

Chandrawat
& Partners

DOING BUSINESS IN INDONESIA

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TABLE OF CONTENTS

Contents Page No.

Overview	03
Economic overview	04
Key sectors	05
Foreign direct investment policy	06
Advantages of doing business in Indonesia	07
Types of business entities	08
Minimum eligibility criteria for company registration in Indonesia	10
How to set up a business	12
Taxation	14
Accounting standards	16
Employment and labor laws	18
How we can help?	20

Overview



Indonesia is a country located in Southeast Asia, consisting of more than 17,000 islands, and is the fourth most populous country in the world. It is located between the Indian and Pacific Oceans and shares land borders with Malaysia, Papua New Guinea, and East Timor. Indonesia has a population of more than 270 million people, with more than 300 ethnic groups speaking over 700 languages. The most widely spoken language is Indonesian, and Islam is the predominant religion.

Indonesia has the largest economy in Southeast Asia and is classified as a newly industrialized country. The country is rich in natural resources such as oil, gas, coal, and minerals, and has a diverse range of industries, including agriculture, manufacturing and services. The government has prioritized infrastructure development to support economic growth.

Indonesia is a diverse country with a complex regulatory environment and cultural nuances that can affect business operations. Building relationships and navigating local customs and regulations can be key to success in the Indonesian market.

Economic overview

Indonesia, located in Southeast Asia, is the largest economy in the region and one of the fastest-growing economies in the world. The economic overview of Indonesia for doing business is as follows:

- **Market size and potential:** Indonesia has a population of over 270 million people, making it the fourth most populous country globally. The large consumer base provides significant market potential for businesses across various sectors.
- **Key industries:** Indonesia has a diverse economy, with key sectors including manufacturing, services, agriculture, mining and tourism. Some notable industries include automotive, electronics, textiles, palm oil, natural resources and tourism-related services.
- **Natural resources:** Indonesia is rich in natural resources, including coal, tin, nickel, copper, palm oil and rubber. These resources contribute significantly to the country's export earnings and present opportunities for businesses in mining, energy and related sectors.
- **Trade and investment partnerships:** Indonesia is a member of the Association of Southeast Asian Nations ("ASEAN") and has various trade agreements in place, including with countries like China, Japan and Australia. These agreements provide businesses with preferential market access and opportunities for trade and investment.



Key sectors

Indonesia offers various opportunities for doing business across multiple sectors. Some of the key sectors that are particularly promising for investment and business ventures in Indonesia:

- **Manufacturing:** Indonesia has a large and diverse manufacturing sector, encompassing industries such as textiles and apparel, automotive, electronics, chemicals and food processing. The government has been actively promoting industrialization and offering incentives for foreign investors.
- **Agriculture and agribusiness:** With its fertile land and abundant natural resources, Indonesia has a thriving agricultural sector. Opportunities exist in areas like palm oil, rubber, coffee, cocoa, fisheries and aquaculture. The country is also focusing on developing downstream agribusiness activities, such as food processing and packaging.
- **Infrastructure:** Indonesia has been investing heavily in infrastructure development to support its growing economy. Opportunities exist in sectors like transportation (roads, railways, airports, ports), energy (renewable energy, power plants), water supply, telecommunications and urban development.
- **Information Technology ("IT") and digital economy:** Indonesia has a rapidly growing digital economy, with a large and increasingly technologically advanced population. E-commerce, fintech, digital payments, software development and IT services are promising sectors for investment and business growth.
- **Financial services:** Indonesia's financial sector has been expanding, driven by increasing middle-class consumption and a growing number of people accessing formal financial services.



A photograph showing several business professionals in suits sitting around a table. They are looking at laptops and tablets, which display various charts and data. The scene is dimly lit, with a focus on the hands and devices.

Foreign direct investment policy

Foreign direct investment ("FDI") has played a significant role in the economic development of Indonesia, particularly in recent years. Indonesia's foreign direct investments increased by 44.2% to IDR 654.4 trillion or \$45.6 billion in 2022, led by inflows to the base metal (\$11 billion) and mining (\$5.1 billion) sectors. The biggest sources of funds were Singapore, China and Hong Kong. Some key facts and trends related to FDI in Indonesia:

- **Investment climate:** Indonesia has made efforts to improve its investment climate in recent years, with measures aimed at reducing bureaucracy, streamlining business regulations and attracting foreign investment in priority sectors such as infrastructure, manufacturing and tourism.
- **Priority sectors:** The Indonesian government has identified several priority sectors for foreign investment, including infrastructure (transportation, energy, and water), manufacturing (textiles, electronics and automotive) and tourism (hotels and resorts).
- **Investment restrictions:** While Indonesia has opened up many sectors to foreign investment, there are still restrictions on foreign ownership in certain industries, such as retail, telecommunications and media. The government also requires foreign companies to partner with local firms in some sectors, such as mining and oil and gas.
- **Source countries:** The largest sources of FDI in Indonesia are Singapore, Japan, and China. Other significant investors include the United States, South Korea and the Netherlands.

Advantages of doing business in Indonesia

Doing business in Indonesia offers several advantages that make it an attractive destination for investment and business ventures. Some of the key advantages are as follows:

- **Large and growing market:** Indonesia has the fourth-largest population in the world, providing a vast consumer base for businesses. The middle class is expanding rapidly, leading to increased consumer spending and demand for various goods and services.
- **Strong economic growth:** Indonesia has maintained a stable and robust economic growth rate over the years. The country offers numerous opportunities for businesses to capitalize on this growth and benefit from the expanding market.
- **Strategic location:** Situated in Southeast Asia, Indonesia serves as a gateway to the region. Its proximity to major Asian markets provides opportunities for trade and access to global supply chains. Additionally, Indonesia has a diverse range of natural resources, making it an attractive destination for industries reliant on raw materials.
- **Investment incentives:** The Indonesian government has implemented various investment incentives to attract foreign investment. These include tax incentives, simplified licensing processes and sector-specific incentives in priority industries such as manufacturing, tourism and infrastructure development.
- **Supportive government initiatives:** The Indonesian government has implemented various initiatives to support business growth and attract foreign investment. These include deregulation efforts, economic reforms, infrastructure development plans and initiatives to improve the ease of doing business.
- **Increasing digital connectivity:** Indonesia has witnessed significant growth in internet penetration and smartphone usage. The digital economy is booming, providing opportunities for businesses in e-commerce, fintech, digital services and technology-driven sectors.

Types of business entities

While setting up a company in Indonesia, one needs to consider the following factors:

- Business factors:
 - The industry and type of business,
 - Nationality of the headquarters/individual(s) and
 - Presence of existing trade agreements or relationships.
- Location factor - Separate cities and regions may have different rules, costs and availability.
- Regional Language may be an influence.

Types of business entities available are:

Representative Office ("RO")

Foreign companies are allowed to establish a RO in Indonesia, subject to significant restrictions and only certain sectors, including trading, services, oil and gas mining, and banking.

Limited Liability Company ("LLC")

An LLC must go through the entire registration and incorporation process and is the most costly business structure to set up in Indonesia. The procedure that needs to be followed to form an LLC are:

- payment of fees for obtaining clearance of the company name;
- notarize company documents;
- approval of the deed of establishment;
- pay non-tax state revenue fees for legal services;
- obtain a company registration certificate; and
- register with the Ministry of Manpower.

Joint Venture

In Joint Venture, foreign and Indonesian investors, forms a partnership to share the profits, losses and management together. The procedure need to be followed to form JV are:

- Register Business License;
- Obtain a Certificate of Approval; and
- Name Internal Supervisor.

Local Company / Perseroan Terbatas ("PT")

PT is also known as a limited liability company which is a legal entity to run a business that consists of capital shares. It is the most common business entity in Indonesia's market as it has a small capital requirement for start-ups, and it has a faster set-up time as compared to foreign companies.

A PT company usually consists of 2 local shareholders, 1 director and 1 commissioner. However, the downside to a PT company is that no percentage of foreign ownership is allowed. This means that only local entrepreneurs are able to incorporate this business entity.

Foreign-owned Company / Penanaman Modal Asing ("PMA")

A PT PMA company is considered to be a wholly or partially foreign-owned limited liability company that is governed by the Foreign Capital Investment Law and approval from Capital Investment Coordinating Board ("BKPM") is required before incorporation.

The core benefit of incorporating a PT PMA company is that it is the ideal legal method for foreign-owned businesses to operate and generate revenue in Indonesia. However, due to its international position in the market, the start-up capital value will be high and it is not available for all business fields.

Representative Office ("KPPA")

A representative office ("KPPA") is also known as a branch of an overseas parent company and it does not help your company generate revenue. The purpose of establishing a representative office in Indonesia is to conduct market research to analyze the suitability of the country for your company and for corporate communications with a total life of up to 5 years.

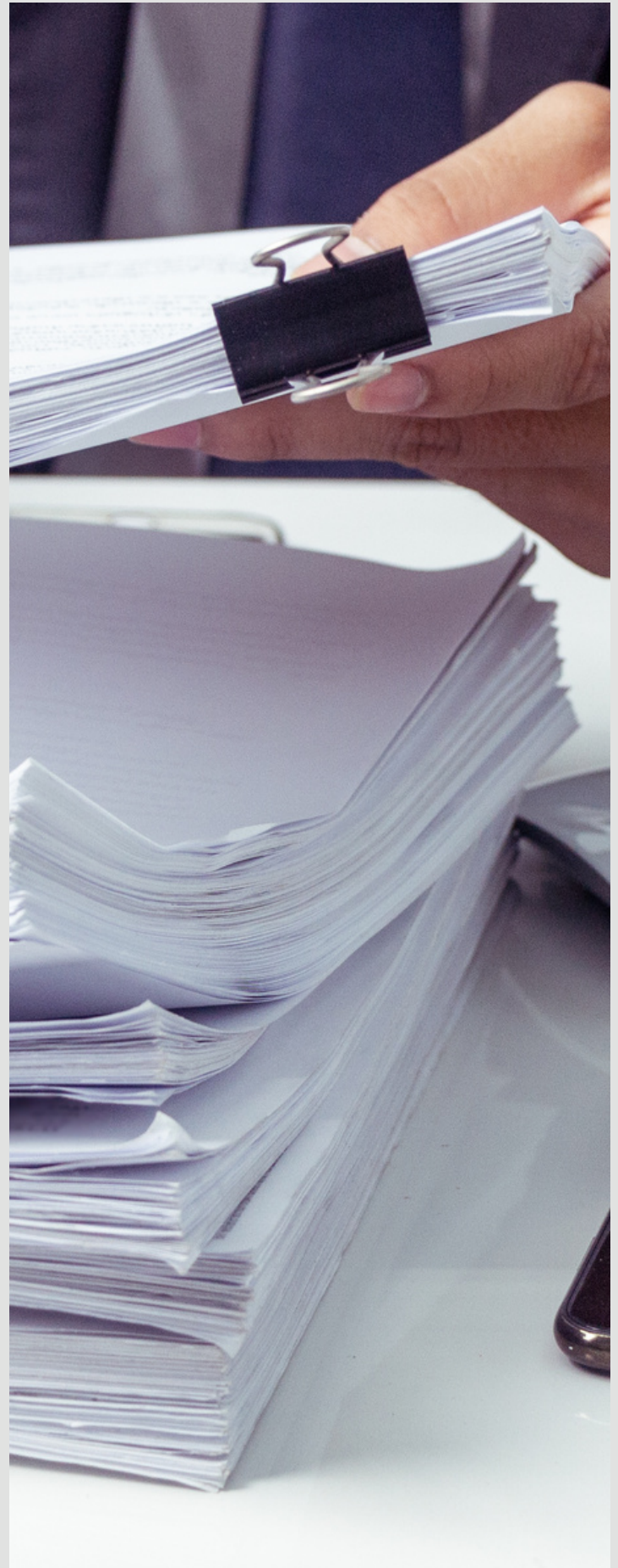
Minimum Eligibility criteria for company registration

To register a company in Indonesia, certain eligibility criteria need to be met and follow the necessary procedures. While the basic requirements may vary depending on the type and nature of the business, the general minimum eligibility criteria for company registration in Indonesia:

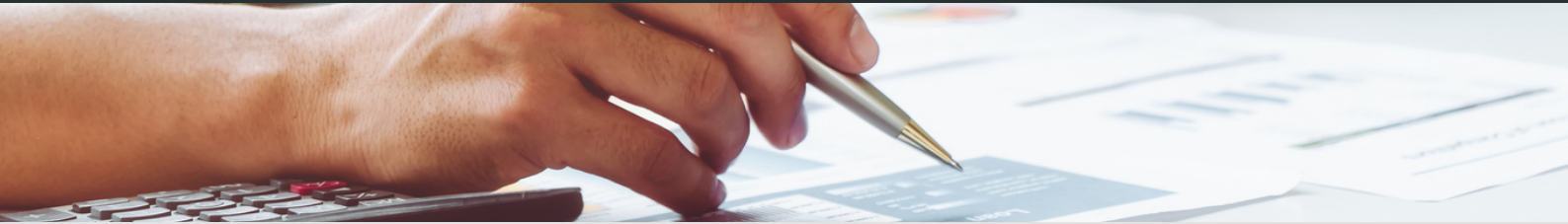
- **Shareholders:** A minimum of two shareholders is required to form a limited liability company ("PT") in Indonesia. These shareholders can be individuals or corporate entities. At least one shareholder must be Indonesian or an Indonesian legal entity, holding at least 5% of the shares.
- **Directors:** At least one director is required for the company. The director can be an Indonesian citizen or a foreigner. If the director is a foreigner, they may need to obtain a work permit and a limited stay permit ("KITAS") in certain cases.
- **Minimum capital:** The minimum authorized capital requirement for establishing a PT in Indonesia is IDR 50 million (approximately USD 3,500). However, it's worth noting that the paid-up capital does not necessarily have to be fully deposited during the registration process.



- **Business activities:** The person must define the business activities and objectives of the company during the registration process. Certain business sectors may require additional licenses, permits, or approvals from relevant authorities.
- **Registered office:** The person needs to have a registered office address in Indonesia where official correspondence can be sent. This can be a commercial office space or a virtual office.
- **Articles of Association ("AoA"):** One must prepare the AoA for the company. The AoA outlines the company's name, objectives, shareholding structure, directors and other relevant information.
- **Tax registration:** After company registration, one needs to obtain a tax identification number ("NPWP") from the tax office in Indonesia.
- **Company name:** The proposed company name must be unique and not conflict with existing registered companies in Indonesia. The person can conduct a name search through the Ministry of Law and Human Rights website to check the availability of the desired company name.



How to set up a business in Indonesia?



Choose a business structure:

Employers have to choose a business structure to get a clear idea of the formalities to pursue.

Reserve a name:

Reserving the company's name is the first step in registering a company in Indonesia. The foreign company must reserve its name with the Ministry of Law and Human Rights ("MOLHR"). The company's name and legitimacy are governed by the Government Regulation No. 43 of 2011. The regulation provides legal protection to the user of the company name, thus preserving the company's name officially. The regulation requires employers to comply with the following rules:

- The company name should be written in the letter;
- The name should have never been legally used by another company; and
- Does not violate or contradict public order or morality.

It must be ensured that the company's name is approved by the Notary Public. This is a sign that the business is a legal entity.

Approval related to the Articles of Association ("AOA"):

The AoA is similar to a manual to do business. The AoA takes the form of a document and stipulates procedures and rules for businesses to follow. Before starting a business in Indonesia, it is essential to understand these rules.

The foreign employer then signs the document before a notary public and files it for approval with the MOLHR. The submission must occur within 60 days of signing the deed of establishment containing the AOA.

The applicant must submit the articles of association to the MOLHR online. This can be carried out by the respective notary.

Employers must submit the above documents within 60 days from the time of execution of the deed of establishment, which contains the articles of association.

Approval of company:

After submission, the MOLHR will review the application. The MOLHR will notify the employer if the application is approved within 14 days. The foreign firm can start doing business in Indonesia as an LLC. This approval lawfully permits the company to carry out business.

LLC domicile:

The business must get a domicile registered from the respective Sub-district office. Since the Indonesian government offers more autonomy and legislation for local administrative institutions, approvals for a domicile or a formal address.

Tax Registration number:

A tax registration number is obtained from the local tax office.

Registration with the MOHLR:

The notary submits the application to the MOLHR to register the company. The notary acts as a proxy for the founding shareholders.

Securing Ministry of Trade Approval ("MOT"):

Once the MOLHR provides approval, the business should seek approval from the Ministry of Trade. This should be carried out in the office of the MOT based in the region of the business' formal address. Post this, the employer should submit the application in the Online Single Submission system to obtain a registration number or the Nomor Induk Berusaha ("NIB").

Publication:

Once the aforementioned approvals are secured, the Articles must be submitted to the State Printing Office. The registration is then published in the State Gazette. This process has to be carried out by the notary. Such a process would be carried out 14 days from approval.



Taxation

- **Corporate Tax**

A flat Corporate Income Tax ("CIT") rate of 22% generally applies to net taxable income. However, certain tax objects or industries have special tax regimes.

- a. Public company discount

Public companies that satisfy a minimum listing requirement of 40% and certain other conditions are entitled to a tax discount of 3% off the standard rate, providing an effective tax rate of 19%.

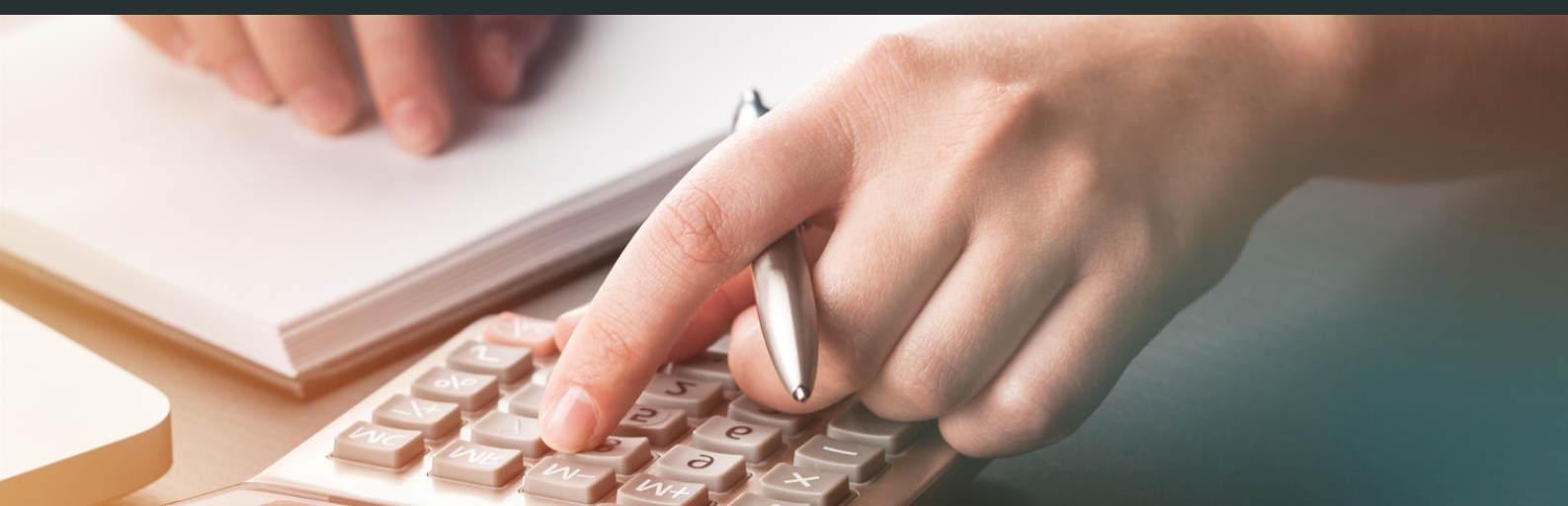
- b. Small company discount

Small enterprises (i.e. corporate taxpayers with an annual turnover of not more than 50 billion rupiahs [IDR]) are entitled to a 50% tax discount of the standard rate, which is imposed proportionally on taxable income on the part of gross turnover up to IDR 4.8 billion. Certain enterprises with gross turnover of not more than IDR 4.8 billion are subject to final income tax at 0.5% of turnover.

- **Value Added Tax ("VAT")**

In Indonesia, the Value Added Tax ("VAT") is known as Pajak Pertambahan Nilai ("PPN") and is a consumption tax levied on most goods and services. The standard VAT rate in Indonesia is 11%. However, there are also some specific rates and exemptions that apply to certain goods and services. VAT rates and exemptions in Indonesia are as follows:

Standard Rate: The standard VAT rate in Indonesia is 11%, which applies to most goods and services.





Zero Rate: Certain goods and services are subject to a 0% VAT rate, including exports of goods and services, international transportation services, and services provided to foreign diplomatic and consular missions.

Exempt Goods and Services: Some goods and services are exempt from VAT, including healthcare services, educational services, religious services, and financial services.

Luxury Goods: Certain luxury goods, such as cars, yachts, and private aircraft, are subject to a luxury goods sales tax ("PPnBM") in addition to the standard VAT rate.

Small Business Exemption: Small businesses with annual sales of less than IDR 4.8 billion (approximately USD 320,000) are exempt from collecting and remitting VAT.

- **Individual Tax**

In Indonesia, the individual income tax is known as Pajak Penghasilan ("PPH") and is levied on income earned by individuals. The tax rates are progressive, meaning that the rate increases as income increases. The individual income tax rates for the tax year 2023 in Indonesia are as follows:

- Up to IDR 60 million- 5%
- Over IDR 60 million up to IDR 250 million- 15%
- Over IDR 250 million up to IDR 500 million- 25%
- Over IDR 500 million up to IDR 5 billion- 30%
- Over IDR 5 billion- 35%

Accounting standards

Indonesian Financial Accounting Standards ("SAK") are the guiding principles that regulate accounting in Indonesia. These are set by the Financial Accounting Standards Board ("DSAK IAI") and the Indonesian Sharia Accounting Standards Board ("DSAS IAI") - responsible for establishing the specific set of standards that businesses operating within Indonesia must adhere to.

All public and private companies in Indonesia must follow the accounting standards laid out by the DSAK-IAI and DSAS-IAI. Since 2015, the DSAK IAI has converged its accounting standards with that of the International Financial Reporting Standards ("IFRS"), issued by the IFRS Foundation and the International Accounting Standards Board ("IASB").

Indonesian Financial Accounting Standards ("SAK") is broken down into the following tiers:

- Tier 1 SAK – applies to listed companies and other entities with significant public accountability.
- Tier 2 SAK EP – applies to private entities. Private Entity SAK is intended for use by entities that do not have public accountability and issue general-purpose financial statements for external users.
- Tier 3 – PSAK Syariah applies to companies that the Syariah principle for transactions.
- Tier 4 – PSAK EMKM is for micro, small, and medium enterprises.



Bookkeeping in Indonesia

It is mandatory for every company operating within the country to maintain its bookkeeping locally. The process of maintaining company books in Indonesia involves several key aspects:

- Preparation of Financial statements. The documents required under financial statements are as follows:
 - Statement of Financial Position
 - Profit and Loss Statement and Other Comprehensive Income
 - Cash Flow Report
 - Statement of Changes in Company Equity
 - Notes to the Financial Year
- Maintenance of Accounting Records and Supporting Documents
- Document Retention

Fiscal year

The annual deadline for reporting and paying corporate income tax is April 30 – if a company’s fiscal year begins from January 1 – December 31. If a company’s fiscal year differs from the calendar year, then its deadline is four months after the end of its fiscal year.

Language and currency

All accounting records must be in Bahasa Indonesian and the financial books should be maintained in Rupiah.



Employment and labour laws

The main sources of employment and labor laws in Indonesia are:

- Labor Law of 2003 on Manpower as recently amended by Law No. 11 of 2020 on Job Creation and recently revoked by Government Regulation in Lieu of Law No. 2 of 2022 on Job Creation;
- Law No. 21 of 2000 on Labor Union; and
- Law No. 2 of 2004 on Industrial Relations Dispute Settlement.

The labor law regulates all employment in Indonesia. Employers must fulfill the following rights for employees:

- Receive the minimum wage, this varies depending on sector and province;
- Receive social security, which includes pension, healthcare, life insurance, accident insurance and old-age benefits;
- Receive religious holiday allowance (1 month's salary - subject to the period of employment);
- Receive statutory absence or payment when the employee does not take annual leave; and
- Receive payment for overtime.

Fixed term contracts

The government recognizes three types of fixed-term contracts ("FTC"):

- FTC based on the completion of work;
- FTC based on the period of time; and
- FTC related to non-permanent work.

All FTC types are for work that is temporary and can be completed within a set time period, therefore any contract extensions cannot be for prolonged periods (5 years maximum in total). Failing to adhere to these rules will result in the employee being deemed to be on a permanent employment contract.





Minimum wages

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

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

Working hours

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

Working hours of less than 40 hours per week are recognized if the company has the following characteristics:

- Undertake work that can be completed in less than 35 hours per week;
- Can implement flexible working hours; and
- Undertake work that can be completed outside a particular location.

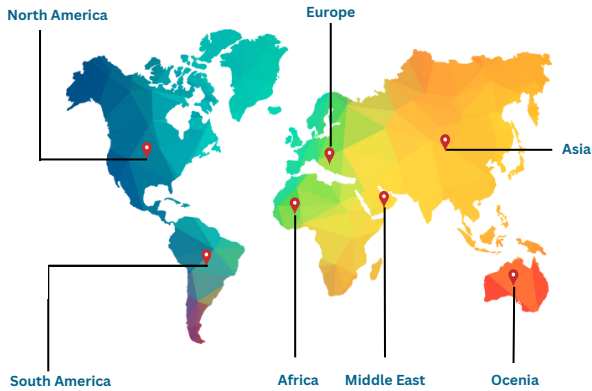


How we can help?

Our team Chandrawat and Partners help our clients in various ways which are as follows:

- **Understand the local business culture:** We help our clients in building relationships and personal connections. It is essential to take the time to understand local customs, etiquette and business practices.
- **Establish a local presence:** Having a local presence in Indonesia can help establish credibility and build trust with customers and partners. Our team helps in setting up a local office or partnering with a local company.
- **Engage with local partners:** Our team provides help in working with local partners can help establish local connections, navigate local regulations and access local market knowledge.

SERVING CLIENTS WORLDWIDE



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