



Indonesia Tax Info

Additional Taxpayers Eligible for Preliminary VAT Refund

The Minister of Finance ("MoF") has issued Regulation Number 117/PMK.03/2019 ("MoF-117") to expand the type of taxpayers who can be considered as a Low-Risk Taxable Entrepreneur ("*Pengusaha Kena Pajak Beresiko Rendah*") and eligible for the Preliminary VAT Refund without triggering an immediate audit, which was previously regulated under Regulation Number 39/PMK.03/2018.

The additional taxpayers eligible for this facility are as follows:

- State-Owned Enterprises (SOE) and Regional Government-Owned Enterprises;
- Pharmaceutical Wholesalers that owns a Pharmaceutical Distribution Certificate or Pharmaceutical Wholesaler Permit, and a Proper Medicine Distribution Practice Certificate;
- Medical Device Distributors that owns a Medical Device Distribution Certificate or Medical Device Distributor Permit, and Proper Medical Device Distribution Practice Certificate; and
- Companies that are directly owned by SOEs with more than 50% ownership and whose financial statements are consolidated with the SOEs' financial statements in accordance with the generally accepted accounting principles.

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In order to be confirmed as a Low-Risk Taxable Entrepreneur, these taxpayers must meet the following requirements:

1. Shall be a Taxable Entrepreneur;
2. Has submitted a Periodic VAT Return for the last 12 (twelve) months;
3. Is not in the process of initial evidence audit; and
4. Has never been sentenced for committing tax crimes based on a legally binding court decision in the last 5 (five) years. The application may be filed to the Tax Office where the taxpayers are registered along with the necessary documents.

MoF-117 is effective from 19 August 2019.

Updates on Tax Facility for Human Resource Development Expenditures

As implementation of Government Regulation Number 45 Year 2019 regarding Tax Facility for Certain Expenditures (*Please refer to 2nd edition of our Tax Alert for July 2019*), the MoF has issued Regulation Number 128/PMK.010/2019 ("MoF-128"). This regulation provides requirements and guidance for taxpayers who wish to claim additional tax deduction of 100% on human resource development expenditures related to apprenticeship, internship, and/or learning activities ("the activities"). Those expenditures include:

1. Provision of physical facilities in the form of training facilities and its operational costs;
2. Costs of the instructor or trainer;
3. Costs of goods and/or materials;
4. Compensation provided to the participants; and/or
5. Competency certification costs for the participants.

Taxpayers may enjoy the additional tax deduction of the expenditures subject to the following requirements:

1. Have conducted the activities in the framework of human resources development based on certain competencies;
2. Have a Cooperation Agreement with certain educational institutions;
3. Not in fiscal loss condition in the Fiscal Year in which the additional deduction is utilized; and
4. Possess a valid Fiscal Statement Letter (*Surat Keterangan Fiskal*).

Broadly, the list of competencies covers certain sectors, i.e. manufacturing, health, agribusiness, tourism and creative industry, digital economy, and migrant employment.

In order to obtain the facility, the taxpayers must file a notification through the Online Single Submission system and enclose the relevant documents before the commencement of the activities.

Taxpayers who enjoyed additional tax deduction must file a prescribed annual report to the Tax Office in which it is registered. The report must be filed at the latest at the same time with submission of the Annual Corporate Income Tax Return of the year of deduction claim.

MoF-128 is effective from 9 September 2019.

Indonesia Plans for Tax Reform

In order to strengthen the Indonesian economic growth, in early September 2019 the Indonesian Government announced its plan to issue a new law, which will introduce several key changes to the existing tax laws. ***The legislation process is still at the initial stage and the draft law is expected to be available to public in the last quarter of 2019.***

Key changes of the new law include:

1. The corporate income tax rate will be reduced gradually from 25% to 22% for Fiscal Year 2021 and Fiscal Year 2022, and 20% starting from Fiscal Year 2023. A newly listed Indonesian companies would obtain additional 3% reduction of the headline tax rate for the first five years.
2. Dividends received by a resident corporate taxpayer from its local subsidiary with share ownership less than 25% or from a foreign subsidiary may be exempted from income tax if the dividend is re-invested in Indonesia for a certain period. This exemption may also be available for dividends received by the resident individuals.
3. Determination of tax residency for Indonesian citizens will be based on time test or physical presence in Indonesia, instead of their nationality.
4. The current worldwide tax system on income will be changed to territorial tax system.
5. Reduction of some interest and administrative penalties in order to encourage voluntary compliance.
6. Relaxation of requirement to claim Input VAT, i.e. before the taxpayers are confirmed as taxable entrepreneur, which is non-creditable under the current VAT Law. The taxpayers can also claim Input VAT credit on procurement of taxable goods/services before the first delivery (currently limited for capital goods only). Input VATs that were not reported in VAT Returns yet found during tax audit or those collected through tax assessment (principal only) can also be credited.
7. Foreign digital companies (sellers, service and platform providers) will be required to register, collect, and report VAT on delivery of intangible goods or services. The international digital companies may be able to appoint a representative in Indonesia to fulfil their VAT obligations.
8. Definition of permanent establishment will be expanded to cover the "significant economic presence" concept in order to allow the Indonesian Government to tax the profits of foreign digital companies without physical presence in Indonesia.

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