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Tax Relaxation of Luxurious Housing, Control of Local Tax, and Restructuring of Tax Authority



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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.

Contents

- **Increased Thresholds for Housing Selling Price Subject to 20% Sales Tax on Luxury Goods**
- **The Reduction of Article 22 Income Tax Rate for Luxury Property**
- **Control of Taxation Aspect for the Expenditures Sourced from the Local Government Budget**
- **Changes in the Layers of Customs Administrative Sanctions**
- **Tax Authority Internal Reforms**

Increased Thresholds for Housing Selling Price Subject to 20% Sales Tax on Luxury Goods

The government of Indonesia has increased the thresholds of housing selling prices subject to 20% sales tax on luxury goods/STLGs (*Pajak Penjualan atas Barang Mewah*/PPnBM) as of 11 June 2019. This is stated in the Republic of Indonesia Minister of Finance Regulation Number 86/PMK.010/2019 (MoF Regulation No. 86/2019) concerning the Amendments to the Minister of Finance Regulation Number 35/PMK.010/2017 (MoF Regulation No. 35/2017) concerning the Types of Taxable Goods Classified as Luxurious Other Than Motor Vehicles that are Subject to Sales Tax on Luxury Goods.

The main reason underlying the amendment to this regulation is to encourage the growth of the property sector through increasing the competitiveness and investment in the property sector. In this latest regulation, the government does not classify luxury housing type and it is stated that the luxury housing group, such as luxury houses, apartments, condominiums, townhouses, and the like with a selling price of 30 billion rupiah or more will be subject to 20% STLGs. Hence, if the selling price of luxury housing is less than that amount, the STLGs will be exempted.

In addition to the threshold that has been increased to 30 billion rupiah, this latest regulation also classifies luxury housing into one group whereas the previous regulation classified luxury housing subject to 20% STLGs into two groups as follows:

1. Selling price of houses and townhouses of non-strata title types with a threshold of 20 billion rupiah; and/or
2. Selling price of apartments, condominiums, townhouses of strata title types, and the like with a threshold of 10 billion rupiah.

The Reduction of Article 22 Income Tax Rate for Luxury Property

In addition to raising the threshold for the selling prices of very luxurious housing through MoF Regulation No. 86/2019 that stipulates the threshold for the imposition of STLGs, the government has again relaxed the policy related to taxation for the property sector. This new regulation, which has come into force as of 19 June 2019, officially reduces the rate of article 22 income tax (*Pajak Penghasilan*/PPh) on very luxurious housing from 5% to 1%.

These provisions are contained in the Minister of Finance Regulation No. 92/PMK.03/2019 (MoF Regulation No. 92/2019) concerning the Second Amendment to the MoF Regulation No.253/PMK.03/2008 (MoF Regulation No. 253/2008) concerning Certain Corporate Taxpayers as Income Tax Withholders from Buyers on Sales which are Classified as Luxurious Goods.

The issuance of this regulation is intended to encourage the growth of the property sector through the adjustments of the basic provisions for the withholding, criteria, nature, and amount of tax withholding on the purchase of goods classified as very luxurious. This regulation also states that the income tax rate for very luxurious housing is set at 1%, reduced from 5% in the previous regulation.

This regulation also set forths the selling price as the supply price paid by the seller to the buyer. Furthermore, the income tax payable is estimated from the selling price which does not include Value Added Tax and Sales Tax on Luxury Goods (VAT and STLGs). In addition, the payment of article 22 income tax can be taken into account as an income tax credit in the current year for the buyer.

There are two types of luxury housing subject to a 1% article 22 income tax rate. First, the selling price or the transfer price of the house and its land reaches 30 billion rupiah or if the area itself reaches 400 m^2. This selling price as the threshold increases significantly compared to the previous regulation of IDR5 billion. There is no change in terms of the building area itself.

Second, the 1% rate is imposed on housing in the form of apartments, condominiums, and the like with a selling price or transfer price valued at more than 30 billion rupiah or the area of building and land is more than 150 m2. The previous regulation stipulated the selling price for this threshold of 5 billion rupiah with the same area.

In addition to regulating the reduction in rates on luxury housing to 1%, this regulation stipulates the article 22 income tax rate of 5% which is to be withheld upon the sale of other luxury goods. The 5% rate is imposed on the following very luxurious goods:

1. private airplanes and private helicopters;
2. cruise ships, yachts, and the like;
3. four-wheeled motor vehicles transporting fewer than 10 people in the form of sedans, jeeps, sport utility vehicles (SUVs), multi-purpose vehicles (MPVs), minibuses, and the like with a selling price of more than 2 billion rupiah or with a cylinder capacity of more than 3,000 cc; and/or
4. two and three-wheeled motor vehicles with a selling price of more than 300 million rupiah or with a cylinder capacity of more than 250 cc.

Control of Taxation Aspect for the Expenditures Sourced from the Local Government Budget

The Ministry of Finance has issued a new regulation regarding the mechanism to supervise the taxation aspect for expenditure sourced from the Regional Budget. This provision clarifies the imposition of penalties if the power of the regional general treasurer (*bendahara umum daerah*/BUD) is not in accordance with the administrative aspect. This provision is regulated in the Minister of Finance Regulation Number 85/PMK.03/2019 (MoF Regulation No. 85/2019) concerning the Control Mechanism for the Withholding and Deposit of Taxes on Expenditure Sourced from the Regional Budget.

This latest regulation concerning regional taxes revokes the Minister of Finance Regulation Number 64/PMK.05/2013 (MoF Regulation No. 64/2013) concerning the Control Mechanism for the Withholding and Deposit of Taxes Conducted by the Treasurer of Expenditure of Local Government Work Unit/Proxy of Regional General Treasurer. Furthermore, this regulation shall come into force 60 days since its promulgation on 31 May 2019.

One of the objectives underlying the issuance of this regulation is to encourage compliance with the withholding and deposit of taxes on expenditures sourced from the Regional Budget and the submission of the List of Daily Transactions of the Regional Expenditure/Recapitulation of Daily Transactions of the Regional Expenditure. In addition, this policy aims to adjust the supervision mechanism for electronic payments conducted by the regional government.

In this regulation, the Directorate General of Taxes (DGT) involves the Directorate General of Fiscal Balance in disseminating information to the Treasurer of Expenditure of Local Government Work Unit (*Satuan Kerja Perangkat Daerah*/SKPD), Budget User (*Pengguna Anggaran*/PA)/Budget User Proxy (*Kuasa Pengguna Anggaran*/KPA), and Proxy of Regional General Treasurer (*Bendahara Umum Daerah*/BUD) in terms of the supervision/withholding and deposit of taxes that the DGT conducts.

Furthermore, this regulation states that the Proxy of BUD must submit the List of Daily Transactions (*Daftar Transaksi Harian*/DTH) of the Regional Expenditure and the Recapitulation of Daily Transaction (*Rekapitulasi Transaksi Harian*/RTH) of the Regional Expenditure along with the information in the Regional Financial Information System (*Sistem Informasi Keuangan Daerah*/SIKD) table used as the basis for DTH submitted to the Directorate General of Fiscal Balance.

The documents of DTH and RTH should be submitted through SKID on a monthly basis no later than the 20th after the relevant month ends. If the deadline falls on a holiday or a non-working day, DTH and RTH should be submitted no later than the following working day. This regulation stipulates that the failure to report DTH and RTH may result in the Minister of Finance delaying the distribution of revenue sharing fund (*dana bagi hasil*/DBH) or general allocation fund (*dana alokasi umum*/DAU) amounting to a maximum of 50% for the following month or period.

The re-distribution of the delayed DBH or DAU will be carried out by the Minister of Finance after the Proxy of BUD has submitted DTH and RTH. The delay and distribution are stipulated in the Minister of Finance Decree signed by the Director General of Fiscal Balance on behalf of the Minister of Finance.

The control mechanism that comprises a test on the accuracy of the calculation and deposit of the tax is then carried out by the Tax Office (*Kantor Pelayanan Pajak*/KPP). The accuracy test is conducted through the calculation of the tax potential on regional expenditure, DTH prepared by the Treasurer of Expenditure of SPKD, DTH prepared by the Proxy of of BUD, RTH prepared by the Proxy of of BUD, and the Proof of State Revenue (Bukti Penerimaan Negara/BPN).

Changes in the Layers of Customs Administrative Sanctions

The government has increased the number of layers for the imposition of customs administrative sanctions for businesses responsible for the underpayment of import duties and export duties. The addition of the layers is contained in the Government Regulation Number 39 of 2019 (Government Regulation No. 39/2019) concerning the Amendments to Government Regulation Number 28 of 2008 (Government Regulation No. 28/2008) concerning the Imposition of Administrative Sanctions in the Form of Fines in the Customs Sector. The latest regulation classifies the scheme of fine imposition into ten layers whereas the previous regulation stipulated five layers with the highest sanctions fixed at 1,000%.

Based on the previous five-layer requirement, the imposition of the 1,000% sanction was relatively convenient while the imposition of sanctions in the form of administrative fines is, in essence, intended to result in a deterrent effect and not to generate revenue. The implementation of the Government Regulation No. 39/2019 is further expected to encourage the compliance of business players. The following table shows the comparison of layers for sanctions pertaining

Tabel – The Comparison of Layers of Import Duties and Export Duties Underpayment Fines

Government Regulation No. 28/2008		Government Regulation No. 39/2009	
The Amount of Import Duties and Export Duties Underpayment (% of paid import duties or export duties)	**Fines (% of import duties or export duties underpayment)**	**The Amount of Import Duties and Export Duties Underpayment (% of paid import duties or export duties)**	**Fines (% of import duties or export duties underpayment)**
1) 0 – 25%	100%	1) 0 – 50%	100%
2) 25.1% – 50%	200%	2) 50.1% – 100%	125%
3) 50.1% – 75%	400%	3) 100.1% – 150%	150%
4) 75.1% – 100%	700%	4) 150.1% – 200%	175%
5) > 100%	1,000%	5) 200.1% – 250%	200%
		6) 250.1% – 300%	225%
		7) 300.1% – 350%	250%
		8) 350.1% – 400%	300%
		9) 400.1% – 450%	600%
		10) > 450%	1,000%

to the underpayment of import duties and export duties based on previous and prensent regulations.

Tax Authority Internal Reforms

On 11 June 2019, the government issued a new regulation stipulating the restructuring of the Directorate General of Taxes (DGT). This internal reform programme is regulated in the Minister of Finance Regulation Number 87/PMK.01/2019 concerning the Amendments to the Minister of Finance Regulation Number 217/PMK.01/2018 concerning the Organization and Working Procedure of the Ministry of Finance (MoF Regulation No. 87/2019).

One of the most important points in this regulation pertains to the establishment of the Directorate of Tax Data and Information. In addition, the formerly independent Directorate of Tax Information Technology is now merged with the Directorate of Information and Communication Technology Transformation and its name has been changed to the Directorate of Information and Communication Technology.

The new Directorate of Tax Data and Information established through this regulation is responsible for formulating and implementing policies and technical standardization in tax data and information or it can be said that this working unit will focus more on managing the external data and information. Furthermore, the Directorate of Information and Communication Technology will be responsible for formulating and implementing policies and technical standardization in information and communication technology and focuses more on managing the information from the internal units in DGT.

In essence, the change is as a response to the massive exchange of data and information for the tax purposes and the ongoing tax reform framework, in which to date, Indonesia itself has implemented automatic exchange of information (AEoI) with 79 participating jurisdictions and 69 reportable jurisdictions as stipulated in Announcement Number PENG-04/PJ/2019 concerning the List of Participating Jurisdictions and Reportable Jurisdictions for the Purpose of Automatic Exchange of Financial Account Information (PENG-04/PJ/2019).

In addition to changing the two regulations of the two directorates, the authority has amended several provisions in other directorates, such as the Directorate of Taxation Regulations I by revoking its authority regarding the formulation and implementation of policies and technical standardization of acquisition duty of right on land and building (*Bea Perolehan Hak atas Tanah dan Bangunan*/BPHTB). The government has aso changed the phrase legal assistance into advocacy regarding the provision related to the Directorate of Taxation Regulations II in this regulation.

Furthermore, in the Directorate of Tax Potential, Compliance, and Revenue, there have been several changes to the names of the sub-directorates. These changes will impact on the details of their tasks. The following table summarizes the structure of the directorates for the new governance of the DGT organization along with their main tasks and subcomponents of direct assignment under each directorate.

Table 2 – Structure, Main Function, and Sub-Components of Each Directorate's Direct Assignments

No	Directorate	Main Tasks	Sub-Components
1	Secretariat of the Directorate General (**)	To coordinate the task implementation and to guide as well as to provide administrative support to all units within DGT.	a) Organization and Procedure Division; b) HR Planning, Development & Retirement Division; c) Job Rotation & Rank Division; d) Finance Division; e) Logistic Division; and f) General Affairs Division.
2	Directorate of Taxation Regulations I (*)	To formulate and to implement policies and technical standardization pertaining to general provisions and tax procedures, tax collection with coerce warrant, Value Added Tax and Sales Tax on Luxury Goods, Other Indirect Taxes, and Land and Building Tax.	a) Sub-Directorate of General Provisions and Tax Procedures and Tax Collection with Distress Warrant Regulations; b) Sub-Directorate of VAT Regulations on Industry; c) Sub-Directorate of VAT Regulations on Trade and Services & Other Indirect Tax Regulations; d) Sub-Directorate of Land and Building Tax and Conveyance Tax Regulations; e) Administrative Affairs Sub-Division; and f) Group of Functional Officers.
3	Directorate of Taxation Regulations II (**)	To formulate and to implement policies and technical standardization in income tax regulations, advocacy, guidance, implementing advocacy, and harmonizing tax regulations.	a) Sub-Directorate of Corporate Income Tax Regulations; b) Sub-Directorate of Withholding Tax & Individual Income Tax Regulations; c) Sub-Directorate of Advocacy; d) Sub-Directorate of Taxation Regulations Harmonization; e) Administrative Affairs Sub-Division; and f) Group of Functional Officers.
4	Directorate of Tax Audit and Collection (**)	To formulate and to implement policies and technical standardization in tax audit and collection.	a) Sub-Directorate of Tax Audit Planning; b) Sub-Directorate of Tax Audit Techniques & Control; c) Sub-Directorate of Tax Audit on Specific Transactions; d) Sub-Directorate of Tax Audit Cooperation & Support; e) Sub-Directorate of Tax Collection; f) Administrative Affairs Sub-Division; and g) Group of Functional Officers.
5	Directorate of Law Enforcement (**)	To formulate and to implement technical policies and standardization in tax law enforcement.	a) Sub-Directorate of Preliminary Evidence Tax Audit; b) Sub-Directorate of Investigation; c) Sub-Directorate of Forensic and Evidence; d) Administrative Affairs Sub-Division; and e) Group of Functional Officers.
6	Directorate of Tax Extensification and Valuation (**)	To formulate and to implement policies and technical standardization in tax extensification and valuation.	a) Sub-Directorate of Tax Extensifcation; b) Sub-Directorate of Data Collection; c) Sub-Directorate of Valuation I; d) Sub-Directorate of Valuation II; e) Administrative Affairs Sub-Division; and f) Group of Functional Officers.
7	Directorate of Tax Objections and Appeals (**)	To formulate and to implement policies and technical standardization in objection and appeal.	a) Sub-Directorate of Tax Remission and Objection; b) Sub-Directorate of Tax Appeals and Lawsuit I; c) Sub-Directorate of Tax Appeals and Lawsuit II; d) Sub-Directorate of Review and Evaluation; e) Administrative Affairs Sub-Division; and f) Group of Functional Officers.
8	Directorate of Tax Potential, Compliance, and Revenue (*) and (**)	To formulate and to implement policies and technical standardization in tax potential, compliance, and revenue.	a) Sub-Directorate of Tax Potential; b) Sub-Directorate of Tax Policies Impact; c) Sub-Directorate of Taxpayers Compliance and Supervision; d) Sub-Directorate of Revenue Administration and Evaluation; e) Administrative Affairs Sub-Division; and f) Group of Functional Officers.

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No	Directorate	Main Tasks	Sub-Components
9	Directorate of Tax Dissemination, Services, and Public Relations (**)	To formulate and to implement policies and technical standardization in tax dissemination, services, and public relations.	a) Sub-Directorate of Tax Dissemination; b) Sub-Directorate of Tax Services; c) Sub-Directorate of Public Relations; d) Sub-Directorate of Tax Cooperation & Partnership; e) Administrative Affairs Sub-Division; and f) Group of Functional Officers.
10	Directorate of Tax Data and Information (*)	To formulate and to implement policies and technical standardization in tax data and information technology.	a) Sub-Directorate of Data and Information Management; b) Sub-Directorate of Internal Data Management; c) Sub-Directorate of External Data Management; d) Sub-Directorate of Data Analysis; e) Sub-Directorate of Taxpayers' Compliance Risks and Data Science; f) Administrative Affairs Sub-Division; and g) Group of Functional Officers.
11	Directorate of Internal Compliance and Apparatus Transformation (**)	To formulate and to implement policies and technical standardization in internal compliance and apparatus transformation.	a) Sub-Directorate of Internal Compliance; b) Sub-Directorate of Internal Investigation; c) Sub-Directorate of Organizational Transformation; d) Sub-Directorate of HR Management Development; e) Sub-Directorate of Competency and Capacity Development; f) Administrative Affairs Sub-Division; and g) Group of Functional Officers.
12	Directorate of Information and Communication Technology (*)	To formulate and to implement policies and technical standardization in information and communication technology	a) Sub-Directorate of Information System Management; b) Sub-Directorate of Tax System Development; c) Sub-Directorate of Tax Supporting System Development; d) Sub-Directorate of System and Infrastructure Monitoring; e) Sub-Directorate of Information System Monitoring and Services; f) Administrative Affairs Sub-Division; and g) Group of Functional Officers.
13	Directorate of Business Process Transformation (**)	To formulate and to implement policies and technical standardization in business process transformation.	a) Sub-Directorate of Tax Dissemination Development; b) Sub-Directorate of Tax Services Development; c) Sub-Directorate of Law Enforcement Development; d) Sub-Directorate of Tax Extensifcation & Valuation Development; e) Sub-Directorate of Transformation Management; f) Administrative Affairs Sub-Division; and g) Group of Functional Officers.
14	Directorate of International Taxation (**)	To formulate and to implement policies and technical standardization in international taxation.	a) Sub-Directorate of Tax Treaty & International Cooperation; b) Sub-Directorate of International Tax Dispute Prevention & Resolution; c) Sub-Directorate of International Tax Information Exchange; d) Administrative Affairs Sub-Division; and e) Group of Functional Officers.
15	Directorate of Tax Intelligent (**)	To formulate and to implement policies and technical standardization in tax intelligence.	a) Sub-Directorate of Strategic Intelligence; b) Sub-Directorate of Tax Potential Optimization Intelligence; c) Sub-Directorate of Law Enforcement Intelligence; d) Sub-Directorate of Intelligence Operation; e) Administrative Affairs Sub-Division; and f) Group of Functional Officers.

Source: summarized from MoF Regulation No. 87/2019 (*) and MoF Regulation No. 217/2018 (**)

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