



QUICK START IN INDONESIA

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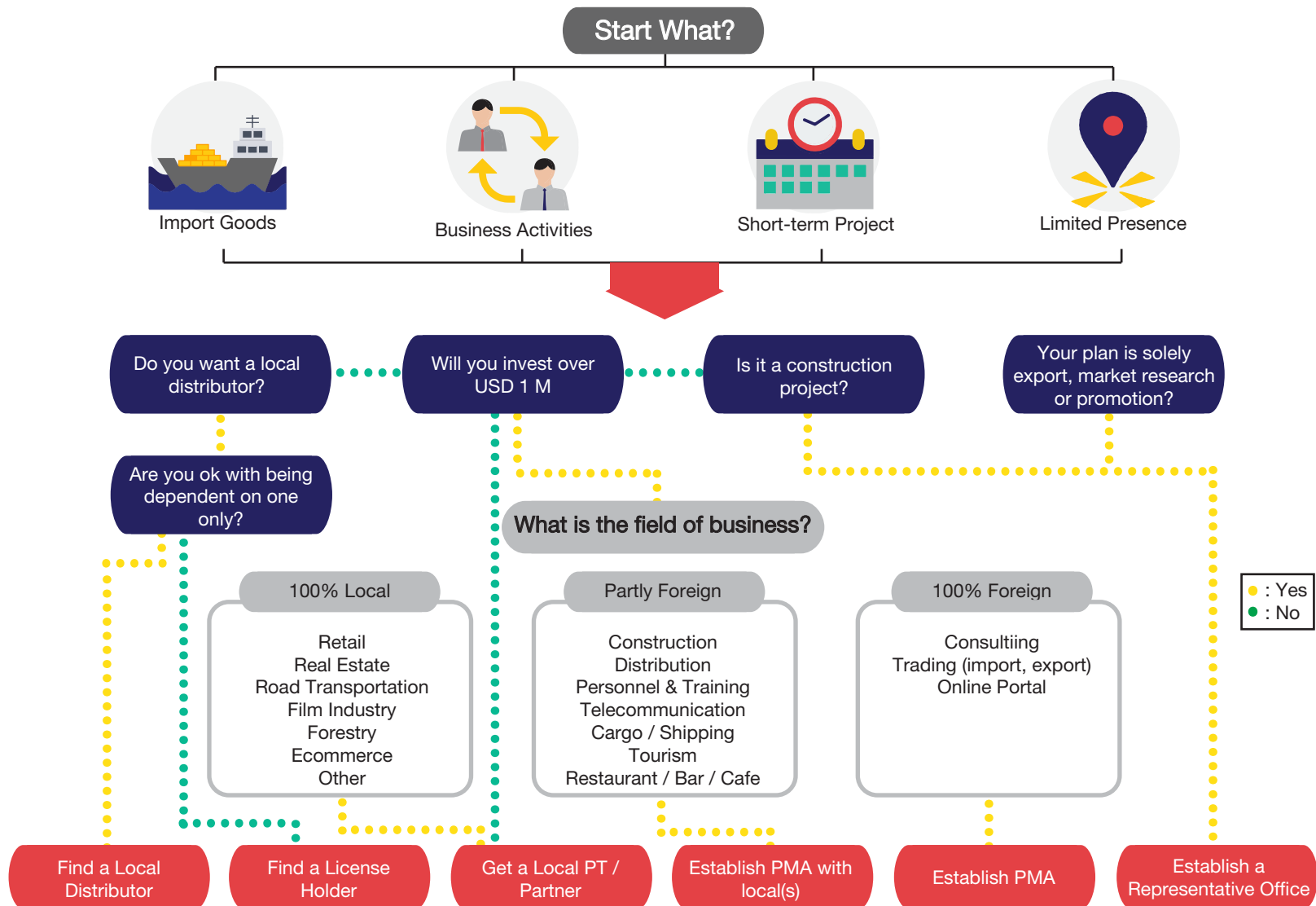
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Indonesian counts for 41% of all Southeast Asia population (United Nation estimates - Feb 2020) and had GDP of 1,111.71 (billions of USD), according to IMF.

HOW TO START IN INDONESIA

**QUICK START
IN INDONESIA**



WHY INDONESIA

10 REASONS TO DO BUSINESS IN INDONESIA

- 1** Indonesia is the 4th most populous country in the world, with more than 53% of the population living in urban areas.
- 2** 16th largest economy in the world the largest economy in Southeast Asia.
- 3** 70% of the population is under 39 years of age.
- 4** As of 2019, the middle class population was nearly 60 million. In 2020, it is estimated to reach 85 million (Kemenkeu)
- 5** 6.4% CAGR expected growth in consumer spending between 2010-2020, faster than Malaysia, Turkey, Brazil and Russia.
- 6** The Indonesia Investment Coordinating Board launched a One - Stop - Service for investment licenses and non licensing services.
- 7** One of the 17 megadiverse countries.
- 8** Its labor force participation rate was 67.5% (Aug 2019).
- 9** Moody's Investor Service (April 13, 2018) put Indonesia's long-term issuer and senior unsecured ratings credit rating at Baa2 from Baa3 (Stable to Positive).
- 10** Indonesia's debt to GDP ratio has significantly declined from 83% (2001) to 30.2% (2019)



Indonesian counts for 40% of all South East Asia population and 36% of its GDP (IMF, 2018).

CULTURAL AND BUSINESS ETIQUETTE



The strongest values for Indonesians are group, hierarchy and own reputation ("the Face"). These are also reflected in how they act in interacting with others at work and meetings.

BUSINESS MEETINGS

Business is personal in Indonesia so spend time through communication to build a strong relationship. Dealing with someone face-to-face is the only effective way of doing business.



A handshake is the most common greeting accompanied with the word "Selamat". Most Indonesians apply only very light pressure when shaking hands. Women's hands maybe shaken as well if they initiate. If meeting more people, approach the eldest / most senior first.



The business cards should be treat with respect—give/accept using two hands or the right hand, examine the business card before putting it out of hand. For the best impression, the cards should show your title and also in Indonesian (to show respect).

CULTURAL AND BUSINESS ETIQUETTE



Business attire is generally conservative. Women should ensure to be well covered from ankle to neck. Tight fitting clothes are best avoided. Remember it is hot, so cotton or at least light clothing is the best.



Voice Indonesians speak quietly and with a subdued tone. Loud people would come across as slightly aggressive.



Time the religious Muslims pray five times a day. If you conduct business with Indonesian Muslims, you should not schedule any meetings or lunch dates during these times.

WORKING WITH LOCALS



Decision making: While Indonesians expect decisions from the seniors and leaders, they are strong advocates of group discussion and consensus.



Criticizing and refusing: The avoidance of “loss of face” makes Indonesian very polite. It is difficult for Indonesian to criticize, to be criticized and to refuse. Bahasa Indonesian actually has 12 ways of saying "No" and also ways of saying "Yes" when the actual meaning is "No".



Indonesian has 12 ways of saying "No" and also ways of saying "Yes" when the actual meaning is “No”.

FOREIGN-OWNED COMPANY

Foreigners who want to create or build a business in Indonesia tend to create a **PT PMA**. What is a PT PMA? PT PMA (*Penanaman Modal Asing*) or Foreign Investment Company, is the establishment of capital for the purpose of doing business in the Republic of Indonesia by a foreign investor, by using foreign capital fully or in part with a domestic investor. Before an investor decides to register a PT PMA in Indonesia, he has to investigate his exact business activities in the Negative Investment List, which notes foreign ownership limits in certain business classifications. It is issued by the Indonesian Investment Coordination Board, also called **BKPM**. *The minimum investment plan is IDR 10 billion (around USD 750,000), excluding land and building. The minimum paid-up capital required is IDR 2.5 billion (around USD 180,000), which shall be deposited after the company is established and bank account is opened. After incorporation, the company is required to submit Investment Activity Report (LKPM) and monthly tax reports, even if the company does not have any activities and owes no taxes.*

As for the advantages of PT PMA in Indonesia:

1. PT PMA is recognized as a form of legal entity by Indonesian Law
2. Eligible to obtain special custom facilities
3. Lower on-site tax or import duties
4. Can sponsor many foreign employees
5. Eligible to directly obtain business license for certain activities
6. For a minimum investment plan of IDR 100 billion, investor is eligible for 3-hour licensing service

However, a PT PMA in Indonesia also has disadvantages, such as:

1. Stricter compliance compared to Indonesian PT, required to submit quarterly Investment Report
2. Must fulfill a minimum investment plan of IDR 10 billion (around USD 750,000)



To obtain the Investment Registration Approval from BKPM a minimum investment plan of IDR 10 billion (around USD 750,000) is needed

LOCAL PT COMPANY

One of the available legal entities in Indonesia is a limited liability company. Limited liability company, also called “**local PT**,” is the most popular and most widely used form of business entity in Indonesia for carrying out business activities in various fields. In addition to having a clear legal basis as provided for in **law No. 40 year 2007** on limited liability company, local PT is allowed to conduct the business activities that is closed to foreigners. PT is a company founded by a minimum of two local people as responsible shareholder, has one local director and one local commissioner.

The advantages of the Indonesian PT are:

1. The viability of the company is more secure.
2. Can easily get additional funds/capital, for example by issuing new shares.
3. The limited liability company binds and protects the company's activity.
4. The minimum capital investment is based on company size:

Small	IDR 600 million
Medium	IDR 600 million – 10 billion
Large	IDR more than 10 billion

5. The company can have three main business activities.
6. Usually no limitations apply, and it can use all open government tenders.
7. It can directly get an import license and employ foreigner.
8. It can have a foreign director.

However, the Indonesian PT also has disadvantages, such as:

1. It is a subject to a separate tax, and dividends received by shareholders will be taxed.
2. The dissolution process, changes to articles of association, mergers and takeovers require time and money, as well as approval by a General Meeting Of Shareholders (RUPS).
3. The company is 100% owned by local shareholders.



There are three potential sizes for a local PT which you can choose from.

REPRESENTATIVE OFFICE



The Representative Office is usually the first step for a foreign company in building its business in Indonesia. It is commonly used as feasibility assessment before establishing a **PT/PMA**. After the market expectations prove to be sensible, the foreign companies can establish a PT PMA or foreign capital investment limited liability company.

REPRESENTATIVE OFFICE

The activities a Representative Office can undertake are limited. These include:

1. Supervise, connect, coordinate and take care of company interests in Indonesia.
2. Perform market research based on company requirements.
3. Sales monitoring for the company's marketing activities.
4. The representative office in Indonesia is **not allowed to seek income**.

Although the revenue restrictions seem like a major disadvantage, you can still arrange many activities via the mother company and local agents.

There are 4 options to consider:

1. Foreign Representative office
2. Foreign Trade Representative office
3. Foreign Construction Representative office
4. Foreign Bank Representative office

While the first two options are used by vast majority of the companies, the Foreign Construction Representative Office can be useful in delivery of construction projects. The Foreign Bank Representative Office is a very rarely selected option.



Since 2018, both standard Foreign Representative Office and Foreign Trade Representative Office license can be repeatedly renewed, based on Letter of Appointment of Chief RO

IMPORT TO INDONESIA

● Import Using Own Company



Only a company which holding import license can do importation in Indonesia, either Local PT or Foreign-owned Company (PT PMA). The foreign-owned company is only allowed to have 67% of foreign ownership to become a importer and it will be considered as distribution company.

● Exclusive Distributor



There are products are categorized as exclusive products since the products are mandatory to obtain specific license. For the instance, the products such as Food & Beverages, Cosmetic, Food Supplement which need to be registered in National Agency of Drug and Food Control (NA-DFC) or we called it BPOM before be able to enter Indonesia. The validity of license/registration depends on the product, 3 - 5 years. In the case, you don't have a company in Indonesia thus you need to appoint one existing distributor/company to register the products under its name. It is important to appoint the reliable and trustworthy distributor as this includes inherent risk (more in the paragraph Undername Import), considering the distributor's size, specialty, reputability and results. It is advise to hire a local distributor to help you to preselect the distributors.

● Undername Importer & License Holder



For exclusive products, it's very important to ensure before appointing the distributor since it has such risks. For the instance, the distributor would like to lock up the market without sharing products to other distributors or even the distributor is underperformance. If such situation occurs, the principal need to convince distributor to terminate the product registration/license, it might occur long discussion and high cost. To avoid the risks, you can make an agreement with an agency/company that can serve as license holder and do undername import. The advantage of using this kind of agreement is you can appoint large numbers of sub-distributors, also the agency is able to terminate the product license anytime upon request of principal. Also, undername importer is able to manage customs clearance process.



For many products, the registration is exclusive for one distributor only. By chosing wrong distributor you might get in long lasting troubles.

HIRING EMPLOYEES



1 Personal Income Tax

Personal Income Tax is progressive in Indonesia, but still generally low.

Taxable income IDR (million)	1-50	50 - 250	250 - 500	Over 500
Tax Rate	5%	25%	25%	30%

All tax residents should register for National Tax Payer Identity Card (NPWP), otherwise they will be subject to additional 20% charge on their annual tax report.

HIRING EMPLOYEES

2 Social Security and Health Insurance

Companies are required to pay social security benefits for their workers. In the event of old age, disability, work injuries and sicknesses, and maternity leave, the Indonesian social security system will generally cover the costs for local workers and employees. This program is being extended to all employees in smaller businesses, informal-sector workers, and people working in rural cooperatives. The current rate will be as follow :

No	Rate for Employee	Rate for Employer
1	BPJS Health Program : 1%	BPJS Health Program : 4%
2	BPJS Social Security :	BPJS Social Security :
	* Old Age Security : 2%	* Workplace Accident : 0,24% - 1.74%
	* Pension : 1 %	* Death Security : 0,3%
		* Old Age Security : 3.7%
		* Pension : 2%

3 Search Employees

To streamline the recruitment process and to save costs, it is best to work with a recruitment agency or PEO (Professional Employer Organisation). As your partner in recruitment, Cekindo can assist you with:

- Advertising
- Screening
- Pre-interview
- Drafting employment contract
- Employee background check



Besides salary and social security, employers have to provide to the employees an allowance (13th salary) paid prior the major religious events such as Idul Fitri and Christmas.

EMPLOYING FOREIGNERS

Working Visa (KITAS)

KITAS guarantee the local resident status, they are, however, difficult to get and can be pursued for 6 months only. Director and other position stated in company documents (AKTA) can claim 12 months KITAS validation period.

Requirements

Bachelor degree or higher / 5 years of working experience in Indonesia

Business Visa

Can be handy for the ones who want to do business in Indonesia and come often to meet partners or visit local team. It is fast, cheap and allows multiple entry. However, it should not (and is also not advised to) be used for people working in Indonesia.

Quotas

It is not easy to employ foreigners as the government needs to give permission for each. Companies have limited number of foreigners to employ which depends on their size, number of local employees and on the specific projects. Some local agencies can provide you HR outsourcing using their quotas which allows you to higher more foreigners.

Income Tax for Foreign Employees

As mentioned on the page Hiring Employees, tax residents not registered for National Tax Payer Identity Card (NPWP) are subject to additional 20% charge on their annual tax report. However, expats are able to directly apply for NPWP once they get KITAS.

Indonesia has double taxation treaties with 65 countries, among them Australia, Canada, China, Germany, India, New Zealand, Singapore, the United Kingdom and the USA.



Companies can only employ a limited number of foreigners. The number typically depends on their size and the evaluation of the specific reason of employment done by a government officer.

EMPLOYMENT WITHOUT A COMPANY

To make market entry faster, simpler and cheaper, a company can chose to employ people without having the local entity using a Private Employment Organization (PEO) or HR Outsourcing.

In the PEO/ HR outsourcing service is a third-party company becomes your co-employer, takes responsibility for the employee related paperwork, compliance, salary and tax calculations and payments.

Activity	Not needed	Outsourced
Incorporation, licenses, initial investment, office rental	✓	
Monthly and annual tax reporting	✓	
Quota for foreign employees	✓	
Company closure in case of changing plans	✓	
Salary and tax calculations		✓
Payslip and payments processing		✓
Visa sponsorship for foreign employees		✓
Legal Support and Guidance		✓

Income Tax for Foreign Employees

HR Outsourcing service will help you manage the tax applied for foreign employee and register their tax id. You don't need to worry to report annual personal tax return of foreign employee since it will be handle under HR Outsourcing service.

HR Outsourcing assistance will help you to quickly test the potential of the market or to start small operations in the country and build your brand from the ground up with the support it requires.



Under HR Outsourcing service you will save costs, time, and money compare to establishing foreign entity while still being able to guarantee the functions of your business such as HR or payroll. It can save up to 3 months time and 60% cost.

ACCOUNTING AND TAX

1 Corporate Income Tax

The corporate tax rate is generally flat at 25%, but special conditions apply. If your company is listed and meets certain conditions, you are obliged for 5% reduction. The best benefits are applicable to small businesses with a gross turnover <IDR 50 billion, which entitles them 50% off the standard tax rate. Based on government regulation number 46 of 2013, the company income tax rate will be as follows based on the company revenues except for a few selected industries – for them there is a tax rate no matter on the size.

Gross Income (IDR)	Tax
Up to 4.8 bn	1% turnover
4.8 bn - 50 bn	12.5% - 25% of profit
Over 50 bn	25% of profit

Company field	Income Tax	Turnover tax
Petroleum	30 - 45%	
General mining	30 - 45%	
Geothermal	34%	
Construction - developers		2%
Construction - design, consultancy		4%
Foreign drilling		6%
Non-resident shipping, airlines		3%

ACCOUNTING AND TAX

② Timeline for Tax Obligations

In Indonesia, payment for both corporate and individual tax liabilities are typically made to the State Treasury through a designated tax payment bank. Afterward, you must submit related tax forms to the tax office.

Type of Tax	Monthly Payment Date (of the following month)	Monthly Filing Date (of the following month)	Annual Filing Date
Corporate Income Tax	10 th	20 th	End of the 4 th month after the tax year end
Individual Income Tax	10 th	20 th	End of the 3 rd month after the tax year end
Employee Withholding Tax	10 th	20 th	N/A
Other Withholding Tax	10 th	20 th	N/A
VAT & LGST	Before the VAT Return Filing Deadline	End of the following month	N/A



Small companies are entitled for 50% off the government tax.

OPENING A BANK ACCOUNT

Companies in Indonesia which have a foreign shareholder are required to maintain a bank account. The account must be established with a bank which is licensed to handle foreign currencies (known as Foreign-Exchange Bank or Bank Devisa). Indonesian law requires every bank to maintain information about the account owners. While in practice, the information required by banks can vary, here are the minimum requirements:

For a private person:

- Copy of identity card or passport
- For foreigners, copy of staying permit in Indonesia/temporary resident permit

For a corporate entity:

- Memorandum and/or Articles of Association;
- Business licenses (for Indonesian companies)
- Taxpayer identification number (for Indonesian companies).
- There are no specific restrictions on the use of a bank account by its holder, with the exception of its use for money laundering, terrorism funding.

Corporate Bank Account

The most efficient way if you only need a corporate bank account is to establish a Representative Office in Indonesia. Keep in mind, however, that the Representative Office is not allowed to generate any revenue and therefore you should not be receiving other payments to this account than from your mother company.




For opening local bank account you either need to have a business entity or local working permit.

IMPORT LICENSES IN INDONESIA



In Indonesia, if you want to import goods into Indonesia, you are required to obtain an import license. To facilitate and ease business licensing processes, Online Single Submission (OSS) system has been implemented. With OSS, all business entities will have to register online. After completion of registration at the OSS, each business will automatically get a Business Identity Number NIB (*Nomor Induk Berusaha*) one day after the registration, provided that all required documents are complete.

A Business License will also be granted alongside the NIB if your business does not require other licenses, which depends on the business sector your company is engaged in.

 Indonesia completely prohibits import of any used products including specialized medical and other devices.


IMPORT LICENSES IN INDONESIA

Before the implementation of OSS (Online Single Submission), any businesses who wanted to import goods to Indonesia legally were required to obtain a special license – the General Import License (API-U) or a Producer Import License (API-P), depending on what products you were dealing with. The processing time of these licenses could take up to five months.

However, the implementation of the OSS licensing system and the cancellation of unnecessary procedures by Ministry of Trade have allowed more convenient and shorter processing time.

Licensing processes covered under the OSS include the import licenses as well – good news for investors and importers is that with the OSS, there is no need for them to obtain an API and a NIK (Customs Registration) as basic import licenses anymore. With this new system, all business entities will need to register themselves through it. After completion of registration at the OSS, each business will get an NIB. The NIB will not expire as long as the company is in operation. This NIB number makes all processes much easier as it replaces the Company Registration Certificate, Importer Identification Number (for import license), and Customs Registration NIK (*Nomor Induk Kepabeanaan*).

As such, import companies or companies engage in import activities do not have to go through the process of acquiring API and NIK anymore. However, importers need to make sure that they still comply with technical import requirements with relevant authorities.



Indonesia completely prohibits import of any used products including specialized medical and other devices.

OTHER LICENSES IN INDONESIA

1 Business License (IU)

A Business License (*Izin Usaha*), previously known as a Permanent Business License (*Izin Usaha Tetap*), is issued by the Indonesian Investment Coordinating Board (BKPM) or Regional Investment Coordinating Board (BKPMMD) to the company that was established in the framework of a foreign investment company (PMA), given as an Operating Permit to conduct commercial business activities in the field of Trade in Goods/Services.

Classification of Business Licenses:

- A company engaged in general trading, goods or other services should have a business license.
- A company engaged in the manufacturing industry outside of oil, gas and geothermal energy, should have an industrial business license.
- A company engaged in other industries, such as construction, should have construction business license.

2 Medical Distribution Licenses

Foreign and local companies that intend to sell medical devices in Indonesia are required to obtain two licenses: an Indonesian medical distribution license and a medical devices registration. For an Indonesian medical distribution license, you must set up your own local entity in Indonesia or utilize a distributor with a medical device Distributor's License issued by the Ministry of the Health. We can help you establish your own company, find a suitable local distributor, or provide you with registration through Cekindo. A distributor's license is valid for an indefinite period of time.



While local PTs are automatically granted with permanent business license, foreign owned companies need to first provide audited proof of investing USD 750,000.

CEKINDO BUSINESS INTERNATIONAL



Having been in the industry for almost 10 years, Cekindo as a part of InCorp Group is the trusted conseller, advisor, and business partner to many business leaders and organisations across all industries. As a leading consulting company in Indonesia, Cekindo provides a full range of market-entry and corporate services to worldwide clients who intend to operate in or expand to Indonesia and further to Asia Pacific.

MAIN SERVICES

**Business Set Up • Business Process Outsourcing • Immigration Services
Product Registration & Import • Compliance & Secretarial Services**

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