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Tax Alert

News from EY Indonesia Tax Services

New payroll related regulations on the relief provided on tax and social security for workers on certain industries

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Relief on certain Social Security Contribution under Presidential Regulation No. 7 of 2025

Presidential Regulation No. 7 of 2025 addresses the adjustment of workplace accident insurance *(Jaminan Kecelakaan Kerja, or JKK)* contributions for specific labor-intensive industries. This measure is introduced in response to economic challenges, including a global recession that has significantly impacted these sectors and their ability to maintain employment levels.

Key considerations for this adjustment include enhancing social welfare, sustaining purchasing power, and fostering inclusive economic growth. The regulation acknowledges that by providing financial relief on accident insurance contributions, companies in designated sectors can better navigate economic difficulties and ultimately preserve job security for their employees. Eligible industry sectors include food, beverage and tobacco; textiles and garments; leather and leather products; footwear; toys; and furniture manufacturing. To qualify, companies must have at least fifty (50) employees enrolled as active participants in BPJS Ketenagakerjaan.

The regulation outlines relevant definitions related to contributions and establishes a structured framework. Contributions for labor-intensive industries will be reduced by 50%, with specific rates detailed for varying workplace risk levels. For instance, very low-risk workplaces will see a reduction from 0.24% to 0.12% of monthly wages, while contributions from very high-risk areas will decrease from 1.74% to 0.87%.

Furthermore, the document emphasizes that these adjustments will not compromise employee benefits under the workplace accident insurance program. The implementation of these changes aims to reinforce worker protection against workplace

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risks while considering the operational viability of labor-intensive enterprises. It is important to note that the adjustments do not affect the payment requirements and penalties associated with non-compliance.

Overall, this regulation represents a strategic effort by the Indonesian government to ensure both worker protection and industrial stability in the face of economic adversity. It will be effective from February 2025 to July 2025, with the adjustments applying after the settlement of contributions for January 2025.

Article 21 Income Tax Borne by the Government under the Ministry of Finance Regulation Number 10 of 2025

In anticipation of the economic landscape for 2025, Indonesia's Ministry of Finance has enacted Ministerial Regulation Number 10 of 2025. This regulation aims to stabilize the economy and enhance citizens' purchasing power through targeted adjustments to Article 21 of the Income Tax Law *(Pajak Penghasilan or PPh)*. From January to December 2025, employees earning below a specified threshold will benefit from tax incentives in the form of Income Tax Borne by the Government *(PPh Ditanggung Pemerintah),* thereby alleviating their tax burden.

The regulation establishes clear eligibility criteria for tax relief, encompassing various forms of income and mandating that employers ensure proper tax withholding and remittance. A notable aspect of this regulation is the provision for tax relief for eligible employees in designated key sectors, as defined by their business classification codes. Qualified sectors include footwear, textiles/garments, furniture, and leather/leather products. The regulation provides a detailed list of these qualifying sectors according to the government's standard codes of Business Field Classification *(Klasifikasi Lapangan Usaha)*. Both permanent and non-permanent employees within these sectors are eligible for the benefit.

Additionally, the regulation outlines comprehensive reporting requirements for employers to access these benefits, with oversight from the General Directorate of Taxes to prevent misuse. Eligible employees must possess a Tax ID Number and/or Resident Identification Number integrated into the DGT administrative system, have salaries within the required threshold, and not be entitled to other Article 21 Income Tax incentives.

Set to take effect on 4 February 2025, this regulation is part of a broader economic recovery strategy aimed at supporting vulnerable workers and fostering a more resilient economy. The structured incentives reflect a commitment to improving the living standards of Indonesian workers while stimulating key industries and consumption.

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