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In this article, Muhariastuti and Rizal discuss the Indonesian government's efforts to reform its tax policies to meet international standards.

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Indonesia has been in the headlines with its 2022 G-20 presidency from December 2021 through November 2022. During its presidency, Indonesia was supportive of international community tax initiatives such as carbon tax policies and the global minimum tax. Domestically, the Indonesian government introduced tax reforms to update its tax systems and align its tax policies with international standards.

Tax Regulation Harmonization Law

The Indonesian government passed its tax regulation harmonization (HPP) law on October 7, 2021, taking effect in 2022.

President Joko Widodo signed the law on October 29, 2021, as Law No. 7/2021 to enhance Indonesian fiscal policy and accelerate economic recovery, increase tax compliance, and achieve a higher tax ratio.

The HPP law provides for substantial tax law changes. They are significant because they affect important provisions of the income tax and the VAT laws as well as the administration of the general tax provisions and procedures (GTP) law.

The HPP law also introduced a carbon tax. Imposing a carbon tax demonstrates the government's commitment to promoting a green economy by reducing global carbon emissions and combating climate change. The implementation of the carbon tax is subject to the issuance of implementing regulations.

The provisions under the HPP law on income tax are effective from January 1, 2022. Further, the HPP law sets out that the provisions on carbon tax and VAT are applicable from April 1, 2022. However, based on the news, the implementation of the carbon tax is postponed until 2025.

Income Tax Law

The HPP law set out substantial changes to the income tax law, including making benefits in kind and enjoyment, received as compensation or remuneration in relation to work or services, subject to income tax (or treated as deductible expenses of the taxpayer). A taxable benefit in kind is treated as compensation in the form of goods other than money or enjoyment as compensation in the form of the right to use specific facilities and services.

However, some benefits in kind are exempted from income tax under the HPP law. This includes, among others, food, beverages, and their ingredients provided to all employees; benefits in

kind that must be provided by employers for the execution of work; and benefits in kind provided in remote areas.

The HPP law sets out the depreciation and amortization method for assets with a useful life of more than 20 years. For a permanent building with a useful life of more than 20 years, depreciation is carried out in accordance with a straight-line method for 20 years or in accordance with the actual useful life based on the taxpayer's bookkeeping. This also applies to the amortization of intangible assets, in which those with a useful life of more than 20 years are amortized within 20 years or in accordance with the actual useful life based on the taxpayer's bookkeeping.

The income tax rates applicable to individuals have also been updated under the HPP law. The first and second brackets of taxable income are updated. The lowest individual income tax rate of 5 percent that initially applied to taxable income up to IDR 50 million (about \$3,300) is now extended to income up to IDR 60 million. A new individual income tax rate of 35 percent applies to taxable income above IDR 5 billion. The income tax rates are shown in the table.

Normal Income Tax Rates for Indonesian Individual Tax Residents

Rates	Taxable Income (IDR)
5%	0 to 60 million
15%	>60 million to 250 million
25%	>250 million to 500 million
30%	>500 million to 5 billion
35%	>5 billion

The corporate income tax rate will remain at 22 percent for fiscal 2022 onward. This cancels the government's initial plan stated in Law No. 2/2020 to cut the corporate income tax rate to 20 percent for fiscal 2022 onward. Public companies that have at least 40 percent paid-up shares traded on the stock exchange and meet specific criteria are entitled to a 3 percent (previously 5 percent) lower corporate income tax rate, resulting in a 19 percent effective rate.

The HPP law also sets out the authority for the government to conclude and carry out bilateral or

multilateral tax agreements or arrangements with other jurisdictions including for:

- avoidance of double taxation;
- base erosion and profit shifting;
- the exchange of tax information;
- tax collection assistance; and
- other forms of cooperation.

The government recently issued implementing regulations for the income tax law – Government Regulation No. 55/2022. It mainly provides confirmation and a detailed explanation of income tax provisions under the HPP law.

VAT Law

The HPP law set out significant changes to the VAT law. These include establishing the VAT rate at 11 percent effective April 1, 2022, and increasing the VAT rate to 12 percent from January 1, 2025. The VAT rate can be reduced to at least 5 percent and increased to no more than 15 percent, subject to government regulations.

Also, some goods and services that were previously not subject to VAT are reclassified as "VAT objects" in which VAT will not be collected in whole or in part, or the objects will be exempted from VAT imposition either temporarily or permanently. This is done primarily:

- to encourage export and downstream industries (a national priority);
- to allow for the possibility of trade and investment agreements with other countries, international conventions that have been ratified, and other international customs; and
- to support the availability of strategic goods and services in the context of national development (such as essential commodities, medical health services and national health insurance programs, social services, financial services, and insurance services).

The government recently issued implementing regulations for the VAT law – Government Regulation No. 44/2022. It adjusts the VAT regulations on, among others, the VAT rate, the calculation of VAT, and the appointment of other parties to collect, pay, and report VAT as mandated by the HPP law.

General Tax Provisions and Procedures Law

The HPP law stipulates changes to the general tax provisions and procedures (GTP) law that include reduced administrative sanctions for some taxpayer wrongdoings (for example, interest on income tax that is underpaid or underwithheld) and provisions related to the tax objection, appeal, and civil review processes.

Under the tax objection process, the administrative sanction imposed if a taxpayer's objection is rejected or partly approved is reduced from 50 percent to 30 percent of the amount of tax based on the objection decision less the tax paid before filing the objection. The sanction is not imposed if the taxpayer files an appeal. Further, the director general of tax (DGT) must provide a written statement of the basis for the objection decision no later than one month after the taxpayer's request for appeal.

Under the tax appeal process, the administrative sanction imposed if a taxpayer's appeal is rejected or partly approved is reduced from 100 percent to 60 percent of the amount of tax based on the appeal decision less the tax paid before filing the objection. Further, for the civil review process, if the amount of tax to be paid increases because of a civil review decision, the administrative sanction imposed will be 60 percent of the tax amount based on the civil review decision less the tax paid before filing the objection. Also, if the taxpayer or the DGT files a civil review application, the tax court decision is not suspended or stopped. The notice of tax collection on administrative sanctions must be issued by the DGT within two years after the receipt of a civil review decision.

Under the HPP law, the DGT is authorized to carry out the mutual agreement procedure to avoid or resolve tax issues arising from the implementation of a double taxation avoidance agreement. The MAP can be filed by:

- a domestic taxpayer;
- the DGT;
- the competent authority of the treaty partner country or jurisdiction; or
- an Indonesian citizen through the DGT in relation to discriminatory actions in the treaty partner country or jurisdiction that contradicts any nondiscrimination provisions.

Further, the Minister of Finance may appoint another party to withhold, collect, deposit, or report tax. This may be a qualified electronic business player regulated further under MOF regulations. The appointed party can be subject to penalties under Indonesian tax law and termination of access.

Administrative penalties may be imposed on the appointed party. A late tax payment may be subject to a penalty based on the tariff according to interest rates determined by the MOF (imposed for a maximum of 24 months). A late filing of a VAT return may be subject to a penalty of IDR 500,000; if there is unpaid or underpaid tax, this may be subject to a 100 percent increase in the tax payable.

The government recently issued the implementing regulations for the GTP law — Government Regulation No. 50/2022. This governs the GTP law in more detail.

Carbon Tax

The HPP law stipulates the provisions for a carbon tax. It is imposed on carbon emissions that have a negative impact on the environment. Imposition of the carbon tax will be carried out taking into account the carbon tax roadmap and carbon market roadmap. The carbon tax will be imposed on individuals or entities that buy goods containing carbon and carry out activities that produce carbon emissions.

The carbon tax is payable at:

- the time of purchase of goods containing carbon;
- the end of the calendar year for activities that produce a specific amount of carbon emissions; and
- other times that are further regulated by or based on a government regulation.

The carbon tax rate is set to be higher than or equal to the carbon price rate in the carbon market per kilogram of carbon dioxide equivalent (CO₂e) or its equivalent units. If the carbon price rate on the carbon market is lower than IDR 30 per kilogram of CO₂e or its equivalent unit the carbon tax rate is set at a minimum of IDR 30 per kilogram of CO₂e or its equivalent unit. The carbon tax was initially planned to be implemented on April 1, 2022, for coal-fired

power plants. However, it has been postponed, and the implementing regulation has not been issued. There is no fixed date for the implementation of the carbon tax in Indonesia.

Further, taxpayers that participate in carbon emission trading, carbon emission offsetting, or other mechanisms in accordance with the prevailing laws and regulations in the environmental sector can be granted a carbon tax reduction or other treatment relevant to their carbon tax obligations.

VAT and Electronic Transactions

The government issued MOF Regulation No. 60/PMK.03/2022 on Procedures to Appoint Collectors, Collection and Payment, and Reporting of Value Added Tax on Use of Taxable Intangible Goods and/or Taxable Services From Outside of the Customs Area in the Customs Area Through Trade Using Electronic Systems (Regulation 60) on March 30, 2022. Regulation 60 provides a detailed scope of VAT collection on transactions using electronic systems and sets out the VAT rate changes stipulated in the HPP law. Regulation 60 is effective from April 1, 2022, and supersedes previous regulations.

Under Regulation 60, VAT is imposed on taxable intangible goods and taxable services received from outside the customs area and used for trading activities through electronic systems inside the customs area. The VAT is collected, paid, and reported by the trade business player through electronic systems. VAT collectors include the following:

- foreign sellers or foreign service providers that conduct direct transactions with goods buyers or service recipients in Indonesia; and
- foreign sellers, foreign service providers, foreign and Indonesian trade operators through electronic systems that are appointed as VAT collectors and issue commercial invoices, billing orders, order receipts, or other documents on transactions with a goods buyer or service recipient in Indonesia.

A goods buyer or service recipient is defined as an individual or an entity that is domiciled in Indonesia (the mailing or billing address is in

Indonesia or the country chosen at registration is Indonesia); has made payments using debit, credit, or other payment facilities provided by an institution in Indonesia; or has entered into a transaction using an internet protocol address in Indonesia or a phone number with the Indonesian country code.

Further, a VAT collector will be appointed if it meets specific criteria, which include exceeding a specified amount of total transaction value in Indonesia over a 12-month period and exceeding a specified amount of total traffic or user access over a 12-month period.

The criteria for a VAT collector are stipulated in DGT Regulation No. PER-12/PJ/2020 (PER-12), which remains valid notwithstanding the issuance of Regulation 60. Under PER-12, foreign sellers, foreign service providers, and foreign and Indonesian trade operators through electronic systems will be appointed as VAT collectors if their activity in the Indonesian market exceeds the transaction value of IDR 600 million a year or IDR 50 million a month from customers in Indonesia or exceeds 12,000 users from Indonesia in a year or 1,000 users in a month. We note that the DGT is actively appointing VAT collectors on transactions with goods buyers or service recipients in Indonesia. According to a recent release, the DGT appointed about 131 entities as VAT collectors through October 2022.

VAT collectors must issue proof of VAT collection. The proof can be a commercial invoice, a billing order, an order receipt, or similar documents stating that the VAT has been collected and paid. Proof of VAT collection is considered, as a document, like a VAT invoice and must be issued in accordance with the requirements set out by the DGT.

VAT collected by a VAT collector must be paid by the end of the following month. The payment is made electronically to the state treasury and may be paid in rupiah, U.S. dollars, or other foreign currency stipulated by the DGT.

VAT collectors are also required to submit a report on VAT collected and paid. The report must be submitted quarterly by the end of the month after the end of the quarter. The report is submitted in electronic form through an application or system provided by the DGT. Also,

the DGT may request a detailed report on VAT collected in one calendar year.

Pillars 1 and 2

The Indonesian government is supportive of implementing OECD pillars 1 and 2 effectively starting in 2023. The government has amended the relevant provisions under the income tax law through the HPP law as a basis to implement pillars 1 and 2, including canceling the corporate income tax rate reduction to 20 percent for fiscal 2022 onward.

In December 2022 the implementing regulation for the income tax law was issued — that is, Government Regulation No. 55/2022 — which stipulates the legal basis for the implementation of OECD pillars 1 and 2. However, the provisions on pillars 1 and 2 under this government regulation are general in nature and it is expected that the government will be issuing MOF regulations to implement the provisions for pillars 1 and 2.

Final Remarks

The Indonesian government has been supportive of tax measures and initiatives undertaken by the international community and has introduced reforms to align its tax policies with international standards. In 2021 the government amended 22 tax treaties to include provisions of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting. Also, the government has been keen to foster good relationships with other jurisdictions. For example, it ratified the new Indonesia-Singapore tax treaty, which sets out provisions on, among other things, lower branch profit tax rates and royalty withholding tax rates. It is expected that the government will continue to focus on improving Indonesia's competitiveness and attractiveness to investors to encourage economic recovery. ■