DDTC Newsletter Vol.01 | No.06 | April 2019

DDTC
Sets the Standards and Beyond

Provision Regarding the Calculation of Taxable Income for Life Insurance Companies



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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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Latest Provisions concerning Rural and Urban Land and Building Taxes in DKI Jakarta

Throughout April 2019, the local government of Special Capital Region of Jakarta (DKI Jakarta) intensively issued the latest provisions regarding Land and Building Taxes of Rural and Urban Areas (*Pajak Bumi dan Bangunan Perdesaan dan Perkotaan*/PBB-P2). The first PBB-P2 provision to be renewed that month pertains to the Sales Value of Taxable Object (*Nilai Jual Objek Pajak*/NJOP) through the Governor of DKI Jakarta Regulation No. 37 of 2019 (Pergub DKI Jakarta No. 37/2019).

The local government then issued a regulation concerning PBB-P2 exemption through the DKI Jakarta Governor Regulation Number 38 of 2019 (Pergub DKI Jakarta No. 38/2019).[1] This Governor Regulation was signed by the Governor of DKI Jakarta, Anies Baswedan, on 9 April 2019 and promulgated on 15 April 2019. One of the important points in this Governor Regulation is the Article 4A which provides a signal that the PBB-P2 exemption policy for residences which are valued under Rp1 billion will be abolished after 31 December 2019. In addition, based on another article in this regulation, PBB-P2 also will not be exempted if there is a transfer of ownership/control/utilization rights to corporate taxpayers.

Furthermore, due to a significant increase in the NJOP of PBB-P2 DKI Jakarta which has been regulated through Pergub DKI Jakarta No. 37/2019, the local government of DKI Jakarta concurrently issued the PBB-P2 regulation for buildings in the form of houses for personal taxpayers. This is set forth in the DKI Jakarta Governor Regulation No. 41 of 2019 concerning the Imposition of Land and Building Taxes of Rural and Urban Areas to Individual Taxpayers on the Object of Building Tax in the Form of Houses for the 2019 Tax Year (Pergub DKI Jakarta No. 41/2019).

This provision states that the imposition of PBB-P2 for the individual taxpayer on the PBB-P2 object in the form of houses for the tax year 2019 still refers to the provisions for the 2018 tax year. However, two criteria must be met, namely:

(a) there are no changes in regional tax data including changes in the area of the land and/or building and changes in taxpayer data due to the transfer of ownership/control/utilization rights; and/or

(b) there are no changes and/or addition of functions for the house building into a building used for commercial activities in whole or partly put changes and/or functional additions up to 50% of the total area of the land and/or building.

Moreover, the provision of PBB-P2 for the 2019 tax year which refers to previous provisions will differ if the object is in the form of vacant land that is not utilized. Based on this provision, vacant land located along the arterial roads, namely Jalan M.H. Thamrin; Jalan Jenderal Sudirman; Jalan H.R. Rasuna Said; Jalan Jenderal Gatot Subroto; and Jalan M.T. Haryono will be imposed with 200% of payable tax of PBB-P2 in the year concerned.

Conversely, if the land is utilized as green open space (*ruang terbuka hijau*/RTH) that can be used by the public for free in general, the PBB-P2 for this object will only be 50% of total tax payable in the year concerned. This provision has come into effect as of 15 April 2019 are set to apply retroactively from 1 January 2019 and will expire on 31 December 2019.

A few days after the promulgation of Pergub DKI Jakarta No. 41/2019, the provincial government of DKI Jakarta issued a new PBB-P2 provision again on 24 April 2019 through the DKI Jakarta Governor Regulation No. 42 of 2019 (Pergub DKI Jakarta No. 42/2019). This regulation stipulation that the DKI Jakarta Regional Government gives an overall exemption of 100% of PBB-P2 payable to the following taxpayers:

1. individual taxpayers that work as teachers and education staff and/or lecturers and college education staff, including retirees;
2. individual taxpayers who are veterans and pioneer of national independence;
3. individual taxpayers who have received the title as National Patriot;
4. individual taxpayers who have received honors in the form of stars from the President of the Republic of Indonesia;
5. individual taxpayers who are the former President and former Vice President of the Republic of Indonesia,
6. former governor and former deputy governor;
7. a personal retiree of the Indonesian National Army (*Tentara Nasional Indonesia*/TNI)/Police of the Republic of Indonesia (*Kepolisian Republik Indonesia*/Polri); and/or
8. a personal retired civil servant.

Previously, PBB-P2 in DKI Jakarta for taxpayers in the abovementioned categories was not fully exempted, but only partially. This was regulated through the DKI Jakarta

1 Pergub DKI Jakarta No. 38/2019 itself is the Second Amendment to Pergub DKI Jakarta No. 259/2015 concerning the Exemption of PBB-P2 on Houses, Simple Rental Flats (*Rumah Susun Sederhana Sewa*), and Simple Own Flats (*Rumah Susun Sederhana Milik*) with NJOP up to Rp1,000,000,000.00.

Governor Regulation No. 84 of 2013 (Pergub DKI Jakarta No. 84/2013) which was amended through DKI Jakarta Governor Regulation No. 262 of 2015 (Pergub DKI Jakarta No. 262/2015).

Affirmation Provision Regarding the Calculation of Taxable Income for Life Insurance Companies

On 8 April 2019, the Director General of Taxes issued the latest provisions regarding taxation of insurance claims/benefits in life insurance companies through the Directorate General of Taxes Circular Letter Number SE-08/PJ/2019 concerning Claim/Benefits of Insurance for Life Insurance Companies (SE-08/PJ/2019).

Formerly, the rules pertaining to income tax on life insurance only referred to the Director General of Taxes Circular Letter Number SE-97/PJ/2011 concerning the Imposition of Income Tax on the Formation or Accumulation of Premium Reserve Funds for Taxpayers Engaged in Life Insurance Business that is Deductible from the Gross Income (SE-97/PJ/2011).

However, it should be understood that SE-08/PJ/2019 which constitutes as a new provision is not a substitute for the previously applicable provision. For future implementation, these two provisions will complement one another. The promulgation of the latest regulation is rather based on providing certainty in terms of Taxable Income for life insurance companies, specifically the affirmation of how to impose taxes on insurance claims/benefits for life insurance companies.

This regulation states that at the end of each year, the premium reserve formed by the insurance company can still be used to pay claims for benefits that are due. Furthermore, it can also be paid in the following year if there are special causes of payment delays. The amount itself will then be adjusted based on the calculation of an actuarial who is authorized by the Financial Services Authority (*Otoritas Jasa Keuangan*/OJK).

The next condition to estimate taxable income regulated in this provision is regarding the costs in the event of claims or benefits from insurance. This states that the cost will then be charged to the initial balance of the year from the premium reserve. If the life insurance company encounters a shortfall of funding to pay insurance benefit claims to the policy owner, then the payment will be concurrently calculated as the current year cost.

After providing the concept of establishment of premium reserve and the treatment of costs as a burden on the life insurance company for any benefit claim, this Circular Letter affirms the principle of how to calculate the taxable income. There exist two conditions for estimating taxable income in a life insurance company if a claim for these benefits occurs as summarized in the following table.

Table 1 - Method of Determining the Treatment for Premium Reserve in the Case of Payment of Claims for the Benefits of Life Insurance to Calculate Its Taxable Income

No	Condition	The Treatment for Premium Reserve
1	The initial balance of premium reserve of the year which has been subtracted by the payment of insurance claims/benefits in the current year **has decreased** compared to the premium reserve calculated by actuarial at the end of the year.	The decrease in premium reserve is still considered as income for the current year
2	The initial balance of premium reserve of the year which has been subtracted by the payment of insurance claims/benefits in the current year **has increased** compared to the premium reserve calculated by actuarial at the end of the year.	The increase in premium reserve is considered as a cost that can be charged for the current year. Note: the increase in premium reserve cannot be considered as a cost if the increase is due to the formation of premium reserves from investment returns that have been subject to income tax with separate tax mechanisms of final and/or not final tax objects.

*Source: SE-08/PJ/2019

PROVISION REGARDING THE CALCULATION OF TAXABLE INCOME FOR LIFE INSURANCE COMPANIES

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