



## Indonesia

### Introduction

Indonesia adopts the self-assessment method for individuals to calculate, settle, and report income tax. The extent of the Indonesian tax liability is dependent on the individual's residence status in Indonesia.

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### Key messages

Extended business travelers are likely to be taxed on employment income relating to their period of stay in Indonesia. A permanent establishment may potentially be created as a result of visits of these business travelers. Corporations should be mindful of the visa used by their extended business travelers to Indonesia.

## Income tax

### Liability for income tax

A person's liability for Indonesian tax is determined by residence status. Residents are taxed on their worldwide income, including capital gains, regardless of where such income arises or if funds are remitted into the country. Taxable income is determined after subtracting allowable deductions and personal allowances.

A person is considered resident in Indonesia if the person is present in Indonesia for a total period of more than 183 days in any 12-month period or if the person resides in Indonesia with the intention of staying.

Nonresident individuals are individuals who are not resident in Indonesia for tax purposes. Nonresidents are assessed only on income sourced in Indonesia, including Indonesian-sourced capital gains.

### Definition of source

Employment income is generally treated as Indonesian-sourced compensation where the individual performs the services while physically present in Indonesia.

### Tax trigger points

Based on domestic income tax law, companies need to be aware that individuals providing services on behalf of an offshore company may trigger a tax position if:

- They are present in Indonesia for more than 60 days in any 12-month period
- The cost is borne or reimbursed by the domestic entity.

For the individual, technically, there is no threshold/minimum number of days that exempts the employee from the requirements to file and pay tax in Indonesia. To the extent that the individual qualifies for relief in terms of the dependent personal services article of the applicable double tax treaty, there will be no tax liability. The treaty exemption varies depending on the test time and the applicable double tax treaty.

### Types of taxable income

For extended business travelers who qualify as being resident in Indonesia, the types of income that are generally taxed are their worldwide income, including employment income and personal investment income.

### Tax rates

Net taxable income for residents is taxed at graduated rates. The current rates range from 5 percent up to a maximum of 30 percent for income earned over 500 million Indonesian rupiah (IDR).

Nonresidents are subject to a final withholding tax of 20 percent on gross income.

## Social security

### Liability for social security

Extended business travelers already participating in a social security scheme in their home country would not be required to contribute to Indonesia's national social security scheme, known as *JAMSOSTEK*.

*JAMSOSTEK* covers all employees and workers in public or private entities. The current pension contribution rate is 5.7 percent of an employee's gross salary (3.7 percent contributed by the employer and 2.0 percent contributed by the employee). Extended business travelers who are already covered by similar schemes in their home countries would not be required to contribute to *JAMSOSTEK*. The national social security scheme also requires employers to make contributions towards work accident insurance, death insurance, and health insurance. The contribution rates are dependent on the employer's industry.

## Compliance obligations

### Employee compliance obligations

The tax year is the calendar year. Indonesia operates a self-assessment system whereby all individuals are required to complete a tax return and compute their tax liability by March 31 in the following tax year. Annual tax payments are due before this lodgment deadline.

In order to file a tax return, an individual must register to obtain a tax identification number (NPWP). Employees without an NPWP are subject to 20 percent tax surcharge.

Individual entrepreneurs/professionals and individuals who have tax payable because of their passive income are required to pay taxes and file monthly returns by the 15th and the 20th of the following month, respectively.

Nonresidents do not have an obligation to register for an NPWP or file an individual tax return.

### Employer compliance obligations

The obligation to withhold and report tax on cash compensation paid in connection with employment rests with the employer entity. Income tax withheld by employers must be remitted on a monthly basis by the 10th day of the following month and reported by the 20th day of the following month.

## Other

### Work permit/visa requirements

Business travelers traveling to Indonesia for the purpose of business meetings can obtain a visa on arrival for a period of either 6 or 30 days. This "business meeting" visa cannot be used for working in Indonesia. For the purposes of working, individuals are required to apply for a work visa, sponsored by an Indonesian entity, before entering Indonesia.

### Double taxation treaties

In addition to Indonesia's domestic arrangements that provide relief from international double taxation, Indonesia has entered into double taxation treaties with more than 57 countries to prevent double taxation and allow cooperation between Indonesia and overseas tax authorities in enforcing their respective tax laws. When applying for relief, a certificate of domicile should be presented.

### Permanent establishment implications

A permanent establishment may be created through the provision of services in any form by an individual for more than 60 days in a 12-month period. However, the potential should be reviewed on a case-by-case basis and with a reference to the permanent establishment article of the applicable double tax treaty for the time test.

### Indirect taxes

The value-added tax (VAT) rate generally applied to taxable goods and services is 10 percent. Sales tax on luxury goods may be as high as 200 percent. There are also regional taxes imposed by the local government on various facilities.

VAT registration may be required in some circumstances for a corporation or an entity. VAT registration by nonresidents, however, is not permitted.

### Transfer pricing

The newly revised Income Tax Law 36/2008 introduces a potential adjustment to the employment cost where the Indonesian employer treats the employment cost as a fee or other expenses paid to an offshore related-party company.

### Local data privacy requirements

There are general privacy obligations under the Law of General Provision and Tax Procedures. These can be waived for the purposes of criminal investigation or by request/permission from the Minister of Finance.

### Exchange control

Indonesia has no foreign exchange controls and funds may be freely transferred to and from abroad. Transfers exceeding USD 10,000, however, must be reported to the Bank of Indonesia. All major currencies are freely convertible into IDR, and deposit accounts can be maintained in foreign currencies.

Purchase of foreign currency against IDR in excess of USD 100,000 or equivalent in a month through banks may only be granted if there is evidence of the underlying transaction. The required supporting documents include:

- Valid documents on the underlying transactions
- The customer's identity card and copy of the tax identification number (for residents)
- Statement signed by the authorized person with adequate stamp duty, which guarantees the validity of document number 1 and confirms that it will only be used to purchase the allowable amount of foreign currency.

For purchase of foreign currency below USD100,000, the bank has to obtain a statement from the customer with adequate stamp duty that the customer will not purchase foreign currency in excess of USD100,000 in a month.

### Nondeductible costs for assignees

Where benefits-in-kind are not taxable to employees, they are nondeductible for the employer for corporate tax purposes. Benefits-in-kind, however, are taxable to employees working for employers who are:

- Only subject to final tax
- Are taxed on a deemed profit basis
- Are representative offices (and have not been required to report their corporate income).

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