Client Update: Indonesia

10 September 2021

Leveling the Playing Field, the Government Cuts Income Tax Rate on Bonds for Local Investors

Following the decrease in income tax for interests on bonds received by foreign investors to 10% under the Omnibus Law (Law No. 11 of 2020), the government has given the same treatment to local investors under Government Regulation No. 91 of 2021. This Regulation replaces Government Regulation No. 16 of 2009, which was lastly amended by Government Regulation No. 55 of 2019. Under this new Regulation, the final income tax rate on interests from bonds received by local investors decreases from 15% to 10%.

This Regulation marks a turning point not only for local investors but also for the local bonds market. Moreover, it is also in line with Indonesia's National Medium-Term Development Planning, which achievement requires significant funding in order to increase financial inclusion, expand innovation of financial products, develop financial services, and optimise means of alternative financing.

We discuss this new Regulation in more details below.

Things to Note

The reduced tax rate applies on any income received or gained by investors in the form of interest, *ujrah* or fee, profit sharing, margin, and any other similar income derived from bonds issued by the government or non-government institutions, including shariah bonds (*sukuk*). Individual (*wajib pajak pribadi*) and corporate taxpayers (*wajib pajak badan*) can enjoy this treatment, including permanent establishments, mutual funds, and collective investment contracts.

Under the Regulation, there are three possible income tax bases upon which the reduced 10% tax rate will be calculated:

(a) coupon interest income from interest-bearing bonds (*obligasi dengan bunga*) during the holding period;

(b) discount from interest-bearing bonds, which is any excess of the selling price or nominal value over the acquisition price of the bonds, excluding any accrued interest; and

(c) discount from non-interest-bearing bonds (*obligasi tanpa bunga*), which is any excess of the selling price or nominal value over the acquisition price of the bonds.

Further, if the investor suffers a negative discount or loss when it sells the interest-bearing debt securities, the investor can set off the loss with the coupon interest income.

The Regulation also expands the parties obligated to withhold the tax. Previously, under the 2019 Regulation, these parties were limited to bond issuers, custodians or securities firms, dealers, or banks as brokers and/or buyers. Now, under the new Regulation, pension funds or mutual funds acting as brokers and/or buyers, as well as custodians or sub-registry that records the transfer of ownership, can withhold the tax.

Lastly, if the interests are received from government-issued bonds, the recipient of such interests must settle the tax themselves and submit a report on the withholding or settlement of the final tax to the Directorate General of Tax.

AHP's Note

Readers should note that some provisions in the 2019 Regulation have been retained, namely on the tax treatments of interest income received from bonds by pension funds and banks. Any interest income from bonds received by a government-approved pension fund is exempted as regulated under the Income Tax Law (Law No. 7 of 1983 as amended several times and lastly by the Omnibus Law). Meanwhile, interest income from bonds received by banks established in Indonesia or Indonesian branches of foreign banks are not subject to withholding tax.

As this Regulation is a government-level regulation, the government still needs to issue regulations at the minister level to address the technical aspects of the reduced tax rate. In the meantime, we expect that this reduced tax rate will help boost public interest in bonds, not only from the purchasers' side but also from the issuers' side.

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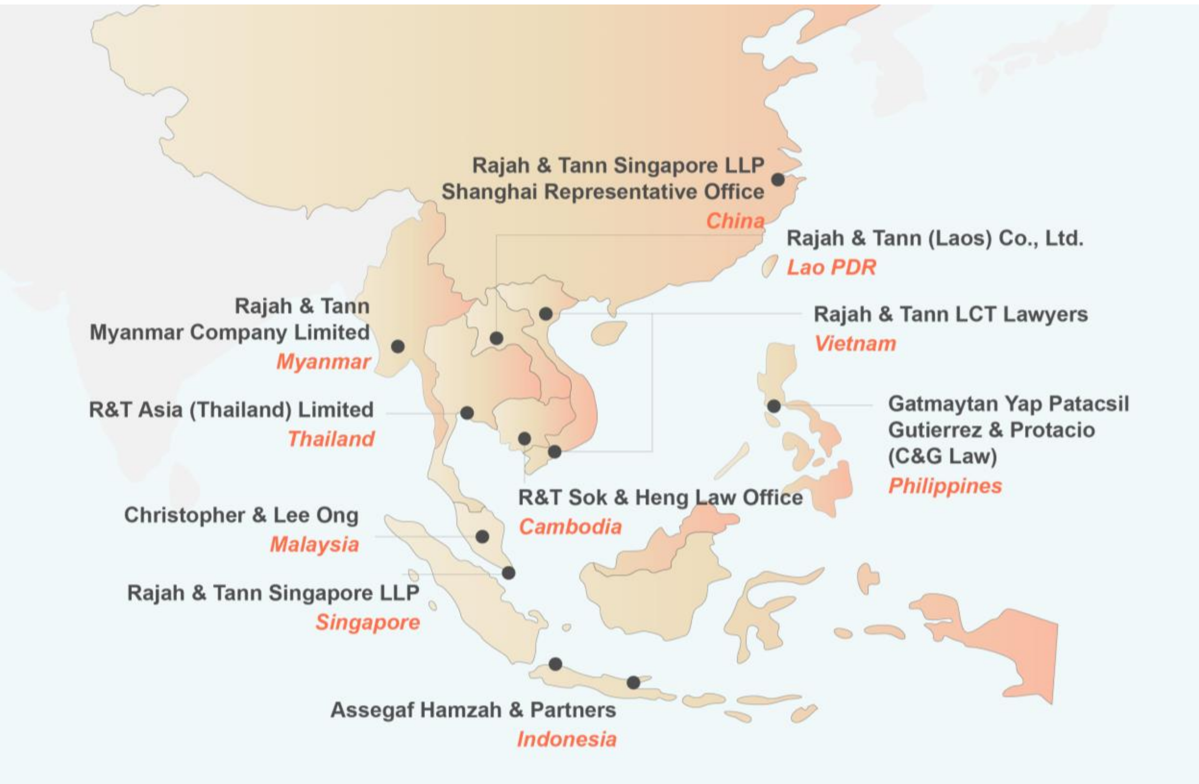
Our Regional Presence



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