

Coming changes to Tax Laws – Highlights from the “Harmonisation of Tax Regulations Bill”:

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Coming changes to Tax Laws – Highlights from the “Harmonisation of Tax Regulations Bill”

Tax reform in Indonesia continues and is considered part of the Government’s strategic policy to achieve sustainable economic growth and boost economic recovery.

On 7 October 2021, the Indonesian parliament passed the “Harmonisation of Tax Regulations” (*Harmonisasi Peraturan Perpajakan/HPP*) Bill. The enactment of this HPP Bill into Law is still pending the President’s signature which should be made within 30 days.

Once it becomes Law, this Bill will change parts of the existing tax law sections, namely General Tax Provisions (*Ketentuan Umum dan Tata Cara Perpajakan/ KUP*), Income Tax, Value-Added Tax/VAT, and Excise. It will also add new sections on Voluntary Disclosure Programme (*Program Pengungkapan Sukarela*) and Carbon Tax.

We will be issuing a more detailed publication once the Bill becomes Law. In the meantime, we wanted to provide some highlights of some major changes proposed by the Bill.

Income Tax Law (ITL) changes

The main changes to the ITL relate to the headline tax rates, which would be effective starting 2022 Fiscal Year. In particular, the lowest individual tax bracket of 5% is widened to the first IDR 60 million of taxable income (previously IDR 50 million), whilst a new top individual tax bracket of 35% is added for taxable income exceeding IDR 5 billion. With respect to corporate tax rate, the Bill repeals the previous reduction in corporate tax rate from 22% to 20% in 2022 Fiscal Year, so now the corporate tax rate will remain at 22%.

In addition, there are several important changes in the tax deductions area, which include:

- new rules on the taxability and deductibility of Benefits-in-Kind;
- updates on the calculation basis for deductible bad debt provisions for financial services companies;
- new options on the useful lives for permanent buildings and intangible assets which have a useful life of more than 20 years;
- expansion of methods for limitation on interest deductions beyond Debt-to-Equity Ratio method.

VAT changes

The most significant VAT change under the new Bill is the proposed increase in the VAT rate to 11% from 1 April 2022 and 12% from 1 January 2025.

The status of some of the current non-VATable objects are changed to become either VATable objects, non-VATable objects with certain requirements, or VATable objects with an exemption facility under strategic goods/services. In addition, several goods/services are also removed from the strategic goods/services category.

The Bill also introduces some rules to simplify the administration process for certain VATable Entrepreneurs.

KUP Law changes

On a positive note, the Bill lowers the administrative sanctions on taxpayer's wrongdoing, in particular when a taxpayers' Tax Objection or Tax Appeal is rejected or only partially approved.

There is also a significant change in the use of Tax ID Number – going forward individual taxpayers will use their Indonesian Resident Number (*Nomor Induk Kependudukan*) as the Tax ID Number (*Nomor Pokok Wajib Pajak*). In addition, the Bill also grants new authority for the Directorate General of Taxes to appoint other parties as tax withholders, including electronic system organisers (*Penyelenggara Sistem Elektronik*).

In the tax dispute process area, the Bill provides new provisions related to Judicial Review process, which had not been governed under the existing KUP Law, and also puts an emphasis on the protocol when a Mutual Agreement Procedure process has not yet reached agreement at the time of the announcement of Tax Court or Judicial Review Decision.

Voluntary Disclosure Programme (VDP)

The Bill expands on the previous Tax Amnesty (TA) programme through a new VDP. There are two VDP programmes under the HPP Bill, as follows:

1. VDP I – applicable for taxpayers who already participated in the 2016-2017 TA programme, for assets acquired from 1985-2015.
2. VDP II – applicable for individuals, for assets acquired from 2016-2020.

Both programmes are applicable in the period of 1 January – 30 June 2022. The tax rates are ranging from 6%-11% and 12%-18% for VDP I and VDP II, respectively. The lower rates may be applicable if the assets are invested in certain eligible investments or if the offshore assets are repatriated into Indonesia.

Carbon Tax

The Carbon Tax is imposed on carbon emissions which have a negative impact on the environment. It is applicable to individuals or corporations who buy goods containing carbon or carry out activities which produce carbon emissions exceeding certain amounts within a specific period. The initial imposition will be limited to the coal steam power plants and will start from 1 April 2022 at IDR 30/kg CO_{2e}.

Excise changes

The HPP Bill adds electronic cigarette as part of the excisable tobacco products and emphasises that addition or reduction of types of excisable goods shall be regulated by a Government Regulation. The Bill also provides an avenue to stop an ongoing dispute process for certain types of excise violations.

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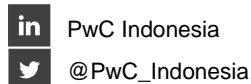
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