



New Regulation on VAT for Exported Services

Minister of Finance Regulation No. 32/PMK.010/2019 (“PMK-32”) dated 29 March 2019 expands the definition of exported services that are subject to 0% VAT.

Prior to now, most services provided by Indonesian businesses in Indonesia for overseas clients were subject to 10% VAT. As a consequence the overseas client suffered an increase to the cost or the Indonesian business was asked to discount their fee to remain competitive.

This position is now significantly improved following the issue on 29 March 2019 of Minister of Finance Regulation Number 32/PMK.010/2019 concerning "Limitation of Activities and Type of Services Whose Export Are Subject To Value Added Tax" ("PMK-32").

PMK-32 expands the activities and types of services which could subject to 0% VAT. It also revoke the previous regulations which limited the application of 0% VAT for export of services to 3 type of services which were toll manufacturing services (maklon), repair and maintenance services, and construction services (for immovable goods located outside Indonesia's Customs Area).

WHEN ARE THE REVISIONS EFFECTIVE?

The revisions are effective commencing 29 March 2019.

WHEN IS A SERVICE REGARDED AS AN EXPORT?

An exported service is any delivery of a VATable service that is created/provided within Indonesia's Customs Area for use/utilisation by a recipient that is outside the Customs Area.

The recipient of the exported services must be a person or body (corporate) that:

- executes the agreement and receives the direct benefit of the exported services outside Indonesia's Custom Area;
- is located outside Indonesia's Customs Area; and
- is a foreign tax resident who does not have a permanent establishment in Indonesia.

WHAT SERVICES ARE NOW SUBJECT TO 0% VAT (IF EXPORTED)?

Following are the activities and type of services which could subject to 0% VAT under PMK-32:

1. Activities that are connected to moveable goods that will be exported for use/utilization outside Indonesia's Customs Area.

The types of services for these activities consist of:

- a. Toll manufacturing services (maklon) that meet the following requirements:
 - Specification and material and/or semi-finished goods are provided by the recipient of the exported services;
 - The material and/or semi-finished goods will be processed to generate VATable goods;
 - Ownership of the generated VATable goods "rests" with the recipient of the exported services; and
 - The toll manufacturer sends the generated VATable goods outside Indonesia's Customs Area by formal goods export.
 - b. Repair and maintenance services; and
 - c. Freight forwarding services connected to the export of goods.
2. Activities that are connected to immovable goods that are located outside Indonesia's Customs Area.

The type of services for these activities are construction consulting services which comprise construction assessment, planning, and design connected to buildings or planned buildings that are located outside Indonesia's Customs Area.

3. Other activities where the result is delivered to be used/utilized outside Indonesia's Customs

Area. The delivery could be direct or indirect by mail or electronically, amongst others, or the provision of rights to be used/accessed outside Indonesia's Customs Area, based on the request of the recipient of the exported services.

The types of services for these activities consist of:

a. Information and technology services:

- Computer system analysis services, such as problem solving for IT support;
- Computer system design services, such as hardware, software, and/or networking specification;
- Computer system and/or website development services using a program language, such as application developer;
- IT security services, such as protecting information when it is processed, transmitted and/or stored;
- Contact centre services, such as answering and/or follow-up of the questions or matters raised to the contact centre;
- Technical support services, such as problem solving for clients for applications, usage, data processing, and configuration of hardware, software, and/or computer networks;
- Cloud computing and web hosting, such as data hosting or data storage as long as the server is located inside Indonesia's Customs Area and the recipient of the data hosting or data storage is a cloud computing or web hosting provider; and
- Content developer services which are supported by IT, such as games developer, animation, and graphic design.

b. Research and development services;

c. Rental of transportation vehicles (air-plane

and/or ships) for international flights and/or shipping;

d. Business consulting and management services, legal consulting services, architecture and interior design consulting services, human resources consulting services, engineering consulting services, marketing consulting services, accounting and bookkeeping services, financial statement audit services, and tax services;

e. Trading services in the form of services to find sellers of goods inside Indonesia's Customs Area for export; and

f. Interconnection, satellite provider and/or communication/data connectivity services which consist of:

- Interconnection related to International call and/or short message which is provided by a telecommunications provider located in Indonesia to a telecommunications provider located outside Indonesia;
- Satellite transponder which is provided by a satellite provider located in Indonesia to a services recipient located outside Indonesia as long as the ground station that is used by the services recipient is located outside Indonesia's Customs Area;
- Satellite control services which provided by a satellite provider located in Indonesia to a satellite provider located outside Indonesia as long as the ground station that is used by the service provider is located inside Indonesia's Customs Area; and/or
- Global internet connection services provided through public or private networks that is provided by a network provider located in Indonesia to the services recipient located outside Indonesia.

DOCUMENTATION REQUIREMENTS

To access 0% VAT for exported services the transaction should be supported by the following documents:

1. Agreement which clearly mentions:
 - a. Type of service;
 - b. Details of activities which occurred in Indonesia's Customs Area to be used outside Indonesia's Customs Area by the recipient of the exported services; and
 - c. Value of transaction.
2. Payment evidence for the exported services

If these are not provided then the services would be considered as a domestic transaction and subject to general VAT (usually 10%).

In addition the service provider should prepare a VAT invoice (Faktur Pajak). The VAT invoice is in the form of Export Services Notification (Pemberitahuan

Ekspor Jasa Kena Pajak) which should be attached with a commercial invoice. For toll manufacturing services (maklon) it is also necessary to prepare Export Goods Notification (Pemberitahuan Ekspor Barang) for the export of the goods.

The export notification forms should be reported in the monthly VAT Return. The form of Export Services Notification is included in the attachment to PMK-32.

INPUT VAT RELATED TO EXPORTED SERVICES

Input VAT which has direct connection with the exported services can be claimed as a VAT credit.

NON-VATABLE 'EXPORTED' SERVICES

PMK-32 clarifies that there is no VAT on services which are both performed and utilized outside Indonesia's Customs Area.

Accordingly any related Input VAT cannot be claimed as a VAT credit.

RSM Comments

Companies currently providing services to clients overseas should review these to determine if the expanded scope for 0% VAT now potentially applies to them. If it does then they should take action to ensure the necessary documentation is in place and reported in the monthly VAT Return to allow use of 0% VAT.

For further information please contact:

RSM INDONESIA

Plaza ASIA Level 10

Jl. Jend. Sudirman Kav.59

Jakarta 12190

inquiry@rsm.id

www.rsm.id