

taxBlitz

Tax & Customs Update

Inexpensive Tax Facility of 0.5% for MSMEs

Government provides taxation alternative for entrepreneurs of Micro, Small, and Medium Enterprises (MSME)—with revenue not exceeding IDR4.8 billion per year. MSME may choose for using normal tax rate (progressive) or final tax rate of 0.5%.

However, terms and conditions apply for MSME that chooses 0.5% final tax rate as not all business types may utilize this cheapest tax facility.

The terms and conditions are stipulated in Government Regulation Number 23 Year 2018 on Income Tax upon Income from Business that is Received or Obtained by Taxpayer having Certain Revenue. The policy that is effective per 1 July 2018 revokes automatically the former regulation, which is Government Regulation Number 46 Year 2013.

In the new government regulation, government does not change the limit of revenue that becomes the criterion of MSME Taxpayer, in which the range of revenue is still at IDR4.8 billion per year at maximum. However, the significant change occurs in final income tax rate that is lower than the previous one, which was 1%, to 0.5% of revenue with certain period.

For individual Taxpayers, they may use the 0.5% final income tax rate for seven years. In the meantime, for corporate Taxpayers, the effective period of final income tax rate is three years for enterprises with Limited Liability Company (LLC) status or four years for enterprises in legal body form i.e. CV, firm, or cooperative.

For the old Taxpayers, the effective period is since the enactment of the regulation. Meanwhile, for Taxpayers who register after the policy is applied, it starts from the time they are registered as Taxpayers.

Types of Taxpayer	Effective Period of Final Income Tax of 0.5%
Individual Taxpayer	7 years
Corporate Taxpayer in the form of LLC	3 years
Corporate Taxpayer in the form of CV, Firm, and Cooperative	4 years

Take Your Pick

However, MSME gets the freedom to select income tax rate, whether it is final of 0.5% or normal income tax rate (progressive) pursuant to Article 17 paragraph (1) letter a; Article 17 paragraph (2a); or Article 31E of Income Tax Law. Therefore, the Taxpayers should submit notification to Tax Office upon the selected tax rate that will be used.

According to this policy, not all incomes may obtain this 0.5% final income tax facility. Several incomes excluding from this provision are as follows:

1. Income received by Taxpayer related to provision of independent works;
2. Income from overseas already subject to tax;
3. Income that is subject to final income tax based on other regulation; and
4. Income that is not tax object.

Types of Independent Works

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- Experts: lawyer, accountant, architect, doctor, consultant, notary, land deed official (*pejabat pembuat akta tanah/PPAT*), appraiser, and actuary;
 - Musician, presenter, singer, comedian, film cast, soap opera cast, advertisement cast, director, film crew, photo model, model, drama cast, and dancer; and
 - Athlete.
 - Adviser, teacher, trainer, preacher, instructor, and moderator;
 - Author, researcher, and translator;
 - Advertisement agent;
 - Project supervisor or manager;
 - Intermediary;
 - Salesperson;
 - Insurance agent; and
 - Distribution of multi-level marketing company or direct sales and other similar activities.
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Other than limiting the types of income, this Government Regulation also affirms the criteria of Taxpayer who is not entitled to obtain the 0.5% final income tax rate, as follows:

1. Taxpayer opting to be subject to normal income tax rate pursuant to Article 17 paragraph (1) letter a, Article 17 paragraph (2a), or Article 31E of Income Tax Law;
2. Corporate Taxpayer in the form of CV or firm created by individual Taxpayer who renders service in terms of independent works;
3. Corporate Taxpayer who obtains taxation facility in accordance with Article 31A of Income Tax Law and Government Regulation Number 94 Year 2010; and
4. Permanent Establishment (PE) Taxpayer.

Asset Separation

For Taxpayer who is married, the value of gross income is calculated by combining the income of the husband and wife. This provision prevails although the husband-wife perform written asset and income separation agreement. The same applies to the condition when the wife wants to perform her own taxation obligation, or to be separated from the husband's taxation right and obligation.

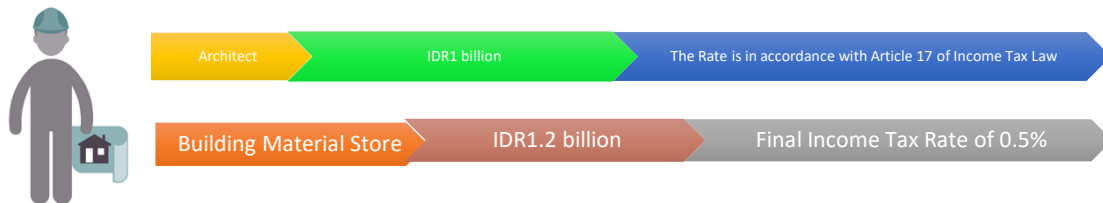
In the meantime, for corporate Taxpayer consisting of several business branches, the mechanism of revenue value calculation is conducted by combining all revenues from the existing business branches.

The revenue defines all incomes received before deducted by sales discount, cash discount or similar discount.

Simulation

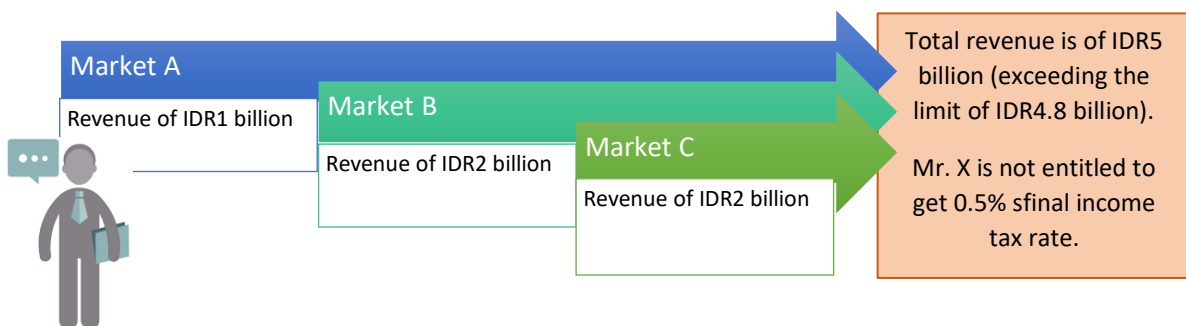
Example 1

Mr. A who is an architect having building material store, in 2020 gains income of IDR2.2 billion with details as follows: IDR1 billion from architect service under his own name and IDR1.2 billion generated from his building material store business.



Example 2

Mr. X is a textile merchant whose business has spread over several places. In 2019, his business activities in several places are recorded having revenue as follows:



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