Indonesia Tax Info December 2024

Tax deduction for provisions for doubtful debts in the financial services industry

In general, provisions for doubtful debts are not tax deductible in Indonesia other than for taxpayers carrying out business activities in certain industries, such as the financial services industry. The tax treatment of such provisions for taxpayers in the financial services industry is regulated under Minister of Finance (MoF) Regulation Number 81/PMK.03/2009, as amended by Regulation Number 219/PMK.011/2012 (PMK-81/2009). In practice, PMK-81/2009 creates significant industry issues for banks and multi finance companies. To provide legal certainty and simplify the calculation of provisions for doubtful debts for these taxpayers, the MoF issued Regulation Number 74 (PMK-74) on 10 October 2024. PMK-74, which has come into effect as from 18 October 2024, revokes certain articles in PMK-81/2009 relevant to this issue. Taxpayers within the scope of PMK-74 are required to calculate their provisions for doubtful debts in accordance with that regulation as from the fiscal year 2024, subject to certain transitional measures.

In this issue, we highlight the key points in PMK-74 and provide Deloitte Indonesia's high-level observations.

In this issue:

Business sectors within the financial services industry covered under PMK-81/2009 are limited. For business sectors that are not covered under PMK-81/2009, such as certain financing companies and venture capital firms, their provisions for doubtful debts are not tax deductible but doubtful accounts are deductible for corporate income tax (CIT) purposes only when written off (subject to certain requirements). PMK-74 extends the type of business sectors within the financial services industry eligible to claim a tax deduction for doubtful debt provisions with certain limitation. This provides a more equitable tax treatment for companies having risks on receivables collectability issues similar to those taxpayers covered under PMK-81/2009.

PMK-74 provides a more equitable tax treatment for companies having risks on receivables collectability issues similar to those taxpayers covered under PMK-81/2009.

The amount of the provision for doubtful debts that is tax deductible for CIT purposes is the difference between the beginning and ending balance of the provision as recorded in the financial statements, prepared in accordance with Indonesian financial accounting standards. The beginning balance of the provision is the amount of provision at the beginning of the fiscal year after deduction of the current year's actual receivables write-off. For fiscal calculation purposes, the ending balance of the provision is the amount of the provision recorded at the end of the fiscal year, which is the lower of the amount calculated based on:

- Indonesian financial accounting standards; or
- Percentages specified in PMK-74.

The ending balance of the provision, which will also be used as the beginning balance for the following year, has to be calculated for each class of receivables. Receivables are classified based on quality, which is determined based on "staging" or "collectability", as follows:

- **Staging:** This uses the ending balance of the provision as shown in the financial statements. The receivable quality is classified as being in:
  - Good condition;
  - Substandard condition; or
  - Bad/nonperforming condition.
- **Collectability:** This uses the ending balance of the provision as shown in the financial statements less the collateral amount. PMK-74 provides a list of collateral that can be used as a deduction for this purpose (with certain exceptions). The receivable quality is classified in one of the following collectability categories:
  - Current;
  - Special mention;
  - Sub-standard;
  - Doubtful; or
  - Bad/nonperforming.

Although the method of classifying the quality of receivables based on staging has been widely used for financial accounting purposes, it is newly implemented for fiscal purposes. Since the method of classifying the receivable quality for financial accounting and fiscal purposes for certain taxpayers will be similar under PMK-74, the potential fiscal correction arising owing to different calculation methodologies for these taxpayers in certain conditions should be reduced. Nevertheless, in our observation, some clarification needs to be made in relation to the collateral value used to calculate the provision based on collectability for fiscal purposes, as there are three different collateral values reported to the Financial Services Authority (*Otoritas Jasa Keuangan*) (i.e., based on initial value of the collateral asset used for loan acquisition, internal appraisal value of the collateral asset, and external appraisal value of the collateral asset).

The list of limitations when calculating the ending balance of provisions for doubtful debts is summarized in the following table:

Basis of receivable quality classification	Type of taxpayers	Limitation amount
Staging	Taxpayers conducting the business activity of providing loans or credit (conventional entities), covering: • Conventional banks; • Finance lease companies; • Consumer financing companies; • Factoring companies; • PT Perusahaan Pengelola Aset; • Financing companies; • Venture capital companies; • Infrastructure financing companies; • Pawnbroking companies ; • PT Permodalan Nasional Madani (PT PNM); • PT Sarana Multi Infrastruktur (Persero) (PT SMI); • Lembaga Pembiayaan Ekspor Indonesia (LPEI)/Indonesia Eximbank; and • PT Sarana Multigriya Finansial (Persero) (PT SMF)	1.4% to 71% of the receivables, depending on the condition of the receivables
Collectability	Taxpayers conducting the business activity of providing sharia-based financing, covering: • Conventional banks with sharia business unit; • Sharia Bank; and • LPEI/Indonesia Eximbank	1% to 100% of the receivables, depending on the condition of the receivables
	Taxpayers conducting the business activity of providing sharia-based financing, covering: • Finance lease companies; • Consumer financing companies; • Factoring companies; • Financing companies; • Venture capital companies; • Infrastructure financing companies; • PT PNM; and • PT SMI	1% to 100% of the receivables after collateral deduction, depending on the condition of the receivables
	PT SMF that conducts the business activity of providing sharia-based financing	0% to 100% of the receivables, depending on the condition of the receivables
	The following financial services companies providing loans and/or financing, either conventional or sharia-based: • Conventional rural banks *(Bank Perekonomian Rakyat)*; • Savings-and-loan cooperatives *(Koperasi Simpan Pinjam)*; • Pawnbroking companies; and • Microfinance institutions	0.5% to 100% of the receivables, depending on the condition of the receivables

For a taxpayer performing actual doubtful debt write-offs that are used to calculate the beginning balance of provision, it has to submit a nominative list of the debts being written off in a prescribed format when lodging its annual CIT return. In addition to providing the nominative list, the taxpayer must attach proof that the receivable has been written off. If such proof is not attached, the debt written off cannot be deducted from the beginning balance of the provision and cannot be added to the ending balance. The proof can be in any of the following forms:

- Evidence of a case submission to the court;

- Written agreement of the receivable/debt write-off that has been legalized by a notary;
- Copy of proof of publication in a general or specialist publication; or
- Written acknowledgment from the debtor that the debt has been written off by the creditor.

If the difference of the provision for doubtful debts calculated in a fiscal year is less than zero, the difference will be treated as income of that fiscal year. Likewise, the recovery of a receivable that has been written off constitutes income of the fiscal year in which it is recovered.

Taxpayers covered under PMK-74 are required to calculate their provisions for doubtful debts in accordance with the regulation as from the fiscal year 2024. As a transitional measure, PMK-74 provides the following:

- Existing *Bank Perkreditan Rakyat* (rural banks) and *Bank Pembiayaan Rakyat Syariah* (sharia rural financing banks) that have not undergone a change in nomenclature to conventional rural banks *(Bank Perekonomian Rakyat)* and sharia rural banks *(Bank Perekonomian Rakyat Syariah)* may also apply PMK-74 when deducting provisions for doubtful debts from gross income.
- When calculating the provision for doubtful debts for fiscal year 2024, taxpayers must recalculate the beginning balance of the provision in accordance with PMK-74. If the beginning balance as recalculated is higher than the amount calculated based on PMK-81/2009, the difference can be deducted for tax purposes in either or both of fiscal years 2024 and 2025.If the recalculated amount is less than the amount calculated based on PMK-81/2009, the difference is taxable in fiscal year 2024.

Since the tax treatment under PMK-74 has to be implemented for provisions for doubtful debts as from fiscal year 2024, taxpayers operating in the financial services industry should ensure that they are familiar with the contents of this regulation so that they can properly prepare for the changes introduced by the regulation.

For a taxpayer performing actual doubtful debt write-offs that are used to calculate the beginning balance of provision, in addition to providing the nominative list, the proof that the receivable has been written off must also be attached in the annual CIT return.

PMK-81/2024 harmonizes various tax regulations affected by Coretax implementation: Part II

On 14 October 2024, MoF issued Regulation Number 81 (PMK-81/2024) to synchronize and revoke various regulations that will be affected by the Directorate General of Taxes' (DGT) introduction of the Core System of Tax Administration portal (Coretax) as from 1 January 2025 (please refer to *Tax Info November 2024*). This web-based portal will enable taxpayers to fulfill their tax obligations electronically and integrate all the core tax administration processes; from registration, submission of tax returns, settlement of tax due, up to tax audits and collection by the tax authorities.

PMK-81/2024 contains 642 pages with 484 articles and 83 attachments, and revokes (either wholly or partially) 42 existing regulations with effect as from 1 January 2025. This article is the second in the series providing Deloitte Indonesia's preliminary high-level observations on the content of the regulation and addresses the following selected income tax and VAT topics in certain industries:

Topic	Previous MoF regulation being revoked
Appointment of e-commerce parties carrying out transactions through electronic systems *(perdagangan melalui sistem elektronik* (PMSE)) as PMSE VAT collectors	MoF Regulation Number 60/PMK.03/2022 (please refer to *Tax Info May 2022*) (PMK-60)
VAT and income tax treatment of cryptoasset trading	MoF Regulation Number 68/PMK.03/2022 (please refer to *Tax Info April 2022*) (PMK-68)
VAT on commission fees for insurance agencies and brokerages	MoF Regulation Number 67/PMK.03/2022 (please refer to *Tax Info April 2022*) (PMK-67)
Article 26 income tax on insurance and reinsurance premiums paid to overseas insurance companies	MoF Decision Number 624/KMK.04/1994 (KMK-624)
Income tax on the sale of shares listed on the stock exchange	MoF Decision Number 282/KMK.04/1997 (KMK-282)
Procedures for settling and reporting income tax arising from the transfer of real estate in certain collective investment contract *(Kontrak Investasi Kolektif* (KIK)) schemes	MoF Regulation Number 37 /PMK.03/2017 and Articles 4 and 5 of MoF Regulation Number 200/PMK.03/2015

Subsequent articles will address other topics contained in PMK-81/2024.

In general, PMK-81/2024 focuses on the relevant tax administration, settlement, and reporting processes affected by the implementation of Coretax, and therefore, its technical content is broadly similar to the regulations being revoked. PMK-81/2024 also emphasizes that noncompliance with PMK-81/2024 will be subject to sanctions in accordance with the Law of General Provisions and Procedures for Taxation.

Appointment of e-commerce parties as PMSE VAT collectors

Unlike PMK-60, PMK-81/2024 allows any e-commerce party that has not been appointed as a PMSE VAT collector and not yet fulfil the required criteria to submit a notification to the DGT to be appointed as a PMSE VAT collector.

It also appears that, as from 1 January 2025, PMSE VAT collectors domiciling in Indonesia will only be able to settle the VAT collected in IDR, whereas PMSE VAT collectors domiciling overseas will be able to settle the VAT collected in either IDR or USD.

Under PMK-60, PMSE VAT collectors must submit VAT returns on quarterly basis; however, under PMK-81/2024, PMSE VAT collectors must submit VAT returns on monthly basis no later than the end of the following month through the Coretax portal.

VAT and income tax treatment of cryptoasset trading

As from 1 January 2025, PMSE VAT collectors facilitating cryptoasset trading must report the VAT collected by the end of the following month, and the VAT must be settled before the VAT return is submitted. If there is a mistake in the VAT collection that results in an overpayment, the overpayment must be refunded as it no longer allows for tax overbooking.

Sale of cryptoassets is subject to Article 22 income tax. For cryptoasset trading carried out through certain PMSE providers (those that provide only e-wallet services, bring together sellers and buyers, and/or do not facilitate the cryptoasset transaction), the Article 22 income tax must be collected by the cryptoasset sellers rather than the PMSE providers. Under PMK-68, provided that the tax payment slip

(surat setoran pajak) used for settling the Article 22 income tax collected to the state treasury has been validated, sellers would be deemed to have reported the tax collection to the tax authorities. However, as from 1 January 2025, the cryptoasset sellers must report the tax collected in their monthly unification income tax return and submit the return by the 20th of the following month. The deadline for the tax settlement remains the same, i.e., the 15th of the following month. This change would allow the tax authorities to monitor the fulfillment of the tax obligation more easily.

Similarly, as from 1 January 2025, Article 22 income tax self-assessed by cryptoasset miners must be reported in their monthly unification income tax return. Previously, cryptoasset miners would be deemed to have reported the tax collection to the tax authorities if the tax payment slip used for settling the self-assessed tax to the state treasury has been validated.

Overseas PMSE providers that have been appointed as PMSE VAT collectors are also automatically appointed as income tax collectors and are expected to perform their income tax collection obligations accordingly.

VAT on commission fees for insurance agencies and brokerages

Insurance companies have been appointed as VAT collectors on insurance commission received by agents or brokers as from 1 April 2022.

Under PMK-67, if there was a mistake in the VAT collection resulting in an overpayment, the insurance company might apply for a tax overbooking or VAT refund. PMK-81/2024 changes the allowable mechanism to either a VAT refund or an offset against output VAT. However, it does not specify whose output VAT the VAT is to be offset against, or in which period. Delivery of insurance services is exempt from VAT; therefore, insurance companies should not have any output VAT. Deloitte Indonesia's understanding of the regulation is that, the only option in such a situation is thus to request a VAT refund. It is expected that there will be further regulations that will provide more clarity on the offsetting mechanism.

Article 26 income tax on insurance and reinsurance premiums paid to overseas insurance companies

Payment of insurance and reinsurance premiums to an insurance company overseas is subject to Article 26 income tax. The effective tax rates applicable to the payment remain the same:

- An insured must withhold 10% from the premium paid to an insurance company overseas, either paid directly or through a brokerage.
- An insurance company in Indonesia must withhold 2% from the premium paid to an insurance company overseas, either paid directly or through a brokerage.
- A reinsurance company in Indonesia must withhold 1% from the premium paid to an insurance company overseas, either paid directly or through a brokerage.

KMK-624 did not explicitly mention that the tax withholder must withhold and prepare the withholding tax slip. As such, in practice, there are cases where payment of the premium is done through an insurance/reinsurance brokerage, but the Article 26 income tax is withheld by the brokerage instead of by the insured or the Indonesian insurance/reinsurance company.

PMK-81 provides certainty and clarity on the party that should perform the withholding tax obligation on payment of insurance and reinsurance premiums paid to overseas insurance company.

PMK-81/2024 now explicitly regulates that it is the tax withholder (the insured or the Indonesian insurance/reinsurance company) that must withhold the tax and prepare the withholding tax slip to be provided to the party being withheld (i.e., the overseas insurance/reinsurance company). KMK-624 did not explicitly regulate the obligation to report the tax withheld. However, PMK-81/2024 now requires the tax withholder to report the tax withheld in its monthly unification income tax return. This change provides certainty and clarity on the party that should perform the withholding tax obligation.

Furthermore, to align the updated deadline for tax settlement with the other monthly income tax obligations, PMK-81/2024 updates the deadline to settle the tax withheld to the 15th of the following month (previously the 10th of the following month).

Income tax on the sale of shares listed on the stock exchange

Sales of shares listed on the Indonesia Stock Exchange (IDX) are subject to final income tax at a rate of 0.1%. Sales of founders' shares in connection with an initial public offering (IPO) are subject to an additional 0.5% final income tax based on the IPO share price; otherwise, income tax is payable on the capital gain when the founders' shares are sold.

Under KMK-282, the final income tax of 0.1% must be withheld by the IDX; however, it did not regulate the withholding documentation requirement. This has become an issue during tax disputes where taxpayers are unable to provide proof of the tax withheld by the IDX as there is no withholding tax slip available to them. PMK-81/2024 addresses this issue, whereby the obligation to prepare the withholding tax slip is delegated to the stockbroker, and the withholding tax slip must be provided to the party being withheld. The withholding tax slip may be in the form of a document treated as being equivalent to a withholding tax slip, even though PMK-81/2024 does not provide any further information on the format or type of documents deemed equivalent.

PMK-81/2024 updates the deadlines for tax settlement and tax reporting to the 15th and 20th of the following month, respectively. The regulation also provides that, for the additional 0.5% final income tax imposed on founders' shares, the publicly listed company must settle the tax on behalf of the founder and report the tax settled in the company's monthly unification income tax return. This will provide better documentation of the tax withheld and easy monitoring of the fulfillment of the tax obligation by the stakeholders.

Income tax arising from the transfer of real estate in certain KIK schemes

A KIK is a contract between an investment manager, a custodian bank and participation unit holders where the investment manager is authorized to manage the collective investment portfolio and the custodian bank is authorized to carry out the collective custody.

Under current regulations, for taxpayers engaged in the real estate industry, the income tax arising from the transfer of land and/or building rights is due at the place where the land is located; Whereas for nonreal estate taxpayers, the tax is due at the place where the transferring party resides or the place where the transferring entity's annual income tax return is administered. PMK-81/2024 specifies that the tax will become due at the location where the transferring individual resides or the

place where the transferring entity's annual income tax return is administered, regardless the business activities of the taxpayer.

PMK-81/2024 also provides transitional provisions, particularly with respect to the income tax rates applicable to the transactions described above, depending on the timing of the transfer, payment for the transfer, settlement of the relevant income tax, and recognition of such income in the taxpayer's annual income tax return.

Given the implementation date for Coretax of 1 January 2025, taxpayers should familiarize themselves with the contents of the regulation or reach out to their regular Deloitte Indonesia contact to discuss how to prepare for Coretax. Proper arrangement and planning are crucial to ensure that all taxation rights and obligations of taxpayers can be performed effectively.

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