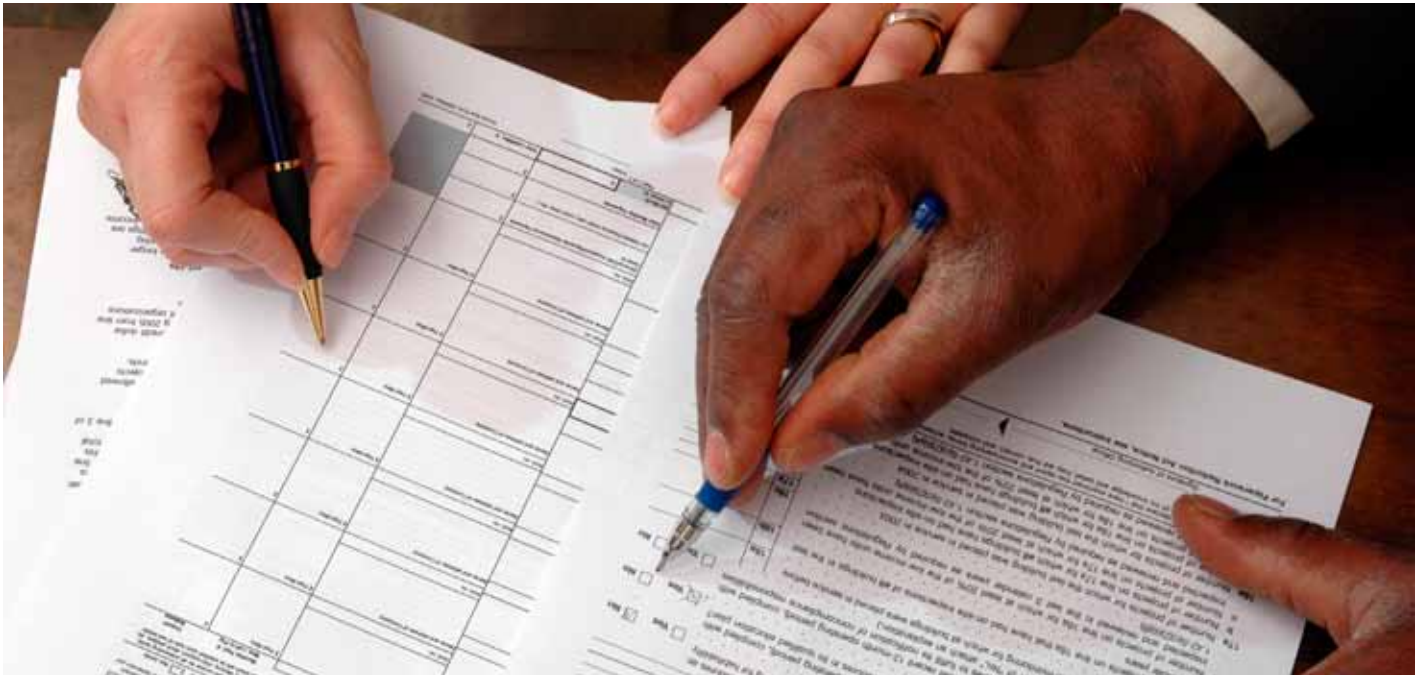


Foreign Earnings Tax Exemption Possibilities For Indonesian Nationals Working Overseas



This regulation provides certain Indonesian nationals an exemption from worldwide income reporting and taxation in Indonesia.

The Directorate General of Taxation (DGT) issued Regulation No. PER-43/PJ/2011 at the end of last year to clarify the criteria for “domestic” and “foreign” taxpayer status for Indonesian nationals working abroad.

If an Indonesian national qualifies as a foreign tax taxpayer, his/her foreign earnings would be exempt from reporting and taxation in Indonesian. This regulation appears to be the implementation guidelines for the earlier DGT No. Regulation PER-2/PJ/2009, regarding the tax treatment of Indonesian nationals working abroad (see our Bulletin 2009-052).

The DGT acknowledges that individuals working overseas must pay taxes in their host country, as they are most likely resident there. This regulation specifies the conditions to qualify for exemption.

Notably an individual cannot be “residing” in Indonesia to qualify as a “foreign” taxpayer. Residing in Indonesia is having a place of residence in Indonesia that is used for :

1. Staying (a permanent dwelling place), which is either temporary or a stopover;

2. Performing daily activities or carry out his/her habits (ordinary course of life) and
3. A place of habitual abode.

An individual working overseas also remains a resident of Indonesia if:

1. He/she is constantly moving from one country to another; and
2. He/she is present in Indonesia for more than 183 days within a 12-month period.

Additional requirements of individuals to be designated as “foreign” residents include official identity documents, such as overseas residency cards, certifications from an Indonesian Embassy or having the overseas address officially stated on their passports.

This regulation also confirms that Indonesian citizens moving overseas and other individuals leaving Indonesia permanently are obligated to file Indonesian tax returns for their final period of residence in Indonesia in a timely manner.



KPMG Notes

The issuance of PER-43/PJ/2011 has been expected since PER-2/PJ/2009 was issued, given that the older regulation only provided a limited explanation of the tax status of non-resident Indonesian citizens. It also provides a definition of the term "residing in Indonesia" which corresponds to the "resident" definition in most Double Tax Treaties.

This regulation should be welcomed by companies previously bearing the "additional" income tax costs of their nationals working overseas. With the exemption of worldwide income reporting for Indonesian nationals working overseas, these companies may realize significant cost reduction related to their outbound assignees, which may also encourage increasing the number in the future.

It is unlikely that most individuals leaving Indonesia permanently will be able to complete their final tax returns before their departure dates, given that the information needed to prepare these returns may not be available. In these cases, requests to extend filing due dates for two months can be made. Otherwise, late filing penalties of IDR 100,000 would apply. We would be happy to assist in applying for these extensions and/or prepare the final tax returns.

Contact us

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