

## Tax Treatment on Sales-Purchase Rewards

Directorate General of Taxes (DGT) emphasizes the tax treatment on reward earned by buyer related to specific condition in a sales-purchase transaction. The difference of the transaction condition as well as the agreement between the seller and the buyer will be the differentiating factor of Income Tax and Value Added Tax (VAT) impositions on rewards or benefits earned by buyers.

The affirmation is expressed in Circular of Director General of Taxes Number SE-24/PJ/2018 issued on 29 November 2018. There are three types of rewards being the focus in the regulation of SE-24/PJ/2018.

### 1. Bonus and Management Service Rewards earned by the buyer due to fulfilling specific requirements

In this case, the seller may give a reward to the buyer who fulfils the following specific requirements:

- 1) purchase by the buyer reaching specific amount;
- 2) sales by the buyer reaching specific amount; and/or
- 3) payment by the buyer corresponding specific terms.

The rewards earned by the buyer related to the above conditions are commonly in the form of money, goods, or payment reduction. In addition to payment reduction, bonus can be given from the seller to the buyer. If the bonus is given because of the activity of service provision stated in the contract, the bonus is deemed as management service reward.

Referring to the above explanation, tax treatment on rewards earned by buyers due to fulfilling specific requirements is adjusted to the condition and criteria as in the following table:

Tax Type	Reward provision related to specific requirements
ITA 21	Reward recipient is individual Taxpayer.
ITA 23	Reward recipients: <ul style="list-style-type: none"> <li>• Resident corporate Taxpayer;</li> <li>• Permanent Establishment (PE) or non-resident Taxpayer meeting the category of PE; and/or</li> <li>• PE head office (if the reward comes from PE income).</li> </ul>
ITA 26	Reward recipients: <ul style="list-style-type: none"> <li>• Non-PE non-resident Taxpayer; and/or</li> <li>• PE head office (if the reward does not come from PE income).</li> </ul>
VAT	The reward is given in the form of Taxable Goods, in case the seller and the buyer are in customs area. *the seller is obliged to collect VAT payable, make tax invoice, and submit and report the payable VAT on the transfer of the taxable goods.

\*ITA: Income Tax Article

## 2. Rewards earned by the buyer due to providing space or specific equipment

This reward arises because the seller requests for facility to the buyer in the form of space or equipment for the seller's interest. The facility can be in the form of floor to place goods and merchandise display shelf—including rack, hanging shelf, and/or display window—to show or promote products. The rewards earned by the buyer can be in the form of money, goods, or payment reduction.

For rewards earned by the buyer due to providing space, the tax treatment refers to the provision as in the following table:

Tax Type	Reward provision related to space provision
ITA 4 (2)	Income recipients: <ul style="list-style-type: none"><li>• Resident Taxpayer;</li><li>• PE or non-resident Taxpayer meeting the category of PE; and/or</li><li>• PE head office, in case the reward is PE income.</li></ul>
ITA 26	Income recipients: <ul style="list-style-type: none"><li>• Non-resident Taxpayer not having PE in Indonesia; and/or</li><li>• PE head office, if the income does not come from PE.</li></ul>
VAT	The reward is given on Taxable Service to the buyer whose status is as a VAT-Registered Person.

Meanwhile, upon income generated from leasing goods or equipment, the tax treatment refers to the provision as in the following table:

Tax Type	Reward provision on goods lease
ITA 23	Income recipients: <ul style="list-style-type: none"><li>• Resident Taxpayer;</li><li>• PE or non-resident Taxpayer meeting the category of PE; and/or</li><li>• PE head office, in case the reward is PE income.</li></ul>
ITA 26	Income recipients: <ul style="list-style-type: none"><li>• Non-resident Taxpayer not having PE in Indonesia; and/or</li><li>• PE head office, if the income does not come from PE.</li></ul>
VAT	The reward is given on Taxable Service to the buyer whose status is as a VAT-Registered Person.

## 3. Reward in the form of compensation on the risk of goods purchased and sold

The compensation arises upon goods price protection purpose. Usually, the seller will give rewards to the buyer in the form of money, goods, or payment reduction as the compensation of loss that may appear due to price changes in the future.

Price changes may result from late goods delivery, price fluctuation, or specific sales program (on the instruction of the seller) such as installments program with 0% interest in the end buyer level. In the meantime, the first buyer has been previously imposed with interest during the transaction.

Upon the price protection policy, the tax treatment will be adjusted to the condition and provision as in the following table:

Tax Type	Compensation provision on risk of price changes loss
ITA	<ul style="list-style-type: none"> <li>• Not the object of withholding income tax (21, 23/26)</li> <li>• ITA objects that must be self-reported by the recipient of compensation in the Annual Tax Return</li> <li>• Compensation recipients: <ul style="list-style-type: none"> <li>○ Resident Taxpayer;</li> <li>○ PE or non-resident Taxpayer meeting the category of PE; and/or</li> <li>○ PE head office, in case the reward is PE income.</li> </ul> </li> </ul>
ITA 26	Non-resident Taxpayer, both those having and not having PE in Indonesia.
VAT	If the reward is a Taxable Goods given by the seller to the buyer, seller as the compensation must collect VAT.

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