

Doing Business in Indonesia

2008



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1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 70 countries throughout the world. Business partners work together through the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in has been provided by the office of UHY representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at September 2008.

We look forward to helping you do business in Indonesia

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2. Business environment

Indonesia: A Brief Profile

Indonesia can be considered one of the richest countries on Earth in terms of its biological diversity. The country is located between Asia and Australia, and comprises more than 17,000 islands that stretch 5,000 km from east to west. Because of its complex geographical make-up and unique biogeographical position, Indonesia has enormous ecosystem diversity as well as a fascinating history and heritage.

In terms of human diversity, with more than 210 million inhabitants, the country ranks as the fourth most populous nation in the world and the third largest democracy. It is also the world's largest Islamic nation, where a constitutional freedom to practice other religions sees major groups of Christians, Buddhists, Hindus and other faiths existing side by side. There are approximately 336 distinct recognised cultures that share more than 250 spoken languages. The lingua franca, Bahasa Indonesia, was adopted only 77 years ago and is now widely used throughout this vast land, serving as a means of communication and as a unifying factor.

Indonesia is diverse and is among the most culturally rich countries on Earth. Add to this its enormous mineral, marine and natural resources and it is evident that it ranks as a major economic force in the region.

Following the economic and financial crisis that hit the country in 1997, the Indonesian government recognised the important role that foreign investment needed to play in the reconstruction of the Indonesian economy. During following years, successive governments enacted legal and regulatory reforms designed to make Indonesia a competitive destination for foreign direct investment.

Acceleration of Economic Growth and Trade

The Central Statistic Agency (BPS) announced that Indonesia's GDP grew 6.30% in 2007. Per capita income rose to IDR 17.6 million from IDR 15 million in 2007. Investment has increased from 35 % in 2007 to 41 % in first quarter of 2008. Meanwhile, net export increased by 14 % in 2008 from 8 % in 2007.

Batam Free Trade Zone (FTZ)

The government decided against a proposal to turn the entire Batam Islands area into a single FTZ. Instead, it will specify bonded zones into which businesses can import goods duty free. The government also noted that export businesses outside the bonded zones could still make use of bonded warehouses, as the status of the neighbouring Rempang and Galang Islands (the islands closest to Batam) has been decided by the government.

The Batam Authority, which governs Batam and has overseen its rapid economic development, argued that the bonded zone scheme would confuse investors and lead to local government workload. However, local authorities claimed that bonded zones would enable them to better govern Batam as mandated under Indonesia's decentralisation laws.

Legal System

The court system does not provide effective recourse for resolving commercial disputes. The judiciary is nominally independent under the law, however legal practitioners fear that irregular payments and other collusive practices often influence case preparation and the judicial ruling.

The government recognises the need for judicial reform but has not yet taken any action. In several instances the local courts accepted jurisdiction over commercial disputes despite contractual arbitration clauses calling for adjudication in foreign venues.

Indonesia is a signatory to the Convention on the Settlement of Investment

Disputes between States and Nationals of Other States (ICSID)

So far only one American investment company has brought a case to the ICSID, which ruled in its favour. Indonesia's Arbitration Law recognises the right of parties to apply any rules of arbitration that they may mutually agree upon and provides default procedural rules if no other rules have been designated.

An Indonesian commercial arbitration board, BANI, is available if both parties agree. Companies have resorted to ad hoc arbitrations in Indonesia using the United Nations Commission on International Trade Law (UNCITRAL) arbitration rules, as well as others. Other companies in Indonesia have used International Criminal Court (ICC) arbitrations.

On 12th August 1999, Indonesia's Parliament passed Arbitration Law Number 30, endowing the District Court of Central Jakarta with the power to enforce international arbitration awards. Before passage of the new arbitration law in 1999, enforcement lay with the Supreme Court, which was slow to act on decisions. Since 1999, Indonesian courts have swiftly enforced international arbitration awards— some have been executed within a month of the request for enforcement. The new law greatly reduces instances where district courts fail to apply the law, and legal practitioners predict that the process should improve as more judges educate themselves about arbitration.

Since 1981, when Indonesia joined the 1958 United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York), fewer than two dozen foreign awards have registered with Indonesian courts (most of which have been enforced). The domestic and international press have widely publicised recent cases where those awards have not been enforced.

Right to Private Ownership and Establishment

Indonesia recognises the right to private ownership and establishment and relies on the private sector (albeit often heavily protected) as the principal engine of economic growth. At the same time State-owned Enterprises (SOEs) play a dominant role in many sectors, including oil and gas retail and distribution, electric power generation and transmission, civil aviation, banking, and fertiliser production and wholesale distribution. In the past three years Indonesia has promoted competition in some sectors and has decreased the privileges awarded to SOEs. The Parliament formed the State Ministry for SOEs in 1998; privatisation is an important part of its mandate but political opposition has effectively hindered such attempts. Some provincial governments have improved the management and transparency of provincially owned firms (BUMDs) in order to stem losses and prepare them for privatisation.

Protection of Property Rights

Foreign entities have no freehold rights to land ownership in Indonesia. Foreign investors' land holdings are usually obtained through long-term lease agreements (normally for 30 years) with the government or private parties. These lease holdings can be used as collateral. Government regulations allow mortgages to be registered against real property and seagoing vessels in their appropriate registries, as well as

security interests in chattel, equipment, accounts receivable, and insurance proceeds. A search facility currently exists only for mortgages. The lack of transparency in Indonesia's courts means uncertainty whether security interests will be recognized and enforced. Foreign companies may also establish a limited company under Indonesian law that can legally obtain rights to land.

The court system does not provide effective recourse for settling property disputes. The new era government and Indonesia's decentralization process unleashed a flurry of new land claims by local residents against companies, often operating on government-granted concessions located in their communities. The problem of incomplete or inaccurate record keeping is compounded by an ineffective and corrupt enforcement system.

The US government in May 2003 again placed Indonesia on the Special 301 Priority Watch List for inadequate protection of Intellectual Property Rights (IPR), where Indonesia has been since the 1980s. The Indonesian government has steadily improved the regulatory and legal framework for the protection of IPR; however, enforcement continues to fall short. US businesses reported that Indonesia ranks as the third largest producer of pirated products. They maintain that 90 percent of all CDs (audio, video, and software) sold in Indonesia are pirated and estimate that industry suffered losses in 2002 of USD 253 million, a 33 percent increase over prior year.

Indonesia's new copyright law (Law 19/2002) takes effect on July 29, 2003. The new law increases fines up to Rp 500 million (USD 62,000) and provides for prison terms of up to five years for dealers of pirated materials. The law directs cases of alleged copyright violations to be tried in commercial courts, and for the rendering of judgments within 90 days. As part of the law's implementation, the Ministry of Industry and Trade plans to issue optical disc regulations that would enhance the government's ability to identify and prosecute producers of pirated products. In an effort to enhance interagency coordination on enforcement, Indonesia's Ministry of Justice recently formed an IPR task force made up of the national police, customs, attorney general, judiciary, and members of the computer software and entertainment industries. The task force has already conducted a few high profile raids.

Indonesia is a member of the World Intellectual Property Organization, but has not yet ratified the related WIPO Performances and Phonograms Treaty (WPPT). The Ministry of Justice prepared a Presidential decree ratifying WPPT last year, and Justice officials expect the President to sign the decree sometime in 2003. Indonesia acceded to

numerous international conventions on intellectual property rights, including the Paris Convention for the Protection of Intellectual Property; the Berne Convention for the Protection of Literary and Artistic Works (with a reservation on Article 33); the Patent Cooperation Treaty; Trademark Law Treaty; the Nice Agreement for the International Classification of Unclassified Goods and Services.

Patents: The current patent law dates from 2001, which amended and consolidated in a single text all previous legislation. In 1997, Indonesian law extended the term of patent protection to 20 years from 14 years, and maintained the provision for a two-year patent extension. The amendment allows for the patenting of plant and animals. However, some of the weaknesses of the old law persist. Chief among these flaws is the requirement that an inventor must produce a product or utilize a value-added process in Indonesia in order to obtain patent protection for the product or process. Inventions that are contrary to Indonesian laws and regulations are excluded from patent ability, and the standard for excluding inventions without domestic content appears to be inconsistent with TRIPS requirements.

Trademarks: Indonesia enacted its new trademark law on August 1, 2001. Like the new patent law, the latest version consolidated into one text a series of trademark laws enacted over the past 20 years. The new law raised the maximum fine for trademark violations to Rp 1 billion (USD 95,000) and slightly reduced the maximum possible prison term. The government justified this move by claiming that financial penalties were a greater deterrent to IPR violators than imprisonment. Foreign rights holders, arguing that most IPR cases never result in the maximum sentence, had pushed for minimum sentencing guidelines rather than higher fines.

The trademark law provides for the determination of trademark rights by priority of registration, rather than by priority of commercial use. The law also provides for the protection of well-known marks, but offers no administrative procedures or legal ground under which legitimate owners of well-known marks can cancel pre-existing registrations. Currently, the only avenue for challenging existing trademark registrations in Indonesia is through the commercial courts, which generally have issued decisions within three months upholding legitimate trademarks.

3. Foreign investment

The Banking and Foreign Exchange System

Exchange rates are issued by the Central Bank on a daily basis for commercial banking purposes. However, for tax purposes (in calculating the Indonesian income tax liability on foreign currency income) the exchange rates are issued on a weekly basis by the Indonesian Ministry of Finance. Foreign exchange controls do not exist currently in Indonesia, however transfers of funds exceeding USD 10,000 from and within Indonesia should be reported to the Central Bank.

Openness to Foreign Investment

Indonesia encourages private sector-led growth and foreign investment. Foreign investment approvals in 2007 increased to USD 10 billion, from USD 6 billion in 2006.

The biggest foreign investments are by Singapore investors (\$ 130.2 million) and are followed by England (\$ 9.6 million), Belgium (\$6.4 million), and South Korea (\$ 5.7 million).

Investment approvals for Indonesian firms trended even more steeply upward, amounting in 2007 to USD 3.9 billion, from USD 2.7 billion in 2006.

Investment Law

On March 29th 2007, Parliament passed a new Investment law aimed at improving Indonesia's investment climate and attracting greater foreign investment into Indonesia. Law Number 25 of 2007 was signed by the President on April 26th, 2007. The law establishes basic investment protections including the following:

- Equal treatment for domestic and foreign investors. However, equal treatment is not applicable to investors from countries which obtain, "special rights based in an agreement with Indonesia."
- The Government of Indonesia (GOI) will not undertake any nationalization action, unless by law. In the event that the GOI "takes action to nationalize," it will grant compensation with specified amount based on the market value or arbitration if the two parties do not agree.
- Investors may freely transfer assets to other parties, as long as assets are not determined (by law) to be state assets.

- Investors may transfer and repatriate capital, profits, royalties, income from asset sales, and other sources, in foreign currency, in accordance prevailing laws and regulations. However, this does not restrict the right of the GOI to receive taxes or royalties or implement laws and regulations requiring reporting of the transfer of funds. The GOI may also implement laws to protect the rights of creditors and to avoid losses to the State.
- Investments disputes between the Government and Investors may be settled through international arbitration based upon prior agreement between the parties
- The new law appears to increase the authority of the Investment Coordinating Board (BKPM) in both implementing and proposing investment policy. The BKPM's duties under the law include coordinating and implementing one door integrated services, developing an investor roadmap, provide consultation to investors seeking capital investments, and others. Although the law contains no provision authorizing BKPM to approve investments, BKPM approval is needed in order for investors to receive immigration facilities or investment incentives.

The Role of the BKPM

Foreign direct investment in the manufacturing, industrial or non-financial services sectors is licensed by BKPM. Investment in the areas of banking, insurance, general mining, oil and natural exploration, production and related activities are licensed by other regulatory bodies.

Sector Restrictions

Restrictions on foreign investment have been regulated by Regulation of The President of The Republic Indonesia No. 77 of 2007 concerning list of business fields that are closed to investments and business fields that are conditionally open for investments. Every sector has limitations of foreign capital ownership. These include limitations up to 95 % of foreign capital ownership in some Energy & minerals resources sectors.

An environmental impact study may be required, therefore the Articles of Association of corporate shareholders, or passports of individuals, should be attached. The BKPM aims to process applications within one month. In practice, approvals may be faster.

Investment Application

The process of foreign investment begins with the submission of a formal application to the BKPM. The application must include a description of the project including names of participants, total capital required, employment details, production process description, power requirements and environmental issues

Capital Requirements

There is minimum capital requirement based on Law No. 40/2007 concerning Limited Liability Companies. They should prepare IDR 50 million for minimum capital and 25 % of capital should be issued and paid up at the time of incorporation. The BKPM will grant approval based on its assessment of the need of the project. Share capital should be paid up in cash or in kind in the form of either tangible or intangible assets. Assets other than cash should be independently appraised. The BKPM can provide a range of facilities including import duty exemptions based on the submission of a 'master list', investment repatriation guarantees and possible tax holidays.

4. Setting up a Business

Legal Entities

There is a collection of recognised legal entities for setting up a business in Indonesia:

Persekutuan Perdata (PP) is a partnership between two or more people in one agreement to make a profit.

Firma (Fa) is a partnership between two or more people in one agreement to make a collective name to deal with third parties in making a profit.

Persekutuan Komanditer (Commanditaire Vennootschap - CV) is a partnership between two or more people in one agreement to make a profit. One partner is allowed to invest money into the partnership without having to manage the company.

However, the above business types apply only to local citizens. The types of legal entities that apply to foreign investors are:

Representative Office

A Representative Office can be established depending upon the line of business and the necessary licenses issued by the related government department. The limitation of a Representative Office is that they are not allowed to conduct direct sales and cannot issue Bills of Lading.

Representative offices are set up primarily for marketing, market research, or as buying or selling agents. The related government ministries are:

- Representative Office from Ministry of Industry & Trade - for bilateral trade;
- Representative Office from Ministry of Public Work - for consultant or contractor;
- Representative Office from Ministry of Mining - for mining activities;
- Representative Office from Ministry of Finance - for banking;
- Representative Office from Investment Board (BKPM) - regional representative.

To establish a Representative Office with permission from the Ministry of Industry and Trade, the company's head office needs to issue three letters:

- i. Letter of Intent - stating the intention of the company to establish a representative office
- ii. Letter of Appointment - stating the appointment of the chief representative
- iii. Letter of Statement - stating that the Chief Representative will follow Indonesian regulations.

The three letters must be stamped by a notary public and approved by the Indonesian Embassy in the home country of the firm. Upon approval, the Indonesian Embassy will issue a Letter of Notification (Surat Keterangan). Upon completion of the four letters the process can continue to the related government ministry in Jakarta, to incorporate a fixed license for 2 years.

Other ministries require different types of letters.

Limited Liability Co or Perusahaan Terbatas (PT)

Foreign Direct Investment, most often referred to by its Indonesian abbreviation - PMA, is governed primarily by the Foreign Capital Investment Law No. 1 of 1967, and amended by Law No. 25 of 2007. As a legal basis, the law is fairly accommodative to various deregulatory policies and measures to date, and those that will be taken by the government in the foreseeable future.

In addition to Investment Law No. 1/1967, PMA companies as well as other companies, in their business operations are still subject to sector/industrial policies as required by corresponding ministries.

Establishing a Company

Investment Approval Process

The life of foreign investment companies has been extended by allowing the renewal of the fixed operating license (IUT) for an additional 30 years. In other words, the initial licenses are valid for 3 years (SPPP BKPM), plus 2 x 30 years, for a total of 63 years.

The process of incorporation of a new foreign direct investment company:

Initial License (valid for 3 years)

Step 1. Prepare and send the application with required documentation, compiled according to the investment plan.

Set up a joint venture agreement if investors plan to make the investment with Indonesian partners.

Step 2. Obtain the Initial License (SPPP BKPM), valid for 3 years.

Step 3. Incorporation of SPPP BKPM

- a. Establish Articles of Association with a Public Notary detailing proof of capital investment, and send it to the Ministry of Justice for approval and issuance of State Gazette.
- b. Registration of company address with local council (domicile).
- c. IRD registration (NPWP + PKP)

Registration with the Department of Industry and Trade (TDP)

Step 4. Key expatriate positions (work permits).

Fixed Operating License (30 years)

Step 5. Prepare and send the 6-month report (LKPM) to the provincial BKPM office as well as UUG (HO) nuisance act to the regional office of BKPM.

Step 6. Incorporate facilities - Master list/APIT or property ownership.

Step 7. Provincial approval for Fixed Licenses (BAP).

Step 8. Fixed License (IUT) for 30 years is issued.

A Limited Liability company is established either under foreign shareholders or through a joint venture with Indonesians or wholly owned by Indonesian shareholders and must be approved by the Ministry of Justice. It doesn't matter who is the owner of an Indonesian Limited Liability company, they must comply with Indonesian law and are considered an Indonesian company and the company can subsequently be changed or sold to the shareholders, foreign or Indonesian.

To get license of Change of Capital and Change of Owner the applications should be submitted to BKPM. According to BKPM, there's no charge to arrange licences.

Offshore Incorporation

In some situations, it may be to an investor's advantage to incorporate their firm offshore, while operations are carried out in Indonesia.

The advantages and disadvantages of offshore usually focus on the facilities offered by tax havens in nations like Mauritius and the Cayman Islands. Your management consultant can assist you in making this important decision.

5. Labour

Immigration and employment of expatriates

Visas

Indonesia issues a range of different classes of visa depending on the purpose of a foreigner's visit. Short visit visas valid for 60 days may be issued on arrival at an official entry point to passport holders from most developed and neighbouring countries. The passport's validity should be at least six months.

Business visas may be issued for business visits not including work. Business visas are issued by Indonesian embassies overseas, based on a letter of invitation from the party to be visited. Business visas may be renewed, once in the country, for up to a maximum of six months. Foreigners intending to take up employment in Indonesia, together with any foreign dependents, should apply for a KITAS or semi-permanent residence visa. While much of the preparatory work is done in Indonesia, the visas are issued by embassies overseas based on a temporary stay visa, or 'VITAS', issued by the immigration authorities in Jakarta. A KITAS visa is issued for a year, but may be renewed for up to four years after which a fresh application is required.

Work permits

All foreigners planning to work in Indonesia must obtain a work permit in addition to a KITAS visa. Work permits are issued by the Department of Manpower approximately concurrently with the VITAS visa. Employment of foreigners must be in the context of an approved manpower plan. Many expatriates are employed as technical advisers. The BKPM will approve a certain number of positions for expatriates as contained in the investment application.

Other requirements

All foreign residents must also hold a 'police pass'. Work permit holders must pay in advance an annual training levy of USD 1,200 before issue or renewal of the work permit. All foreigners holding a KITAS visa require a valid exit/re-entry visa to leave and return to Indonesia. A final 'exit permit only' is required when a work permit is to be cancelled or will not be renewed.

6. Taxation

Tax system

New laws

The current framework of Indonesia's tax laws dates from 1983 with subsequent revisions, most recently in 2007. There are separate laws covering income tax, value added tax (VAT) and sales tax on luxury goods. Other tax laws include the law on the taxing of land and buildings and the law on stamp duty. Individual articles contained in the laws may be supported by implementing regulations and decrees, government regulations and decrees of the Directorate General of Taxation. The government is committed to a greater intensification of tax collection including increasing the number of registered taxpayers.

Income tax

Income tax is applied to resident corporations and individuals on most sources of increase in economic wealth. A company is treated as a resident of Indonesia for tax by virtue of its establishment or its place of management in Indonesia. A foreign company carrying out business activities through a permanent establishment (PE) in Indonesia will generally have to assume the same tax obligations as a resident taxpayer. Resident taxpayers and Indonesian PEs of foreign companies have to settle their tax liabilities either by direct payments, by withholding by third parties, or a combination of both. Foreign companies that do not have a PE in Indonesia are to settle their tax liabilities in respect of their Indonesian-sourced income by way of the Indonesian party paying the income withholding the tax.

Withholding taxes

The rates of withholding tax vary according to the nature of the income source. Rates for domestic payments extend up to 15%. Payments made overseas on certain sources of income may be liable to withholding tax of up to 20%. Applicable tax treaties may reduce the rate of withholding tax.

Tax rates

Progressive rates of income tax for individuals rise up to a top rate of 35% applicable to annual taxable incomes in excess of IDR 200 million (Approximately USD 20,000). The top rate of corporate income tax is 30% applicable to taxable incomes of more than IDR 100 million (USD 10,000).

Residents are liable to tax on their worldwide income from all sources. A recent stipulation is the requirement for most individuals, including resident expatriates, to file individual tax returns.

The rates of withholding tax vary according to the nature of the income source. Rates for domestic payments extend up to 15%. Payments made overseas on certain sources of income may be liable to withholding tax of up to 20%. Applicable tax treaties may reduce the rate of withholding tax.

Calculation of Taxable Income

Taxable income is calculated after allowable deductions. For individuals there are income tax exclusions which are set at relatively low income levels. Individuals are broadly liable to income tax on cash income. Benefits in kind provided by employers to employees are not taxable to individuals but are non-deductible against corporate taxable income. Employers are required to withhold income tax from employees and deposit each month with the State Treasury.

Employers prepare a consolidated annual tax return detailing each employee's individual tax calculation. The employee should then file a separate personal return. Tax returns should be filed by 31 March of the year following the year of assessment.

Taxable business profits are computed on the basis of normal accounting principles as modified by certain tax adjustments. Generally, a deduction is allowed for all expenditure incurred to obtain, collect, and maintain taxable business profits. A timing difference may arise in respect of when an expenditure recorded as an expense for accounting can be claimed as a deduction for tax.

Corporate taxable income is calculated after the deduction of most normal business expenses. Rates of depreciation are regulated, although taxpayers may elect either the straight line or double declining method. Provisions that are not deductible are employee benefits in kind as mentioned above.

Companies may choose to be taxed on the basis of a financial year other than the calendar year. Books of account may be kept in English based on the tax office approval. Foreign currency, i.e. US dollars, may be used as the reporting currency if appropriate approval is obtained.

Annual filings should be lodged within three months of the financial year, though an extension may be obtained.

Payment of Taxes

Taxes are paid by monthly instalments on a current year basis. The regular instalment amount is based on the previous year's filings after taking credit for withholdings at source. Any shortfall should be settled by the 25th day of the third month following the end of the financial year.

Overpayments of tax may be recovered, but only after a tax audit has been completed. The self-assessment principle, however, underpins Indonesian income tax law. A substantial part of individual income is collected by way of withholding by third parties.

Value Added Tax

VAT applies to the import and delivery of most goods and service. However, insurance and banking are not subject to VAT. VAT is collected at a standard rate of 10%. The export of goods is zero-rated. Taxpayers are required to file a return in the month following, showing details of all output and input VAT. The net output VAT is then payable by the 20th of the following month. An excess of input VAT may be carried forward. Refunds may be applied for in the case of chronic overpayments. Suppliers who trade with so called 'VAT Collectors' will not collect VAT from their customers or clients. The VAT is then paid direct to the State Treasury. Such suppliers may be in a constant overpayment situation and may be forced to seek regular refunds. VAT has become a major source of revenue for the government.

Sales Tax on Luxury Goods

Sales taxes also include sales tax on luxury goods (PPnBm). This tax applies at the point of import or manufacture and is additional to VAT. It is a non-creditable one-off tax and applies to a wide range of goods. Rates range from 10% to 50%.

Special Industry Rules

Certain industries, in particular production sharing contractors, mining companies under contracts of work and geothermal projects are subject to income tax in accordance with specialist rules. Rates of tax vary according to the generation of each respective contract.

Tax Treaties

There are currently 59 tax treaties in force with other countries. Provisions typically include reduced withholding tax rates on interest, dividends and royalties and a broader definition of the concept of permanent establishment compared with domestic law.

Sunset Policy

Following the enactment of the 2007 tax administration law, taxpayers are allowed to revise their annual corporate income tax returns (CITR) for years before 2007 without facing any interest penalties on the underpaid tax amounts. In the normal situation, an underpaid tax amount would trigger interest penalties at 2% per month. Apart from the interest exemption, there are other concessions:

- Any data declared in the revised CITR cannot be used as a basis to issue assessments on any other taxes.
- The revised CITR will not be audited unless it claims an overpaid tax refund or proves to be incorrect.
- Filing a revised CITR which calls for an additional tax payment may stop an on-going tax audit. This includes not only the audit of corporate income tax for which the revised CITR has been filed but also the audit of other taxes as long as the relevant tax returns do not claim tax overpayments.

The Director General of Taxes (DGT) however, at his own discretion, may decide to continue the audit irrespective of the absence of overpaid tax returns.

The concession is available only up to the end of 2008. Hence, to enjoy the concession, the revised CITR must be filed before 1 January 2009.

7. Accounting & reporting

Overview of Accounting Practice and Environment

The history of Indonesian Generally Accepted Accounting Principles began when the Indonesian Accountants Association (abbreviated to IAI), established in 1957, was appointed by the Government of Indonesia in 1984 to develop accounting standards in Indonesia to be used mostly for Limited Liability Partnership.

IAI then established a committee to develop accounting standards in Indonesia. This committee, which is responsible for developing and implementing the accounting standards, is called Dewan Standar Akuntansi Keuangan (DSAK).

Over the years, IAI has developed many accounting standards for various types of business practices in Indonesia. In October 2004, DSAK developed Indonesian Generally Accepted Accounting Principles that consist of Accounting Methods and Procedures for Financial Statements, Accounting Methods and Procedures for Financial Statement of Islamic Banking, 59 Statements of Financial Accounting Standards, and seven Interpretations.

The Indonesian Statement of Financial Accounting Standards is mostly based on the International Accounting Standards (IAS), which was recently changed to International Financial Reporting Standards (IFRS).

The second major source of the Indonesian Statement of Financial Accounting Standards is the United States Generally Accepted Accounting Principles. In addition to the above two sources, the IAI also pronounces their own Statement of Financial Accounting Standards such as Accounting Standard for Indonesian Venture Capital, Accounting Standard for Mining Industry, and Accounting Standard for Islamic Banking. The 59 Statements of Financial Accounting Standards consist of 43 General Statements, 15 statements for specific industries and one statement revised and merged with other General Statements.

Other than IAI, the Government of Indonesia also appointed BAPEPAM (Indonesian Securities Exchange Commission) to establish additional regulations, besides those established by IAI, designed specifically for publicly held corporations.

Presentation of Financial Statements

In compliance with government regulation, every limited liability Partnership in Indonesia should prepare its Financial Statements in accordance with the Financial Accounting Standards established by the Indonesian Accountants Association.

The Indonesian Financial Accounting Standards require that Financial Statements consist of an Income Statement, Balance Sheet, Statement of Equity, and a Note to the Financial Statement. With the exception of the Cash Flow Statement, Financial Statements must be prepared based on the accrual basis, and on the assumption that the company will remain in operation for the foreseeable future.

Financial Statements should be prepared annually and audited by a registered public accounting firm if the company meets any one of the following criteria:

- The company is utilising public funds.
- The company has issued obligations.
- The company is a publicly held corporation.

The Audited Financial Statements of a company that meets one of the criteria above should then be verified and signed by the Board of Directors, and published in the local Indonesian newspaper.

Moreover, the Minister of Trade and Commerce requires the filing of the audited financial statements for every limited liability partnership that meets the following criteria:

- The entity is a publicly held corporation.
- The entity is utilising public funds.
- The entity has issued obligations or promissory note.
- The entity has total assets exceeding IDR 50,000,000,000.

8. UHY in Indonesia

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