

Indonesia broadens list of exported services eligible for zero-rated VAT

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Indonesia's Minister of Finance has issued MOF Regulation No. 32/PMK.010/2019 (PMK-32), amending the regulation on exported services (Exported Services) which are eligible for zero-rated Value Added Tax (VAT). Prior to the amendment, the export services subject to the zero-rated VAT only covered three types of services. PMK-32 aims to stimulate the economy by encouraging Exported Services transactions and improving the ability of domestic services providers to compete. PMK-32 is effective for service transactions entered into on or after 29 March 2019.

This Alert summarizes key aspects of PMK-32. This regulation will have very broad implications and should be reviewed by any Indonesian parties providing services to non-Indonesian counterparties and those receiving and paying for such services. The amendment will be welcome news for many groups and makes the use of Indonesian parties as service providers more viable from a tax perspective. However, not all types of services are covered and there will still be instances of VAT leakage in practice, as non-Indonesian parties remain unable to register for, and claim VAT refunds.

Type of Services under PMK-32

Under PMK-32, Exported Services qualify for zero-rated VAT when service activities are performed in Indonesia but the services are connected with the production of goods, facilities or rights to be used outside of Indonesia

by a foreign taxpayer that does not have a permanent establishment in Indonesia. The following type of activities are eligible for zero-rated VAT:

- a. Toll-manufacturing
- b. Repair and maintenance
- c. Freight forwarding on an export transaction
- d. Construction consulting, including activity on the feasibility study, planning and designing of a building or building master plan that is located outside Indonesia
- e. Information and technology
- f. Research and development
- g. Aircraft and ship leasing for international traffic
- h. Business consultation and management, legal consultation, architecture and interior design consulting, human resources consulting, engineering, marketing, accounting and bookkeeping, financial audit, and tax services
- i. Procurement to find the Indonesian suppliers for an export transaction
- j. Interconnection, satellite providers and/or communication/data connectivity

PMK-32 provides further details on some of these categories - particularly on point (e), specifying various IT services.

Administrative requirements

Exported Services are eligible for the zero-rated VAT if the following requirements are satisfied:

- a. Written/formal agreement between the Indonesian services provider and export services recipient, containing at a minimum: (i) type of services; (ii) description of services that are performed in Indonesia but are to be used outside of Indonesia; and (iii) the amount or value of the Exported Services.
- b. Supporting document for payments made by the export services recipient to the Indonesian services provider.

Failure to meet the above requirements would result in the need to apply the 10% VAT.

Corresponding input VAT which directly relates to performing Exported Services activity can be treated as a creditable input VAT.

For additional information with respect to this Alert, please contact the following:

EY Indonesia, Jakarta

- ▶ Peter Mitchell peter.mitchell@id.ey.com
- ▶ Peter Ng peter.ng@id.ey.com
- ▶ Iman Santoso iman.santoso@id.ey.com

Ernst & Young LLP, (United States), Indonesia tax desk, New York

- ▶ Ihsan Muttaqien ihsan.muttaqien1@ey.com

Ernst & Young LLP (United States), Asia Pacific Business Group, New York

- ▶ Chris Finnerty chris.finnerty1@ey.com
- ▶ Kaz Parsch kazuyo.parsch@ey.com
- ▶ Bee-Khun Yap bee-khun.yap@ey.com

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