

Tel.: +62 21 5890 1568 Fax: +62 21 5890 1569

www.fidespro.com Financial & Tax Advisory Services

Tax Update

Jakarta, 20 May 2020

New Tax Provisions under Law No. 2 Year 2020

Law No. 2 Year 2020, dated 18 May 2020

(previously Government Regulation in Lieu of Law No. 1 Year 2020, dated 31 March 2020) regarding State Financial Policy and Stability of Financial Systems for the Handling of Corona Virus Disease 2019 (Covid-19)

On 12 May 2020, the House of Representatives has officially approved the Government Regulation in Lieu of Law No. 1 Year 2020 as Law (Law No. 2 Year 2020). The Law covers, among others, several Tax and Customs provisions i.e.:

1. Reduction of Corporate Income Tax Rate

Reduction of Income Tax Rate for domestic companies and permanent establishments.

Fiscal Year	Non-Listed Companies	Listed Companies 1)
2020 and 2021	22% (previously 25%)	19% (previously 20%)
2022 onwards	20%	17%

¹⁾ Company's shares must be traded in the Indonesian Stock Exchange and meet certain criteria.

2. Imposition of Taxes on Electronic Trading Activities (e-Commerce Transactions)

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

a. Value Added Tax on the utilization/import of intangible goods and services obtained from overseas via e-commerce transactions.

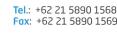
Implications: Imported digital products and services, such as Netflix, Spotify, will be subject to Value Added Tax

- b. **Income Tax** or **Electronic Transaction Tax** imposed on transactions via e-commerce conducted by foreign entities (overseas sellers and e-commerce platform) which have significant economic presence in Indonesia. The <u>significant economic presence</u> shall be determined by the following criteria:
 - i. group consolidated gross revenues;
 - ii. sales in Indonesia; and/or
 - iii. active digital media users in Indonesia.

Foreign entities that meets the above significant economic presence conditions shall be treated as having a Permanent Establishment in Indonesia and hence subject to Indonesian Income Tax.

If a Permanent Establishment can not be enforced due to exemptions under the relevant Tax Treaty, an <u>Electronic Transaction Tax</u> shall be imposed.





www.fidespro.com Financial & Tax Advisory Services



Electronic Transaction Tax is a tax on selling of goods and/or services by foreign entities to Indonesian buyers via e-commerce platform.

(Note: "Electronic Transaction Tax" is a new type of tax which is not regulated under current Tax Laws)

The foreign entities <u>may appoint an Indonesian representative</u> for the payments and reporting of the Value Added Tax (point a) and Electronic Transaction Tax (point b).

Penalties:

Noncompliance of obligations stated in point a and b above shall be subject to:

- i. administrative sanctions, such as late payment penalties; and
- ii. termination of access to the Indonesian market.

3. Extension of the Deadlines for Certain Tax Administrative Procedures

a. Tax Objection Letter

Extension of deadline for up to 6 months, from previously 3 months to 9 months.

b. Refund of Tax Overpayment

Extension of deadline for up to 1 month, from previously 1 month to 2 months.

c. Tax Assessment Letter or Decision Letter:

- c.1. Assessment Letter for Tax Refund;
- c.2. Decision Letter for Tax Objection;
- c.3. Decision Letter for reduction or annulment of administrative sanctions, reduction or cancellation of incorrect tax assessment letter, and cancellation of tax audit findings.

Extension of deadline for up to 6 months, from previously 12 months to 18 months.

4. Import Duty Exemptions or Reductions

The Minister of Finance is authorized to grant goods eligible for import duty exemptions or reductions.

Email: contact@fidespro.com

Fides Pro Consulting

