



# WAKE UP CALL

Welcome to issue 58 of Wake Up Call – RSM Indonesia newsletter covering topics on audit, accounting, business, corporate finance, transaction support, governance, internal control, management, risk, and taxation.

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- FS Auditor's Report: Understanding Key Audit Matters under the New SA700
- Our Activities

# CRYSTAL BALL GAZING INTO A (POST) COVID TAX FUTURE

NICHOLAS GRAHAM, TAX PRACTICE

Pre-COVID, governments were grappling with how to maintain their tax bases and finance deficits in the face of an increasingly globalized and digital economy that allowed savvy multinationals to, effectively, determine where and when they would pay income tax, and at what rate. This has been exacerbated by COVID as governments have expended enormous resources to fight COVID and to support economies. Therefore governments are again turning their attention to repairing their eroded tax bases. This includes Indonesia, that has seen 10% downturn in tax revenues in 2020 compared to 2019 and January–March 2021 collections are 5.6% lower than the same period in 2020.

Indonesia is considering action in the following areas:

- Increasing the tariff for personal income tax
- A greater focus on consumption-based taxes (VAT)
- Taxation of international digital players

## Personal income tax—back to the future

The Minister of Finance has indicated the Government is considering to add a 5<sup>th</sup> tier to the existing four tiers of rates for personal income tax, so that a 35% rate would apply for those individuals earning more than Rp 5 billion of taxable income per year; an increase from the current highest marginal rate of 30% that applies for taxable income of Rp 500 million or more. (The 35% rate was last used in 2008 for taxable income exceeding Rp 200 million).

## VAT—likely higher, maybe broader

The most significant potential changes relate to VAT. At present a single rate of 10% applies to most

transactions with a relatively limited number of goods and services being exempt. And a limited number of super-luxury goods subject to a luxury goods sales tax (PPN BM).

The Government is considering to:

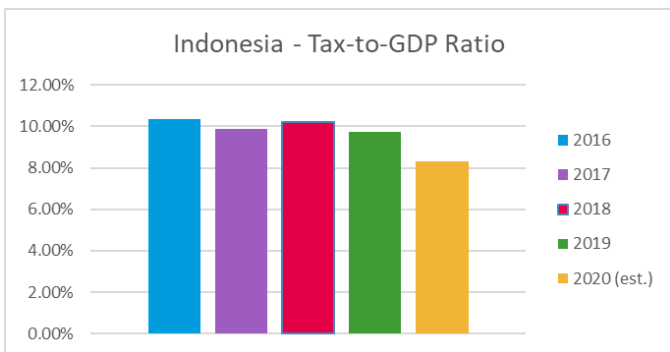
- Revise the Rp 4.8 billion threshold for mandatory VAT registration
- Have multiple rates of VAT
- Impose VAT at a rate of 5–7% for basic necessities
- Create a new general rate of 12% (not 10%)
- Impose VAT at a rate 15–25% for luxurious/super-luxurious goods and services (assuming these are not an expansion of the existing PPN BM objects)

Although VAT is generally considered a better way to raise tax revenue compared to income tax, because it targets consumptions, one of the positives of the current VAT regime has been its single rate with relatively few, and clear, exemptions (non-objects). This reduced uncertainty and disputes compared to other countries with more than one rate of VAT and/or complex definitions regarding what is included under each rate. It remains to be seen what might be legislated and whether this results in increased compliance burdens and uncertainty for business that exceed any economy wide benefits from the higher taxes earned.

It should also be remembered that Indonesia has an ongoing challenge to improve its tax-to-GDP ratio – that is historically low and low compared to peers.

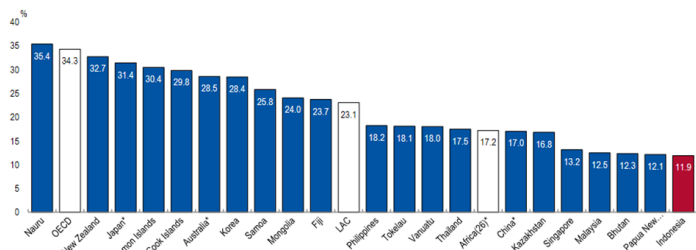
See Tables A & B. This stubbornly low ratio must be improved to reduce pressure on existing compliant taxpayers who may feel like animals in a zoo where the tax auditors are granted impunity to hunt there instead of venturing into the jungle to look for new or non-compliant taxpayers. The use of differential VAT rates might assist to boost the ratio.

Table A:



Source: <https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?end=2019&locations=ID&start=2003> for 2016 – 2019

Table B: 2018 Tax-to-GDP ratios



Source: <https://www.oecd.org/tax/tax-policy/revenue-statistics-asia-and-pacific-indonesia.pdf>

### Transfer pricing & taxation of tech giants

On 31 March, 2020, Perppu-1 was issued to collect VAT from foreign e-commerce businesses delivering VATable services and intangible goods to Indonesian customers. Perppu-1 also established a framework, similar to other countries, to levy an electronic transactions tax on income earned by foreign tech companies. The Government then decided to delay implementation, advising it preferred to follow the global consensus if this could be reached relatively soon.

The recent announcement by the G7 Finance Ministers on 5 June 2021, of a 15% global minimum corporate tax rate might satisfy Indonesia and other countries' concerns although it remains to be seen how this will be applied in conjunction with "an equitable solution on the allocation of taxing rights, with market countries awarded taxing rights on at least 20% of profit exceeding a 10% margin for the largest and most profitable multinational enterprises". Further clarity might occur after the upcoming G20 Finance Minister's meeting in July and following the release of the details of the plan and how it will be implemented by each country. As they say 'the devil is likely to be in the details.'

### Corporate Tax

It is good news that Indonesia appears to be comfortable retaining its recently enacted corporate income tax rate of 20% (for 2022), unlike the UK and USA that propose to increase their headline corporate tax rates (UK: from 19% to 25% from 1 April 2023; USA: from 21% to 28% from 1 January 2022). However, the suggestion that an alternate minimum tax might be legislated in Indonesia (e.g., at 1% of revenue, irrespective of profits) could result in increased complexity and an increase to the effective tax rates paid.

### Another amnesty?

An additional twist to the Government's potential regulatory program is a proposal to offer another tax amnesty. This is already generating considerable commentary in the media.

With so many possibilities, the crystal ball remains cloudy. What is certain, is that we are entering interesting times for taxation.

For further information, please contact:  
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# FS AUDITOR'S REPORT: UNDERSTANDING KEY AUDIT MATTERS UNDER THE NEW SA700

DEWI NOVITA SARI AND EDWARD BINTANG HUTAJULU, AUDIT PRACTICE

## What's new?

To promote greater transparency of financial statements for third party users, in January 2015, the IAASB has respectively issued auditing standards that have changed the structure and content of the auditor's report.

Before these changes, the auditor's report was the conclusion of a process that, based on the outcome thereof, gave a concise opinion on the financial statements as a whole. To meet the increasingly growing needs of the market, the Legislator and the Standard Setter have deemed it appropriate to enhance the communicative value of the auditor's report, in the users' interest.

In fact, the conclusion of information on so-called "Key Audit Matters" as required by the standard on auditing, ISA 701, constitutes a significant change, the benefits of which had been expected by various corporate stakeholders, supervisory bodies, those charged with governance and the audit firms. While in Indonesia the auditing standards being updated and prepared.

## Changes in the structure of the auditor's report

Previous SA 700	SA 700 (Revised)
<ul style="list-style-type: none"> <li>Title/Addressee/Introductory Paragraph</li> <li>Management Responsibility for Financial Statements</li> <li>Auditor's Responsibilities</li> <li>Basis for Opinion (for modified opinion)</li> <li>Auditor's Opinion</li> <li>Emphasis Paragraph (if relevant)</li> <li>Other Paragraph and Information (if relevant)</li> <li>Consideration of Compliance with Laws and Regulations (if relevant)</li> <li>Auditor's Signature</li> <li>Auditor Report Date</li> <li>Auditor's Address</li> </ul>	<ul style="list-style-type: none"> <li>Title/Addressee</li> <li>Auditor's Opinion</li> <li>Basis for Opinion</li> <li>Material uncertainty regarding going concern (if any)</li> <li>Emphasis Paragraph (if relevant)</li> <li>Key Audit Matters</li> <li>Other Paragraph (if relevant)</li> <li>Other Information (if relevant)</li> <li>Responsibilities for the financial statements</li> <li>The auditor's responsibilities for the audit of the financial statements</li> <li>Other reporting responsibilities</li> <li>Name of the engagement partner</li> <li>Auditor's signature</li> <li>Auditor's Address/Auditor Report Date</li> </ul>
<p><b>Listed entity:</b> An entity whose shares or debts are listed on a recognized capital market, or marketed under a recognized capital market regulation or other equivalent body</p>	<p>Start with listed entity</p>

## What is Key Audit Matters (KAM)?

1. Matters that were communicated with TCWG	What matters should and need to be communicated to TCWG (Those Charged With Governance) referring to SA 260 Communication with Those Charged with Governance	
2. Matters that required significant auditor attention in performing audit	Matters that required significant attention auditor:	
	Areas of higher assessed risk of material misstatement, or for which significant risks have been identified	Areas significant management judgement in the financial statements, including accounting estimates subject to a significant degree of uncertainty
		The effect on the audit of significant events of transactions that occurred in the period
3. Key Audit Matters (KAM)	Auditor should select those matters that are most significance in the audit based on:	
	Expected to be entity-specific and specific to the audit that was performed	Based on the results of deeper, frequent or very good interactions with TCWG
4. Reporting KAM	<p>KAM are NOT:</p> <ul style="list-style-type: none"> <li>• A substitute of the preparer's view reported in the financial statements</li> <li>• A substitute for expressing a modified opinion and reporting on material uncertainty regarding going concern</li> <li>• Separate opinions on individual matters</li> <li>• Entity original information</li> </ul>	
General Audit for Listed Company	Reported separately in opinion	Described individually
	Auditor Response on KAM	Refer to Notes to Financial Statements
Exception for Disclaimer of opinion and Adverse opinion	May go unreported if this communication is prohibited by law, causes harm to the entry or the public, or is based on relevant ethical considerations. Most frequently reported KAMs such as Impairment of goodwill, Revenue Recognition, Valuation of PPE, Acquisition, Investment, Capitalization, and Investment properties	

## Who is affected by the Changes?

<b>Audit Committee (AC)</b>	Audit Committee are suggested to support the dry run, oversee financial reporting process of the listed entities more closely, especially the matters that could be key audit matters, engaging in early and open communication with auditors, particularly on key audit matters issues and consider whether disclosures in the financial statements or elsewhere in the annual report or etc. need refreshing so that they are in line with key audit matters.
<b>Investor and Regulators</b>	Investor and Regulators will be able to learn in detail on the issues discussed between auditors, management and those charged with governance, in relation to key audit matters, know the audit procedures for each key audit matters, will have access to information that was previously only available in the boardroom and can incorporate this information in the evaluation of individual company and able to see greater transparency and independence about the audit that was performed.
<b>Member of the Management Team</b>	Member of the management team are suggested to support and engage in the dry-run, management to revisit the financial statements as KAM often directs users to the note disclosures, and it is important to note that the enhanced auditor's reports will also include more detailed description of the auditor's and management responsibilities with respect to the financial statements.

## Timeline and Implementation



Source: Public hearing from IAPI, 2021

## Key Takeaways for Smooth Implementation

- Start early – discussion between auditor, management, and AC at the soonest opportunity.
- Encourage the AC and auditors to undertake a dry run.
- Look out for consistency.
- Pro-actively engage in the process.
- Educate investors.
- Make use of the available resources.

For further information, please contact:  
[contact@rsm.id](mailto:contact@rsm.id)

**RSM**

# RSM Indonesia Survey

## Emerging Threats in Cybersecurity

Digital transformation is essential. However, it creates unintended gateways to risks, vulnerabilities and attacks to your organization. Cybercriminals seek to exploit the security vulnerabilities and put your information at risk. To withstand disruptive cyber attacks from happening, organizations need to be prepared, not only identifying the risks but also how to responds to attacks.

RSM Indonesia conducts a survey to obtain a perspective on people's awareness of cybersecurity threats in their organization. Please click [HERE](#) to participate in the survey.

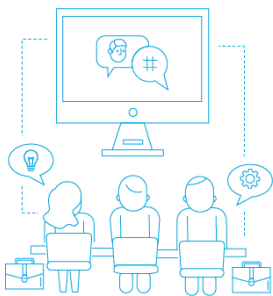


## OUR ACTIVITIES

### RSM Indonesia Halal Bihalal

On May 2021 after Eid Al-Fitr public holiday, we held virtual halal bihalal with RSM Indonesia family. Our Chief Executive Partner, Amir Abadi Jusuf gave few words, and then followed by mutual forgiveness between all staff. We are glad that we can keep the intimacy and warmth between us through this virtual event.

### RSM Indonesia Webinar



We keep our commitment in updating the current issues through our webinar. On the 2<sup>nd</sup> quarter of 2021, we successfully conducted several tax webinars. The webinars were presented by our Senior Managers and Partners and attended by more than 100 participants each webinar.

[See you at our next event!](#)

## INDONESIA FACTS

### ES DAWET

Dawet is a Javanese dessert made from rice flour or glutinous rice flour, served with grated ice and liquid brown sugar and coconut milk. The taste of this dessert is sweet and savory.

Along with the times, es dawet spread to all cities from Semarang, Solo, Jakarta, Bandung, and other cities.



*Photo: Wikipedia*

Es cendol comes from Sunda, namely Bandung, while Es dawet comes from Java, namely Banjarnegara. Another difference is that the basic ingredients of es cendol were formerly made of sago palm, rice flour, hunkwe flour. Generally, only hunkwe and rice flour are made. The flour is then given green food coloring or suji leaf juice; but there are also those who use pandan. After getting the right color, the hunkwe flour dough will be printed using a special tool. Generally, the shape of a long glass with a hole in the bottom. From there, the distinctive oval shape of cendol originates.

While the basic ingredients for es dawet were formerly made from rice flour or glutinous rice flour, given green coloring in the form of suji leaves. The process of making it is simpler than cendol. By means of dawet dough is printed using a simple filter. Dawet dough is poured into a hollow sieve, and then shaken to let the dough fall. This is what makes the dawet has a pointed shape at the end. Because it uses rice flour, dawet tends to have a softer texture than the chewy es cendol. Dawet is served with grated ice, coconut milk, brown sugar, and sticky rice.

*Source: Wikipedia*

Thank you  
for reading

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