



Tax treatment of incentives received by buyers ^{P1}

Indonesia–Belarus tax treaty comes into force ^{P2}

Tax treatment of incentives received by buyers

The Directorate General of Tax (DGT) issued DGT Circular No.SE-24/PJ/2018 (SE-24) dated and effective from 29 November 2018 regarding the tax treatment of incentives received by buyers under certain conditions. SE-24 is intended to provide clarity on the tax treatment relating to queries associated with these buyer incentive schemes.

Scope

SE-24 defines the seller as a party who sells products to a customer, including manufacturers, distributors, and agents, while the buyer is defined as a party who buys products from the seller for resale purposes, including distributors, agents, and retailers.

The incentive can be in the form of cash (including bonuses), goods, or a reduction of a liability. An incentive in the form of reduction of liability should not be regarded as a discount and therefore, should not be declared as a discount which reduces the sales price to determine the tax imposition base in the commercial and Value Added Tax (VAT) invoice.

The incentives covered under the regulation are:

1. Incentive received for achieving certain conditions

Certain conditions here can be in the form of achievement of certain purchase amounts, resale amounts, and/or payment within a certain timeline.

This incentive is considered as:

- awards – generally; or
- management fee – if there is a contract citing service activity and there is service fee recognition or a service fee invoice.

2. Incentive received for provision of space and/or certain equipment

This category covers the provision of space and/or certain equipment by the buyer for the benefit of the seller. For example, the provision of floors, shelves, or storefronts to display the seller's products in order to boost the marketing of the products.

This incentive is considered as:

- Land and Building (L&B) rental income – if in the form of space; or
- asset rental – if in the form of equipment.

3. Compensation received in relation to sales transactions

This incentive covers the compensation given to the buyers for:

- bearing the risk of price fluctuations – in the form of a price risk compensation;
- delays in delivery – in the form of a penalty; or
- certain sales programmes based on the seller's instruction – in the form of reimbursement by the seller for expenses borne by the buyer.

Tax treatment

	Seller		Buyer	
	Withholding tax ¹	VAT ²	Income tax object	VAT on incentive received
Incentive received for achieving certain conditions				
Awards	√	√	√	
Management fee	√	√	√	√
Incentive received for provision of space and/or certain equipment				
L&B rental	√	√	√	√
Asset rental	√	√	√	√
Compensation received in relation to sales transactions				
Price protection			√	
Penalty		√	√	
Expense reimbursement		√	√	

Notes:

1. The type and rates of withholding tax are based on the nature of the income characterisation in the first column.
2. VAT is due if the incentive is provided in the form of goods, and the value is based on the agreement. VAT rules on export are applied if the buyer is offshore.
3. If the value is not known, then the tax imposition base is based on market price.
4. If the buyer is offshore, the use of the management fee, the L&B rental, and the asset rental that is performed outside of Indonesia are not subject to VAT.
5. This is applicable only for domestic taxpayers (including a Permanent Establishment/PE). A foreign taxpayer, with or without a PE in Indonesia, is not subject to Article 26 Income Tax.

Indonesia–Belarus tax treaty comes into force

The tax treaty between Indonesia and Belarus was signed on 19 March 2013 and was ratified by Presidential Regulation No.6/2018 on 21 February 2018. The sending of diplomatic notes from Indonesia to Belarus on 9 May 2018 marked the entry into force of this tax treaty. The tax treaty will affect income paid or credited on or after 1 January 2019.

The tax treaty stipulates that dividends, interest, and royalties are taxable at a maximum rate of 10%. Only the beneficial owners of such income are acknowledged as the parties that are entitled to the tax treaty benefits. Interest paid to the government, local authorities, or central bank of the other country shall be exempt from tax.

The Branch Profit Tax rate is 10%. This rate is not applicable for production sharing contracts or any other similar contracts in the oil, gas, mining, and other similar industries, nor it is applicable to state agencies and state-owned enterprises in these specific industries.

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