EMPLOYMENT LAW / WORKFORCE GOVERNANCE / BUSINESS

From Protection to Governance.

Indonesia's New Employment Protection Law

THE CENTRAL DISTINCTION

A new statutory framework is more than an HR update. It raises questions about employment contracts, outsourcing structures and workforce governance.

LAW NO. 27/2026 | EFFECTIVE 28 OCTOBER 2026

Based on Law No. 27 of 2026 on Employment Protection, as published by the Government of Indonesia.

GENERAL INFORMATION ONLY. NOT LEGAL, TAX OR OTHER PROFESSIONAL ADVICE.

THE NEW BASELINE 02

A new legal starting point.

Law No. 27/2026 establishes a dedicated employment protection framework. It repeals Law No. 13/2003 and specified employment-cluster provisions of Law No. 6/2023.

STATUTORY STATUS

In force

28 October 2026

IMPLEMENTATION

Within one year

Implementing rules (Art. 312)

ART. 310 | Existing implementing rules remain valid unless inconsistent with the new law.

01 Fixed-term contracts (PKWT)

The statute sets a maximum initial period of two years, with up to two extensions of no more than one year each. A written extension notice is required at least seven days before expiry; PKWT registration is required within three working days of signing.

ARTICLES 82(2)-(3), 87(3)

02 Diplomas and personal documents

Employers generally may not require or retain diplomas or personal documents as employment security. The law provides a defined exception relating to employer-funded education or training under a written employment agreement.

ARTICLES 78-79 | ADMINISTRATIVE SANCTIONS PROVIDED

SECTOR-SPECIFIC IMPLICATIONS 03

Outsourcing is not one-size-fits-all.

The new law distinguishes general support services from specific arrangements in mining and petroleum, with rules for corporate structures and employment relationships.

01

General outsourcing boundary

Written outsourcing arrangements are directed to supporting services, or activities not directly connected to production.

ARTICLE 95

02

Mining and petroleum focus

State-owned and private companies in these sectors may outsource qualifying support services through their own incorporated subsidiaries.

ARTICLE 96

03

Direct-production exposure

Where outsourced personnel perform work directly linked to production, the employment relationship transfers by operation of law to the company receiving the work.

ARTICLE 98

TRANSITION WATCH

1 YEAR

Art. 306: One-year adjustment; existing outsourcing contracts remain valid until expiry. Art. 308: Separate one-year transition for qualifying mining and petroleum businesses.

FINANCIAL AND DISPUTE GOVERNANCE 04

People policy meets financial exposure.

Several provisions connect employment policy with compensation, industrial relations and funding arrangements. Their practical operation must be read alongside implementing rules.

01 Minimum wage architecture

Provincial, district/city and sectoral minimum wages are addressed, with living needs and economic conditions forming part of the framework for wage-setting.

ARTICLES 137-140

02 Termination and dispute process

The law emphasizes measures to avoid termination and, where applicable, bipartite discussions. Contested terminations are linked to the industrial-dispute process and a final binding decision, subject to stated exceptions.

ARTICLES 227-229

03 Severance reserve funding

Article 253 requires employers to provide a severance reserve, with an exemption for micro and small enterprises. Management by a government institution and details are subject to further regulation.

ARTICLE 253

A GOVERNANCE LENS

Workforce costs / contract controls / dispute readiness

CLOSING PERSPECTIVE

Protection is the framework. Governance is the test.

The significance of employment reform lies not only in the text of the law, but also in contract structures, operating models, payroll controls and predictable dispute procedures.

FOUR QUESTIONS FOR CORPORATE GOVERNANCE

01

CONTRACTS

Are fixed-term employment arrangements consistent with the new statutory framework?

02

OUTSOURCING

How do sector rules and transition periods interact with existing service structures?

03

FINANCIAL CONTROLS

What do wages, termination rights and severance reserves mean for oversight?

04

IMPLEMENTATION

Which procedures and implementing instruments still require close attention?

RDJ ADVISORY PERSPECTIVE

The law is effective, while selected operational details await implementing rules. Employment-law changes should not be assumed to alter tax treatment automatically; applicable tax provisions require separate consideration.

SOURCE: LAW NO. 27/2026, ARTS. 78-79, 82, 87, 95-99, 137-140, 227-229, 253, 306, 308, 310-313.

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