Indonesia Tax Alert June 2020

Tax relief provided for taxpayers contributing to the battle against COVID-19

To encourage public contributions to the battle against the COVID-19 outbreak, on 10 June 2020 the Indonesian government issued Regulation Number 29 (PP-29), which provides tax relief for certain activities relating to the pandemic in Indonesia carried out between 1 March and 30 September 2020. The tax relief includes additional deductions for the production of certain medical equipment and supplies, deductions for donations to certain organizations, final 0% income tax for additional income of healthcare workers, final 0% income tax on compensation on the use of assets to support health services, and incentive for share buy-backs of listed companies.

PP-29 facilities is available for certain activities carried out between 1 March and 30 September 2020.

Depending on the situation, the Minister of Finance (MoF) is authorized to extend the tax relief period beyond 30 September 2020, with the exception of the relief provided for share buy-backs.

The tax relief provisions included in PP-29 are discussed below.

1. Additional deduction for taxpayers producing certain medical equipment and/or household health supplies

Taxpayers are entitled to an additional 30% deduction for the following qualifying expenses relating to the manufacture of certain medical equipment and/or household health supplies used for battling COVID-19:

- Depreciation and amortization;
- Raw and auxiliary materials; and
- Other related expenses.

The expenses are allocated proportionally where:

- The expenses incurred are not solely related to the production of eligible equipment and supplies; or
- The expenses incurred are dedicated for the production of eligible equipment and supplies; however, not all of the products are sold or donated in Indonesia.

Taxpayers that wish to claim the additional 30% deduction must submit information on the qualifying expenses in a prescribed format to the tax authorities, at the latest with the submission of corporate income tax (CIT) return for fiscal year (FY) 2020.

The types of medical equipment and supplies that are eligible for this deduction are listed in PP-29. The MoF is authorized to revise the list based on recommendations from the Minister of Health.

Producers of certain medical equipment and/or household health supplies may be entitled for 30% net income deduction for qualifying expenses.

2. Additional deduction for donations to certain institutions

Donations to the following donation collection organizers in Indonesia are deductible for income tax purposes:

- National Disaster Management Authority (*Badan Nasional Penanggulangan Bencana* (BNPB));
- Regional Disaster Management Authority (*Badan Penanggulangan Bencana Daerah* (BPBD));
- Ministry of Health;
- Ministry of Social Affairs; and
- Institution for Collecting Donations (*Lembaga Penyelenggara Pengumpulan Sumbangan*).

Donations made to certain donation collection organizers are deductible.

To be deductible, donations made to the organizers must be supported by proof of the donation, and the donation collection organizers receiving the donation must be registered for tax purposes.

The tax deductible donation amounts are as follows:

Form of donation	Deductible amount
Cash	Cash donation amount
Goods	• Acquisition amount, for goods that have not been depreciated; • Tax book value, for goods that have been depreciated; or • Cost of goods sold, for goods that are self-produced
Services	Cost of services incurred by the service provider
Use of assets for free	Cost of assets utilization

Taxpayers that wish to claim the deduction must submit a list of donations in a prescribed format to the tax authorities, at the latest with the submission of the CIT return for FY 2020.

Donations that have been claimed as deductible expenses pursuant to Government Regulation Number 93 of 2010 are not eligible for this deduction.

3. Final 0% income tax rate for qualifying individuals providing health services

Additional income received by healthcare workers and workers engaged by the government to provide health support services specifically relating to the COVID-19 outbreak, including compensation paid by the government to their heirs, is entitled to a final income tax rate of 0%. A 0% income tax rate also applies to healthcare workers and health support workers who are active or retired state officials, civil servants, army personnel, or police officers.

4. Final 0% income tax rate on compensation for the use of assets to support health services

Where the government pays rent for land, buildings or other assets for the purpose of handling the COVID-19 outbreak, such rental income received by the landlord/lessor is subject to Article 4(2) final income tax at a rate of 0%. Normally, rental income from assets other than land and buildings is subject to regular (non-final) income tax.

Rental of assets to the government for the purpose of handling the COVID-19 outbreak is subject to final income tax with a rate of 0%.

Since the rental income is subject to final income tax, any expenses related to this income are not deductible.

If the rental period begins before March 2020 or ends after September 2020, the income should be allocated proportionately to determine the amount of the income that is eligible for the 0% rate. Income related to the rental period before March 2020 or after September 2020 is not eligible.

5. Shares buy-backs by taxpayers listed on the Indonesian Stock Exchange

PP-29 relaxes the requirements for publicly listed corporate taxpayers that buy back their shares to qualify for a reduced CIT rate.

In March 2020, the President of Indonesia issued Government Regulation in Lieu of Law Number 1 (PERPU-1), which reduces the regular CIT rate by 3% for publicly listed corporate taxpayers with a minimum of 40% of their shares held by public investors and that also meet the following criteria:

a. The shares are held by the public, by a minimum of 300 shareholders;
b. Each shareholder owns less than 5% of the shares from paid-up capital;
c. The shareholding requirements in a and b are maintained for a minimum of 183 days within one fiscal year; and
d. The publicly listed corporate taxpayer submits a report to the Director General of Tax on the fulfilment of criteria a, b, and c.

For purposes of meeting criteria a and b above under PERPU-1, the shareholder does not include:

- A publicly listed corporate taxpayer that buys back its shares; and/or
- A party who has a special relationship with the publicly listed corporate taxpayer.

However, to support the stability of the capital market, PP-29 provides that if a share buy-back is carried out by a publicly listed corporate taxpayer due to a policy of the central government or Financial Services Authority, the taxpayer may be considered a shareholder for the purpose of meeting the requirements in a and b above. To enjoy this exemption, the share buy-back must be completed by 30 September 2020 for the publicly listed corporate taxpayer to be eligible for the 3% CIT rate reduction for FY 2020 and FY 2021. For FY 2022, the publicly listed corporate taxpayer may still enjoy the 3% CIT rate reduction if the bought-back shares are disposed of by 30 September 2022 and the publicly listed corporate taxpayer still meets the criteria a and b above after that date.

Public listed corporate taxpayer that buy-backs its shares due to a policy from the central government or Financial Services Authority may enjoy CIT rate 3% lower than regular rate.

The publicly listed corporate taxpayer must submit a specific report on the share buy-back along with the submission of its CIT return.

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Contact Persons

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