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“Final” VAT regime

Aside from the increase in the Value-Added Tax (VAT) rate from 10% to 11%, the HPP Law¹ also enhanced the mechanism relevant to the “Final” VAT rate. In this regard the Minister of Finance (MoF) has now issued several implementing regulations on this “Final” VAT regime in accordance with Article 9A of the HPP Law. All of these implementing regulations were effective from 1 April 2022.

Under this regime, the prevailing VAT rate is multiplied by a designated percentage resulting in an effective “Final” VAT rate. The tax base is generally the retail selling price unless specifically mentioned. The Input VAT in relation to the acquisition of goods or services related to deliveries under the “Final” VAT regime cannot be credited.

All goods and services under this regime (except for insurance agent/insurance brokerage/reinsurance brokerage services) previously fell under the use of “Other Values” for the VAT imposition base (“*Dasar Pengenaan Pajak/DPP Nilai Lain*”) regime.

The “Final” VAT rates stated in this TaxFlash use the prevailing VAT rate of 11%. This will be adjusted after the increase in the VAT rate to 12% which will take effect no later than 1 January 2025.

Below is a summary of the categories along with the “Final” VAT rate:

No.	Type of goods and services	Final VAT rate	
		Certain %	Effective rate*
1	Self-construction activity	20%	2.2%
2	Delivery of certain agricultural products	10%	1.1%
3	Delivery of used motor vehicles	10%	1.1%
4	Delivery of: <ul style="list-style-type: none"> • insurance agent services • insurance/reinsurance brokerage services 	10% 20%	1.1% 2.2%
5	Delivery of certain taxable services as follows: <ul style="list-style-type: none"> • Packaged delivery services 	10%	1.1%

¹ Law No.7 Year 2021 regarding Harmonisation of Tax Regulations (*Harmonisasi Peraturan Perpajakan/HPP*)

• Travel agency, or the provision of travel packages	10%	1.1%
• Freight forwarding services (including freight charges)	10%	1.1%
• Religious travel services including travel service to non-religious places:		
✓ where the religious travel portion can be separated	10%	1.1%
✓ where the religious travel portion cannot be separated	5%	0.55%
• Marketing services using vouchers		
• Transaction payment services in relation to voucher distribution		
• Services related to customer loyalty/reward programmes which are not based on commissions and with no margin	10%	1.1%

**based on the prevailing general VAT rate of 11%*

Other key points on the imposition of the “Final” VAT regime are set out below.

A. VAT on self-construction activity

The “Final” VAT on self-construction activities is stipulated under PMK-61². The key points are set out below.

Scope of self- construction activity

PMK-61 expands the definition of “self-construction activity” to activity involving the construction of a building, **both new and the expansion of old buildings**, that is:

- a) not conducted within the business or work activities by an individual or an entity;
- b) where the results are used by themselves or used by other parties.

The scope of self-construction also now includes building construction activity carried out by other parties for individuals or entities. This is where the VAT on the activity is not collected by other party unless the individuals or entities can provide the identity and address of the other party.

The “building” criteria remains the same as in the previous regulation as follows:

- a) the main construction consists of wood, concrete, bricks, steel or similar materials;
- b) used as a residence or place of business;
- c) the building is at least 200 square meters.

Under the previous regulation (PMK-163³) self-construction activity can be carried out all at once within a certain period, or gradually as a single activity. This is providing that the time lag between the periods of the construction is not more than two years. PMK-61 confirms that if the time lag is more than two years then the activity is considered as a separate building construction activity.

The VAT imposition base is the total build costs incurred (excluding land costs).

² MoF Regulation No.61/PMK.03/2022 (PMK-61) dated 30 March 2022 and effective from 1 April 2022. PMK-61 revokes PMK-163.

³ MoF Regulation No.163/PMK.010/2012 (PMK-163) dated 22 October 2012 and effective from 21 November 2012

Payment and filing obligations

Individuals or entities must self-remit the VAT payable for each period of self-construction and report this by way of:

- a) a Monthly VAT Return filing if they are VATable Entrepreneur (*Pengusaha Kena Pajak/ PKP*); or
- b) if they are not PKPs, then they are considered to have reported the VAT payable if the VAT payment has been made.

A VAT payment slip is deemed as equal to a VAT Invoice and serves as a creditable Input VAT where it meets the Input VAT crediting criteria.

Transitional period

PMK-61 stipulates that, for VAT due before April 2022 period, but where payment is made on or after 1 April 2022, the calculation, payment and filing is carried out under PMK-61.

B. VAT on certain agricultural products

VAT on certain agricultural products is stipulated under PMK-64⁴. The key points are set out below.

The applicable agricultural products are as per the previous regulation (PMK-89⁵) and are listed in the Attachment to PMK-64. These include products relating to plantations, crops, ornamental plants, medicines and forestry (both wood and non-wood products).

If an industrial entity carries out processing on agricultural, plantation or forestry products sold under this “Final” VAT regime then the buyer is appointed as a VAT collector and must collect the VAT from the seller.

The treatment of Input VAT on the acquisition of goods and services related to the delivery of certain agricultural products remains the same, i.e. they cannot be credited. The seller under this regime is also required to prepare a VAT Invoice.

Options to use the “Final” vs “normal” VAT regime

As with under the *DPP Nilai Lain* regime a PKP seller who chooses the Final VAT regime is required to submit a notification to the Tax Office by the deadline of the first VAT Return of the fiscal year for which the Final VAT regime is applied.

Under PMK-64 all PKPs currently opting to use “Other Values” for their VAT base under the previous regulation are considered to have adopted the “Final” VAT regime and to have submitted the required notification.

A seller under the “Final” VAT regime can revert to the “normal” VAT regime after one fiscal year of using the Final VAT regime. To revert the seller must submit a notification by the deadline of the first VAT Return of the fiscal year after the Final VAT regime has ended. Once the “normal” VAT regime is chosen this cannot be reversed.

⁴ MoF Regulation No.64/PMK.03/2022 (PMK-64) dated 30 March 2022 and effective from 1 April 2022. PMK-64 revokes PMK-89.

⁵ MoF Regulation No.89/PMK.010/2020 (PMK-89) dated and effective from 27 July 2020

C. VAT on the delivery of used motor vehicles

VAT on the delivery of used motor vehicles is stipulated under PMK-65⁶. The key points are set out below.

PMK-65 stipulates that the imposition of Final VAT applies to a PKP whose business is the delivery of used motor vehicles. These deliveries do not fall under the category of assets where the initial purpose is not for sale (i.e. under Article 16D of the VAT Law).

As mentioned Input VAT under this regime cannot be credited. This is a change from the *DPP Nilai Lain* treatment where the Input VAT could be credited to 90% of the Output VAT.

Also, in contrast to the previous regulation (PMK-79)⁷, a PKP can use this regime whilst delivering other goods or services subject to the “normal” VAT regime. In this situation the Input VAT crediting follows the general rules (i.e. where there is creditable and non-creditable Input VAT).

D. VAT on the delivery of insurance agent services, insurance brokerage services, and reinsurance brokerage services

PMK-67⁸ stipulates the “Final” VAT regime on the delivery of insurance agent services, insurance brokerage services and reinsurance brokerage services (collectively referred to as “agents/brokers”). This is a new regime. Previously, these services were subject to the “normal” VAT regime. This means that whilst the Output VAT value is lower, the Input VAT which used to be creditable under the “normal” VAT regime, now cannot be credited.

The VAT base is the gross commission/fee in any name or form. For insurance agents this includes commissions for the insurance agents under their management.

Insurance/reinsurance companies’ obligation as VAT Collectors

The VAT payable is collected, paid and reported by the insurance/reinsurance companies (including for Sharia) that are appointed as “VAT Collectors” based on this regulation. This rule is not applicable on commissions/fees upon which VAT has been collected by agents/brokers prior to the effective date of this regulation.

A VAT collector is required to collect VAT upon:

- a) the payment of commissions or fees to insurance agents; or
- b) the receipt of premium payments from the insurance/reinsurance brokers.

The VAT payment can be made in one Tax Payment Slip (*Surat Setoran Pajak*) for all payments of commissions to agents/brokers within one month.

VAT Invoice

Agents/brokers are required to issue VAT Invoices on their services in the form of:

- a) a commission payment slip (statement of account) generated by the Insurance Company’s system – for Insurance Agents;
- b) a brokerage fee invoice issued by the brokers – for Brokers.

⁶ MoF Regulation No.65/PMK.03/2022 (PMK-65) dated 30 March 2022 and effective from 1 April 2022. PMK-65 revokes PMK-79.

⁷ MoF Regulation No.79/PMK.03/2010 (PMK-79) dated 5 April 2010 and effective from 1 April 2010

⁸ MoF Regulation No.67/PMK.03/2022 (PMK-67) dated 30 March 2022 and effective from 1 April 2022

The above documents are deemed as equal to a VAT Invoice if they contain:

- a) the name and Tax ID (*Nomor Pokok Wajib Pajak*) of the PKP agents/brokers;
- b) the serial number and document date created in the PKP system;
- c) the commission/fee amount; and
- d) the amount of VAT collected.

The deadline for VAT Invoice issuance is:

- a) at the end of the month following the commission/fee payment to the insurance agent; or
- b) at the time of delivery of insurance/reinsurance brokerage services.

E. VAT on certain taxable services

VAT on the delivery of “certain” other taxable services as mentioned in the above table is stipulated under PMK-71⁹. The key points are set out below.

For religious travel the 1.1% Final VAT rate is applicable on the portion of travel to non-religious places, whilst the 0.55% is applicable on the whole travel package.

For marketing services using vouchers, transaction payment services, and services related to customer loyalty/reward programmes not based on commissions and with no margin, the VAT base is the voucher selling price.

The freight charges in a freight forwarder’s service are the transportation costs paid by the service recipient in the form of transportation by airplane, ship, train or road.

The treatment of Input VAT on the acquisition of goods and services related to the delivery of these services remains the same, (i.e. cannot be credited).

⁹ MoF Regulation No.71/PMK.03/2022 (PMK-71) dated 30 March 2022 and effective from 1 April 2022. PMK-71 revokes:

- a. Article 2 letter j, k and m of MoF Regulation No.121/PMK.03/2015 regarding Other Value for the Tax Imposition Base, dated 25 June 2015 and effective from 1 July 2015;
- b. Article 8 of MoF Regulation No.92/PMK.03/2020 regarding the Criteria of Religious Services That Are Not Subject to VAT, dated 23 July 2020 and effective from 22 August 2020;
- c. Article 13(5) letter b and Article 16(4) letter b of MoF Regulation No.6/PMK.03/2021 regarding the Tax Treatment of Sales and Distribution of Prepaid Phone Credit, SIM Card Starter Packs, Electricity Tokens and Vouchers, dated 22 January 2021 and effective from 1 February 2021.

Your PwC Indonesia Contacts:

Abdullah Azis
abdullah.azis@pwc.com

Hasan Chandra
hasan.chandra@pwc.com

Runi Tusita
runi.tusita@pwc.com

Adi Poernomo
adi.poernomo@pwc.com

Hendra Lie
hendra.lie@pwc.com

Ryuji Sugawara
ryuji.sugawara@pwc.com

Adi Pratikto
adi.pratikto@pwc.com

Hisni Jesica
hisni.jesica@pwc.com

Soeryo Adjie
soeryo.adjie@pwc.com

Alexander Lukito
alexander.lukito@pwc.com

Hyang Augustiana
hyang.augustiana@pwc.com

Sujadi Lee
sujadi.lee@pwc.com

Ali Widodo
ali.widodo@pwc.com

Kianwei Chong
kianwei.chong@pwc.com

Sukma Alam
sukma.alam-c@pwc.com

Amit Sharma
amit.xz.sharma@pwc.com

Lukman Budiman
lukman.budiman@pwc.com

Surendro Supriyadi
surendro.supriyadi-c@pwc.com

Andrias Hendrik
andrias.hendrik@pwc.com

Mardianto
mardianto.mardianto@pwc.com

Susetiyo Putranto
susetiyo.putranto@pwc.com

Anton Manik
anton.a.manik@pwc.com

Margie Margaret
margie.margaret@pwc.com

Sutrisno Ali
sutrisno.ali@pwc.com

Antonius Sanyojaya
antonius.sanyojaya@pwc.com

Marlina Kamal
marlina.kamal@pwc.com

Suyanti Halim
suyanti.halim@pwc.com

Avinash Rao
a.rao@pwc.com

Nicholas Sugito
nicholas.sugito@pwc.com

Tim Watson
tim.robert.watson@pwc.com

Ay Tjhing Phan
ay.tjhing.phan@pwc.com

Nikolas Handradjid
nikolas.handradjid@pwc.com

Tjen She Siung
tjen.she.siung@pwc.com

Brian Arnold
brian.arnold@pwc.com

Oki Octabiyanto
oki.octabiyanto@pwc.com

Turino Suyatman
turino.suyatman@pwc.com

Dexter Pagayonan
dexter.pagayonan@pwc.com

Omar Abdulkadir
omar.abdulkadir@pwc.com

Yessy Anggraini
yessy.anggraini@pwc.com

Enna Budiman
enna.budiman@pwc.com

Otto Sumaryoto
otto.sumaryoto@pwc.com

Yuliana Kurniadjaja
yuliana.kurniadjaja@pwc.com

Gadis Nurhidayah
gadis.nurhidayah@pwc.com

Peter Hohtoulas
peter.hohtoulas@pwc.com

Yunita Wahadaniah
yunita.wahadaniah@pwc.com

Gerardus Mahendra
gerardus.mahendra@pwc.com

Raemon Utama
raemon.utama@pwc.com

www.pwc.com/id



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