MIB Monthly Newsletter | **October 2024**

MIB

The Path Ahead: Taxation Policies Under Prabowo's Administration

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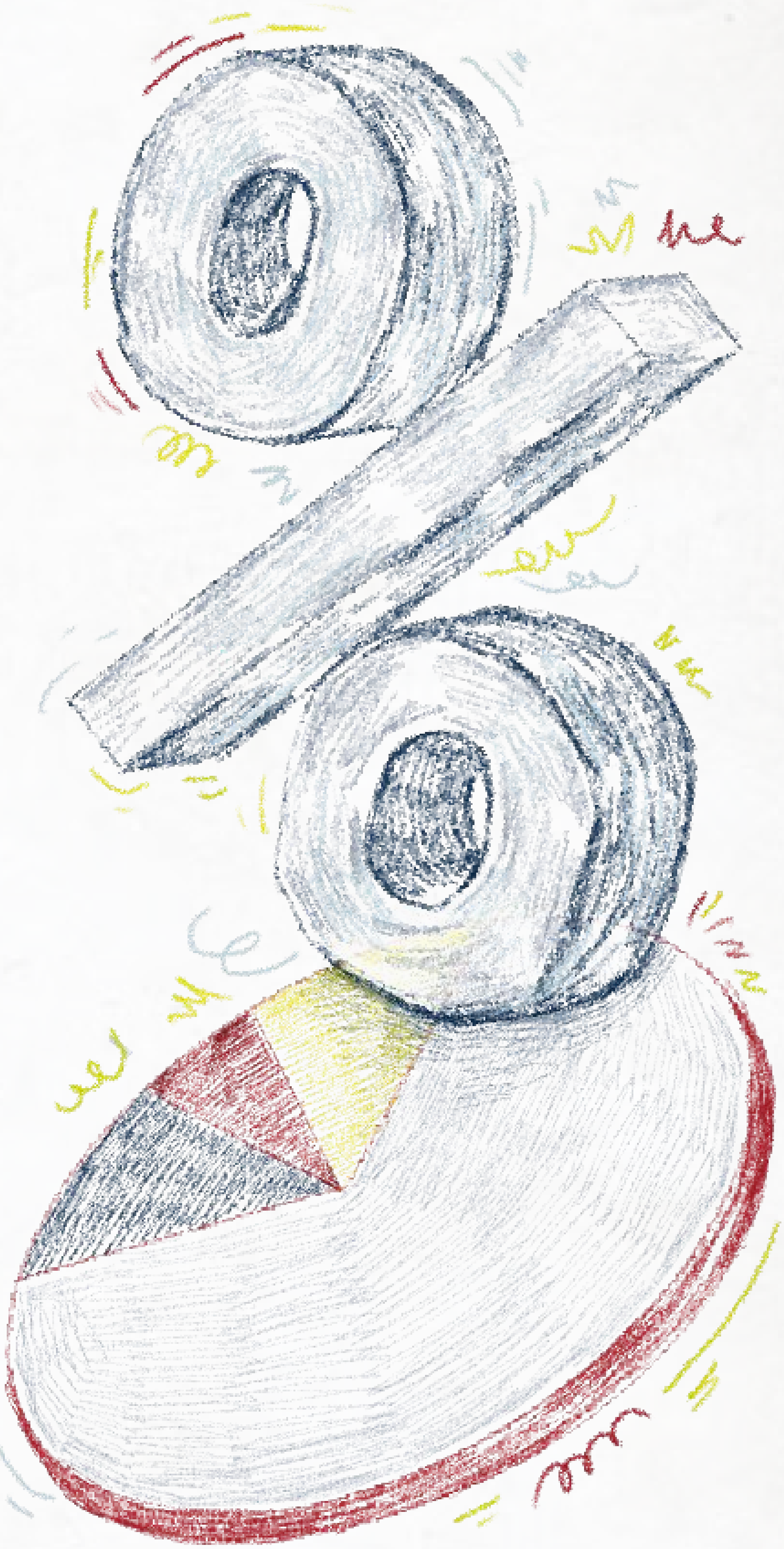


Promises in Progress

The new government's path to fulfillment

As the nation approaches a new year, the newly inaugurated government has an opportunity to reaffirm its commitment to effective governance and to foster public confidence under new leadership.

With the presidential team now officially in office, they are entrusted with carrying forward the initiatives of the previous administration. Key programs, including tax incentives and regulatory adjustments, are anticipated over the next five years, with potential impacts on both taxpayers and the wider economy.

This article offers insights into the aspirations of the new administration and explores how their policies may shape the nation's path in the years ahead.

Promises in Progress

The new government's path to fulfillment

The new government period has now officially started, with the coronation of the newly chosen president and vice president, Prabowo Subianto and Gibran Rakabuming, on October 20th, 2024. The ceremony, held at Gedung Nusantara MPR/DPR/DPD RI, was attended by representatives from different countries, ministers, as well as family members, and those invited from different backgrounds.

Citizens rejoice and elate out screams of joy as the now president surfs through the crowd on a nationally made white car, waving their hands and proclaiming their support through banners and pamphlets, organized by support groups, and is enlivened with live music.

But celebrations are only the mere beginning – the president, vice president, and by extension, the new cabinet – now shoulders the responsibility of fulfilling their promises, made alive during the presidential debate as ways to earn votes. They now should fulfill their promises and improve the quality of life in Indonesia.

The new government promises continuity – following the footsteps of the previous one – and promises an expansion of the (current condition). How can the plans they mention, highlighting the ones about the national economy be fulfilled? What are the updates now that the cabinet is inaugurated? Discover our thoughts on the president and his programs in this issue.

From Campaign Promises to Governance: Aspirations of the Newly Inaugurated Leader

Pre-election aspirations – How they managed to gain the public votes

In order to garner votes from the public, the then presidential candidate – ***Prabowo Subianto and Gibran Rakabuming*** – also known as Candidate Pairing Number 2, promised several aspirations related to taxation and economic aspects of Indonesia. Let us find out what some of the aspirations were:

1 Excise on Sweetened Beverages

As a way to combat the concerning amount of diabetic patients, the presidential pairing is looking to execute the plan on imposing an excise on sweetened beverages, which will also affect the allocated budget for diabetic patient treatments in the Social Health Insurance Administration Body (BPJS).

2 Development of a State Revenue Agency

The plan to develop a separate agency named the State Revenue Agency is to increase the number of collected tax revenue, which will hopefully happen due to the better management of the domestic revenue as the result of the agency's creation.

3 Wheat Import Tax

Indonesia is currently sporting a 0% rate on wheat imports, which is seen as a loss opportunity on income source, especially when compared to other neighboring countries with similar conditions to Indonesia such as Thailand.

4 Taxing the Small Businesses (UKM)

As a plan to reach the targeted tax ratio by 2029, the pairing decided to impose a tax on small businesses or SMEs. This is part of a plan to expand the tax basis through extensification, where SME players including informal SMEs are urged to contribute to the national tax revenue.

5 Increase of the Taxable Income Bracket and decreasing the Individual Income Tax Rate

The pairing also suggested the increase of the minimum taxable income amount while simultaneously lowering the tax rate on income tax article 21. This plan, although criticized, is meant as a way to increase the national tax revenue and ensure that the targeted tax ratio is reached by 2029.

6 Tax Exemption for Small and Micro Businesses (MSMEs/UMKM)

For the first 3 years since its development, micro, small, and medium enterprises, also known as MSMEs, are eligible to enjoy an income tax exemption as a form of support for the businesses to manage and stabilize their cash flow.

7 Elimination of Taxes on Book Industry

7 Elimination of Taxes on Book Industry

Following the promised tax regulations and incentives, the now presidential pairing also targeted several objectives to be reached during their leadership period, which will run from 2024 to 2029. For example:

1. Tax ratio to reach 23% by 2029
2. Improving Business Climate and Data Leak

Some of the more famous programs associated with the candidate is the promise to deliver a free lunch program for children until the age of high schoolers, pregnant women, and santri in islamic boarding schools.

Post-winning candidate announcement – How does the new leadership prepares?

After the election winner announcement, the government moves on quickly with preparation to set up the government targets under the new leadership. This is quite different from previous presidential elections, as there is a new president that will be in charge of the nation. Thus, adjustments should be made, especially in regards to the programs and aspirations that were previously made.

In the development of the 2025 State Budget, it is estimated that the national expenditure will reach IDR3.613 trillion, where taxation will become the main source of revenue for the nation, similar to previous years considering the national condition. The targeted tax revenue in 2025 is set at IDR2.918 trillion, where the number increases 10% in comparison to the target set for 2024.

It is only logical for the new government to reelect the previous Minister of Finance, which title was formerly held by Sri Mulyani. Thus, it was decided during the cabinet appointment to appoint Sri Mulyani as the Minister of Finance for the government period of 2024–2029, with the hopes of continuing previous years' success and exceeding the amount of targeted tax revenue.

For additional information, in the previous 3 years, the collected tax revenue managed to receive *hattricks*, being able to surpass the set target from 2021 until 2023.

Although through by the information collected from the Minister of Finance, there has been no talks or discussion regarding the development of the State Revenue Agency nor the separation of the Directorate General of Taxes from under the management of the Ministry of Finance.

In addition to the previous aspirations that the now-presidential pairing promises, there are more incentives and tax regulations that the new government aims to implement.

During the last few months, the new government representatives has been dropping not-so-subtle hints on what the tax plans are for the new government to implement. To name a few, there have been talks to terminate the imposition of property taxes, which consists of both Value-Added Tax (VAT) and Land and Building Title Transfer Fee or known as BPTHB in Indonesia.

The pairing also believes in preserving the values and regulations deemed suitable from the previous government. For this reason, the pairing decides on 'continuity' – as in continuing the efforts of the previous government and adapting them to fit the needs. Namely, the Law on Harmonization of Tax Regulations or UU HPP, as well as the implementation of the new Core Tax Administration System (CTAS).

Continuing What's Left for What's Next: A strategic and beneficial move?

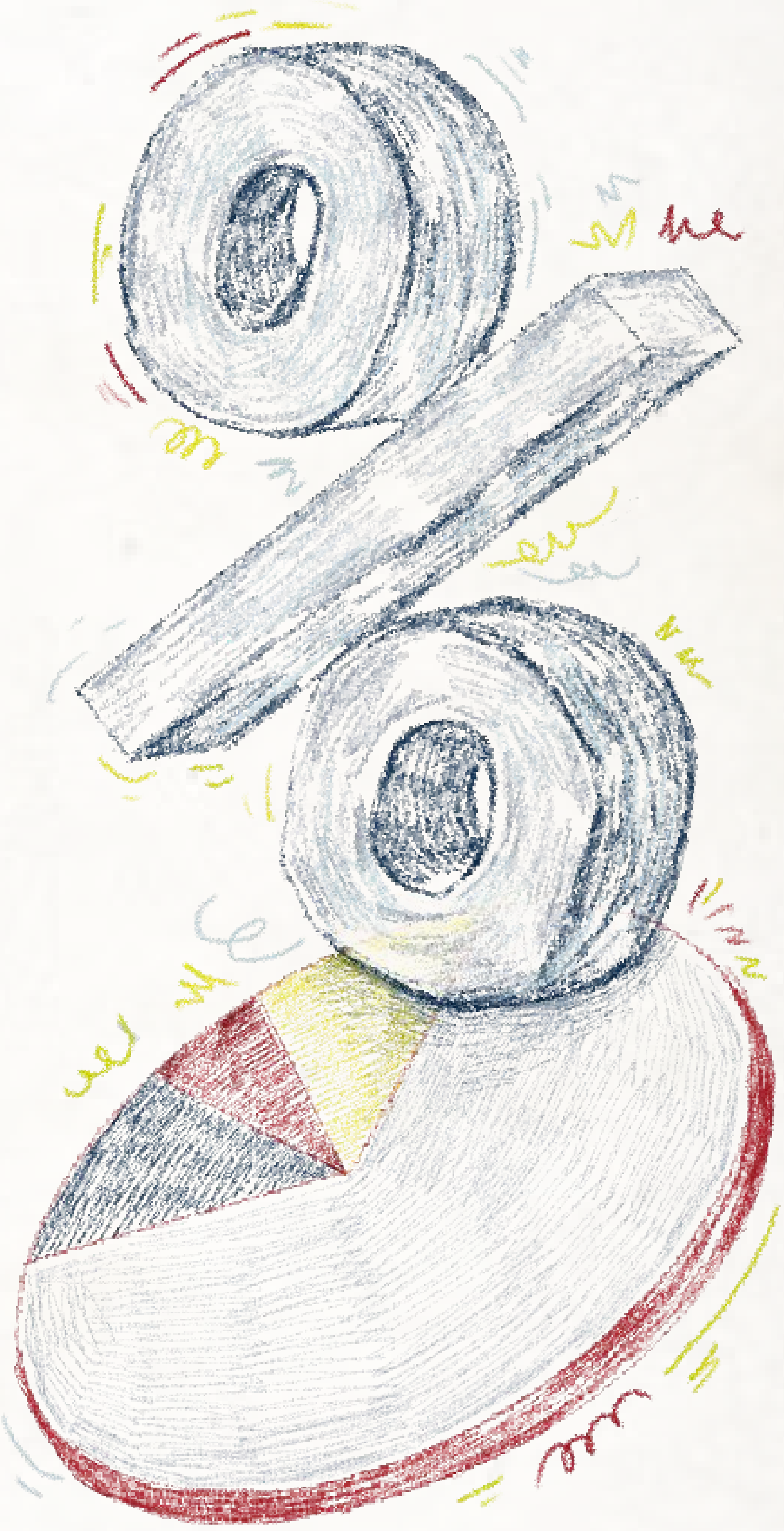
As the new government prepares and adjusts, there are arguably concerns and critiques over the seemingly too-ambitious of a target to be reached for the next 5 years, under a new leadership. Not only that, but the public has also been commenting on the decision to continue previous government's regulation to the new year.

12% VAT rate imposition from the Law on Harmonization of Tax Regulations

For example, by 2025, the government is expected to increase the general VAT rate to 12% as mentioned in the Law on Harmonization of Tax Regulations. However, looking at the current economic conditions of Indonesia, many speak about it is not a wise decision to do so, even if it could increase the amount of collected tax revenue. Why?

The increase on the VAT could affect the purchasing power of the nation, but not in the way the new government wishes to have on their record. As the rate increases, so does the prices for goods and services. This meant that the public will have to allocate more money on buying goods and services, way more in comparison to how many a person could make based on the highest national minimum wage. This will especially affect middle to lower class citizens, those with lower purchasing power, on top of the current job market with many unemployed.

Companies will also be entitled to pay a higher amount of taxes amidst a lower purchasing condition, adding more load to business owners and workers. However, an increase in VAT rate could potentially bring Indonesia an additional IDR945 trillion, growing 16% in comparison to the VAT revenue outlook for 2024.



Researchers and economists, however, believe that even a higher VAT rate could not fully support the efforts to reach a 23% tax ratio by 2029.

Digitalizing taxation through Core Tax Administration System

Following the trend on continuing leftovers from the previous government, the new government can seemingly hope on the implementation of CTAS to optimize the collected tax revenue in 2025. To summarize, the system is responsible for integrating taxation services and other institutions data to increase the rate of collective tax compliance from the public.

Additionally, it is hoped that the implementation will increase efficiency from tax authorities as now it is automated and integrated.

Adjustments in current tax regulations

As previously mentioned, the new government aims to adjust certain tax rates and even exempt them in 2025. For example, the exemption of property taxes in 2025, and the lowering of rate for corporate income tax.

The exemption on property tax is planned in order to increase the public's purchasing power in relation to houses.

This will in turn hopefully affect the prosperity number in Indonesia, and act as a stimulant for the economy. Property companies are elated to hear this plan, as it could increase the number of purchase on houses and relieve buyers on any additional fees. Banks also show enthusiasm to the plan – more credit growth, profitability, and market share for them.

However, they all note that the central government should be extra careful in managing this regulation. There will always be probability on things running haywire, which is why a careful planning and organization is needed for all layers of the government, especially knowing the fact that BPHTB is regionally-regulated.

Additionally, the new government also talks about lowering the rate on corporate income tax, which was now set at 22%. In the future, the number is aimed to be set at 20%, previously planned to combat the COVID-19 pandemic conditions. However, lowering the income tax can be seen as a strategic move – companies will be able to allocate the funds to more and better manpower, contributing to the growth of job opportunities. The 'extra' funding can also be used to improve any operations for the company.

The development of the State Revenue Agency and increasing tax revenue

Although it has been mentioned that so far there has been no talks or discussions on the development of the State Revenue Agency, the new government has made a new move: the Ministry of Finance is no longer under the watchful eye of the Coordinating Ministry for Economic Affairs, but now has been moved to directly report to the president.

As the development of the agency is to increase tax revenue, economists suggest other efforts that the government could do alongside the initial plan. For example, by increasing the legal compliance on taxes – judged to still be lenient and not enough, which also affects the collected tax revenue.

In addition, the expansion on tax basis through formal workers can also be one way to increase the collected tax revenue amount. Thus, the government must also think of a way to increase the number of job and business opportunities to be able to rope more taxpayers into paying.

Will other incentives be left behind in the dust?

The newly-planned incentives puts the question on other available incentives – will they be left behind?

To answer that question, we can only let time tell.

Currently, the government is still preparing targets, budgets, and adjustments to face in the new year of 2025. There have been not many specific and detailed discussions, but the government is so far planning on continuing the 'leftovers' incentives in order to put the economic conditions in gear.

The Achievability of the Aspirations: Is it feasible?

Through the planned regulations, one question still remains. That is the question of is all the aspirations – the tax ratio, tax revenue, and tax regulations – achievable and realistic? Will these regulations bring a truly positive result to the country under the new government?

For starters, as 23% tax ratio is deemed too irrational to be reached without having to interfere with the economic landscape. While it is not entirely impossible to acquire said target, a higher tax – which is one of the ways to reach said target – will disturb any purchasing power from both individuals and businesses. In addition, the government will have to 'force' tax collection on taxpayers, a contradictive way once you remember that the presidential pairing aims to expand the business industry.

The development of the State Revenue Agency will not also support the aim to reach the 23% tax ratio on the go. There will be a lot considerations alongside any adjustments during the development and transfer of data and policies within the next 5 years if the agency is truly developed.

Alas, for 2025, the government sets the tax ratio to reach 10.09% to 10.29% from the Gross Domestic Product (GDP). The target is set by keeping in mind the current condition and challenges that the government might face in the next year, namely digital and technology shift in consumption behavior as well as fluctuations in commodity prices.

We can only hope that regulations made by the new government sides with the public and the betterment of nation, and hope we see the positive after effects, with or without any of the previously mentioned aspirations from the then-candidates being executed.

"As Indonesians, we hold hope and optimism for the journey ahead."

MIB Events Highlights & Coverage

09.10.2024 Wednesday

MIB Assists Puzzled Taxpayers on Corporate Tax Audit Issues

As a gesture of gratitude for the community's support, MIB organized an event to answer participants' questions on corporate tax audit matters.

The event was energized by enthusiastic participants eager to expand their knowledge and gain valuable tax audit insights.

Continuing and enacting on MIB's mission to educate the society and community, MIB held an event aimed for the ones responsible in handling tax and finances in the company in early October 2024.

The event, titled ***"Persiapan Menghadapi Pemeriksaan Pajak"*** (in English: "Preparations in Facing Tax Audit") was held online on 9th October 2024. During the morning, when the event started, a small procession was made before the lecture session began.

As a way to warm-up the crowd, the speaker, Maulana Ibrahim, Tax Director of MIB, engages in a short conversation with the audience beforehand. He not only explained his competencies but also provided a backstory on why tax audits are important for companies, and how later there will be tips on what companies can implement when preparing for a tax audit.

The lecture session is proven to be interesting and what the participants had hoped for, as shown by how participants are getting more enthusiastic on asking questions regarding tax audits.

As Maulana proceeds with the materials, questions poured in, mainly on the technicalities and more common aspects of a tax audit process. The materials that were given concerned the reasoning behind a tax audit, the process and timeline, as well as the documents that taxpayers should provide during the tax audit process.

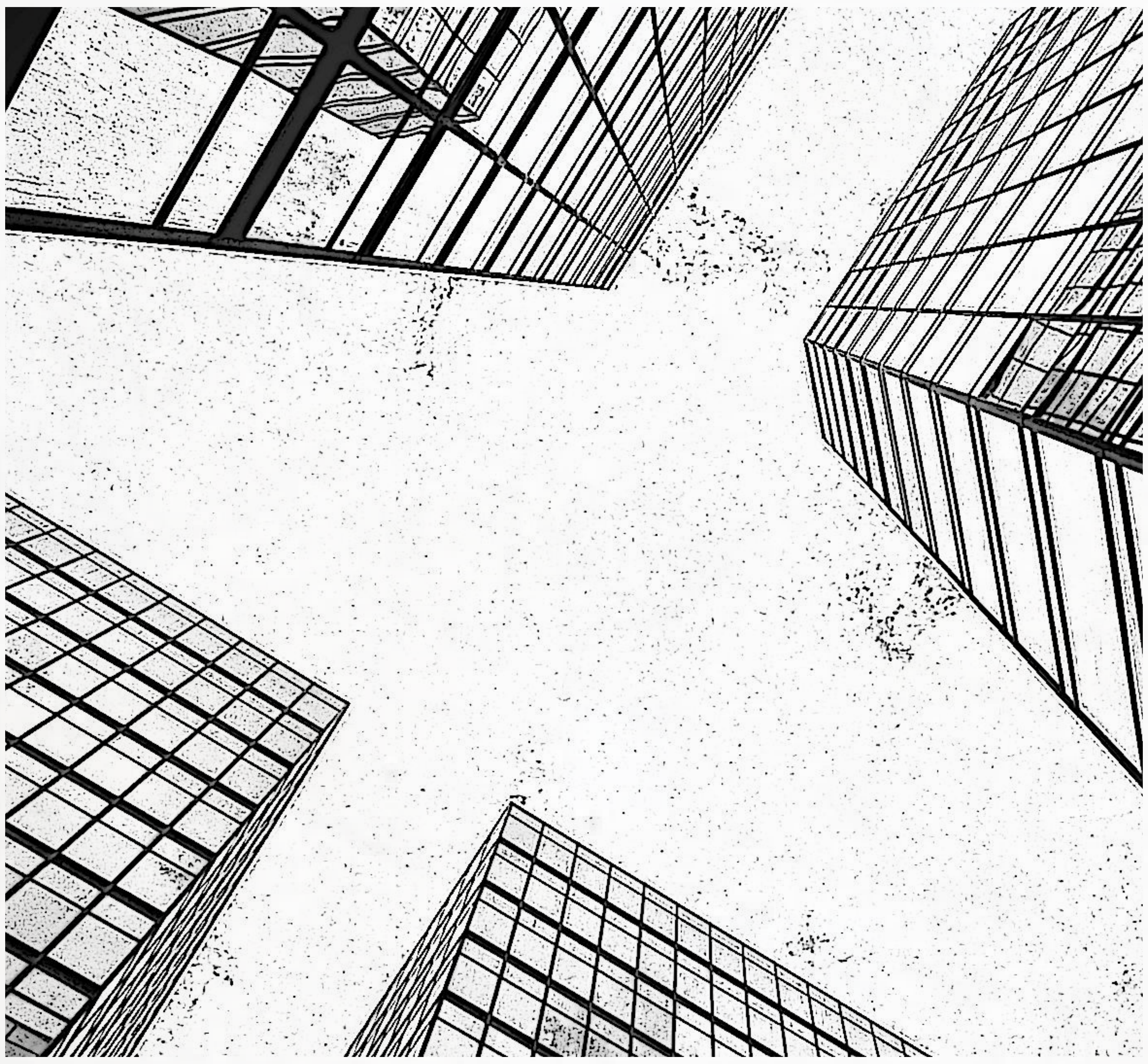
During the question and answer session, Maulana encourages the participants to ask any question in relation to their tax audit concerns. Chosen participants are asked to unmute their microphone and ask their questions directly, with most participants asking about a specific issue they are facing or will be facing in a tax audit process.

The event concluded around noon with a group photo featuring participants, the speaker, and MIB representatives. MIB encouraged participants to reach out for support if they encounter tax audit issues or need assistance from tax consultants.

October 2024

Monthly Highlights

As the new president and government of Indonesia is inaugurated, the country is putting all hands on deck for the new and recurring aspirations under the new leadership. Global dreams and local responsibilities are the highlight in light of the preparation as the new year approaches.



Imposition of Global Minimum Tax Affects Tax Holiday Incentive Offering

The government shares that the imposition of Global Minimum Tax or GMT as developed by the Organisation of Economic Cooperation and Development will most likely affect tax incentives given to corporate taxpayers, including the tax holiday incentive.

GMT makes it impossible for multinational companies and corporate to pay 0% taxes, making the government having to create adjustment for the tax incentive to still work.

> Read more here

12% VAT Rate Implementation Awaits New Government Approval

Following the stipulation mentioned in the Law on the Harmonization of Tax Regulations, the applicable Value-added Tax (VAT) in Indonesia is set to be increased to 12% by 1 January 2025 at the latest.

However, representatives from the Ministry of Finance shared that the increase of the VAT rate will be depending on the approval of the new government. If the new government aims to push back the deadline of new VAT rate, then a revision to the law will have to be approved and published.

> Read more here

Next read 09 Sri Mulyani Reappointed as the Ministry of Finance in Indonesia & IKN Development Influences Tax Revenue of Balikpapan

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Sri Mulyani Reappointed as the Ministry of Finance in Indonesia

Sri Mulyani has been chosen to continue her duties as the Minister of Finance in Indonesia for the 2024–2029 governmental period. Sri Mulyani has met up with the winning presidential candidate, Prabowo Subianto, to accept the position.

During the same moment, the reappointed Minister of Finance shares that there has been no talks about the development of a National Revenue Institution nor about the plans of separating Directorate General of Taxes from under the Ministry of Finance.

> Read more here

IKN Development Influences Tax Revenue of Balikpapan

As an effort to exhibit the positives of IKN, the new capital city of Indonesia, development, the Regional Secretary of Balikpapan shares the impact it has on the collected tax revenue of the city. In case you missed it, IKN is built in East Kalimantan, whose seaport city and financial center is located in Balikpapan.

The city records a collected tax revenue of IDR590.9 billion until mid-October 2024, with the biggest contribution and impact from IKN development coming from taxes imposed on hotels, tourism, and restaurants.

> Read more here

Next read 10 Taxable Entrepreneurs Required to Detail Invoices Pre-CTAS Implementation & International Tax Highlights

October 2024

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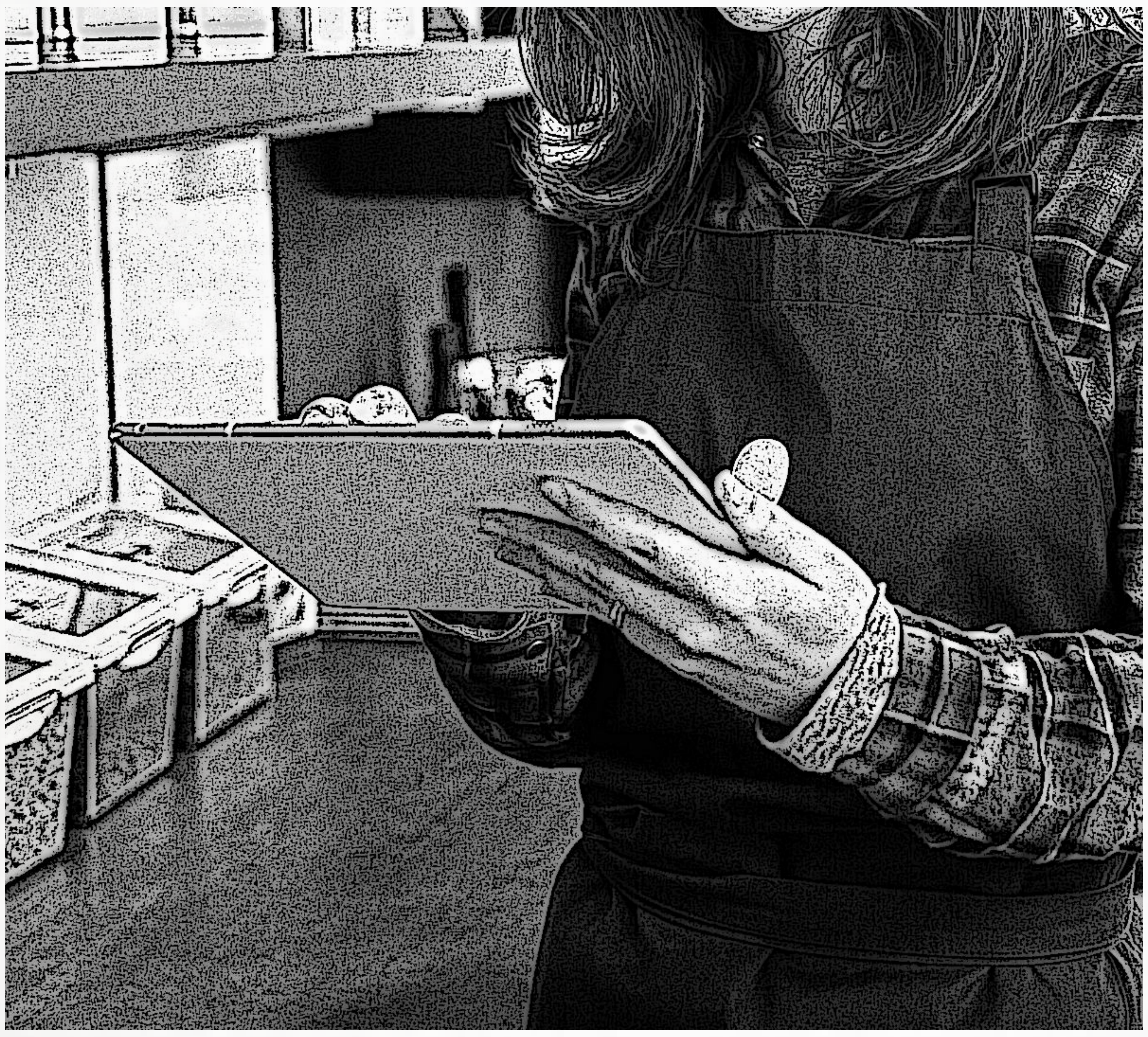


Taxable Entrepreneurs Required to Detail Invoices Pre-CTAS Implementation

To prepare everyone with the implementation of the new tax administration system, better known as Core Tax Administration System (CTAS), the First Tax Extension workers are educating taxpayers on the changes in behavior that taxpayers should do.

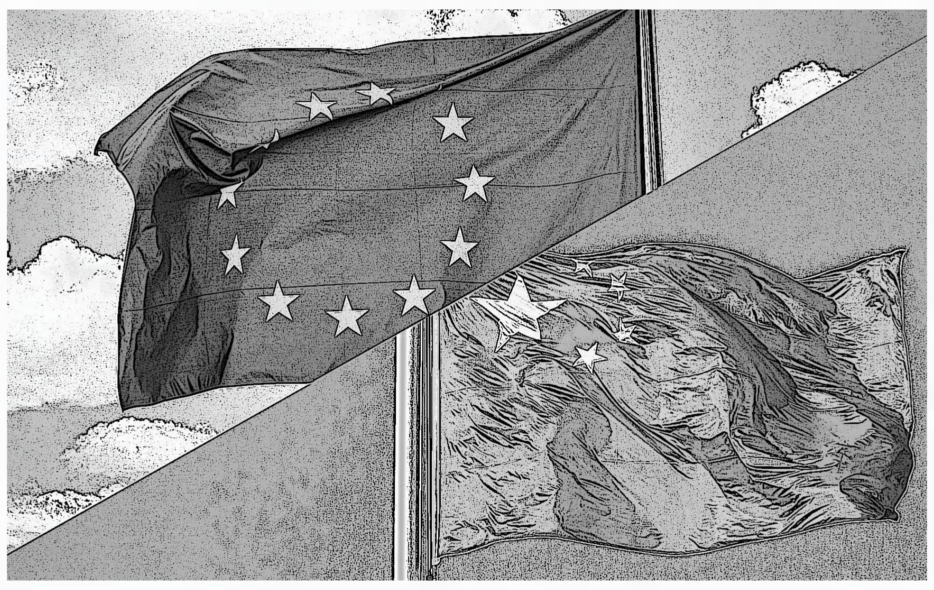
One of them includes taxable entrepreneurs having to detail their consignment of taxable goods or services in an individual tax invoices. They will have to submit the details in the new tax administration system.

> Read more here

Portugal Looking To Introduce Tax Relief For Workers Under 35

In order to stop brain drain, the government of Portugal has plans to introduce an income tax relief applicable for workers under the age of 35 years old.

> Read more here



EU and China Reciprocate Import Tax Regulations

The European Union (EU) has decided to impose a higher tax rate on imported electric cars from China. Thus, China fights back with an imposition of import tax on imported brandy from Europe.

> Read more here & here

IRS Decides to Increase the Minimum Tax Bracket for 2025

The taxation agency in the U.S. decides to increase the minimum tax bracket for both individual and married or joint taxpayers starting from 2025.

> Read more here

October 2024

Tax Revenue & Summary

In order to prepare for the new year, the government has set up approved targets that will become the basis of the new government era in 2025. These targets, alongside a growing amount of collected revenue, is setting up a precedent of what's to come moving forward.

Discover the Ratified State Budget Summary for 2025

The House of Representatives has ratified the 2025 State Budget plan. In the plan, the government mentioned several targets for the next year by keeping in mind several economic assumptions, which includes a 5.2% economic growth and a controlled inflation of 2.5%.

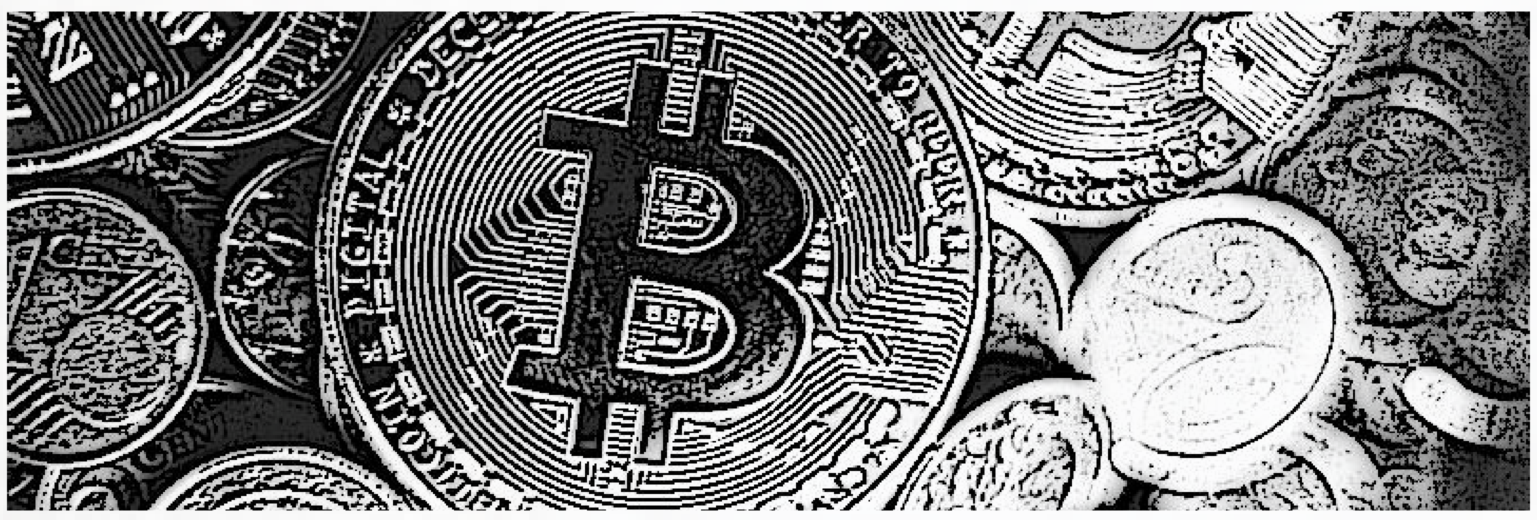
There are records broken with the new target, which will become a homework for the new government by itself, alongside other 'leftovers' from the previous government.

See our summary on the approved targets and estimates mentioned in the 2025 State Budget.

2025 State Budget Targets & Estimates Summary

State Revenue	IDR3,005.1 Trillion
Tax Revenue Target	IDR2,490.9 Trillion
Non-tax Revenue Target	IDR513.6 Trillion
Ministries/Institutions (K/L) Spending	IDR1,160.1 Trillion
Non-Ministries/ Institutions (Non-K/L) Spending	IDR1,541.4 Trillion
Transfers to Regions (TKD)	IDR919.9 Trillion
Deficit	2.53% or IDR616.2 Trillion
Total Spending	IDR3,621.3 Trillion
Debt Financing	IDR775.9 Trillion
Investment Financing	IDR154.5 Trillion

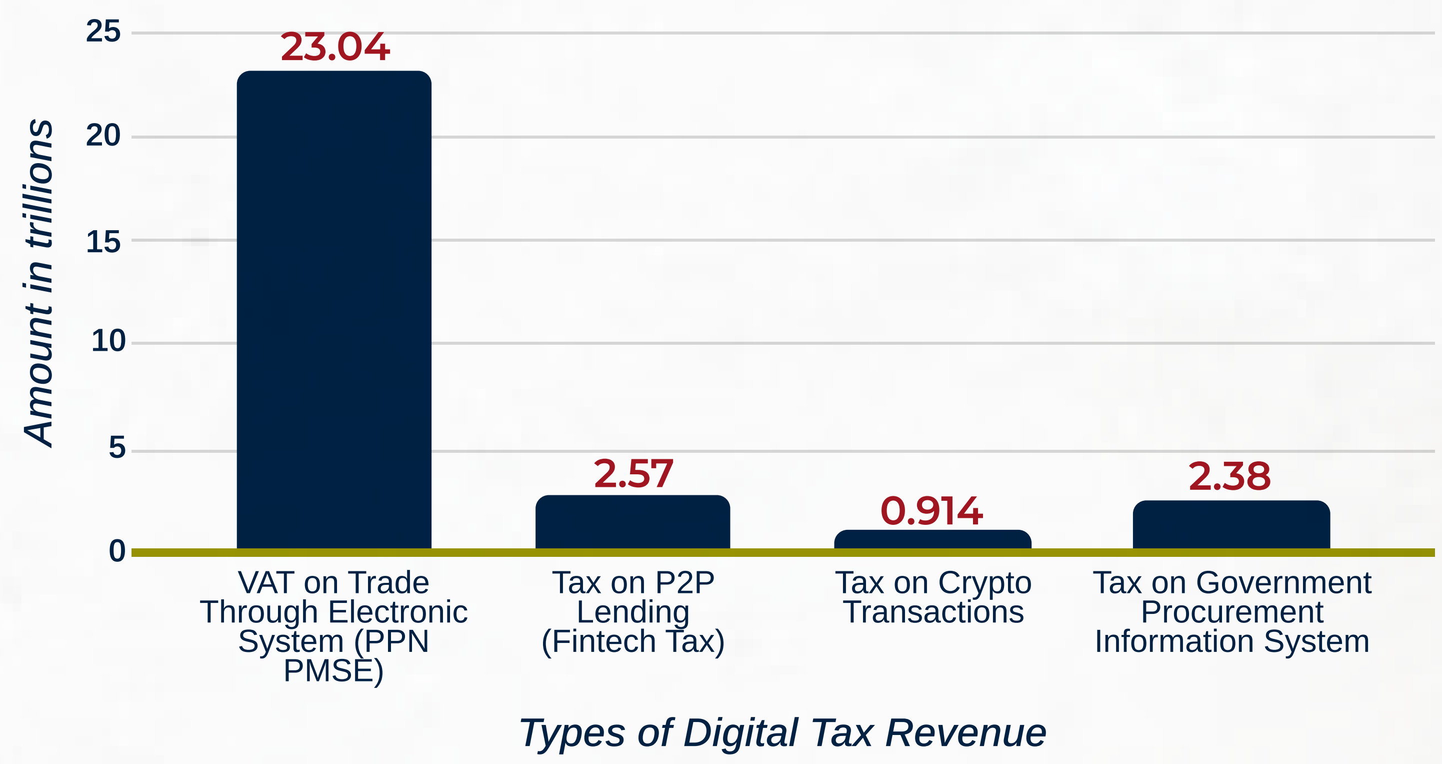
Digital Tax Revenue Amounts to IDR28.91 T Until September 2024



Based on the information distributed by the Directorate General of Taxes, the collected amount of taxes imposed on digital goods and services has reach IDR28.91 trillion until the end of September 2024.

This number is accumulated from the very first imposition of digital tax, in the form of VAT on Trade Through Electronic System companies, in 2020. Digital tax imposition also includes taxes on crypto transactions, fintech, and taxes on government procurement information system.

Collected Amount of Digital Tax Revenue Until September 2024



> Read more here

Tax Calendar

November 2024

Tax Calendar

November 2024

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

Reminders

11 November 2024 **Payment Deadline** : October 2024 Art. 4(2), 15, 21/26, 22, & 23/26 Income Tax
15 November 2024 **Payment Deadline** : October 2024 Art. 25 Income Tax, SME Final Income Tax, & Self-Assessed VAT
20 November 2024 **Filing Deadline** : October 2024 Art. 4(2), 15, 21/26, 22, 23/26, & 25 Income Tax
27 November 2024 **Regional Election Day**
02 December 2024 **Payment and Filing Deadline** : October 2024 VAT

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