



Stepping Forward For the National Economy Through Fiscal Adjustments



VAT

Inside the Issue

Increasing Tax Rate to Increase Economic Developments • Monthly National and International Tax Highlights • July 2024 Tax Revenue



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General Corporate Tax
in the
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General Corporate Tax

Other notable

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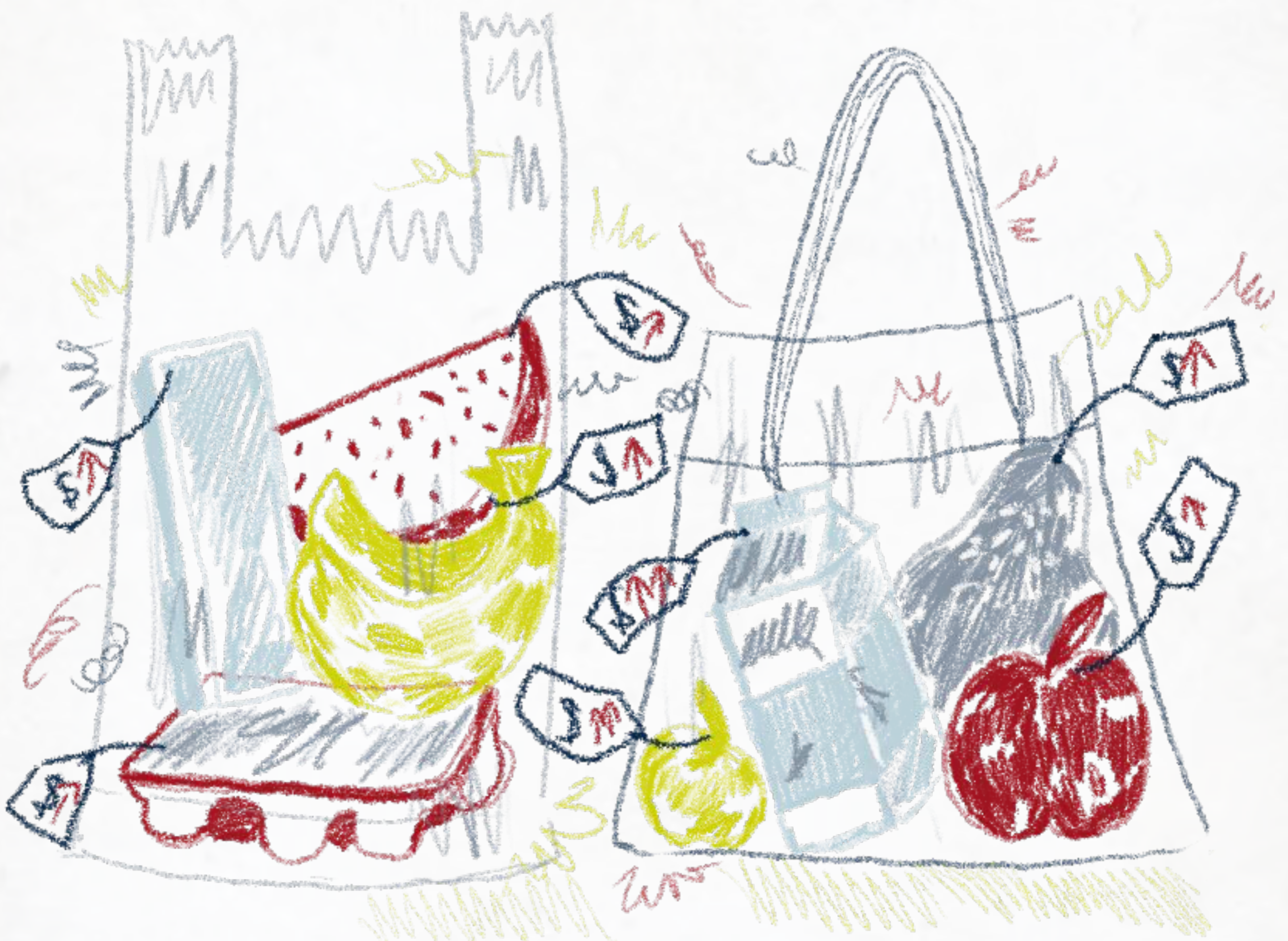
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Insight Article

Increasing Tax Rate to Increase Economic Development

Learn how an increase in the VAT rate can impact the fiscal condition

The government plans to push through with the proposed plan to impose an increased VAT rate by 2025. In the next year, the 12% VAT rate is expected to be implemented. But will the imposition run smoothly? What kind of instances should taxpayers pay extra attention to in the case of an increased VAT rate? Find out more on the plan in this article.



Increasing Tax Rate to Increase Economic Development

Learn how an increase in the VAT rate can impact the fiscal condition



In the upcoming years of Indonesia, the government is intent on increasing the growth of national economy and improving the status of the current economic landscape. One of the ways the government believes they can do so is by rising tax rates, where Value Added Tax (VAT) or PPN as it is commonly known in Indonesia, becomes the target for a rate increase.

Previously, the government has planned to increase the VAT rate year by year, with the first increase happening in 2022, changing the initial VAT rate of 10% to 11%. The next rate that will be introduced is set at 12% by 2025. The progressive increase of VAT rate is developed in the Law on Harmonization of Tax Regulations (Undang-Undang Harmonisasi Peraturan Perpajakan/UU HPP).

How will the increase of VAT rate affect the economic conditions in Indonesia? What is reasoning behind a gradual increase in VAT rate? How will this affect prices and the lifestyle of Indonesian citizens?

Behind the VAT Rate Increase: How the decision came to through the Law of Harmonization of Tax Regulations

The government decided to increase the VAT rate based on the provision made in the Law on Harmonization of Tax Regulations or also known as the Law Number 7 Year 2021. The law itself discusses changes that are made in order to improve the quality of taxation and its landscape, including the base of taxation and its implementation in the daily life.

In HPP Law, there are certain key points regarding the changes that should be highlighted. Before understanding them, it should be noted that the development of said law is to expand and utilize resources the country has in order to become one of the key economic figures in the world by 2045. The law is meant to be the basis of development and implementation to ensure the economic potential of Indonesia is achieved.

The aim is, by 2045, Indonesia will have more than 50% of productive population with over 300 million citizen. The economic prospect of Indonesia shows that the country has the potential to gain an average income of US\$29,300, alongside an enhanced economic structure and services sector.

The HPP Law are designed to modify each taxes affected by the law, including income tax, VAT, and carbon tax among others. The HPP Law made several changes to different types of taxes, where the changes are applied on different dates depending on the types.

Changes in the VAT Law

Previously, the imposition of VAT are managed by several different regulations. One of the earliest regulations made regarding the VAT imposition is known as the Law Number 8 Year 1983 which acts as the basis of any VAT imposition. In the coming year, changes on the VAT law are made, with the newest being the imposition of VAT based on the HPP Law.

In general, VAT, like any other taxes, are imposed and collected by keeping in mind several functions. For example, to serve its purpose as one of the source of income for the nation and to support the state budget, as well as an item to help regulate, maintain stability, and provide financing for Indonesia.

The HPP Law mentioned that the rate of VAT are divided into 2 (two) types, the general and specific ones. In the case of the general rate, VAT are increased from the previous 10% rate to 11% by 1 April 2022. The next rate to be imposed is the 12% rate, where the imposition of the increased rate should be done before 1 January 2025.



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Additionally, specific VAT rates can be imposed on certain sectors and goods or services. For example, a rate of 1%, 2%, or 3% on businesses can be imposed following certain regulations such as the Ministry of Finance Regulations or PMK (Peraturan Menteri Keuangan).

Reason behind the increased VAT rate

The reasoning behind the decision to increase the VAT rate gradually is due to several objectives. Based on the explanation by the current Minister of Finance, Sri Mulyani, the increase of VAT rate first of all is to improve the state revenue, which is related to boosting the condition of the State Budget.

The State Budget has been known to continuously face deficits, especially due to the COVID-19 pandemic. The increase of VAT rate is required as means to restore previous conditions if the State Budget, and ensure that the collected revenue will result in a surplus. In addition, VAT rate in Indonesia is deemed lower when compare to other countries, especially those who are part of the G20, where on average the VAT rate is set between the range of 15–15.5% based on the information provided by the Organization for Economic Co-operation and Development (OECD).

Another reason for increasing the VAT rate is to strengthen the taxation foundation in relation to the national economic condition. Taxation is known to be one of the highest source of income in contrast to other forms of incomes, contributing more than 80% towards the national income.

What Happened During the Initial VAT Rate Increase to 11% in 2022?

By now, the nation has been imposing the 11% rate for more than 2 (two) years starting since April 2022. Initially, the increase of VAT rate received mixed reactions from the citizen. Many refused and questioned the decision to increase the VAT rate, while others thought that the rise in VAT rate is needed to further the economic conditions, in particular as a way to fight back after the pandemic.

Based on the observation conducted by several economists, the increase of VAT rate to 11% is considered to be an ill-considered move by the government.

This is thought so by keeping in mind the conditions of national citizens, which at that time are facing hard challenges due to the pandemic. Undoubtedly, people with lower income have to cut back on their basic needs, which means that the increase, even with just 1%, are affecting consumption rates from the citizen.

Economists shared that the increased VAT rate will send the inflation rates soaring, and will also worsen production costs. Additionally, citizens are seemingly halting any purchases, even for basic necessities, during the time of the first VAT rate increase.

Governmental resources & assistance

To combat any distress of consumption, the government offered several tax incentives in relation to VAT, where certain goods and services are excluded from the imposition of VAT. Basic necessities are among the goods that will not be imposed with VAT, for example, rice and meat, as well as health services and educational services. Government argued that even though the VAT rate is increased, they are also looking at fairness and usefulness levels.

The government has also prepared VAT borne by the government incentives for the housing sector. This incentive is still found even in 2024, filed under regional government responsibility. Certain sectors are also able to impose certain VAT rates below the standard rate, for example, at 1% until 3%, depending on the goods, services, and sectors.

Throughout the years, the government offered more incentives in order to sustain the livelihood of Indonesian citizen, while increasing the VAT rate as needed.

Results of VAT rate increase in 2022 to 2023

As mentioned before, the rise in VAT is done in hopes to improve state revenue as well as supplementing economic growth and condition. In this, we will compare results from collected tax revenue from 2021 to the ones from 2022 until 2023, and current 2024 standings.

In 2021, the government reported a collected amount of tax revenue that reached IDR1,547.8 trillion, where even this amount reached 107,15% of the targeted amount mentioned in the 2021 State Budget. The estimated inflation rate in 2021 reached 1,87%, which is considered within the normal level.

In 2022, the collected tax revenue reached IDR2,034.5 trillion, which grew 31,4% in comparison to the previous year's collected tax revenue. In December 2022, the inflation rate reached 5.51% based on yearly rates. During this year, the amount of collected VAT revenue reached IDR687.61 trillion, which contributed to around 33.04% of the total income received by the government.

Just by looking at the collected tax revenue amount in 2022 and 2023, the increased VAT rate irrefutably contributed to the increase of collected amount, as well as the growth and percentage of the tax revenue.

In 2022, the consumption rate is recorded at 4.93%, increased to a whole 2.02% in comparison to the rate in 2021. Furthermore, the economic growth rate increased, where the rates in 2022 and 2021 are recorded at 5.31% and 3.69% respectively.

The following year, the government announced that the collected tax revenue reached IDR1,869.2 trillion, which exceeded the target of the 2023 State Budget, as well as the revised target in the Presidential Decree No. 75 Year 2023. As for the inflation rate, in December 2023 the rate reached 2.61% yearly. It should also be worth mentioning that the deficit number in this year is lower than the previous ones, where the rate reached 1.65% of the Gross Domestic Product (GDP).

Even though in 2023 the total tax revenue increased by 8.9%, the collected VAT revenue in 2023 actually decreased in comparison to the collected amount in 2022, where the collected VAT amounts to IDR764.3 trillion in 2023.

Due to the collected amount of tax revenue collected within the last 3 years, the Minister of Finance concluded that Indonesia has been able to maintain and strengthen their State Budget post-pandemic. This shows that the economic conditions have been restored, and that citizens are able to sustain themselves. Additionally, the state budgets have also shown that Indonesia are more than able to prolong and keep up the economic condition, even amidst global uncertainties.

However, it should be noted that the increased VAT rate is only one among other regulations, provisions, and rates modified by the government in order to uphold and advance the economic landscape post-pandemic.

Future Increase of VAT Rate: Government hopes, expected results, and public outcry

Starting from 2025, the government plans on pushing forward with the proposed VAT rate as mentioned in the HPP Law. The 12% VAT rate is still on track to be imposed in 2025, as this was recently confirmed by a member of the Ministry of Finance. However, they stated that an increased rate can be postponed if there are any supporting regulations stating so, which so far none have turned up.

What's more, the government has been testing out and playing out potential outcomes if the 12% VAT rate is implemented in 2025, where a rise in collected VAT is predicted to reach an additional amount of IDR70 trillion. The government has also been considering the potentials and simulation of the effect of the new rate to certain sectors.

Sri Mulyani, as the current Minister of Finance, highlights that the increased rate will actually maintain consumption within the nation, especially considering the fact that not all goods or services are imposed with the new rate, following the provision during the initial rate increase in 2022. The Minister of Finance also comments that both the current and future president of Indonesia has acknowledged the VAT rate regulation, as well as the possibility of decreasing the rate to as low as 5% and as high as 15%.

The implementation of the 12% VAT rate, however, have to take into consideration the economic conditions that the nation have in the future. The increased rate plan is compelled to be discussed even further, predominantly due to the fact that the plan to increase VAT rate to 12% will be under the responsibility of the new government.

Public steps forward with possible negative results and inquiry of further increased rate assessment

The proposed rate, even if mentioned since 2021 in the HPP Law, has been receiving many retaliation from economists, entrepreneurs, and the public in general. The general idea is that most of the public needs the government to reevaluate the plan on increasing the VAT rate in the next year.

Economists argued that the government should reassess the decision to impose the increased rate since they can obtain more tax revenue by implementing a different type of tax, mainly targeting the exports of natural resources. Imposing a tax on certain commodities can easily generate around IDR200 trillion of additional revenue according to the economist.

On top of that, other economists also notes that the decision to impose the 12% VAT rate should be reevaluated due to the low consumption rate and condition in Indonesia. The decreasing consumption within citizens and the increasing inflation rate result negatively in the national economic conditions if the government decide to push through with increasing the rate without any preparations.

Low consumption from the citizen will also affect imports as imported goods are known to be cheaper and more attainable than domestic goods once the new rate is imposed. The prospects of increased prices in goods and services are hauntingly apparent, even if the government enforces the exemption of certain goods and services from VAT imposition. Productions costs will increase as the VAT rate increases, further diminishing the capacity of citizens to consume goods and services.

The House of Representatives (DPR) mentions that it is also expected that the economic growth rate will decrease, as well as facing many global challenges and uncertainties while also confronting the possibility of a plummeting minimum wage for workers.

This idea is taken by following the steps of previous years' incentives, However, it is expected that the consumption rates from the citizens will decrease.

An indicator of the reducing number of consumption is shown through termination of employment in different industries. As of current conditions, the workers of the textile and manufacturing sectors are among those at risk of facing these employment terminations. The increase of VAT rate will just further burden the consumption of household goods, especially after the fact that employment terminations are high.

For businesses, be ready to face a decreasing amount of production since the consumption rate will drop. Businesses, which usually works in a supply-demand system, will be facing a lower business (penjualan bisnis, perilaku bisnis) if the VAT rate is increased to 12% by 2025.

Many economists suggest that the government should push back or postpone the imposition of the 12% VAT rate as this will be counterproductive and will only delay any economic growth. If the government plans on imposing the 12% rate, it is suggested that it should be done by introducing accompanying regulations with the objective of lessening the burden of taxpayers.

Fiscal adjustments are made by the government in hopes of improving the life quality of their citizens.

However, will this one reap intended results?

Preparation of the 12% VAT Rate for Taxpayers and Businesses

Although the imposition of the 12% VAT rate is still open for discussion, it is crucial for taxpayers and citizens in general to prepare for the increased rate. Previously, economists and researchers have shown what effect will people face with the increased rate.

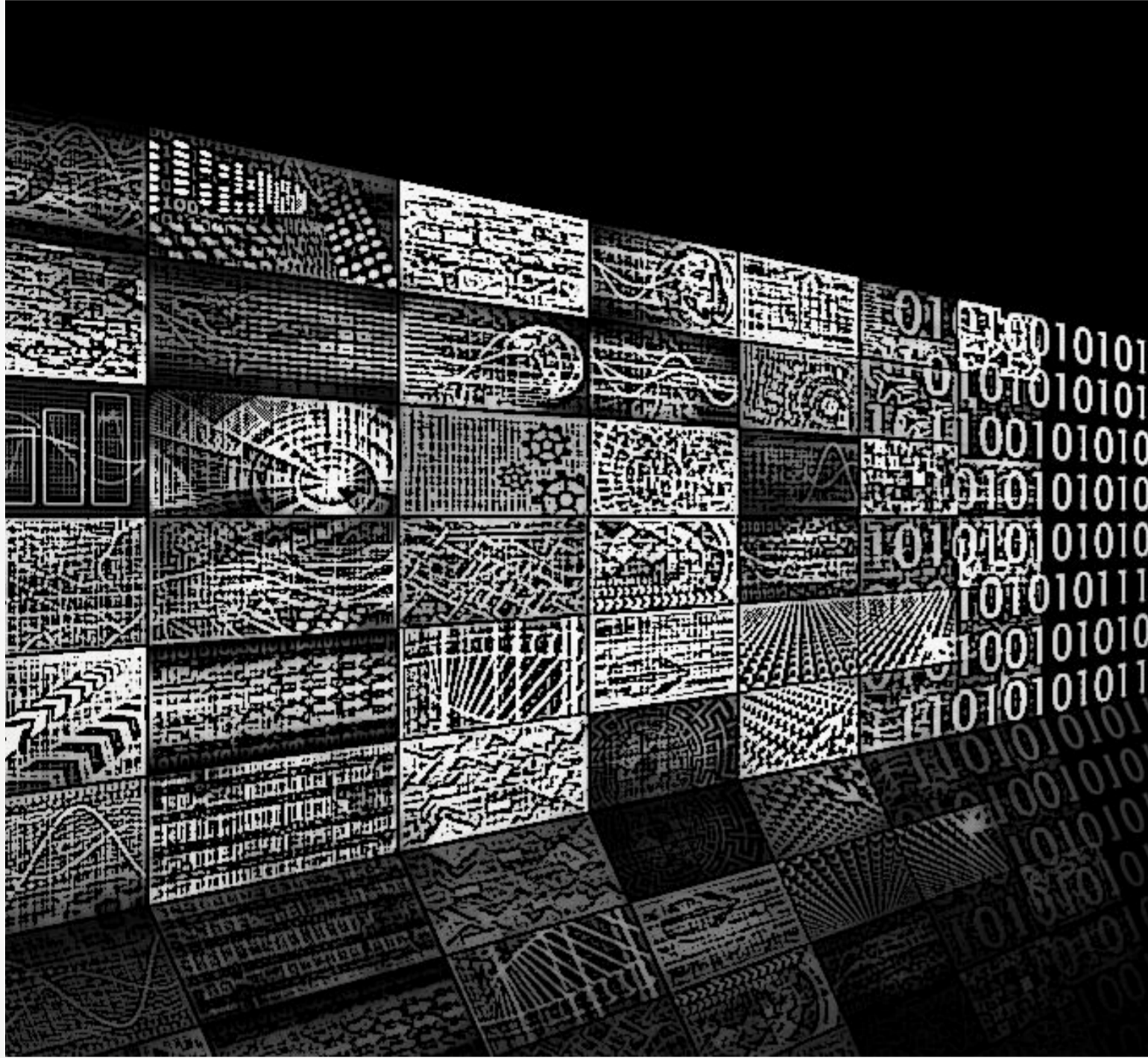
For example, there will be an increase in prices for all goods and services. Taxpayers, or citizens in general, should take note of which goods and services that will be exempted from VAT.



August 2024

Monthly Highlights

In celebration of the National Independence Day in August 2024, many regions in the country are commemorating by holding events and providing tax-related reliefs. As we are moving forward to the end of the year, the government grinds their gears in order to fulfill the targets and programs previously planned earlier this year.



Updated Release of CTAS Planned At The End of 2024

Based on the most recent updates, the government has planned to postpone the release of the new tax administration system, the Core Tax Administration System or CTAS. The launch postponement of the system is due the stage of development it is currently in.

At present, the related authorities are testing the business processes included in the new tax administration system. The system, known as one of the many agenda of tax reformation program, is currently also being socialized to authorities that will be handling the product.

CTAS is developed in hopes to ease and simplify fulfillment of tax obligations, both for taxpayers and tax authorities.

[> Read more here](#)



The Directorate General of Taxes Provides More Services Accessible with NIK-NPWP

The Directorate General of Taxes have added more external tax services that are accessible using the integrated National Identification Number and Taxpayer Identification Number. In total, now there are around 37 services that falls under these conditions.

The newly-added externals services include e-Form and Web Billing Internet, as well as e-Filing PJAP among others.

[> Read more here](#)

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Financial Information Access Related Regulation Issued

&

Housing Incentives in IKN Affirmed Through Government Regulations

Monthly Highlights

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Financial Information Access Related Regulation Issued

The Directorate General of Taxes issued a regulation in relation to the opening of access on financial information of a taxpayer. Through the Minister of Finance Regulation No. 47 Year 2024, the government are controlling anti-avoidance standards following Common Reporting Standard (CRS).

By the contents of this regulation, certain tax authorities are able to access financial information from financial services and establishments if needed, and in relation to tax avoidance.

[> Read more here](#)



Housing Incentives in IKN Affirmed Through Government Regulations

The issuance of Government Regulations No. 29 Year 2024 further affirmed the housing incentives given to housing companies planning to build a housing area in IKN. The regulation confirms the existence of both tax and non-tax incentives, as well as regulates how the companies can use available incentives.

Housing companies are obligated to building a stable housing area, where all types of housing should be developed.

[> Read more here](#)

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Increase in Tax Rates Will Not Affect Inflation Numbers, Says BI

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International Tax Highlights

Monthly Highlights

In celebration of the National Independence Day in August 2024, many regions in the country are commemorating by holding events and providing tax-related reliefs. As we are moving forward to the end of the year, the government grinds their gears in order to fulfill the targets and programs previously planned earlier this year.

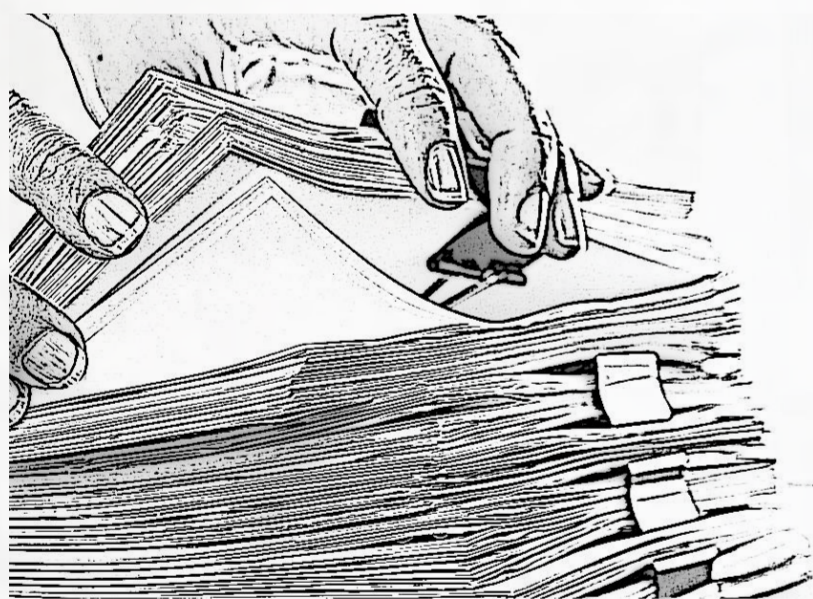


Increase in Tax Rates Will Not Affect Inflation Numbers, Says BI

As the central bank in Indonesia, Bank Indonesia reveals that an increase in tax rates, as well as an additional excise imposition, will not affect the inflation numbers in 2025. However, they are taking precautions by setting a large range of inflation rate target, to be sure they can act on fiscal and monetary changes and regulations.

The inflation rate target in 2025 is set at 1,5% until 3,5%, giving a $\pm 1\%$ gap in between the range.

[> Read more here](#)



World Bank and IMF Published Report on Improving Taxes

The international organizations of World Bank dan International Monetary Fund (IMF) released a report entailing details on how developing countries can improve the conditions of their taxation landscape.

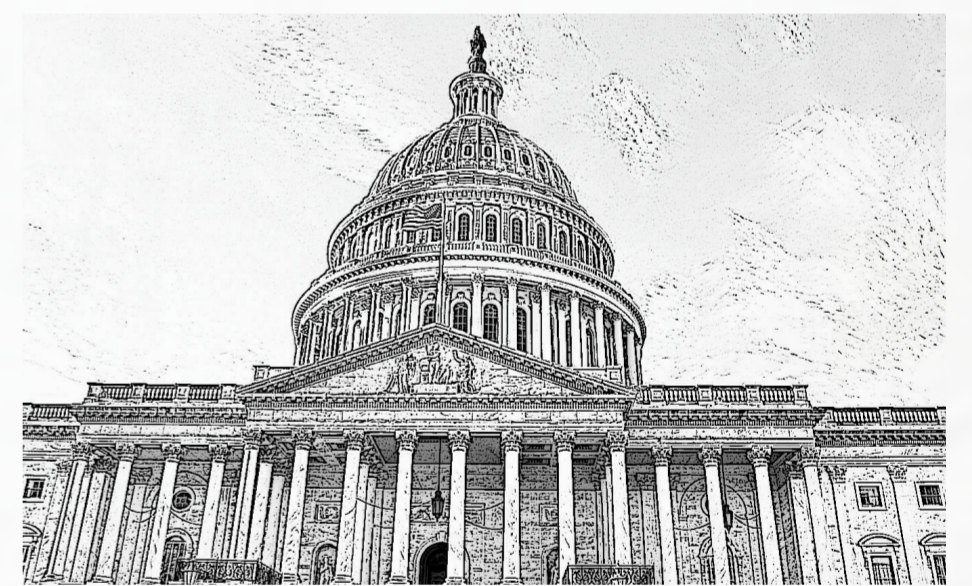
[> Read more here](#)



Italian Wealth Tax Faces a Double Increase Rate

The Italian government is planning to increase their yearly wealth tax rate to twice the amount they set currently. The increase is spearheaded by the dropping need to entertain 'the wealthy'.

[> Read more here](#)



Kamala Harris Looks Forward to Increasing US Corporate Tax Rate

Previously in 2017, the corporate tax rate decreased to 21%. Now, the Kamala Harris, one of the presidential candidates, has plans to introduce a 28% corporate tax rate.

[> Read more here](#)

August 2024

Monthly Tax Revenue

The current economic landscape of Indonesia has resulted in an amazing amount of collected tax revenue throughout the entirety of January to April 2024. Learn more about the growth and approximate earnings from the 2024 tax revenue in this page.

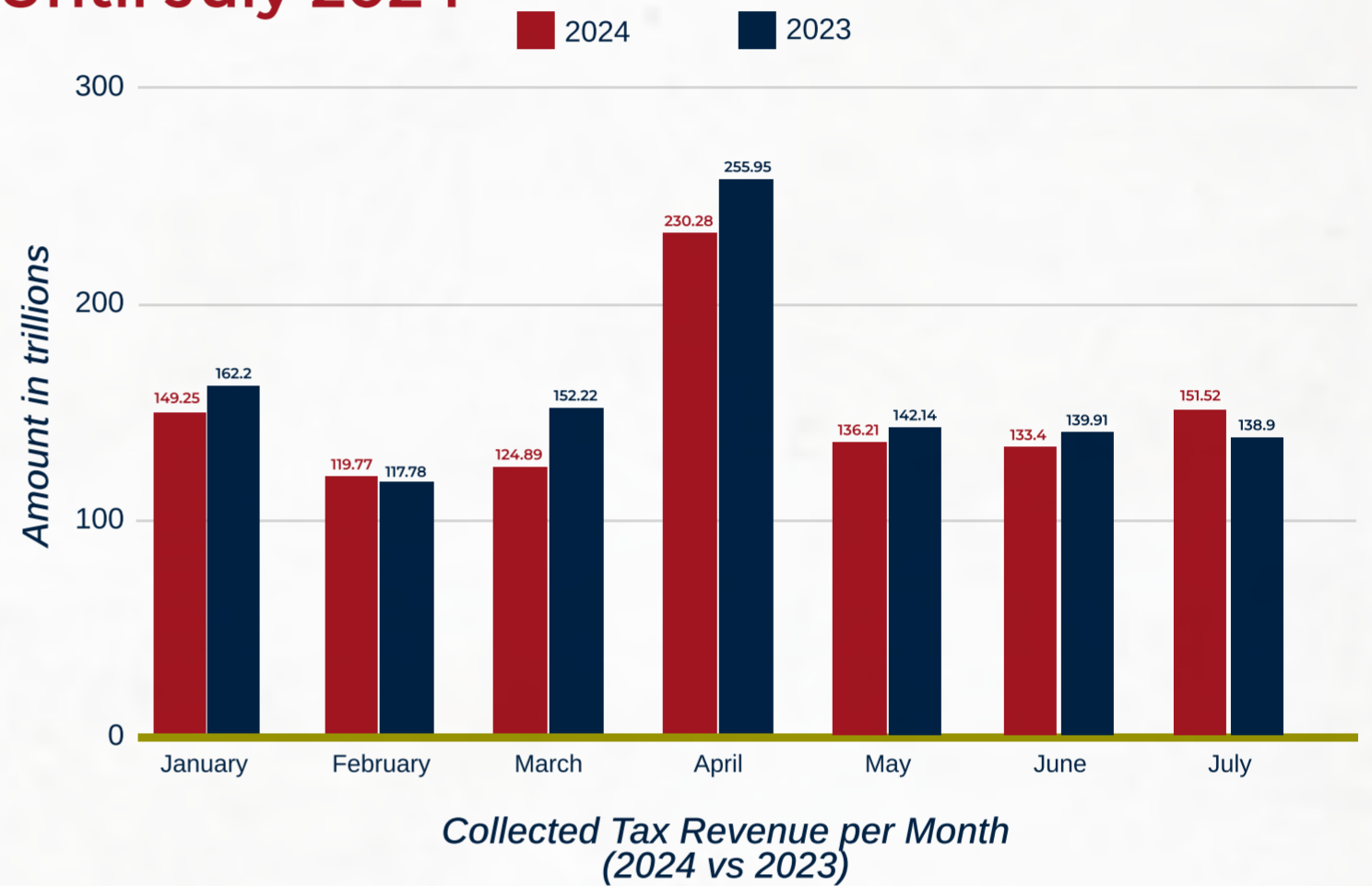
Collected Tax Revenue Amounts to IDR1,045.32 Trillion Per July 2024



In a magnificent news, the collected amount of the 2024 tax revenue has now exceeded IDR1,000 trillion, with the exact amount reaching IDR1,045.32 trillion. Although doing so, the yearly growth of the tax revenue actually faced a contraction of 5.75%.

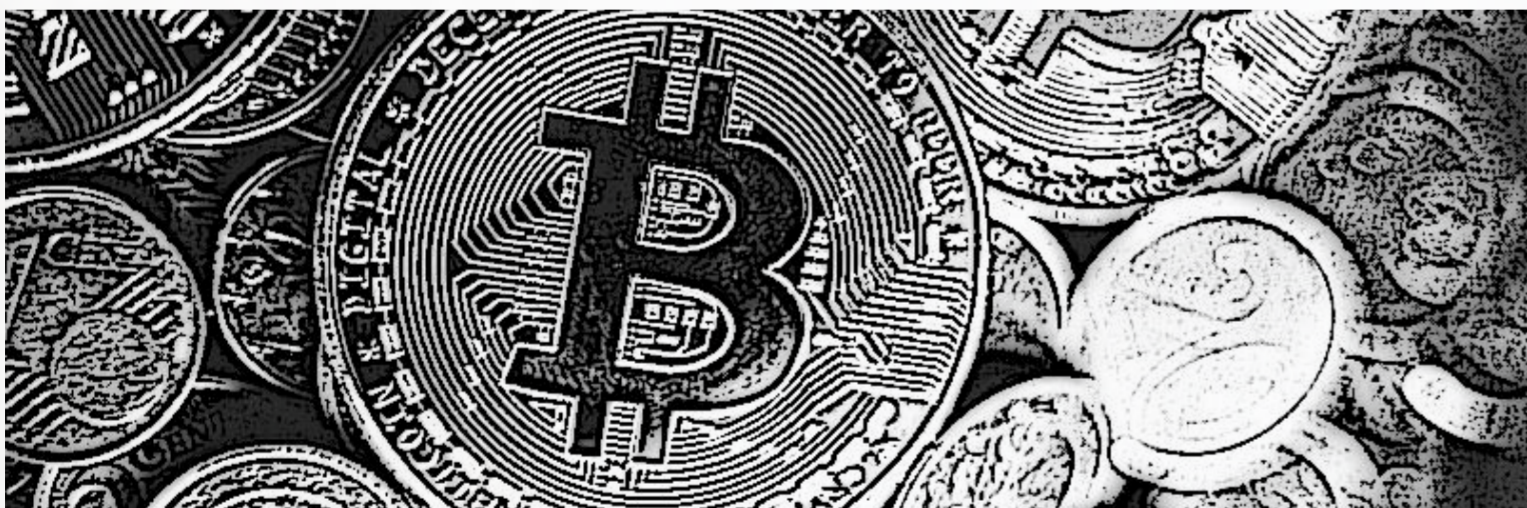
The highest contribution came from the Non-oil and gas income tax, with the revenue from VAT and Sales Tax on Luxury Goods coming in second. The growth contraction came from weakening of commodity prices and the declining of gas lifting.

Collected Amount of Tax Revenue Until July 2024



[> Read more here](#)

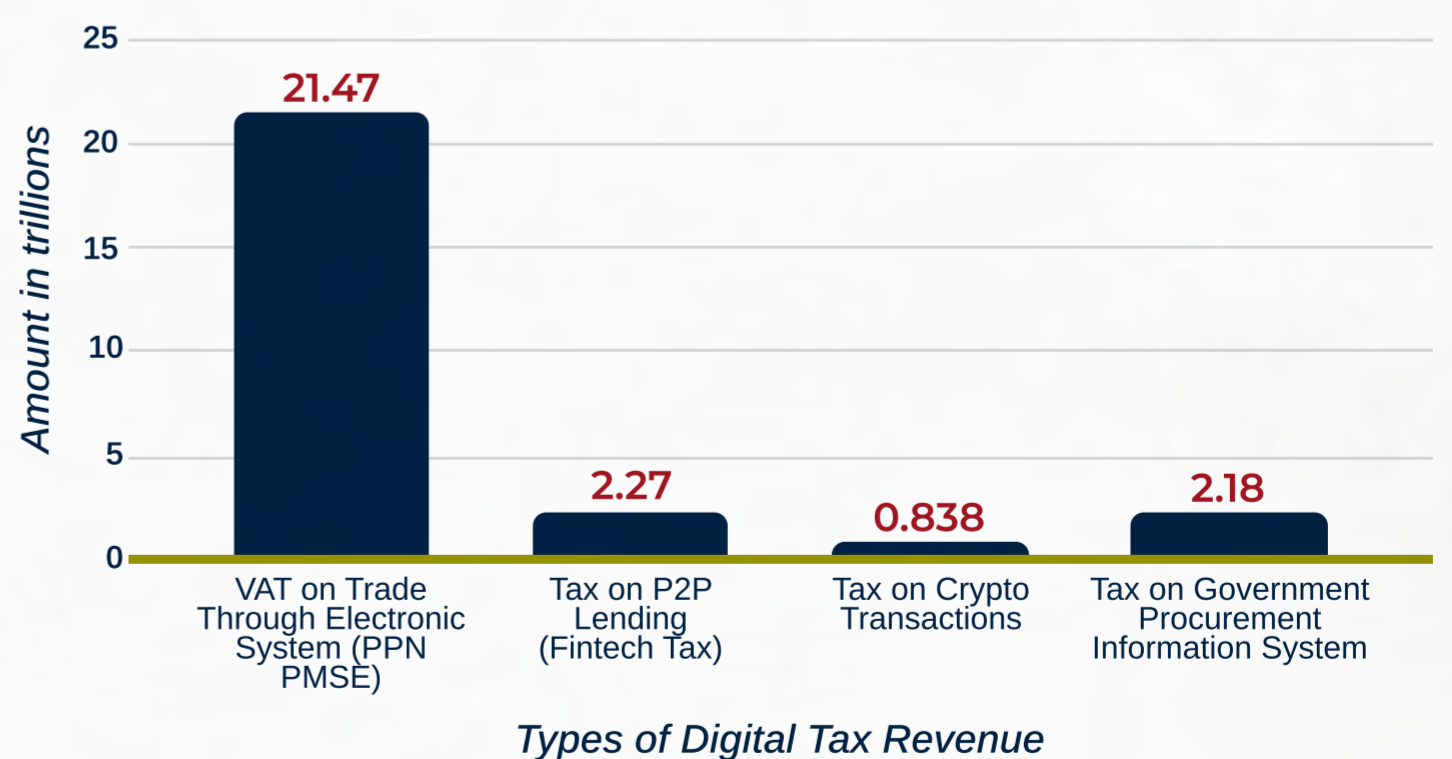
July 2024 Digital Tax Revenue Results In More Than IDR26 Trillion



Reports from the Directorate General of Taxes show that the collected amount of digital tax revenue until July 2024 has reached IDR26.75 trillion. The collected amount is the result of the accumulation of different types of taxes imposed on digital goods and services since 2020.

Based on the types of tax, the imposition of VAT on appointed Trade Through Electronic System companies is the highest contributor of the digital tax revenue.

Collected Amount of Digital Tax Revenue Until July 2024



[> Read more here](#)

Tax Calendar

September 2024



Tax Calendar

September 2024

MON	TUE	WED	THU	FRI	SAT	SUN
26	27	28	29	30	31	1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16 Mawlid al-Nabi	17	18	19	20	21	22
23	24	25	26	27	28	29
30	1	2	3	4	5	6

Reminders

- 10 September 2024** Payment Deadline : August 2024 Art. 4(2), 15, 21/26, 22, & 23/26 Income Tax
- 16 September 2024** Mawlid al-Nabi
- 17 September 2024** Payment Deadline : August 2024 Art. 25 Income Tax, SME Final Income Tax, & Self-Assessed VAT
- 20 September 2024** Filing Deadline : August 2024 Art. 4(2), 15, 21/26, 22, 23/26, & 25 Income Tax
- 30 September 2024** Payment and Filing Deadline : August 2024 VAT

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