

DOING BUSINESS

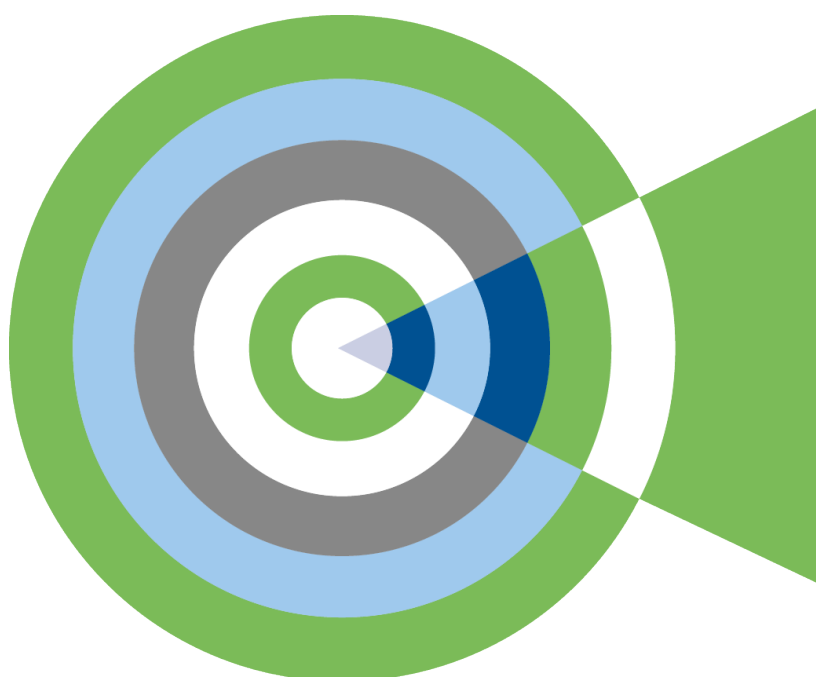
IN INDONESIA



The network
for doing
business

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1 – INTRODUCTION

UHY is an international organisation providing audit, accountancy, business management and consultancy services through financial business centres in around 100 countries worldwide.

Business partners work together throughout the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Indonesia has been provided by the office of UHY's representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current in March 2024.

We look forward to helping you do business in Indonesia.

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2 – BUSINESS ENVIRONMENT

Indonesia - an archipelago nation of more than 300 ethnic groups has charted impressive economic growth since the late 1990s.

As of today, Indonesia is the world's fourth most populous nation and ranked the World's 16th largest economy and is the largest market in Southeast Asia. According to economic reports, Indonesia is predicted to be in the top 5 of the World's largest economies by 2045.

Indonesia's economic planning follows a 20-year development plan. It is segmented into 5-year medium term developments, each with different development priorities. The current development plan aims to further strengthen Indonesia's economy by improving the country's human capital and competitiveness in the global market.

The Indonesian economy has remained comparatively steady throughout 2023, despite the effects of international conflicts and multiple economic shocks following the Covid-19 pandemic. With this accomplishment, Indonesia maintains its optimism as it prepares to face the unknown difficulties of the global economy in 2024.

DEMOGRAPHY

Indonesia is the largest archipelago in the world. The country consists of 34 provinces, 16,056, islands, with approximately 273 million people. About 70.72% or 191.9 million people are in the productive age group (15-64 years). This condition shows that Indonesia is in the demographic bonus period.

Indonesia has several major islands namely Sumatra, Java, Kalimantan, Bali, and Nusa Tenggara, as well as Maluku and Papua. Investment realisation has for long been concentrated in Java Island. To encourage better distribution of investment that would eventually contribute to the regional economy, government has done several efforts including accelerating infrastructure development and providing investment incentives.

POPULATION

The country is unique in many ways as the biggest archipelago in the world. In terms of human diversity, with nearly 268 million inhabitants, the country ranks as the fourth most populous nation in the world and the third largest democracy. It is also the world's largest Islamic nation, where a constitutional freedom to practice other religions sees major groups of Christians, Buddhists, Hindus and other faiths existing side by side.

There are approximately 336 distinct recognised cultures that share more than 250 spoken languages. The lingua franca, Bahasa Indonesia, was adopted 92 years ago and is now widely used throughout this vast land, serving as a means of communication and as a unifying factor.

Indonesia is diverse and is among the most culturally rich countries on earth. Add to this its enormous mineral, marine and natural resources and it is evident that it ranks as a major economic force in the region.

POLITICAL OVERVIEW

The politics of Indonesia take place in the framework of a presidential representative democratic republic whereby the President of Indonesia is both head of state and head of government and of a multi-party system. Executive power is exercised by the government. Legislative power is vested in both the government and the bicameral People's Consultative Assembly. The judiciary is independent of the executive and the legislature.

Having maintained political stability, Indonesia is one of East Asia Pacific's most vibrant democracies. As the third largest democracy in the world, Indonesia continues to uphold the values of democracy and Pancasila.

LAWS AND REGULATIONS

The Dutch legal system played an important role in influencing the history of the Indonesian legal system. The Netherlands-Indies government applied the *concordantie* principle in the legal sector of Indonesia during the colonial period. Based on this principle, every law that was passed by the Netherlands parliament would have some influence in the Indonesian territory a few years later, perhaps with just minor changes.

Changes to some of these laws were made slowly in the mid-1980s, a process which continues. Such changes have been made to the Tax Law (the latest amendments were made to the Administration & General Procedures, Income Tax and VAT Laws in 2007, 2008 and 2009 respectively), Corporate Law and Capital Investment Law (in 2007), Copyright, Patent and Trademark Law (in 1995), Banking Law (in 1998), Bankruptcy Law (in 1998 and again in 2004), and the 10 Manpower Law (in 2003). One of the most recently updated laws is the Minerals and Coal Mining Law (2009). New laws and regulations have also been made, principally between 1994 and today. Most of these changes have been made to accommodate the requirements of international and modern standards.

Omnibus Law introduced in 2021 is touted as Indonesia's biggest attempt at bureaucratic reforms since independence. The law has significantly amended more than 75 existing law that aims to simplify the process to obtain business license, starting a business, and amending the country's strict labour laws.

Summary of the amendments are as follow:

New business licensing regime	New business licensing regime has been introduced whereby licenses are issued based on the assessment of 'business risk level'. The risk level is determined by the scale of hazards a business can potentially create.
New labour laws	Revision to labour laws include changes for calculating the minimum wage, eliminating sectoral minimum wage, introducing provisions for hourly wage, and income support for workers made redundant. Further, a new procedure for the disbursement of severance payments has been established.

Tax overhaul

The government has overhauled the existing tax structure to optimise tax revenue collection. This includes an amendment in which Indonesian citizen will now use their national identity as their tax identification number.

The law also calls for an increase in the value added tax rate from 10% to 11% and potentially 12% by 2025. However, the expected increase in the corporate income tax rate has been annulled.

The revision also introduces several tax incentives available for the new foreign direct investments.

ECONOMIC GROWTH AND FUTURE PLAN

With an average growth target of 5.7% per annum, Indonesia is targeting to become a high-income country by 2036 and to be the top 5 of the World's largest economies. This high growth would gradually increase the middle-income class to about 70% of Indonesia's population by 2045. To that end, strengthening the process of economic transformation to achieve the development goals of 2045 has become the focus in the context of achieving sustainable infrastructure, high human development, and better public services and welfare standards.

To achieve the economic growth rate of 5.7-6%, an investment of IDR 35,212.4 trillion – IDR 35,455.6 trillion is needed for the 2020-2024 period. To meet these needs, the government, and state-owned enterprises (BUMN) will contribute 8.4-10.1% and 8.5-8.8% respectively, whereas the rest will be covered by the public and/or private sector.

The total realization of Indonesia's direct investment in 2015-2019 was IDR 3,381.9 trillion. The government targets IDR 4,983.2 trillion in 2020-2024 to achieve 6% economic growth. Even though the national economic condition experienced economic contraction due to the COVID-19 pandemic, the 2020's investment realization target of IDR 817.2 trillion has been surpassed by approximately IDR 9 trillion with Domestic Direct Investment (DDI) contribution higher than Foreign Direct Investment (FDI). DDI has become the locomotive of investment realization within the COVID-19 period and Ministry of Investment/BKPM provide equal assistance towards both DDI and FDI, as shown by the last five years.

3 – FOREIGN INVESTMENT

INVESTMENT OPPORTUNITIES

To implement the 5-year medium term developments, the government has placed a new focus on several business sectors as follows:

Industry	<ul style="list-style-type: none"> • Food and Beverage • Furniture • Toys • Textiles • Iron and steel • Oil and renewable energy 	<ul style="list-style-type: none"> • Machinery • Rubber products • Electronics • Chemical and pharmaceuticals • Automotive
Agriculture	<ul style="list-style-type: none"> • Food estate • Corn plantation 	<ul style="list-style-type: none"> • Cattle • Rice
Infrastructure	<ul style="list-style-type: none"> • Power generation • Seaports • High Speed Train 	<ul style="list-style-type: none"> • Trans Sumatra and Trans Papua road
Maritime	<ul style="list-style-type: none"> • Cold storage • Maritime technology 	<ul style="list-style-type: none"> • Ship building • Fishery industry
Tourism	<ul style="list-style-type: none"> • Priority tourism destination • Meetings, incentive, conference and exhibitions 	<ul style="list-style-type: none"> • Industrial parks • Special economic zones

In recent years, the Government has developed economic zones to boost economic development throughout the region. In Law No. 3 Year 2014 on Industry, as amended by Job Creation Law No. 11 Year 2020, and Government Regulation No. 28 Year 2021 on the Implementation on Manufacturing Sector, stated that any industrial company undertaking industrial activities must be located within Industrial Estates.

Indonesia has several investment locations which can be taken into consideration when choosing a location for investment in Indonesia, such as tax incentives, infrastructure and logistics, proximity to resources, labour costs and skill levels. Today, there are 19 Special Economic Zones (15 existing and 4 new), 118 Industrial Estates, 4 Free Trade Zones, 1,360 Bonded Zones, and 91 Bonded Logistic Centre in 131 locations.

Special Economic Zones	By definition, SEZ means an area with certain boundaries within the jurisdiction of the Republic of Indonesia which has been determined to carry out economic functions and obtain certain facilities. To complete the ecosystem within the SEZ, education and health sectors are now included in the scope of business activities that are allowed to operate in SEZ. Hence, the activities allowed within the SEZ encompass (a) production and manufacturing; (b) logistics and distribution; (c) technology development; (d) tourism; (e) education; (f) health; (g) energy; and other economic purposes as set by the National Economic Council.
Industrial Estates	Indonesia focuses on its programs to localize investments into economic zones spreading across Indonesia's islands. There are 118 industrial estates at present spread all across Indonesia comprising 70 industrial estates in Java, 33 industrial estates in Sumatra, 10 industrial estates in Kalimantan and 5 industrial estates in Sulawesi.
Free Trade Zones	FTZFP is an area located in the jurisdiction of the Republic of Indonesia which is separated from the customs area so that it is free from imposition of import duties, value added tax, sales tax on luxury goods, and excise. In Indonesia, there are 4 (four) FTZFPs with a total area of 127,472 ha which are oriented for export activities. Business activities in FTZFP will be given facilities in the form of entry and release of goods, taxation, customs, excise, immigration, prohibitions and restrictions, and other facilities.

FOREIGN DIRECT INVESTMENT REALISATION

Even though 2023 was predicted to be a difficult and unpredictable year, Indonesia has shown promise in the execution of its investments. A total of IDR 1,4189 trillion was said to have been realized in 2023. This achievement has surpassed the President's goal of 1,400 trillion. It realized 101.3% more than the aim. Furthermore, with an achievement percentage of 129%, the result significantly outperformed the Strategic Plan target, which was IDR 1,099.8 trillion. Additionally, the overall investment realized in 2023 demonstrated a 17.5% rise over the prior year.

TAX INCENTIVES

The Government of Indonesia provide a variety of fiscal incentives in terms of taxes (i.e. tax allowances, tax holiday, investment allowance, and super tax deduction) and import duty exemption. Business actors may choose to apply for either a tax holiday or a tax allowance if they fulfil the criteria for the selected income tax facility.

Tax Holiday

A company that makes a new capital investment in a Pioneer Industry is eligible to obtain a reduction on its CIT for income earned from its Main Business Activities. The application for tax holiday incentive must be submitted before entering commercial production.

A company that can obtain Tax Holiday incentive must meet the following criteria:

- It is a Pioneer Industry;
- Having status as Indonesian legal entity;
- Is making a new capital investment which has not been issued with any prior approval or rejection on an application to obtain: a) Tax Holiday; b) Tax Allowance; c) Income tax incentive for labour intensive industry (Investment Allowance); and d) Income tax incentive on the Special Economic Zone;
- It has new capital investment plan with a minimum value of IDR 100 billion;
- It meets the Debt to Equity Ratio requirement for tax purposes (which is currently 4:1 stated in MoF Regulation No 169/2015); and
- It commits to start realizing its capital investment plan within a year after the issuance of Tax Holiday approval.
- It meets tax clearance certificate (SKF) requirement for its local taxpayer shareholders.

Tax Allowance

The Government issued Regulation No. 78 Year 2019 (GR 78/2019) on 12 November 2019. GR 8/2019 represents an amendment to the regulations on the tax allowances available for companies that invest in certain business sectors and/or regions. These companies are eligible for tax allowance in the form of the following benefits:

- A reduction in net income of 30% of the actual amount invested in tangible fixed assets including land, allocated over the six years of commercial production after receiving the tax allowance approval (at a rate of 5% per year);
- Accelerated depreciation and/or amortization of eligible fixed assets and intangible assets;
- A 10% reduced withholding tax rate on dividends distributed to non-residents (or a lower rate under a relevant tax treaty); and
- An enhanced tax loss carries forward period of greater than 5 years but no longer than 10 years under certain conditions.

Criteria for obtaining tax allowance include:

- Has a high investment or is export-oriented
- Has a large workforce
- Has high local content

Companies are eligible to apply for this relief through OSS. Currently, there are 183 businesses that have been provisioned by the government as companies that are entitled to this relief.

GUIDANCE ON FOREIGN INVESTMENT

Foreign business is defined 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.

Previously, having an Indonesian partner was mandatory with a certain percentage of equity required varying across the different fields of activity. However, since the issuance of the Positive List of Investment, foreign investors may not require having Indonesian partner in some business sectors previously restricted by law.

An implementing regulation to the Omnibus Law for foreign investment in the form of Presidential Regulation No. 10 of 2021 which is further amended by Presidential Regulation No. 49 of 2021 (“Positive List of Investment”) has been issued to replace the previous provisions under the Presidential Regulation No. 44 of 2016. Based on this new regulation, the government of Indonesia has now opened almost all sectors of business including some sectors previously closed and/or restricted for foreign investment. Such relaxation aims to make Indonesia more attractive for investment, for both domestic and foreign investments.

Based on the Positive List of Investment, all business fields are now open for all investors, except:

- Certain business fields stated as closed to investment under the Omnibus Law; and
- Certain business fields that can only be carried by the Government (nature or strategic defence related).

The Positive List of Investment lists down 245 business fields as priority business fields, based on the following criteria:

- National strategic program;
- Capital intensive;
- Work intensive;
- High technology;
- Industry pioneer;
- Export oriented;
- Research, development, and innovation oriented.

Foreign investment in Indonesia must fulfil the following conditions:

- Foreign investment can only be made to large scale activity requiring an investment value of more than IDR 10 billion, excluding the value of land and building; and
- Foreign investment should be conducted in Indonesia through limited liability company (Perseroan Terbatas/PT), except if stipulated otherwise by law.

A more complete information can be found in the Positive List of Investment

4 – SETTING UP A BUSINESS

In Indonesia, several legal entities are recognised for setting up a business.

These business entities are as follows:

- *Persekutuan Perdata* (PP) – a partnership between two or more people in one agreement to make a profit.
- *Firma* (Fa) – a partnership between two or more people in one agreement to form a collective name to deal with third parties in making a profit.
- *Persekutuan Komanditer* (*Commanditaire Vennootschap* – CV). A partnership between two or more people in one agreement to make a profit. One partner is allowed to invest money into the partnership without having to manage the company.

The above-mentioned types of business are only applicable for local citizens.

For foreign investors, the types of legal entities which apply are outlined below.

REPRESENTATIVE OFFICE

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.

Foreign Representative Office is an office incorporated by an overseas company to represent themselves in Indonesia. There are three main types of Representative Office in Indonesia as follows:

Foreign Trade Company Representative Office (Kantor Perwakilan Perusahaan Perdagangan Asing /KP3A)

Foreign Trade Representative Office (KP3A) can be established in the form of a selling agent, a manufacturer agent, or a buying agent.

KP3A is prohibited from engaging in trading activities and sales transactions from the beginning until the end, such as filing tender, signing contract, and settling claims. It can only act as a selling and/or manufactures and/or buying agent.

There is no geographic restriction for KP3A, it 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) must be delivered by the Ministry of Investment / BKPM.

KP3A license is generally valid for the same period as the appointment letter for the Chief Representative and can be extended in OSS without limitation once it has expired.

Foreign Representative Office (Kantor Perwakilan Perusahaan Asing/KPPA)	<p>A Foreign Representative Office (KPPA) is a representative office established in Indonesia with the purpose to support the Parent Company offshore.</p> <p>There is no validity period of the KPPA license as per BKPM regulation No. 6/2018. KPPA can only be domiciled in an office building in the capital of an Indonesian province.</p> <p>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 an activity report to BKPM (every 6 months), some monthly/annual tax filings and social security reporting.</p>
Foreign Construction Services Representative Office	<p>Foreign investors engaged in construction activities can establish Foreign Construction Services Representative Office (BUJKA) in Indonesia. Based on the New Construction Law (Law No.2 of 2017), a Foreign Construction Services 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.</p> <p>A specific representative licensing is needed to engage in 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 a limited liability company engaging in the field of construction services business and can then conduct sales transactions in Indonesia.</p>

LIMITED LIABILITY COMPANY (*PERUSAHAAN TERBATAS – PT*)

Foreign direct investment, often referred to by its Indonesian abbreviation PMA. The establishment of a PT PMA is regulated by Law No. 40 Year 2007 regarding Limited Liability Companies (Company Law). PT PMA shall be categorized as a large business and shall comply with the minimum investment value requirement, except otherwise stipulated by prevailing laws and regulations.

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 Directors, consisting at least of one member, oversees the general management of the company while standing for its best interest. The Board of Directors represents the company on the day-to-day activities.

The Board of Commissioners (one member required at least) is responsible for the supervision of the company and shall give advice to the Board of Directors. The Board of Commissioners is not part of the daily management of the company. Both Directors and Commissioners can be foreign nationals.

ESTABLISHING A COMPANY (PT PMA)

Requirements

The requirements of setting up a PT PMA is as follow:

- The 'PT' company should be owned by minimum 2 shareholders. Those can be individuals or legal entities, or a combination of both.
- The amount of investment required for PT PMA is more than IDR 10 billion (excluding lands and buildings). Representative Offices and Foreign Business Entities are exempted from these requirements. (Please kindly check the KBLI/Industry for the minimum investment required).

Process

Investors of certain lines of business must obtain Investment Registration (Pendaftaran Modal) from Ministry of Investment / 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. 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.

- Preparation, notarization and submission of the Deed of Establishment from notary to Ministry of Law and Human Rights. The Deed of Establishment must, at least, contain the PMA Company Articles of Association which should cover items stipulated under Article 15 of the Company Law. Detailed information regarding the Shareholders, Board of Directors (“BoD”), and Board of Commissioners (“BoC”) should be included too.
- Obtaining approval and legalization of the Deed of Establishment by Ministry of Law and Human Rights.
- Obtaining the Tax Identification Number (“NPWP”) and Tax Registration Letter (“SKT”) from the relevant tax office.
- Registering to the Online Single Submission – Risk Based Assessment (“OSS-RBA”) system and obtaining the Business Identification Number (Nomor Induk Berusaha or “NIB”) from the OSS- RBA system.
- Application of the Letter of Domicile of the company (“SKDP”) to the relevant sub-district; (if needed based on area. Companies domiciled in Jakarta area will not require SKDP).
- Application of business licensing via OSS-RBA and/another related ministry; and
- Application of other commercial/operational licenses (when required).

5 – LABOUR

REGULATORY FRAMEWORK

The regulations and laws governing labour and workers are below:

- Labour Law of 2003 on Manpower as recently amended by Law No. 11 of 2020 on Job Creation ('Omnibus Law').
- Law No. 21 of 2000 on Labour Union; and
- Law No. 2 of 2004 on Industrial Relations Dispute Settlement.

WAGES AND BENEFIT

Government Regulation No. 36/2021 regarding Wages ("GR 36/2021") provides that wages consist of the following components:

- Wages without allowance.
- Basic wages and fixed allowance.
- Basic wages, fixed allowance, and non-fixed allowance; or
- Basic wages and non-fixed allowance.

Calculations for monthly minimum wage are carried out by the provincial or district wage council. The local government will determine the minimum wage based on economic and employment conditions. These comprise of the following variables:

- Purchasing power parity;
- Manpower absorption levels; and
- Median wage variables (the margin between the 50% of the highest wages and 50% from the lowest 50% of the lowest wages from employees in the same position).

These variables were assessed based on existing data from the last 3 years. In addition, the wage council also considers economic growth or rate inflation provision, as well as per capita consumption of working household members. Below is the minimum wage table:

Province	IDR per month
DKI Jakarta	5,067,381
West Java	2,057,495
Central Java	2,036,947
East Java	2,165,244
Bali	2,713,672
North Sumatra	2,809,915
West Sumatra	2,811,499
Riau islands	3,294,625
South Sumatra	3,456,874
Lampung	2,716,496

Province	IDR per month
Papua	4,024,270
West Papua	3,393,000
South Kalimantan	3,282,812
West Kalimantan	2,702,616
Central Kalimantan	3,261,616
North Sulawesi	3,545,000
Central Sulawesi	2,736,698
South Sulawesi	3,434,298
West Sulawesi	2,914,958

*) for Calendar Year 2024

EMPLOYMENT AGREEMENTS

Employment agreements in Indonesia are categorised into:

- Employment agreements for a definite period in which an employment relationship has a definite term or is based on the completion of a certain job (e.g. employment between a company and an interim worker, or a contract in which a company employs someone to set up a computer network)
- Employment agreements for an indefinite period in which the employment agreement does not have specific term or require completion of a certain job.

In principle, employment agreements may be made verbally or in writing. Any verbal employment agreement must be supported by an appointment letter to the employee, which includes at least the name and address of the employee, date of employment, type of employment and salary.

WORKING HOURS AND LEAVE

Normal working hours in Indonesia is 40 hours per week, which can be divided into eight hours per day for five working days or seven hours per day for six working days.

Employees are entitled to 12 days of paid leave after working for 12 continuous months.

TERMINATION OF EMPLOYMENT

Terminated employees are entitled of termination payments and the amount varies depending on the length of employment of the employee.

Termination payments are comprised of severance payments, service payment, and compensation pay.

Compensation pay refers to compensation for any untaken annual leaves and other costs incurred, such as for relocation.

Service payment refers to type of compensation given to employees based on the number of years they have worked at the company. An employee who has had their contract terminated may be eligible for the long service pay in addition to their severance pay.

Severance Payment		Service Payment	
Service Period	Payment per monthly salary	Service Period	Payment per monthly salary
<1 year	1x	3- 6 years	2x
1-2 years	2x	6-9 years	3x
2-3 years	3x	9-12 years	4x
3-4 years	4x	12-15 years	5x
4-5 years	5x	15-18 years	6x
5-6 years	6x	18-21 years	7x
6-7 years	7x	21-24 years	8x
7-8 years	8x	>24 years	10x
>8 years	9x		

FOREIGN EMPLOYEES

Employers who wish to hire foreign employees must prepare a Foreign Worker Utilisation Plan (Rencana Penggunaan Tenaga Kerja Asing ((RPTKA)).

There are four categories of the RPTKA, which are:

- Temporary work – valid for six months and cannot be extended.
- Employment for more than six months – valid for two years with the possibility of extension
- Employment that does not require payment to the Foreign Worker Utilisation Compensation Fund – valid for two years with the possibility of extension.
- Employment in special economic zones (SEZ) – valid for five years with the possibility of extension or SEZ RPTKA for directors and commissioners can be granted for a period as required by the employer.

The RPTKA is exempted for:

- Board of directors and commissioners with certain share of stock ownership, or shareholders in accordance with provisions of legislation.
- Diplomatic and consular staff at representative offices of foreign countries; or
- TKA required by employer related to production activity that has ceased due to emergencies; vocational activities; technology-based startups; business visits; and research for a certain period.

VISA

Type of Visa	Description
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 overlaps 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). Not all nationalities are entitled to VoA.
Temporary Residence Visa (KITAS)	KITAS is issued to work permit holders, students and dependents of Indonesian citizens or foreigners with a work permit. Under Government Regulation No.48 of 2021 issued on February 2, 2021, KITAS can be issued for a period up to 5 years and can be renewed (KITAS period of validity, including renewal, cannot exceed 10 years).

Business Visa

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.

6 – TAXATION

TAX RATE OVERVIEW

Corporate tax rates

Corporate tax rate is charged at a rate of 22%. This rate applies to both Indonesian companies and foreign companies that operating in Indonesia through a permanent establishment.

Listed companies which meet certain conditions are eligible for a 3 percent reduction of the corporate tax rate.

A company with gross turnover less than IDR50 billion is eligible for up to a 50 percent reduction of the corporate tax rate based on the percentage of its taxable income which results when IDR4.8 billion is divided by its gross annual turnover. If gross turnover is below IDR4.8 billion, the 50 percent reduction applies on all taxable income.

Personal tax rates

Individual taxpayers are charged progressive rate as per below:

Taxable Income	Rate
< IDR 60.000.000	5%
IDR 60.000.000 - IDR 250.000.0000	15%
IDR 250.000.000 - IDR 500.000.000	25%
IDR 500.000.0000 – IDR 5.000.000.000	30%
> IDR 5.000.000.000	35%

WITHHOLDING TAX

Withholding taxes is the main system by which Indonesian income tax is gathered.

Whenever a specific income item is subject to withholding tax, the taxpayer has the responsibility to withhold or collect the tax.

The rates of withholding tax vary according to the nature of the income source. Rates for domestic payments range up to 15%. Payments made overseas on certain sources of income may be liable to withholding tax of up to 20%. Applicable tax treaties may reduce the rate of withholding tax.

Generally, the payer is held responsible for withholding or collecting the tax. These withholding taxes are referred to by the relevant article of the Income Tax Law, as outlined in the sections below.

- ARTICLE 21, INCOME TAX**
 Taxable income is calculated from the gross revenue less occupation costs (*biaya jabatan*) and pension contributions, including contributions for old age savings.

The regulation of the Director General of Tax PER-16/PJ/2016 about the technical guidelines of withholding, payment and filing of Article 21 Income Tax and / or Article 26 Income Tax relate to work, services and taxpayer activity.

Employers are needed to withhold Article 21 income tax from the salaries payable to their employees and to pay the tax to the state treasury on their behalf. The same withholding tax is applicable to other payments to non-employee individuals (e.g. fees payable to individual consultants or service providers). Resident individual taxpayers who don't have a tax ID number (NPWP) are subject to a surcharge of 20% in addition to the standard withholding tax.

- **ARTICLE 22 INCOME TAX**

Article 22 income tax is applicable to the following:

- The import of goods
- The purchase of goods by the Government requiring payment from the State Treasury and Proxy of Budget User
- The purchase of goods by State Owned Enterprises and some of their subsidiaries
- The sale/purchasing of automotive, steel, cement, cigarettes, and paper products.
- The purchase of very luxurious goods.

TABLE 3

Tax rates – imported or purchased goods.

	TAX RATE	TAX BASE
Import of goods – using an importer (identification (API))	2.5%	Import value i.e. cost, insurance & freight (CIF) value plus duties payable
Import of goods – without an API	7.5%	Import value i.e. CIF-value plus duties payable
Sale of goods to the government and required payment from the state treasury and proxy of budget user	1.5%	Selling prices
Purchasing of steel products	0.30%	Selling prices
Purchasing of automotive products	0.45%	Selling prices
Purchasing of paper products	0.10%	Selling prices
Purchasing of cement by local distributors	0.25%	Selling prices
Purchasing of luxury goods	5%	Selling prices

Taxpayers without tax registration number are subject to a surcharge of 100% in addition to the standard tax rate.

- **ARTICLE 4 (2) – FINAL INCOME TAX**

Resident companies, PEs, representatives of foreign companies, organisations and particular individuals are required to withhold final tax from the gross payments to resident taxpayers and PEs outlined below.

TABLE 4
Final income tax

DESCRIPTION	TAX RATE
Rental of land and/or buildings	10%
Proceeds from transfers of land and building rights	2.5% (Proceed from the transfer of real estate assets to a Real Estate Investment Fund is subject to 5% tax rate)
Fees for performance of construction work	2% (for a small qualification service provider) or 3% (for other qualification service providers) or 4% (for non-qualification service providers)
	For contracts signed before 1 January 2008: The new tax rates (as mentioned above) apply for payment contracts or part of the contracts as of 31 December 2008 and onwards. The previous tax rates apply for those contracts signed before 1 January 2008
Fees for construction work planning	4% (for a qualification service provider) or 6% (for a non-qualification service provider)
Fees for construction work supervision	4% (for a qualification service provider) or 6% (for a non-qualification service provider)
Interest on time or saving deposits and on Bank 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 government-approved pension funds	15% or if the recipient is a mutual fund registered with the Financial Services Authority (Otoritas Jasa Keuangan/OJK), the tax rate is 5% until 2020 and 10% thereafter. If the recipient is a non-resident taxpayer, the tax rate is 20% or a lower rate in accordance with the relevant tax treaty.
Sale of shares on Indonesian stock exchanges	0.1%
Founder shareholders may opt to pay tax at 0.5% of the market price of their shares upon listing. If they do not opt for this, gains on subsequent sales are taxed under normal rules	
Income from lottery prizes	25%
Certain income received by individuals and corporate (except PEs) with gross turnover of not more than Rp 4.8 billion in one fiscal year	0.5% yet this regime is optional for eligible taxpayers and only applicable for certain period depending on the type of taxpayer.

- **ARTICLE 23 INCOME TAX**

The Regulation of the Ministry of Finance No. 244/PMK.03/2008 Income Tax Article 23 concerns certain types of income paid or payable to resident taxpayers. These taxpayers are subject to Article 23 income tax at a rate of either 15% or 2% of the gross amounts.

Article 23 income tax is due at a rate of 15% for the gross amounts on the following:

- Dividends
- Interest, including premiums, discounts, and loan guarantee fees.
- Royalties
- Prizes and awards.

Article 23 income tax is due at a rate of 2% for gross amounts on the fees of the following:

- 1) Rentals of assets other than land and buildings
- 2) Technical services
- 3) Management services
- 4) Consulting services
- 5) Appraisal services
- 6) Actuary services
- 7) Accounting services
- 8) Design services
- 9) Drilling services for oil and gas mining except for those performed by a PE
- 10) Support services for oil and gas mining
- 11) Mining services other than oil and gas support
- 12) Flight and airport support services
- 13) Forest felling services
- 14) Waste processing services
- 15) Labour supply/outsourcing services
- 16) Intermediary/agency services
- 17) Custodianship and storage services except for those performed by stock exchanges (KSEI and KPEI)
- 18) Sound dubbing services
- 19) Film mixing services
- 20) Computer and software-related services
- 21) Installation services (for example, of electricity, machinery, or telephone equipment) except for those rendered by qualifying construction companies
- 22) Maintenance and improvement services (for example, for electricity, machinery, or telephone equipment) except for those rendered by licensed construction companies
- 23) Manufacturing services (*maklon*)
- 24) Investigation and security services
- 25) Event organisation services
- 26) Packaging services
- 27) Provision of space and/or time for the dissemination of information
- 28) Pest eradication services
- 29) Cleaning services
- 30) Catering services.

- **ARTICLE 26**

Resident taxpayers, organisations and representatives of foreign companies are required to withhold tax at a rate of 20% from the following payments to non-residents:

- On gross amounts:
 - Dividends
 - Interest, including premiums, discounts (interest), swap premiums, and guarantee fees.
 - Royalties, rents, and payments for the use of assets
 - Fees for services, work, and activities
 - Prizes and awards
 - Pensions and any other periodic payments
 - Swap premiums and other hedging transactions.
 - Gains from debt write-offs
 - After-tax profits of a branch or PE.
- On estimated net income (ENI), being a specified percentage of the gross amount as shown in the table below.
- Law No.11 year of 2020 explains that the tariff for 20% from total gross of party who is obligated to pay interest including premium, discount, and reward in relation with debt repayment guarantee can be reduced as explain in the upcoming Government Regulation.

TABLE 5
Tax rates on estimated net income (ENI)

	ENI	EFFECTIVE TAX RATE
Insurance premiums paid to insurance companies:		
• by the insured		
• by Indonesian insurance companies	50%	10%
• by Indonesian reinsurance companies	10%	2%
	5%	1%
Sale of non-listed Indonesian company shares by non-residents	25%	5%
Sale of a conduit company located in tax haven country where this company serves as an intermediary for the holding of Indonesian company shares or a PE	25%	5%

Where the recipient is resident in a country which has a tax treaty with Indonesia, the withholding tax rates may be reduced or exempted.

PERIOD OF TAX PAYMENT AND TAX RETURN FILING

TABLE 6
Monthly tax obligations

TYPE OF TAX	DEADLINE FOR TAX PAYMENT	DEADLINE FOR TAX RETURN
Article 21/26 Income Tax	The 10th of the following month	The 20th of the following month

Article 23/26 Income Tax	The 10th of the following month	The 20th of the following month
Article 25 Income Tax	The 15th of the following month	The 20th of the following month
Article 22 Income Tax – tax collector	The 10th of the following month	The 20th of the following month
Article 4(2) Income Tax	The 10th of the following month or 15 th of the following month for another specific gross turnover	The 20th of the following month
VAT and LST – taxable enterprise	Before submitting the tax return in the following month	The end of the following month
VAT and LST – taxable collector	Before submitting the tax return in the following month	The end of the following month

TABLE 7
Annual tax obligations

TYPE OF TAX	DEADLINE FOR TAX PAYMENT	DEADLINE FOR TAX RETURN
Corporate income tax	The ending of the fourth month after the book year end before filing the tax return	The ending of the fourth month after the book year end
Individual income tax	The ending of the third month after the book year end before filing the tax return	The ending of the third month after the book year end
Land and building (L&B) tax	Six months after the receipt of a Tax Due Notification Letter (SPPT) from DGT Office	N/A
Duties on the acquisitions of L&B rights	On the date of acquisition	N/A

EXTENDED FILING DEADLINE

In terms of the annual income tax return, there is a possibility for taxpayers to extend their filing deadline up to two months. This can be done by filing a written notification to the DGT before the deadline and attaching a tentative tax calculation. Based on the tentative calculation, the tax due will have to be settled before submitting the extension notification. A 2% of interest penalty per month is applicable to the difference until the shortfall is paid whenever the actual tax is due if the final tax calculation is higher than the tentative calculation.

ELECTRONIC CERTIFICATE OF WITHHOLDING INCOME TAX ARTICLE 23 AND 26

Since fiscal period of August 2020, all taxable employers who are registered at Pratama Tax Office must issue certificate of withholding tax article 23 and 26 by e-Bupot as regulated by Directorate General of Taxes Decree No. KEP-269/PJ/2020 in realisation implementation of Directorate General of Taxes Regulation No. PER-04/PJ/2017. The respective taxable employers are as such regulated in Directorate General of Taxes Decree No. KEP-599/PJ/2019. Yet the others must comply start from October 2020 for fiscal period of September 2020. The e-Bupot requires electronic certificate for signature and its serial numbers are centralized. Verification of both certificate of withholding tax article 23 and 26 and its electronic report are by QR Code scan.

INCOME TAX

Income tax is applied to resident corporations and individuals on most sources of increased economic wealth.

For tax purposes, a company is treated as a resident of Indonesia by virtue of its establishment or place of management in Indonesia. A foreign company carrying out business activities through a permanent establishment (PE) in Indonesia will generally have to assume the same tax obligations as a resident taxpayer. Resident taxpayers and Indonesian PEs of foreign companies must settle their tax liabilities either by direct payments, by withholding by third parties, or a combination of both. Foreign companies that do not have a PE in Indonesia are to settle their tax liabilities in respect of their Indonesian-sourced income by way of the Indonesian party paying the income withholding the tax.

Income tax shall be imposed on any taxpayer in respect of income during a taxable year. Thus, the imposing of income tax is determined by the taxable person/entity and the tax object i.e. the income. A taxable year is a certain period for imposing the income tax. The taxable year is the calendar year.

The Income Tax Law governs income tax imposition on taxpayers related to income received or accrued in a taxable year. The taxpayer is subjected to tax if that person receives or accrues income. A person/entity receiving income is called a taxpayer under this law. A taxpayer is taxed on the income received or accrued during a taxable year or a fraction of a taxable year if the tax obligations commence or end in a taxable year.

TAXABLE OBJECT

The taxable object is income. An increase in economic benefit (income) derived by a taxpayer which may be used for consumption or to increase the wealth of the taxpayer concerned, under any name and form whatsoever, includes:

- Any remuneration / compensation related with work, services or activities gained from employment or an independent profession, including:
 - Wages, salary, honoraria
 - Doctor's, actuarial, accountant's and lawyer's fees
- Any income or compensation from any business or activity
- Any income from capital including from movable and immovable assets, such as rewards and gains from loan 'haircuts' etc.

VALUE ADDED TAX

The Law of the Republic of Indonesia No. 42 of 2009, the third amendment of the Law No 8 of 1983 about the Value Added Tax and Luxury Sales Tax, regulates value added tax (VAT) and luxury sales tax (LST).

VAT is applicable to the import and delivery of most goods and services. Insurance and banking are not subject to VAT.

The standard rate of VAT is 11% starting from April 1, 2022.

Effective as of 1 January 2014, a tax subject with a total turnover under IDR 4,800,000,000/year is not subject to VAT registration (being considered a small enterprise)

Taxpayers are required to submit a tax return in the following month and shows details of all output and input VAT. The net output VAT is payable before the end of the following month. Any excess of input VAT may be carried forward to the following month or refunded.

Suppliers who trade with so called 'VAT collectors' will not collect VAT from their customers or clients. The VAT is paid direct to the state treasury. Such suppliers may be in a constant overpayment situation and may be forced to seek regular refunds.

Value added tax (VAT) is typically due on events involving the transfer of taxable goods or the provision of taxable services in the Indonesian customs area. According to Article 4 of the Indonesian VAT Law, VAT is imposed on:

- Deliveries of taxable goods in the customs area
- Importation of taxable goods
- Rendering of taxable services in the customs area
- Use or consumption of intangible taxable goods in the customs area on goods obtained from outside the customs area.
- Use or consumption of taxable services in the customs area of services originating from outside the customs area.
- Export of taxable goods.

The delivery of taxable goods is defined very broadly and includes the following:

- Deliveries of a title to taxable goods according to an agreement
- Transfers of taxable goods according to a leasing-with- option or a finance-lease agreement
- Deliveries of taxable goods to an intermediary trader or an auction official
- Own-use and/or free gift of taxable goods
- Remaining taxable goods and certain assets, which were originally not for sale, at a company's dissolution.
- Deliveries of taxable goods within a company (eg between branches, or between the head office and its branches) unless the company centralises its VAT reporting (subject to the DGT's approval)
- Deliveries of goods on consignment.

NON-TAXABLE GOODS AND SERVICES

There are several kinds of goods which are excluded as taxable goods in Article 4A of Indonesian VAT Law. They are:

- Products of mining and drilling that are extracted directly from the source, for example crude oil, natural gas, geothermal energy, sand and gravel, coal (before processing into coal briquettes), iron ore, tin ore, copper ore, gold ore, silver ore and bauxite ore
- Basic commodities for public consumption e.g. rice, salt, corn, sago and soy beans
- Food and beverages served in hotel, restaurants and other such places
- Money, gold, valuable documents, and securities.

NON-TAXABLE SERVICES

There are also several types of services that are excluded from VAT as follows:

- Medical health services
- Social welfare for example orphanages and funeral services
- Postal delivery
- Banking, insurance and financial leasing services
- Religious services
- Education
- Culture and entertainment which has been imposed regionally
- Entertainment tax
- Broadcasting services not including advertising
- Shipping and inland public transportation and international air services
- Transport
- Manpower
- Rendering of services by the government to run the government
- Hotel services.

VAT MECHANISM

In general, taxpayers who provide taxable goods or perform taxable services must impose VAT to the buyer. The imposing of VAT is performed by withholding a 10% VAT rate of the tax base. VAT on the export of taxable goods is fixed at 0%. The effective VAT rate on deliveries and import of tobacco products is 8.5%.

The taxpayer must make a tax invoice as evidence for this VAT withholding. The tax invoice is made when selling and it is called the output tax invoice. The VAT withheld is called output tax.

When taxpayers buy taxable goods or taxable services, they must pay an additional payment of VAT which is withheld by their supplier. This VAT is called the input tax, and the withholding proof is called the input tax invoice.

Taxpayers must calculate how much they withhold in output tax and how much input tax they have in a month period. The output tax in a month is subtracted or credited to the input tax in a month. If the result is positive, taxpayers must pay in to a government account. If the result is negative, the taxpayer can ask for restitution from the government.

VAT REPORTING

Companies and individuals as taxable enterprises are required to report their business activities and settle VAT liabilities on every month. VAT is usually to be accounted for on a decentralisation basis. As a result, a company carrying out business activities through several business units (branches) in the working areas of different district tax service offices (KPP) must register each unit with the relevant KPP. It is in this context that internal deliveries of taxable goods within a company are subject to VAT.

Subject to DGT approval, a company may centralise its VAT reporting and so may exclude internal deliveries of taxable goods from the scope of VAT. To obtain DGT approval, a company must satisfy several conditions, including sales administration centralisation and the removal of the business units to be centralised from any deliveries of taxable goods. However, companies who file e-tax returns may choose to centralise their VAT reporting without satisfying the other conditions; they simply need to submit written notification to the DGT.

Companies registered with certain tax service offices (KPP PMA, KPP Badora, KPP Go Public, LTO, and MTO tax offices) are required to centralise their VAT reporting.

VAT liabilities are typically settled by using an input-output mechanism. A vendor of taxable goods or a taxable service must typically charge VAT to the buyer. From the vendor's perspective, it is an output tax. The buyer has to pay the VAT to the vendor. From the buyer's perspective, it is an input tax. To the extent that the goods are necessary for running the buyer's business, the input tax can be credited against the buyer's own output tax. Similarly, the vendor can also offset the output tax against input tax on the acquisition of taxable goods or taxable services. If the accumulated output tax for a particular month exceeds the accumulated input tax for the same period, the taxpayer in question must settle the difference by the 15th of the month following. If, however, the accumulated input tax for a particular month exceeds the accumulated output VAT, the taxpayer may ask for a monthly refund or carry over the overpaid VAT to the following months.

Import VAT on goods and self-assessed VAT on the consumption or use of foreign taxable services or intangible goods should be understood in the context of the standard input-output mechanism.

Because a non-resident vendor or service provider cannot charge VAT (cannot, in other words, issue tax invoices) to the Indonesian buyer/importer, the Indonesian buyer/importer must pay the VAT for and on behalf of the non-resident vendor or service provider. To the degree that goods/services imported or procured are necessary for running the importer/service recipient's business, the input VAT (import VAT and self-assessed VAT) is claimable as a tax credit.

A deviation from the standard mechanism, however, is in force for deliveries of taxable goods and services to VAT collectors. The VAT collector is currently either the state treasury or PSC companies (including Pertamina).

OTHER TAX CONSIDERATIONS

SALES TAX ON LUXURY GOODS

Sales taxes also include a sales tax on luxury goods (PPnBM). This tax applies at the point of import or manufacture and is additional to VAT. It is a non-creditable one-off tax and applies to a wide range of goods.

In addition to VAT, deliveries or imports of certain manufactured taxable goods may be subject to LST (Luxury-goods Sales Tax). A particular item will only attract LST once i.e. tax will be charged either on importation of the goods or on delivery by the (resident) manufacturer to another party. LST must be accounted for every month together with VAT. The importer or the manufacturer of the goods is held responsible for the settlement of LST.

To ascertain whether a particular item is subject to LST and to identify the LST rate, reference should be made to the Customs Book using the relevant harmonised system (HS) code.

According to the VAT & LST Law, the LST rate may be increased up to 200%, however currently the LST rates are between 10%-125%.

SPECIAL INDUSTRY RULES

Certain industries, in particular production sharing contractors, mining companies under contracts of work and geothermal projects are subject to income tax in accordance with specialist rules. Rates of tax vary according to the generation of each respective contract.

MULTILATERAL CONVENTION TO IMPLEMENT TAX TREATY RELATED MEASURES TO PREVENT BASE EROSION AND PROFIT SHIFTING

Indonesia signed this Convention on 7th June 2017, and it provided a list of reservations and notifications on the same date, which are still subject to ratification. However, Indonesia has brought in 47 tax treaties up to now.

ACT NO. 11 OF 2020: OMNIBUS LAW

Article 113 of Law No.11 of 2020 concerning contains several points of amendment and / or addition of tax provisions from Act Number 6 of 1983 concerning General Provisions and Tax Procedures (State Gazette of the Republic of Indonesia of 1983 Number 49, Additional to the State Gazette of the Republic of Indonesia Number 3262) that has been amended several times, most recently by Act Number 16 of 2009.

The Omnibus Law for Taxation has 3 (three) main points:

GENERAL PROVISIONS AND TAX PROCEDURES

Article 9 : Underpayment Penalty

The Omnibus Law eases the penalty for underpayment due to the revision of the Annual Tax Return (SPT).

Administrative sanctions that were originally in the form of interest at 2% per month from the due date of payment to the date of payment and part of the month is calculated in full for 1 month, now it is reduced pro rata, which is based on the benchmark interest rate in the market plus 5% divided by 12 which applies on the commencement date calculation of sanctions.

Article 27 B : Interest Reward

Taxpayers are given interest compensation if an objection, appeal or request for reconsideration is granted in part or in full, resulting in an overpayment of tax.

Whereas taxpayers who submit objections or appeals or reconsiderations, as well as applications for reduction/cancellation of administrative sanctions, or cancellation of incorrect tax collection documents which are partially or completely granted, resulting in an overpayment of tax will be given interest compensation in accordance with Article 27 B.

The procedure for giving interest compensation will be regulated by or based on a Regulation of the Minister of Finance.

VALUE ADDED TAX*Article 1 : Taxable Goods*

Taxable Goods handover on a consignment basis and transfer of Taxable Goods for the purpose of paying for share replacement capital are subjects as Non-Taxable Goods.

Article 4 : Non-Taxable Goods

Coal mining products are subjects as Taxable Goods.

Article 9 : Input Tax

For Taxable Entrepreneurs who have not handover goods / services, Input Tax on the acquisition of Taxable Goods and / or Taxable Services, Import of Taxable Goods, Utilization of Intangible Taxable Goods and / or utilization of Taxable Services from outside of the Customs Area within the Customs Area can be credited if it fulfils the crediting requirements in accordance with this Law.

Article 9 : Input Tax Excess

Taxable Entrepreneurs who have not handover goods/services could credit the VAT if the goods/services will be handover within a period of 3 (three) years.

VAT credit can be applied for a maximum of 3 (three) months if it has not been charged or capitalized in the goods / services cost.

INCOME TAX*Article 2: Taxpayer*

The definition of Taxpayer is specified as Indonesian citizens or foreign nationals.

The definition of foreign taxpayer is:

1. Individuals who do not reside in Indonesia,
2. Foreign nationals who are in Indonesia for not more than 183 (one hundred and eighty-three) days within a period of 12 (twelve) months.
3. Indonesian citizens who are outside Indonesia for more than 183 (one hundred and eighty-three) days within a period of 12 (twelve) months and meet the following requirements:
 - a. Residence.
 - b. Main activity centre.
 - c. A place to practice habits.

- d. Tax subject status; and / or
 - e. Other specified requirements
- which further provisions regarding these requirements are regulated in the Minister of Finance Regulation.
4. An agency that is not established and is not domiciled in Indonesia who run a business or carry out activities through a permanent establishment in Indonesia or who can receive or earn income from Indonesia not from running a business or carrying out activities through a permanent establishment in Indonesia.

Article 4 : Income Tax Objects

The Omnibus Law state additional non-object of income tax:

1. The distribution of the remaining revenue of cooperation.
2. Income earned by foreigners who are subject to domestic tax under certain conditions.
3. Foreigners with a Double Tax Avoidance Agreement.
4. Payment (claims) from insurance companies.
5. Deposit funds for hajj pilgrimage costs and profits received by the entity.

Income earned by foreigners who work in Indonesia that is paid outside Indonesia is subject to income tax.

Dividends are classified as dividends originating from within the country and abroad. Dividends originating from abroad and income after tax from a permanent establishment abroad received or obtained by domestic corporate taxpayers or domestic individual taxpayers, as long as they are invested or used to support other business activities in the territory of the Republic of Indonesia within a certain period of time, and meets the following requirements:

1. The invested dividend and income after tax is at least 30% (thirty percent) of the profit after tax; or
2. Dividends originating from foreign business entities whose shares are not traded on a stock exchange are invested in Indonesia before the director general of taxes issues a tax assessment.

In the case of dividends after-tax income from a permanent establishment abroad is invested in the territory of the Unitary State of the Republic of Indonesia less than 30% (thirty percent) of the total profit after tax shall apply:

1. The invested dividends and income after tax are exempted from the imposition of income tax.
2. On the difference of 30% (thirty percent) profit after tax less dividends and / or after-tax invested income is subject to income tax; and
3. The remaining profit after tax is reduced by dividends and / or invested income after tax on the difference is not subject to income tax.

In the case of dividends and income after tax from a permanent establishment abroad, is invested in the territory of the Unitary State of the Republic of Indonesia in the amount of more than 30% (thirty percent) of the total profit after tax, the following conditions apply:

1. for dividends and after-tax income invested, are exempted from the imposition of Income Tax; and
2. the remaining profit after tax is reduced by dividends and / or invested income after tax is not subject to Income Tax.
3. Income tax rates on interest payments including premium, discount, and compensation can be reduced by a Government Regulation.

7 – ACCOUNTING & REPORTING

The history of the Indonesian national GAAP (PSAK) began when the Indonesian Accountants Association (IAI), established in 1957, was appointed by the government of Indonesia in 1984 to develop accounting standards to be used mostly for limited liability partnerships.

The IAI then established a committee to develop accounting standards in Indonesia. This committee, which is responsible for developing and implementing the accounting standards, is called the *Dewan Standar Akuntansi Keuangan* (DSAK).

The Indonesian PSAK (SFAS) are mostly based on the International Accounting Standards (IAS), which were recently changed to the International Financial Reporting Standards (IFRS). Indonesia completed its first phase of convergence to IFRS in 2012 by adopting IFRS as of 1 January 2009 and continued to the second phase of IFRS convergence aiming for full adoption of IFRS. At the second stage, the DSAK is committed to maintain a one-year difference with IFRS as issued by the IASB until ready for full adoption. Therefore, the expectation is to converge Indonesian national GAAP (PSAK) with IFRS as they stood on 1 January 2015 as of 1 January 2016, etc. unless there is a reason not to do so.

As well as the IAI, the government of Indonesia appointed the Financial Services Authority (OJK) formerly the Indonesian Securities Exchange Commission (BAPEPAM LK) to establish additional reporting regulations designed specifically for publicly held corporations.

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.

BOOKEEPING 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.

PRESENTATION OF FINANCIAL STATEMENTS

In compliance with government regulation, every limited liability partnership in Indonesia should prepare its financial statements in accordance with the Financial Accounting Standards established by the IAI.

The Indonesian Financial Accounting Standards (IFAS) require that financial statements consist of an income statement, balance sheet, statement of changes equity, and a note to the financial statement.

Except for the cash flow statement, financial statements must be prepared based on the accrual basis, and on the assumption that the company will remain in operation for the foreseeable future.

Financial statements should be prepared annually and audited by a registered public accounting firm if the company meets any one of the following criteria:

- The company is utilising public funds.
- The company has issued obligations.
- The company is a publicly held corporation.

For a company that meets one of the criteria above, the audited financial statements should then be verified and signed by the board of directors.

Moreover, the Minister of Trade and Commerce requires the filing of the audited financial statements for every limited liability partnership that meets the following criteria:

- The entity is a publicly held corporation.
- The entity is utilising public funds.
- The entity has issued obligations or promissory notes.
- The entity has total assets or turnover exceeding IDR 50,000,000,000.

ACCOUNTING FOR TAX

For tax purposes, a company's books must be maintained in conformance with the prevailing accounting standards where in many cases according to functional currency unless the tax law states otherwise. The books must be presented in Rupiah, written in Indonesian and stored in Indonesia.

Foreign-investment (PMA) companies, PEs, and subsidiaries of foreign companies can keep their books in USD and compile them in English with specific DGT approval. A collective investment contract (KIK) may permit the usage of USD accounting where it relates to USD-denominated investment funds. A DGT approval application must be submitted with the DGT office no later than three months before the start of the USD accounting year. The DGT is required to decide on the application within a month. If no decision is made within that time, the application is automatically approved.

Companies that are regulated by a production sharing contract (PSC) or a contract of work (CoW) with the government may apply for USD accounting in English by giving some notification to the DGT in writing. This notification has to be submitted to the DGT office no later than a month before the beginning of the USD accounting year. A company can also compile its books in English but keep them in IDR. In this case, the company must submit a written notification to the DGT no later than three months before the beginning of the tax year in which the books are composed in English. The usage of a foreign language other than English and a foreign currency other than USD in a company's books is not allowed.

Irrespective of the currency and the language used, companies typically must settle their tax liabilities in IDR (except for PSC companies) and file tax returns in Indonesian. For corporate income tax, the assertions must be presented in USD side by side with IDR in the annual corporate income tax returns.

A company that has obtained approval to maintain USD accounting may return to IDR accounting subject to DGT approval. Once approval is granted, the company may not re-apply for USD accounting approval during the five years after the cancellation of the USD accounting.

8 – UHY REPRESENTATION IN INDONESIA



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BRIEF DESCRIPTION OF FIRM

KAP Hananta Budianto & Rekan is a leading public accounting firm in Jakarta, Semarang and Surabaya, Indonesia. We have built an excellent reputation by offering our clients a personalised service that goes beyond traditional accounting practices. Our expansion has resulted in additional offices in Jakarta and Surabaya. The addition of two new partners forced our firm to be relocated its headquarter to Jakarta by the end of 2008.

Our office is registered with Indonesian Central Bank for auditing banks and financial institutions, BAPEPAM(now OJK) for auditing listed companies, BPK RI (the audit board of the Republic of Indonesia) for auditing government companies and The World Bank Group for servicing clients related to World Bank/ADB/IFS funds.

SERVICE AREAS

We provide services to business institutions, not-for-profit organisations (non-governmental organisation (NGOs)), other corporations, as well as private companies, in the following areas:

Audit and Assurance



The network
for doing
business



- General audit of financial statements
- Internal audit
- Special audit/investigation by applying agreed-upon procedures of financial statements
- Due diligence
- Attestation
- Examination of financial forecasts and other prospective financial data
- Financial information review

Corporate Finance

- Mergers and acquisitions
- Liquidations
- Restructuring
- Business planning/reorganisation
- Business valuations
- Feasibility studies

Business Risk Management

Tax

- Planning, compliance, review, general advisory, preparing objection and appeal letter
- Tax due diligence
- Representing tax payer in the tax court as a tax lawyer

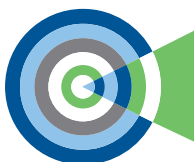
Accounting Assistance

Management Consulting

- Quality management systems
- Accounting systems
- Performance management
- Investment proposals
- Government contract consulting
- Job evaluation
- Franchise development
- HR management

PRINCIPAL OPERATING SECTORS

Forestry, logging and woodworking (furniture and plywood)
Real Estate and Warehousing
Hospitals
Pharmaceutical Industries
Gloves and Carpets Industries
Tyre Industries
Garment and Textile Industries
Mining consultant and Contractor
Distributors
Food and Beverage Industries
Tobacco and Cigarette Manufacturing
Paper and High Tech Printing





NGOs
Herbs Manufacturer
Hotel and Resort
Industrial Estate
Wood working and furnitures companies

LANGUAGES

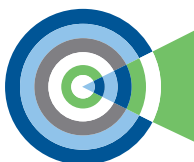
Indonesian, English.

CURRENT PRINCIPAL CLIENTS

PT Nojorono Tobacco International (cigarette manufacturer)
PT Grand Best Indonesia (garment industry)
PT Andalan Mandiri Busana (garment industry)
PT Javaprima - Kopi Luwak (drinking coffee manufacturer and Cafe)
PT Aroma Kopi Cream (creamer production)
PT Ateja Kwashima Autotex (automotive seat cover)
PT BUDI MAKMUR JAYA MURNI (leather manufacturer and exporter)
Ambarukmo Plaza (Hotel, Function and Mall)
PT Nusantara Sakti Group (motorcycle distributor)
Telogorejo Hospital - Semarang Medical Centre (general hospital)
Zenith Group (pharmaceutical industries)
Erela Group (pharmaceutical industries)
PT KBRI (paper manufacturer)
Estetika Group (clinic and pharmaceutical specialy for skin care)
PT Universal Carpet Indonesia (carpet producer)
Pura Group (fine paper and high tech printing industries, security paper)
Sidomuncul Group (herbs, transportation, MLM, printing and distribution)
Gumaya Hotel Group (hotel)
Dynasty Group (Chain hotel and the related supporting activities)
CV Indo Jati Utama (decking producer)
Unicef (international organization)
EED - Bread of the World Germany
Mega Mansion (real estate group)
Nissin Biscuits Group (FMCG)
Teraoka Trans Loader shipyard (docking)
Posco Indonesia (mining consultant and contractor)
Caritas Switzerland
Misereor Germany
Taman Safari Indonesia
Zenith Group (pharmaceutical)
Erela Group (pharmaceutical)
Scancom Group (furniture manufacturer)

OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

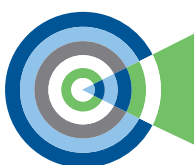
US, UK, France, Italy, Germany, Dutch, Belgium, Singapore, Hong Kong, Pakistan, Taiwan, Japan, Malaysia, UEA, Thailand and Vietnam

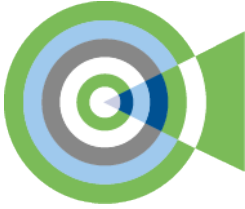


BRIEF HISTORY OF FIRM

The firm began as Hananta Multi Consulting in 1984 and expanded with KAP Hananta Budianto & Rekan in 1987, serving mainly small/medium enterprises supported by the Asian Development Bank and World Bank in emerging countries.

The continuing expansion of the firm saw it becoming a leading CPA/consulting firm in Central Java, whereas the partners are active in the Indonesian Institute of Certified Public Accountants (IICPA). The firm joined UHY in 2007 and moved the head office in Jakarta with two branches in Semarang and Surabaya.





LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

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