

Rödl & Partner

INVESTMENT GUIDE
INDONESIA

Overview of Investment and Tax Regulatory Framework

2021
2022

Tapping perspectives



Tapping perspectives

“In entering the Indonesian market, we draw on our local experience and, together with you, weigh its opportunities and risks. We develop well founded decision proposals and accompany you from the first idea through to the implementation phase – from company law issues and structuring of your accounts to national annual financial statements.”

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Introduction

Indonesia, with its capital Jakarta located on the island Java, offers investors significant opportunities, such as a large domestic market and access to global mobility through its strategic location along major sea lanes.

Its geographical location in booming South East Asia, a young and comparatively well-educated population of approx. 260 million, low production costs and rich natural resources are some of the factors that make it an attractive place to invest. Indonesia is a member of the WTO and ASEAN.

The archipelago, spread over approximately 17,500 islands, has a broad diversity of cultural and linguistic influences; Bahasa Indonesia is the national language but regional languages and dialects remain important. English is the most widely spoken foreign language.

Since the late 1990s, Indonesia has experienced an extended period of political stability, consolidated democratization and economic growth. The Indonesian economy withstood the global financial crisis well, underpinned by strong domestic demand, which is the country's key economic driver.

Despite some weaknesses, such as weak infrastructure and inefficient bureaucracy which bears time-consuming and partially non-transparent administrative proceedings, Indonesia is being increasingly recognized by foreign investors as one of the region's most important and dynamic markets.

Rödl & Partner in Indonesia

Our presence in Asia/Pacific spans over 20 offices in China, Hong Kong, Vietnam, Indonesia, Thailand, Malaysia, Myanmar, Philippines, Singapore and India. In Indonesia, Rödl & Partner operates through an office in Jakarta since 1998. Regulated professional services are provided in collaboration with locally licensed professionals.

We provide the following comprehensive consultancy services in Indonesia:

- Market entry consultancy services, setting up legal presence in Indonesia in form of 100 Percent foreign owned companies, joint ventures and representative offices, including licensing and post-licensing procedures;
- Investment advisory services including due diligence of local business partners and advisory on investment structuring and related contract works;
- Advisory on labor and social security regulations;
- Investment regulatory, tax and finance due diligence,
- Cross-border tax structuring, tax optimization and tax advisory services;
- Tax dispute resolution;
- Tax compliance (monthly and yearly);
- Payroll and outsourcing services;
- Financial audit and assurance service;
- Accounting and bookkeeping service; and
- Trust bank account services.

With the strong network of our worldwide offices we have professionals who possess extensive international expertise to support our consulting works. We also have experienced Indonesian employees at management levels, with profound knowledge of the legal and investment environment as well as taxation and an excellent network with key authorities at both central and local level.

Foreign direct investment

The main legislation governing foreign direct investment (“FDI”) is Law number 25 of 2007 on Investment which regulates investment activities by foreign individuals or foreign legal entities in Indonesia by setting up a commercial presence, usually in the form of a foreign invested limited liability company.

Foreign investments have been heavily restricted particularly with regard to foreign ownership ratios and other limitations in the operational business.

The newly enacted Omnibus Law from 2 November 2020, has eased restrictions to foreign investments. While there are still limitations to foreign investors in some fields, a number of common sectors have now been opened to 100 percent foreign investments. It remains crucial however, to understand potential hurdles in the operational business some of which are yet to be eased.

INVESTMENT/POSITIVE LIST

The Omnibus Law supersedes earlier provisions on the same regulated subject matter. On 4 March 2021, Presidential Regulation No. 10 of 2021 concerning Investment Business Fields (“Regulation No. 10/2021”) entered into effect. These implementing regulations refer to the Job Creation Law and aim at attracting investment and at stimulating the economy by i.a. simplifying the licensing process and harmonizing various business related laws and regulations that are deemed to be obstructive towards foreign investments.

Regulation No. 10/2021 refers to domestic and foreign investment and has three annexes which include (i) prioritized business fields with fiscal and non-fiscal facilities, (ii) business fields which are allocated to or open in cooperation with cooperatives, and/or micro, small and medium business (UMKM) and (iii) business fields which are open to investment with certain requirements

Differently from the previous approach of listing businesses that are closed to foreign investments, Regulation No. 10/2021 provides a positive list approach, stipulating that all business activities are now open for foreign investment unless (i) regulated otherwise or (ii) they may only be carried out by the Indonesian Government.

ONLINE SINGLE SUBMISSION (“OSS”)

In 2018, the Indonesian government relaxed requirements and procedures to carry out business in Indonesia to attract more foreign investment into the country. A new licensing system has been introduced to classify, eliminate, consolidate, amend the title and adjust investment licenses and create simplified administrative steps to obtain new licenses as follows:

- User registration;
- grant of business license; and
- grant of commercial / operational license

The Indonesian government launched a web portal introducing Online Single Submission proceedings on 9 July 2018. The OSS was launched to assist business actors in obtaining business licenses faster and easier. This system is updated under the new Government Regulation number 5 of 2021 on Risk Based Business Licensing Implementation (“GR 5/2021”).

Users of OSS can be individual and non-individual, the latter including companies as well as state owned legal entities, public service agency, broadcasting agency, business entity established by foundation, cooperative, CV, firm and civil partnership.

Business actors who are registered in the OSS obtain a business identification number (Nomor Induk Berusaha – “NIB”). The NIB is also applicable as corporate registry, importer identification, custom identification number and first mandatory manpower report.

Under GR 5/2021, Business licensing is processed through OSS. Granting a business license is determined by the level of risk and the rating of the business scale of the business activity, which are based on an assessment of the level of danger and potential for the occurrence of a hazard. This assessment shall take into account the below aspects:

- Type of business activities;
- Location of business;
- Criteria of business;
- Scarcity of resources; and / or
- Volatility risk.

The risk level and business scale rating are divided into the following categories:

Low risk business activity

Low risk business requires a Business Identification Number (NIB), which is the legal requirement for the implementation of business activities. NIB is a proof of registration of business actors entitled to carry out business activities, and a proof of identity for business actors in carrying out their business activities.

Medium risk business activity

Other than the following requirements, in the event that a medium risk business activity requires compliance with product standards, the Central Government issues a standard product certificate based on the results of verification of standard compliance that business actors must meet before carrying out product commercialization.

– Medium low risk

Medium-low risk business activity requires a Business Identification Number (NIB) and a standard certification in the form of a statement by business actors to fulfill business standards in performing their business activities.

– Medium high risk

Medium-high risk business activity requires a Business Identification Number (NIB) and a standard certification in the form of standard certificate issued by Central Government or Regional Government based on the results of verification of compliance with business standards.

High risk business activity

High risk business activity requires Business Identification Number (NIB) and a license in the form of Central Government or Regional Government's approval for the implementation of business activities that must be fulfilled by business actors before carrying out their business activities.

in the event that high-risk business activities require compliance with business/industrial standards and product standards, the Central Government or Local Government issues business

standard certificates and product standard certificates based on the results of verification of standard compliance

PMA COMPANIES

The only corporate form to be chosen as vehicle for FDI is the so called PMA (Penanaman Modal Asing) company, being essentially an Indonesian Limited Liability Company (Perseroan Terbatas, PT) with foreign owned shares. The respective corporate regulations are provided by the Company Law.

The Indonesian main investment coordinating board BKPM (Badan Koordinasi Penanaman Modal), which has recently changed into Ministry of Investment (Kementerian Investasi), requires domestic companies to convert their status into a PMA company even if only some of their shares are purchased by foreign parties and the foreign investor does not hold the majority of the shares. As long as the line of business is open to FDI without restrictions, foreign companies and individuals may establish entirely foreign invested PMA companies unless the respective line of business requires Indonesian participation. It should be noted that foreign companies are in general not permitted to establish branches in Indonesia with exceptions only in the fields of banking and certain energy resource exploration projects.

Corporate Structure

Mandatory organs of a PT company include at least two shareholders (individual or corporate entity), one director and one commissioner. Any higher number is subject to the discretion of the company.

According to the provisions of the Company Law, the Board of Directors (BoD) undertakes the corporate management in accordance with the goals and objectives of the company. Members of the Board of Directors have to be appointed by the general meeting of shareholders (Rapat Umum Pemegang Saham, "RUPS"). In case the Board of Directors consists of two members or more, the sharing of tasks and managerial authorities among the members has to be stipulated on the basis of a RUPS decision.

The Board of Commissioners is a mandatory supervisory organ which monitors the activities of the BoD.

Minimum Total Investment

In general, the minimum total investment is IDR 10,000,000,000 (ten billion Rupiah) per Indonesian Standard Business Classification (“KBLI”) code per project location, except if stipulated otherwise in the prevailing regulations. Issued and paid-up capital of at least IDR 10 billion or 25 percent of the authorized capital, whichever is larger, shall be injected as equity and the remaining balance may be injected as shareholder loan.

Establishment Procedure

Foreign investors may establish a PMA company by signing a Deed of Establishment (DoE) including the Articles of Association before a notary in Indonesia. The DoE, together with certain supporting documents and the proof of capital payment needs to be submitted by the notary to the Minister of Justice and Human Rights for approval.

Subsequently to the company formation, the PMA Company needs to register itself in the OSS and apply for the required business and supporting license through the online system.

REPRESENTATIVE OFFICE

Foreign companies are permitted to set up representative offices of various types for certain timeframes, depending on the Department or Agency that issues the authorizing representative office license. Most representative offices are not permitted to conduct direct commercial activities or render profits in any other way. They are primarily used for promotional, liaison and market research purposes. Set below are the types of representative offices currently permitted in Indonesia.

Trading Representative Office (“TRO”)

The TRO means an Indonesian or foreign national appointed by a foreign company or an overseas company group as representative in Indonesia for promotion and marketing of the company’s products in Indonesia.

To set up TRO, foreign trading company must obtain NIB and business license through the OSS.

Foreign Representative Office (“FRO”)

Foreign companies not engaging in trading business may set up a FRO for :

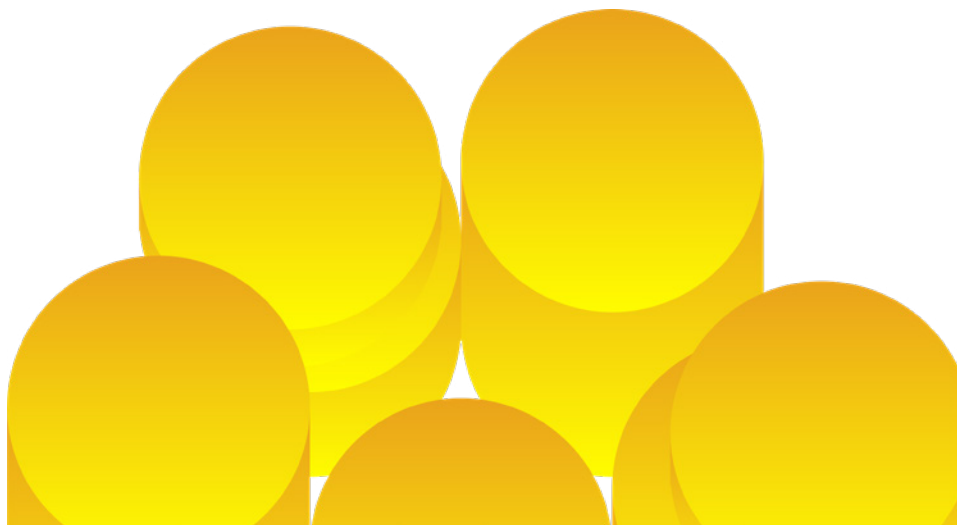
- Handling interests of the company or its affiliated company; and / or
- Preparing the establishment and business development of a foreign investment company operating in Indonesia or another country.

The FRO is led by one or more Indonesian or foreign citizens being appointed by a foreign company or an overseas company group as representative in Indonesia.

To set up the FRO, the foreign company has to obtain a FRO license from OSS by submitting a respective application through the OSS.

Construction Representative Office (Badan Usaha Jasa Konstruksi Asing – “BUJKA”)

Since the issuance of Law number 2 of 2017 regarding construction services (“Construction Law”) which has now also been amended in the Omnibus Law, a foreign construction company which intends to carry out construction services must set up a PMA Company or BUJKA.



The BUJKA is a representative office of a foreign construction company operating in Indonesia, based on the license issued by BKPM to provide construction services within Indonesian territory. The term of license is 3 years and may be extended.

The types of construction services that can be provided by BUJKA comprise:

- construction execution service; and / or
- construction consultancy service.

The BUJKA is only allowed to provide service for complex, high risk and / or high technology construction projects and must have a joint operation agreement with a local construction company. It is also required to have more Indonesian workers than foreign workers in a BUJKA, and the head of BUJKA must be an Indonesian citizen.

Prior to obtaining the BUJKA license from OSS, a foreign construction company shall be registered in the relevant construction association and obtain a certificate of business entity from a registered certification body in Indonesia.

LAND RIGHTS

Foreign invested companies in Indonesia are not permitted to own land bearing the title of hak milik, which grants the holder full ownership rights for an unlimited period. Rather, under the Agrarian Law, PMA companies are allowed to acquire land bearing the title hak guna usaha (right to cultivate the land) with a period of max. 35 years (extendable for 25 years and renewal of another 35 years), hak guna bangunan (right to build on the land) with a period of max. 30 years (extendable for 20 years and renewable for 30 years) and hak pakai (right to use the land) with a specific period to be determined by the authorities with max. period of 30 years (extendable for 20 years and renewable for 30 years).

CURRENCY REGULATIONS

The Indonesian Currency Law 7/2011 aims to strengthen the acceptance of the Indonesian rupiah (IDR) in local and international business transactions and to combat counterfeiting. The previous monetary regulations were provided in various laws and implementing regulations and have been consolidated or replaced in the new law.

The law contains stricter regulations for domestic payment transactions. Accordingly, invoicing and payments within Indonesia are only possible in IDR. In the second paragraph of Article 21, however, the currency law regulates exceptions to the aforementioned restriction. Of particular interest for foreign companies are lit. c. international trade transaction and lit. e. international financing transaction. While lit. c. refers to payments to or by foreign companies for trade in goods or services rendered at least in part abroad, lit. e. provides that financing and transactions in an international context are exempted from the restrictions of the currency law. In individual cases, especially for transactions with Indonesian foreign subsidiaries, authorities have discretion in the assessment of required "internationality".

Labor and social security regulations

Indonesian employment regulations are detailed and contain provisions that require employers to pay certain benefits during the course of employment, and upon retrenchment. It should be noted that any termination, except in the case of voluntary resignation, or due to retirement generally requires report to the Ministry of Manpower and/or local manpower office in the company's domicile. An employment contract may be for permanent or limited in time or to a certain project.

The employer is required to provide the employees with certain standard benefits such as a salary including transport and food allowance being subject to a minimum wage which is updated annually by the government, a so called religious allowance in form of an annual payment that equals to one month's salary, and other social benefits, so called BPJS (Badan Penyelenggara Jaminan Sosial) i.e., BPJS Ketenagakerjaan and BPJS Kesehatan. These include an occupational accident security with specific rates from 0.01 to 1.60 per cent of the monthly salary, a death security of 0.2 per cent, an old age security of 5.7 per cent of which 3.7 per cent are borne by the employer and 2 per cent by the employee, a pension security of 3 per cent of which 2 per cent are borne by the employer and 1 per cent by the employee, a newly implemented unemployment security with contribution paid by the Central Government at 0.22 percent of the monthly salary and the remainder from re-composition of the contributions of occupational accident security and death security, and a health care protection security of 5 per cent of which 4 per cent is borne by the employer and 1 per cent by the employee.

There are detailed regulations on the employment of expatriates. Employment of a specific number of expatriates must be approved by the Ministry of Manpower. In some cases the employer is required to demonstrate that the job cannot be filled by an Indonesian. Work permits are normally only valid for one year, but may be renewed. In general, the employer is obligated to appoint an Indonesian partner worker for every expatriate they employ.

Tax system

CORPORATE INCOME TAX

Taxation in Indonesia is determined on the basis of residency and source. A corporation that is incorporated or domiciled in Indonesia is considered as an Indonesian tax resident. The tax obligations as a resident taxpayer shall also apply to a foreign company carrying out business activities through a permanent establishment (PE). The corporate tax rate is 25 Percent on taxable income.

A tax reduction of up to 50 Percent is granted for corporate taxpayers with annual gross revenue less than IDR 50 billion. Alternatively, a final corporate income tax of 1 Percent up to June 2018 and 0.5 Percent onwards on monthly revenue is provided for a company that has revenue less than IDR 4.8 billion per year, under certain conditions.

Corporations listed on the Indonesian stock exchange may be granted a reduction of Corporate Income Tax by 5 Percent, if certain requirements are fulfilled.

Tax Payment

Corporate tax liability of resident corporate taxpayers and Indonesian PEs are settled by the way of self-payment, withholding by third parties, or a combination of both. If foreign companies do not have a PE in Indonesia, their tax liabilities in respect of their Indonesian-sourced income needs to be settled by way of withholding by the Indonesian party paying the income.

Calculation of Taxable Income – Non-Deductible Expenses

Taxable income of a corporate tax resident is calculated based on normal accounting income as adjusted with certain tax adjustments.

Generally, all legitimate business expenses are deductible from assessable income to calculate taxable income. However, there are a number of specific limitations from this general rule. These non-deductible expenses are specified in the law or implementing tax regulations. These include, among others:

- Benefits-in-kind provided by the employer to the employee (however, this is also subject to certain exceptions, e.g. meals and uniforms provided to all employees are deductible, as well as benefits provided in certain qualifying remote areas);
- 50 Percent of depreciation, operating and maintenance costs for cars and hand phones provided to employees;
- Distribution of profits;
- Gifts and donations, except zakat (Islamic alms);
- The creation of general provisions / reserves; except for doubtful debts provisions for banks, insurance companies and financial lease companies, and provisions for the reclamation costs of mining companies;
- Income tax;
- Tax penalties;
- Expenses relating to income which is taxed through a final rate withholding tax system and income which is otherwise exempt from tax; and
- Private expenses

Calculation of Taxable Income – Depreciation / Amortization

Under the law, assets with a beneficial life of more than one year are depreciated or amortized using the straight-line or declining balance method, as follows:

| Type of Assets | Beneficial Life (years) | Tariff of Depreciation / Amortization | |
|-------------------------------------|-------------------------|---------------------------------------|------------------|
| | | Straight-Line | Double Declining |
| Non-real-estate fixed assets | | | |
| Category 1 | 4 | 25 % | 50 % |
| Category 2 | 8 | 12.50 % | 25 % |
| Category 3 | 16 | 6.25 % | 12.50 % |
| Category 4 | 20 | 5 % | 10 % |
| Buildings | | | |
| Permanent | 20 | 5 % | |
| Non Permanent | 10 | 10 % | |

Calculation of Taxable Income – Thin Capitalization Rules

Pursuant to Thin Capitalization regulations, the borrowing cost is deductible for tax purposes if the taxpayer's debt to equity ratio amounts to maximum 4:1. Hence, if such DER exceeds the threshold, the excess cost will be non-deductible for income tax calculation. The rules do not apply for taxpayers in certain industries, i.e. banks, financial institutions, insurance and reinsurance companies, infrastructure operations, upstream oil and gas and mining under certain government contracts, and for taxpayers subject to final income tax which are guided by special rules.

Moreover, taxpayers who have a negative equity will not be allowed to deduct any borrowing cost in income tax calculation. The rule applies to both related and non-related debt transaction and for foreign debt; taxpayers shall submit a report on the amount of debt to the tax authorities, otherwise the borrowing cost will not be deductible.

Tax System

Members of a group of companies are taxed individually as there are no group relief provisions available. Effective from 2008 fiscal year, the statute of limitation is reduced to 5 years. Tax losses can be carried forward for maximum 5 years and carry-back of losses is not permitted.

Tax Incentives

The Directorate General of Taxes (DGT), based on the recommendation of the National Board of Investment (BKPM), may grant the following tax incentives to limited liability (PT) companies pursuant to their investments in certain designated business areas or in certain designated regions:

- Reduction in income tax subject up to 5 Percent per year of the invested capital within 6 years of commercial production provided that the assets invested are not transferred within this period;
- Acceleration of depreciation;
- Extension of tax loss carry-forwards up to 10 years;
- A reduction to 10 Percent in the withholding tax on dividends paid to non-residents.

Transfer Pricing

Under the law, transactions between related parties must be dealt with consistently using the arm's-length principle. If deviation takes place, the DGT is authorized to recalculate taxable income or deductible costs arising from such transactions with reference to the arm's length principle. In practice, this generally means that the taxpayers have wide responsibilities for maintaining and providing information to substantiate their pricing methods.

The Minister of Finance issued Decree No. 213 in December 2016 that requires certain taxpayers to prepare transfer pricing documents which consists of Local File, Master File and Country by Country Reporting (CbCR), where applicable, for the tax year 2016 and onwards.

Master File and Local File are mandatory for taxpayers who have a transaction with a related party which:

- in previous year had an annual gross turnover exceeding IDR 50 billion (if the tax payer has operated for less than 12 months, the turnover should be annualized)
- in previous year had annual related party transactions exceeding:
 - IDR 20 billion for transactions involving transfer of tangible goods
 - IDR 5 billion for each transaction on service, interest payment, intangible or other transactions that are defined as high risk transaction
- the related party is domiciled in a country or jurisdiction with a corporate income tax rate lower than the Indonesian corporate income tax rate

The CbCR is mandatory for taxpayers who:

- Become parent company of a group
- Have current year consolidated gross turnover of a minimum of IDR 11 Trillion
- Are member of group companies if the parent company:
 - does not require CbCR, or
 - does not have an Exchange of Information agreement with Indonesia; or
 - CbCR cannot be accessed by Indonesia tax authority

INDIVIDUAL INCOME TAX

Tax Residence

Individual resident taxpayers are individuals that:

- are domiciled in Indonesia; or
- stay in Indonesia for more than 183 days in any 12-month period; or
- are present in Indonesia in a tax year and intending to reside in Indonesia.

Tax Rates

Resident individual income is subject to income tax at the following general tax rates:

- 5 Percent on the first IDR 50,000,000 taxable income
- 15 Percent on the next IDR 200,000,000 taxable income
- 25 Percent on the next IDR 250,000,000 taxable income
- 30 Percent on exceeding IDR 500,000,000 taxable income

Tax Payment

Payments of individual income tax are mostly made by way of withholding by third parties. Employers are required to withhold income tax from the salaries and other compensation payable to their employees on a monthly basis.

WITHHOLDING TAXES

Taxpayers are subject to a number of obligations to withhold taxes on various payments to residents and nonresidents. The tax withheld from payments made to residents may represent either a final income tax on the income for the recipient, or prepaid tax which is creditable or refundable by the recipient against their final tax liability. Most withholding taxes must be paid by the 10th day of the month following payment or its accrual in the books, whichever is earlier. These withholding taxes are commonly referred to by the relevant article of the Income Tax Law.

VALUE ADDED TAX

Value Added Tax (VAT) is an indirect tax imposed on events involving delivery of taxable goods or provisions of taxable services in the Indonesian Customs Area. The general VAT rate is 10 Percent, while for export the rate is 0 Percent. The rates are generally applied against a VAT base equivalent to sales price / service fees or import / export value.

LAND AND BUILDING TAX

Land and Building (L&B) tax is a type of property tax, chargeable on every piece of land and / or building. Land and Building effective tax rate is either 0.1 Percent or 0.3 Percent of the NJOP (Government's pre-determined value of land and building).

PROCEDURAL ISSUES

Tax Assessment

Indonesia adopts a self-assessment system, where taxpayers are trusted to calculate, pay, and report their own taxes by themselves in accordance with prevailing tax laws and regulations.

The DGT, however, may conduct an audit and issue tax assessment letters, which may contain interest and / or administrative penalties, to a particular taxpayer if it finds that, based on a tax audit or other information, the taxpayer has not fully paid its tax liabilities.

Tax Audits

Effective for 2008 fiscal year onward, generally DGT may conduct a tax audit within (5) five years after a tax year has ended. A return that is lodged showing an overpayment of tax will automatically trigger a tax audit. The DGT will issue a tax assessment letter as a confirmation of the tax audit result, which can be a nil, underpayment, or overpayment (refund) tax assessment.

Tax Dispute Resolution

Should a taxpayer not agree with an assessment letter issued by the DGT an objection against it can be filed within three months after the date of issue. The taxpayer must provide a reason for the disagreement with the tax assessment based on a statement of his calculated tax due.

A decision has to be issued by the DGT within 12 months. If there is no decision made within this period the DGT agrees with the objection of the taxpayer.

A decision which is issued by the DGT within 12 months and is not (fully) accepted by the taxpayer can be appealed within 3 months in front of the Tax Court and further instances up to the Supreme Court.

A taxpayer who does not agree with the tax office's adjustment as per the tax assessment letter may choose not to pay the tax stated in such assessment letter. However, if the objection letter is rejected by the DGT, there will be 50 Percent surcharge of the tax liability that was not paid by the taxpayer. The surcharge will be increased to 100 Percent if the taxpayer continues to file an appeal with the Tax Court which is then rejected.

Audit requirements and practices

INVESTOR CONSIDERATIONS

In respect of the audit requirement in Indonesia there are some particularities. Not all companies are required to have a statutory audit.

STATUTORY REQUIREMENTS

Books and Records

The Indonesian Corporate Document Law No. 8 year 1997 states that anyone who is carrying on a business is obliged to keep records in such a manner that at any time the rights and obligations of the person may be determined. The manner in which the entrepreneur maintains the records is left to his discretion. No specific books or records are stipulated. The records for a PMDN (Domestic Investment Company) must be kept in Bahasa Indonesia unless approval is obtained to maintain records in English. PMA (Foreign Investment Company) and representative offices may keep records in English if notification is given to the Tax Authorities within a specified time period.

In addition to the obligation to keep records, the entrepreneur is obliged to draw up a balance sheet within six months at the end of the financial year. Books and records and a copy of the annual balance sheets must be retained for 30 years. Copies of correspondence must also be retained for 10 years.

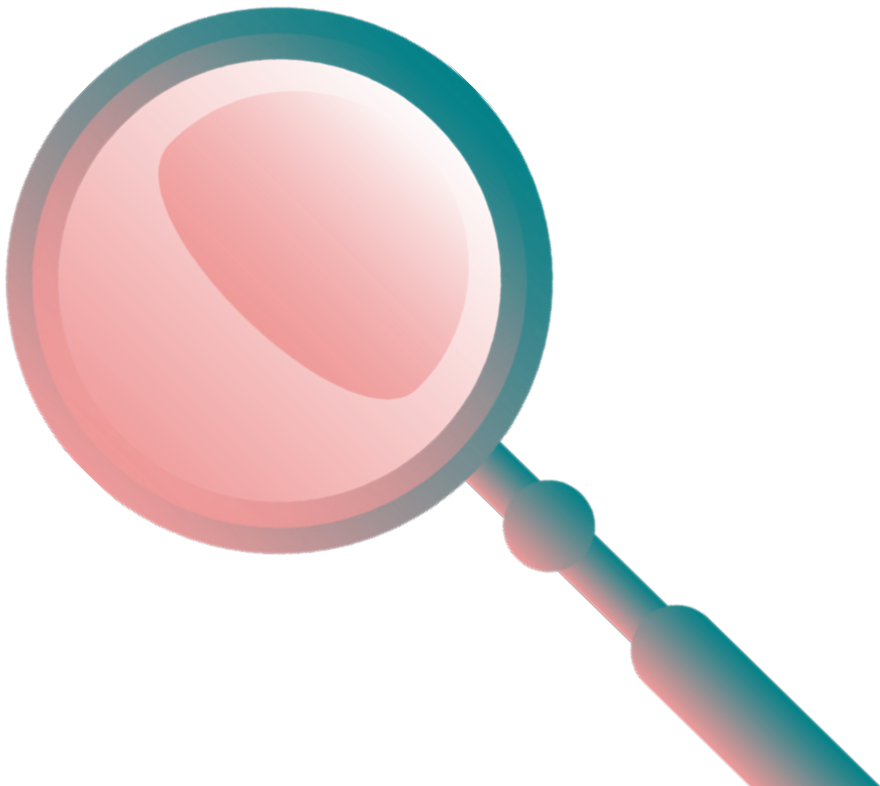
Audited Financial Statements

Business entities are required to have a statutory audit, including companies listed on the capital markets, banks, underwriters, and stockbrokers or any companies having assets of turnover exceeding IDR 50 billion. With regard to PMA there is a Ministerial decree of 2002 under which foreign invested companies, irrespective of their size, need to file an audited statement on a yearly basis. Although the decree currently not appears to be applied in practice, most PMA in Indonesia are engaged with audit in order to comply with group/head quarter requirements on voluntary basis; so called Audit of HB II Financial Statement which is either based on HGB/IFRS.

AUDITING STANDARDS

Generally accepted auditing standards in Indonesia were first published by the Indonesian Association of Accountants in 1974, and the latest revision was in 2013.

Auditing standards, including the form of a typical audit report and the manner in which qualifications are required to be reported, are now in harmony with International Auditing Standards. Certain pronouncements on auditing standards are also made by IAPI, the Indonesian Institute of Certified Public Accountants.



Accounting principles and practices

FORM AND CONTENT OF THE FINANCIAL STATEMENT

Basic Financial Statements

The basic financial statements, prepared in accordance with the requirements of financial statements, consist of the following:

- Balance sheet (statement of financial position),
- Profit & Loss statement (statement of comprehensive income),
- Statement of changes in shareholders' equity,
- Statement of cash flows,
- A description of accounting policies, and
- Notes to the financial statement.

Financial statements are required to include the previous year's figures for comparison purposes.

Capital

Share capital is shown at par value. Amounts in excess of par value are shown as a capital reserve, immediately after share capital. Additional paid-up capital, usually amounts paid prior to final governmental approval of the articles of association, is included in the shareholders' equity section and is usually termed "capital subscribed in advance."

Income Statement

The income statement normally shows the following information (basic structure):

- Net Sales
- Cost of goods sold
- Gross profit
- Selling expenses
- General and administrative expense
- Interest income / expense
- Forex difference
- Other income / expense
- Income (Loss) before income tax benefit
- Net income (Loss)
- Net profit after tax

CONVERGENCE WITH IFRS

Generally, financial statements are prepared on a calendar-year basis, although other year-ends may be used. The accrual basis of accounting is required by the Indonesian Accounting Standards (Pernyataan Standar Akuntansi Keuangan, PSAK). Accounting policies should be disclosed in the financial statements.

Since 1994, PSAK have been harmonized with International Financial Reporting Standards (IFRS). Currently, more than 90 Percent of PSAKs were developed by reference to IFRS. However, some of them still refer to old version of IFRSs or to US GAAP (developed before the comparable IFRSs were issued). Most self-developed PSAKs were developed for specific industries. By harmonizing with IFRS, financial statement prepared based on PSAK will only need a minimum reconciliation to comply with IFRS. At the end it will decrease investment barriers in Indonesia and promote financial disclosures.

The implementation of IFRS has commenced in 2012. Most PSAK have been revised to follow IFRS, by considering local conditions and regulations. PSAK for specific industries, which are in substance already included in IFRS, will be deleted. Guidance may be issued. PSAKs for Land, Equity and Cooperation will not be changed. PSAKs which are not in conformity to IFRS will be revoked.

PSAK have been revised from time to time; as of 1 January 2019, 72 standards have been introduced for mandatory implementation respectively. Subject to the circumstances at Head Quarter level, a German subsidiary in Indonesia may also to consider the adoption of accounting principles for an entity without public accountability, so called "ETAP", which is basically a conversion from accounting for SME according to IFRS.

CONVERSION OF FOREIGN CURRENCIES

Transactions in foreign currency are converted at the rates prevailing at the time of the transaction and at year-end; balances of foreign currency liabilities and assets are translated at year-

end rates. In most instances, unrealized and realized exchange losses / gains are charged against the current year's result.

PSAK 71 Financial Instrument

PSAK 71 is adopted from IFRS 9 and effective since January 1, 2018, replacing PSAK 5 Financial Instrument on Recognition and Measurement. PSAK 71 brought significant changes in Classification and Measurement, Declining in Value and Hedge Accounting. It introduced a classification method based on characteristic contractual cash flow and business model entity and a declining value method based on an expected credit loss impairment model.

PSAK 72 Revenue from Contracts with Customers

PSAK 72 is adopted from IFRS 15 and will be effective from January 1, 2020. It will replace PSAK 34 about Construction Contract, PSAK 23 about Revenue, ISAK 10 about Customer Loyalty Programs, ISAK 21 about Agreements for the Construction of Real Estate and ISAK 27 about Transfer of Asset from Customer. PSAK 72 will provide a single, principle based five-step model to be applied to all contracts with customers, specifying on how and when an entity should recognize revenue, with the following relevant steps:

1. Identify the contract(s) with the customer,
2. Identify the separate performance obligations in the contract(s),
3. Determine the transaction price,
4. Allocate the transaction price,
5. Recognize revenue when (or as) a performance obligation is satisfied.

PSAK 73 Leases

PSAK 73 is adopted from IFRS 16 and will be effective from January 1, 2020. It will replace PSAK 30 about Leases, ISAK 8, ISAK 23, ISAK 24 and ISAK 25.

PSAK 73 will require the Lessee to capitalize right-to-use asset and lease liabilities at acquisition cost. PSAK 73 will allow not to recognize short-term lease and lease of low value assets.

Appendix

DOUBLE TAXATION AGREEMENTS

List of countries with which Indonesia has an agreement on double taxation avoidance:

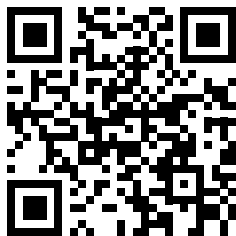
- Algeria
- Australia
- Austria
- Belgium
- Brunei
- Bulgaria
- Canada
- China
- Czech Republic
- Denmark
- Egypt
- Finland
- France
- Germany
- Hungary
- India
- Iran
- Italy
- Japan
- Jordan
- Korea (North)
- Korea (South)
- Kuwait
- Luxembourg
- Malaysia
- Mauritius
- Mexico
- Mongolia
- Netherlands
- New Zealand
- Norway
- Pakistan
- Papua New Guinea
- Philippines
- Poland
- Portuguese
- Romania
- Russia
- Seychelles
- Singapore
- Slovakia
- South Africa
- Spain
- Sri Lanka
- Sudan
- Sweden
- Switzerland
- Syria
- Taiwan
- Thailand
- Tunisia
- Turkey
- Ukraine
- United Arab Emirates
- United Kingdom
- United States
- Uzbekistan
- Venezuela
- Vietnam

This booklet is a general overview of the direct foreign investment regulatory and tax system in Indonesia. This should not be considered as professional advice. Specific professional opinion should be sought for

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