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GOODS AND SERVICES EXEMPT FROM VAT OR ON WHICH VAT IS NOT COLLECTED

The long-awaited Government Regulation No. 49 was issued on 12 December 2022 (“GR-49”) regarding goods and services which are exempt from VAT and those on which VAT is not collected¹. This is an implementing regulation of the Harmonization of Tax Regulations Law pertaining to the VAT section. It was expected that this regulation would have been issued before 1 April 2022; as a result of the delay, GR-49 applies retroactively to 1 April 2022.

It is now clear what goods and services are exempt from VAT. For convenience and simplicity, this regulation combines the goods and services exempt from VAT or on which VAT is not collected, including strategic goods and services which were previously covered under several regulations.

The goods and services are categorized as follows:

- a. Import or delivery of VATable goods or services that are exempt from VAT
- b. Import or delivery of strategic VATable goods that are exempt from VAT
- c. Delivery of strategic VATable services within the customs area or use of strategic VATable services from outside the customs area within the customs area that are exempt from VAT
- d. Import or delivery of strategic VATable goods, delivery of strategic VATable services, or use of strategic VATable services from outside the customs area within the customs area, on which VAT is not collected
- e. Import of VATable goods that are exempt from import duties on which VAT and sales tax on luxury goods are not collected

A summary of GR-49 is provided below. (For further details on each category or item, see GR-49.)

Goods and Services Covered by GR-49

a. Import or delivery of goods or services that are exempt from VAT

The following are exempt from VAT

- Polio and COVID-19 vaccines
- Textbooks and holy books
- Goods received by the government to handle national disasters
- Construction services for places of worship
- Construction services for buildings for victims of national disasters funded by the government or donations
- Other services received by the government for national disasters

An exemption letter (*surat keterangan bebas/SKB*) for the above is not required.

¹ The regulation uses the term “*tidak dipungut*” which can be translated as “not charged” or “not collected” meaning that it is *not required to be collected*.

b. Import or delivery of strategic goods that are exempt from VAT

Importation of the following strategic goods are exempt from VAT	Delivery of the following strategic goods are exempt from VAT
<ul style="list-style-type: none"> ▪ Machinery and factory equipment ▪ Marine and fishery products ▪ Hides and untanned leather ▪ Livestock ▪ Seeds ▪ Animal and fish feed and raw materials for feed ▪ Silver for handicrafts ▪ Weapons and ammunition imported by the Ministry of Defense or the police, and components not made in Indonesia which are imported by a state-owned enterprise ▪ Mapping equipment for the Ministry of Defense or the army ▪ Presidential special service vehicles ▪ Goods for museums, zoos, and similar places open to the public, and nature conservation, which are granted an exemption from import duty ▪ Basic necessities, such as rice, meat, eggs, and vegetables ▪ Consumed sugar ▪ Mining or drilling products taken directly from the source, excluding coal mining products ▪ Liquefied or compressed natural gas ▪ Goods imported by the government for public use, which are granted an exemption from import duty ▪ Medicines imported using state revenue, which are granted an exemption from import duty ▪ Human therapy, blood grouping, and tissue typing materials imported using the state budget, which are granted an exemption from import duty 	<ul style="list-style-type: none"> ▪ Machinery and factory equipment ▪ Marine and fishery products ▪ Hides and untanned leather ▪ Livestock ▪ Seeds ▪ Animal and fish feed and raw materials for feed ▪ Publicly owned apartments with subsidized financing ▪ Public houses, student dormitories, and housing for workers ▪ Silver for handicrafts ▪ Electricity, except for houses >6,600 watts ▪ Clean water, excluding refill drinking water/bottled water ▪ Weapons and ammunition for the Ministry of Defense or the police, and components not made in Indonesia which are imported by a state-owned enterprise ▪ Mapping equipment for the Ministry of Defense or the army ▪ Basic necessities, such as rice, meat, eggs, and vegetables ▪ Consumed sugar ▪ Mining or drilling products taken directly from the source, excluding coal mining products ▪ Liquefied or compressed natural gas

Certain of the above items require an exemption letter/SKB, while others do not. (See the regulation for further details.)

Note that if certain goods listed in this section (b) and section (d) below are not used in line with their original purpose or are transferred to another party within four years of their import or acquisition, the VAT becomes payable. Certain exceptions apply, including the transfer of goods from the head office to a branch, a branch to the head office, or between branches.

c. Delivery of strategic services within the customs area or use of strategic services from outside the customs area within the customs area that are exempt from VAT

This category covers the following services, most of which were not VATable under the old VAT Law
<ul style="list-style-type: none"> ▪ Medical health services for humans and animals ▪ Social services, such as orphanage and nursing home services, firefighting, rehabilitation ▪ Postal services ▪ Financial services ▪ Insurance services, excluding insurance support services such as agents, brokers and assessors ▪ Educational services ▪ Non-advertising broadcasting services, i.e., broadcasting of public service messages ▪ Public transportation services, which covers transportation by land (road and railway), by water, and domestic air transportation which is an integral part of overseas transportation ▪ Labor services, including manpower supply and training ▪ Public phone services ▪ Money transfers by post ▪ Public apartment and housing rental services ▪ Certain mapping services received by the Ministry of Defense or the army

None of the above require an exemption letter/SKB, except for services received by the Ministry of Defense or the army.

d. Import or delivery of strategic goods, delivery of strategic services, or use of strategic services from outside the customs area within the customs area on which VAT is not collected

The import or delivery of strategic goods on which VAT is not collected include:	The delivery of strategic services on which VAT is not collected includes:
<ul style="list-style-type: none"> ▪ Water and air transportation equipment and trains, as well as their spare parts, safety equipment imported by the government in the area of defense or security ▪ Sea, river, lake, and ferry transportation vessels, fishing vessels, pilot vessels, tugboats, barges, and their spare parts ▪ Aircraft and their spare parts used by national commercial airlines ▪ Gold bars other than for the benefit of the country's foreign exchange reserves 	<ul style="list-style-type: none"> ▪ Services received by national commercial shipping companies, national fishing companies, national port service providers, and national river, lake and ferry transportation service providers ▪ Services received by national commercial airlines ▪ Train maintenance and repair services received by businesses which organize public railway facilities

The use of strategic services from outside the customs area within the customs area on which VAT is not collected includes aircraft rental services used by national commercial airlines.

e. Import of goods exempt from import duty on which VAT and sales tax on luxury goods are not collected

Goods which are exempt from import duty are subject to VAT and sales tax on luxury goods, with certain exceptions. Goods on which VAT and sales tax on luxury goods are not collected include the following:

- Gifts to certain non-profit institutions
- Goods for scientific research and development
- Goods for people with disabilities
- Transfer of goods of migrant workers, students, military/police working abroad
- Temporary imports
- Goods used by production sharing or joint operation contractors for upstream oil and gas activities and geothermal activities
- Goods which were exported and then reimported
- Goods for certain coal contracts of work

The above do not require a certificate of non-collection (*surat keterangan tidak dipungut*).

Input VAT credit

The following is the treatment of input VAT related to the goods and services covered by GR-49:

Input VAT is not creditable on	Input VAT is creditable on
Delivery of goods and services that are exempt from VAT ((a) above)	Domestic delivery of strategic goods on which VAT is not collected on delivery ((d) above)
Delivery of strategic goods that are exempt from VAT ((b) above)	Strategic services on which VAT is not collected on delivery ((d) above)
Delivery of strategic services that are exempt from VAT ((c) above)	

Note that there is a distinction in the treatment of input VAT between goods/services which are exempt from VAT and those on which VAT is not collected. If output VAT is not collected, input VAT is creditable, while if a delivery is exempt from VAT, input VAT is not creditable.

Other

Transitional Provisions

GR-49 applies retroactively to 1 April 2022. However, for goods or services that are exempt from VAT or on which VAT is not collected under GR-49 but the VAT was already paid or collected between 1 April to 11 December, the following rules apply:

- For the seller:
 - VAT must be paid to the state treasury
 - Input VAT paid by the seller related to deliveries that should have been exempt cannot be credited
 - Input VAT paid by the seller related to deliveries on which VAT is not collected, can be credited
- For the buyer:
 - If the buyer is a PKP (VATable entrepreneur), the input VAT can be credited
 - If the buyer is not a PKP, VAT paid will represent VAT that should not be payable, which can be refunded

Revoked regulations

GR-49 revokes the following Government Regulations:

- GR No. 146/2000 as amended by GR No. 38/2003 on the import or delivery of certain VATable goods or services that are exempt from VAT
- GR No. 81/2015 as amended by GR No. 48/2020 on the import or delivery of strategic goods that are exempt from VAT
- GR No. 40/2015 as amended by GR No. 58/2021 on the delivery of clean water that is exempt from VAT
- GR No. 50/2019 on the import or delivery of certain vehicles and the delivery of related services on which VAT is not collected

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