

VAT rate for 2025 ^{P1}

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As mandated in the Value-Added Tax ("VAT") Law, VAT rate will increase to 12% starting 1 January 2025. However, after careful consideration of the impact on the economy, the government has decided to implement the 12% rate in a way that most taxable goods and services will still be subject to an "effective" VAT rate of 11%. This is stipulated under the Minister of Finance ("MoF") Regulation No.131 Year 2024 dated 31 December 2024 and effective from 1 January 2025, as elaborated below.

1. VAT treatment for luxury goods

The 12% VAT rate is applicable to the import and domestic delivery of luxury taxable goods which are currently subject to Luxury-goods Sales Tax. These include motor vehicles, luxurious residences with a selling price of at least IDR 30 billion, private aircraft, luxurious private cruisers, shotguns, etc. As usual, the Input VAT related to these transactions can be credited.

Specifically for domestic delivery to end consumers, the VAT treatments are as follows:

- From 1 January to 31 January 2025 – the 12% rate is applied on a Tax Base using Other Value (*Dasar Pengenaan Pajak/DPP Nilai Lain*). The *DPP Nilai Lain* is set at 11/12 of the selling price, which renders the "effective" VAT rate to be 11%; and
- Starting 1 February 2025 – the 12% rate is applied on the normal Tax Base in the form of the selling price.

Under the existing regulations¹, an end consumer is defined as goods purchasers or service recipients who directly consume the purchased goods or received services and do not use/utilise the said goods/services for business activities.

2. VAT treatment on goods and services that are already subject to special rules

The delivery of taxable goods/services that are already subject to the following rules:

- Using *DPP Nilai Lain*; or

¹ MoF Regulation No.18/PMK.03/2021 *juncto* Director General of Taxes (DGT) Regulation No.PER-03/PJ/2022

- VAT rate using a Certain Percentage, under regulations other than PMK-131, still follows the rules under the existing regulations.

As these existing rules have already stipulated the application of the 12% VAT rate, the increase of this VAT rate starting 1 January 2025 is applicable to taxable goods and services under these categories.

The special rules for using *DPP Nilai Lain* are governed under Article 8A of the VAT Law which allows for certain goods or services to use other values for their tax base. The existing goods under this category prior to the issuance of PMK-131 include tobacco products, subsidised fertiliser for the agriculture sector, etc.

Whereas the special rules for VAT rate using a Certain Percentage are governed under Article 9A of the VAT Law. Under this regime, the prevailing VAT rate is multiplied by a designated percentage. The existing goods/services under this category prior to the issuance of PMK-131 include self-construction activity, certain agricultural products, delivery of used motor vehicles, freight forwarding services, etc.

3. VAT treatment for other non-luxury goods

For taxable goods and services other than those mentioned in points 1 and 2 above, the 12% rate is applied on the *DPP Nilai Lain*, which is set at 11/12 of the import value, selling price, or compensation, which renders the “effective” VAT rate to be 11%. As with the general rule, the Input VAT related to these transactions can be credited.

Administrative matters

Although PMK-131 has not stipulated the administrative aspects of the new mechanism, taxpayers need to be mindful of whether they need to change the VAT Invoice code to be used for their deliveries. Please note that deliveries using *DPP Nilai Lain* use Code 040. We anticipate the issuance of a DGT Regulation to provide detailed implementation of this new rule.

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