

September 2020

## Tax Alert

# Other value as the tax base for delivery of certain agricultural goods

### Executive Summary

On 17 July 2020, the Minister of Finance (“MoF”) issued Regulation No 89/PMK.010/2020 (“PMK-89”) regarding Other Value as the Tax Base for delivery of certain agricultural products. PMK-89 is the implementing regulation of Articles 8A(2) and 16A of the VAT Law and is effective on 27 July 2020.

PMK-89 permits sellers of certain agricultural products to use 10% of the purchase price as the VAT basis. That is, effectively a VAT rate of 1% of the purchase price. However, if the seller uses this approach, it can no longer claim input VAT in relation to those goods.

The key aspects of PMK-89 are:



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## A. Delivery of certain agricultural products

1. Delivery of certain agricultural products by a VAT-able Entrepreneur is subject to VAT at the rate of 10%.
2. Certain agricultural products governed under PMK-89 consist of:
  - a) Plantation products (e.g. palm, cocoa, coffee, pepper, cashew, nutmeg, tea, tobacco, cotton, etc.);
  - b) Crops (e.g. rice, corn, nuts, tubers);
  - c) Decorative and medicinal plants;
  - d) Forest products in the form of timber (e.g. types of wood, rubber wood, etc.) and non-timber (e.g. bamboo, rattan, candlenut, etc.)

The complete list of the agricultural commodities, the way they are processed, and the types of products can be found in Attachment A of PMK-89 at the below link: <https://jdih.kemenkeu.go.id/api/AppMediaCatalogs/Download/b44762a9-a606-4785-9436-4681d2a3f612>).

## B. Other value as VAT tax base

1. For the Tax Base<sup>1</sup> to calculate the VAT payable on the delivery of certain agricultural products as stated in item A.2, the seller has the option to use Other Value.
2. If a VAT-able Entrepreneur chooses to use Other Value as the Tax Base on the delivery of certain agricultural products as stated in item A.2, the Other Value is 10% of the Sales Price<sup>2</sup>.

## C. Input VAT and the VAT collection

1. If the Other Value is used in relation to the delivery of certain agricultural products, input VAT on the acquisition of taxable goods and/ or taxable services in relation to those goods can no longer be credited by the seller.
2. A VAT-able Entrepreneur that uses Other Value as its Tax Base should issue a tax invoice or other documents which have equivalent position with the tax invoice that regulated in accordance with the prevailing regulation.
3. The VAT is to be collected on the delivery of certain agricultural products, which used Other Value as their Tax Base, by the industrial companies that process the agricultural, plantation and forestry goods. In this case, these industrial companies are appointed as VAT collectors.

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1 Tax Base is the amount of Sales Price, Reimbursement, Import Value, Export Value, or other value used as a base to calculate the tax payable.

2 Sales Price is the amount of money, including all of the expenses requested or should have been requested by the seller due to the delivery of taxable goods, not including the VAT, and the discount stated in the tax invoice.

#### **D. Obligation to notify the tax office**

1. A VAT-able Entrepreneur, who chooses to use Other Value as the Tax Base (as stated in item B.2) should submit a notification to the head of tax office where the VAT-able Entrepreneur is registered.
2. The notification must be submitted at the latest by the due date of the first monthly VAT return reporting on the tax year in which Other Value as the Tax Base is used.
3. A VAT-able Entrepreneur, who chooses to use Other Value as the Tax Base (as stated in item B.2) can revert to using the Sales Price as the Tax Base on the delivery of certain agricultural products. However, the use of the Sales Price can only resume after the tax year when the use of Other Value has ended, by submitting a notification on the use of the Sales Price as the Tax Base. The notification must be submitted at the latest by the due date of the first monthly VAT return, after the tax year when the use of Other Value as the Tax Base is ended.
4. If the VAT-able Entrepreneur uses the Sales Price as the Tax Base, it cannot reuse Other Value as the Tax Base on the following tax periods or tax years.
5. The notifications as stated in items D.2 and D.4 above must be submitted electronically via certain channels determined by the Director General of Tax ("DGT").
6. In case the said certain channel is not yet available or if there is disruption to that certain channel, the notification shall be submitted in writing using the prescribed format as stated in Attachment B (for item in D.2) or Attachment C (for item in D.4) of PMK-89.
7. The written notification shall be submitted to the tax office where the VAT-able Entrepreneur is registered by way of:
  - a) directly come to the tax office;
  - b) send electronically to the registered email address of the tax office;
  - c) postal service with proof of mail delivery; or
  - d) freight forwarding service or courier service with proof of mail delivery.
8. The written notification must be signed by:
  - a) The said individual taxpayer, in case the VAT-able Entrepreneur who submits the notification, is an individual taxpayer; or
  - b) The President Director or the director who are given the authorities to carry out businesses in relation to taxation, which must be proven by a copy of the company's Article of Associations or the deed of establishment and its amendments, in case the VAT-able Entrepreneur that submits the notification is a corporate taxpayer.

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- ▶ People who build relationships based on doing the right thing.

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- ▶ Public infrastructure
- ▶ Transportation
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