

Regulatory Tax Update: Financial Technology Services

The long-awaited regulation regarding the imposition of Income Tax (“**Income Tax**”) and Value Added Tax (“**VAT**”) for fintech services has finally been issued by the Minister of Finance of the Republic of Indonesia (“**MoF**”) as the implementing regulation of Law No. 7 of 2021 regarding Harmonization of Tax Regulations (“**Law 7/2021**”) that was issued last year. Effective as from 1 May 2022, Income Tax and VAT are applied to fintech as reflected by Minister of Finance Regulation No. 69/PMK.03/2022 regarding Income Tax and VAT on the Operation of Financial Technology (“**MoF Reg 69/2022**”).

With the enactment of MoF Reg 69/2022, several matters are regulated, among others, regarding the appointment of income tax withholding and the imposition of Income Tax on income in connection with lending and borrowing service transactions, as well as VAT treatment of fintech operating services.

As the variety of financial services offered by fintech is quite similar to conventional financial services, ranging from banking services, insurance, investment, to payment systems, the imposition of taxes on the implementation of fintech is intended to provide equal treatment between the conventional and digital financial sectors. The issuance of MoF Reg 69/2022 aims to provide legal certainty and greater administrative convenience in fulfilling tax obligations related to the implementation of fintech.

In this article, we will provide highlights from the imposition of VAT and Income Tax on fintech services, which were introduced by MoF Reg 69/2022.

1. Taxation of Fintech Services in Indonesia

As an innovation in the financial services industry, financial technology, or known in short as fintech, utilizes the use of technology to improve and automate the delivery and use of financial services. Fintech products are usually in the form of a system built to run specific financial transaction mechanisms that offer practicality and convenience in financial activities.

In addition to providing equality in the scope of providing financial services, the rapid development of fintech is seen as having the potential to further increase state revenue through the imposition of taxes on the fintech sector. As published by the Financial Services Authority (*Otoritas Jasa Keuangan* or OJK), as of April 2022 the total number of fintech peer-to-peer lending or fintech lending providers licensed at OJK is 102 companies.

Further to the foregoing, specific tax regulations which include aspects of taxation, namely subject, object, tax rate and collection mechanisms are needed as a result of the development of the peer-to-peer lending industry (“**P2P**”). Therefore, the MoF issued MoF Reg 69/2022 to govern taxation in the P2P business field.

In essence, MoF Reg 69/2022 provides more clarity on the application of income tax and VAT to the services and transactions carried out by peer-to-peer lending service providers (“**P2P Lending Providers**”) and other fintech players.

¹*Otoritas Jasa Keuangan*, “Licensed Fintech Lending Providers at OJK as of 22 April 2022” <https://www.ojk.go.id/id/kanal/iknb/financial-technology/Pages/Penyelenggara-Fintech-Lending-Berizin-di-OJK-per-22-April-2022.aspx>, accessed on 24 May 2022

2. Income Tax for Fintech

MoF Reg 69/2022 clarifies the application of income tax to interest on loans including returns based on sharia principles received by lenders through P2P Lending Providers. The regulation affirms that the loan interest received by the P2P Lending Provider from the borrower will not constitute income for the P2P Lending Provider. However, either the P2P Lending Provider or the borrower will take on the role of tax withholder, as the case may be:

Income Receiver	Tax Withholders	Objects
Lenders	P2P Lending Providers	Loan interest in any name/form or returns based on sharia principles paid by the borrower through licensed P2P lending organizers which are registered with the OJK ²
	Borrowers	Loan interest in any name/form or returns based on sharia principles paid by the borrower through P2P lending providers other than those licensed and/or registered ³
P2P Lending Providers	P2P Lending Providers (reported in Annual Tax Returns)	Fees, contingency fees, ujah or other additional income deriving from the borrower and/or lender ⁴

The loan interest obtained by lenders will be subject to the following tariffs and withholding methods⁵:

PPh Type ¹	Income Receiver	Tariffs and Withholding Method
Article-23 Income Tax	Domestic taxpayers and permanent establishments (Badan Usaha Tetap or "BUT")	Subject to the imposition of a tariff amounting to 15% of the relevant gross loan-interest amount
Article-26 Income Tax	Foreign taxpayers and non-BUT	Subject to the imposition of a tariff amounting to 20% of the relevant gross loan-interest amount or in accordance with the provisions in a double taxation treaty

In addition, P2P Lending Providers are also required to report the withholding of Article 23 and Article 26 Income Tax in the form of Income Tax Collection Receipts. Further, P2P Lending Providers are required to deposit with the State Treasury all collected Income Tax that has been deducted and must report the collection of Income Tax in the official Income Tax Notifications.

3. VAT for Fintech

Subject to VAT tariff of 11% of the tax base, the following is a summary of the imposition of VAT on a number of fintech services regulated under MoF Reg 69/2022⁶:

Services Type	Taxable Services	Tax Basis	Non-Taxable Services
Payment services	a) Electronic money; b) Electronic wallet; c) Payment Gateways; d) Switching services; e) Clearing; f) Final settlements; and g) Transfer of funds	Fees, commissions, merchant discount rates or other honorariums in any names and forms which are received by providers	Money is stored in electronic media, including bonus points, top-up points, reward points, and loyalty points
Settlement of investments	Services in a form of the provision of integrated electronic communication s media used to support the settlement of investments are considered taxable services	Fees, commissions or other honorariums by any names and forms which are received by organizers of investment transaction settlements	-

²Article 2 paragraph (2), MoF Reg 69/2022

⁵Article 3, MoF Reg 69/2022

³Article 3 paragraph (7), MoF Reg 69/2022

⁶Article 6 paragraph (2), MoF Reg 69/2022

⁴Article 5 paragraph (1), MoF Reg 69/2022

Services Type	Taxable Services	Tax Basis	Non-Taxable Services
Capital accumulation	The direct offering of securities through open electronic systems, in the form of equity crowdfunding	Fees, commissions or other honorariums by any names and in any forms which are received by providers of capital accumulation	Services for placing funds and financing services by investors
P2P Lending	P2P lending services	Fees, commissions or other honorariums by any names and in any forms which are received by P2P lending service providers	Services for placement of funds by and financing services by lenders
Investment management	Investment management services	Fees, commissions or other honorariums by any names and in any forms which are received by investment management providers	Deposits of equity funds or other financial instruments by investors with issuers through electronic communications media provided by investment management companies

Services Type	Taxable Services	Tax Basis	Non-Taxable Services
Online insurance	The facilitation of transactions between insurance companies and policyholders through the marketing of insurance through the utilization of electronic communications media	Fees, commissions or other honorariums by any names and in any forms which are received by providers of online insurance product provision services	Online insurance services that are provided directly by insurance companies themselves
Market support	Provision of: a) comparative data in relation to products; and b) comparative data in relation to financial services	Fees, commissions or other honorariums in by names and in any forms which are received by market support service providers	-
Other supporting services that relate to digital financial services and other financial services	a) Eco crowdfunding; b) Islamic digital financing, e-waqf, and e-zakat; c) Robo-advise and credit scoring; d) Invoice trading; e) Vouchers and tokens; and f) Blockchain-based products	Fees, commissions or other honorariums by any names and in any forms which are received by providers of digital financial support services and other financial service activities.	-

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