

Indonesia issues implementing regulations for VAT on digital transactions

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Executive summary

Indonesia's Minister of Finance (MOF) issued implementing regulations, on 5 May 2020, for the expansion of Value-Added Tax (VAT) to include cross-border digital transactions, effective from 1 July 2020.¹ The regulations provide for collection mechanisms and grant the Director General of Tax (DGT) the power to appoint international digital or platform providers as VAT collectors.

Although further details will be forthcoming, multinational companies should review these changes and prepare for implementation.

This Alert summarizes the key highlights of the proposed changes.

Detailed discussion

Scope of transactions

VAT at the rate of 10% applies to the supply of digital goods and services² from outside the Indonesian customs area to buyers located in Indonesia.³ The rule appears to capture both supplies to consumers and to businesses (B2C and B2B).

VAT collectors

International sellers, international service providers, and international or local e-commerce platform providers will be identified and registered by Indonesia's DGT as VAT collectors if they exceed certain thresholds in a 12-month period with respect to either of the following:⁴

- ▶ Transaction value
- ▶ Traffic or access numbers

The DGT will issue regulations establishing these thresholds.

Other companies which are not identified and registered by the DGT may voluntarily register as VAT collectors if they exceed the above thresholds. The regulations are silent on any potential consequences for companies if they exceed the thresholds but do not voluntarily register.

VAT collection mechanism

VAT collection obligations commence from the beginning of the month following the date of appointment as a VAT collector by the DGT. The obligations include:

- ▶ Collecting VAT at a rate of 10% of the transaction value on the payment date.
- ▶ Issuing VAT receipts.⁵
- ▶ Paying VAT to the State Treasury on monthly basis.
- ▶ Reporting transactions to the DGT on quarterly basis. The DGT may also require the VAT Collector to provide a summary of transactions on an annual basis.

Noncompliance⁶

Any noncompliance with these VAT requirements may lead to any of the following adverse consequences:

- ▶ Administrative tax penalties
- ▶ Issuance of warnings
- ▶ Termination of internet access⁷

Endnotes

1. See EY Global Tax Alert Tax Alert, [Indonesia issues measures to mitigate impact of COVID-19](#), dated 15 May 2020.
2. "Digital Goods" are defined as any intangible goods in the form of electronic or digital information, which includes any goods as a result of conversion and any goods that are originally in an electronic form, including but not limited to software, multimedia, and/ or electronic data. "Digital Services" are defined as any services transmitted through the internet or an electronic network, that are automatic or involves minimal human intervention, and are impossible to transmit without information technology, including but not limited to services such as software.
3. Based on the following indicators: (1) residence or domicile address; (2) any payment facilities issued by any Indonesian institution; and (3) Indonesian IP address or phone number.
4. Pursuant to Government Regulation in lieu of Law No.1 Year 2020, as permanently enforced by Law No.2 Year 2020, a VAT collector may appoint a representative located in Indonesia to fulfill its obligations.
5. A VAT receipt serves a similar function as a normal VAT invoice for input VAT claim purposes. Further details are expected on the form of these receipts.
6. Based on Government Regulation in lieu of Law No.1 Year 2020, as permanently enforced by Law No.2 Year 2020.
7. Based on recommendations from the MOF to the Minister of Communication and Information.

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