VAT: RATE INCREASE & IMPLICATIONS

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1 Background

The increase in Value Added Tax (VAT) rate from 11% to 12% on January 1, 2025, represents a strategic government measure in response to national economic challenges amid global disruptions. However, this rate increase is not aligned with public purchasing power. Global economic growth in 2024 reached 3.2% and is projected to decline to 3.1% in 2025.

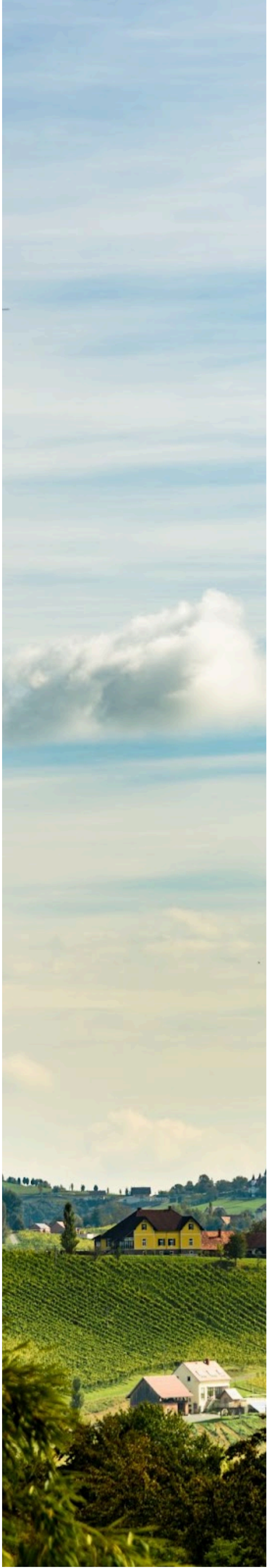
While Indonesia's economic growth of 5.1% stands above the global and G20 average, it is beginning to be constrained by Indonesia's narrowing fiscal space due to mandatory spending such as central and regional expenditure, interest and debt installment payments, and education fund allocation. Tax revenue realization in 2024 only reached 97.2% of the state budget target.

In this regard, the Government needs to address this through revenue mobilization implemented via tax reform, particularly VAT. Indonesia's VAT rate can be considered below average compared to OECD members that maintain rates above 15%. Therefore, the VAT rate increase is deemed necessary to strengthen national fiscal capacity without reducing foreign direct investment attractiveness.

2 VAT Treatment

Article 7 of Law No. 7 Year 2021 concerning Harmonization of Tax Regulations mandates that the Government must implement a 12% VAT rate effective no later than January 1, 2025. The Government has followed up on this mandate by issuing Minister of Finance Regulation Number 131 Year 2024 and Director General of Taxes Regulation Number PER-1/PJ/2025.

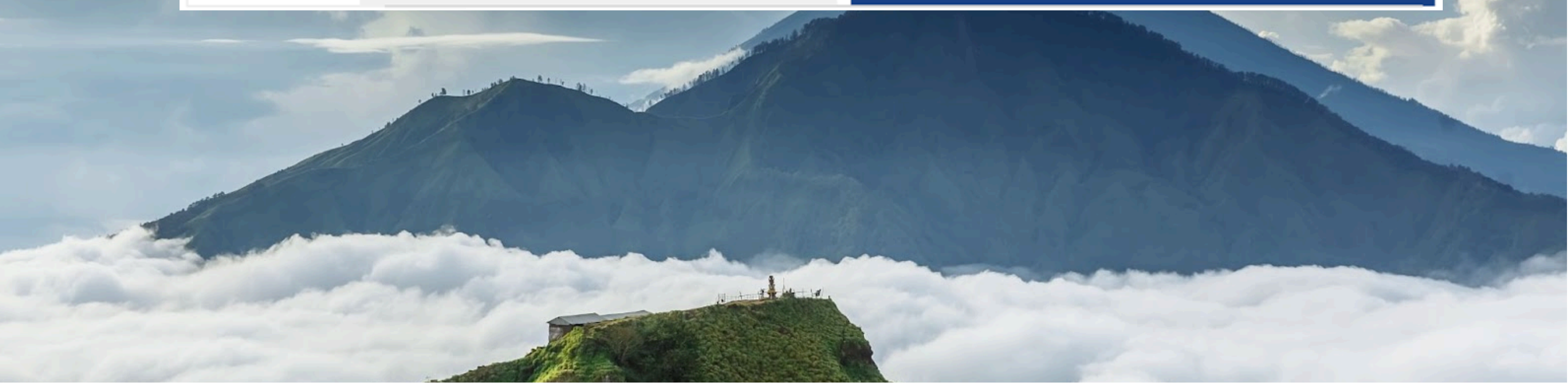
Considering the increased funding needs for development and to realize social justice aspects, the Government regulates the Tax Base amount for luxury goods and non-luxury goods. For luxury goods, there is no change in the Tax Base amount, which remains the selling price or import value. Meanwhile, for non-luxury goods, the Tax Base amount is 11/12 of the selling price, import value, or compensation. Therefore, for non-luxury goods, the effective VAT payable remains at 11%.



The following illustrates the comparison of VAT treatment before and after January 1, 2025:

VAT Treatment Comparison Table

	Before January 1, 2025 (PER 03 2022, PMK 121 2015, PMK 65 2022, PP 61 2020)	**After January 1, 2025** (PER 01 2025 dan PMK 141 2024)
Luxury Goods	**Tax Invoice Code** = 01, 02, 03, 04, 05, 06, 07, 08, 09 **VAT Rate = 11%** **Tax Base = selling price or import value**	**Tax Invoice Code** = 01, 02, 03, 04, 05, 06, 07, 08, 09, 10 **VAT Rate**= 12% **Tax Base** = selling price or import value
		January 1 - January 31, 2025 (Delivery to buyers with end-consumer characteristics (excluding VAT-registered retailers)) **Tax Invoice Code** = 01, 02, 03, 04, 05, 06, 07, 08, 09, 10 **VAT Rate = 12%** **Tax Base = 11/12 of selling price**
Services and Non-Luxury Goods	**Tax Invoice Code** = 01 **VAT Rate** = 11% **Tax Base** = selling price/import value/compensation	**Tax Invoice Code** = 04 **VAT Rate = 12%** **Tax Base** = 11/12 of import value/selling price/compensation
	Tax Invoice Code = 02, 03, 06, 07, 08, 09 (excluding 01) **VAT Rate = 11%** **Tax Base** = selling price/import value/compensation	**Tax Invoice Code** = 02, 03, 06, 07, 08, 09, 10 **VAT Rate = 12%** **Tax Base** = 11/12 of import value/selling price/compensation
Other Tax Base/ Specific Amount	**Tax Invoice Code** = 04 and 05 **VAT Rate = 11%** **Tax Base** = other values and specific amounts as regulated under tax laws	**Tax Invoice Code** = 04 and 05 **VAT Rate = 12%** **Tax Base** = other values and specific amounts as regulated under tax laws



3 Transition Period

As implementation guidance for PMK 131/2024, Article 4 PER-1/PJ/2025 regulates a transition period for Tax Invoice creation. Tax Invoices and equivalent documents created from January 1, 2025, to March 31, 2025, that include:

- Tax Base from full selling price/compensation/import value and 12% rate; or
- Tax Base from full selling price/compensation/import value and 11% rate,

are considered compliant, provided they contain other required information per tax regulations.

For excess VAT collection:

- The collected party requests a refund of excess from the Taxable Entrepreneur
- Based on this request, the Taxable Entrepreneur must correct or replace the Tax Invoice or certain documents that equal to the Tax Invoice

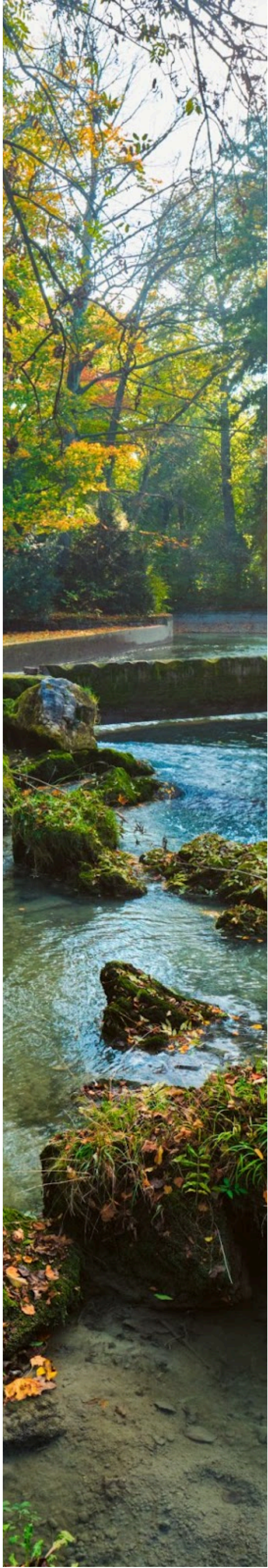
4 Other Tax Base/Specific Amount Beyond PMK 131/2024

Article 4 PMK 131/2024 stipulates that Taxable Entrepreneur collecting VAT using:

- Other Tax Base are regulated under separate tax regulations; and
- Specific Amounts regulated under separate tax regulations

are exempt from provisions in Articles 2 and 3.

This means Taxable Entrepreneurs using Other Tax Base or Specific Amount previously regulated separately must apply a 12% VAT rate.



5 Delivery of Luxury Taxable Goods to End Consumers

Article 5 PMK 131/2024 stipulates that Taxable Entrepreneurs delivering luxury goods to end consumers must comply with these provisions:

- Starting January 1, 2025 until January 31, 2025, the VAT is calculated using 12% rate with Other Tax Base of 11/12
- From February 1, 2025, VAT calculated using 12% rate with Tax Base of selling price or import value

However, Article 6 PER-1/PJ/2025 adds that for luxury taxable goods delivered by Retail Trade Taxable Enterprise, VAT is calculated using the 12% rate with the Tax Base of selling price or import value starting **January 1, 2025.**

6 Reconciliation

The Other Tax Base provision in PMK 131/2024 (11/12 of the selling price) will result in differences between business turnover reported in Annual Corporate Income Tax Returns and delivery value reported in Monthly VAT Returns.

Taxpayers must carefully consider this when preparing reconciliation between sales (Income Tax) and Tax Base (Value Added Tax). **Errors in reconciliation preparation may create tax exposure during tax audits.**

7 Conclusion

Facing the VAT rate change to 12%, taxpayers must implement comprehensive preparations and adjustments to ensure compliance with new regulations. Required steps include updating tax invoice systems and accounting, conducting inventory and categorization of goods/services, and ensuring complete documentation during the transition.

Additionally, taxpayers must establish effective communication with stakeholders, including customers and suppliers, regarding this rate change, and develop thorough financial planning to anticipate cash flow impacts. Taxpayers must also ensure compliance by using correct tax invoice formats and preparing mechanisms to handle potential excess VAT collection and refund processes, while maintaining strict monitoring of tax invoice corrections during transition.

As a strategic partner, we are committed to assisting companies in mitigating risks, improving efficiency, and optimizing tax compliance.

For More Insights about VAT 12%, Watch **DIAJAK Podcast**

This episode provides a detailed breakdown of VAT adjustments that have come into effect with MoFR 131/2024. Take notes on how to align your organization with these new regulations effectively.

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