

TaxFlash



New era of final tax for small and medium enterprises

The Government has shown its strong support for the development of small and medium enterprises (SMEs). After improving the tax facility for venture capital companies who invest in SMEs, the Government has now issued Government Regulation (GR) No.23/2018 (GR-23) which stipulates a new “final tax” rate for SMEs.

GR-23 will enter into force on 1 July 2018 and revokes GR No.46/2013 regarding final tax on taxpayers within a certain turnover.

The final tax regime, introduced in GR-46, is applicable for taxpayers with annual gross turnover of not more than IDR 4.8 billion (approximately USD 340 thousand), excluding the following income:

- a. fees from the delivery of certain freelance services by individuals;
- b. overseas income which has been taxed in the source country;
- c. income also subject to final tax; and
- d. non-taxable income.

The threshold of IDR 4.8 billion per annum is based on the previous years’ activity, including gross turnover sourced from branches. If during a fiscal year the gross turnover exceeds IDR 4.8 billion, the taxpayer remains subject to final tax for the current year but must adopt the “normal tax” rate (Article 17 or Article 31E Income Tax) for the following year.

While the provisions on gross turnover generally remain unchanged, GR-23 now reduces the final tax rate to 0.5% from the previous 1%.

GR-23 also sets new limitation periods during which taxpayers can benefit from the final tax regime, before escalation to the normal tax regime. These periods are as follows:

- a. seven years for individuals;
- b. four years for cooperatives, limited partnerships, or firms; and
- c. three years for limited liability companies.

This period commences from the 2018 tax year for taxpayers registered prior to 1 July 2018 or the tax year when the taxpayer is registered for those registered after 1 July 2018. It is expected that taxpayers will by then be familiar with tax compliance and have enough time to prepare proper bookkeeping.

GR-23 now also excludes the following taxpayers from the application of the 0.5% final tax:

- a. Taxpayers who choose to apply the normal tax regime (Article 17 or Article 31E Income Tax). Taxpayers under this criteria should submit a notification to the Director General of Tax (DGT);
- b. Limited partnerships or firms set up by individuals who have special expertise in delivering services similar to the above freelance services;
- c. Companies that obtain an Income Tax Allowance or Tax Holiday; and
- d. Taxpayers in the form of a permanent establishment.

The final tax should be self-assessed or withheld by the transaction counterpart. For withholding purposes, final-taxed taxpayers should apply to the DGT for a Statement Letter, allowing it to abide by GR-23 and hence subject to 0.5% on its gross income.

Transitional provisions

Transitional provisions apply for taxpayers that, between 1 January and 30 June 2018, satisfy the conditions under GR-46 but are not eligible under GR-23. The applicable tax rate on the income received or obtained by these taxpayers is as follows:

- a. 1% final tax on monthly gross turnover during 1 January to 30 June 2018;
- b. 0.5% final tax on monthly gross turnover during 1 July to 31 December 2018; and
- c. normal tax rates on income received or obtained from 2019 onwards.

Provisions concerning the following matters will be further regulated in a Minister of Finance regulation:

- a. a taxpayers' notification to the DGT on choosing to apply the normal income tax regime;
- b. a taxpayers' application to the DGT for a Statement Letter that it can abide by GR-23; and
- c. final tax remittance via self-assessment or withholding.

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