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TaxFlash

Clarification for claiming Input Value Added Tax on integrated business activities

On 4 February 2014, the Minister of Finance (MoF) issued Regulation No.21/PMK.011/2014 (PMK-21) as an amendment to MoF Regulation No.78/PMK.03/2010 (PMK-78) regarding guidance on calculating Input Value Added Tax (VAT) claims for VATable entrepreneurs (*Pengusaha Kena Pajak/PKP*) delivering VATable and non-VATable goods and/or services.

PMK-21 states that PKPs operating an integrated business are allowed to claim their Input VAT, provided that related non-VATable goods initially produced will be further processed and sold as VATable goods either by their own processing units or by subcontracting the process to other PKPs.

We see this as a positive development that provides certainty for integrated businesses in claiming Input VAT, especially for companies in the plantation industry which produce non-VATable goods (e.g. fresh fruit bunches/FFBs) to be further processed as VATable goods (e.g. Crude Palm Oil/CPO).

PMK-21 provides a clear example whereby:

- A company produces FFBs and processes these to become CPO, Palm Kernel Oil (PKO) and other VATable palm oil products.
- The company only sells CPO, PKO and other VATable palm oil products.
- The company has Input VAT paid for items used in the plantation area that produce FFBs (which are VAT exempt goods).
- The company also has Input VAT paid for items used in processing the FFBs to become CPO, PKO and other VATable palm oil products.
- It is confirmed that all Input VAT, including for items used in the plantation area, is creditable.

This treatment is applicable for Input VAT paid since 1 January 2014 on the use of VATable goods and/or services, the use of intangible VATable goods from outside the Customs Area, the use of VATable services from outside the Customs Area, and/or the import of VATable goods.

PMK-21 also stipulates that Input VAT claims should be calculated proportionally to the delivery of VATable goods and/or services if the Input VAT cannot be clearly identified as relating to the delivery of VATable and non-VATable goods and/or services. This principle and formula to calculate proportional Input VAT claims remain the same as in PMK-78.

If you have any questions or would like to have further discussions on the application of PMK-21, please contact your usual PwC consultants.

New non-taxable value of land and buildings for certain industries

Land and Building Tax (*Pajak Bumi dan Bangunan/PBB*) on most objects and locations is a part of regional taxes that are governed under Regional Taxes and Retribution (*Pajak Daerah dan Retribusi Daerah/PDRD*) Law No.28/2009, in which regional government has to issue a regulation (*Peraturan Daerah/PERDA*) to regulate PBB in its territory. PBB on specific objects, such as forestry, plantation, mining, oil and gas areas is still under the authority of central government and is governed by separate regulations in accordance with PBB Law No.12/1994.

Under PBB Law, the PBB rate is specified at 0.5% of the taxable sale value of the land and/or building (*Nilai Jual Kena Pajak/NJKP*). NJKP is a predetermined proportion of the sale value of the tax object (*Nilai Jual Objek Pajak/NJOP*). NJKP is stipulated to be either 20% (for NJOP up to Rp 1 billion) or 40% (for NJOP above Rp 1 billion). As a result, the effective PBB at present is either 0.1% or 0.2% of the NJOP.

Each taxpayer is entitled to a non-taxable NJOP, which was set at Rp 24 million under MoF Regulation No.67/PMK.03/2011 (PMK-67). On 4 February 2014, the MoF issued Regulation No.23/PMK.03/2014 (PMK-23) to revoke PMK-67 and change the non-taxable NJOP to Rp 12 million.

PMK-23 has been effective since 1 January 2014. Calculation of PBB due for 2013 and prior years should still be done referring to the old non-taxable NJOP based on PMK-67.

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