TaxFlash

The Four Packages of Economic Policy

Recently, the Government of Indonesia released four packages of economic policy. This was to maintain the stability of the national economy following the weakening of the exchange rate of the Rupiah against the Dollar, to increase the competitiveness of national industries as well as to increase absorption of manpower. Several tax-related action plans under the economic policy include:

- relaxing the facilities restriction in Bonded Zones for domestic products
- eliminating Luxury-goods Sales Tax (LST) for products that are no longer considered luxury goods
- eliminating Value Added Tax (VAT) on books
- providing tax relief for labour intensive sectors in certain industries
- increasing the tax imposition of LST on imports of Completely Built-Up cars and branded products

We have highlighted the important points from the four Minister of Finance (MoF) regulations that have been issued to date in relation to this economic policy.

1. Relaxation of tax facilities in Bonded Zones

As part of the efforts of supporting export oriented sectors in the Bonded Zone areas, the MoF issued Regulation No.120/PMK.04/2013 (PMK-120) as the third amendment of Regulation No.147/PMK.04/2011 (PMK-147) regarding Bonded Zones. This regulation provides relaxation of certain limitations that applied in Bonded Zones, and is effective starting from 26 August 2013.

We highlight below some of the changes in PMK-120:

1. ***Change in the destination of Bonded Zone finished products*** – Previously, Bonded Zone finished products were mainly for export. Under this new regulation, Bonded Zone finished products are for export or import for use, meaning domestic sales.
2. ***Risk profile-based service*** – Bonded Zone companies will be serviced and monitored based on their risk profiling, i.e. green, yellow, or red category.
3. ***Other Economic Areas*** – The government will stipulate Other Economic Areas that can be a release destination of the Bonded Zone products. However, PMK-120 has not provided details on these areas.
4. ***Approving authority*** – The approval to import capital goods in the form of factory equipment and/or capital goods spare parts will now be granted by the Head of Customs Service Office no longer by the Head of Regional Office or Main Service Office.
5. ***Change in sanctions*** – Bonded Zone products that are released to a Bonded Exhibition Organizing Site (*Tempat Penyelenggaraan Pameran Berikat/TPPB*) must be re-entered to the Bonded Zone within 30 days from when the exhibition is completed. Previously, failure to meet this time limit was only penalised by a restriction to release Bonded Zone product to the TPPB. Now, on top of the existing penalty, there is an additional sanction for the Bonded Zone company to pay the import duty and/or excise and all import taxes due, plus additional administrative penalty of 100% of the import duty due.
6. ***Increase on domestic sales quota***
   - Previously, the domestic sales quota was 25% of the preceding realisation amount on export and delivery to other Bonded Zones. Now, the domestic sales quota is 50% of the preceding realisation amount on export, sales to other Bonded Zones, sales to free trade zones, and sales to other economic areas. The sales to other economic areas are only allowed to companies which have a license from the economic area organizer for the goods relevant to their business.
   - The domestic sales quota can be more than 50% with approval from the Directorate General of Customs and Excise (DGCE) on behalf of the MoF based on recommendation of the relevant technical division in the Ministry of Industry and also considering the company's risk profile.
   - For a company that has newly obtained a Bonded Zone license, the realisation amount above is based on current year transactions (for the first year) and a cumulative amount from the first year and current year (for second year).
   - For a company with a VAT centralisation facility, the realisation amount above is based on the centralised amount.
7. ***Subcontracting***
   - In subcontracting work to other Bonded Zone companies or other companies in other places within the customs area, the subcontractor companies can now add goods as part of the subcontracting process. This addition must be reported using the relevant customs declaration and must be stated in the subcontract agreement.
   - A Bonded Zone company can have continuous subcontract work. This means the Bonded Zone company can subcontract to the first subcontractor and subsequently continue to subcontract activities to the second subcontractor for further processing following the required production process stages mentioned in the subcontract agreement, as long as all those companies involved are green or yellow category.
8. ***Bonded Zone license***

   a. *Change of status to Bonded Zone company*
   - In the previous regulation, companies receiving import duty exemption on goods and materials to be processed, assembled, or attached to export oriented goods can change their status to that of a Bonded Zone company by fulfilling the normal Bonded Zone application requirements, which include some location requirements.
   - Now, the above companies that have Company Identification Numbers (*Nomor Induk Perusahaan/NIPER*) with active status when PMK-147 is in force that are located outside of an industrial zone or in a industrial-designated cultivation zone, can be granted a Bonded Zone license without fulfilling the location requirements. This treatment is applicable for requests submitted within six months from the effective date of PMK-120 as long as the applicant fulfils the following criteria:

   (i) Having a good or very good reputation
   (ii) Having an IT Inventory system that can be accessed on a real time and online basis as needed and that reflects the connection with customs documents
   (iii) No outstanding customs liabilities
   (iv) Having Closed Circuit Television that can be accessed by the Customs Office on a real time, online basis and having the archived records that can provide information about the inflow and outflow of the goods.

b. *License extension*

- The Bonded Zone license extension clause for Bonded Zone companies located outside of an industrial zone or industrial-designated cultivation zone that was issued prior to the issue of PMK-147 was previously applicable until 31 December 2016. Now, the license can be extended even if the Bonded Zone companies are not located in an industrial area or designated cultivation zone provided that they are: (i) green or yellow risk profile for the last six months and fulfil the criteria (ii),(iii), and (iv) in the preceding bullet point. This treatment is also applicable if the companies having the license have been merged or acquired. This also applies for companies within a Bonded Zone whose organizer's license has been revoked, which applies for a Bonded Zone organizer license.
- If an industrial zone is established in a city or regency after the issue of a Bonded Zone license, the extension of Bonded Zone license of companies located in the designated cultivation zone can still be extended following Article 6 of PMK-147.

2. LST no longer applies for many products

To maintain economic growth and boost purchasing power, the government revisited the imposition of LST on certain products that are no longer considered luxury goods. As result, the MoF on 26 August 2013 issued Regulation No.121/PMK.011/2013 (PMK-121) regarding the type of taxable goods other than motor vehicles that are subject to LST. This regulation revokes old LST rates stipulated in MoF Regulation No.620/PMK.03/2004 as lastly amended by MoF Regulation No.103/PMK.03/2009.

The LST rates remain the same, i.e. 10%, 20%, 30%, 40%, 50%, and 75%. The goods categorisation also remains the same. The changes are made to the specification of goods subject to each LST rate as follows:

- Certain goods are no longer subject to LST because of change in the size or capacity threshold, for example:
  - Televisions (TV) with a size of up to 40 inches and a price below IDR 10 million are no longer subject to LST, while previously TVs with a size of 29-43 inches were subject to LST at 10%.
  - Digital cameras with import value or sales price below IDR 10 million are no longer subject to LST. Previously digital cameras with import value or sales price above IDR 2 million were subject to LST at 10%.
  - Microwave ovens are no longer subject to LST. Previously they were subject to LST at 20%.
  - Footwear and leather (genuine and imitation) bags are no longer subject to 40% LST if the import value or sales price is IDR 5 million or below. Previously this 40% LST is imposed on such footwear and bags with a price starting IDR 1 million (for footwear) and IDR 500 thousand (for bags).
- Certain goods are subject to LST depending on the price, for example:
  - Previously all Air Conditioner units with a capacity of 1-2 PK were subject to 10% LST. Now, the 10% LST is only applicable for this category if the import value or sales price is above IDR 8 million.
  - Refrigerators are subject to 10% LST only if the capacity is above 180 litres and the import value or sales price is above IDR 10 million. Previously, there was no pricing limit and refrigerators with capacity between 180-230 litres were subject to 10% LST and above 230 litres were subject to 20% LST.

With these changes, we can expect that some household goods will have a lower market price. Regulations necessary for the implementation will be determined further by the Director General of Tax (DGT). A complete list of the new LST rates is available on request, from your usual PwC Indonesia contact.

3. VAT exemption on certain books

Import and/or delivery of general education and religious books are exempt from VAT. Definition of these general education and religious books was most recently regulated in MoF Regulation No.353/KMK.03/2001 (KMK-353) which was based on the old VAT Law. As the VAT Law and its implementing regulation have changed, the MoF revoked KMK-353 by issuing Regulation No.122/PMK.011/2013 (PMK-122) on 27 August 2013.

The definition of holy books stipulated in PMK-122 remains the same as the definition in KMK-353 whereas the definition of general and religious education books is now determined as fiction and non-fiction books used to develop national education that constitute primary, supporting and literature books. The list of books excluded as general education books such as comic books, music books, etc also remains the same and these excluded books can then be categorised as general education books if they are approved by the authorised minister or officials.

VAT due on the import and/or delivery of general education and religious books can be automatically exempted without application for a Tax Exemption Letter (*Surat Keterangan Bebas/SKB*). However, a SKB is still required for books that are originally excluded from this VAT facility but later are approved to be categorised as general education books. Previously under KMK-353, a SKB was still required for the import and/or delivery of any type of general education and religious books.

4. Tax payment facilities for certain industries

The textiles, garments, footwear, furniture, and/or children toy industries are labour-intensive industries in which stability is crucial during the current economic conditions.

With the aim to provide ease of cash payment, the MoF on 29 August 2013 issued Regulation No.124/PMK.011/2013 (PMK-124) regarding Reduction of Article 25 Income Tax and Deferment of Article 29 Income Tax Payment for Fiscal Year 2013 for Certain Taxpayers, granting the above industries with the following income tax relief:

a) Reduction of Article 25 Income Tax (monthly Corporate Income Tax (CIT) instalments) for the September to December 2013 tax period, at the maximum value:
   - 25% of August 2013 monthly CIT instalment for non-export-oriented taxpayers, or
   - 50% of August 2013 monthly CIT instalment for export-oriented taxpayers

b) Deferment of Article 29 Income Tax (CIT underpayment) for fiscal year 2013:
   Article 29 Income Tax is due before filing the CIT Return (i.e. at the end of the fourth month after the book year-end). In regard to the above taxpayers, PMK-124 provides a longer time to settle the CIT underpayment of up to seven months after the book year-end.

Taxpayers must submit a written application to the Head of Tax Service Office where the taxpayer is registered in order to enjoy these income tax reliefs. Any administrative sanctions that may be incurred due to Article 29 Income Tax deferment is to be waived by the DGT on an ex-officio basis, the procedures of which is yet to be governed. The implementation of Article 25 Income Tax reduction and Article 29 Income Tax deferment will be determined further by a DGT Regulation.

Your PwC Indonesia contacts

Abdullah Azis
abdullah.azis@id.pwc.com

Adi Poernomo
adi.poernomo@id.pwc.com

Adi Pratikto
adi.pratikto@id.pwc.com

Ali Mardi
ali.mardi@id.pwc.com

Ali Widodo
ali.widodo@id.pwc.com

Andrias Hendrik
Andrias.hendrik@id.pwc.com

Anthony J. Anderson
anthony.j.anderson@id.pwc.com

Anton Manik
anton.a.manik@id.pwc.com

Antonius Sanyojaya
antonius.sanyojaya@id.pwc.com

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

Brian Arnold
brian.arnold@id.pwc.com

Engeline Siagian
engeline.siagian@id.pwc.com

Gadis Nurhidayah
gadis.nurhidayah@id.pwc.com

Hendra Lie
hendra.lie@id.pwc.com

Irene Atmawijaya
irene.atmawijaya@id.pwc.com

Ita Budhi
ita.budhi@id.pwc.com

Ivan Budiarnawan
ivan.budiarnawan@id.pwc.com

Laksmi Djuwita
laksmi.djuwita@id.pwc.com

Mardianto
mardianto.mardianto@id.pwc.com

Margie Margaret
margie.margaret@id.pwc.com

Michelle Mianova
michelle.mianova@id.pwc.com

Nigel Hobler
nigel.hobler@id.pwc.com

Parluhutan Simbolon
parluhutan.simbolon@id.pwc.com

Ravi Gupta
ravi.r.gupta@id.pwc.com

Ryuji Sugawara
ryuji.sugawara@id.pwc.com

Sutrisno Ali
sutrisno.ali@id.pwc.com

Suyanti Halim
suyanti.halim@id.pwc.com

Tim Watson
tim.robert.watson@id.pwc.com

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

Yessy Anggraini
yessy.anggraini@id.pwc.com

Yuliana Kurniadjaja
yuliana.kurniadjaja@id.pwc.com