DOING BUSINESS IN INDONESIA

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CONTENT

DOING BUSINESS IN INDONESIA

THIS GUIDE HAS BEEN PREPARED FOR THE ASSISTANCE OF THOSE INTERESTED IN DOING BUSINESS IN INDONESIA BASED ON INFORMATION AVAILABLE UP TO AUGUST 1, 2018. IT DOES NOT COVER EXHAUSTIVELY THE SUBJECTS IT TREATS BUT IS INTENDED TO ANSWER SOME OF THE IMPORTANT BROAD QUESTIONS THAT MAY ARISE. WHEN SPECIFIC ISSUES ARISE IN PRACTICE, IT WILL OFTEN BE NECESSARY TO CONSIDER THE RELEVANT LAWS AND REGULATIONS, AND TO OBTAIN APPROPRIATE PROFESSIONAL ADVICE. FOR THIS REASON, THE PUBLISHERS AND AUTHORS ARE NOT RESPONSIBLE FOR THE RESULT OF ANY ACTIONS WHICH ARE UNDERTAKEN BASED ON INFORMATION CONTAINED WITHIN THIS PUBLICATION, NOR FOR ANY ERRORS IN, OR OMISSIONS FROM THIS PUBLICATION.

MAZARS IN INDONESIA AT A GLANCE

Mazars in Indonesia is a leading audit, accounting, tax, and advisory practice. It combines the benefits of integrated and independent global partnership with the innovative drive of its professionals.

Since its establishment in 2008 in Indonesia, Mazars has grown to be one of the top audit, outsourcing, tax, legal and advisory services providers.

In its fast-growing team, Mazars employs only highly skilled and dedicated professionals serving a wide range and multi-sector clients including large Indonesian companies, SMEs, Subsidiaries of Large International Groups and NGOs.

With nationals from Indonesia, France and the Philippines, our team of highly qualified professionals is representative of the Mazars' melting pot, which fits in perfectly with the Indonesian cultural diversity. Mazars is also present in other Asian countries, enabling the offices to unify their capabilities and energies to satisfy the increasing demand of the market as well as providing tailored solutions to our clients. Our international partners know each other well, work together and can personally recommend their counterparts in other offices around the world, who will ensure solutions that fit your needs.

"We value long-term business and personal relationships and we strive to strengthen them through each new assignment."

1. GENERAL INFORMATION ABOUT INDONESIA

GEOGRAPHY, CLIMATE AND NATURAL RESOURCES

Located in South-East Asia between the Indian and Pacific Oceans, Indonesia is the largest archipelago in the world. The country consists of more than 17,000 islands, many of which are uninhabited. Java, where almost 60% of the Indonesian population lives, Sumatra, Borneo, Sulawesi and Papua are the five largest islands of the archipelago.

Jakarta, the capital, located on the North coast of Java, is the hub of the Indonesian economy, where almost all business and governmental activities are conducted. It is, as well, the most densely populated city in Indonesia, with approximately 10 million Jakartans, and where more than 20 million additional people transit every day.

The Indonesian climate is typically tropical, characterized by heavy rainfall, high humidity, and high temperature. The wet season, usually, runs from October to April and the dry season is from May to September. Temperatures generally range from 24 to 33oC.

Thanks to its tropical climate and volcanic activity, Indonesia is a rich archipelago with an abundance of renewable (agricultural products) and unrenewable (mining and minerals) natural resources. Plantation, food crops, fishery, forestry, and mining constitute Indonesia's major natural resources. Indonesia is the world's largest producer of palm oil and the second largest cocoa and rubber producer.

POPULATION DENSITY AND DIVERSITY

In 2017, the population of Indonesia reached more than 265 million people living in the vast archipelago, which made it the 4th most populous nation in the world. By 2050, Indonesia is expected to reach 366 million people.

A multitude of cultures and customs can be found in Indonesia: around 300 native ethnic groups counted and more than 700 languages and dialects are estimated spoken within the archipelago. The official national motto of Indonesia "Bhinneka Tunggal Ika" translated as "Unity in Diversity", perfectly reflects the cultural diversity of the country. The largest ethnic group is the Javanese (42%) from Central or East Java, followed by the Sundanese from West Java, comprising 15% of the population. In addition, there are, as well, foreign ethnicities derived from Chinese, Indian and Arabic descendants.

A common language, called ''Bahasa Indonesia'' was, officially adopted after Indonesia declared its independence in 1945, to help bind Indonesians together. The national language is now mostly used in education, media, commerce, and administration. Most Indonesians speak at least one regional language as mother tongue and learn Bahasa Indonesia at school.

1. GENERAL INFORMATION ABOUT INDONESIA

A mosaic of religions can also be noted in the Indonesian landscape. Religion plays an important part in the daily life of Indonesians. While the Indonesian constitution guarantees to "all people in Indonesia the freedom of worship, each according to his or her own religion or belief", only 6 official religions are recognized in the country: Islam (87,2%), Protestantism (6,9%), Catholicism (2,9%), Hinduism (1,7%), Buddhism (0,7%) and Confucianism (0,05%).

ECONOMIC ENVIRONMENT

With a Gross Domestic Product of US$1,015.5 billion in 2017, Indonesia is ranked the World's 16th largest economy and is the largest market in South-East Asia. According to economic reports, Indonesia is predicted to be in the top 5 of the World's largest economies by 2045. The constant growing domestic demand has been the main driver of Indonesian growth for more than a decade and household consumption still represents 56% of Indonesian GDP in 2017.

INDICATORS	2017
Currency	Indonesian Rupiah (IDR)
GDP growth (annual %)	5.07
Inflation (%)	3.8
Population, total (millions)	265.3
GDP per capita ($)	3,876
Labor Force, total (millions)	128.1
Unemployment rate (%)	5.5

Source: Asian Development Bank, Indonesian Central Bureau of Statistics & World Bank

Even though, Indonesia has a strong economic growth, the economy still runs with some inefficiencies due to the lack of infrastructures (such as roads, airports, seaports or healthcare system).

Recognizing the urgent need for infrastructure development, a heavy development plan has been set by the current President of Indonesia, Bp Joko Widodo, including the construction of 15 new airports. The plan also includes the expansion and/or construction of 24 container ports (5 port hubs and 19 feeder ports) and 1,000 km of new toll roads. A target of adding 60% (around 3300 km) to the existing railway network, and giving 35,000 megawatts of energy has, as well, been determined.

1. GENERAL INFORMATION ABOUT INDONESIA

For the last decade, the government of Indonesia has been transforming investment climate to make a more attractive and secure investment destination. Foreign investments will continue to play an important part in the development of the country. Some key-points worth noting to invest in Indonesia:

- A strong historic growth: Indonesia has been one of the best performing investments throughout the economic crisis that began in 2008
- A strategic location in Asia
- A growing young workforce: around half of the population is below the age of 30
- A vast domestic market with a growing middle-class eager to consume new products and services: more than 53% of the people live in urban areas with a modern life style and a growing purchasing power
- Focus on the development of infrastructure, transportation and social assistance program
- Political stability
- Opening of new investment sectors and reducing logistic costs

In the Ease of Doing Business (EODB) index for 2018 published by the World Bank end of 2017, Indonesia has reached rank of 72 (vs. 106 in the 2016 index), highlighting the significantly progress made lately in deregulating and reforming Indonesian economy.

GOVERNMENT

Indonesia is a democratic country that applies a presidential system and the separation of the legislative, executive and judicial bodies (Trias Politika) Sovereignty in Indonesia is vested in the people, who exercise their will through the People's Consultative Assembly (Majelis Permusyawaratan Rakyat or MPR), the highest state institution.

EXECUTIVE BRANCH

The executive branch of government is administered by a president and a vice president. Both President and Vice-president (running as a pair) are elected, by direct popular vote, for 5 years and can be elected for two 5-year terms at most. The President is the Head of State, meaning that he is the official symbol of Indonesia in the World. He is, also, Head of Government and the commander-in-chief of the Indonesian Armed Forces. After the election, the new president appoints a council of ministers, usually members from his own party, called the Cabinet.

1. GENERAL INFORMATION ABOUT INDONESIA

LEGISLATIVE BRANCH

Legislative power is administrated by the People's Consultative Assembly (Majelis Permusyawaratan Rakyat or MPR) which has the power to set or change some articles of the Constitution, to enthrone, impeach and appoint the pair President/Vice-President. The MPR is composed of the House of People's Representatives (Dewan Perwakilan Rakyat or DPR) and the Regional Representative Council (Dewan Perwakilan Daerah or DPD).

JUDICIAL BRANCH

The judicial power of Indonesia is hold by the Supreme Court (Mahkamah Agung) which is the final court of appeal and the Constitutional court, which has the power to conduct a judicial review of laws.

DECENTRALIZATION

Indonesia is administratively split into 34 provinces, each ruled by a Governor. Decentralization has given provinces greater authority. In fact, Foreign affairs, Defense, Justice, Monetary policy, and Religion are still under the control of the central government, all other services are provided by local governments.

PANCASILA

Pancasila is the soul of the Indonesian democracy, based on five interrelated and inseparable principles:

- The belief in one God
- A just and civilized humanism
- The national unity of Indonesia
- Democratic citizenship lead by wise guidance born of representative consultation
- Social justice for all Indonesians

VISA TO INDONESIA

FREE VISIT VISA

In 2016, Indonesia has implemented a large visa-waiver policy (Presidential Decree No.21 of 2016) which has exempted citizens of 169 countries from visa requirements. Citizens of those countries are eligible to enter and remain in Indonesia without a visa for a maximum of 30 days. The Visa exemption facility cannot be extended or changed into another type of permit.

The full list of countries entitled to visa on arrival or free visit visa may be accessed by contacting local Indonesian Embassies.

1. GENERAL INFORMATION ABOUT INDONESIA

VISA ON ARRIVAL (VOA)

The visa on arrival is for foreigners who want to make a short visit to Indonesia. It is valid for 30 days but can be extended for another 30 days (without the need to leave the country), hence you can visit Indonesia for a total of 60 days. The visa on arrival and visa-free entry facility overlap in terms of purpose of the visit. Therefore, the main difference between both is that a visa on arrival can be extended once by 30 days. The price of a visa on arrival is USD 35 (for the initial 30 days).

TEMPORARY RESIDENCE VISA (KITAS)

KITAS is issued to work permit holders, students and dependents of Indonesian citizens or foreigners with a work permit. Under Regulation No. 10 of 2018 from Ministry of Manpower issued on July 11, 2018, KITAS will have an initial period of validity of 24 months.

BUSINESS VISAS

The government issues business visas for those visiting the country for normal business activities including attending a conference, provided their visit does not involve taking up employment or paid work. There are 2 types of business visas:

- A Single-Entry Business Visa

This visa is valid for a maximum stay of 60 days but can be extended up to 4 times on a monthly basis by the Immigration Department to give a total maximum stay of 6 months. It is useful for buying trips, negotiations and consultations. The visa however, does not permit you to 'work' in Indonesia, the definition of which is as determined by the Immigration Office.

- A Multiple Entry Business Visa

This visa is valid for 12 months and is more convenient if you have to travel to Indonesia on a frequent basis. You may enter and leave Indonesia at any point of time within the 12-month period, but you are required to leave the country every 2 months, which is the maximum stay permitted. It is issued by the Indonesian embassy in your country with the authorization of the Immigration Office in Indonesia. When applying, your business counterparts/sponsors in Indonesia must apply locally on your behalf.

ETIQUETTE AND CUSTOMS

SAVING FACE

As in many countries in Asia, the notion of 'face' is very important in Indonesia. Saving the face could be described as the prevention of social embarrassment at all costs to others and to yourself. In the case of argument or disagreement with someone, blame should never be addressed publicly. To avoid the 'loss of face' and keep a social harmony, Indonesians can communicate very indirectly, direct confrontation is best avoided.

1. GENERAL INFORMATION ABOUT INDONESIA

DRESS CODE

Business dress code is usually the same as international standard. Women are usually expected to wear clothes that cover shoulders and fall below the knees.

BODY LANGUAGE

- Physical contact between members of the opposite sex are minimal, handshakes are tolerated.
- Respect towards older people is greatly valued.
- The left hand should never be used to eat, give or receive something.
- Open displays of anger are all considered highly offensive behavior.

NAMES AND TITLES

Indonesian society is very status conscious, it is consequently important to address people with the proper title, especially in a business context. Generally, people are addressed as 'Bapak' for males, meaning 'father', and 'Ibu' for females, meaning 'mother, followed by the name.

BUSINESS ETIQUETTE

Time is often considered as flexible in Indonesia and many social events or business meetings are expected not to start on time. It's common for Indonesian to arrive late, yet expatriates are likely expected to be punctual.

In Indonesia, time doesn't necessarily bring money; however, good relationships and harmony do. The first meetings can be more about making personal contact with potential partners as business relationships are based on trust and familiarity in the vast archipelago. Indonesians do not make hasty decisions because they might be viewed as not having given the matter sufficient consideration. Several meetings are often necessary before coming to an agreement.

2. INVESTMENT INCENTIVES

OVERVIEW

The Law No. 25/2007 on Capital Investment (Investment Law) specifies that the Indonesian Government awards fiscal and non-fiscal incentives that may be obtained by investors making new investments or expanding their business in order to stimulate capital investment.

At least, one of the following specification needs to be satisfied to receive facilities:

- It should employ numerous local workers,
- The project should be regarded with high importance,
- It should be related to some specific industries: infrastructure constructions/ pioneer industry/ use of local produced capital goods or machines,
- It should be located in a remote, less-developed area or in a Special Economic Zone (SEZ), and
- It should be in partnership with micro, small and medium enterprises.

FISCAL FACILITIES

IMPORT DUTY EXEMPTION

The following exemptions are available:

- Import duty exemption on the import of machinery, capital goods & raw materials for production for a period of 2 years.
- Exemption from Transfer of Ownership Fee for ship registration deed / certificate made for the first time in Indonesia.

Machinery, goods and raw material are considered as imported, if:

- They are not produced in Indonesia;
- Local machines are available, yet unable to fulfill criteria of required machines; or
- They are produced locally but the quantity is not sufficient for the need of the industry.

2. INVESTMENT INCENTIVES

TAX CONCESSION

The Government Regulation No. 18 of 2015 (GR 18/2015) issued on April 6, 2015 stipulates income tax incentive facilities available for investments in specified business sectors and regions. The tax facilities available under GR18/2015 are as follows:

- Reduction of net taxable income of up to 30% of the amount of the investment in the form of fixed assets, prorated at 5% per year in the 6-year period of the commercial production, provided that the assets invested are not transferred out within 6 years;
- Accelerated depreciation on tangible assets and/or amortization deductions on intangible assets acquired in the framework of new investment and/or business expansion;
- Reduction of withholding tax rate on dividends paid to non-residents to 10%;
- A loss carried forward facility for maximum 10 years.

According to Art. 20 of the Investment Law, the facilities stipulated above shall not be granted to foreign capital investment which is not in the form of a limited liability company.

In addition, for any taxpayer who has received Income Tax facilities, but no longer meets the requirements, the granted facilities will be revoked, subject to taxes and penalties.

TAX HOLIDAY

The Ministry of Finance issued new Tax Holiday regulation on April 4, 2018 (PMK-35). Under PMK-35, pioneer industries (the regulation has listed 17 eligible business sectors) are entitled to corporate income tax reduction rate of 100% for a concession period up to 20 years depending on the value of the investment made:

Investment Value (in IDR)	Concession Period (in years)
Above 500 billion and up to 1 Trillion (<)	5
1 Trillion up to 5 Trillion (<)	7
5 Trillion up to 15 Trillion (<)	10
15 Trillion up to 30 Trillion (<)	15
30 Trillion and above	20

Application for the tax holiday should be made to BKPM at the time of application for the investment approval (or within a period of one year following BKPM approval of the investment). BKPM will then submit the application to the Ministry of Finance which should render its decision within 5 working days after receipt.

2. INVESTMENT INCENTIVES

NON-FISCAL FACILITIES

The Law No. 25/2007 points out that non-fiscal facilities can be, as well, provided by the Indonesian Government to investors. That services easiness may take the form of:

LAND-RIGHTS

The following incentives can be provided:

- Right to cultivate may be granted for 60 years and renewed for 35 years;
- Right to build may be granted for 50 years and renewed for 30 years ;
- Right to use may be granted for 45 years and renewed for 25 years.

The land-rights incentives mentioned above may be granted only if investments:

- Are related to structural changes in Indonesian economy (long-term plan);
- Require long term return on investment;
- Don't require sizable area;
- Respect public interest.

IMMIGRATION SERVICES

The following immigration service facilities may be provided to investors:

- Non-permanent residence permit for 2 years;
- Non-permanent residence permit may be changed into permanent residence permit after 2 consecutive years of residence in Indonesia;
- Multiple re-entry can be granted for limited residential permit & permanent residential permit holders.

The incentives mentioned above may be granted only if foreign employees are needed in the realization of the investment, maintenance of machines and/or after sales service.

IMPORT LICENSING FACILITIES

Import licensing incentives may be received for the import of:

- Goods that don't impact negatively health, environment and compliant with the regulation;
- Capital goods or raw materials for own production needs;
- Goods as part of relocation from abroad to Indonesia;
- Goods respecting Indonesian regulations.

3. LEGAL FRAMEWORK

The Law No.40/2007 concerning Limited Liability Companies ("Company Law") is the general legal framework applicable to establish commercial entities in Indonesia. For foreign investment, specific rules apply beside the Company Law.

Investment Restrictions for Foreign Investments

The Law No.25/ 2007 concerning Capital Investment defines a foreign business as any business in the territory of the Republic of Indonesia with even the smallest percentage of foreign shareholding. The type of business lines or activities (KBLI) intended in Indonesia dictates the level of foreign ownership permitted.

The government of Indonesia opens foreign investment opportunities to a long list of industries, some of which may require local equity partnership or other conditions. To invest in Indonesia, any investors must first have a look at the Negative Investment List updated periodically under the Investment Law. The KBLI open for investment (with or without conditions) can be found in this Negative Investment List. For some business lines, having an Indonesian partner is mandatory with the percentage of equity required varying across the different fields of activity.

In principle, if a business can be capably conducted by Indonesians, then that sector should be closed to foreign investment. Some business fields remain then totally closed (including goods/ services prohibited by Indonesian Law, dangerous, polluting, strategic for national security or heritage).

A more complete list of these areas can be found in the latest Negative Investment List in the Presidential Regulation of the Republic of Indonesia No. 44/2016 issued in May 2016.

Investment Coordinating Board (BKPM)

Foreign capital investment is governed by the Investment Coordinating Board of the Republic of Indonesia (BKPM), which administers and approves foreign capital investment in the majority of economic sectors. Investments in oil and gas, mining, construction, banking, finance and insurance industries also require approval from the related ministries. BKPM is also in charge of monitoring the realization of foreign investment in Indonesia and requires foreign investors, which have already established business in Indonesia, to submit activity report periodically.

In 2015, the BKPM launched a 3-hour investment licensing service for foreign investors with a minimum investment in Indonesia of IDR 100 billion and/or a plan to employ more than 1,000 workers. It aims to simplify and accelerate licensing procedures for large scale investments in Indonesia.

3. LEGAL FRAMEWORK

Online Single Submission System (OSS)

In 2018, through Government Regulation No.24 of 2018 on Electronically Integrated Business Licensing Services (GR No.24/2018), the Indonesian Government set-up an Online Single Submission (OSS) System.

The OSS, officially launched on July 9, 2018, aims at simplifying business licensing process, including for foreign investors. It is managed initially by a dedicated body under the supervision of the Coordinating Ministry for Economic Affairs, until the BKPM takes over at later stage.

The OSS delivers all business licenses as well as some documents related to the employment of foreign workers (RPTKA). Before applying for any license, a newly established company will need to obtain a Business Identity Number (NIB) from the OSS. The NIB will be valid for the duration of the establishment of the company and replaces several registration numbers which were required under previous regulations (business registration certificate, import identification number).

4. BUSINESS ENTITIES AVAILABLE TO FOREIGNERS

Before starting any business in Indonesia, it's important to define what kind of activities the company wants to conduct.

If the company plans to conduct commercial activities and generate revenues and profits, the legal entity needed is a foreign investment limited liability company (PMA Company). If the company wants to explore business opportunities without any commercial transaction, a representative office is more suitable.

For some business activities open to foreign investment, a local partner can be required. The Negative Investment List, mentioned in the previous part, clarifies the sectors open to foreign investment and the percentage of ownership allowed to foreign investors.

REPRESENTATIVE OFFICES

To get to know the market, foreign investors frequently open first a representative office (RO) in Indonesia. This is the easiest and fastest way to set up a presence in the country for foreign investors. Thereafter, if the findings are positive implying that Indonesian market can be a profitable business opportunity for the company, foreign investors can transform the representative office into a limited liability company.

There are 3 main types of RO in Indonesia: the Foreign Representative Office, the Foreign Trade Representative Office and the Foreign Construction Services Representative Office.

FOREIGN REPRESENTATIVE OFFICE

The advantage of setting up a Representative Office of a Foreign Company (KPPA) is that no capital investment is required contrary to the PMA company and foreign investors have 100 percent control over this legal entity. However, representative office cannot be established in all sectors and cannot generate revenue but it allows companies to explore the market, find business partners and promote products. It is important to notice, as well, that a foreign parent company abroad is required before opening a representative office in Indonesia.

The validity period of the Foreign Representative Office license is 3 years and can be extended without limitation as per BKPM regulation No. 13/2017. KPPA can only be domiciled in an office building in the capital of an Indonesian province (for example: Jakarta, Bandung, Yogyakarta...).

Though Representative Offices don't generate any revenue, they, usually, must perform some filings for compliance purposes. Requirements for representative office compliance include the submission of a RO activity report to BKPM (every 6 months), some monthly/annual tax filings and social security reporting.

4. BUSINESS ENTITIES AVAILABLE TO FOREIGNERS

FOREIGN TRADE REPRESENTATIVE OFFICE

A Foreign Trade Representative Office (KP3A) can be established in the form of a selling agent, a manufacturers agent or a buying agent. Subject to their business shape, the foreign trade representative offices can perform several support functions, such as market research, quality control, promotion of goods produced by overseas parent company and importation of goods to local companies in the country. However, conducting trading and sales transactions is prohibited.

There is no geographic restriction: a KP3A can be opened within the whole territory of Indonesia but must be incorporated in an office building. The requirements to establish a KP3A are the same as a KPPA except that a specific license (SIUP3A) to perform trading related activities must be delivered by the BKPM.

The SIUP3A for newly established KP3A is valid for a period of 1 year and can be renewed subsequently for 3-year period (undefinitely).

FOREIGN CONSTRUCTION SERVICE REPRESENTATIVE OFFICE

Foreign investors engaged in construction activities can establish Foreign Construction Service Representative Office (BUJKA) in Indonesia. Based on the New Construction Law (Law No.2 of 2017), a Foreign Construction Service Representative Office (BUJKA) is expected to be involved in high-risk and high-technology projects as well as involving high-cost (projects should be at least evaluated at IDR 100 billion) in Indonesia.

A specific representative licensing is needed in order to engage construction activities within Indonesian territory; the validity period of this license is maximum 3 years and may be extended. A BUJKA is considered as "equivalent to Limited Liability Company legal entity engaging in the field of construction service business" and can then conduct sales transactions in Indonesia.

4. BUSINESS ENTITIES AVAILABLE TO FOREIGNERS

PMA COMPANY

The legal entity through which foreign investors can conduct commercial activities in Indonesia is known as PMA Company (foreign investment limited liability company). This structure allows foreign investors to engage in sales activity and to generate revenue and profits in Indonesia.

REGULATORY FRAMEWORK

The relevant authorities involved in establishing a foreign business in Indonesia are the Ministry of Law and Human Rights, the coordinating Ministry for Economic Affairs and the BKPM, which receives, reviews and approves any investment capital applications.

The key laws governing foreign investment in Indonesia are:

- Law No. 5 of 2007 regarding Investment;
- Presidential Regulation No 44 of 2016 Regarding List of Business Fields That Are Closed and Business Fields That Are Open with Requirements for Capital Investment (Negative Investment List);
- Regulation No. 13 of 2017 (Regulation 13) on Guidelines and Procedures for Investment Licensing and Facilities from BKPM;
- Government Regulation No.24 of 2018 on Electronically Integrated Business Licensing Services.

ESTABLISHMENT PROCESS

Under Regulation 13, investors of certain lines of business must obtain Investment Registration (Pendaftaran Modal) from BKPM in order to start activity. Those lines of business encompass those would need time to start construction, those would need investment facilities or those related to infrastructures.

Foreign investors who do not require investment registration first must establish legally the PMA Company before applying for business license. All the process must be conducted through the OSS System. Steps are as follows:

- Application and registration of the PMA Company name to the Ministry of Law and Human Rights
- Drafting of the Articles of Association (AoA): Art.15 of the Company Law sets out the minimum content requirements for the AoA;
- Preparation and submission of the Deed of Establishment (DoE) from notary to the Ministry of Law and Human Rights. The DoE must, at least, contain the Articles of Association, and additional information regarding the Founders, Boards of Directors (BoD), Commissioners (BoC) and the Shareholders;
- Approval and legalization of Deed of Establishment by Ministry of Law and Human Rights.
- Obtain Single Business Number (NIB) from OSS;
- Procurement of Tax Identification Number (NPWP) and Tax Registration Letter (SKT) from the relevant tax office;
- Application of the Letter of Domicile of the company (SKDP) to the relevant sub-district;
- Application of business license.

4. BUSINESS ENTITIES AVAILABLE TO FOREIGNERS

Regulation 13 stipulates that to apply for permanent business license, foreign investors must comply with the requirements of large scale business (either net assets of IDR 10 billion – excluding land & building or annual revenue of more than IDR50 billion). Foreign investors that have not yet met the requirements will be given "temporary" business license valid one year, that can be renewed once.

For businesses requiring Investment Registration, it will need to be obtained before the preparation of the Deed of Establishment of the PMA Company.

COMPLIANCE

A PMA Company is obliged to submit periodical Investment Activity Progress Report (LKPM) to BKPM, containing among other information, investment realized by the company and headcount. Any company failing to submit the Investment Activity Progress Report is subject to administrative sanction that can lead to a revocation of investment license and/or investment facilities.

PMA Company is required to submit periodically employment reporting (Mandatory Manpower Report) to Minister of Manpower.

Following issuance of Regulation 18/2017 from Ministry of Manpower, Mandatory Manpower Report should be now submitted on line every year (in December), or at occurrence of certain events.

CORPORATE STRUCTURE

A PMA Company requires a minimum of 2 shareholders (individuals or organizations that own equity in the company). Owning shares of a company gives the right to shareholders to:

- Attend and cast votes in General Meeting of Shareholders (GMS);
- Receive payment of dividends; and
- Exercise multiple other rights defined under the Company Law (40/2007).

It is required for a company to be managed by a Board of Directors, which in turn should be supervised by a Board of Commissioners. Both Boards are appointed by the General Meeting of Shareholders.

The Board of Commissioners (one member required at least) is responsible for the supervision of the company in accordance with the AoA (management policies and performance of management) and shall give advice to the Board of Directors. The Board of Commissioners is not part of the daily management.

The Board of Directors, consisting at least of 1 member, oversees the general management of the company while standing for its best interest.

4. BUSINESS ENTITIES AVAILABLE TO FOREIGNERS

Both Directors and Commissioners can be foreign nationals.

MINIMUM CAPITAL INVESTMENT

The minimum capital requirement for foreign investment stands at IDR 10 billion. A minimum paid-up capital of 25% of the minimum capital requirement is required to establish a PMA Company. In certain industries (capital intensive) paid-up capital requirements can be higher.

EMPLOYING PEOPLE

A PMA Company must apply for an Expatriate Manpower Utilization Plan (RPTKA) endorsed by the Ministry of Manpower in order to employ expatriates and follows prevailing procedures to obtain work and stay permits. It is important to note that not all work positions are open to foreigners. Application for RPTKA is submitted via the OSS platform.

PERMANENT ESTABLISHMENT

A permanent establishment is a business form that is used by:

- An individual who does not reside in Indonesia.
- An individual who lives in Indonesia for not more than 183 days over a period of 12 months.
- An entity that is not established and has no domicile in Indonesia to carry on business or conduct activities in Indonesia.

A permanent establishment will have the same tax obligation as a tax resident and is obliged to have a Tax Registration Number. Therefore, any income generated by a permanent establishment in Indonesia will be taxable in Indonesia as if such income was generated by an Indonesian tax subject.

A permanent establishment can take the form of representative offices, branch offices, management base offices, plants, warehouses...

5. CORPORATE TAXATION

REGULATORY FRAMEWORK

Indonesia operates a self-assessment system, which obliges each resident taxpayer to self-assess, settle and report their income tax liabilities during a certain period of time upon completion of a taxable transaction, and on a regular basis (monthly and annually).
Indonesian Tax system is mainly ruled by the following laws:

- Income Tax Law (No.36/2008)
- General Tax Provisions Law (No.16/2009)
- Value Added Tax on Goods and Services, and Sales Tax on Luxury Goods Law (No. 42/2009)

SUMMARY OF TAX DEADLINES

Type of Tax	Monthly Payment Deadline	Monthly Filing Deadline	Annual Filing Deadline
Corporate Income Tax	15th of the following month	20th of the following month	End of the 4th month after the tax year ends
Employee Withholding Tax	10th of the following month	20th of the following month	N/A
Other Withholding Tax (PPH 23, PPH26, PPH 22 and Final Income Tax)	10th of the following month	20th of the following month	N/A
VAT and LGST	Before the VAT return filing deadline	End of the following month	N/A

In case of late payment, taxpayers shall pay penalties at 2% per month. A single day of late payment is considered as a full month.

PENALTIES IN CASE OF LATE FILING

There are also penalties for late filing:

Type of Tax return	Penalties (IDR)
VAT return	500,000
Other monthly tax returns	100,000
Individual Income Tax return	100,000
Corporate Income Tax Return	1,000,000

5. CORPORATE TAXATION

CORPORATE INCOME TAX

TAX RATES

General corporate tax rate is a flat rate of 25%. However, public companies with at least 40% of their shares on the Indonesian Stock Exchange and who satisfy other conditions are entitled to a tax cut of 5% from the standard rate. This provides an effective tax rate of 20%.

Companies with a turnover of less than IDR 50 billion are entitled to 50% tax discount from the standard tax rate of 25% on a proportion up to IDR 4.8 billion of their taxable income (based on turnover).

Government Regulation No.23 issued on 8 June 2018 stipulates that companies with turnover of up to IDR 4.8 billion can apply for final tax on turnover at 0.5%. This regime only applies for a maximum period of 3 years for companies. Companies that obtain income tax allowance or tax holiday cannot benefit from the final tax regime.

TAX RATES

Corporate Income Tax	Tax Rate
Normal rate	25%
Listed companies with > 40% of shares traded on IDX	20%
Companies with a gross turnover below IDR 50 billion	12.5% on portion of taxable income (normal rate applicable on other portion of taxable income)
Companies with a gross turnover below IDR 4.8 billion	0.5% final tax on turnover

TAX PERIOD

The normal corporate tax period is following a calendar year, from January to December, however, if a company wants to use a different tax period, it shall obtain an approval from the Indonesian Director General of Tax and maintain the approved tax period. A financial year cannot exceed 12 months for tax purposes.

Companies need to file their annual Corporate Income Tax return (CITR) by the end of the fourth month following the end of the tax year.

5. CORPORATE TAXATION

RESIDENT STATUS

Under the Income Tax Law, a company domiciled in Indonesia is considered as tax resident and is subjected to the tax obligations set by the Indonesian government. Similarly, a foreign company conducting activities in Indonesia through a permanent establishment (PE) will usually be treated as a tax resident and will have the same tax obligations. Tax obligations of an entity shall cease at the time the entity is dissolved or is no longer domiciled in Indonesia. Non-resident companies are those which are incorporated overseas, but receive or accrue income from Indonesia.

RESIDENCE STATUS

Resident Taxpayers	Nonresident Taxpayers
Taxed on the income originating from sources in Indonesia and overseas (worldwide income)	Taxed only on the income originating from sources in Indonesia
Taxed based on the net income with a general rate	Taxed based on the gross income with an appropriate rate
Obliged to submit Annual Return as means for assessing the tax obligation in a taxable year	Tax obligations are fulfilled through withholding tax, which is final in nature.

TAX PAYMENT

Corporate tax liability of resident corporate taxpayers and Indonesian Permanent Establishments are settled by the way of self-payment, withholding by third parties, or a combination of both.

Corporate Income Tax is payable by monthly instalments (PPh25/Art. 25 of Income Tax Law) and through different other withholding taxes specified in the Income Tax Law. The tax withheld on certain kinds of income (PPh 23/ Art. 23 of Income Tax Law) or paid in advance on certain types of transaction (PPh22/ Art. 22 of Income Tax Law) form a prepayment against the current year Corporate Income Tax (CIT) liability. If the total CIT due is higher than the total amount of prepayment through the year, the resident company or PE will have to pay the deficit before filing the annual CIT Return.

TAXABLE OBJECT

Taxable object is, commonly, defined as income which is, "any increase in economic capacity received by or accrued by a Taxpayer from Indonesia, as well as from offshore, which can be used for consumption or to increase the wealth of a tax payer in whatever form."

Taxable income consists among other of:

- Compensation or remuneration received or accrued in respect of employment of service rendered;
- Business profits;
- Gain from the sale or transfer of property;
- Interest including premium, discounts and compensation for loan repayment guarantees;
- Dividends;
- Royalties;
- Gain from revaluation of assets;
- Gain from foreign exchange;
- Insurance premium.

5. CORPORATE TAXATION

DEDUCTIBLE AND NON-DEDUCTIBLE EXPENSES

Under the Income Tax Law No.36/2008, some expenditures related to business activity (directly or indirectly earned, collected or maintained income) are deductible against taxable income such as material and travelling expenses, interest, rental and royalties, depreciation or amortization expenses.

However, some types of expenses, specified by the government, remain non-deductible from the taxable income, among others, private expenses, benefits in kind, distribution of profits paid under any form or tax penalties.

DEBT TO EQUITY RATIO

In 2015, the Ministry of Finance issued regulation No.169/PMK.010/2015 for the debt-to-equity ratio (DER) calculation, applicable starting from fiscal year 2016 (PMK-169).

PMK-169 regulation stipulates that a single ratio of 4:1, is generally applicable, to obtain full deductibility of the financing costs, the amount of debt allowable should not exceed four times the equity amount. If the debt amount exceeds four times the equity, the deductible financing cost amount will be limited to the maximum amount of 4:1.

Further in 2017, the Ministry of Finance issued regulation No.PER-25/PJ/2017 (PER-25) for the implementation of PMK-169. Under PER-25, financing costs which fail to satisfy arm's length principle are deemed to be dividends. PER-25 defines some DER reporting requirements to attach to the annual corporate income tax return. Failure to report will result in non-deductibility of related financing costs. It applies from fiscal year 2017 onward.

WITHHOLDING TAXES

Taxpayers (corporations and individuals) are prone to many obligations to withhold taxes on various payments to residents (companies, PE and individuals) and nonresidents. The different types of withholding taxes can be found in the Income Tax Law (No.36/2008).

ARTICLE 21 (PPh 21)

Employers must withhold tax (PPh 21) from the remuneration of their employees, pay the tax as their representative to the State Treasury, and report to the Tax Office.

Individual taxpayers with no Tax ID number (NPWP) are exposed to a surcharge of 20%.

ARTICLE 22 (PPh 22)

Business activities in the importing sector or companies receiving payments for certain types of products (sales of good to government, sale or purchase of very luxurious goods, sale of fuel ...) are obliged to withholding tax Art.22/PPh22.

The collection base and amount collected is set by Decree of the Minister of Finance. Companies holding an import license should be taxed at a rate of 2,5%; those who don't hold import license are subject to a withholding tax rate of 7,5%.

5. CORPORATE TAXATION

FINAL INCOME TAX (PPh FINAL)

Certain types of income are subject to final withholding tax (Art. 4.2) at a specific percentage noted as below:

Taxable Income	Final income tax rate (%)
Land and building rental fees	10
Land and building right transfer proceeds	5
Construction services fees (as the contractor – depending on business classifications)	2, 3 or 4
Construction services fees (as planner or supervisor – depending on business classifications)	4 or 6
Interest on time deposit, whose funds are from export proceeds in USD	10 (one month) 7.5 (three months) 2.5 (six months) 0 (more than six month)
Interest on time deposit, whose funds are from export proceeds in IDR	7.5 (one month) 5 (three months) 0 (six months or more)
Interest on time/saving deposit/Bank of Indonesia Certificates (SBIs), other than that payable to banks operating in Indonesia and to government approved pension funds	20
Interest on bonds, other than that payable to banks operating in Indonesia and to government approved pension funds	15
Sale of exchange traded shares on Indonesian Stock Exchange	0.1
Interest on bonds, other than that payable to banks operating in Indonesia and to government approved pension funds	25

5. CORPORATE TAXATION

ARTICLE 23 & ARTICLE 26 (PPh 23/PPh 26)

Articles 23 and 26 specify that passive income such as interests, royalties and dividends shall be subject to the following withholding tax rates:

WITHHOLDING TAX ARTICLES 23 AND 26 RATES

	Whithholding rate (%)		
Taxable Income	**Resident Corporation**	**Resident Individual**	**Non-resident taxpayer**
Interests	15	15	20
Royalties	15	15	20
Dividends	15, or nil if holding is more than 25	10 Final	20
Branch profits	N/A	N/A	N/A

For non-resident tax payer, reduced rate or exemption of withholding tax can be obtained under prevailing tax treaty.

TRANSFER PRICING

Transfer pricing is characterized as the pricing of goods, services and intangibles between parties having ''special relations''. Indonesia applies the arm's-length principle for transactions between related parties, principle under which related parties must set their prices as if they were unrelated. Taxpayers ought to prepare and preserve documentation to show that their related party transactions are carried out at arm's length.

Indonesian Transfer Pricing rules have been updated since 2016 to align with OECD / G20 BEPS Project, although Indonesia is not a member of OECD.

DEFINITION OF "SPECIAL RELATION"

Pursuant to the Income Tax Law, a special relationship is defined as relations between parties of the following:

- Ownership of 25% or greater (direct, indirect or shared) of one taxpayer in another taxpayer;
- Control through management or technology (either direct or indirect) of one taxpayer over another taxpayer; and
- Family relationship either blood or marriage between taxpayers.

The Income Tax Law stipulates that the price on the purchase or sale of goods, services and intangibles which is influenced by a special relationship shall be the amount that should be paid or received in a transaction between independent parties (the arm's length value).

5. CORPORATE TAXATION

TRANSFER PRICING METHODS

According to the Transfer Pricing Regulations, in line with the OECD guidelines, it states that the ''most appropriate method'' should be applied, as it is impossible to replicate exactly what would have happened if parties were not related.

WHAT IS THE NEW TRANSFER PRICING DOCUMENTATION REGULATION?

End of 2016, the Indonesian government issued a new transfer pricing regulation No.213/PMK.03/2016 (''PMK 213'') to intend minimize the transfer pricing schemes conducted by multinational companies. In the context of BEPS (Base erosion profit shifting) project, the Ministry of Finance has implemented a new documentation requirement for Indonesian taxpayers dealing with related parties.

PMK 213 outlines new threshold of transfer pricing documentation, introduces three-tiered documentation approach and requires documentation to be submitted in Indonesian language. Transfer pricing documentation should be available no more than four months after the end of the fiscal year.

Gross revenue in the preceding tax year > IDR 50 bilion	Master file and Local file must be submitted
Tangibles goods transactions with related parties in the preceding tax year > IDR 20 billion	
Services, royalties, interest or other transactions with related parties in the preceding year > IDR 5 billion	
Related party transactions with affiliated party located in a jurisdiction with a lower income tax rate than Indonesia's	

A taxpayer should provide the country-by-country report (CbCR), in addition to the Transfer pricing documentation (master file et local file) when the following conditions are fulfilled cumulatively:

- The taxpayer is a parent entity of a group company;
- The taxpayer is obliged to prepare consolidated financial statements in accordance with Indonesian Financial Accounting Standards/Indonesian Stock Exchange regulations; and
- The taxpayer has a consolidated gross revenue of IDR 11 trillion.

Where the Parent Entity is located in a foreign jurisdiction, the resident taxpayer is required to submit the CbCR when the country of the Parent Entity:

- Does not require submission of CbCR;
- Does not have an agreement with the Government of Indonesia on exchange of information;
- Has an agreement but the CbCR cannot be obtained by the Government of Indonesia.

Regulation No.PER-29/PJ/2017 (PER-29) issued on December 29, 2017 has further specified obligations for Indonesian companies to submit CbCR, including notification requirement to the Indonesian Tax Authorities by companies regarding their obligation or not to submit CbCR. Notification and CbCR (when required) are due at the latest 12 months after the end of the fiscal year.

5. CORPORATE TAXATION

LACK OF COMPLIANCE AND TRANSFER PRICING ISSUES

Transfer pricing documentation is mandatory on an annual basis if criteria set by PMK 213 are met. Lack of compliance may result in potential tax risks and exposures. In case of transfer pricing issues with Indonesian Tax Authorities, avenues for resolution are the following:

- Filing for Mutual Agreement Procedure (MAP) if the dispute involves two or more countries;
- Lodging Advance Pricing Agreement (APA); or
- Undergoing formal tax dispute procedure.

Details on procedures to execute a MAP and an APA were elaborated in two regulations issued by the Ministry of Finance in 2014 and 2015, respectively.

VALUE-ADDED TAX (VAT)

Under Law No. 42/2009 related to Value Added Tax on Goods and Services, and Sales Tax on Luxury Goods, VAT is imposed on the following:

- Deliveries of taxable goods or taxable services;
- Import of taxable goods;
- Use or consumption of taxable intangible goods/services originating from abroad;
- Export of taxable goods (tangible and intangible) or services by a taxable enterprise.

Note:
Certain types of services are not subject to VAT, for example, financial or medical services.

VAT is collected at a standard rate of 10% but for some services the VAT effective rate is 1%.
For export of goods, either tangibles or intangible, and export of taxable services (subject to some restrictions), the VAT rate is 0%.

Taxpayers are required to file returns with information of all output and input VAT within the following month. The month-to-month VAT report ought to be filed by the end of the subsequent month and net output VAT should be paid before submitting.

Taxpayers are required to settle VAT liability on monthly basis. Each business unit of a company (branch) is required to be registered with the relevant district tax service office (KPP) in the context of decentralization.

In some instances, VAT reporting can be centralized (KPP for large and medium-sized taxpayers, foreign investment companies, listed companies).

LUXURY-GOOD SALES TAX (LGST)

Besides VAT, some goods may be subject to Luxury Goods Sales Tax (LGST) as well, for example, luxury cars, apartments and houses. This tax must be considered every month together with VAT. Customs Book specifies which goods are subject to LGST. The tax may be either charged on importation or on delivery of the good. The LGST rates are currently between 10% to 75% (the law allows for a maximum LGST rate of 200 %).

5. CORPORATE TAXATION

STAMP DUTY

In order to be considered legal, many official documents and receipts in Indonesia must be affixed with a duty stamp, called "meterai", signed by one of the concerned parties. Without the signature on stamp duty, those documents are deemed not legal. Stamp duty are available at the post office and cost either IDR 3,000 or IDR 6,000 each. Documents requiring stamp duty include: bank transactions, financial contracts, land transactions, insurances contracts, etc.

IMPORT AND EXPORT DUTY

Import duties are applied on various goods upon importation at rates from 0% to 150% on the customs value of imported goods. The customs value is usually calculated on cost, insurance and freight. The Indonesian government tends to lower import duty rates on most goods to intensify trade flows but some rates remain high to protect certain industries and goods. For inter ASEAN trade, import duty is set at 0% on most of the goods (subject to conditions).

FREE TRADE AREA AGREEMENTS

Indonesia has signed and implemented several free trade agreements which aim to reduce/ eliminate tariff rates:

- ASEAN – Australia New Zealand Free Trade Agreement
- ASEAN – India Free Trade Agreement
- ASEAN – China Free Trade Agreement
- ASEAN – Republic of Korea Free Trade Agreement
- Indonesia – Japan Free Trade Agreement / Indonesia – Japan Economic Partnership Agreement (IJEPA)
- Indonesia – Pakistan Free Trade Agreement
- ASEAN Free Trade Area

Indonesia is currently negotiating with the European Union (EU) for the establishment of the Indonesia – EU Comprehensive Economic Partnership Agreement (CEPA)

INTERNATIONAL TAXATION AGREEMENTS

Indonesia has signed tax treaties (Double Tax Avoidance Agreements/DTA) with 67 countries to avoid double taxation on certain types of income such as dividends, profits, fees, interests and royalties. The withholding tax rate may be lessened for the resident of countries signing double taxation agreements with Indonesia if a certificate of domicile (CoD) is provided to the Indonesian Tax Office. The Certificate of Domicile must be certified by the home country tax Authority, proving that the recipient is a tax resident of that country. Without a CoD, the rate applicable to non-resident (non-treaty) of 20% will be applied. (Appendix I)

6. INDIVIDUAL TAXATION

RESIDENT STATUS

According to the Income Tax Law, an individual is regarded as a tax resident if one of the following conditions is fulfilled:
-to reside in Indonesia; or
-to stay in Indonesia for more than 183 days in any 12 months period; or
-to be present in Indonesia during a fiscal year and intend to reside in Indonesia.

An Indonesian national is considered as tax resident from birth unless he/she leaves Indonesia permanently or temporarily for more than 6 months. Above 6 months, he/she will be considered as a non-resident and will be taxed on the Indonesian sourced income only.

TAXATION ON PERSONAL INCOME

Employers (tax resident companies and permanent establishments) are required to withhold tax (PPH 21) from salaries payable to their employees, pay the tax on their behalf to the State Treasury, and report to the tax office. Individual Income tax is applied to resident individuals on most worldwide sources of increase in economic wealth.

In addition to the basic income, bonuses, commissions, overseas and fixed allowances are, also, subject to tax. As for the Benefits in kind (BIKs), they are not taxable as income nor cannot be deductible by the employer. Certain types of BIKs can be subject to tax, depending on the category of the company.

TAX RATES

Non-resident individuals are subject to withholding tax at a rate of 20% on Indonesia sourced income. Most income earned by individual tax residents is subjected to income tax at the following rates:

Taxable Income	Rate	Tax
Up to IDR 50,000,000	5%	IDR 2,500,000
Above IDR 50,000,000 up to IDR 250,000,000	15%	IDR 30,000,000
Above IDR 250,000,000 up to IDR 500,000,000	25%	IDR 62,500,000
Above IDR 500,000,000	30%	30% of the relevant amount

PERSONAL INCOME TAX RELIEFS

Allowable deductions, depending on the taxpayers' personal circumstances, are available, for resident taxpayers only, as follows:

6. INDIVIDUAL TAXATION

Basis of deduction	Deductible Amount (per year, in IDR)
Taxpayer	54,000,000
Spouse	4,500,000
Each dependent (max of 3)	4,500,000
Occupational expenses (5% of gross income, max Rp500,000/month)	6,000,000
Employee contribution to BPJS Social Security for old age security savings (2% of gross Income)	Full amount
Pension Maintenance expenses (5% of gross Income, max. IDR 200,000/month)	2,400,000

Charitable contributions such as religious contributions or donations may be deductible if the requirements are fulfilled.

TAX OBLIGATIONS

Resident individual taxpayers who earn more than the annual non-taxable income (set at IDR 54 million in April 2016) must register with the Indonesian Tax Office and obtain a tax ID number (Nomor Pokok Wajib Pajak/NPWP).

Individual taxpayers are required to file the annual income tax returns (form 1770) disclosing all the individual's income. Effective from 1 January 2016, Individual taxpayers are encouraged to file their tax returns electronically through the e-Filing system.

Non-resident taxpayers don't have neither any obligation to obtain a Tax ID Number nor any individual tax filing obligation. They are only taxed on Indonesian sourced income and the tax needs to be paid via the Indonesian Taxpayer.

Under the Tax Administration Law, tax authorities are empowered to issue tax assessment letters if the taxpayer has not fully fulfilled tax obligations (tax liabilities not fully paid or tax return not filed).

TAX AUDITS

Certain conditions may trigger tax audits:

- There is an overpayment of tax, leading to a tax refund request lodged by a taxpayer;
- A tax ID deregistration application has been submitted;
- The Tax Office wants to test the compliance of the taxpayer randomly.

In the event of tax audit, all documents requested by the tax authorities must be submitted within a month following the request. Documents not provided on time will not be considered by the tax authorities .
Per law, documents to evidence tax must be kept for 10 years.

7. PROPERTY OWNERSHIP IN INDONESIA

Property ownership is regulated in Indonesia based on different types of ownership rights:

- Right to full ownership ("Hak Milik" or HM)
- Right to use ("Hak Pakai" or HP)
- Right to build ("Hak Guna Bangunan" or HGB)

Indonesian citizens can acquire property through the 3 types of rights above, while companies (both local-owned or foreign-owned) can acquire property generally through right to use or right to build.

Right to use & right to build have defined period of expiry (from 25 to 30 years most commonly) and can be renewed.

Traditionally, foreigners (individuals) were not entitled by law to own directly property in Indonesia. Since 2016, those rules have been lessened and foreigners residing legally in Indonesia (i.e. having valid residence permit or KITAS) can now own both landed houses and apartments, subject to some conditions/requirements:

1) A minimum value for property that can be purchased by foreigners has been set up per region:

Region	House (minimum value)	Region
Jakarta	IDR 10 billion	IDR 3 billion
Banten/West Java	IDR 5 billion	IDR 2 billion
East Java	IDR 5 billion	IDR 1.5 billion
Bali	IDR 5 billion	IDR 2 billion
Yogyakarta	IDR 5 billion	IDR 1 billion
Cental Java	IDR 3 billion	IDR 1 billion
North Sumatra	IDR 3 billion	IDR 1 billion
NTB/East Kalimantan/ South Sulawesi	IDR 2 billion	IDR 1 billion
Other regions	IDR 1 billion	IDR 0.75 billion

2) Ownership is allowed only under right-of-use title (Hak Pakai). This title is valid for a limited period of time (initial period of 30 years for house) and it can be renewed up 80 years in total.
3) Upon departure from Indonesia to reside in another country, foreigners will need to sell their property within one year.

8. ACCOUNTING AND AUDIT

FINANCIAL REPORTING FRAMEWORK

Indonesian Financial Accounting Standards (PSAK) are set by the Indonesian Financial Accounting Standard Board (Dewan Standar Akuntansi Keuangan or DSAK) under the Indonesian Institute of Accountants (IAI).

Under the Company Law, businesses (private and public) are required to maintain accounting records and prepare financial statements complying with the accounting standards issued by the DSAK-IAI. Indonesia's stated policy is to maintain its national GAAP (PSAK) and to converge it with IFRS. As of 1 January, 2018, Indonesia has converged to IFRS applicable as of 1 January 2017 and DSAK is currently committed to maintain a one-year difference with IFRS (with some exceptions).

ACCOUNTING BASIS AND FINANCIAL STATEMENTS

Bookkeeping must be maintained on an accrual basis. Under the accrual basis of accounting, revenues are reported when they are earned (not when the cash is received) and expenses are recorded when they occur.

A complete set of financial statements includes:

- Balance sheet (statement of financial position);
- Profit & Loss statement (statement of comprehensive income);
- Statement of changes in shareholders 'equity;
- Statement of cash flows; and
- Notes to the financial statements.

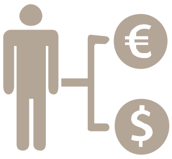
Financial statements are required to include the previous year's figures for comparison purposes.

By law, all accounting books and records must be kept for at least ten years after the end of the company's reporting period.

BOOKKEEPING CURRENCY AND LANGUAGE

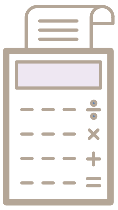
Generally, bookkeeping systems in Indonesia must be maintained in the Indonesian language, using the company's functional currency. International Accounting Standard 21 (IAS 21) / PSAK 10 defines functional currency as "the currency of the primary economic environment in which the entity operates". For most companies in Indonesia, the functional currency is the Indonesian Rupiah.

8. ACCOUNTING AND AUDIT



ACCOUNTING PERIOD

The accounting period is the calendar year, from the first of January to the end of December. Any change of financial year needs to be notified to the Ministry of Law and Human Rights and approved by the Indonesian Tax Authority.



AUDIT REQUIREMENTS

Under the Company Law, all public listed firms, state owned companies, firms handling public funds (banks, insurance companies) and companies having a turnover or total assets above IDR 50 billion must have their accounts audited by a registered Indonesian Certified Public Accountant.

Conducted audits are based on standards implemented by the Indonesian Institute of Certified Public Accountants (IAPI) which are aligned with International Auditing Standards.

Auditors are required to avoid potential conflict of interests with their clients and to comply with the independence rules issued by the Ministry of Finance.

9. LABOR AND EMPLOYMENT

LEGAL FRAMEWORK

The regulatory framework of employment in Indonesia is defined by the Law No.13/2003 on Labor ('Labor Law') and the main regulatory authority is the Minister of Manpower.

WORKING AGREEMENT

Under the Indonesian Labor Law, a working agreement for unspecified period, made in written, shall contain, at least:

- details of the company including the name and address;
- details of the employee such as the name, gender, age and address of the employee;
- details of the job including the position, the job requirements, the job location, the start of employment date;
- the details of the allowances;
- rights and obligations of both parties.

Employers can place new permanent workers on probation for no longer than three months. Non-permanent workers cannot be subject to probationary period.

Working agreements must end if:

- the worker passes away;
- the period expires;
- the workers enter pension age;
- the enterprise goes bankrupt;
- the employee has been absent for more than 5 working days without any explanation;
- violation of company regulations after issuance of three warning letters in a row.

SALARY

Employers directly employ and agree salary with their employees. However, the salary cannot be lower than the minimum wage. In Indonesia, according to the Labor Law, the minimum wage is set out by the Governor for each province and revised every year. For the year 2018 (effective January 1st), the minimum wage of DKI Jakarta, has been set at IDR 3,648,036 per month. A periodical review of salary shall be undertaken by employers based on capability and productivity.

9. LABOR AND EMPLOYMENT

WORKING TIME, OVERTIME AND ANNUAL LEAVE

WORKING HOURS

In accordance with Art. 77 of the Indonesian Labor Law, employees can work a maximum of 40 hours per week:

- 7 hours a day if the working period is 6 days a week
- 8 hours a day if the working period is 5 days a week

For every four hours of work, the employee is entitled to, at least, half an hour's break.

OVERTIME

Overtime work requires employee's consent and must not exceed 3 hours per day and 14 hours a week. Employers need to pay overtime work according to prevailing regulations.

ANNUAL LEAVE

Employers must provide employees with 12 days of annual leave per year which is exercisable from the second year of employment. In addition, employees are enjoying more than 10 days of public holiday every year, reminding Indonesian cultural diversity. Employees shall not work on official holidays except if the job must be executed continuously or in other condition based on mutual agreement between employers and employees.

9. LABOR AND EMPLOYMENT

DISCONTINUATION OF WORKING RELATIONS

Employers have the obligation to pay termination compensation such as severance pay, long service pay and other compensations to permanent employees, in case of dismissal and, depending on companies, voluntary resignation.

SEVERANCE PAY

The severance pay is the compensation employers provide to employees who have been laid off. The minimum amount of severance pay shall be calculated as follow:

SEVERANCE PAY

Working Period	Entitlement (Nb. of months of salary)
Less than 1 year	One month
1 year or more, but less than 2 years	Two months
2 years or more, but less than 3 years	Three months
3 years of more, but less than 4 years	Four months
4 years or more, but less than 5 years	Five months
5 years or more, but less than six years	Six months
Six years or more, but less than seven years	Seven months
Seven years or more, but less than eight years	Eight months
More than eight years	Nine months

9. LABOR AND EMPLOYMENT

LONG-SERVICE PAY

The long service pay is a reward to employees based on years of services. The minimum amount of long service pay shall be calculated as follow:

LONG SEVERANCE PAY

Working Period	Entitlement (Nb. of months of salary)
3 years or more, but less than 6 years	Two months
6 years or more, but less than 9 years	Three months
9 years or more, but less than 12 years	Four months
12 years of more, but less than 15 years	Five months
15 years or more, but less than 18 years	Six months
18 years or more, but less than 21 years	Seven months
21 years or more, but less than 24 years	Eight months
24 years or more	Ten months

SOCIAL SECURITY

All employees, including expatriates who have been working in Indonesia for more than 6 months must be enrolled in the social security program. From 1 January 2014, the new social security system is administrated by the Social Security Agency for health insurance (BPJS Kesehatan) and the Social Security Agency for worker's social security (BPJS Ketenagakerjaan). Employees' contributions are collected monthly by the employers through payroll deductions.

Social Security Scheme	Areas covered	As a percentage of regular salaries/wages	
		Borne by employers	Borne by employees
BPJS Ketenagakerjaan (Social Security)	Working accident protection	0,24-1,74%	-
	Death Insurance	0,3%	-
	Old age saving	3,7%	2%
	Pension plan*	2%	1%
BPJS Kesehatan (Health Insurance) **		4%	1%

* Maximum calculation base is IDR 7,703,500/month as of January 1, 2018
** Maximum calculation base is IDR 8,000,000/month as of January 1, 2018

9. LABOR AND EMPLOYMENT

EMPLOYMENT OF EXPATRIATES

The employment of expatriates in Indonesia is restricted; only certain positions, fixed by the Decree No. 40/2012 of the Ministry of Manpower and Transmigration concerning restricted positions for foreign employees, can be occupied by expatriates for a limited period of time. For example, expatriates cannot assume positions in the field of human resources. In order to develop local Indonesian expertise, there are strict guidelines and requirements to fulfill by companies which want to employ foreign nationals.

Organizing a work permit in Indonesia can be a complicated and lengthy process. Company sponsorship is required for any foreigner who wants to work in Indonesia.

National, multinational or joint venture firms must, first, submit an Expatriate placement plan (RPTKA) to the Ministry of Manpower detailing their annual foreign labor requirements if they want to hire foreigners. According to the Indonesian Labor law number 13 of 2003, the expatriate assignment plan shall, at least, contain information about the reason for employing expatriates, the position and period of assignment. Once the RPTKA is approved, a work permit (IMTA) and limited stay permit (KITAS) can be issued.

During their employment period, the Government may require employers that Expatriates transfer their "expertise" to Indonesian counterparts and/or to organize education and training for the Indonesian manpower until they have the qualifications required to hold the positions occupied by foreign workers.

To ease the process of application for work and stay permits, on March 29, 2018, Presidential Regulation No.20 of 2018 was issued, followed by implementing regulation No. 10 of 2018 from Ministry of Manpower on July 11, 2018. Under the new regulation, process to apply for work and stay permit will be fully online. The RPTKA will be now the permit for employers to employ foreign workers. IMTA application will no longer be required. Instead, the Ministry of Manpower will be issuing Notification of Foreign Worker. KITAS will be issued with initial period of validity of 2 years.

10. PRACTICAL INFORMATION

TRANSPORTATION

Indonesia is one of the largest countries in the world without a well-functioning public transportation system. Despite rapid infrastructures development in urban area, traffic congestion remains a plague in most of the large cities of the archipelago. Buses and taxis are, generally, the most common way to travel in urban areas.

Jakarta has implemented a Bus Rapid Transit system, called TransJakarta, running in dedicated lanes to help reduce rush hour traffic. The Jakarta Light Rail Transit (LRT) system connecting Jakarta city center with suburbs, along with the Jakarta 1st Mass Rapid Transit (MRT) line are still under construction and expected to be operating in March 2019.

FOOD

There are many restaurants that serve a fine range of cuisine from across the world. Within most of these cuisines, there are good selections of restaurants, from low-cost to expensive. A wide range of local foods from different ethnic backgrounds in Indonesia can be found all over Jakarta and other urban areas.

Indonesian traditional cuisine reflects the country's cultural diversity and is considered as one of the most colorful and flavorful cuisine in the World. In 2011, Indonesian cuisine drew worldwide attention with the nomination of three popular Indonesian dishes in the World's 50 most delicious foods list, a worldwide poll held by CNN International. Rendang ranked number one, followed by Nasi Goreng (2nd) and Satay (14^{th}).

GMT

There are three different time zones In Indonesia:

- Sumatra, Java and West & Central Kalimantan are 7 hours ahead of GMT (GMT+7).
- Bali, Nusa Tenggara, South & East Kalimantan and Sulawesi are 8 hours ahead of GMT (GMT+8).
- Papua and Maluku are 9 hours ahead of GMT (GMT+9).

BUSINESS HOURS

Government office hours are variable but are generally 8 a.m. to 4 p.m. Monday to Friday (with a break for Friday prayers from 11.30 a.m. to 1.30 p.m.) and can be open from 8am to noon on Saturday. Banks are, usually, open from 8 a.m. to 3:30 p.m. Monday to Friday.

Private companies generally observe an eight-hour day – from 8 a.m. to 5 p.m. A one-hour lunch period is usually taken between noon and 1 p.m. It is important to consider Friday's prayer before setting a meeting.

10. PRACTICAL INFORMATION

PUBLIC HOLIDAY

2018/2019	Holiday
11-Sep-18	Islamic New Year
20-Nov-18	Maulidur Rasul
25-Dec-18	Christmas day
1-Jan-19	New Year's Day
05-Feb-19	Chinese New Year
07-Mar-19	Balinese New year (Nyepi)
03-Apr -19	Isra Miraj
19-Apr-19	Good Friday
1-May-19	Labour Day
19-May-19	Birth of Buddha
30-May-19	Ascension Day
01-Jun-19	Pancasila Day
05-Jun-19	End of Ramadan
06-Jun-19	Eid Al Fitr
12-Aug-19	Idul Adha
17-Aug-19	Independence Day
01-Sep-19	Islamic New Year
10-Nov-19	Maulidur Rasul
25-Dec-19	Christmas day

*Public Holiday 2019: these dates may be subject to changes by Indonesian authorities.

APPENDIX 1

List of countries which have signed tax treaty agreement with Indonesia and applicable withholding tax rates per January 1, 2018

Recipient	WHT (%)				
	Dividends		Interest	Royalties	Branch profits (8)
	Portfolio	Substantial holdings			
Algeria	15	15	0/15	15	10
Armenia	15	10	0/10	10	10
Australia	15	15	0/10	10/15	15
Austria	15	10	0/10	10	12
Bangladesh	15	10	0/10	10	10
Belgium	15	10	0/10	10	10
Brunei	15	15	0/15	15	10
Bulgaria	15	15	0/10	10	15
Canada	15	10	0/10	10	15
China	10	10	0/10	10	10
Croatia	10	10	0/12.5	10	10
Czech Republic	15	10	0/10	12.5	12.5
Denmark	20	10	0/15	15	15
Egypt	15	15	0/10/15	15	15
Finland	15	10	0/10	10/15	15
France	15	10	0/10	10	10
Germany	15	10	0/15	10/15	10
Hong Kong	10	5	0/10	5	5
Hungary	15	15	0/10	15	20
India	10	10	0/10	10	15
Iran	7	7	0/10	12	7
Italy	15	10	0/10	10/15	12
Japan	15	10	0/10	10	10
Jordan	10	10	0/10	10	20
Korea (North)	10	10	0/10	10	10
Korea (South)	15	10	0/10	15	0/10
Kuwait	10	10	0/5	20	10
Laos	15	10	0/10	10	10
Luxembourg	15	10	0/10	12.5	12.5
Malaysia	10	10	0/10	10	10
Mexico	10	10	0/10	10	10
Mongolia	10	10	0/10	10	10
Morocco	10	10	0/10	10	10
Netherlands	10	10	0/10	10	10

Recipient	WHT (%)				
	Dividends		Interest	Royalties	Branch profits (8)
	Portfolio	Substantial holdings			
New Zealand	10	15	0/10	15	20
Norway	15	15	0/10	10/15	15
Pakistan	15	10	0/15	15	10
Papua New Guinea	15	15	0/10	10	15
Philippines	20	15	0/10/15	15	20
Poland	15	10	0/10	10	15
Portugal	10	10	0/10	15	10
Qatar	10	10	0/10	10	10
Romania	15	12.5	0/12.5	5	10
Russia	15	15	0/15	12.5	12.5
Seychelles	10	10	0/10	15	15
Singapore	15	10	0/10	12.5/15	12.5
Slovakia	10	10	0/10	15	15
South Africa	15	10	0/10	10/15	10
Spain	15	10	0/10	10	20
Sri Lanka	15	10	0/15	10	10
Sudan	10	10	0/15	15	15
Suriname	15	15	0/15	10/15	15
Sweden	15	10	0/10	10	10
Switzerland	15	10	0/10	15/20	10
Syria	10	10	0/10	10	5
Taiwan	10	10	0/10	10	10
Thailand	20	15	0/15	15	20
Tunisia	12	12	0/12	15	12
Turkey	15	10	0/10	10	10
Ukraine	15	10	0/10	10	10
United Arab Emirates	10	10	0/5	5	5
United Kingdom	15	10	0/10	10/15	10
United States of America	15	10	0/10	10	10
Uzbekistan	10	10	0/10	10	10
Venezuela	15	10	0/10	20	10
Vietnam	15	15	0/15	15	10
Zimbabwe	20	10	0/10	15	10

EN 07/2017

Mazars is present in 5 continents

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