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Tax & Customs Update

Tax Exemption Requirement for Venture Capital-MSME Partnership is Relaxed

The Government exempts the Income Tax on profit earned by venture capital companies from their capital investment in Micro, Small, and Medium Enterprises (MSME) under several requirements.

First, the sales value of MSME being the partner of the venture capital company is not more than IDR50 billion in a year. *Second*, MSME obtaining the venture capital investment has not sold its shares in stock exchange or the term of the capital investment is not more than 10 (ten) years.

If the MSME has sold its shares in stock exchange, or the term of the capital investment is more than 10 years, the profit earned by the venture capital company is an Income Tax object, unless such profit meets the provisions in Article 4 paragraph (3) letter f of Law Number 36 Year 2008 on Income Tax, which includes:

- Profit of dividends earned from appropriated retained earnings; and
- Companies receiving the profit are limited liabilities, State-Owned Enterprises and Local-Owned Enterprises, with the dividend at least 25% of the total paid-in capital.

In addition, the Government also obliges the venture capital companies to make the bookkeeping that separates the earnings that are Income Tax object and those not the object of Income Tax.

The Income Tax exemption facility is stipulated in Minister of Finance Regulation (PMK) Number 48/PMK.010/2018 on Tax Treatment on Venture Capital Company's Capital Investment in Micro, Small, and Medium Enterprises.

The policy that became effective since its issuance on 11 May 2018 also revokes the previous regulation, Minister of Finance Decision (KMK) Number 250/KMK.04/1995 on Small and Medium Enterprises as the Business Partners of Venture Capital and the Tax Treatment of Venture Capital Company's Capital Investment.

The sales value limit for the MSME being the partner of the venture capital company at maximum IDR50 billion is the limit of net sales value in the previous fiscal year, when the venture capital

investment is made. The value limit is increased compared to the previous limit of IDR5 billion at maximum.

The issuance of PMK Number 48/PMK.010/2018 is a follow up of Presidential Regulation Number 74 Year 2017 on Road Map E-Commerce.

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Contact:

For further information, please contact the partners of MUC Consulting Group:



Karsino
Tax Partner
karsino@mucglobal.com

Meydawati
Tax Partner
meyda@mucglobal.com



MUC Consulting Group, MUC Building, Jl. TB. Simatupang No.15, Tanjung Barat,
Jakarta, Indonesia (1230)
Tel: +6221 78837111, Fax: +6221 7887666