

Tax treatment of
Crypto Asset trading ^{P1}

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Tax treatment of Crypto Asset trading

On 30 March 2022, the Minister of Finance (MoF) issued PMK-68¹ that outlines the Value-Added Tax (VAT) and Income Tax treatment of Crypto Asset trading transactions.

Crypto Asset (CA) is defined as an intangible commodity in the form of digital asset, using cryptography, peer-to-peer network, and distributed ledger, to manage the creation of new units, verify transactions, and to secure a transaction without any involvement of other party.

There are various parties involved in CA trading, namely:

- CA Seller – an individual or company who sells or trades the CA.
- CA Buyer – an individual or company who receives the CA and pays for it (or should have received/paid for the CA).
- CA Physical Trader – a party that is authorised by the commodity futures trading regulator, to carry out CA transaction for themselves or to facilitate a CA Seller or CA Buyer transaction. This trader can be in the form of e-commerce VAT Collectors (*Penyelenggara Perdagangan Melalui Sistem Elektronik*/"PPMSE") who provide an electronic channel for CA trading.
- CA Miners – an individual or company who verifies CA transaction for a fee in the form of CA, either individually or in a mining pool.

VAT treatment

VAT is due on the delivery of:

- a. Taxable intangible asset in the form of CA within the Indonesian customs area. This delivery can be carried out using fiat money, swapping a CA for another CA, and/or swapping CA for other assets/goods or services.
- b. Taxable service in the form of provision of electronic channel for CA trading by PPMSE.
- c. Taxable service in the form of CA transaction verification services and/or management service of a mining pool by CA Miners.

¹ MoF Regulation No.68/PMK.03/2022 (PMK-68) dated 30 March 2022 and effective from 1 May 2022

Any transaction value carried out using fiat money in non-Rupiah currency must be converted using MoF rate at the time of VAT collection. Any transaction value carried out using a CA is converted into Rupiah based on the value set by the CA futures exchange, or the value in the PPMSE system, which is applied consistently.

Trading between CA Buyers and CA Sellers

The VAT is collected, paid and reported by PPMSE based on a Final VAT rate of:

- a. 1% of the general VAT rate (effectively **0.11%**) multiplied by the CA transaction value, if the PPMSE is a CA Physical Trader.
- b. 2% of the general VAT rate (effectively **0.22%**) multiplied by the CA transaction value, if the PPMSE is not a CA Physical Trader.

Transaction method	Transaction value	Timing of VAT collection
Using fiat money	The amount of money paid by CA Buyer (not including VAT)	Upon receipt of payment from CA Buyer by PPMSE
Swapping CA for another CA	The value of each CA exchanged by the transacting parties (not including VAT)	Upon the exchange of CA to other party's account
Swapping CA for other assets/goods or services	The value of the CA transferred to other party's account	Upon the transfer of CA to other party's account

PPMSE must prepare a VAT collection slip in the form of Document deemed equal to Unification Tax Withholding/Collection Slip. This document must contain:

- ✓ Name and Tax ID of the PPMSE;
- ✓ Name and Tax ID of the withheld/collected party (Tax ID is not required if the withheld/collected party is a foreign tax subject);
- ✓ Unique transaction number related to the income withheld;
- ✓ Tax imposition base;
- ✓ VAT and Income Tax rate and amount;
- ✓ Status of Unification Tax Withholding/Collection Slip.

If the PPMSE reside or domicile outside custom area, they can be appointed as VAT Collector based on the prevailing regulation.

If the CA Seller is a VATable Entrepreneur (*Pengusaha Kena Pajak/PKP*):

- The CA Seller must issue a VAT Invoice on the CA delivery.
- VAT Collection slip prepared by PPMSE is deemed as Document equal to VAT Invoice.
- CA Seller does not carry out VAT collection on CA delivery through PPMSE system.
- CA Seller report the VAT collected by PPMSE in their VAT Return as VAT collected by a VAT Collector.
- CA Seller cannot credit the Input VAT related to the CA delivery.

Delivery of taxable service in the form of provision of electronic channel for CA trading by PPMSE

A PPMSE must at least facilitate CA transaction carried out using fiat money, swapping CA with another CA, and/or e-wallet services (i.e. consisting of deposit, withdrawal, transfer of CA to other party's account and providing and/or managing CA storage media).

VAT on these services is collected by the PPMSE and imposed based on the commission or fee in any form, including the one received by PPMSE to be forwarded to CA Miners. The regular VAT rate of 11% applies, and the PPMSE must issue a VAT Invoice for their services. The commercial invoice issued for these services is deemed as Document equal to VAT Invoice.

Delivery of taxable service in the form of CA transaction verification services and/or management service of a mining pool by CA Miners

VAT on these services is collected and paid by the CA Miners based on a Final VAT rate of 10% of general VAT rate (i.e. effectively **1.1%**) of CA value received by CA Miners, including CA received from CA system (block reward).

The CA Miners may issue VAT Invoice on the delivery of these services under the Retailer (*Pedagang Eceran*) regime which allows for the omission of the buyer's name and seller's signature in the VAT Invoice.

Income Tax treatment

Income received or earned by CA Seller, PPMSE, or CA Miner are all subject to Income Tax.

Any transaction value carried out using fiat money in non-Rupiah currency must be converted using MoF rate at the time of payment received from the buyer (if transaction is using fiat money) or when income is received or earned (if transaction is using other than fiat money or CA). Any transaction value carried out using a CA is converted into Rupiah based on the value set by the CA futures exchange, or the value in the PPMSE system, which is applied consistently.

Income Tax on CA Seller

CA Seller income from CA transaction is subject to the Article 22 Final Income Tax of 0.1% of transaction value (not including VAT and Luxury Goods Sales Tax). If the PPMSE is not a CA Physical Trader, the Article 22 Final Income Tax rate is 0.2%. This tax is also applicable for income from CA transaction either received or earned by PPMSE or CA Miners acting for themselves through electronic channel provided by other PPMSE.

The Article 22 Income Tax is collected upon payment from the buyer, exchange of CA, and/or upon receipt of payment of other income by PPMSE. The tax is collected, paid and reported by PPMSE. A PPMSE must prepare the Article 22 Income Tax collection slip in the form of Document deemed equal to Unification Tax Withholding/Collection Slip. PPMSE that does not comply with these obligations will be penalised based on the prevailing tax regulations. If a foreign PPMSE is appointed as a VAT Collector, they are also appointed as an Article 22 Income Tax collector.

A PPMSE is exempted from collection obligation if they only provide an e-wallet service, bring together buyers and sellers, and/or not facilitating CA trading transactions. The Article 22 Final Income Tax on CA Seller income from CA transaction through this type of PPMSE must be self-remitted by the CA Seller.

CA Seller is exempted from Article 22 Income Tax if they are a foreign taxpayer residing in a tax treaty country and the taxing right is not with Indonesia. To enjoy this exemption, they must be able to submit a certificate of domicile to the domestic PPMSE.

Income Tax from the provision of electronic channel for CA transaction by PPMSE

The scope of income of PPMSE includes income from the provision of electronic channel for CA transaction, deposit service, withdrawal service, transfer of CA

between e-wallets, provision of and/or managing of CA storage media or e-wallet, and other services related to CA. These incomes are subject to normal Income Tax rates.

Income Tax on income received or earned by CA Miners in relation to CA

The scope of income of CA Miners includes income from CA system in the form of block reward, transaction verification fee, other income from CA system and/or any other income. These incomes are subject to Article 22 Final Income Tax of 0.1% which must be self-remitted by the CA Miners.

Tax treatment of Fintech activities

On 30 March 2022, the MoF also issued PMK-69² stipulating the Income Tax treatment of interest income in peer-to-peer (P2P) lending, as well as the VAT treatment of Financial Technology (“Fintech”) activities.

Fintech is an activity using technology in a financial system which generate products, services, technology, and/or new business model, that contributes to the monetary and financial system stability as well as efficiency, continuity, safety and reliability of payment systems.

Income Tax treatment on interest income in P2P lending

There are three parties involved in a P2P lending transaction, namely the lender, the borrower, and the lending service provider (*Penyelenggara Layanan Pinjam Meminjam*/"Fintech host") that connects them. In a P2P lending framework, the lender typically receives interest from the borrower through the Fintech host. The interest payments received by the Fintech host do not constitute income for the Fintech host. Consequently, the interest payments passed on to the lender also do not constitute deductible expenses for the Fintech host.

The interest income passed on to the lender must be reported in the lender's Annual Income Tax Return (AITR) and it is also subject to Article 23 withholding tax (for domestic lender) or Article 26 withholding tax (for foreign lender) of 15% and 20%, respectively. The withholding tax is withheld by the Fintech host (if the host is a Financial Services Authority (*Otoritas Jasa Keuangan/OJK*)-approved institution) or the borrower (if the host is not an OJK-approved institution). The Fintech host may prepare only one withholding tax slip for one lender on all of their interest income received within one month.

The Fintech host may receive or earn fees, commissions, *ujrah*, or any other income from the lender or the borrower in relation to the Fintech activities, including an interest spread in the case where the interest paid by the borrower is higher than the interest passed on to the lender. This income must all be reported in the Fintech host's AITR. This income of the Fintech host is not subject to any withholding tax by the lender or borrower if the host is an OJK-approved institution. However, normal withholding tax obligation on service fee is applicable if the host is not an OJK-approved institution.

VAT treatment on Fintech activities

The high-level categories of Fintech services that are subject to VAT are as follows:

- a. Payment;
- b. Investment settlement;

² MoF Regulation No.69/PMK.03/2022 (PMK-69) dated 30 March 2022 and effective from 1 May 2022

- c. Capital raising;
- d. P2P lending;
- e. Investment management;
- f. Online insurance product;
- g. Market support;
- h. Digital finance support and other financial services.

Regular VAT rate is applicable on the VATable services provided under each of these categories. Below are the VAT treatments on each component that may arise within the services framework:

- a. Payment system services
 - VAT is due on compensation in the form of fee, commission, merchant discount rate, or any other fee, including administration cost and card price charged by the issuer of electronic money.
 - The money itself, that is contained in the electronic money or e-wallet, including bonus point, top-up point, reward point, and loyalty point, is not a VAT object.
 - The final settlement value based on the clearing calculation and the fund value that is transferred through the payment system are not included as part of the VAT base.
 - Fund transfer services within the same bank for current account customer, time deposit, certificate of deposit, savings account or other similar product, are exempted from VAT.
- b. Investment settlement
 - VAT is due on compensation in the form of fee, commission, or any other fee, received by the investment settlement provider.
- c. Capital raising
 - VAT is due on compensation in the form of fee, commission, or any other fee, received by the capital raising provider. Capital raising provider includes equity crowdfunding provider.
 - Funding or financing services provided by the financier to the stock issuer through an equity crowdfunding service provider, constitute financial services that is exempted from VAT.
 - Stock and other financial instrument that are delivered to the financier through electronic channel provided by the equity crowdfunding provider, constitute securities that are not subject to VAT.
 - Capital raising provider may issue VAT Invoice on the delivery of these services under the Retailer (*Pedagang Eceran*) regime.
- d. P2P lending
 - VAT is due on compensation in the form of fee, commission, or any other fee, including the interest spread received by the P2P lending provider.
 - Funding, lending or financing services provided by the financier to the debtor through a channel provided by the P2P lending provider, constitute financial services that are exempted from VAT.
 - P2P lending provider may issue VAT Invoice on the delivery of these services under the Retailer (*Pedagang Eceran*) regime.
- e. Investment management
 - VAT is due on compensation in the form of fee, commission, or any other fee, received by the investment manager.
 - Funding services provided by the financier to the stock or other financial instrument issuer through a channel provided by the investment manager, constitute financial services that are exempted from VAT.

- Stock and other financial instrument above constitute securities that are not subject to VAT.
- f. Online insurance product
- VAT is due on compensation in the form of fee, commission, or any other fee, received by the online insurance product provider.
 - Online insurance services provided by an insurance company constitute financial services that are exempted from VAT.
- g. Market support
- VAT is due on compensation in the form of fee, commission, or any other fee, received by the market support service provider.
 - This service includes provision of product information and financial service comparison data.
- h. Digital finance support and other financial services
- VAT is due on compensation in the form of fee, commission, or any other fee, received by the service provider.
 - This service includes provision of eco crowdfunding, Islamic digital financing, *ewaqf*, *e-zakat*, robo advise, credit scoring, invoice trading, voucher/token, and application based blockchain.

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