



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

Investing in Indonesia 2020



Table of Contents

1. Demographics	04
2. Economics and FDI in 2019	05
3. Main Industries	07
4. Key Economic Regions	08
5. Free Trade Agreements	09
6. How to Set up a Business	10
7. Tax Regimes	11
8. HR and Payroll Compliance	16



This infographic of Investing in Indonesia 2020 is produced by a team of professionals at Dezan Shira & Associates, with Trang Nguyen (Jasmine) as Editor and Thu Ha and Thien Bui as Creative designers.

© 2020 Dezan Shira & Associates

Disclaimer

The contents of this guide are for general information only. For advice on your specific business, please contact a qualified professional advisor. Copyright 2020, Asia Briefing Ltd. No reproduction, copying or translation of materials without prior permission of the publisher.

1. Demographics

★ Political System	Democratic Republic	★ Capital	Jakarta
📍 Economic Centre	Jakarta	👤 Population	273.5 million
💰 Currency	Indonesian Rupiah (IDR)	🗺️ Provinces	34
🕒 Time Zone	UTC+7, UTC+8, UTC+9	📍 Area	1,905,569 km ²
📈 2019 GDP Growth	5.02%	👥 Labour Force	69.2%
👤 Middle Class Population	64 million	💰 Average Annual Income	US\$2,945
🌐 Neighbours	Malaysia, Papua New Guinea, Timor Leste	🗣️ Language	Indonesian, English (business, professional) and local dialects
🤝 Ease of Doing Business	73		



2. Economics and FDI in 2019



5.02%
GDP Growth Rate



1.8%
Export Growth Rate

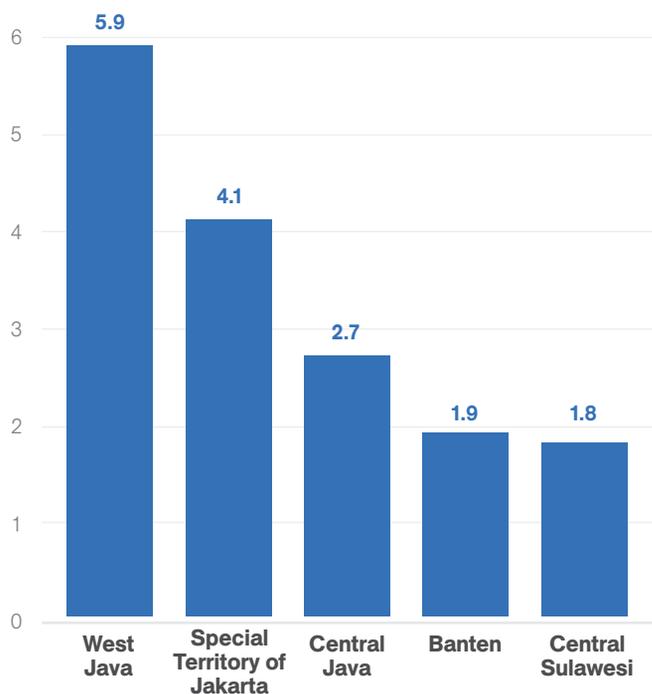


US\$ 23.43 billion
FDI Disbursement



13,142
New Projects
granted investment
certificate in 2019

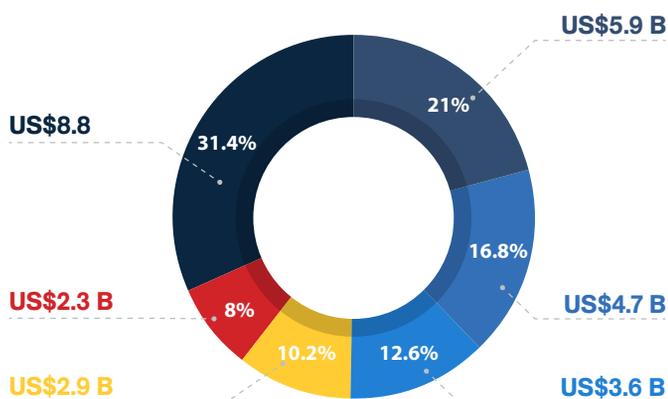
Top 5 Provinces Receiving Investments (US\$ Billion)



Source: BKPM

Top 5 Sectors Receiving Investment

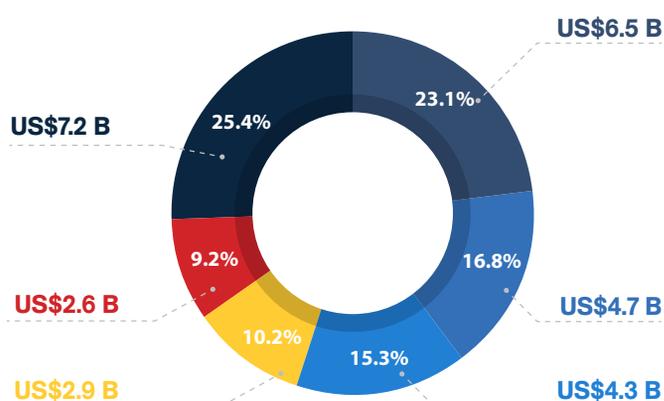
- Electricity, Gas and Water Supply
- Transportation, Warehouse and Telecommunication
- Metals, except Machinery and Equipment Industry
- Housing, Industrial Estate and Office Building
- Mining
- Others



Source: BKPM

Top 5 Countries Investing in Indonesia

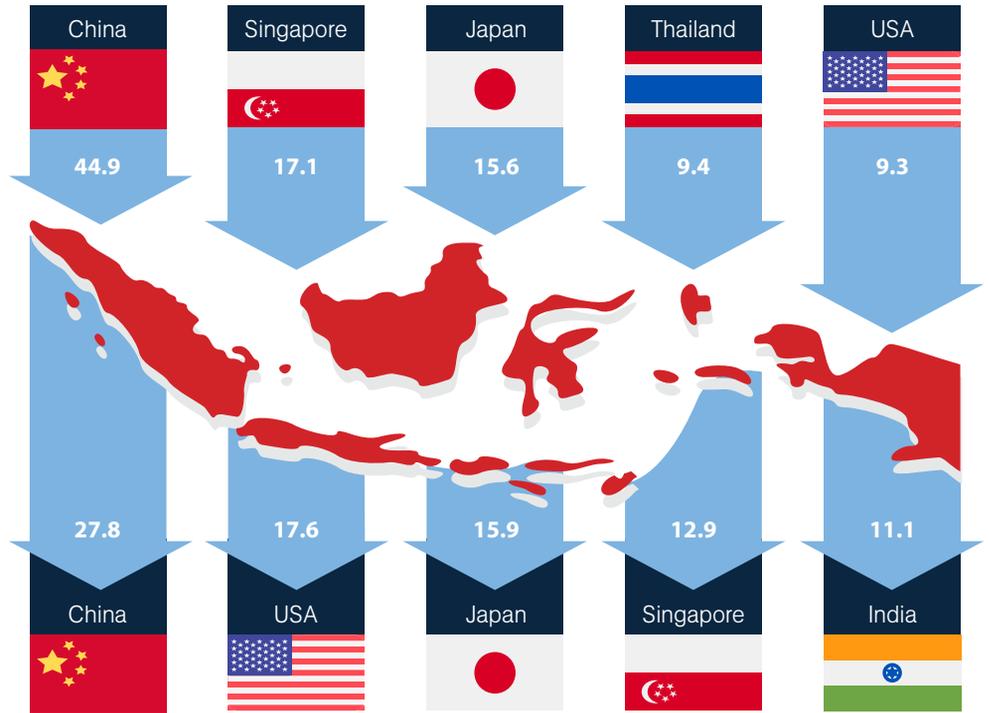
- Singapore
- China
- Japan
- Hong Kong
- Netherlands
- Others



Source: BKPM

Top 5 Import and Export Partners (US\$ Billion)

TOP 5 IMPORT PARTNERS



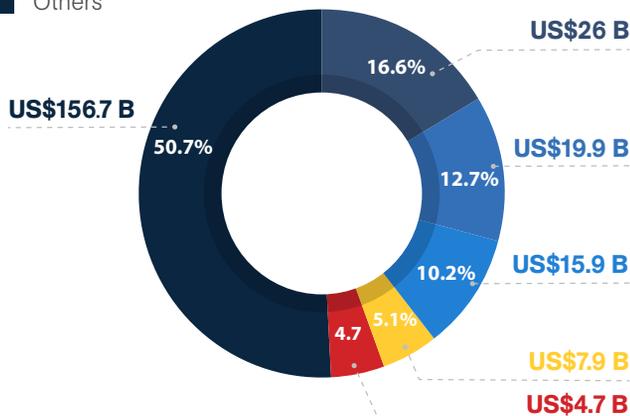
TOP 5 EXPORT PARTNERS

Source: Tradingeconomics.com

Top 5 Imports and Exports

TOP 5 IMPORTS

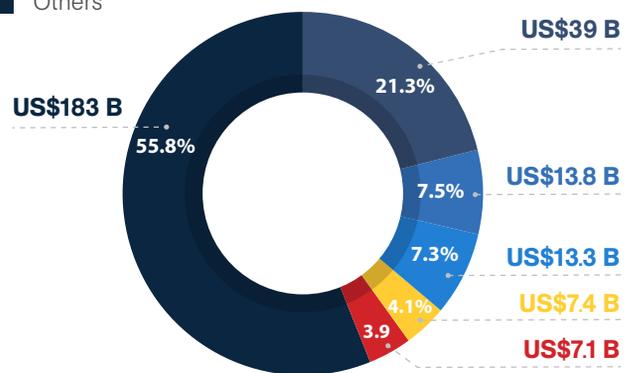
- Machinery including Computers
- Electrical Machinery and Equipment
- Mineral Fuels including Oil
- Plastics and Plastic Articles
- Iron and Steel
- Others



Source: World's Top Export

TOP 5 EXPORTS

- Mineral Fuels including Oil
- Animal and Vegetable Fats, Oils and Waxes
- Electrical Machinery and Equipment
- Footwear
- Iron and Steel
- Others



3. Main Industries



Chemical Fertilizers



Natural Gas



Electricity



Palm Oil



Footwear



Petroleum



Handicrafts



Plywood



Jewelry



Processed Food



Medical Instruments



Rubber



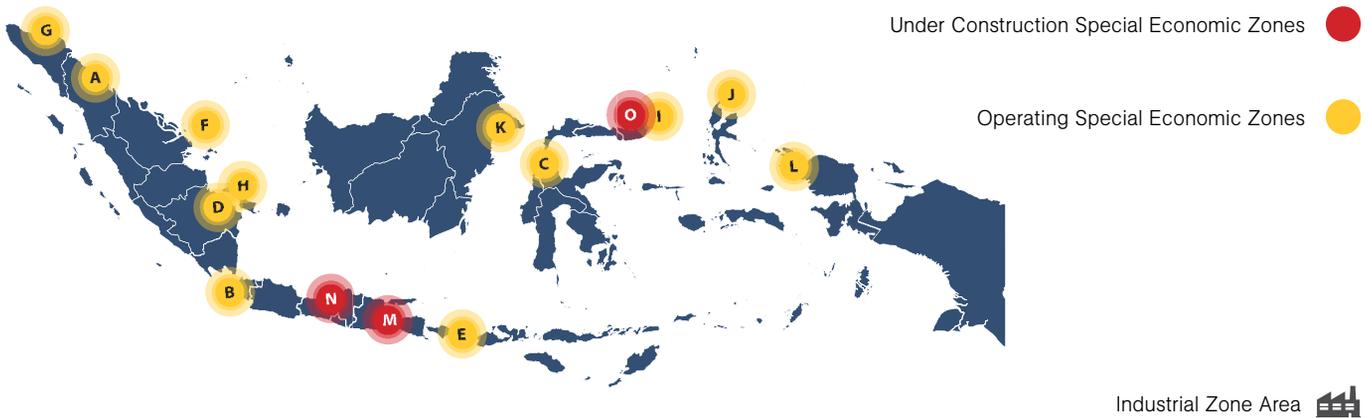
Mining



Textile and Garments



4. Key Economic Regions



A KEK Sei Mangkei

Simalungun, North Sumatera Province

2,002.7 ha

B KEK Tanjung Lesung

Pandeglang, Banten Province

1,500 ha

C KEK Palu

Palu, Center of Sulawesi Province

1,500 ha

D KEK Tanjung Api-Api

Banyuasin, South Sumatera Province

2,030.7 ha

E KEK Mandalika

Lombok Tengah, West Nusa

Tenggara Province

1,035.67 ha

F KEK Galang Batang

Bintan, Riau Island Province

2,333.6 ha

G KEK Arun Lhokseumawe

Lhokseumawe and North Aceh

Aceh Province

2,622.48 ha

H KEK Tanjung Kelayang

Bangka Belitung Island Province

534 ha

I KEK Bitung

Bitung, North Sulawesi Province

324.4 ha

J KEK Morotai

Morotai Island, Maluku Province

1,101.76 ha

K KEK Malay Batuta Trans Kalimantan

Kutai Timur, East Kalimantan Province

557.34 ha

L KEK Sorong

Mayamuk District, West

Papua Province

523.7 ha

M KEK Singhasari

Malang, East Java

120.3 ha

N KEK Kendal

Kendal, Central Java

1,000 ha

O KEK Likupang

Minahasa Utara, North Sulawesi

197.4 ha

- | | | | |
|-------------------------------|--------------------------|-----------------------------|------------------------|
| Agro Industry | Fishery | Logistics | Oil and Gas Industry |
| Creative Industry | Food And Beverage | Manufacturing Industry | Petrochemical Industry |
| Energy | Herbal Pharmacy Industry | Mineral Industry | Smelters |
| Fisheries Processing Industry | Industrial Shipyards | Mineral Processing Industry | Tourims |

5. Free Trade Agreements

12 FTAs in Effect

AANZFTA
ASEAN - Australia and New Zealand Free Trade Agreement

AIFTA
ASEAN - India Free Trade Agreement

AHKFTA
ASEAN - Hong Kong Free Trade Agreement

ACFTA
ASEAN - People's Republic of China Free Trade Agreement

AKFTA
ASEAN - Korea Comprehensive Economic Cooperation Agreement

AJCEP
ASEAN - Japan Comprehensive Economic Partnership

ASEAN
Association of Southeast Asian Nations

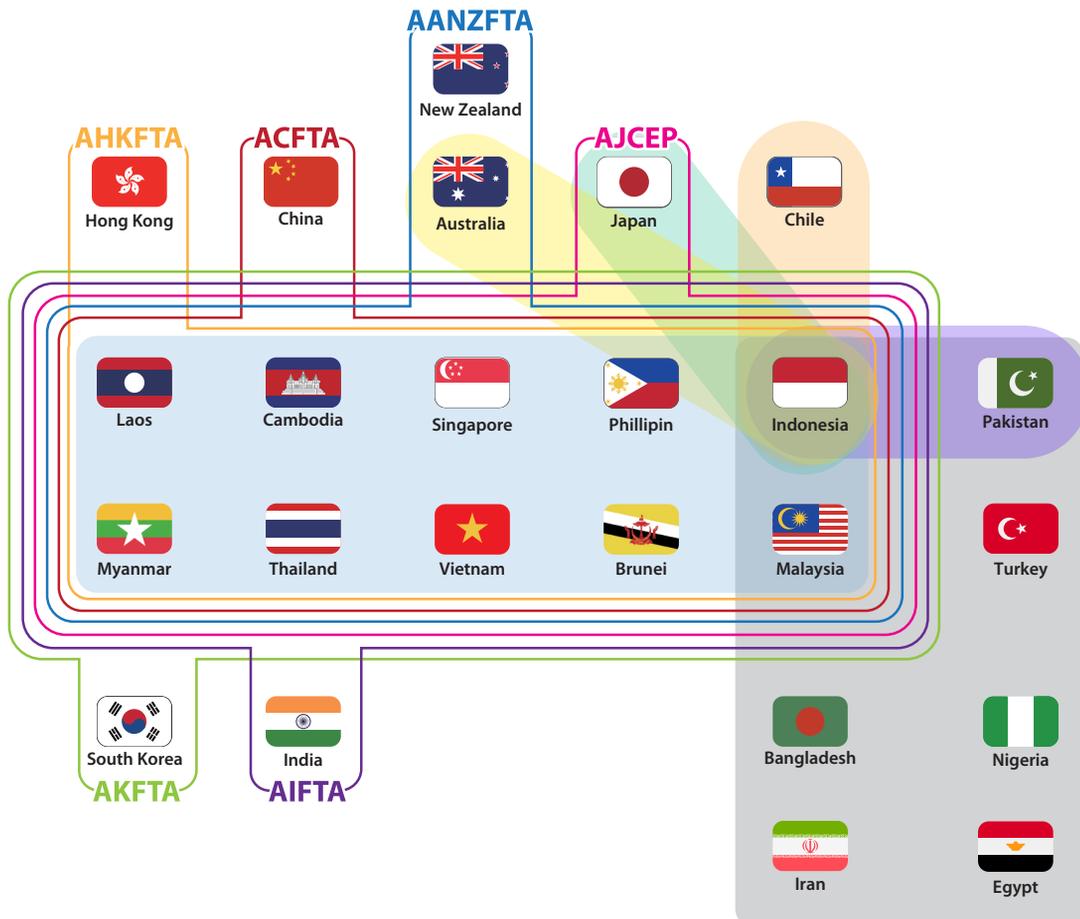
IJEPA
Indonesia - Japan Economic Partnership Agreement

IC-CEPA
Indonesia - Chile Comprehensive Economic Partnership Agreement

IA-CEPA
Indonesia - Australia Comprehensive Economic Partnership Agreement

PTA
Indonesia - Pakistan Preferential Trade Agreement

D8
Preferential Tariff Arrangement – Group of Eight Developing Countries



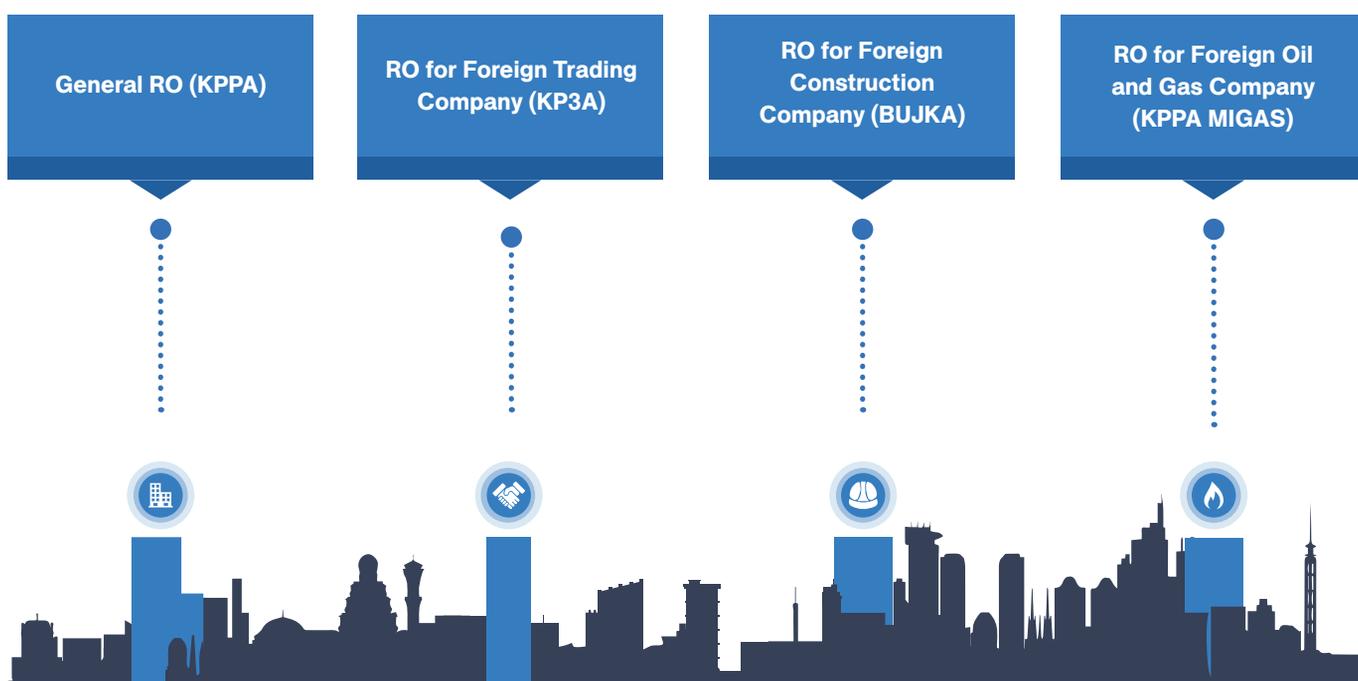
Source: WTO Center, VCCI

6. How to Set up a Business

Key Market Entry Options

Entry Market Structure Types	Common Purpose	Estimated Set up time	Pros	Cons
Foreign Investment Companies (PT PMA)		1.5 - 2 months	<ul style="list-style-type: none"> Numerous financial and non-financial incentives; Flexible at foreign ownership ratio (1-100%) subject to the Negative Investment List; Lower tax and import duties; Able to participate in government sponsored business tenders; Simple organization structure. 	<ul style="list-style-type: none"> A minimum 10 billion IDR (US\$700,000) of total investment value, with 2.5 billion IDR (US\$175,000) shall be injected as Company's paid-up capital. Nonetheless, this paid-up capital can be used during Company's operational; A minimum equity of 10 million IDR (US\$700) per share required.
General Representative Office (RO/KPPA)	<ul style="list-style-type: none"> Market research; Developing trade contacts; Gathering information on regulations and laws; Manage the parent company's corporate interests. 	1.5 - 2 months	<ul style="list-style-type: none"> Fast and simple registration procedure; No paid-up capital required and can be owned 100% by the parent company. 	<ul style="list-style-type: none"> Cannot engage in any commercial activities; cannot issue invoice or apply for specific license (except for BUJKA and KPPA Migas); Can only be incorporated in capital of Indonesia provinces; Must be located in office building.

Four Types of Representative Office



Set up a PT PMA



Set up a General Representative office



7. Tax Regimes

Indonesia's Major Taxes

- 1 Corporate Income Tax (CIT)**
 - Corporate Income Tax Rates:
 - > Previous year: 25%
 - > 2020 & 2021: 22%
 - > Starting from 2022: 20%
- 2 Value-added Tax (VAT)**
 - 10% VAT rate imposed on most manufactures, retailers, wholesalers & importers
 - Exports of tangible and intangible goods and services are exempted from VAT
- 3 Personal Income Tax (PIX)**
 - Applies on worldwide income of Indonesian tax residents
 - No-resident taxpayer is liable for income earned in Indonesia
- 4 E-commerce Tax**
 - Applies to international and domestic entities engaging in e-commerce activities
 - Foreign e-commerce businesses or internet companies having significant presence in Indonesia is deemed as an Indonesia tax residence

Tax Allowance



A total of 30% reduction in net income tax in 6 years, 5% each year (Applies for 166 eligible business fields)



Income tax on dividends at 10%



Accelerated depreciation and amortization



5 to 10 year compensation for tax losses



Exemption on import duties, VAT, sales tax on luxury goods, and excise for businesses operated in Free Trade Zones

Super Tax Deduction



Machines, goods, materials for production are exempted for 2-year import duties



Up to 200% reduction of gross income of educational activities



Companies utilizing minimum 30% of local components are waived for import duties in 4 years



60% reduction of net income of labor intensive industries



Up to 300% reduction of gross income subject to income tax of R&D activities

Tax Holiday



Eligible entities complying with the Indonesia capitalization rules and making investment into 'pioneer industries' can benefit from the following CIT incentives:

Corporate Income Tax Incentives		
Capital Investment	Tax holiday (%)	Period (years)
I Up to 100 billion rupiah (US\$6 million) less than 500 billion rupiah (US\$30 million)	50	5
II More than 500 billion rupiah (US\$6 million) less than 1 trillion rupiah (US\$60 million)	100	5
III More than 1 trillion rupiah (US\$60 million) less than 5 trillion rupiah (US\$300 million)	100	7
IV More than 5 trillion rupiah (US\$300 million) less than 15 trillion rupiah (US\$902 million)	100	10
V More than 15 trillion rupiah (US\$902 million) less than 39 trillion rupiah (US\$1.8 billion)	100	15
VI More than 30 trillion rupiah (US\$1.8 billion)	100	20

(Noted: US\$1=16,602 rupiah as of March 23, 2020)

Notice: After the aforementioned periods of CIT incentives, investment type 1 is eligible for an additional 25% tax holiday allowance while the rest can obtain an additional 50% CIT reduction in two years.

18 Pioneer Industries



Agricultural, Plantation or Forestry – Based Processing Industries that produce Pulp



Digital Economy



Economic Infrastructures



Inorganic Base Chemical Industry



Manufacturing Industry of Electronic and Telematics Device's Main Components



Manufacturing Industry of Main Components for Aircraft and Other Supporting Aircraft Industries



Manufacturing Industry of Main Components for Electrical Power Generation Engines



Manufacturing Industry of Main Components for Industrial Engines and Main Components



Manufacturing Industry of Main Components for Ships



Manufacturing Industry of Main Components for Trains



Manufacturing Industry of Robotic Components



Manufacturing Industry of Vehicle and Main Components for Vehicles



Manufacturing of Irradiation Equipment, Electro Medical or Electrotherapy



Oil and Gas Purification and Refinery Industry



Organic Base Chemical Industry



Petrochemical Industry, Based on Petroleum, Natural Gas or Coal

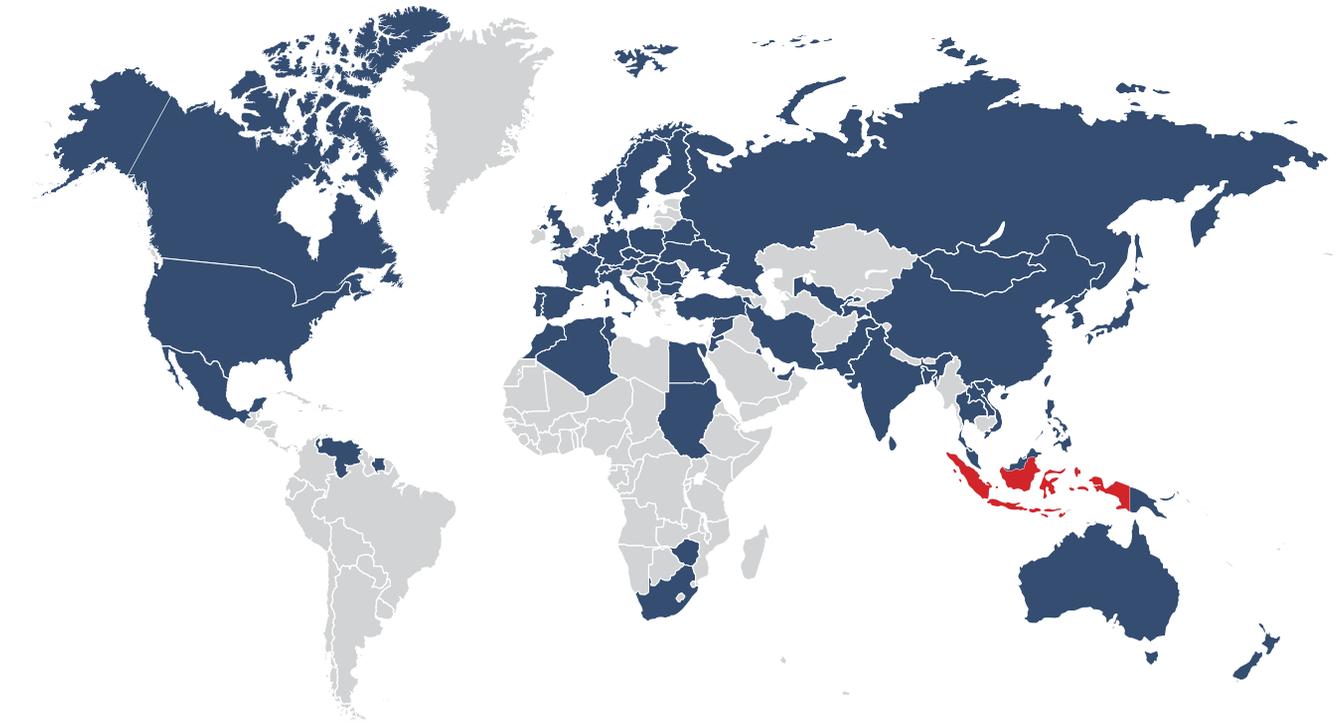


Pharmaceutical Raw Material Industry



Upstream Base Metal Industry

Double Taxation Agreements (DTAs)



● Countries with signed DTAs with Indonesia (As of January 2020)

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

8. HR and Payroll Compliance

Basic Employment Benefits



12 days of annual leave
(For a standard five working days per week)



Social Security Scheme (BPJS)



Religious Holiday Allowance (THR)
(Equivalent to at least 1 month of employee's salary)

Personal Income Tax (PIT) Obligations



Non-residents is taxed at a flat 20% on gross income



Residents are subject to progressive tax on worldwide income

Personal Income Tax Rates

Annual Income	Rate (%)
Up to 50 million rupiah (US\$3,000)	5
Between 50 - 250 million rupiah (US\$3,000 - US\$15,000)	15
Between 250 - 500 million rupiah (US\$15,000 - US\$30,000)	25
500 million rupiah (US\$30,000) and above	30

Social Security (BPJS) Contribution Rates

 It is mandatory for all Indonesian citizens, expatriates and their families to participate in the social security programs.

BPJS Contribution Rates

	Employer	Employee
BPJS Employment – Death	0.3%	/
BPJS Employment – Accident	0.24% - 1.74% (Depends on industries and risk level)	/
BPJS Employment – Retirement	3.7%	2%
BPJS Employment – Pension (Maximum threshold is IDR 8,939,700 (US\$538))	2%	1%
BPJS Health (Maximum threshold is IDR 12,000,000 (US\$723))	4%	1%



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia



Dezan Shira & Associates is a pan-Asia foreign investment advisory firm with over 27 years of experience in guiding foreign companies through Asia's complex regulatory environment and assisting clients with all aspects of establishing, maintaining, and growing business operations. With a large team of lawyers, tax experts, auditors, researchers, and business analysts throughout Asia, Europe, and the US, Dezan Shira & Associates serves multi-jurisdictional clients as a one-stop-shop and a partner for growth in Asia.

Dezan Shira & Associates Singapore

SBF Center, 160 Robinson Road, #25-06, Singapore 068914
Tel: +65 6789 3256
Email: singapore@dezshira.com

Dezan Shira & Associates ASEAN BPO Office

Graha Pena Building 8th Floor, Suite 805V
Jl. Raya Batam Centre, Teluk Tering, Batam Kota
Kota Batam, Kepulauan Riau 29461 Indonesia
Tel: +62 21 3972 9108
Email: batam@dezshira.com

Dezan Shira Asian Alliance Member in Indonesia

Indonesia Global Law Firm, GP Plaza 3rd Floor
Jl. Gelora II No. 1, Gelora-Tanah Abang
Jakarta Pusat 10270
Tel: +62 21 3972 9108
Email: indonesia@dezshira.com



Visit us www.dezshira.com