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TAXGuide

Enrich your Knowledge

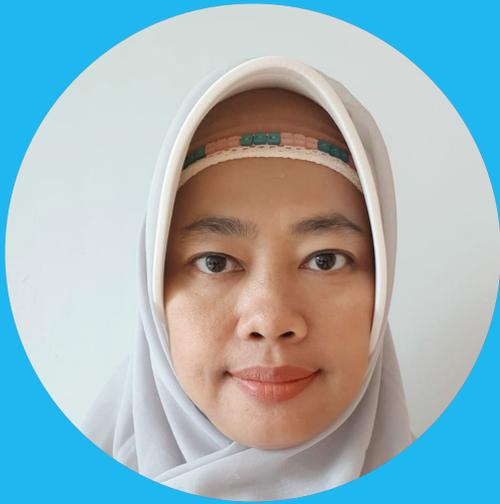
Dialogue : Online Single Submission - Business Licensing New Regime VS Sectoral Ego

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EditorialNotes



Assalamualaikum, Wr. Wb. May prosperity be unto all of us. Alhamdulillah, Tax Guide reach another special edition as it coincides with the 19th anniversary of MUC Consulting Group.

The company's age that has reached 19 represents a long journey and needs appreciation. This moment is expected to become a new starting point for MUC Consulting Group to achieve a better performance as well as to increase its employees' prosperity in specific, and finally to stay on track to become the world class tax consultant company as we expect.

In this special edition, Tax Guide presents numerous interesting articles. Opened by special dialogue on new business licensing system: Online Single Submission (OSS) with Special Staff of Coordinating Minister for the Economic Affairs, Edy Putra Irawady. This dialogue has given birth to an idea to hold OSS dissemination and training that have been successfully held on 23 July 2018 in Bidakara Hotel, Jakarta.

Furthermore, there are several analyses and opinions on tax policy, which always become the main content of our publication, among others, related to tax imposition on short term foreign exchange transaction (Tobin Tax) in the midst of volatility of rupiah exchange rate.

Then, the implementation of Government Regulation Number 23 Year 2018—that provides alternative of lower income tax rate for doer of Micro and Small Medium Enterprise (MSME) (0.5%)—also becomes the highlight of Tax Guide in this edition.

Not only written materials, this special edition of Tax Guide also offers information in the form of info-graphic, which in this occasion maps several things to be taken into account by entrepreneurs when performing company merger as well as its tax implication.

Last but not least, we hope that the information we provide in Tax Guide is beneficial and can be business and taxation reference for us all. Thank you and wish all of us a great success.

Jakarta, August 2018

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Online Single Submission

Business Licensing New Regime VS Sectoral Ego



Edy Putra Irawady, Special Staff of Coordinating Minister for the Economic Affairs

Government continues reform in investment sector—by simplifying the business licensing through Electronically Integrated Business Licensing Service system or Online Single Submission (OSS). If so far the entrepreneurs should process the licensing manually by coming door to door—starting from One-Stop Service Center (Pelayanan Terpadu Satu Pintu/PTSP) in the level of regency/city, provincial PTSP, to central PTSP (Indonesia Investment Coordinating Board/BKPM) —from now on the business licensing is done online through single system, namely OSS. This policy refers to Government Regulation Number 24 Year 2018.

The OSS is good in concept as it promises the faster, easier, and cheaper licensing process, however its utilization is not that easy. There are always technical problems, which hamper the online licensing process to reach its end.

To dissect this new business licensing system, MUC Tax Guide had direct discussion with **Special Staff of Coordinating Minister for the Economic Affairs, Edy Putra Irawady**, who is also the **Chairman of National Task Force of Acceleration of Business Implementation** in his office, on Thursday (12/7). Here is the summary of the discussion:

What are the background and the purpose of OSS?

(They are) Significantly increasing the investment and the expansion of public business activities. Those are the qualitative targets. In addition, we actually aim at improving the investor's trust. If seeing seven or four years ago, from 100% of foreign investors who initially wanted to enter Indonesia, the actual number was only 32%. It means that 68% of them called off or returned. Some (investor candidates) have got licenses, but retreated. There are many factors that caused it such as matters of land, licensing, environment, etc. For Domestic Investment, from 100% committing to investing, the 70% cancelled it. We see this issue and try to identify what caused the cancelation. Another reason is, why does Indonesia only get 1% of world investment each year? Why are the investors not willing to invest directly in Indonesia and do it through third country instead?

What is the problem?

After we mapped it, there is something wrong. It means that the doing business policy in Indonesia does not seem attractive or appealing. A lot of investors are not interested to invest directly (in real sector) and prefer to save their money in bank. Or, they take it to Singapore and then get

into Indonesia through Foreign Investment. There are actually three interesting things, which are licensing, land, and legal uncertainty issues.

I refer the relationship between economy and investment as bread and butter. Eating bread without butter will indeed lack vitamins. Thus, investment is needed so that it will develop industries, boost export, and encourage people's purchase or consumption.

What is the solution adopted by the government?

The license is simplified if intending to significantly increase the investment. So, we will make investment attraction through licensing improvement. Second, we plan to expand the public business activities. So, if (we are) expecting the economy to grow significantly, it means that the investment should increase from 6.2% (the current growth average) to 8.2%. The same applies to export, it should evolve by 10%. As a result, the economy may grow above 6%. For that condition, we improve everything. Previously it was through 15 economic policy packages, it was like removing "fat" of real sector. Now, we try to accelerate the execution. If people want to do business, no need to wait for two years.

Now, has the "fat" been removed?

I cannot say how much "the fat" that has been removed is. Surely, it can only be proven by data. The proof is the rising of domestic supply. (We know) Economy is a phenomenon science, an assumption science.

Isn't the establishment of PTSP sufficient to accommodate it?

PTSP is established as the only place for investment licensing service

and it is in BKPM. Meanwhile, the regional PTSP is the only place for investment and other business licensing whose authority is in regional level. So, PTSP serves the licensing that is directed or delegated by authorized institutions.

The problem is, we want the easy and quick process. It is indeed easier with PTSP, but not quick. Why? Because PTSP only performs the authorization entitled to it. Regency PTSP, for example, is only authorized to issue location permit, while import identification number (API) or business permit (SIUP) should only be issued by provincial PTSP. So that after applying the license in regency PTSP, the entrepreneurs should go again to central PTSP. Then, they are required to report environmental license, environmental impact assessment (AMDAL), and others to Ministry of Environment & Forestry in Jakarta. The existence of PTSP indeed makes it easy, but it is not complete and quick.

Does OSS resolve the matter? What is the big concept?

First is the new business licensing regime. It classifies types of licensing whose authorities are in various leading sectors without interrupting it in one group or platform. The licensing group is: registration, business permit, and commercial permit. The point is, the authority is still in respective place (the sector facilitator). However, the service is conducted through OSS. As an analogy, OSS is like a single counter integrating all licensing services.

Basically, the entrepreneurs can also process the licensing by visiting the PTSP. However, PTSP will serve as in OSS Lounge. If the entrepreneurs have understood the use of OSS system, they may do it by themselves. If otherwise, OSS team will assist them (OSS use assistance). Starting from now, each PTSP does not only serve licensing that is only within its authority, but also to file a request for investment license in other places. So, this OSS policy gives rise to a new business licensing regime as well as new fashion in public service.

Then, how is BKPM's role with the existence of OSS?

BKPM has functions. First is (as) coordinator of implementation of policy related to the authority on investment in which there is the foreign investor, for cross-province investment, investment related to nonrenewable resources, investment in priority industry as well as investment in defense and security sector. All of those are central government's authority whose implementation coordination is assigned to BKPM. The second function is, BKPM acts as central PTSP, which is to serve investment licensing that becomes the central authority.

So, Foreign Investment still needs to process the license to BKPM, doesn't it?

Any license related to Foreign Investment is still in BKPM, but processed through OSS. In other words, if previously there was principle permit, Single Business Number (Nomor Induk Berusaha/NIB) would be issued via OSS on behalf of Head of BKPM. If it is not seen in printed, it is because we plan to similarize all licensing on behalf of Indonesian Government—basically all investment licensing authority that have been delegated to BKPM. So, after applying the license request via OSS, there will be notification on system to each sector facilitator authorized to issue any license. By system, it will be integrated through BKPM.

Will there be any Head of BKPM Regulation issued after the change in business licensing process?

Tomorrow (13 July 2018) at the latest, the Head of BKPM Regulation will be issued. It is because BKPM must change the business process as currently they are no longer required to issue the approval for the change. The system (OSS) will record it. So, if OSS is connected with

BKPM business process, surely it will not be connected. (As) There is no approval in it. In brief, now we don't need to play hide and seek.

You say that by OSS, the process may be faster, is there any deadline for business license issuance?

It depends. In Government Regulation Number 24 Year 2018, the deadline is required. For example, location permit is not more than 12 days; Building Construction Permit (IMB) is not more than 30 days; Certificate of Building Proper Function (SLF) is not more than three days. For AMDAL, as an instance, that was previously 200 days at maximum, now after shorten, it becomes less than 40 days and not all business activities is required for AMDAL. It is only for compulsory business sectors e.g. cement and petrochemical industries.

How is the process of field survey, e.g. environment permit or IMB?

It is simplified. The deadline includes survey, we have calculated it (the duration needed). The survey will be performed by professional checker, in which we request to be insured. For instance, if the building survey causes damage, they should pay for it. So, there is no more government's involvement. Thus, it becomes the opportunity for new employment. Who wants to be certified professional checker?

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How in practice the sector facilitator does not issue the license until the predetermined deadline?

This OSS system will automatically issue the license. OSS system will directly issue location permit for regions that have been solid (complying with business requirements) and have risk management action plan or industrial area. Other than that, the system will inform the OSS users about the requirements that should be met. Then, there will be notification to regency/province. It informs that there is request for location permit, the requirements have been fulfilled, and thus it needs to be processed. You have 12 days, if no response is given (until the deadline), the temporary license issued through OSS will be automatically valid.

How about the companies that have operated insofar, should they also use OSS?

If the existing companies, for instance, perform capital change, they directly conduct capital change through notary. Then, the data will

enter Directorate General of Legal Administrative Affairs (Ditjen AHU). They should have NIB, no need to report to BKPM for capital change.

How about the establishment of representative office of trading company or foreign representative office?

The license is by system, but issued by BKPM since it is their authority. License for Foreign Trading Company Representative Office (KP3A) is from Ministry of Trade and then transferred to BKPM. But, BKPM should process it through OSS system.

For the companies about to shut down, is it required to revoke the Company Registration Number (TDP) and Permanent Business License (IUT)?

They only need to report it via OSS. Fill in the change column, whether it is a closure, extension, or restructuring. Just fill in, e.g. liquidation, it will be automatically revoked by system. As an example, for bankrupt company, its NIB will automatically disappear.

Why does business license of individual and Micro and Small Medium Enterprise (MSME) as well as firm and others also include in OSS?

So the system can read it. We have made agreement with Ministry of Law and Human Rights so that the registration for firm, CV, and cooperative is also included in Ditjen AHU. The Supreme Court has also approved it.

't need to play hide business licensing)



Has this OSS system been understood by all stakeholders?

Not all of them. Because if we talk about stakeholders, we have 263 million Indonesian citizens. However, this policy has been reviewed since October 2017. It is impossible if BKPM or ministries/institutions do not understand since they are involved in the discussion. It is just there is an assumption that this (OSS) eliminates their authorities. It is more like a sectoral ego. So, if they are being asked about it, they (pretend) do not understand. In short, it is unlikely that the president signed Government Regulation Number 24 Year 2018 if there is no involvement of the ministers.

Is the OSS system ready?

The system is very ready but people's interest varies. Some want to know about OSS, what kind of creature it is, so they consult about it. Many come to OSS, until it is full with people. It is because the PTSP is in BKPM. DKI PTSP, and that in public service mall have not really mastered in using the OSS. They are still unaware of technology. So, they (the entrepreneurs) are directed to come to the office of Coordinating Minister for the Economic Affairs.

In fact, there are many complaints for the difficulty, aren't there?

I do realize that the usage isn't easy. These complaints are because of two factors. The first is due to the quota for accessing Single Identity Number (NIK) given by Directorate General of Population and Civil Registration (Dukcapil) that is only 1000 NIKs (on the first day). The quota is for entering Dukcapil system, while the hits reach more than 1000 persons. Why it is limited, because there is confidential data, which is strictly kept. It is related to the tax data, AHU data, NSW, and others. Only Corruption Eradication Commission (KPK), Criminal Investigation Agency (Bareskrim), (and) National Counterterrorism Agency (BNPT) can access them. So it is intentionally made by using quota. We have requested for the addition and we have agreed (with Dukcapil) that for OSS purpose it should not be limited. But there is new problem, whether or not the capacity of Dukcapil system is strong for that.

The second factor is inputting error. There is a case in which OSS filling takes up to six hours and is still incomplete because the name of director is not similar with that on the latest company's deed. Because of this dissimilarity, it is rejected by AHU system.

Have such technical matters been anticipated when designing OSS?

Yes, it has been. We take note that AHU should improve its system as for the validation system still uses free text, which is difficult to read by system. As a result, the OSS filling must use the identity card (of the company's management) and validation approval number. But it turned out there are many form fillings that do not meet the standard. So, now the most difficult thing is the data validation. Then, when the data has been valid, the notification from the OSS system is delivered to email. However, since generally the email providers are not familiar with the OSS, it goes to spam. It is wrong, so we declare that OSS is an official system of Indonesian Government, and please do not categorize it as spam.

Has the government anticipated the hacker attack?

It has been anticipated and the OSS system is very ready. Learning from the past when INSW was launched, we were attacked by more than 7000 hackers. Fortunately, we were protected by Indosat. When the second hack occurred, Indosat collapsed for 30 minutes. INSW was attacked since it used English although it was in Indonesia, thus considered as foreign organization. The same applies to OSS, we were attacked by hundreds of hackers from two large groups, namely from India and China. It is only a matter of system improvement.

Or isn't it due to the socialization lacking?

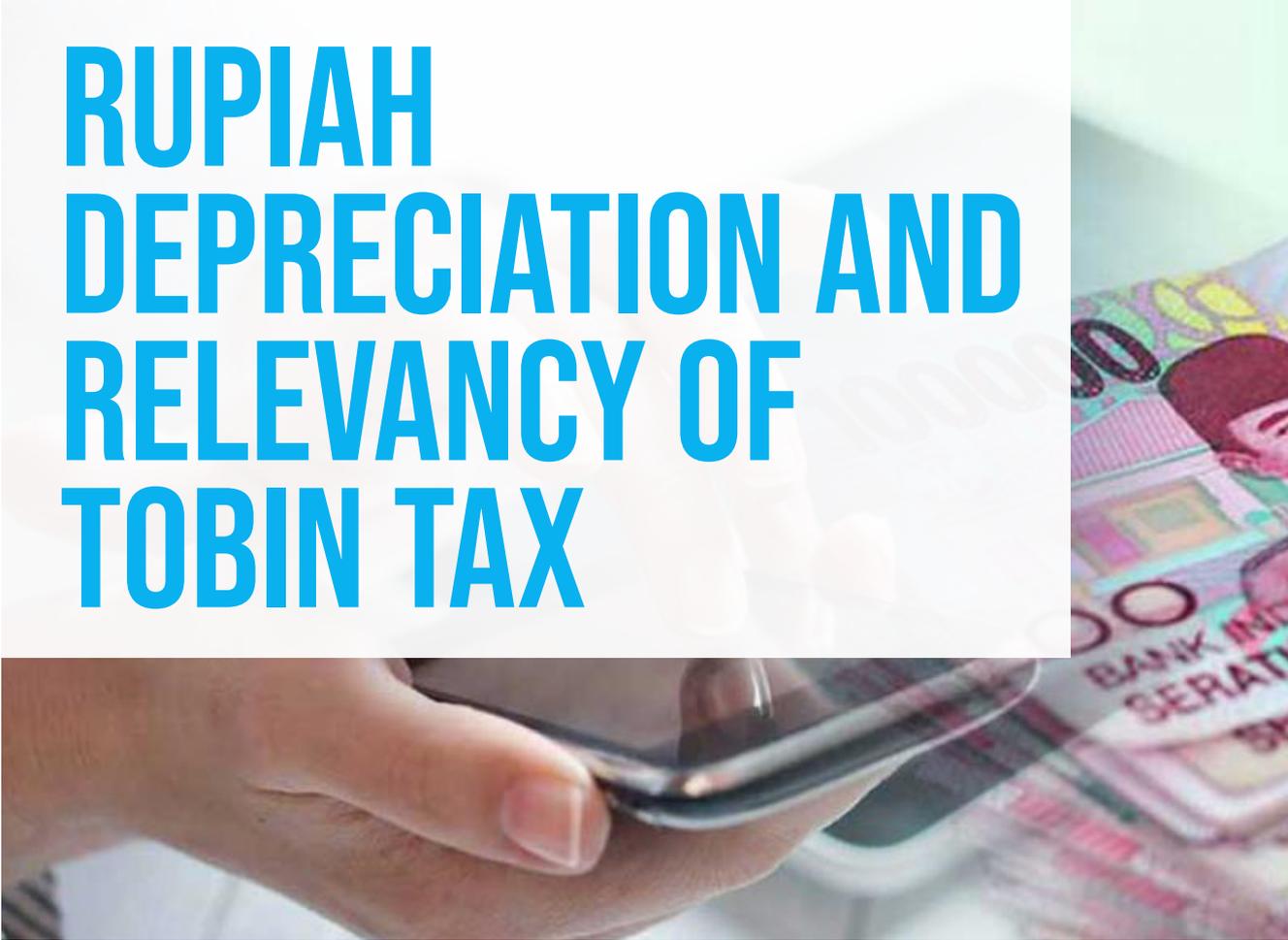
The president has called for the local governors twice. Coordinating Minister for the Economic Affairs has also invited them twice. We (Task Force and OSS team) have visited regions, 514 cities, many times. We have give technical assistance eight times, plus two trainings and exams. We have also given socialization for entrepreneurs.

It is about a matter of culture. The local government officials, when they come here, only think of travelling in Jakarta. Two out of three meetings, they are absent. If it is company, they usually assign its employees who do not have concern on it. Probably its security or even they use online ojek service. So when it is implemented, they are shocked. The point is, we have been continuously holding a socialization through both independent and other parties' trainings.

In the future, is the control of OSS in Coordinating Minister for the Economic Affairs or transferred to BKPM?

The office of Coordinating Minister for the Economic Affairs is the policy office, not licensing office. After six months, OSS will be restored to BKPM who will handle it.

RUPIAH DEPRECIATION AND RELEVANCY OF TOBIN TAX



The issue of tax imposition on foreign exchange transaction takes place again following the plummet of almost all currencies in the world against US dollar, including rupiah. The issue of tax imposition on those capital flow blows in the midst of capital outflow from domestic market.

Since the beginning of 2018, the request for US dollar in domestic financial market increased significantly and triggered the weakening of rupiah exchange rate. Even, Reuters recorded that the Garuda currency once fell to the range of IDR14,640 per US dollar on 8 August 2018, the second lowest during Indonesia's history after it reached the level of IDR14,698 in 2015 and hit IDR16,600 in 1998.¹

The expectation of the normalization of the US Central Bank (the Fed) interest rate—along with the recovery of Uncle Sam's economy—became the trigger. The market players predict that the Fed will continue the double increase of policy interest rate in the second half of this year, after increasing it in March and June to the range of 1.75% to 2.00%.

For information, when the US underwent the financial crisis in 2008, the Fed cut the policy interest rate to nearly 0%. The same applies when Japanese and European central banks applied the negative interest rate to beat the recessions of several years ago. The policy of monetary easing is then responded by market players by shifting their capital to the developing countries. At the moment, many countries—including Indonesia—got windfall from such condition, especially from the hot money inflow in which the effect lifted the exchange rate of its currency against US dollar.

The condition has been reversed lately. The US economy is gradually recovering in line with the rising inflation and the falling unemployment. Slowly but sure, the US Central Bank responds it

¹Reuters.



by rising the policy interest rate gradually. It is followed by the trend of the increasing yield of the US government bond that boosts the capital outflow massively from developing countries, including from Indonesia.

The blessing of hot money—which has been lulling the developing countries—changes into disaster. Exactly when the foreign funds move to countries offering the better yield and investment risk (flight to quality). As a result, the financial market, which was previously flooded by dollar, suddenly experienced liquidity drought. The economies of developing countries are even shaky, like a body losing much blood.

Tobin Tax

The financial crisis basically always repeats in which the source of problem frequently changes and shifts. If in 1997/1998 the trigger of monetary crisis was Thailand, in 2008 the crisis of subprime mortgage emerged from the Uncle Sam's country and in 2015, the cycle of European debt resulted in "mini crisis" around the world. The domino effect of all crises can still be felt especially in light of fiscal and monetary policies.

Looking back, the cycle of financial crisis is getting shorter from time to time. If previously the crisis occurs every 10 years, then it will be recurring

in 5 years, so it is not something impossible that the crisis will ensue even earlier. Even though, the definition and indicator of financial crisis are still being discussed until now.

This phenomenon gives rise to number of ideas to tackle the domino effect of global financial crisis both through the monetary and fiscal policies. The one that once got strong was the recommendation of imposition of tax on foreign capital, especially for short term portfolio transaction. The purpose is to control the flow of foreign fund in financial market, capital market and bond market. The question is, is tax an effective solution?

The underlying theory is Tobin Tax, the type of tax popularized by James Tobin, Nobel-prize winning American economist—in 1972. After Bretton Woods monetary system collapsed in 1971, Tobin proposed tax imposition on foreign currency transaction to muffle the hot money flow so it will not go in and out freely.

In his opinion, tax on such transaction is designed to protect the fluctuation of exchange rate. The idea is simple that the tax is imposed on foreign exchange transaction, such as 0.5% of transaction volume. Tobin believed that this taxation scheme will reduce the speculation act in foreign currency transaction, which usually occurs in very short term.²

From time to time, the application of Tobin Tax has been developing in which the scope of tax imposition does not only target the foreign currency transaction but also the share and bond transaction. The issue is no longer only about the cost of financial crisis but also matters related to effort in fighting tax fraud, bank confidentiality to rate difference as well as tax haven regions.

In 2013, the Ministers of Finance from 11 European Union (EU) nations introduced the tax on financial transaction or Financial Transaction Tax (FTT), which was led by German and France. The purpose is for the bank and speculators to participate in bearing the cost of financial crisis. The FTT implementation depends on each authority policy.

The tax on such financial transaction became controversy and split the 27 states of EU. The contra side considered that Tobin Tax would eliminate the potential of profits from foreign currency transaction and may reduce the volume of financial transaction, slow down the global economy growth, as well as hamper the long term development.

Meanwhile, those supporting it believed that Tobin tax would help stabilize the currency and interest rate since many central banks of countries do not have sufficient foreign exchange reserve to balance the sales of foreign currency.

Number of EU nations also impose tax on capital gain from asset transfer and/or the relocation of head office or Taxpayer's domicile to the outer jurisdiction. The policy that is well-known as Exit Tax could be imposed on individuals and companies—several jurisdictions impose it on one of them or both.

Even though the taxation policy is the sovereignty of each country, the application of exit tax in Europe cannot be far from critics and pressures. Even, the European Court of Justice

²Jubilee Research, James Tobin: "The Antiglobalisation Movement has Highjacked My Name", UK, 2010.

(ECJ) considered that such application of exit tax violates the principle of business establishment or investment freedom. This has caused many countries in European region review their VAT Out regime.

Homework

In Indonesia, the utilization of tax recommendation to muffle the volatility of exchange rate has strengthened recently. It is Muhammad Chatib Basri, the former Minister of Finance who initiated the idea in the early 2016. In his opinion, the interest rate policy of central bank shall be supported by fiscal policy to be able to prevent the risk of capital inversion (sudden reversal). Among others, the tax may be imposed on financial transaction. Lately, Chatib has changed his recommendation. Instead of using tax as tool for compelling, he suggested that the government apply the reverse Tobin Tax by giving incentives to portfolio investor performing re-investment of its profits for long term.³

However, any type of tax collected in Indonesia shall refer to the clear legal basis. Referring to the policy of final income tax on share transaction, the plan of Tobin tax—which targets foreign currency sales-purchase transactions—may use Article 4 paragraph (2) of Income Tax Law as the taxing basis. Particularly Article 4 paragraph (2) letter e in which the final Income Tax may be imposed on other certain income. To be able to realize this policy plan, derivative regulation of the article is needed, which may be by issuing new Government Regulation.

activities. In the investment context, the taxation system in Indonesia has bound all markets promising profits starting from the real investment to portfolio investment.

The profits in capital market, for example, has had its own taxation regime under taxation provision in general. However, the rate imposed is adjusted based on the type of transaction and investment product. Several tax approaches that have been applicable in Indonesian capital market among others income tax on share sales transaction of 0.1% of gross value. Then, the income tax on dividend is determined to be 10% of gross income for Individual Taxpayer and 15% for Corporate Taxpayer (having Tax ID Number). The rate can increase to 30% if the dividend recipient does not possess Tax ID Number. For non-resident Taxpayer, the income tax on dividend was imposed higher, i.e. 20% of gross income or referring to Tax Treaty.

The income tax provision is also applicable for investment in bond market, which is imposed on interest or bond discount. The income tax rate is 15% for individual or domestic business entity, and 20% for non-resident Taxpayer (non-Tax Treaty). For non-resident Taxpayer whose domicile country is entered into Tax Treaty with Indonesia and Certificate of Domicile is available, the taxing is adjusted to the Tax Treaty.



What matters now is, are all foreign currency transactions always profitable? Even if it is being forced, it may use the same approach as income tax on share transaction in which the value determination (deemed) is based on the assumption that there must be always profits from share transaction. Even though the reality may be the otherwise.

The discourse on Tobin Tax will not be over yet. If the orientation is to stabilize the exchange rate of rupiah, the question that will arise is how effective is Tobin Tax to reduce the speculation act in foreign currency transaction? Remember that the fall and rise of rupiah do not solely occur because of speculator action. The strengthening of economy fundamental should be more important to be performed in order to maintain the stability of exchange rate of rupiah against US dollar.

But if referring to the history, the control of capital as if became the negative action in Indonesia as it is considered not in line with the attempt to create friendly investment climate. Even though, in practice, every investment and business transaction cannot escape tax.

The taxation law package has basically strictly and clearly stipulated the mechanism of taxation on all individual and corporate economy

Meanwhile in money market, the final income tax is imposed on gain from deposit interest rate of 20%. The tax usually has been directly withheld by bank before received by the investor, except for mutual fund of money market that is not included as tax object until now. However, the profits from sales of mutual fund and deposit interest rate still need to be reported in Tax Return each year.

It is fair for the government to use tax on financial transaction to stabilize the macroeconomics. However, it will become a big deal if the orientation shifts in which Tobin Tax is applied for obtaining as much state revenue as possible. If the latter underlies it, it means adding new task in tax field. It would be wiser if the direction of policy focuses on optimizing the management of economy sectors that have not been subject to taxes (underground economy).

So now, it is no longer about agree or disagree on the application of Tobin Tax in Indonesia. It is more about the government's intention, purpose, and inclination of this policy discourse. One more thing, how far is the government's readiness to optimize the implementation of this policy?

**Short version of this article has been published in www.cnbcindonesia.com, Friday, August 17, 2018.*

³Chatib Basri, Krisis dan Rupiah, Kompas, 24 May 2018.

Merger and Taxation Implication



Merger is corporation action resulting in asset and share transfer of one or more companies.

Types of Merger:

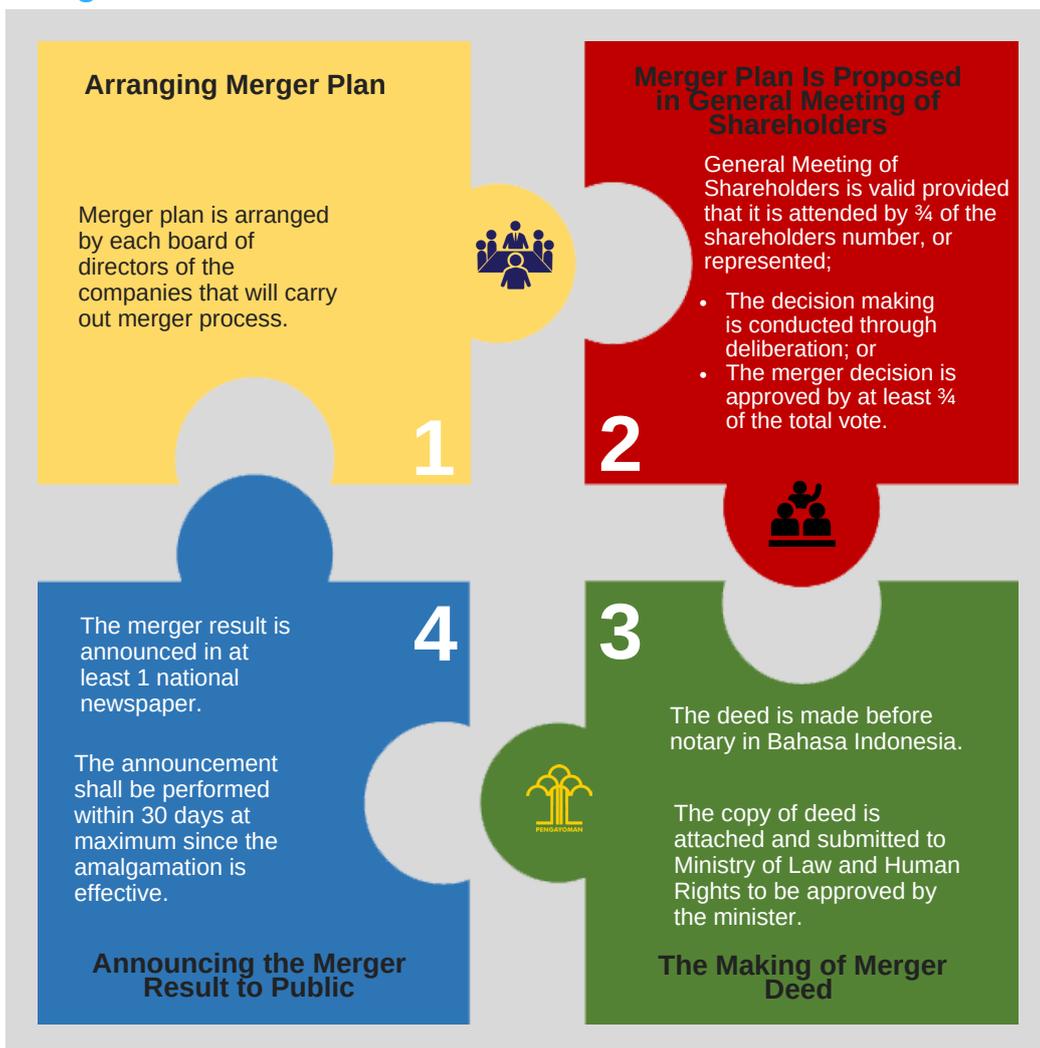
Amalgamation

One of companies will be surviving company, while the other company dissolves by law.

Consolidation

There is no surviving company. The companies that consolidate will dissolve and create new company.

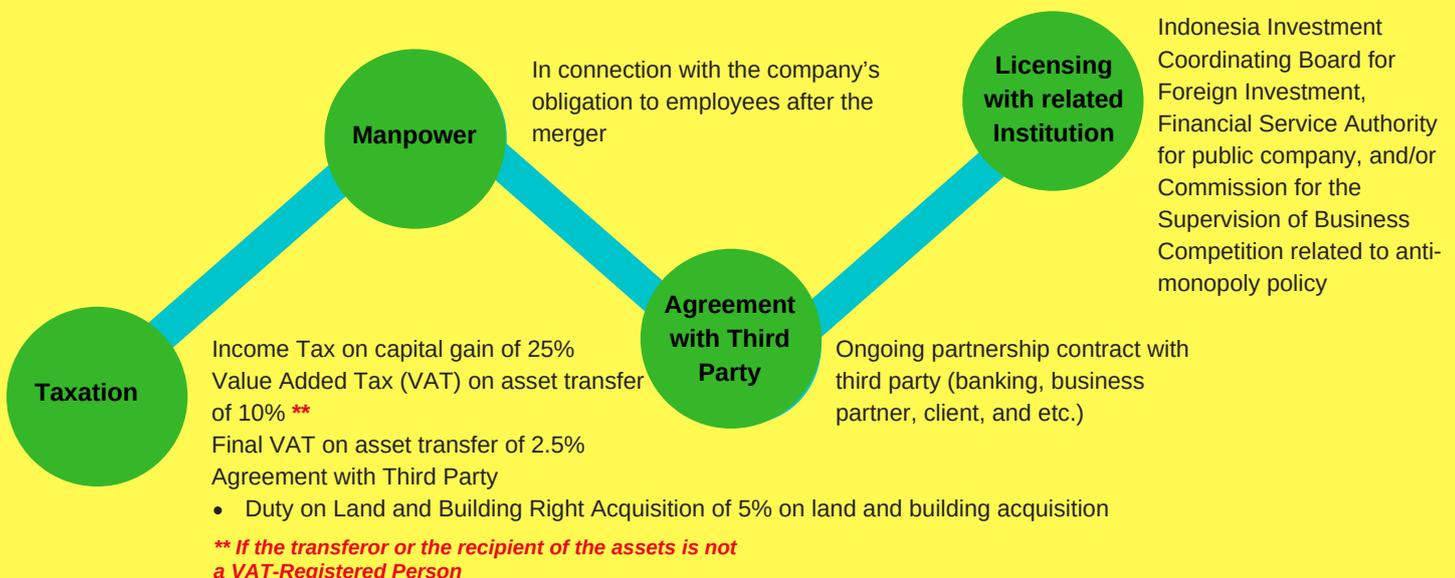
Merger Process:



Merger Plan Materials



Things to be considered:



Final Tax on MSME, Incentive or Disincentive?

Entrepreneurs of Micro, Small, and Medium Enterprise (MSME) become the main target of taxation extensification program this year. The issuance of Government Regulation Number 23 Year 2018 becomes the policy reinforcement especially for Taxpayers with revenue less than IDR4.8 billion per year. The extra is the final income tax rate that is cut from 1% to 0.5%.

However, the 0.5% final income tax rate is only an option that can be selected by MSME Taxpayers, other than using the normal rate that is stipulated in Article 17 of Income Tax Law. There are terms and conditions as well as the period that shall be considered by MSME who choose the 0.5% final tax rate. It is because that not all Taxpayers and business types may utilize this cheapest tax facility.

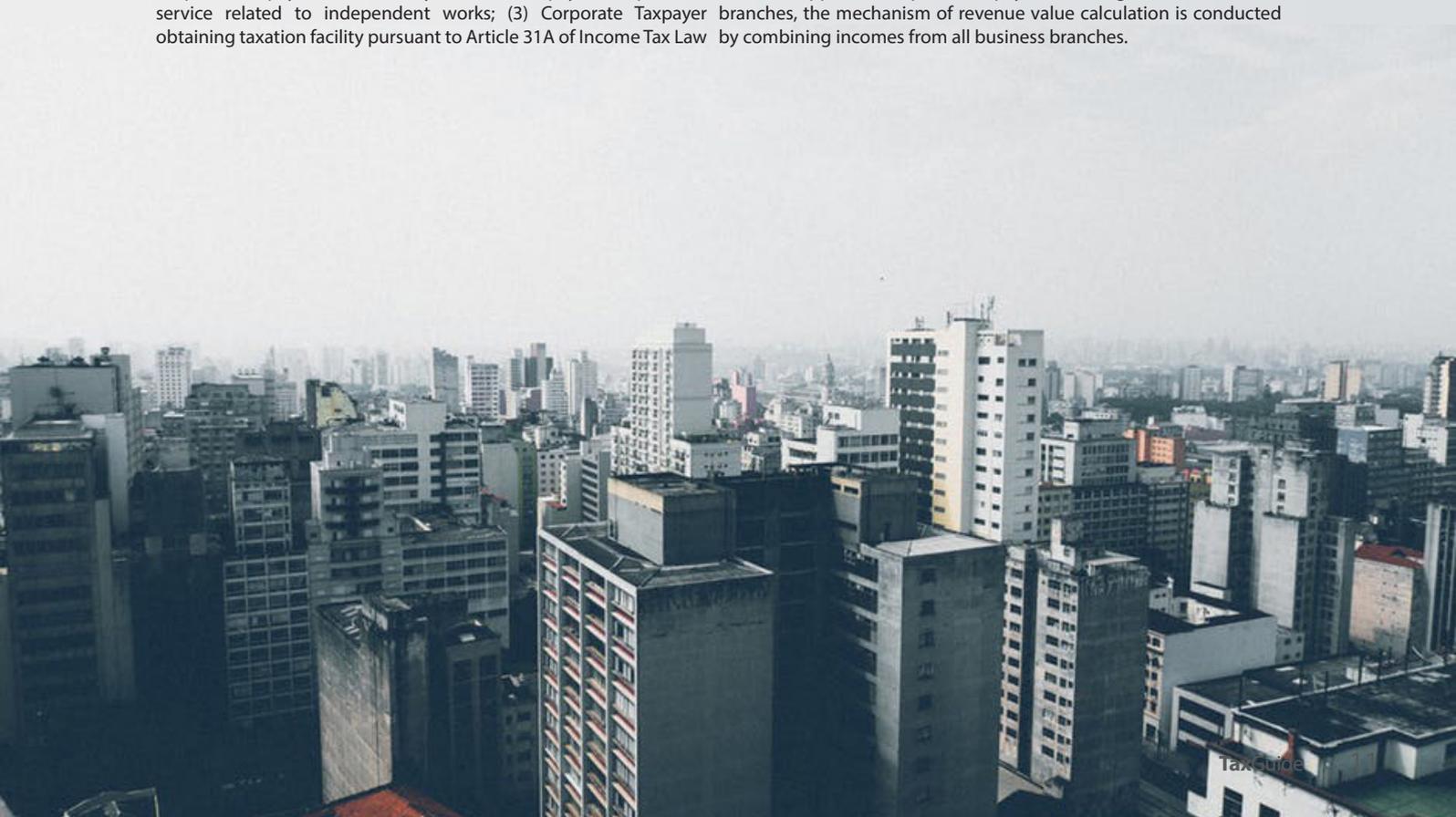
First, the Taxpayers shall ensure that the received incomes are not generated from independent works; incomes from overseas that have been subject to tax; incomes that are subject to final income tax under other regulations; and incomes that are not categorized as tax object.

Second, Government Regulation Number 23 Year 2018 stipulates the Taxpayers who are prohibited to use the 0.5% final income tax rate i.e. (1) Taxpayers who opt to be subject to normal income tax rate; (2) Corporate Taxpayer established by Individual Taxpayer who provides service related to independent works; (3) Corporate Taxpayer obtaining taxation facility pursuant to Article 31A of Income Tax Law

and Government Regulation Number 94 Year 2010; and (4) Taxpayer in the form of Permanent Establishment (PE).

Third, there is limit on the utilization period of 0.5% final income tax rate in which the period is adjusted to the Taxpayer's characteristics, both the new and the existing (Taxpayers). For Individual Taxpayer, the maximum period is seven years; for Corporate Taxpayer with Limited Liability Company (LLC) status, three years at maximum; while Taxpayer in legal body form i.e. CV, firm, or cooperative, no longer than four years. After such period, the provision of normal income tax is automatically applicable in which the application of its rate is progressive.

Fourth, the limit of revenue value of less than IDR4.8 billion applies for the income of the husband-wife Taxpayers whether the assets as well as the taxation right and obligation are combined or separated. The same applies to Corporate Taxpayer consisting of several business branches, the mechanism of revenue value calculation is conducted by combining incomes from all business branches.



The Potential of Revenue

Looking at the trend of the last five years, the number of MSME Taxpayers has been increasing significantly, i.e. growing more than quintuple. If in 2013 there were 220,000 MSME registered as Taxpayers, in 2017 it reached 1.5 million MSME Taxpayers.

The increase of the number occurred along with the payment of MSME final income tax that significantly rocketed, from only IDR428 billion in 2013 to IDR5.8 trillion in 2017. It is surely connected with the implementation of the 1% final income tax policy that is stipulated in Government Regulation Number 46 Year 2013, before replaced by Government Regulation Number 23 Year 2018.

Year	Number of MSME Taxpayers	Revenue from MSME Final Income Tax	Growth of Final Income Tax (%)	Tax Revenue Realization	Portion of Final Income Tax
2013	220,000	IDR428 billion	100%	IDR921.4 trillion	0.046%
2014	532,000	IDR2.2 trillion	414%	IDR985.13 trillion	0.22%
2015	780,000	IDR3.5 trillion	59.09%	IDR1,060.86 trillion	0.32%
2016	1,450,000	IDR4.3 trillion	22.86%	IDR1,105.97 trillion	0.38%
2017	1,500,000	IDR5.8 trillion	34.88%	IDR1,151.13 trillion	0.50%

(Source: Directorate General of Taxes)

However, in view of tax compliance side, the number of MSME Taxpayers is still very small if compared with the total 59.2 million MSME entrepreneurs who earn incomes in Indonesia.¹ It means that the basis of MSME tax data owned by Directorate General of Taxes (DGT) has only covered approximately 2.5% of real population. As a result, the overall contribution of MSME final income tax to tax revenue is still very minor, which is 0.29% in the period of the last five years.

At least, the analysis of data above describes how great the tax potential is from MSME sector that has not been optimally explored. However, it should be admitted that MSME is the Taxpayer who is hard to tax, especially for MSME massively engaging in economy sectors that are out of tax (underground economy).

There are many factors causing MSME hard to tax, among others: (1) the large amount that makes it difficult to monitor; (2) the value of income that is low; (3) no bookkeeping held; (4) majority sales transactions made in cash; thus (5) making it easy to hide the income.²

The government's policy to cut the final income tax rate to 0.5%—which is overshadowed by the implementation of progressive tax at the same time—can be the solution to expand the tax basis as well as to increase the achievement of tax revenue from MSME sector.

With the existence of utilization of final income tax deadline, this policy is also expected to educate MSME to be more compliant with the administration and taxation. Nevertheless, the good financial management is important for MSME to “get to the next level” and access the bank loan.

In Light of Equity

At a glance, the policy becomes a good news for Taxpayers having revenue less than IDR4.8 billion—who are mostly the entrepreneurs of MSME. It is because, previously, there was no option for them but to use the 1% final income tax rate. By the issuance of Government Regulation Number 23 Year 2018, there is at least an option whether to use the lower income tax rate (0.5%) or the normal income tax rate (progressive).

In point of fact, this policy becomes an incentive for MSME Taxpayers to be beneficial from the cheap income tax rate but only for predetermined period. Also during such period, MSME Taxpayers

who have selected the 0.5% final income tax may no longer change into using the normal income tax rate. Thus, even though the business suffers from loss, the 0.5% final income tax is still imposed on the received revenue.

If the period ends, the Taxpayers are automatically enforced to utilize the provision of normal income tax under progressive rate. If the Taxpayer's income grows as expected, it surely does not matter. The new problem arises if MSME who is eager to use this cheap tax facility, in fact, until the predetermined period fails to “get to the next level”. Instead of expecting the incentive, what they get is disincentive.

Therefore, the implementation of equity principle becomes a matter of concern in the implementation of 0.5% final income tax policy. Remember that ideally, every Taxpayer pays tax based on the economic ability in which the basis shall be net income that is appropriate to be taxed (taxable income).

Loopholes for Violation

Every policy basically aims at good outputs, even though the implementation is not always perfect. However good the regulation is made, it often still leaves space for legal loopholes potentially used by tax evaders. The same applies to Government Regulation Number 23 Year 2018, the Tax Authority shall be more attentive in seeing the possibility of tactics by deceitful Taxpayers against this final income tax policy.

The mode potentially done by “bad” Taxpayers is by establishing new business entity with the scale of revenue under IDR4.8 billion. Meanwhile its previous business—which shall be subject to income tax with normal rate—is intentionally left.

Another Taxpayer's trick that should be considered by tax officer is to split the business whose revenue is above IDR4.8 billion into several small-scale business entities. Thus, the said Taxpayer can still be included in the category of MSME that may utilize the 0.5% final income tax rate.

To conclude, the business monitoring and mentoring should absolutely be performed by the government. It may not be that easy, but if the mechanism of MSME final income tax withholding can run on each transaction, it will be easier for DGT to conduct the monitoring.

¹Yuwuragil, Kustin (2017). “Kemenkop UKM: 3,79 Juta UMKM Sudah Go Online”, www.cnnindonesia.com

²Thrunonyi, Victor (2003). “Presumptive Taxation of the Hard to Tax”



MUC Event

Strategy for Facing Audit and Dispute of Transfer Pricing



MUC Consulting Group re-shared the strategy for facing tax audit and dispute related to transfer pricing to business people. The sharing was conducted in the seminar held at Bidakara Hotel, Jakarta, on 18 July 2018.

The tips shared were necessary to be understood by businessmen—especially those frequently conducting related party transaction—in the midst of incessant global effort to muffle the Base Erosion Profit Shifting (BEPS) action. BEPS Action Plan is the recommendation of OECD that has become the agreement of countries in the world, specifically those joined G-20.

In the seminar, Transfer Pricing Manager of MUC Consulting Group Zulhanief Matsani explained the importance of businessmen understanding the procedure of transfer pricing documentation and methods implementation in the era of BEPS. He also shared the knowledge of transfer pricing methods for the manufacturing and distribution, intra-group services, intra-group financing, and intangible property activities.

Smart Way to Deal with the Customs and Excise Dispute



MUC Consulting Group re-shared the strategy for facing tax audit and dispute. Customs and excise activity is the area of business prone to tax dispute. This is a common consequence needed to be addressed wisely and carefully by the business actors involved in the field.

To equip the businessmen for facing the customs and excise dispute, MUC Consulting Group held a seminar at Bidakara Hotel, Jakarta, on 19 July 2018. In the forum, Bambang Sabur, Director of Customs and Excise Division of MUC, gave various tips for the business actors on getting ready to face the probability of audit to the process of objection and appeal.

The audit targets in the customs and excise field include the activities of importers, exporters, the authority of temporary storage area (TPS), the authority of bonded storage area (TPB), customs clearance service companies, and freight companies.

East Indonesian Tax Students' Association Is Ready to Front the Working World



MUC Consulting Group delivered a training for East Indonesian Tax Student's Association (Himpunan Mahasiswa Pajak Indonesia Timur/Himampir) in preparing them to front the increasingly fierce job competition. The training was the part of GREAT Program, which is MUC's social responsibility as a tax consulting company.

In the event held on 24 July 2018 in Jakarta, Manager of HRD of MUC Consulting Group Erry Try Merrita was the main speaker. Erry who is also working as a Professional Coach explained the global challenges the students will face once entering the working world, as well as the importance of young generation to nurture leadership skill in order to win the job competition.

In the different session, Transfer Pricing Consultant of MUC Consulting Group M. Arif Darmawan was asked to share his experience of working in a tax consulting firm, as well as the details of tax consultant profession. He also mentioned about his spirit and responsibility in fostering his knowledge in tax so that he can enhance his competence and credibility as a tax consultant.

MUC & OSS Task Force Held a Dissemination of the New Online Licensing System



MUC Consulting Group held a dissemination and training on the use of Electronically Intergrated Business Licensing System or Online Single Submission (OSS) at Bidakara Hotel, Jakarta, on 23 July 2018.

Present at the event were the founder of MUC Consulting Group Razikun, Special Staff of Coordinating Minister for Economic Affairs Edy Putra Irawady, and the Head of OSS Preparatory Team Muwasiq M. Noor.

The training of the new business licensing system also attracted the interest of many business actors. This was reflected in the number of participants that exceeded the quota MUC provided.

MUC 19th Anniversary

Explore Jogjakarta

More Optimistic about

For a human being, turning 19 means transitional period—from adolescence to adulthood. It is a period that feels like walking in between: not a teen, not yet an adult. This too happened for MUC Consulting Group, a business and taxation consulting company which this year is on the edge of its adolescent days, before entering twenties.



Speaking of experience, MUC as a business entity has definitely known the ropes. However, when it comes to presentation, MUC is still young at heart. The combination of experience, maturity, and youth is not only shown by MUC's organizational structure, but also seen harmoniously when celebrating the 19th anniversary and having the employee gathering held in Yogyakarta, 27-30 July 2018.

Three days in the Gudeg city had become a special moment for the Big Family of MUC. Not only a gathering to strengthen the kinship across generation, it is also the moment of contemplating and being grateful as the creature of the Almighty God.

Down the twist and turn of Oya River to find the mesmerizing Sri Gethuk waterfall, as well as explored the dark Pindul Cave to find the light by the end of the cave, or when we had our adrenaline raced while tracking the extreme terrain at the foot of Mount Merapi—all of those unforgettable moments were as if reminding the MUC crew of how the success earned today are all thanks to the hard works in facing challenges and trials of business that are not always easy.

Next, the trip to Prambanan Temple and Ratu Boko Palace, which was then closed by enjoying the twilight from height at Abhayagiri

Restaurant, had reminded all of MUC's personnel that there is no such thing as eternal glory in the world.

Thus, it is natural that the President Director of MUC Consulting Group Sugianto asked all of the management and staffs to always be introspective and appreciative for the blessings from the Creator. As one of the founders of MUC, Sugianto advised the younger generation, the successor of the company, to stay optimistic about facing the dynamic and competition of business that is harder than ever.

A humble message was also conveyed by another founder of MUC, Razikun—who is also the partner of Public Accountant Razikun-Tarko Sunaryo (RTS). According to him, MUC is not only a place to work and earn money. Instead, MUC is a company setting forth the humanity and religious value that has to be maintained and managed by the young talents of MUC. With the professionalism and competency nurtured continuously, he believed that MUC will grow as a leading consulting service company, nationally and globally.

Happy anniversary, MUC. Wish MUC be more successful and glorious to give advantages for all.

Not Facing Business Competition

