Tax News Flash

September 2018

Indonesia raises import taxes on 1,000-plus goods

On 5 September 2018, the Indonesian Finance Ministry provided information regarding the plan to control imports by adjusting the Article 22 Income Tax rate for a list of more than 1,000 goods with effect on 13 September 2018 (110/PMK.010/2018).

Import taxes will rise from 2.5 percent up to 10 percent on 1,147 mostly consumer goods, ranging from cosmetics to cars. This is part of the government's program aimed at cutting imports and supporting a weak rupiah in order to reduce the current account deficit (CAD). The list also includes basic goods like coffee, tea and pasta, consumer electronics, clothing as well as luxury items and construction materials.

The additional 7.5 percent tax will be levied as income tax, and calculated based on the CIF value of the imported good plus duty. The import taxes can be credited against the annual tax liability in the annual corporate income tax return.

Background

The emphasis on boosting exports and curbing imports is part of the government's strategy to cut the CAD and to increase foreign exchange reserves. The plan also includes other measures, such as increasing the use of palm oil to reduce crude imports, delaying some infrastructure investment and rescheduling shipments.

Due to the fact that the rupiah has dropped to its weakest level since the Asian financial crisis in 1998, the government is stepping up action to strengthen the currency.

KPMG Comments:

The increase of taxes on imported goods will most likely increase the difference between taxes already paid and taxes actually payable, even for companies using an average margin for their products. Also, since the import taxes are prepaid and may be credited against the annual tax liability, the refund may only take place more than a year after the taxes have been paid. Hence taxpayers should take into account the impact on their cash flow from these new measures.

Finally, please be prepared for future tax audits as a tax refund request will always trigger a tax audit and as the refund amounts will increase significantly, the complexity of the tax audit may increase significantly as well.

For additional information or assistance, please contact your local tax professional or one of the following professionals with the KPMG International member firm in Indonesia.

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