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Indonesia – Update on Income Tax and Social Security Developments

by KPMG Advisory, Indonesia (a KPMG International member firm)

In this GMS *Flash Alert*, we provide an update on developments regarding individual taxation and social security in Indonesia. Highlighted in this newsletter are the increase in personal income tax thresholds and changes to the country's social security programs (work accident and death insurance, pension insurance, and old age insurance).

Why This Matters

Many cross-border workers subject to taxation in Indonesia could see their tax liabilities fall slightly in light of the income tax changes introduced by Regulation No. 122/PMK.010/2015. This may mean, for some employers, lower international assignment costs. Given the retroactive nature of the rule, where appropriate, payroll administrators should already have implemented – or if not, need to do so without delay – adjustments to withholdings.

The tax changes may affect cost projections for future assignees and budgeting for international assignments to Indonesia or from Indonesia where the assignee will be subject to Indonesian taxation. Furthermore, the resultant tax differential may impact tax equalizations.

Now that the pension contribution rates are known and the rules around compliance are clarified, employers should act without delay to implement the necessary steps to effectively handle the administrative aspects of participation in the new pension program and assume the cost implications for themselves and their employees.

Currently there is no regulation specifically governing the participation of Indonesian expatriate employees (Indonesian citizens and residents) working overseas and therefore no mechanism for these overseas employees to self-register with the workers social security agency. If the individuals remain listed as inactive employees of the Indonesian entity, the Indonesian entity may assist Indonesian expatriate employees in registering and contributing to the programs, but this will depend on each company's policy.

Increase in Non-Taxable Income – More Spending Activities?

Following the economic slowdown – especially in the last quarter of 2014 and the first quarter of 2015 – in order to enhance individuals' purchasing power, stimulate consumption, and in turn boost economic growth, the Minister of Finance increased the annual non-taxable income amount (Penghasilan Tidak Kena Pajak/ PTKP) for individual taxpayers. Regulation No. 122/ PMK.010/2015 was issued on 29 June 2015[1], concerning the following new rates (shown in the table on the next page), which apply retroactively to 1 January 2015.

Deduction from income for:	1 Jan 2013 – 31 Dec 2014	1 Jan 2015 onwards
Individual taxpayer	IDR 24,300,000	IDR 36,000,000
Non-working spouse or wife with no separate Indonesian tax ID number (NPWP), who works for one employer	IDR 2,025,000	IDR 3,000,000
Wife who owns business or has her own NPWP	IDR 24,300,000	IDR 36,000,000
Each child or parent (max. 3)	IDR 2,025,000	IDR 3,000,000

KPMG Note

- Although state individual income tax revenue may be reduced, the principle behind increasing the thresholds to boost purchasing power could have a knock-on effect in respect of increasing the yields from other taxes, such as corporate profit tax and VAT /Luxury tax.
- As this new regulation is retroactive to 1 January 2015, employers will also need to recalculate Article 21 income tax payable for their employees. In some cases, there may be tax over-payments, which should offset the following months' tax payable. Employers will also need to recalculate Article 21 income tax payable for employees who have stopped working, as the tax over-withholding may create over-payment positions in the individuals' annual income tax returns.
- Employees who resigned before this regulation was released and joined another company during the year must provide a copy of their Wage Certificate (Form 1721-A1) to their new employers before year end so that the correct withholding tax can be calculated.
- Despite the effort from the government to reduce individual income taxes, many companies in Indonesia still pay their employees based on "net take home pay." Therefore, the saving will be shifted to the employers, rather than the employees.

Workers Social Security (BPJS Ketenagakerjaan or BPJS-TK)

Pension contribution rates and other details regarding the Pension, Work Accident, Death, and Old Age insurance programs were provided for in the long-awaited government regulations on BPJS-TK programs (effective 1 July 2015). These were finally signed and issued by President Jokowi on 30 June 2015. Government Regulation No. 44 Year 2015 concerns Work Accident and Death Insurance, No. 45 concerns Pension Insurance, and No. 46 concerns Old Age Insurance.[2]

The highlight is the new pension insurance program (Regulation No. 45 Year 2015). After months of debates and numerous discussions between the government and the Indonesian Employers' Association (APINDO), the pension contribution rates are finally agreed at 2 percent from employers and 1 percent from employees, with a maximum salary cap of IDR 7,000,000/month. The regulation also mentions that the rate will be reviewed on an on-going basis, or no less than every three years, in consideration of Indonesia's economic growth rate.

The new BPJS-TK forms require the national identification (ID) number to be stated . Indonesian citizens should refer to their identify cards (KTP) or family cards (KK), while the expatriates IDs would be noted in their family registry document (Surat Keterangan Susunan Keluarga Penduduk Sementara / SKSKPS).

Please find below the current social security rates based on the new BPJS-TK regulations.

Type of insurance	Employer's contribution	Employee's contribution
Workers (BPJS Ketenagakerjaan or BPJS-TK)		
Work accident	0.24% - 1.74% (depending on industry)	None
Death/life insurance	0.30%	None
Old age	3.70%	2.00%
Pension *	2.00%	1.00%
Health (BPJS Kesehatan or BPJS-KS)		
Health *	4.00%	1.00%

* With a maximum salary cap of IDR 7,000,000.

KPMG Note

- Following the 1997-8 financial crisis, there were indications that the Indonesian Social Security system was not robust enough to protect citizens against severe economic down-turns. This new Social Security system aims to cover the workforce in the "formal" and "informal" sectors, including self-employed individuals.
- 2013 data show that only 25 percent of eligible workers were actively contributing to old age savings under the previous Jamsostek scheme, putting significant pressure on the government to review the social security program.[3]
- As the benefit for the old age program under Jamsostek was paid in a lump sum instead of a monthly annuity, most individuals did not roll-over their benefits for an old age income stream. Therefore, the objective of securing benefits for retirement again was not met, which resulted in the government introducing a new program – the Pension program.

KPMG Note (cont'd)

- Although issued only one day before the effective date of 1 July 2015, most businesses were already aware of the government's intention to introduce the Pension program and therefore had made the necessary preparations to anticipate the additional cost and reporting.

- The income tax treatment of the Pension program should be similar to other pensions established by the Minister of Finance, as per the regulation of the Director General of Tax No. PER-31/PJ/2012 and the regulation of the Minister of Finance No. 16/PMK.03/2010. These regulations state that income received in the form of pension benefit money, old-age allowance, or old-age security that is paid in a lump sum (including payment made within a maximum of two calendar years) is subject to final employee income tax (Article 21) at rates of 0 - 25 percent. While payment made in installments over a period of more than two years is subject to employee income tax (Article 21) at rates of 0 - 30 percent (non-final). This income tax treatment should be similar to the treatment of the Pension program. One of the most commonly asked questions is, "What is the difference between the benefits of the new Pension program compared to the Old Age Insurance program?" To answer this, we have made the side-by-side comparison shown just below.

Event	New Pension Benefits	Old Age Insurance Benefit
Termination	None	Full lump sum (intended) *
Still employed and has contributed for 10 years or more	None	Can apply to receive 30% of total fund for home purchase or 10% of total fund for other necessities in preparation of retirement
Retirement ** and has contributed for less than 15 years	Full lump sum	Full lump sum
Retirement ** and has contributed for 15 years or more	Monthly pension	Full lump sum
Permanent disability	Monthly pension	Full lump sum
Death	50% of monthly pension for widow/widower, child (max. 2 until 23 years old) or parent (max. 1)	Full lump sum
Permanent departure from Indonesia	Full lump sum ***	Full lump sum

* The regulation states that the Old Age Pension may only be claimed in full upon retirement, permanent disability, or death. However, the government intends to amend the regulation to allow full lump sum claims upon termination from employment as well.

** The retirement age is set at 56 years old. Starting 1 January 2019, it will be 57 years old, and it will continue to have a one year increase every three years until it reaches the maximum retirement age of 65 years.

*** Although not stated in the regulation, the KPMG International member firm in Indonesia received confirmation from a BPJS-TK officer that expatriates would be able to claim both old age and pension benefits in lump sum upon permanent departure from Indonesia.

Footnotes:

1 Regulation No. 122/PMK.010/2015.

2 Government Regulation No. 44 Year 2015 is with regards to Work Accident and Death Insurance, No. 45 Pension Insurance and No. 46 Old Age Insurance. For related coverage of reforms to Indonesia's social insurance system, see the following issues of *Flash International Executive Alert*: 2014-106 (24 November 2014) and 2014-042 (9 April 2014).

3 Irene Muliati, "Pension Reform Experience in Indonesia," The World Bank Office Jakarta, Prepared for presentation at the IMF Conference Tokyo, 9-10 January 2013.

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