

TaxFlash



Clarification on the application of 1% Final Tax on turnover

Since 1 July 2013, certain income received by individuals and corporations (except permanent establishments) with gross turnover of not more than Rp 4.8 billion in one tax year is subject to final tax at 1% of turnover, under Government Regulation No. 46/2013 (GR-46). On 17 September 2014, the DGT issued a clarification on the application of this 1% final tax by issuing Circular Letter No.SE-32/PJ/2014 (SE-32) that confirms the following.

Newly established corporate taxpayers

Corporate taxpayers that have not yet started commercial production are not subject to this final tax. SE-32 defines the start of commercial production as the first delivery of goods/services or the first revenue gained by the taxpayer.

SE-32 confirms that corporate income tax is due for:

- the first year of entering production, if the start of commercial production is on 1 January; or
- up to the end of the next fiscal year, if commercial production begins mid-year.

Income tax should be calculated using the normal tax rate (i.e. Article 17 Income Tax at the rate of 25%).

The application of the 1% final tax on the subsequent fiscal years following the fiscal years given in point (b) above will be determined based on the prior tax year's turnover.

Taxpayers excluded from the application of the 1% Final Tax

SE-32 confirms that the following are not under the scope of the 1% final tax.

- a) *Reinvested surplus of Corporate or non-profit institutions in education and/or research and development (R&D) sectors*
Surplus earned by the above taxpayer is not taxable as long as it is reinvested in the form of education and R&D facilities within four years of earning the income. If it is not reinvested, the surplus is taxable under the normal corporate tax rate.
- b) *Land deed officials (Pejabat Pembuat Akta Tanah/PPAT)*
As PPAT has the same authority with notaries, the same tax treatment applies, i.e. their income is subject to normal income tax rate.

Taxpayers in financial industry

Although the initial target for GR-46 is small taxpayers, SE-32 confirms that financial institutions in the form of mutual funds, banks/rural banks/cooperatives/financing companies are also subject to 1% final tax if they fulfil the criteria stipulated in GR-46.

Tax treatment on certain individual entrepreneurs (Orang Pribadi Pengusaha Tertentu/OPPT)

OPPT are those individual taxpayers that carry out retail business and/or service deliveries in one or more places of business. They are generally subject to the normal income tax rate and pay 0.75% on its monthly gross turnover as their monthly income tax instalment.

SE-32 confirms that OPPT are subject to the 1% final tax if they meet the criteria under GR-46. However, if their annual gross turnover exceeds Rp 4.8 billion, they will be subject to general tax treatment in the previous paragraph.

New rules in applying actual useful life of an asset

Assets whose specifications are not listed in the MoF Regulation No.96/PMK.03/2009 (PMK-96) are deemed to be classified under Category 3 (useful life of 16 years). However, if the taxpayers believe an asset should not be under Category 3, they can apply to use another category. On 25 July 2014, the DGT issued Regulation No.PER-20/PJ/2014 (PER-20) as the latest procedures to apply for this.

PER-20 is applicable starting the tax year 2014 and aims to give more legal certainty about the application procedures; the Regulation covers the following points:

- The submission deadline, i.e. at the latest one month after the end of the tax year of asset acquisition
- The DGT deadline to send a data completion request letter to the taxpayer, i.e. 10 working days after the receipt of the application
- Assets that were acquired prior to the effective date of PER-20 and still have net book value can apply for PER-20 as long as no DGT's approval under previous procedures.
- Assets' useful lives that are approved under previous procedures can be continued to be used
- The DGT's approval now applies for a whole tax year (previously uncertain).
- An example of a depreciation calculation for the tax year 2014 is provided in this regulation.

Obligation to report tax-related information: more government institutions and associations engaged

The MoF again expanded the list of government institutions and associations that are obliged to report tax-related information to the DGT through the issue of MoF Regulation No.191/PMK.03/2014 (PMK-191) on 2 October 2014.

PMK-191 adds 22 government institutions and associations under the scope of this reporting obligation, bringing the total to 61. The additional institutions are mostly ministries. For example, the Ministry of Public Works is now required to submit detailed information regarding the winner of a project tender, such as the company's business license and its validity period, project value, location and the working period.

PMK-191 also updates the list of data required from several bodies which have been appointed under the previous MoF regulations (e.g. more detailed information is required in reporting investment licenses data issued by the Capital Investment Board, as well as export-import companies registered under the Ministry of Trade).

Please refer to our Tax Flashes No.03/2013, No.08/2013 and No.13/2013 for discussion on this reporting obligation. A complete list of the information required from the appointed bodies is available upon request, from your usual PwC Indonesia contact.

Indonesia – Isle of Man tax agreement comes into force

The sending of Diplomatic Notes from Indonesia on 22 September 2014 has completed the exchange of ratification documents and marked the entry into force of Indonesia's Tax Information Exchange Agreements (TIEA) with the Isle of Man. The provisions in the TIES generally applies from that date. The DGT will issue a Circular Letter to announce the effective date and entry into force of this TIEA.

Your PwC Indonesia contacts

Abdullah Azis
abdullah.azis@id.pwc.com

Adi Poernomo
adi.poernomo@id.pwc.com

Adi Pratikto
adi.pratikto@id.pwc.com

Ali Widodo
ali.widodo@id.pwc.com

Alexander Lukito
alexander.lukito@id.pwc.com

Andrias Hendrik
andrias.hendrik@id.pwc.com

Anthony J. Anderson
anthony.j.anderson@id.pwc.com

Anton Manik
anton.a.manik@id.pwc.com

Antonius Sanyojaya
antonius.sanyojaya@id.pwc.com

Ay Tjhing Phan
ay.tjhing.phan@id.pwc.com

Brian Arnold
brian.arnold@id.pwc.com

Enna Budiman
enna.budiman@id.pwc.com

Engeline Siagian
engeline.siagian@id.pwc.com

Gadis Nurhidayah
gadis.nurhidayah@id.pwc.com

Hendra Lie
hendra.lie@id.pwc.com

Ivan Budiarnawan
ivan.budiarnawan@id.pwc.com

Laksmi Djuwita
laksmi.djuwita@id.pwc.com

Mardianto
mardianto.mardianto@id.pwc.com

Margie Margaret
margie.margaret@id.pwc.com

Michelle Mianova
michelle.mianova@id.pwc.com

Nigel Hobler
nigel.hobler@id.pwc.com

Parluhutan Simbolon
parluhutan.simbolon@id.pwc.com

Runi Tusita
runi.tusita@id.pwc.com

Ryuji Sugawara
ryuji.sugawara@id.pwc.com

Sutrisno Ali
sutrisno.ali@id.pwc.com

Suyanti Halim
suyanti.halim@id.pwc.com

Tim Watson
tim.robert.watson@id.pwc.com

Tjen She Siung
tjen.she.siung@id.pwc.com

Yessy Anggraini
yessy.anggraini@id.pwc.com

Yuliana Kurniadjaja
yuliana.kurniadjaja@id.pwc.com

Yunita Wahadaniah
yunita.wahadaniah@id.pwc.com

www.pwc.com/id

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