
Tax and Customs

Indonesia Announces New Property Tax Facility Designed to Boost the Economy

As part of its intention to stimulate investment in Indonesia, the Indonesian government through the Ministry of Finance recently announced a series of new property tax facility. The new property tax facility is designed to create a multiplier effect given that the property industry relates to other main industries such as construction, financial, trade, transportation and even the food and beverage industry.

Broadly, the new property tax facility relates to luxury property by imposing an increased limit on the value of luxury property that is subject to Article 22 Income Tax and Luxury-Goods Sales Tax (*Pajak Penjualan atas Barang Mewah* or PPnBM) ("LST") and a reduction of the rate of Article 22 Income Tax.

First, the Minister of Finance issued Regulation No. 86/PMK.010/2019 on Types of Luxury Goods other than Motor Vehicles that are Subject to Luxury-Goods Sales Tax ("New LST Regulation"), to amend the Minister of Finance Regulation No. 35/PMK.010/2017 ("2017 Regulation").

Under the New LST Regulation, luxurious residential group such as luxury homes, apartments, condominiums, town houses, and the like with a selling price of IDR 30 billion or more are subject to a 20% LST.

Previously, under the 2017 Regulation, the limits were as follows:

- Houses and town houses of non-strata title with a selling price of IDR 20 billion or more;
- Apartments, condominiums, town houses with strata title and the like with a selling price of IDR 10 billion or more.

Second, the Minister of Finance issued Regulation No. 92/PMK.03/2019 on Certain Corporations as Withholding Tax Collector from Buyer of Luxury Goods ("New Withholding Tax Regulation"), which amended the Minister of Finance Regulation No. 253/PMK.03/2008 ("2008 Regulation").

The New Withholding Tax Regulation stipulates the reduced rate to 1% (from 5%), excluding 10% VAT and LST for:

- Houses on a land with a selling price of IDR 30 billion or houses with a building area above 400 m²;
- Apartments, condominiums, and the like with a selling price of IDR 30 billion or apartments and condominiums with a building area above 150 m².

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Under the 2008 Regulation, the selling price was IDR 5 billion. Therefore, the limits under the New Withholding Tax Regulation represents a significant increase of the limits on the value of luxury property.

Considering the significant middle-class group in Indonesia, according to the World Bank, the middle-class group in Indonesia is estimated to number 52 million people whose consumption accounts for 43 percent of the total household consumption, we believe that the above stimulus will accelerate the Indonesian economy by creating a multiplier effect to other domestic industries.

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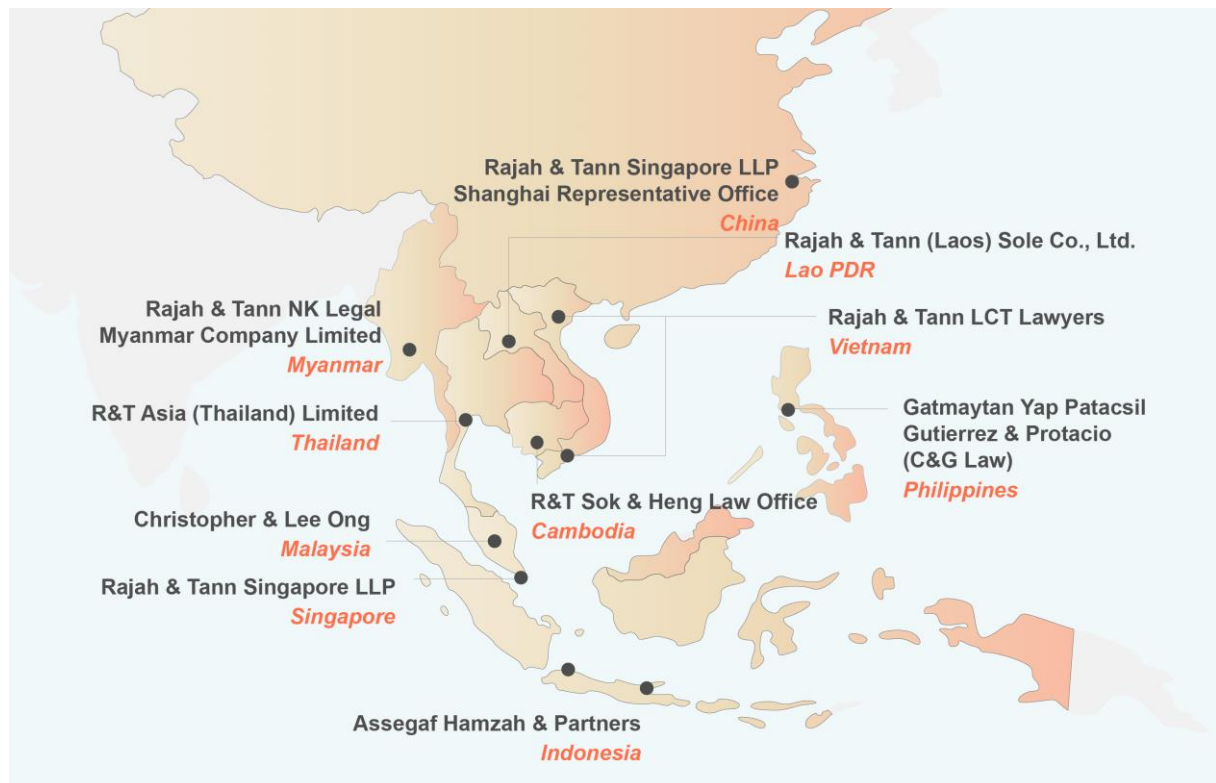
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