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## Extension of COVID-19 related LST incentive on cars

The Minister of Finance (MoF) has recently issued Regulation No.PMK-77<sup>1</sup> which extends the time period for and increases the benefits for the Luxury-goods Sales Tax (LST) incentive previously introduced under PMK-31<sup>2</sup>. Please refer to [TaxFlash No.09/2021](#) for discussion on PMK-31.

### Eligibility

PMK-77 extends the time period of 100% of LST payable borne by the Government until August 2021 for the following eligible vehicles (the list remains the same):

- a. Motor vehicle in the category of sedan or station wagon (diesel or semi-diesel) with a cylinder capacity of up to 1,500 CC; and
- b. Motor vehicle for the transportation of less than 10 people other than sedan or station wagon (diesel or semi-diesel) with a cylinder capacity of up to 1,500 CC.

### Facility

PMK-77 changes the percentage of LST borne by the Government for the above eligible vehicles for the period of June – August 2021 to 100% (previously 50%).

### Transitional provisions

The tax invoices that have already been created for the June 2021 period using the 50% LST payable borne by the Government as referred to in PMK-31 are required to be revised. The overpaid LST that has been collected must be refunded by the Value-Added Taxable (VATable) Entrepreneur who collects it.

<sup>1</sup> MoF Regulation No.77/PMK.010/2021 (PMK-77) dated and effective from 30 June 2021

<sup>2</sup> MoF Regulation No.31/PMK.010/2021 (PMK-31) dated and effective from 1 April 2021

## Update on the upcoming LST rules on motor vehicles

The Government issued a GR-74<sup>3</sup> regarding the LST on motor vehicles to update GR-73<sup>4</sup>. The update in GR-74 is intended to differentiate the incentive for energy saving and environmentally friendly vehicles in favor of electric battery vehicles and its ecosystem. Please refer to [TaxFlash No.17/2019](#) for discussion on GR-73.

The incentive under GR-73 is provided in the form of a reduction of the tax base depending on the “green” features of the vehicle.

The highlights of the changes are:

- Increase of the tax base for full-hybrid vehicles which were previously granted a tax base of 13 1/3% and 33 1/3% to become 40% and 46 2/3%, respectively.
- Increase of the tax base for plug-in hybrid electric vehicles which were previously granted a tax base of 0% to become 33 1/3%.

The tax base incentive that is provided to the motor vehicles with Hybrid and Plug-In Hybrid Electric technology is not applicable if there is an investment realisation of a minimum IDR 5 trillion in a Battery Electric Vehicles (BEV) industry. The incentive will cease to apply after two years of the investment realisation or when the BEV industry has entered into commercial production. In this situation, the applicable tax base will become:

Type of vehicle	LST rate	Tax base (of selling price)	
		Normal	If there is a realisation of BEV investment
Low cost green car	15%	20%	No Adjustment
Hybrid technology	15%, 20%, 25%, 30%	40%, 46 <sup>2</sup> / <sub>3</sub> %, 53 <sup>1</sup> / <sub>3</sub> %, 66 <sup>2</sup> / <sub>3</sub> %, 80%, 100%	66 <sup>2</sup> / <sub>3</sub> %, 73 <sup>1</sup> / <sub>3</sub> %, 80%, 86 <sup>2</sup> / <sub>3</sub> %, 93 <sup>1</sup> / <sub>3</sub> %, 100%
Flexy Engine technology	15%	53 <sup>1</sup> / <sub>3</sub> %	No Adjustment
Battery Electric or Fuel Cell Electric technology	15%	0%	No Adjustment
Plug-In Hybrid Electric	15%	33 <sup>1</sup> / <sub>3</sub> %	53 <sup>1</sup> / <sub>3</sub> %

The effective date of GR-74 remains the same as GR-73, i.e. on 16 October 2021.

## COVID-19 related import duty incentive

The MoF has recently issued Regulation No.PMK-68<sup>5</sup> regarding import duty incentives for certain products impacted by COVID-19 pandemic. This incentive is applicable from 22 June – 31 December 2021.

<sup>3</sup> Government Regulation No.74 Year 2021 (GR-74) dated on 2 July 2021 and effective from 16 October 2021

<sup>4</sup> Government Regulation No.73 Year 2019 (GR-73) dated on 16 October 2019 and effective from 16 October 2021

<sup>5</sup> MoF Regulation No.68/PMK.010/2021 (PMK-68) dated and effective from 22 June 2021

## Eligibility

PMK-68 provides that the import duty will be borne by the Government for two high level categories, namely for certain industry sectors and specifically for aircraft maintenance, repair, and overhaul (MRO). The detailed list of goods and materials are available in the attachment of PMK-68, and covers certain food and beverage, chemical, pharmaceutical, textile, metal, machinery, transportation, and electronics industries.

### *Certain industry sectors*

In order to be eligible for the facility, the imported goods and material must fulfil the following conditions:

- have not been produced locally;
- have been produced locally but not up to the necessary specification; or
- have been produced locally but not sufficient for the industry needs.

In addition, the goods and materials must not be goods that are:

- subject to 0% import duty;
- subject to 0% import duty based on international agreement;
- subject to anti-dumping, safeguard, compensation, or requital import duty rates; or
- intended to be piled in the Bonded Stockpiling Area.

### *Aircraft MRO*

The import duty borne by the Government facility is also applicable for imported goods and materials to be used for aircraft MRO services.

## Other provisions

The import duty facilities can also be granted for the goods which are entered from Bonded Logistic Centre (BLC), Bonded Zone (BZ), Free Trade Zone (FTZ), or Special Economic Zone (SEZ).

The application procedures and administrative requirements are set out in the regulation.

For goods and materials entered from Bonded Warehouse, BZ, FTZ, BLC, or SEZ that have enjoyed the import duty borne by the Government, they must be used to produce goods for domestic consumption, used accordingly by the eligible industry sectors, and cannot be transferred to other party. Otherwise, the import duty facility will be revoked, and the respective company must pay the import duty.

## Bonded Zone – an update

The MoF has recently issued Regulation No.PMK-65<sup>6</sup> as an update to the existing Regulation No.PMK-131<sup>7</sup> concerning BZ. Please refer to [TaxFlash No.12/2018](#) for a discussion on PMK-131.

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<sup>6</sup> MoF Regulation No.65/PMK.04/2021 (PMK-65) dated on 10 June 2021 and effective from 9 August 2021

<sup>7</sup> MoF Regulation No.131/PMK.04/2018 (PMK-131) dated on 26 September 2018 and effective from 25 November 2018

The facilities in PMK-65 remain the same as in PMK-131, with additional rules and clarifications in certain areas as highlighted below.

### **Goods owned by SPLN**

#### 1. Inflow of goods

PMK-65 stipulates that raw materials, auxiliary materials, as well as packaging and packaging aids owned by foreign tax subject (*Subjek Pajak Luar Negeri/SPLN*) which are intended to be exported by processing/combining them in the BZ can enjoy the existing BZ facilities, as long as the goods are not released from the BZ until the export is carried out, except for delivery process between BZs or temporary release.

#### 2. Outflow of goods

Upon release of goods owned by SPLN from BZ to Other Places within the Customs Area (*Tempat Lain Dalam Daerah Pabean/TLDDP*), either originating from overseas (including via other special zones) or from TLDDP:

- Entrepreneur within BZ (*Pengusaha Dalam Kawasan Berikat/PDKB*) who release the goods must pay off any applicable import duty, excise duty, import taxes (i.e. Article 22 Income Tax and Import VAT), and/or VAT/LST facilities given at the time of entry;
- The paid import taxes and/or VAT/LST cannot be credited;
- Upon delivery to TLDDP, the VAT/LST is payable at the time of the release from the BZ.

### **Other provisions**

PMK-65 provides the following clarifications:

- The four-year statute of limitation to be relieved from obligation to pay VAT/LST which at the time of entry is not collected is also applicable upon release of capital goods originating from TLDDP.
- Upon release of goods from BZ to TLDDP (i.e. head office to branch, *vice versa*, or inter branch) which is carried out by PDKB with centralised VAT/LST obligation, the PDKB must pay off the import duty, excise duty, import taxes, and VAT/LST which are not collected at the time of entry.
- The centralised VAT/LST rules are not applicable for goods owned by SPLN.

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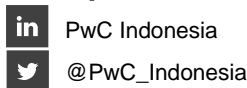
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