



DEZAN SHIRA & ASSOCIATES  
Your Partner for Growth in Asia

# Investing in Indonesia 2021





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From Dezan Shira & Associates



ASEAN Briefing is a prestigious source of business insights about the investment environment, the local business legislation as well as tax, accounting, and HR and payroll regulations for foreign corporate investors interested in doing business in the Southeast Asian nations.

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# 1. Demographics

★ Political System	Democratic Republic	★ Capital	Jakarta
📍 Economic Centre	Jakarta	👤 Population	270.2 million
💰 Currency	Indonesian Rupiah (IDR)	🗺️ Provinces	34
🕒 Time Zone	UTC+7, UTC+8, UTC+9	📍 Area	1,905,569 km <sup>2</sup>
📈 GDP Growth	-2.07%	👥 Labour Force	134,615,733
👤 Middle Class Population	nearly 70 million	💰 Average Annual Income	US\$4,450
🌐 Neighbours	Malaysia, Papua New Guinea, Timor Leste, Singapore	🗣️ Language	Indonesian, English (business, professional) and local dialects
🤝 Ease of Doing Business	73		



## 2. Economics and FDI in 2020



**-2.07%**  
GDP Growth Rate  
(5.02% in 2019)

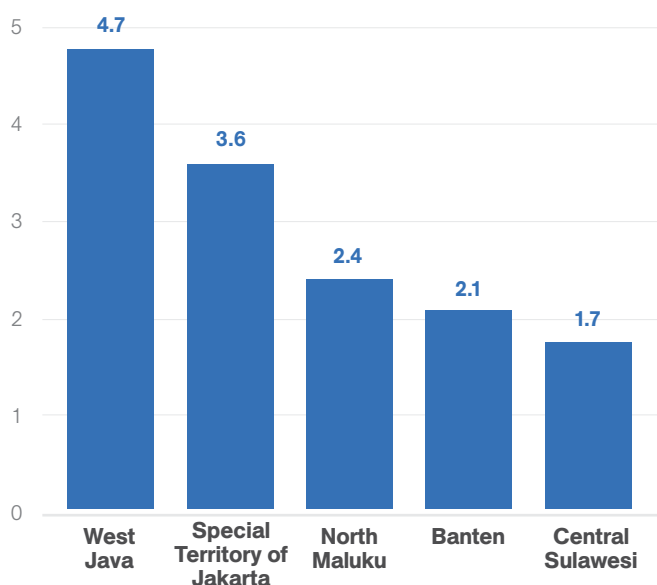


**-0.57%**  
Export Growth Rate  
(Non-oil and gas exports)  
(1.8% in 2019)



**US\$ 28.8 billion**  
FDI Realization  
(US\$ 29.6 billion in 2019)

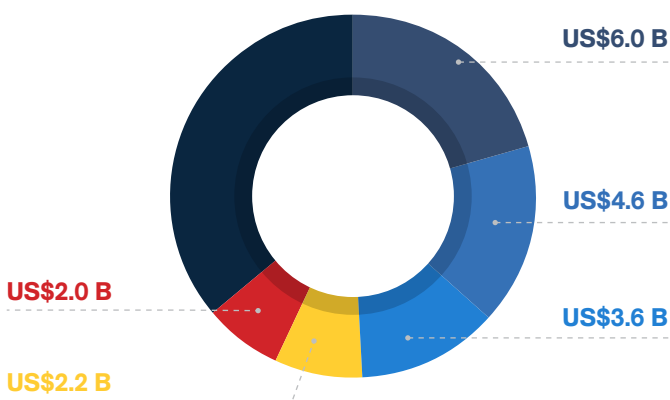
### Top 5 Provinces Receiving Investments (US\$ Billion)



Source: BKPM

### Top 5 Sectors Receiving Investment

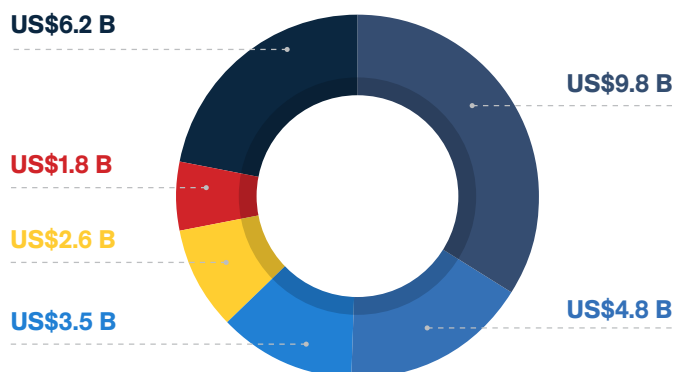
- Basic Metal, Metal goods, non-Machinery and Equipment Industry
- Electricity, Gas and Water Supply
- Transportation, Warehouse, and Telecommunication
- Housing, Industrial Estates and Office Building
- Mining
- Others



Source: BKPM

### Top 5 Countries Investing in Indonesia

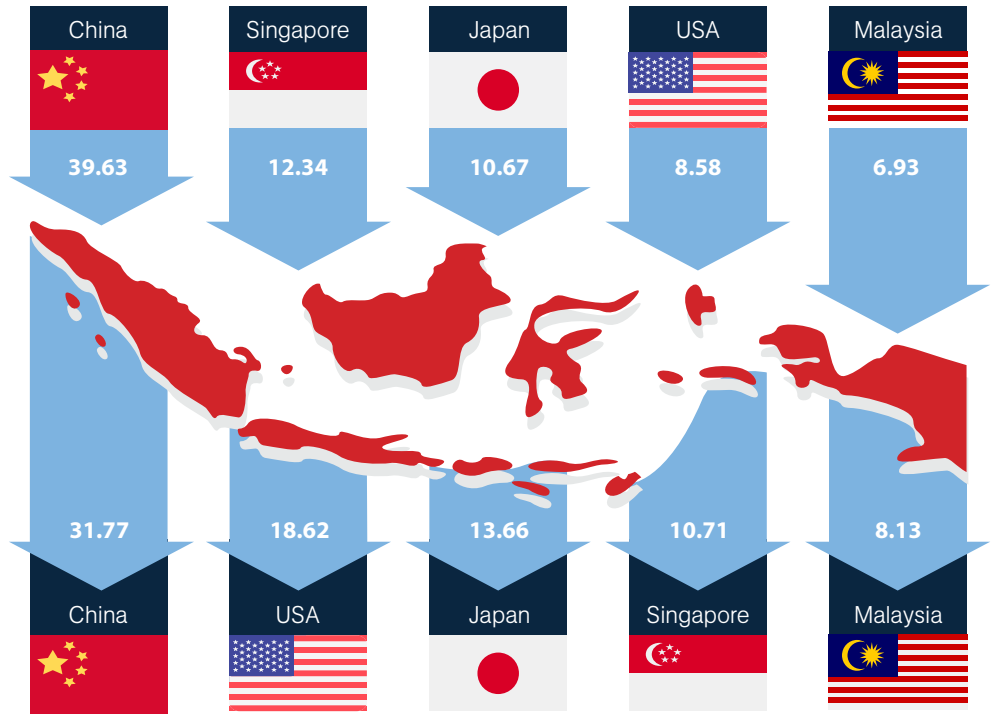
- Singapore
- China
- Hong Kong
- Japan
- South Korea
- Others



Source: BPS

**Top 5 Import and Export Partners (US\$ Billion)**

**TOP 5 IMPORT PARTNERS**



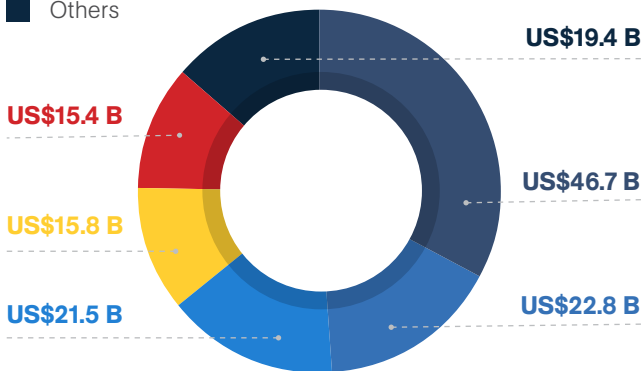
**TOP 5 EXPORT PARTNERS**

Source: BPS

**Top 5 Imports and Exports**

**TOP 5 IMPORTS**

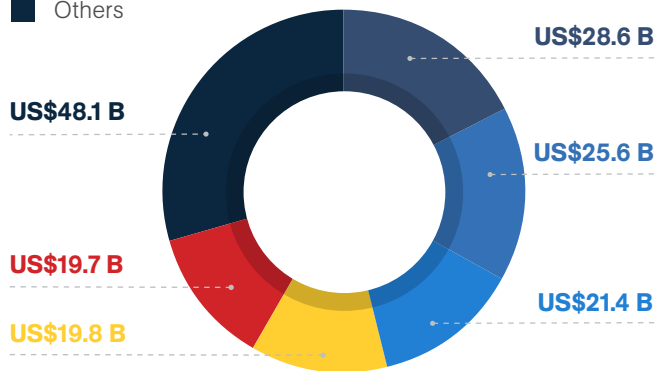
- Machinery and Transport Equipment
- Manufactured Goods
- Chemicals
- Mineral Fuels including Oil
- Food and Live Animals
- Others



Source: BPS

**TOP 5 EXPORTS**

- Manufactured Goods
- Mineral Fuels including Oil
- Machinery and Transport Equipment
- Miscellaneous Manufactured Articles
- Animal and Vegetable Oils and Fats
- Others



Source: BPS

### 3. Main Industries



Chemical Fertilizers



Natural Gas



Electricity



Palm Oil



Footwear



Petroleum



Handicrafts



Plywood



Jewelry



Processed Food



Medical Instruments



Rubber



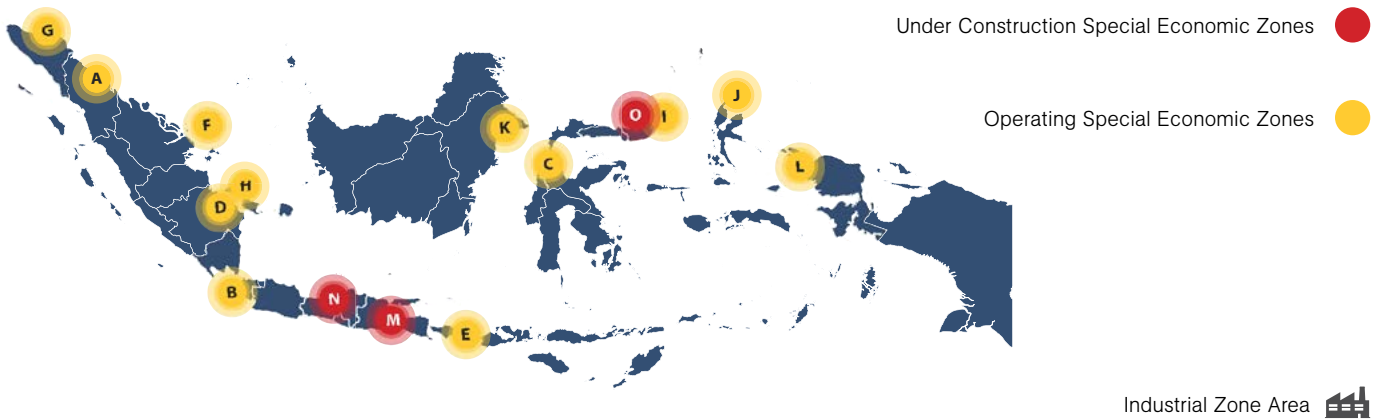
Mining



Textile and Garments



## 4. Key Economic Regions



### A KEK Sei Mangkei

Simalungun, North Sumatera Province

2,002.7 ha

### B KEK Tanjung Lesung

Pandeglang, Banten Province

1,500 ha

### C KEK Palu

Palu, Center of Sulawesi Province

1,500 ha

### D KEK Tanjung Api-Api

Banyuasin, South Sumatera Province

2,030.7 ha

### E KEK Mandalika

Lombok Tengah, West Nusa

Tenggara Province

1,035.67 ha

### F KEK Galang Batang

Bintan, Riau Island Province

2,333.6 ha

### G KEK Arun Lhokseumawe

Lhokseumawe and North Aceh  
Aceh Province

2,622.48 ha

### H KEK Tanjung Kelayang

Bangka Belitung Island Province

534 ha

### I KEK Bitung

Bitung, North Sulawesi Province

324.4 ha

### J KEK Morotai

Morotai Island, Maluku Province

1,101.76 ha

### K KEK Maloy Batuta Trans Kalimantan

Kutai Timur, East Kalimantan Province

557.34 ha

### L KEK Sorong

Mayamuk District, West  
Papua Province

523.7 ha

### M KEK Singhasari

Malang, East Java

120.3 ha

### N KEK Kendal

Kendal, Central Java

1,000 ha

### O KEK Likupang

Minahasa Utara, North Sulawesi

197.4 ha

- Agro Industry
- Creative Industry
- Energy
- Fisheries Processing Industry

- Fishery
- Food And Beverage
- Herbal Pharmacy Industry
- Industrial Shipyards

- Logistics
- Manufacturing Industry
- Mineral Industry
- Mineral Processing Industry

- Oil and Gas Industry
- Petrochemical Industry
- Smelters
- Tourims

# 5. Free Trade Agreements

**12** FTAs in Effect

**AANZFTA**  
ASEAN - Australia and New Zealand Free Trade Agreement

**AIFTA**  
ASEAN - India Free Trade Agreement

**AHKFTA**  
ASEAN - Hong Kong Free Trade Agreement

**ACFTA**  
ASEAN - People's Republic of China Free Trade Agreement

**AKFTA**  
ASEAN - Korea Comprehensive Economic Cooperation Agreement

**AJCEP**  
ASEAN - Japan Comprehensive Economic Partnership

**RCEP**  
Regional Comprehensive Economic Partnership

**ASEAN**  
Association of Southeast Asian Nations

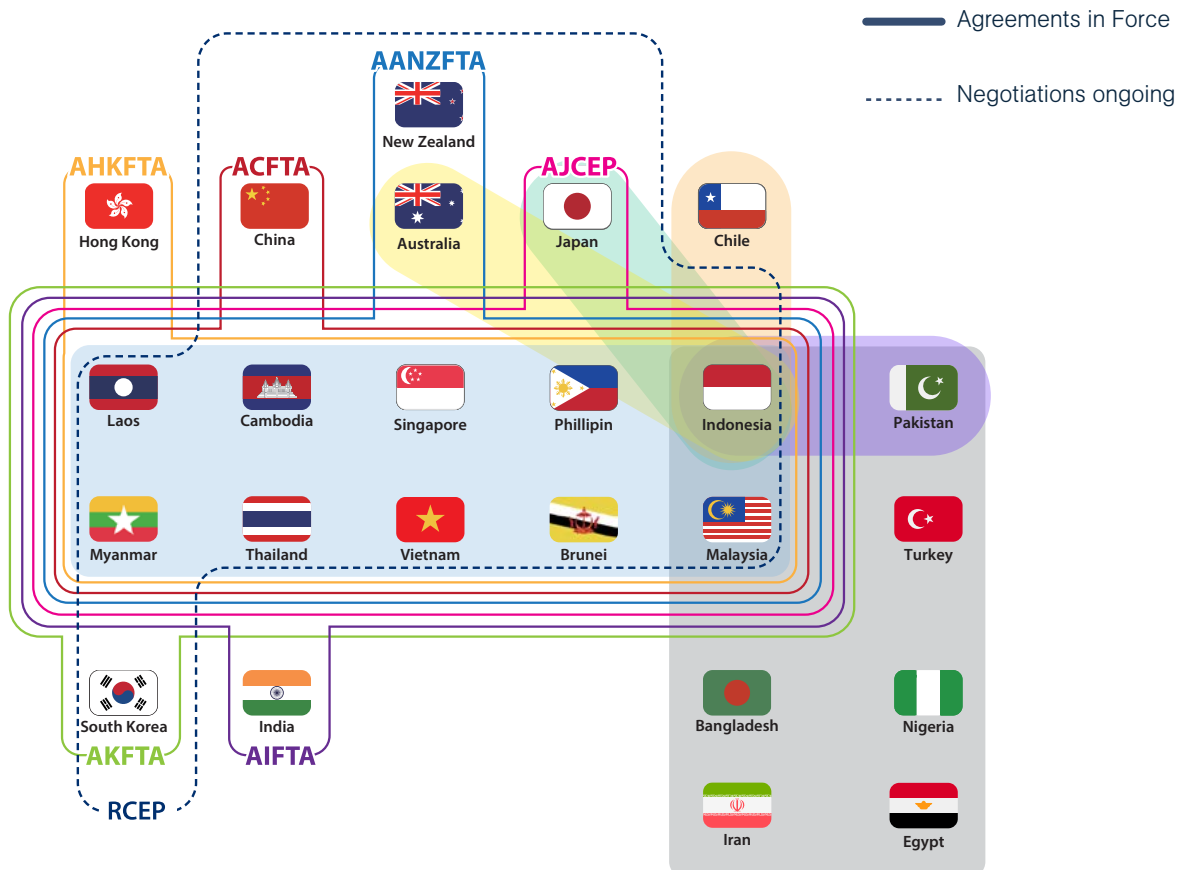
**IJEPA**  
Indonesia - Japan Economic Partnership Agreement

**IC-CEPA**  
Indonesia - Chile Comprehensive Economic Partnership Agreement

**IA-CEPA**  
Indonesia-Australia Comprehensive Economic Partnership Agreement

**PTA**  
Indonesia - Pakistan Preferential Trade Agreement

**D8**  
Preferential Tariff Arrangement – Group of Eight Developing Countries



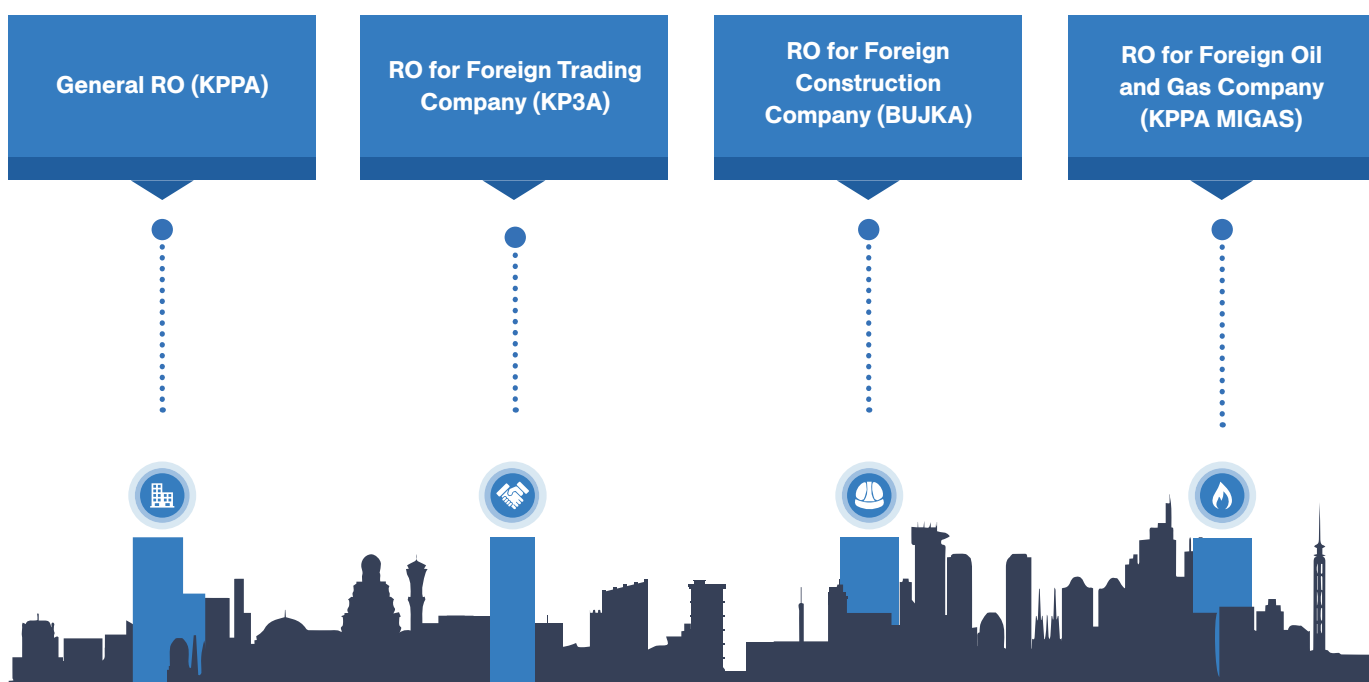
Source: WTO Center, VCCI

# 6. How to Set up a Business

## Key Market Entry Options

Entry Market Structure Types	Common Purpose	Estimated Set up time	Pros	Cons
Foreign Investment Companies (PT PMA)		1.5 - 2 months	<ul style="list-style-type: none"> <li>Numerous financial and non-financial incentives;</li> <li>Flexible at foreign ownership ratio (1-100%) subject to the Negative Investment List;</li> <li>Lower tax and import duties;</li> <li>Able to participate in government sponsored business tenders;</li> <li>Simple organization structure.</li> </ul>	<ul style="list-style-type: none"> <li>A minimum 10 billion IDR (US\$720,000) of total investment value, with 2.5 billion IDR (US\$180,000) shall be injected as Company's paid-up capital. Nonetheless, this paid-up capital can be used during Company's operational;</li> <li>A minimum equity of 10 million IDR (US\$720) per share required.</li> </ul>
General Representative Office (RO/KPPA)	<ul style="list-style-type: none"> <li>Market research;</li> <li>Developing trade contacts;</li> <li>Gathering information on regulations and laws;</li> <li>Manage the parent company's corporate interests.</li> </ul>	1.5 - 2 months	<ul style="list-style-type: none"> <li>Fast and simple registration procedure;</li> <li>No paid-up capital required and can be owned 100% by the parent company.</li> </ul>	<ul style="list-style-type: none"> <li>Cannot engage in any commercial activities; cannot issue invoice or apply for specific license (except for BUJKA and KPPA Migas);</li> <li>Can only be incorporated in capital of Indonesia provinces;</li> <li>Must be located in office building.</li> </ul>

## Four Types of Representative Office



### Set up a PT PMA



### Set up a General Representative office



# 7. Tax Regimes

## Indonesia's Major Taxes

- 1 Corporate Income Tax (CIT)**
  - Corporate Income Tax Rates:
    - > Previous year: 25%
    - > 2020 & 2021: 22%
    - > Starting from 2022: 20%
- 2 Value-added Tax (VAT)**
  - 10% VAT rate imposed on most manufactures, retailers, wholesalers & importers
  - Exports of tangible and intangible goods and services are exempted from VAT
- 3 Personal Income Tax (PIT)**
  - Applies on worldwide income of Indonesian tax residents
  - Non-resident taxpayer is liable for income earned in Indonesia
- 4 E-commerce Tax**
  - Applies to international and domestic entities engaging in e-commerce activities
  - Foreign e-commerce businesses or internet companies having significant presence in Indonesia is deemed as an Indonesia tax residence

## Tax Allowance



A total of 30% reduction in net income tax in 6 years, 5% each year (Applies for 166 eligible business fields)



Income tax on dividends at 10%



Accelerated depreciation and amortization



5 to 10 year compensation for tax losses



Exemption on import duties, VAT, sales tax on luxury goods, and excise for businesses operated in Free Trade Zones

## Super Tax Deduction



Machines, goods, materials for production are exempted for 2-year import duties



Up to 200% reduction of gross income of educational activities



Companies utilizing minimum 30% of local components are waived for import duties in 4 years



60% reduction of net income of labor intensive industries



Up to 300% reduction of gross income subject to income tax of R&D activities

## Tax Holiday



Eligible entities complying with the Indonesia capitalization rules and making investment into 'pioneer industries' can benefit from the following CIT incentives:

Corporate Income Tax Incentives		
Capital Investment	Tax holiday (%)	Period (years)
I Up to 100 billion rupiah (US\$7.3 million) less than 500 billion rupiah (US\$36.5 million)	50	5
II More than 500 billion rupiah (US\$36.5 million) less than 1 trillion rupiah (US\$73 million)	100	5
III More than 1 trillion rupiah (US\$73 million) less than 5 trillion rupiah (US\$365 million)	100	7
IV More than 5 trillion rupiah (US\$365 million) less than 15 trillion rupiah (US\$1.1 billion)	100	10
V More than 15 trillion rupiah (US\$1.1 billion) less than 30 trillion rupiah (US\$2.2 billion)	100	15
VI More than 30 trillion rupiah (US\$2.2 billion)	100	20

(Noted: US\$1=13,663 rupiah as of February 19, 2021)

Notice: After the aforementioned periods of CIT incentives, investment type 1 is eligible for an additional 25% tax holiday allowance while the rest can obtain an additional 50% CIT reduction in two years.

## 18 Pioneer Industries



Agricultural, Plantation or Forestry – Based Processing Industries that produce Pulp



Digital Economy



Economic Infrastructures



Inorganic Base Chemical Industry



Manufacturing Industry of Electronic and Telematics Device's Main Components



Manufacturing Industry of Main Components for Aircraft and Other Supporting Aircraft Industries



Manufacturing Industry of Main Components for Electrical Power Generation Engines



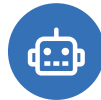
Manufacturing Industry of Main Components for Industrial Engines and Main Components



Manufacturing Industry of Main Components for Ships



Manufacturing Industry of Main Components for Trains



Manufacturing Industry of Robotic Components



Manufacturing Industry of Vehicle and Main Components for Vehicles



Manufacturing of Irradiation Equipment, Electro Medical or Electrotherapy



Oil and Gas Purification and Refinery Industry



Organic Base Chemical Industry



Petrochemical Industry, Based on Petroleum, Natural Gas or Coal

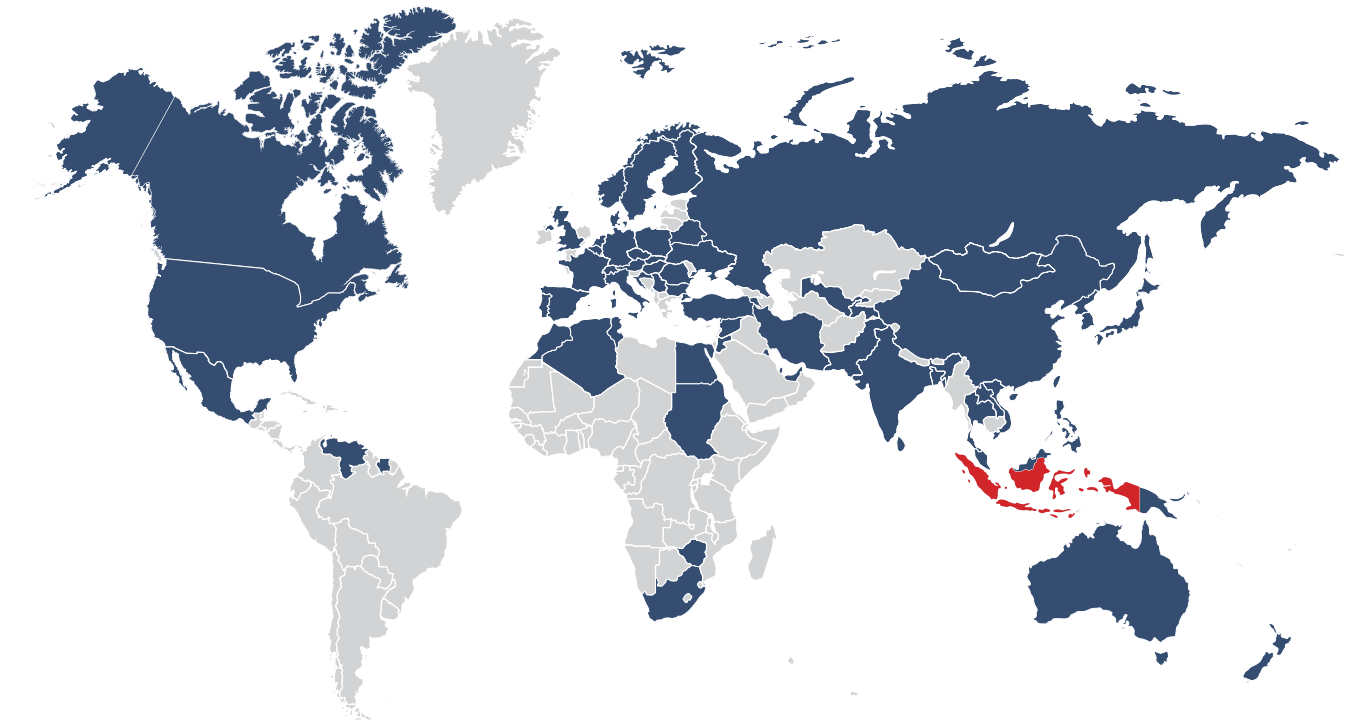


Pharmaceutical Raw Material Industry



Upstream Base Metal Industry

## Double Taxation Agreements (DTAs)



● Countries with signed DTAs with Indonesia (As of February, 2021)

Algeria	Czech Republic	Jordan	Norway	Slovakia	Tunisia
Armenia	Denmark	Korea (North)	Pakistan	South Africa	Turkey
Australia	Egypt	Korea (South)	Papua New Guinea	Spain	Ukraine
Austria	Finland	Kuwait	Philippines	Sri Lanka	United Arab Emirates
Bangladesh	France	Laos	Poland	Sudan	United Kingdom
Belarus	Germany	Luxembourg	Portugal	Suriname	United States of America
Belgium	Hong Kong	Malaysia	Qatar	Sweden	Uzbekistan
Brunei	Hungary	Mexico	Romania	Switzerland	Venezuela
Bulgaria	India	Mongolia	Russia	Syria	Vietnam
Canada	Iran	Morocco	Serbia	Taiwan	Zimbabwe
China	Italy	Netherlands	Seychelles	Tajikistan	
Croatia	Japan	New Zealand	Singapore	Thailand	
Cambodia					



## 8. HR and Payroll Compliance

### Basic Employment Benefits



12 days of annual leave  
(For a standard five working days per week)



Social Security Scheme (BPJS)



Religious Holiday Allowance (THR)  
(Equivalent to at least 1 month of employee's salary)

### Personal Income Tax (PIT) Obligations



Non-residents who stay less than 183 days (unless a Certificate of Residence is applied) are subject to WHT according to the DTA between contracting parties.

Non-residents who have exceeded the stay limit of 183 days are subject to the progressive calculation as a resident tax income.




Residents are subject to progressive tax on worldwide income

#### Personal Income Tax Rates

Annual Income	Rate (%)
Up to 50 million rupiah (US\$3,000)	5
Between 50 - 250 million rupiah (US\$3,000 - US\$15,000)	15
Between 250 - 500 million rupiah (US\$15,000 - US\$30,000)	25
500 million rupiah (US\$30,000) and above	30

### Social Security (BPJS) Contribution Rates

 It is mandatory for all Indonesian citizens, expatriates and their families to participate in the social security programs.

#### BPJS Contribution Rates

	Employer	Employee
BPJS Employment – Death	0.3%	/
BPJS Employment – Accident	0.24% - 1.74% (Depends on industries and risk level)	/
BPJS Employment – Retirement	3.7%	2%
BPJS Employment – Pension (Maximum threshold is IDR 8,754,600 (USD\$598))	2%	1%
BPJS Health (Maximum threshold is IDR 12,000,000 (US\$723))	4%	1%

## 9. Key Government Agencies



### Badan Koordinasi Penanaman Modal (BKPM)

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