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FISCAL FACILITIES FOR BOOSTING INVESTMENT AND ECONOMIC GROWTH

Sets the Standards and Beyond

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ABOUT DDTC Newsletter

Published every two weeks, DDTC Newsletter provides a summary of key tax law changes, both the current modifications and changes in taxation regulations, particularly those pertaining to domestic policies.

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Latest Provisions Concerning Income Tax Withholding on Deposits and Savings Interest, and Central Bank Certificate Discount

The Ministry of Finance has issued a regulation concerning the relaxation of income tax withholding for foreign exchange from export proceeds from natural resource (*Devisa Hasil Ekspor Sumber Daya Alam*/ DHE SDA). This relaxation is contained in the Minister of Finance Regulation (*Peraturan Menteri Keuangan*/ PMK) No.212/ PMK.03/2018 concerning Income Tax Withholding on Deposits and Savings Interest, and Central Bank Certificate Discount. The regulation which revokes PMK No.26/PMK.010/2016 and KMK No.51/ KMK.04/2001 has come into effect as of December 31, 2018.

In general, this PMK states that final income tax will be imposed on income in the form of interest of deposits, savings, and discounts on Bank Indonesia Certificates (*Sertifikat Bank Indonesia*/SBI) sourced from foreign exchange from export proceeds (*Devisa Hasil Ekspor*/ DHE) and deposited in Indonesia, including branches of foreign bank located in Indonesia. The government provides flexibilities regarding the bank selection and the period of placement of the DHE, including DHE SDA, one of which is by encouraging the placement of funds originating from DHE into the domestic banking system.

In terms of rate, there is no change from the previous PMK. However, based on the latest regulation, this final income tax rate facility will also be applied to Deposit of DHE which is redeposited after the maturity. This is intended to maintain the stability of the rupiah exchange rate and support the strengthening of the national economy. The following table shows the rates of various types of income of which the interest income shall be subject to the final income tax facility based on PMK 212/2018.

The regulation also stipulates that the same rate will also be applied if the deposit has been disbursed before the maturity period. Furthermore, the repayment of the tax underpayment due to this condition will be made through income tax withholding upon the payment of deposit interest for the following month. The types of deposit of which the interest shall be subject to final income tax withholding are time deposits, certificate of deposit, and on-call deposits.

In addition, for domestic taxpayers and permanent establishments who meet certain requirements of interest income, the final income tax will not be withheld for certain types of interest income on deposits, savings (including demand deposits), and bank central certificate discounts. These requirements include:

a) amount of total interest is less than IDR7,500,000;
b) interest and discount of SBI are received/obtained from banks established in Indonesia or foreign bank branches in Indonesia.
c) interest is received/obtained from the Pension Fund of which the establishment has been legalized by the Financial Services Authority (Otoritas Jasa Keuangan/OJK); or
d) saving interest from banks appointed by the government in the context of building simple housing for their own needs in accordance with applicable regulations.

The exception from this final income tax withholding regulation will be further regulated in the Director General of Tax Regulations (*Peraturan Direktur Jenderal Pajak*/Per-DJP).

The final income tax withholding mechanism will be carried out directly, both by the bank that pays the interest on savings and/or deposits and Bank Indonesia as the SBI issuer. The private bank as the final income withholder is obligated to report the details of the placement of DHE deposits to the central bank in Indonesia. Furthermore, Pension Fund institutions that are exempt from final income tax facilities are obliged to withhold income tax on discount if they resell SBIs to non-bank institutions and to Pension Fund institutions that have not been approved by the Minister of Finance and OJK.

Table 1 – The Rate of Final Income Tax on Interest

Tenor/ Type of Income	Deposit Interest DHE (US$)	Deposit Interest DHE (Rupiah)	Saving Interest	SBI Discount Interest	Deposit Interest
1 Month	10%	7.5%	20%*	20%*	20%*
3 Month	7.5%	5%			
6 Month	2.5%	0%			
> 6 Month	0%	0%			

* The rates are imposed on the gross amount for domestic taxpayers (*Wajib Pajak Dalam Negeri*/WPDN) and permanent establishments (*Bentuk Usaha Tetap*/BUT) and based on Tax Treaty (*Perjanjian Penghindaran Pajak Berganda*/P3B) for foreign taxpayers (*Wajib Pajak Luar Negeri*/WPLN).

Provisions for Installments of Income Tax Article 25 for Certain Taxpayers

At the end of December 2018, the government issued the latest provisions regarding installments of Income Tax for taxpayers of certain criteria. This regulation comes into force as of Tax Year 2019 through PMK 215/PMK.03/2018 (PMK 215/2018). The regulation which is the elucidation of Article 25 paragraph (7) of the Income Tax Law revokes the previous provisions, PMK No. 255/PMK.03/2008 (PMK 255/2008) as amended by PMK No. 208/PMK.03/2009 (PMK 208/2009).

Basically, PMK 215/2018 extends the definition of new taxpayers. The previous regulation only states that new taxpayers are individuals and entities who earn income from business or self-employment for the first in the current tax year. Furthermore, this regulation also categorizes taxpayers in merger, consolidation, spin-off, business acquisition, and/or changes in business entity as new taxpayers whose amount of income tax Article 25 installments will 'deviate' from general tax regulations.

On a side note, the installment of income tax Article 25 itself is defined as the monthly average income tax payable based on the current Annual Tax Return deducted by withheld income tax Articles 21 and 23, withheld income tax Article 22, and creditable income tax Article 24. However, in order to obtain the correct data of a company's business activities, the government excludes several types of taxpayers from the general regulation of income tax Article 25. The types of financial statements and income categorized as net income are also stipulated in this regulation. The following table is a summary of the amount of installments of Article 25 income tax for certain taxpayers.

Table 2 – Calculation of Article 25 Income Tax Installments for Certain Taxpayer

No	Type of Taxpayer	Calculation of Article 25 Income Tax Installments
1	Banks as Taxpayers (*New and Existing Taxpayers*)	(Income tax Article 17 rate **X** Net income from financial statement) - (Withholding Tax Article 22 from the beginning of the Tax Year until the reported Tax Period + income tax Article 25 payable from the beginning of the Tax Year until the reported Tax Period)
2	Other Taxpayers and Listed Taxpayers other than Banks (*New and Existing Taxpayers*)	(Income tax Article 17 rate **X** net income from financial statement) – (Withholding tax Articles 22 and 23 from the beginning of the Tax Year until the reported Tax Period + income tax Article 25 payable from the beginning of the Tax Year until the reported Tax Period)
3	State-Owned Enterprises and Local-Owned Enterprises as Taxpayers (*New and Existing Taxpayers*)	(Income tax Article 17 rate **X** Budget and Work Plan (*Rencana Kerja dan Anggaran Pendapatan*/RKAP) for the Tax Year validated by General Meeting of Shareholders (*Rapat Umum Pemegang Saham*/RUPS) – ((Withholding Tax Article 22 and 23 + income tax Article 24 that has been paid or outstanding in the previous Tax Year) **:** 12)
4	Certain Individual Taxpayers (*New and Existing Taxpayers*)	(0.75% **X** gross turnover from every business place outside the taxpayer's residence)
5	Taxpayers in spin-off (*New and Existing Taxpayers*)	The percentage of transferred assets for each taxpayer resulting from the spin-off
6	Taxpayers in merger, consolidation, and/or business acquisition in the current Tax Year (*New Taxpayers*)	The amount of the taxpayer's income tax Article 25 installments prior to the merger, consolidation, and/or business acquisition
7	Taxpayers with a change in the form of their business entities (*New Taxpayers*)	The last income tax Article 25 installments prior to the changes in the business entities
8	New taxpayers other than criteria 1 – 7 (*New Taxpayers*)	Nil

Government Regulates Tax Incentives to Boost Ease of Export

The government has once again released the latest regulations regarding the ease of imports for the production of goods to be exported. This facility is known as Import Tax Waiver for Materials for Export Oriented Goods (*Kemudahan Impor Tujuan Ekspor*/KITE) which came into effect as of February 18, 2019.

KITE facilities can be classified into two types. First, the exemption from import duty and/or Value Added Tax (VAT) or the non-imposition of sales tax on luxury goods (PPnBM) on the import of goods and/or materials to be processed, assembled, or installed on other goods for export or supplied to Bonded Zone (*Kawasan Berikat*/KB) or known as **KITE Exemption** (*KITE Pembebasan*) facility. This facility is regulated through PMK No. 160/PMK.04/2018 (PMK 160/2018).

Second, the KITE facility of refund of import duty and/or excise paid for the import of goods and/or materials to be processed, assembled, or installed on other goods exported or supplied to KB is referred to as **KITE Drawback** (*KITE Pengembalian*). The facility of KITE Drawback is regulated through PMK No. 161/PMK.04/2018 (PMK 161/2018).

In lieu of PMK No.254/PMK.04/2011 jo. PMK No. 176/PMK.04/2013 and PMK No. 253/PMK.04/2011 jo. PMK No. 177/PMK.04/2013, PMK 160/2018 and PMK 161/2018 are aimed at deregulation and simplification of regulations, expanding the supply chain of materials as substitutes for imported goods, expanding export production channels, accommodating the development of business activities, and improving policies pertaining to KITE facilities.

In general, through these two latest regulations, companies can submit applications to obtain KITE facilities electronically through the Indonesia National Single Window system in the framework of Online Single Submission (OSS). In addition, companies are not required to apply for Company Registration Number (*Nomor Induk Perusahaan*/NIPER). Instead, the confirmation as the company of KITE Exemption and/or Drawback will be given directly by the Minister of Finance through Minister of Finance Decree (*Keputusan Menteri Keuangan*/KMK).

Requirements for a company to apply for KITE facilities are as follows:

a. the type of business is manufacturing industry;
b. having proof of ownership or proof of mastery over the location for production and stockpiling of goods and materials and products for a minimum of three years;
c. having an adequate internal control system; and
d. utilizing computer-based inventory information system (IT inventory) for goods management relevant to customs documents and accessible by the Directorate General of Customs and Excise.

The simplification in the two regulations is also evidenced by the period of the approval or rejection of the facilities application. Previously, approval or rejection of the application might have taken 45 days since the submission, whereas based on the latest provisions, this process only takes one week after inspection and business model presentation by the company's board of directors to the Head of Regional Office or Head of Prime Customs and Excise Office of the Directorate General of Customs and Excise (DGCE).

The technical provisions for these two incentives have also been issued by the DGCE through the Director General of Customs and Excise Regulation (PER-DJBC*)* in mid-February 2019. PER-DJBC No. PER-03/BC/2019 regulates facility of KITE Drawback. Furthermore, the KITE Exemption facility is regulated further through PER-DJBC No. PER-04/BC/2019.

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