TaxFlash

What's new from the latest Luxury-goods Sales Tax and Article 22 Income Tax regulations?

On 9 June 2015, the Minister of Finance (MoF) issued two new regulations, which are as follows:

1. Regulation No.106/PMK.010/2015 (PMK-106) regarding the type of taxable goods other than motor vehicles that are subject to Luxury-goods Sales Tax (LST), will become effective on 9 July 2015;
2. Regulation No.107/PMK.010/2015 (PMK-107) regarding Article 22 Income Tax (*PPh 22*) Collection, will become effective on 8 August 2015.

We will discuss the key changes as well as the interaction between these two regulations below.

Certain consumer goods are no longer considered as luxurious - from LST to PPh 22

LST has been applicable on the imports or local productions of luxury goods. To maintain economic growth and boost purchasing power, PMK-106 removed a long list of consumer goods from LST objects as they are no longer considered luxurious goods. Goods under this category include: household appliances, furniture, electronic devices, bags, shoes and jewelleries. With no more LST in the cost components, it is expected that the sale price of these consumer goods can be lowered and thus the goal of boosting purchasing power can be achieved.

The above list of consumer goods is now put under PMK-107 as part of the list of certain consumer goods whose importation is subject to PPh 22 at 10%. This PPh 22 is not applicable if these goods are produced locally. Previously, the importation of these goods was subject to PPh 22 rate on general imports at 2.5% (when using an Importer Identification Number /*Angka Pengenal Impor*/API) or 7.5% (when not using an API). This PPh 22 is taxed on the import value and becomes tax credit for the importers when calculating their annual income tax due.

New taxable events of PPh 22

PMK 107 also adds transactions that are subject to PPh 22 objects, which are as follows.

No	Taxable event	Tax rate (%)	Tax base
1	The export of coal, metal and non-metal minerals by exporters other than those engaged in a Mining Cooperation Agreement or a Contract of Work with the Government	1.5	Export value
2	The purchase of coal, metal and non-metal minerals from companies or individuals holding a mining license (*Izin Usaha Pertambangan/ IUP*)	1.5	Selling price
3	The sale of gold bars from manufacturers	0.45	Selling price

Please contact your usual PwC Indonesia contact for the complete list of PPh 22 objects.

PPh 22 Collector

State Owned Enterprises (*Badan Usaha Milik Negara/BUMN*) are appointed as PPh 22 Collectors on their business purchases and are generally charged at 1.5% of the sale price. Particularly for BUMN in forestry, plantation, agriculture, cattle breeding and fishery businesses, the PPh 22 rate is 0.25% of the sale price.

In line with Value Added Tax Collectors regulation, PMK-107 extends the category of BUMN as PPh 22 Collector to also include the entities owned directly by BUMN as well as those BUMN that will enter into restructuring process.

Exemption on certain purchases by PPh 22 Collectors

In addition to the State Treasury/Proxy of Budget User and BUMN, the following payments made by:

a) the buyer of coal, metal and non-metal minerals from IUP holders; and
b) companies in forestry, plantation, agriculture, cattle breeding and fishery industry

are exempted from PPh 22 collection on the purchase/use of the following goods:

1. oil fuel, gas fuel, lubricants, postal products;
2. water and electricity;
3. oil, gas (including upstream by products) from a Contractor of a Production Sharing Contract or Contractor's head office; and
4. geothermal and electricity from a Contractor of a Join Operation Contract.

Companies in forestry, plantation, agriculture, cattle breeding and fishery industry are also provided with an exemption on their business purchase of up to Rp 20 million.

Net Income Calculation Norms - an Update

The Director General of Tax (DGT) has released Regulation No. PER-17/PJ/2015 (PER-17) dated 10 April 2015 regarding Net Income Calculation Norms (Estimated Net Income/ENI).

PER-17 adjusts the gross turnover threshold for taxpayers who can use ENI from Rp 600 million to Rp 4.8 billion, to be in line with the provisions of the current income tax law.

The number of business classifications (*Klasifikasi Lapangan Usaha/KLU*) is expanded from 183 to 1.434 due to a more detailed breakdown of the business types. The ENI rate is still determined based on location. While the highest ENI rate is still 55%, the lowest ENI rate has been increased from 3% to 8.5%.

PER-17 also adds ENI rates to be used ex-officio under a tax audit in the case a taxpayer does not (or fully) maintain bookkeeping or recording or is not willing to show that document along with supporting data.

There are two lists of ENI rates, one for corporate taxpayers (with ENI rates ranging from 12% - 71%) and one for individual taxpayers (with ENI rates ranging from 10% - 69%)

We noted that the scope of PER-17 overlaps with Government Regulation No.46 Year 2013, as both of these regulations cover individual taxpayers with a gross turnover below Rp 4.8 billion. However, this regulation will only be effective starting in the fiscal year 2016 for which tax returns will be reported in 2017. Therefore, we expect to see an alignment on the overlapping of the above regulations before PER-17 is effective.

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