



Tax on Financial Technology

The Whys, The Whats, and The Impacts.

Monthly Newsletter
May 2022



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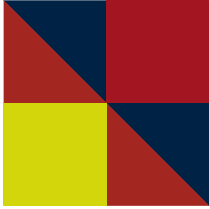
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Taxation on Financial Technology

by Andre Siregar & Ellicia Emerliawati

“The raise of using financial technology is impacting businesses like no other. The ease of experience and range of features allow businesses to personalise payment needs. However, starting from 1 May 2022, the Indonesian Government will start to impose VAT on the fintech industry. Here are some things to be prepared for.”

The Base Regulation

The regulation that bases the law is the Ministry of Finance Regulation (PMK) Number 69/PMK.03/2022 regarding the Income Tax and Value Added Tax on Financial Technology. Within the regulation is the law concerning the subjects, objects, detailed information regarding the subjects and objects, sanctions, and most importantly the rate on financial technology services.

Why is The Fintech Industry being Taxed?

The financial technology ('Fintech') industry is growing in Indonesia. The data from "Fintech in ASEAN: 2021" conducted by the United Overseas Bank (UOB), PwC, and Singapore Fintech Association (SFA) suggest that there are about 785 fintech companies in Indonesia, which shows a sufficient amount of growth compared to its previous years on 2020 with 758 companies, 2019 with 691 companies, 2018 with 583 companies, and on 2017 with only 440 fintech companies. As the number 2 most fintech company in ASEAN, Indonesia surely gains its growth from the usage of fintech services in day-to-day transactions and the lifestyle of the Indonesian citizens.

In addition to that, the developments of the fintech industry also support the industry's growth. From e-wallets to investment management, the government sees the potential for tax revenue from the industry. Incomes and services in the industry are seen as potential taxable objects. Moreover, taxation on the fintech industry is seen as a way to obtain an equal playing field between fintech companies and banks.

What Kind of Services are being Taxed?

Two types of tax are being imposed on the Fintech industry: Income Tax and Value Added Tax. However, both of these taxes are imposed on different tax objects.

Income Tax on Incomes in the Form of Loan Interests

Income Tax on the Fintech industry will be imposed on peer-to-peer (P2P) lending services (also known as fintech lending). This service is a borrowing service that links lenders to borrowers through an online platform. P2P platforms are then mandated to deduct Article 23 or Article 26 Income Tax following its income in the form of loan principles and interests.

Based on the Income Tax regulation, interests due to debt repayment guarantee are considered as the object of the Income Tax. P2P companies that are registered in the Financial Services Authority (“OJK”) will be appointed as the withholder for Article 23 or Article 26 Income Tax.

Article 23 Income Tax, with the rate of 15% from total gross on interest, is withheld when the receiver of the income is a domestic taxpayer with a permanent establishment, whereas Article 26 Income Tax, with the rate of 20% from total gross on interest or in accordance with the tax treaty regulation, is withheld when the receiver of the income is a foreign taxpayer with a non-permanent establishment.

P2P owners are obligated to create a tax withholding slip, withhold Article 23/26 Income Tax, and file withheld tax in the annual income tax return.

Non-registered P2P lending services owners are not obligated to act as the tax withholder for their services.

Calculate your Income Tax

Article 23 Income Tax

PT A loans IDR50,000,000 for 24 months to fulfill their operational needs through PT B, a P2P lending service company registered in the Financial Services Authority (OJK). PT C then provides PT A's loans, and the loan interest that PT A has to pay every month will be 2% of the total loan or IDR1,000,000.

PT B is required to withhold Article 23 Income Tax to PT C on their paid loan interest because they are a domestic taxpayer. Then, such calculation occurs:

Article 23 Income Tax = Rate x Tax Base
Article 23 Income Tax = 15% x IDR1,000,000
Article 23 Income Tax = IDR150,000

Article 26 Income Tax

PT A loans IDR50,000,000 for 24 months to fulfill their operational needs through PT B, a P2P lending service company registered in the Financial Services Authority (OJK). PT A is being funded by Z Ltd, a Singaporean resident, with a loan interest that PT A has to pay every month will be 2% of the total loan or IDR1,000,000. However, Z Ltd does not provide a domicile certificate to PT B.

PT B is required to withhold Article 26 Income Tax to Z Ltd. Because Z Ltd is a Singaporean resident, then the company is a foreign Taxpayer with a 20% Income Tax rate due to the fact that they do not provide a domicile certificate. Then, such calculation occurs:

Article 26 Income Tax = Rate x Tax Base
Article 26 Income Tax = 20% x IDR1,000,000
Article 26 Income Tax = IDR200,000



Value Added Tax on Fintech Services

In contrast to Income Tax, fintech services that are imposed with Value Added Tax ('VAT') vary. Here's the complete list of services imposed by VAT:

1. payment services, including e-money, e-wallet, payment gate, switching, clearing, final completion, and transfer.
2. investment settlements such as electronic communication medium that supports Stock transactions via bookkeeping.
3. equity crowdfunding services.
4. peer-to-peer (P2P) lending services.
5. investment management services.
6. online insurance products, including an e-communication medium that facilitates transactions between insurance companies and the insurance holder, at minimum in the form of travel insurance by Online Trade Operators ('PMSE').
7. market supporting services.
8. digital fiscal and other financial activities supporting services, such as eco crowdfunding, Islamic digital financing, e-waqf and e-zakat, robo-advise and credit scoring, invoice trading, vouchers or tokens, and blockchain application products.

Services concerning e-money and e-wallets include registration, top-up, payment transaction, transfer, and cash-out. Pay-later is also included in the list of services. However, money inside e-money and e-wallets is not part of the taxable objects, which also includes any bonus, top-up, reward, and loyalty points you might have.

With a rate of 11%, VAT is imposed on the administrative part of fintech services. For example, fees, commissions, merchant discounts, or any other reward received by the company.

What's the Impact for Businesses?

The growth of fintech industry in Indonesia shows how businesses in the future are likely to incorporate such services into their organization. Our analysis of the regulation shows that by investing in peer-to-peer lending services that are registered in OJK (Financial Services Authority), incomes in the form of loan interests will automatically be deducted from the Income Tax. If the P2P service is not registered, then the Taxpayer is obligated to withhold Income Tax on their own.

Registered P2P lending services owners are obligated to withhold Article 23 or 26 Income Tax and can do so by creating and submitting collective tax withholding as long as the transaction is within the same month and year, and with the same transaction partner. If you're looking into developing a P2P lending service, make sure you're updated and ready with this obligation.

Fintech companies should also be ready to enact the rate by taking note that fees, commissions, merchant discount rates, and rewards that they provide will be imposed with an 11% VAT rate. It is important to ensure that your services have a feasible fee and any other rewards for the company and customers. Entrepreneurs that are confirmed as a payment system service taxable Entrepreneur is obligated to withhold, deposit, and file VATs.

Monthly Highlights

Tax News Summary for *May 2022*

Monthly Highlights

Tax News Summary for May 2022



Photo by Mark Potterton on Unsplash

Updates on Value Added Tax on Self-Construction Activities

According to the Ministry of Finance regulation number 61/PMK.03/2022 regarding self-construction activities, self-construction activities are subject to Value Added Tax ("VAT").

Construction activities with the intention to build a new building or to expand an existing building are defined as self-construction activities.

In the event that the construction is carried out by the other party and the other party did not collect VAT, the construction is considered as self-construction activities.

How To Calculate the VAT:

$20\% \times \text{VAT Rate} \times \text{building cost (exclude acquisition cost of the land)}$

The definition of self-construction activities is broader.

Monthly Highlights

Tax News Summary for May 2022



Photo by Clay Banks on Unsplash

Income Tax and VAT will be imposed on the Fintech Industry. Services include P2P lending and digital finance services.

Tax will be imposed on the administrative cost.

Financial Technology Companies To Collect VAT For Several Transactions

VAT and Income Tax will be imposed on companies and financial technology providers starting 1 May 2022. This tax regulation is imposed on peer-to-peer lending systems and other payment services; such as crowdfunding, digital finance services, and investment management services.

The imposition of the VAT will be on the administrative service part of the services, not the amount of money being used during the transaction on fintech services.

Monthly Highlights

Tax News Summary for May 2022

Crypto will be imposed with VAT and Income Tax.

Each tax has different rates depending on the subject and object of said tax.



Photo by Kanchanara on Unsplash

Cryptocurrency as a Crypto-asset to be Taxed in May 2022

Crypto Tax in Indonesia is enacted on 1 May 2022 and any crypto-based transactions will be imposed with Income Tax depending on the subject and source of income at a rate between 0.1%-0.2%. The VAT also has different rates, at 0.1% or 0.2%, depending on the status of the crypto-asset trader, and 1% for crypto-asset verification or management services.

The implication of tax on crypto-assets is due to the growing number of crypto investors in Indonesia. The Government anticipates the growth of the treasury fund from the enactment of this regulation. Exchangers will be the one that collects the said tax as the organizer of PMSE or Trading Through Electronic System.

Monthly Highlights

Tax News Summary for May 2022

Tax Revenue for the First Quarter of 2022 shows growth in comparison to last year, mostly due to tax revenue on Income Tax on non-oil.



Photo of 'APBN Kita' Press Conference from the Ministry of Finance Website

Tax Revenue Increased for the First Quarter of 2022

As mentioned in the press conference of the 'APBN Kita' event on 20 April 2022, the tax revenue reached the number of IDR322,46 T for the first quarter of 2022. With a growth rate of 41,36%, the tax revenue's biggest contributor comes from the Income Tax on non-oil—followed by Value Added Tax and Tax on Luxury Goods, Land and Building Tax, and the Income Tax on Oil and Gas.

Monthly Highlights

Tax News Summary for May 2022

Ban on CPO export screams trouble as said ban is impacting the tax revenue.



Photo by Nazarizal Mohammad on Unsplash

The Ban of Oil Exports: Indonesia and the Global Food Prices

The temporary ban on Crude Palm Oil (CPO) and cooking oil has been commenced on 28 April 2022 with the goal of improving the availability of such products and reducing the prices in local markets. However, the export ban has been revoked. The CPO can be exported starting 23 May 2022.

The Government ensures that the ban will be lifted after local prices have stabilized. To ensure updates, the regulation will be reviewed periodically to maintain the latest updates. The said regulation is said to impact globally, both countries and brands that rely on Indonesia's oil exports.



Tax Calendar
June 2022

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

Reminders

10 June 2022

Payment Deadline : May 2022 Article 4(2), 15, 21/26, 22, and 23/26 Income Tax

15 June 2022

Payment Deadline : May 2022 Article 25 Income Tax, SME Final Income Tax, and Self-Assessed Value Added Tax

20 June 2022

Filing Deadline : May 2022 Article 4(2), 15, 21/26, 22, 23/26, and 25 Income Tax

30 June 2022

Payment and Filing Deadline : May 2022 Value Added Tax

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