

New interest withholding tax rate on bonds held by Domestic Taxpayers and Permanent Establishments ^{P1}

Guidance for testing the creditability of VAT Invoices ^{P1}

New interest withholding tax rate on bonds held by Domestic Taxpayers and Permanent Establishments

In order to create a level playing field between foreign and domestic investors in the local bond market, the Government has issued GR-91¹. GR-91 reduces the withholding tax rate on bond-related interest earned by Domestic Taxpayers and Permanent Establishments from 15% to 10%. This rate is also the same as the withholding tax rate applicable for foreign bond investors under the implementing regulation of the Omnibus Law.

In addition, GR-91 stipulates that, if the bond-related interest is administered through the Bank Indonesia *Scriptless Securities Settlement System*, the final income tax must be self-remitted by the income recipient.

The Minister of Finance will issue further guidance on the implementation procedures of the withholding tax mechanism.

Guidance for testing the creditability of VAT Invoices

The Value-Added Tax (VAT) Law stipulates that a VAT Invoice is creditable if it fulfils the following requirements (hereinafter referred to as “main requirements”):

- The “Formal” requirements, meaning that the VAT Invoice is filled out completely with the information required under Article 13(5) of VAT Law;
- The “Material” requirements, meaning that the information shown on the VAT Invoice represents actual information on the VATable transaction in question;
- The VAT Invoice does not relate to expenditure as elaborated under Article 9(8) of VAT Law.

Notwithstanding this, in a tax audit, there is still often an additional confirmation process on the VAT Invoice carried out in the Directorate General of Taxation’s (DGT’s) information system. A negative confirmation from this process may lead to the creditability of the VAT Invoice being denied.

¹ Government Regulation No.91 Year 2021 (GR-91) dated and effective from 30 August 2021. GR-91 revokes Government Regulation No.16 Year 2009 as lastly amended by Government Regulation No.55 Year 2019.

In response to this, the DGT has issued SE-45² in order to provide greater certainty over the process of testing the creditability of VAT Invoices.

The highlight of SE-45 is that the confirmation process result can no longer be utilised as a determining factor to test the creditability of a VAT Invoice. This means that, even if the confirmation comes back negative, the VAT Invoice will still be creditable as long as all the “main requirements” are met. However, a VAT Invoice will not be creditable if any of the main requirements are not met.

SE-45 also provides that the material requirements of the underlying transactions are to be in respect of the cashflow, the flow of goods or services, and the flow of documents.

² DGT Circular No.SE-45/PJ/2021 (SE-45) dated 20 August 2021

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