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Further Increase in Non-Taxable Individual Income

To further boost economic growth, the Minister of Finance issued two new regulations at the end of June 2016, No. 101/PMK.010/2016 and No. 102/PMK.010/2016, providing for a 50% increase of the amount of non-taxable income for individuals. The new non-taxable income amounts are effective retroactively to 1 January 2016.

Deduction from income for:	1 Jan 2015 – 31 Dec 2015	1 Jan 2016 onwards
Individual taxpayer	IDR 36,000,000	IDR 54,000,000
Non-working spouse or wife with no separate NPWP who works for one employer	IDR 3,000,000	IDR 4,500,000
Wife who owns business or has her own NPWP	IDR 36,000,000	IDR 54,000,000
Child or parent (max 3)	IDR 3,000,000	IDR 4,500,000

Gross income received by daily and weekly employees and other non-permanent employees up to IDR 450,000 per day is exempt from income tax, unless the monthly gross income exceeds IDR 4,500,000 or the income is paid on a monthly basis.

This exemption, however, does not apply to commissions/honorariums paid to hawkers/peddlers and insurance agents.

KPMG Comments:

- The potential loss of tax revenues due to these new regulations is estimated to be IDR 18.9 trillion. Nevertheless, the House of Representatives agreed to issue the regulations with the expectation that the individual's consumption power will increase, which in turn will increase other tax revenues, such as VAT, sales tax on luxury goods and corporate income taxes.

- The Minister of Finance confirmed that the loss of tax revenues will also be compensated through other initiatives, such as individual tax audits and the new Tax Amnesty Law.

- As this new non-taxable income is applicable retroactively to 1 January 2016, employers must recalculate Article 21 income tax payable for their employees. In some cases, this may result in tax overpayments, which should be available to offset the following month's tax payable.

  Employers must also recalculate Article 21 income tax payable for employees who have stopped working, as the tax over withholding may create overpayment positions in the individuals' annual individual income tax returns.

- Employees who resigned before these regulations were released and joined another company during the year must provide a copy of their Wage Certificate (Form 1721-A1) from their former employers to their new employers before year-end so that the correct withholding tax can be calculated.

- For employees paid on a "net take home pay" basis, the increase in non-taxable income will have no impact on their salaries or purchasing power.

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