

Update on bond interest tax regulation

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To encourage the development of Indonesia's financial market through the increase of collective investment contract roles, the Indonesian Government issued Government Regulation No. 55/ 2019 ("GR-55") on 7 August 2019. GR-55 is the second amendment to Government Regulation No. 16/ 2009 and became effective on 12 August 2019.

Interest payments are generally subject to 15% domestic withholding tax, or 20% if paid to non-residents (subject to treaty relief). GR-55 expands a regime of concessions which reduce interest withholding tax rate to 5% up to 2020 and 10% from 2021, for bond interest payments received by certain collective investment contract vehicles (*Kontrak Investasi Kolektif - "KIK"*).

The changes under GR-55 are as follows:

1. Definition of bond

GR-55 includes bonds issued by the Regional Government in its definition of bond so that the definition of bond under GR 55 is now debt securities, State debt securities and regional government bond, with a period of more than 12 months.

2. Other collective investment contract funds

GR-55 is intended to provide equal tax treatment between mutual funds and other form of collective investment contract funds. Therefore, GR-55 now includes the following funds provided they operate via a KIK registered with the Financial Services Authorities (OJK) to receive the interest withholding tax rate concessions:

- ▶ *Dana Investasi Infrastruktur* - infrastructure investment funds;
- ▶ *Dana Investasi Real Estat "DIRE"* - which is effectively a type of real estate investment trust; and
- ▶ *Efek Beragun Aset* - asset-backed securities.

For further information of the above, please do not hesitate to contact our Tax Partners or engagement teams.

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