Indonesian tax news
Highlight

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Provisional tax refund

Unlocking tax-tied deposits earlier

A 12-month time span has become the norm to get tax refunds from the Indonesian Tax Office (ITO). A lengthy audit, at times with surprise results, is another feature of the tax refund process. However, certain taxpayers can actually get a provisional refund much earlier. For VAT, the timeline is a month and for income tax three bypassing the cumbersome and lengthy tax audit.

The Provisional Tax Refund (PTR) facility, as it is called in law, dealt with in Minister of Finance Regulation No. 39/PMK.03/2018 (Reg.39) issued in early April 2018, is available for three categories of taxpayer: qualified small taxpayers (QST), highly compliant taxpayers (HCT, also coined as "golden taxpayers"), and low-risk taxpayers (LRT). The qualifications for QST are the most straightforward for the three (Figure 1). No certification is required. As long as you match with all of the requirements, you can tap the facility by just clicking the appropriate box in the tax return.

QST Conditions 1

- Individual taxpayer without any business
- Individual taxpayer with a business and a tax overpayment of up to IDR 100 million
- Corporate taxpayer with a tax overpayment (Income tax of VAT) of up to IDR 1 billion

Eligibility as an HCT or a LRT is to be confirmed with a certificate to be issued by the Director General of Taxation (DGT). A request for a certificate should be addressed to the DGT who must process it within a maximum of 15 days for an LRT and a month for an HCT from the filing date of the relevant request. Automatic approval will prevail if the time limit is passed without any decision from the DGT.

HTC Qualifications 2

- Timely tax return filing
  - ✓ On-time filing of the last three years' CITR and the previous year's (Jan–Nov) VAT returns
  - ✓ Tolerable late filing of monthly tax returns: three months but not in a row
- No delinquent tax liability (Approved postponement/installment excluded)
- Unqualified audit opinion for the last three years' financial statement attached to the CITR
- No involvement in tax fraud in the last 5 years

All taxpayers are virtually eligible as an HCT by just fulfilling the specified requirements (Figure 2). As regard to LRT, the designation is devoted exclusively to taxpayers believed to be inherently low-risk and, given their types of business activity, tend to have VAT overpayments. They must also fulfill certain conditions to get the required certificate (Figure 3).

Not much new as it sounds, the PTR facility has several improvements embedded to it by Reg. 39. To begin with, the HCT and LRT certificates virtually prevail without time limit as long as satisfaction of all the requirements are preserved. A single HCT certificate is applicable for the whole company including its branches (but this feature is not applicable for the LRT). Certification is even not

required at all for a taxable company with a VAT refund of no more than IDR1 billion.

The improvements extend to the way the DGT will verify your tax returns and your refund claim. The verification will focus only on clerical issues such as typing and mathematical accuracy, validity of you LRT/HCT certificates, and satisfactions of the specified requirements (Figures 1-3).

For all the improvements, there are still concerns about the facility. The timelines for the issuance of HCT/LRT certificates and the very PTR, under current state ICT, may still be shortened. Only certain taxpayers (companies) satisfying requirements are eligible for HCT and/or LRT. For instance, companies providing taxable services (but not taxable goods) to VAT collectors, are denied of LRT qualification despite their continuous VAT overpayment position. These are a challenge for the DGT if they aim to help improve taxpayers' liquidity and, by extension, the general business climate.

However, the biggest concern is the potential 100% penalty haunting taxpayers not eligible for LRT. The risk will materialize if the PTR granted, pursuant to tax audit, turns out to be an underpayment.

In sum, the PTR facility along with the improvements by Reg. 39, may offer you a way to improve your current liquidity. Those not eligible for LRT, however, still need to manage the risk of 100% penalty.

Please contact your tax advisers if P9C if you find the PTR facility worth pursuing.

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