KPMG

Tax News Flash

December 2024

New regulation on the tax treatment of Joint Operations

Indonesia's Finance Minister issued Regulation No. 79 of 2024 (PMK-79) on 18 October 2024, which outlines the tax treatment for joint operations (JO). This regulation categorizes JOs into two groups based on their tax obligations: JOs that require an NPWP (taxpayer identification number) and PKP (value-added tax/VAT registration) and JOs that do not require an NPWP and PKP.

Below are the key highlights of PMK-79:

Criteria for and administrative requirements of JOs with an NPWP and PKP

- A JO must register for an NPWP if its agreement or activities involve
  - i. delivering goods/services;
  - ii. receiving income; and/or
  - iii. incurring expenses or paying income, in the name of the JO.
- The NPWP should be registered at the tax office located in the area where one of the JO members is domiciled in Indonesia. This should be specified in an agreement or in an appointment letter designating this JO member as the JO's representative. Registration must be completed within one month of the JO's establishment (if the agreement meets the criteria) or when the commencement of activities meets the criteria (if it is not specified in the agreement).
- A PKP will need to be appointed if the JO exceeds the small entrepreneur threshold or if one or more members of the JO are already PKP.

Summary of the tax treatment for JOs with an NPWP and PKP

<table>
<tr><th>Type of taxes</th><th>PMK-79</th></tr>
<tr><td>VAT/ luxury-goods sales tax (LST)</td><td>

VAT collection: JO and JO members should collect VAT.
Taxable event: Once the JO delivers the goods/services to the customer.
Tax base: Tax invoices issued by the JO to customers will follow the general VAT rules for determining the VAT base. Meanwhile, the tax invoice that JO members issue to the JO will reflect the contribution value specified in the JO agreement and specify the taxable goods or services delivered by each JO member.
VAT invoice issuance: The JO will issue an invoice and tax invoice to the customer. JO members must issue a tax invoice to the JO no later than when the JO issues its tax invoice to the customer.
Input VAT credit: JO members or the JO itself can claim an input VAT credit if it meets the input tax crediting requirements.
LST: Only applied once, during the delivery of luxurious taxable goods to the customer.

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<tr><td>Corporate income tax (CIT)</td><td>
Both JO and JO members have an obligation to file a CIT return (CITR).
Taxation for the JO

Income received by the JO from the customer is treated as the JO’s income.
Costs: Business costs are based on member contributions as detailed in the JO agreement and should specify which taxable goods/services are provided by each member.
Deductibility: Business costs related to non-final-taxed income are deductible, while those related to final-taxed income are not.
Losses: Tax losses can only be offset by the JO itself, not by its members, even upon the JO’s dissolution.

Taxation for JO members

JO members recognize income based on their contributions which are outlined in their contracts. For non-final-taxed income, recognition occurs when the JO receives income and recognizes the costs incurred from the member’s contribution. For final-taxed income, this occurs when the JO receives income from the customer.
Losses: JO members can only offset their own losses, including those from activities outside the JO agreement.
Tax treatment on the profit-after-tax distributed by a JO:

Domestic tax subject or permanent establishment (PE):

Not subject to corporate tax or withholding tax (WHT).
Reported in the member’s CITR as non-taxable income.
PE income not reinvested in Indonesia is subject to Art. 26(4) of the Income Tax Law.

Foreign tax subjects: Subject to WHT.

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<tr><td>WHT</td><td>
Taxation for the JO

WHT taxation: The JO is subject to WHT on income, purchases/imports, and exports, which can be self-assessed.
Tax credits: WHT or self-assessed tax can be credited in the JO’s annual CITR (for non-final-taxed income) or final tax settlement (for final-taxed income).
Customer obligations: Customers withhold and issue WHT slips to the JO.
Construction Services: The highest applicable WHT rate under the JO member’s construction service regulations applies.
General WHT obligation: A JO with an NPWP must withhold WHT on payments to other parties.

Taxation for JO members
Income received by a JO member from the JO, based on their contribution, is not subject to WHT unless the member is a foreign taxpayer, in which case Art. 26 WHT applies. Income is taxed normally (final or non-final tax), and JO members are required to self-assess the tax on final tax income. If income results from the transfer of land/building rights or a binding sale and purchase agreement, the JO’s final tax self-assessment on the transaction settles the JO member’s income tax.
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Taxation for JOs without an NPWP or PKP

- **Criteria and registration:** If the JO does not meet the criteria in PMK-79 (please see above criteria), it is not required to register for an NPWP or PKP and tax obligations are handled individually by each JO member.
- **VAT/LST:** The delivery of taxable goods/services by a JO member is subject to VAT/LST. A PKP member must issue a tax invoice and can credit input VAT. VAT/LST payable is reported and remitted by the JO member.
- **Income Tax:** Income tax on the JO's income is calculated, paid, and reported by each JO member based on the proportion agreed to in the JO agreement.
- **WHT:** Each JO member is responsible for WHT on their income, purchases/imports, exports, and payments, in line with general tax regulations.

Income tax treatment for JOs involved in land and building transfers

- The final tax payment on the transfer of land and building (L&B) rights must be validated by the tax office. The JO is responsible for submitting a validation request.
- During the land and building (L&B) title transfer at the Ministry of Agrarian Affairs and Spatial Planning, the JO must provide a statement letter from the tax payment validation and a copy of the JO agreement or deed of establishment that match the original documents.

Transitional provisions

- JOs that had an NPWP before the issuance of PMK-79 (18 October 2024) and that meet the three criteria in PMK-79 must:
  - Apply for a transfer of the JO's registered address to align with that of the new PMK, ensuring it is located at one of the JO member's locations;
  - Report their business to confirm PKP status if the JO meets the criteria but is not yet registered;
  - Start collecting VAT/LST after the October 2024 tax period (i.e. November 2024) and withhold/collect WHT starting from the January 2025 tax period; and
  - Begin calculating, paying, and reporting income tax starting from fiscal year 2025.
- JOs that had an NPWP before the issuance of PMK-79 (18 October 2024) but do not meet the 3 criteria stipulated in PMK-79 are required to submit an application for NPWP revocation, or if the JO is a PKP, submit an application for both NPWP and PKP revocation.

KPMG notes:

- **PMK-79 provides detailed regulations on JO taxation and simplify the taxation for JOs. Now JOs are subject to corporate tax at the JO's level and does not have the concept of revenue-sharing anymore.**
- **Existing JOs that meet the criteria must ensure their registered address is located at location belonging to a member; otherwise, they must apply to transfer the JO's address with the tax office.**

Please reach out to your KPMG contacts for any further guidance you may require with respect to this regulation.

Contact us

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