Moores Rowland

Business and Taxation Guide to

INDONESIA

PRAXITY™
Empowering Business Globally

Preface

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

Contents

General Information ... 4
Regulation on foreign investment ... 8
Government Incentives ... 9
Business organizations available to foreigners ... 14
Setting up and running business organizations ... 17
Corporate taxes and social charges ... 20
Personal taxation ... 28
Double taxation agreements ... 32
Sales and use taxes ... 35
Portfolio investment for foreigners ... 40
Trusts ... 41
Practical information ... 42

General Information

Indonesia Economic and Investment Overview

The Indonesian economy continued to recover in 2021 despite moderating due to the COVID-19 Delta variant wave mid-year. Bank Indonesia projects national economic growth in 2022 to be in the 4.7-5.5% range, up from 3.2-4.0% in 2021. This growth is driven by ongoing global economic improvements that are driving solid export performance, coupled with growing domestic demand in terms of consumption and investment. This is supported by a faster vaccination rollout, reopening of economic sectors and policy stimuli. The projection assumes that Indonesia will avoid another severe COVID-19 spike, achieve 70% vaccine coverage in 2022 in most provinces, and maintain accommodative monetary and fiscal policies. It also assumes that global trade growth and commodity prices will moderate.

The Indonesian government is committed to recovering from COVID-19 by providing nine action plans and incentives. On 31 July, 2020 some incentives related to COVID-19 were introduced under Minister of Finance Regulation or PMK-86/2020 on Tax Incentives for Taxpayers Impacted by COVID-19, PMK-28/2020 on Granting Tax Facilities on Goods and Services required to handle COVID-19, and Government Regulation or PP-29 on Income Tax Facilities in Handling COVID-19.

In addition, on 2 November, 2020, President Jokowi signed into law Law No. 11/2020 on Job Creation (or the "Omnibus Law" as it is popularly referred to). The law amends some existing sectoral laws and is divided into sections or clusters. One of the clusters which deals with taxation is intended to amend articles in the VAT Law, Income Tax Law, General Taxation Law and laws on regional taxation and retribution.

Building infrastructure connectivity remains the focus of the country's National Medium Term Development Plan (RPJMN). The Government introduced its "Industry 4.0" initiative which seeks to accelerate the use of advanced technologies to broaden and grow Indonesia's manufacturing capabilities and output. Another focus area for the Government is the continuing development of dedicated industrial estates, or Special Economic Zones, as part of its efforts to attract foreign companies to relocate their operations to Indonesia.

Low and under control inflation within the 3.0%±1% target corridor in 2022 will be supported by increasing national production capacity through efficiency and productivity gains to meet higher aggregate demand in the economy. The digital economy and finance will also expand quickly. In 2022, the value of e-commerce transactions is projected to reach Rp530 trillion, with electronic money predicted at Rp337 trillion and digital banking expected to exceed Rp48,000 trillion.

While this is just a short-term measure, it does not deflect from the contention that policies are needed to address the narrow tax base, low number of taxpayers, and weak compliance with tax laws in Indonesia. It is still a work in progress.

Indonesia offers political stability and a growing understanding of the areas in which improvement is most needed.

Indonesia may not be perfect, but it 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. Fragmented into more than 17,000 islands, the archipelago stretches more than 5,000 km from east to west, and with its complex geographical make-up and unique bio-geographical position plays host to an enormous diversity of ecosystems, as well as having a fascinating history and heritage.

In terms of human diversity, Indonesia ranks among the global leaders with some 336 distinct cultures being recognized. It is the fourth most populous country in the world after China, India, and the United States. Although home to the world's single largest Moslem population, the five principles (*Pancasila*) on which Indonesia's Constitution is based guarantee Christians, Hindus, Buddhists and other faiths the freedom to practice their beliefs.

Population: 270,203,917 (2020 census)

Annual population growth rate: 1.04% (2020 to 2021)

Ethnic groups (2010 census): Javanese 40.2%, Sundanese 15.5%, Batak 3.6%, Madurese 3.0%, Betawi 2.9%, Minangkabau 2.7%, Bugis 2.7%, others 29.4%.

Religions (2018): Moslem 86.7%, Protestant 7.6%, Catholic 3.12%, Hindu 1.7%, Buddhist 0.8%, Confucius 0.03% and other 0.4%.

Area: circa 1.91 million sq. km. (737,000 sq. mi.), about three times the size of Texas; maritime area: 7,900,000 sq. km. (inclusive of the government-claimed exclusive economic zone).

Cities: Jakarta, the capital city (est. 10 million). Other cities: Surabaya 3 million, Bekasi 2.5 million, Bandung 2.4 million, Medan 2.4 million, Depok 2 million, Tangerang 1.9 million, Palembang 1.6 million, Semarang 1.6 million, and Makassar 1.4 million, plus up to an additional 3.5 million live in the surrounding areas of each city. Jakarta is located 400 km south of the equator.

Terrain: More than 17,000 islands, nearly 9,000 of which have been named according to government estimates, with over 900 being permanently inhabited. In general, the larger islands consist of coastal plains with mountainous interiors.

Climate: Equatorial, but cooler in the highlands. In the coastal plains, average high temperatures vary between 27ºC and 33ºC depending on season and location, with lows rarely dropping much below 23ºC. These temperatures are somewhat lower inland and drop roughly 1ºC per each 90-meter rise in elevation. Indonesia has two main seasons, a wet season running from November to April and a dry season from May to October, although the timing of these can be disrupted due to the El Nino effect.

Constitution, political structure, and legal system

Indonesia is a republic whose constitution was promulgated on its independence day of 17 August, 1945. The country is divided into 34 provinces and 529 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 575 members and the House of Regional Representatives (Dewan Perwakilan Daerah/DPD) that has 136 elected members. The DPR and DPD are elected every five years. The last legislative elections were held in June 2019.

The president is elected by direct voting every five years. In June 2019, President Joko Widodo was re-elected with 56% of the vote.

The president has strong powers and is assisted by a vice-president. The current vice-president is H. Ma'ruf Amin (2019-2024). 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).

While former Dutch colonial law still prevails to a large degree, presidential decrees have increasingly amended those laws in many fields.

Economic situation

Indonesia faced a recession in 2020, when economic growth collapsed to −2.07% due to the COVID-19 pandemic. This was the worst growth since the 1997 financial crisis. After the highs experienced in 2013 and 2014, the inflation rate was brought under control in 2021 and fell to a yearly 1.79%.

The Rupiah (Indonesian currency) to US$ conversion rate stands at 14,323 and the conversion rate to Euro, meanwhile, is situated at 16,234.

Based on GDP, Indonesia is currently ranked 16th in the world (2021), after Brazil, Spain and Mexico and before the Netherlands, Switzerland and Saudi Arabia.

Banking and finance

There are 121 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 Q1 2021 the top five Indonesian banks ranked by total assets were: Bank Mandiri (Rp 1,584.07 trillion), BRI (Rp 1,411.05 trillion), BCA (Rp 1,090.38 trillion), BNI (Rp 862.44 trillion) and BTN (Rp 375.73 trillion).

The ten largest foreign banks classified by size of total assets are: MUFG, HSBC, Citibank, Standard Chartered, Deutsche Bank, JP Morgan Chase, Bangkok Bank, Bank of China, Bank of America.

Classification of banks

According to statistics provided by the Central Bank of Indonesia, banks and financial institutions consist of:

***Commercial banks**: 121, consisting of:*
(a.) State banks : 4
(b.) Private national banks: 117
Of which:

- Regional government banks: 26
- Private national banks: 86 (of which: foreign banks and joint venture banks: 26)
- Islamic commercial banks: 11 fully-fledged Islamic banks. At the same time Indonesia has 23 Islamic banking units and 160 Islamic rural banks

***Rural banks (BPR)**: 1,683*

Finance and securities companies: 259

Regulation on foreign investment

The legal aspects to be considered when setting up investments:

Foreign direct investment:

Foreign investment for business purposes in Indonesia is usually conducted through what is referred to as a *Penanaman Modal Asing* (PMA) company, with a foreign investor using foreign capital, and/or in partnership with a domestic investor. Foreign investment is governed under Capital Investment Law No. 25 year 2007 and Job Creation Law No. 11 year 2020, in conjunction with Government Regulation No. 5 year 2021 on Implementation of Risk-Based Licensing, and Presidential Regulation No. 10 of 2021 on Investment Line of Business.

Application and approval procedures:

- To invest in Indonesia, an investor should first consult the so-called 'Positive List for Investment' (*Daftar Positif Investasi*). This list contains the business sectors that are open to foreign investors, provided that certain requirements are met.

- To set up a foreign investment company (a PMA), a Deed of Establishment along with a notarized Article of Association must be submitted for approval by the Ministry of Law and Human Rights (MoLHR) through the *Administrasi Hukum Umum* (AHU) website. After the submission to the AHU is complete, the MoLHR will issue the approval decree.

- Once the registration process is complete, the Deed of Establishment must be announced in the State Gazette of RI by a public notary.

- Once MoLHR approval is granted the limited liability company is then legally established in Indonesia as a 'PT'. The company data will be integrated into the Online Single Submission (OSS) system. Investors must also apply for a *Nomor Pokok Wajib Pajak* (NPWP)/Taxpayer Identification Number to apply for a *Nomor Induk Berusaha* (NIB)/Business Identification Number, and other business licenses through the OSS system.

Once the steps for a NPWP, NIB, and business license are complete, a company and its investors may begin to conduct business.

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.
  Applies to imports of machinery exclusive of spare parts and imports of raw materials (certain exceptions apply). Companies who wish to qualify for the relief are required to submit an application to the Investment Coordinating Board (BKPM).

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 transport 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 on the following 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 as stipulated by the Government in 2019 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, coffee processing outside Jakarta, 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. Tax Holiday for Pioneer Industries, under the following conditions:

- Only applies to new investments;
- In “pioneer” industries (industries that are strategic to the national economy). Eighteen industry sectors are eligible under the policy, such as integrated upstream basic metal, integrated oil and gas refiners, integrated inorganic basic chemicals, etc.;

- Having a minimum capital investment of IDR 100 billion (equivalent to approximately USD 7 million) that has been approved by the Investment Coordinating Board (BKPM);
- The tax holiday is an exemption from corporate income tax for a minimum of five years up to a maximum of 20 years, starting from the commencement of commercial production, and after the expiry of such period, an additional incentive of a 25% or 50% reduction from the corporate income tax payable will be granted for another two-year period.

The tax facilities under the regulation are outlined below:

<table>
<tr><th rowspan="2">Provision</th><th colspan="2">Capital Investment Plan</th></tr>
<tr><td>IDR 100 bn to < IDR 500 bn (New)</td><td>≥ IDR 500 bn</td></tr>
<tr><td>Corporate Income Tax (CIT) reduction rate</td><td>50%</td><td>100%</td></tr>
<tr><td>Concession period (from the start of commercial production)</td><td>5 years</td><td>5 – 20 years, depending on the investment value:
<table>
<tr><th>No.</th><th>Investment (in IDR)</th><th>Period (in years)</th></tr>
<tr><td>1</td><td>500 billion up to < 1 T</td><td>5</td></tr>
<tr><td>2</td><td>1 T up to < 5 T</td><td>7</td></tr>
<tr><td>3</td><td>5 T up to < 15 T</td><td>10</td></tr>
<tr><td>4</td><td>15 T up to < 30T</td><td>15</td></tr>
<tr><td>5</td><td>≥ 30 T</td><td>20</td></tr>
</table></td></tr>
<tr><td>Transition</td><td>25% CIT reduction for the next 2 years</td><td>50% CIT reduction for the next 2 years</td></tr>
</table>

f. Tax holiday to boost investment on labor intensive industry and R&D activities

In June 2019, Government Regulation (PP) No. 45/2019 was issued to boost investment, research and development (R&D), as well as the participation of businesses in improving Indonesia’s human resources. Under this regulation, which is an amendment of Government Regulation No. 94/2010, taxpayers can enjoy a tax deduction of up to 300%.

A summary of the incentives is as follows:

Type	Criteria of taxpayer
Corporate Income tax holiday or reduction for certain amount and timing	Taxpayers that invest in pioneer industries
Reduction of net income by 60% of total investment in fixed asset	Domestic corporate taxpayers that open a new business or expand their existing businesses in labor-intensive sectors
Reduction of gross income up to 200% of total spending for working programs, internships and/or educational activities	Domestic corporate taxpayers that perform working programs, internships and/or educational activities with respect to training and developing human resources based on certain competencies
Reduction of gross income up to 300% of total spending for research and development (R&D)	Domestic corporate taxpayers that perform certain research and development activities in Indonesia

Corporate tax and income tax

Income tax is applied to resident corporations and individuals on most sources of increased 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, shares traded via stock exchanges, etc.

Dividends

Income tax is not payable on dividends from Indonesian corporations provided that: 1) It is paid to resident individual taxpayers who reinvest in Indonesia within certain period, or 2) paid to resident corporate taxpayers.

Final income tax at a maximum rate of 10% is imposed on dividends received by resident individual taxpayers who do not meet the reinvestment requirement.

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 2.5%. In addition, an Acquisition Duty of Rights on Land and Buildings of 5% is imposed on the property value after a non-taxable property sales value deduction.

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%. Starting April 2022, the rate will increase to 11%.

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

The Indonesian Rupiah is a free-floating currency and has no foreign exchange controls. However, it may not be remitted or traded abroad.

Business organizations available to foreigners

Liaison Office or Representative Office

General

Under Investment Coordinating Board regulations a foreign company may set up a representative office. Usually, a representative office may only perform auxiliary services such as 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. Setting up a representative office is currently regulated by Government Regulations No. 5 year 2021 on Implementation of Risk-Based Licensing, and in accordance with Investment Coordinating Board No. 4 year 2021 on Guidelines and Procedures for Risk-Based Business License Service and Investment Facility. The establishment of a representative office is currently done through Online Single Submission (OSS).

- **Foreign Representative Office / *Kantor Perwakilan Perusahaan Asing* (KPPA)**

  KPPA is a local representative of a foreign holding company. However, it is strictly forbidden to engage in commercial activities, generate revenues, and send invoices. This representative office is frequently utilized to understand the market, as a supervisor, liaison, and coordinator of the affiliated company, before investing and establishing a Foreign Investment Company (PMA).

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

  Similar with a KPPA, a KP3A is prohibited from conducting commercial activities, but may perform promotional and introductory activities for new products of the parent company; research and advise on the import of products into or export from Indonesia; advise and train customers on how to use their products; research the Indonesian market potential, and facilitate negotiations and signing of commercial contracts between the parent company and clients or suppliers.

- **Foreign Representative Office for Construction Services / *Kantor Perwakilan Badan Usaha Jasa Konstruksi Asing* (KPBUJKA)**

  KPBUJKA is a subsector of KPPA which is focused on construction services. There are three (3) types of construction service permits, as follows:

  a. Construction consulting services;
  b. Construction work;
  c. Integrated construction work

  Permits for a foreign representative office for construction services are issued by the OSS on behalf of the Minister of Law and Human Rights. A construction service foreign representative office can only provide construction services in high-risk, high-tech, and high-cost market segments.

  Indonesian laws and regulations require that the request for a foreign representative office permit be submitted by the Person in Charge of the Business Entity ("PJBU") as the leader, through the OSS system. Fulfilment of commitments for representative permits is evidenced by the ownership of SBUs with significant qualifications in accordance with the provisions in the country's laws and regulations. A KPBUJKA must form a joint operation with an Indonesian construction service business for each construction project.

Branch office

Generally, this designation is not in use.

Limited liability Company (PT)

A PT (Perseroan Terbatas) is a limited liability company commonly established for business 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 PT company's most important aspects, from incorporation through to dissolution. The notarial Deed of Establishment usually provides more details on matters pertaining to the PT such as the name of the company; its purpose; expected duration; domicile; amount of authorized capital; amount of each share; number of shares owned by the founders and management; the fiscal year; the rights and duties of its shareholders, 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. Several changes were made to Law No. 40 year 2007 after the enactment of Law No. 11 year 2020 on Job Creation.

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 Commissioners are responsible to a General Meeting of Shareholders.

- There is no limitation regarding the number of shareholders. Micro- and small business can be established by only one shareholder.

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

- There is no minimum requirement for issued, paid up and authorized capital after the enactment of Law No. 11 year 2020 on Job Creation Law.

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 company 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
- The maximum initial foreign shareholding is up to 100% for certain business activities
- Facilities are available for import duties, VAT on the purchase of capital goods and repatriation of funds, but not for the business service line

Setting up and running business organizations

Establishing and running a foreign-investment corporation

There are three phases for setting up a PMA company:

- Establishing the limited liability company through a notary with regard to the drafting and notarization of the Articles of Association, subsequent submission to the Minister of Law and Human Rights for approval, and publishing in the State Gazette.
- PMA application and submission of the application to OSS-BKPM through to completion on obtaining a NIB and business license.
- Obtaining other permits and licenses, including work permits for expatriates.

1. Formation of company:

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

2. Cost of formation

The range of fees for establishing a PMA company is between US$5,000 and US$ 9,000, depending on the complexity of the business sector. This excludes the VAT, notary fee and other administrative costs.

3. Capital

According to Investment Law No. 25 year 2007, and in accordance with Government Regulation 5 year 2021 on Implementation of Risk-Based Licensing, a company's capital consists of authorized, issued and paid-up capital.

The minimum amount of issued and paid-up capital required to establish a PMA company is more than one billion Rupiah (>Rp. 1.000.000.000), exclusive of buildings and land.

4. Share divestment

According to Indonesian laws and regulations, a PMA may be established as a direct investment or 100% foreign ownership company depending on whether or not the business activity is on the Positive List for Investment.

5. Transfer of shares

In the Articles of Association, there may be provisions that limit the transfer of shares. This could be 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 body. The transfer of shares in a PMA company is also subject to BKPM approval.

If 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 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 conducts its business, unless otherwise provided for in the Articles of Association.

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

7. Board of Directors

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

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, is determined at a GMS.

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 the right to temporarily suspend directors who neglect their duties, or whose actions do not in conform with the Articles of Association, or laws and regulations.

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, is determined at a GMS.

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, benefit in kind (BIK) unless exempt by Law.

Certain income is exempt from tax, such as dividends earned by a domestic corporation from another domestic corporation. Dividends from foreign corporation and/or domestic corporation received by a domestic corporation or domestic individual are exempt from tax under certain reinvestment criteria.

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.

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. Companies may choose to be taxed on the basis of a financial year other than the calendar year. Books of accounts 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 should appropriate approval be obtained. Annual filings should be lodged within four (4) months from the end of the fiscal 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 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, except for the provision of food and beverages for all employees, those necessary for performance of duties, or 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 consistently apply the depreciation method chosen. 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:

	Useful Life (Years)	Straight Line (%)	Double-declining Balance (%)
A. Tangible Asset			
Building			
- Permanent**	20	5	
- non-permanent	10	10	
Non-building			
Group 1	4	25	50
Group 2	8	12.5	25
Group 3	16	6.25	12.5
Group 4	20	5	10
B. Intangible Asset			
Group 1	4	25	50
Group 2	8	12.5	25
Group 3	16	6.25	12.5
Group 4**	20	5	10

** Permanent buildings and Intangible Assets with a useful life of more than 20 years are eligible for depreciation or amortization based on fiscal useful life or useful life per the taxpayer's books.

Tax base

The tax base for a corporation 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 corporation.

Tax rates

The corporate tax rate commencing fiscal year 2021 is 22%. Micro-, small- and medium-business (MSMEs/UMKM) with a turnover of less than Rp50 billion a year are entitled to a tax discount of 50% off the normal rate for turnover of up to Rp4.8 billion.

Government Regulation 23/2018 of June 2018 stipulates that for businesses with a turnover of less than IDR 4.8 billion, a final income tax rate of 0.5% from the turnover is imposed. Businesses who do not wish to be taxed using the regular corporate tax rate of 22% can opt-out by submitting a request letter to the tax office. With the enactment of HPP Law No. 7/2021, beginning in 2022 only a turnover of more than Rp500 million in a fiscal year is taxable. However this applies only to individual businesses as taxpayers, not corporations.

Companies that list at least 40% of their shares on the Indonesia Stock Exchange will have a tax cut of 3% from the top rate, providing them with an effective tax rate of 19% commencing fiscal year 2022.

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 in 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
- Payments made by the taxpayer

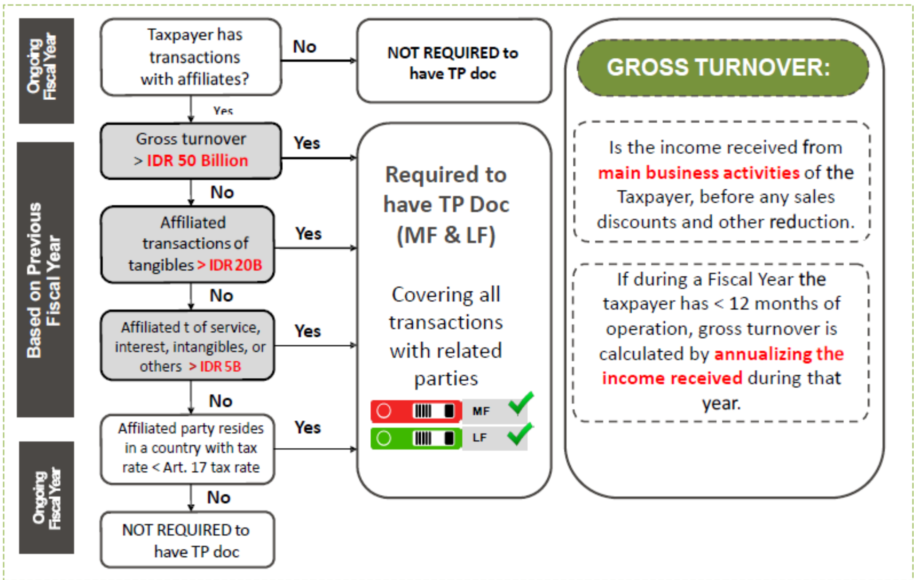
Inter-company pricing

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:

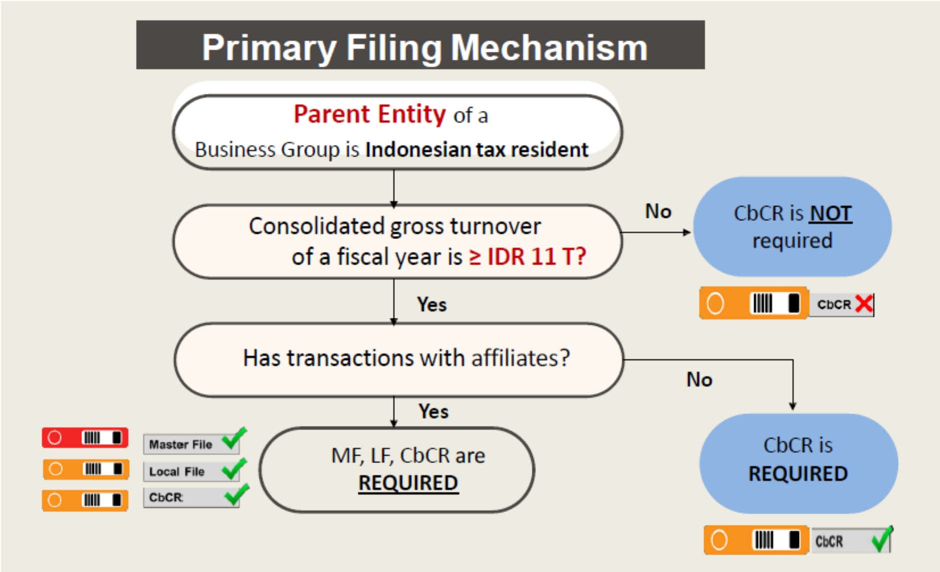
- The Director General of Taxation is authorized to re-stipulate amounts of income and deductions for taxpayers that have special relationships
- The Director General of Taxation is authorized to make agreements with taxpayers and cooperate with tax authorities of other countries to determine transaction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

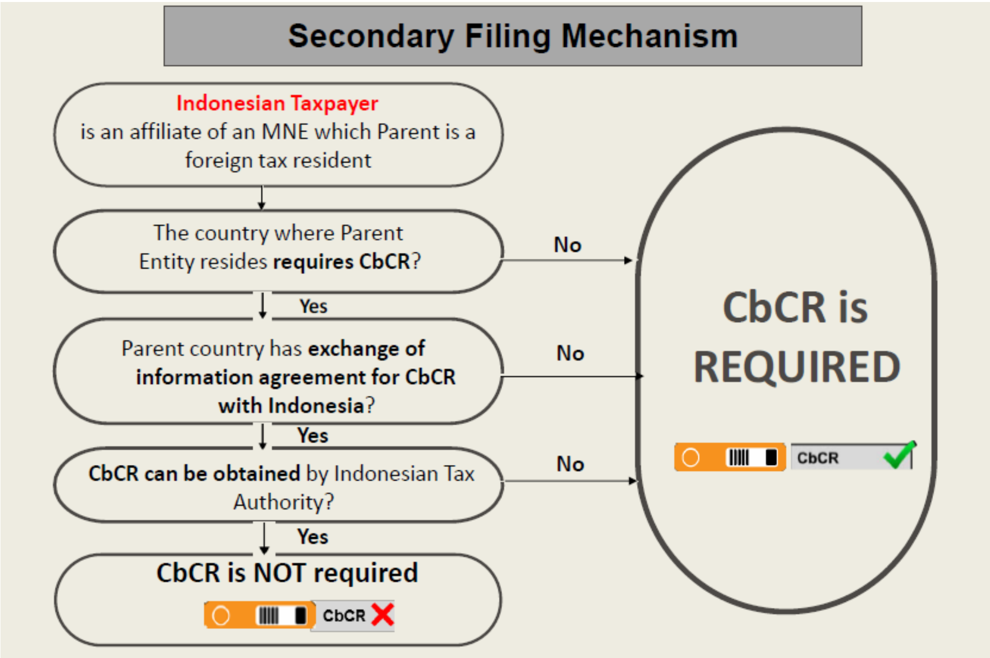
The Minister of Finance ("MoF") issued MoF Regulation No. 213/PMK.03/2016 with respect to transfer pricing documentation. This regulation covers provisions on Master File/Local File and Country by Country Reporting for taxpayers transacting with related parties.

Requirements to file for Master and Local File are described below:



As for Country by Country Report (CbCR), there are two mechanisms (Primary and Secondary) under which a taxpayer is required to file the report, as follows:





While Indonesia adopts a self-assessment system, taxpayers are, however, required to include any transfer pricing information in their tax returns. In 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 returns 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 are 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 occurred 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 may 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, PE risk also needs to be considered in adopting a toll manufacturing structure. To minimize PE risk, it may be advisable to consider a contract manufacturing structure rather than a toll one, although 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 taking into account 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 filing the annual tax return, for which the deadline is four months after the closing of the book year.

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.

Based on the Omnibus Law enacted on 2 November, 2020, the following individuals may be exempted from worldwide income tax rule:

1. An Indonesian national who resides outside Indonesia for more than 183 days will be treated as a non-resident taxpayer.
2. Foreigner employees meeting certain skills requirements will be exempted from worldwide income reporting for four years from when the first time they arrive in Indonesia. They are only subject to Indonesian-sourced 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:

- 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, plus an additional 0.5 % for founder shares); income from the sale of land or buildings (5% final tax on the gross proceeds), and dividends are subject to a 10% final tax.
- 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:

Income Range (Rupiah)	Tax Rate (%) For Individual With Tax ID Number	Tax Rate (%) For Individual Without Tax ID Number
Up to 60 million	5	6
>60 million-250 million	15	18
>250 million-500 million	25	30
>500 million-5 billion	30	36
more than 5 billion	35	42

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$430)) 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:

Status	Exemption (Rupiah)
Single	54,000,000
Married	Plus 4,500,000
Additional dependents (max. of 3)	Plus 4,500,000 each
With self-employed or working spouse (working for more than one employer)	Plus 54,000,000

Tax benefit for foreigners

Payment to non-residents of the countries with which Indonesia has concluded a Double Tax Agreement (DTA) may be allowed 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 receive a reduced withholding rate or exemption. In addition, foreign taxpayers are also obligated to complete the DGT forms in order to receive the tax treaty benefit.

Foreign nationals residing in Indonesia are required to register and file income tax returns with the tax offices having jurisdiction over their domicile.

Tax registration

Each taxpayer needs a tax identification number (NPWP) issued by the tax office to identify taxpayers, that enables them to fulfil their tax obligations.

The taxpayer is obligated to register at the tax office in the district in which they reside (article 2- paragraph (1) law No. 28 Year 2007, and as last amended by law No. 7 Year 2021) 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)

Social security

BPJS 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 Rp1,000,000 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) A BPJS Health compulsory 5% insurance contribution is divided between a 4% contribution from the employer and a 1% contribution of the employee.
(e) Pension: 2% paid by company and 1% paid by the employee

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

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 fund assets mean that treaties only affect funds to the extent that the fund participants and shareholders may benefit. Indonesia currently has 71 tax treaties in operation.

No	Country	Dividend		Interest	Royalties	Branch
		Portofolio	Substantial holdings			Profit Tax
1	Algeria	15%	15%	15/0%	15%	10%
2	Armenia	15%	10%	10/0%	10%	10%
3	Australia	15%	15%	10/0%	15/10%	15%
4	Austria	15%	10%	10/0%	10%	12%
5	Bangladesh	15%	10%	10/0%	10%	10%
6	Belarus	10%	10%	10/0%	10%	10%
7	Belgium	15%	10%	10/0%	10%	10%
8	Brunei	15%	15%	15/0%	15%	10%
9	Bulgaria	15%	15%	10/0%	10%	15%
10	Cambodia[a, e]	10%	10%	10/0%	10%	10%
11	Canada	15%	10%	10/0%	10%	15%
12	China[b]	10%	10%	10/0%	10%	10%
13	Croatia	10%	10%	10/0%	10%	10%
14	Czech Republic	15%	10%	12.5/0%	12.5%	12.5%
15	Denmark	20%	10%	10/0%	15%	15%
16	Egypt	15%	15%	15/0%	15%	15%
17	Finland	15%	10%	10/0%	15/10%	15%
18	France	15%	10%	15/10/0%	10%	10%
19	Germany[a]	15%	10%	10/0%	15/10%	10%
20	Hong Kong	10%	5%	10/0%	5%	5%
21	Hungary[c]	15%	15%	15/0%	15%	20%
22	India[a]	10%	10%	10/0%	10%	15%
23	Iran	7%	7%	10/0%	12%	7%
24	Italy	15%	10%	10/0%	15/10%	12%
25	Japan	15%	10%	10/0%	10%	10%
26	Jordan[c]	10%	10%	10/0%	10%	20%
27	Korea (North)	10%	10%	10/0%	10%	10%
28	Korea (South)[b]	15%	10%	10/0%	15%	10%
29	Kuwait	10%	10%	5/0%	20%	10/0%

No	Country	Dividend		Interest	Royalties	Branch
		Portofolio	Substantial holdings			Profit Tax
30	Laos	15%	10%	10/0%	10%	10%
31	Luxembourg[a]	15%	10%	10/0%	12.5%	10%
32	Malaysia[d,f]	10%	10%	10/0%	10%	12.5%
33	Mexico	10%	10%	10/0%	10%	10%
34	Mongolia	10%	10%	10/0%	10%	10%
35	Morocco	10%	10%	10/0%	10%	10%
36	Netherlands	10/15%	5%	10/5/0%	10%	10%
37	New Zealand[c]	15%	15%	10/0%	15%	20%
38	Norway	15%	15%	10/0%	15/10%	15%
39	Pakistan[a]	15%	10%	15/0%	15%	10%
40	Papua New Guinea[a]	15%	15%	10/0%	10%	15%
41	Philippines	20%	15%	15/10/0%	15%	20%
42	Poland	15%	10%	10/0%	15%	10%
43	Portugal	10%	10%	10/0%	10%	10%
44	Qatar	10%	10%	10/0%	5%	10%
45	Romania	15%	12.5%	12.5/0%	15/12.5%	12.5%
46	Russia	15%	15%	15/0%	15%	12.5%
47	Serbia	15%	15%	10/0%	15%	15%
48	Seychelles[c]	10%	10%	10/0%	10%	20%
49	Singapore	15%	10%	10/0%	15%	15%
50	Slovakia	10%	10%	10/0%	15/10%	10%
51	South Africa[c]	15%	10%	10/0%	10%	20%
52	Spain	15%	10%	10/0%	10%	10%
53	Sri Lanka	15%	15%	15/0%	15%	20%
54	Sudan	10%	10%	15/0%	10%	10%
55	Suriname	15%	15%	15/0%	15%	15%
56	Sweden	15%	10%	10/0%	15/10%	15%
57	Switzerland[a]	15%	10%	10/0%	10%	10%
58	Syria	10%	10%	10/0%	20/15%	10%
59	Taiwan	10%	10%	10/0%	10%	5%
60	Tajikistan	10%	10%	10/0%	10%	10%
61	Thailand	20/15%	20/15%	15/0%	15%	20%
62	Tunisia	12%	12%	12/0%	15%	12%
63	Turkey	15%	10%	10/0%	10%	10%
64	Ukraine	15%	10%	10/0%	10%	10%
65	United Arab Emirates	10%	10%	5/0%	5%	5%
66	United Kingdom	15%	10%	10/0%	15/10%	10%
67	United States of America	15%	10%	10/0%	10%	10%
68	Uzbekistan	10%	10%	10/0%	10%	10%
69	Venezuela[a]	15%	10%	10/0%	20%	10%
70	Vietnam	15%	15%	15/0%	15%	10%
71	Zimbabwe[a,e]	20%	10%	10/0%	15%	10%

Notes:

a. Service fees including for technical, management and consulting services rendered in Indonesia are subject to withholding tax at rates of 5% for Switzerland, 7.5% for Germany, 10% for India, Luxembourg, Papua New Guinea, Venezuela, and Zimbabwe, and 15% for Pakistan.
b. VAT is reciprocally exempted from the income earned on the operation of ships or aircraft in international lanes.

c. 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.
d. Labuan offshore companies (under the Labuan Offshore Business Activity Tax Act 1990) are not entitled to the tax treaty benefits.
e. Ratified but not yet effective, pending the exchange of ratification documents.
f. Renewed treaty was signed, but pending ratification and the exchange of ratification documents.

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 currently collected at a standard rate of 10%. Starting 1 April, 2022, the rate will increase to 11%. This may increase to 15% or decrease to 5% based on the relevant Government regulation. VAT on the export of taxable goods is fixed at 0%. The export of certain services qualify for 0% VAT, with 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. Taxpayers may apply for refunds of 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 the 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%. The export of certain services qualify for 0% VAT, with limitations applied.

3) Exempt transactions

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

a. Food and beverages served in hotels, restaurants and other such places including take-away food and beverages, and delivery by the catering provider
b. Money, gold and securities

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

a. Religion
b. Culture and entertainment that has been subject to entertainment tax
c. Hotels
d. Rendering of services by the government in efforts to undertake governance in general
e. Parking
f. 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 are 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 the property (land and buildings), and the tax tariff is stipulated at 2.5%. In addition, an Acquisition Duty of Rights on Land and Buildings of 5% is imposed on the property value after a non-taxable property sales value deduction.

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 of luxury goods are also taxed (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% and may go up to 200%.

Government Regulation No. 73/2019 and as last amended by *Government Regulation No. 74/2021* details various goods subject to sales tax at rates ranging from 15% to 95%.

Examples of goods subject to 95% rate are:

- Motorized vehicles with a cylinder capacity of more than 4000 cc
- Two- or three-wheeled motorized vehicles with cylinder capacity of more than 500 cc
- Trailers, semi-trailers of the caravan type, for housing or camping

Income Tax on Luxury Goods

Luxury Goods Sales Tax (LST)

- Luxury residences such as houses, apartments, condominiums, town houses and the like with a selling price of at least IDR 30 bn are subject to LST at 20%
- Certain passenger balloons and aeroplanes operated without engine are subject to LST at 40%
- Certain helicopters and aeroplanes (other than those for national interest or airways) are subject to LST at 50%
- Certain guns, its bullets, and parts (other than those for national interest) are subject to LST at 40%
- Certain artillery, revolvers and weapons (other than those for national interest) are subject to LST at 50%
- Certain yachts, ferries, and cruise ships (other than those for national interest, public transportation or tourism) are subject to LST at 75%

Tax Art. 22

- A tax rate of 1% is imposed on sales of the following:
  - Landed houses selling price more than IDR 30 bn or building area more than 400 m^2
  - Apartments, condominiums, and the like, with a selling price of more than IDR 30 bn or building area more than 150 m^2
- A tax rate of 5% is imposed on sale on the following:
  - Private jets and helicopters
  - Cruise ships, yachts, and the like
  - Certain types of car
  - Certain types of motorcycle

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 specialis' rules. Rates of tax vary according to the generation of each respective contract.

CFC (Controlled Foreign Corporation) rule

The scope is limited to CFCs that are not listed on a stock exchange, and includes:

- Foreign companies that are directly owned by the Indonesian taxpayer (at least 50% ownership)
- Foreign companies that are directly owned by the Indonesian taxpayer collectively with other Indonesian taxpayers (at least 50% ownership in total)

The deemed dividend is calculated based on the effective ownership in the CFC multiplied by CFC's after-tax income from:

- Dividend**
- Interest**
- Rental income**
- Royalty
- Gain from sale of assets

** Certain exclusions apply

Portfolio investment for foreigners

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

Dividends	A 10% final rate is applicable to foreigners if they are resident tax payers and received dividends from an Indonesia Corporation. Exemption from dividend tax is available if it meets certain re-investment criteria.
Interest	15%

Capital gains

Income Range (Rupiah)	Tax Rate (%) Individual With Tax ID Number	Tax Rate (%) Individual Without Tax ID Number
Up to 60 million	5	6
>60 million-250 million	15	18
>250 million-500 million	25	30
>500 million-5 billion	30	36
more than 5 billion	35	42

Rental Income (real estate) 10% final tax rate

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

Dividends	20% or treaty rate
Interest	20% or treaty rate
Capital gains	20% or treaty rate
Rental income (real estate)	20% or tax treaty

Trusts

There is no concept of indirect or beneficial ownership in Indonesia. Indonesia will only look at 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 *Yayasan*. Recent changes in legislation require these to be for certain charitable, educational, religious or other not-for-profit purposes. In select cases, some forms of income are non-taxable.

Practical information

Transportation

The capital, Jakarta, is well-served by metered taxis, of which the largest and most secure fleet is operated by the Blue Bird Group.

There are airports in all of Indonesia's major cities, which are served by frequently scheduled flights of state-owned airline company Garuda, and several other commercial airlines. Tokyo, Taipei, Seoul, Beijing, Shanghai, Guangzhou, Hong Kong, Manila, Ho Chi Minh City, Singapore, Kuala Lumpur, Bangkok, Dubai, Sydney and Perth all have daily flights to Jakarta, Surabaya and Denpasar (Bali). With code sharing, Garuda flies to 73 international destinations worldwide.

Languages

Bahasa Indonesia (a form of Malay) is the national language and is used throughout the archipelago is becoming the language of, education, government, business, and most written communication. 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)
- Papua (formerly Irian Jaya) 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

List of National public holidays for 2022 are as follows:

Saturday, 1 January	New Year’s Day
Tuesday, 1 February	Chinese New Year 2573
Monday, 28 February	Ascension Day of Prophet Mohammad (Isra’ Mi’raj Day)
Thursday, 3 March	Bali's Day of Silence (Nyepi) and Hindu New Year 1944
Friday, 15 April	Good Friday
Sunday, 1 May	Labor Day
Monday, 2 May & Tuesday, 3 May	Idul Fitri 1443 Hijriyah
Monday, 16 May	Vesak Day 2566
Thursday, 26 May	Ascension Day of Jesus Christ
Wednesday, 1 June	Pancasila Day
Saturday, 9 July	Idul Adha 1443 Hijriyah
Saturday, 30 July	Islamic New Year 1444 Hijriyah
Wednesday, 17 August	Independence Day
Saturday, 8 October	Birthday of the Prophet Mohammad
Sunday, 25 December	Christmas Day

Websites of Interest

Moores Rowland Indonesia	www.moores-rowland.com
Central Bank of Republic of Indonesia	www.bi.go.id
The Investment Coordinating Board	www.bkpm.go.id
Indonesia Stock Exchange	www.idx.co.id
Central Bureau of Statistics	www.bps.go.id
Directorate General of Taxation	www.pajak.go.id
Directorate General of Customs & Excise	www.beacukai.go.id
National Development Planning Agency	www.bappenas.go.id
Capital Market Executive Agency	www.bapepam.go.id
AHU (*Administrasi Hukum Umum*)	www.ahu.go.id
Ministry of Law and Human Rights	www.kemenkumham.go.id
Ministry of Trade	www.kemendag.go.id
Ministry of Industry	www.kemenperin.go.id
Ministry of Foreign Affairs	www.kemlu.go.id
National Portal of Indonesia	www.indonesia.go.id

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