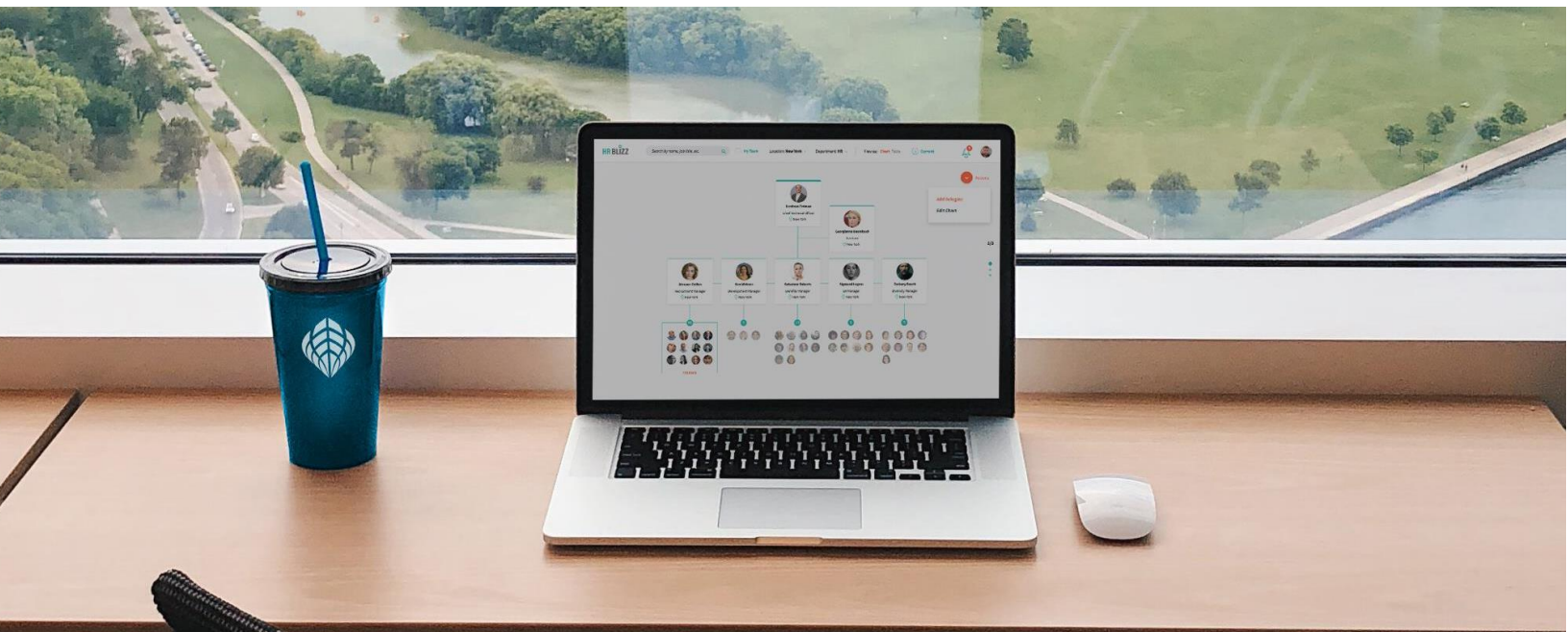




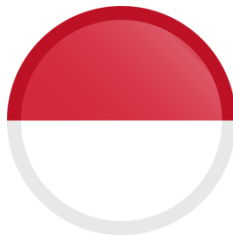
Simplifying Employment
Tasks Worldwide

Payroll & Tax Highlights

2022 Global Payroll Country Guide for Indonesia



INDONESIA



10 May 2022



MERCANS

We help you achieve your global ambitions

Thank you for trusting Mercans to outsource your HR and Payroll functions. We propose HR consulting services, actionable solutions, and cost-effective global payroll processing tools to energize your human capital management in real-time and augment your performance. We are dedicated to becoming your business growth facilitator.



Global Payroll Solutions – Boost your HR brand and employee satisfaction

Rationalize your HR budgets, monitor your data, and optimize your global payroll tasks in real-time. Systematize processes and streamline HRM lifecycles with HR Blizz™, our unified SaaS platform, to ensure your employees are paid accurately and on time.



PEO/GEO Services – Easily hire, deploy and manage your workforce abroad

A reliable Professional Employer Organization (PEO), Mercans is your trusted employer of record to globally select, engage, and manage highly qualified personnel on your behalf, through integrated Global Employment Outsourcing (GEO).



Global Talent Acquisition – Quickly fill vacancies with only the best candidates

Mercans supports you in designing/deploying long-term HR strategies and processing full-cycle recruitment. Our ATS Suite Mesar™ and our hiring experts help to screen, select, attract the right candidates for your organization and populate your pipeline of prequalified talents.



BPO Services – Reclaim the focus on your core activities to expand your business

Concentrate on the essentials: outsource non-primary activities and your front- and back-office functions to Mercans. Save the time, money, and energy needed to refine the value chain engagement of your customers and suppliers and increase revenue.



HR Management SaaS – Access customizable cloud-based online platforms

Centralize your HR function on an all-in-one user-friendly and self-service platform. Combined with the expertise of our consultants, the Mesar SaaS offers a built-in applicant tracking system and easy-integration features to improve internal processes.



Local Statutory Compliance – Forget the hassle of setting up branches abroad

Mercans seasoned HR advisory team are compliance experts specialized in local cultures, business protocols, and tax and legal specificities. They are committed to ensure quick go-to-market abroad and achieve a compliant global expansion, risk-free from A to Z.



MERCANS

Mercans at a Glance

160+

Countries

20

Years of Success

850+

Payroll and HR Specialists

8k+

Clients Worldwide

97%

Client Retention Rate

1.5X

Annual Revenue Growth

45k+

Largest Single Country
Payroll

9M+

Pay Slips per Annum

0

Security Breaches

Number one for outsourced payroll services, we are endorsed by international authorities.



Mercans has the highest industry quality and IT security certificate





MERCANS

Table of Contents

Indonesia – Challenges and Opportunities	6
Basic Facts	8
Doing Business in Indonesia	9
Entity Registration & Incorporation Requirements	9
<i>3 Key Points for Business Setup</i>	<i>9</i>
Type of Business	10
1. <i>State-Owned Company (BUMN)</i>	<i>10</i>
2. <i>Private Owned Company (BUMS)</i>	<i>11</i>
<i>Financial Statements</i>	<i>13</i>
<i>Audit Requirement</i>	<i>13</i>
<i>Tax Office Registration and Administration Structure</i>	<i>15</i>
Banking	15
Working Hours	16
Labour Law	16
Tax & Social Security	18
<i>Filing Taxes in Indonesia</i>	<i>18</i>
Types of Taxes	18
<i>Corporate income tax (CIT)</i>	<i>18</i>
<i>Final income tax</i>	<i>18</i>
<i>Value-added tax (VAT)</i>	<i>19</i>
<i>Luxury-goods sales tax (LST)</i>	<i>19</i>
<i>Import duty</i>	<i>19</i>
<i>Land and buildings tax</i>	<i>19</i>
<i>Tax on land and buildings transfer</i>	<i>20</i>
<i>Duty on the acquisition of land and building rights</i>	<i>20</i>
<i>Stamp duty</i>	<i>20</i>
<i>Public housing savings</i>	<i>20</i>
<i>Carbon taxes</i>	<i>21</i>
<i>Individual income tax</i>	<i>21</i>
Social Security System	22
Payroll	23
Employment Law	26
Employment Agreement	26
Working Conditions	27
Leaves	28
Employment Termination	29



MERCANS

Immigration	33
<i>Visa on Arrival.....</i>	33
<i>Tourist Visa.....</i>	33
<i>Business Visa.....</i>	33
<i>Transit Visa.....</i>	34
<i>Electronic Visa.....</i>	34
<i>Temporary Stay Permits</i>	34



Indonesia – Challenges and Opportunities.

Challenges abound for small and medium size companies wishing to gain access to the Indonesian market, ranked 73rd by the World Bank in its 2020 Ease of Doing Business report (tied with 72nd place, Luxembourg, with a DB score of 69.6). The Government of Indonesia at times has been touting plans to reduce bureaucratic red tape to facilitate investment as well as to put forth measures that achieve the opposite effect. Major challenges revolve around labor relations, intellectual property protection, transparent rules setting and implementation, standards and certification, and pricing.

Indonesia's 2016 Patent Law continues to raise concerns, including with respect to the patentability criteria for incremental innovations, local manufacturing and use requirements, the grounds and procedures for issuing compulsory licenses and disclosure requirements for inventions related to traditional knowledge and genetic resources.

Indonesia's aviation market is the second-fastest growing in the world. Aircraft replacement parts and services is a valuable and significant market. There is also demand for air traffic control and airport logistics services and ground support equipment. With high growth, Indonesia aviation market require infrastructure, training, and components in order to keep their business running. Aircraft maintenance, repair and overhaul in Indonesia is estimated to reach 2 Billion USD per year for the next five years.

A competitive and expanding banking market offers significant opportunities for IT and banking equipment, software and technology providers. There are opportunities for telecommunication infrastructure such as satellites and ground stations, handheld devices also integration devices or enablers. Telecommunications equipment and services and satellites remain excellent areas for American products and services, which have a comparative advantage technologically.

Indonesia's under-developed public infrastructure remains a major national challenge and presents opportunities in aviation, rail, ports and land transport; as well as in municipal infrastructure projects such as water supply, wastewater systems and waste management facility.

Indonesia's Kerjasama Pemerintah Dengan Badan Usaha (KBPU), the government agency that oversees public-private partnership projects, is preparing to develop major infrastructure



MERCANS

including communication satellites, roads, airports, hospitals, and potentially cold storage and fish processing facilities.

Mercans and its affiliates do not provide tax, legal or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any transaction.



MERCANS

Basic Facts

Official State Name	The Republic of Indonesia
Population	Over 275 million
Capital	Jakarta
Major Languages	Indonesian
Currency	Rupiah
Main Industries & Export Articles	oil and gas, electrical appliances, plywood, rubber, and textile
GDP Growth	\$1,150 BILLION (2021)
Internet Domain	.co.id
International Dialing Code	+62
Dates & Numbers	dd/mm/yyyy



MERCANS

Doing Business in Indonesia

Indonesia is not the easiest place to start an enterprise or, generally, to conduct business. One of the major obstacles of doing business in Indonesia concerns obtaining the necessary permits and licenses; this can become a time-consuming and expensive affair. In order to successfully start and expand a business it is also important to establish a good network in Indonesian business and government circles. Foreign entrepreneurs should realize the importance of these networks and make efforts to develop them as well as to maintain them.

Luckily, it is not difficult to establish these networks as foreign businessmen are also interesting parties for Indonesians. It is highly recommended to become acquainted with cultural values beforehand in order to know how to socialize with Indonesian business partners and Indonesian employees as well as to grasp Indonesia's business culture. This will make your business more efficient and effective, especially in the long term.

Entity Registration & Incorporation Requirements

3 Key Points for Business Setup

1. Company Setup

The first step in business setup in Indonesia is to choose the type of legal entity. There are several common types of legal entities available in Indonesia: Indonesian Limited Liability Company (PT), Foreign-owned Limited Liability Company (PT PMA), Representative Office, and Public Companies.

All business setup in Indonesia must comply with Indonesian Law following your company type, business category, and location.

2. Employment Regulations

As an employer, you need to understand your responsibilities and your employee rights in your targeted market to ensure a successful global expansion.

Plus, getting familiar with local employment legislation can protect your company against legal implications. Non-compliance means heavy penalty, damaged reputation, imprisonment and/or business shutdown.



MERCANS

Several key items you have to pay attention to employment regulations and they are different for local and foreign employees. For example, ensure that you cover all aspects such as wages and benefits (paid holidays, sick leaves, maternity leaves, healthcare, overtime pay, and other compensation).

On top of that, make sure that you pay your employees and report all your taxes timely and correctly.

When it comes to foreign employment, do bear in mind that you can employ foreigners with a fixed-term employment agreement, known as PKWT, for a maximum of two years. Moreover, the foreigner must have a work permit to be able to have legal protections under Indonesian Law.

3. Business Licenses

Successful business setup in Indonesia means that you need to acquire certain compulsory business licenses. Without them, you won't be able to operate your business legally in the country.

You may need to apply for additional specific permits as well depending on the type of your business and activities.

The most common type of license you need is a general business license. This license is necessary for you to run general business activities and provide goods and services.

If you are a manufacturing company, you will need an industrial business license, and if you are in the construction business, you must obtain a construction business license.

Type of Business

1. State-Owned Company (BUMN)

A State-owned Company is a business entity whose capital is wholly or partly owned by the government. There are two types of BUMN in Indonesia right now, namely **Perum** and **Persero**;

a. Public Company (Perum-Perusahaan Umum)

A Perum is not oriented toward public service but toward profit. Employee status is civil servants. Several Perums were still losing money, so the government was forced to sell some shares to the public (go public) and change its status to Company Limited.



MERCANS

The characteristics of public companies (Perum) are, among others:

- An ultimate goal of serving the public interest as well as seeking profits
- State-owned capital with proceeds derived from loans
- Led by directors
- Has a state facility
- Employees are employees of state enterprises
- Moves on vital business
- Has a socioeconomic function
- It is a legal entity and may prosecute or be prosecuted under civil law

An example of a company that is a business entity liability company is Perum Damri.

b. Liability Company (Persero)

A Liability Company is one that has all of its capital in the form of stock. The company is managed by a professional team. Typically, these companies put shares into the stock exchange to be traded. The main purpose of a Persero is to gain profit and to provide services to the public. Founding capital is derived partly or wholly from state assets that are separated in the form of shares.

The traits of a Liability Company (Persero):

- The main objective is profit (Commercial)
- Capital is partly or entirely derived from the wealth of a country that offered the stocks
- Led by directors
- Employee status is private employees
- The business entity is written as PT (name of company) (Limited)
- Not obtained through the state

Examples of companies that are liability companies include: PT Garuda Indonesia (Persero), PT Angkasa Pura (Persero).

2. Private Owned Company (BUMS)

A Private Owned Company is established and financed by a person or group of people. There are three forms of BUMS, namely **Firma (Fa)**, **Commanditaire Vennootschap** or **CV**, and **company limited (PT)**.



MERCANS

a. Firma (Fa)

The firm is a business entity established by two or more persons. Each of the members is solely responsible for the company's obligations. The establishment of a firm is done by executing an agreement deed before a notary. The agreement shall contain the name of the founder of the firm, the profit distribution, as well as the terms for the beginning and the termination of the agreement.

Firm characteristics include:

- Formed between two or more people using a shared name
- The responsibility of member firms is not limited
- Capital obtained is from the submission of some or all personal property

b. Commanditaire Vennotschap – CV

The CV is an enterprise that is established by two or more persons as partners, either active partners or silent partners. Active partners are those that provide capital as well as run the business, while silent partners are those who provide venture capital. Active partners have full responsibility for all the company assets and liabilities, and silent partners are responsible only for the capital paid. The procedure for establishing a CV is the same as establishing a firm.

The characteristics of a CV include:

- Formed between one or more people who provide capital and/or run the business
- Consists of silent partners and active partners
- A silent partner is a person who provides capital and does not manage the company
- An active or general partner is the person who runs the company
- The responsibility of silent partners is limited to the capital invested

c. Limited Company (PT)

A PT is a business entity whose capital is divided into stocks (shares), which is also one of the most common business entities established by investors in Indonesia. The responsibility for liabilities/debt for the company is limited to the owners of holdings.

There are two types of limited companies, namely a closed PT and an open PT. A closed PT is one whose shareholders are limited, for example among families. An open PT (often called PT going public) is a PT whose common shares are sold to the public.



MERCANS

The characteristics of a limited company (PT):

- Main goal is profit
- Have commercial and economic functions
- Not obtained through the state
- Led by directors
- Employees' status is private
- The government is a shareholder
- Business relationships are governed by civil law

Financial Statements

The majority of companies doing business in Indonesia are required to submit the annual financial statements (laporan keuangan tahunan perusahaan/LKTP). The financial statement in Indonesia generally consists of information about the financial condition of a company, in the forms of company balance, loss-profit or other reports describing financial performance and are organised based on accounting standards, that spans 12 consecutive months. Such reports must also be authorised by Public Accountant and have been ratified by the General Meeting of Shareholders or other authorities based on the applicable regulations. The purpose of submitting the financial statements is to let the outsiders know about the condition of the company.

The annual financial statements should be submitted maximum six months after the end of the yearbook period. Submission should be made to the Ministry of Trade via its website. After a successful submission, the processing time should take approximately five working days.

Failure to satisfy the requirements of the accounting standards and fulfill the obligation will result in several consequences as follows:

- Written warning
- Revocation of company business and/or operational permit or commercial permit
- Recommendation of revocation of company business and/or operational permit or commercial permit

The warning shall be sent within 14 days, for up to 3 times.

Audit Requirement

Based on the Minister of Trade Regulation number 25 in 2020, companies that are required to audit financial statements are companies with the following criteria:

1. Limited Liability Company that has met one of the following criteria:
 - is a Public Company;



MERCANS

- business fields related to the mobilization of public funds;
 - issue a debt acknowledgment letter;
 - have total assets or assets of at least Rp. 25,000,000,000.00 (twenty-five billion rupiah); or
 - is a debtor whose annual financial report is required by the bank to be audited.
2. A foreign company domiciled and conducting its business in the territory of the Republic of Indonesia according to the provisions of the applicable laws and regulations, including branch offices, sub-offices, subsidiaries and agents and representatives of the company having the authority to enter into agreements; or
 3. Public Company (Persero), Public Company (Perum), State-Owned Enterprises (BUMN), and Regional Enterprises Regional-Owned Enterprises (BUMD).

Submission of audited financial statements must be made no later than 6 (six) months after the end of the financial year.

The procedures for reporting audited financial statements to the Ministry of Trade are as follows:

1. The company submits the audited Company Annual Financial Report (LKTP) to the Director online by uploading the LKTP through the web portal <http://sipt.kemendag.go.id> in the original Portable Document Format (PDF).
2. The company submits the LKTP, the company profile shall be submitted online by filling out the form on the web portal <http://sipt.kemendag.go.id>.
3. In the event that Integrated Licensing Information System (SIPT) is damaged (force majeure) and the facilities and infrastructure supporting SIPT are not functioning for more than 24 (twenty-four) hours, then the service is carried out manually.
4. The manual service is carried out at the Directorate of Business Development and Distribution Actors.

Companies that violate the provisions are subject to administrative sanctions in the form of:

1. revocation of Letter of delivery (STP) - LKTP;
2. revocation of licensing in the trade sector; and/or
3. revocation of other technical licenses by the head of the relevant agency / authorized official in accordance with the provisions of the applicable legislation



MERCANS

Tax Office Registration and Administration Structure

The Ministry of Finance is an Indonesian government ministry responsible for the nation's finance and state assets. The Finance Minister is responsible to the President. The ministry's motto is Nagara Dana Rakça, which means "guardian of state finance".

Task

To run governance in terms of State finance in order to assist the President in running the State governance.

Functions

- formulating, stipulating, and implementing policies in terms of budgeting, taxes, customs and excise, treasury, State assets management, fiscal balance, and budget financing and risk management;
- formulating, stipulating and providing recommendations in fiscal and financial sector policies;
- coordinating tasks implementation, developing, and providing administration support to entire elements of organization in the Ministry of Finance;
- managing State properties/assets that are under the responsibility of Ministry of Finance;
- supervising tasks implementation in the Ministry of Finance;
- accommodating technical guidance and supervision for Minister of Finance's affairs in regions;
- implementing technical activities from central to regions;
- accommodating education, training, and competence certification in terms of State finance, and knowledge management; and
- providing substantial support to entire elements of organization in the Ministry of Finance.

Banking

The banking industry in Indonesia has performed positively, with high profitability and continued growth, as well as increased stability. Currently, the Indonesian banking sector is the most profitable among ASEAN nations.

Two factors accounting for high profits in the Indonesian banking sector are:

Firstly, net interest margin (NIM) in Indonesia is considered the highest worldwide.

Secondly, huge potential exists for further growth of the Indonesian banking industry because banking penetration in Indonesia stands at approximately 34% of its 260 million populations as of 2015. This percentage of penetration is set to hit 60% by 2020.



MERCANS

Banks in Indonesia open Monday to Friday 8am to 3pm and Saturday 8am to 1pm. You may find banks won't change money in the afternoons or at weekends. Rural banks can have more limited opening times, it's best to check before you get to the bank.

Working Hours

The regular working hours in Indonesia are 40 hours per week, either seven hours a day for six working days per week or eight hours a day for five working days in a week.

Labour Law

The main sources of employment law in Indonesia are as follows:

- a. Law No. 13 of 2003 on Manpower as amended by Law No. 11 of 2020 on Job Creation ("Manpower Law");
- b. Law No. 2 of 2004 on Industrial Relations Dispute Settlement ("IRDS Law"); and
- c. Law No. 21 of 2000 on Employee/Labour Union ("Labour Union Law").

In principle, employment laws and regulations provide protection to employees who are performing, or about to perform their work for employers existing in Indonesia. The Manpower Law recognises two types of employee based on the period of the employment agreement, i.e., permanent employees and fixed-term employees. Expatriates are employed under a fixed-term employment agreement subject to their work permit.

The Manpower Law recognises Collective Labour Agreements ("CLA") as an instrument of collective bargaining between a registered labour union or several registered labor unions with an employer or several employers or employer organisations.

The CLA contains the rights and obligations of the employer, labour union and employees, however, in more detail compared to those regulated in the prevailing laws and regulations. Nevertheless, more specific terms and conditions of employment may be agreed in the employment agreement individually.

As a general rule, the quality and quantity of the content regulated in the CLA must not be less than that regulated under the prevailing laws and regulations.

Although there are some instances where bargaining takes place at industry level, the majority of bargaining for CLA takes place at company level.

Insofar as terms and conditions of employment are concerned, the Manpower Law also recognises the Company Regulation ("CR") for companies that have yet to have a registered labour union. A CR is obligatory for companies employing at least 10 employees, and its



MERCANS

formulation is the responsibility of the employer. The same general rule applies in that the quality and quantity of the content regulated in the CR must not be less than that regulated under the prevailing laws and regulations.



MERCANS

Tax & Social Security

Filing Taxes in Indonesia

An annual tax return in Indonesia is the tax form or form used to report your personal or corporate income and file taxes with the tax authority in Indonesia — The Directorate General of Taxes (DGT).

Taxpayers should file an annual tax return every year in Indonesia. Taxpayers include both individuals and businesses. They have received income or a tax ID during the taxable year, through wages, salaries, dividends, interests, revenues, and other sources of profit.

Types of Taxes

Corporate income tax (CIT)

A flat CIT rate of 22% applies to net taxable income.

Public company discount

Public companies that satisfy a minimum listing requirement of 40% and certain other conditions are entitled to a tax discount of 3% off the standard rate, providing an effective tax rate of 19%.

Small company discount

Small enterprises (i.e. corporate taxpayers with an annual turnover of not more than IDR 50 billion) are entitled to a 50% tax discount of the standard rate, which is imposed proportionally on taxable income on the part of gross turnover up to IDR 4.8 billion. Certain enterprises with gross turnover of not more than IDR 4.8 billion are subject to final income tax at 0.5% of turnover.

Final income tax

Certain types of income are subject to a final income tax at a specified percentage of the gross amount of income, without regard to any attributable expenses.

Resident companies, PEs, representatives of foreign companies, organisations, and appointed individuals are required to withhold the final tax from the gross payments to resident taxpayers and PEs.



MERCANS

Value-added tax (VAT)

The VAT law allows the government to change the VAT rate within the range of 5% to 15%. With a few exceptions, VAT is applicable on deliveries (sales) of goods and services within Indonesia at a rate of 10% up to 31 March 2022 and 11% starting 1 April 2022 onwards. VAT on export of goods is zero-rated, while the import of goods is subject to VAT at a rate of 10% up to 31 March 2022 and 11% starting 1 April 2022 onwards. Zero-rated VAT is also applicable on exported services, but subject to an MoF limitation. The range of services subject to 0% VAT has been expanded as of 1 April 2019.

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.

Luxury-goods sales tax (LST)

In addition to VAT, some goods (e.g. motor vehicles, luxury residences) are subject to LST upon import or delivery by the manufacturer to another party at rates currently ranging from 0% to 95%.

Import duty

Import duty is payable at rates from 0% to 150% on the customs value of imported goods. Customs value is calculated on the cost, insurance, and freight (CIF) level.

As a commitment to liberalising trade, the Indonesian government is progressively lowering import duty rates on most products. Higher duty rates remain to protect certain industries and goods regarded as sensitive for security or social and cultural reasons.

Land and buildings tax

Land and buildings tax (Pajak Bumi dan Bangunan or PBB) is a part of regional taxes, which are governed under Regional Taxes and Retribution (Pajak Daerah dan Retribusi Daerah or PDRD) Law in which each regional government has to issue a regulation (Peraturan Daerah or PERDA) to regulate PBB in its territory.

The scope of PBB under PDRD Law covers all land and buildings except for the following industries, which are governed by separate regulations:

- Forestry.
- Plantation.
- Mineral and coal mining.
- Oil, gas, and geothermal mining.



MERCANS

- Other industries located in national waters outside the territory of the regional area.

Under PDRD Law, the PBB rate is maximum 0.3% and the tax due is calculated by applying the tax rate on the sale value of the tax object (Nilai Jual Objek Pajak or NJOP) deducted by non-taxable NJOP. The non-taxable NJOP is set at a minimum of IDR 10 million. Any changes are to be made by issuing a PERDA.

Tax on land and buildings transfer

A transfer of land and buildings will cause income tax on the deemed gain on the transfer/sale to be charged to the transferor/seller. The tax is set at 2.5% of the gross transfer value or the government-determined value, whichever is greater.

Duty on the acquisition of land and building rights

In a land and building transfer, the acquirer is liable for duty on the acquisition of land and building rights (Bea Pengalihan Hak atas Tanah dan Bangunan or BPHTB) at a maximum of 5% of the greater of the transaction value or the government-determined value. Similar to PBB, BPHTB has been made a part of regional taxes.

Stamp duty

Stamp duty is nominal and payable as a fixed amount of either IDR 10,000 on certain documents.

Public housing savings

The purpose of public housing savings (Tabungan Perumahan Rakyat) is to collect and provide long-term sustainable low-cost funds for housing finance in order to meet the needs of decent and affordable housing for participants. Deposits contributions are paid by employees and employers based on a certain percentage of wages (i.e. 0.5% for employer and 2.5% for employee or 3% for independent workers).

The scheme applies to employees and independent workers who work and receive wages or rewards of at least a minimum wage amount and are at least 20 years old or have been married at the time of registering, including both Indonesian citizens and expatriates who hold working visas and have been working for a minimum of six months in Indonesia.



MERCANS

Sanctions apply for non-compliant employers and independent workers who do not follow the government provisions.

Carbon taxes

Carbon Tax is to be imposed on carbon emissions, which have a negative impact on the environment. The subjects of Carbon Tax are individuals or companies purchasing goods containing carbon or carrying out activities that result in a certain level of carbon emissions within a certain period.

The rate of Carbon Tax shall be at least the carbon price in the domestic carbon market per kg CO₂e. However, the rate shall not be less than IDR 30/kg CO₂e. The Carbon Tax is due upon the purchase of goods containing carbon, at the end of each calendar year during which the carbon emitting activity is carried out, or other designated timing. The implementation of Carbon Tax will be in stages according to market readiness, with the earliest stage to be on 1 April 2022 for coal-fired power plant companies.

Individual income tax

From January 2022, new progressive income tax rates come into effect in Indonesia. The changes include a new top individual income tax rate of 35% on income over IDR 5 billion, in addition to an increase in the upper threshold for the 5% rate from IDR 50 million to IDR 60 million.

Taxable Income (IDR*)	Tax Rate (%)
Up to IDR 60 million	5
Above IDR 60 million to IDR 250 million	15
Above IDR 250 million to IDR 500 million	25
Above IDR 500 million to IDR 5 billion	30
Above IDR 5 billion	35

* Indonesian rupiah



MERCANS

Social Security System

In general, all employees in Indonesia, including expatriates who work for a minimum of six months in the country, must participate in and make contributions to the National Social Security System (Sistem Jaminan Sosial Nasional or “**SJSN**”), which is administered by the Social Security Administration Board (Badan Penyelenggara Jaminan Sosial or “**BPJS**”).

The BPJS has two main agencies: BPJS Health (BPJS Kesehatan), which manages health security, and BPJS Employment (BPJS Ketenagakerjaan), which handles work accident, death, old age, pension and unemployment security.

Employers and employees are required to make monthly contributions to these programs, as a percentage of the employee’s regular monthly salary/wages. These contributions are subject to modification by the Government of Indonesia (GOI) from time to time.



MERCANS

Payroll

As with any business and country, payroll processing in Indonesia typically occurs on a monthly basis. Pay day is usually paid on the last working day. Payroll compliance involves tax payments and social security contributions which must be withheld by employers each pay cycle. The statutory submission deadline is the 10th of the following month. In terms of records keeping, reports must be kept for at least 5 years.

In Indonesia, there is a mandatory religious holiday bonus called Tunjangan Hari Raya (THR) payment, an annual payment made before the religious holiday. The amount paid is based on the employees' service period. For employees working for more than 12 continuous months, they are entitled to THR equivalent to one month's salary. For employees who have served one month or more but less than 12 months, the THR is calculated on a pro-rata basis. All employees, whether permanent or contract-based are eligible for THR and it must be paid using Indonesian rupiah.

Minimum Wage

The minimum wage requirement varies based on the local government regulations ranging from 1,798,979 IDR in Central Java to 4,416,186 IDR in DKI Jakarta.

Payroll Cycle and Pay Date

The payroll cycle in Indonesia is generally monthly and is usually paid on the last working day, as agreed within the employment contract.

Working Hours

The working hours are arranged as follows:

- Employees with 6 workdays a week - 7 hours a day, 40 hours a week.
- Employees with 5 workdays a week - 8 hours per day, 40 hours a week.

These working hours rules do not apply to certain businesses and are usually regulated with a Ministerial decision.

On working days, an employer shall arrange a rest period during work for its employees of not less than half an hour after the employee has been working for not more than four consecutive hours.



MERCANS

Overtime Payment

Employees are paid overtime pay when they perform extra working hours. The maximum number of overtime hours is 4 per day and 18 per week. There are two methods to calculate the overtime pay:

- a. For overtime on weekdays, the rate is 1.5x the hourly wage for the first hour and 2x hourly wage for the next hours.
- b. For overtime on weekly holidays and national holidays, it will follow the below.

For companies with 5 working days, the rate is 2x the hourly wage for the first 8 hours, 3x hourly wage for the 9th hour, and 4x hourly wage for the 10th and 11th hours.

For companies with 6 working days, the rate is 2x the hourly wage for the first 7 hours, 3x hourly wage for the 8th hour, and 4x hourly wage for the 9th and 10th hours.

For holidays that fall on the shortest working day (e.g., Friday), the rate is 2x the hourly wage for the first 5 hours, 3x hourly wage at the 6th hour, and 4x hourly wage at the 7th and 8th hours.

Wage per one hour is equal to 1/173 employee's monthly wage. If the wage/salary consists of basic salary and fixed allowance, then the overtime calculation is based on 100% from wage/salary. If the wage/salary consists of basic salary, fixed allowance, and variable allowance, and basic salary plus fixed allowance is still lower than 75% from total wage/salary, then the calculation of overtime pay is based on 75% of the total wage/salary.

Social Security

All companies must register their employees in health and employment and employment social security programs. BPJS stands for Badan Penyelenggara Jaminan Sosial (Social Insurance Administration Organization). Indonesia's Social Security Programs (BPJS) is run by two organizations:

- Social Security Agency for Health Insurance (BPJS Kesehatan), covering health insurance.
- Social Security Agency for Workers' Social Security (BPJS Ketenagakerjaan) that provides work accidents protection, death insurance, old age savings, healthcare, and pension.

Employers are responsible in ensuring their employees are covered by workers' social security programs under two government social security agencies. Employees' contributions are collected by the employer through payroll deductions. These must be paid to BPJS together with the contributions borne by the employers.



MERCANS

Areas Covered	As a Percentage of Regular Salaries/Wages	
	Borne by employer (%)	Borne by employee (%)
Working accident protection (1)	0.24 to 1.74	-
Death insurance (1)	0.3	-
Old age saving (1)	3.7	2
Healthcare (2)	4	1
Pension (3)	2	1

Notes:

1. Calculation base is basic salary plus fixed allowance.
2. Maximum calculation base is IDR 12 million/month starting 1 January 2020.
3. Maximum calculation base is updated annually based on BPJS regulation.

Employers are responsible for ascertaining that their employees are covered by workers' social security programs under two government social security agencies as follows:

- Social Security Agency for Health Insurance (BPJS Kesehatan), covering health insurance.
- Social Security Agency for Workers' Social Security (BPJS Ketenagakerjaan), covering working accidents, deaths and old age, and pensions.

Employees' contributions are collected by the employer through payroll deductions. These must be paid to BPJS together with the contributions borne by the employers.

Unemployment insurance

The government introduced a new insurance program (i.e. unemployment insurance) to provide further protection to employees affected by employment termination. The implementation is still subject to further regulations.

Under this insurance program, which will likely be managed by the Social Security Agency (Badan Penyelenggara Jaminan Sosial), the government will provide benefits to the affected employees in the form of cash, access to job market information, and training.



MERCANS

Employment Law

The workforce is regulated by the Indonesian Manpower Law, which protects the rights and interests of both workers and employers. The Manpower Labour Law can and does change frequently, and employers must be familiar with current regulations and how they affect hiring practices.

The hiring of foreign workers is also tightly regulated, but restrictions have been slowly loosening, allowing for more international workers to legally work in Indonesia. Foreign workers are recruited because they possess an acute set of skills and international knowledge.

Employment Agreement

Type of employment contract

1. Temporary i.e. fixed-term contract (PKWT)

- Fixed-term contracts are signed for a specific amount of time. Here are the requirements for the fixed-term contract (PKWT):
- Maximum duration of five years.
- No probationary period is allowed.
- Contract must be signed in the Indonesian language. Bilingual contracts are common for foreign employees. If the employment contract is in English, it's automatically considered as an indefinite contract (more on that below).
- Contract must be registered with the Indonesian Ministry of Manpower within three days after signing.

Terminating fixed-term contract (PKWT)

There are a few key aspects to remember when working with fixed-term contracts:

- You are not allowed to include a probationary period that would allow you to easily terminate the contract in the first months of the employment
- Indonesian employees are entitled to compensation in case the contract gets terminated or extended.
- The size of the compensation is one month's salary. If the employment lasted for less than 12 months, then the compensation is prorated (e.g. 50% for six months).
- Foreign employees are not entitled to the compensation.



MERCANS

2. Permanent, or indefinite term contract (PKWTT)

Permanent contracts are the most common types of employment contracts in Indonesia. As the name suggests, they don't specify an end date for the employment.

A permanent employment contract can include an up to three-month probationary period. Once the probationary period is over, the employer must issue a letter to the employee that they are now a permanent employee.

Probationary period conditions are outlined in the employment contract. They usually allow both parties to terminate the contract in one to four week notice, without the employee having the right for a severance pay.

A common mistake is to not to track the end date of the probationary period. It's important to set up internal practices where the direct supervisors must make a decision of whether to keep the employee or not after the probationary period.

3. Freelance or daily work contracts

Freelance, or daily work, contracts are considered as temporary employment contracts (PKWT). The key difference is that the employee cannot work for more than 21 days per calendar month.

The common use case for freelance contracts is hiring temporary staff for seasonal or temporary assignments. However, it's important that the HR department tracks the number of days the freelancer works for your company – if they exceed the 21 days per month, they automatically become permanent employees.

All contracts must be written in Indonesian. They can be written with both Indonesian and an English translation, but contracts must have an Indonesian version to be legally binding.

Working Conditions

Normal working hours are prescribed by the Indonesian Labor Law as not more than seven hours per day and 40 hours per week based on a six-day working week. With the written agreement of employees (and the union, if the employees are unionized), a five-day working week, with eight hours per day and 40 hours per week, can be used. Wages of employees who work five days per week must not be less than the wages of employees who work six days per week.

The five-day working week has become common among private companies since the government applied a five-day working week for civil servants and employees of state-owned businesses. Regardless, after four hours of continuous work, an employee is entitled to at least 30 minutes of rest time. Employers must also provide reasonable time to perform religious observances, including Muslim prayers, which are performed five times each day.



MERCANS

Leaves

Paid Time Off

Paid leave in Indonesia is set in the employment contract as at least 12 days of paid annual leave per year after completing one full year of employment. Employees who have been working for six consecutive years for the same employer are entitled to one month of leave in the seventh year of service and one month of leave in the eighth year of service.

Public Holidays

16 public holidays.

Sick Days

When employees are sick or injured, they are entitled to paid sick leave, provided they show a medical confirmation of their ill-health. Employees can also have long-term sick leave lasting for longer than 1 year. A doctor should recommend such leave in writing.

Payment to employees on prolonged sick leave is as follows:

- 100% in the first four months
- 75% in the second four months
- 50% the third four months
- 25% of wages until termination

Maternity Leave

Employees are entitled to three months of fully paid maternity leave prior to the estimated due date and one and a half months of leave following the birth. The maternity leave is paid at 100.00% of the regular salary rate of pay.

Paternity Leave

New fathers are entitled to 2 days leave for the birth of their child or a miscarriage.

Parental Leave

Employees are entitled to paid child leave in the following circumstances:

- 2 days paid leave for the circumcision of the employee's child
- 2 days paid leave for the Baptism of the employee's child.
- 2 days paid leave for the marriage of the employee's child.
- 2 days paid leave for the death of the employee's child.



MERCANS

Other Leave

Employees are entitled to up to 2 days of paid leave due to the death of their spouse, one day of paid leave for the death of their parents or parent-in-law, or the death of their children or children-in-law. If a member of the employee's household dies, they shall be entitled to 1 day of paid leave.

Public Holidays of Indonesia for 2022

Day	Date	Holiday
Saturday	Jan 01, 2022	New Year's Day
Tuesday	Feb 01, 2022	Chinese New Year
Tuesday	Mar 01, 2022	Ascension of the Prophet
Thursday	Mar 03, 2022	Holy Nyepi Day
Friday	Apr 15, 2022	Good Friday
Sunday	May 01, 2022	International Worker's Day
Monday	May 02, 2022	1st Day of Eid-al-Fitr
Tuesday	May 03, 2022	2nd Day of Eid-al-Fitr
Monday	May 16, 2022	Vesak Day
Wednesday	Jun 01, 2022	Pancasila Day
Sunday	Jun 26, 2022	Ascension Day of Jesus Christ
Sunday	Jul 10, 2022	Muharram / Islamic New Year
Sunday	Jul 10, 2022	Eid-al-Adha
Wednesday	Aug 17, 2022	Independence Day
Saturday	Oct 08, 2022	Prophet Muhammad's Birthday
Sunday	Dec 25, 2022	Christmas Day

Employment Termination

When terminating a contract, both employer and employee should clearly understand the action and consequences. In addition, both parties have rights and obligations, and proper procedures to follow.

1. Negotiations, you must first try to negotiate with the employee or their Labor Union.
2. Follow the steps stipulated in the Company Regulations
3. Three consecutive warning letters must be given to the employee from the employer prior to termination.
4. After termination, calculate the remaining compensation owed, and pay to the employee.



MERCANS

Severance payment for permanent employees

In situations except for a serious offense, employees are entitled to a severance pay, with the amount depending on how long they were with the company.

Years of Service	Amount
Less than 1 year	1X salary
1 – 2	2X salary
2 – 3	3X salary
3 – 4	4X salary
4 – 5	5X salary
5 – 6	6X salary
6 – 7	7X salary
7 – 8	8X salary
More than 8	9X salary

Appreciation payment

UPMK is a reward for long-time service or tenure with a company.

Years of Service	Amount
3 – 6	2 times salary
6 – 9	3 times salary

Reimbursement of rights

This is owed based on what was promised in the employment contract.

An example of this is the payout for annual leave not taken is included in the contract. Other examples could include travel expenses back home, if the employee relocated for the position, as well as coverage for housing.

Separation payments

This is a voluntary payment from the employer to the employee, and it is the only payment that is not regulated in the Manpower Law. To avoid disputes which could end up in the Industrial Court, employers should be very clear about separation payments either in the employment contract or in the company regulations (PP).

Here is an example of a typical separation pay agreement:



MERCANS

Period of Service / Reason for termination	Employee resigns	Employee is absent for five working days or longer	Employee conducts a serious offence
< 3 years	No payment	No payment	No payment
> 3 years	1 month salary	No payment	No payment

Voluntary Resignation by Employee

When an employee resigns voluntarily, possibly for personal reasons, re-location, or moving to another company, the process for termination of their contract is simple.

It is standard that the employee gives a 30-days notice prior to their last day with the company. Some companies may choose to end the employee's employment before that date.

Resigning employees are not eligible for severance pay. Depending on the circumstance of their resignation, they could still receive uang penggantian hak (rights replacement), uang penghargaan masa kerja (long tenure reward), and separation fee (uang pisah).

Overview of payments the employer is required to pay to the terminated employee

The following table gives a comprehensive overview of the common reasons a contract is terminated and the types of payments the employee is entitled to.

Most Common Reasons	Severance	Rewards of Service	Reimbursement on Rights	Separation Pay
Merger of a company	Y	Y	Y	X
Acquisition of company and termination is being initiated by the company	Y	Y	Y	X
Acquisition of company and workers are not willing to continue working	Y, 0.5x	Y	Y	X
Efficiency due to financial loss	Y, 0.5x	Y	Y	X
Efficiency to avoid financial loss	Y	Y	Y	X
Dissolution due to 2 years loss	Y, 0.5x	Y	Y	X
Dissolution not because of loss	Y	Y	Y	X
Dissolution due to force majeure	Y, 0.5x	Y	Y	X
Force Majeure	Y, 0.75x	Y	Y	X
Employee resigned	X	X	Y	Y
Employee not showing up for five days in a row	X	X	Y	Y



MERCANS

Most Common Reasons	Severance	Rewards of Service	Reimbursement on Rights	Separation Pay
Employee breached agreement/ PP, and has been issued warning letters 1, 2 and 3	Y, 0.5x	Y	Y	X
Employee passed away	Y, 2x	Y	Y	X



MERCANS

Immigration

There are a number of different Indonesia visa types. Whether or not a foreign citizen needs to meet the Indonesia visa requirements depends on their nationality.

While a number of nationalities are able to enter Indonesia visa-free for a short stay of 30 days for tourism, a visa for Indonesia is required for most foreign visitors from abroad for any travel purpose or period of stay.

Find below a breakdown of the different types of visas currently available for Indonesia.

Visa on Arrival

A visa on arrival for Indonesia (VOA) may be issued to some nationalities at select airports in the country. It grants a stay for 30 days for tourism in Indonesia. It may also be extended by paying an extra fee once in the country.

Nevertheless, applying for a visa on arrival involves having to wait in a long border queue to obtain, complete, and submit an application. Additionally, it is necessary to carry a number of supporting documents in paper form to present to authorities for the application to be granted. These include a confirmed return flight ticket and proof of sufficient funds for the stay.

Tourist Visa

The most common type of short-term visa for Indonesia, a tourist visa most often allows the holder a total stay of up to 60 days in the country for purposes of tourism and leisure, to visit friends or family, or to participate in social or cultural activities such as short study programs.

While some nationalities are able to obtain a 30-day tourist visa on arrival, many travelers prefer to use the online Indonesia visa application form to obtain their visa for tourism. This simplified application protocol avoids the need for long waits at immigration control and grants expedited entry to Indonesia.

Business Visa

A business visa for Indonesia may be issued as either a single entry visa which permits a stay of 60 days and can be extended for a total stay of 180 days.



MERCANS

Alternatively, it is also possible to obtain an Indonesia business visa for multiple entries that allows multiple stays of 60 days within a total validity period of 12 months. To obtain either visa type, it is necessary for the applicant to have a sponsorship letter or invitation from an Indonesian company.

This type of visa allows the holder to enter Indonesia for business activities such as attending meetings or conferences, signing contracts, and meeting potential investors. However, it does not allow the traveller to undertake paid employment in the country.

Transit Visa

Foreign nationals who are transiting Indonesia through Soekarno-Hatta International Airport for less than 24 hours, or another airport for under 8 hours, do not need a transit visa for Indonesia. However, all other foreigners who are not visa-exempt will need an Indonesian transit visa to pass through the country to an onward destination.

Electronic Visa

The Indonesia electronic visa program has been introduced to expedite entry to the country for foreign citizens and easily allow them to obtain an Indonesia eVisa online. It removes the need to visit an embassy in person to submit a visa application or endure long border queues to apply for a visa on arrival.

Temporary Stay Permits

An Indonesian Temporary Stay Permit, also known as KITAS, is granted for those who wish to work or study in Indonesia. It may be issued for either a short-term stay of 6 months or long-term stays of 1 or 5 years.

To obtain a KITAS work visa, it is necessary to have sponsorship from a company based in Indonesia as well as an IMTA work permit. To apply for a temporary stay permit to study, it is necessary to obtain a sponsor letter from an Indonesian educational establishment.



MERCANS

They already trust Mercans

accenture



AIRBUS



ATKearney



BLACKROCK

BOMBARDIER

CLARIANT



Electrolux

ERICSSON

Johnson & Johnson

KRATOS

KARCHER



McLaren
AUTOMOTIVE

ManTech
International Corporation

NOKIA



3M



MERCANS

What Makes Mercans your HR and Payroll Partner of Choice?

We Simplify Employment Tasks Worldwide

Everywhere for Everyone

We are a borderless people engagement enabler, driven by technology and innovation. We deliver bespoke human capital management services and global payroll solutions to empower businesses across 110+ countries regardless of their organizations' size and their industry. We pride ourselves on being global people experts with a striking local presence, committed to making your teams happy, and ensuring the consistent and sustainable growth of your organization.

Local Presence. Regional Strategy. Global Success

Supported by 500+ payroll and HR specialists with in-depth local knowledge, Mercans operate globally. Our pioneering human resources consulting services and trailblazing SaaS platforms are already satisfying 5,000+ international clients, ensuring timely measurable results and bottom-line savings. Thanks to success-oriented teams striving for excellence and taking care of our clients' tasks within budget, we have gained the trust of major multinational companies.

A Revolutionary Service Delivery System

Say goodbye to third-party service providers, offshore call centers, fragmented data, and endless chains of sub-contracts.

Mercans cloud-based SaaS Products, HR Blizz™ & Mesaar™, combine the performance of proprietary technologies with a human touch. Cost-effective, they are fully-compliant self-service tools, packed with smart built-in features for your peace of mind. All your data are integrated into single interfaces accessible from everywhere and on any device.

Trailblazing Cloud-Based SaaS Products

HR Blizz & Mesaar, our Software-as-a-Service platforms, both propose a preconfigured API integration capability with all the major global HRMS platforms, including SuccessFactors, Workday, Oracle HCM, and MS Dynamics. All Mercans systems and processes are GDPR compliant, ISO 9001, 20000, 27001 certified, and SOC 1 and SOC 2 audited. A registered Finpro expert, Mercans is also a member of the Global Payroll Association and the Global Payroll Management Institute.



Simplifying Employment
Tasks Worldwide

+1 877 MERCANS (637 2267) | Toll-Free

Europe: +44 20 328 777 62

North America: +1 646 798 5541

Middle East: +971 43 999 260

Asia: +81 50 5539 5354

info@mercans.com | mercans.com

© 2022 Mercans LLC