

Tax treatment of sales and distribution of prepaid phone credit, SIM card starter packs, electricity tokens and vouchers ^{P1}

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The Minister of Finance (MoF) recently issued Regulation No.PMK-6¹ to provide guidance on the Value Added Tax (VAT) and withholding tax treatment on the sales and distribution of prepaid phone credit (*pulsa*), SIM card starter packs (*kartu perdana*), electricity tokens and vouchers.

In principle, PMK-6 differentiates the tax treatment on these services and on the products themselves. We highlight below the tax treatment under this regulation.

A. Services

Sales and distribution services covered under PMK-6 are as follows:

- a. Transaction payment services in relation to token distribution by distributors.
- b. Marketing services using vouchers (such as daily-deal vouchers) by voucher providers. These include:
 - providing websites for merchants or service providers to promote their products;
 - providing electronic communication on discount programs to potential buyers; or
 - issuance, management, and delivery of vouchers to buyers to be redeemed with the relevant merchant or service providers.
- c. Transaction payment services in relation to voucher distribution by voucher providers or distributors. These include the issuance, management and delivery of vouchers to buyers or distributors. The vouchers extend to gift vouchers, application vouchers, or online content vouchers (including online game vouchers).
- d. Services in relation to customer loyalty/reward programs by voucher providers to the principal in question. These include:

¹ MoF Regulation No.6/PMK.03/2021 (PMK-6) dated 22 January 2021 and effective from 1 February 2021

- management of reward points issued by the principal;
- issuance and management of vouchers;
- delivery of vouchers to buyers to be redeemed with the relevant merchant or service provider; or
- distribution of cash rewards to buyers.

Income from the above services is subject to VAT and Article 23 Withholding Tax.

The VAT imposition base is the reimbursement amount in the form of commissions/fees/administrative income or margin. For income covered under point b, c, or d which is not based on commission and with no margin, the VAT imposition base uses "Other Value". This is 10% of the actual invoiced amount or the amount that should have been invoiced (i.e. effectively meaning that the VAT amount is 1% of the invoiced amount, i.e. 10% VAT rate x 10% of the invoiced amount). The input VAT related to these services can be credited except for transactions which use the "Other Value".

B. Products

1. Prepaid Phone Credits and SIM Card Starter Packs

VAT

VAT is generally imposed on the delivery of prepaid phone credits and SIM card starter packs by all parties within the distribution chain. However, in practice, VAT is only collected at the telecommunication service provider, the first-tier distributor and the second-tier distributor level. VAT on deliveries by subsequent distributors is collected only once at the second-tier distributor level. However, the subsequent level distributors still report these non-VATable deliveries in their VAT returns if they are VATable Entrepreneurs (*Pengusaha Kena Pajak/ PKP*).

The VAT imposition base is generally the selling price. This is except for deliveries made by the second-tier distributors to subsequent level distributors. In this case, the base is the "Other Value" (i.e. the invoiced amount). Input VAT can also be credited up to second-tier distributor level but cannot be credited by subsequent level distributors or end customers.

VAT is due upon receipt of payment including upon receipt of any deposit by telecommunication service providers, first-tier distributors or second-tier distributors.

Subsequent-level distributors do not need to be registered as a PKP if they only sell prepaid phone credit and SIM card starter packs. However, if they make other VATable deliveries, and they have an annual gross turnover of more than IDR4.8 billion (being all sales, including of prepaid phone credit and SIM card starter packs), then they must be registered as a PKP.

Article 22 Income Tax (Pajak Penghasilan Pasal 22/ PPh 22)

PPh 22 is levied on the sale of prepaid phone credit and SIM card starter packs conducted by second-tier distribution operators who are also PPh 22 Collectors. The imposition base is 0.5% of the invoiced value (for deliveries to subsequent level distributors) or the selling price (for the deliveries to end customers).

An exemption applies on payments from subsequent level distributors or end customers who:

- have transactions of up to IDR2 million (excluding VAT and not on split payments);

- banks; or
- have a valid Tax Exemption Letter (*Surat Keterangan Bebas*) under Government Regulation No.23 Year 2018.

2. Prepaid Electricity Tokens

PMK-6 stipulates that although electricity tokens are VATable goods, they are categorised as strategic goods and hence VAT is exempted on the delivery of prepaid electricity tokens either by the electricity provider or via distributors.

3. Vouchers

PMK-6 differentiates the VAT treatment of the voucher itself and the goods/services of the underlying product represented by the voucher. The underlying product is subject to normal VAT treatment if it constitutes a VATable good or service.

However, VAT is not due on:

- the delivery of vouchers from the voucher provider to the buyer and from the buyer to the principal (upon redemption);
- the granting of reward points under customer loyalty programs; and
- the distribution of cash rewards by voucher providers to buyers.

Rewards in the form of vouchers, points, cash or other forms all constitute an Income Tax Object.

C. VAT Invoice

Telecommunication service providers, distributors and voucher providers who have been registered as a PKP are required to issue a VAT invoice. Receipts of payments (*struk*) earned by these parties are treated as documents equivalent to VAT Invoices.

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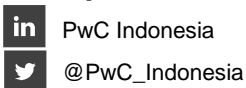
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