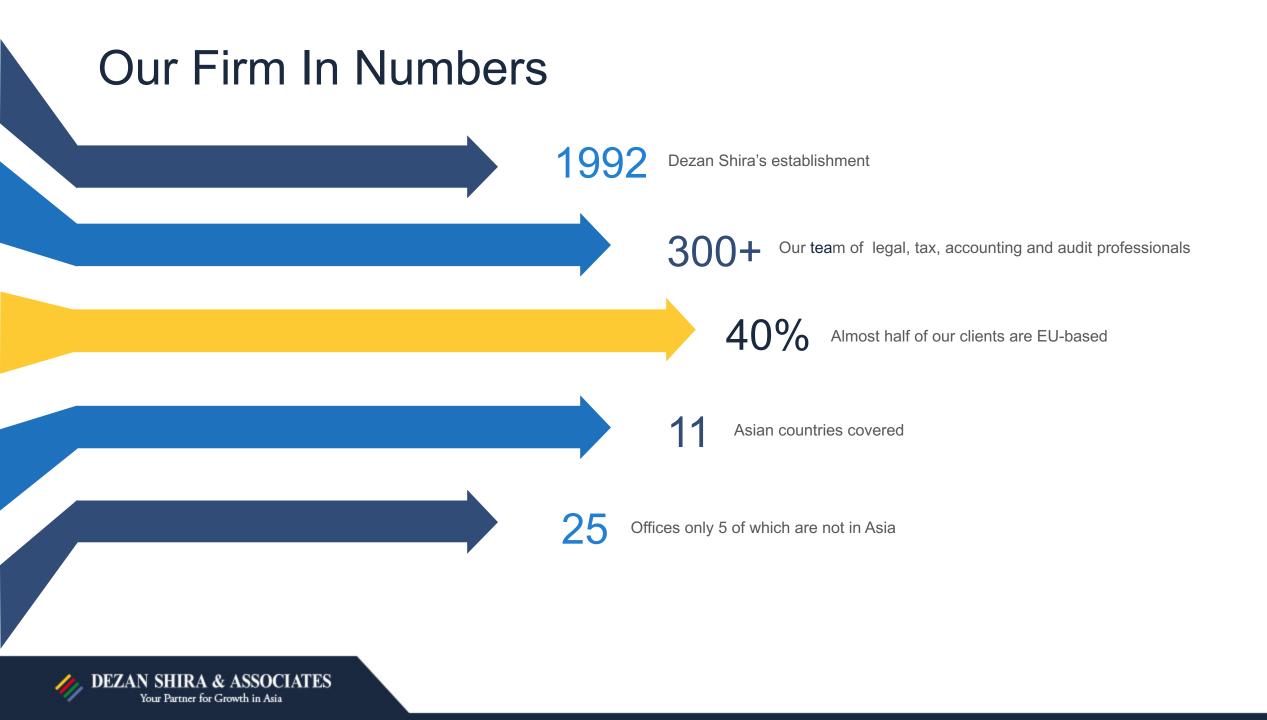
DEZAN SHIRA & ASSOCIATES Your Partner for Growth in Asia

Crash Course on Starting a **Business in Indonesia**

Jennifer Halim – Senior Associate, International Business Advisory, Jakarta Office



Webinar – Aug 26^{th,} 2021





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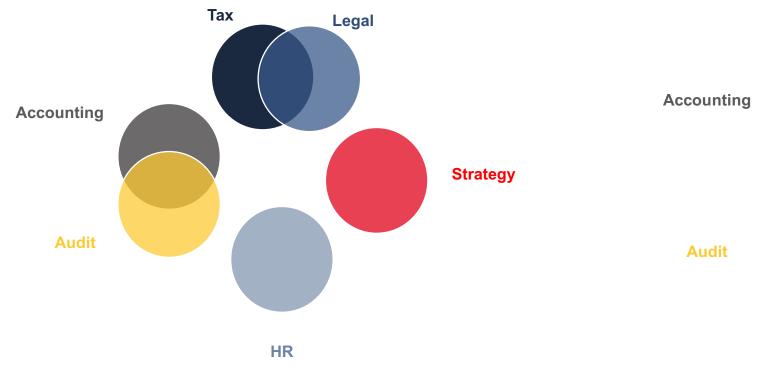
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Multi-Provider Approach

Our Blended Approach





HR

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Discussed today

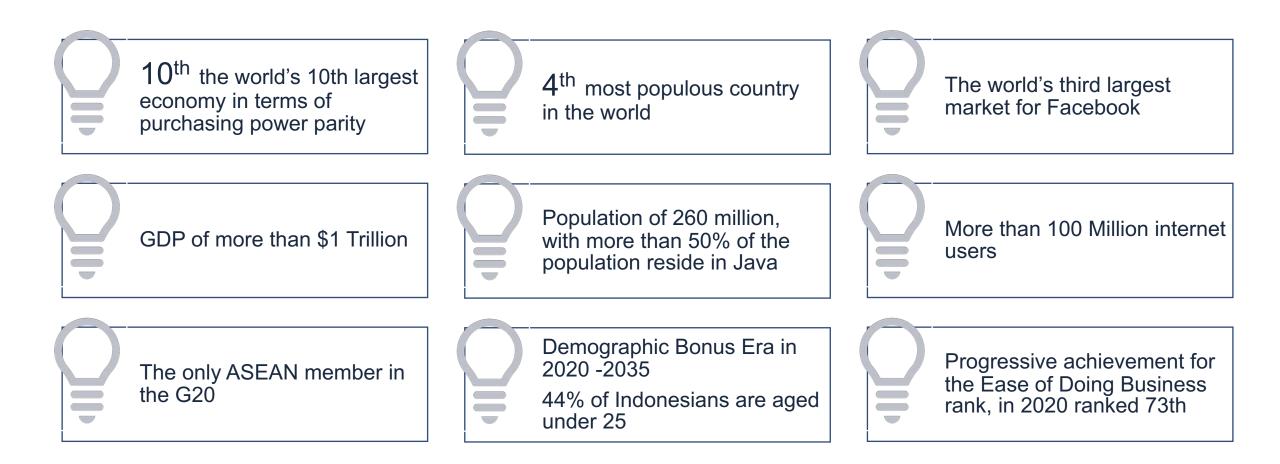
- Why Indonesia
- Setting up a foreign-owned business in Indonesia
- Industries permitted for FDI in Indonesia
- General overview of tax and the mandatory social security in Indonesia



Why Indonesia

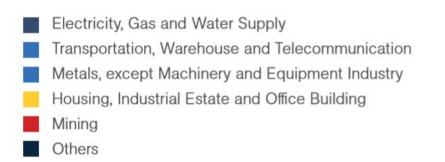


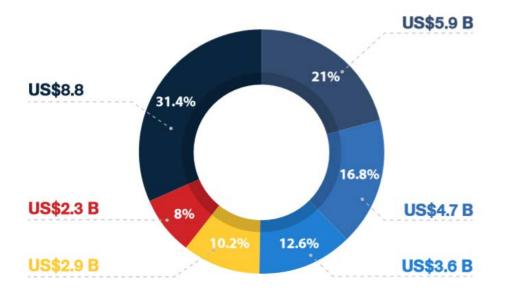
Why Indonesia? Facts and Figures



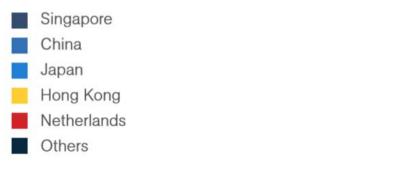


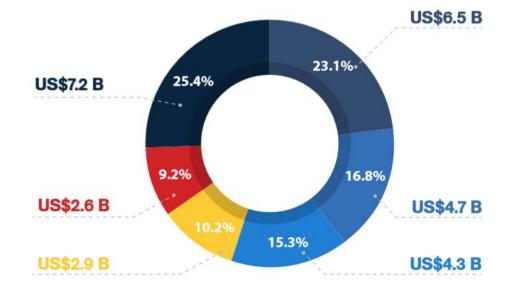
Top 5 Sectors Receiving Investment





Top 5 Countries Investing in Indonesia



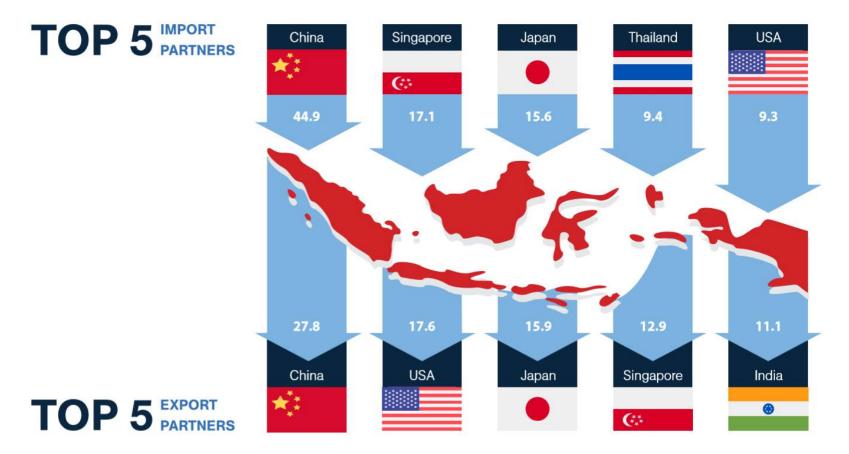


Source: BKPM

Source: BKPM



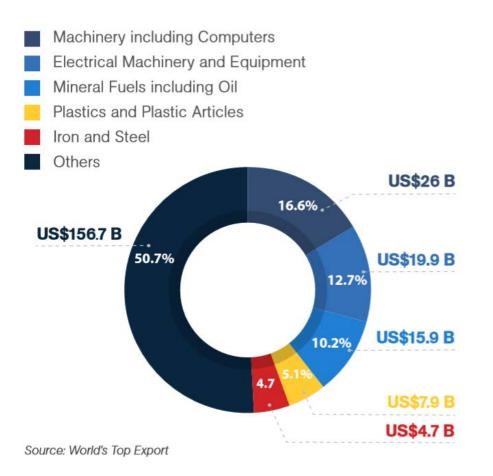
Top 5 GLOBAL Import & Export Partners (US\$ Billion)



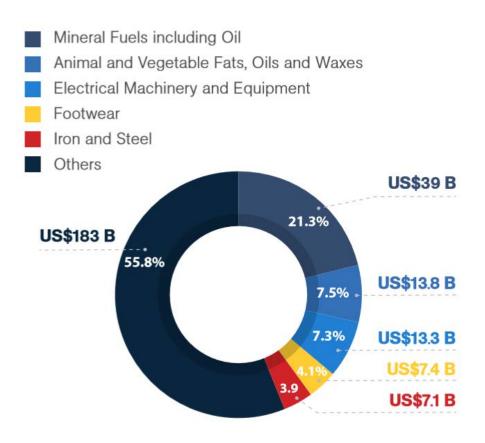
Source: Tradingeconomics.com



Top 5 Imports by product



Top 5 Exports by product



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Types of Legal Entities for Foreign Businesses in Indonesia



Entities Eligible for Business Licensing Process in Indonesia

Legal Entity	Foreign Limited Liability Company (Perseroan Terbatas Penanaman Modal Asing)		
	Foreign Foundation		
Representative Office	General Representative Office (KPPA)		
	Foreign Trade Representative Office (KP3A)		
	Foreign Construction Representative Office (BUJKA)		
	Representative Office of Foreign Electric Power Support Services		
Foreign Legal Entity	Franchisers		
(who conduct business activities in Indonesia)	Foreign Electronic System Operator for Private Sector		
	Permanent Establishment (including oil and gas sector)		

GENERAL REPRESENTATIVE OFFICE (KPPA)

FOREIGN LIMITED LIABILITY COMPANY (PERSEROAN TERBATAS PENANAMAN MODAL ASING/PT PMA)



Corporate Establishment Options	General Representative Office (KPPA)	Foreign Limited Liability Company (PT PMA)	
Setup timeline	2 ~ 4 weeks	3 ~ 4 weeks	
What I can use it for	Market research and scouting for business	No limitation of business conduct	
Suitable forLiaison activities with HQ, 3 years and can be extended two times with one year each		Full or partial ownership, allowed to operate without any limitation of time otherwise regulated within the deed of establishment	
Restrictions	No income-generating activities	Some sectors are still closed or limited	
Minimum capital	none	Minimum authorized capital above 10 B IDR (approx. 720k USD/570k EUR) Minimum paid-up capital above 10 B IDR (approx. 720k USD/570k EUR)	
Pros	Limited activities but no capital requirements	Full ownership	
Cons	Time-based	SME-prohibitive capital requirements	

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What are the advantages of a PT PMA?

- Special financial and non-financial incentives, particularly in pioneer industries;
- Incentives for setting up in special economic zones (SEZs);
- Foreign investors can own as little as one percent and as much as 100 percent of the company (depending on the industry);
- Able to participate in government-sponsored business tenders in the country;
- Ease of processing for business licenses;
- Ease of processing for work permits;
- Lower tax and import duties;
- Simple organization structure (requiring only one director, one commissioner, and two shareholders); and
- Ability to sponsor foreign executives.

"I am interested to do business and set up a PT PMA in Indonesia, what would be the first thing that I should anticipate?"

Industries Permitted for Foreign Direct Investment in Indonesia



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IDENTIFY THE INDUSTRIAL CLASSIFICATION BUSINESS CODE

(Klasifikasi Baku Lapangan Usaha Indonesia/KBLI) Identify the most relevant Industrial Business Classification Code (*KBLI*) for your intended business activities in Indonesia, the information regarding the KBLI code can be accessed through: https://oss.go.id/portal/referensi/content/list_kbli

Once the KBLI Code has been successfully identified, company should first check whether the chosen KBLI Code is open 100% for foreign capital ownership or should it subject to certain restriction/requirements under the new Positive Investment List.

The KBLI Code will also be used to assess the risk level of such business activities and will affect the business licensing process.

What is KBLI Code?

45302	RETAIL TRADING PARTS AND CAR ACCESSORIES	This group includes the retail business of various auto parts, components and accessories separate from its trade, such as tire and inner tube rubber, car spark plugs, batteries (batteries), lighting fixtures and electrical parts.		
45401	LARGE TRADING OF NEW MOTORCYCLES	This group includes a large trading business for new motorbikes, including motorbikes or mopeds.		
45402	LARGE TRADING OF USED MOTORCYCLES	This group includes a large trading business for used motorbikes, including motorbikes or mopeds.		
45403	RETAIL TRADING OF NEW MOTORCYCLES	This group includes the retail business of new motorbikes, including motorbikes or mopeds.		
	KBLI Code, consists o	f 5 digits		
		Business activities that can be conducted under such KBLI Code		

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Negative Investment List vs. Positive Investment List





List of Closed Business Activities

Closed for Investment

- According to Article 12 paragraph (1) of Investment Law 25/2007, as amended by Article 77 Omnibus Law 11/2020:
 - a. Class 1 narcotics cultivation and industry (01287);
 - b. All forms of gambling and/or casino activities (9200);
 - Fish catching for species listed in Appendix I of Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) (10719);
 - Coral and sea rock utilization or harvesting as material for building/calcium, aquariums, and souvenirs (applicable for both living and dead coral) (03154);
 - e. Chemical weapon industries (20119); and
 - f. Industrial chemical substances and ozone-depleting substances industry (20119).
- 2. According to the Official Statement from President Jokowi on 2nd March 2021:
 - a. Alcoholic Beverages Industry (11010);

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- b. Alcoholic Beverages Industry: Wine (11020); and
- c. Malt-Containing Beverages Industry (11031).

Note:

As comparison, there were 20 Closed Business Activities, as listed in Appendix I, PR 44/2016:

- 1. 9 ones which are now the same Closed for Investment, as above.
- 2. 4 ones which are now part of Can Only be Carried Out by Central Government (no. 2-5), as above.
- 3. 7 ones which are now moved to Opened Business Activities: 1) Lifting of Valuable Objects from Sunken Cargo (52229);
 - Alkaline Chlorine Production Industry using a Mercury Process (20111); 3) Industry of Pesticide Active Material (20211);
 Management and Operation of Ground Transportation Passenger Terminal (52211); 5) Management and Operation of Motor Vehicle Weighing (52219);
 Management of Motor Vehicle Type Testing (17203), and 6) The Management and Operation of Radio Frequency Spectrum and Satellite Orbit Monitoring Stations (61300).

Source: Kementerian Investasi/BKPM

Can Only be Carried Out by Central Government

According to Explanation of Article 12 paragraph (1) of Investment Law 25/2007, as amended by Article 77 Omnibus Law 11/2020:

Activities which are of a service nature or in the framework of defence and security, encompassing <u>among others</u>:

- 1. primary weapons system;
- 2. government museum (51021);
- 3. historical and ancient heritages (91023);
- 4. operation of flight navigation (52232); and
- telecommunications/shipping and vessel navigation aids (52229)



New Category: Priority Business Activities

Criteria	 nationally strategic project/program; capital-intensive; labour-intensive; advanced technology; pioneer industry; export-oriented; and/or oriented towards research, development, and innovation activities.
Eligible Business Activities	 245 Business Activities, as listed in Appendix I, PR 10/2021 a. 183 ones eligible for Tax Allowance (TA) → GR 78/2019 & MoF Reg. 11/PMK.010/2020 jo. 96/PMK.010/2020; b. 18 ones eligible for Tax Holiday (TH) → MoF Reg. 130/PMK.010/2020 & BKPM Reg. 7/2020; and c. 44 ones eligible for Investment Allowance (IA) → MoF Reg. 16/PMK.010/2020.
	 2. <u>Appendix I is not an exhaustive list</u> (Article 10, PR 10/2021) a. Other than TA, TH and IA, there are still available fiscal incentives in accordance with the provisions of law and regulations, among others: super tax deduction for vocational expenses → MoF Reg. 128/PMK.010/2019 super tax deduction for R&D expenses → MoF Reg. 153/PMK.010/2020 import duty exemption for the importation of capital goods for power plant industry → MoF Reg. 66/PMK.010/2015; import duty exemption for the importation of machineries and raw & auxiliary materials for manufacturing and selected services industries → MoF Reg. 176/PMK.011/2009 jo. 188/PMK.010/2015; import duty exemption/reduction and/or VAT exemption for the importation of goods for CoW /CCoW → MoF Reg. 116/PMK.04/2019; and fiscal incentives at SEZ → MoF Reg. 33/PMK.011/2021 & BKPM Reg. 2/2021. b. Available non-fiscal incentives in accordance with the provisions of law and regulations, includes: ease of obtaining business licenses, provision of supporting infrastructure, guarantees on availability of energy and raw materials, immigration, manpower, and others.

Source: Kementerian Investasi/BKPM



Tax Allowance



A total of 30% reduction in net income tax in 6 years, 5% each year

\$

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

Tax Holiday

	Corporate Income Tax Incentives				
	Capital Investment	Tax holiday (%)	Period (years)		
1	Up to 100 billion rupiah (US\$7.3 million) less than 500 billion rupiah (US\$36.5 million)	50	5		
11	More than 500 billion rupiah (US\$36.5 million) less than 1 trillion rupiah (US\$73 million)	100	5		
111	More than 1 trillion rupiah (US\$73 million) less than 5 trillion rupiah (US\$365 million)	100	7		
IV	More than 5 trillion rupiah (US\$365 million) less than 15 trillion rupiah (US\$1.1 billion)	100	10		
V	More than 15 trillion rupiah (US\$1.1 billion) less than 30 trillion rupiah (US\$2.2 billion)	100	15		
VI	More than 30 trillion rupiah (US\$2.2 billion)	100	20		

(Noted: US\$1=13,663 rupiah as of February 19, 2021)

Examples of Priority Business Sectors and their Incentives

Business line	Incentive type
Textile and garment industry	Tax allowance and investment allowance
Pharmaceutical industry	Tax allowance
Digital economy (hosting, data processing etc)	Tax holiday
Geothermal (exploring and drilling)	Tax allowance
Cooking palm oil industry	Tax allowance
Iron and steel industry	Tax allowance
Automotive industry	Tax allowance
Oil and gas refinery	Tax holiday
Cosmetics industry	Tax allowance
Coal gasification	Tax allowance

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Business Activities Allocated to, or Requiring Partnership with, Cooperatives and MSMEs

		Allocated to Cooperatives and MSMEs			(Open to Large-Scale Enterprises) Requiring Partnership with Cooperatives and MSMEs	
Criteria	tech inter and) business activities which do not utilize technology or utilize a simple echnology; 2) business activities which have specific process, labour- ntensive in nature, as well as have special and hereditary cultural heritages; and 3) business activities which require capital not exceeding IDR 10 Billion, excluding the value of land and buildings.				
Eligible Business Activities	112 E	112 Business Activities in 51 Groups, as listed in Appendix II, PR 10/2021			Activities in 38 Groups, as listed in II, PR 10/2021	
Additional Information	Government Regulation No. 7 of 2021 on Facilities, Protection and Empowerment of Cooperatives and MSMEs (GR 7/2021) stipulated: 1. Criteria of MSMEs based on Capital and Annual Turnover (Article 35)					
		Category	Startup Capital (excluding land and bui Up to IDR 1 Billion		Annual Turnover	
		Micro Enterprises			Up to IDR 2 Billion	
		Small Enterprises	> IDR 1 Billion to IDR 5 Billion		> IDR 2 Billion to IDR 15 Billion	
		Medium Enterprises	> IDR 5 Billion to IDR 10 Billion		> IDR 15 Billion to IDR 50 Billion	
	2.	 Partnership Schemes (Article 106): 1) core-plasma, 2) subcontract, 3) franchise, 4) general trade, 5) distribution and agency, 6) supply chain, and 7) others (profit sharing, operational cooperation, joint ventures, and outsourcing). 				

Source: Kementerian Investasi/BKPM



Business Activities with Certain Requirements

Certain Requirements	 46 43 Business Activities, as listed in Appendix III, PR 10/2021: 1. 11 Business Activities which are reserved for domestic investors; 2. 30 Business activities with maximum foreign ownership; and 3. 5 2*) Business activities which require special licenses. *) According to the Official Statement from President Jokowi on 2nd March 2021, 3 business activities related to greenfield investment in alcoholic beverages industry were revoked from Appendix III, hence, to be declared as closed business activities through the Revision of PR 10/2021.
Exclusions	 Exclusion of Maximum Foreign Ownership Requirement (Article 6, Paragraph 4): Investment which have been approved in certain business activities prior to the promulgation of PR 10/2021, as stated in its business licensing, unless the provisions under PR 10/2021 are more profitable for Investor [GRANDFATHER CLAUSE]; and/or Investors who obtain special rights based on agreements (CEPA/FTA) between Indonesia and the Investor's country of origin, unless the provisions on the same business fields under PR 10/2021 are more profitable for Investor. All "Certain Requirements" do not apply to Investment Business Activities which are carried out within SEZs (Article 8, Paragraph (1)). Business Licensing and investment activities in FINANCIAL & BANKING SECTORS shall be carried out in accordance with BI and OJK Regulations (Article 11, Paragraph (2)).
Additional Requirements	 <u>As according to prevailing Laws and GRs</u> (Article 13, PR 10/2021) Construction (Contractor & Consultant) Services using Advanced Technology and/or High Risk and/or Work Value of more than IDR 50 Billion, which previously with maximum foreign ownership of 67% (or 70% for ASEAN investors), is not listed in Appendix III, PR 10/2021. However, Appendix II, GR 5/2021, still mentioned the same limitation for Construction Contractor & Consultancy Services. Land area (min &/ max) for Plantations (CPO, Sugarcane, Tea, Cocoa, Coffee, Coconut, Rubber, Tobacco), at Article 3, GR 26/2021. Business Activities of Wholesaling (46xxx) and Retailing (47xxx) are not allowed in one PT, at Article 55 Paragraph (1), GR 29/2021. Single Majority for Air Transportation (51xxx), at Appendix I, GR 5/2021. Single Purpose for Water Transportation Services, at GR 31/2021.

Source: Kementerian Investasi/BKPM



Business Activities Reserved for Domestic Capital

Traditional medical products (for humans)	100 percent Domestic capital
Fish processing industry	100 percent Domestic capital
Wood based building products	100 percent Domestic capital
Coffee processing industry	100 percent Domestic capital
Rendang industry	100 percent Domestic capital
Ship industry Outriggers; and Traditional vessels 	100 percent Domestic capital
Traditional handicrafts	100 percent Domestic capital
Traditional cosmetics	100 percent Domestic capital
Raw materials for traditional medicine (for humans)	100 percent Domestic capital
Batik industry	100 percent Domestic capital
Crackers and chips industry	100 percent Domestic capital
Hajj and Umrah activities	100 percent Domestic capital and must be Muslim

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Examples of Business Activities Open with Certain Requirements

Business Fields with Specific Requirements			
Business fields	Requirements		
Publishing of newspapers, magazines (press)	100 percent domestic capital required for establishment, and up to 49 percent foreign capital ownership for business development and expansion		
Private broadcasting agency	100 percent domestic capital required for establishment, and up to 20 percent foreign capital ownership for business development and expansion		
Subscription based broadcasting agency	100 percent domestic capital required for establishment, and up to 20 percent foreign capital ownership for business development and expansion		
Community radio agency	100 percent domestic capital required for establishment, and up to 20 percent foreign capital ownership for business development and expansion		
Community television agency	100 percent domestic capital required for establishment, and up to 20 percent foreign capital ownership for business development and expansion		
Postal services	Maximum foreign capital ownership of 49 percent		
Domestic scheduled air transportation	Foreign capital ownership of 49 percent. However, domestic capital ownership needs to be the single majority		
Domestic non-scheduled air transportation	Foreign capital ownership of 49 percent. However, domestic capital ownership needs to be the single majority		
Air transport activities	Foreign capital ownership of 49 percent. However, domestic capital ownership needs to be the single majority		

For the full list of business activities open with certain requirements, you may access our publication through the following link:

https://www.aseanbriefing.com/ news/indonesias-omnibus-lawthe-positive-investment-list-andthe-liberalization-of-businesssectors/

Foreign Investment's Requirements

- May only carry out business activities in Large-scale Enterprises with IDR 10 B (excluding the value of land and building).
- Must be in the form of Foreign Limited Liability Company with minimum paid-up capital IDR 10 B.
- Must be in domiciled within the Indonesian Territory.
- Investment value of equal or less than IDR 10 B (excluding the value of land and building) is allowed at SEZ in technology-based Start Up Business Activities.
- Business licensing and investment activities shall be carried out in accordance with the norms, standards, procedures and criteria of the business activities.

General Procedure in Setting Up a PT PMA

7 Working Days	2 Working Days	1 Working Day	7 Working Days	Vary (depending on the business license type)
 Establish a legal entity with the company's activities stated in the Deed of Establishment (this must be done with a local notary and the Deed of Establishment will have to be ratified by the Ministry of Law and Human Rights) 	 Obtain a taxpayer identification number from the local tax office and domicile letter from the district government (businesses establishing in Jakarta do not require a domicile letter); 	 Obtain a Business Identification Number (NIB) by applying through the Online Single Submission (OSS) system. The NIB applies as the company's import identification number, customs ID, and registration certificate. Further, the NIB will also automatically register your company under the government's health and social security scheme; 	 Obtain a tax registration certificate through the tax office where the business is domiciled Can be done in parallel after the Company has obtaining its NIB & Tax ID 	 Some companies may need to apply for additional business licenses (such as for mining and fintech). Business licenses will now be issued based on the assessment of 'business risk level' determined by the scale of hazards a business can potentially create.

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Risk Level and Licensing Requirements



FACTORS ASSESSED BY THE CENTRAL GOVERNMENT IN DETERMINING THE RISK LEVEL



LICENSING REQUIREMENTS BASED ON THE RISK LEVEL

Low Risk

- Business Identification Number (NIB) for operational and commercial activities.
- NIB also serves as: Importer Identification Number, Customs Access Right, Halal Guarantee Statement (only for low-risk small and medium enterprises), Environmental Management and Monitoring Capability Statement Letter (for low-risk only).
- Example: wholesale distributor

Medium-low Risk

- Shall obtain a NIB and Standard Certificate before commencing the business operation.
- Standard Certificate is a statement and/or evidence of the fulfilment of certain business implementation standard.
- For medium-low risk business, the Standard Certificate is in the form of a **self-statement.**
- Example: Consulting activity and the design of Internet of things

Medium-high Risk

- Shall obtain a NIB and *an unverified Standard Certificate* before commencing the **business**' **preparation stage**.
- The Government Agency will verify the Standard Certificate, whether the business has fulfilled specific business standards.
- After a verified Standard Certificate is issued, the business is allowed to commence its operation/commercial activities.
- Example: Freight forwarding, building construction

High-Risk

- NIB for preparation stage.
- Licenses, in the form of approval by the Central or Regional Government for the implementation of business activities.
- The license will be issued after the satisfaction of all requirements for the relevant business activities has been verified (e.g. Environmental Impact Analysis – AMDAL), and thus may commence its operational and commercial activities.
- Please note that for some business activities, a Standard Certificate may also be required
- Example: web portal/ecommerce platform operator for large business scale (minimum authorized capital IDR 10 B/USD 720,000), private hospitals

Note: the categorization of business and its risk level are listed under annexes of GR 5/2021



Preparation Stage

Land acquisition

- Building construction (after the environmental license has been issued)
- Procurement of tools or facilities
- Recruitment of manpower
- Fulfilment of business standards
- Conducting feasibility studies
- Financing operations during the construction phase

Operational & Commercial Stages

- Production/provision of goods/services
- Logistics and distribution of goods/services
- Marketing of goods/services
- Other operational and commercial stage activities



Indonesia's Major Taxes



Social Security (BPJS) Contribution Rates (Mandatory)

	BPJS Contribution Rates	
	Employer	Employee
BPJS Employment - Death	0.3%	1
BPJS Employment - Accident	0.24% - 1.74% (Depends on industries and risk level)	1
BPJS Employment - Retirement	3.7%	2%
BPJS Employment - Pension (Maximum threshold is IDR 8,754,600 (USD\$598)	2%	1%
BPJS Health (Maximum threshold is IDR 12,000,000 (US\$723))	4%	1%

Please feel free to drop us a message if you wish to have a free consultation regarding your expansion plan into Indonesia, and need help to determine the KBLI Code for your intended business activities.

> Contact us indonesia@dezshira.com jennifer.halim@dezshira.com

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