

Global Mobility Services Bulletin

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50% Final Income Tax Rate Reduction for Small and Medium Enterprises

In an effort to help boost economic growth, the government has reduced the final income tax rate for micro, small and medium enterprises ("MSMEs") with Government Regulation No. 23 Year 2018 ("PP-23"). With lower tax obligations, MSMEs are expected to have greater economic capacity to develop their businesses and make investments. The issuance of PP-23 revokes the previous regulation, Government Regulation No. 46 Year 2013.

As of 1 July 2018, the final income tax rate is reduced by 50%, from 1% to 0.5%. This final income tax obligation applies to taxpayers with annual gross income/turnover of less than IDR 4,800,000,000 in a fiscal year.

PP-23 also establishes a sunset clause during which taxpayers can benefit from the final tax regime, before escalation to the normal tax regime. These periods are as follows:

1. Seven years for individuals;
2. Four years for cooperatives, limited partnerships and firms; and
3. Three years for limited liability companies.

For taxpayers already registered, the sunset clause applies starting in 2018.

For taxpayers who register after the regulation was issued, it starts in the tax year in which they register.

This regulation also provides clarity regarding both income and taxpayers exempted from the final income tax regime:

Exempted Income from Businesses	Exempted Taxpayers
a. Income of individual taxpayers from services related to freelance activities	a. Those who choose to report income tax according to the normal tax rates or Article 31E of the Income Tax Law
b. Income received or obtained overseas that is already taxed by the source country	b. Limited partnerships or firms owned by individual taxpayers who have expertise and provide one type of service
c. Income subject to final income tax based on separate tax laws and regulations	c. Corporate taxpayers that have obtained income tax facilities or tax holidays under Art 31A of the Income Tax Law or Government Regulation No. 94 Year 2010.
d. Non-taxable income	d. Permanent Establishments

The final income tax must be self-assessed or withheld by the transaction counterpart that is appointed as a tax withholder. For withholding tax purposes, the taxpayer must apply for a Notification Letter to the DGT, which will state that the taxpayer is subject to final tax income according to PP-23.

KPMG Notes:

PP-23 is intended to provide opportunities for MSMEs to participate in and improve their economic growth with a lower tax burden. In addition, they are expected to educate themselves regarding the accounting and tax obligations of small businesses, so that when their sunset clause ends they are well prepared to report their income tax according to the “normal” income tax law.



New Enhanced Post-Tax Amnesty Program Monitoring and International Information Sharing by the Tax Office

The Director General of Tax has issued Circular Letter No. SE-14/PJ/2018 (“SE-14”) regarding the Monitoring of Taxpayers Subsequent to the Tax Amnesty Program. The issuance of this new circular letter revokes Circular Letter No. SE-20/PJ/2017, which was discussed in our December 2017 GMS Bulletin.

The objective of SE-14 is to improve and facilitate the effectiveness of compliance monitoring, especially in relation to taxpayers’ obligation to report their complete list of assets in the Tax Amnesty Report and/or Annual Income Tax Return.

This post-Tax Amnesty Program monitoring utilizes a computer application called Approweb. The Directorate of Potential, Compliance and Income will conduct monthly monitoring utilizing this application. If assets and/or other data not previously known and/or filed are identified, the Director will request clarification from the Head of the District Office, who in turn will request clarification from the Chief Tax Officer in charge. The Chief Tax Officer, together with the Section Heads, is fully responsible to take action on newly identified assets and/or other data and follow up, as appropriate.

KPMG Notes:

The Indonesian Tax Authority (ITA) is continuing to improve and enhance its manpower, business processes and IT and database capabilities as directed by Presidential Regulation No. 40 Year 2018 regarding the Improvement of the Tax Administration System. You can expect that, with the aid of technology, the ITA will be more efficient and capable in processing and analyzing its ever-increasing database, especially after CRS becomes effective.

Approweb is an application which has been utilized by the ITA for a number of years for creating and maintaining taxpayer profiles. Further information regarding this application can be found on the internet.



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