

TaxFlash



Tax facility to develop national transportation industry

In early September 2015, the Government announced its Economic Policy Package Phase I, which is expected to boost the current economic conditions by way of deregulating or simplifying existing regulations, strengthening law enforcement and assuring certainty in the business environment. This policy package consists of 134 regulations from 17 ministries or government agencies that will be issued separately from September 2015 up to year end.

On 17 September 2015, the Government issued one of the regulations listed in the policy package, i.e. Regulation No.69 Year 2015 (GR-69): *Value Added Tax (VAT) is Not Collected on the Imports and Deliveries of Certain Means of Transport and on the Deliveries of Taxable Services Related to Certain Means of Transport.*

GR-69 essentially changes the VAT treatment of imports and deliveries of certain means of transport and services related to it from **VAT-exempted** to **VAT not-collected** so that importers or producers in these areas can now credit their input VAT. This will reduce production costs and is expected to strengthen the national transportation industry.

GR-69 will be effective from 17 October 2015 and the importers or producers can start to credit input VAT incurred from that date. This facility is temporary and will be evaluated within three years. Once the industry has developed, this facility may no longer be available. Below is the list of taxable goods or services covered under GR-69.

1. Imports and deliveries of certain means of transport:

- a) Underwater transport, air transport, trains, as well as the spare parts thereof, used by the Ministry of Defence, the Indonesian Armed Forces (*TNI*), the Indonesian Police (*POLRI*)
- b) Ocean vessels, river vessels, lake vessels, ferries, pilot boats, tugboats, fishing vessels, barges and spare parts thereof, as well as navigational or personal safety equipment used by national commercial shipping companies, national fishing companies, national seaport operators or national river, lake and ferry operators in accordance with their business activities
- c) Aircraft and spare parts thereof, as well as aviation and personal safety equipment, and repair and maintenance equipment used by national commercial airlines
- d) Trains and spare parts thereof, as well as equipment for repair, maintenance and infrastructure used by national train enterprises (*Badan Usaha Penyelenggara Sarana atau Prasarana Perkeretaapian Umum*)

2. Deliveries of taxable services related to certain means of transport:

- a) Services received by national commercial shipping companies, national fishing companies, national seaport operators or national river, lake crossing and ferry operators, covering:
 - vessel leasing services
 - port services, including tugboat, piloting, berthing and anchoring services
 - vessel maintenance or docking services
- b) Services received by national commercial airlines, covering:
 - aircraft leasing services
 - aircraft maintenance or repair services
- c) Train maintenance or repair services received by national train enterprises

In addition, to these changes on where the input VAT can be credited, taxpayers now need to administer the crediting of input and output VAT.

VAT credit granted using this facility will be due and must be paid if the above means of transport are misused or transferred to other parties within four years of their purchase. Detailed provisions on this facility and the procedure of VAT repayment will be provided in a Minister of Finance (MoF) regulation.

VAT on tobacco products – an update

The MoF has issued Regulation No.174/PMK.03/2015 (PMK-174) on 21 September 2015 that stipulates VAT calculation and collection procedures for tobacco products. PMK-174 will be effective from 1 January 2016 and revokes the old MoF Decree No.62/KMK.03/2002 (KMK-62) which regulated the same matter.

Key changes stipulated in PMK-174 are as follows:

- VAT will be imposed on imported tobacco products although granted with excise facility in the form of excise is not collected or exempted.
- The VAT rate on tobacco products is now 8.7% (previously 8.4%). The VAT imposition base and timing for VAT compliance are differentiated between two types of deliveries which only take place at the manufacturer or importer level:

	Normal deliveries	Delivered as free gifts
Imposition base	Retail selling prices	<ul style="list-style-type: none"> ○ Retail selling prices minus gross profit ○ No longer distinguishes between delivery to employees or to third parties
Taxable event and when to issue VAT invoice	When ordering for Excise Bands	At deliveries

Retail selling prices is the price determined as the excise imposition base on tobacco products, which is currently regulated in the MoF Regulation No.205/PMK.011/2014.

- VAT obligations on orders of Excise Bands made prior to 1 January 2016 still follow the provisions in KMK-62.

Detailed provisions on the implementation of PMK-174 will be regulated further in a Director General of Tax Regulation.

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

Alexander Lukito

alexander.lukito@id.pwc.com

Ali Widodo

ali.widodo@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

Engeline Siagian

engeline.siagian@id.pwc.com

Enna Budiman

enna.budiman@id.pwc.com

Felix MacDonogh

felix.macdonogh@id.pwc.com

Gadis Nurhidayah

gadis.nurhidayah@id.pwc.com

Gerardus Mahendra

gerardus.mahendra@id.pwc.com

Hanna Nggelan

hanna.nggelan@id.pwc.com

Hendra Lie

hendra.lie@id.pwc.com

Ivan Budiarnawan

ivan.budiarnawan@id.pwc.com

Laksmi Djuwita

laksmi.djuwita@id.pwc.com

Lukman Budiman

lukman.budiman@id.pwc.com

Mardianto

mardianto.mardianto@id.pwc.com

Margie Margaret

margie.margaret@id.pwc.com

Parluhutan Simbolon

parluhutan.simbolon@id.pwc.com

Peter Hohtoulas

peter.hohtoulas@id.pwc.com

Runi Tusita

runi.tusita@id.pwc.com

Ryuji Sugawara

ryuji.sugawara@id.pwc.com

Soeryo Adjie

soeryo.adjie@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



PwC Indonesia

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