



INCOME TAX WITHHOLDING FOR INDONESIAN WORKERS ABROAD: AN OBSERVATION ANALYSIS

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Abstract

This study aims to analyze the aspects of taxation on the income of Indonesian workers abroad, both in terms of policy and implementation. The research was conducted with a qualitative approach using the literature method on income tax rules for taxpayers abroad, as well as the interview method to 5 informants of Indonesian workers abroad about the implementation of these rules on the income earned by the informants. Regulators in Indonesia have issued Minister of Finance Regulation No. 18 of 2021, Income Tax Law article 24, and Tax Harmonization Law which regulates the taxation status of overseas workers. The results of interviews from informants explain that the majority of Indonesian workers lack understanding of taxation rules on tax status and income tax withholding processes based on Indonesia's tax rule or tax rules in the country where the informant works. This result can be an input for Indonesian regulators in optimizing the process of socialization and tax education for Indonesian workers who will and are working abroad.

Keywords: Income Tax, Withholding Tax, Indonesian Workers

INTRODUCTION

As an archipelago with a strategic position, Indonesia has great potential in increasing tax revenue from various economic sectors, both from domestic labor and labor working abroad (Jayaputri, 2023). Awareness of the importance of paying taxes is not only the responsibility of citizens, but also part of a joint effort to support national development and the welfare of the nation (Herfina & Rahmawati, 2021). Income tax is imposed on additional economic capacity received by taxpayers, both individuals and business entities, and applies according to the income earned during a tax year. Indonesian workers (TKI) working abroad are also included in this category, where they are required to fulfil tax obligations in accordance with applicable regulations, both in Indonesia and in the country where they work (Herfina & Rahmawati, 2021). However, the complexity of the taxation system for migrant workers working abroad is often debated, especially regarding the differences in taxation policies between countries and the protection of migrant workers' rights in the destination country (Puri & Lisiantara, 2023). The phenomenon of international labor migration, which occurs due to limited employment opportunities in the country, makes migrant workers an important component of the global economy (Cita et al., 2020). As part of the effort to increase tax revenue and ensure tax compliance, the Indonesian government has regulated income tax withholding for migrant workers through laws and regulations such as Minister of Finance Regulation No. 18 of 2021, Law No. 36 of 2008 article 24, and Law No. 7 of 2021 on Tax Harmonization.

The implementation of these policies, especially regarding income tax imposed on migrant workers, has become one of the important issues in the management of international labor migration (Sitamala & Hambali, 2020). Although there are already bilateral and multilateral agreements with the destination countries of migrant workers, such as Malaysia and South Korea, further studies are needed to ensure that this tax policy is effective and provides protection for the rights of migrant workers (KBS World Indonesia, 2021; Sebayang, 2018). Research conducted by the DGT or taxation institutions related to tax literacy among Indonesian Migrant Workers (TKI) is very important in understanding the extent of migrant workers' knowledge of their tax obligations. Many migrant workers are not fully aware of the tax obligations that may arise both in the country where they work and in Indonesia. This



research aims to measure the level of understanding of migrant workers regarding tax schemes abroad, including the tax wedge that affects their income.

Migrant workers' ignorance of the tax wedge and the scale of their income is closely related to the phenomenon of remittances received by Indonesia. Remittances are an important source of foreign exchange, but if migrant workers do not understand the tax burden they bear in the countries where they work, their net income will be significantly reduced due to incomprehensible tax deductions. This affects the amount of remittances sent to Indonesia. For example, in countries such as Singapore, Taiwan, Japan and Dubai, taxation policies vary, and the tax wedge applied may be greater than that imposed in Indonesia. If migrant workers are unaware of this, they are unable to maximize their financial management, which in turn affects the amount of remittances received by their families in Indonesia. Ignorance of the amount of after-tax income (due to the tax wedge) prevents migrant workers from planning their remittances appropriately, which has an overall impact on the volume of remittances received by Indonesia and the welfare of remittance recipients.

On the other hand, this lack of understanding of taxes by migrant workers is a challenge for the Ministry of Labor and the Indonesian government. Educating migrant workers about their tax rights and obligations in their country of employment, as well as how the tax wedge affects their income, is an important step to increase their awareness. With better knowledge, migrant workers will be better able to optimize their remittances and reduce the risk of unnecessary tax burden. In addition, many migrant workers do not realize that their income is taxed in the country where they work. They may not understand how much tax has been deducted, reducing the amount of remittances sent home. These tax deductions often occur without the migrant worker's complete knowledge of local taxation rules, adding to their financial burden. On the other hand, despite working abroad, some migrant workers can still be exposed to tax liabilities in Indonesia under Income Tax Article 24, especially if they have sources of income or assets in Indonesia that generate income. The combination of ignorance of the tax wedge in the country of employment and the tax provisions in Indonesia puts many migrant workers in an unfortunate situation, where they could be double taxed or pay more tax than they should. Observations made by literature on Indonesians who work and own businesses in Penang Malaysia provide information that the majority of Indonesian workers do not understand the procedures for changing their tax status so that the Tax ID Number owned in Indonesia is still active but their tax rights and obligations are not carried out so that they are at risk of being subject to tax audits and tax penalty (Tarmidi et al., 2024).

Thus, the analysis of income tax withholding for migrant workers working abroad becomes very relevant in the context of the government's efforts to increase state revenue and provide legal protection for migrant workers. This study is expected to provide a more comprehensive picture of the challenges and solutions in the implementation of taxation policies for migrant workers, so as to improve their welfare and contribute more optimally to the national economy.

LITERATURE REVIEW

Attribution Theory

Attribution Theory was first proposed by a German psychologist named Heider in 1958. Attribution theory is a theory that describes the process of determining the causes and motives in a person's actions or behavior (Azzahra & Sofianty, 2023). Internal factors usually stem from a person's psychological state that causes the person to do something (Maretanidanini et al., 2023). In the context of taxes, the internal attribution is the psychology of the taxpayer or in this study, the migrant workers in terms of paying taxes. External attribution theory concludes that there are environmental forces that change a person's behaviour (Azzahra & Sofianty, 2023). External attribution is a person's behaviour that is influenced by external factors such as



certain conditions that can affect a person's behaviour. These external factors include conditions external to the individual such as environmental conditions, government policies and others (Maretanidanini et al., 2023). If in the context of taxes, the external attribution is the government policy in the country where the migrant worker works that encourages migrant workers to pay taxes.

METHOD

This research is conducted through a qualitative approach with a literature method in analysing tax policies on Indonesian workers who earn income abroad, then a case study with an interview method is conducted with 5 Indonesian worker informants who work in different countries to discuss the implementation of Indonesian tax policies on Indonesian workers abroad as well as tax policies in the country where the informant earns income. The results of interviews with informants were processed with the N-Vivo application to support in-depth interpretation of information from informants (Bauk et al., 2023; Julito & Ramadani, 2024; Maksum et al., 2020; Sahbita & Siregar, 2023).

Data collection was carried out between November 2023 and April 2024 where literature was conducted by accessing taxation books, tax regulations, and lecture modules, while the interview process was carried out online with 5 informants either directly by zoom or indirectly by email.

RESULTS AND DISCUSSION

Policy

Tax policy issued by the Government of Indonesia in relation to the taxation status of Indonesian workers abroad, commonly called the Tie Breaker Rule. Article 3 paragraph 1 of the Minister of Finance Regulation number 18 of 2021 explains that domestic tax subjects who are abroad for more than 183 days or have a place of activity abroad have their tax status changed to foreign tax subjects. Even so, this change in status is not automatic, but there are conditions and procedures that must be carried out such as proving the place of domicile and place of activity or place of business abroad, having a domicile certificate from the country of domicile abroad, and having paid off all tax debts in Indonesia. When Indonesian labor has fulfilled the requirements to become a foreign tax subject, the tax status in Indonesia becomes a Non-Effective Taxpayer, which means that they do not have tax rights and obligations in Indonesia. Furthermore, because they have become Foreign Tax Subjects, the Indonesian Workers follow the tax rules in the country of domicile.

Another case occurs when the Indonesian Worker does not meet the requirements to become a Foreign Tax Subject, so his status is still a Domestic Tax Subject. This requires Indonesian Workers to carry out tax rights and obligations in accordance with the policies of the Government of Indonesia in terms of calculating, payment, and reporting annual taxes. The impact is Income Tax article 24 that must be calculated and reported in the Annual Tax Return of the Indonesian worker, as explained in Article 24 of the Income Tax Law. Even so, electronic tax payment and reporting facilities can help taxpayers to carry out their tax rights and obligations even though they are not in Indonesia (Anasta et al., 2024).

Implementation

The researcher has conducted interviews with 5 informants who are Indonesian workers abroad, namely Vail Fajar who works in Taiwan (Informant 1), Yuda who works in Japan (Informant 2), Zaki who works in Japan (Informant 3), Bela Viska who works in Dubai (Informant 4), Setiawati who works in Singapore (Informant 5).

The interview results in the form of word-by-word narratives that have been processed on N-Vivo produce the following images:



Figure 1 Word Cloud



Source: Output N-Vivo

The results of the interviews are then presented in the form of interview transcripts which are then reduced in the form of coding, and presented the data into a discussion and then conclusions are drawn from the results of the discussion based on the formulation of the problem in this study. Based on the formulation of the problem, an interview guideline was prepared to be a reference in conducting interviews with informants selected using purposive sampling method. To get a more in-depth description and explanation of tax deductions for foreign workers using the N-Vivo 12 Plus application. Data analysis begins with an analysis of the frequency of occurrence of words or word clouds as visualized in the figure 1.

Based on the analysis of the word cloud provided, there are several keywords that stand out. The word "tax" is the most dominant with a frequency of use of 19 times (7.76%), indicating the main focus of this topic is on taxation. Words such as "I" appeared 13 times (5.31%), "not" 10 times (4.08%), and "and" 7 times (2.86%) also appeared frequently, reflecting personal conversations or frequently asked questions regarding personal tax issues. The presence of the words "outside" and "overseas" 6 times (2.45%) and 5 times (2.04%) respectively suggests that this topic may also involve discussions about taxation for citizens working or living overseas. In addition, the word "npwp" appeared 6 times (2.45%), "income" 3 times (1.22%), and "withholding" 3 times (1.22%) suggesting that this discussion also includes technical aspects of taxes, such as the Taxpayer Identification Number (TIN), income tax withholding, and how taxes are calculated and withheld. The presence of the words "salary" 3 times (1.22%) and "indonesia" 3 times (1.22%) confirms that overseas workers are likely to be concerned with the taxation system in Indonesia and its impact on personal income or salary. Other words such as "imposed", "deducted", and "every" which appeared 3 times each (1.22%) indicate a concern with the process and frequency of taxation.

Figure 1, which is the output of N-Vivo, explains that the focus of the interview is in accordance with the objectives of this study where tax is a topic discussed by the researcher with the informant and the informant also answers using the word "I", meaning that the informant only answers about taxes that the informant understands and relates to the informant himself. This is informant subjectivity information that explains how informants provide information about understanding tax policies on tax status and informant income abroad as well as the implementation carried out when informants work abroad.



The researcher asked the same questions to five informants of Indonesian workers abroad, both informant profiles, work processes and the research topic, namely taxes. The following are the demographics of the informants in this study. In addition to the information on the country of work described above, information on the employment process of Indonesian workers can be explained that the majority of workers (60%) work abroad through agencies, while the remaining 20% look for work personally and also 20% through internship program. The majority of informants work abroad on contracts of at least 3 years (60%) while the remaining 40% have contracts of at least 2 years and can be extended. This information explains that the informants' working period exceeds the 183-day time test described in PMK 18 of 2021 and also tax treaties in general. So the procedure for changing the tax status and tax obligations of Indonesian workers abroad has fulfilled one of the conditions described in Indonesian tax policy.

When researchers asked about the use of Indonesian NPWP abroad, 2 informants answered with varied answers, namely not valid abroad (informant 4), can be used abroad (informant 5), NPWP cannot be used abroad (informant 3), while the other 2 informants answered they did not know. This result explains the different understanding of Indonesian workers on taxation rules, especially the tax status of domestic tax subjects when abroad as explained in PMK 18 of 2021.

The researcher asked about the implementation of income tax withholding on the income received by the informant. Informant 4 explained that in the country where the informant works there is no income tax withholding because it is a tax-free country, but the informant consciously makes a payment tax in Indonesia online. Informant 5 explained that the income he receives is deducted from Income Tax by the employer in the country of domicile and then also reports tax in Indonesia at the end of the year. Informant 1 explained that the income he received was deducted by income tax according to the rules in the country where he worked, but the informant did not know how the tax reporting process in Indonesia on the income. Another case with informant 2 who does not know whether the income received abroad has been deducted from income tax or not, the informant also does not know the process of payment and reporting tax in Indonesia on foreign income received. Informant 3 explained that the income received has been deducted from income tax by the employer according to the tax rules in the country of domicile, the informant did not know how to report the income in Indonesia. This information explains that the majority of employers withhold income tax and or do not withhold income tax on income earned by Indonesian workers, in accordance with the tax policies in the country of domicile where Indonesian workers are employed. This information also explains that only 2 informants reported their overseas income in their annual tax return in Indonesia, while the other 3 informants did not understand the procedures for reporting tax on overseas income.

Discussion

The Indonesian government as the regulator has issued taxation policies relating to the taxation status and taxation procedures for Indonesian workers who receive income abroad, both in the form of laws and implementing regulations. Indeed, Indonesia has also cooperated with regulators in other countries as stated in the Tax Treaty to avoid double taxation on income received by Indonesian workers abroad.

Based on taxation policy, the time test is a time limit on whether Indonesian workers can become foreign tax subjects (SPLN) or remain domestic tax subjects (SPDN). The change in tax status from SPDN to SPLN is the beginning of the change in tax rights and obligations of Indonesian workers who earn income abroad. However, according to PMK 18 of 2021, there are conditions that must be met for Indonesian workers who will change their tax status to SPLN. Whether or not these conditions are fulfilled is the beginning of the implementation of



the rights and obligations of Indonesian labor taxation, whether it is still carried out in Indonesia or in the country of work.

The results of interviews with informants show that the majority of informants do not carry out the procedure for applying for a change in SPDN status to SPLN even though they have worked abroad for the existing time test. The informants' understanding of the procedure for applying for a change in tax status according to PMK 18 of 2021 is quite low, this is thought to be due to the lack of socialization and education activities regarding this policy conveyed to prospective migrant workers and migrant workers who have worked abroad. Then regarding the implementation of income tax withholding abroad, the majority of employers have carried out income tax withholding procedures according to the policies of their respective countries. Even so, the majority of informants do not know how the next tax procedures must be carried out in the form of calculating, payment, and or reporting taxes in Indonesia, although there are some informants who with their own awareness payment and report on the Individual Annual Tax Return. The low understanding and ability of Indonesian workers to carry out their tax rights and obligations is thought to be related to the lack of information on procedures in accordance with Indonesian tax policies that should be obtained by every Indonesian worker, either directly by the Directorate General of Taxes or other parties such as Indonesian labor supply companies or Indonesian embassies abroad.

From these interviews, it can be concluded that despite variations in experience and understanding of taxation, Indonesian workers abroad generally face tax obligations both in the country where they work and in Indonesia. Income Tax deductions are made in accordance with the tax regulations of the country where they work, but some continue to comply with tax obligations in Indonesia to keep their TIN active. This shows the importance of better counselling and education on tax provisions for Indonesian workers abroad so that they can better comply with both tax systems. This is also explained by previous study with the object of research of migrant workers working in Penang Malaysia (Tarmidi et al., 2024) stating that income tax withholding for Indonesian workers working abroad, in accordance with Income Tax Law Number 36 of 2008, namely Domestic Taxpayers (WPDN) are taxed on all income earned, both from Indonesia and from abroad. Taxes paid abroad can be credited against taxes payable in Indonesia through the mechanism of Foreign Tax Credits (PPLN). The socialization activity helps migrant workers understand that they still have an obligation to report and pay income tax to Indonesia, even though the income is earned abroad. Proper education on income tax withholding is important to ensure tax compliance and avoid the risk of sanctions from tax authorities (Tarmidi et al., 2022). With a better understanding, it is expected that migrant workers can properly perform their tax obligations, which in turn will increase the country's tax revenue and reduce legal risks for taxpayers.

CONCLUSION

The results of this study obtained from interviews with five interviewees show variations in the understanding and application of tax provisions for Indonesian workers abroad. Government policies with respect to tax status and income tax withholding procedures have been issued, and overseas employers have implemented income tax withholding in accordance with tax policies in the country of domicile.

Suggestion

To improve the understanding and compliance of Indonesian migrant workers (TKI) with tax regulations, the Indonesian government needs to improve counselling and education on tax obligations both in the country where they work and in Indonesia. This includes providing clear information on Income Tax withholding, tax reporting, and the use of Tax ID Number. The creation of easy-to-understand practical guides on these aspects of taxation would greatly assist migrant workers in fulfilling their tax obligations. In addition, increased



cooperation with the countries where migrant workers work will ensure that they are well-informed about local tax obligations and can comply without confusion.

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