

Indonesia issues measures to mitigate impact of COVID-19

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Executive summary

The Indonesian Government has issued various measures in response to the COVID-19 pandemic,¹ which largely aim to support the Indonesian economy. Among the stimulus measures, a key revenue raising initiative enables the Indonesian Tax Authority (ITA) to commence the collection of tax revenue from foreign businesses operating in the digital economy in Indonesia.

This Alert summarizes the various COVID-19 measures issued to date by the Indonesian Government which are relevant for multinational companies.

Detailed discussion

Business tax measures

1. A corporate income tax (CIT) rate reduction from 25% to 22% for tax years 2020 and 2021 and to 20% for tax year 2022 and onwards. Qualifying listed Indonesian companies² are entitled to an additional three percentage point reduction (CIT rate of 19% for tax years 2020 and 2021 and 17% for tax years 2022 onwards).
2. 30% temporary reduction of CIT installments and/or income tax exemptions for importations³ for the tax period from April 2020 until September 2020 are available for the following entities:

- a. Companies registered under prescribed business sector codes, i.e., 846 business sectors for the 30% CIT installment and 431 business sectors for the import tax exemption.
- b. Companies registered as Export-Oriented Companies (*Kemudahan Impor Tujuan Ekspor* (KITE status)).
- c. Certain qualified Bonded Zone Organizers or Enterprises.

This is not an automatic measure. The taxpayer is required to submit an online application and transaction report every three months through its official account via the ITA's website.

3. Income tax withholding (payable by companies) in respect of employee wages will be borne by the Government for the tax period from April 2020 to September 2020, and is available for the following entities:
 - a. Companies registered under any of 1,062 sector codes
 - b. Companies registered as KITE status
 - c. Certain qualified Bonded Zone Organizers or Enterprises

This measure applies to employees with regular income of up to IDR200 million (US\$13,000) per year if the employee has obtained an Indonesian tax identification number.

Again, this is not an automatic measure. The taxpayer is required to submit an online application and transaction report every three months through its official account via the ITA's website.

Value-added tax (VAT)

4. Advance VAT refunds of up to IDR5 billion (US\$330,000) are available, without triggering an automatic tax audit, for the tax period from April 2020 to September 2020 for the following entities:
 - a. Companies registered under any of the 431 business sector codes
 - b. Companies registered as KITE status

- c. Certain qualified Bonded Zone Organizers or Enterprises

To receive this benefit, the taxpayer is required to elect the refund option in its monthly VAT return.

General tax provisions and procedures

5. Extension of time for tax objection submissions, and completion of tax refund, tax objection and administrative penalty waiver/relief applications for any due date which falls within 28 January 2020 to 29 May 2020 (the current "force majeure" period). The activities of Tax Courts are suspended for the period of 17 March 2020 until 1 June 2020.⁴

Digital taxes⁵

6. A new concept of permanent establishment (PE) is introduced. International sellers, international service providers, or international e-commerce platform providers that actively offer and/or conduct activities with consumers domiciled in Indonesia may be deemed to have a PE in Indonesia if they exceed certain thresholds with respect to:
 - a. Consolidated group gross revenue
 - b. Revenue derived from Indonesia
 - c. Number of active users in Indonesia

If the PE definition under a treaty overrides this domestic law, an electronic transaction tax (ETT) is imposed to tax income sourced from Indonesia. Implementing regulations in respect of the types of transactions, thresholds, rate of ETT and other administrative arrangements have not been issued yet.

7. Certain international sellers, international service providers, and international and local e-commerce platform provider companies will be required to collect 10% VAT from Indonesian customers for the supply of intangible goods or services from outside Indonesia. The Minister of Finance will issue regulations providing the criteria and mechanics of the VAT collection mechanism and will confirm whether this measure will be administered directly or via Indonesian agents.

Endnotes

1. The tax regulations for COVID-19 measures are provided in Minister of Finance Regulation No. 23/PMK.03/2020 dated 21 March 2020, MOF Regulation No. 44/PMK.03 dated 27 April 2020 and Government Regulation in lieu of Law No. 1 Year 2020 dated 31 March 2020, Tax Court Circular Letter No. SE-06/PP/2020 dated 4 May 2020.
2. At least 40% of the company's shares are required to be traded on the Indonesian Stock Exchange (other requirements to be determined by Ministry of Finance regulations).
3. Both taxes are CIT prepayments.
4. The suspended period will not adversely impact the timelines or deadlines for Tax Court proceedings.
5. The implementing regulation is yet to be issued.

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