



Rates Adjustment and Collecting Mechanism of Value-Added Tax on E-Commerce in Indonesia

The rapid development of technology has made most human activities and the global economy increasingly digitized. This enhancement has made it easier and more efficient for business players to engage with customers, to demonstrate products, to promote or do other relevant activities. All of these business activities have transformed from physical meetings between people and physical locations or spaces to now being able to be done online or virtually. From the consumer's perspective, there is also a shift in behavior where digital-era customers find it easier to search for and compare products that are marketed virtually than to physically visit each supplier to see their products directly, which can be limited in terms of time, effort, and variety of products.

Despite the convenience and integration created, the digitized economic era from a fiscal perspective has a significant impact for taxation. This is because most countries follow similar tax regulations that are based on the physical presence of

people and their activities, which can create challenges in the digital realm. Whereas in the era of the fully digitized economy, physical presence is no longer relevant, thus, businesses can conduct their activities globally in a resident country without having to be in the business' destination country. This, of course, causes the destination country to not have or lose the right to taxation if the taxation regime does not adapt to the digitized economy. On the other hand, if no adjustments are made, there is a significant disparity where the destination country does not have sufficient tax revenue for development.

Among so many economic activities in the digital era that require adjustments to fiscal regulations is e-commerce. E-commerce or Trading through Electronic System / Perdagangan Melalui Sistem Elektronik (PMSE) is one form of trade that uses digital technology, such as websites, applications, and other platforms, to conduct buying and selling transactions. The government has made several adjustments to tax regulations related to businesses that use PMSE to ensure that the state's rights to taxation remain protected and to maintain equality or a balance of tax treatment involving conventional businesses and digital economy businesses, both within and outside the country.

In addition, the implementation of PMSE tax regulations is expected to provide legal certainty in collecting Value-Added Tax (VAT) on the utilization of Intangible Taxable Goods and/or Taxable Services from outside of the customs territory within the customs territory through the PMSE mechanism. Another background is to achieve tax revenue optimization.

The Ministry of Finance has issued **Minister of Finance Regulation Number 60/PMK.03/2022**¹ to replace Minister of Finance Regulation Number 48/PMK.03/2020². In the previous regulation, the VAT rate was set at 10%. However, the new regulation that starting from April 1st, 2022, stated that the VAT rate is 11%

¹ Minister of Finance Regulation Number 60/PMK.03/2022 concerning Procedures for the Appointment of Collectors, Collection, Remittance, and Filing of Value Added Tax (VAT) on the Utilization of Intangible Taxable Goods and/or Taxable Services from Outside of the Customs and Excises Territory within the Customs and Excises Territory through E-Commerce (PMSE)

² Minister of Finance Regulation Number 48/PMK.03/2020 concerning Procedures for the Appointment of Collectors, Collection, Remittance, and Filing of Value Added Tax (VAT) on the Utilization of Intangible Taxable Goods and/or Taxable Services from Outside of the Customs and Excises Territory within the Customs and Excises Territory through E-Commerce (PMSE).

of the Tax Base, which is the amount paid by the buyer or service recipient. Moreover, the VAT rate will be increased to 12% when the implementation of VAT tariffs is enforced as regulated in the VAT Law. The VAT must be collected at the time of payment by the buyer or service recipient.

Based on the Minister of Finance Regulation Number 60/PMK.03/2022, PMSE VAT collectors are required to create proof of collection or withholding slips in the form of a commercial invoice, order receipt, billing, or similar document. Furthermore, PMSE VAT collectors are required to deposit the collected VAT into the state treasury account for each tax period, at the latest by the end of the following month after the tax period ends. In addition, PMSE VAT collectors are required to submit quarterly reports for a period of three tax periods which must be submitted no later than the end of the following month, after the end of the quarter period. This is used for the purpose of evaluating the implementation of the tax collection scheme.

The object of VAT collection on PMSE transactions includes Business to Business (B2B) and Business to Consumer (B2C) transactions. The types of digital goods and services include e-books, e-magazines, e-comics, computer software, digital applications, digital games, multimedia, electronic data, virtual goods, virtual coins, film streaming, music streaming, or other audio-visual content, web hosting, video conference services, or other software-based services.

PMSE business players consist of foreign traders, foreign service providers, foreign PMSE organizers, and domestic PMSE organizers, who are appointed by the Minister of Finance as PMSE VAT collectors. The criteria to be appointed as a PMSE VAT collector include transactions with a value of more than IDR 600 million per year or IDR 50 million per month, and the number of traffic or users exceeding 12,000 per year or 1,000 per month. The appointment as a PMSE VAT collector shall take effect from the beginning of the following month after the date of the appointment decision made by the Minister of Finance.

The criteria for buyers of goods or recipients of services include having a residence or reside in Indonesia, using payment facilities provided by institutions in

Indonesia, as well as conducting transactions using an internet protocol address in Indonesia or using a telephone number with the Indonesian country code.

The following are several changes in the provisions regarding PMSE:

Substance	Minister of Finance Regulation No. 48/PMK.03/2020	Minister of Finance Regulation No. 60/PMK.03/2022
Effective date	July 1st, 2020	April 1st, 2022
VAT rate	10%	11% effective from April 1st, 2022, and 12% when the implementation of VAT tariffs is enforced as regulated in the VAT Law.

The presence of PMSE or e-commerce cannot be separated from the digital economy era that has taken place in the global economy. The implementation of digital taxes is expected to increase the state tax revenues. In addition, it also aims to create tax equality between conventional and digital economy business players, as well as between domestic and foreign digital economy business players. However, on the other hand, digital business players need to pay attention to taxation aspects and comply with applicable regulations to avoid the risk of sanctions from the tax authorities.



www.taxprime.net

Copyright © 2023 TaxPrime. All rights reserved.

No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of the publisher, except in the case of brief quotations embodied in critical reviews and certain other noncommercial uses permitted by copyright law. For permission requests, please contact TaxPrime directly through our website.