



Omnibus Tax Law Draft

Taxation Provisions and Facilities for Economic Strengthening

Source: Directorate General of Tax's presentation material titled "*Ketentuan dan Fasilitas Perpajakan untuk Penguatan Perekonomian*"

BACKGROUND OF OMNIBUS TAX LAW DRAFT ("OMNIBUS LAW"):

The global economic slowdown, potential Indonesian economic stagnation, and the unoptimized Indonesia's Investment Competitive Index.

SCHEME OF OMNIBUS LAW:

The set of Omnibus Law is legislated; then the comprehensive revision of General Tax Law, Income Tax Law and Value Added Tax Law shall continue accordingly.

OBJECTIVES OF OMNIBUS LAW:

1. To improve conducive and attractive business environment for investor
2. To increase Indonesian economic growth
3. To enhance certainty of law and attract foreign residents to work in Indonesia, in order to transfer their expertise and knowledge for enrichment of Indonesian human resources quality
4. To encourage taxpayers' voluntary compliance
5. To create fairness for domestic and foreign companies in doing business

SUBSTANCE OF OMNIBUS LAW:

1. To Improve Investment Funding

a. Reduction of Corporate Income Tax ("CIT") Rate

No	Regulation	Current	Proposed in the Omnibus Law
1	Reduction of CIT Rate for Non-Public Listed Company.	Corporate Income Tax rate of 25%	FY 2021 and 2022 - reduced to 22% FY 2023 - reduced to 20%
2	Reduction of CIT Rate for (Newly Registered) Public Listed Company	5% lower than normal rate	<ul style="list-style-type: none"> • 3% lower rate from normal rate; and • Applicable for 5 years.

b. Tax Exemption on Dividend received by Domestic Tax Payers

No	Regulation	Current	Proposed in the Omnibus Law
1	Onshore Dividend Tax	<ol style="list-style-type: none"> 1. Non Taxable for Corporate Tax Payers with ownership of $\geq 25\%$ 2. Normal Tax Rate for Corporate Tax Payers with the ownership of $< 25\%$ 3. Final Tax Rate at 10% for Individual Tax Payers 	<ol style="list-style-type: none"> 1. Same with current (non-taxable) 2. Non-taxable if the dividend is reinvested back to Indonesia in certain period. 3. Non-taxable if the dividend is reinvested back to Indonesia in certain period.
2	Offshore Dividend Tax	Normal Tax Rate for Corporate and Individual Tax Payers	Non-taxable if the dividend is reinvested back to Indonesia in a certain period

2. To Implement the Tax System

No	Regulation	Current	Proposed in the Omnibus Law
1	Indonesian Citizen or Foreign Citizen as Domestic Tax Resident	Indonesia citizen is treated as Domestic Tax Resident (SPDN) due to his/her citizenship. Foreign citizen living more than 183 days is treated as Domestic Tax Resident (SPDN)	Indonesia Citizen or Foreign Citizen treated as a Domestic Tax Resident (SPDN) based on their physical presence in Indonesia: > 183 days = Domestic Tax Resident (SPDN) ≤ 183 days = Foreign Tax Resident (SPLN)
2	Taxing Principle of Income Tax	Worldwide System (Tax Residents are taxed on their worldwide income regardless of where the income was generated – with consideration to eligible foreign tax credit.)	Territorial System (Tax Residents are taxed only on Indonesian-sourced income)

3. To Encourage Voluntary Compliance from Taxpayers

1. Relaxation on The Creditability of Input VAT

No	Regulation	Current	Proposed in the Omnibus Law
1	Input VAT on the acquisition of taxable goods/services prior to VAT-able Entrepreneur (PKP) registration	Not creditable	Creditable – based on the Tax Invoice
2	Input VAT is not reported in VAT Return and becomes the finding in the tax audit	Not creditable	Creditable – based on the Tax Invoice
3	Input VAT which is collected in the tax assessment	Not creditable	Creditable – only the VAT portion
4	Input VAT for the acquisition of taxable goods/services prior to VAT-able Entrepreneur (PKP) carries taxable delivery	Creditable (only capital goods)	Creditable –any overpayment can be requested for VAT refund at the end of financial year.

2. Rearrangement of Tax Administration Sanction

No	Regulation	Current	Proposed in the Omnibus Law
1	Interest sanction on underpayment due to revision of annual and monthly Tax Return	2% per month of underpaid tax	Monthly sanction = $(\text{Reference interest rate}^* + 5\%) / 12$ <i>*Amount of monthly interest and sanction shall be determined by the Minister of Finance</i>
2	Interest sanction on underpayment tax assessment letter	2% per month of underpaid tax	Monthly sanction = $(\text{Reference interest rate}^* + 10\%) / 12$ <i>*Amount of monthly interest and sanction shall be determined by the Minister of Finance</i>
3	Fine on Taxable Entrepreneurs who did not prepare tax invoice, or prepares tax invoice but not on time	2% of tax base	1% of tax base
4	Fine on entrepreneurs who did not register its business as a Taxable Entrepreneur	No administrative sanction	1% of tax base (in order to retain equality with Taxable Entrepreneurs who did not prepare tax invoice or late prepares tax invoice)

4. To Create Equality between Domestic and Foreign Companies in Doing Business – Taxation on Electronic Trading

No	Regulation	Current	Proposed in the Omnibus Law
1	Collection and payment of VAT on the import of intangible goods and services	The Resident taxpayer ("WPDN") to pay VAT via the tax payment slip (i.e. Self-assessed/Offshore VAT).	<ul style="list-style-type: none"> The non-resident taxpayer ("SPLN") (e.g. foreign trader, foreign service provider, foreign platform) to collect, pay and report VAT. SPLN may appoint an agent in Indonesia to collect, pay and report VAT on behalf of the SPLN.
2	Taxing SPLN without physical presence in Indonesia on the income arising from their electronic businesses	Not Regulated	<ul style="list-style-type: none"> Re-define the definition of permanent establishment ("BUT") based on both physical presence and significant economic presence. Rate and Tax Base is based on the Income Tax Law

5. To Stipulate the Tax Facilities in the Tax Law

No	Regulation	Current	Proposed in the Omnibus Law
1	Reduction/ Exemption of Corporate Income Tax (Tax Holiday)	<p>Entitled for corporate taxpayers in pioneer industry.</p> <p><i>(Regulated under Capital Investment Law No.1/2019 and Ministry of Finance Regulation No.150/PMK.010/2018)</i></p>	<ol style="list-style-type: none"> Entitled for corporate taxpayers in pioneer industry. For the main activities in special economic zone. Development of specific industrial area.
2	Reduction in Gross Income (Super Deduction)	<p>Entitled for corporate taxpayers who:</p> <ol style="list-style-type: none"> Performs vocational and R&D activities. Invests in labor-intensive industries. <p><i>(Regulated under Government Regulation No. 45/2019)</i></p>	The current facilities will be further regulated in the new Tax Law.
3	Special Economic Zone Facility ("KEK")	<ol style="list-style-type: none"> Reduction of net income at maximum of 30%. Accelerated depreciation and amortization. Additional tax loss carried forward period. Tax on dividend at 10% <p><i>(Regulated under Special Economic Zone Law No. 96/2015)</i></p>	The current facilities will be further regulated in the new Tax Law.
4	Income Tax on Global Sovereign Bonds ("SBN")	<p>Lower rate or exempt from income tax imposed on interest payments on SBN, mutually beneficial.</p> <p><i>(Regulated under Government Regulation No. 16/2009)</i></p>	Lower rate or exempt from income tax imposed on interest payments on SBN.



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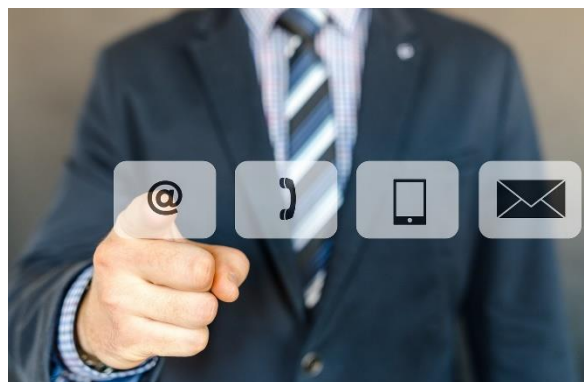
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When specific problems occur in practice, it is suggested to obtain appropriate advice from the tax advisor.