



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

Doing Business in Indonesia 2019

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International Business Advisory | Senior Associate

24th September 2019





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1. Introduction to Dezan Shira & Associates





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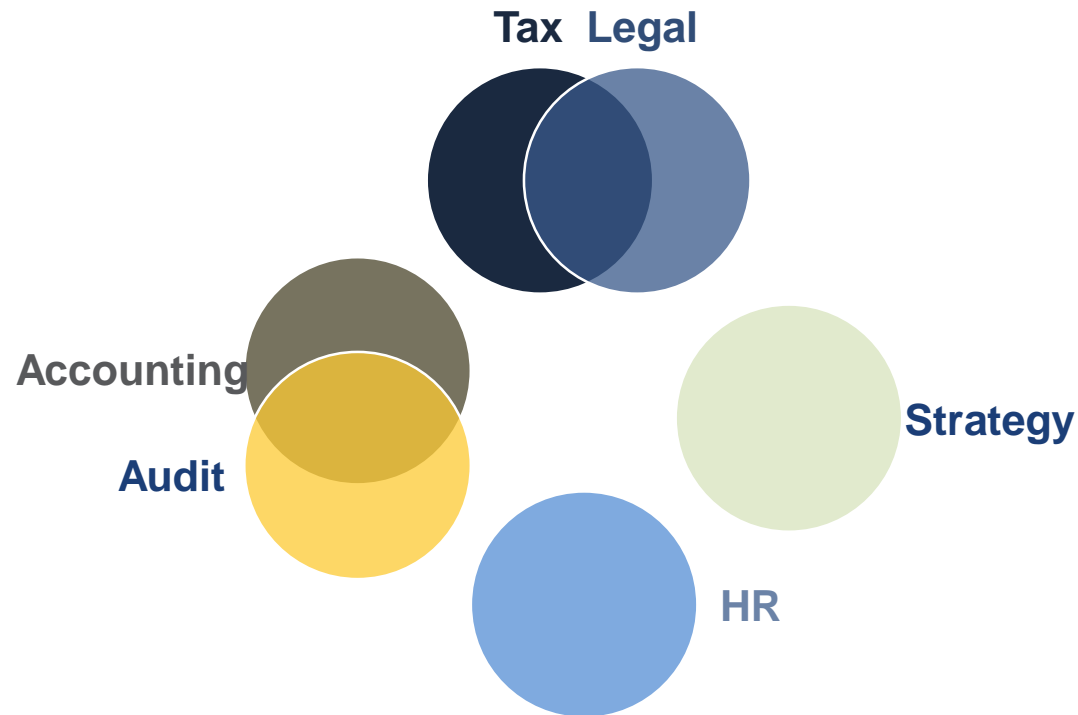
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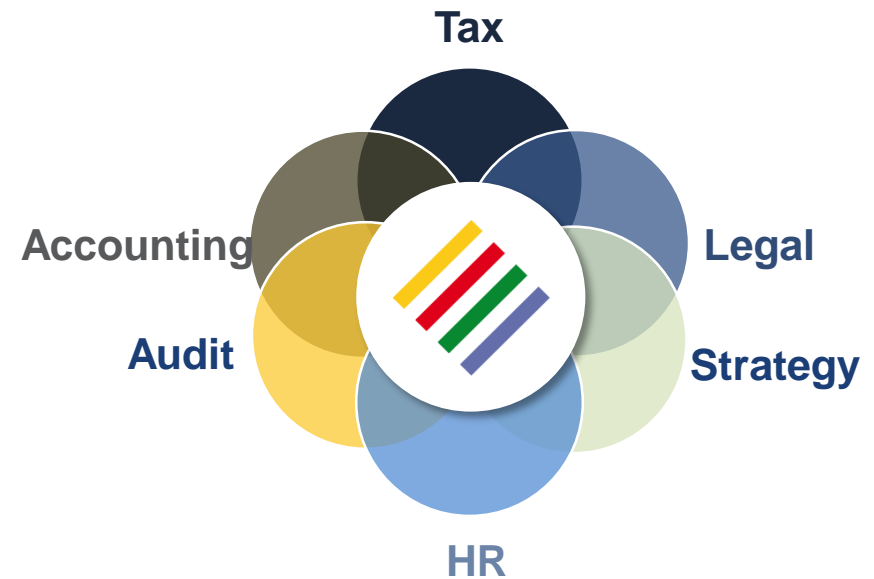
For more information, please visit www.dezshira.com

The 'One-Stop Shop' Model

Elsewhere

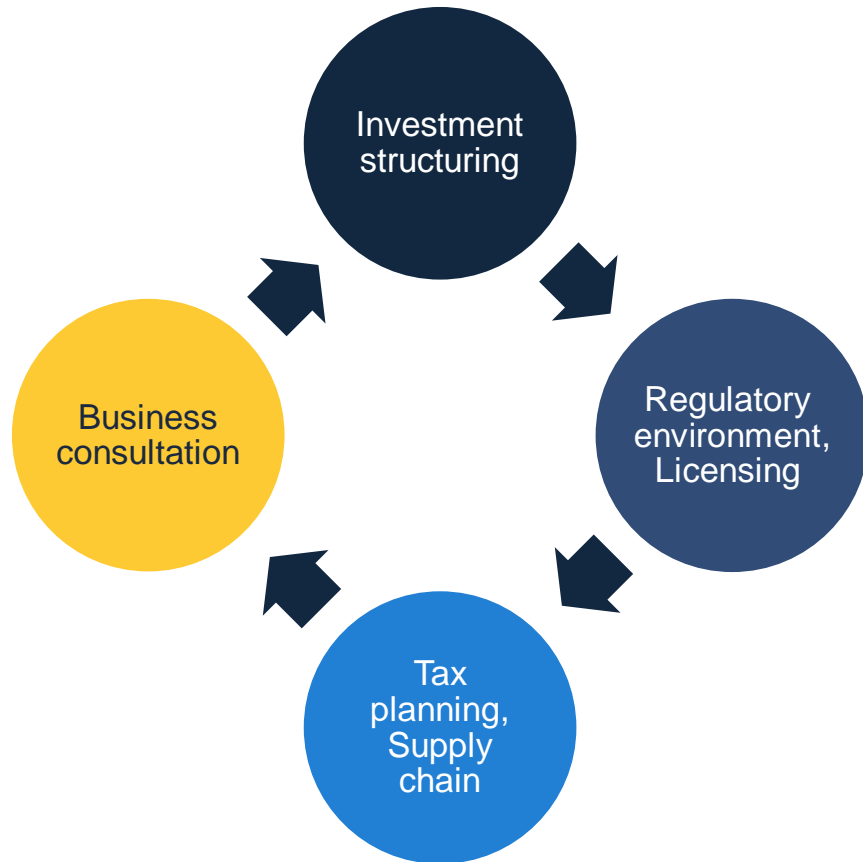


Dezan Shira & Associates

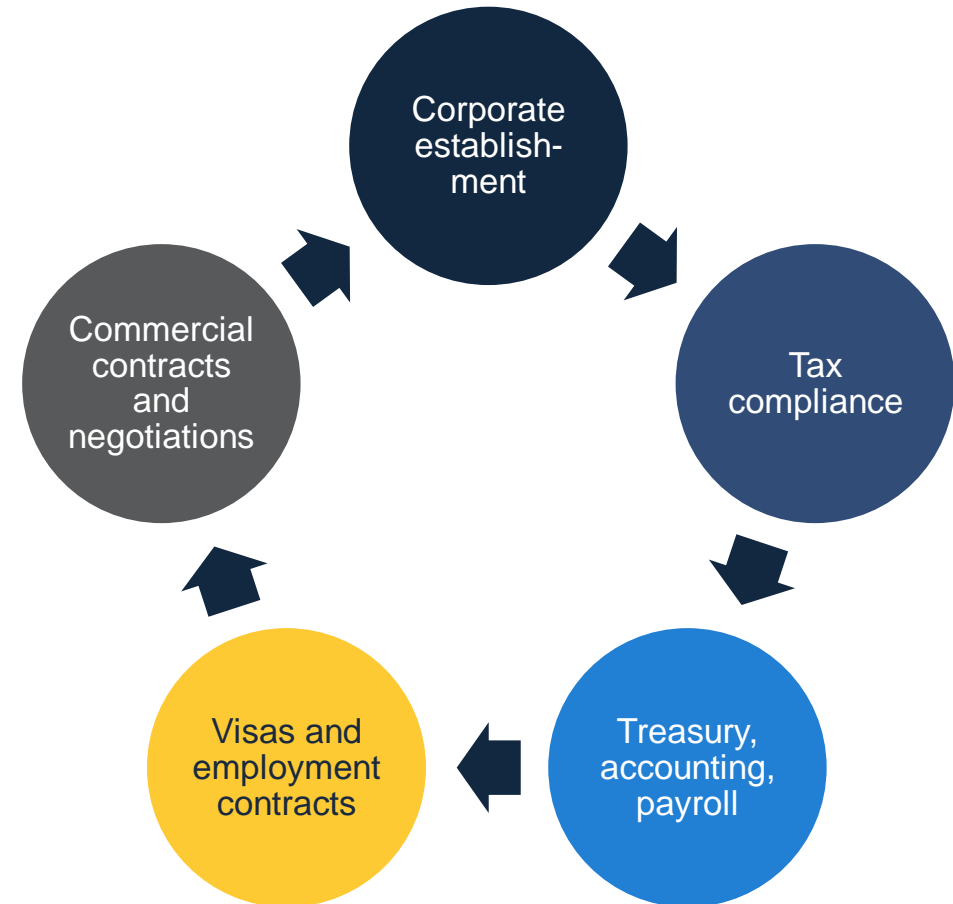


The 'One-Stop Shop' Model

Entry Strategy



Implementation



2. Indonesia: An Overview





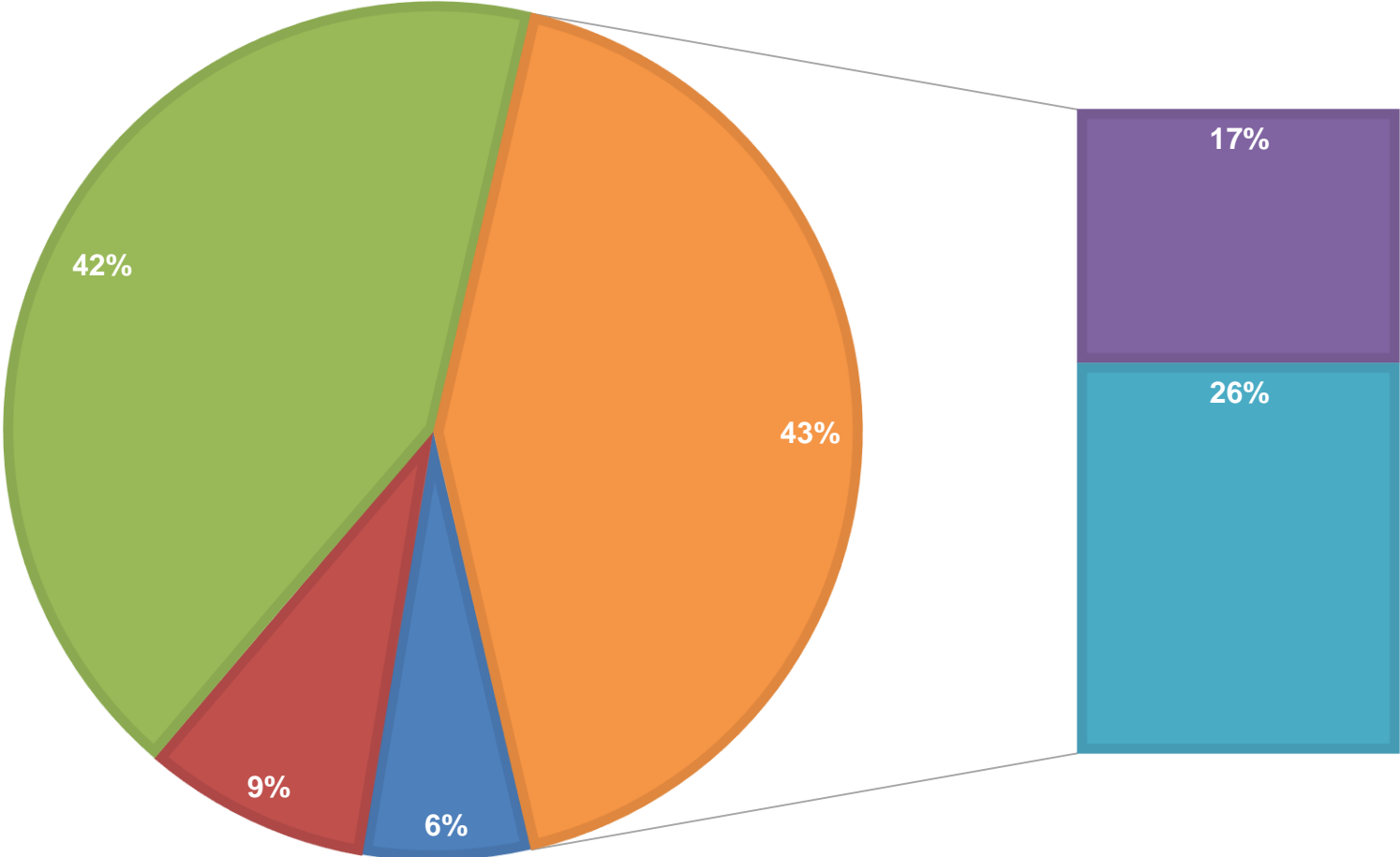
FACTS

- Indonesia is the largest economy in Southeast Asia and the 16th largest on the global map.
- Economy is on the rise with Nominal GDP: \$1.01 trillion
- The largest archipelago with 17,000 islands and ranked 4th for the most populous country in the world; couple with the political stability.
- Population of 270 million in 2019 which consists of more than 300 ethnic groups, and 700 languages.



INDONESIA (2020 POPULATION)

■ 65 years old and older ■ 55-64 years ■ 25-54 years ■ 15-24 years ■ 0 - 14 years old

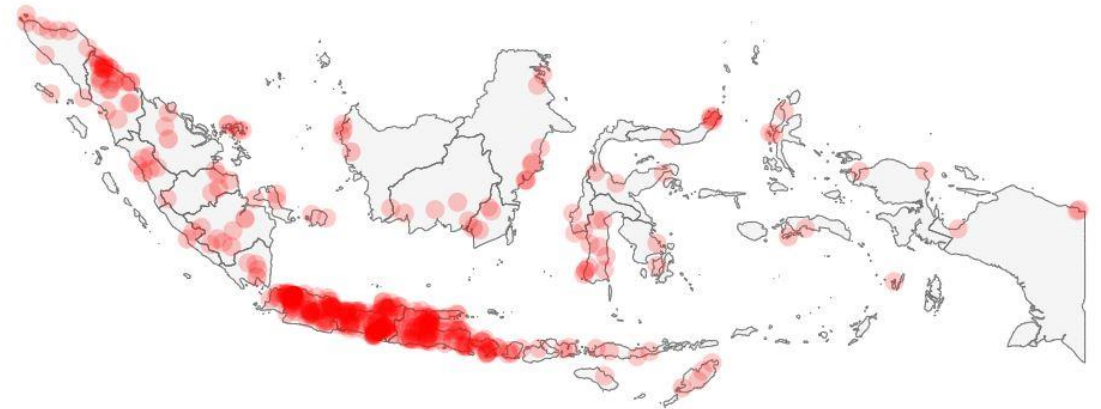


INDONESIA TOP 10 CITIES BY POPULATION

Main Cities by Population in Indonesia

(includes boroughs, districts, urban agglomerations, etc.)

#	CITY NAME	POPULATION
1	Jakarta	8,540,121
2	Surabaya	2,374,658
3	Medan	1,750,971
4	Bandung	1,699,719
5	Bekasi	1,520,119
6	Palembang	1,441,500
7	Tangerang	1,372,124
8	Makassar	1,321,717
9	South Tangerang	1,303,569
10	Semarang	1,288,084



3. Business Establishment



■ FOREIGN DIRECT INVESTMENT / PT PMA

Based on Law No. 25/2007 regarding Investment (New Investment Law), a Foreign Investment in Indonesia is defined as an investing activity conducted by a foreign investor for the purpose of running a business within the territory of Indonesia.

The legal entity through which a foreign person, foreign company, or foreign government body can conduct business in Indonesia (meaning generating revenue streams and profit) is the PT PMA (Perseroan Terbatas Penanaman Modal Asing).

The establishment of a PT PMA is regulated by Law No. 40/2007 regarding Limited Liability Companies (Company Law). Such a company can be either 100 percent foreign-owned or partially foreign-owned.



REGISTRATION REQUIREMENTS FOR INCORPORATION



Minimum Capital Investment requirements is at least IDR 10 billion or equivalent.



Minimum Paid-Up Capital Investment requirements is at least IDR 2.5 billion or equivalent.



Must have the registered office address. The address must be in physical, commercial address.



Requires at least 2 (two) shareholders who can either be individual and/ or corporate shareholders.



At least 1 (one) director and 1 (one) independent commissioner is required.

The director will be authorized person to run business on daily basis, hence needs to reside in Indonesia;

The commissioner will be responsible to ensure director runs the company in good manner.

▪ STEPS SETTING UP BUSINESS (PT PMA):



BUSINESS IDENTIFICATION NUMBER

A NIB is a unique number that identifies your Company Profile in Indonesia, and it also serves as:

- ✓ Your import license (previously API-U)
- ✓ Customs Identification Number (NIK)
- ✓ Your business registry number (previously TDP)
- ✓ To register your PT PMA under Health and Social Security System (BPJS Kesehatan dan BPJS Ketenagakerjaan)



▪ Industrial Business License (*Izin Usaha Industri* - IUI)

After the business entity has been established and obtained Single Business Number (NIB), the business entity shall apply for and activate the Industrial Business License with the Ministry of Industry.

Requirements

to apply for and activate the Industrial Business Licenses is regulated in **Article 13 of Ministry of Industry Regulation Number 15 of 2019** concerning Issuance of Industrial Business Licenses and Expansion Permits in the Framework of Electronic Integrated Licensing Services, namely:

- ✓ Have a SIINas account;
- ✓ Delivering the industry data;
- ✓ Have location permit;
- ✓ Have an environmental permit;
- ✓ Field inspection has been carried out; and
- ✓ For certain types of industries, additional requirements stipulated in the legislations has to be fulfilled.



■ FOREIGN OWNERSHIP LIMITATIONS



□ NEGATIVE INVESTMENT LIST

Presidential Regulation No. 44/2016 has been issued to stipulate the lines of business from 100 percent (100%) Open, to completely Closed to Foreign Investors (Negative List of Investment/ NLI).



PRESIDENT OF THE REPUBLIC OF INDONESIA

- 15-

No.	Business Field	KBLI	Conditions
142.	Power plant < 1 MW	35101	Domestic capital: 100%
143.	Small-scale power plant (1-10 MW)	35101	Foreign capital ownership: Max.49%
144.	Geothermal power plant with a capacity of \leq 10 MW	35101	Foreign capital ownership: Max.67%
145.	Power plant > 10 MW	35101	Foreign capital ownership: Max.95% (Maximum 100% for the purpose of Public Private Partnership / KPS during concession period)
146.	Power plant transmission	35102	Foreign capital ownership: Max.95% (Maximum 100% for the purpose of KPS during concession period)
147.	Power plant distribution	35103	Foreign capital ownership: Max.95% (Maximum 100% for the purpose of KPS during concession period)
148.	Power installation consultation	71102	Foreign capital ownership: Max.95%
149.	Construction and installation of electric power: Installation of electric power supply	42213	Foreign capital ownership: Max.95%
150.	Construction and installation of electric power: Installation of high/extra-high voltage electric power utilization	43211	Foreign capital ownership: Max.49%

■ REPRESENTATIVE OFFICE

WHAT ARE THE ALLOWED ACTIVITIES OF A REPRESENTATIVE OFFICE IN INDONESIA?

Based on Article 68 (2) of BKPM Regulation No. 5/2013, the activities of a general foreign representative office are limited to:

- ✓ Taking care of the interests of the foreign parent company or its affiliated companies
- ✓ Preparing the establishment and development of a foreign investment company (PT PMA) in Indonesia.

WHAT ARE THE RESTRICTED ACTIVITIES OF A REPRESENTATIVE OFFICE IN INDONESIA?

Article 2 BKPM 22/2001 explicitly regulates that the general foreign representative office is not allowed to:

- ✓ Search for income from sources inside Indonesia, including carrying out activities or doing anything related to the engagement in and/or sales and purchases of goods or services with a company or individual inside Indonesia, and/or
- ✓ Participate in any form in the management of a company, a subsidiary or branch office in Indonesia



■ TYPES OF REPRESENTATIVE OFFICE IN INDONESIA

<u>KPPA</u>	<u>KP3A</u>	<u>BUJKA</u>
<ul style="list-style-type: none"> - A general Representative Office - Function: Manage the parent company's corporate interest; and prepare the establishment and development of its business in Indonesia - Must incorporate in capital of Indonesia provinces (i.e. Jakarta, Bandung, Yogyakarta, Kalimantan, etc) - KPPA permit is valid for 3 (three) years and can be extended 2 (two) times for 1 (one) year each - KPPA must be incorporated in office building/ tower - In case Chief of RO is foreigner, he/she must obtain KITAS/ work permit to stay and work in Indonesia 	<ul style="list-style-type: none"> - Is limited to introduce, promote, and market the goods produced by a parent company, as well as providing information - Prohibited to carry out trading activities and sales transactions, including submitting tenders, signing contracts, settling claims, etc - Can be incorporated in capital of provinces, districts and cities in Indonesia - KP3A is not allowed to issue any invoices and all transactions must be under the parent company's name - KP3A required to hold a license of Representative office of Foreign Trading Company from Ministry of Trade (SIUP3A) 	<ul style="list-style-type: none"> - Representative office for foreign construction companies. Through BUJKA, you are able to: Contact people, companies, and government institutions and also collect information regarding available construction projects all over Indonesia - Participate in tenders - Hire foreign experts and Indonesian staff to support your operation - Open a bank account in Indonesia

■ POST ESTABLISHMENT

- ❑ HR & Payroll System in Indonesia
- ❑ Working Permit for Foreigners
- ❑ Corporate Income Tax
- ❑ Tax Compliance (Monthly)
- ❑ Individual Taxes
- ❑ Mandatory using Rupiah



POST ESTABLISHMENT COMPANY OBLIGATIONS:

- Report tax monthly and annualy
- Report on investment activities (LKPM) quarterly to Indonesian Investment Coordinating Board (Badan Koordinasi Penanaman Modal – BKPM)
- Register Company to BPJS Healthcare and BPJS Social Security
- Draft Company Regulation; then must register to Ministry Of Manpower if the worker more than 10 person
- Must submit WLK report annually
- The role for Human Resource and Development (HRD) must be Indonesian citizen

□ HR & Payroll in Indonesia

▪ MAIN LABOUR LAW

Law Number 13/2003 on Employment which legislates on employment relations, wages and termination of employment.

The employment law is completed by additional sources of law, such as Law No 40/2004 on National Social security system, government regulations, ministerial regulations and presidential decrees.

Employment law applies to all Indonesian citizen employees and employers, while for foreign citizenship worker, the employment relation is governed by the contractual terms, that have to abide to the Indonesian Civil code.



	Note	Percent (Paid by Company)	Percent (Paid by Employee)
Accident Insurance (Jaminan Kecelakaan Kerja)	Minimum Wages are UMP wages, There is no Maximum Wage limit	0.24%	-
Life Insurance (Jaminan Kematian)	Minimum Wages are UMP wages, There is no Maximum Wage limit	0.30%	-
Old Age Benefits (Jaminan Hari Tua)	Minimum Wages are UMP wages, There is no Maximum Wage limit	3.70%	2,00%
Pension Guarantee (Jaminan Pensiun)	Minimum Wages Are UMP wages, Maximum Wage Limit is IDR. 8,512,400. if the salary exceeds the maximum wage set by the BPJS, the maximum wage set by the BPJS will be used to be calculated	2.00%	1,00%

▪ EMPLOYEE BASIC RIGHTS

- Working hours 40 hours per week or equivalent to 8 hours / day
- Receive regional minimum wage, which is vary according to province, district, and sector.
- Receive Social security ([*BPJS Ketenagakerjaan*](#)), which includes work accident insurance, life insurance benefit, and old age benefit (pension) as well as BPJS health care (*BPJS Kesehatan*) program.
- Receive statutory absence/payment when the employees do not take the annual leave, maternity leave, sickness, and personal leave based on the regulations.
- Receive religious holiday allowance (THR/*Tunjangan Hari Raya*) based on the regulations.
- Receive overtime rates.

Provincial Minimum Wages in Indonesia 2019

PROVINCE	AMOUNT
DKI Jakarta	Rp. 3,940,973.
West Java	Rp. 1,668, 372.
Central Java	Rp. 1,605,396.
East Java	Rp. 1,630,059.
Bali	Rp. 2,297,968.
Yogyakarta	Rp. 1,570,922.
Banten	Rp. 2,267,990.
Aceh	Rp. 2,916,810.
Jambi	Rp. 2,423,889.
West Sumatra	Rp. 2,289,228.
North Sumatra	Rp. 2,303,403.
South Sumatra	Rp. 2,805,751.
Bangka belitung	Rp. 2,976,705.
Lampung	Rp. 2,241,269.
Riau	Rp. 2,805,751.
Riau Islands	Rp. 2,769,754.
Papua	Rp. 3,128,170.

PROVINCE	AMOUNT
Bengkulu	Rp. 2,040,406.
West Nusa Tenggara Province	Rp. 2,012,610.
East Nusa Tenggara	Rp.1,793,000.
West Kalimantan	Rp. 2,211,266.
South Kalimantan	Rp. 2,651,781.
Central Kalimantan	Rp. 2,651,735.
East Kalimantan	Rp. 2,747,560.
North Kalimantan	Rp. 2,747,560.
Maluku	Rp.2,400,664.
North Maluku	Rp. 2,507,163.
Gorontalo	Rp. 2,384,020.
North Sulawesi	Rp. 3,051,076.
South East Sulawesi	Rp. 2,551,463.
Central Sulawesi	Rp.1,965,232.
South Sulawesi	Rp.2,860,382.
West Sulawesi	Rp.2,369,670.
West Papua	Rp. 2,881,160.

▪ Mandatory Report (WLK)

Regulations

Based on Law Number 7 of 1981 concerning Mandatory Manpower Report in the company, requires every entrepreneurs or company management to submit manpower report in writing any establishment, termination, reestablishment, transfer or dissolution to the Ministry of Manpower.

Online reporting

Businesses need to register their company online at <http://wajiblapor.kemnaker.go.id> to obtain their corporate ID. Once companies have their corporate ID, they obtain a username and password which they can use to log into the website and perform their periodic reporting.

Reporting Requirement and Procedure

Under the New MOM Regulation, generally companies are required to submit their mandatory manpower report (WLK) online once per year; **company identity, number of workers, protection of manpower, manpower relationship, job opportunities, etc.** In addition to the annual submission, companies need to submit a WLK:

no later than 30 days after:

- The company establishment
- Re-commencement of operations;
- Change of ownership; or
- Change of address

❑ WORKING PERMIT/ KITAS

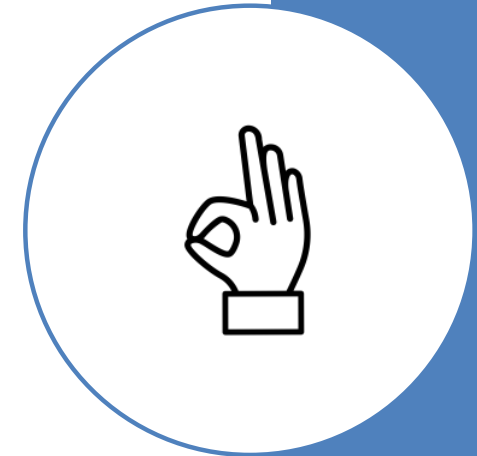
Limited Stay Permit (KITAS) is an immigration status or permit to foreigners who willing to stay in Indonesia territory for certain period of time and can be extended if required.

Regulations

Regulation of The Minister of Law And Human Rights Number 16 of 2018

Validity

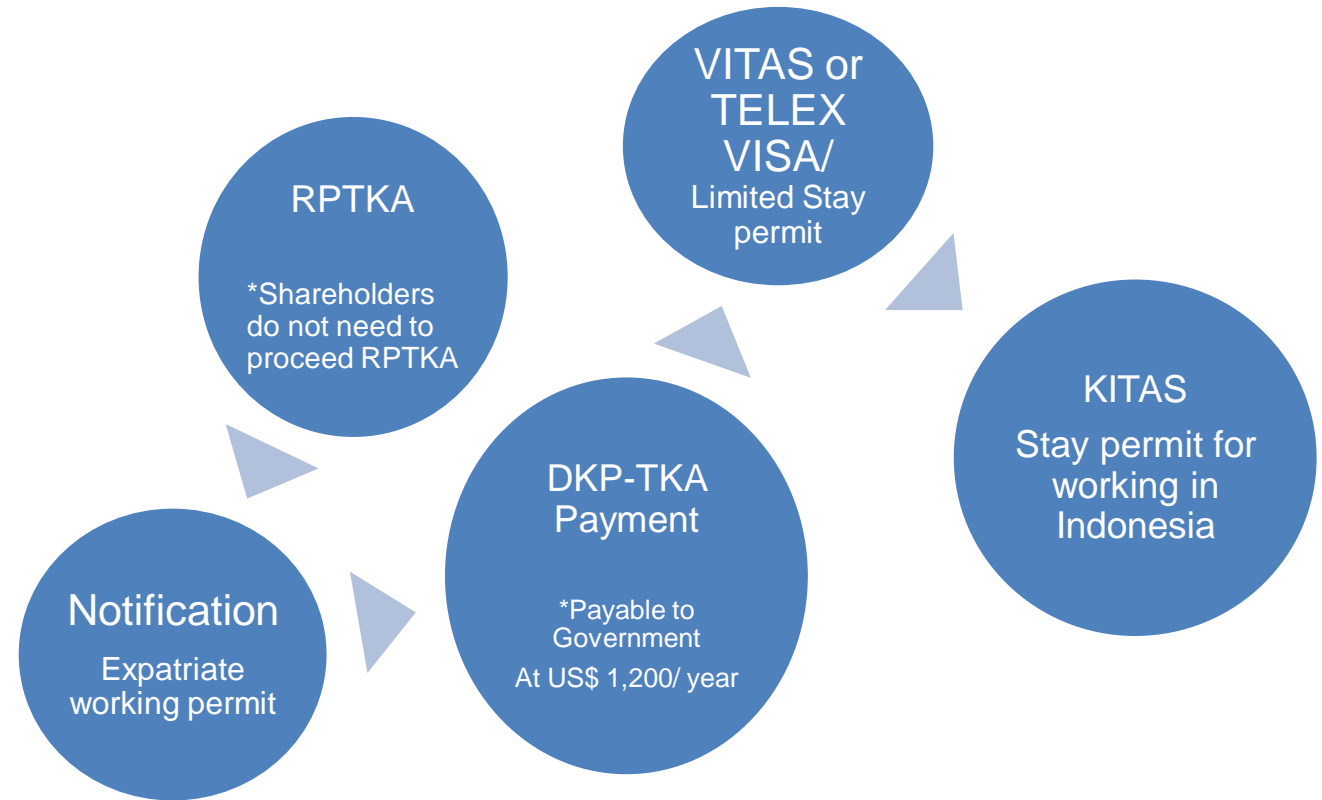
The work permit validity depends on the employment agreement between you and the company that hires you. Note that previously you could only get a six to twelve months work permit in Indonesia.



■ The Process of Getting a Work Permit in Indonesia

KEY HIGHLIGHTS:

- Working IMTA is now being replaced with a notification, which is valid for as long as the employment agreement
- Employment agreement should follow the format regulated in the new regulations
- The director and/or commissioner, who are also the shareholders of the company, do not need to proceed for RPTKA



❑ CORPORATE INCOME TAX

A company is subject to the tax obligations set by the Indonesian government if the company's domicile is in Indonesia.

Companies in Indonesia are taxed at a rate of 25%, for both domestic and international sourced income.

Compulsory to file Annual Corporate Income Tax Return (SPT 1771)

CORPORATE INCOME TAX	TAX RATE
• Normal rate	25%
• Public company with >40% of its shares traded on the IDX	20%
• Companies with a gross turnover below IDR 50 billion	12.5%
• Companies with a gross turnover below IDR 4.8 billion	1%

□ Monthly Tax Compliance Services

Once the company is established, it is mandatory by Indonesian Tax Authorities to submit a monthly tax report even if there is no activity and no taxes.

Withholding Tax

The Indonesian payer have to settle their tax liabilities for their Indonesian-sourced income through withholding 20% tax from any payment made to foreign companies.

Withholding taxes (WHT) must be filed on a monthly basis.

Payments are generally required by the 10th or 15th day of the following month.

<u>WITHHOLDING TAX (FOR PAYMENTS TO RESIDENTS)</u>	<u>TAX RATE</u>
• For interest, dividends & royalties	15%
• For services	2%
• for land and building rental (final tax)	10%
• These withholding taxes are considered corporate tax prepayments	
• Withholding tax calculated on sales/revenue is considered a final tax	
<u>WITHHOLDING TAX (FOR PAYMENTS TO NON-RESIDENTS)</u>	<u>TAX RATE</u>
• normal rate (can be reduced by using tax treaty provisions, or exempt services that qualify as business profits)	20%

▪ Monthly Tax Compliance Services



Value-Added Tax (VAT)

The general VAT rate in Indonesia is 10%.

Companies that deliver taxable goods and/or services exceeding IDR 4.8 billion per annum are required to be registered as a VAT-registered company. If it is anticipated that the taxable goods and/or services will meet IDR 4.8 billion, it is advisable for companies to register for VAT voluntarily even without meeting the threshold yet.

VAT return filing is done on a monthly basis by the end of the following month.

□ INDIVIDUAL TAXES

If an individual fulfills any of the following conditions, then he/she is regarded a tax resident in Indonesia (except if a tax treaty overrides these rules):

- ✓ the individual lives in Indonesia;
 - the individual is in Indonesia for more than 183 days within a 12-month period;
 - the individual is in Indonesia during a fiscal year and intends to reside in Indonesia.
- Meanwhile, non-resident individuals are subject to a 20 percent (20%) withholding tax on Indonesia-sourced income.

BAND	ANNUAL INCOME	RATE
Tax Free	Up to Rp54,000,000	0%
Band I	Up to Rp50,000,000	5%
Band II	Rp50,000,000 to Rp250,000,000	15%
Band III	Rp250,000,000 to Rp500,000,000	25%
Band IV	Above Rp500,000,000	30%

▪ THE MANDATORY USE OF THE RUPIAH IN THE TERRITORY OF REPUBLIC OF INDONESIA

According to the regulation of Bank Indonesia (BI) Regulation No. 17/3/2015 regarding the Mandatory Use of the Rupiah within the Republic of Indonesia, explain as follows:

1. Any party must use Rupiah in domestic transactions conducted within Indonesian territory;
2. Specifically, BI Reg 17 stipulates the mandatory use of Rupiah for:
 - transactions in Indonesia that are for the purpose of payment;
 - transactions in Indonesia that are for the settlement of other obligations that must be fulfilled with money; and
 - other financial transactions in Indonesia.



4. Opportunities for Foreign Investors



EASE OF DOING BUSINESS IN INDONESIA

Doing Business 2019

Indonesia

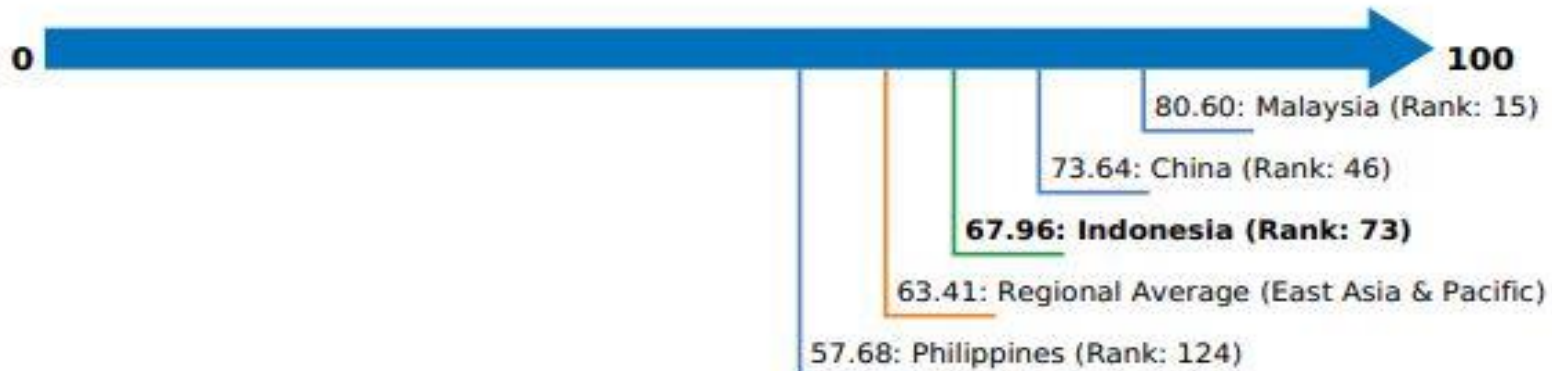
Ease of Doing Business in
Indonesia



Region	East Asia & Pacific
Income Category	Lower middle income
Population	263,991,379
City Covered	Jakarta, Surabaya



DB 2019 Ease of Doing Business Score



“Economic outlook is positive with a supportive global economy and strong domestic fundamentals.”

“As the largest economy in ASEAN, Indonesia is the third fastest growing economy among G20, with a positive growth trend.”

Country	2014	2015	2016	2017	2018	2019	2015	2016	2017	2018
Real GDP growth at market price in %			Est.	Projections			% point difference from June 2016 projections			
Cambodia	7.1	7.0	7.0	6.9	6.9	6.8	0.0	0.1	0.1	0.1
China	7.3	6.9	6.7	6.5	6.3	6.3	0.0	0.0	0.0	0.0
India	7.2	7.6	7.0	7.6	7.8	7.8	0.0	-0.6	-0.1	0.1
Indonesia	5.0	4.8	5.1	5.3	5.5	5.5	0.0	0.0	0.0	0.0
Lao PDR	7.5	7.4	7.0	7.0	6.8	7.2	0.4	0.0	0.0	0.0
Malaysia	6.0	5.0	4.2	4.3	4.5	4.5	0.0	-0.2	-0.2	-0.2
Myanmar	8.0	7.3	6.5	6.9	7.2	7.3	0.3	-1.3	-1.5	-1.1
Philippines	6.2	5.9	6.8	6.9	7.0	6.7	0.1	0.4	0.7	0.8
Thailand	0.8	2.8	3.1	3.2	3.3	3.4	0.0	0.6	0.5	0.3
Vietnam	6.0	6.7	6.0	6.3	6.3	6.2	0.0	-0.2	0.0	0.0

Source: Bloomberg, IMF, WorldBank, 2017

WHY INVEST IN INDONESIA?

Natural Resources



ABUNDANCE IN NATURAL RESOURCES



GROWING DOMESTIC MARKET



GOOD POLITICAL STABILITY



HEALTHY ECONOMY

WHY INVEST IN INDONESIA? (cont'd)



DEMOGRAPHIC BONUS



MORE PEOPLE LIVES IN URBAN AREAS



EMBRACING TEHCNOLOGY



GOVERNMENT SUPPORT

MAJOR BUSINESS SECTORS IN INDONESIA

Agriculture



Agriculture is a key sector which contributed to about 15% of GDP.

Services



- Healthcare
- Telecommunications
- Tourism
- Waste-Management
- So on

Manufacturing



- Automotive
- Textiles
- Cosmetics
- Food & Beverages
- etc

Resources for the Asia Investor



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