



ARMA Update: 23 November 2021

English Version

Law No. 7 of 2021: Harmonization of Tax Regulations

General Overview

On 29 October 2021, the Government of the Republic of Indonesia has officially promulgated Law No. 7 of 2021 on Harmonization of Tax Regulations (“**Law 7/2021**”). With the issuance of Law 7/2021, several tax provisions in Indonesia which had previously been regulated in separate regulations are now being amended simultaneously. Some of these regulations are (i) Law on General Provisions and Tax Procedures (General Provisions of Taxation Law), (ii) Law on Income Tax (Income Tax Law), (iii) Law on Value Added Tax on Goods and Services and Sales Tax on Luxury Goods (VAT and Luxury Goods Sales Tax Law), (iv) Law on Excise (Excise Law), and (v) other tax regulations issued during the Covid-19 Pandemic.

This ARMA update will discuss essential points from Law 7/2021, including but not limited to income tax, VAT, carbon tax, and general provisions of taxation.

1. Use of NIK as individual’s Tax ID Number

One of the most interesting provisions with the enactment of the Law 7/2021 is the introduction of the National Identity Number (*Nomor Induk Kependudukan* – NIK) as the identity number of individual taxpayers. In this regard, the NIK will directly replace the role of the Tax Identification Number (*Nomor Pokok Wajib Pajak* - NPWP) in terms of paying individual domestic taxes.¹

Meanwhile, this provision was made in order to integrate population data with taxation databases. In this regard, the Minister of Home Affairs is assigned to provide population data and feedback data from NIK users to the Minister of Finance.² Further, the Minister of Finance will further regulate the implementation of NIK as Tax ID number.³

¹ Article 2 of Law 7/2021 which adds Article 2 (1a) of General Provisions of Taxation Law

² Article 2 of Law 7/2021 which adds Article 2 (1) of General Provisions of Taxation Law

³ Article 2 of Law 7/2021 which adds Article 44E (1 and 2) of General Provisions of Taxation Law



2. Tax Amnesty Volume II

The Government of Indonesia will re-implement the tax amnesty policy for a period of six months, starting from 1 January 2022 until 30 June 2022, under the name of the Voluntary Disclosure Program (VDP).⁴

This program is intended only for individuals and not business entities, which have not reported acquisition assets in 2016-2020 in the Annual Tax Return (*Surat Pemberitahuan Tahunan - SPT*). In this program, VDP participants will be subject to final income tax at the following rates:⁵

- 18% – for asset declaration abroad;
- 14% – for repatriation of foreign and domestic assets; and
- 12% – for repatriation of foreign and domestic assets invested in the sovereign bond market, downstream industry, and the renewable energy sector.

3. Introduction of New Individuals' Income Tax Threshold

For domestic individual income tax, a progressive rate is applied, which is determined and calculated based on a certain threshold of income in accordance with the provisions of the laws and regulations. Pursuant to Law 7/2021, there are certain changes regarding the income threshold for each progressive rate with the following details⁶:

Previous Terms		Law 7/2021	
Income	Rate	Income	Rate
0 – Rp50 million	5%	0 – Rp60 million	5%
>Rp50 million – Rp250 million	15%	>Rp60 million – Rp250 million	15%
>Rp250 million – Rp500 million	25%	>Rp250 million – Rp500 million	25%
> Rp500 million	30%	>Rp500 million – Rp5 billion	30%
-	-	> Rp5 billion	35%

4. Relief for MSMEs Taxes

Through Law 7/2021, the Government of Indonesia stipulates a threshold on the non-taxable gross turnover in the amount of Rp 500 million. Thus, individual entrepreneurs who calculates their income tax with a final rate of 0.5% and has a gross turnover of up to Rp500 million/year will not be subject to income tax.⁷

⁴ Article 8 of Law 7/2021

⁵ Article 9 of Law 7/2021

⁶ Article 3 of Law 7/2021 which amends Article 17 (1a) of Income Tax

⁷ Article 3 of Law 7/2021 which adds Article 7 (2a) of Income Tax



This provision will ease the tax burden of micro, small and medium enterprises (MSMEs) because it will reduce the payable tax.

5. Cancellation of Corporate Income Tax Rate Reducing

Law 7/2021 officially stipulates that the 2022 rate for corporate income tax is 22% (twenty-two percent).⁸ With the determination of such corporate income tax rate, the Government of Indonesia canceled the provision for reducing the corporate income tax rate, in which the previous provision on the 2022 corporate income tax rate would be reduced from 22% (twenty-two percent) to 20% (twenty percent).

6. Gradual VAT Rate Increment

With the enactment of Law 7/2021, the Government has set a new rate on the VAT, with the stipulation that the VAT rate will increase to 11% (eleven percent) on 1 April 2022; and will be increased to 12% (twelve percent) as per 1 January 2025.⁹

7. Provision on Carbon Tax

With the enactment of the provisions that allow carbon trading in Indonesia, Law 7/2021 is also present to accommodate the provisions related to the carbon trading tax. The carbon tax rate is set at Rp30 per kilogram of CO₂ equivalent (Co₂e) (lower than the Government's previous proposal of Rp75 per Co₂e), which will take effect on 1 April 2022.¹⁰

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⁸ Article 3 of Law 7/2021 which amends Article 17 (1b) of Income Tax

⁹ Article 4 of Law 7/2021 which amends Article 7 (1) of VAT and Luxury Goods Sales Tax Law

¹⁰ Article 13 of Law 7/2021