



Independent legal & accounting firms

Doing Business in Indonesia

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MSI's guide on Doing Business in Indonesia provides current information about the financial, regulatory and legal considerations that could affect business dealings within Indonesia. For further assistance please contact our MSI member firm in Indonesia.

Country overview

Population

Indonesia has a total population of 261.89 million inhabitants (September 2017), the fourth most populous nation in the world.

Government

The Government system is presidential republic.

Law of Indonesia is based on a civil law system, intermixed with customary law and the Roman Dutch law.

The Indonesia has 34 provinces, each with its own local authorities.

Languages

The national language is Bahasa. The number of people who can speak English is increasing.

Currency

The national currency is the Rupiah (IDR).

Economic summary

GDP: US\$ 1 trillion (IDR13.588 trillion) in December 2017

Income per capita: US\$ 3,876.8 (IDR51.89 million)

Inflation: 03.61%

Indonesia's economy strengthened modestly in the third quarter of 2017 supported by higher commodity prices, stronger global growth, rebounding international trade, and relatively accommodative monetary and financial conditions.

Main sectors of the economy

Indonesia is experiencing remarkable economic growth. In combination with relative political stability and certain favourable demographic trends it provides opportunities for strong economic performance over the medium term.

Another key element that accounts for Indonesia's recent economic growth is domestic consumption. In line with rising per capita GDP and low borrowing costs, Indonesia's private consumption is robust.

Main sectors can be classified as, agriculture, industry and services. Indonesia changed from being an economy that was highly dependent on agriculture into a more balanced economy in which the percentage share of manufacturing in the country's GDP quickly exceeded that of the agriculture sector. This also indicates that Indonesia lessened its traditional dependency on primary exports, although it still remains relatively high today.

Foreign Investment

The Indonesia is a member state of the Association of Southeast Asian Nations (ASEAN) and G20.

As the world's 10th largest economy in term of purchasing power parity, Indonesia is an attractive base for doing business and for investment. Over the past four years, Indonesia climbed in the World Bank's Doing Business ranking from number 114 in 2014 to 72 in the 2017. These improvements have significantly led towards "Investment Grade" rated by Standard and Poor's

after 20 years following Moody's and Fitch Rating.

This positive development is primarily attributed to the Indonesian government's efforts to implement reforms in order to improve the business and investment climate, hence attract more private investment. Indeed, over the same period, both domestic and foreign investment has risen accordingly.

Total direct investment in Indonesia reached IDR 692.8 trillion (approx. USD \$52,1 billion using the IDR 13,300 per US dollar exchange rate as set in the revised 2017 state budget) in 2017, up 13.1 % year-on-year from the same period in 2016.

Foreign direct investment (FDI) contributed most to total investment in Indonesia. In 2017, FDI reached IDR429.0 trillion (approx. USD 32.25 billion), up 8.5 % on a year-on-year. Singapore was the biggest source of investment in Indonesia in 2017, followed by Japan and China.

Setting up a business

Indonesia's Foreign Direct Investment Law is based on the host state friendly principle. On the other hand Indonesia on the track to fully implementing of equal treatment, allowing international investors to have the same rights and liabilities as local investors.

The FDI is required to have minimum investment above IDR10 billion, or equivalent to US\$ 724,000 at current exchange rate. This applies to all business sectors and the amount of minimum investment is not including the

value of the land and buildings owned by the company.

In addition, the minimum paid up capital of a FDI Company (PT. PMA) is IDR2.5 billion or US\$ 181,000 at current exchange rate. For each shareholder, at least IDR10 million or its equivalent in USD.

Legal types of business entities

1. Limited Liability Company (LLC/PT)
2. Partnership (Firm)
3. Commandite Company (CV)
4. Joint Venture Company (JVC)
5. Representative office
6. Branch Office
7. Sole proprietorship
8. Cooperative
9. Foundation
10. State-owned entities
11. State-owned enterprise

In practice, LLC is usually preferred. It is the legal entity through which a foreign investor can conduct commercial activities in Indonesia. The establishment of a LLC is regulated by Law No. 40/2007, such a company can be either 100 % foreign-owned or partially foreign-owned, depend on the provision list of business fields closed and open with certain requirements in the field of investment (Investment Negative List /DNI).

Process of how to set up a business

When establishing a company in Indonesia, one needs to adhere to the following rules and regulations:

1. Request of LLC Name to Ministry of Law & Human Right;
2. Deed of Establishment LLC and Article of Association;
3. Apply for Certificate of Domicile of a company;
4. Obtain potential tax identity number;
5. Submission on Principle License to the Investment Coordinating Board (BKPM);
6. Legalization of Article of Association by Ministry of Law & Human Right.

Financial year of taxes and financial accounts

The financial year is equal to the calendar year. However, legal entities may choose for a different financial year if they wish.

The LLC is subject to corporation income tax. The branch is taxed with corporation income tax as well, but the parent company is liable to pay.

Accounting and auditing

The Limited Liability Company Law No. 40 of 2007 requires corporate entities to prepare financial statements in accordance with accounting standards issued by the Indonesian Financial Accounting Standard Board (DSAK). The Board of Directors of a company has the obligation to submit a financial report to the General Meeting of Shareholders (GMS). An Annual Report must be conducted and approved at the latest 6 (six) months after the end of the latest Financial Year.

A statutory audit by a qualified auditor is mandatory for the following types of entities:

- collect or manage public funds;
- issue debt-acknowledgements to the public;
- public companies;
- state-owned enterprises;
- companies with assets exceeding IDR 50 billion; and
- The other companies obliged by certain legislative regulations.

Tax audits are generally performed by Directorate General of Tax (DGT) in proposing tax refund on overpayment or randomly basis, however, companies can be represented by Registered Tax Consultant

Economic and fiscal incentives

The Indonesian government offers various attractive incentives to investors in an effort to encourage investment, especially in pioneering industries.

There are several incentives depending on the region, volume or type of the investment:

1. **Import Duty Facility:** 2 (two) years import duty exemption; or directly apply for 4 (four) years for companies using locally-produced machines (min. 30%)
2. **Tax Allowance:** Deduction of net corporate income which amount 30% from total investment, carried over 6 years period (equal to 5% deduction per year). 30 % of investment value 145 business fields eligible for tax allowance with certain requirements among others: investment value or export orientation, manpower absorption, local content, and project location (especially outside Java Island).
3. **Tax holiday:** 5-20 years tax exemption with a transitional period of two years during which investors only get a 50-percent income tax cut. It is offered for investment in 17 sectors Pioneer Industries with IDR 500 billion minimum investment plan.

Incentives foreign investors/ local investors

In addition, the Indonesian government also offers non-tax incentives such as Direct Construction Facility. Investors in the selected industrial parks may directly start their project construction before obtaining construction permits. In parallel, investors submit Building Construction Permit (IMB), environment permit, and other related permit, that should be completed before commercial production of the company.

This facility is currently available in selected 32 industrial parks in Indonesia. No minimum investments or workers is required.

Taxation

There is a variety of taxes in Indonesia that companies, investors, and individuals need to comply with. These include corporate income tax, individual income tax, value-added tax (VAT), luxury-goods sales tax, customs & excise, tax concessions, and land & building tax.

Corporate income tax

Corporations with legal or business centres located in Indonesia are qualified as residents and are subject to tax on their income derived in Indonesia and other countries.

The corporate income tax rate levied on business profits is 25%. However, there are several reductions:

- Companies listed on the Indonesia Stock Exchange (IDX) that offer at least 40% of their total share capital to the public obtain a 5% tax cut (hence a tax rate of 20 % applies for these public companies).
- Small and medium-enterprises with an annual gross turnover not more than IDR 50 billion obtain a 50% tax reduction (imposed proportionally on taxable income of the part of gross turnover up to IDR 4.8 billion).
- In 2013, Indonesia's Finance Ministry issued a regulation that set a 1% income tax tariff on individual and corporate taxpayers with an annual gross turnover up to IDR 4.8 billion.

Corporate Income Tax should be reported to the Tax Office maximum 4 months after the bookkeeping period end.

VAT

Generally, the VAT rate is 10 percent in Indonesia. However, the exact rate may be increased or decreased to 15 percent or 5 percent according to government regulation. VAT on the export of taxable tangible and intangible goods as well as export of services is fixed at 0 percent. Certain limitations for the zero-rated VAT apply to exports of services.

Individual Income tax

Resident taxpayers are defined as individuals who are domiciled in Indonesia; or stay in Indonesia for more than 183 days in any 12-month period; or are present in Indonesia during a tax year and intending to reside in Indonesia.

A foreigner who qualifies to be a resident taxpayer becomes a tax

resident from the date of arrival in Indonesia until the date of final departure from Indonesia.

Resident income tax rate varies from 5% to 30%.

Individual income tax should be reported to the Tax Office at the latest by 31st March each year.

Withholding Tax

Withholding tax rate for payment residents varies: 2% for services; 10% for land and building rental (final tax); and 15% for interest, dividends & royalties.

These withholding taxes are considered corporate tax prepayments. Withholding tax calculated on sales/revenue is considered a final tax

Meanwhile, non-resident individuals or foreigners are subject to a 20 % withholding tax on Indonesia-sourced income.

Luxury-Goods Sales Tax

This tax implies that the deliveries or imports of certain manufactured taxable goods - for example luxury cars, apartments and houses - are subject to an extra tax. Currently, LGST rates are set between 10 – 125% (the law allows for a maximum LGST rate of 200%).

Customs & Excise

Although Indonesian law allows import duties to range between 0 and 150% (of the customs value of the imported good), the highest rate currently set is at 40%.

Other Main Taxes

Other main taxes are as follows;

- Tax on Land and Building Transfer
- Duty on the acquisition of Land and Building Rights
- Stamp duty

Registration procedures

Resident Taxpayers (persons or companies) must register with the Indonesian tax office and obtain Tax Identity Number (NPWP).

Indonesia uses a self-assessment system whereby resident taxpayers will need to file individual income tax returns declaring worldwide income and assets and liabilities annually

Non-resident Taxpayers do not have obligation to register for Tax Identity Number and do not have any individual tax filing obligation

Communication with the tax authorities by way of tax returns is largely done in an electronic way (e-filing).

Participation exemption

Dividends received or derived by a resident company from a participation in an Indonesian limited liability company are exempt from tax if the recipient holds at least 25% of the shares and the dividends are distributed from retained earnings.

HR/ Labour Law**Employment law**

Workers are distinguished primarily according to the length of service, nature and type of job. The Indonesian Manpower Law provides for three categories of workers: permanent employees; fixed-term employees; and foreign employees.

For permanent employees, the employment contract can be either in writing or oral. If oral, assuming that the employer applies a probationary period, the employee must be served with an appointment letter once the employee passes the probationary period.

For fixed-term and foreign employees, it must be in writing. Otherwise, the fixed-term employee automatically becomes and has all the rights and entitlements of a permanent employee.

An employment agreement may be agreed for an indefinite or fixed period of time. If an employment agreement for a fixed period of time is continued, a new agreement will then be deemed to have been entered into under the same conditions and for the same period of time (subject to a maximum of 1 year) as the former employment agreement.

For a maximum of 3 consecutive contracts in a period of maximum 2 years, contracts for a fixed period can be entered into, allowing both employer and employee, to terminate the contract at the end of the agreed term.

Social security and Pension Program

Participation in a social security program (BPJS) is obligatory. Workers are insured for long term illness and unemployment. The premium, for the account of the company, is paid to the tax office together with the wage tax.

Employers should also enrol their workers into the national social security (BPJS *Ketenagakerjaan*) mandatory programs which are workplace accident security, old age security and death security. Employers also can gradually enrol their workers into the pension security. Employers that already enrolled their workers to the three social security programs.

The age the pension starts varies depending on the future mortality rates, but will be at least 55-65 years.

The government sets regional a minimum wage rate and is evaluated annually. The rates also differ depending on the sector of business. The company has obligation to insure the worker for the costs of health care. Insurance policies can be taken from a number of national operating insurance companies.

Payroll

When starting a business and employing staff, the company must register with the tax authorities. Wage tax and social security should be withheld and paid monthly to the tax authorities. The process of registration takes several weeks.

However, staff can be employed even if registration is not complete.

Visa and work permits

Foreign nationals are allowed to work in Indonesia for certain position and period by considering the domestic labour market condition, except for positions related to human resources and/or

certain positions determined by Minister of Manpower.

There are a several requirements that must be fulfilled by foreign workers before taking employment in Indonesia. The requirements, among others, cover the obligation to hold work permit, Limited Stay Visa (VITAS) for working and Limited Stay Permit (ITAS), and tax ID number after 6 (six) month working in Indonesia.

Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Indonesia should seek professional advice from our member firm before making any business or investment decision.

Contact our member firm in Indonesia to discuss your requirements:

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