

Taxation related to
transaction with
Government ^{P1}

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On 30 March 2022, the Minister of Finance (MoF) released the following regulations:

- a) PMK-58¹ on the appointment of an “Other Party as Tax Collector” and the tax compliance procedures for the procurement of goods and services to Government Institutions; and
- b) PMK-59² that amends PMK-231³ on the tax registration and tax compliance procedures for Government Institutions.

Government Institutions as intended in PMK-58 and PMK-59 comprise central, regional and municipal Government Institutions that have the authority to use the state budget to conduct Government activities.

Tax collection/withholding on income received or earned by Vendors providing goods or services to Government Institutions fall under two methods:

- a) tax collection by the Other Party if the payment is processed using petty cash (*Uang Persediaan*) or a credit card of the relevant Government Institution; or
- b) tax collection/withholding by the Government Institution if the payment is processed via Direct Payment from the relevant Government Institution.

Scope of PMK-58

PMK-58 stipulates the taxation arrangements for the provision of goods or services to Government Institutions through the Government Procurement Information System (*Sistem Informasi Pengadaan Pemerintah/SIPP*). This is where transactions between Vendors and Government Institutions will be facilitated by the Other Party and the payments will be processed using the petty cash or credit cards of the relevant Government Institution. Accordingly, these transactions are excluded from the tax collection/withholding by Government Institution under PMK-59.

¹ MoF Regulation No.58/PMK.03/2022 (PMK-58) dated 30 March 2022 and effective from 1 May 2022

² MoF Regulation No.59/PMK.03/2022 (PMK-59) dated 30 March 2022 and effective from 1 May 2022

³ MoF Regulation No.231/PMK.03/2019 (PMK-231) dated 31 December 2019 and effective from 1 April 2020

An Other Party is defined as a Procurement Marketplace or an Online Retail Procurement that is directly involved in or facilitates transactions carried out by parties through the SIPP and which has been appointed by an authorised Government Institution for the procurement process.

PMK-58 excludes the following transactions from the tax collection by an Other Party:

- a) transactions with Vendors for which payment is via Direct Payment;
- b) payments to individual taxpayers that deliver public transportation via an Other Party.

Article 22 Income Tax

An Other Party must collect Article 22 Income Tax at 0.5% of gross revenue for transactions falling under PMK-58 which are of the following nature:

- a) the delivery of goods;
- b) the delivery of services that cover:
 - i) service fees paid to domestic individual taxpayers;
 - ii) service fees charged under the state budget and paid to domestic corporate taxpayers including Permanent Establishments (PEs);
 - iii) technical, management, consulting and other service fees paid to domestic corporate taxpayers or PEs;
 - iv) domestic shipping or airline services delivered by certain taxpayers;
 - v) construction services; and/or
 - vi) the delivery of services under GR-23⁴;
- c) rental or other income arising on the use of assets.

Tax collection/withholding on transactions carried out directly with the Government Institutions (i.e. not through an Other Party) continue to follow the relevant existing regulations.

From a Vendor's position, Article 22 Income Tax collected under PMK-58 will serve as:

- a) prepaid Income Tax for the relevant tax year (i.e. for income subject to the normal tax regime);
- b) part of a Final Tax settlement (i.e. for income subject to the Final Tax regime). Any under-or-overpayment of this withholding tax (WHT) must be self-remitted or refunded by the Vendor. For example, for building rental transactions subject to 10% Final Tax, the Vendor must self-remit the remaining 9.5% Final Tax to "top up" the 0.5% Article 22 WHT.

VAT collection

Deliveries of goods/services by Vendors under PMK-58 are subject to Value-Added Tax (VAT) and/or Luxury Goods Sales Tax (LST) on gross revenue according to prevailing regulations. The VAT is collected, paid, and reported by an Other Party as a VAT Collector.

An Other Party is not required to collect VAT on the delivery of non-VATable goods/services and/or the delivery of VATable goods/services with VAT not collected or VAT exempted facilities.

⁴ Government Regulation No.23 Year 2018 (GR-23) concerning Income Tax on revenue received by taxpayers with certain gross turnover, dated 8 June 2018 and effective from 1 July 2018

Both PMK-58 and PMK-59 require all parties involved to register for a Tax ID Number and as a VATable Entrepreneur. Exceptions on tax registration apply for Vendors that:

- a) only deliver non-VATable goods/services; or
- b) individuals that only deliver public transportation via an Other Party.

PMK-58 also confirms that Vendors can claim Input VAT on the delivery of VATable goods/services to Government Institutions via an Other Party.

Vendor invoices

In providing goods/services to Government Institutions via the SIPP, Vendors must prepare a standardised invoice which is deemed equal to an Article 22 Income Tax slip and VAT Invoice (*Faktur Pajak*). This invoice must be made by the time that the payment is received. This invoice can be prepared by either the Vendor or generated by the Other Party's system on behalf of the Vendor.

This standardised invoice must contain:

- a) the name and Tax ID of the Vendor, the buyer/service recipient, and the Other Party;
- b) the type of goods/services;
- c) the total payment on the transaction through the Other Party;
- d) the amount of Income Tax, VAT and/or LST collected;
- e) the invoice date and number (which can be set by the Vendor or the Other Party's system).

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