Business and Taxation Guide to

INDONESIA
Preface

This guide has been prepared by Marcus Partners and Moores Rowland Indonesia

For any details and contacts please consult website: www.moores-rowland.com

@ January 2015

This guide is intended as a general guide and should not be acted upon without further advice.
Contents

1. General information ........................................... 4
2. Regulation of foreign investment ............................ 8
3. Government incentives ........................................ 10
4. Business organizations available to foreigners .......... 14
5. Setting up and running business organizations .......... 17
6. Corporate taxes and social charges ........................ 21
7. Personal taxation ................................................ 27
8. Double taxation agreements ................................. 31
9. Sales and use taxes .............................................. 33
10. Portfolio investment for foreigners .......................... 37
11. Trusts ............................................................ 39
12. Practical information .......................................... 40
1. General Information

Attractions of investment in Indonesia

In 2013, Indonesia was struck by the financial storm that pummelled emerging markets.

Early in 2014, other emerging markets suffered a similar slump, caused by the Fed’s decision to go ahead with the mooted ‘taper’. Central banks in Turkey, India, and South Africa have all hiked interest rates to defend their battered currencies, yet Indonesia’s rupiah has rallied by 3.3% against the dollar – the most among major emerging-market currencies. In February 2014, Jakarta’s main stock market was trading close to four-month highs, plus foreign funds have bought $1 billion more local bonds and shares this year than they have sold.

Indonesia appears to owe its turnaround to timing.

The weaker rupiah has made Indonesia’s exports cheaper in foreign markets and imports more costly. By the end of 2013, the trade deficit had dropped by more than half to $4 billion, or 2% of GDP. In December 2013, Indonesia recorded its largest monthly trade surplus for two years; merchandise exports rose by 10.3% year on year.

Despite slower consumption growth, annual GDP growth accelerated to 5.7% in the fourth quarter of 2013, boosted by exports.

Government policy may have helped the process along. The decision to raise the price of subsidized petrol and diesel in July 2013 squeezed demand for oil, which accounted for about 23% of imports at a cost of $42 billion last year.

On 11 February 2014, Indonesia’s parliament passed a new trade law giving authorities far-reaching powers to restrict exports and imports.

A turn toward protectionism is linked to this year’s parliamentary and presidential elections – laissez-faire economics are unpopular in Indonesia. Yet with global capital in a fickle mood, governments cannot assume that markets will shrug off electioneering. Indonesia owes the striking turn of fortunes in its economic performance to rather orthodox economic policies. The central bank has allowed market forces to operate freely, letting the rupiah depreciate
to the point where exports have again become competitive. The result of this hands-off approach is that once again, Indonesia is very much open for business.

**Area and population**

Indonesia is considered to be one of the richest countries on Earth in terms of its biological diversity and natural resources. The archipelago is fragmented into more than 17,000 islands that stretch some 5,000 km from east to west, and owing to its complex geographical make-up and unique biogeographical position, the country has an enormous diversity of ecosystems, as well as a fascinating history and heritage.

In terms of human diversity, Indonesia must rank as a global leader, as some 336 distinct cultures are recognized. It is the fourth most populous country in the world after China, India and the United States. It’s also the world’s largest Islamic nation, but the constitutional freedom to practice other religions called Pancasila sees major groups of Christians, Buddhists, Hindus and other faiths exist side-by-side.

**Population (Sept 2013):** 259 million.

**Annual population growth rate:** 1.6%

**Ethnic groups:** Javanese 45%, Sundanese 14%, Madurese 7.5%, coastal Malays 7.5%, Chinese 5%, others 21%.

**Religions:** Islam 86%, Protestant 6%, Catholic 4%, Hindu 2%, Buddhist and other 1%.

**Area:** 2 million sq. km. (736,000 sq. mi.), about three times the size of Texas; maritime area: 7,900,000 sq. km.

**Cities:** Jakarta, capital city (est. 13 million). Other cities: Surabaya 3.2 million, Bandung 3 million, Medan 2.5 million, Bekasi 2.2 million, Tangerang 1.8 million; Semarang 1.7 million, Depok 1.5 million; Palembang 1.5 million and Makassar 1.3 million plus an additional 3.5 million in the surrounding areas of each city. Jakarta is located 400 km south of the equator.

**Terrain:** More than 17,000 islands; 6,000 are inhabited, 1,000 of which are permanently settled. Large islands consist of coastal plains with mountainous interiors.

**Climate:** Equatorial, but cooler in the highlands. Temperatures vary between 27°C and 33°C. There are two main seasons; a dry season (May-October) and a rainy season (November-April).
**Constitution, political structure and legal system**

Indonesia is a republic whose constitution was promulgated on its independence day on 17 August 1945. The country is divided into 33 provinces and 471 regencies/municipalities.

The Executive Branch includes a President, a Vice-President and cabinet ministers. The legislative function is held by the House of Representatives (Dewan Perwakilan Rakyat/DPR) numbering 560 members and the House of Regional Representatives (Dewan Perwakilan Daerah/DPD) that has 132 elected members. The DPR and DPD are elected every five years. The last election took place on 9 April 2009 when the number of registered voters was 171.3 million. New legislative elections will be held in April 2014.

The President is elected by direct voting every five years. The first direct presidential election took place in 2004 when the incumbent Susilo Bambang Yudhoyono (SBY) was elected. On 8 July 2009, President SBY was re-elected for another five years (until 2014) with 60% of the vote.

For the 2014 election, new electoral regulations have reduced to 10 the number of parties eligible to contest the national elections.

Yudhoyono is not eligible to run for a third time having already served two consecutive terms. There are several presidential candidates for the upcoming election, including retired general Prabowo Subianto of Gerindra, Aburizal Bakrie of Golkar, former Vice-President Jusuf Kalla, and Puan Maharani from the Indonesian Democracy Party of Struggle (PDI-P).

The President has strong powers and is assisted by a Vice-President. The current Vice-President is Prof. Dr. Boediono (2009-2014). The President chairs the Ministerial Council and nominates a number of high-ranking officials such as the head of the Supreme Court (Ketua Mahkamah Agung).

In many matters the former Dutch colonial law still prevails, but Presidential decrees have amended those laws in many areas.

**Economic situation**

In 2013, the Indonesian GDP grew by 5.9% from the 2012 level. Growth was across all sectors of the economy with transportation, communications contributing the most while the lowest contributor was in the mining and excavation sector that showed just 1.49% growth. The consumer index has grown over the past quarters and is expected to continue growing throughout 2014.

Inflation in 2013 stood at 7%.
The US$-Rupiah (Indonesian currency) conversion rate stands at 11,720 (February 24, 2014).
The Euro conversion rate meanwhile is situated at 16,170.

Indonesia has been growing steadily and based on GDP is currently ranked 15th in the world.

**Banking and finance**

There are 124 conventional banks with around 10,000 branches currently operating in Indonesia. After admitting apparent weaknesses in banking supervision, the Central Bank (BI) has been rolling out new rules with which to screen banks.

As of late 2009 the largest banks in Indonesia ranked by assets were: Bank Mandiri (340 billion Rp), BRI (250b), BCA (247b), BNI (201b), Bank Danamon (105b), CIMB Niaga (69.3b), PanIn Bank (63.6b), Bank Permata (54.2b), BII (54b) and Citibank (53.5b).

The eight largest foreign banks all improved their net profits during 2010. Classified by size, they are: Citibank, Deutsche Bank, HSBC, Standard Chartered, JP Morgan, ANZ, Bank of China, Bank of America.

**Classification of banks**

According to the Financial Statistics provided by the Central Bank of the Republic of Indonesia, banks and financial institutions as of December 2010 consisted of:

**Commercial banks:** 124, consisting of:

(a.) State banks : 5  
(b.) Private national banks: 119

Of which:

- Regional government banks: 26
- Private national banks: 88 (of which: foreign banks and joint venture banks: 31)
- Islamic commercial banks: 5

**Rural banks (BPR):** 1,897

**Finance and securities companies:** 259
2. Regulation of foreign investment

The legal aspects to be considered when setting up investments:

**Foreign direct investment:**

Further referred to as Penanaman Modal Asing (PMA), it is the activity of foreign investment for business purposes in the territory of the Republic of Indonesia, conducted by a foreign investor, either using foreign capital or in the form of partnership with a domestic investor. This foreign investment is governed under Capital Investment Law No. 25 year 2007.

**Application and approval procedures:**

- To invest in Indonesia, an investor should first consult the so-called ‘Negative List for Investment’ (Daftar Negatif Investasi). This list contains the business sectors that are totally closed to foreign investors, or are open but only with restrictions. This means that it may be possible for foreign investors to enter these business sectors providing that certain requirements are satisfied; this does not apply to totally closed sectors, of course.

- To apply for foreign investment approval, an investor should file a Model I/PMA or Model I/PMDN application form to the Investment Coordinating Board (Badan Koordinasi Penanaman Modal [BKPM]) together with certain required documents such as: Articles of Association of the companies wishing to invest in Indonesia (in the case of an individual, a citizen’s identification is required); in case of joint ventures, a draft of the joint venture agreement; and description of the production processes in the form of a flow chart block diagram. Failure to fulfil these requirements may lead to a delay in the granting of approval.

- Once BKPM has issued its approval, the PMA Company is required to draft its Articles of Association. For the legal establishment of a limited liability company, known as a ‘PT’, these Articles of Association have to be prepared in notarial deed form by a public notary and then submitted for approval by the Ministry of Law and Human Rights (MoLHR).
• Once MoLHR approval is granted the limited liability company is then legally established in Indonesia and the investors may begin to conduct their business activity. The next step is for the Deed of Establishment to be registered with the Company Registry office at the Department of Industry and Trade. Once this registration is complete, the Deed of Establishment must be announced in the State Gazette of RI.

Together with the above procedures, a PMA Company must also process certain other licenses related to, among others, taxation, import duties, manpower, land use and trade, depending on the business sector.
3. Government Incentives

Tax incentives

The following facilities will be granted for all PMA investment projects:

a. Import duties
   - Relief from import duty or tariffs: 5% or lower.

b. Export manufacturing
   - Reimbursement (drawback) of import duty on the import of goods and materials needed to manufacture finished products for export.
   - Exemption from VAT and sales tax on luxury goods for materials imported that are to be used in the manufacture of products for export.

c. Bonded zones

Industrial companies that are located in bonded areas are provided with non-collection of VAT and VAT exemption facilities in respect of:

- Import or domestic purchase of goods for further processing;
- Import of office equipment to be used only by the relevant bonded zone company;
- Import of plant equipment and machinery related directly to manufacturing activities to be used only within or by the relevant bonded zone company.
The traffic of goods between bonded zone companies, as well as between the bonded zone companies and their supporting contractors is also facilitated by means of the same tax facility. As a result, VAT and luxury tax do not need to be collected for the following traffic of goods:

- Shipments of goods from a bonded zone company to another bonded zone company for further processing;

- Shipment of goods under a subcontract agreement from a bonded zone company to a non-bonded zone company within the customs area, as well as the re-shipment of goods processed by the non-bonded zone company to the bonded zone company;

- The loan of plant, machinery or equipment under a subcontract agreement by a bonded zone company to another bonded zone company or non-bonded zone company within the customs area, and the re-shipment of the same machinery or equipment to the bonded zone company.

d. Income tax incentive in 2007, issued by the Government to develop business in particular regions, applicable under the following criteria:

- Certain industries located in certain areas in Indonesia (normally remote areas)
- Certain industries, e.g. forestry, low rank coal for local consumption, geothermal power production, oil refining, chemical production (subject to certain products), machinery and equipment production, etc.
- Certain industries in certain areas, e.g. plastic packaging outside Java, trans-shipment port at Batam, etc.
- The incentives are:
  - Reduction from net income worth 30% of the amount of capital investment, charged over six years or 5 % per year;
  - Accelerated depreciation and amortization (basically the depreciation rate is double the regular rate);
  - Compensation for loss that is longer than five years but not more than 10 years subject to fulfilling certain conditions; and
  - Withholding tax rate on dividends paid to foreign shareholders will be 10%, or the lower tariff according to the applicable Avoidance of Double Tax Agreement

e. The Government also issued a tax holiday policy for certain industries in 2011, under the following conditions:

- Only applies for a company that has not been granted an income tax incentive;
- In “pioneer” industries (newly established company), i.e. basic metal producer, petroleum refining and/or organic basic chemicals derived from petroleum and
natural gas, industrial machinery, renewable resources, or telecommunication equipment industry;

- Having a minimum capital investment of IDR1 trillion (equivalent to approximately USD120 million) that has been approved by the Investment Coordinating Board (BKPM);
- The tax holiday is in the form of exemption from corporate income tax obligation for a minimum of five years up to a maximum of 10 years starting from the commencement of commercial production, and after the expiry of such period, an additional incentive in the form of a 50% reduction from the corporate income tax payable will be granted for another two-year period.

**Corporation tax and income tax**

Income tax is applied to resident corporations and individuals on most sources of increase of economic wealth. Income tax is collected both directly and at source through a wide range of withholding taxes, constituting advanced payments of taxation. Exceptions are for those sources that are taxable as a final tax, i.e. local bank time deposit interest, land and building rental, construction services, share transfer via stock exchange, etc.

**Dividends**

Income tax is not payable on dividends, provided that: 1) dividends are paid from retained earnings; and 2) company receiving the dividend owns at least 25% of the total paid-in capital.

**Transfer of title / property tax**

Transfer of title tax is payable on the acquisition of rights to property (land and buildings) with the tax tariff being stipulated at 5%.

Property tax is payable annually on land, buildings and permanent structures. The tax is imposed at a rate of 0.5% of the taxable sales value.

**Customs duties / special excise tax / value added tax**

Most duties are in the 5% to 40% range, although the minimum rate is 0% and the maximum 150%.
Value added tax (VAT) applies to the import and delivery of most goods and services. VAT is collected at a standard rate of 10%.

The requirement for goods to be excised is that they have a specific recognizable character (e.g. ethanol, beverages containing ethanol of any percentage including concentrate, and tobacco products).

Goods produced in Indonesia are excised as soon as they are produced. Goods imported are excised at the time of import into the customs territory by virtue of the rules based on the customs law.

**Guarantee of overseas remittance**

Indonesia has a free-floating currency and no foreign exchange controls. However, the Rupiah currency may not be remitted or traded abroad.
4. Business organizations available to foreigners

**Liaison Office or Representative Office**

**General**

Under some ministerial regulations a foreign company may set up a representative office. (‘Rep. Office’). Usually, a Rep. Office may only perform auxiliary services: acting as an intermediary, handling promotional activities and gathering information for a head office abroad. Generally it is not permitted to perform operational business or trading activities including entering into transactional contracts.

**Rep. Office licensed by the Badan Koordinasi Penanaman Modal (BKPM)**

Applications for most Rep. Offices licenses are issued by BKPM.

**Rep. Office licensed by the Ministry of Public Works (MoPW)**

MoPW regulations allow foreign construction and construction consulting companies to set up a Rep. Office. In cooperation with Indonesian companies they may:

- explore possible markets for construction consulting services and construction works,
- participate in tenders,
- submit proposals, and
- carry out projects to completion
Branch office

Generally this designation is not in use.

Limited liability company (PT)

The PT is commonly the limited liability company established for enterprises. Laws and administrative practices (i.e. tender procedures) in many economic sectors require that a PT be established as a legal entity to accommodate such interest.

A PT is a corporate legal entity initially stated as such in the Commercial Code, which has now been replaced by Law No 40 year 2007 concerning Limited Liability Companies.

The Deed of Establishment comprising the articles of association must be in notarial deed form and approved by the Minister of Law and Human Rights.

Law No 40 year 2007 provides only basic provisions with respect to the most important aspects, from incorporation through to dissolution. The notarial Deed of Establishment usually provides details on matters pertaining to the existence of the PT and the rights and duties of its shareholders, the name of the company, its purpose, duration, domicile, amount of authorized capital and amount of each share, number of shares subscribed by the founders, management, the financial year and other important matters.

Law No. 40 year 2007 differentiates between private and public limited companies. Public listed companies are also governed by regulations of the Ministry of Finance, while non-public listed companies are governed only by Company Law.

Basic features of a limited liability company

- A PT company is a limited liability company or legal entity having shares, with its shareholders having only limited liability.

- The day-to-day operations of a PT are managed by a Board of Directors that is supervised by a Board of Commissioners. The Board of Directors and the Board of Commissioner are responsible to a General Meeting of Shareholders.

- There shall be a minimum of two shareholders.

- Joint and several liabilities of shareholders exist until the Deed of Establishment has been approved by the Minister of Law and Human Rights.

- The minimum authorized capital of a PT is 50 million Rupiah. However this amount is not applied for foreign investment where the required amount of capital investment will be advised by BPKM in accordance with the business activity of the company.
Foreign-investment corporation or PMA company

The Foreign Capital Investment Law regulates foreign capital investment and operation of foreign companies in Indonesia. In general, the stipulated form for foreign investors is known as a PMA company, which can be a joint venture with an Indonesian partner in the form of a PT company, or 100% foreign owned depending on the business sector. Foreign capital investment is governed primarily by the Capital Investment Coordinating Board (BKPM), which administers and approves foreign capital investment in the majority of economic sectors, excluding oil and gas and other mining, banking, finance and insurance industries. BKPM is the one-stop government agency for a foreign investor with respect to all approvals and permits required to establish or expand a PMA Company, and to receive fiscal facilities, grants and other incentives as mentioned in the laws and regulations.

Basic features of a PMA company

- Only approved activities may be undertaken.
- Generally not permitted to be involved in retail business.
- The maximum initial foreign shareholding can be up to 100% for certain business activities.
- Although there is no written regulation stipulating the minimum investment, the minimum usually required by BKPM is US$ 250,000, comprising loan and equity capital, and the same for consultancy services, which requires US$ 250,000 for equity only. In the manufacturing sector, meanwhile, at least US$ 1 million is usually stated as the requirement.
- Facilities are available for import duties, VAT on the purchase of capital goods and repatriation of funds, but not for the service line of business.
5. Setting up and running business organizations

Establishing and running a representative office

Including legalization of deed of statutory head office.

- Preparation of application forms.
- Registration with the relevant Ministry.
- Obtaining tax registration number (NPWP).
- Obtaining a letter of assertion in regard to the utilization of office space.
- Obtaining a letter of domicile.

Establishing and running a foreign-investment corporation

There are three phases for setting up a PMA company:

- Preparation of PMA application and submission of the application to BKPM through to completion on obtaining the initial business approval.

- Establishing the limited liability company by liaison with a notary with regard to the drafting and notarization of the Articles of Association and subsequent submission to the Minister of Law and Human Rights for approval and publishing in the State Gazette.
- Obtaining the basic permits and licenses, including work permits for expatriates.

1. **Formation of company:**

   - The most common legal entity for the business community is a limited liability company – Perseroan Terbatas (PT), either foreign direct investment or domestic direct investment. For foreign direct investment, a PT is obligatory.
   
   - Representative Office. Such an office is not allowed to undertake any business transactions with companies or persons in Indonesia for export, import or domestic trading, except for marketing operations.

2. **Cost of formation**

   The range of fees for processing the establishment of a PMA company lies between US$5,000 and US$ 9,000, depending on the complexity of the business sector. This excludes the VAT, Notary fee and other administration fees.

3. **Capital**

   According to Company Law No.40 year 2007, a company’s capital consists of authorized, issued and paid-up capital.

   Minimum authorized capital for the establishment of a company is fifty million Rupiah (Rp. 50,000,000). Furthermore, a minimum of 50% of the authorized capital must be issued and a minimum of 25% of the authorized capital must be paid up by the shareholders. However, please take note that this capital requirement only holds true for a local company; minimum authorized capital for a foreign investment is far higher.

4. **Share divestment**

   According to Laws and Regulations, a PMA company may be established as a direct investment or 100% foreign ownership depending on whether or not the business activity is listed in the Negative List.
5. **Transfer of shares**

In the Articles of Association there may be provisions that regulate limitations on the transfer of shares, namely a requirement to make an initial offer to a specific group of shareholders or to other shareholders and/or to obtain prior approval from an accompanying organ, plus the transfer of shares in a PMA company is also subject to BKPM approval.

In the case where the Articles of Association require a shareholder to first offer its shares to a specific group of shareholders or to other shareholders not selected by the prospective seller, the company is obliged to guarantee that all shares offered are bought at a fair price and paid for in cash within 30 days calculated from when the offer is made.

6. **General Meeting of Shareholders (“GMS”)**

A GMS must take place at least once a year and shall be held at the company’s domicile or at the place where the company carries out its business activity, unless otherwise provided for in the Articles of Association.

A GMS comprises the Annual GMS or other GMS. The Annual GMS must be held not later than six months following the end of the financial year. However, the other GMS may be held from time to time based on need.

7. **Board of Directors**

The Board of Directors is appointed by the GMS. A member of the Board of Directors is elected for a specific period with the possibility of being re-elected.

The GMS determines all the duties and powers of each member of the Board of Directors, including the day-to-day management, as well as the amount and type of remuneration for each of its members.

8. **Board of Commissioners**

A Board of Commissioners has the duty of supervising the policies of the Board of Directors in operating the company, along with providing advice to the Board of Directors. A Board of Commissioners has a right to temporarily suspend directors who
neglect their duties or whose actions are not in conformity with the Articles of Association, or laws and regulations.

The GMS determines all the duties and powers of each member of the Board of Commissioners, as well as the amount and type of remuneration for each of its members.
6. Corporate taxes and social charges

Taxpayers

A corporation, for tax purposes, is classified as ‘resident’ or ‘non-resident’. Residency is determined on the basis of place of incorporation. A corporation is therefore considered ‘resident’ if incorporated in Indonesia and non-resident if incorporated elsewhere.

Resident corporations are taxed on their worldwide income. Tax credits are allowed for income that has been taxed outside the country. Non-residents are taxed only on income derived from Indonesian sources, subject to any relief available under double taxation agreements. However, a non-resident entity with a permanent establishment (PE) in Indonesia, such as a branch office, is taxed on:

1. PE’s income from its business or activities, and from the assets it owns and controls;
2. Income of the head office arising from business activities, or sales of goods or services in Indonesia of the same type as those sold by the permanent establishment in Indonesia; and
3. All other income, either received or accrued by the head office such as dividends, interest, royalties, rent and other income connected with the use of property, fees for services, etc, provided that the property or activities producing the income is effectively connected with the PE in Indonesia.

Income attributable to a PE of a company that is a resident of a treaty country should be referred to the relevant treaty.

In Indonesia, a PE is generally defined as an operation in which a non-resident establishes a fixed place of business in Indonesia. This would include a management location, a branch office, an office building etc. A PE can also be established as a result of the non-resident entity’s employees providing services in Indonesia for more than 60 days in any 12-month
period. For companies from those countries with which Indonesia has concluded a Double Tax Agreement (DTA), the relevant definition may be somewhat modified.

**Taxable income**

Taxable income is defined as any increase in economic prosperity received or accrued by a taxpayer, whether originating from within or outside Indonesia that may be used for consumption or to increase the recipient’s wealth in whatever name and form. It includes any remuneration in connection with work or services, business profits (with no distinction between operating and capital income), dividends, interest, rent, royalties and other income related to the use of property. Certain income is exempt from tax, such as dividends earned by a domestic corporation from another domestic corporation, provided that the dividend is from the retained earnings and the recipient holds at least a 25% shareholding.

**Calculation of taxable income**

Taxable income is calculated after the deduction of allowable deductible expenses (DE). For individuals there are income tax exclusions (PTKP), but these are set at relatively low income levels. Individuals are broadly liable to income tax on cash income. Benefits-in-kind (BIK) provided by employers are not deemed to be taxable income of the employee, but are a non-deductible expense (NDE) against corporate taxable income. For a representative office however, which is not considered as a corporate taxpayer, the BIK provided are deemed to be taxable income of the employee. Employers are required to withhold income tax from employees and deposit it each month with the State Treasury (Kas Negara). Employers prepare a consolidated annual tax return detailing each employee’s individual tax calculation. The employee should then file a separate personal return. Normally, tax returns should be filed by 31 March of the year following the calendar year; corporate tax returns however, can be filed up to four (4) months after the closing of the book year.

Corporate taxable income is calculated after deduction of most normal business expenses. Rates of depreciation are regulated though taxpayers may elect either the straight-line or double-declining method. Provisions are not deductible, nor are employee benefits-in-kind as mentioned above. Companies may choose to be taxed on the basis of a financial year other than the calendar year. Books of account may be kept in the English language based on approval from the Director General of Taxation. Foreign currency, e.g. U.S. dollars may also be used as the reporting currency if appropriate approval is obtained. Annual filings should be lodged within 4 months of the end of the financial year. In certain cases, however, the company can apply for an extension.
Exemption from income for capital increase

Taxable income is determined by subtracting allowable deductions from revenue. Certain expenses, such as employee benefits-in-kind and donations, are generally not tax deductible. In addition, interest incurred to finance the acquisition of shares is not deductible unless dividends from the shares purchased are taxable. The following are major allowable deductible expenses:

1. **Business expenses**

   As a general rule, taxpayers may deduct from gross income all expenses related to earning, securing and collecting taxable income. Items that are not deductible include those incurred for the personal benefit of shareholders; benefits-in-kind (e.g. housing and vehicles) provided to employees, except for the provision of food and beverages for all employees and for certain benefits-in-kind provided to employees in certain remote areas; gifts; donations and support; “excessive” payments for goods or services where a special relationship is deemed to exist between the buyer and seller; and expenses incurred in the course of producing income that is exempt from tax or subject to final tax. Formation of a reserve or allowance is generally not tax deductible, with the exception of bad debt allowances for banks or finance leasing companies, reserves in insurance companies, and reserves for reclamation costs in the mining industry.

2. **Research and development**

   Expenses such as those for research and development carried out in Indonesia and eligible employee training qualify as regular allowable deductions. Indonesia has no special income tax deductions/relief for research and development and eligible employee training. The deductibility of research and development performed offshore remains unclear.

3. **Depreciation and amortization**

   Investors can adopt either the straight-line or the double-declining balance method for depreciation of tangible assets (except buildings). The taxpayer should apply the depreciation method chosen consistently. The Tax Office must approve any change in method. The same depreciation method and percentages are allowed for intangible assets with a benefit of more than one year.

The following table lists the allowable useful life of the assets as categorized and annual depreciation rates:
## A. Tangible Asset

<table>
<thead>
<tr>
<th>Group</th>
<th>Useful Life (Years)</th>
<th>Straight Line (%)</th>
<th>Declining Balance (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Building</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- permanent</td>
<td>20</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>- non-permanent</td>
<td>10</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td><strong>Non-building</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group 1</td>
<td>4</td>
<td>2.5</td>
<td>50</td>
</tr>
<tr>
<td>Group 2</td>
<td>8</td>
<td>12.5</td>
<td>25</td>
</tr>
<tr>
<td>Group 3</td>
<td>16</td>
<td>6.25</td>
<td>12.5</td>
</tr>
<tr>
<td>Group 4</td>
<td>20</td>
<td>5</td>
<td>10</td>
</tr>
</tbody>
</table>

## B. Intangible Asset

<table>
<thead>
<tr>
<th>Group</th>
<th>Useful Life (Years)</th>
<th>Straight Line (%)</th>
<th>Declining Balance (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group 1</td>
<td>4</td>
<td>25</td>
<td>50</td>
</tr>
<tr>
<td>Group 2</td>
<td>8</td>
<td>12.5</td>
<td>25</td>
</tr>
<tr>
<td>Group 3</td>
<td>16</td>
<td>6.25</td>
<td>12.5</td>
</tr>
<tr>
<td>Group 4</td>
<td>20</td>
<td>5</td>
<td>10</td>
</tr>
</tbody>
</table>

**Tax base**

The tax base on a corporate is any income from:
- the business or activities, and from the assets owned or controlled,
- any income of the head office from the business or activities, sales of goods, or services rendered in Indonesia, and
- Any income received or accrued by the head office, as long as there is an effective relationship between the permanent establishment and the assets or activities that provide such income.

The costs related to the income may be deducted from the income of the corporate.
**Tax rates**

The corporate tax rate commencing fiscal year 2010 is 25%. Micro, small and medium business (MSMEs/UMKM) with a turnover of less than Rp 50 billion a year are entitled to a tax discount of 50% off the normal rate for turnover of up to Rp 4.8 billion. Companies that list at least 40% of their shares on the Indonesia Stock Exchange will have a tax cut of 5% from the top rate, providing them with an effective tax rate of 20% commencing fiscal year 2010.

Other than corporate income tax, for a permanent establishment (PE), there is also a branch profit tax at 20%, or referring to the Double Tax Treaty rate, which is calculated from net Income after tax.

At the end of the year, deductions shall be made from the tax liability for the relevant fiscal year’s tax credits, in the form of:

- Withholding tax on income from any work.
- Tax collection on income from any activity in the import sector or any other business.
- Withholding tax in the form of dividend, interest, royalty, rent, prize, and award, and compensation for service.
- Tax paid or due on income from abroad that may be credited.
- Payment made by the taxpayer.

**Inter-company pricing**

Article 18 of the Income Tax Law and article 2 of the Value Added Tax Law provide rules relating to transfer pricing that can be summarized as follows:

- The Director General of Taxation is authorized to re-stipulate amounts of income and deductions for taxpayers that have special relationships
- The Director General of Taxation is authorized to make agreements with taxpayers and cooperate with tax authorities of other countries to determine transaction prices between parties having special relationships

While Indonesia adopts a self-assessment system, taxpayers are, however, required to include any transfer price information in their tax returns. Commencing 2007, a mandatory requirement for taxpayers to maintain and retain the formal documentation for transfer pricing was put in place by Government Regulation. From fiscal year 2009, a new form for
corporate income tax return was introduced that requires taxpayers to provide more detailed information for transfer pricing. This enables the tax authorities to obtain the transfer price information from the tax return. Taxpayers are also required to prepare the transfer pricing documentation. Furthermore, as the tax audit provides the authorities with an important means of assessing compliance under the self-assessment system, there is always a strong likelihood that explanations and details of related party transactions will be demanded during tax audits.

While there is currently no separate tax audit or audit teams in Indonesia to review only transfer pricing, in practice the tax authorities are increasingly focusing on transfer pricing issues in tax audits, with large tax corrections related to these issues being proposed in many cases. Transfer pricing is included as one of the review items in the general tax audit (covering overall corporate and value added tax etc). Examples of transfer pricing issues that have commonly arisen in past general tax audits include:

a. Processing fee of toll manufacturer/selling price of contract manufacturer
b. Third party domestic selling price vs. related party export price
c. Various service fees (e.g. management fee, technical assistance fee to parent company)
d. Royalty
e. Free/low interest parent loan

The processing fee in (a) and various payments under (c) and (d) are also subject to value added tax, thus the tax authorities will scrutinize these types of transfer prices for both corporate tax and value added tax purposes. Besides the transfer price risk, activities of toll manufacturing subsidiaries have been deemed to create permanent establishments (PE) of parent companies in recent tax audit cases. Thus a PE risk also needs to be considered in adopting a toll manufacturing structure. To minimize the PE risk, it may be advisable to consider a contract manufacturing structure rather than a toll one, although the transfer price risk still exists with either structure.

**Returns and payment**

If the tax liability in a fiscal year appears to be less than the amount of tax credit, after audit, the tax overpayment will be refunded after being calculated with the other tax liabilities and their sanctions.

If the tax liability in a fiscal year appears to be larger than the tax credit, the underpayment of tax liability must be paid before the annual tax return is filed, for which the deadline is four months after the closing of the book year.
7. **Personal taxation**

*Scope of taxation*

For taxation purposes, an individual is classified as ‘resident’ or ‘non-resident’. An individual is considered a resident taxpayer if staying in Indonesia for more than 183 days in any 12-month period, or if intending to reside in Indonesia. Naturally, if the individual comes from a treaty country, the determination of tax residency shall be based on the provisions of the relevant tax treaty.

Both resident and non-resident taxpayers are subject to national income tax (Indonesia has neither federal nor state income tax). Residents are taxed on their worldwide income and are generally allowed a credit for taxes paid abroad, whereas non-residents are taxed only on their Indonesian-source income.

*Taxable Income*

Any increase in economic prosperity received or accrued by a resident taxpayer, whether originating from within or outside Indonesia, that may be used for consumption or to increase the recipient’s wealth in whatever name and form is taxable. This includes wages, salary, commission, bonuses, lottery prizes, interest, dividends, etc.

Special tax treatment applies to the following income:

- Benefits-in-kind are not taxable unless provided by a body that is not an Indonesian taxpayer (e.g. a representative office).
- Interest income from Indonesian banks is generally subject to final withholding tax of 20%.
- Certain other income is also subject to final tax. This includes rental of land or buildings (10% final tax on the gross proceeds), capital gains from the sale of shares listed on an Indonesian stock exchange (0.1% final tax on the gross proceeds).
proceeds, plus an additional 0.5 % for founder shares), and income from the sale of land or buildings (5% final tax on the gross proceeds).

- Lottery prizes are taxable in Indonesia at 25%.

**Tax rates**

Employees are subject to withholding tax from their remuneration. Those who are self-employed or who have other income, pay monthly estimated taxes as well. Previously, employees with only one source of employment income did not need to file a tax return. However, under the new laws effective 1 January 2001, an individual whose income exceeds the non-taxable threshold is required to file an annual personal tax return.

Below are the applicable individual tax rates:

<table>
<thead>
<tr>
<th>Income Range (Rupiah)</th>
<th>Tax Rate (%)</th>
<th>Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For Individual With Tax ID Number</td>
<td>For Individual Without Tax ID Number</td>
</tr>
<tr>
<td>Up to 50 million</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>50 million-250 million</td>
<td>15</td>
<td>18</td>
</tr>
<tr>
<td>250 million-500 million</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>more than 500 million</td>
<td>30</td>
<td>36</td>
</tr>
</tbody>
</table>

**Deductions from income**

Individuals are allowed to deduct from their employment income occupational costs of 5% of gross income (up to a maximum of Rp. 6,000,000 {about US$600}) a year and contributions to an approved pension fund. No other deductions from employment income are allowed.

If an individual’s source of income is a personal business, the same general deduction rules apply as for a corporation, provided that the individual maintains adequate bookkeeping.
An individual is also entitled to an exemption for dependents. The exemption varies based on the number of dependents, as shown in the following table:

<table>
<thead>
<tr>
<th>Status</th>
<th>Exemption (Rupiah)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>24,300,000</td>
</tr>
<tr>
<td>Married</td>
<td>Plus 2,025,000</td>
</tr>
<tr>
<td>Additional dependents (max. of 3) with self-employed or working spouse</td>
<td>Plus 2,025,000 each</td>
</tr>
<tr>
<td></td>
<td>Plus 24,300,000</td>
</tr>
</tbody>
</table>

**Tax benefit for foreigners**

Payment to non-residents of the countries with which Indonesia has concluded a Double Tax Agreement (DTA) may be subject to a tax rate reduction or possible exemption.

To take advantage of treaty relief, the non-resident has to obtain from its own competent authority a Certificate of Domicile/Certificate of Residence (COD/COR) and present it to the Indonesian taxpayer in order to enjoy a reduced withholding rate or exemption. In addition, foreign taxpayers are also obligated to complete the DGT forms in order to be able to enjoy the tax treaty benefit.

Circular No. SE-13/PJ.43/2000, dated 30 May 2000, requires foreign nationals residing in Indonesia to register and file income tax returns with the BADORA tax office and tax offices having jurisdiction over their domicile, respectively. It should be noted that under the new tax law, expatriates would effectively be required to register for tax and file individual income tax returns. The tax office will enforce the tax registration and filing of tax returns by individuals.

**Tax registration**

Each taxpayer needs a tax identification number (NPWP), which is a number issued by the tax office to identify taxpayers and enable them to fulfil their tax obligations.

The taxpayer is obligated to register at the tax office in the district in which they resides (article 2- paragraph (1) law No. 28 Year 2007) by submitting the following documents:

- Registration and change of data form
- Copy of passport
- Copy of limited stay permit card (KITAS)
- Copy of work permit (for a taxpayer who is an employee)
- Copy of tax identification number of the employer (for a taxpayer who is an employee)
- Power of attorney (if his/her registration process is carried out by another party)
- Copy of business permit (for a taxpayer who is conducting business or is an independent professional)

An individual taxpayer who is an entrepreneur as defined in the Decision of Director General of Taxation No. KEP-171/PJ/2002, is an individual who has several places of business activity, excluding selling of vehicles, and restaurants. Such a person is obligated to register their place of business activities as follows:

- A taxpayer who has several places of business activities in one operational area of the tax office must register each place of business with said tax office.
- Taxpayers who have several places of business activities located in the districts of several tax offices must register each place of business with each related tax office.

**Social security**

JAMSOSTEK is a compulsory provision in respect of employees of a company with a minimum of 10 employees, or for employees receiving a monthly salary of Rp. 1,000,000 net or more. This covers the following (compulsory) per cent deduction per month:

(a) Work accident insurance: 0.24% to 1.74 % (five different tariffs depending on work safety conditions)

(b) Death insurance: 0.30 %

(c) Old age insurance: 3.70% paid by company and 2.00% paid by the employee (deducted from net salary).

(d) Health insurance: 3.00 % for personal coverage; 6.00 % for family [not compulsory]

The above scheme is not compulsory for expatriates provided that they have equal or better coverage in Indonesia or their home country.
8. Double taxation agreements

Indonesia has Double Tax Treaties with a number of countries. All funds are included in the definitions of persons to which treaty protection applies. However, restrictions on funds assets mean that treaties only affect funds to the extent that the fund participants and shareholders may benefit. Indonesia currently has 65 tax treaties in operation.
<table>
<thead>
<tr>
<th>No</th>
<th>COUNTRY</th>
<th>INTEREST</th>
<th>ROYALTIES</th>
<th>PORTFOLIO</th>
<th>SUBSTANTI AL HOLDING</th>
<th>BRANCH PROFIT TAX</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Algeria</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>2</td>
<td>Australia</td>
<td>10%</td>
<td>10/15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>3</td>
<td>Austria</td>
<td>10%</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>4</td>
<td>Bangladesh</td>
<td>10%</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>5</td>
<td>Belgium</td>
<td>10%</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>6</td>
<td>Bhutan-Darussalam</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>7</td>
<td>Bulgaria</td>
<td>10%</td>
<td>10%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>8</td>
<td>Canada</td>
<td>10%</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>9</td>
<td>Czech</td>
<td>12.5%</td>
<td>12.50%</td>
<td>15%</td>
<td>10%</td>
<td>12.50%</td>
</tr>
<tr>
<td>10</td>
<td>China</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>11</td>
<td>Croatia-****</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>12</td>
<td>Denmark</td>
<td>10%</td>
<td>20%</td>
<td>10%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Egypt</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>14</td>
<td>Finland***</td>
<td>10%</td>
<td>10/15%</td>
<td>15%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>15</td>
<td>France</td>
<td>15/10%</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>16</td>
<td>Germany*</td>
<td>10%</td>
<td>10/15%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>17</td>
<td>Hong Kong-*****</td>
<td>10%</td>
<td>5%</td>
<td>10%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>18</td>
<td>Hungary***</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>19</td>
<td>India</td>
<td>10%</td>
<td>15%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>20</td>
<td>Iran</td>
<td>10%</td>
<td>12%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>21</td>
<td>Italy</td>
<td>10%</td>
<td>10/15%</td>
<td>15%</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>22</td>
<td>Japan</td>
<td>10%</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>23</td>
<td>Jordan***</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>24</td>
<td>Korea (South)**</td>
<td>10%</td>
<td>15%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>25</td>
<td>Korea (North)</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>26</td>
<td>Kuwait</td>
<td>5%</td>
<td>20%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>27</td>
<td>Luxembourg*</td>
<td>10%</td>
<td>12.50%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>28</td>
<td>Malaysia****</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>12.50%</td>
</tr>
<tr>
<td>29</td>
<td>Mauritius</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>30</td>
<td>Mongolia</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>31</td>
<td>Morocco****</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>32</td>
<td>Netherlands</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>33</td>
<td>New Zealand***</td>
<td>10%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>34</td>
<td>Norway</td>
<td>10%</td>
<td>10/15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>35</td>
<td>Pakistan*</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>36</td>
<td>Papua New Guinea****</td>
<td>10%</td>
<td>10%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>37</td>
<td>Philippines</td>
<td>15/10%</td>
<td>15%</td>
<td>20%</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>38</td>
<td>Poland</td>
<td>10%</td>
<td>15%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>39</td>
<td>Portugal</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>40</td>
<td>Qatar</td>
<td>10%</td>
<td>5%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>41</td>
<td>Romania</td>
<td>12.5%</td>
<td>12.5%</td>
<td>15%</td>
<td>12.50%</td>
<td>12.50%</td>
</tr>
<tr>
<td>42</td>
<td>Russia</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>12.50%</td>
</tr>
<tr>
<td>43</td>
<td>Seychelles***</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>44</td>
<td>Singapore</td>
<td>10%</td>
<td>15%</td>
<td>15%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>45</td>
<td>Slovakia</td>
<td>10%</td>
<td>10/15%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>46</td>
<td>South Africa***</td>
<td>10%</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>47</td>
<td>Spain</td>
<td>10%</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>48</td>
<td>Sri Lanka</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>49</td>
<td>Sudan</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>50</td>
<td>Suriname*****</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>51</td>
<td>Sweden</td>
<td>10%</td>
<td>10/15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>52</td>
<td>Switzerland</td>
<td>10%</td>
<td>12.5%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>53</td>
<td>Syria</td>
<td>10%</td>
<td>15/20%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>54</td>
<td>Taiwan / Taiwan</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>55</td>
<td>Thailand</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>56</td>
<td>Turkey</td>
<td>12%</td>
<td>15%</td>
<td>15%</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>57</td>
<td>Turkey</td>
<td>10%</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>58</td>
<td>UAE (United Arab Emirates)</td>
<td>5%</td>
<td>5%</td>
<td>10%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>59</td>
<td>Ukraine</td>
<td>10%</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>60</td>
<td>United Kingdom</td>
<td>10%</td>
<td>10/15%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>61</td>
<td>United States of America</td>
<td>10%</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>62</td>
<td>Uzbekistan</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>63</td>
<td>Venezuela*</td>
<td>10%</td>
<td>20%</td>
<td>15%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>64</td>
<td>Vietnam</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>65</td>
<td>Zimbabwe****</td>
<td>10%</td>
<td>15%</td>
<td>20%</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

** Tax rates apply to sourced income only, except Singapore, which applies tax on all income.

*** Tax rates apply to sourced income only, except Portugal, which applies tax on all income.

**** The treaty is silent concerning the branch profit tax rate. The ITO interprets this to mean that the tax rate under Indonesian Tax Law (20%) should apply.

***** Ratified but not yet effective, pending the exchange of ratification documents

**** Ratified but not yet effective, pending the exchange of ratification documents.

Effective date is 1 January 2013.
9. Sales and use taxes

Value added tax

Value added tax applies to the import and delivery of most goods and services. Insurance and banking services are not subject to VAT. VAT is collected at a standard rate of 10%. This may increased to 15% or decreased to 5% based on the relevant Government regulation. VAT on the export of taxable goods is fixed at 0%. Export services are also subject to 0% VAT with certain limitations applied.

Taxpayers are required to file returns with details of all output and input VAT in the month following its occurrence. The net output VAT should be settled before the VAT report is submitted to the tax office by the end of the month following. An excess of input VAT may be carried forward. Refunds may be applied for in the case of chronic overpayments. Suppliers who trade with so-called ‘VAT collectors’ will not collect VAT from their customers or clients. The VAT is then paid directly to the State Treasury. Such suppliers may be in a constant overpayment situation and have to seek regular refunds. VAT has become a major source of revenue for the government.

1) General transactions

On general transactions, the tax rate of 10% shall be imposed on supply of goods or services under the following circumstances:

a. The tangible or intangible goods supplied are taxable goods.

b. Import of taxable goods.

c. Delivery of taxable services.

d. Utilization of intangible goods from outside the customs area within the customs area.
e. Supply is carried out within the customs area.

f. Supply is conducted in the course of business or work of the firm concerned.

2) Zero-rated transactions
VAT on the export of taxable goods is fixed at 0%. Export services are also subject to 0% VAT with certain limitations applied.

3) Exempt transactions
Types of goods that are not subject to value added tax are based on the following categories:

a. Products of mining and drilling, taken directly from the source.

b. Daily necessities needed by the public.

c. Food and beverages served in hotels, restaurants and other such places including food and beverages take-away and delivery by the catering provider

d. Money, gold and valuable documents.

The determination of types of services that are not subject to value added tax are based on the following fields of activity:

a. Health care

b. Social welfare

c. Postal delivery

d. Financial services

e. Insurance services

f. Religion

g. Education

h. Culture and entertainment that has been subject to entertainment tax

i. Broadcasting, not including advertising

j. Shipping and inland public transportation

k. Manpower
l. Hotels

m. Rendering of services by the government in efforts to undertake governance in general

n. Parking

o. Public coin-operated telephones

p. Money delivery via giro

q. Catering

Customs tax

Most duties are in the 5% to 40% range, the minimum rate being 0% and the maximum 150%.

Indonesia has no rules for minor imports of goods and services, VAT and customs duty being imposed on all goods irrespective of their value. Likewise VAT will be imposed on the import of services irrespective of their value. No changes are foreseen in this area despite the fact that the availability of e-commerce transactions will lead to an increase in low value cross-border trade.

Transfer of title

Transfer of title tax is payable on the acquisition of rights to property (land and buildings), and the tax tariff is stipulated at 5%.

Property and land tax

Tax is imposed on individuals, companies or organizations that have certain rights to or obtain benefits from land, or possess, control or obtain benefits from ownership of land and buildings. The tax is based on the sale value of the land and buildings as determined by the Ministry of Finance. Land value is reassessed every three years in most areas and every year in rapidly developing areas. The current effective tax rate on land and buildings is 0.5% of the taxable sale value.
Sales tax on luxury goods

Sales taxes also include 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. Rates range from 10% to 75%.

Government Regulation No. 145/2000 dated 22 December 2000 as last amended by Government Regulation No. 12/2006 dated 15 April 2006 details various goods subject to sales tax at rates ranging from 10% to 75%. It is apparent that the sales tax base has been broadened. In addition, the rate applicable to many types of goods has been increased. For example:

- Housing with floor space over 400m$^2$ or electricity usage of more than 6,600 watts, apartments, condominiums and town houses are now subject to 20% (previously 10%).
- Perfume is subject to 20% (previously 10%).
- Helicopters and aircraft are now subject to 50% (previously 35%).

The maximum rate of sales tax has increased to 75%. Examples of goods subject to this maximum rate are:

- Sedans/station wagons/vans with spark or compression ignition internal combustion reciprocating piston engines exceeding 3,000 cc with seating capacity of less than 10 persons
- Certain types of liquor and wine
- Luxury yachts
- Jewelry and anything made from precious stones or pearls

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 special ‘lex specialist’ rules. Rates of tax vary according to the generation of each respective contract.
10. Portfolio investment for foreigners

Expatriates living in Indonesia are fully taxable on their portfolio investments derived from whatever sources. This includes:

- **Dividends**: 15%
- **Interest**: 15%

**Capital gains**

<table>
<thead>
<tr>
<th>Income Range (Rupiah)</th>
<th>Tax Rate (%)</th>
<th>Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Individual With Tax ID Number</td>
<td>Individual Without Tax ID Number</td>
</tr>
<tr>
<td>Up to 50 million</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>50 million-250 million</td>
<td>15</td>
<td>18</td>
</tr>
<tr>
<td>250 million-500 million</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>more than 500 million</td>
<td>30</td>
<td>36</td>
</tr>
</tbody>
</table>

- **Rental Income (real estate)**: 10%

Expatriates non-resident in Indonesia for tax purposes are subject to withholding tax on their portfolio investments, which include:

- **Dividends**: 20% or treaty rate
<table>
<thead>
<tr>
<th>Type</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>20% or treaty rate</td>
</tr>
<tr>
<td>Capital gains</td>
<td>20% or treaty rate</td>
</tr>
<tr>
<td>Rental income (real estate)</td>
<td>20% or tax treaty</td>
</tr>
</tbody>
</table>
11. Trusts

There is no concept of indirect or beneficial ownership in Indonesia. Indonesia will only look at the direct ownership in determining tax. Foreign trusts would be treated as a separate legal entity for local tax purposes.

Nevertheless, Indonesia does have a separate law dealing with foundations, or what are commonly called Yayasans. Recent changes in legislation require these to be for certain charitable, educational, religious or other not-for-profit purposes, in which case they can be considered as tax exempt entities.
12. Practical information

Transportation

Taxis with meters are commonly available in Jakarta. The largest and safest taxi company is called Blue Bird.

There are airports in all major cities of Indonesia that are served by frequent scheduled flights of state-owned airline company Garuda, plus some private operators. Tokyo, Taipei, Seoul, Beijing, Shanghai, Guangzhou, Hong Kong, Manila, Ho Chi Minh City, Singapore, Kuala Lumpur, Bangkok, Dubai, Sydney and Perth have daily flights to Jakarta, Surabaya and Denpasar (Bali).

Languages

Bahasa Indonesia (the national language, a form of Malay) has spread throughout the archipelago and has become the language of most written communication, education, government, and business. Local languages are still important in many outlying areas however. English is the most widely spoken foreign language.

Time relative to Greenwich Mean Time

- Sumatra, Java and West & Central Kalimantan are 7 hours ahead of Greenwich Mean Time (GMT+7)
- Bali, Nusa Tenggara, South & East Kalimantan and the Celebes (Sulawesi) are 8 hours ahead of Greenwich Mean Time (GMT+8)
Irian Jaya (Papua) and the Moluccas (Ambon) are 9 hours ahead of Greenwich Mean Time (GMT+9)

**Business hours**

**Private office hours:** Monday-Friday, 08:30 – 17:30

**Government office hours:** Monday-Thursday, 08.00 – 16.00; Friday, 08.00 – 15.00

**Public holidays**

Specified public holidays for 2014 are as follows (* variable):

- **Wednesday, 1 January** New Year’s Day
- **Saturday, 3 January** Birthday of the Prophet Mohammad
- **Thursday, 19 February** Chinese New Year
- **Friday, 21 March** Seclusion Day
- **Friday, 3 April** Good Friday
- **Friday, 1 May** Labour Day
- **Thursday, 14 May** Ascension Day
- **Saturday, 16 May** Isra’ Mi’raj Day
- **Tuesday, 2 June** Vesak Day
- **Friday, 17 July & Saturday, 18 July** Idul Fitri
- **Monday, 17 August** Independence Day
- **Thursday, 24 September** Idul Adha
- **Wednesday, 14 October** Islamic New Year
- **Friday, 25 December** Christmas Day
Communal leave schedule:

Idul Fitri Communal Leave on 16, 20 and 21 July

Christmas communal leave on 24 December

**Websites of Interest**

Moores Rowland Indonesia  [www.moores-rowland.com](http://www.moores-rowland.com)

Praxity  [www.praxity.com](http://www.praxity.com)

Central Bank of Republic of Indonesia  [www.bi.go.id](http://www.bi.go.id)

The Investment Coordinating Board  [www.bkpm.go.id](http://www.bkpm.go.id)

Jakarta Stock Exchange  [www.jsx.co.id](http://www.jsx.co.id)

Central Bureau of Statistics  [www.bps.go.id](http://www.bps.go.id)

Directorate General of Taxation  [www.pajak.go.id](http://www.pajak.go.id)

Directorate General of Customs & Excise  [www.beacukai.go.id](http://www.beacukai.go.id)

National Development Planning Agency  [www.bappenas.go.id](http://www.bappenas.go.id)

Capital Market Executive Agency  [www.bapepam.go.id](http://www.bapepam.go.id)

Department of Trade  [www.depdag.go.id](http://www.depdag.go.id)

Department of Industry  [www.dprin.go.id](http://www.dprin.go.id)

Department of Foreign Affairs  [www.deplu.go.id](http://www.deplu.go.id)

National Portal of Indonesia  [www.indonesia.go.id](http://www.indonesia.go.id)