

## Chinese Companies Frequently Asked Questions about Investing in Indonesia

### Getting Started

1. I want to expand my business into Indonesia. What are the basic requirements I should fulfill first?

As listed in the Presidential Decree No.44 of 2016 (Daftar Negatif Investasi or DNI) on The List of Business Fields that are Closed or Conditionally Open for Investment, check and verify whether your business is open and allowed for up to 100% FDI in Indonesia.

Legal foreign entity must establish a Limited Liability company in forms of Foreign Representative Office (RO) or Foreign Investment Company (PT PMA), which have to be applied and obtained approval from BKPM.

2. What are the capital requirements for a Limited Liability company?

Above IDR 10 billion (or its equivalent in USD 800,000), including working capital for one year, machinery and others, not including land and buildings.

Also, at least paid-up capital of IDR 2.5 billion (or its equivalent in USD) or 25% must be issued. Within 2 years, must be fully paid up. For each minority shareholder, at least 1% for foreign shareholder and 5% for local shareholder or IDR 10 million (or its equivalent in USD).

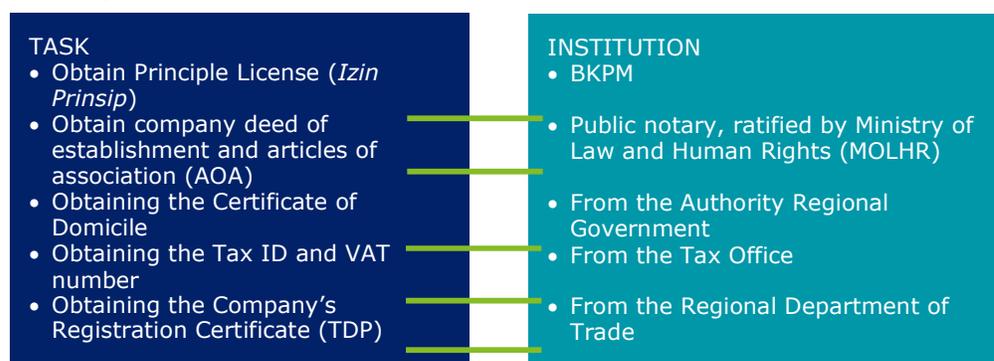
3. How about the number of shareholders for company registration?

Based on the Company Law No.40 of 2007, at least two shareholders are required at all times, which may consists of two individuals or two companies or a combination thereof in certain sectors.

4. Please describe PT PMA incorporation process. How long it will take to complete it?

In general, it will need approximately 3-6 months from the inception to the start of commercial operations (Izin Usaha).

#### a. Preparation



## b. Pre-operation

TASK	INSTITUTION
• Obtain producer importer identification number (API-P) for manufacturers	• BKPM
• Submit investment activities report (LKPM) every 3 months	• BKPM
• Obtain facilities, e.g. machinery import duty exemption and tax facilities, if needed	• BKPM, Ministry of Finance
• Obtain licenses from local government, e.g. building permit, domicile certificate	• Local government
• Obtain permits from relevant sectoral ministries, e.g. broadcasting permit	• BKPM, sectoral ministries

## c. Operation

TASK	INSTITUTION
• Obtaining other additional License or permit, related to the business activity	• Related Government Authority
• Obtain business licenses ( <i>izin usaha</i> )	• BKPM
• Obtain general importer identification number (API-U)	• BKPM
• Submit investment activities report (LKPM) every 6 months	• BKPM
• Obtain raw material import duty facility, if needed	• BKPM
• Obtain periodic operational permits from sectoral ministries, e.g. hotel permits	• BKPM, sectoral ministries

### 5. How can I obtain corporate tax facilities or holiday?

Companies with high investment value (export oriented, high labour absorption, high local content) investing in certain industries and/or in certain less developed regions having high priority on a national scale can be granted tax facilities. Whereas tax holiday applies for certain pioneer industries (added value, high externality, new technology, strategic value for the national economy) that are not entitled for tax facilities.

## Paying Taxes

1. Importing capital goods (e.g. machinery and equipment) will be required for my company to start production, is there any incentives for this?

Import duty will be exempted to the importation of capital goods of electricity for 2 years and can be extended by a maximum 1 year. For mining, import duty exemption and/or relief will be granted based on the contract with the recommendation letter from Directorate General of Mineral and Coal, Ministry of Energy and Mineral Resources (ESDM).

2. What types of taxation and tax rate applicable in Indonesia and when is the payment and submission deadline?

Types of taxation	Tax Rate	Payment Deadline	Filing Deadline
<b>Income taxes</b>			
Corporate income tax (CIT)	25%	Monthly: 15 <sup>th</sup> of the following month Annual: Prior to submission of the annual corporate income tax return	Monthly: 20 <sup>th</sup> of the following month Annual: End of the 4 <sup>th</sup> month after the tax year ends (this deadline could be extended up to 2 months)
Branch profit tax rate	20%		
Withholding tax (WHT):			
- PPh 21	5% – 30%	10 <sup>th</sup> of the following month	20 <sup>th</sup> of the following month
- PPh 22	0.1% – 10%		
- PPh 23	2% – 15%		
- PPh 26	20%		
- PPh final	0.1% – 15%		
Employee income tax (EIT)			
1) Resident Taxpayers			
- Up to IDR 50 million	5%	10 <sup>th</sup> of the following month	20 <sup>th</sup> of the following month
- Over IDR 50 million up to IDR 250 million	15%		
- Over IDR 250 million up to IDR 500 million	25%		
- Over IDR 500 million	30%		
2) Non-Resident Taxpayers	20%		
Individual (Personal) Income Tax			
- Up to IDR 50 million	5%		

Types of taxation	Tax Rate	Payment Deadline	Filing Deadline
- Over IDR 50 million up to IDR 250 million	15%		
- Over IDR 250 million up to IDR 500 million	25%		
- Over IDR 500 million	30%		
<b>Other local taxes</b>			
Value Added Tax (VAT)	10%	Before the VAT return filing deadline*	End of the following month
Luxury Goods Sales Tax (LGST)	10% - 200%	Before the VAT return filing deadline*	End of the following month
Stamp duty (Bea Materai)	IDR 3,000/ IDR 6,000		
Land and building taxes (PBB)	0.30%		
Duty on acquisition of Land and/or building (BPHTB)	5%		

\*Except for self-assessed VAT on utilization of intangible taxable goods and or services from offshore and VAT collected by VAT Collector other than State Treasury, which is due by the 15<sup>th</sup> of the following month.

3. When do I start paying my monthly taxes?  
Immediately after a company/ individual obtain NPWP.
4. How do I pay my monthly taxes?  
A tax billing code should be generated using a specific software. The billing code is then submitted to the perception bank for remittance to the State Treasury. Upon completion of the payment, the Bank will provide a tax payment slip/receipt containing NTPN (a unique tax settlement code) as evidence of tax settlement. A copy of the slip/receipt is to be attached to the tax return submitted to the tax authority.
5. Who can be the proxy?  
A proxy could be either a qualified employee of the company or a licensed tax consultant. The appointed employee must have knowledge in taxation and this can be proven by brevet (tax exam) certificate, formal education certificate majoring in taxation, or tax consultant certificate issued by the qualified party.
6. What is the debt to equity composition?  
According to Regulation No. 169/PMK.010/2015, the maximum debt to equity ratio for tax purpose is 4:1, except for certain for certain sectors which are guided by special rules). If the debt to equity ratio exceeds the prescribed 4:1 threshold, the excess interest expenses will be non-deductible for income tax calculation.

7. My Indonesian company would like to distribute dividends to shareholders in China, what are the taxes I should remitted?  
Payment of dividend to a non-resident shareholder is subject to withholding tax of 20%. China and Indonesia signed a tax treaty which may reduce the rate to 10% subject to certain substance and administrative conditions.
8. My China holding company has subsidiaries in many countries and perform inter-company transactions. Should I submit a transfer pricing documentation?  
The current regulation does not require submission of the transfer pricing documentation at the time of submission of tax return; however, such document should be provided upon request by the tax authority.
9. How long can the tax loss carried forward?  
Tax Loss can be carried forward for a maximum of five years.
10. Shall my Company keep the documentation in Indonesia or can I bring all documents to China?  
The Company shall keep all documents supporting its bookkeeping at its business premise in Indonesia for 10 years.
11. What is the condition that can make my Company audited by the Tax Authority?  
The tax authority may conduct a tax audit within the period before the statutory limitation has ended (i.e. 5 years). Where a return is lodged showing an overpayment of tax, this will automatically trigger a tax audit.
12. Related to the tax audit, if all of supporting documents are in Chinese language, can we submit the documents for the tax audit and hire a translator to explain to the Tax Authority instead of using Bahasa or English for the supporting document?  
According to tax law, generally, books and records, including those on computers, should be maintained in Rupiah and in the Indonesian language. The taxpayer may maintain its books in English and US Dollars with pre-approval from the tax authority. Failure to comply with this requirement may result in fines and imprisonment.
13. Is my Company required to register for VAT in Indonesia?  
The Company is required to register for VAT once its gross delivery/revenue (which subject to VAT) has exceeded IDR 4.8 billion in a fiscal year.

## Accounting, Currency and Language

1. What is the fiscal year in Indonesia?

Generally a fiscal year follows calendar year (i.e. 1 January to 31 December); however, the taxpayer may also be allowed to have a different bookkeeping period. Any change of bookkeeping period requires pre-approval from the tax authority.

2. Does my company need to be audited?

For tax purposes, there is no statutory requirement for an audit of a taxpayer's accounts by a public accountant. However, if taxpayers do have audited accounts, the DGT requires them to be submitted upon annual tax filing.

The following types of entities are required to submit annual financial statements that are audited by a qualified auditor:

- a) Publicly-listed companies.
- b) Banks, insurance, and other companies involved in accumulating funds from the public.
- c) Companies issuing debt instruments.
- d) Companies with total assets or revenue of 50 billion Rupiah or more
- e) Bank debtors whose financial statements are required by the bank to be audited.
- f) Certain types of foreign entities engaged in business in Indonesia that are authorized to enter into agreements.
- g) Certain types of state-owned enterprises.

3. Which language and currency I should use for my bookkeeping?

It is mandatory to maintain accounting records and functional currency to produce financial statements using Indonesian. Other languages and currency is allowed with the permission from Ministry of Finance.

4. Could I use China GAAP standard for my accounting basis in Indonesia?

No, Indonesia must comply with SAK and adopt PSAK for the accounting basis to construct financial statements. You may refer to our Accounting, Commercial and Tax Terms Guide (ACT) to cross-check with Indonesian Chart of Accounts.

## Commercial Operations Stage: Labour

1. Can I employ foreign workers in my company?

Yes, the ratio for PMA company is 1:1, one expatriate must have one Indonesian counterpart. This is not applicable for Board of Director or Board of Commissioner. Foreigners are allowed to work in Indonesia, to fill in positions that are open for foreigners and are not available for locals.

Employers other than Federal Civil Firm (Firma/ Fa), Limited/ Federal Partnership (CV), Associated Business (Usaha Bersama or UB), Trading Company (Usaha Dagang or UD) are allowed to employ foreign workers for certain position and a certain time.

2. What about employing foreigner for Human Resource?

No. According to the attachment of Manpower Decree No.40/2002, foreigner cannot hold a position as:

- a. Personnel Director
- b. Industrial Relation Manager
- c. Human Resource Manger
- d. Personnel Development Supervisor
- e. Personnel Recruitment Supervisor
- f. Personnel Placement Supervisor
- g. Employee Career Development Supervisor
- h. Personnel Declare Administrator
- i. Chief Executive Officer (CEO)
- j. Personnel and Careers Specialist
- k. Career Advisor
- l. Job Advisor
- m. Job Advisor and Counseling
- n. Employee Mediator
- o. Job Training Administrator
- p. Job Interviewer
- q. Job Analyst
- r. Occupational Safety Specialist

3. What are the procedures to apply for Foreign Worker Employment Plan (RPTKA)?

RPTKA is the basis to obtain Foreign Worker Employment Permit (IMTA) which must be applied online to the Directorate of Foreign Manpower Management.

4. What is the expat's minimum position and standard wage in Indonesia for the year of 20xx?

Please refer to the attachment of latest KEP-173/PJ./2002 for the standard salaries of expats.

5. Could I disburse salaries other than Rupiah?

The latest Government Regulation No.78/2015 of article 21 mentions that wages for all employees be paid in Rupiah, which include foreign workers.

6. My head office has covered health insurance in China, should I not participated with BPJS?

No, based on State Law No.24/2011, employer must contribute a certain share based on employee monthly wage into the social security programs: BPJS for Workers and BPJS for Health.

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