Expansion of tax incentives in response to COVID-19 – an update

On 16 July 2020, the Ministry of Finance (MoF) issued Regulation No.86/PMK.03/2020 (PMK-86).

PMK-86 expands on the tax incentives that were previously provided under MoF Regulation No.44/PMK.03/2020 (PMK-44) (please refer to TaxFlash No.18/2020 for discussion on this).

The original incentives remain the same, as follows:
1. For eligible taxpayers, Article 21 Employee Income Tax (EIT) for employees earning annual regular income not exceeding IDR 200 million will be borne by the Government.
2. Article 22 Income Tax on imports by eligible taxpayers will be exempted.
3. Article 25 monthly Income Tax instalment of eligible taxpayers will be reduced by 30%.
4. The 0.5% final tax regime under Government Regulation No.23 Year 2018 will be borne by the Government.
5. Preliminary Value Added Tax (VAT) refund will be available for eligible taxpayers requesting a refund for a maximum IDR 5 billion.

PMK-86 extended and expanded the tax incentives as follows:

1. Extension of the tax incentive period

   The incentive period, which was previously until September 2020, is now extended until December 2020.

2. Expanded list of eligible taxpayers

   The list of eligible taxpayers as provided in the attachment of PMK-86 for the following tax incentives have been added:
   a. Article 21 EIT – from 1,062 KLUs to 1,189 KLUs – see Attachment A; the addition includes: life insurance, law and accounting services, certain outsourcing services, etc.
   b. Article 22 Income Tax on imports – from 431 KLUs to 721 KLUs – see...
Attachment H; the addition includes: certain food and beverage industries, certain tobacco industries, certain textile industries, etc.

c. Article 25 Income Tax – from 846 KLUs to 1,013 KLUs – see Attachment M; the addition includes: life insurance, law and accounting services, certain food and beverage industries, certain textile industries, etc.

d. VAT – from 431 KLUs to 716 KLUs – see Attachment P; the addition includes: certain retail industry (non-automotive), certain sports industry, etc.

Taxpayers should check their eligibility based on the specific KLU listed in each Attachment to PMK-86. Please refer to the official version of PMK-86 for the complete list.

3. Submission deadline for the realization report

The eligible taxpayers for all types of tax incentives (other than VAT) must now prepare a monthly realization report to be submitted by the 20th of the following month. More detailed administrative procedure for the eligible taxpayers is stipulated in PMK-86.

Specifically for Article 21 EIT, PMK-86 provides further guidance for taxpayers who do not have an obligation to submit 2018 CITR. To determine their eligibility, they should refer to the KLU based on the taxpayer master file data in the tax administration records. In addition, if the eligible taxpayers have branches, the notification process for utilizing this incentive (both for central and branch) only needs to be carried out by the taxpayer with central Tax ID status.

PMK-86 also provides further guidance that the VAT preliminary refund is also applicable even if the tax overpayment resulted from a compensation from a previous tax period. Example of the refund mechanism is provided in the Attachment Q of this PMK.

Transitional provisions

- Taxpayers that have submitted notification or application on the utilization of these incentives (other than VAT) under MoF Regulation No. 23/PMK.03/2020 (PMK-23) or PMK-44 do not need to re-submit the same notification or application under PMK-86.
- Taxpayers that have been granted with tax incentives under PMK-23 or PMK-44 can continue to enjoy the tax incentives.
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