

# TAX GUIDELINES

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WHAT YOU NEED TO KNOW  
ABOUT TAXES IN INDONESIA



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We advise our clients that the best way to do business in Indonesia is legally – always – by following the government’s rules and regulations. However, these can sometimes change, as we’ve recently seen with the passing of the new Omnibus Laws, and they can be open to misinterpretation by those who either don’t fully understand the laws or by unprofessional agents.

We will lay out the basic tax requirements you need to know as individuals, investors and companies, which were correct at the time of publication, but we still encourage you to conduct your own due diligence and research. With that in mind, Deloitte’s Indonesia Tax Guide 2021-2022 and the PwC Indonesian Pocket Tax Book 2022 are good places to start.

We hope this overview to taxes in Indonesia will be useful to any foreigner looking to do business and invest in this amazing country.

If you have any questions, please feel free to contact us directly on [hello@sevenstonesindonesia.com](mailto:hello@sevenstonesindonesia.com)



# INTRODUCTION

Indonesia uses a system self-assessment for people to calculate, settle and report income tax and if you're a tax resident you're going to need an NPWP – a tax identification number – to do that.

According to KPMG, “the tax authorities have the right to audit any tax return to ensure the individual has correctly calculated the tax payable, within the 5-year statute of limitations. For Indonesian-sourced income, there is an extensive framework of withholding taxes so that income tax is often collected by deduction at the source, for example in relation to employment income paid/ borne by a domestic entity, interest, royalties, rent, income from sales of property, and listed shares. The extent of Indonesian income tax liability depends upon the individual’s residence status in Indonesia.”

In addition taxes can be region-specific, which is why we've created this overview to help you understand the basics.



# WHAT'S A TAX RESIDENT?

A tax resident in Indonesia is someone who is either domiciled in Indonesia; or is in Indonesia for more than 183-consecutive days in any 12-month period; or is in Indonesia during a fiscal year (from 1 January - 31 December) and intends to reside in Indonesia.

According to Deloitte, “a foreigner who qualifies to be a resident taxpayer becomes a tax resident from the date of arrival in Indonesia until the date of final departure from Indonesia.”

While “an Indonesian national is considered a tax resident from birth unless he or she leaves Indonesia permanently. If an Indonesian national is leaving Indonesia temporarily, for example, for a working assignment to another country for a period of 6-months or more, he/ she can be considered as non-resident during the assignment period and will be taxed only on Indonesian sourced income.”

PricewaterhouseCoopers advise that “the new Omnibus Law has added a provision to the Income Tax Law stipulating that foreigners who have become domestic tax subjects by reason of becoming tax resident in Indonesia can be taxed only on Indonesian-sourced income (including if paid offshore) if they meet certain skill requirements. This will only be available for the first four years they become tax resident. This territorial taxation system may not be applicable when the foreigner receives income from overseas and utilises the applicable tax treaty between Indonesia and the source country. Non-resident individuals are subject to a general withholding tax (WHT) at 20% in respect of their Indonesian-sourced income. Concessions are, however, available where a DTA (Double Taxation Agreement) is in force.”

# DIFFERENT TYPES OF TAX



Taxes in Indonesia are regulated by Article 23A of the Indonesian Constitution, the Direktorat Jenderal Pajak (the Indonesian Tax Authority) and their appointed offices.

Among the different types of tax are:

Type of Tax	Tax Rate
Personal Income Tax (Pajak Penghasilan)	5 - 30%
Corporate Income Tax (Pajak Pendapatan Perusahaan)	1 - 25%
Land and Building Tax (Pajak Bumi dan Bangunan)	0.1 - 0.3%
Value Added Tax - VAT (Pajak Pertambahan Nilai)	10 - 200%
Rental Income Tax (Pajak Pendapatan Sewa)	10 - 20%

## Double Taxation Agreements (DTA)

Businesses and individuals in different countries are often faced with the problem of double taxation; income may be taxed in the country where it is earned, and then taxed again when it is repatriated in the business' or individuals' home country. To avoid these issues, countries around the world have signed hundreds of treaties for the avoidance of double taxation, often based on models provided by the Organization for Economic Cooperation and Development (OECD). In these treaties, signatory nations agree to limit their taxation of international business in an effort to augment trade between the two countries and avoid double taxation. (Source: Investopedia)

In this respect, DTA's can be useful for remote workers and digital nomads as well as more traditional business set ups. Indonesia currently has tax treaties with more than 70-countries, and 162 jurisdictions including Australia, Singapore, Hong Kong, Thailand, Vietnam, the USA, the UK, China and most European countries.

Tax paid or payable in foreign countries on income from abroad by a resident taxpayer may be credited against tax payable in Indonesia in the same fiscal year.





# PERSONAL INCOME TAX (PPH)

**P**ajak Penghasilan or PPh (Personal Income Tax) in Indonesia has rates based on a sliding scale and are dependent on individual annual incomes as well as where that income is coming from.

**An overview of income that you have to pay personal income tax on includes:**

- Employment income (including being self-employed)
- Onshore and offshore dividends, interest income and royalties
- Onshore and offshore rental income
- Onshore and offshore capital gains (including pensions, annuities and royalties)

Taxable Income in IDR	Tax Rate
Up to IDR 60-million per year	5%
Above IDR 60-million to IDR 250-million per year	15%
Above IDR 250-million to IDR 500-million per year	25%
Above IDR 500-million to IDR 5-billion per year	30%
Above IDR 5-billion per year	35%

Source: PricewaterhouseCoopers

Note:

- 1) tax rates may vary depending on regions;
- 2) there are concessional tax rates applicable to severance payments and workers' social security payments (BPJS Ketenagakerjaan.) Source: Invest-Islands

## Tax Relief

There are annual non-taxable incomes applicable to Personal Relief, Business Deductions and Losses as follows:

Personal Relief is deductible against taxable income and is only available to resident taxpayers. Invest-Islands defines these as:

Description	Amount in IDR
Taxpayer	54,000,000
Occupational Expenses (5% of Gross Income – max. of IDR 500,000-per month)	6,000,000
Spouse	4,500,000
Each dependent (max. of three)	4,500,000
Pension Maintenance Expenses (5% of Gross Income – max. of IDR 200,000-per month)	6,000,000
BPJS Ketenagakerjaan (Employees social security system)	2% of Gross Income
Benefits in Kind (BIK) – cars, housing education, home leave, payments required to carry out job responsibilities (uniforms, transport), reimbursement of an employee's Indonesian tax liability provided by the employer	Non-assessable Income Tax

**Important Note:** If your income exceeds these thresholds, the company must register with the Indonesian Tax Office (ITO) and file annual tax returns by way of Form 1770.

**Business Deductions/ Expenses** are generally claimed as being tax deductible expenses in much the same way as they are for corporate taxpayers but there are restrictions.

**Losses** incurred that you can attribute to your business and are not subject to a final income tax and not opting for a calculation norm tax may be carried forward for a maximum of five years.

## Withholding Tax (WHT)

With holding Tax is the money an employer deducts from an employee's gross wages and pays directly to the government. The amount withheld is a credit against the income taxes the employee must pay during the year. The monthly payment deadline for Withholding Tax is the 10th of the following month, and the monthly filing deadline is the 20th of the following month.

For more details on the different Articles that apply to Withholding Tax see the latest updates at *PricewaterhouseCoopers*.

Details	Withholding Tax
A non-resident or foreign entity receiving income from an Indonesia source	20% (Depending on any DTA)
Non-resident sale or transfer of land	20%
Resident sale or transfer of land	10%
Interest, dividends, royalties	15%
Services	2%

**Source:** PwC Pocket Tax Book 2019

**Please note:** Double Taxation Agreement (DTA) provisions may provide exceptions to the above.

## Foreign employees with work permits

If you're a foreigner (WNA) working in Indonesia you're going to need a work permit (IMTA) and you're going to be subject to normal tax rates unless a relevant Double Taxation Agreement (DTA) suggests otherwise.

A foreign company can withhold tax from their employees, particularly foreigners, and pay the tax office a pre-payment on behalf of the employee. If you are a non-resident of Indonesia but working for an Indonesian company, the company will withhold 20% from the gross invoice amount.

Foreign workers also have to pay social security programme contributions, which are deducted on a monthly basis.

Other Withholding Taxes that may be applicable on personal income (at normal tax rates), include:

- Prizes/ awards;
- Pension payments made by government-approved pension funds; and
- Fees for services to non-employee individuals (including lawyers, notaries, accountants, architects, doctors, actuaries and appraisers)



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# CORPORATE INCOME TAX (CIT)

Corporate Income Tax is applicable when you operate a business in Indonesia. Invest-Islands advise that “companies in Indonesia are generally taxed at a rate of 25%, with operating and income-generating expenses deductible against taxable income.”

Annual Company Tax Thresholds	Tax Rate
Gross turnover below IDR 48-billion	1%
Sales above IDR 48-billion and Net turnover below IDR 50-billion	12,5%
Company with a minimum of 40% of its shares publicly listed on the Indonesia Stock Exchange	20%
Sales above IDR 48-billion and Net turnover above IDR 50-billion	25%

## Deductions

CIT deductions, according to PricewaterhouseCoopers, are described as “expenses incurred in the ordinary course of business (to obtain, collect, and maintain taxable income) are deductible, subject to the requirements for documentary support. Note that expenses relating to gross income subject to final income tax are not deductible for CIT purposes.”

These may include expenses that are directly or indirectly related to business activities such as wages, travel expenses, insurance premiums, interest, rental and royalties; depreciation and amortisation; promotion and selling expenses; losses from the sale or transfer of assets; donations and more. (Source: Invest-Islands.)

## BPJS – Social Security Payments

The following BPJS premiums should be deducted as a percentage of basic salaries every month:

BPJS Ketenagakerjaan	Employer's Contribution	Employee's Contribution
Working Accident Protection	0.24 – 1.74%	0%
Death Insurance	0.3%	0%
Pension	2%	0%
Old Age Savings	3.7%	2%
Health Care (depending on monthly income)	4%	1% (1% extra for each family member)
<b>TOTAL</b>	<b>10.24 – 11.74%</b>	<b>3%</b>

## Capital Gains

**A** Capital Gains tax is a tax on the profit achieved on the sale of a non-inventory asset. The most common capital gains are realized from the sale of stocks, bonds, precious metals, real estate, and property. The gain attracts tax liability while the loss can be claimed as a deduction against assessable income, only if the asset is used for obtaining, collecting and securing business profits.

Tax losses can be carried forward for five years. They are not impacted by changes in shareholders and cannot contain foreign losses.

Deloitte explains that “Capital gains are generally assessable at standard income tax rates, together with other income of the individual. The exceptions are: Sale of land and/ or buildings located in Indonesia. The tax is 5% final tax (or 2.5% from 8 September 2016) on the taxable sale value or the actual proceeds, whichever is higher.”



# PROPERTY TAXES

**B**uying or selling property in Indonesia is subject to taxes. A 2.5% income tax of the gross transfer value or the government-determined value, whichever is higher, is charged to the seller, while the buyer is liable for 5% duty on the acquisition of land and building rights (Bea Pengalihan Hak atas Tanah dan Bangunan or BPHTB.) It is worth noting that there will also be an additional 1 - 3% notary fee when conducting the transaction.

All land and buildings are subject to a maximum 0.3% annual tax (Pajak Bumi dan Bangunan or PBB) on the regional government's determined market value and are reassessed every year. This can be broken down as follows:

Property Value	Tax Rate
Below IDR 200-million	0.01%
Between IDR 200-million and IDR 2-billion	0.1%
Between IDR 2-billion and IDR 10-billion	0.2%
Above IDR 10-billion	0.3%

Leasing a property is subject to 10% tax for tax residents and 20% tax for non-tax residents on the property lease value.



# VALUE-ADDED TAX (VAT)

**A**ccording to PricewaterhouseCoopers, Indonesia's VAT is charged on the delivery (sales) of goods and services (except on consignment) within Indonesia at a rate of 10% up to 31 March, 2022 and 11% starting 1 April, 2022 onwards.

There is currently no VAT charged on the export of goods and services, but this is subject to some Ministry of Finance limitations. Imports however, are subject to a VAT of 10% up to 31 March, 2022 and 11% starting 1 April, 2022 onwards.





Starting 1 July, 2020, the utilisation of foreign intangible goods and services provided via e-commerce system to users in Indonesia's Customs Area will be imposed with a VAT rate of 10% up to 31 March, 2022 and 11% starting 1 April, 2022 onwards.

VAT filing is done on a monthly basis, with payment and filing being due no later than the last day of the month following the taxable delivery. (Source: PwC.)

Any income earned from villa rentals is also subject to taxes. Rental income tax for non-residents in Indonesia is imposed as a flat rate of 20% of gross income. For income gained by companies, it's a flat rate of 25% of net income. The VAT is imposed at a flat rate of 10% on the gross rental income.

## Luxury-goods Sales Tax (LST)

In addition to VAT, some goods are subject to LST upon import or delivery at rates currently ranging from 0% to 125%. This rate may be increased up to 200% according to the law.

The following items are currently charged LST:

Item	LST
Luxury residences/ houses/ apartments	20%
Balloons, dirigibles and other non-powered aircraft	40%
Shotguns and other arm cartridges, firearms and other arms, except for state purposes	40-50%
Aircraft other than those for the state or commercial air-transport services	50%
Luxury cruisers other than those for the state or commercial sea-transport services	75%
Motor vehicles including motorcycles	10-125%

Source: Utama Consulting

## Regional and Local Taxes

It's worth noting that there are also regional and local taxes in Indonesia, which can range from 1.5% to 35% for a wide range of things including:

- Village/ Banjar tax
- Motor vehicle tax
- Motor vehicle ownership transfer fee
- Motor vehicle fuel tax
- Surface water tax
- Cigarette tax
- Hotel and Restaurant tax
- Entertainment tax
- Advertisement tax
- Road illumination tax
- Non-metal and rock minerals tax
- Parking tax
- Ground water tax

## Filing Tax Returns

Tax returns in Indonesia are self-assessed and taxpayers are trusted to calculate, pay, and report their own taxes in accordance with prevailing tax laws and regulations either monthly or annually, depending upon the tax obligation in question. Annual tax returns are due by 31 March for individuals and 31 April for company submissions and filed through a designated tax-payment bank (Bank Persepsi.) Tax audits can occur at any time, with a statute of limitations of five years to receive an underpaid tax assessment letter from the tax office.

These are the monthly tax obligations as outlined by PricewaterhouseCoopers:

Type of Tax	Payment Deadline	Return Filing Deadline
Article 21/26 (Payroll) WHT	The 10th day of the following month	The 20th day of the following month
Article 23/26 Income Tax	The 10th day of the following month	The 20th day of the following month
Article 25 Income Tax Instalment	The 15th day of the following month	The 20th day of the following month
Article 22 Income Tax on imports/ payments to Tax Collectors	The 10th day of the following month	The 20th day of the following month
Article 4(2) Final Income Tax	The 10th day of the following month	The 20th day of the following month
VAT and LST	Prior to the tax return filing deadline	The end of the following month

Taxpayers are allocated an 'Account Representative' at the tax office at which they register. This representative will assist the taxpayer in fulfilling all compliance matters.

## Tax Disputes

Disputes regarding tax returns and liabilities can be dealt with by arbitration or in court. For example, taxpayers can lodge an appeal against the Directorate General of Taxes through arbitration in the Court of Appeals. The taxpayer will bear all costs related to such appeals. (Source: Invest-Islands)

**Sources:** PricewaterhouseCoopers, Deloitte, Invest-Islands, KPMG, Utama Consulting, Hukum Online, International Tax Review, Global Property Guide, Indonesia Acclime, Cekindo, Indonesian Tax, Practical Law-Thomson Reuters, SSEK, Investopedia, Ministry of Finance Indonesia, Director General of Taxes.



# APPENDIX

## GLOSSARY OF TERMS

Sometimes jargon and acronyms are confusing and can result in the reader having no reference to what the message is supposed to be saying. Here's a list of things we think will help understand the most important aspects about taxes in Indonesia.

<b>BPHTB</b>	Bea Pengalihan Hak atas Tanah dan Bangunan (Tax on the acquisition of land and building rights)
<b>BPJS</b>	Badan Penyelenggara Jaminan Sosial (Social security agency)
<b>CIT</b>	Corporate Income Tax
<b>DGT</b>	Directorate General of Taxes
<b>DTA</b>	Double Taxation Agreement
<b>IDR</b>	Indonesian Rupiah
<b>IMTA</b>	Izin Menggunakan Tenaga Kerja Asing (Work permit)
<b>ITO</b>	Indonesian Tax Office
<b>KPMG</b>	Klynveld Peat Marwick Goerdeler
<b>LST</b>	Luxury-goods Sales Tax
<b>MoF</b>	Ministry of Finance
<b>Net income</b>	Net income before tax
<b>NPWP</b>	Nomor Pokok Wajib Pajak (Tax Identification Number)
<b>PBB</b>	Pajak Bumi dan Bangunan (Annual land and building tax)
<b>PKP</b>	Penghasilan Kena Pajak (Taxable income)
<b>PTKP</b>	Penghasilan Tidak Kena Pajak (Non-taxable income)
<b>PPh</b>	Pajak Penghasilan (Personal income tax)
<b>PPh-Article 21 (or PPh21)</b>	Income tax for local or resident taxpayers
<b>PPh-Article 26 (or PPh26)</b>	Income tax for non-resident taxpayers
<b>PwC</b>	PricewaterhouseCoopers
<b>Taxable income</b>	Net income before tax minus untaxed income (PTKP)
<b>Taxable income minus income tax</b>	Net income (after tax)
<b>Untaxed income (PTKP)</b>	Portion of salary that is tax-exempt or tax relief
<b>VAT</b>	Value Added Tax
<b>WHT</b>	Withholding Tax
<b>WNA</b>	Warga Negara Asing (Foreign national)
<b>WNI</b>	Warga Negara Indonesia (Indonesian national)

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