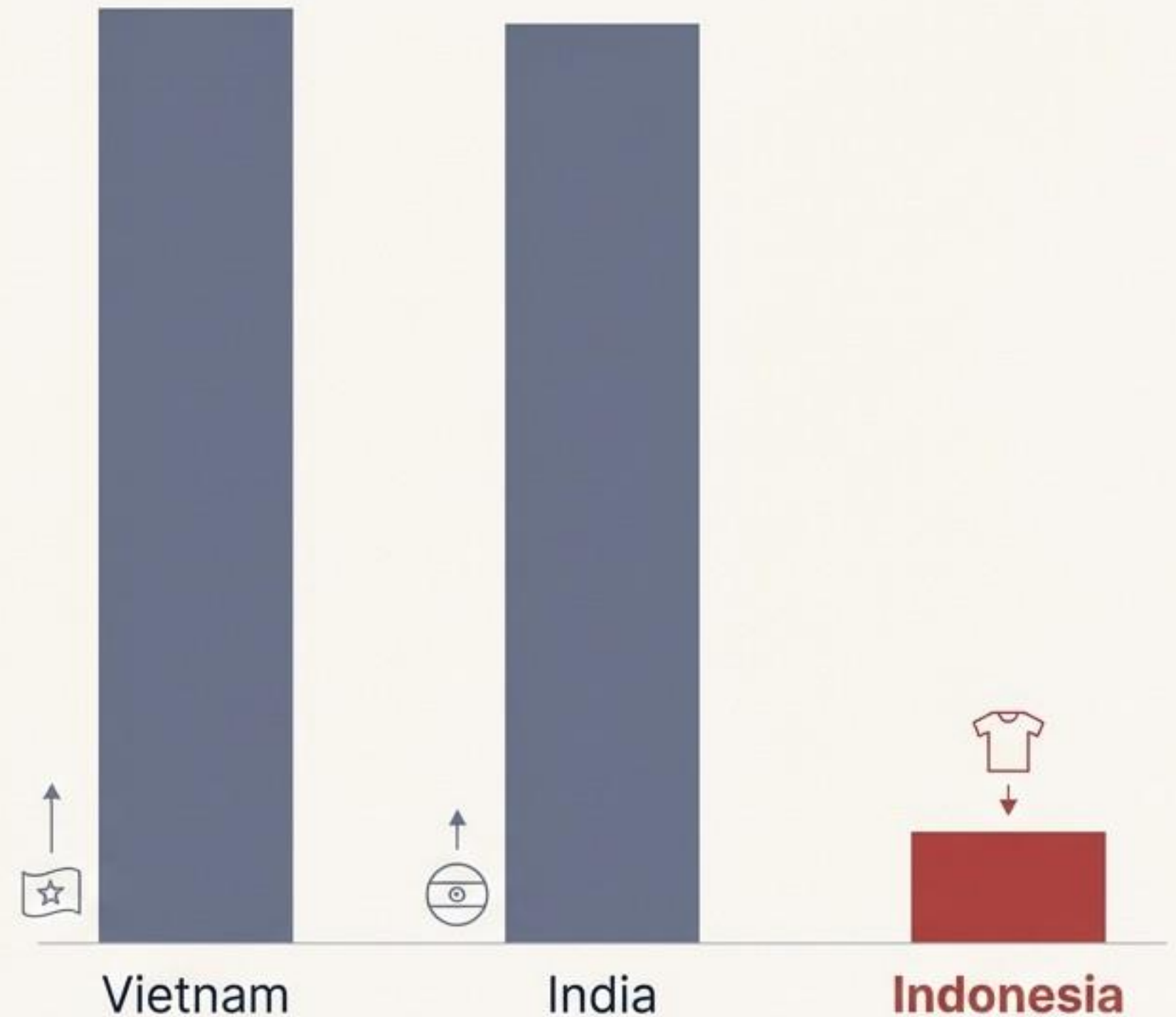
Multiple long-established national champions have entered **bankruptcy proceedings.**

The World is Reshaping a \$1.7 Trillion Industry. We Are Losing Ground.

Multinational enterprises are actively relocating labor-intensive production from China. This is a once-in-a-generation opportunity.

Yet, despite our large labor force and competitive wages, investment is flowing elsewhere.

Share of Relocating Textile FDI (2022-2024)



The Hidden Anchor: Tax Uncertainty for Our Export Backbone

1. Our **export textile sector** operates on the *maklon* (toll manufacturing) model—providing a low-risk assembly service, not selling a high-risk product.



2. However, our tax audits systematically **misclassify these firms** as full-risk manufacturers.

3. This creates **debilitating uncertainty**, prolonged disputes, and a damaged reputation among global investors.

“Indonesia’s non-transparent and cumbersome tax audit process [is] a barrier to trade and investment.”
- 2025 National Trade Estimate Report, U.S. Trade Representative

The Volatility Trap: How Our System Punishes Stability

The Economic Reality

Measures profit against the factory's actual costs.



Low Cotton Price



NCP = 25%

High Cotton Price



NCP = 25%



Stable

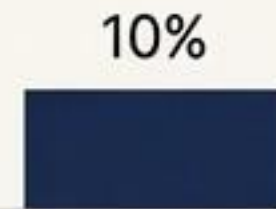
Accurately reflects constant economic activity.

The Flawed Audit View

Measures profit against the product's total value (including raw materials the factory doesn't own).

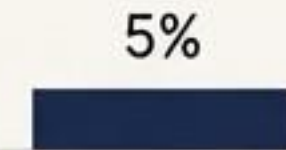


Low Cotton Price



ROS = 10%

High Cotton Price



ROS = 5%



Collapses

Triggers an audit and a 60% artificial inflation of taxable income, even though the factory's profit never changed.

**Using ROS is mathematically incapable of handling the tolling model.
It creates risk where none exists.**

From Stormy Seas to a Safe Harbor



The immediate establishment of the **Indo-Textile Safe Harbor (ITSH)**.

⊖ **NOT** a tax holiday. ⊖ **IS** a certainty regime.

It guarantees fair, predictable revenue for the government while protecting exporters from arbitrary audits and years of litigation. It aligns our tax policy with economic reality.

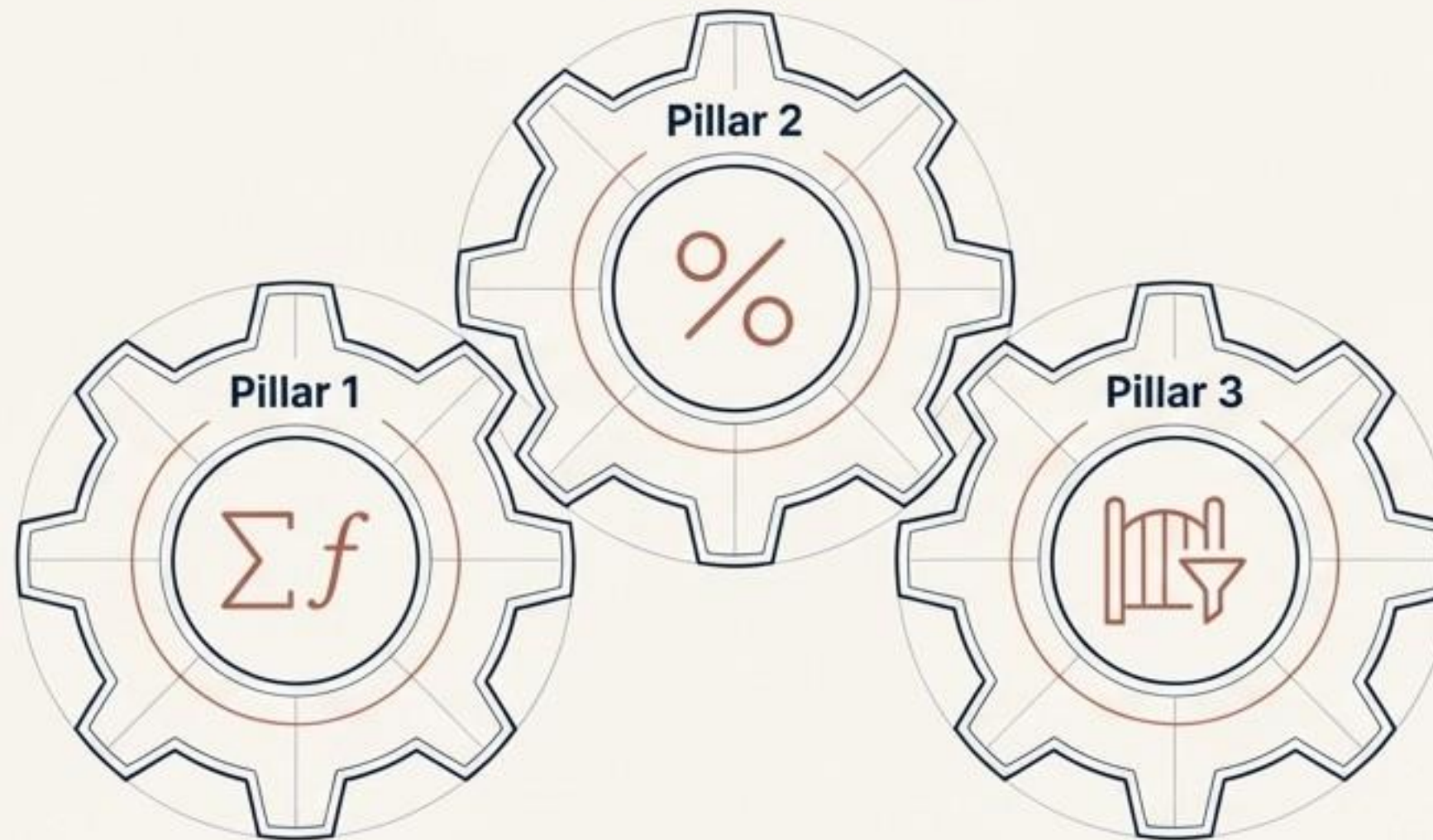
A Blueprint for Certainty: The Three Pillars of the ITSH

A Fixed Statutory Margin

A pre-agreed markup of **6-7% on operating costs**.
This rate is consistent with Indonesian Tax Court rulings and the proven Mexican model. No more arguments over margins.

Mandate Net Cost Plus (NCP)

Taxable income is based on a markup of **actual operating costs**, not the volatile value of raw materials. This eliminates the "Volatility Trap."



Strict "Gatekeeper" Criteria

Eligibility is strictly limited to true toll manufacturers: **No inventory ownership, no intangibles, 100% export**, and verified through **Kawasan Berikat (Bonded Zone) or KITE status**.

A Proven Path: Following Mexico's Maquiladora Success

We are not inventing a new wheel. We are adopting a proven solution that transformed a competitor's investment climate.

Case Study: Mexico

- **The Problem (1990s):** Faced the exact same issue—U.S.-owned toll manufacturers were misclassified and aggressively audited.
- **The Solution:** Implemented a statutory Safe Harbor, guaranteeing a taxable profit based on the greater of **6.5% of costs** or **6.9% of assets**.
- **The Result:** Stabilized the investment climate, ended years of disputes, and fueled the growth of Mexico's world-class aerospace and automotive export sectors.

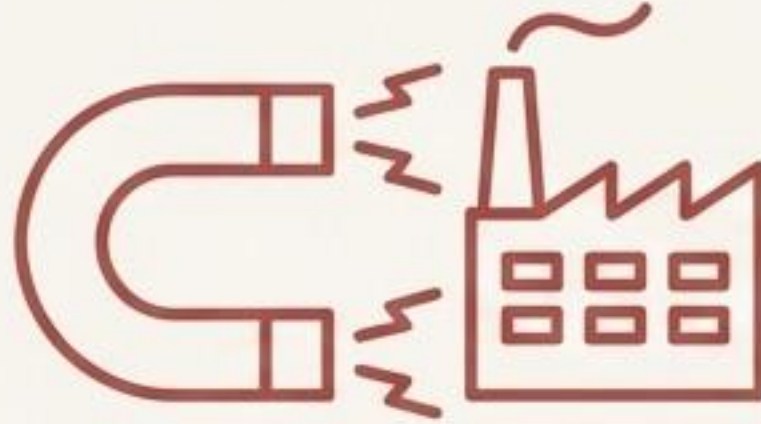


The Payoff: From a Tax Burden to an FDI Magnet



Actual Revenue, Not Contingent Revenue

A guaranteed **7%** revenue stream is fiscally superior to a theoretical 20% assessment that is overturned in court after years of litigation costs. We stop wasting resources on cases we lose.



Attracting New Investment

By removing the single biggest uncertainty, we become the premier destination for supply chain relocation. Attracting just **five new mega-factories** would generate corporate tax revenue far exceeding any 'loss' from capping margins on existing firms.



The "Super Green Line" Advantage

- **Policy Integration:** Link ITSH status with Customs AEO/KBM status.
- **Result:** Immediate release of goods, cutting port dwell time to **under 24 hours**. This single regulatory move neutralizes Vietnam's logistical advantage without new infrastructure spending.

A 90-Day Roadmap to Implementation

Days 1-30

Days 31-60

Days 61-90

Phase 1: Mobilization & Harmonization

- Establish a **Joint Task Force** (Fiscal Policy Agency, Tax, Customs).
- Mandate acceptance of Customs' KBM validation for tax purposes to break down agency silos.

Phase 2: Consultation & Calibration

- Convene an **Industry Roundtable** with API and major global brands (Nike, Uniqlo, etc.).
- Engage with Mexican Tax Authorities to import operational lessons.

Phase 3: Legislation & Launch

- Draft the Minister of Finance Regulation (PMK).
- Include a **Transitional Amnesty** clause to clear the current backlog of court cases.
- Launch a simple '**Safe Harbor Election Form**' on the DJP Online portal.

The Choice is Clear: Align Our Policy with Economic Reality

Continue with a system that misinterprets our own industry, fuels disputes, and cedes a historic opportunity to our competitors.

Adopt a proven, world-class framework that provides certainty, attracts investment, and secures the future of a pillar of our economy.



The Indo-Textile Safe Harbor is not a concession. It is a strategic decision to transform a source of uncertainty into a source of undeniable competitive advantage.



Thank you

