

Voluntary Report – Voluntary - Public Distribution

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Report Name: Indonesia Plans to Impose 12 Percent VAT for Luxury Agricultural Products as Early as January 2025

Country: Indonesia

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Report Category: Agricultural Situation, FAIRS Subject Report

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Report Highlights:

On December 16, 2024, the Government of Indonesia (GOI) announced the increase in value-added tax (VAT) from the current 11 percent to 12 percent on selected goods and services, effective January 1, 2025. In addition, a separate 12 percent luxury goods sales tax will newly be applied for luxury products intended for high-end Indonesian consumers (luxury VAT). Impacted products include premium beef, pork, fruit, seafood, and specialty rice which historically were not subject to any VAT. Once in force and fully implemented as early as January 2025, the luxury VAT policy will have a significant impact on above-mentioned U.S. agricultural exports to Indonesia, currently valued at approximately \$154 million per year. These products already face strong competition from countries such as Australia, New Zealand and the People's Republic of China which offer competitive prices and have duty-free access or lower tariffs under free trade agreements.

VAT Overview

On December 16, 2024, the Government of Indonesia (GOI) announced that starting January 1, 2025, the value-added tax (VAT) for goods and services will increase from 11 percent to 12 percent, joining the Philippines with Southeast Asia's highest VAT rate. The VAT is intended to boost state revenues and support ongoing development projects. These include the Free Nutritious Meals Program, which will eventually be provided to 82.7 million Indonesians, and the Food Estates program, which involves the clearing of forestland for state-driven agricultural production to achieve food and fuel self-sufficiency.

The GOI also announced a series of economic stimulus packages, worth more than \$50 billion for 2025, to address the weakening purchasing power of middle- and low-income groups. The packages include the following food-related incentives:

- To maintain purchasing power from low-income consumers, the GOI will provide a one percent VAT subsidy for staple food and essential goods, e.g., wheat flour, industrial-use sugar, and the government-sponsored cooking oil brand “Minyak Kita.” Thus, these products will remain subject to the current VAT rate of 11 percent for all consumers.
- 10 kilograms rice assistance per month for 16 million Beneficiary Families for two months (January – February 2025)¹.

Even with these packages, many are noting that Indonesia has the sixth-lowest minimum wage in the world, raising concerns that rising prices will cause higher unemployment, and questioning the transparency of the country's taxation and spending. In addition, there are growing concerns about declining middle class purchasing power in Indonesia, with the middle class shrinking by 4 percent from 2019 to 2023.

During the official announcement, the Minister of Finance also stated that luxury products, which are mostly consumed by the upper-middle-income group, will be subject to a 12 percent luxury VAT. This includes imported “fresh” (e.g., not processed) agricultural products which have not been subject to VAT previously. Such products, including U.S. beef, fruit, pork, and seafood, are currently only subject to the Most Favored Nation (MFN) import duty (varies by product) and an income tax of 2.5 percent². Processed food products are already subject to the standard VAT in addition to the import duty and income tax. Historically, since the VAT system was introduced in Indonesia in 1984, the VAT has only been adjusted one time in 2022 from 10 percent to 11 percent.

¹ Beneficiary families refer to households in Indonesia who receive food assistance programs from the government. Households in the bottom 20 percent based on income are prioritized for this program because they are considered the most in need and represent the lowest-income households in Indonesia.

² <https://insw.go.id/intr/detail-komoditas>

Motivation Behind the VAT Rate Increase

Indonesia currently generates 82 percent of its state revenues from tax, including the standard VAT and the luxury goods sales tax (luxury VAT). However, Indonesia's tax ratio only stands at 10.4 percent of Gross Domestic Products (GDP). This ratio is lower than other developing countries which have an average tax ratio of 28 percent³. In 2023, the VAT and luxury VAT contributed nearly 30 percent of total state revenue, an increase of 9 percent compared to previous year. The new 12 percent VAT rate is a mandate from [Law Number 7 of 2021 on Harmonization of Tax Regulations](#) Article 7, amended by Law Number 23 of 2023, which set the deadline as of Jan 1, 2025. Through this tax reform, the GOI expects that there will be a significant increase in the tax ratio, and the additional tax revenue will play a vital role in funding various ongoing government programs. These include implementation of the Free Nutritious Meals Program and Food Estates program, enhancement of public services, and strengthening of the state budget.

Commodities Exempted from the Standard 12 Percent VAT

According to [Government Regulation No. 49/2022](#), the following essential basic necessities which are needed for daily life are exempt from the VAT (note: a list of harmonized tariff schedule codes of exempted products has not yet been published by the GOI):

- rice
- unhusked rice-grains
- corn
- sago
- soybeans
- salt for consumption
- meat (uncooked fresh meat, packaged or not packaged, but having gone through processes of slaughtering, skinning, cutting, cooling, freezing, salting, liming, pickling, preservation by other methods, and/or boiling)
- eggs (unprocessed eggs, including cleaned, salted, or packaged eggs)
- milk (animal's milk that has gone through a cooling or heating process, containing no additional sugar or other ingredients, and/or packaged or unpackaged)
- fruit (fresh picked fruits, that have been washed, sorted, peeled, cut, sliced, graded, beside dried fruits)
- vegetables (fresh vegetables that are picked, washed, drained, and/or stored at low temperature, including chopped fresh vegetables).
- fish or seafood.

³ [Directorate General of Taxes](#)

Food and beverages served in restaurants and restaurants, and delivered by catering businesses are also exempted from the standard VAT (Law No. 7/2021).

Agricultural Products Newly Subject to 12 Percent Luxury VAT

The following is a list of broad groups of agricultural products categorized as luxury products which will be subject to the 12 percent luxury VAT:

- Specialty rice: basmati, sushi rice, etc.
- Premium fruits
- Premium meats, such as ribeye and pork chops, at \$12.5/kg and above
- Premium fish, such as premium salmon and tuna
- Premium shrimp and crustaceans, such as king crab

It remains unclear which specific products will be subject to the luxury VAT since there is not yet an implementing regulation that provides such details. According to the Coordinating Ministry for Economic Affairs, the technical details on the implementation of the 12 percent luxury VAT will be outlined in a regulation from the Minister of Finance, which is currently being prepared and will soon be issued⁴.

Anticipated Impact

Affected products: The Ministry of Finance claims that the GOI will carefully review the criteria for luxury products so that the new VAT is truly only imposed for products which are mostly consumed by the upper-middle-income group and above. Therefore, there will be a revision of [Government Regulation No. 49/2022](#) which include a clause that emphasizes the difference between food as essential basic necessities and luxury products⁵. However, once the technical regulation on the new VAT for luxury products is issued, it is expected those products will then be subject to 12 percent VAT. The implementation of this policy will have a significant impact on U.S. unprocessed agricultural products exported to Indonesia, including premium beef, pork, fruit, and seafood, currently valued at approximately \$154 million per year. These products already have strong competition from countries such as Australia, New Zealand and the People's Republic of China which offer competitive prices and have duty-free access or lower tariffs under Free Trade Agreements.

Who pays: For both the standard and luxury VAT, the importer would pay it (in addition to the import duty and income tax⁶).

⁴ <https://money.kompas.com/read/2024/12/18/064500526/pemerintah-susun-aturan-soal-rincian-daftar-barang-kena-ppn-12-persen-pekan>

⁵ <https://news.ddtc.co.id/berita/nasional/1807730/tunggu-aturan-ppn-makanan-jasa-premium-tak-langsung-berlaku-1-januari>

⁶ VAT is calculated at a rate of 12% on the cost, insurance, and freight (CIF) value plus import duty

Implementation date: While the VAT was intended to be implemented on January 1, 2025, on December 20, 2024, the Ministry of Finance announced that products will not be subject to 12 percent luxury VAT until the technical regulation has been published with the necessary implementing details.

FAS Jakarta plans to publish an updated report once the implementing regulations are published.

Attachments:

No Attachments.