

Provision of Payment Services

A. Legal Basis

The legal sources underlying this tax guide are as follows.

- (i) Law Number 8 of 1983 concerning Value Added Tax on Goods and Services and Sales Tax on Luxury Goods stdtd Law Number 7 of 2021 concerning Harmonization of Tax Regulations (VAT Law)
- (ii) Minister of Finance Regulation Number 69/PMK.03/2022 (PMK 69/2022) (iii) Regulation of the Director General of Taxes Number PER-03/PJ/2022 (PER-03/2022) (iv) CoFTRA Regulation Number 5 of 2019

B. Background

The treatment of value added tax (VAT) on the implementation of financial technology, which includes the provision of payment services, is regulated in PMK 69/2022. This Minister of Finance Regulation (PMK) was issued to provide legal certainty and administrative convenience in fulfilling tax obligations on transactions in the implementation of financial technology.

C. Definition

The implementation of financial technology is the activity of using technology in the financial system that produces new products, services, technology, and/or business models and can have an impact on monetary stability, financial system stability, and/or efficiency, smoothness, security, and reliability of the payment system. In PMK 69/2022 it is stated that one of the categories of financial technology services is the provision of payment services.

Based on PMK 69/2022, what is meant by **the provision of payment services** is at least in the form of:

(i) Electronic Money (*Electronic Money/e-money*)

Electronic money is a payment instrument that is issued on the basis of the source of funds in the form of rupiah currency which is deposited in advance to the payment service provider who carries out administrative activities of the source of funds and the source of the funds in the form of rupiah currency is stored electronically in a *media server* or *chip* .

The types of electronic money services are at least in the form of:

- a. registration of electronic money holders;
- b. refill (*top up*);
- c. transaction payments;
- d. transfer of funds; and
- e. withdraw cash.

(ii) Electronic Wallet (*Electronic Wallet / e-wallet*)

Electronic wallet is the provision of electronic services to store data on payment instruments which can be in the form of payment instruments using cards and/or electronic money, which can accommodate funds, to make payments.

The types of electronic wallet services are at least in the form of:

- a. refill (*top up*);

- b. withdraw cash through other parties who cooperate with electronic wallet providers or use *delivery channels* (financial delivery channels) of other parties;
- c. transaction payments;
- d. bill payment;
- e. transfer of funds; and/or
- f. *paylater* service (payment installment service).

(iii) Payment Gateway (*Payment Gateway*)

Payment gateway is the provision of electronic services that enable merchants to process payment transactions using payment instruments using cards in the form of credit cards, *automated teller machine* (ATM) cards, and/debit cards, electronic money, and/or *proprietary channels* . .

The types of payment gateway services are at least in the form of:

- a. forwarding of payment transaction data (*facilitator*) from merchants to *acquirers* or issuers of payment instruments using cards; and
- b. forwarding of payment transaction data (*facilitator*) from merchants to *acquirers* or issuers of payment instruments using cards, and settlement of payments from *acquirers* .

(iv) Switching Services

Switching service is an activity of providing infrastructure that functions as a center and/or liaison for forwarding payment transaction data through a network using payment instruments using cards, electronic money, and/or fund transfers.

(v) clearing

Clearing is a service activity for calculating financial rights and obligations by each issuer and/or *acquirer* after the implementation of transactions using cards, electronic money, and/or fund transfers.

(vi) Final Solution

Final settlement is a final settlement service activity on financial rights and obligations by each issuer and/or *acquirer* based on the calculation results from the clearing operator.

(vii) Transfer Day

Fund transfer is a series of activities that begins with an order from the original sender with the aim of transferring a certain amount of funds to the recipient mentioned in the funds transfer order until the funds are received by the recipient. Included in the fund transfer service, namely *blockchain* technology services or *distributed ledger* for the implementation of fund transfers.

What is meant by blockchain technology is a "digital transcript" based on cryptographic data created to avoid fraud. Cryptography is a password with a specific meaning that is added to the programming language (*coding*) on the *blockchain* system every time there is a change in data. In addition, *blockchain* is also known as a *distributed ledger* , which is a distributed ledger technology. That is, *blockchain* is a recording system or *database* that is widely distributed on the network.

D. Tax Treatment

D.1 VAT treatment

D.1.1 VAT object

Activities in the form of providing payment services in the form of activities:

- (i) electronic money services;
- (ii) electronic wallet services;

- (iii) payment gateway services;
- (iv) *switching* services ;
- (v) clearing service;
- (vi) final settlement services; and
- (vii) fund transfer service

is a taxable service (JKP) so that the delivery is payable VAT.

D.1.2 VAT Collector

Entrepreneurs who carry out payment system service operations that have been confirmed as taxable entrepreneurs (PKP) are required to collect, deposit, and report VAT payable on the delivery of JKP in the form of providing payment services.

D.1.3 Exceptions

Exempted from the imposition of VAT on the provision of payment services, delivery of fund transfer services within the same bank to customers holding current accounts, time deposits, certificates of deposit, savings, and/or other equivalent forms, are exempted from the imposition of VAT in accordance with the provisions of the legislation in tax field

In addition, money in electronic money media or electronic wallets, including *bonus points*, *top up points*, *reward points* , and *loyalty points* , is designated as goods that are not subject to VAT.

D.1.4 VAT calculation

VAT payable is calculated by multiplying the rate of Article 7 paragraph (1) of the VAT Law with the tax base (DPP). DPP for VAT on the provision of payment services is reimbursement, namely in the amount of *fees* , commissions, *merchant discount rates* , or other rewards in any name and in any form received by the organizer.

Regarding the definition of reimbursement as DPP VAT for the provision of payment services, there are several special provisions, namely.

- (i) Administrative fees requested by the electronic money issuer, including the price of the card accepted by the electronic money issuer, are included in the definition of reimbursement for the delivery of electronic money services.
- (ii) The final settlement value of financial rights and obligations based on the calculation results from the clearing operator is not included in the definition of reimbursement for the delivery of final settlement services.
- (iii) The value of funds received by the organizer of the transfer of funds from the sender of funds to be transferred to the account of the recipient of the funds is not included in the definition of reimbursement for the delivery of the fund transfer service.

D.1.5 VAT Invoice Creation

PKP who carry out the activities of providing payment system services as mentioned above are required to make a tax invoice as regulated in the VAT Law. PKP must make a tax invoice for each submission of JKP and this tax invoice must be made on:

- (i) at the time of submission of JKP; or
- (ii) the time of receipt of payment in the event that the receipt of payment occurs before the submission of JKP.

D.1.6 VAT Collection and Deposit

PKP who carry out the activities of providing payment system services as mentioned above are required to collect and deposit VAT as regulated in the VAT Law. Payment of VAT payable by PKP must be made no later than the end of the following month after the end of the tax period and before the notification letter (SPT) of the VAT Period is submitted.

D.1.7 VAT Period SPT Report

PKP submitting JKP as mentioned above, must report a VAT Period Notification Letter (SPT) as regulated in the VAT Law.

The VAT Period SPT is submitted no later than the end of the following month after the end of the tax period.

D.1.8 Sample case

PT Lancar (PKP) is a company that carries out the activities of providing payment system services, namely in the form of a *platform* that provides electronic services. *This platform* allows merchants to process payment transactions using *debit cards, credit cards*, or electronic money.

PT Suplai, a company that provides a *marketplace*, uses payment system services from PT Lancar to facilitate transactions for its *website* users. For the services provided, PT Suplai pays a *fee* of Rp. 1,500,000, excluding VAT, to PT Lancar for the September 2022 tax period.

Based on the case above, the following is the VAT treatment:

(i) PT Lancar collects VAT with the following calculations:

$$\begin{aligned} \text{PPN} &= 11\% \times \text{DPP (Fee)} \\ &= 11\% \times \text{Rp}1.500.000,00 \\ &= \text{Rp}165.000,00 \end{aligned}$$

(ii) PT Suplai pays a *fee* plus VAT in the amount of Rp. 1,665,000.00 to PT Lancar;

(iii) PT Lancar is required to issue a tax invoice and deposit the collected VAT and report the VAT Period SPT every month.

E. Special Terms

Currently, there are no special provisions related to VAT on the provision of payment services.