

This report provides helpful information on the current business environment in Indonesia. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.



Global Banking Service

Report on Indonesia

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Important to Know

Official language

- › Bahasa Indonesia

Currency

- › Rupiah (IDR)

Bank holidays

2010	
January	1
February	13, 26
March	16
April	2
May	13, 29
July	10
August	17
September	10, 11, 13
November	17
December	8, 25

Source: www.goodbusinessday.com.

Types of Business Structure

Under Indonesian law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

As a general rule, foreign investment in Indonesian companies is usually restricted to a limited liability company (PMA) or a representative office. However, some sectors, such as financial services and the oil and gas sectors, have different foreign investment regulations and are therefore more susceptible to foreign investment or ownership.

Public limited liability company

Tbk (*Perseroan Terbuka*). This is a company whose shares are not registered to their owners and are tradable on a public stock market. Public companies in Indonesia must have total assets of at least IDR 7.5 billion and paid up capital of at least IDR 2 billion.

Private limited liability company

Other limited liability companies or *Perseroan Terbatas* (PT) in Indonesia have their shares registered to their owners and therefore are not publicly tradable. Private limited liability companies in Indonesia must have authorized capital of at least IDR 20 million, which must all be paid up at the time of a company's approval from the Department of Justice.

General partnership

PP (*Persekutuan Perdata*). In a general partnership, all partners have full and joint liability. This requires no minimum share capital.

Limited partnership

Persekutuan Komanditer (*Commanditaire Vennootschap*). In a limited partnership, some partners enjoy limited liability (silent partners) although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. All limited companies in Indonesia must have a minimum total investment equal to USD 250,000 or its IDR equivalent.

Cooperatives

Cooperatives in Indonesia operate under coordination of the State Minister of Cooperatives, Small and Medium Enterprises. Minimum capital requirements for the establishment of a cooperative are imposed.

Branches and representative offices

Restrictions arising from Indonesia's Capital Investment Law No. 25 of 2007 prevent most companies from operating foreign branches in Indonesia. However, the oil, gas, banking, finance and insurance sectors are all governed by separate regulatory regimes, which do permit foreign entities to open branches.

Non-Indonesian companies are entitled to establish a representative office in Indonesia, depending on the line of business. They are not permitted to conduct direct sales or issue bills of lading.

Opening and Operating Bank Accounts

Residency

To be considered resident a company must be incorporated in, or domiciled in, Indonesia.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (IDR) accounts outside Indonesia and foreign currency accounts both within and outside Indonesia.

Non-residents are permitted to hold local currency accounts in Indonesia but only chequing or time deposit accounts are permitted for foreign currency.

All local currency accounts are fully convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- › Account opening procedures require formal identification of the customer.
- › All cross-border currency transactions exceeding IDR 100 million must be reported to the Directorate General of Customs and Excise.
- › Financial institutions must report all cash transactions with a cumulative total of IDR 500 million or more or an equivalent amount in foreign currency, conducted either in one transaction or in several transactions within one business day.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at March 2009.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

Under Indonesian law, banking and financial services are exempt from VAT.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument in Indonesia, in terms of value. They are also the most popular method for companies to make payroll payments. However, cash is also used for this purpose, especially by smaller businesses. Electronic funds transfers are also the most common method of payment for business-to-business transactions.

Card payments, especially credit cards, are the most popular cashless payment instrument in terms of volume and are mostly used for consumer transactions. Electronic money is also becoming a popular retail payment instrument for

consumers with high-volume, low-value transactions that would previously have been made using cash, such as transport payments. Cheques are used by business for supplier payments but are not a popular payment method among consumers.

Direct debts are not commonly used in Indonesia. There is no standardized direct debit scheme, so any direct debit relationships have to be established individually.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (IDR billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques	39.5	41.9	6.1	993,610.0	1,231,739.9	24
Credit transfers	117.7	103.9	-11.7	43,999,592.0	39,920,745.6	- 9.3
Debit cards	60.5	79.6	31.6	29,383.2	42,815.3	45.7
Credit cards	124.7	161.3	29.4	69,475.8	103,312.9	48.7
Total	342.4	386.7	12.9	45,092,061.0	41,152,631.6	- 8.7

Source: Bank Indonesia, August 2009.

International Payments

International payments, including foreign currency payments and payments to and from parties located outside Indonesia, are processed by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed (IDR-denominated)	Value dating rules	Cut-off time(s) in local Western Indonesia Time (WIB)
High-value interbank electronic funds transfers	Settlement in real time with immediate finality	17:00 WIB
Non-urgent, low-value credit payments (up to a maximum value of IDR 100 million) and debit payments of any value	Next-day settlement	15:30 WIB

Central Bank Reporting

Bank Indonesia collates balance of payments statistics from companies, which must submit data on a monthly basis.

All transactions by resident companies to or from non-resident bank accounts, or on resident accounts held abroad, with a value in excess of USD 10,000, or its foreign currency equivalent, must be reported.

Local currency payments to or from a non-resident bank account must also be reported.

Exchange Arrangements and Controls

An underlying economic transaction is required for all foreign currency transfers abroad or to a non-resident entity. An underlying economic transaction is also required for any foreign currency purchased against the IDR exceeding USD 100,000 per month.

Cash and Liquidity Management

Including Indonesian entities in any international cash or liquidity management structure is difficult because of the existence of exchange controls.

Physical Cash Concentration

Physical cash concentration is available from large Indonesian cash management banks. Non-residents are restricted from participating in cash concentration structures as they are not permitted to borrow funds in Indonesia.

Notional Cash Pooling

Notional cash pooling is available in Indonesia but it is seldom offered due to a lack of clarity in its legal position. Non-residents are not permitted to participate in notional cash pooling structures.

Short-term Investment

Bank instruments

Interest-bearing current accounts are generally available to residents and non-residents. Banks offer time deposits in a range of currencies for terms from one month to two years, in foreign and local currency. Banks also issue transferable certificates of deposit (CDs), usually in local currency.

Non-bank instruments

Bank Indonesia issues Treasury bills weekly for periods between one and three months. Six-month bills are also issued. Treasury bills must be in denominations of IDR 1 million, with a minimum amount of IDR 1 billion required if bought directly from Bank Indonesia.

Commercial paper is available at maturities between a week and nine months.

Short-term Borrowing

Bank

Overdrafts, bank lines of credit and bank loans are usually all available in Indonesia to residents. Non-resident entities are not permitted to borrow funds in Indonesia.

Non-bank

Commercial paper is available in Indonesia, with a maximum maturity of around nine months.

Taxation

Corporate Taxation

- › Resident companies are taxed on their worldwide income.
- › Non-resident companies are only taxed on their Indonesian-sourced income.
- › The normal tax rate for 2010 is a 25% flat rate on taxable profit (down from a 28% flat rate in 2009).
- › There is no alternative minimum tax.
- › Losses can be carried forward for a maximum of five years (up to ten years for some industries or remote locations that have obtained government approval).
- › Taxes are collected in monthly instalments on a self-assessment basis and are payable by the 15th of the following month. Tax returns must be lodged by the 20th of the following month.
- › Annual tax returns have to be lodged within four months of a company's year-end.

Advance Tax Ruling Availability

- › Indonesian taxpayers can request private rulings on specific issues to the Directorate General of Taxes (DGT).

Withholding Tax (subject to tax treaties and other exemptions)

Payments to	Interest	Dividends	Royalties	Other income
Resident companies	Exempt (banks) or 15% (non-banks)	15%	15%	Varies from 1.5% to 4.5%
Non-resident companies*	20%	20%	20%	20%

* May be subject to reduced rates due to tax treaties.

- › The 20% withholding tax is payable on branch profits after corporation tax irrespective of whether they are remitted, unless they are reinvested in Indonesia.
- › If the recipient resides in a country that has a tax treaty with Indonesia the withholding tax might be reduced or exempted.

Capital Gains Tax

- › Capital gains are treated as ordinary income at the above progressive rates, except for deemed gains from shares traded on Indonesian stock exchanges. Deemed gains on such shares are subject to a final tax at the rate of 0.1% of the gross transaction value, and subject to an additional 0.5% final tax if the transaction involves founder shares.
- › Capital losses are tax deductible, except for deemed gains.

- › Foreigners' capital gains on the sale of non-listed shares in Indonesia are taxed at the rate of 5% of the gross proceeds, unless exempted by the relevant tax treaty.

Stamp Duty

- › Financial transactions attract stamp duty at IDR 3,000 for transactions of IDR 500,000 to 1 million and at IDR 6,000 for larger transactions.

Thin Capitalization

- › Indonesia has no specific tax regulations on thin capitalization.
- › In practice, the acceptable debt-to-equity ratio is 3:1, especially if the debt is from shareholders or affiliated companies.

Transfer Pricing

- › Inter-company and inter-group transactions have to be commercially justifiable and on an arm's length basis.
- › The Indonesian tax authorities can ask for documentation of such transactions.

Sales Taxes / VAT

- › VAT at a rate of 10% is levied on the sale of taxable goods and services.
- › Imports are subject to VAT and exports are zero-rated.
- › A number of goods (such as basic necessities) and services (including food served in restaurants, healthcare, financial services and hotels) are exempt from VAT.
- › In addition to VAT, some goods are subject to a luxury sales goods tax (LST) at rates of 10–75%.
- › Factoring services have a special VAT rate of 0.5% of total remuneration received (i.e., service charge, commission and discount).
- › Excise duties are levied on gasoline, cigarettes and alcohol at various rates.

Payroll and Social Security Taxes

- › Employers are required to withhold income tax on any payments made to employees.
- › The applicable tax rates are as follows:

Taxable income	Tax rate (%)	Tax payable
Up to IDR 50 million	5%	IDR 2.5 million
Over IDR 50 million but not exceeding IDR 250 million	15%	IDR 30 million
Over IDR 250 million but not exceeding IDR 500 million	25%	IDR 62.5 million
Over IDR 500 million	30%	

- › Non-resident individuals are generally subject to a 20% withholding tax on income received from Indonesia (Article 26 withholding tax). However, this rate may vary depending on the circumstances and applicable tax treaty provisions.
- › The following personal tax allowances are available as deductions for resident individual taxpayers in calculating their taxable income, depending on the taxpayer's personal circumstances.

Basis of deduction	Deductible amount
Taxpayer	IDR 15.84 million
Spouse	IDR 1.32 million (IDR 15.84 million for a wife who is gainfully employed)
Dependents	IDR 1.32 million each (maximum three individuals related by blood or marriage)
Occupational support	5% of gross income up to a maximum of IDR 6 million
Pension cost (available for pensioners)	5% of gross income up to a maximum of IDR 2.4 million
2% contribution to Jamsostek (Indonesia's state pension fund)	Amount of contribution

Report prepared September 2009.

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