

2020 annual tax compliance

Lowered tax rates applicable for PPh 25 calculation

Effective from fiscal year 2020, based on PERPU 1/2020, the corporate income tax is lowered to 22% from 25% currently applicable and further down to 20% in FY 2022. Listed companies with at least 40% of their shares traded on the Indonesian Stock Exchange will get an extra 3%-cut leading the rate for them to 19% for FY 2020-2021 and 17% for FY 2022 onwards.

Pertaining to the 2019 corporate income tax returns (CITR) filing, a question has been around on whether the new tax rate could be used immediately to calculate the monthly income tax prepayment (PPh 25) due for 2020. One rationale for the use of the new tax rate is that PPh 25 for a particular year must be determined as close as possible to the income tax ultimately due for that year. With the tax rate lowered for 2020, it is reasonable to factor the 2020 tax rate in calculating PPh 25 for 2020.

The Director General of Taxation (DGT) ultimately confirmed through PER-08/PJ/2020 (PER 08) issued on 21 April 2020 that the new tax rate has an immediate effect for PPh 25 calculation from the latest month in which the 2019 CITR must be filed (submission deadline month). This means companies with a fiscal year ended 31 December, may use the new tax rate from as early as April 2020. Others with a FY ended other than 31 December, need to adjust. For instance, a company with a FY ended on 31 March, may start to use the new tax rate from as early as July 2020 to calculate its PPh 25.

The rule applies irrespective of when the 2019 CITR is filed. A company with a FY ended 31 December which extends the submission time by filing 1771Y in April 2020, may use the new tax rate to calculate PPh 25 for April 2020 onward based on the fiscal income set out in the 1771Y. Upon filing the final CITR (1771), it will need to make adjustment retroactively from April 2020 if the PPh 25 based on the 1771 differs from that of the 1771Y.

A slightly different approach will apply for the calculation of PPh 25 for FY 2022. If a company files its 2021 CITR before the submission deadline month, it may calculate PPh 25 for 2022 using the 2022 income tax rate (19% or 17%) starting for the month it files the 2021 CITR. Hence earlier filing will give an additional advantage. All other rules remain the same.

Certain companies such as listed companies, banks and other financial institutions have to calculate their PPh 25 based on the regular financial statements filed with certain state institutions. The general rule for them as set out in MoF Reg. 215/PMK.03/2015 still apply except for that the new tax rates should be factored in the same fashion as described above when it comes to the calculation of PPh 25 for 2020-2021 and 2022.

Please contact your usual contact at PreciousNine for further explanation or assistance.

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