MIB Monthly Newsletter | **February 2025**

Prospecting Economic Conditions Through the Rise of Non-Taxable Income Threshold

Inside the Issue

Non-Taxable Income Threshold and Economic Conditions in Indonesia • Monthly National and International Tax Highlights • Monthly Tax Revenue

Table of Contents

Insight Article

Non-Taxable Income Threshold and Economic Conditions in Indonesia

Increasing non-taxable income threshold in exchange for improving national living conditions

This article discusses the possibility of increasing the minimum threshold of the Non-Taxable Income in Indonesia in order to increase transactions and purchases in the country.

Non-Taxable Income Threshold and Economic Conditions in Indonesia

Increasing non-taxable income threshold in exchange for improving national living conditions

Indonesian economic and financial conditions aren't exactly pristine – various recommendations from both national and international organizations have been made, encouraging Indonesia to take several steps in order to better the national conditions, especially concerning the opportunities of increasing collected tax revenue.

In February, a well-talked issue in the international tax concerned India, the country with an estimated amount of 1.46 billion in 2024, making changes to their tax provisions, notably changes in the amount of income received by their citizen possible to be imposed with income tax. This move is developed by their Minister of Finance, Nirmala Sitharama,

As news travels, questions are raised by Indonesian citizens – is it possible for us to also follow in India's footsteps? Or is the issue of making a higher Non-Taxable Income level is too far of a stretch to be implemented in the Indonesian economic system? After all, different countries under different leadership require different tactics and strategies to improve their conditions.

The issue of increasing the lowest taxable income amount is not a single issue, but rather entangled in various aspects, that do not only include tax but the national economic condition in general.

Non-Taxable Income in Indonesia: The What and How

Income received by citizens, simultaneously also the Taxpayers, is more often than not imposed with taxes. This is a common practice imposed by lawmakers and tax authorities across the globe, taxes being one of the ways a country and its government earn income to fund its programs and activities.

However, some kinds of income can be exempted from the imposition of taxes, depending on the applicable regulations in certain countries, jurisdictions, or regions. For example, in Indonesia, certain income types are considered exempted from taxes if they fulfill certain requirements, such as being a part of tax incentives or simply under the threshold.

The threshold in question refers to the Non-Taxable Income threshold, firstly introduced in Law Number 7 Year 1983 which was then amended by Law Number 36 Year 2008, and has been regulated through said regulation ever since.

Non-Taxable Income is determined not only through income, but also through several other factors, including the marital status and dependents of said Taxpayer. These factors resulted in various kinds of threshold developed by the government by taking into account the burden and need of a Taxpayer. In such conditions, the Non-Taxable Income applied between a single Taxpayer and a married one, or between a conjoined income Taxpayer and those with several dependents, differ.

Those with more dependents or a conjoined income will be given a higher threshold in comparison to the ones that are single, as the assumptions for a higher living cost is implemented – there are more mouths to feed thus the growing need for more income to be spent on individuals rather than to fulfill the obligations of tax payments.

This prompted Non-Taxable Income to be divided into certain categories – the latest update having the division of the "TK", "K", and "K/I" categories, ranging from "TK/0" to "K/I/3" categories, which will be explained further.

How has the threshold evolved over the years?

The developments of Non-Taxable Income in Indonesia

Indonesia has notably been through 9 (nine) changes of the Non-Taxable Income threshold within the last two decades, with the first change happening in 1995 through the issuance of Law Number 10 Year 1994. Initially, the Non-Taxable Income lowest threshold is set at IDR960,000 with an additional amount to be imposed every time a Taxpayer goes through a change in marital status, income, or dependents following provisions of Law Number 7 Year 1983.

The latest applicable Non-Taxable Income threshold is regulated by the Minister of Finance Regulations Number 101 Year 2016, applicable since 2016 until now – marking the end of the second tax reform in Indonesia. The threshold numbers are as follows in the table.

Non-Taxable Income Classifications >>

TK (Unmarried/Single)
TK/0 (No dependent) **IDR54,000,000**
TK/1 (1 dependent) **IDR58,500,000**
TK/2 (2 dependents) **IDR63,000,000**
TK/3 (3 and more dependents) **IDR67,500,000**
K (Married)
K/0 (No dependent) **IDR58,500,000**
K/1 (1 dependent) **IDR63,000,000**
K/2 (2 dependents) **IDR67,500,000**
K/3 (3 and more dependents) **IDR72,000,000**
K/I (Married with conjoined income from partner)
K/I/0 (No dependent) **IDR112,500,000**
K/I/1 (1 dependent) **IDR117,000,000**
K/I/2 (2 dependents) **IDR121,500,000**
K/I/3 (3 and more dependents) **IDR126,000,000**

From the table, it can be implied that for every dependent, the Non-Taxable Income threshold will receive an additional amount of IDR4.5 million. However, the initial amount for different classes is set at a different starting point.

To simplify the matter, the highlighted changes of the Non-Taxable Income threshold will be shown for Individual or single Taxpayers every time it is changed:

Law Number 7 Year 1983 (1984–1994)
IDR960,000
Law Number 10 Year 1994 (1995–2000)
IDR1,728,000
Law Number 17 Year 2000 (2001–2004)
IDR2,880,000
The Minister of Finance Regulations Number 564 Year 2004 (2005)
IDR12,000,000
The Minister of Finance Regulations Number 137 Year 2005 (2006–2008)
IDR1,728,000
Law Number 36 Year 2008 (2009–2012)
IDR15,840,000
The Minister of Finance Regulations Number 162 Year 2012 (2013–2015)
IDR24,300,000
The Minister of Finance Regulations Number 122 Year 2015 (Tax Year 2015)
IDR36,000,000
The Minister of Finance Regulations Number 564 Year 2004 (Tax Year 2016 until now)
IDR54,000,000

Thus, it is important to note how the Non-Taxable Income threshold will be able to affect the living conditions of Taxpayers, including how much income they receive and how they will be able to spend it. The government determines the amount of Non-Taxable Income by looking at several factors.

These factors include a consultation with the People's Representative Council in regards to the fiscal and monetary conditions, including but not limited to the changes in necessities value and prices each year. It is important for the government to more the threshold of basic needs as well as the global economic conditions, especially when it will affect the national economic conditions.

Changes in the Non-Taxable Income threshold are made by keeping in mind that it will affect the national economic conditions, where national income and transactions will most likely be impacted. However, the rise of the Non-Taxable Income threshold is done to help citizens with a lower income to still be able to buy their basic necessities – in return also increasing the purchasing power and the growth of the Gross Domestic Product (GDP).

Living Conditions and Imposition of the Non-Taxable Income in Indonesia

As previously mentioned, the decision to change and increase the Non-Taxable Income in Indonesia is mediated by a variety of different factors, such as the value of basic needs, economic growth, external or foreign global economic conditions, as well as the purchasing power of the nation.

The Non-Taxable Income is also decided by looking at the Regional Minimum Wage, which each year has faced an increase except in 2021, the after-effects of the COVID-19 pandemic.

Internally, the arrangement to decide the amount of the Regional Minimum Wage may not only be ascertained upon prices or growth, but also through numbers reflecting the on-site conditions. For instance, the ***Organisasi Pekerja Seluruh Indonesia***, or the Organisation of Workers Across Indonesia, developed its own formula to calculate the increase of the Regional Minimum Wage each year which is based on the Government Regulations Number 51 Year 2023 normatively.

The formula takes into account the inflation rate, which is an indicator of the hike in goods and services prices, of each region, and sums it with the amount of regional growth times index:

Regional Inflation Rate + (Regional Economic Growth x Index)

The formula is focused on regional growth as in Indonesia, the minimum wage differs from one region to another, with Jakarta having one of the highest minimum wages.

Current Living Conditions in Indonesia: Rise of goods and services prices

The cost of living in Indonesia is arguably high – between having enough savings, earning monthly or daily income, and ensuring the daily necessities are fulfilled – a lot of Indonesians are struggling to make ends meet.

Inflation, the indicator of rises in goods and services prices, keeps on increasing. Within the last 5 years, the inflation rate has been ranging from 1.5% to 5.5%, and within the next 5 years, Indonesia is expected to have an inflation rate within 1.% to 3.5%. This reflects the current conditions of the living standards in Indonesia.

An average household income in Indonesia ranges between different regions, however, they all must fulfill their daily needs.

Foods in the form of rice and chicken meat, for example, have risen to reach an increase of 24.76% and 26.45% respectively, between 2018 to 2024. However, within those same years, the rise of the regional income wage did not manage to reach double digits, rather, only keeping within the 8% to 10% maximum.

Taxing the Income: Types of taxes imposed on income received by Taxpayers

It has been agreed prior that income is imposed with certain kinds of taxes in order to provide a source of income for the national budget. This is especially true and important in Indonesia, where tax revenue is the main source of income for the government funds in order to run their programs.

In general, there are income taxes imposed on a Taxpayer's income, depending on the type of taxpayer and income they receive. The most common type of income tax to be imposed is the Article 21 Income Tax, imposed on income received or obtained by domestic taxpayers, and Article 21/26 Income Tax on income received or obtained by foreign taxpayers.

In addition to those kinds of income tax, there are also Article 22, Article 23, Article 4(2), Article 15, Article 19, Article 24, Article 25, Article 29, Article 23/26, and Final Income Tax to be imposed on different kinds of taxpayers, incomes, and tax payment methods.

Taxable Income is most likely to be imposed with Article 21 Income Tax, which has been through changes in terms of its imposition. In 2024, the government enacted a progressive income tax calculation using the Effective Tax Rate or ***Tarif Efektif Rata-rata*** in Indonesian, entailing a detailed income tax rate to be imposed on income received with more classifications. The implementation of the Effective Tax Rate scheme is running alongside the calculation using the rate as regulated in Article 17 Income Tax Law.

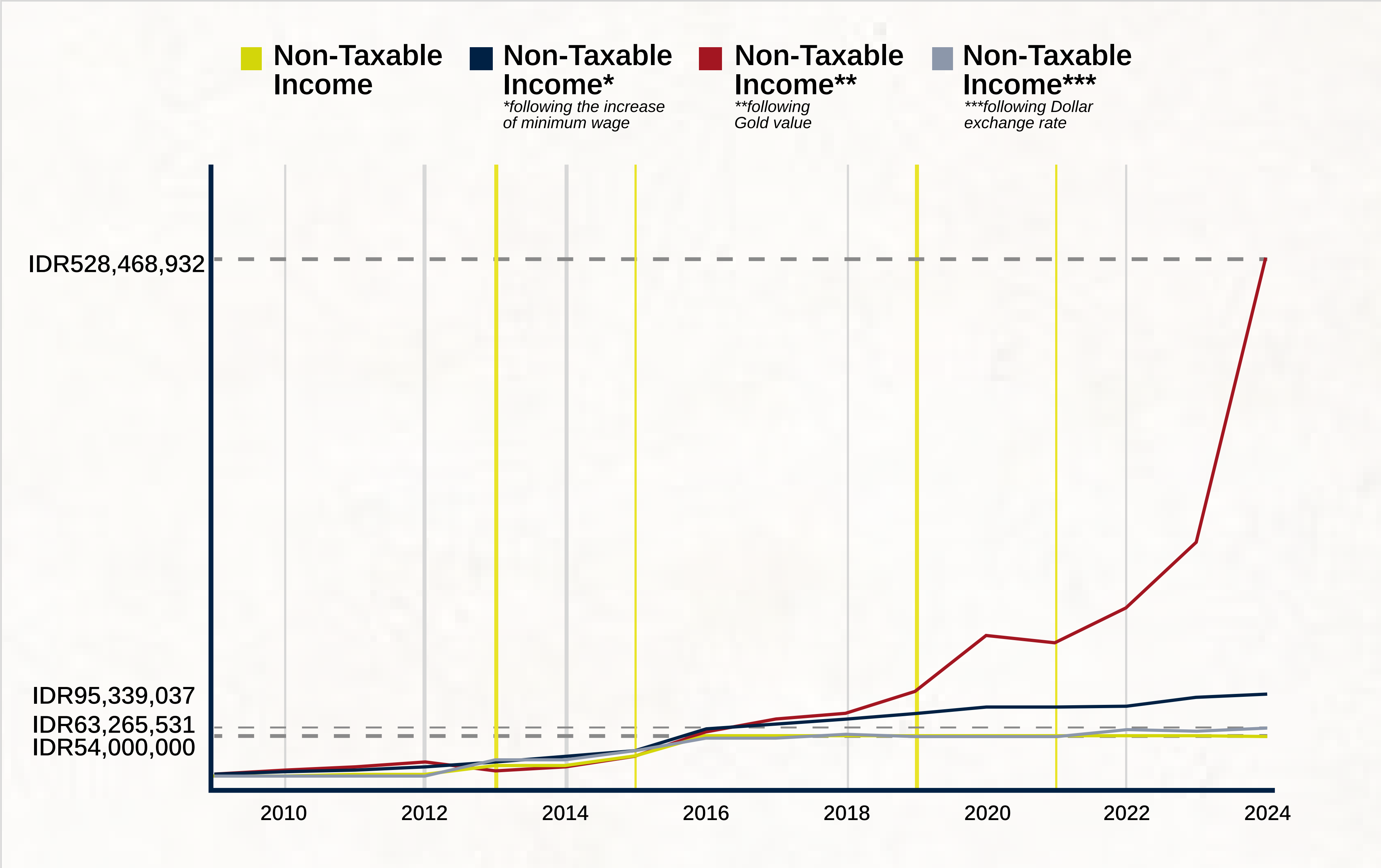
The progressive income tax rate is determined by a range of income received by Taxpayers, divided into different categories based on their marital status and dependents. Category A, for example, is made up of Taxpayers with Non-Taxable Income belonging to groups TK/0, TK/1, and K/0. Category B is made up of Taxpayers with Non-Taxable Income belonging to TK/2, TK/3, K/1, and K/2. Lastly, Category C is made up of Taxpayers belonging to group K/3.

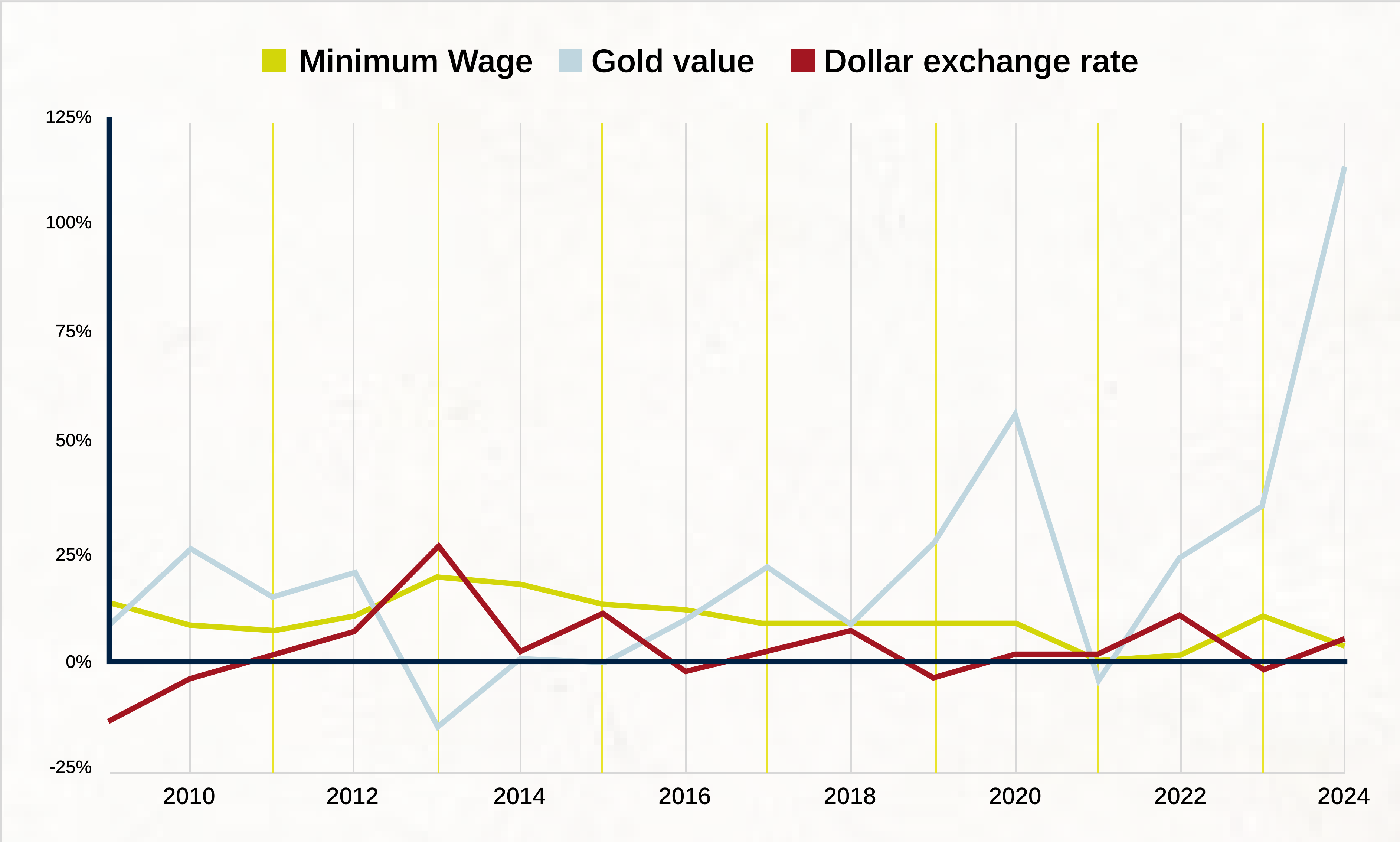
The lowest rate of income tax applicable to each group is 0% and the highest is 34%, whereas according to Article 17 Income Tax Law, the lowest applicable income tax rate is 0% and the highest rate is 35%.

Simulation of Non-Taxable Income Threshold Increase

To illustrate how the living costs in Indonesia, and how the current Non-Taxable Income threshold is not suitable to push the purchasing power from Indonesian citizens, a simulation of an essential increase of the Non-Taxable Income threshold is calculated by weighing several factors: the annual gold value, United States dollar exchange rate, as well as the minimum wage increase.

The reasoning behind using these factors is the tendency of the annual minimum wage to increase alongside a rise in gold value and inflation. The United States dollar exchange rate is used as a factor to see how global conditions and the trading conditions between Indonesia and the United States are currently doing.





By the calculation, it can be seen that it is possible for the Non-Taxable Income threshold to reach a minimum of IDR528 million, by lining it with the increase of annual gold value!

Why should we increase the Non-Taxable Income threshold?
Currently, the government is keeping the minimum Non-Taxable Income threshold at the same level as in 2016, under the pretense of keeping tax to its full potential – to not only be a regulator but also as the main source of revenue for the national income.

Arguably, by keeping the Non-Taxable Income threshold the same, even in the middle of price hikes, the government is aiming to collect more tax revenue as taxes are the main source of income for Indonesia. By expanding the tax basis imposition, the government aims to reach more and more taxpayers to collect their taxes.

This plan is in line with what the World Bank report suggested for the Indonesia government to do: to widen the reach of income tax in order for it to be imposed to more and more income earners. The World Bank, alongside the IMF, suggested for developing countries to reduce regressive tax expenditures and increase the level and design of taxes on capital income.

However, the reality in Indonesia is that there are still many workers appointed and worked in non-formal sectors, which affects how income tax is imposed. If there is no recorded income, how can the government impose a more detailed income tax?

Thus, there should be other ways the government can impose and collect taxes, without it being an additional burden to taxpayers already living a high-cost environment. For example, through the simulation, it can be suggested for the government to increase the minimum Non-Taxable Income threshold periodically by factoring in indicators.

The increase may not have to done annually, but the government have to review how the current conditions are reflected in line with the Non-Taxable Income minimum threshold. By adjusting the threshold, the government can aim to increase purchasing power from Indonesian citizens – where the increase of VAT rate would also make sense. In exchange of lowering the amount of collected income tax, the government could utilize the amount of tax revenue collected from the imposition of VAT on goods and services.

However, it should be noted that the imposition of VAT should also be managed – in 2024, tax revenue collected from VAT imposition and Sales Tax on Luxury Goods became the second highest contributor to the overall revenue – with the government noting that this is due a high consumption power domestically. The government should minimize informal sectors, and to minimize the burden given to those participating within the formal sectors.

A higher Non-Taxable Income threshold can also push for a fairer tax system – where all citizens are imposed with taxes only they can pay, instead of being pushed to pay for a high taxes that take up 5% of their income, of which it can be used to pick up their needs.

In the end, the government have to choose – keeping their Non-Taxable Income threshold and imposing income tax to taxpayers falling within the range of the threshold, or to increase the threshold with hopes of reaching more and more taxpayers?

“Losses and gains are obvious – just which one should the government implement by looking at the current conditions in Indonesia?”

February 2025

Monthly Highlights

2025 is currently rolling in action — various provisions, tax incentives, and other tax facilities are being prepared and legally enacted through issued regulations. Is this how Indonesia aims to not only reach the targeted 2025 tax revenue, but also increase economic activites?

Minister of Finance Issues Several Regulations for Taxes

The Minister of Finance are rolling out several regulations in relation to different aspects of taxation, from provisions to tax incentives. The issuance of PMK 10/2025, PMK 12/2025, and PMK 13/2025, for example, deals with the of tax incentives for workers, electric vehicles, and houses.

PMK 11/2025, another example, deals with the regulatory aspect of Other Value as a tax imposition basis following the 12% Value-Added Tax (VAT) rate in Indonesia.

> Read more here, here, here & here

Regional Heads Now Allowed to Conduct Tax Audit and Tax Collection

Based on the issuance of the PMK 7/2025, regional heads are now allowed to conduct several regional tax procedures, including regional tax audit and tax collection if prompted.

Regional heads are allowed to appoint an expert to provide assistance in the course of a tax audit process, and will also be obligated to report an Audit Working Papers as proof of a tax audit.

In addition, regional heads are also allowed to conduct tax collection for both individual and corporate taxpayers.

> Read more here

Next read 09 2024 National Tax Revenue Lower Than 2023, Unsuccessful Tax Collection? & Coretax Running Hand-in-hand with Previous Tax Applications Following Issues

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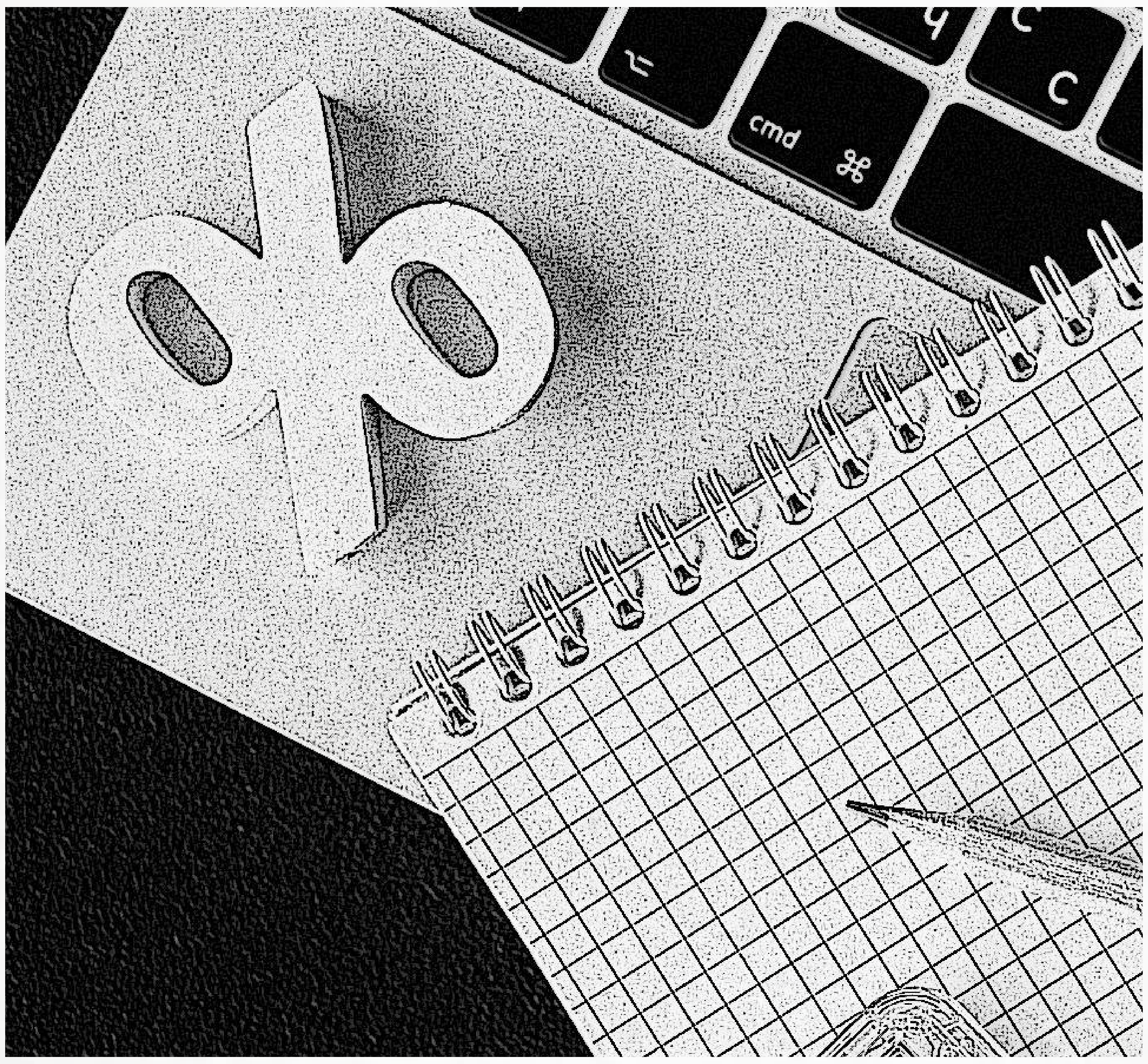

2024 National Tax Revenue Lower Than 2023, Unsuccessful Tax Collection?

By calculating the tax revenue collection of 2024 and the Gross Domestic Product (GDP), the tax ratio for the year 2024 is seemingly lower in comparison to the year 2023.

The tax revenue in 2024 itself is lower than the targeted amount, only able to reach 97.2% of the targeted IDR1,932.4 trillion.

The tax ratio for 2024 is calculated at 10.08%, whereas the tax ratio for the year 2023 is calculated at 10.31%.

> Read more here

Coretax Running Hand-in-hand with Previous Tax Applications Following Issues

Although the Directorate General of Taxes informed that the new tax administration system, the Core Tax Administration System or Coretax, has been fixed and will be maintained here onward, the result is still far from satisfactory.

This resulted in an effort to minimize the 'damage' of the Coretax implementation by making them run together with previous applications. For example, Taxable Entrepreneurs can now also use the e-Faktur Desktop application again to create tax invoices.

> Read more here & here

Next read 10 The Process of Tax Audit Re-regulated Through PMK 15/2025 & International Tax Highlights

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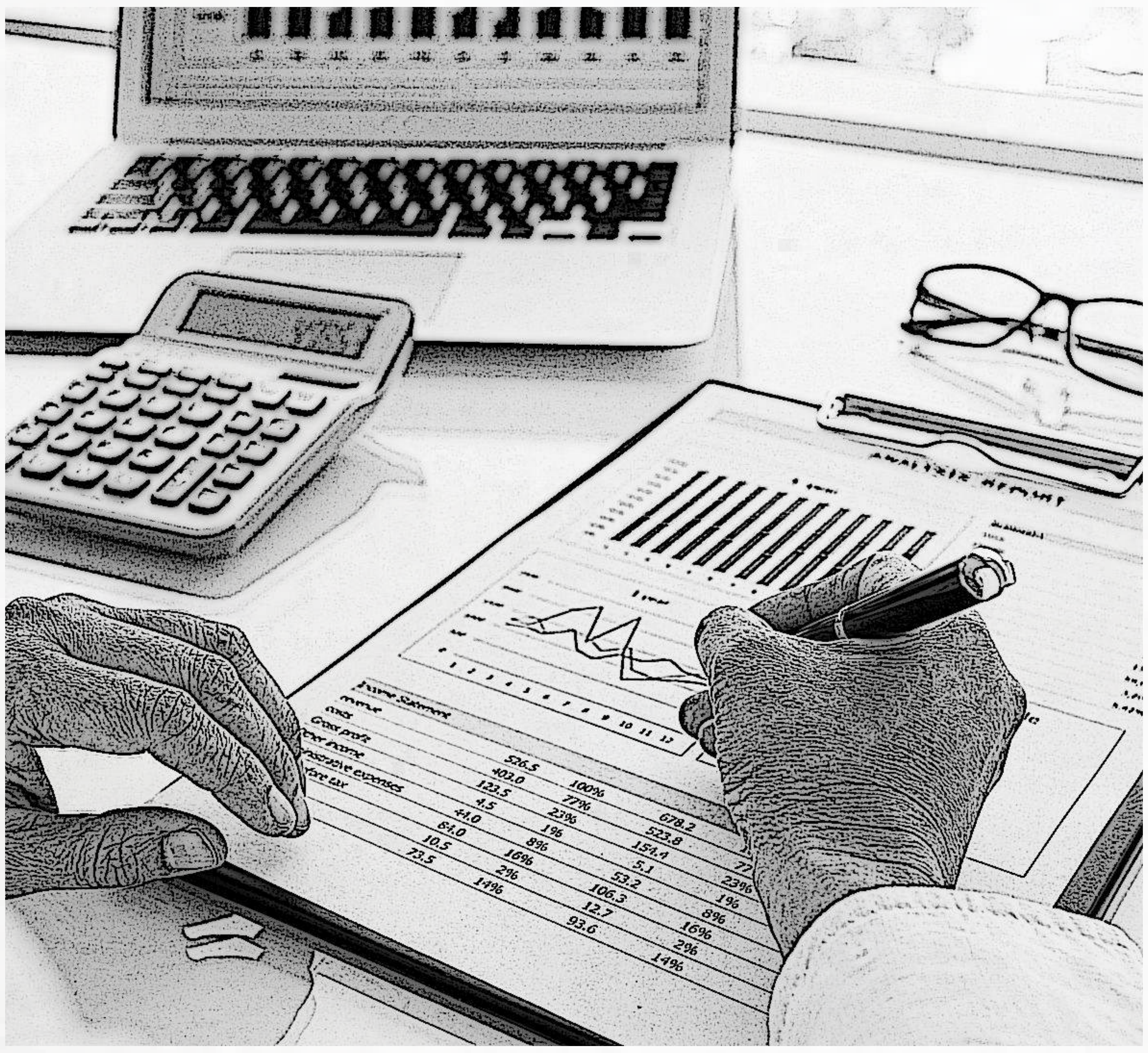


The Process of Tax Audit Re-regulated Through PMK 15/2025

The government introduces new updates in regards to the tax audit process through the issuance of PMK 15/2025. The new regulation introduces new ways that a tax audit can be conducted, as well as the updated period of tax audit process.

In addition, the regulation also manages the actions that must be taken in regards to the tax audit process with other goals than to review taxpayer compliance.

> Read more here

India Increases of Non-Taxable Income Minimum Limit

The Indian government increases the lowest minimum income to be imposed with income tax, hoping to improve economic and fiscal conditions.

> Read more here

The United States to Impose Import Tariff on Goods From Here

Canada, China, and Mexico are on the radar of the United States to have their imported goods be imposed with an import tariff. The decision is currently postponed.

> Read more here

UK Government Allows Rises of Council Tax in Several Regions

In order to increase regional income, teh United Kingdom governments opens up chances for several regions, such as Birmingham and Windsor, to increase the rate of their council tax.

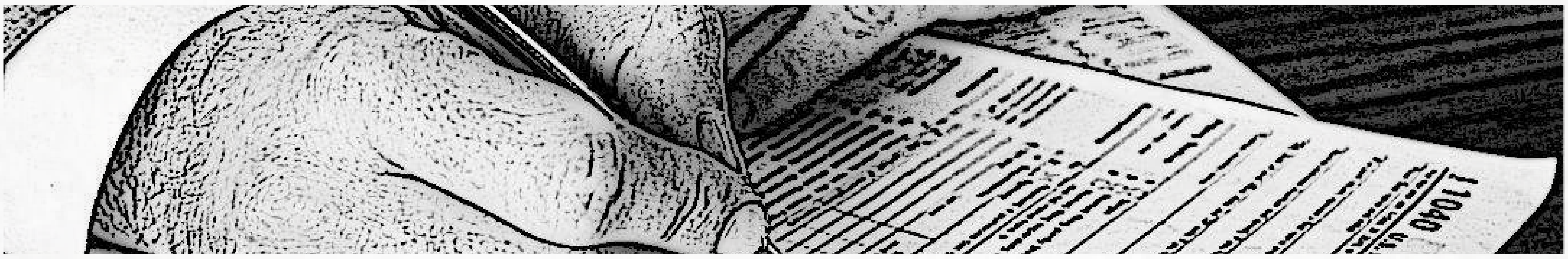
> Read more here

February 2025

Monthly Tax Revenue

February reflects the start of the 2025 tax revenue – especially in relation to the imposition of digital tax revenue. In addition, Taxpayers are starting to calculate and file their 2024 annual income tax returns nearing the deadline. How does the new year affect the collection of taxes, particularly after the imposition of the new Coretax system since January 2025?

Five Million Taxpayers Have Filed Their Annual Income Tax Returns



According to the data provided by the Directorate General of Taxes, the amount of filed Annual Income Tax Returns for the 2024 Tax Year has now reached 5.03 million Taxpayers until 24 February 2025.

Alongside the number of filed Annual Income Tax Returns, the issued and validated tax invoices reached 19.368.610. This number, however, seems to be lower when compared to the one issued and validated in January 2025.

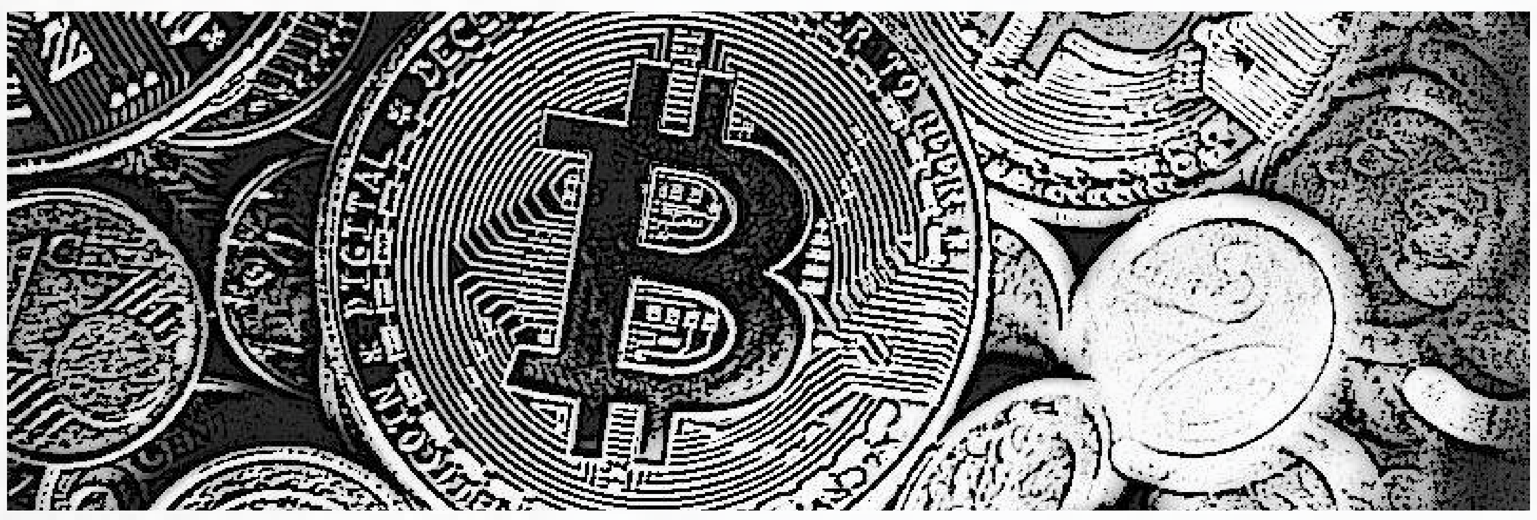
This is how to file your annual income tax returns ⬇️

📄 For Individual Taxpayers >

📷 For Individual Taxpayers with a yearly income of less than IDR60 million >

> Read more here & here

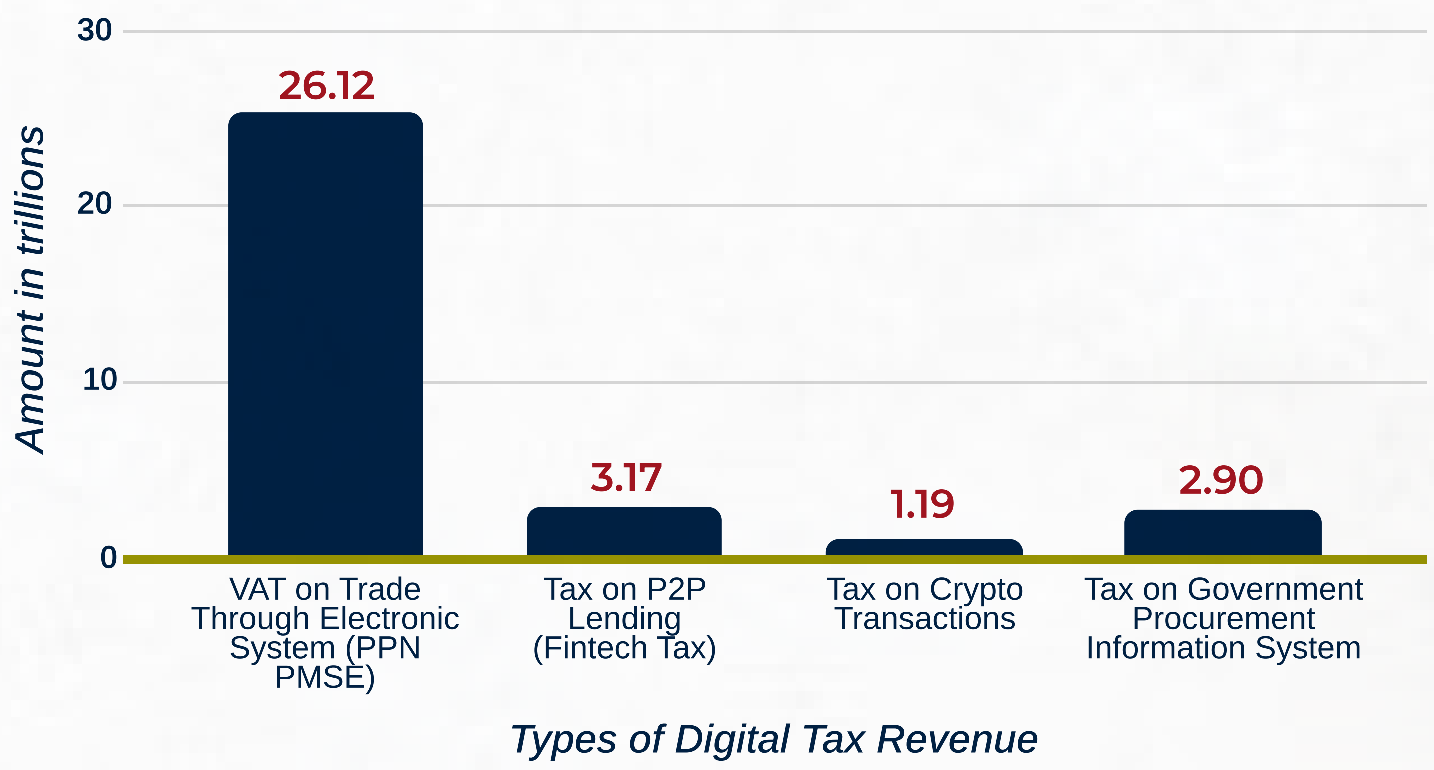
January 2025 Results in an Accumulative Amount of IDR33.39 T



The collected amount of taxes imposed on the digital sector results in an accumulative amount of collection until IDR33.39 trillion, with a collected amount in January 2025 reaching IDR1.08 trillion.

Following previous years and months, the collected revenue on VAT imposed on appointed Trade Through Electronic System companies contributed the highest amount of tax collection, in line with it being one of the first taxes to be imposed on the digital sector.

Collected Amount of Digital Tax Throughout January 2025



> Read more here

Tax Calendar

March 2025

Tax Calendar

March 2025

MON	TUE	WED	THU	FRI	SAT	SUN
24	25	26	27	28	1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29 Day of Silence & Saka New Year	30
31 Eid Al Fitr 1446 H	1	2*	3	4	5	6

Reminders

*Subject to change

15 March 2025	**Submission Deadline** – Value Added Tax Invoices
17 March 2025	**Payment Deadline** – February 2025 Art. 4(2), 15, 21/26, 22, and 23/26 Income Tax
	Payment Deadline – February 2025 Art. 25 Income Tax, SME Final Income Tax, and Self-Assessed VAT
20 March 2025	**Filing Deadline** – February 2025 Art. 4(2), 15, 21/26, 22, 23/26, and 25 Income Tax
29 March 2025	**Day of Silence & Saka New Year**
31 March 2025	**Eid Al Fitr 1446 H**
	Filing Deadline – 2024 Individual Taxpayer Annual Income Tax Returns
2 April 2025*	**Payment and Filing Deadline** – February 2025 Value Added Tax

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