

# Tax News Flash

April 2020



## Tax Incentives In Relation To The Covid-19 Pandemic

The COVID-19 Pandemic has been deemed a national disaster with adverse effects on the economic stability and productivity of various sectors in Indonesia. As countermeasures, the Government has issued several new regulations that are expected to lessen the negative economic impact of the pandemic:

- Government Regulation in Lieu of Law of the Republic of Indonesia No. 1 Year 2020 ("PERPPU-1") - effective as of 31 March 2020;
- Regulation of The Minister of Finance No.23/PMK.03/2020 ("PMK-23") regarding Tax Incentives for Taxpayers Impacted by the Coronavirus - effective as of 1 April 2020.

### Tax and customs provisions regulated in PERPPU-1

#### 1. Reduction of Corporate Tax Rate

Starting for Fiscal Year	Tax Rate for General Corporate Taxpayers	Tax Rate for IDX Listed Corporate Taxpayers <sup>1</sup>
2020-2021	22%	19%
2022 onwards	20%	17%

#### 2. Taxation of e-commerce transactions

Trade activities via e-commerce will be subject to the following taxes:

- Offshore VAT on the import of intangible goods and taxable services must be collected by foreign sellers, foreign service providers and/or foreign/local e-commerce platforms designated by the Minister of Finance;
- Corporate Income Tax payable by deeming a Permanent Establishment ("PE") of overseas e-commerce companies which have a significant economic presence in Indonesia. The significant economic presence will be determined further by the Minister of Finance and would cover:
  - » consolidated gross revenue;
  - » sales amounts in Indonesia; and/or
  - » the size of active members in Indonesia.

- If deeming a PE as stated in point b. above cannot be applied because of available Tax Treaty exemptions, an Electronic Transaction Tax will be imposed on sales to Indonesian buyers/users.

The overseas sellers/e-commerce platform providers must appoint a representative in Indonesia to pay and report the above taxes. Failure to comply with this obligation will result in late payment penalties and administration sanctions, as well as termination of access to the overseas sellers/e-commerce platform providers' website, etc.

#### 3. Extension of several tax document submission due dates

Due dates for the submission and issuance of several tax rights and obligations that fall within the COVID-19 force majeure period<sup>2</sup> are extended:

Type of tax rights and obligations	Extension provided
Submission of Objection Letters	Additional period of up to six months from the due date
Payment of tax refunds after issuance of Tax Assessment Letters	Additional period of up to one month from the due date
Issuance of: <ul style="list-style-type: none"> <li>» Tax Overpayment Assessment Letters/SKPKB(Art 17B (1))</li> <li>» Tax Objection Decision Letters (Art 26(1))</li> <li>» Decisions for Tax Reconsideration Letters (Art 36(1))</li> </ul>	Additional period of up to six months from the due date

#### 4. Customs facility

The Minister of Finance has the authority to grant import duty exemptions or reductions for the purpose of:

- handling the COVID-19 pandemic; or
- dealing with any threat to the national economy and/or financial system stability.

<sup>1</sup> Limited Liability Company with at least 40% of its shares traded on the Indonesian Stock Exchange and fulfills certain criteria to be determined by the Head of the Indonesian National Board for Disaster Management (BNPB)

## Tax incentives to businesses operating in certain sectors impacted by the Coronavirus (PMK-23)

Type of Tax	Tax Incentive	Tax Periods covered	Applicable for taxpayer who either		Notification/ Application via DJP Online website	Realization Reports *)
			Has a KLU <sup>3</sup> listed in PMK-23	Has been granted a KITE <sup>4</sup>		
Article 21	Borne by Government	April through September 2020	Appendix A	✓	Yes	Yes
Article 22	Exemption	Up to 30 September 2020	Appendix F	✓	Yes	Yes
Article 25	30% reduction	Up to 30 September 2020	Appendix F	✓	Yes	Yes
VAT	Preliminary VAT refund	April through September 2020	Appendix F	✓	No	No

\*) Taxpayer must submit realization reports regarding its fiscal incentives:

1. Fiscal periods April through June 2020 due by the 20<sup>th</sup> of July 2020
2. Fiscal periods July through September 2020 due by the 20<sup>th</sup> of October 2020

### 1. Article 21 Employee Income Tax

The Government will bear the Article 21 Employee Income Tax payable for the months of April through September 2020 for each employee who:

- Receives income from a qualified employer (see above table);
- Has a Tax ID number (NPWP); and
- Receives an annualized regular gross income not exceeding IDR 200 million.

Qualified taxpayers must inform the tax office that they are utilizing this incentive via DJP Online website.

The Article 21 Employee Income Tax Incentive must be paid to the employees, regardless whether the income tax is borne by the individual or by the employer. The incentive received by employees will not be considered as taxable income.

### 2. Article 22 Income Tax on Imports

Article 22 Income Tax on Imports may be exempted until 30 September 2020 for qualified taxpayers (see above table).

Qualified taxpayers must apply for this incentive via DJP Online website. If approved, the DJP Online system will issue a Tax Exemption Letter (*Surat Keterangan Bebas/SKB*) that is valid starting from the issuance date up to 30 September 2020.

### 3. Article 25 Income Tax

A 30% reduction of the Article 25 Monthly Tax Installments through September 2020 for qualified taxpayers (see above table) is provided. Qualified taxpayers must inform the tax office that they are utilizing this incentive via DJP Online website.

### 4. Value Added Tax (VAT)

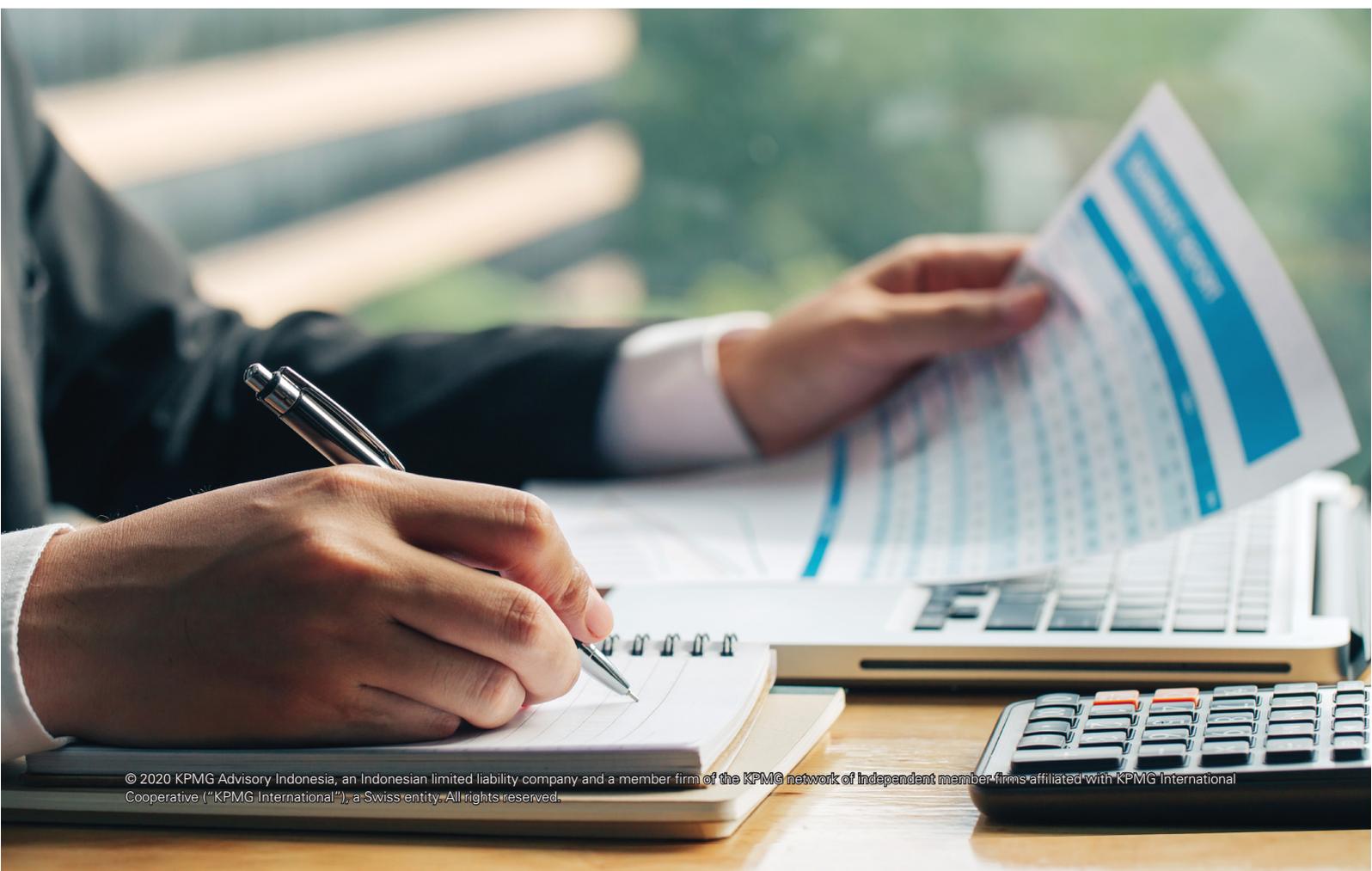
The government will automatically consider qualified taxpayers (see above table) as low-risk and provide a preliminary VAT refund facility for the fiscal periods April through September 2020 if its VAT returns (including amendments) are submitted before 1 November 2020 with overpayment status, with a maximum amount of IDR 5 billion (per month).

<sup>3</sup>Business Classification Number (*Klasifikasi Lapangan Usaha*)

<sup>4</sup>Import Facility for Export Purposes (*Kemudahan Impor Tujuan Ekspor*)

## KPMG Notes:

- PERPPU-1 and PMK-23 will provide cash flow relief for many taxpayers. However additional actions may be required as the new social-distancing measures will have a significant impact on many small businesses' ability to continue operating.
- The adjustments to the Corporate Income Tax rate and taxation of e-commerce transactions are the same as those in the draft Omnibus Law that is supposed to be issued this year. An important difference is that in PERPPU-1 an Electronic Transaction Tax is introduced. Currently there is no further information regarding this new type of tax, and therefore we will have to wait for a specific regulation to be issued. In this respect Indonesia is following some other countries with Digital Service Taxes/Electronic Transaction Taxes and is not waiting for the OECD discussions on Digital Taxation to be finalized.
- Although the corporate tax return due date of 30 April 2020 falls within the force majeure period, no extension of the filing deadline is provided.
- Some taxpayers whose line of business should qualify for the incentives may not have the correct KLU stated in their 2018 Corporate Income Tax Return. According to the FAQ issued by the Directorate General of Tax ("DGT"), if the tax return has not yet been audited, a taxpayer should submit an amended 2018 tax return with the correct KLU before applying for the Tax Incentive. If the tax return has been/is being audited, the taxpayer can submit a request to update its KLU.
- Care must be taken in calculating the Article 25 tax installments to be paid this year (fiscal year 2020). Aside from applying the reduced tax rate for 2020, if the company qualifies for the six-month tax incentive, an additional 30% reduction should be applied.
- It is interesting to note that PMK-23 includes templates for a signed hardcopy application and indicates the number of working days for the Tax Office to approve/reject. Nonetheless, in practice DGT has automated the process through DJP Online website, whereby a taxpayer can simply choose the incentive to apply and obtain instant approval from the system.



# Contact us

## **KPMG Advisory Indonesia**

### **Tax Services**

33<sup>rd</sup> Floor, Wisma GKBI  
28, Jl. Jend. Sudirman  
Jakarta 10210, Indonesia

**T:** +62 (0) 21 570 4888

**F:** +62 (0) 21 570 5888

## **Abraham Pierre**

### **Partner In Charge, Tax Services**

Abraham.Pierre@kpmg.co.id

## **Aaron Brunier**

Aaron.Brunier@kpmg.co.id

## **Andy Tanu Utomo**

Andy.Utomo@kpmg.co.id

## **Anita Priyanti**

Anita.Priyanti@kpmg.co.id

## **Adeline Harriman**

Adeline.Harriman@kpmg.co.id

## **Bambang Budiman**

Bambang.Budiman@kpmg.co.id

## **Diana Ria Hutagaol**

Diana.Hutagaol@kpmg.co.id

## **Eko Prajanto**

Eko.Prajanto@kpmg.co.id

## **Esther Kwok**

Esther.Kwok@kpmg.co.id

## **Hamdanus Lukman**

Hamdanus.Lukman@kpmg.co.id

## **Irwan Setiawan**

Irwan.Setiawan@kpmg.co.id

## **Iwan Hoo**

Iwan.Hoo@kpmg.co.id

## **Jacob Zwaan**

Jacob.Zwaan@kpmg.co.id

## **Julya Permata Tjen**

Tjen.Permata@kpmg.co.id

## **Natalia Yamin**

Natalia.Yamin@kpmg.co.id

## **Sontang Ruli Siregar**

Sontang.Siregar@kpmg.co.id

## **Sutedjo**

Sutedjo@kpmg.co.id

## **Tonggo Aritonang**

Tonggo.Aritonang@kpmg.co.id

## **Yoshiyuki Misao**

Yoshiyuki.Misao@kpmg.co.id

**home.kpmg/id**

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