



Indonesia Tax Info May 2023

Regulation updates income tax and VAT treatment of sales of gold and related services

On 28 April 2023, the Indonesian Minister of Finance (MoF) issued Regulation Number 48 of 2023 (PMK-48), providing legal certainty, fairness, and a more streamlined tax treatment related to the sale or delivery of gold and nongold jewelry, gold bars, and the related services. Under PMK-48, all the major industry-specific income tax and VAT provisions are consolidated into one regulation and certain previous legislations are revoked, including:

- The provisions related to the domestic sale of gold bars under MoF Regulation Number 34/PMK.010/2017 (as amended several times, most recently by MoF Regulation Number 41/PMK.010/2022) (PMK-34) regarding the collection of Article 22 income tax on the payment for the delivery of goods and import or other business activities; and
- MoF Regulation Number 30/PMK.03/2014 (PMK-30) regarding VAT on the delivery of gold jewelry.

PMK-48 covers the following taxes:

- Article 22 income tax on the sale of gold bars and gold and nongold jewelry;
- Articles 21 or 23 income tax on jewelry services; and
- VAT on the delivery of gold bars and gold and nongold jewelry, as well as jewelry services.

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The scope of the regulation covers the application of the taxes above on the sale or delivery of the following items:

- Gold jewelry (i.e., jewelry in any form that is made either partially or wholly of gold, including those furnished with gemstones and/or other materials);
- Gold bars;
- Nongold jewelry (i.e., jewelry containing no gold, and gemstones); and
- Jewelry services (i.e., services related to gold jewelry, gold bars, and nongold jewelry, including modifications, repairs, coating, plating, gilding, and cleaning).

The following parties are appointed as income tax and/or VAT withholders or collectors under PMK-48:

- Gold jewelry entrepreneurs, which include:
 - Manufacturers (i.e., entrepreneurs that produce gold jewelry and buy and sell gold jewelry and/or provide jewelry services); and
 - Traders (i.e., entrepreneurs that buy and sell gold jewelry and/or provide jewelry services); and
- Gold bar entrepreneurs.

Article 22 income tax on the sale of gold bars and gold and nongold jewelry

Previously under PMK-34, only domestic sales of gold bars (with certain exceptions) were subject to Article 22 income tax at the rate of 0.45% of the selling price.

Under the new regulation, entrepreneurs must collect Article 22 income tax at the rate of 0.25% on the selling price of gold bars and gold and nongold jewelry. The transactions covered under this new regulation include the sale of specially-commissioned gold or nongold jewelry by a manufacturer to jewelry entrepreneurs, the delivery of raw materials by jewelry entrepreneurs to manufacturer to be used to manufacture the specially-commissioned jewelry, as well as the sale of gold bars. The sale of digital gold is also included.

However, the sale of gold jewelry and gold bars is exempted from Article 22 income tax if sold to the following parties:

- End-consumers;
- Small and medium-sized enterprise (SME) taxpayers subject to final income tax of 0.5%;
- Taxpayers that have obtained a tax exemption letter (*Surat Keterangan Bebas* (SKB)) for Article 22 income tax; or
- Bank Indonesia (only relevant for the sale of gold bars).

Sales of digital gold bars through a physical market on an exchange are also exempted from Article 22 income tax.

Articles 21 or 23 income tax on jewelry services

The tax treatment of income from jewelry services was not previously specified; however, under PMK-48, a recipient of jewelry services qualifying as a tax withholder must withhold Article 21 income tax on payments made to individual taxpayers for jewelry services provided. In addition, the service recipient must withhold Article 23 income tax on payments for jewelry services provided by domestic corporate taxpayers or permanent establishments. If the remuneration is provided as a benefit-in-kind (BIK), the tax treatment will follow that applicable to the BIK. If the BIK is in the form of gold jewelry, gold bars, nongold jewelry, the delivery of such BIK is not subject to Article 22 income tax and is instead subject to the income tax treatment applicable to a BIK.

Under PMK-48, all the major industry-specific income tax and VAT provisions are consolidated into one regulation.

The delivery of raw materials by jewelry entrepreneurs to manufacturer to be used to manufacture the specially-commissioned jewelry is subject to Article 22 income tax.

Payments for jewelry services made to SME taxpayers, and taxpayers that have already obtained an SKB relating to Articles 21 and/or 23 income tax, are exempted from the requirement to withhold tax.

For jewelry services provided by domestic corporate taxpayers or permanent establishments based on an agreement signed before 1 May 2023, where the payment is made on or after 1 May 2023, the relevant payment would be subject to Article 23 income tax in accordance with PMK-48.

VAT on the delivery of gold bars, gold and nongold jewelry, and jewelry services

Gold bars

Previously, all deliveries of gold bars were not subject to VAT. However, Law Number 7 of 2021 regarding Harmonization of Tax Regulations (*Undang-Undang Harmonisasi Peraturan Perpajakan* (UU HPP)) has amended the VAT treatment of gold bars to provide that only the delivery of gold bars representing Indonesia's state gold reserve is not subject to VAT. The delivery of other gold bars is now a taxable event, with a VAT not-collected facility available under Government Regulation Number 49 of 2022 (PP-49).

The delivery of gold bars other than those representing Indonesia's state gold reserves is subject to VAT.

Gold and nongold jewelry, and jewelry services

Following the introduction of the final VAT mechanism (*menggunakan besaran tertentu untuk memungut dan menyetor PPN*) under UU HPP, PMK-48 updates the VAT treatment of the delivery of gold and nongold jewelry, and jewelry services, as follows:

Deliverer (VAT-able entrepreneurs (<i>Pengusaha Kena Pajak</i> (PKP)))	Type of delivery	VAT rate
Manufacturer	Self-produced gold jewelry to other manufacturers and/or traders	10% of the standard VAT rate applied to the selling price
	Self-produced gold jewelry to end-consumers	15% of the standard VAT rate applied to the selling price
	Nongold jewelry	10% of the standard VAT rate applied to the selling price
	Jewelry services	10% of the standard VAT rate applied to the remuneration received
Trader	Gold jewelry to other traders and/or end-consumers if the deliverer has a VAT invoice on the acquisition/import of the jewelry being delivered	10% of the standard VAT rate applied to the selling price
	Gold jewelry to other traders and/or end-consumers if the deliverer does not have a VAT invoice on the acquisition/import of the jewelry being delivered	15% of the standard VAT rate applied to the selling price
	Gold jewelry to manufacturers	0%
	Nongold jewelry	10% of the standard VAT rate applied to the selling price
	Jewelry services	10% of the standard VAT rate applied to the remuneration received

The current standard VAT rate is 11%. The standard VAT rate is due to increase to 12% by 1 January 2025.

All manufacturers and traders are required to register as PKP, even if the business turnover does not exceed the small entrepreneurs' threshold. A gold jewelry entrepreneur is allowed to use the final VAT mechanism only after having been registered as a PKP. Any input VAT related to the delivery subject to the final VAT mechanism is not creditable to the deliverer.

If an entrepreneur should have registered as a PKP at an earlier date but failed to do so, the entrepreneur would be subject to the regular VAT mechanism and is deemed to have an input VAT amount of 80% of the calculated output VAT (*pedoman pengkreditan pajak masukan*).

PMK-48 stipulates that deliveries of gold jewelry made as from 1 April 2022 to 30 April 2023 are subject to the provisions contained in PMK-30 but with an applicable VAT rate of 11%. Under PMK-30, the delivery of gold jewelry was subject to 10% VAT, levied on a base of 20% of the selling price or remuneration received.

Other matters

Other than the matters reported above, PMK-48 provides information on several additional issues, including:

- Illustrations of how the new income tax and VAT treatment would be implemented in different situations;
- Administrative requirements for income tax and VAT for the appointed tax collector, including tax settlement, tax return reporting requirements, and VAT invoice requirements;
- Actions to be taken in situations where the PKP does not collect VAT using the final VAT mechanism, which would result in an incorrect amount of VAT being collected; and
- VAT on delivery between head office and branch, vice versa, and inter-branches.

Taxpayers carrying out business activities in the relevant industry may wish to review PMK-48 in more detail.

A gold jewelry entrepreneur is allowed to use the final VAT mechanism only after having been registered as a PKP.

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