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Fiscal Incentives for Electric Vehicles and Fiscal Policy Plan for the Year of 2020

Sets the Standards and Beyond



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ABOUT DDTC Newsletter

Published every two weeks, DDTC Newsletter provides a summary of key tax law changes, both the current modifications and changes in taxation regulations, particularly those pertaining to domestic policies.

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Fiscal Incentives for Electric Vehicles and Fiscal Policy Plan for the Year of 2020

KITE Facilities for SMEs

The government updates regulations regarding the Import Tax Waiver for Materials for Export Oriented Goods (*Kemudahan Impor Tujuan Ekspor*/KITE) for small and medium enterprises (SMEs). This is regulated through Minister of Finance Regulation Number 110/PMK.04/2019 (MoF Reg No. 110/2019) which amends the MoF Regulation No. 177/PMK.04/2016 (MoF Reg No. 177/2016).

KITE facilities provided in the regulation which was issued on 31 July 2019 are in the forms of the Exemption of Import Duty combined with Non-Collected VAT or in the forms of Non-Collected VAT and Sales Tax on Luxury Goods (STLGs). These facilities are given for the imported goods and/or materials and/or machinery carried out by small and medium-sized industries for the export purposes.

There are four types of business forms who can utilize these incentives. *First*, small and medium enterprises. *Second*, a business entity formed by the merger of some SMEs. *Third*, the appointment of a SME by several SMEs as one center. *Fourth*, the Cooperatives which are defined as SMEs or KITE Consortium.

The granter must be productively conduct economic ventures or has the business activity of processing, assemblying and/or installation in industry sector. Besides, it also has to fulfill at least one of the criteria of business ownership as listed in Table 1 .

In addition to meeting the criteria for SMEs as above, there are other requirements to obtain this facility. If the origins of raw material come from the outside of customs area, it must meet one of the following conditions. *First,* the business entity has carried out the activity of processing, assemblying, and/or installation of raw materials for export purposes for a minimum of two years. *Secondly*, the business entity should already have the export sales contracts for these kind of activities for a maximum of two years.

Furthermore, if all raw materials originate from other places inside the customs area, there is also a requirement. In this condition, the business entity should have met the realization value of export at least 25% of annual sales results within the last two years.

The next requirement is that the business entity is a standalone-company and has the proof of ownership or control of the location for production activities and storage which is valid for a minimum period of two years. Business entities must also be willing and able to utilize the Centralized Customs Application System for the management of goods purchased and be responsible in the event of abuse of the facilities provided.

Fiscal Incentives for Battery Electric Vehicles

The provision of incentives is one of the aspects carried out by the government in order to accelerate the program of battery electric vehicle (*Kendaraan Bermotor Listrik Berbasis Battery*/KBL) for road transportation. This is regulated through Presidential Regulation of the Republic of Indonesia No. 55/2019 concerning the Acceleration of the Battery Electric Vehicle for Road Transportation (Presidential Regulation No. 55/2019).

Basically, this program is carried out through five aspects including the incentives of fiscal and non-fiscal. These aspects include accelerating the development of the domestic battery-based industry, providing incentives,

1 This represents the value of land, buildings, machine tools, facilities and infrastructure, except working capital.

Table 1 Criteria for Determining Small and Medium Enterprises to Obtain KITE Facilities

No.	Criteria	Small enterprise	Medium enterprise
1	Investment Value[1]	A maximum of IDR1,000,000,000.00 which does not include land and building if they are located in one location with the owner's residence	IDR1,000,000,000.00 - IDR15,000,000,000.00
2	Net Worth Value[2]	IDR50,000.000.00 - IDR500,000,000.00	IDR1,000,000,000.00 - IDR15,000,000,000.00
3	Annual sales	IDR300,000,000.00- IDR2,500,000,000.00	IDR2,500,000,000.00 - IDR50,000,000,000.00

Source: MoF Reg No. 110/2019.

2 This represents the result of reducing the total value of business assets to the total value of the business liabilities.

providing electricity charging infrastructure and regulating electricity aspect for battery electrical vehicle, meeting the technical requirements of battery electric vehicle, and protecting the environment.

The parties entitled to get incentives according to this regulation are industrial companies, public transport companies, universities, research and development institutions, as well as individuals who will become the consumer. Later, the types of this kind of vehicle will be grouped into two main categories, namely two-wheeled and/or three-wheeled and four-wheeled or more wheeled. The specification itself will be determined by the Ministry of Industry.

Furthermore, both the central and local governments can provide the incentives. For fiscal incentive itself, there are fourteen types of facilities mentioned in regulation which was signed on 8 August 2019. *First*, import duty incentive on the importation of battery electrical vehicle in a Completely Knock Down/CKD condition, a battery electric vehicle in an Incompletely Knock Down/IKD condition, or a major component which will be granted for certain amounts and time period.

Second, the STLG incentive. *Third*, incentives in the form of exemption or deduction of central and regional taxes. *Fourth*, import duty incentives for the importation of machinery, goods, and materials in the context of investment. *Fifth*, the deferred import duty incentive in the framework of export. *Sixth*, import duty which is borne by government for the importation of raw materials and/or supporting materials used in the framework of the production process.

Seventh, the incentive for the equipment in order to build the public electric vehicle charging station (*Stasiun Pengisian Kendaraan Listrik Umum*/SPKLU). *Eighth*, the export financing incentives. *Ninth*, fiscal incentives for conducting research, development, technological innovation activities and battery-based components industry vocational activities. *Tenth*, parking fees incentive at some locations determined by the local government.

Eleventh, the relief of electricity charging fees at SPKLU. *Twelfth*, financing support for SPKLU infrastructure development. *Thirteenth*, incentive for standardizing the human resources competency in the battery electric vehicle industry. *Fourteenth*, incentive for improving the product and/or technical standard for the battery electric vehicle industrial company and the battery electric vehicle component industry.

All fiscal incentives will be provided in accordance with general tax provisions and procedures law. In addition, the provision of incentives in the form of exemption or deduction of local taxes in the form of vehicle tax and fees for title transfer tax of the battery electric vehicle will be regulated in ministerial regulations that administer domestic government affairs.

The Latest Anti-Dumping Import Duty Provisions

As a form of government protection for the domestic industry, the government issued two new provisions regarding the anti-dumping import duty (*Bea Masuk Anti-Dumping*/BMAD). This kind of regulation is imposing an extra tariff on the import duty of a type of imported goods.

One of the regulations related to anti-dumping import duty which issued recently is MoF Regulation No. 111/PMK.010/2019 concerning the Imposition of Anti-dumping import duty on Imports of Hot Rolled Plate (HRP) Products from the China, Singapore and Ukraine (MoF Reg No. 111/2019). This regulation updates the previous regulation, namely MoF Reg No. 50/2016 which ended in April 2019.

MoF Reg No. 111/2019 itself was motivated by the results of an investigation by the Indonesian Anti-Dumping Committee which found that imports of these products from those three countries caused losses to the domestic industries. Therefore, the government has again decided to re-enact this anti-dumping import duty starting 14 days from 1 August 2019. Table 2 shows the main points of comparison between the latest provisions and the previous one.

Besides imposing the extra tariff for the products made from steel, the government also issues anti-dumping import duty provisions on imports of textile products.

Table 2 Comparison of Anti-dumping import duty Provisions for the Hot Rolled Plate (HRP) Product

No.	Comparison Criteria	MoF Reg No. 56/2016	MoF Reg No. 111/2019
1	HS Code	7208.51.00.00 and 7208.52.00.00	7208.51.00 and 7208.52.00
2	Anti-dumping import duty tariff for China	11.93%	11.93%
3	Anti-dumping import duty tariff for Singapore	12.50%	12.50%
4	Anti-dumping import duty tariff for Ukraine	12.33%	12.33%
5	Validity period	3 years since the enactment	5 years since the enactment

Source: MoF Reg No. 56/2016 and MoF Reg No. 111/2019.

The provision is regulated through MoF Regulation Number 115/PMK.010/2019 concerning the Imposition of Anti-dumping import duty on the Import of Spin Drawn Yarn Products (SDY) from China (MoF Reg No. 115/2019). This regulation will be valid on 20 August 2019.

Based on this regulation, the SDY yarn criteria which will be imposed the anti-dumping import duty are synthetic filament yarns (other than sewing thread), not prepared for retail sale, and include synthetic monofilaments of less than 67 decitex. On the other hand, high tenacity yarns of nylon or other polyamides or polyester, texture yarns, other yarns, without twist or with twist not exceeding 50 turns per meter, elastomer, partially oriented polyester included in HS Code 5402.47.00 will not be subject to the rates stated in this regulation.

There are seven Chinese companies mentioned in the regulation, namely Jiangsu Zhonglu Technology Development Co. Ltd., Jiangsu Guowang High-Technique Fiber Co. Ltd., Suzhou Shenghong Fiber Co. Ltd., Zhejiang Hengyi High-Tech Materials Co. Ltd., Zhejiang Hengyi Polymer Co. Ltd., Zhejiang Hengyi Petrochemicals Co. Ltd., and Zhejiang Sheng Yuan Chemical Fiber Co. Ltd. Those companies are subject to tariffs ranging from 5.4% to 9.4%. Furthermore, for other companies which are not listed, the anti-dumping import duty rate charged is 15%.

Fiscal Policy Plan for the Year of 2020

President of Indonesia, Joko Widodo delivered the Speech concerning the Budget Statement of 2020 State Budget before the House of Representatives of the Republic of Indonesia Meeting on 16 August 2019. The theme of fiscal policy for next year designed by the government is "State Budget (APBN) for Accelerating the Competitiveness through Innovation and Strengthening Human Resources Quality." There are three main points of fiscal policy strategies, namely revenue mobilization, effective state spending, and creative financing.

In the aspect of state revenue, the government offered a tax revenue target of IDR1,639.9 trillion. The target increases around 14.08% compared to this year's revenue outlook of IDR1,437.5 trillion. Furthermore, taxation revenue which includes customs and excise is targeted to IDR1,861.8 trillion with the growth of 13.3% compared to 2019 State Budget outlook. The value of taxation revenue itself reaches 83.8% of total state revenue for next year. The basic assumptions of macroeconomics to set these targets are listed in the Table 3.

The government then set seven main tax policies to anticipate these target growths. *First*, increasing taxpayer compliance. *Second*, improving the quality of services, dissemination, and supervision through strengthening IT and tax administration systems. *Third*, equalizing the level of playing field to optimize tax revenue from digital economy.

Table 3 Basic Assumptions of Macroeconomics

Indicator	Outlook 2019	State Budget Draft (RAPBN) of 2020
Economic Growth (%)	5.2	5.3
Inflation (% yoy)	3.1	3.1
Exchange Rate (IDR/USD)	14,250	14,400
Government Treasury Bill Interest Rate (*Surat Perbendaharaan Negara*/ SPN) (%)	5.6	5.4
Oil Price (US$/barrel)	63	65
Oil Lifting (thousand barrels/day)	754	734
Gas Lifting (thousand barrels/day)	1,072	1,191

Fourth, considering the business improvement regarding the tax aspect, especially in the case of VAT refunds. *Fifth*, improving the data management from Automatic Exchange of Information (AEoI). *Sixth*, conducting the extensification of excisable goods. *Seventh*, adjust the tariff of excise for tobacco products. Furthermore, in order to support the competitiveness and investment, the government also provides tax incentives.

On the other hand, the government also needs to be aware of the shortfall risk due to the weakening of tax buoyancy considering the high expectation of this year outlook. As information itself, the nominal growth for tax revenue and Gross Domestic Product (GDP) were 3.74% and 5.05% respectively until the second quarter of 2019.

Tightened Regulation of Fiscal Facilities for Coal Importer

The Government of Indonesia issued a new provision related to the granting of fiscal facilities for imports conducted by coal mining companies in the middle of August 2019. The two types of fiscal facilities mentioned here are the exemption or relief of import duties and the exemption of VAT on the import of taxable goods in the framework of a Contract of Work/CoW (*Kontrak Karya/KK*) or Coal Contract of Work/CCoW (*Perjanjian Kerjasama/Karya Pengusahaan Pertambangan Batubara/PKP2B*). This is regulated in the MoF Regulation Number 116/PMK.04/2019 (MoF Reg No. 116/2019) which amended the MoF Regulation Number 259/PMK.04/2016 (MoF Reg No. 259/2016).

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The issue of this provision is objected to improve taxation and customs services in the field of mineral and coal mining. Furthermore, this regulation is also used to regulate the aspects of administration, supervision, and legal certainty in providing taxation and customs treatment of imported goods in the framework of CoW or CCoW for the importer company of coal mining.

The CoW itself is an agreement between the government and Indonesian legal entities in the context of foreign investment to conduct mining business in the extractive sectors, excluding oil, natural gas, geothermal, radioactive, and coal. Furthermore, the CCoW is defined as a cooperation system or work agreement between the government and the domestic and foreign Contractor to operate the mining of coal.

Based on the previous regulation, it was only stated that the exemption or relief of import duties and the exemption of VAT on imported goods in the context of CoW or CCoW could be given to the Contractor who specified the facility in the contract. The Contractor itself will be provided with facilities based on a masterlist determined by the Head of the Indonesia Investment Coordinating Board or other official appointed on behalf of the Minister.

Later, MoF Reg. No.259/2016 was tightened through MoF Reg. No. 116/2019. The main change is the setting of time period for the facilities as shown in the Table 4 which was not regulated in the previous rule. Besides, this new provision also regulates the aspect of ownership transfer, re-export, and destruction of imported goods which are granted the facilities in the context of CoW or CCoW.

MoF Reg, No. 116/2019 also set the aspect of supervision in details. If there is any indication of violation regarding the utilization of VAT facility, DGT and/or DGCE will further conduct the audit of the documents provided by the company. On the other hand, if an indication of abuse is carried out in terms of import duties, further audits or research will be carried out by the DGCE. This regulation itself will come into force after 60 days since 13 August 2019.

Table 4 Criteria for Determining Small and Medium Enterprises to Obtain KITE Facilities

No.	Facility	Statement in the Contract		The Time Period of Granted Facility to Company
		Provision regarding Facility Granted	Provision regarding Time Period of Contract	
1	The exemption or relief of import duties in the framework of CoW or CCoW **and/or** the exemption of VAT on the import of taxable goods in the framework of CoW or CCoW	YES	YES	as stated in the contract
2	The exemption or relief of import duties in the framework of CoW or CCoW **and/or** the exemption of VAT on the import of taxable goods in the framework of CoW or CCoW	YES	NO	from the date of the contract is signed until the tenth year of the Production Operation period
3	The exemption or relief of import duties in the framework of CCoW which fulfills these following conditions: - the contract is signed before the year of 1990; and - the imported goods can be considered as State-Owned Asset (*Barang Milik Negara*)	YES	NO	until the contract ended

Source: summarized from MoF Reg No. 116/2019

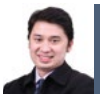
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