



Indonesia Tax Info July 2020

MoF Further Expands Business Sectors Eligible for Tax Incentives during COVID-19 Pandemic

To support businesses and individuals affected by COVID-19, the Minister of Finance (MoF) issued Regulation Number 23/PMK.03/2020 in March 2020 to provide tax incentives for business and individuals in certain business sectors from April to September 2020 (please refer to [Tax Alert March 2020 – 2nd edition](#), [Tax Alert April 2020 – 2nd edition](#)). In May 2020, the MoF expanded these tax incentives to other business sectors, including small and medium enterprises (SMEs) through the issuance of Regulation Number 44/PMK.03/2020 (PMK-44) (please refer to [Tax Alert May 2020](#)).

On 16 July 2020, the MoF further expanded the tax incentives to include more business sectors and extended the incentive period to December 2020 through the issuance of Regulation Number 86/PMK/03/2020 (PMK-86). The Directorate General of Taxation (DGT) subsequently issued Circular Letter Number SE-43/PJ/2020 (SE-43)

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on 28 July 2020 to regulate the implementing procedures for PMK-86. PMK-86 and SE-43 are effective as from 16 July 2020 and revoke PMK-44 and SE-29/PJ/2020.

The incentives and requirements under PMK-86 and SE-43 are broadly similar to those under PMK-44 and SE-43, as follows:

- Article 21 employee income tax (EIT) borne by the government for employees whose incomes are received from certain employers, and where the annualized fixed and regular gross employment income for the month is not more than IDR 200 million;
- 0.5% final tax for small and medium enterprises (SMEs) borne by the government;
- Exemption from Article 22 income tax on imports for eligible taxpayers;
- 30% reduction in Article 25 income tax (monthly tax installments) for eligible taxpayers; and
- Preliminary refund of Value Added Tax (VAT) overpayments for eligible VAT-able Entrepreneurs (PKP), where the overpayment shown on the VAT return does not exceed IDR 5 billion.

Some of the major changes in PMK-86 and SE-43 are as discussed below.

1. EIT borne by the government

- The number of business classifications (*Klasifikasi Lapangan Usaha* (KLU)) eligible for the EIT borne by the government incentive is expanded from 1,062 to 1,189. Examples of the additional eligible KLUs include the geothermal sector; legal services; accounting, bookkeeping, and tax consulting services; and the manpower supply service sector.
- PMK-86 clarifies that for a branch taxpayer to utilize the incentive, it is sufficient for the notification to be made by the taxpayer with the central tax identification number. Where the employer is not required to submit a corporate income tax return for fiscal year 2018, the KLU will be based on the main taxpayer's master file data in the tax authorities' records. To receive the tax incentive for July 2020, the notification must be submitted by 10 August 2020.
- The employer is no longer required to enclose the tax payment slip (*Surat Setoran Pajak* (SSP)) or billing code printout in the monthly realization report of EIT borne by the government.

PMK-86 expands the number of KLUs eligible for EIT borne by the government from 1,062 to 1,189.

2. Final tax borne by the government

- Under PMK-86, SMEs wishing to claim the tax relief in the form of final tax borne by the government no longer have to apply separately for statement letters as required by PMK-44. Instead, when performing a transaction subject to withholding tax with a party that is a tax withholder, the SME must provide a copy of the statement letter issued under Government Regulation Number 23/2018 (PP-23). Where an SME has not obtained the statement letter, the submission of the monthly final tax realization report may be treated as an application for the statement letter, and will be processed by the tax authorities provided the requirements under PP-23 are fulfilled.

The requirement for SME taxpayers to apply for statement letters under PMK-44 in order to qualify for final tax borne by government incentive has been abolished.

- The SME is not required to submit the realization report on final tax borne by the government where there is no income that is subject to final tax under PP-23 during the relevant fiscal period. The SME is no longer required to enclose the SSP or billing code printout in the monthly realization report of final tax borne by the government.

3. Exemption from Article 22 income tax on import

- The number of KLUs eligible for this exemption facility is expanded from 431 to 721. Examples of the additional eligible KLUs include certain retailers, certain transportation sectors, and certain event catering service sectors.
- The facility realization report must be submitted by the 20th day of the following month using the prescribed format under PMK-86.

Facility realization reports for exemption from Article 22 income tax on imports and 30% reduction in monthly tax installments incentives now must be made monthly rather than quarterly.

4. 30% reduction of monthly tax installments

- The number of KLUs eligible for the 30% reduction of monthly tax installments incentive is expanded from 846 to 1,013. Examples of additional eligible KLUs include certain agricultural sectors, certain food and beverage industries, certain accommodation sectors, and certain financial sectors.
- To receive the tax incentive for July 2020, the notification must be submitted by 15 August 2020.
- The facility realization report must be submitted by the 20th day of the following month using the prescribed format under PMK-86.

5. Preliminary refund of VAT overpayment

- The number of KLUs eligible for this facility is expanded from 431 to 716. Examples of additional eligible KLUs include certain cigarette industries, certain professional or technical service sectors, certain educational service sectors, and certain sport service sectors.
- The maximum amount of the VAT overpayment stated in the VAT return for which a preliminary VAT refund may be obtained is IDR 5 billion, and the refund applies for VAT returns for the April 2020 to December 2020 fiscal periods. The refund request must be submitted by 31 January 2021 via the submission of a VAT return to the tax office where the PKP is registered. PMK-86 clarifies that VAT overpayments carried forward from previous fiscal periods are eligible for the preliminary refund even where there are no exports or deliveries of taxable goods and/or services during the fiscal period when the refund is requested. PMK-86 also provides guidance on the procedure to request the refund in the VAT return.

The preliminary refund of VAT overpayment may be obtained for VAT returns for the April to December 2020 fiscal period.

6. Transitional provisions

A number of transitional provisions apply as a result of PMK-86 entering into force as from 16 July 2020:

- Applications and notifications for the incentives submitted prior to 16 July 2020 continue to apply and taxpayers do not need to reapply or re-notify under PMK-86;
- Taxpayers granted incentives under PMK-23 or PMK 44 may continue to benefit from the incentives until December 2020; and
- The utilization reports until the June 2020 fiscal period for Article 22 Income Tax on imports and monthly tax installments must follow the requirements under PMK-44 (i.e., quarterly reports), whereas utilization reports for the July 2020 and subsequent fiscal periods must follow the requirements under PMK-86 (i.e., monthly reports).

7. Comments

Taxpayers that were not eligible for the tax incentives under PMK-23 or PMK-44 should check PMK-86 whether their businesses are now eligible.

Taxpayers currently benefiting from the incentives should ensure that their reporting formats are aligned with the amended requirements in PMK-86.

Update on VAT Centralization Regulation

Under the general rule, a PKP carrying out business activities in Indonesia through business units located in multiple jurisdictions under different tax offices has to register each business unit with its respective tax office. However, the PKP may choose to centralize the VAT administration under one location by submitting a notification to the tax office. The tax office will then issue an approval or rejection letter. To ease the administrative burden and provide more legal certainty as well as a more effective supervision of the rights and obligations of PKPs, the DGT issued Regulation Number 11/PJ/2020 (PER-11) on 25 June 2020 to serve as the new regulation on VAT centralization. PER-11, which came into effect as from 1 July 2020, revokes PER-19/PJ/2010 (PER-19).

VAT centralization decision letter under PER-11 does not have expiration date.

1. Some of the major changes in PER-11

To obtain a decision letter for VAT centralization, a PKP must submit an electronic notification to the regional tax office of the jurisdiction of the PKP chosen to handle the VAT administration (central PKP). The notification letter must be furnished together with a statement letter that confirms the PKPs meet the following requirements:

- The administration for deliveries and financial activities are centralized with the central PKP;
- The central PKP and PKPs being centralized do not reside, or have their place of domicile or business areas certain prohibited areas.
- The central PKP has business activities and/or carries out administration for deliveries and financial activities.

The prohibited areas under PER-11 (and previously under PER-19) are listed in the following table:

Under PER-19	Under PER-11
Bonded zones	Bonded stockpiling areas, including bonded zones
Special economic zones	Special economic zones
Locations with KITE facility (facility of relaxation of conditions for importation of goods for export purposes)	Free Trade Zone
	Other areas that have tax facilities
	Locations with a KITE facility
	Locations used to do the business of transferring land and/or building

The regional tax office (on behalf of the DGT) will issue the PKP, within 14 business days, either a statement letter granting VAT centralization or a notification letter that the PKP has not met the VAT centralization requirements.

Statement letters under PER-19 are valid for five years. To continue centralizing the VAT administration, the central PKP has to submit an extension notification to the regional tax office no later than two months before the statement letter expires. Statement letters under PER-11 do not expire.

2. Transitional provisions

To continue centralizing the VAT administration, the central PKP must submit a re-notification letter to the regional tax office by 31 December 2020. PER-11 provides the following transitional guidance:

Condition	If the central PKP submits a re-notification letter to the regional tax office	If the central PKP does not submit a re-notification letter to the regional tax office
The decision letter issued under PER-19 is still valid	The new decision letter will take effect starting from the period stated in the current decision letter.	The decision letter issued under PER-19 will be valid until it expires.
The decision letter has been extended under the Minister of Finance Regulation Number 29/PMK.03/2020 (please refer to Tax Alert April 2020 – 3rd edition and Tax Info May 2020)	The new decision letter will take effect starting from the period from which the decision was extended.	The current decision letter will be valid for five years after the automatic extension was given.
The decision letter expired in January or February 2020 during the COVID-19 period	The new decision letter will take effect starting from the period the current decision letter expired.	The decision letter will expire following the expiration period mentioned in the letter.

PKPs that obtained VAT centralization decision letters prior to the effective date of PER-11 should prepare to submit re-notification letters before 31 December 2020 to ensure a smooth continuation of the VAT centralization process.

Customs Focus

Stipulation on Rules of Origin of Indonesia and Provisions of Certificates of Origin Issuance for Goods Originating from Indonesia in ASEAN - Hong Kong, China Free Trade Agreement

The Minister of Trade (MoT) has issued Regulation Number 62 Year 2020 (MoT-62) regarding Rules of Origin of Indonesia and Provisions of Certificates of Origin Issuance for Goods Originating from Indonesia in ASEAN - Hong Kong, China Free Trade Agreement.

Salient points of MoT-62 are as follows:

1. ASEAN-Hong Kong, China Free Trade Agreement (AHKFTA) constitutes a Free Trade Agreement between countries of the Association of Southeast Asian Nations (ASEAN) and Hong Kong, Special Administrative Region of the People's Republic of China (HKSAR).
2. The provisions of Rules of Origin of Indonesia (KAB) Preference, which constitutes provisions that govern the reduction and/or exemption of import duty tariffs for goods originating from Indonesia, stipulates that in order to obtain such reduction and/or exemption, the Exporter must obtain Certificate of Origin (SKA)¹ and prove that the goods have fulfilled the KAB preference.
3. KAB and SKA Preference for goods originating from Indonesia shall be subject to the following provisions:
 - a. Statutory regulations on Goods Originating from Indonesia (Rules of Origin of Indonesia);
 - b. Statutory regulations on Procedures for the Issuance of SKA for Goods Originating from Indonesia; and
 - c. International Agreements and/or Memorandum of Understanding.

MoT-62 comes into force starting from 3 July 2020.

Stipulation on Rules of Origin of Indonesia and Provisions of Certificates of Origin Issuance for Goods Originating from Indonesia in Indonesia-Australia Comprehensive Economic Partnership Agreement (IACEPA)

The MoT has issued Regulation Number 63 Year 2020 (MoT-63) regarding Rules of Origin of Indonesia and Provisions of Certificates of Origin Issuance for Goods Originating from Indonesia in Indonesia - Australia Comprehensive Economic Partnership Agreement (IACEPA).

¹ Referring to Article 1(4) of MoT-62, SKA (*Surat Keterangan Asal*) is a document used to obtain a reduction or exemption of import duty tariffs provided by a country or group of countries based on international agreements or unilateral determination of a country or group of export destination countries.

Salient points of MoT-63 are as follows:

1. Certificate of Origin documents for goods originating from Indonesia based on IACEPA shall be in the form of:
 - a. Preferential Certificate of Origin (COO); or
 - b. Declaration of Origin (DAB).
2. Preferential COO and DAB cannot be applied simultaneously on the same goods in one export transaction.
3. Preferential Rules of Origin and COO of Indonesia as mentioned in IACEPA shall be subject to the following:
 - a. Statutory regulations on Goods Originating from Indonesia (Rules of Origin of Indonesia);
 - b. Statutory regulations on Procedures for the Issuance of COO for Goods Originating from Indonesia;
 - c. Statutory regulations on Procedures for the Issuance of Declaration of Origin for Goods Originating from Indonesia; and
 - d. International Agreements and/or Memorandum of Understanding.

MoT-63 comes into force starting from 3 July 2020.

Updates on Import of Complementary Goods, Goods for the Purpose of Market Testing, and After-Sales Service

In order to support investment facilities, the MoT has issued Regulation Number 59 Year 2020 (MoT-59) as amendment to Regulation Number 118/M-DAG/PER/12/2015 (MoT-12) regarding Provisions on Import of Complementary Goods, Goods for the purpose of Market Testing, and After-Sales Service. The updates are summarized below:

Updated Provisions	MoT-12 (Previous Regulation)	MoT-59 (New Regulation)
Eligibility for import of related goods	Import of manufactured goods as complementary goods, goods for market testing purpose, and after-sales service shall be conducted by a company having Importer Identification Number – Producer (API-P).	Party(ies) eligible to import manufactured goods as complimentary goods, goods for market testing, and after-sales service are now expanded. MoT-59 appended a list of sector/ subsector eligible for such import.
Application system and issuance of import approval	<ol style="list-style-type: none"> 1. The company that has API-P shall submit application to the Directorate General of Foreign Trade (DGFT) on behalf of the MoT by providing supporting documents, such as copy of business license, copy of API-P, evidence of special relationship with a foreign company for complimentary goods, and other recommendation from the related technical Minister. 2. DGFT shall issue approval or rejection of Import Approval no later than five days after application is submitted. 	<ol style="list-style-type: none"> 1. Company that has API-P and Industrial Business License shall submit application electronically to DGFT through INATRADE system after obtaining Access Right², which is integrated with: <ol style="list-style-type: none"> a. SIINAS system (<i>Sistem Informasi Industri Nasional</i>) for obtaining consideration from the relevant ministry in industry sector; and/or b. E-BPOM system, for obtaining consideration from the relevant Government Institution in the field of drugs and foods. 2. Additional supporting document, i.e. the scanned copy of original document that indicates special relationship³ with foreign company for complementary goods.

² Access Right is a right to interact with the electronic system. The application of access right is electronically accessible via <http://inatrade.kemendag.go.id>.

³ Special relationship is a relationship between an API owner company and an overseas company where one party has the ability to control the other party or has significant influence over the other party in accordance with applicable accounting standards. It is required to obtain import approval for complementary goods.

Updated Provisions	MoT-12 (Previous Regulation)	MoT-59 (New Regulation)
		3. DGFT shall issue Import Approval by using Digital Signature, which does not require any stamp or manual signature and attach QR (Quick Response) Code. If the application is rejected because it is either incomplete or incorrect, automatic electronic rejection shall be issued. DGFT shall issue approval or rejection no later than five business days since the receipt date of application.
Validation period of Import Approval	Validation period of Import Approval corresponds with provisions stipulated by related technical minister.	Validation period of Import Approval corresponds with provisions given by: 1. Ministry related to industrial sector; and/or 2. Government institution related to drug and food sector.
Submission of realization report	Company that has API-P and already obtains Import Approval is obligated to submit a quarterly import realization report electronically at the latest on 15th day of the first month in the following quarter.	Company with business license and API-P as well as already obtains Import Approval is obligated to submit import realization report electronically, together with scanned copy of its tax invoice, every month at the latest on 15 th day of the following month.
Sanction	Sanction for non-compliance to the provisions is only in the form of Import Approval revocation.	Broaden the form of sanctions, i.e.: 1. Company that conducts importation contrary to provisions of this regulation, shall be subject to sanction as regulated in relevant law. 2. Goods that are manufactured contrary to provisions of this regulation shall be withdrawn and destroyed by importer.
Procedures for inspection and supervision of Import Approval	Not regulated	Directorate General of Consumer Protection and Trade Order shall conduct the following inspections: 1. Import Approval for importation that does not comply with import prohibition. Note that the importer of manufactured goods must keep at a minimum, the last five years' Import Approval for inspection purpose. 2. Inspection on import approval and import realization report.

MoT-59 comes into force starting from 29 June 2020.

Contact Persons

Questions concerning any of the subjects or issues contained in this newsletter should be directed to your usual contact in our firm, or any of the following individuals:

Business Tax

Melisa Himawan

Tax Managing Partner

mehimawan@deloitte.com

Business Tax and M&A

John Lauwrenz

jlauwrenz@deloitte.com

Transfer Pricing

Roy David Kiantiong

rkiantiong@deloitte.com

Business Tax

Ali Mardi Djohardi

alimardi@deloitte.com

Business Tax and

Business Process Solutions

Ratna Lie

ratnalie@deloitte.com

Transfer Pricing

Balim

bbalim@deloitte.com

Business Tax and International Tax

Cindy Sukiman

csukiman@deloitte.com

Business Tax, Business Process Solutions and Gi3

Roy Sidharta Tedja

roytedja@deloitte.com

Transfer Pricing

Shivaji Das

shivdas@deloitte.com

Business Tax

Dionisius Damijanto

ddamijanto@deloitte.com

Business Tax and Indirect Tax

Turmanto

tturmanto@deloitte.com

Global Employer Services and Business Process Solutions

Irene Atmawijaya

iatmawijaya@deloitte.com

Business Tax

Heru Supriyanto

hsupriyanto@deloitte.com

Business Tax and

Tax Management Consulting

Yan Hardyana

yhardyana@deloitte.com

Deloitte Touche Solutions

The Plaza Office Tower, 32nd Floor

Jl. M.H. Thamrin Kav 28-30

Jakarta 10350, Indonesia

Tel: +62 21 5081 8000

Fax: +62 21 2992 8303

Email: iddtl@deloitte.com

www.deloitte.com/id

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