

Self-Build Activities

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) Regulation of the Minister of Finance of the Republic of Indonesia Number 61/PMK.03/2022 concerning Value Added Tax on Self-Building Activities (PMK 61/2022)
- (iii) Regulation of the Minister of Finance of the Republic of Indonesia Number 9/PMK.03/2018 concerning Amendments to Regulation of the Minister of Finance Number 243/PMK.03/2014 concerning Notification Letters (SPT) (PMK 9/2018)

B. Background

The treatment of value added tax (VAT) on self-construction activities is self-build activities as regulated in PMK 61/2022. PMK 61/2022 was issued to provide legal certainty, encourage community participation, and provide convenience and simplification of tax administration as well as a sense of justice for self development activities.

In addition, PMK 61/2022 was issued to replace the Regulation of the Minister of Finance Number 163/PMK.03/2012 concerning Limits and Procedures for the Imposition of Value Added Tax on Self Building Activities (PMK 163/2012) which has not been able to accommodate adjustments to provisions regarding self-build activities. .

It should be noted that VAT on self-construction activities is not a new tax. The imposition of VAT on this activity has been implemented since January 1, 1995.

C. Definition of Self-Building Activities

Self-construction activities are activities to build buildings, both new buildings and expansion of old buildings, **which are not carried out in business activities or work** by individuals or entities whose results are used alone or used by other parties.

Included in self-building activities, namely activities to build buildings by other parties for individuals or entities, but VAT on these activities is **not collected by other parties** .

D. Tax Treatment

D.1 VAT Treatment on Self-Build Activities

D.1.1 VAT object

Self-building activities carried out by individuals or entities **are subject to VAT** . The **building** referred to in this context is in the form of 1 (one) or more technical constructions that are permanently planted or attached to a land and/or water unit with the following criteria:

- (i) the main construction consists of wood, concrete, masonry or similar materials, and/or steel;
- (ii) designated for residence or place of business activity; and
- (iii) building area built at least 200 m² (two hundred square meters).

Meanwhile, self-building activities **can be carried out by** :

- (i) all at once in a certain period of time; or

(ii) gradually as a single unit of activity as long as the grace period between the construction stages is not more than 2 (two) years.

If the time lag between the stages of building construction activities is more than 2 (two) years, the activity is a separate building construction activity as long as it complies with the building provisions subject to VAT.

VAT on self-construction activities is payable from **the time the building is started until the building is completed**. Meanwhile, the place where the VAT is payable for this activity is the **place where the building was erected**.

D.1.2 VAT Collector

VAT on self-building activities is calculated, collected, and deposited by individuals or entities that carry out self-building activities. However, if the construction activity itself is carried out by another party, the other party collects VAT in accordance with the provisions of the legislation in the field of taxation.

D.1.3 Exceptions

In the case of individuals and entities whose building activities themselves are carried out by other parties. However, VAT on these activities is not collected by other parties. In this case, these individuals and entities are **exempted** from the responsibility to pay VAT on their own building activities as **long as** they can provide correct data and/or information from the other party, which at least includes:

- (i) identity; and
- (ii) complete address.

D.1.4 VAT calculation

VAT on self-construction activities is calculated at a certain amount. The specified amount is the result of multiplying 20% (twenty percent) with the VAT rate as regulated in Article 7 paragraph (1) of the VAT Law multiplied by the tax base (DPP).

The DPP is in the form of a certain value equal to the total costs incurred and/or paid to construct the building **for each tax period until the building is completed, excluding land acquisition costs**.

The following is an illustration of the formula for calculating VAT payable for self construction activities.

$PPN = \text{besaran tertentu} \times \text{tarif PPN Pasal 7 UU PPN} \times \text{DPP}$

$PPN = 20\% \times \text{tarif PPN} \times (\text{biaya kegiatan membangun sendiri} - \text{biaya perolehan tanah})$

currently applicable at 11%, the effective rate of VAT on self-construction activities is 2.2%. Here's the calculation.

$PPN = 20\% \times 11\% \times (\text{biaya kegiatan membangun sendiri} - \text{biaya perolehan tanah})$

$PPN = 2,2\% \times (\text{biaya kegiatan membangun sendiri} - \text{biaya perolehan tanah})$

D.1.5 VAT Deposit

VAT on self-construction activities must be deposited into the state treasury using a tax deposit letter (SSP) no later than the 15th (fifteenth) day of the following month after the end of the tax period. SSP must be filled in accordance with the provisions of the legislation in the field of taxation.

In relation to filling out the SSP, the following conditions apply:

(i) If the place where the building is erected is in the working area of the Tax Service Office (KPP) Pratama where the individual or entity carrying out self construction activities is registered, the column for the Taxpayer Identification Number (NPWP) in the SSP is filled with the NPWP of the individual or entity.

(ii) if the place where the building is erected is in the working area of the KPP Pratama which is different from the KPP where the individual or entity carrying out the construction activity itself is registered, the SSP is filled with the following provisions:

a. NPWP column is filled with:

1. the number 0 (zero) in the first 9 (nine) digits;

2. the code number of KPP Pratama whose working area includes the place where the building is erected in the next 3 (three) digits; and

3. the number 0 (zero) in the last 3 (three) digits;

b. the taxpayer name column is filled with the name and NPWP of the individual or entity that performs KMS; and

c. Taxpayer's address column is filled with the address where the building is erected.

(iii) if the individual who carries out the building activities himself does not yet have a NPWP, the SSP is filled with the following provisions:

a. NPWP column is filled with:

1. the number 0 (zero) in the first 9 (nine) digits;

2. the code number of KPP Pratama whose working area includes the place where the building is erected in the next 3 (three) digits; and

3. the number 0 (zero) in the last 3 (three) digits;

b. the name of the taxpayer is filled with the name of an individual who carries out self-construction activities; and

c. Taxpayer's address column is filled with the address where the building is erected.

It should be noted that if the individual who carries out the construction activities himself does not yet have a NPWP, the Head of KPP Pratama can issue a NPWP in office in accordance with the provisions of the legislation in the field of taxation.

The obligation to deposit VAT as described above is **exempted** for individuals or entities that carry out self-construction activities if the amount of VAT on these activities within the relevant tax period is nil.

D.1.6 VAT Period SPT Report

Individuals or entities that carry out self-construction activities are required to report VAT deposits with the following conditions:

(i) an individual or entity that is a taxable entrepreneur (PKP) reports the deposit of VAT in the notification letter (SPT) of the VAT Period to the registered KPP; and

(ii) Individuals or entities that are not PKP are deemed to have reported VAT payments as long as they have deposited VAT.

The VAT Period SPT is submitted no later than the end of the following month after the end of the tax period as stipulated in PMK 9/2018.

The obligation to report VAT deposits is **exempted** for individuals or entities that carry out their own building activities if there is no VAT deposit.

The Head of KPP Pratama may submit written appeals to individuals or entities to fulfill tax obligations and follow up in accordance with the provisions of laws and regulations in the field of taxation if the individual or entity carrying out self-construction activities:

- (i) does not carry out the obligation to deposit and/or report VAT obligations on own building activities; or
- (ii) have deposited or reported VAT on their own building activities, but based on data owned and obtained by the Directorate General of Taxes (DGT) there is still underpaid and/or reported VAT.

D.1.7 VAT Credit

If the SSP is filled in in accordance with the provisions of the legislation in the field of taxation and the provisions for making the SSP as described above, the SSP is a certain document whose position is the same as a tax invoice. Thus, the VAT listed in the specified document (SSP) is an input tax that can be credited **as long as** it complies with the provisions for crediting input tax in accordance with the provisions of the legislation in the field of taxation.

However, the input tax paid on the acquisition of taxable goods (BKP) and/or taxable services (JKP), imports of BKP, as well as utilization of intangible BKP and/or utilization of JKP from outside the customs area within the customs area in connection with construction activities itself **cannot be credited** .

D.1.8 Sample case

The following are some examples related to the VAT treatment of self-construction activities.

- (i) Mr. W built himself a house to live in. The construction will be carried out simultaneously starting in June 2022 **with an area of 50 m²**. The construction of the residential house is **not subject to VAT** .
- (ii) Mr. X built a house himself. The construction will be carried out simultaneously starting in June 2022 **with an area of 200 m²**. The construction of the residence is **subject to VAT** .
- (iii) Mr. Y built his own warehouse with **an area of 120 m²** to support his business activities. The construction of the warehouse is carried out in stages with details of the building area being built as follows:
 - a. **in June 2022** an area of **50 m²**; and
 - b. **January 2023** , 6 months after the first phase, the construction of **70 m²** will be continued .

The stages of building as referred to in number 1 and number 2 **are one unit of activity** because the grace period between these stages does not exceed 2 years. However, the total building area built in one unit of activity does not exceed the 200 m² ^{limit}. Therefore, the self-build activities are **not subject to VAT** .

- (iv) Mr. Z built his own warehouse with **an area of 300 m²** to support his business activities. The construction of the warehouse is carried out in stages with details of the building area being built as follows:
 - a. **in June 2022** covering an area of **100 m²**; and
 - b. **January 2023** , 6 months after the first phase, the construction of an area of **200 m²** will be continued .

The stages of building as referred to in number 1 and number 2 **are one unit of activity** because the grace period between these stages does not exceed 2 years. In addition, the total area of buildings built in one unit of activity has exceeded the

limit of 200 m². Therefore, the construction activities themselves are subject to VAT.

(v) Tuan A built his own shophouse with **an area of 350 m²**. The construction of the shophouse is carried out in stages with details of the building area being built as follows:

- a. **in June 2022** covering an area of **200 m²**; and
- b. **January 2025**, ²years and 6 months after the first phase, the construction of **150 m²** will be continued .

The stages of building as referred to in number 1 and number 2 **are not a single unit of activity** because the grace period between these stages exceeds 2 years. Therefore:

- a. **construction activities in June 2022 are subject to VAT** on self-build activities considering that the area of shophouses to be built exceeds the 200 m² limit^{and} when payable for self-build activities occurs at the start of building activities; and
- b. construction activities in January 2025 are separate building activities with an area not exceeding the 200 m² limit^{so} that they are not subject to VAT.

(vi) Mrs. M built a house herself. The construction will be carried out simultaneously starting in June 2022 with a total area of 250 m². The costs incurred in the construction activities include:

- a. purchase of land in the amount of Rp. 500 million;
- b. purchase of building raw materials totaling Rp220 million (including VAT); and
- c. construction workers' wages cost Rp. 80 million.

Of these costs, the cost of buying land is not taken into account because it is not included in the DPP in calculating VAT on building activities themselves.

Thus, the VAT payable can be calculated as follows:

$$2.2\% \times (\text{Rp}220 \text{ million} + \text{Rp}80 \text{ million}) = \text{Rp}6.6 \text{ million.}$$

Based on the above calculation, the amount of VAT payable on Mrs. M's own building activities is Rp. 6.6 million. The 2.2% rate is the effective VAT rate derived from the multiplication of a certain amount of 20% with the general VAT rate of 11% which will be in effect in June 2022.

E. Special Terms

If the construction activity itself is carried out before the April 2022 tax period where the VAT payable is deposited before PMK 61/2022 takes effect, the calculation, deposit, and reporting of the VAT payable is carried out based on PMK 163/2012. It should be noted that the KMS VAT paid is an input tax that cannot be credited.

Meanwhile, if the building activity itself is carried out before the April 2022 tax period for which the VAT payable is carried out at or after the enactment of PMK 61/2022, the calculation, deposit, and reporting of the KMS VAT payable is carried out based on PMK 61/2022 as described above.