

Bond Market Costs and Taxation

Changes related to bond market costs and taxation detailed in this update focus on the most recent changes to tax rates and taxation practices in the Indonesian bond market.

At the same time, the Government of Indonesia and market institutions have been known to introduce incentives, including fee reductions and waivers, to support market participants and business activities as part of their responses to the COVID-19 pandemic. Some of these incentives may be transitional or temporary. Interested parties are encouraged to confirm the applicability of market rates, fees, and charges detailed in the *ASEAN+3 Bond Market Guide for Indonesia*.

OJK, based on the Board of Commissioners Decree No. 24/KDK.01/2018 of 31 December 2018 Concerning Adjustment of the Registration Fee for Public Offering of Green Bonds, adjusted the registration fee to 25% of the rate specified in the Annex of the Government Regulation Number 11 of 2014, which stipulates the registration fee for the public offering of bonds in general. Hence, the registration fee for green bonds is 75% lower than the normal rate. This incentive applies from the time the decree is enacted until it is regulated differently at a later date.

In addition, in its Board of Directors Decree No. Kep-00038/BEI/05-2020 of 20 May 2020, IDX provided for a 50% reduction of the annual listing fee for green bonds. This incentive applies to the annual listing fee for a period of 5 years since the decree came into force.

H. Taxation Framework and Requirements

The Government of Indonesia promulgated the first Omnibus Law (formally Law No. 11 of 2020, also referred to as the Job Creation Law) on 2 November 2020, which contained measures affecting the taxation of bond interest for nonresident investors as well as taxation procedures for all investors. The corresponding implementing regulations were issued on 2 February 2021 (Government Regulation Number 9/2021) and on 18 February 2021 (MOF Regulation Number 18/PMK.03/2021). The relevant changes are detailed here in the context of the subjects included in the *ASEAN+3 Bond Market Guide for Indonesia*.

2. Withholding Tax

Provisions in the Job Creation Law included a reduction of the standard withholding tax rate on interest, profit sharing, or similar income from bonds and *sukuk* for nonresidents from 20% to 10%, unless an applicable treaty rate is lower.

This revised standard rate is effective from 1 August 2021 and applies to interest from government, quasi-government, and corporate bonds and notes, including those issued via private placement, and is also applicable to profit sharing from Sharia-compliant instruments by these issuers or offerors.

Bond interest, a profit-sharing rate, or similar income for *sukuk* include the nominal interest or rate of the bond as well as differences between the sale price and acquisition price of the bond.

7. Tax Concessions or Exemptions for Nonresident Investors

The reduction of the standard withholding tax rate from 20% to 10% (see section 2 of this chapter) represents a concession for nonresident investors and reflects the policy objective of the Government of Indonesia to further broaden its investor base, including through the active participation of nonresidents in the bond market.

8. Changes in Tax Procedures **[NEW]**

While tax procedures in a given market, including the actual withholding process and underlying prescriptions, are typically not reviewed in detail in an *ASEAN+3 Bond Market Guide*, the tax procedures in Indonesia have typically required significant attention from nonresident investors and interested parties. As such, this update note provides information on notable changes with regard to the provision of tax information by investors into the Indonesian bond market.

The most recent notable changes in prescriptions or procedures for tax processing since 2018 include the following:

- Regulation of the Director General of Taxes Number PER-25/PJ/2018 Regarding the Procedure for the Application of Approval on the Avoidance of Double Taxation (often referred to as PER-25/PJ/2018), dated 21 November 2018 and effective 1 January 2019; and
- KSEI Circular Letter No. SE-0002/DIR-EKS/KSEI/0419 Regarding the Procedure for the Application of Approval on the Avoidance of Double Taxation and the Implementation of Corporate Action in KSEI, issued on 23 April 2019 and effective 13 May 2019. This circular letter replaced the earlier Circular Letter Regarding the Procedure for the Delivery of Domicile Letter for Foreign Taxpayer at KSEI issued in March 2015.

The DGT regulation was issued following market lobbying efforts, particularly to simplify the applicable forms and allow the submission of evidence in electronic form. In turn, KSEI, as a typical withholding agent for debt securities, simplified its procedure for account holders with the help of the streamlined DGT forms and process.

DGT now only requires a single form for all entities, with investors able to submit one form for up to 12 months, regardless of calendar year; the form no longer requires the details of specific income events or the withholding agent details; in addition, a certificate of residence instead of an authorization from the nonresident's domicile's tax authority is acceptable as proof of tax status.

DGT and, consequently, KSEI now accept evidence of an investor's tax status in electronic form, and investors can email KSEI with a cover letter and the softcopy of the documentary evidence; specific cut-off times for the submission have to be observed. DGT permitted documentary evidence in English through a regulation change in 2017.

In relation to the DGT form submitted, KSEI will not carry out any verification of the conformity or correctness of the form itself; the account holder remains responsible for any consequences arising from noncompliance or mistakes. However, similar to an instance where a submission deadline for the DGT form was missed, the investor has the opportunity to pursue any difference in applicable taxes through the tax reclaim process.