TaxFlash

New Value Added Tax regulations

A. e-VAT Invoice goes live on 1 July 2014!

On 20 June 2014, the Director General of Tax (DGT) issued Regulation No.PER-16/PJ/2014 (PER-16) as an implementing regulation of the Minister of Finance (MoF) Regulation No.151/PMK.03/2013 (PMK-151) concerning electronic format of Value Added Tax (VAT) Invoices (*Faktur Pajak/FP*). Please refer to our Tax Flash No. 20/2013 for our discussion on PMK-151.

The use of electronic-based FP (e-FP) is mandatory starting 1 July 2014 **for certain VAT-able Entrepreneurs (*Pengusaha Kena Pajak/PKP*) that are appointed by the DGT.**

Based on the DGT Regulation No.KEP-136/PJ/2014 (KEP-136), the mandatory requirement to use e-FP will be conducted gradually as follows:

a. 1 July 2014 for certain PKPs, i.e. the 45 PKPs listed in Attachment I of KEP-136.

b. 1 July 2015 for other PKPs under the following DGT Regional Offices:
- Large Taxpayer
- Special Jakarta
- Central Jakarta
- South Jakarta
- North Jakarta
- West Jakarta
- East Jakarta
- Banten

- West Java I
- West Java II
- Central Java I
- Central Java II
- Special District Yogyakarta
- East Java I
- East Java II
- East Java III, and
- Bali

c. 1 July 2016 for the remaining PKPs and new PKPs

d. The DGT may also issue a special decision to appoint certain PKPs to use e-FP apart from the above list.

The use of e-FPs is applicable for local deliveries of taxable goods and services, as well as for the delivery of assets that are not intended for sale (Article 16D of the VAT Law No.42/2009).

The obligation to issue e-FPs is not applicable for the following conditions:

a. Delivery of taxable goods and services by retail traders as referred to in Article 20 of Government Regulation No.1/2012

b. Delivery of taxable goods and services by retail stores to individual holders of foreign passports as referred to in Article 16 E of the VAT Law No.42/2009; and

c. Delivery of taxable goods and services which in place of tax invoices are using certain documents that are considered equal to tax invoice as referred to in Article 13 (6) of the VAT Law No.42/2009.

The requirement on the timing for issuing and the description that must be stated in an e-FP remain the same as the normal tax invoice. The signature used in e-FP is in the form of an electronic signature. PER-16 stipulates that the e-FP reporting is carried-out by uploading the e-FP to the electronic system or application provided by the DGT and obtaining approval by the DGT for each e-FP.

The e-FP is not required to be printed in the form of paper, although it can be printed as needed. In case a PKP cannot produce an e-FP due to force majeure events (e.g. war, riot, natural disaster, strike, fire, etc), the PKP may use a normal hardcopy tax invoice. A damaged e-FP printout can be reprinted. Damaged e-FP data can be requested from the DGT through the local tax office.

On the same date, the DGT also issued Regulation No.PER-17/PJ/2014 (PER-17) as the second amendment of PER-24 regarding tax invoice procedures. PER-17 stipulates several main changes as follows:

a. The serial number of tax invoices can be obtained through a website governed by the DGT.

b. PKPs can use DGT-governed application or electronic system to prepare the e-FP.

To be able to use the above functions, PKPs must apply for an electronic certificate from DGT. This certificate functions as an authentication for the PKP to use electronic services provided by the DGT. The procedure for requesting and the granting of an electronic certificate through the website will follow the user manual provided by the DGT.

B. Revision on Input VAT calculation for integrated businesses

On 18 June 2014, the MoF issued Regulation No.135/PMK.011/2014 (PMK-135) concerning VAT on integrated business activities (i.e. PKPs that are delivering both VATable and non-VATable goods and/or services).

PMK-135 serves as the second amendment to MoF Regulation No.78/PMK.03/2010, the first amendment to which was also made in 2014 (i.e. MoF Regulation No.21/PMK.011/2014 (PMK-21) dated 4 February 2014). PMK-135 is effective since 1 January 2014 up to the enactment date of PMK-135, which effectively annuls PMK-21.

PMK-21 states that PKPs in integrated businesses can claim their entire Input VAT if they produce (a) non-VATable goods; and (b) further process the goods in point (a) either by their own processing units or by subcontracting the process to other PKPs to be sold as VATable goods. PMK-135 changes the wording, stating that if PKPs produce (a) non-VATable goods; and (b) further process the goods in point (a) either by their own processing units or by subcontracting the process to other PKPs to be sold as VATable goods, and the Input VAT for the VATable deliveries cannot be clearly identified, the Input VAT that has been paid can be claimed in accordance with the prevailing tax regulations.

Based on the above changes, we view that the revision intends to emphasise the PKP's self-assessment that if they estimate that they will produce VATable and non-VATable goods, then they should prorate the claiming of their Input VAT accordingly. This is reflected in the example given in the attachment which shows that a prorate basis is applied upon the estimation period, and is then adjusted in accordance with the realization within 3 months after the end of the fiscal year. This example is still the same as was given in PMK-21.

On the other hand, if all the production output is VATable goods, then all Input VAT can be claimed. PMK-135 changes the example from a Crude Palm Oil Company into a Corn Oil Company.

C. Increase of the threshold of VAT-exempt low budget houses

On 10 June 2014, the MoF issued Regulation No.113/PMK.03/2014 (PMK-113) that sets the latest criteria for low budget houses which are exempt from the imposition of VAT. PMK-113 serves as the fourth amendment of MoF Regulation No.36/PMK.03/2007 regarding limitations on VAT-exempted low-budget housing which will become effective starting 10 July 2014 (e.g. 30 days since the enactment date).

The criteria are listed below (new criteria set out in PMK-113 are marked as red):

a. the width of the building is not more than 36 m2;
b. the sale price is not exceeding the price threshold based on various zones and relevant year (e.g. Rp 120 million for Jakarta in 2014);
c. it constitutes the first house owned by the buyer, that is used personally as residence and not disposed of within five years from acquisition;
d. the size of the land is not less than 60 m2; and
e. it is acquired in cash or financed through subsidised or unsubsidised credit facility, or through financing based on *syariah* principle.

Particularly for point (b) above, PMK-113 divides Indonesia into nine zones of region. PMK-113 then sets the price threshold on these zones for each year starting 2014 up to 2018. The price threshold in 2018 will still be applicable going forward as long as there is no amendment on PMK-113. A complete price threshold table is available upon request, from your usual PwC Indonesia contact.

The implementation of PMK-113 will be regulated further by the DGT and the Minister of Public Housing.

New customs regulations

A. Preferential trade agreement between Indonesia and Pakistan

The MoF issued Regulation No.116/PMK.011/2014 (PMK-116) dated 16 June 2014. PMK-116 serves as an amendment to the MoF Regulation No.26/PMK.011/2013 regarding the determination of rates on the preferential trade agreement between Indonesia and Pakistan. The imposition of import duty on imported goods from Pakistan was carried out with the following provisions:

a. The import duty rate is lower than the import duty rate applicable in general if it is completed with the Certificate of Origin (Form IP) that has been signed by an authorised officer in Pakistan;
b. Importers shall be obliged to state the reference number of the Certificate of Origin (Form IP) in the Import Document;
c. The original Certificate of Origin (Form IP) must be filed together with the Import Document; and
d. If the import duty rate applicable in general is lower than the import duty rate applicable for the preferential trade agreement between Indonesia and Pakistan, the applicable rate is the import duty rate in general.

PMK-116 added several items with their import duty rate (garments made of cotton such as prayer cloaks, and others, other clothing accessories, etc.) that were attached in the attachment of this regulation.

B. Import duty borne by government in 2014: Implementing regulation for each industry

The 16 MoF regulations below are the annual announcement on import duty on goods and materials by the following industries to be borne by the government in 2014. These regulations are in line with MoF Regulation No.11/PMK.011/2014 (PMK-11) regarding Import Duty Borne by the Government (*Bea Masuk Ditanggung Pemerintah/BM DTP*) in 2014, the purpose of which is to increase the competitiveness of certain sectors of industry. These regulations are applicable from 16 June to 31 December 2014 and the total import duty borne for each group of industries is limited to certain subsidy thresholds in the Government Budget as listed below.

No.	MoF Regulation No.	Industry	Subsidy threshold (in million Rp)	Number of goods type
1	117/PMK.011/2014	infusion package and/or infusion medicine	14,145	8
2	118/PMK.011/2014	motor vehicle components	181,104	57
3	119/PMK.011/2014	plastic packaging, plastic sheets, biaxial oriented polypropylene film, cast polypropylene film, household appliances and/or furnitures made from plastic, plastic sacks, plastic threads, plastic tarp and/or geotextile	87,000	8
4	120/PMK.011/2014	carpets and/or rug	85,500	16
5	121/PMK.011/2014	alkyd resin, unsaturated polyester resin, amino resin, emulsion resin, pigment, phthalate, solution acrylic/synthetic latex, latex synthetic resin dispersion, plasticiser, formaldehyde, and/or formaldehyde resin	6,900	8
6	122/PMK.011/2014	stationery in the form of ballpoints and crayon casing	1,134	2
7	123/PMK.011/2014	livestock feed	70,303	3
8	124/PMK.011/2014	production of certain parts and/or installation of large equipments	22,580	55
9	125/PMK.011/2014	equipments and/or components for heavy construction industry made from iron and steel, pressed container and tanks made from metal, and machinery for agriculture and forestry industry	3,937	5
10	126/PMK.011/2014	steam turbines for power plant	3,500	20
11	127/PMK.011/2014	ship production and/or repair	3,576	9

No.	MoF Regulation No.	Industry	Subsidy threshold (in million Rp)	Number of goods type
12	128/PMK.011/2014	electronic products and/or components	12,845	30
13	129/PMK.011/2014	telecommunication equipments	7,116	4
14	130/PMK.011/2014	fiber optic cables	4,720	6
15	131/PMK.011/2014	smart cards in the form of plastic card, security card, electronic card and phone cellular card	11,340	8
16	132/PMK.011/2014	medical equipments and supplies for hospitals	3,063	9

In order to obtain this concession from the Indonesian Directorate General of Customs and Excise, companies in any of the areas mentioned above should submit an application, complete with a "Draft Master List", along with a recommendation letter from a related government agency (e.g. Ministry of Industry, Food and Drug Control Agency/*BPOM*).

This concession is not applicable if the following conditions apply:

a. the imported goods and materials are not subject to 0% import duty rate according to the Indonesian Customs Tariff Book;
b. the imported goods and materials are included in the category of anti dumping, safeguard, compensation, and requital import duty as defined in prevailing regulations;
c. the companies already use other customs concessions (i.e., Free Trade Area preferential tariff, Bonded Zone, and KITE facility).
d. the imported goods and materials are intended to be hoarded in the Bonded Stockpiling Zone or
e. the imported goods and materials are intended for the companies using facilities of import duty exemption or refund on the imported goods and materials to be processed, assembled, or installed in other goods with the purpose of export;

It is necessary for relevant companies to study these new regulations carefully, since the BM DTP will provide a cash flow benefit for their businesses. Companies that use this concession will also have to be aware that the imported goods must be for the company's own use. Anyone misusing this concession (i.e., transferring goods imported to another party), will be liable to import duty, plus 2% interest per month up to a maximum of 24 months from the import date.

Application to postpone fiscal depreciation until the month of usage of the asset or the start of production

In order to implement Article 11(4) of the Income Tax Law, the DGT issued Regulation No.PER-10/PJ/2014 on 21 March 2014 regarding the procedures to apply for the time to start fiscal depreciation based on the month of usage of the asset or the month of the start of production.

The application can be requested only for tangible goods, except for assets in certain industries (i.e. forestry, hard-crop plantations and livestock). The application must be submitted by the head office of the company to the tax office where it is registered within one month after the end of the fiscal year when the expenditure for the asset or when the asset is finished being made.

The tax office must issue request letter for incomplete documents within ten days from the application submission date and the taxpayer must complete it within ten days from the request letter. If taxpayer fails to complete it within ten days, tax office must issue a letter within three days from the completion deadline stating that the application cannot be considered. If the document is completed within deadline, tax office must issue a decision within one month from document completion.

If the tax office finds later that the timing is not in line with the reality in the field, they can adjust the timing ex-officio.

The use of signature stamp for dividend withholding tax slip

The DGT issued Regulation No.PER-15/PJ/2014 dated 16 May 2014 concerning signature stamp of withholding tax slip on the payment of dividend to shareholders. Tax withholders can use signature stamp to sign withholding tax slip of income tax on the payment of dividend to shareholders for the issuance of the withholding tax slip of income tax of 6,000 (six thousand) sheets at the minimum. Tax withholders wanting to use signature stamp should submit an application to the DGT c.q. Head of the Tax Service Office where the tax withholders are registered complete with the number of dividend recipients and the appointment of an official authorised to sign withholding tax slip regarding income tax on the payment of dividend to shareholders.

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