

Expansion of exported services that attract 0% Value Added Tax ^{P1}

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Indonesian law has, for a long time, provided that exported services may be zero-rated for Value Added Tax (VAT) purposes. However this zero-rating has been subject to Minister of Finance (MoF) stipulation. Until now the scope of the zero-rating had been quite limited, being largely restricted to toll manufacturing and certain construction activities. This limitation now looks likely to change.

On 29 March 2019, the MoF issued Regulation No.32/PMK.010/2019 (PMK-32) concerning the VAT due on Exported Services. PMK-32 is applicable from that date.

PMK-32 revokes MoF Regulation No.70/PMK.03/2010 (PMK-70) as amended by Regulation No.30/PMK.03/2011 (PMK-30). PMK-32's stated goal is supporting the export of services and increasing the competitiveness of domestic service providers.

Definition of an Export

PMK-32 defines an "export" as a service activity carried out within Indonesia's Customs Area which results in goods, facilities, conveniences, or rights being available for utilisation outside of the Customs Area. In this sense, the zero-rating now follows the more international concept of linking the VAT rate to the place of "consumption".

Apart from the zero-rated services, PMK-32 adopts a concept introduced in Director General of Tax Circular Letter No.SE-49/PJ/2011 (i.e. implementing regulation of PMK-70 *juncto* PMK-30) that service deliveries should not be subject to Indonesian VAT if the services are generated and utilised outside of the Customs Area.

Range of Services

PMK-32 expands the range of services subject to 0% VAT as follows:

1. Services connected to movable goods utilised outside of the Customs Area that comprise:
 - a. toll manufacturing services;
 - b. repair and maintenance services; and
 - c. freight forwarding services on export-oriented goods. – new
2. Services connected to immovable goods located outside of the Customs Area in the form of consultation services for construction.
3. Other services where the output is utilised outside of the Customs Area and utilisation is based on a request from an overseas recipient through either:
 - a. direct or indirect transmission (e.g. via postal services or electronic channels), or
 - b. the provision of access outside of the Customs Area.

These services are to comprise:

- a. information and technology services; – new
- b. inter-connections, satellites, and/or data connectivity services; – new
- c. research and development services; – new
- d. the rental of aircrafts and/or ships for international flights or shipping activities; – new
- e. “trading services” which assist in finding domestic sellers to procure goods for export purposes; – new and
- f. consultation in the form of:
 - management and business services, – new
 - legal services, – new
 - interior and architectural design services, – new
 - human resource services, – new
 - engineering services, – new
 - marketing services, – new
 - accounting services, – new
 - financial audit services, – new and
 - tax services. – new

Documentation Requirements

In order to attract the zero-rating the export activity should fulfil the following requirements. It should be:

1. based on a written agreement between a domestic service provider (i.e. VATable Entrepreneur or *Pengusaha Kena Pajak/PKP*) and an overseas counter-party that stipulates the type, details and value of the agreed services; and
2. supported by a proof of payment from the overseas counter-party to the PKP.

If these requirements are not satisfied then the services will be treated as being delivered within the Customs Area and therefore subject to regular VAT at the rate of 10%.

Compliance Requirements

The taxable event remains the same as with the previous regulations: it is incurred when the compensation is recognised as a receivable or income.

There is also no change in the compliance mechanism. This means that a PKP should still prepare a specific VAT Invoice, (i.e. Export Declaration of Services or *Pemberitahuan Ekspor Jasa Kena Pajak/ PEJKP*) along with a sales invoice. In the case of taxable goods resulting from toll manufacturing services the PKP should also prepare an Export Declaration of Goods based on the existing Customs regulations.

A PKP should report the export of services in the monthly VAT returns as normal. The Input VAT relating to the exported services, and also goods from toll manufacturing (where applicable), should be creditable to the PKP.

Conclusion

The issuance of PMK-32 should be viewed positively by Indonesian service providers particularly those with an international focus. PMK-32 should also help incentivise the stationing of consulting resources in Indonesia and assist investors looking to use Indonesia as a regional office.

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