



Indonesia Tax Alert April 2020

Updates in the Financial Services Industry

New Financial Policies in response to COVID-19 with focus on Financial Services Industry

In view of the urgent need to preserve the health of national economy during the COVID-19 outbreak, the President of the Republic of Indonesia took an emergency measure by issuing Government Regulation in Lieu of Law Number 1 ("PERPU-1") on 31 March 2020.

PERPU-1, which has immediate effect, covers national income policy (including taxation), state spending policies (including regional finance), financing policies, and other measures to manage issues being faced by financial institutions that might otherwise endanger the national economy and/or the stability of the financial system.

The taxation policies specifically influencing financial services industries, are as follows:

1. Reduction of corporate income tax ("CIT") rate for domestic corporate taxpayers and permanent establishments ("PEs");
2. Delegation of authority and policy implementation provided to financial services regulators; and
3. Extension of the deadlines for certain tax administrative procedures.

1. Reduction of CIT rate for Domestic Corporate Taxpayers and PE's relevant for Banks and Financial Services Industry

CIT Rate Reduction

The CIT rate for domestic corporate taxpayers and PEs is reduced from 25% to:

- a. 22% for fiscal years ("FY") 2020 and 2021; and
- b. 20% for FY 2022 and subsequent years.

For publicly listed companies with a minimum of 40% of the shares held by public investors that also meets certain other criteria, the applicable CIT rate shall be 3% lower than the regular rate. The specific criteria will be set out in a further Government Regulation ("GR").

Installment of Article 25 Corporate Income Tax

Directorate General of Taxation ("DGT") has issued Press Release Number SP-13/2020 ("PR-13"), in which it provides guidance for settlement of Article 25 CIT installment for taxpayers who have not submitted their 2019 CIT return until the end of March 2020, with the provisions as follows:

- a. Article 25 CIT installment for March 2020 (to be settled by 15 April 2020) shall be in the same amount as the previous tax period installment, i.e., using the previous CIT rate of 25%; and
- b. Article 25 CIT installment for April 2020 (to be settled by 15 May 2020) and subsequent months in 2020 are to be calculated based on FY 2019 taxable income, but the new CIT rate of 22% shall be applied.

However, PR-13 does not provide any guidance for taxpayers whose Article 25 installments are regulated under Minister of Finance ("MoF") Regulation Number 215/PMK.03/2018 ("PMK-215"), such as banks, listed companies, and other entities (like insurance companies, pension funds, consumer finances, and other financial services companies).

Article 25 CIT installment for banks and other financial services companies having calendar fiscal year may consider some approaches below:

- a. Pursuant to PMK-215, banks are required to calculate Article 25 CIT installment based on monthly accounting profit. There are different interpretations, which may need further clarification from the DGT. One of the view is where the installment for March 2020 shall remain using the rate of 25% in line with PR-13. Another view is that the CIT rate of 22% may be applied immediately by banks for March 2020 installment on the basis that PERPU-1 is effective on 31 March 2020.
- b. Financial services companies (such as insurance or securities companies), which are required to submit a quarterly report to Financial Services Authority (*Otoritas Jasa Keuangan* or "OJK"), have calculated the Article 25 CIT installment for Q1 2020 (for period of January to March 2020) based on the Q4 2019 accounting profit by applying the CIT rate of 25%. The new CIT rate of 22% can be applied from Q2 (April to June) 2020 and onward.

Taxpayers need to monitor any future implementation regulation issued by the DGT, or confirm with their account representatives at their respective tax offices in order to avoid any unnecessary administrative penalties.

2. Delegation of Authority and Policy Implementation Provided to Financial Services Regulators

PERPU-1 delegates certain authorities to Indonesian Central Bank, Indonesian Deposit Insurance Institution (*Lembaga Penjamin Simpanan* or “LPS”), as well as OJK, to maintain stability of financial system:

| Indonesian Central Bank | LPS | OJK |
|--|--|---|
| Provide short-term loan or short-term sharia financing to systemic and non-systemic banks | Sale or Repo of government bonds owned by LPS to Indonesian Central Bank | Issuance of written order to conduct merger, take over, combination, integration, or conversion |
| Purchase long-term government bonds or sharia government bonds in primary market, including bonds issuance related to COVID-19 | Issuance of bonds | |
| Purchase or repo government bonds owned by LPS for the purpose of maintaining solvability of systemic and non-systemic banks | Provide loan to other party | |
| Exchange control for Indonesian residents | Provide loan to government | |
| Repo of government bonds or sharia government bonds owned by private companies | | |

There will be significant tax implications relating to the above measures, such as withholding tax on coupon or capital gain on the merger or their combination (unless, typically a book-value asset transfer approval from the DGT is obtained). It is expected that the MoF will issue implementing regulation to expedite the process due to urgency under COVID-19 outbreak.

3. Extension of the Deadlines for Certain Tax Administrative Procedures

On 20 March 2020, the DGT issued Decision Letter Number KEP-156/PJ/2020 (“KEP-156”) that defines the period between 14 March 2020 and 30 April 2020 as a “force majeure” period for tax purposes (please refer to [Tax Alert March 2020 2nd edition](#)). PERPU-1 states that the force majeure period for certain tax procedures will follow the period stipulated by the National Disaster Management Agency (*Badan Nasional Penanggulangan Bencana* or “BNPB”). PERPU-1 takes priority over KEP-156, and for the procedures listed in the table below, the force majeure period shall follow PERPU-1:

| Arrangements under Previous Regulation on COVID-19 | | Arrangements under PERPU-1 |
|---|---|---|
| Procedure | Reference | |
| Application for objection, where deadline falls between 15 March and 30 April 2020, shall be extended until 31 May 2020. | KEP-156 (point number 8) | Application for objection, where deadline falls during BNPB-determined force majeure period, is extended for a maximum of six months. |
| Overpaid tax will be refunded within one month of the taxpayer’s request for a refund (following the issuance of overpayment decision letters by the tax office). | Law on General Tax Procedures and Provisions (“KUP Law”) (Article 11 (2)) | The refund deadline is extended to two months. |

| Arrangements under Previous Regulation on COVID-19 | | Arrangements under PERPU-1 |
|--|---|---|
| Procedure | Reference | |
| Deadline for the issuance of decision letters for: <ol style="list-style-type: none"> 1. Audit for tax restitution: maximum 12 months from the date the completed restitution request is received; 2. Tax objection: maximum 12 months from the date the tax objection letter is received; and 3. Request for reduction or annulment of administrative sanctions, reduction or cancellation of incorrect tax assessment letter, or cancellation of audit findings: Maximum six months from the date the request letter is received. | KUP Law (Article 17B (1)) KUP Law (Article 26(1)) KUP Law (Article 36(1)) | The deadline for the issuance of the assessment or decision letter is extended for a maximum of six months. |

PERPU-1 does not provide examples or clear guidance on how to calculate the deadline extension, but one may assume that the extension would be calculated from the original deadline.

Banks and financial services companies intending to submit requests relevant to the above, or for whom the deadline for the tax procedures above are approaching, should monitor the changes in the deadlines. In addition, care must be taken as well for the taxpayers who are claiming or in the process of claiming overpayment in order to manage their cash flow, as the refund process is extended.

4. Closing Remarks

The application of some of the tax provisions in PERPU-1 require further implementing regulations, which given the urgency of the situation, are expected to be issued very soon. We will provide further updates once these regulations are issued.

Contact Persons

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