

Good News for MSMEs: 0.5% Final Income Tax Rate Now Available Without Time Limitation

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Highlight

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The Government has once again introduced a favorable measure for Micro, Small, and Medium Enterprises (MSMEs). Through Government Regulation (GR) No. 20 of 2026, issued on 22 April 2026, the Government has maintained the 0.5% Final Income Tax (PPH Final) facility for taxpayers with annual gross turnover not exceeding IDR 4.8 billion.

More importantly, a significant amendment has been introduced: Individual Taxpayers and Sole-Shareholder Limited Liability Companies (PT Perorangan) may now enjoy this facility without any time limitation, provided they continue to meet the applicable requirements.

GR No. 20 of 2026 amends Government Regulation No. 55 of 2022 (GR 55), which previously governed the MSME tax regime first introduced under Government Regulation No. 23 of 2018. The new regulation brings several important changes that business owners and tax practitioners should carefully note.

0.5% Final Income Tax Facility Remains Available

The Government continues to maintain the 0.5% Final Income Tax rate for domestic taxpayers with annual gross turnover of up to IDR 4.8 billion. However, the facility is now limited to the following categories of taxpayers:

- Individual Taxpayers;
- Sole-Shareholder Limited Liability Companies (PT Perorangan); and
- Cooperatives.

The most notable change is the removal of the provision that previously limited the utilization period of the facility for Individual Taxpayers. With the revocation of Article 59 of GR 55, Individual Taxpayers and Sole-Shareholder Companies may continue applying the 0.5% Final Income Tax rate indefinitely, as long as their annual turnover remains below the prescribed threshold.

For cooperatives, however, the facility remains available for a maximum period of four years from the date of registration.

Transitional Relief and Certainty

GR No. 20 of 2026 also provides certainty for taxpayers whose eligibility period for the Final Income Tax facility would otherwise have expired.

Individual Taxpayers and Sole-Shareholder Limited Liability Companies (PT Perorangan) that, under the previous regulations, would have been required to exit the Final Income Tax regime in 2024 or 2025 are granted an extension until the end of Fiscal Year 2026, provided that they continue to satisfy the applicable turnover threshold.

Meanwhile, cooperatives whose eligibility period expired in 2024 may continue to benefit from the 0.5% Final Income Tax rate until 2029.

In addition, certificates confirming a taxpayer's eligibility for the Final Income Tax regime shall remain valid for Fiscal Years 2025 and 2026 for Individual Taxpayers and Sole-Shareholder Limited Liability Companies.

Business entities in the form of Commanditaire Vennootschap (CV), partnerships (firma), limited liability companies (PT), and Regional State-Owned Enterprises (BUMD) may continue to utilize the Final Income Tax facility until the expiration of the period previously granted under the earlier regulations.

Strengthening Anti-Avoidance Measures

At the same time, the Government has strengthened anti-tax avoidance provisions.

To determine whether annual turnover remains below the IDR 4.8 billion threshold, gross revenue must be calculated on a combined basis between husband and wife, including situations where spouses maintain separate property arrangements or fulfill their tax obligations separately. Income earned by minor children must also be included in the aggregation.

A similar rule applies to individuals owning multiple Sole-Shareholder Companies. The turnover of all Sole-Shareholder Companies owned by the same individual must be aggregated to determine eligibility for the 0.5% Final Income Tax facility.

As a result, business fragmentation solely intended to maintain eligibility for lower tax rates will become significantly more difficult.

Not Applicable to All Types of Income

Although the facility remains broadly available, certain categories of income are excluded from the 0.5% Final Income Tax regime.

These include foreign-sourced income subject to tax overseas, income already subject to Final Income Tax under other regulations, and income classified as non-taxable.

The Government has also reaffirmed that income derived from independent professional services cannot utilize this scheme. Excluded professions include, among others, lawyers, accountants, doctors, consultants, notaries, architects, artists, content creators, athletes, teachers, trainers, translators, advertising agents, insurance agents, intermediaries, and multi-level marketing distributors.

Reaffirmation of the Non-Deductibility of Bribery Expenses

Interestingly, GR No. 20 of 2026 also explicitly reiterates that bribery-related expenses are not deductible for tax purposes. Although this principle has long been recognized under Indonesian tax practice, the Government appears to be emphasizing its commitment to good corporate governance and sound tax compliance.

Conclusion

For MSMEs, particularly Individual Taxpayers and Sole-Shareholder Companies, GR No. 20 of 2026 represents a highly positive development. The certainty that the 0.5% Final Income Tax rate may be utilized indefinitely provides greater administrative simplicity and tax certainty for growing small businesses.

Nevertheless, the Government has simultaneously tightened regulations to prevent misuse of the facility through artificial turnover splitting or the establishment of multiple entities. Accordingly, business owners should ensure that their business structures and tax reporting practices remain fully compliant with the latest provisions.



Government Regulation No. 20 of 2026 came into force on 22 April 2026, the date of its promulgation.

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