

Guidelines to adjust Article 25 Instalment calculation due to reduction of Corporate Income Tax rates ^{P1}

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On 21 April 2020, the Directorate General of Taxation (DGT) issued Regulation No.PER-08/PJ/2020 (PER-08) to address the change in Article 25 instalment calculations resulting from the reduction of Corporate Income Tax (CIT) rate that was introduced under Government Regulation in Lieu of Law No.1 Year 2020 (Perppu-1).

According to Perppu-1:

- a) CIT rate is reduced to 22% for fiscal years 2020-2021 and to 20% starting fiscal year 2022.
- b) CIT rate is further reduced by an additional 3% for companies with at least 40% of their shares listed on the Indonesia Stock Exchange. Thus, the CIT rate for these companies will fall to 19% for fiscal years 2020-2021 and 17% thereafter. There will be certain other requirements to take advantage of this lower rate to be regulated under a future Government regulation.

PER-08 provides technical guidelines to calculate the Article 25 instalment during the transition periods in 2020 and 2022.

The general principle is that for fiscal year 2020, the Article 25 tax instalments should apply the new reduced rate starting only from the month of the filing deadline for the 2019 CIT Return (CITR). Thus, for taxpayers with calendar year, the new rate is used for Article 25 instalment calculations only from April 2020 onward.

We note that the examples only include taxpayers with calendar fiscal years, but based on how the regulation is worded as well as past presentations from the DGT, it appears the rules will also apply to non calendar year taxpayers based on the month of filing deadline. Thus, for example, a taxpayer with March 2020 fiscal year end will apply the new tax rate for Article 25 calculations only from July 2020 onwards. We will seek further clarity/confirmation from the DGT on this issue.

The regulation gives some specific examples to explain how to apply the new rates in cases where the tax return is filed early or late or extended, as well as when the prior year taxable income is adjusted through issuance of a Tax Assessment Letter (*Surat Ketetapan Pajak/SKP*).

The examples given under PER-08 cover both the general method and specific method for taxpayers who calculate their Article 25 instalment based on periodical Financial Statement (FS).

General Method Taxpayers

There are four scenarios provided in the examples attached to PER-08 for taxpayer using the calendar year (i.e. January to December) for fiscal year:

1. Taxpayers who submit their CITR prior to the original deadline

If a taxpayer submits the 2019 CITR in March 2020, the Article 25 instalment for March 2020 (payable in April 2020) is calculated based on the taxable income in the 2019 CITR but still using CIT rate of 25%, whilst the April – December 2020 instalments are calculated using CIT rate of 22%.

2. Taxpayers who submit their CITR after the deadline with no extension

If a taxpayer submits the 2019 CITR in June 2020, without previously filing an extension, the Article 25 instalment for January – May 2020 still follows the Article 25 instalment from the previous year. Once the 2019 CITR is submitted, the instalments for April – December 2020 must be recalculated based on the taxable income in the 2019 CITR and using CIT rate of 22%.

Taxpayer must settle any underpayment for April and May 2020 if the instalment amount based on the 2019 CITR is higher than the previous year instalments that were filed for those months.

3. Taxpayers who are approved to extend their CITR submission

If a taxpayer submits an extension request for their 2019 CITR filing in April 2020 and finally submits the final tax return on 30 June 2020, the Article 25 instalment for April – May 2020 is calculated based on the taxable income in the temporary FS attached to the extension request using CIT rate of 22%. Once the final 2019 CITR is submitted in June 2020, the Article 25 instalment for April – December 2020 must be recalculated based on the final taxable income using CIT rate of 22%.

Taxpayers must settle any underpayment for April and May 2020 where the instalment amount in the final 2019 CITR is higher than the instalment based on the extension request.

4. Taxpayers who received SKP in the prior Fiscal Year

If a taxpayer is issued an SKP for fiscal year 2019 in August 2020, that taxpayer must recalculate the Article 25 instalment for September – December 2020 using the taxable income based on the SKP using a CIT rate of 22%.

Taxpayers who calculate their Article 25 instalment based on periodical FS

Taxpayers who calculate their Article 25 instalment based on periodical FS are as follows:

- a) Banks – using monthly FS;
- b) Taxpayers who calculate their Article 25 instalment based on quarterly FS;
- c) State-Owned Enterprise (SOE) – using current year's Corporate Budget Work Plan (*Rencana Kerja Anggaran Perusahaan/RKAP*).

The instalment calculation for these taxpayers is the same as the guidelines under existing rule with the only difference being the applicable CIT rate using:

- 22% starting April 2020 period for all the above taxpayers with calendar fiscal year;
- 20% starting:
 - ✓ January 2022 period for banks;
 - ✓ The period after the 2022 RKAP is approved for SOEs;
 - ✓ April 2022 period for taxpayers who calculate their Article 25 instalment based on quarterly FS.

All of the above rates can be reduced (using the same principles) for a qualifying publicly traded company whereby the applicable CIT rate will become 19% for fiscal year 2020-2021 and 17% starting fiscal year 2022.

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