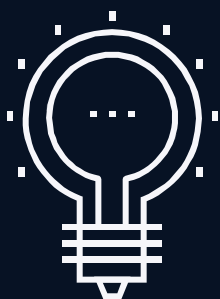


Update for income tax withholding

On interest from deposits, savings, and Bank Indonesia Certificate

March 2019

Tax Alert



Summary

The Minister of Finance (MoF) recently issued regulation No. 212/PMK.03/2018 (PMK-212) on the final tax regime applying to certain types of interest income. PMK-212 is stated to be for the purpose of maintaining stability of Indonesian Rupiah (IDR) currency exchange and to support national economic strength through placement of fund sourced from export proceeds ("*Devisa Hasil Ekspor*" - "DHE") in the domestic banking system.

PMK-212 replaces regulation No. 51/KMK.04/2001 as lastly amended by MoF regulation No. 26/PMK.010/2016. PMK-212 was issued on 31 December 2018 and became effective on the date of issue, and covers withholding on interest from deposits, savings and Bank Indonesia Certificate ("SBI").

This includes implementation of incentives announced in November 2018 to retain export proceeds in the Indonesian banking system.

This alert aims to further explain PMK-212

1. Income tax withholding procedures

Interest derived from deposits, savings and SBI, including interest derived from deposits and savings placed overseas through Indonesian banks or branches of foreign banks in Indonesia, is subject to final withholding tax. However, this final withholding tax is not applicable for a domestic individual taxpayer whose taxable income in one tax year, including the interest and discount, does not exceed the Non-Taxable Income threshold.

2. Type of deposits and savings subject to final withholding tax

Deposits and savings for which interest is subject to final withholding tax are:

- Time deposits;
- Deposit certificates;
- On call deposits;
- Deposits in whatever name and form;
- Savings; and
- Current accounts.

3. Final withholding tax rates on interest from deposits, savings and SBI

Final withholding tax rates on interest from deposits, savings and SBI are:

| Type of interest deposits | | Deposits term | | | |
|---------------------------|--|--|----------|----------|------------|
| | | 1 month | 3 months | 6 months | > 6 months |
| a | Interest from DHE deposits in USD currency placed in the Indonesian banks or a branch of foreign bank in Indonesia | 10% | 7.5% | 2.5% | 0% |
| b | Interest from DHE deposits in IDR currency placed in the Indonesian banks or a branch of foreign bank in Indonesia | 7.5% | 5% | 0% | 0% |
| c | Interest derived by domestic taxpayer and Indonesian permanent establishment (PE) | 20% | | | |
| d | Interest derived by foreign taxpayer | 20% or applicable rate based on the effective tax treaty | | | |

DHE deposits, for which the interest is subject to final withholding tax rates as stated in 3(a) and 3(b), are sourced from DHE funds placed in:

- The same bank as the bank where DHE fund is received, where the deposits is sourced from the overbooking of DHE funds placed in the exporter's bank account in the bank where DHE is received from overseas and the said exporter's bank account is solely used to received DHE funds. This should be proven by DHE earnings report through the foreign exchange bank in accordance with Bank Indonesia (BI) regulation; or
- The bank that is not the same as the bank where DHE fund is received, by attaching the exporter's statements letter that the funds is sourced from DHE. The letter should be legalized by the bank where the DHE is received from overseas or legalized by the last bank where DHE is placed.

The final withholding tax rates as stated in 3(a) and 3(b) are also applicable for USD or IDR DHE deposits that are rolled over after the deposits are due.

Final withholding tax rate of 20% is applicable if DHE deposits as stated in 3(a) and 3(b) are disbursed before the due date of the deposits; and/ or part or all the sourced of funds is not from DHE funds. The underpaid final withholding tax is withheld at the time the following month deposit interest is paid; or when the deposits is disbursed, in case all the deposits interest have been withheld with final withholding tax rates applicable in 3(a) and 3(b).

4. Exemption from final withholding tax on interest

Final withholding tax on interest from deposits, savings and SBI is not applicable to:

- a. Interest from deposits and savings, including SBI discount, where the amount of deposits, savings or SBI does not exceed IDR 7.5 million;
- b. Interest and SBI discount earned or received by Indonesian banks or a branch of foreign bank in Indonesia;
- c. Interest from deposits and savings, including SBI discount, earned or received by pension funds, the establishment of which is approved by MoF or licensed by the Financial Service Authorities (OJK), where the interest is earned as part of the fund investments, in accordance with Article 29 of the Pension Fund Law (i.e. Law No. 11/1992); or
- d. Interest from savings placed in the banks appointed by the Government to provide simple and very simple housing, ready-to-build land for simple or very simple housing or simple apartment, for owner use.

5. Final tax withholders

The parties to withhold tax on interest from deposits, saving and SBI discount are:

- a. Banks that pay the deposits and savings interests, and BI that issues SBI. Where banks withhold interest from DHE deposits, the banks must report the detail of DHE deposit placements to BI in accordance with the prevailing laws.
- b. Pension funds authorized by MoF or have been licensed by OJK, and banks on SBI discount when selling the SBI to:
 - ▶ Non-bank institutions; or
 - ▶ Pension funds that have not been approved by MoF or have not been licensed by OJK.

6. Implementing regulation

The Directorate General of Tax (DGT) will issue further regulations on the application, supporting documents, conclusion period, reporting, and format of application for the exemption of the final withholding tax on interest from deposits, saving and SBI discount.

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