

Doing Business in Indonesia



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- Indonesia is the world's largest archipelago and is composed of approximately seventeen thousand islands lying along the equator. These include several large islands which include Java, Sumatera, Kalimantan, Sulawesi and Papua, as well as various islands that are popular tourist destinations, such as Bali, Lombok and Komodo.
- Indonesia is the 4th most populous country in the world which means it has a large domestic market open for investment.
- Indonesia was ranked as the 17th largest economy in the world in 2021 in terms of nominal Gross Domestic Product (GDP), and 7th in terms of Purchasing Power Parity (PPP). Estimates for these two indicators of economic performance are respectively US\$ 1,159 billion and US\$ 3,507 billion. The GDP per capita is over US\$4,000. In 2022, Indonesia has gained one spot in the ranking of the richest countries in the world, with a GDP of US\$ 1.247 trillion.
- Top 3 economic sectors in Indonesia are services (about 47% of GDP), industry (about 39% of GDP) and agriculture (about 21% of GDP).



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Types of Legal Entities for Foreign Investors in Indonesia

1. PT PMA

PT PMA is the only legal entity in Indonesia that allows 100% foreign ownership. However, each sector has regulations on their permitted business activities as well as the maximum amount of shares foreigners can own determined by the Positive Investment List.

2. General Representative Office (KPPA)

A representative office is suitable for foreign investors and business owners that are at the early stage of expanding into Indonesia. RO's allow foreign businesses to test the Indonesian market before establishing any commercial operations.

3. Representative Office for Business Trading (KP3A)

KP3A is a representative office that is established specifically for business trading. Both general and trading RO's are prohibited from conducting business activities that generate financial income. However, a trading RO may be established in any part of Indonesia, whereas a general RO is not able to do so.

4. Representative Office for Construction Company (BUJKA)

Similar to KP3A's, a BUJKA is a representative office specifically established for foreign construction companies. A BUJKA may engage in large-scale construction projects, but only under a joint operation with a local company (known as Local PT).



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	PT PMA*	General Representative Office (KPPA)	Representative Office for Business Trading (KP3A)	Representative Office for Construction Company (BUJKA)
	<i>*the most common type of foreign investment</i>			
Nature	<ul style="list-style-type: none"> Allows profit-generating business activities Allows up to 100% foreign ownership Ideal for business sectors that are open for foreign investment 	<ul style="list-style-type: none"> Not allowed to generate financial income Allows up to 100% foreign ownership Ideal for testing the waters before setting up a fully-fledged company Works best for non-sales activities Located only in the capital city 	<ul style="list-style-type: none"> Not allowed to perform any sales and purchase activities Allows up to 100% foreign ownership Ideal for liaising, promotional, and market survey activities 	<ul style="list-style-type: none"> Permitted to engage in large-scale construction projects within a joint operation with a Local PT Best suited for the larger global construction companies
Structure	<ul style="list-style-type: none"> Minimum two shareholders (corporate/individual) Minimum one local director Must have at least one commissioner (can be a foreigner with a valid work permit) 	<ul style="list-style-type: none"> No shareholder or director required One chief executive is sufficient 	<ul style="list-style-type: none"> No shareholder or director required One chief executive is sufficient 	<ul style="list-style-type: none"> No local shareholders are required
Capitalisation	<ul style="list-style-type: none"> Minimum IDR 10 billion of investment At least IDR 10 billion should be provided as a paid-up capital 	<ul style="list-style-type: none"> No capital is required 	<ul style="list-style-type: none"> No capital is required 	<ul style="list-style-type: none"> No capital is required
Benefits	<ul style="list-style-type: none"> Full control of business Eligible to sponsor work and stay permit for foreign employee 	<ul style="list-style-type: none"> Low incorporation cost Eligible to sponsor work and stay permit for foreign employees 	<ul style="list-style-type: none"> Low incorporation cost Eligible to sponsor work and stay permit for foreign employee Can open a branch office in any part of Indonesia 	<ul style="list-style-type: none"> Low incorporation cost Allowed to work on a construction project in a joint operation with a Local PT without acquiring a construction license (SIUJK) Eligible to sponsor work and stay permit for foreign employee



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Establishing a PT. PMA

Process	Estimated Time (Days)	Remarks
Principle License & Business License from BKPM	7	<p><i>Depending on sector, costs for the establishment of a PT PMA can vary, but generally such a package should cost around USD \$3,000 and requires about ten weeks to be completed.</i></p> <p><i>The licenses/documents listed involve the general guideline for the establishment of a PT PMA. However, additional licenses and/or documents can be required in specific sectors. Therefore legal advice should be sought before engaging in investment activity.</i></p>
Obtain Indonesian Business Identification Number (NIB)	3	
Deed of Establishment (containing the Articles of Association) legalized by a Public Notary	1 to 2	
Legalization of the legal entity status of the PT PMA by the Ministry of Law and Human Rights	10	
Domicile Letter from the local district authority	3	
Tax Identification Number (NPWP) and taxable entrepreneur confirmation (PKP) from the tax office	3	
Company Registration Certificate (TDP) from the agency for integrated licensing services	14	
Manpower Report and Company Welfare Report from the sub-department of the Ministry of Manpower	7	



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Corporate Income Tax

A. Tax rates

- Generally a flat rate of 22% applies;
- Public companies that satisfy a minimum listing requirement of 40% and other conditions are entitled to a tax cut of 3% off the standard rate, giving them an effective tax rate of 19%;
- Small enterprises, i.e. corporate taxpayers with an annual turnover of not more than IDR 50 billion, are entitled to a 50% discount of the standard tax rate which is imposed proportionally on taxable income of the part of gross turnover up to IDR 4.8 billion;
- Certain enterprises with gross turnover of not more than IDR 4.8 billion are subject to Final Tax at 0.5% of turnover.

B. Tax Residence

- 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.



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Corporate Income Tax – cont'd

C. Tax payments

- Resident taxpayers and Indonesian PEs of foreign companies have to settle their tax liabilities either by direct payments, third party withholdings, or a combination of both;
- Foreign companies without a PE in Indonesia have to settle their tax liabilities for their Indonesian-sourced income through withholding of the tax by the Indonesian party paying the income;
- Monthly tax installments (Article 25 income tax) constitute the first part of tax payments to be made by resident taxpayers and Indonesian PEs as a prepayment of their current year Corporate Income Tax (CIT) liability. A monthly tax instalment is generally calculated using the most recent CIT Return (CITR);
- The tax withheld by third parties on certain income (Article 23 income tax) or tax to be paid in advance on certain transactions (e.g., Article 22 income tax on imports) also constitute prepayments for the current year CIT liability of the income recipient or the party conducting the import.
- If the total amount of tax paid in advance through the year (Articles 22, 23, and 25 income taxes) and the tax paid abroad (Article 24 income tax) is less than the total CIT due, the taxpayer has to settle the shortfall before filing its CITR. Such a payment is referred to as Article 29 income tax;



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Corporate Income Tax – cont'd

C. Tax payments

- Certain types of income earned by resident taxpayers or Indonesian PEs are subject to final income tax. In this respect, the tax withheld by third parties (referred to as Article 4(2) income tax) constitutes the final settlement of the income tax for that particular income;
- For foreign companies without a PE in Indonesia, the tax withheld from their Indonesia-sourced income by the Indonesian party paying the income (Article 26 income tax) constitutes a final settlement of their income tax due.

D. Business profits

- Taxable business profits are calculated on the basis of normal accounting principles as modified by certain tax adjustments.

E. Controlled foreign companies

- Certain income of a Controlled Foreign Companies (CFCs) are subject to deemed dividend rules in Indonesia. This income includes dividends, interest, rentals, royalties, and gains from sales or transfer of assets, with certain limitations. A CFC is a foreign entity that is at least 50% owned by an Indonesian taxpayer or at least 50% collectively owned by Indonesian taxpayers.



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Individual Income Tax

Taxable Income	Rate
Up to IDR 60,000,000	5%
Above IDR 60,000,000 up to IDR 250,000,000	15%
Above IDR 250,000,000 up to IDR 500,000,000	25%
Above IDR 500,000,000 up to IDR 5,000,000,000	30%
Above IDR 5,000,000,000	35%

An individual is regarded as a tax resident if he/she fulfils any of the following conditions:

- He/she resides in Indonesia;
- He/she is present in Indonesia for more than 183 days in any 12-month period;
- He/she is present in Indonesia during a fiscal year and intends to reside in Indonesia.

The provisions of tax treaties may override these rules.



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Value Added Tax

- The VAT rate is currently 11% and will be increased to 12% by 1 January 2025 at the latest.
- VAT on the export of taxable tangible and intangible goods as well as export of services is fixed at 0%. Certain limitations for the zero-rated VAT apply to export of services.
- VAT liabilities are typically settled by using an input-output mechanism.