

Understanding Indonesia's New VAT Calculations

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Indonesia's valued added tax ("VAT") rate was by law increased from 11% to 12% in January 2025, but the move did not quite go as planned. A last-minute announcement by President Prabowo Subianto on 31 December 2024 halted the hike for most goods and services. Instead, the 12% rate now applies only to the delivery and import of luxury goods such as private jets, yachts, and luxury cars, with the new rate coming into effect in February 2025. However, the 12% rate still technically stands for other goods and services, but due to a mandatory recalculation, it effectively remains at 11%. Confused? You're not alone.

Here's our straightforward guide to help businesses understand the current state of VAT in Indonesia and how it impacts your operations in 2025.

The Original VAT Increases and the Limitation to Luxury Goods

Indonesia's Tax Harmonization Law of 2021 ("**HPP Law**") mandates a gradual VAT increase from 10% to 11% in April 2022 and then to 12% starting on 1 January 2025. However, just six hours before the 2025 hike was to take effect, President Prabowo intervened by limiting the 12% rate to luxury goods only. His decision came after pushback from business associations, labor unions, and social media campaigns.

The limitation of the VAT increase to luxury goods was formalized in Minister of Finance Regulation No. 131 of 2024 issued on 31 December 2024 ("**Reg 131/2024**"). While this adjustment altered the immediate application of the HPP Law, the law itself remains intact until it is amended or revoked.

The move left many businesses scrambling to adjust after they had earlier raised their pricing,

anticipating that the 12% tax rate would apply to a broad range of goods and services. Consumers reported significant price increases across various goods and services, from fast-food items to online game purchases. With the scope reduced, businesses have had to recalculate prices and VAT applications to stay compliant with the new regulation.

VAT Refund Process

Given the confusion surrounding the tax rate change, businesses that already applied the 12% VAT on non-luxury goods can now issue refunds to customers. According to tax officials and as specified in Directorate General of Taxation Regulation No. PER-1/PJ/2025, buyers who were charged a VAT overpayment should request a refund from the seller, and sellers must issue revised invoices.

The Directorate General of Taxes has allowed businesses until 31 March 2025 to correct any overcharges, providing a three-month transition period to adjust their systems.

Current VAT Rate & Workaround Calculation

In accordance with the HPP Law, Indonesia's VAT rate for 2025 is officially set at 12%. The government has not issued a regulation canceling or postponing this increase. However, Reg 131/2024 applies a workaround to most goods and services, effectively maintaining VAT at 11% for non-luxury items. This is achieved by mandating a calculation factor using an alternative VAT base (11/12 of the selling price or import value), which reduces the VAT burden while still adhering to the 12% rate.

For example, for a non-luxury taxable product priced at Rp100 million, 12% VAT amounts to Rp12 million. By applying the calculation of $12\% \times \frac{11}{12} \times \text{Rp}100 \text{ million}$, the VAT is reduced to Rp11 million, effectively maintaining the 11% VAT rate. This calculation reduces the amount consumers pay without technically breaking the HPP Law.

While VAT is now set at 12% for luxury goods, there is a one-month transition period. This means that for January 2025, the 11/12 factor is applied, effectively reducing the VAT rate to 11%. The full 12% rate for luxury goods comes into effect on 1 February 2025.

Note that taxpayers who have been authorized to set other values or fixed amounts as the base for tax calculations cannot use the new methods in Reg 131/2024.

VAT Exemptions

Government Regulation No. 49 of 2022 outlines numerous items exempt from VAT, too numerous to list individually here. Key exemptions include staple foods and drinking water, essential services, and non-luxury housing. Other exemptions range from educational books

to weapons and ammunition imported for national defense.

The VAT rate for basic necessities is 0%, covering:

- **Staple Foods:** Rice, regular meat, fish, eggs, vegetables, fresh milk.
- **Essential Services:** Education, healthcare (public and private), public transport.
- **Simple, non-luxury housing.**

Goods & Services Subject to VAT

Under Law No. 42 of 2009, which amends Law No. 8 of 1983 on Value-Added Tax on Goods and Services and Sales Tax on Luxury Goods, VAT applies to various goods and services delivered within the “Customs Area,” a term that refers to the entire territory of Indonesia, including its land, territorial waters, and airspace.

Specifically, VAT applies to:

1. The delivery of taxable goods (*barang kena pajak* – BKP) within the Customs Area by entrepreneurs.
2. The import of BKP into the Customs Area.
3. The delivery of taxable services (*jasa kena pajak* – JKP) within the Customs Area by entrepreneurs.
4. The use of intangible BKP (such as software and digital products) originating from outside Indonesia within the Customs Area.
5. The use of JKP originating from outside Indonesia within the Customs Areas.
6. The export of tangible BKP by taxable entrepreneurs.
7. The export of intangible BKP by taxable entrepreneurs.
8. The export of JKP by taxable entrepreneurs.

Examples of goods subject to VAT include clothing, shoes, bags, automotive products, electronics, telecommunications credit, tools, and beauty or cosmetic products. Taxable services include streaming platforms for music and movies, such as Spotify and Netflix.

Key Takeaways for Businesses

- **Luxury Goods:** The 12% VAT now only applies to luxury goods, not general consumer goods. If your business sells luxury items, adjust your invoices accordingly to reflect the 12% rate from February 2025.
- **Non-Luxury Goods and Services:** For most goods and services, the VAT remains at 11% (albeit it through the convoluted calculation of 12% multiplied by 11/12).
- **Refund Process:** If you've inadvertently charged 12% VAT on non-luxury items, make sure to follow the proper refund procedure by revising invoices and processing customer claims before 31 March 2025.
- **Digital Transactions:** Online and cross-border transactions (e.g., QRIS and e-money systems) remain exempt from the 12% VAT increase.

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