Doing business in Indonesia
Acknowledgement

This “Doing Business in Indonesia” Guide has been prepared by RSM AAJ for the Australia Indonesia Business Council (AIBC) for the purpose of distribution to AIBC members and businesses interested in doing business with Indonesia.

Operating a business in a foreign land is always more difficult than operating at home. At RSM we pledge to give business enterprises of all sizes the highest level of attention by our most experienced professionals. This is the RSM International difference.

As the seventh largest professional service organisation in the world, RSM can connect you with the audit, accounting, tax, financial management, governance, risk management, internal control, and business consulting skills of more than 32,000 professionals in over 100 countries and 700 different office locations. RSM AAJ is the Indonesian independent member firm, whose experience and connections will help to ensure that your business can take advantage of every opportunity to become a success in Indonesia. In Australia, RSM is represented by RSM Bird Cameron (www.rsmi.com.au), which with RSM AAJ has extensive experience in providing services and advice to those considering doing business, and to those already doing business in Indonesia. RSM Bird Cameron and RSM AAJ have been long term supporters of the AIBC and our counterpart in Indonesia, the Indonesia Australia Business Council (IABC).

By delivering the type of in-depth knowledge and understanding of foreign business customs, tax and regulatory matters that only lifelong residents can provide, our member firms around the globe can bring you closer to achieving your business objectives. If your company operates in the global economy, discover what RSM can do for you.

Whilst every effort has been made to ensure the contents are accurate and current, this Guide is intended as a reference only and parties interested in doing business in Indonesia should seek appropriate professional advice. The Australia Indonesia Business Council and RSM AAJ disclaims all liability to any party in respect of, or in consequence of, anything done, or omitted to be done, by any party in reliance, whether whole or partial, upon any information contained in this “Doing Business in Indonesia” Guide. Any party who chooses to rely in any way on the contents of this guide does so at their own risk. This work is copyright. Apart from any use as permitted under the Copyright (International Protection) Regulations, no part may be reproduced by any process without prior written permission from RSM AAJ.

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Foreword

Dear Reader,

The fact that you have started reading this handbook is cause for celebration, here at AIBC. You are interested in doing business in Indonesia, our most important neighbour, and we would like to offer any assistance we can to make that journey as smooth as possible.

Indonesia is not the easiest place to start a business. We accept the reality and are working hard to make the process easier. The good news is that the overwhelming majority of Australian businesses operating in Indonesia have positive things to say about their experience there. Some have had success beyond compare. Much will depend on how you chart your way in. With a booming Middle Class in a country of 250 million, clamouring for more of just about everything, no wonder the world is knocking on Indonesia’s door. For two consecutive years now, Indonesia has attracted more Foreign Direct Investment on a per capita basis, than any other developing country. That’s because almost every problem in Indonesia - and they are visible every day – represents an opportunity.

Attitudinally, Australia has been too ‘transaction driven’, not ‘investment focussed’ in Asia. This is even more true in Indonesia. Of our 2 million businesses, only 400 have any presence there. In contrast with the $46 billion invested in New Zealand, the sum total of Australian investment in Indonesia stood at a paltry $9 billion at the end of 2013. Much of that money is in the capital-intensive Mining sector alone. If, for reasons of cultural difference, we choose to disregard Indonesia’s No.1 rank in Japan’s list of investment destinations, how do we ignore the Germans, the French, and the Dutch who are all pouring money in? In just 15 years, Indonesia could well be among the Top 10 economies of the world. Our ignorance of the giant neighbour - perhaps the most courteous people in the world - breeds fear and keeps us apart. Unable to make the distinction between murderous mobs and moderate Muslims, too many of us our burying our heads in the sand. We forget that in a secular country of 250 million, there are 25 million Christians – more than our entire population.

In an unusual alignment of commonsense, both sides of our political divide understand the importance of Indonesia and the opportunity it represents. As a researcher, I know that our business community – big, medium and small - is largely uninterested in investing in Asia, much less Indonesia. The evidence is all too clear. We have only ourselves to blame for the opportunities lost. We’re happy exporting our produce to China, importing cheap stuff in return. Transactions, not investment.
I’m delighted you are still reading, because business can be a force for good. Only when hundreds, thousands more of our entrepreneurs engage will the relationship with our neighbour change. Governments can encourage change, only people can make it real. In that spirit, may I assure you that the Department of Foreign Affairs and Trade, Austrade and several other federal and state institutions stand ready to assist you. At the Australia Indonesia Business Council, with offices nationwide, we are equally eager and ready to help entrepreneurs find their way. In this endeavour, we are supported by our sister organisation, the Indonesia Australia Business Council, with offices of their own. I hope this handbook helps make your Indonesian dream a reality. We urge you tread wisely and wish you all success. In time, we hope you will spread the good word!

Debnath Guharoy
National President Australia Indonesia Business Council
December, 2014
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Introduction

The Australia Indonesia Business Council (AIBC), RSM Bird Cameron and RSM AAJ are proud to release the fourth edition of Doing Business in Indonesia.

This is one of a number of titles in the RSM Doing Business In... series which forms an integral part of RSM’s commitment to helping businesses around the world understand the characteristics and workings of specific foreign markets. RSM Bird Cameron and RSM AAJ are long-standing members of the AIBC.

Regularly updated, this publication provides a summary of information regarding the formalities of doing business in Indonesia. It is designed as a general guide and, since laws and business practices are subject to constant change and re-interpretation, specific advice should be obtained from appropriately qualified professional sources.

Where to from here?

Assess the stage that you have reached. If you are only in the project stage, then you will almost certainly need project advice, corporate finance advice, advice on government grants and assistance, and general business counselling. It is essential that the ownership and structure of your operations are correctly set up to avoid problems in the future.

If your business is already fully launched or you are acquiring an existing business, you will probably wish to step straight to our accounting, transaction support, and tax and audit services.

Throughout, you will need practical tax advice on the structure, method of financing and the arrangements made with your head office. Our experience is that frequently, people are at an earlier stage than they fully appreciate and can therefore benefit from further advice.

Creating Business Opportunities: AIBC

The Australia Indonesia Business Council Ltd (AIBC) is the peak, non-profit business association involved with the promotion and facilitation of trade and investment between Australia and Indonesia. The AIBC has branches in the Australian Capital Territory, New South Wales, Northern Territory, Queensland, South Australia, Victoria and Western Australia, and is managed by a Board of Directors. In 2011, the AIBC comprises over 300 members who represent more than 180 firms doing business between Australia and Indonesia.

The AIBC’s history dates from the early 1970s. In 1971, the Australian Indonesia Business Cooperation Committee was formed with the broad aim of promoting business relationships with Indonesia. In
In 1989, this organisation merged with the Australia Indonesia Chamber of Commerce, to become the Australia Indonesia Business Council. Our sister organisation in Indonesia, the Indonesia Australia Business Council (IABC), has a similar history. The Dewan Kerja Sama Perusahaan Indonesia Australia (DKSPIA) was active in the 1980s and evolved into the IABC.

AIBC’s membership is diverse and includes major corporations, professional service providers, banks, insurers, education providers, travel companies, manufacturers, trading and shipping companies, government departments, sports and cultural businesses, students and others.

The AIBC represents its members’ interests in political and commercial circles both in Australia and Indonesia. AIBC members strengthen their business through up-to-date information; benefit from business and social networking; and belong to a business community with significant knowledge and contacts in both Australia and Indonesia. This is achieved through participation in conferences, forums and joint meetings with government, diplomatic and business leaders, and the results of these meetings are communicated to members via AIBC’s monthly e-newsletter, AIBCnews.

There are three primary membership levels: National Corporate Membership; Corporate Membership; and Small Business / Individual Membership. In addition, the AIBC also offers Student Memberships for full-time students and Overseas / Remote Memberships for members located in remote parts of Australia or overseas. If you would like to become an AIBC member, please contact us on 1300 902 878 or visit our website: www.aibc.com.au
Overview

This booklet has been prepared to assist investors who are considering doing business in Indonesia. In a publication of this size, we have only been able to cover the relevant areas in broad terms. In addition, laws, regulations and implementation practices are all subject to change and therefore it is recommended that you seek advice before taking any action.

Indonesia - A General Overview

Geography, Climate and Natural Resources

Indonesia is the largest archipelago in the world, consisting of five main islands – Java, Sumatra, Kalimantan, Sulawesi, and Papua – and about 30 smaller archipelagos totalling approximately 17,508 islands. The archipelago straddles the equator from 6° north latitude to 11° south latitude, and extends from 95° to 141° east longitude. The total land area is approximately 2,000,000 square kilometres (772,204 square miles). Indonesia lies between two continents (Asia and Australia continent) and two oceans (Indian Ocean and the Pacific Ocean). Territorial waters (approximately 81% of the total area) cover about 7.9 million kilometres. Indonesia stretches 5,100 kilometres from east to west and 1,900 kilometres from north to south along the equator. Much of the country is mountainous, and forest covers nearly two thirds of the land.

The Indonesian climate is maritime equatorial; seasons are defined by a wet northwest monsoon, which prevails from December to March, and by a dry east monsoon, from June to September. The general mean maximum temperature is 33°C (91.40F) and the minimum is 21°C (69.80F), except in mountainous areas where cooler temperatures prevail. Humidity is consistently high, particularly during the wet season.

Indonesia has very fertile soil. This fertility is caused by volcanic activity, rivers, rain forests, and a high volume of rain fall. Indonesia also has an abundance of natural resources. In general, Indonesia’s natural resources consist of plantations, food crops, fishery, forestry, and mining.

History

The history of Indonesia is a story of ancient kingdoms, invasions, colonization, revolution, and independence. It started between 3,000 and 500 BC with the migration of Neolithic Malays to the Asiatic mainland, then the arrival of small Hindu kingdoms, followed by Indian Buddhists all of which influenced Indonesia with respect to religion, customs, arts and language. Finally, Islam was introduced to Indonesia by traders from Persia and the west coast of India in the 12th century.
At the end of the 16th century, the Dutch brought Indonesian archipelago under their control which lasted more than 300 years. In 1942 the Japanese occupied Indonesia. After their surrender in 1945 Indonesia declared its independence on August 17, and Mr Soekarno (read: Sukarno) became the first President of Indonesia.

Until 1967, the state under the rule of Soekarno became increasingly uncontrollable, then President Sukarno appointed Suharto to secure the Indonesian state conditions. And Soeharto was appointed to be the second president of Indonesia in 1967 and this decision also followed the results of MPRS session of the General Assembly (MPRS Decree No. XLIV / MPRS / 1968) on March 27, 1968 and since then the government of President Soeharto led Indonesia to 1998.

1998, the Indonesian state condition at the time was not conducive to sue the president Soeharto to step down and was replaced by his deputy at the time, Mr. BJ Habibie. And Indonesia experienced periods of reform under the third president, BJ Habibie.

After the General Election in 1999, Abdurrahman Wahid was elected as the fourth President of the Republic of Indonesia by the People’s Consultative Assembly (MPR). Further political and social unrest during this time resulted in the MPR impeaching President Wahid and electing Megawati Soekarnoputri in July 2001. It should be noted that Megawati Soekarnoputri was the eldest daughter of Indonesia’s first president, Soekarno.

During 2004, Indonesia conducted the first direct election of the President. It consists of three stages - the first is the selection of the national and provincial House of Representatives (DPR and DPRD); The election results are then used to determine which party is entitled to nominate candidates for President and Vice President. The second stage involves the direct election of the President-five team Vice President, so that the Yudhoyono-Kalla and Megawati-Hasyim team faced in the third phase on September 20, 2004, which Susilo Bambang Yudhoyono and Jusuf Kalla won with more than 60 % of the vote.

In 2009, direct presidential election was held the second. And President Susilo Bambang Yudhoyono was re-elected to lead Indonesia over the next five years with the candidate for Vice President Boediono. They won a vote of more than 60% in the first round.

General Election of President and Vice President of the Republic of Indonesia in 2014 was held on July 9, 2014 to elect the President and Vice President of Indonesia for the period 2014-2019. These elections became the third direct presidential election in Indonesia. The general election was finally won by the pair-Joko Widodo Jusuf Kalla to obtain votes of 53.15% in accordance with the decision of the Indonesian Commission on July 22, 2014 the President and Vice President elected inaugurated on October 20, 2014, replacing Susilo Bambang Yudhoyono.

**Laws & Regulations**

Some of Indonesia’s laws are based on old and outdated Dutch law enacted long before Indonesia become independent (in 1945). Changes to some of these laws were made slowly in the mid 1980s, a process which still continues. Such changes have been made to the Tax Law (the latest amendments were made to the Administration & General Procedures, Income Tax and VAT Laws in 2007, 2008 and 2009 respectively), Corporate Law and Capital Investment Law (in 2007), Copyright, Patent and Trademark Law (in 1995), Banking Law (in 1998), Bankruptcy Law (in 1998 and again in 2004), and the
Manpower Law (in 2003). One of the most recently updated laws is the Minerals and Coal Mining Law (2009). New laws and regulations have also been made, principally between 1994 and today. Most of these changes have been made to accommodate the requirements of international and modern standards.

**Population and Social Patterns**

Indonesia’s population in 2014 was approximately 250 million, with a population growth rate of 1.23% per annum over the last five years. Indonesia is the fourth most populous country in the world after China, India and the United States.

Population distribution is, however, not evenly spread, with almost 60% living on Java, the most densely populated island in Indonesia, and 20% in Eastern Indonesia. Urbanization levels are also up as a young population (under the age of 20) dominates the Indonesian population.

Most Indonesians are Malay but those living in Papua are Melanesian. In the eastern part of Indonesia (the Mollusca and Halma eras), there tends to be a blend of these two dominant groups. In addition, people of Chinese origin make up about 3% of the population, together with a small community of Arabs and Indians.

The Indonesian national language is Bahasa Indonesia, although within Indonesia there are about 365 languages and dialects spoken. Foreign languages spoken (especially for business) are English and Chinese (Mandarin).

Approximately 90% of Indonesia’s population are Muslim, while about 5% are Christian, and 3% Buddhist. Hinduism and Confucianism each claim 1% of the population.

In summary, Indonesia has a mix of various cultures and different social patterns. While these differences have often proven beneficial, in some instances they have led to social unrest. Indonesian people are very polite, friendly and ready to offer their hospitality. Decision-making processes are influenced by the tradition of *musyawarah dan mufakat*; that is, mutual agreement and solidarity. Business decisions are sometimes also made based on *musyawarah dan mufakat*.

Indonesia is a member country of the United Nations (UN) and other international organizations such as the International Monetary Fund (IMF), the World Bank (WB), the Asian Development Bank (ADB), the International Development Association (IDA) and the Islamic Development Bank (IDB). It is also an active player in regional affairs, as shown by its membership in the Association of Southeast Asian Nations (ASEAN) and its decision in 1992 to accept the three-year chairmanship of the Non-Aligned Movement (NAM).

**Political System**

The philosophy of the state is *Pancasila* and the five principal beliefs are One Supreme God, Humanity, Unity, Democracy, and Social Justice. Indonesia is a republic under the 1945 Constitution, with the highest authority invested in the People’s Consultative Assembly (MPR).
Indonesia is the third largest democracy in the world after India and the United States. A robust media and civil society, combined with direct and fair elections, are at the heart of Indonesia’s political institutions.

Until 2003 the President of Indonesia was elected by a majority vote of the Assembly, following a general election held at five-year intervals to elect Parties (and their listed candidates) to the MPR. In 2003 the political system was revised – most importantly to provide for the direct election of the President/Vice President, to abolish the MPR and establish House of Regional Representatives Council (DPD).

Indonesia as a Country for Investment

Indonesia presents many opportunities for investment and market development supported by its economic growth, government policies, and natural resources.

The Indonesian government has encouraged investment by issuing regulations which offer advantages for both domestic and foreign investors. Investment, however, contracted following the Asian economic crisis in 1997-1998. Recent years have seen a strong improvement in both direct and portfolio investment.

One of the results of the Asian economic crisis in 1997-1998 and associated political upheavals in Indonesia has been a levelling of the playing field. Where, in the past, it was necessary to deal with certain local partners to be successful (or remain successful) now partners are selected for value-add rather than connections. The economy has also been further deregulated.

In terms of its strategic geographical position at the crossroad of two continents and two great oceans commanding international sea lines, Indonesia is a potential geographical base for the development of exports of goods and services. A large population of more than 250 million also makes Indonesia a viable market with increased domestic demand. In addition, relatively low wage rates offer a cost effective source of manpower for investors. In recent years this has encouraged textile, footwear and clothing manufacturers to relocate part of their production from China where labour costs are subject to significant inflationary pressure.

Indonesia’s rich natural resources also offer comparative advantages for investment. Its energy fuels, minerals, and abundant forests will support the availability of raw materials, which are useful in maintaining the status of production processes.

The combination of large and growing domestic demand and natural resources were important factors that protected the Indonesian economy during the 2008 Global Financial Crisis. So much so that for many Indonesians it was a case of “What crisis?”

According to the Indonesian Investment Coordination Board (BKPM), sectors which offer a promising future include:

1. **Infrastructure**
   Consistent with the intention to privatize the operations of infrastructure (public services) in electrical power, telecommunications, water supply, toll roads and transportation systems, new opportunities will be open to foreign investment. Both the first and current government
of Susilo Bambang Yudhoyono have indicated that they wish to pursue infrastructure projects as a way to generate employment and develop the country.

2. **Supporting Industries (For Small and Medium Enterprises/SMEs)**
   The government’s concept to develop this sector is centered around export oriented industries.

3. **Human Resource Development**
   With rapid economic and industrial development in Indonesia, a shortage of skilled labour, particularly in the medium skill level category will be a major problem. This should provide opportunities for foreign investment. In addition, research and development activities (R&D) especially at the industrial application level, also offer good business opportunities. Foreign investment is welcome in these areas. The government has allowed various education and laboratory facilities (State and privately owned) to freely collaborate with the industry towards achieving this “Link and Match” program.

4. **Food & Agriculture**
   These sectors are considered a top priority because they provide relatively large job opportunities and high added values, namely in terms of:
   a) Direct relationship of the business with the available economic potential;
   b) A direct mass involvement of the people in the production process;
   c) The relatively high potential for foreign exchange earnings, while being less dependent on imported foreign raw materials. Moreover, these areas of business offer a well-established market, albeit with fluctuating prices. In recent years there has been strong growth in oil palm plantations, with Malaysian plantation firms such as Guthrie Plantations (Kumpulan Guthrie Berhad) moving into Indonesia to compete with the established Sinar Mas and Astra Group.

5. **Automotive**
   Sales of motor vehicles have returned to their pre-1997 Crisis levels and motorcycle sales are surging, so much so that roads in most cities are constantly alive to the buzz of motorcycle engines and Jakarta, in particular, is mulling ways to get motorcyclists off the main roads and into public transport. This strong growth is fuelled by reducing interest rates, allowing purchasers to utilize credit more comfortably. 

   The growth creates opportunities for components providers and related services (including financial services, which have seen strong growth in recent years around consumer financing).

6. **Telecommunications**
   The telecommunications sector continues to show strong growth, in particular due to the surge in demand for cellular services. Although it is not currently possible to acquire new licences there are opportunities for product and service providers to work with the established players.

7. **Energy**
   Indonesia’s rapidly expanding economy has helped boost domestic energy demand. With vast potential of energy resources, Indonesia has become main energy supplier for both neighboring countries and world’s major economic power such as Japan and China. However,
the growing demand for domestic industry and household consumption makes the need for optimization more important. The government is finding ways to develop new sources of energy and balance local needs with the advantages of exports. Please find the following data on Indonesia’s vast natural resources:

<table>
<thead>
<tr>
<th>Crude Oil</th>
<th>Natural Gas</th>
<th>Thermal Coal</th>
<th>Geothermal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 3.75 bn barrels of proven reserves</td>
<td>About 112 Tr cubic feet of reserves</td>
<td>World’s second largest exporter</td>
<td>Home to 40% of world’s resources</td>
</tr>
</tbody>
</table>

Source: Ministry of Energy and Mineral

a. **Oil and Gas**
The key challenge for the government, especially in the oil and gas sector, is how to balance exports with domestic needs for energy. With daily domestic demand of approximately 1.5 million barrels per day, Indonesia needs to build at least needs two new oil refineries. New discoveries have helped Indonesia’s oil production, and with the right technology, Indonesia’s competitiveness of oil production has seen an improvement in 2009; according to Ministry of Energy and Mineral of the Republic of Indonesia, the cost to produce oil in 2009 is US$ 11.95 per barrel, better than industry average of US$ 34.34 per barrel.

b. **Electricity**
By the end of 2009, generating capacity of the whole of Indonesia stood at 30,500 MW. The electrification rate has only reached 65%, and this is disproportionately distributed on the islands of Java and Bali. This low electrification rate is reflected in per capita consumption of just under 600kWh. In order to increase underserved areas and increase electrification rates, Indonesia must generate new capacity at a rate of 9.2% annually up until 2027 (National Electricity Planning). Meanwhile, consumption is growing at a pace of 6-7% annually.

c. **Coal**
Indonesia’s coal production reached around 320 million tons in 2010, while output in 2009 was above 250 million tons. This places Indonesia as the sixth largest producer of coal in terms of output, behind China, US, Australia, India and Russia. However, in terms of exports of thermal coal, Indonesia has emerged as the world’s top exporter due to its strategic location. In addition to strategic location, Indonesia is a low-cost producer because of its low cost of labor and its geology, whereby much of the coal is found near the land’s surface. Most coal development activities take place in South Kalimantan, Riau, Central Kalimantan, Jambi and East Kalimantan.

d. **Renewable Energy**
Indonesia is striving to create a low-carbon economy and President Yudhoyono has taken a lead on committing to cut carbon emissions by 26% from business as usual case by 2020, without international support, and up to 41% with the help of international donors. In our national energy strategy, Indonesia has also committed to allocating 20% of the energy mix for renewable resources by 2025.
In the future, to prepare for fossil energy depletion and to support the national carbon reduction program, Indonesia must more actively engage in developing environment friendly energy supplies. The table below shows Indonesia’s renewable energy potential.

<table>
<thead>
<tr>
<th>Renewable Energy Source</th>
<th>Potential</th>
<th>Installed Capacity</th>
<th>Installed to Potential Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hydro Power</td>
<td>75.67 GW</td>
<td>4.2 GW</td>
<td>5.55</td>
</tr>
<tr>
<td>Geothermal</td>
<td>28.53 GW</td>
<td>1.19 GW</td>
<td>4.2</td>
</tr>
<tr>
<td>Micro/Mini Hydro</td>
<td>500 MW</td>
<td>86.1 MW</td>
<td>17.56</td>
</tr>
<tr>
<td>Biomass</td>
<td>49.81 GW</td>
<td>445 MW</td>
<td>0.89</td>
</tr>
<tr>
<td>Solar Power</td>
<td>4.8 kWh/m²/day</td>
<td>14.1 MW</td>
<td>--</td>
</tr>
<tr>
<td>Wind Power</td>
<td>3 – 5 m²</td>
<td>1.4 MW</td>
<td>0.015</td>
</tr>
<tr>
<td>Nuclear (Uranium)</td>
<td>3 GW</td>
<td>--</td>
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</tr>
</tbody>
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Source: Ministry of Energy and Mineral

7. Industry

Supply and Demand Industry Petro-chemical in Indonesia

Table 1. Supply and Demand Product Petro-chemical Olefin

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<tr>
<td>PE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumption</td>
<td>832</td>
<td>955</td>
<td>1,031</td>
<td>1,114</td>
<td>1,203</td>
</tr>
<tr>
<td>Local Supply</td>
<td>501</td>
<td>778</td>
<td>778</td>
<td>778</td>
<td>778</td>
</tr>
<tr>
<td>Import Supply</td>
<td>391</td>
<td>327</td>
<td>403</td>
<td>486</td>
<td>600</td>
</tr>
<tr>
<td>Export</td>
<td>80</td>
<td>85</td>
<td>150</td>
<td>150</td>
<td>175</td>
</tr>
<tr>
<td>Consumption</td>
<td>1258</td>
<td>1,359</td>
<td>1,467</td>
<td>1,585</td>
<td>1,711</td>
</tr>
<tr>
<td>Local Supply</td>
<td>471</td>
<td>778</td>
<td>780</td>
<td>780</td>
<td>780</td>
</tr>
<tr>
<td>Import Supply</td>
<td>637</td>
<td>581</td>
<td>687</td>
<td>805</td>
<td>931</td>
</tr>
<tr>
<td>Export</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>0</td>
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<td>PP</td>
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Business Environment

Economy

Indonesia is a mixed, free-market economy.

Before the economic crisis struck in 1997, Indonesia’s Gross Domestic Product (GDP) ranked 22nd in the world, with real GDP growth pegged at 7.1% or totalling Rp.624, 337 billion in 1997. This translated to a per capita income of approximately US$647 (1US$=Rp. 4800). Growth for the three to four years post-crisis was low, with a contraction in 1998 followed by stronger growth in 1999. Such growth was led by the government and consumer demand rather than capital investment.

In recent years GDP growth has improved and Indonesia is now included in the G20 grouping of countries – the sole representative from the ASEAN countries.

Although future growth is projected at 4-5% per annum, growth of 6% per annum is required to absorb the 2.5 million new entrants to the workforce each year. The government recognizes this and has stated its desire to reduce the “high-cost economy”, focus on infrastructure development and thus revitalize foreign and domestic investment as a driver of growth towards 6%. Between 2000 and 2004 economies began to recover with an average GDP growth of as much as 4.6% per year. After that Indonesia’s GDP increased by an average rate of about 6% per year, except in 2009 and 2013 (down to 4.6% and 5.8%, respectively), when the global financial crisis and uncertainty occur.

Investment Outlook

The modern era of foreign investment in Indonesia was initiated with the Foreign Investment Law of 1967. This law was established to generate a balance between the business needs of investors and Indonesia’s social and economic development priorities. Over the past few years, the Indonesian government has announced a significant number of deregulation measures designed to improve efficiency and international competitiveness in the economy. Sectors that have been deregulated include banking and finance, retail and distribution, imports and exports, investment, industrial licensing, shipping and tourism.

Some basic principles that are implicit in the Foreign Investment Law are:

- Foreign business should be able to operate in Indonesia with full financial flexibility and full access to international technology and resources. This includes the right to repatriate profits at any time and the right to employ expatriate workers;
• A proportion of the benefits from foreign business operations should flow directly to Indonesian nationals. This includes hiring and training Indonesian employees, as well as the direct participation by Indonesian nationals in the beneficial ownership of the company.

Following the proclamation of the Capital Investment Law in 2007, the differentiation of treatment between foreign and Indonesian investors was removed (although there are still sectors that are closed to, or only partly open to foreign investors), together with the abolition of the requirements for foreign investors to comply with a 30-year licensing period and partial divestment requirement.

Most medium and large scale investment projects proposed by domestic and foreign investors are licensed by BKPM. BKPM also provides some concessions by way of exemptions from customs duty on most capital equipment and raw materials for the initial parts of the project. Domestic investors who are prepared to forgo the duty exemptions need not acquire approval from BKPM, although they must receive approval under various land and zoning laws.

A company established with foreign capital investment is known as a PMA Company, whilst a company established with Indonesian investment (but with BKPM approval) is known as a PMDN Company. (Legally all companies are limited liability or “PT” companies, however, the “PMA” acronym is used to indicate whether there are foreign investors or not.)

Beside BKPM, every province in Indonesia has a regional investment service agency called the Regional Investment Coordinating Board (BKPMD). BKPMD provides recommendations and permits such as working permits for expatriates.

Following the issue of the Capital Investment Law, the government issued decrees establishing a list of sectors that were either wholly or partially closed to foreign and/or (in more limited circumstances) domestic investment. These amendments are stipulated in Presidential Decree (Perpres) No. 39 in 2014 on List of Business Fields Closed and Business Fields Open with Conditions to Investment, that was signed by President Susilo Bambang Yudhoyono on April 23, 2014. The new decree are meant to substitute the previous decree, Presidential Decree No. 36 in 2010.

BKPM has used clear and transparent criteria to account for its policy positions regarding the Investment Negative List, although foreign investors sometimes regard the Investment Negative List as an ad-hoc document. BKPM has clarified its rationale on the Investment Negative List, including why it is offering grand-fathering provisions and a backstop against reversion of ownership splits between foreign and Indonesian investors for partially closed sectors. BKPM has been focussing its efforts towards sectors that are considered to have the largest value potential, including courier services, hospitals, the creative industry and education.

The Investment Negative List encourages domestic investment through the Indonesian capital markets and strategically manages the parameters of foreign direct investment in a balancing act to support Indonesian interests whilst ensuring that the country remains conducive to foreign investment.

Thus, although there is a general trend towards liberalisation of the sectors that are open for foreign investment, there have been some increases in protection for some sectors.

For example, previously primary food and crop cultivation industries were open to 95% foreign ownership, whereas this is now reduced to a maximum of 49% to reduce the risk of excessive foreign control of these sectors in the future. That said, companies that have already received approval for 95%
foreign ownership (and that have implemented their investments) are not required to divest to the new maximum percentage.

An example of greater openness driven by the government’s priorities is in the health care sector (hospitals included). These are now permitted to be up to 60% foreign owned throughout Indonesia, whereas previously foreign investment was limited to Medan and Surabaya, where 65% foreign ownership was permitted. This revision is intended to encourage the development of health care throughout Indonesia.

In addition to the Investment Negative List requirements above, other issues include:

1. Although the Company Law permits a company to be established with Issued & Paid Up Capital of at least Rp 12.5 million, in practice BKPM’s policy requires a minimum Issued & Paid Up Capital of US$ 100,000 on the grounds that US$ 100,000 equates to their expectation of a mid-to-large sized company. (BKPM is not interested in pure SME foreign investors.)

2. Although there are no minimum investment requirements, in practice BKPM requires minimum investments of US$250,000 per proposed Line of Business (e.g. if the investment will conduct 2-3 Lines of Business such as (i) Importer and Distributor (wholesaler), (ii) IT Consultant (iii) After Sales Services then the minimum investment required is US$ 750,000). The investment must be funded by at least US$ 100,000 of equity; the balance can be debt, subject to a general maximum Debt/Equity ratio of 3:1.

3. A company may be established in the form of:
   a) a joint venture company between foreign investors and Indonesian citizens or Indonesian legal entities, including state-owned companies, cooperatives or Indonesian-owned corporate entities; or
   b) a company which is wholly owned by foreign individuals or foreign legal entities.

4. The company may be established anywhere within the territory of the Republic of Indonesia. Government regulations stipulate that the business of a company may be established on land owned by it as long as such land is in an area designated for industrial use, in accordance with the Regional Location Plan or Regional Detailed Location Plan.

   It is not clear how land can be owned by a company before the company has been established. This provision is presumably intended to cover the situation where a proposed joint venture partner or Indonesian shareholder owns land, which is intended to be used in the company’s business.

5. General Issues of the transfer of shares as per paragraph 6 may be conducted through direct placement or through the Indonesian stock market are investment projects in sectors such as oil, gas, mining and forestry are approved directly by the technical ministry specifically in charge and Indonesia is strengthening legislation to protect intellectual property. Indonesia’s progressive reforms have increased confidence among both foreign and domestic investors, and have received support from General Agreement for Tariff and Trade (GATT) nations.
Deregulation of Retail and Wholesale Sectors

The Wholesale Sector has been open for foreign investment since 2000, however, the Retail Sector remains closed except if the proposed investment is of a large-scale nature (such as a Department Store or Hypermarket with floor space of at least 2,000sqm).

Revised Bankruptcy Laws

The Bankruptcy Law was amended on October 18, 2004 by Law No. 37/2004. The Law contains several amendments to the prevailing Bankruptcy Law of Indonesia. We set out below the most important new features of this amendment.

1. **Solvency**
   In order to commence bankruptcy proceedings, the debtor should (a) have two or more creditors and (b) have failed to pay at least one debt which is due and payable. All debtors may be declared bankrupt and any creditor, even a foreign creditor, may file a bankruptcy petition. Banks may only be declared bankrupt at the request of Bank Indonesia; securities companies may only be declared bankrupt at the request of BAPEPAM (the Capital Market Supervisory Agency), and insurance, reinsurance or state enterprises may only be declared bankrupt at the request of the Minister of Finance.

2. **Competent Court**
   The debtor may only be declared bankrupt by a new Special Commercial Court. The court is called Pengadilan Niaga. This is meant as a step to differentiate bankruptcy matters from the courts of general jurisdiction and avoid some of its problems. The aim is for the court to be staffed by judges who are “honest, just and always demonstrate moral behaviour.”

3. **Timetables**
   The new Bankruptcy Law introduced a strict set of timetables that should expedite bankruptcy proceedings. The Bankruptcy Court is required to summon the debtor. The hearing resulting from this summons is to be held no later than 20 days after registration of the bankruptcy petition. The court is required to render a judgement within 30 days upon registration of the bankruptcy petition. Similar time limits apply to legal relief, such as appeal by cassation and civil review.

4. **Foreign Currency**
   If the debt claimed is denominated in a non-Indonesian currency, the debt is to be calculated in rupiah at the rate of exchange on the day the debtor has been declared bankrupt.

5. **Composition**
   A debtor may offer a composition plan both in bankruptcy and in suspension of payments. Upon acceptance by the creditors of the plan the debtor is free from the remainder of its debts. Secured creditors and creditors who enjoy a statutory right are not bound by the composition plan. They are entitled to full payment of their claims. A composition plan may include an offer to pay creditors in full or in part. It may also allow for a conversion of debt into equity. Acceptance of a composition plan requires the approval of more than half of the creditors in attendance representing at least two thirds of the amount of the claims of the creditors who are present at a creditors meeting.
6. **Suspension of Payments**

The suspension of payments to a company’s creditors will provide relief against pressing creditors in order to reorganize and continue business, and ultimately to satisfy creditors. The maximum period for suspension of payments is 270 days. The decision on the duration of the suspension of payments is creditor-driven. Immediately after the court has provisionally granted the suspension of payments, the administrator shall convene a creditors’ meeting. If a suspension of payments is not granted by the creditors at the creditors’ meeting, the Court will automatically declare bankruptcy.

In theory, the ability of a creditor to force a debtor into bankruptcy with speed and simplicity should be considered effective against a debtor. This is balanced by the ability of a debtor to apply for suspension of payments, to give them a realistic chance of survival by reorganizing and negotiating a deal with creditors.

It should be noted that the old bankruptcy laws were almost never used due to a variety of deficiencies. This proved difficult for foreign creditors wanting to claim funds from local companies.

Although the new law contains the essential elements of a good bankruptcy law the ultimate success depends on the willingness of the courts to apply the law. To date most of the decisions made by the Bankruptcy Court are in favour of the debtor and many have been questioned by legal experts.

**Anti-Monopoly Law**

Following proclamation of the Anti-Monopoly Law on March 5, 1999 (Law No. 5/1999), a commission was established to assess and rule on potential monopolistic practices – the KPPU.

To date the Commission’s rulings has seen varied results, issuing some regulations that appear to cut across areas that need not be regulated by this Law.

**International Trade**

**Trade Policy**

Generally, the Indonesian government’s policy is no longer over-protective of local interests. Deregulation has removed many non-tariff barriers and decreased tariffs.

For example, in 1994 the government again announced a new regulation package which lowered tariffs under 739 tariff codes and eliminated import surcharges under 108 tariff codes, leaving only 112 tariff codes with import surcharges, 13 of which were lowered. Since then, a number of new regulations have been issued to encourage foreign investment and exports.

The import of certain products was previously restricted to approved importers. For instance;

- The government’s Bureau of Logistics (BULOG), which deals with food distribution and price control had a monopoly on the import of basic commodities (agricultural products), such as rice.
The state-owned PT Krakatau Steel (now listed public company) was appointed as the sole importer of iron and steel goods (“flat products”). Importation of foods, beverages, explosives, pharmaceutical raw materials, and milk powder was subject to quotas by designated state enterprises.

These practices have now changed.

Until the mid 1990s Indonesia has always relied on oil and gas products as a major source of export to cover the need for foreign exchange. Realizing the severe cyclic extremes in oil prices, the Indonesian government has encouraged the growth of non-petroleum exports to replace oil and gas as the nation’s leading source of export revenues. In 1987, for the first time, non-petroleum export revenues surpassed revenues from the oil and gas sector and up until 1998, experienced double-digit growth. The Indonesian economic development strategy will depend on more diversified commodities with a bigger percentage of value added manufactured goods in the export mix.

In order to encourage investment, the government grants relief on customs duty on capital goods used for conventional purposes as follows:

- main equipment - maximum tariff of 5%;
- raw materials - maximum tariff of 5% for the first two years of production;
- Consumable/spare parts for own use - maximum tariff of 5% for the first two years of production.

Except for motor vehicles, which attract import duties of 100% to 300%, the import duties on most other products are 5-20%, with a maximum of 40%.

The government also permits the import of some second hand equipment in accordance with Minister of Industry & Trade Decree No. 77 / M-DAG / PER / 12 / 2012 of December 31, 2013 as amended by No. 39 / M-DAG / PER / 7 / 2014 of December 31, 2014 and valid until December 31, 2015. The list of equipment as mentioned on the regulation will be reviewed and amended every year.

Indonesia exports large quantities of crude oil, liquefied natural gas (LNG) (of which it is one of the world’s largest exporters), minerals and thermal coal, and palm oil (it is now the largest producer, taking over from Malaysia). The country produces 80% of Southeast Asia’s oil and remains a large oil producer although it is no longer registered as a member of OPEC because it is a net oil importer (traditionally it exports “heavy” oils whilst importing refined oils for transportation needs).

In line with the nation’s commitment to reduce its dependence on oil and gas for its foreign exchange earnings, it has pursued increased exports of manufactured products, minerals (especially coal) and new cash crops. Oil and gas exports, which previously comprised over 80% of Indonesia’s export earnings during the 1970s and early 1980s, have decreased in importance; as at September 2004 the account for less than one third of Indonesia’s export revenues. Indonesia is also one of the world’s largest producers of tin.

In 2013, total exports were US$32.6 billion, while total imports reached US$45.3 billion, resulting in a trade deficit of US$12.7 billion.
Bonded Area

The Indonesian government has established a system of duty-free or bonded zones in various strategic locations. These bonded zones combine the characteristics of a free-trade zone and an industrial estate. Each location is supported by an infrastructure comprising advanced systems for cargo handling, shipping, and communications to enable manufacturers to import, store, and transport goods and components free of all duty when used in the production of goods for export.

However, a company residing outside the bonded area may apply for bonded zone facilities through the Directorate General of Customs within the Ministry of Finance if 75% of the company’s production is exported.

Bonded zones popular among investors are:

   a) Batam Island, 20 km south of Singapore, is administered by the Batam Authority to whom investors can apply for investment approvals. Applications from foreign investors are processed by BKPM with assistance from the Batam Authority.
   b) The free-trade zone located in the main port area of Tanjung Priok (Jakarta) is administered by PT Kawasan Berikat Nusantara (KBN), a semi-government organization. Investors wishing to set up their projects in bonded areas may make an application through the Bonded Area Authority to BKPM.

Table 2 — Foreign Trade, Indonesia, 2009 – June 2014 (million USD)

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Employment

Labour Relations

Indonesia’s greatest asset is its people. In recent years the education level of qualified workers has increased with better quality Indonesian universities and local selective schools. In addition many Indonesians are also educated overseas and/or have worked overseas.

Indonesia’s labour pool is estimated at more than 100 million with the potential work force growing at almost 2.4 million per annum. As Indonesia has evolved from a predominantly agricultural economy to a mixed economic base, the role of women has also evolved with many employed in manufacturing and service-related professional industries.

The Ministry of Manpower is the government agency that regulates all employment practices in Indonesia. It continuously reviews conditions of employment, maintains relationships between employers and labour unions through collective labour agreements and reviews the development of manpower training programs. Industrial disputes are referred to a labour court for resolution. In terms of investment, investors have full authority to appoint their own management, but the enterprise must use Indonesian manpower (except in positions where suitable Indonesian applicants are not available). Employers of expatriates are required to implement training programs for Indonesian employees and it is necessary for foreign companies to have an Indonesian national employed as a counterpart to every expatriate employee. The employment of local staff requires careful planning to ensure the rights of employees adhere to manpower rules. The Manpower Law (No. 13/2003) and its related implementing regulations should be carefully reviewed and understood by management.

Working Conditions

Regional minimum wage rates (UMR) are regulated by the Department of Manpower and Transmigration and companies are free to compensate employees over and above this minimum wage. These vary between provinces. Jakarta’s regional minimum wage rate for 2014 is Rp 2,441,301 per month.

Indonesian employees are entitled to receive 13 months of salary or wages in one year. The additional one month salary is known as THR and is paid prior to the annual religious celebration of the particular employee, namely: Islamic’s Hari Raya Lebaran, Christianity’s Christmas, Hindu’s Nyepi and others.

Tax should be deducted from the salaries that are paid to employees. In the past, however, employers often paid the income tax due on salary and wages because employees did not have personal tax registrations and were only focused on their take-home salary. As a consequence, many salaries were
negotiated on a “net/take-home basis”, so care should be taken that new employees understand whether an offered salary is gross or net.

Traditional working hours are eight hours a day; five days a week and overtime is required to be paid to all “non-decision-making” personnel.

In general, employers are also expected to comply with:

1. The Safety Act which basically requires employers to provide protection against fires, industrial accidents and defective building structures.

2. The Worker Social Insurance Program which requires employers to adopt a paternal role, making them responsible for the health and well-being of employees and their families. Companies are expected to comply with this program by applying to JAMSOSTEK (a government owned workers’ social insurance company), but may also opt out of the medical component and apply to other insurance companies as long as the program gives better medical benefits to the employees than the JAMSOSTEK program.

Parliament has recently passed a new law (No. 40/2004) which proposes to establish a more universal social security program. The National Social Security System (SJSN) is intended to provide all the benefits of JAMSOSTEK plus cover workers in the unofficial sector and the unemployed. To date the implementing regulations effective 1 Jan 2014, though there are suggestions that the total contribution rate could exceed 10%-12% of monthly payroll with no opt out for the medical component.

Foreign Personnel

The basic concept relating to expatriate employment is that expatriates can be employed in positions that cannot be filled by local personnel. Foreign investors have the authority to appoint their own management, but must use local personnel, except in positions where suitable local personnel are not available. Expatriate personnel are permitted employment on the condition that regular training will be provided, either locally or abroad to enable gradual “Naturalization” of the expatriate’s position. In practice, there is limited supervision of this requirement except in oil & gas, mining and banking.

An exception to this relates to Directors and Commissioners of PMA Companies, who can always be foreign personnel.

Working permits for expatriates are valid for a period of a year or less (and can be extended). Normally there are no obstacles in obtaining approval to employ expatriates where the government believes qualified local people are not available to fill the positions. The government regularly announces a list of positions that are closed to non-Indonesian personnel.
Types of Business Organizations

In Indonesia, business organizations are classified as either private-owned entities or government owned entities.

Private-owned entities, which are commonly established, include limited liability Company (*perseroan terbatas / PT*), basic partnership (*maatschap*), open partnership (*firma*), limited partnership (*commanditair vennootschap*) and cooperative (*koperasi*). It should be noted that the major forms of government-owned entities are state-owned limited liability company (*Perusahaan Perseroan or Persero*), public enterprises (*Perusahaan Umum or Perum*), and local state owned company (*Perusahaan Daerah*).

**Limited Liability Company (PT)**

A limited liability or PT company is an entity established by at least two parties, which must be drawn up in a notarial form approved by the Minister of Law & Human Rights. The Articles must be registered in the local court and published in *Lembaran Berita Negara* (the State Gazette).

The basic features of the PT are:

1. The liability of the shareholders is limited to the value of shares they have;
2. PT is managed by a board of directors which is supervised by a board of commissioners;
3. The voting rights of shareholders is based on one share one vote principle;
4. The board of directors and the board of commissioners are responsible to the shareholders’ general meeting;
5. At least two independent founders (shareholders) are required to establish the PT;
6. Joint and several liability of founders exists until the deed of establishment has been approved by the Minister of Law & Human Rights, and
7. Joint and several liabilities of directors exist until the approved deed of establishment is registered with the relevant local Court Office and published in the *Lembaran Berita Negara*. 
Basic Partnership

The basic partnership is a simple type of business organization which is formed by at least two parties, without any requirements to follow formal procedures or government approval. It is usually used by lawyers, notaries, accountants, and other similar professionals.

Although the assets can be held separately, each partner has limited authority to bind the others. In conducting business, each partner has equal and unlimited liability.

Open Partnership

Open partnership is a specific form of basic partnership, which is commonly used by smaller trading and service enterprises. To establish an open partnership, founders must draw up a partnership agreement in a notarial form, which is registered with the Ministry of Justice & Human Rights.

In terms of asset management and liability, an open partnership is the same as a basic partnership. However, each partner may bind the partnership to third parties and give several liabilities to some partners.

Limited Partnership (CV)

An extended form of open partnership is a limited partnership. This organization has one or more silent partners who are not involved in management of the organization.

As with other partnerships, a limited partnership allows partners to hold the assets separately. Management must be executed by active partners with unlimited liability. The silent partner is not permitted to manage the company and has limited liability according to their capital contribution.

Cooperative

Article 3 of the 1945 Constitution of the Republic of Indonesia states that cooperatives shall have an important role in Indonesia’s economy and development. The Indonesian government has therefore emphasized the development of cooperatives by issuing the Cooperative Law No. 12/1967.

A cooperative is a type of business established and executed by its members where all of its income will be used for the members’ welfare. In the establishment of the cooperative, the articles of association should be approved and validated by the head of the Regional Cooperative Office. The cooperative is then supervised by the government agency.

Other characteristics of a cooperative are:

1. The liability of the members is limited to the amount of their contribution capital;
2. Every member has one vote in the annual members’ general meeting;
3. The cooperative is managed by a board of executives and supervised by a board of supervisors who are responsible to the annual members’ general meeting.
**State-Owned Enterprise**

A Persero is usually formed by a government agency, which involves the pertinent technical Ministry and Ministry of Finance according to the Commercial Code. Basically, the features of the Persero are the same as a PT in the private sector.

**Public Enterprise (Perum)**

Perum is formed by the central government to provide services on public utilities such as electricity, post and telecommunications, etc. Technically, it is supervised by the relevant technical Ministry and its operation is controlled by the Ministry of Finance.

The main characteristic of a Perum is that it specially operates public utilities for the community, and it is a non-profit enterprise.

**State-Owned Limited Liability Company (Persero) - BUMN**

The BUMN is established by the local government to operate public utilities in each province or at district level. The establishment should be approved by the Governor and legalized by the Ministry of Internal Affairs.

The main characteristics of the PD are that it is a separate legal entity, usually a small or medium-sized corporation, controlled by the local government, and established to raise additional revenues for the local government.

**Foreign Enterprise Entities**

The common business forms established by foreign investors in Indonesia are (1) foreign joint venture company, (2) branch of a foreign company, (3) representative office, and (4) regional representative office.

**Foreign Joint Venture Company (PMA)**

A PMA company is a PT Company that is established as a joint venture between foreign investors (and also Indonesian partners if the sector is limited to less than 100% foreign ownership). The joint venture may involve legal entities (corporations) or individual persons. As a PT company, the PMA Company is also subject to the Company Law. The minimum Issued & Paid up Capital for a PMA Company is US$ 100,000 whilst the minimum planned investment is US$ 250,000 per Line of Business.

**Branch of Foreign Company**

The Indonesian government allows foreign companies to open branch offices under certain conditions. In practice this applies to banking and certain mining industries. The common forms of branch office operation in oil and gas mining are Production-Sharing Contracts.
• **Production-sharing contracts (PSC)**

The PSC is a business agreement between the government and a foreign company (or an Indonesian company) to explore for oil and gas under which all revenues will be distributed to the government and contractor in accordance with the agreement. Other forms of participation involved in product-sharing concepts are technical assistance contracts, and joint operation agreements.

**Representative Office**

The government allows foreign companies to open a representative office in Indonesia. In general, the application can be submitted for approval to the Department of Trade or the Department of Public Works, The Department of Trade or BKPM depending on the sector in which the representative office will operate.

A representative office under control of the Department of Public Works is allowed to engage in construction and construction consulting activities by entering a joint operation agreement on a project by-project basis with an Indonesian entity as its partner.

However, a representative office licensed by the Department of Trade is restricted to a narrow scope of activities such as intermediary activities, handling promotional activities, and gathering information for the head office abroad. It may not perform operational business or trading activities such as accepting orders, bidding for tenders, signing contracts, importing, exporting, and distributing. The authority to License and Administer department of Trade representative office has recently been transferred to BKPM.

The representative of these representative offices may be an Indonesian individual or a foreign citizen.

The license for the Department of Public Works Representative Office is Valid for 3 years (with renewal possible), compared to a variable 1-3 years renewable license under the Department of Trade. Until recently the license for a BKPM Representative Office was unlimited; this has now been reduced to 5 years on the basis that the foreign investor is expected to have reached a “go-or-no-go” decision on its potential investment in Indonesia within this period.

**Regional Representative Office**

A multinational company may establish a regional representative office (RRO) licensed by BKPM to manage their operations in more than one ASEAN country. In Indonesia, an RRO is permitted to be established in one of Indonesia’s main cities, and is limited to the employment of two expatriates to execute the function of monitoring and coordinating management within the region.
Financing

Financing facilities in Indonesia are obtained from banks operating in Indonesia and the capital market. Other types of financing available are offshore loans and private placements through financial institutions.

Financial Services Authority

The Financial Services Authority (OJK) is established in a bid to ensure that the overall activities within the financial services sector are:

- Implemented in an organized, fair, transparent and accountable manner;
- Able to realize the financial system that grows in a sustainable and stable manner; and
- Capable of protecting the interests of consumers and the society.

The main function of OJK is to promote and organize a system of regulations and supervisions that is integrated into the overall activities in the financial services sector.

Banking

Bank Indonesia is the central bank and is responsible for the regulation and administration of the Indonesian banking system.

Since 1997 the government has released control of the foreign exchange rate and opened the system to market forces.

The banking system in Indonesia is currently supported by five state owned banks. There are also a significant number of privately owned banks, foreign joint ventures and foreign bank branches, totally around 135.

Restructuring of the banking sector following the economic crisis of 1997 has seen the entry of foreign investors into many of the large locally owned banks.

Bank Indonesia also plays a role in respect of foreign investment activities as follows:

1. Monitoring the PMA banking and investment account that a foreign joint venture company must open in order to pass all foreign currency entering Indonesia;
2. Ensuring that capital invested in a foreign investment originates from offshore;
3. Registering all offshore loans received by all companies including PMA companies.
Re-swap facilities to commercial banks are also provided by Bank Indonesia. Swap maturity has recently been extended from six months to up to three years. The swap premium is based on market conditions; normally, this is the difference between the average domestic deposit rate and London Interbank Offered Rate (LIBOR).

There are no foreign exchange controls in the Indonesian banking system. Accordingly, investors may freely transfer funds to and from abroad. Repatriation of profits, costs related to expatriate employment, expenses (including loan principal and interest, royalty and technical fees) and capital are permitted.

No prior permits are necessary to transfer foreign exchange. In addition, there are no restrictions on outward direct investment. However note that there is a reporting requirement to Bank Indonesia by the banking intermediary where funds transferred exceed US$10,000.

**Foreign Exchange Control**

There are limitations on the ability to transfer / bring Rupiah into or outside Indonesia,

There are, however, no exchange controls on foreign currency in the Indonesia banking / system and accordingly, investors may freely transfer foreign currency funds to / from abroad. Repatriation of profits, costs related to expatriate employment, expenses (including loan principal and interest, royalty and technical fees) and capital are also permitted.

No prior permits are necessary to transfer foreign exchange. In addition, there are no restrictions on outward direct investment. However note that there is a reporting requirement to Bank Indonesia by the banking intermediary where funds transferred exceed US$10,000 or if more than US$100,000 of US$ or equivalent is purchased or sold during a month. The main purpose of the second threshold is to avoid currency speculation.

A law passed in May 2011 also restricted the use of non-Rupiah currencies for domestic transactions. This law, which was effective in May, 2012, requires that transactions within Indonesia (excluding transactions with foreign parties) shall be settled in Rupiah. That is, although the contract/agreement may specify pricing in a foreign currency the actual settlement shall be in Rupiah using the exchange rate at that time. Ubtul now, however, implementation appears to be limited to protecting the right to receive Rupiah if the contract is stipulated in Rupiah.

**Capital Market**

Currently, there are approximately 500 companies listed on the Indonesian Stock Exchange with a total market capitalization of approximately Rp. 4,800 trillion, with 10 of the largest publicly listed contributed to almost half of the total market cap. Under the capital market regulations, foreign and domestic investment companies may raise funds by selling shares through the Indonesian Stock Exchange.
Policies and regulations relating to Indonesia’s Capital Market have been significantly adjusted over past years to encourage both foreign and domestic investment in the capital markets. Efforts have been made by the Indonesian Capital Markets Supervisory Agency (Bapepam) to ensure that the capital markets are fair, efficient, and liquid. New requirements are designed to improve disclosure, prevent share-price manipulation and raise standards of eligibility for market participants.

Other fundamental changes made in the late 1980s were focused on widening investment flexibility and freeing up additional sources of investment. These changes included allowing foreign companies to participate in equity issues; and enabling bank and non-bank financial institutions to raise capital, for the first time, through the issuance of shares on the stock market.

To further encourage share ownership a recent tax regulation permits a reduction of the corporate tax rate from 25% to 20% for publicly listed companies that also have a minimum spread of shareholders, in addition to Founders’ share that is subject to less tax on capital gain when being sell out (Final Tax tariff is “only” 0.1%).

Other Sources of Financing

Indonesian individuals and companies (including PMA companies) are permitted to borrow from overseas; however, they must register these loans with Bank Indonesia and then submit monthly reports regarding the status of these loans. Failure to register and report will result in penalties that, on accumulation, become significant.
Taxation

The Indonesian income tax structure is based on a self assessment system and combines a series of withholding taxes on day-to-day business dealings with a broad-based value added tax on revenues. The taxation system in Indonesia has been through extensive revision and modernization with the latest amendments (re: Value Added Tax) effective from 1 April, 2010.

The government of Indonesia categorises its principal taxes into three areas:

- **State (national) Taxes**
  This type of tax includes income tax, valued added tax, and sales tax on luxury goods, stamp tax, property tax (on land and buildings)
- **Regional Taxes**
  This type of tax includes development tax, motor vehicle tax, household tax, road tax, advertisement tax, and radio and television tax.
- **Customs and Excise Taxes**
  This type of tax includes export tax, import duty, and special taxes on tobacco, sugar, alcohol and gasoline.

Income Tax

**Concept of Income Taxation**

Tax residents of Indonesia are taxed on their worldwide income, irrespective of whether the income is remitted to Indonesia or not, with a credit for tax paid offshore. The definition of income according to Indonesian law is very broad and generally relates to any increase in economic prosperity received or accrued by a taxpayer whether originating from inside or outside Indonesia. The definition applies equally to both individuals and businesses operating via corporate structures.

**Income Subject to Taxation**

Income is defined as worldwide income of individuals or corporate entities and would include the following income sources:

1. Wages and salaries
2. Commissions
3. Bonuses
4. Pensions
5. Compensation for work performed
6. Lottery prizes and awards  
7. Interest  
8. Capital gains on property  
9. Dividends  
10. Royalties  
11. Foreign exchange gains  
12. Insurance and reinsurance premiums  
13. Rents and whatever compensation received in connection with the use of assets.  
14. Refunds of tax payments  
15. Gain from revaluation of assets

Business Expenses & Taxable Income

Subject to specific provisions regarding allowable expenses, taxable income is calculated on normally accepted accounting principles and accrual based accounting.

Deductions allowed against income in the determination of taxable income are broadly defined as costs incurred in earning, collecting and maintaining income. These costs include depreciation, amortization, lease payments, interest, royalties, service fees, employee remuneration, business insurance premiums, some intercompany charges, travel costs, and pension contributions to pension funds approved by the Minister of Finance.

In particular there are no tax deductions for the following expenses:

1. Distributions of profits (e.g. dividends);
2. Provisions to a reserve fund (e.g. provisions for doubtful debts or provisions for retirement);
3. Life, health and scholarship insurance premiums (unless included as assessable income for the employee);
4. Benefits in kind provided to employees. This includes the provision of housing, etc. (It should be noted that these non-deductible benefits are also not assessable in the hands of the employees);
5. Gifts not related to business activities;
6. Inheritances, donations, and income tax payments;
7. Costs incurred for personal benefit;
8. Excessive compensation for work performed by shareholders or other parties with a special relationship to the taxpayer;
9. Administrative sanctions in the form of interest, fines and similar as well as criminal sanctions related to implementation of the tax laws and regulations.
Losses

Losses may be carried forward for a maximum of five (5) fiscal years.

Taxpayer Classification

Taxpayers are classified as:

1. **Resident taxpayers**
   
   Any individual present in Indonesia for more than 183 days in any 12 month period, or present in Indonesia within a fiscal year who intends to reside in Indonesia, will be classified as a resident of Indonesia. Resident taxpayers include companies, partnerships and cooperatives that are domiciled or incorporated in Indonesia. A foreign company can be considered a resident for tax purposes if they are considered to have a permanent establishment in Indonesia. Indonesian income tax legislation defines a permanent establishment as an “establishment regularly used to carry on business in Indonesia by an organization or enterprise not set up or domiciled in Indonesia.”

   Generally three characteristics mark a “permanent establishment” (PE). These are:

   a) there must be a business activity;
   b) there must be an establishment, a physical facility such as an office, or work site, or the provision of services in Indonesia for more than 60 days in any 12-month period, and;
   c) the activities have to be performed on a regular basis (it can in fact be assumed to be regular if the activity is performed twice).

   It should be noted that the definition of a PE is further clarified where a DTA exists between Indonesia and the country of tax domicile of the foreign company or enterprise.

   For example, in many DTAs a foreign company will not be deemed to have a PE in Indonesia if foreign staffs are not present in Indonesia for more than 90 days.

   As this area is complex it is recommended that professional advice is sought for each situation. If a foreign company is deemed to have a PE in Indonesia it will be liable to Indonesian taxation and withholding tax on the profits that are repatriated.

2. **Non-Resident Taxpayers**

   Taxpayers who do not reside in Indonesia and do not have a PE are not considered taxpayers for Indonesian tax purposes.

   However, it should be noted that where a non-resident taxpayer receives income from activities in Indonesia they may be liable for Indonesian withholding tax on the payment of this income. There is relief available under various DTAs. However, it will be necessary to obtain a Certificate of Tax Residence/Domicile from the home country tax authority and lodge this with the Indonesian Tax Office in order to take advantage of these provisions. In addition, effective 1 January, 2010, the non-resident must complete and provide a form (either DGT-1 or DGT-2) to confirm that the income earned is
beneficially owned by them and that the relevant structure/transaction is not created for the purposes of obtaining a benefit under the DTA (anti-treaty shopping).

**Double Tax Agreements**

As indicated there are a number of DTAs effectively negotiated and these are listed in Appendix B.

**Income Tax Rates**

Indonesian income tax law applies to resident and non-resident taxpayers.

For resident taxpayers, the Indonesian income tax rate is applied progressively to the taxable income of both individuals and corporate bodies.

The following rates apply for individuals:

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to Rp. 50,000,000</td>
<td>5%</td>
</tr>
<tr>
<td>Rp. 50,000,001 - Rp. 250,000,000</td>
<td>15%</td>
</tr>
<tr>
<td>Rp. 250,000,001 - Rp. 500,000,000</td>
<td>25%</td>
</tr>
<tr>
<td>Over Rp. 500,000,000</td>
<td>30%</td>
</tr>
</tbody>
</table>

It should be noted that there are some tax-free allowances (deductions) available based on marital status and number of dependents. The current tax free thresholds are as follows:

1. Rp. 15,840,000 - for the individual taxpayer
2. Rp. 1,320,000 - additional deduction for a married taxpayer
3. Rp. 15,840,000 - for a wife whose income is combined with her husband’s income
4. Rp. 1,320,000 – additional deduction for each family member by blood or marriage in direct lineage and any adopted child, who is fully dependent, up to 3 individuals per family.

The following rates are for corporate bodies:

<table>
<thead>
<tr>
<th>Annual Taxable Income</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Taxable Income</td>
<td>25%</td>
</tr>
</tbody>
</table>
Where a foreign company is deemed to have a Permanent Establishment (PE) then it will also be subject to this rate of tax and also withholding tax on the repatriation of the after-tax profit.

**Income Tax Facilities**

Indonesia provides tax facilities for investments in designated industries in particular areas.

The tax facilities provided are as follows:

1. Investment allowance at 30% of the amount of the qualifying investment (in fixed assets), to be amortized equally over five (5) years;

2. Accelerated depreciation (double the general rates of depreciation available under the Income Tax Law);

3. Reduction in the rate of withholding tax (from 20% to 10%) for dividends payable to nonresidents;

4. Extension of tax loss carry forward periods from five (5) years to up to ten (10) years (the final period is based on specific criteria).

Only limited liability companies (PT) and cooperatives may qualify for these tax facilities (not PE).

Indonesian companies (including companies with foreign shareholders) are also entitled to an “SME” tax break if their revenue is less than Rp 50 billion, as follows:

- Corporate Taxpayers with revenue up to Rp. 4.8 billion will receive a 50% reduction in the rate of tax applying to the taxable profit
- There is a pro rata reduction in the tax break for revenue greater than Rp. 4.8 billion up to Rp. 50 billion (using the ratio: Rp 4.8 billion/Revenue = amount of taxable profit that will receive the 50% reduction in the rate of tax). Thus a company with revenue of Rp 48 billion will be subject to 12.5% tax on 10% of the taxable profit and 25% tax on the remaining 90% of taxable profit.
- Income Tax on Business Income earned by Taxpayers whose gross turnover does not exceed IDR 4.8 billion per year.

**Withholding Taxes**

Indonesian taxes are also collected via a system of withholding taxes. This system has been progressively widened. There are five types of withholding tax and these are detailed as follows:

1. Withholding tax under Article 22 of the Income Tax Law relates to import activities and other specified activities. With regard to imports, the taxpayer is required to pay 2.5% of the import value at the time of customs clearance. This tax becomes a prepayment to be applied against the importer’s year-end tax liability.

2. Withholding tax under Article 23 relates to payments made for a range of services performed within Indonesia. For example, if a local company uses a company that provides a service,
e.g., legal, the payer is required to withhold tax at a predetermined rate and this tax becomes a prepayment to be applied against the service provider’s year-end tax liability. This withholding tax also applies with respect to payments for rent of motor vehicles and non-property assets. The amount to be withheld will vary depending on the type of service or rental and therefore professional advice is recommended as to the amount to be withheld. Failure to deduct the withholding tax and remit the funds to the State Treasury will generally result in the payer having to pay the tax that should have been withheld plus penalties.

3. Article 21 Withholding tax. The principle under this section is the same as under Article 23, however it refers to the payment of fees to individuals (and also partnerships). An example of this is the payment of audit fees to a public accounting firm. This section also applies to tax deducted on behalf of employees who are salaried employees of the payer.

4. Article 26 Withholding tax relates to the payment of funds to non-residents and includes interest, royalties, technical service fees, dividends, fees for services rendered, etc. Again, the penalties for non-deduction of the tax and non-remittance can be significant.

5. Final Taxes
Final withholding taxes are levied on certain classes of income. The taxes are calculated as a defined percentage of the gross payment. This tax is not a prepayment of income tax and cannot be credited against tax payable on other sources of income. The income subject to final tax is not subject to further tax at year-end.

Final tax has been regulated in relation to the following:

- Transfer of title of land/building (on transfers by individuals and corporates)
  - Rate: 5% of gross value (normal)
  - 2% on the transfer of low cost housing that is sold by a resident taxpayer whose core business is the transfer of land and buildings
- Rent of land and buildings, and other payments related to the use of land and buildings
  - Rate: 10%
- Income from construction and construction consulting services are subject to Final Tax as follows:
  - 2% of gross income for construction contracting services which are performed by a service provider that has a small business qualification (i.e. is qualified to undertake contracts of Rp 1 billion or less)
  - 4% of gross income for construction contracting services which are performed by a service provider that does not have a business certification/qualification (known as a SBU)
  - 3% of gross income for construction contracting services which are performed by a service provider that has obtained a business certification/qualification (SBU)
  - 4% of gross income for construction planning or supervision services which are performed by a service provider that has a business qualification (SBU)
  - 6% of gross income for construction planning or supervision services which are performed by a service provider that does not have a business qualification
- Income from shipping business
  - Rate: 1.2% of gross income (resident taxpayers)
  - 2.64% of gross income (non-resident taxpayers)
• Securities traded on the Indonesian Stock Exchange
  Rate: 0.1% of gross transaction
  Additional 0.5% for founder shareholders (at the time of Initial Public Offering, unless the founder wishes to have normal taxable income/tax calculations apply at a future time when the shares are sold)
• Dividend received by individual taxpayer who are tax residents of Indonesia.
  Rate: 10%

It should be noted that under Articles 21, 22 and 23 the funds that are withheld/paid are prepayments of the year-end tax payment for the relevant taxpayer. If at year-end the tax withheld is in excess of the tax liability, any request for refund of the tax overpayment will result in a tax audit of the taxpayer’s activities.

Tax Instalment

Under Article 25, taxpayers are required to prepay monthly instalments of income tax for the current tax year, based on the previous year’s tax assessment (after adjusting to exclude the impact of irregular income/expenses and credits for taxes withheld/paid under Articles 21, 22 and 23).

These instalments are then deducted from the gross year-end tax liability to determine the final amount of tax payable at year-end.

Land & Building Tax (PBB)

There is an annual tax on land, buildings, and permanent structures. Taxpayers are those who have “rights over the land” or possess or control the building or “obtain benefits from the land and buildings”. The effective rates are based on assessed values (NJOP) that are notified by the Tax Office, and are the ranges of 10% to 30% lesser than the actual land/building value, however it will be adjusted gradually to the actual value. Although the rates are set by each Provincial Government, there is a cap set by prevailing Law, which the maximum tax rate could not go beyond 0.3%.

Value Added Tax

Valued added tax (VAT) is rendered on the supply of most goods and services supplied in Indonesia. It is also payable on the import of capital goods and services into Indonesia and clients should seek specific advice as to their obligations in this area. Most goods and services are subject to VAT, although strategic goods and services (including “people’s essentials” such as rice) are not subject to VAT.

The VAT rate currently is 10% and by government regulation, it can be amended to a minimum 5%, and a maximum of 15%.

Although the export of taxable goods is subject to VAT at 0% it is important to understand that most exported services (i.e. services provided for non-residents) are subject to 10% VAT unless the services are actually provided overseas (e.g. during the visit to the client’s country). There are a limited variety
of exported services that are subject to 0% VAT, as are exported intangibles (e.g. a royalty from licensing software to an overseas client).

**Other Indirect Taxes**

There are a number of other indirect taxes to be considered including sales tax on luxury goods (the tax rate of sales on luxury goods is determined between a minimum 10% and a maximum 200%), stamp duty on certain documents, and development tax.

**Tax Administration**

Indonesian income tax law is administered by the central government via the Director General of Taxation. The tax system is based on self-assessment and annual corporate and personal tax returns are required. In addition, employer taxpayers are required to lodge a return summarizing the salaries paid to employees and related taxes that have been paid.

All tax residents, including expatriates who earn more than the taxable threshold (i.e. more than Rp 15,840,000) are required to register with the Tax Office, obtain a tax file number (NPWP) and file a personal tax return. To encourage historically low compliance, an employer is required to withhold at a rate of tax that is 20% higher (e.g. at a rate of 36% for salary paid to an employee with income exceeding Rp 500 million, rather than the usual 30%).

Following the amendment to the Law on Tax Administration & Procedures, effective tax years commencing 1 January, 2008, corporate tax returns for the fiscal year ending 31 December must be filed by the following 30 April (or within four months after an alternate year-end date). Personal tax returns for the fiscal year ending 31 December must be filed by the following 31 March or within three months after an alternate closing date. Any extension granted is usually for a maximum of two to six months. Any underpayment or late payment of the final tax liability is subject to an interest charge of 2% per month. Failure to respond to a request to lodge a final return can lead to significant penalties.

As indicated above, any request for a refund of tax previously withheld will automatically result in an audit of the taxpayer’s affairs. A tax audit may also occur where the Tax Office considers that the taxpayer has incurred losses over a number of years or results are inconsistent with prior years’ trading. The Tax Office has a specific period in which to notify and conduct an audit. If after the conduct of the audit the taxpayer disagrees with the audit findings then the taxpayer may lodge an objection to the Director General of Taxation in respect of the assessment.

Under the new Law on Tax Administration & Procedures, for assessments raised in relation to tax years commencing 1 January, 2008, a taxpayer who wishes to object may elect to not pay any amounts assessed; however, they will be required to pay an additional 50% penalty if the objection is disallowed. The Tax Office has one year from the date of lodgement of the objection to finalize the matter. If the objection is in favour of the taxpayer then any amount to be refunded will be with interest on the amount, which was previously overpaid.

If the taxpayer is still not satisfied with the decision then they may appeal to the Tax Court. This can be extremely time consuming and generally matters are resolved before this point. If the taxpayer did not settle the taxes prior to the objection process and chooses not to settle the taxes prior to an appeal then a penalty of 100% will apply if the Tax Court rules against the taxpayer.
Hints for Business Visitors

Visas

The granting of a free visa to the business visitor is limited to the purpose of business investigation or discussion with business partners. The business visitor is not permitted to conclude any business transactions, engage in local employment or perform any professional or technical services.

Business visitors and tourists from the following countries do not require a visa (Free Temporary Stay Visa) for a maximum stay of 30 days (un-extendable): Brunei, Chile, Hong Kong, Malaysia, Macao, Morocco, Philippines, Thailand, Peru, Singapore, and Vietnam.

A 30-day Visa on Arrival is granted for the following countries: Argentina, Australia, Brazil, Canada, Denmark, Finland, France, Germany, Hungary, Italy, Japan, New Zealand, Norway, Poland, South Africa, South Korea, Switzerland, Taiwan, United Kingdom (Great Britain), United States of America, and United Arab Emirates.

Visitors from countries outside those listed above are still required to apply for a visa through an Indonesian Embassy.

Multiple Visit Business Visas

The visa holder has the right to make several visits within a period of twelve months and each stay may be up to 2 months.

Temporary Resident Visas

This type of visa is valid for six months to one year and is issued exclusively to experts who work for national development or in education, training and scientific programs within prevailing government regulations.

Re-entry Permits

Non-citizens with residential status in Indonesia must have a re-entry permit to re-enter Indonesia. Typically these are now granted for a period of 12 months (previously the maximum period was 6 months, which required a renewal in the middle of the term of a 12-month stay/work permit).

Customs

Indonesian customs permits visitors to Indonesia to bring a maximum of two litres of alcohol, 200 cigarettes, 50 cigars or 100 grams of tobacco and a reasonable amount of perfume per adult. Cars, photographic equipment, typewriters and tape recorders must be declared to Customs upon entry and
must be re-exported. Prohibited from entry are TV sets, radios, narcotics, arms and ammunition, printed matter in Chinese characters and Chinese medicines.

Advance approval has to be acquired to carry transceivers and all movie films and video cassettes must be censored by the Film Censor Board. Fresh fruit, plants and animals must have quarantine permits. The export or import of Indonesian currency exceeding Rp. 5,000,000 requires either reporting or approval depending on the amount.

**Transportation from Soekarno-Hatta Airport to the City (Jakarta)**

Taxi fares are metered and will cost around Rp. 150,000 to the downtown area of the city where most large hotels are located. The air-conditioned airport bus service will cost approximately Rp. 30,000, to any of the five city zones (Rw. Mangun, Blok M, Kp. Rambutan, Bogor, Bekasi). Hotel limousine services are provided by some of the leading hotels in the city, offering a city-airport-city transportation service on a complimentary basis to hotel guests. At all major airport terminals, inquiries about local transportation should be directed to the information counter.

**Air Travel**

Jakarta is the principal gateway for entry to Indonesia. With its huge tourist trade Bali gets almost as much traffic.

Indonesia is well-serviced with domestic flights between the major cities. Most flights depart from Jakarta International Airport Soekarno-Hatta at Cengkareng, about 30-40 minutes drive from the city. Surabaya has an hourly shuttle service, and services to Bandung are frequent, if a little unreliable, as bad weather can cause cancellations.

Always allow at least an hour to get to Soekarno-Hatta airport in Jakarta, as traffic jams and rain can cause major delays. The airport toll road is subject to flooding during the monsoon, but the current condition of the road has been improved significantly.

Contact numbers of three major airlines in Indonesia:

- **Garuda**
  Tel: (62 21) 2351 9999

- **Lion Air**
  Tel: (62 21) 6379 8000

- **Air Asia**
  Tel: (62 21) 29633600
Hotels
There is no shortage of first class hotel accommodation in Indonesia’s major cities, and reservations can be easily arranged by your travel agent. The corporate or commercial rate for five star hotels in Jakarta averages US$150 a night, not including taxes and other extras. A surcharge of 21% for tax and service is normal.

Exit Taxes
Airport tax levied on passengers for international travel is Rp. 150,000. The levy varies for travel within Indonesia, but is approximately Rp. 20,000.

An exit and entry permit is required for expatriates holding residence cards (KITAS) in order to exit and re-enter Indonesia. Typically these are now granted for a period of 12 months (previously the maximum period was 6 months, which required a renewal in the middle of the term of a 12-month stay/work permit).

Tipping
Major hotels usually add a 10% service charge to bills. Where it is not included a tip of between 5% to 10% of the bill would be appropriate if the service is satisfactory. Airport porters expect Rp.10,000 per bag for luggage carried. Tipping taxi and hire-car drivers is not mandatory, but if service has been satisfactory a basic Rp.5,000 tip is sufficient for a taxi driver. Hire-car drivers would normally expect a larger tip.

Clothing
Dress is normally informal in Indonesia due to the warm, humid climate and clothing made of light fabrics is recommended. Travelling in highland areas is noticeably cooler, and carrying a light sweater may prove useful.

Accepted attire for men is a business shirt and long pants. A jacket and tie are required for official calls or for more formal occasions. Long sleeved batik or handwoven shirts are acceptable for evening functions. For ladies, dresses, blouses, and long pants are appropriate. Shorts, halters or tank tops should only be used at sports facilities or on the beach.

Office Hours
Business offices are usually open from 8.00 am to 5.00 pm, with a break for lunch between 12.00 noon and 1.00 pm, with the exception that lunch break on Fridays is typically from 11.30am to 1.30 pm to allow Muslim male staff to attend Friday prayers. On Saturdays many business offices are closed.
Banking

Normal banking hours are from 8.00 am to 3.30 pm from Monday to Friday and until 12.00 pm on Saturdays. Some bank branches in hotels keep longer hours.

Jakarta has several international banks but money can also be changed by hotel cashiers and authorized money changers. Daily exchange rates are published in newspapers. The US dollar is the most readily accepted currency.

Most major tourist destination areas have foreign exchange facilities, but for travel to remote areas it is advisable to change money and travellers checks in advance. Credit cards are acceptable at major hotels, restaurants, travel agencies and large shops.

Shopping

Major cities in Indonesia have shopping complexes, supermarkets and department stores where prices are fixed. Shops are usually open all week including Sundays. Shopping hours are usually between 9.00 am and 9.00 pm for department stores and supermarkets in the large cities, with shorter hours on Sunday. In smaller cities shops may be closed between 1.00pm and 5.00 pm.

Bargaining is customary in small shops and markets, the art of which is to start at half the asking price and slowly increase your offer until a compromise is reached. Remember it helps to smile while bargaining.

Time

The Indonesian archipelago is spread over three time zones. Western Indonesia Standard Time, which covers the islands of Sumatra, Java, and Madura, West and Central Kalimantan is 7 hours ahead of GMT; Central Indonesia Standard Time covers East and South Kalimantan, Sulawesi, Bali and Nusa Tenggara, and is 8 hours ahead of GMT; finally Eastern Indonesia Standard Time, which covers Maluku, and Papua is 9 hours ahead of GMT.

Electricity

Power supply is usually 220 volts / 50 cycles in large cities, but 110 volts is still used in some areas. Normal outlets are plugs with two rounded pins. It is advisable to check electricity supplies before using any appliances.

Health

International health certificates for smallpox and cholera are not required, except from travellers arriving from infected areas. You should consult your doctor on recommended vaccinations.
Currency

The Indonesian unit of currency is the Indonesian Rupiah (Rp.).

Weights and Measures

Indonesia uses the metric system of weights and numbers.

Business Information Services

Foreign investors can get business information from BKPM and its regional offices, the Central Bureau of Statistics, Chambers of Commerce, embassies and government agencies.

Taxis and Transportation Services

In larger cities and some towns, metered taxis are available. In other cities and tourist areas hire cars, usually chauffeur-driven, are used and paid for by the hour or for each one-way trip.

At airports, railroad and bus terminals, public transportation is available in one form or another. Another type of transportation is the Bajaj (pronounced “bahji”), a minicar tricycle seating two passengers (rather tightly) with the driver in the front.

Except for taxis, which should all use a meter, all public transportation should be bargained beforehand, with the exception of bus fares which are uniform (Rp. 500 regular, Rp. 800 express and Rp 2,300 airconditioned, all of them for any one-way distance within Jakarta’s city limits, though in other cities bus fares may be slightly less).

Chauffeur-driven cars may be hired by the hour for a minimum of two hours. Rates differ from city to city, but they are normally from Rp.50,000 to Rp.100,000 per hour (US$5 - $10) for use within city limits. Other rates apply when going out of town. Bargaining once again is necessary for these cars, and rates depend on make and year of car. Limousine service to and from the airports in Jakarta and Surabaya are available.

Rental Car Companies

Avis Rental Car
Jl. Diponegoro 25, Jakarta 10310
Tel: (6221) 314 2900, 315 0853/4, Fax. 331 845

Blue Bird
Jl. Mampang Prapatan Raya No. 60
Jakarta Selatan
Tel: (6221) 798 9000 (office), Taxi service: (6221) 794 1234, Limo service: (6221) 794 4444

Astra Rent Car
Gedung Toyota Astra Motor, 2nd Floor
Jl. Jend. Sudirman No. 25, Jakarta 10220
Tel: (6221) 573 5757

White Horse Rent Car
Jl. Tanjung Selor No. 17, Jakarta
Tel: (6221) 6386 5555

**Taxis**

Blue Bird
Jl. Mampang Prapatan Raya No. 60
Jakarta Selatan
Tel: (6221) 798 9000 (office), Taxi service: (6221) 794 1234, Limo service: (6221) 794 4444

Express Taxi
Menara Rajawali, 24th floor
Kawasan Mega Kuningan Lot 5.1, Jakarta Selatan
Tel: (6221) 576 1611, (6221) 576 1711
## Indonesian Acronyms

In Indonesia many government ministries, departments, authorities, agencies, state owned companies and organizations / councils, taxes, work permits, etc., are commonly referred to by acronyms. These are some of the more common acronyms that are likely to be encountered in Indonesian business dealings.

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAPEPAM</td>
<td>Capital Market Supervisory Board</td>
</tr>
<tr>
<td>BAPPEDA</td>
<td>Provincial Development Planning Boards</td>
</tr>
<tr>
<td>BAPPEDAL</td>
<td>Environmental Impact Management Agency</td>
</tr>
<tr>
<td>BAPPENAS</td>
<td>National Development Planning Board</td>
</tr>
<tr>
<td>BATAN</td>
<td>National Atomic Energy Agency</td>
</tr>
<tr>
<td>BDL</td>
<td>Bank in Liquidation</td>
</tr>
<tr>
<td>BKPM</td>
<td>Badan Koordinasi Penanaman Modal - Indonesian Investment Coordinating Board - responsible for licensing and monitoring all foreign joint venture investments, except in finance and petroleum sectors</td>
</tr>
<tr>
<td>BKPMD</td>
<td>BKPM Regional Offices</td>
</tr>
<tr>
<td>BPD</td>
<td>State-Owned Regional Development Banks</td>
</tr>
<tr>
<td>BPIIS</td>
<td>Agency for Strategic Industries</td>
</tr>
<tr>
<td>BPK</td>
<td>State Audit Board</td>
</tr>
<tr>
<td>BPKP</td>
<td>Development and Finance Control Agency</td>
</tr>
<tr>
<td>BPN</td>
<td>National Board of Land Affairs</td>
</tr>
<tr>
<td>BPPT</td>
<td>Agency for the Assessment and Application of Technology</td>
</tr>
<tr>
<td>BPS</td>
<td>Central Bureau of Statistics</td>
</tr>
<tr>
<td>BULOG</td>
<td>Badan Urusan Logistik - National Food Procurement Agency</td>
</tr>
<tr>
<td>BUMN</td>
<td>Badan Usaha Milik Negara - Generic title for a State-Owned Company</td>
</tr>
<tr>
<td>CGI</td>
<td>The World Bank-led Consultative Group for Indonesia, consisting of grant aid and concessional loan donors to Indonesia</td>
</tr>
<tr>
<td>DEPLU</td>
<td>Indonesian Ministry of Foreign Affairs</td>
</tr>
<tr>
<td>DNI</td>
<td>Daftar Negatif Investasi - Negative List for Investment</td>
</tr>
<tr>
<td>DPD</td>
<td>House of Regional Representatives - elected by the provinces to represent their interests/monitor the DPR</td>
</tr>
<tr>
<td>DPR</td>
<td>House of Representatives - elections every five years via a party “slate”</td>
</tr>
<tr>
<td>DSN</td>
<td>Dewan Standar Nasional - Standardization Council of Indonesia</td>
</tr>
<tr>
<td>HIMBARA</td>
<td>Indonesian State Owned Banks Association</td>
</tr>
<tr>
<td>INKA</td>
<td>Industri Kereta Api - The State-Owned Railway Equipment company</td>
</tr>
<tr>
<td>INTI</td>
<td>State-Owned Telecommunications Equipment manufacturer</td>
</tr>
<tr>
<td>IPTN</td>
<td>The State-Owned Aircraft manufacturer, based in Bandung</td>
</tr>
<tr>
<td>KADIN</td>
<td>Indonesian Chamber of Commerce and Industry</td>
</tr>
<tr>
<td>TNI</td>
<td>Indonesian Armed Forces</td>
</tr>
</tbody>
</table>
Appendix A
Incorporation of a PMA Company

Foreign Investment Company (PMA)

Joint Venture Company

There are two forms of direct foreign investment permitted in the Republic of Indonesia, which are:

- A PMA joint venture company with Indonesian citizens or legal entities, with maximum initial foreign ownership of 95%. No divestment is required on this level of investment. The license is valid for 30 years and may be extended;
- A foreign investor is permitted to form a 100% foreign-owned company. These companies must commence divestment to an Indonesian entity/entities in the 15th year of operation, either through the domestic capital market or via a direct share placement.

Following the issue of Regulation PP20 in 1994, no minimum capital requirements or threshold have been specified for the establishment of a foreign joint venture company. BKPM, however, assesses proposals to ensure that there is sufficient capital to meet the requirements of the business. This is seen as a measure of the commitment of the foreign investor and is closely scrutinized. In practice, however, BKPM is requiring a minimum investment of US$ 100,000 on the basis that smaller amounts are similar to SMEs, which should be reserved for local entrepreneurs.

Negative List of Investment

It should be noted that investment in certain sectors is still controlled by an instrument called the DNI (Daftar Negatif Investasi - Negative List of Investment).

Based on the latest ‘Negative List for Capital Investments’ issued by the President of the Republic of Indonesia, the government opened several sectors previously closed for a 100% foreign-owned company.

Some activities have remained closed to foreign investment. These include media, advertising and some forms of transportation (taxis and buses). Another important sector which remains closed is retailing which is broadly defined as “direct involvement in supplying products and certain services to end users”. This should not be confused with the supply of consulting services in the areas of law, engineering or management consulting. The most recent Negative List is Presidential Decree No. 36/2010 dated 25 May 2010.
Submission to BKPM

To apply for new investment approval, an investment registration application form must be completed and submitted to BKPM. In order to ensure that the application will be processed, the following documents should be attached to the application form as enclosures:

1. Power of attorney to sign and submit the application (this must be notarised);
2. Articles of Association (deed of establishment) and its amendments of each of the foreign and/or local participants. For individual investors, a copy of citizen identification card (passport) is necessary;
3. Tax Registration Code Number card (NPWP) of the Indonesian company or individual participant;
4. Description of the production process in form of a flowchart, block diagram, etc. or description of business activities for services sectors.

Additional requirements may be requested by the BKPM for certain types of investments, in certain locations, and export orientation.

Failure to submit these documents could lead to the delay in the granting of the BKPM approval.

The Issuance of the Investment Registration Letter

The Investment Registration Letter is directly issued by the Minister of Investment / Chairman of BKPM.

Implementation Stages

After obtaining the Investment Registration Letter, the Articles of Association (establishment deed) must be enacted in the presence of a Notary Public in Indonesia. The Articles of Association need to be approved by the Department of Law & Human Rights (following subscription of the issued capital) in order to grant limited liability status to the shareholders.

The next step is to complete its operational licenses, a domicile permit, tax registration code number (NPWP), company registration, etc., and to open a bank account to let the investors inject the company’s capital.

Once the company has obtained its approval from the Department of Law & Human Rights and is established as a legal entity following the DOLHR approval, the principal licence must be submitted to BKPM and then to implement an approved investment project, BKPM (on behalf of the sectoral Minister concerned) will issue the following items as proposed by the investors:

1. Decision on the granting of facilities (tax and import duty exemptions);
2. Limited Import License (APIP for Manufacturers; Trading Companies are required to obtain their APIU from the Department of Trade);
3. Manpower Plan Approval (RPTK);
4. Permanent Business License (IUT).

**Appendix B**

**Double Taxation Agreements**

<table>
<thead>
<tr>
<th>Countries Where DTA are Effective</th>
<th>Portfolio Investment</th>
<th>Substantial Holding</th>
<th>Interest</th>
<th>Royalties</th>
<th>Branch Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Australia</td>
<td>15%</td>
<td>15%</td>
<td>10/0%</td>
<td>15/10%</td>
<td>15%</td>
</tr>
<tr>
<td>2. Austria</td>
<td>15%</td>
<td>10%</td>
<td>10/0%</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>3. Belgium</td>
<td>15%</td>
<td>15%</td>
<td>15/10%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>4. Brunei Darussalam</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>5. Bulgaria</td>
<td>15%</td>
<td>15%</td>
<td>10/0%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>6. Canada</td>
<td>15%</td>
<td>15%</td>
<td>15/10%</td>
<td>15%</td>
<td>15%</td>
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<tr>
<td>7. Czech Republic</td>
<td>15%</td>
<td>10%</td>
<td>12.5%</td>
<td>12.5%</td>
<td>12.5%</td>
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<tr>
<td>8. Denmark</td>
<td>20%</td>
<td>10%</td>
<td>10/0%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>9. Egypt</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>10. Finland</td>
<td>15%</td>
<td>10%</td>
<td>10/0%</td>
<td>15/10%</td>
<td>15%</td>
</tr>
<tr>
<td>11. France</td>
<td>15%</td>
<td>10%</td>
<td>10/0%</td>
<td>15/10/7.5%</td>
<td>15%</td>
</tr>
<tr>
<td>12. Germany</td>
<td>15%</td>
<td>10%</td>
<td>15/10/0%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>13. Hong Kong</td>
<td>10%</td>
<td>5%</td>
<td>10%</td>
<td>5%</td>
<td>5%</td>
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<tr>
<td>14. Hungary</td>
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<td>15%</td>
<td>15%</td>
<td>15%</td>
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<tr>
<td>15. India</td>
<td>15%</td>
<td>10%</td>
<td>10/0%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>16. Italy</td>
<td>15%</td>
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<td>10/0%</td>
<td>15/10%</td>
<td>12%</td>
</tr>
<tr>
<td>17. Japan</td>
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<td>10/0%</td>
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<tr>
<td>18. Jordan</td>
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<td>19. Korea (South)</td>
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<td>20. Korea (North)</td>
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<tr>
<td>21. Kuwait</td>
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<td>22. Luxembourg</td>
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<td>12.5/10%</td>
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<tr>
<td>23. Malaysia</td>
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<td>12.5%</td>
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<tr>
<td>24. Mongolia</td>
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<td>10%</td>
<td>10%</td>
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<tr>
<td>25. Netherlands</td>
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<tr>
<td>26. New Zealand</td>
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<tr>
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<td>29. Philippines</td>
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<td>15/10/0%</td>
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<td>20%</td>
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<td>30. Poland</td>
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<td>10/0%</td>
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<td>31. Republic of China</td>
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<tr>
<td></td>
<td>Country</td>
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<td>Vietnam</td>
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<td>15%</td>
<td>15/0%</td>
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</tbody>
</table>
Local Perspectives
Global Reach
700 offices, 100 countries, 1 network

When you choose to partner with RSM AAJ, you are connecting with a global network with presence in over 100 countries, supported with cross-border teams of experienced professionals that deliver unique client-centered approach.

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RSM is the brand used by a network of independent accounting and advisory firms each of which practices in its own right. RSM International Limited not it self provide any accounting and advisory services.
On the cover: “Prahu” (or “perahu”), such as the Bugis “lepa-lepa”, were used by seafarers from modern-day Makassar to sail to areas of modern-day Northern Australia to obtain trepang (sea-slug, sea cucumber) from indigenous people in exchange for other goods from circa 1650. The Macassans then sold the trepang to traders from mainland China. These “prahu” have come to represent the very beginnings of Australia-Indonesia relations, which were very much embedded in trade.

Design: Daniel Sanderson
Cover image: Campbell Bridge

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