

PMK 131/2024

Sweeping VAT hike plan cancelled

Just a day before taking effect, the plan to increase VAT across the board was cancelled by the issuance of Minister Regulation No. 131/2024 ("PMK 131") on 31 December 2024. Though the rate nominally increases from 11% to 12%, the VAT burden remains the same except for luxury goods. This has been made possible by imposing the new VAT rate to the "Other Value", which is specified to be 11/12 of the would-be normal tax base.

By way example, suppose you buy a good selling for IDR100. If you did it in 2024, you would be charged VAT for IDR11, i.e. $11\% \times \text{IDR}100$. If you do in 2025, you will bear the same amount of VAT but only calculated differently: $12\% \times 11/12 \times \text{IDR}100 = \text{IDR}11$.

Luxury goods, though, will get their VAT *burden* increase to 12%. Even these, however, for the goods sold to end consumers, the burden increase will take effect only on 1 February 2025. In January the VAT burden remains the same with the 12%-rate being multiplied by the "Other Value" of $11/12 \times$ the would-be normal VAT base. Luxury goods in this regards, are to mean those goods so far subject to Luxury Goods Sales Tax (LST)

The "Other Value" has apparently been put forward as a tax base to circumvent the inevitable increase in the VAT rate amid widespread concerns over growing living costs and weakening purchasing power. The VAT Law as amended by the Tax Regulations Harmonization Law mandates to increase the VAT rate to 12% on 1 January 2025, up from 11% applicable from 1 April 2022. Before then the VAT rate was 10%. The Government has no option but to abide by the mandate.

To avoid confusion with the Other Values currently applicable for many other types of deliveries, PMK 131 confirms that those Other Values are unaffected by the new ruling. The VAT on those types of deliveries are to be determined in accordance with the respective prevailing regulations.

This regulation, make a distinction between luxury goods and non-luxury goods/ and services as follows:

- All luxury goods is subject to VAT at rate of 12%. However, for January 2025 there is tax facilities that if the delivery is made to end user that satisfies certain requirements, the effective rate of VAT for these luxury goods is 11% because the VAT imposition base is calculated using formula 11/12.
- Non luxury goods, and services, are subject to VAT at rate of 12%, but the VAT imposition base is 11/12. The VAT effective rate is still 11% but the calculation behind and the presentation in the VAT invoices are changed.

- These regulation is not applicable to certain delivery of goods/services which currently have already been subject to VAT on Other Value such as freight forwarding, travel agent, self -consumption, fresh fruit bunch, tobacco, gas subsidy etc. They will follow the specific regulation that have been issued specifically to regulate them.

Please see table below.

Categories	Luxury Goods	Non-luxury goods and services
VAT Rate	12%	12%
Tax Imposition Base	January 2025: 11/12 x sales price or imported value for period of January 2025 February 2025 onwards: selling price or import value (starting from 1 February 2025)	Other value/ <i>nilai lain</i> (11/12 X selling price)
Effective VAT Rate	12% (or 11% for January only if the sales is made to end customers that satisfies certain requirements)	11%
VAT Calculation	12% X (selling price or import value)	12% X (11/12 X selling price/import value)
Example		
- old	Selling Price = 50,000,000 VAT amount = 11% x 50,000,000 = 5,500,000	Selling Price = 50,000,000 VAT amount = 11% x 50,000,000 = 5,500,000
- new	VAT amount = 12% x 50,000,000 = 6,000,000	VAT amount = 12% x(11/12 x 50,000,000) = 5,500,000

Additional Information

- Please note that the code of VAT invoice which originally is 010, now with the other value, the code need to change to 040 instead of 010.

- Input VAT for the acquisition of goods and/or service that are using the VAT imposition base of 11/12 from the import value, sales price or replacement value can be credited against the output VAT.

Please contact us to get more insight about this matter.

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