COUNTRY PROFILE

Official name	Republic of Indonesia	
Capital	Jakarta	
Location	Southeast Asia	
	Indian Ocean	
	Between Malaysia and Australia	
Area	1,919,400	km^2
	17,508	islands
Climate	Tropical with wet and dry seasons	
Time zone	UTC +7 to +9	no DST
Population	272 million	
Currency	Indonesian Rupiah IDR, Rp	
Language	Indonesian	official
	English	
Religion	87%	Moslem
	10%	Christianity
	2%	Hinduism
	1%	Buddhism
International	ASEAN	East Asia Summit
	G-20	OIC
Government	Presidential Republic	

Executive

The President of Indonesia is the head of state, commander-in-chief of the Indonesian National Armed Forces, and the director of domestic governance, policy-making, and foreign affairs. The president appoints a council of ministers, who is not required to be elected members of the legislature. The president may serve a maximum of two consecutive five-year terms.

Legislative

The highest representative body at national level is the People's Consultative Assembly (MPR). It supports and amends the constitution, inaugurates the president, and formalizes broad outlines of state policy. It has the power to impeach the President. The MPR (2019-2024) consists of the 575-member People's Representative Council (DPR) and the 136-member Regional Representative Council (DPD). The DPR passes legislation and monitors the executive branch; party-aligned members are elected for five-year terms by proportional representation. The DPD is a new chamber for matters of regional management.

Judicial

At the top is the Supreme Court (*Mahkamah Agung*), which hears final cessation appeals and conducts case reviews. Below it is the High Court, which hears the appeals, and the State Court, which hears civil disputes. Other courts include the commercial court (insolvency), state administrative court (against the government), constitutional court, and religious (Moslem court based on *sharia* law).

Economic Data	2018	2019	2020
Real GDP USD billions	1,042	1,120	1,058
GDP per capita USD	3,946	4,194	3,870
Inflation, YoY	3.3%	2.8%	2.0%
Unemployment	5.3%	5.3%	4.1%

BUSINESS ENTITIES

Indonesia's commercial sector recognizes three principal categories of business organizations:

Limited liability Company or *Perseroan Terbatas* (PT)

The Law No. 40 of 2007 concerning Limited Liability Company or *Perseroan Terbatas* (PT) regulates the establishment of a PT, the most common form of business entity. Major characteristics include:

- The Articles of Association can specify limited period or unlimited period of operations.
- Two or more persons can establish a PT with a notarized deed written in Indonesian language.
- The company becomes a legal entity after issuance of the Ministerial Decree.
- Capital must be at least IDR 50 million, with some exceptions by law, with at least 25% issued and paid-up in full.
- Shares must have Rupiah nominal value.
- Shares can be issued based on classifications, e.g. with or without voting rights.
- The basic structure of a PT consists of Shareholders' Meeting, Directors, and the Board of Commissioners.
- Certain changes in a PT's Articles of Association, such as an increase or decrease in authorized and paid-up capital, must be approved by the Ministerial Decree.
- The name of the company must begin with "*Perseroan Terbatas*" or the abbreviation "PT". Publicly-listed companies (*Perseroan Terbuka*) must add "Tbk." at the end of the company name.
- The Directors consists of one or more members as appointed by the shareholders in their general meeting. Companies that engage in mobilizing public funds, issuing public shares, or issuing debt instruments must have at least two members. The same applied to the Board of Commissioners.
- A company having its business activities based on the *sharia* principle must also have a *Sharia* Supervisory Board. The *Sharia* Supervisory Board is responsible for advising the Board of Directors and supervising company activities to comply with the *sharia* principle.
- Annual general meetings must be held within six months after the end of the accounting year.
- Foreign direct investments can only be made through a PT, including an incorporated joint venture.

Sole proprietorship

Sole proprietorship is generally owned by an individual and used in the informal sector. It does not require formal registration at Indonesian authorities.

Partnership

There are three types of partnership recognized by law as follows:

- Civil Partnership
  Persekutuan Perdata (PP)
- Open Partnership
  Firma (Fa)
- Limited Partnership
  Commanditaire Vennootschap (CV)

The Indonesian Civil Code and the Indonesian Commercial Code govern all types of partnerships. Firma and CV are established by Deed of Establishment that need to be notarized and registered with the local court while PP are established privately or before a notary by the partners.

ACCOUNTING AND AUDITING

Law No. 40 of 2007 requires an annual report to be presented in a general shareholders' meeting no later than six months after the accounting year end. The Board of Directors submits the annual report after it has been reviewed by the Board of Commissioners. It must contain financial statements, company activities, issues during the accounting year, and names, salary, and compensation of the Board of Directors and Board of Commissioners for the previous year.

For certain types of limited liability companies which are raising and managing public funds such as banks and financial institutions, publicly-listed companies, companies issuing debts to public, state-owned entities, and companies having assets and/or business of at least IDR 50 billion, their financial statements must be audited by an independent auditor selected in a general shareholders' meeting and prepared under generally accepted accounting principles in Indonesia (Indonesian FAS). Indonesian FAS has mostly converged with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).

After being approved by the shareholders, the audited financial statements of publicly-listed companies, companies issuing debts to public, and companies raising and managing public funds must be published and submitted to the Indonesian Financial Services Authority (or Otoritas Jasa Keuangan/ OJK) by March 31 every year. The OJK also issued regulations that have to be complied by those companies, such as the requirements and procedures for, e.g. issuing shares or bonds to public, entering transactions with related parties and transactions considering material. Banks (including publicly-listed banks) should also comply with Bank Indonesia (the central bank) Regulations in handling and reporting their banking transactions.

FINANCE AND CAPITAL MARKETS

Exchange controls

The Indonesian Rupiah (IDR) is generally freely convertible. However, purchase of foreign currency against IDR in excess of USD25,000 or equivalent in a month, may only be granted if there is evidence of the underlying transaction and require supporting documents.

Also, certain companies are required to report to Bank Indonesia their foreign currency transactions specifically foreign financial assets and liability and financial foreign positions at the end reporting period.

To build international and national confidence in the Rupiah, the government has issued Law No. 7 of 2011 on Currency. The Rupiah must be used for all payment transactions, monetary obligation settlements, and other financial transactions in Indonesia except payments related to implementation of state budget and international commercial transactions.

Indonesia has also established an Anti-Money Laundering Agency (“PPATK”) with broad powers of investigation and prosecution to prevent international money laundering activities

Banking

The Banking Law of 1992, as amended n 1998, categorizes banks into two types: commercial banks and rural banks. The difference between commercial banks and rural banks pertains to the capitalization and restricted transactions. Some of transactions in rural banks are prohibited from accepting deposits in the form of demand deposit, conducting business in foreign exchange; conducting equity participation and conducting insurance business.

The Act No. 21 of 2008 has provided a more adequate legal base to the development of Islamic banking in Indonesia and consequently will accelerate the growth of the industry.

Based on the data per September 2021, BI recognizes 107 commercial banks and about 1,481 rural banks in Indonesia, including state-owned and private banks. The four biggest banks by assets in Indonesia are state-owned banks.

Bank Indonesia

The Bank Indonesia (BI), the central bank on Indonesia, was created under the Central Bank Act, Law No. 23 of 1999 on Bank Indonesia, which has been amended with Law No.3/2004 on January 15, 2004. These laws establishes BI as an independent state institution, free from interference by the Government or any other external parties, which new tasks are to monitor and implement monetary policy, regulating a smooth payment system and financial system stability. The monitoring and supervision of banks were transferred to Indonesian Financial Services Authority or *Otoritas Jasa Keuangan* (OJK).

Indonesian Financial Services Authority or Otoritas Jasa Keuangan (OJK)

The OJK is an independent government agency regulating and supervising the capital market and financial institutions, and that of Bank Indonesia in regulating and supervising banks, and to protect consumers of financial services industry.

Bank secrecy

Banks are required to safeguard the secrecy of all customer information unless BI demands it, in writing, for tax and criminal proceedings.

Deposit insurance

The Indonesia Deposit Insurance Institution was formally established under Law No. 24 of 2004 as an independent institution that insures depositors' funds and actively maintains stability in the banking system. Based on the Government Regulation No 66 of 2008, all deposits up to IDR 2 billion per customer for each bank must be insured. Each bank in Indonesia must become a member of the Indonesia Deposit Insurance Institutions and pay insurance premiums based on their deposit's portfolio.

Capital Market

Indonesia Stock Exchange

ISE or *Bursa Efek Indonesia* is based in Jakarta, Indonesia. It was previously known as the Jakarta Stock Exchange (JSX) before merging with Surabaya Stock Exchange (SSX) in 2007. As of September 2021, the IDX has about 750 listed-companies with a combined market capitalization of approximately USD 500 billion. The ISE also trades bonds (government and corporate) and warrants.

The IDX Composite Index (IDX) and the Jakarta Islamic Index (JII) are the two primary stock market indices out of the 38 indices. The IDX consists of all stocks of publicly-listed companies in Indonesia. The JII was established in 2002 to measure and benchmark market activities based on Sharia (Islamic law). About 30 stocks are listed in the JII.

LABOR

Law No. 13 of 2003, the Labor Law, combines most labor laws and legislation into a single legal instrument while adding new provisions. This law gives emphasis on worker protection and labor welfare. On February 2, 2021, the Government promulgated Government Regulation Number 35 Year 2021 to implement the provisions of Article 81 and Article 185 (b) of Law no. 11/2020 concerning Job Creation, which aims to create the widest possible employment opportunities. This law regulates the work agreement for a certain period (non-permanent employees), outsourcing, working time, rest time and termination of employment, which can affect the minimum benefits that must be provided to employees.

Employment relations

Employment can be made verbally and in writing. Normally, the work contract is put in writing to avoid legal question by parties. There are two types of contracts exist:

- A fixed contract is based on either a term or the completion of a certain job and must be written in Indonesian language. It can be made only for certain jobs (e.g. seasonal work and work to be completed at once) and can be renewed.
- A permanent contract can have a probation period of at most three months.

Wages and benefits

Minimum wage is set by the regional government of each province. In 2022, minimum wage in Jakarta is IDR 4.6 million (about USD 325) per month. Employees may receive an annual allowance equal to one month's salary. It is a mandatory allowance for workers in Indonesia to celebrate their religious holidays. The allowance must be paid one week before Lebaran for Moslems, before Christmas for Christians, before Nyepi for Hindis, and before Buddha's Enlightenment Day for Buddhists.

Other benefits

Employee and employer negotiations or collective bargaining determine other fringe benefits. These benefits may include severance pay, family and cost-of-living allowances, free medical care (including dental care) for employees and their families, housing, transport, and work uniform. Many firms offer pension schemes. Senior executives often receive additional benefits such as a company car and annual home leave.

Social welfare obligation

Residents and non-residents who have lived in Indonesia for more than six months are required to register for the Social Security Scheme (BPJS Ketenagakerjaan) and Healthcare Scheme (BPJS Kesehatan).

Social Security scheme

Social security is mandatory for all companies, and employers must register their employees with the BPJS Ketenagakerjaan. The social security scheme in Indonesia covers retirement at 55 years old, work accidents, old age savings, and death. The employer contributes 3.7% of salary for old age savings, from .24% to 1.74% for working accident protection and .3% for death insurance and 2% for pension. Employees only contribute 2% of their salaries for old age savings and 1% for pension.

Healthcare scheme

All enterprises were required to register their employees to the Healthcare Scheme. The employer contributes 4% (maximum of IDR 480,000 or about USD 33) of salary while employee contributes 1% (maximum of IDR 120,000 or about USD 8).

Working hours

Normal working hours are

- 7 hours per day, 40 hours per week, and 6 working days per week or
- 8 hours per day, 40 hours per week, and 5 working days per week.

Employees must be given at least a thirty-minute break after working for four hours. The break is not included in working time.

Workers are entitled to overtime compensation when working in excess of the normal working hours or during formal public holidays.

Leave and break

- At least one rest day per week
- At least 12 paid leaves per year

- Three months of paid maternity leave, half before childbirth and half after
- Ninety days of rest after a miscarriage with accompanying medical statement
- Formal public holidays
- Paid sick leaves

Labor unions and collective labor agreement

Workers can form their own unions, which must have their own by-laws and manage their own budget.

Workers and employers can enter into a written Collective Labor Agreement and shall at least contain the following:

- Rights and obligations of the employer
- Rights and obligations of the union and workers
- The starting date and period of effect
- Signatures of all involved parties

Employment termination

Before an employer terminates its worker, the employer must discuss or negotiate with the employee or existing labor union. If the negotiation fails, the employer may only terminate the employee after receiving a decision from the institution for the settlement of industrial relations disputes.

Upon termination, an employer must pay severance of one month’s salary for every year of service, up to a cap of nine months’ salary. In addition, the employer must pay service rewards of two months’ salary for every three years of service. Fifteen percent is added as housing and medical benefits. Other entitlements include cash payments for accrued annual leaves.

Employment of foreign workers

Normally, foreign employments are temporary and fall under four types: professionals, managers, supervisors, and technicians/operators.

Entities planning to hire foreigners must submit a Foreign Worker Utilization Plan (RPTKA) to the Ministry of Manpower and Transmigration. After approval, the Ministry will issue a work permit (KITAS card) subject to an annual fee. Indonesian counterpart must be employed for each expatriate employee to support transfer of knowledge and technology.

TAXATION

The Directorate General of Taxation, under the Ministry of Finance, formulates and implements policies and technical standards for Indonesian taxation.

Corporate Income Tax

Companies are taxed based on residency:

Resident taxpayer

A company established or domiciled in Indonesia is taxed on its worldwide income, subject to tax credits for foreign income which has been subject to tax.

Non-resident taxpayer

A company incorporated outside Indonesia is taxed only on Indonesia-sourced income, subject to tax relief under the double taxation agreements. Non-resident taxpayers with permanent establishments (PE) in Indonesia (e.g. branch offices) are taxed on:

- the PE's income from its business, activities, and assets it owns and controls
- the head office's income from the sale of goods or services in Indonesia of the same type as those sold by the PE in Indonesia
- all other income received or accrued by the head office such as dividends, interest, royalties, rent, and other income connected with the use of property, fees for services, etc. of the PE in Indonesia.

A PE is generally defined as an operation where a non-resident establishes a fixed place of business in Indonesia, including a management location, a branch office, an office building, etc. A PE can also be established when the nonresident entity's employees provide services in Indonesia for more than 60 days in any 12-month period. If the home country has a Double Tax Agreement (DTA) with Indonesia, the definition can be slightly modified.

Taxpayers must prepay its income tax in monthly installments based on the previous year's tax assessment under Article 25 of the tax regulation. These installments are then deducted from year-end tax liability to calculate the final amount of tax payable after all creditable withholding taxes.

Each taxpayer is required to file the tax return and pay taxes based on a self-assessment system. An annual tax return must be submitted to the Tax Office at the end of the 4th month after accounting year-end. Consolidated returns are not allowed.

Income tax calculation

Income tax payable is calculated by multiplying taxable income by the corporate tax rate.

Income subject to tax

Taxable income is defined as assessable income less tax deductible expenses, whether originating from within or outside Indonesia, that may be used for consumption or to increase the taxpayer's wealth in whatever name and form.

Allowable tax deductions

Generally, taxpayers may deduct from gross income all expenses related to earning, securing, and collecting taxable income.

Major deductible expenses include:

- Costs related to business, such as:

- costs of materials
- employee wages and salaries
- honoraria, bonuses, gratuities, and monetary remuneration
- interest, rents and royalties
- travel expenses
- insurance premiums
- advertisement and selling expenses subject to government regulation
- administrative expenses
- taxes other than income tax

- Capital losses
- Contributions to an approved pension fund
- Loss from the sale or transfer of properties owned and used in business or used for earning, collecting, and securing income
- Training expenses for employees
- Losses from foreign exchange
- Research and development costs in Indonesia
- Benefits-in-kind (e.g. housing and vehicles) provided to employees and subject to withholding tax
- Write-off of uncollectible debts subject to certain tax conditions
- Certain donations such as for national disaster, education facilities, social infrastructure, and sports enhancement subject to government regulations
- Depreciation and amortization (including intangible costs) with useful life longer than one year. Taxpayers can adopt either the straight-line or the double-declining balance method for depreciation (except buildings) and amortization and apply it consistently. The Tax Office must approve any changes in method. Special rules are applied to certain industries such as forestry, plantation and breeding.

The depreciation and amortization schedule is presented in the following table:

Assets	Useful life (years)	Method of Calculation	
		Straight-Line	Double-Declining
I. Buildings			
Permanent	20	5%	
Non Permanent	10	10%	
II. Others			
Group 1	4	25%	50%
Group 2	8	12.5%	25%
Group 3	16	6.25%	12.5%
Group 4	20	5%	10%

Corporate taxpayers can revalue their depreciable assets at market or fair value for tax purposes with approval from the Directorate of General Taxation (DGT) and compliance to specific conditions and requirements. Once approved by the DGT, the depreciation applied to depreciable assets must be based on the new tax book values and the new useful life. The excess of fair market value over the old tax book value of the revalued assets is subject to final income tax at 10%, and be paid in installments over 12 months, if taxpayer has financial difficulties. Also, there is a requirement that these revalued assets must be retained (i.e. not disposed of or transfer to) at certain period of time or else an additional final tax of 10% is imposed on the original revaluation gains subject to specific transfer exemptions.

Non-deductible items include:

- Private expenses for the personal benefit of shareholders
- Benefits-in-kind (e.g. housing and vehicles) provided to employees, except for the provision of food and beverages for all employees and benefits provided to employees in certain remote areas
- Gifts and donations including “excessive” payments for goods or services where a special relationship is deemed to exist between the buyer and seller
- Incurred expenses in producing income that is exempt from tax or subject to final tax
- Tax penalties
- Employer contributions to the life, health, and accident insurance and contributions to unapproved pension funds, unless the contributions are treated as part of the taxable income of employees
- Expenses related to income taxed at a final rate, e.g. interest expense on loans related to time deposits
- Expenses related to income exempt from tax, e.g. interest on loans used to buy shares where dividends are not subject to income tax
- Salaries or compensation received by partnership or firm members whose participation is not divided into shares
- Reserves or allowances except bad debt allowances for banks or finance leasing companies, reserves in insurance companies, and reserves for reclamation costs in the mining industry

Loss carryovers

Fiscal losses can be carried forward for five years. In certain regions and business sectors, fiscal losses can be carried forward for ten years as part of investment incentives. Losses cannot be carried backwards.

Tax rate

The corporate tax rate is a flat rate of 22% of taxable income. However, small taxpayers with gross revenue of not more than IDR 50 billion can receive a 50% discount of the standard tax rate on the portion of taxable income up to IDR 4.8 billion of revenue. For fiscal year 2022 and onwards, a flat rate of 20% applies of taxable income.

A company listed in the Indonesian stock exchange can be taxed at a flat rate of 19% of taxable income if meet the following criteria

- At least 40% of their shares are publicly owned
- The company is in the form of a limited liabilities company (a PT)
- Meet other requirements set by the Government regulation

Deemed profit margin

Businesses that have deemed profit margin for tax purposes are presented below.

Business	Effective Rate
Domestic shipping operations	1.20%
Domestic airline operations	1.80%
Foreign shipping and airline operations	2.64%
Foreign oil and gas drilling	3.75%
Certain Ministry of Trade representative offices	.44%

Tax on oil, gas, and geothermal industries

For companies engaged in oil, gas, and geothermal projects, income tax depends on its production sharing contract (PSC), a cooperation contract between the holder of the contract and the government. The PSC overrides the Indonesian tax law. The tax law applies only on matters not mentioned in the PSC.

Oil and gas contractors are exempt from import duty, VAT, and luxury tax as of April 2014 under the Finance Ministry's new regulation, PMK 198 of 2019.

Tax on mining

The Mining Law states that general prevailing income tax laws/regulations will apply to mining projects, except specifically stated in the prevailing contract or if contract of work is expired, in the prevailing regulation (i.e. IUPK-Special Mining Operation License).

Tax on consolidation

Tax consolidation is not available in Indonesia.

Dividends and branch profit

Dividend received by a resident corporate taxpayer is exempt from income tax.

Dividend received by a individual Indonesian resident is subject to 10% final tax. The 10% tax can be exempted if the dividend is invested in Indonesia for certain period.

Dividend received by a non-resident taxpayer is subject to a 20% final withholding tax subject to tax treaty agreements.

Permanent establishments are subject to a 20% branch remittance tax on after-tax profits, subject to tax treaties. PEs are exempt from this tax if all profits are reinvested in Indonesia.

Transfer pricing

The tax rules require that related party transactions must be conducted in an arm's length principle. Thus, the tax authorities require specific transfer documentation to prove this arms-length basis. Under the new tax rule, taxpayers under certain criteria should prepare transfer price documentations such as master file, local file, and country by country report. Also, certain specific disclosures are required in the corporate income tax return.

Individual income tax

Individuals are taxed based on residency:

Resident taxpayer

An individual living in Indonesia, staying in Indonesia for more than 183 days within any 12-month period, or intending to reside in Indonesia is taxed on worldwide income. Foreign tax credit imposed on foreign income can be credited to Indonesia tax due subject to domestic rule.

Non-resident taxpayer

An individual staying in Indonesia for fewer than 183 days with no intention to reside in the country is taxed only on Indonesia-sourced income.

Taxable income

For resident taxpayers, income tax payable is calculated by multiplying the net taxable income, minus deductions and reliefs, by the graduated tax rates.

Taxable income of resident individual taxpayers:

- Employment income (e.g. salary)
- Income from business or profession
- Passive income (e.g. interest and royalties)
- Capital gains

Benefits-in-kind received by employees are neither taxable on the employee nor deductible for the employer.

Deductions and reliefs

Deductions are generally available for expenses incurred in generating income. Business expenses are generally the same for corporate deductible expenses.

Tax relief is also available for resident individuals as presented below.

Basis of deduction	Deductions per year
Taxpayer	IDR 54,000,000
Spouse	IDR 4,500,000
Each dependent (max 3)	IDR 4,500,000 each
Occupational support	5% of gross income max of IDR 6,000,000
Pension maintenance cost (pensioners)	5% of gross income max of IDR 2,400,000
Contribution to BPJS manpower (2% of gross income)	Full amount

Tax rates

Taxable Income	Rate
First IDR 60 million	5%
Next IDR 200 million	15%
Next IDR 250 million	25%
Next IDR 500 million	30%
Exceeding IDR 500 million	35%

Under Article 21 of the Tax Law, employer must withhold income tax and pay the tax on the employees' behalf.

Non-resident taxpayers are subject to a withholding tax rate of 20% on Indonesia-sourced income, subject to tax treaty provisions.

Withholding taxes

Income	Resident Art 4(2) – (Final)/Art 23		Non-resident (Article 26)
	Company	Individual	
Interest not from bank deposits	15%	20%	20%
Interest from bank deposits	20%	20%	20%
Dividends from Indonesian entities	0%	10%/0%	20%
Royalties	15%	15%	20%
Technical and other professional services	2%	Progressive rates	20%
Rentals other than land and/or buildings	2%	Progressive rates	20%
Rentals of land and/or building	10%	10%	20%
Construction services	2-4%	50% of gross income at progressive rates	-
Constructing planning or supervision services	4-6%	50% of gross income at progressive rates	-
Transfer of land and/or building	2.5%	2.5%	-
Sale of shares listed in the IDX	.1%	.1%	.1%
Transfer of unlisted shares	5%	5%	5%

Non-residents can get a lower tax rate through tax treaties.

Withholding tax on certain purchases and sales

Payments of purchases and sales for certain goods are subject to withholding tax under Article 22 of the

Tax Code. Withholding tax rates range from .3% - 7.5% of selling price depending on nature of purchase or sale transactions.

Value added tax

Value Added Tax (VAT) is rendered on the transfer of taxable goods, provision of taxable services, and importation of capital goods and services. The VAT rate is typically 10%, but some items may be taxed at 5% or 15% according to government regulation. Export is fixed at 0%, with some limits on the export of services.

VAT payables are settled by output-input mechanism. Net output payables should be settled

in the following month while net input (overpaid VAT) can be carried to the following month or can be refunded at the end of the year.

Some goods are not subject to VAT:

- Mining or drilling products extracted directly from the source (e.g. crude oil, natural gas, sand and gravel, iron ore, copper ore, etc.)
- Basic commodities such as rice, salt, and corn
- Money, gold bars, and securities

Some services are not subject VAT:

- Medical health services
- Social services
- Financial services
- Insurance services
- Religious and educational services
- Broadcasting services
- Public transportation
- Manpower services
- Hotel services
- Public services provided by the government
- Parking area services
- Food or catering services

Inheritance and gift tax

Indonesia does not levy inheritance or gift tax.

Stamp duty

Stamp duty is a flat of IDR 10,000 for agreements, notarized deeds, and other civil documents.

Luxury-goods sales tax

The importer or the resident manufacturer of certain goods may be subject to Luxury-Goods Sales Tax (LST). The list of goods subject to LST and the tax rates can be found in the Customs Book using the harmonized system code. The LST rate currently ranges from 10% to 125% and may be increased to 200% depending on government regulation.

Examples of luxury goods:

- Luxury residences such as luxury houses, apartments, condominiums, townhouses, etc.
- Perfumes
- Photographic and cinematographic devices
- Household appliances
- Ships or other water vehicles including cruisers
- Musical instruments
- Alcoholic beverages
- Articles made of precious metal or
- Footwear
- Carpets, including made of fine animal hair
- Commercial or state air transport
- Vehicles depending on their types, motor engine, and cylinder capacity

Land and building Tax

Land and building tax is payable annually on land, buildings, and permanent structures at no more than 5% of the sale value of the property as determined by the Tax Office.

Duty on the acquisition of land and building rights

Taxpayers who acquire rights on lands and buildings get final taxed at 2.5% of acquisition value minus a maximum threshold of IDR 60 million depending on the region, except for inheritance of which amount will depend on the region.

Import and excise taxes

Any goods coming from outside Indonesia through customs are considered imports and are generally subject to import duty and taxes. An importer must register with the Ministry of Trade to obtain an Import Identification Number and with the Directorate General of Customs and Excise to obtain a Customs Identification Number.

Tariff rates range from 0% to 40% calculated using CIF (Cost, Insurance, and Freight). Preferential tariff rates are extended to countries that have signed trade and economic agreements with Indonesia. Imports from these countries gain tax or exemption.

Certain alcohol and tobacco products are subject to excise tax of 275% on CIF value and duty. Excise can also be applied per measurement unit based on the manufacturers' total production volume.

2021 Tax Regulation

In 2021, the Ministry of Finance ("MoF") has issued a regulations on Tax Incentives for Taxpayers Affected by the Corona Virus Disease 2019. This regulation grants tax incentives on certain taxpayers, among others, regarding withholding tax on salaries under Article 21, exemption of withholding tax under Art 22, reduction of monthly installments under Art 25 and acceleration of preliminary refund for overpayment of VAT.

Tax treaties

Algeria	Hong Kong	Norway	Suriname
Armenia	Hungary	Pakistan	Sweden
Australia	India	Papua New Guinea	Switzerland
Austria	Iran	Philippines	Syria
Bangladesh	Italy	Poland	Taiwan
Belgium	Japan	Portugal	Thailand
Brunei	Jordan	Qatar	Tunisia
Bulgaria	North Korea	Romania	Turkey
Canada	South Korea	Russia	Ukraine
China	Kuwait	Seychelles	United Arab Emirates
Croatia	Laos	Singapore	United Kingdom
Czech	Luxembourg	Slovakia	United States
Denmark	Malaysia	South Africa	Uzbekistan
Egypt	Mexico	Spain	Venezuela
Finland	Mongolia	Sri Lanka	Vietnam
France	Morocco	Sudan	Zimbabwe
Germany	Netherlands		
	New Zealand		

INVESTMENT

The Investment Law No. 25 of 2007 governs investments in any sector within Indonesia. It provides:

- Same treatment for domestic and foreign investors
- Protection for micro-, small-, and medium-sized enterprises
- Service and/or licensing convenience through a one-stop integrated service for land rights, immigration, and imports.
- Investment incentives subject to specific conditions.
- The Investment Coordinating Board or *Badan Koordinasi Penanaman Modal* (BKPM)

The Investment Coordinating Board or *Badan Koordinasi Penanaman Modal* (BKPM)

The Investment Coordinating Board implements laws on foreign and domestic investment. It directly reports to the President.

These sectors are open to investment with conditions on foreign ownership, business size, special license requirements, and locations:

- Agriculture
- Banking
- Culture and tourism
- Defense
- Education
- Energy and mineral resources
- Finance
- Forestry
- Health
- Industrial
- Manpower
- Public works
- Trade
- Transportation

Investment incentives

Indonesia offers incentives under certain conditions such as located in rural or border regions or also called Special Economic Zones, employing a large workforce, or undertaking research and development.

Non-tax incentives

Export Incentives or guarantees

The Indonesian Law No. 2 of 2009 established the Indonesia Eximbank (or Lembaga Pembiayaan Ekspor Indonesia) that regulates and promotes the granting of financing facilities:

- Financing in the form of working capital and/or investment financing
- Guarantees for:
    - Indonesian exporters receiving payment from overseas buyers
    - Overseas Indonesian importers giving payment to Indonesian exporters
    - Banks that offer financing to Indonesian exporters
    - Tender purposes for projects fully or partially supporting exports
- Insurance for:
    - Export performance risk
    - Non-payment risk
    - Overseas investment risk for Indonesian companies
    - Political risk in the export destination

Bonded zones

Industrial companies in designated bonded zones are not required to apply for additional implementation licenses (location, construction, nuisance act permits, and land titles). Companies may also lend machinery and equipment to subcontractors outside the zone for up to two years. The companies may also be exempt from paying VAT and sales tax on luxury goods on the delivery of products for further processing outside of bonded zones.

Tax incentives

Investment law

The Investment Law offers tax incentives to investors who are new, expanding production by at least 30%, or diversifying into new products. They can be granted relief from duties on the importation of 1) capital goods (machinery, equipment, spare parts, and auxiliary equipment) for two years and 2) raw materials and manufacturing components for two years of production. Car and motorcycle assembly (except for components) does not qualify for this incentive.

Bonded Zone

Companies with a bonded-zone status usually qualify for certain tax breaks such as:

- Postponement of import duties (normally 0% to 150% of the customs value) on capital goods and raw materials
- Exemption from the 10% VAT and luxury tax (ranging between 10%-75% imposed at point of import or manufacture) on materials purchased domestically for use in manufacturing
- Exemption from prepaid income tax on importation of capital goods and other equipment directly related to production
- Exemption from paying VAT and luxury tax for the delivery of products to subcontractors for further processing outside of bonded zones

Export-oriented company

Instead of obtaining a bonded-zone status, export-oriented companies can be registered as *Kemudahan Impor Tujuan Ekspor* or KITE. Importation of goods that will be processed, assembled, or affixed to other goods for further exportation can enjoy:

- Postponement of import duty and excise
- Non-collection of VAT and luxury tax

Designated regions

Investors in designated regions (including the 25 Integrated Economic and Development Zones or NEDZ) may apply for income tax facilities such as:

- A reduction in taxable income up to certain percentage of the total capital investment spread over six years
- Accelerated depreciation and amortization
- Loss carry-forward for five years with possible extension of up to five additional years, depending on the type of investment
- Lower income tax on dividends paid to non-resident taxpayers (possibly lower if stipulated in the provisions of an existing tax treaty)

Free trade zones

Goods entering or delivered among companies within designated Free Trade Zones in Batam, Bintan and Karimum can get exemptions from:

- Import duty and excise tax
- VAT, luxury tax, and import prepaid tax

Tax holiday for pioneer industries

New companies in pioneer industries can get income tax relief or reduction for five to ten years from the start of commercial operation, followed by a 50% tax reduction for two years. The criteria include:

- A new investment plan approved by BKPM with a minimum investment of IDR one trillion
- Placing at least a certain percentage of the total capital investment in Indonesian banks without withdrawing it before capital investment realization
- Operating in a pioneer industry such as:
    - Basic metals
    - Oil refinery and/or basic organic chemicals from oil and natural gas
    - Machinery
    - Renewable resources
    - Communication devices

Real estate ownership

Under the National Agrarian Law, the government grants several kinds of rights to citizens and corporations depending on the type of land right which are to be registered *at Badan Pertanahan National* or the National Land Agency:

Right of Ownership or *Hak Milik*

Hak Milik is the most complete form of land ownership granted only to Indonesian citizens. Subject to zoning restrictions, the holder can use the land for any purpose. The title has no time limit and may be sold, gifted, exchanged, and bequeathed.

Right of Exploitation or *Hak Guna Usaha* (HGU)

HGU is the right to cultivate State land, typically used for agricultural projects such as plantations, fisheries, and cattle ranches. The owner can construct buildings and structures related to such agricultural uses. Corporations and Indonesian citizens can own an HGU up to 35 years (can be extended for another 25 years). This right can be sold, gifted, exchanged, bequeathed, and/or encumbered.

Right of Building or *Hak Guna Bangunan* (HGB)

HGB is the right to build and own buildings, used for residential, commercial, and industrial properties. It lasts up to 30 years and can be extended for another 20 years. HGB can be sold, gifted, exchanged, bequeathed, and/or encumbered.

Right of Use or *Hak Pakai* (HP)

HP is the right to use and/or collect the product from land owned by the State or by other persons. This right can be granted for a certain period of time as long as the land is utilized for a specific purpose. Both foreign and domestic entities can get an HP.

Right of Lease or *Hak Sewa* (HS)

HS is the right to use land for buildings by paying its owner some rent. Both domestic and foreign entities can get an HS.

Right of Opening-up Land and Right of Collecting Forest Product or *Hak Membuka Tanah* and *Hak Memungut Hasil Hutan*

They are used to collect forest products legally and are granted only to Indonesian citizens.

Foreign property ownership

HGU, HGB, and HP can be granted to foreign companies and joint-venture companies registered under the Investment Law. The Investment Law can grant the combined duration of land right, its extension, and its renewal upon request:

- HGU of 95 years
- HGB of 80 years
- HP of 70 years

Individual foreigners who can benefit national development, reside in Indonesia, and have proper immigration documents may purchase the following real estate properties in Indonesia using HP:

- Non-subsidized housing
- Strata-titled condominium unit
- Vacant land

Intellectual property rights protection

Indonesia has signed numerous international property rights agreements including WIPO, TRIPS, and Hague Convention for Designs. The Directorate General of Intellectual Property administers and registers rights. Patents have to be registered while other forms of intellectual property are automatically protected by law.

Patent

The Patents Law of 2001 recognizes patents with 20 year-terms and 10-year terms, which can be extended. The latter is used for less inventive products. Patent rights can be transferred through inheritance, grant, written agreement, etc.

Industrial design rights

The Industrial Design Law of 2000 protects industrial designs for 10 years after date of filing.

Trademarks

The Marks Law of 2001 protects registered trademarks for 10 years and can be extended indefinitely. A trademark can be scrapped if not used for three years.

Copyright

The Copyright Law of 2002 protects published works (literature, computer programs, cinematography, and photography) for 50 years after date of publication. All other copyrighted works are protected for 50 years after the last author's death.

Trade secret

The Trade Secret Law of 2000 makes the divulging of trade secrets by a licensee a criminal offense. Trade secrets include information (e.g. methods of production, methods of processing, selling, etc.) with economic value in business and technology that are kept confidential by the owner.

Other laws of intellectual property

In addition, Indonesia has the Protection for Plant Varieties Law of 2000 and the Protection of Layout-Designs of Integrated Circuits Law of 2000.

Trade agreements

As a member of ASEAN, Indonesia is a signatory of the ASEAN Free Trade Area.

Other trade agreements with specific countries and other blocs:

- Australia
- Chile
- Japan
- Mozambique
- Palestine
- Pakistan
- South Korea
- European Free Trade Association (EFTA)

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