

A GUIDE TO INDONESIA TAX SYSTEM FOR EXPATRIATES - 2020



Indonesia's taxation laws can be confusing to expatriates moving to the country. Our guide explains what expats need to do to file taxes in Indonesia.

The economy of Indonesia is the largest in Southeast Asia and is one of the emerging market economies of the world. Indonesia is a member of G20 and classified as a newly industrialised country. It is the 16th largest economy in the world by nominal GDP and the 7th largest in terms of GDP (PPP). Estimated at US\$40 billion in 2019, Indonesia's Internet economy is expected to cross the US\$130 billion mark by 2025. Indonesia was the only Asian member of the Organization of Petroleum Exporting Countries (OPEC) until 2008 and is currently a net oil importer. Indonesia's oil and gas industry is one of the world's most competitive, and with that in mind, it's no surprise that so many businesses are expanding their operations here. But in order to mobilise staff to the country, there are important tax laws to get to grips with.

Personal income tax in Indonesia uses both flat and progressive rates, depending on working period of the employee and the type of work they'll be carrying out. In order to know which category they fall into, expatriates and business owners will need to fully understand Indonesia's tax structure.

In this guide, we'll explain everything hiring managers and expatriates need to know about Indonesia's tax principle and how to determine whether or not they should be paying tax when working here in Indonesia.



TAX RESIDENCE

An individual is regarded as a tax resident if he/she fulfils any of the following conditions:

- He/she resides in Indonesia;
- He/she is present in Indonesia for more than 183 days in any 12-month period
- He/she is present in Indonesia during a fiscal year and intends to reside in Indonesia

Please note that the provisions of tax treaties may override these rules. Non-resident individuals are subject to withholding tax at a rate of 20% (Article 26 income tax, subject to a relevant tax treaty provisions) on Indonesia-sourced income.

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PERSONAL INCOME TAX RATES

Most income earned by individual tax residents is subject to income tax at the following normal tax rates:

Taxable Income	Rate	Tax Rp
Up to Rp 50,000,000	5%	54,000,000
Above Rp 50,000,000 up to Rp 250,000,000	15%	4,500,000
Above Rp 250,000,000 up to Rp 500,000,000	25%	4,500,000
Above Rp 500,000,000	30%	6,000,000



MAIN PERSONAL RELIEF (TAX DEDUCTIONS)

Main Personal Relief Annual non-taxable income (*Penghasilan Tidak Kena Pajak/ PTKP*) for resident individuals is as follows:

	Rp
Taxpayer	54,000,000
Spouse	4,500,000
Each dependant (max. of 3)	4,500,000
Occupational expenses (5% of gross income, max. Rp 500,000/month)	6,000,000
Employee contribution to BPJS Ketenagakerjaan for old age security savings (2% of gross income)	Full amount
Pension maintenance expenses (5% of gross income, max. Rp 200,000/month)	2,400,000



REGISTRATION and FILING

Resident individual taxpayers who receive or earn annual income exceeding the PTKP threshold must register with the ITO and file annual income tax returns (Form 1770). The tax return should disclose all the individual's income, including compensation from employment, investment income, capital gains, overseas income and other income, as well as providing a summary of the individual's assets and liabilities.

A family is generally regarded as a single tax reporting unit with a single tax identity number (Nomor Pokok Wajib Pajak/ NPWP) in the name of the head of the family (typically the husband). His wife and his dependant children's income must be reported on the same tax return in his name; they may or may not be taxed together with his income depending on whether their income is subject to Article 21 income tax.



TAX PAYMENTS

A substantial part of individual income tax is collected through withholding by third parties. Employers are required to withhold Article 21/26 income tax on a monthly basis from the salaries and other compensation payable to their employees. If an employee is a resident taxpayer, the amount of tax withheld should be based on the normal tax rates (as set out above). If he/she is a non-resident taxpayer, the withholding tax is 20% of the gross amount (and may be set at a lower rate under a tax treaty).

Various other payments to individuals (includes fees for services, prizes/awards) also call for withholding tax obligations from the payers. Typically the amount of tax withheld from these types of income (Article 21 income tax) is based on normal tax rates as set out above.

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The tax withheld on fees for non-employee individuals and certain professionals, such as lawyers, notaries, accountants, architects, doctors, actuaries and appraisers, are required to be calculated based on 50% of the gross income at the prevailing rates.



BENEFITS-IN-KIND (BIKs)

BIKs, such as cars, housing, education, home leave and reimbursement of an employee's Indonesian tax liability provided by the employer, are typically not assessable in the hands of the employee. This also applies to BIKs which are required for the execution of a job, for example protective clothing, uniforms, transportation costs to and from the place of work and accommodation for ship crew and the likes, and the cost of providing BIKs in remote areas.

Some other taxpayers may also have specific tax treatment regarding the taxability of BIKs. BIKs are taxable in the hands of the employee if they are provided by final-taxed companies and companies taxed at deemed-profit (includes airline and shipping companies).



SOCIAL SECURITY SYSTEM (BPJS)

Employers are responsible for ensuring that their employees are covered by a social security program. Employees' contributions are collected by the employers through payroll deductions. These must be paid together with the employer's contributions.

From 1 January 2014, a comprehensive social security program covers all Indonesian citizens is in place. The new social security system is administered by:

1. Social Security Agency for health insurance (*BPJS Kesehatan*) - covering health insurance
2. Social Security Agency for worker's social security (*BPJS Ketenagakerjaan*) - covering accidents, insurance, old age savings, death insurance and pensions

The current premium contributions are as follows:

Areas covered	As a percentage of regular salaries/wages	
	Borne by employers	Borne by employees
Working accident protection	0.24% - 1.74%	-
Death insurance	0.3%	-
Old age savings	3.7%	2%
Health care *	4%	1%
Pension **	2%	1%

*) Maximum calculation base is Rp 12,000,000/month

**) Maximum calculation base is updated annually based on BPJS regulation

The compulsory requirement to join the new social security scheme applies to all employees, including expatriates who have been working in Indonesia for more than six months. The compulsory requirement for health insurance for independent workers and non-workers is applicable from 1 January 2019.