

The logo for MGI (Member of the Global Institute of Accountants) features the lowercase letters 'mgi' in a bold, blue, sans-serif font. To the right of the text, there are three curved lines in a light blue color, each ending in a solid blue circle, suggesting a network or global reach.

BUSINESS SOLUTIONS
WORLDWIDE

Doing Business in Indonesia

A worldwide association of independent
auditing, accounting and consulting firms

DOING BUSINESS IN INDONESIA

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PREFACE

Whilst every care has been taken in the preparation of this info, no responsibility can be accepted for inaccuracies.

Clients are also advised that the law and practice may change from time to time.

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I. INTRODUCTION

A. GENERAL

Indonesia is a nation composed of more than 200 ethnic groups and six major world religions (Islam, Catholicism, Protestantism, Buddhism, Hinduism and Confucius) and the ideology of Pancasila has done much to help preserve the Identity of the nation.

Although Islam is professed by the majority of Indonesians, freedom and facilities of worship are extended to all major religions.

And Indonesia is well-known for the communal rituals of Bali.

B. THE POPULATION

The population of Republic of Indonesia is 238 million with per Capita Income being US\$. 2,000

The land area of Indonesia is 1.9 million km² with more than 13,000 islands spanning 3,000 miles of ocean.

C. THE NATIONAL LANGUAGE

The national language is “Bahasa Indonesia” (about similar to Malay language) and English is commonly spoken and understood in major hotels, banks, stores and restaurants.

Indonesia has more than 250 local dialects.

D. THE CLIMATE

Indonesia is located within the tropics. It has two seasons, namely the dry and wet season.

Normally the dry season runs from April to October and the wet season from November to March.

The mean daily temperature ranges from 24°C to 34°C in a year.

E. MONEY

The Indonesian currency is the Rupiah with a series of coins and notes from Rp. 50 up to Rp. 100,000,- (Rp. 50, 100, 500, 1,000, 2,000, 5,000, 10,000, 20,000, 50,000, 100,000). Currently US \$ 1 is equivalent to Rp. 9,100 (Jan 2011)

F. OFFICE HOURS

Government office hours are usually 8 a.m. – 5 p.m. from Monday to Friday (Saturday off).

Private office hours are usually the same as the government's except for some of them are still working on Saturday.

II. BUSINESS AND INVESTMENTS

A. BUSINESS FORMS

The most common business forms for Corporate Investments are Limited Liability Companies in Corporate in Indonesia which is called P.T. (Perseroan Terbatas).

A P.T. is analogous to the Dutch Naamloze Venootschap; a P.T. must have 3 organs of management, shareholders, directors and supervisory organ called the commissioners.

First step in establishing a P.T. company is to have drawn up a deed of establishment by an Indonesian notary in the Indonesian language, which is then presented to the Ministry of Justice, this will include the proposed Articles of Association with the following issues have been settled, the P.T. name, purpose of the firm, location. The approval from the BKPM (Badan Koordinasi Penanaman Modal / the Capital Investment Coordinating Board) is needed for the formulation of a national investment policies and plans, promotion, licenses, control and evaluation.

Final approval for all foreign investment projects must however come from the chairman of the BKPM.

B. EXCHANGE CONTROL

There is no exchange control in Indonesia since 1967. A free market for all major currencies is maintained and there is no restriction in respect of remittance of funds either into or out of Indonesia.

C. INVESTMENT TRENDS

The fundamental law governing this foreign investment is law No. 1 of 1967, as amended by law No. 25 of 2007 and starting 2007, the government introduced a series of deregulations which began to reduce the economy's dependence on oil exports.

Since then, the process of encouraging investment, particularly in manufacturing industries, has been accelerated, culminated in a regulation released in May, 2010 that significantly eased the entry of foreign capital into Indonesia.

D. THE MAY INVESTMENT REGULATIONS

The May 2010 investment package was the government's latest answer to concerns that the country was losing its edge in attracting foreign investors.

Briefly, the May 2010 regulation (known as PP 76 or Government Regulation No. 76-77, 2007) opened the way for the possibility of 95% foreign ownership of companies, including in a number of areas which previously had been closed to foreign equity participation.

Liberalization of regulations for divestment of ownership to Indonesian interests.

1. Operating licenses are granted for an automatic 70 years period from the start of commercial production and can be extended by the Minister or chairman of the BKPM (the Capital Investment-Coordinating Board).
2. Business location can be anywhere in Indonesia, however, if in the vicinity of Industrial Zones, Bonded Zones or remote area; location within these zones are preferred.
3. A. Investment Sector – closed or prohibited to the investor, e.g.: Endangered species of wild fauna & flora (CITES), Alcohol, Chlor Alkali, Monitory Spectrum of Satellite, Casinos and etc.

B. Investment Sector – opened just for small & medium size firms, e.g.: Agriculture (< 25 Ha), plantation (< 25 Ha), Seedling, Chicken Farms.

C. Investment Sector – opened for Foreign Investors (49% to 95 %) but these investors should get the approval from Agriculture Minister, e.g.: Agriculture genetic, plantation (> 25 Ha), Seedling > 25 Ha, CPO, Tea, Fiber, Cacao, Crumb rubber.

III. TAXATION

A. GENERAL

Taxes are imposed at the national and regional levels with the basic Categories of National Taxes, Regional Taxes and Customs & Excise Taxes.

1. National Taxes

These taxes include Income Tax, Value Added Tax (VAT), Sales Tax on Luxury Goods and Stamp Tax.

2. Regional Taxes

These taxes include:

- Development tax 5% - 10% for hotel bills and restaurants
- Motor Vehicle Tax
- Advertisement Tax
- Property on Land & Buildings

3. Custom and Excise Taxes

Customs and excise tax include Export Tax, Import duties, Tobacco, Alcohol & Gasoline taxes.

B. TAX PAYERS

1. Resident Tax Payer,

Include Companies, Partnership, Cooperatives and Individual residing in Indonesia and established according to Indonesian Law, also includes any Permanent Establishment of an organization that is not set up or domiciled in Indonesia.

Individual is considered resident tax payer when present in Indonesia for more than 183 days in a year or when present with the intention to reside.

A P.E. is broadly defined and includes any establishment which is regularly used to carry on business in Indonesia by an organization not set up in Indonesia.

An organization is required to register as a Tax Payer (Wajib Pajak) for paying its own income, withholding tax on payment to its employees and third party.

2. Non – Resident Tax Payer.

Who are not residents in Indonesia, but receive income from Indonesia. Withholding tax is withheld by Domestic / Resident Tax Payer for the Income from Indonesia.

C. INCOME TAX

Income tax is self assessment and become final within 5 years of filling a complete return.

Income includes world-wide income and capital gains.

Taxable income is determined after allowable deductions (recognized by tax office) are subtracted from gross income.

Individual has been liable to tax at the progressive rates.

Taxable Annual Net Income	Tax Rate
- The first Rp. 50,000,000	5 %
- Rp. 50,000,000 to Rp. 250,000,000	15 %
- Rp. 250,000,000 to Rp. 500,000,000	25 %
- Over Rp. 500,000,000	30 %

D. WITHHOLDING TAXES

Tax payers are appointed to be collectors of withholding tax, includes employers for their employees (the rate is as mentioned in point C), government office, director general of customs, and some individuals like accountants, consultants 15 % of withholding tax will be withhold for Dividend, Interest (except for banks), Royalty, Prize, Rent, Technical – Management – Constructions – Consultancy – Accounting Services.

15 % withholding tax is charged for resident tax payers.

For Non Resident tax payer is 20 % withholding tax and except for the countries which made the Treaty Agreement is charged within 10% - 15%.

In order to take advantage of the reduce tax rates for non resident tax payers; the recipients must file a request with the tax office where the payee is registered and accompanied by:

- a. Certification from the competent authority stating the tax residency of the company.
- b. A power of attorney if the request is filed by another party.
- c. Copy of agreement and other supporting documents.

E. VALUE ADDED TAX (V A T)

Effective 1985, VAT is imposed on goods and services at a basic rate of 10 %.

VAT is collected through manufacturer, wholesaler, distributor, until retail (for certain turnover in a year) level.

VAT works on an input-output mechanism. Input tax can be credited against output tax in the same months. VAT returns for certain export products.

F. SALES TAX ON LUXURY GOODS

Luxury Sales tax is levied at minimum 10 % depending on the item. The government is permitted to charge maximum rate of 200 %.

G. STAMP TAX

The stamp tax is 2 (two) rate of stamp structure, imposing a basic tax of either Rp. 3,000,- or Rp. 6,000,- on dutiable documents.

Documents bearing a sum of money above Rp. 250,000,- up to Rp. 1,000,000,- are subject to a Rp. 3,000,- stamp duty, if the amounts > Rp. 1,000,000,- are subject to Rp. 6,000,- stamp duty.

For cheques, the stamp duty is Rp. 3,000,-regardless of amount.

Most of other dutiable documents (like contracts/agreements, notes, notaries deeds, etc.) are subject to Rp. 6,000,- stamp duty.

H. PROPERTY TAX ON LAND AND BUILDINGS

Tax on land and building is payable annually. The effective rates are nominal, generally at 0.1% for the building and land worth less than Rp. 1 billion for both individuals and corporates and 0.2% for individual building and lands worth more than this amount.

Special rates are applied to forestry, plantations, mining businesses. Exemptions are provided for building and land worth less than Rp.60 million; social affairs, health, religious worship, state education and culture, graveyards, protected forest, diplomatic offices and Specified International Organizations.

I. TAX TREATY

Tax treaty has been made between Indonesian Government and these following countries; e.g.:

- | | | | |
|-------------|---------------|---------------|------------|
| - Australia | - India | - Norway | - Taiwan |
| - Austria | - Italy | - Pakistan | - Thailand |
| - Belgium | - Japan | - Philippines | - Tunisia |
| - Canada | - Korea-South | - Poland | - U.K. |
| - Denmark | - Luxemburg | - Singapore | - U.S.A. |
| - Finland | - Malaysia | - Srilanka | |
| - France | - Netherlands | - Sweden | |
| - Germany | - New Zealand | - Switzerland | |

IV. ACCOUNTING AND AUDITING

A. ACCOUNTING STANDARDS AND PRINCIPLES

The Indonesian Associations of Accountants is the governing body of the accounting profession in Indonesia.

Accounting Standards are issued by the Indonesian Associations of Accountants and describe methods of accounting standards approved by the Association for application of the presentation of financial statements.

The International Accounting Standards –IFRS is adopted and modified for the implementation of the Accounting Standards applied in Indonesia.

No regulation is in force for implementation of Accounting Standards for the firm with the turnover less than Rp. 4,800,000,000 a year.

B. AUDITING STANDARDS AND REQUIREMENTS

Auditing standards are issued by the Indonesian Institute of Public Accountant and most of the contents are adopted from the International Standards of Auditing.

Under Companies Ordinance of Indonesia, financial statements of all companies, either individual or corporations; are not required to be audited, except for those companies involved in commercial banks, other financial institutions like leasing and insurance, capital market, foreign investor's company, and the company which gets credit line for certain amount from public banks.

Most of the large international accounting firms (include the big 4) are affiliated with Indonesian accounting firms.

APPENDIX

EXCHANGE RATES

Currency (For 1 Unit)	3rd Jan, 2011 (Rp.)
Australian Dollar	9,115
Brunei Dollar	6,961
Canadian Dollar	8,992
China-Yuan	1,361
Danish-Kroner	1,595
Euro	11,892
Hongkong Dollar	1,157
India-Rupee	200
Japanese-Yen	110
Korea-Won	8
Kuwait-Dinar	31.946
Malaysia-Ringgit	2,917
Myanmar-Kyat	1,403
New Zealand Dollar	6,860
Norwegian-Kroner	1,520
Pakistan-Rupee	105
Philippine-Peso	205
Pound Sterling	13,890
Saudi Arabian-Riyal	2,402
Singapore Dollar	6,961
Srilanka-Rupee	81
Swedish-Kroner	1,323
Swiss-Franc	9,513
Thailand-Bath	299
U.S. Dollar	9,008



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