



DEZAN SHIRA & ASSOCIATES
Your Partner for Growth in Asia

AN INTRODUCTION TO Doing Business in Indonesia 2026





VISIT US ON FACEBOOK
<Dezan Shira & Associates>
<ASEAN Briefing>



VISIT US ON LINKEDIN
<Dezan Shira & Associates>
<ASEAN Briefing>



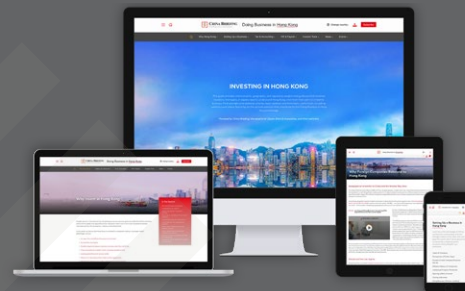
FOLLOW US ON X
@DezanShira
@ASEANBriefing

THE DOING BUSINESS IN ASIA GUIDES SERIES

Available to Download Now:

- ASEAN Guide
- China Guide
- Hong Kong Guide
- India Guide
- Singapore Guide
- UAE Guide
- Vietnam Guide

Doing Business in Indonesia Portal



Our latest online Doing Business in Indonesia Portal consists of 100+ guides, videos, publications, and tools that are practical and easy to navigate, covering: Indonesia, Regions to Invest, Sector Insights, How to Setup, Tax, Audit and Accounting, HR, Recruitment, PEO, and Payroll, News, Events, and more.



This edition of Doing Business in Indonesia was produced by a team of professionals at Dezan Shira & Associates, with Ayman Falak and Arendse Huld as Editors. Creative design of the guide was provided by Aliya Latisha Adiyanto.

© 2026 Dezan Shira & Associates

Disclaimer

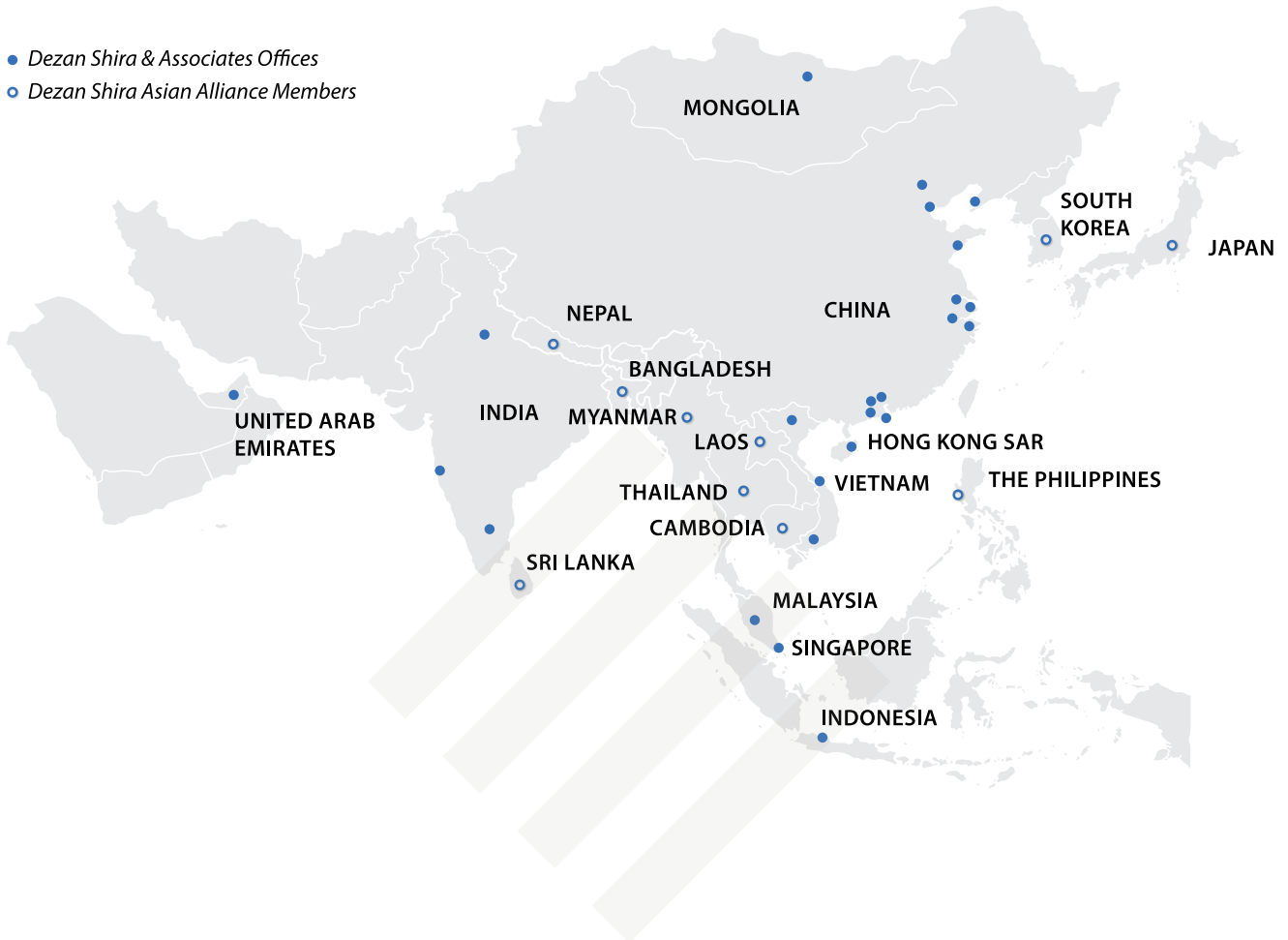
The contents of this guide are for general information only. For advice on your specific business, please contact a qualified professional advisor. Copyright 2026, Asia Briefing Ltd. No reproduction, copying, or translation of materials without prior permission of the publisher is permitted.



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

- Dezan Shira & Associates Offices
- Dezan Shira Asian Alliance Members



About Dezan Shira & Associates

At Dezan Shira & Associates, our mission is to guide foreign companies through Asia's complex regulatory environment and assist them with all aspects of establishing, maintaining and growing their business operations in the region. Since its establishment in 1992, Dezan Shira & Associates has grown into one of Asia's most versatile full-service consultancies with operational offices across China, Hong Kong, India, Singapore and Vietnam, as well as liaison offices in Italy, Germany and the United States, and partner firms across the ASEAN region. With over 30 years of on-the-ground experience and a large team of professional advisers, we are your reliable partner in Asia.

Preface



ALBERTO VETTORETTI

Managing Partner
Dezan Shira & Associates

A handwritten signature in black ink, appearing to read 'Alberto Vettoretti'.

Indonesia enters 2026 operating in a more demanding economic environment shaped by global trade realignment and moderating growth, yet its long-term position within Southeast Asia continues to diverge from many of its regional peers. Economic momentum across ASEAN has become more uneven, but Indonesia's scale and demographic profile increasingly distinguish it from neighboring markets facing structural constraints beyond cyclical slowdown.

Through 2025, Indonesia's economy expanded at around 4.9–5.0 percent, reflecting external headwinds and softer global demand rather than domestic instability. Foreign direct investment remained substantial at approximately IDR 900.9 trillion (US\$53–55 billion), broadly flat compared with 2024, signaling a shift from rapid inflow growth toward more selective, longer-term capital commitments. Domestic investment played a larger role in sustaining overall activity, reinforcing Indonesia's internal economic base.

Trade conditions highlighted growing exposure to external policy shifts. U.S. tariff actions in 2025 temporarily imposed duties exceeding 30 percent on selected Indonesian exports before subsequent negotiations reduced effective rates. Manufacturing activity reflected this volatility, with the Purchasing Managers' Index dipping into contraction early in the year before recovering later. The sector did not experience a structural downturn, but growth remained sensitive to external demand and pricing pressure.

Against this backdrop, Indonesia's long-term comparative advantage within ASEAN has become clearer. While economies such as Thailand, Vietnam, and Singapore face accelerating population aging, shrinking working-age cohorts, or heavy reliance on export manufacturing, Indonesia retains a large and relatively young population approaching 290 million, with domestic consumption accounting for more than half of GDP. This demographic profile provides a longer runway for internal demand-led growth than many regional peers.

This divergence is increasingly shaping regional trade patterns. As China's manufacturing sector grapples with excess capacity and weaker domestic consumption, Indonesia has emerged as a growing destination for Chinese consumer goods and industrial products. Rather than competing solely as an alternative production base, Indonesia is increasingly positioned as a consumer and distribution market within regional supply chains, reflecting market size and purchasing power rather than wage arbitrage.

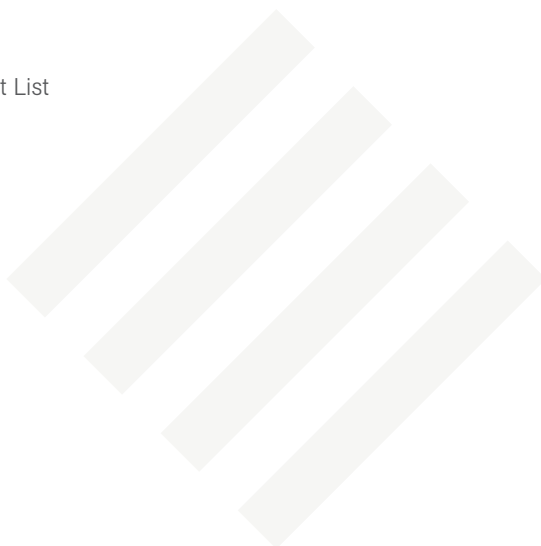
Macroeconomic stability through 2025 reinforced this positioning. Growth remained near the 5 percent level, fiscal discipline was maintained, and foreign exchange reserves stayed at comfortable levels. For foreign investors in 2026, Indonesia's appeal lies less in rapid growth alone and more in structural endurance, combining scale, demographics, and consumption in a region where many peers face tightening long-term constraints.

For foreign investors, Indonesia offers a combination of strategic location, competitive labor costs, abundant resources, and a steadily expanding consumer market. Navigating Indonesia's dynamic environment requires a long-term perspective and a practical understanding of regulatory frameworks, investment structures, and evolving market conditions.

An Introduction to Doing Business in Indonesia 2026, compiled by Dezan Shira & Associates, provides foreign enterprises and investors with a comprehensive overview of Indonesia's business landscape.

The guide covers the following:

- Indonesia's New Positive Investment List
- Corporate establishment
- Taxation
- Human resources and payroll
- Audit and compliance



Special Update: Indonesia Lowers Entry Barriers as New KBLI Rules Reshape Market Access

Indonesia is recalibrating its investment framework to attract a broader range of foreign companies, particularly small and mid-scale investors evaluating ASEAN expansion. Under the Ministry of Investment Regulation No. 5 of 2025, the minimum paid-up capital requirement for foreign-owned companies has been reduced to IDR 2.5 billion (US\$156,000), while the total investment threshold remains above IDR 10 billion (US\$625,000), depending on sector classification and project location. Together with ongoing upgrades to the OSS-RBA licensing platform and digital post-investment reporting, these changes lower upfront entry costs while preserving Indonesia's broader capital-formation objectives.

At the same time, Indonesia has updated the foundation of its licensing system itself. On 18 December 2025, the government formally introduced KBLI 2025, replacing the previous KBLI 2020 framework. The revised classification expands activity codes across digital services, renewable energy, and emerging industries, directly affecting how foreign businesses structure their licenses, select sectors, and assess regulatory feasibility. A six-month transition period applies from the date of issuance, giving companies until mid-2026 to align existing registrations with the new codes. For incoming investors, this means market entry decisions now hinge not only on capital thresholds, but also on choosing the correct KBLI pathway from the outset.

Table of Contents

Preface	04
Chap 1 The Positive Investment List and the Liberalization of Business Sectors	8
Chap 2 Corporate Establishment	14
Chap 3 Taxation	23
Chap 4 Human Resources and Payroll	45
Chap 5 Audit and Compliance	69

The Positive Investment List and the Liberalization of Business Sectors

Presidential Regulation 10 of 2021 as amended to President Regulation No. 49 of 2021 (PR 49/2021) liberalizes many business sectors for foreign investment. Dubbed the positive investment list, PR 49/2021 liberalizes over 200 business lines, including transportation, energy, and telecommunication.

The general principle under the positive investment list is that a business sector is open to 100 percent foreign investment unless it is subjected to a specific type of limitation. The regulation presents one of the greatest liberalizations in foreign ownership limitations in Indonesia since the negative investment list was first introduced in the 1980s.



JENNIFER HALIM
Country Manager
Indonesia

The design of the positive investment list

The government has classified business fields into four categories:

1. Priority sectors;
2. Business fields that stipulate specific requirements or limitations;
3. Businesses fields open to large enterprises, including foreign investors, but are subject to a compulsory partnership with cooperatives and micro, small, and medium-sized enterprises (MSMEs); and
4. Business fields that are fully open to foreign investment.

Priority sectors

To classify as a priority sector, business enterprises must meet the following criteria:

- Must be labor intensive;
- Must be capital intensive;
- Must be part of a national project/program;
- Must be export-oriented;
- Must involve a pioneer industry (renewables, oil refining, metals, etc.);
- Must utilize advanced technologies; and
- Must implement research and development activities.

There are 246 business fields under this category of the positive investment list. Moreover, businesses in priority sectors are eligible for a range of fiscal and non-fiscal incentives.

Fiscal incentives include a 50 percent corporate income tax reduction for investments between 100 billion rupiah (US\$5.9 million) and 500 billion rupiah (US\$29.5 million) for a period of five years and 100 CIT reduction for investments over 500 billion rupiah for a period between five and 20 years. In addition, there are tax allowances available in the form of a reduction in the taxable income of 30 percent of the total investment for six years, a special withholding tax rate on dividends of 10 percent, and tax losses carried forward for up to 10 years.

Examples of non-fiscal incentives are the provision of supporting infrastructure, simplified business licensing procedures, and the guaranteed energy supply and raw materials. We explore a few examples of the prioritized business lines and their incentives below.

“Foreign investors entering Indonesia and taking advantage of what the country has to offer requires having a long-term outlook.”

Examples of Priority Business Sectors and their Incentives

Business line	Incentive type
Textile and garment industry	Tax allowance and investment allowance
Pharmaceutical industry	Tax allowance
Digital economy (hosting, data processing etc.)	Tax holiday
Geothermal (exploring and drilling)	Tax allowance
Cooking palm oil industry	Tax allowance
Iron and steel industry	Tax allowance
Automotive industry	Tax allowance
Oil and gas refinery	Tax holiday
Cosmetics industry	Tax allowance
Coal gasification	Tax allowance

Businesses open to 100 percent foreign investment

The following business fields are open to 100 percent foreign investment:

- Oil and gas construction;
- Onshore upstream oil installation;
- Onshore and offshore distribution pipelines;
- Onshore and offshore oil and gas drilling service;
- Oil and gas well maintenance service;
- Electricity generation;
- Construction of electricity installation;
- Geothermal electricity generation;
- Supermarkets (with areas less than 1,200 sqm);
- Department store (with areas between 400 – 2,000 sqm);
- Ports;
- Airport and airport supporting services;
- Maritime cargo handling;
- Telecommunication;
- E-commerce;
- Pharmaceutical industry; and
- Hospitals.

Business fields that stipulate specific requirements or limitations

Under this category, business fields are open to foreign investments but are subject to the following types of restrictions:

- Lines of business reserved for domestic investors;
- Lines of business subject to foreign ownership limitations;
- Lines of business that require special licenses; and
- Other investment requirements, namely business lines that are restricted and strictly supervised as well as regulated in separate laws and regulations in the field of alcoholic beverage control and supervision.
 - » The business lines include:
 - › Wholesale trade of alcoholic beverages (importers, distributors, and sub-distributors);
 - › Retail trade of alcoholic beverages; and
 - › The street retail of alcoholic Beverages.

Business Fields with Specific Requirements	
Business fields	Requirements
Publishing of newspapers, magazines (press)	100 percent domestic capital required for establishment, and up to 49 percent foreign capital ownership for business development and expansion
Private broadcasting agency	100 percent domestic capital required for establishment, and up to 20 percent foreign capital ownership for business development and expansion
Subscription-based broadcasting agency	100 percent domestic capital required for establishment, and up to 20 percent foreign capital ownership for business development and expansion
Postal services	Maximum foreign capital ownership of 49 percent
Domestic scheduled air transportation	Foreign capital ownership of 49 percent. However, domestic capital ownership needs to be the single majority
Domestic non-scheduled air transportation	Foreign capital ownership of 49 percent. However, domestic capital ownership needs to be the single majority
Air transport activities	Foreign capital ownership of 49 percent. However, domestic capital ownership needs to be the single majority
Domestic passenger liner and tramp activities	Maximum foreign capital ownership of 49 percent
Domestic sea transport for tourism	Maximum foreign capital ownership of 49 percent
Domestic liner and tramp sea freight for goods	Maximum foreign capital ownership of 49 percent
Domestic sea transportation for special goods	Maximum foreign capital ownership of 49 percent
Pioneer domestic sea transportation of goods	Maximum foreign capital ownership of 49 percent
Domestic sea transportation using public shipping	Maximum foreign capital ownership of 49 percent

Overseas liner and tramp sea freight for goods	Maximum foreign capital ownership of 49 percent
Overseas sea transportation for special goods	Maximum foreign capital ownership of 49 percent
Interprovincial sea public transport	Maximum foreign capital ownership of 49 percent
Interprovincial sea public transport (pioneering)	Maximum foreign capital ownership of 49 percent
Interprovincial city/regency public transport	Maximum foreign capital ownership of 49 percent
Interprovincial city/regency public transport (pioneering)	Maximum foreign capital ownership of 49 percent
Inter-city and regency public transport	Maximum foreign capital ownership of 49 percent
River and lake transportation with non-fixed and irregular routes	Maximum foreign capital ownership of 49 percent
River and lake transportation with non-fixed and irregular routes for tourism	Maximum foreign capital ownership of 49 percent
River and lake transportation for general goods and/or animals	Maximum foreign capital ownership of 49 percent
River and lake transportation for special goods	Maximum foreign capital ownership of 49 percent
River and lake transportation for dangerous goods	Maximum foreign capital ownership of 49 percent
Weapons equipment industry	Capital ownership based on approval from Ministry of Defense
Horticulture	Maximum foreign capital ownership of 30 percent
Traditional medical products (for humans)	100 percent domestic capital
Fish processing industry	100 percent domestic capital
Wood-based building products	100 percent domestic capital
Coffee processing industry that already acquire geographical indications	100 percent domestic capital
Ship industry	
• Outriggers; and	100 percent domestic capital
• Traditional vessels	
Traditional handicrafts	100 percent domestic capital
Traditional cosmetics	100 percent domestic capital
Raw materials for traditional medicine (for humans)	100 percent domestic capital
Batik industry	100 percent domestic capital
Crackers and chips industry	100 percent domestic capital
Hajj and Umrah activities	100 percent domestic capital and must be Muslim

The foreign ownership limitations (bullet point 2) do not apply in the following circumstances:

- The investments are conducted in special economic zones;
- Investments are in the form of non-direct investments taken through the Indonesian stock exchange;
- Investments subject to more favorable treatment under a treaty between Indonesia and the investor's country of origin; or
- Any investments approved prior to the issuance of the positive investment list. The positive investment list provides for this through a 'grandfathering policy'.

Business fields open to foreign investors but subject to a compulsory partnership with MSMEs

There are business fields that are allocated for cooperatives and MSMEs, which are determined based on the following criteria:

- Business lines that do not use advanced technology;
- Are labor-intensive businesses, characterized by a special cultural heritage; or
- The capital for the business' activities does not exceed 10 billion rupiah (US\$ 592,922).

In addition, the government has designated specific business fields that are open to foreign investors or large-scale enterprises only through mandatory partnership arrangements with MSMEs. In total, 106 business lines are either reserved for or require partnerships with cooperatives or MSMEs, including 60 business lines allocated exclusively to MSMEs..

These sectors typically cover activities commonly undertaken by MSMEs and/or industries with strong potential to integrate into larger supply chains. Partnership arrangements may take the form of operational cooperation, profit sharing, subcontracting, outsourcing, or distribution agreements.

What business activities are closed to investments?

There are nine business sectors closed to investments for both domestic and foreign companies. These are:

- Class-I narcotics and cultivation;
- All forms of gambling and/or Casino activities;
- Fishing of endangered species;
- Utilization of corals found in nature for the production of jewelry, souvenirs, building materials, etc.;
- Chemical weapons production;
- Alcoholic beverage manufacturing;
- Manufacturing of beverages containing alcohol-wine;
- Manufacturing of beverages containing alcohol-malt; and
- Industrial ozone-depleting substances industries and industrial chemicals.

Corporate Establishment

Indonesia has overhauled its company establishment framework through the Job Creation Law, first issued as Perppu No. 2 of 2022 and enacted as Law No. 6 of 2023, with further updates introduced in 2025 under the Ministry of Investment Regulation No. 5 of 2025. The 2025 amendment refines the capital requirements for foreign-owned companies (PT PMA) by maintaining the minimum total investment of more than IDR 10 billion (US\$591,655) per KBLI classification, while lowering the minimum paid-up capital to IDR 2.5 billion (US\$147,913).

At the same time, Indonesia continues to implement the risk-based OSS-RBA system (Online Single Submission – Risk-Based Approach) under Government Regulation No. 5 of 2021. This system classifies business activities into low, medium-low, medium-high, and high-risk categories, determining the specific licensing and verification requirements for each. The reforms simplify procedures, reduce bureaucratic overlap, and make it easier for foreign investors to establish compliant entities aligned with their business scope.

What are my options for investment?

Investors should assess their specific needs carefully before deciding which corporate structure to operate from. Using a reliable local advisor is recommended for first-time investors in the country, as they find it easier to remain compliant with applicable regulations.

There are two legal options for foreign investors looking to set up in the country: a PT PMA or representative office (RO).

Foreign investment company

Establishing a foreign investment company (Perseroan Terbatas Penanaman Modal Asing or PT PMA) remains the preferred structure for foreign investors seeking a full legal presence in Indonesia. Under the latest framework, including the Ministry of Investment Regulation No. 5 of 2025, foreign-owned companies must meet two separate financial thresholds:

1. **Minimum paid-up capital** – at least IDR 2.5 billion (approximately US\$147,913).
2. **Minimum total investment** – exceeding IDR 10 billion (approximately US \$591,655) per five-digit KBLI business classification, excluding the value of land and buildings

The total investment requirement reflects both fixed and working capital commitments for at least one year. This dual-capital rule ensures that only investors with meaningful financial capacity can operate as foreign-owned entities, while the 2025 reform lowered the paid-up capital requirement to make compliance more achievable for small and medium-sized investors.



Investment funding can be realized through several sources, including:

- **Capital injections** from shareholders;
- **Retained earnings**, used for business expansion or additional KBLI activities; and
- **Loans**, either from shareholders or third parties, provided the maximum debt-to-equity ratio (DER) permitted under Indonesian law is maintained at 4:1.

This structure aligns with Indonesia's ongoing efforts to attract higher-quality investment while maintaining financial transparency and governance standards across all PT PMA operations.

Set up requirements for a foreign investment company

Investors looking to incorporate a PT PMA in Indonesia must meet the following requirements::

- **Capitalization:** A minimum paid-up capital of IDR 2.5 billion and a minimum total investment value exceeding IDR 10 billion per five-digit KBLI business classification, excluding land and buildings.
- **Shareholders:** A PT PMA must have at least two shareholders, who may be foreign individuals or foreign legal entities. The permitted percentage of foreign ownership depends on the specific industry's restrictions under the Positive Investment List.
- **Management:** The company must appoint at least one director and one commissioner. Both positions may be held by foreigners, although appointing at least one resident Indonesian director is recommended for smoother administrative and banking procedures.
- **Corporate governance:** The director is responsible for the company's day-to-day operations, while the commissioner oversees management decisions and ensures compliance with company law and the articles of association.

Set up process for a PT PMA

1. Reserve a company name with the Ministry of Law and Human Rights (which should not be similar to the name of other companies or contain vulgar language), Further the company name shall consist of three words and can be in English.
2. Determine the industrial business classification code (KBLI) based on the intended business activities.
3. Establish a legal entity with the company's activities stated in the Deed of Establishment (this must be done with a local notary and the Deed of Establishment will have to be ratified by the Ministry of Law and Human Rights).
4. Obtain a taxpayer identification number from the local tax office and domicile letter from the district government (businesses establishing in Jakarta do not require a domicile letter).
5. Obtain a tax registration certificate through the tax office where the business is domiciled.

- 
6. Obtain a Business Identification Number (NIB) by applying through the Online Single Submission (OSS) system. The NIB functions as the company's import identification number, customs ID, and registration certificate. Further, the NIB will also automatically register your company under the government's health and social security scheme.
 7. Some companies may need to apply for additional business licenses (such as for mining and fintech). Business licenses will now be issued based on the assessment of 'business risk level' determined by the scale of hazards a business can potentially create.

Risk-based business licensing

Indonesia has adopted a risk-based model for issuing business licenses to simplify procedures and better match regulatory oversight with the level of potential impact. This framework, detailed in Government Regulation No. 5 of 2021 as part of the Job Creation Law, sets licensing requirements according to a business's assessed risk level.

Before a license is issued, authorities conduct a five-step analysis that includes identifying the business activity, assessing its hazard level and likelihood of occurrence, determining its overall risk level and business scale, and assigning the appropriate type of license. Business activities are classified into low, medium-low, medium-high, or high-risk categories — the lower the risk, the simpler the licensing process.

In 2025, the government issued Government Regulation No. 28 of 2025, which replaces GR 5/2021 and refines the risk-based licensing framework. The updated regulation expands coverage from 16 to 22 sectors, strengthens post-licensing supervision, and further integrates risk analysis into the OSS-RBA platform to ensure that business classifications and KBLI codes align with each sector's risk level.

What sectors will be impacted?

The risk-analysis for business activities are for the following sectors:

1. Maritime affairs and fisheries;
2. Agriculture;
3. The environment and forestry;
4. Energy and mineral resources;
5. Nuclear energy;
6. Industry;
7. Trading;
8. Public works and housing;
9. Transport;
10. Health, medicine, and food;
11. Education and culture;
12. Tourism;
13. Religious affairs;
14. Post, telecommunications, broadcasting, and electronic system, and transactions;
15. Defense;
16. Employment;

- 
- 17. Legal metrology;
 - 18. Creative economy;
 - 19. Geospatial information;
 - 20. Cooperatives;
 - 21. Investment facilitation; and
 - 22. Electronic systems and transaction operations.

What are the requirements to obtain a business license?

The requirements vary depending on the risk level of the business with those in the high-risk categories requiring more permits and licenses.

The first stage of the process is obtaining a business registration number (Nomor Induk Berusaha – NIB) through the OSS system. To register for an NIB, businesses will need to provide the following information:

- Taxpayer number (Nomor Pokok Wajib Pajak – NPWP);
- Business activity code according to the KBLI;
- Business profile;
- The capital structure of the business; and
- The proposed location of the business.

Furthermore, the OSS system will be linked to all relevant ministries, such as the Ministry of Finance, the Ministry of Home Affairs, and the Ministry of Law and Human Rights.

Low-risk business activities

Low-risk business activities are only required to obtain an NIB to commence their operations. In addition to serving as the formal identity of the business, the NIB also serves as a company's import identification number, as well as the number for registering with the national social insurance program.

Medium-low risk business activities

Business activities in this category must obtain an NIB and Certificate of Standards before beginning operations. A Certificate of Standards is a statement of the fulfillment of certain business or product standards, which must be filled in through the OSS system.

The NIB allows the business to conduct activities from 'preparation to the 'commercial stage'.

The preparation stage includes:

- The procurement of tools or facilities;
- Land acquisition;
- Recruitment of manpower;
- Feasibility studies; and
- Financing operations for the construction phase.

The commercial stage includes:

- The production of goods/services;
- Distribution of goods/services;
- Marketing of goods/services; and
- Other commercial activities.

Medium-high risk business activities

For medium-high risk business activities, companies will need to obtain an NIB and Certificate of Standards. However, the certificate will need to be verified by the central or regional government.

A company with an NIB and an 'unverified' Certificate of Standards are only permitted to conduct activities deemed in the preparation stage of operations.

Once the central or regional government is satisfied the business has fulfilled the specific business standards, they will issue the 'verified' certificate and the company can begin the commercial stage of operations.

High-risk business activities

High-risk business activities will require an NIB and a license to operate. The license will be issued once the business has fulfilled certain conditions and verifications set out by the central or regional government, which may include an environmental impact analysis.

The NIB, however, allows the business to conduct activities in the preparation stage of operations. Depending on the products or services being provided, businesses may have to obtain other supporting licenses to conduct commercial activities regardless of what risk level their activities are classified as.

An illustration of the licensing requirements can be seen below.

Business line	Business scale	Risk level	License	Issuing authority
Wholesale distribution	Micro, small, medium, and large	Low	NIB	Governor, or Regent of Mayor
E-commerce operator	Large and medium	High	NIB and license	Ministry of Trade
Freight forwarding	All sizes	Medium-high	NIB and Certificate of Standards	Governor

Representative offices

Opening an RO is the fastest and simplest way of establishing a legal entity in the country. This set up is a temporary arrangement – ROs are not allowed to engage in any commercial activities, issue invoices, sign contracts, or earn any revenue. Foreign investors, however, can own 100 percent of this business entity and don't have to contribute the same paid-up capital required by PT PMAs.

The business activities of ROs are limited to market research activities, obtaining information on potential clients, developing trade contacts, and gathering information on regulations and laws. There are four types of ROs, which we explore below.

General representative office (KPPA)

A KPPA is a general RO structure, ideal for investors who are still exploring opportunities in Indonesia. The KPPA has two main responsibilities:

- Represent, supervise, and manage its parent company in Indonesia; and
- Prepare for the establishment of a limited liability company for the parent company.

The KPPA must be incorporated in the capital of any Indonesian province and must be located in an office building. The KPPA permit is valid for an initial three years and can be extended twice for one year each time.

Representative office for a foreign trading company (KP3A)

A KP3A is similar to a KPPA but is more ideally suited for manufacturers or product owners looking to establish a network of distributors in the country. The KP3A is divided into the following categories:

- Act as a buying/or selling agent for the parent company, performing liaising or promotional activities; or
- Act as a manufacturing agent with its activities also limited to market research and liaising.
- Unlike a KPPA, the KP3A does not have to be established in the capital city of a province; they can set up in any district or regency in the country.

Foreign investors will also need to obtain a Foreign Company Trade Representative license (SIUP3A), which can be done through the OSS system of the BKPM. The KP3A permit is limited to two months (temporary license) to a maximum of one year (permanent license).

Representative office for a foreign construction company (BUJKA)

A BUJKA is an RO for foreign construction companies, and unlike the KPPA and KP3A entities, a BUJKA can undertake projects in Indonesia through a joint venture with a local construction company. The BUJKA license is valid for three years and the local partner must be a limited liability company.

Applicants must prove to the National Construction Services Development Board (LPJK) that they are classified as a 'large' construction company, and they must have a service business license issued by the Department of Public Works.

Representative Office for a foreign electricity supporting services (JPTLA)

A JPTLA is a representative office for businesses in the field of electricity supporting services. The JPTLA must obtain an NIB and a business entity certificate.

The JPTLA business licensing is granted to the following activities:

- Construction of electricity installation;
- Consultation for electricity installation; and
- Maintenance of electricity installation.

The JPTLA can undertake high-cost electricity supporting services with the following threshold:

- Projects for the construction and installation of electricity infrastructure worth at least 100 billion rupiah (US\$5.9 million); or
- Projects for the consultation in the field of electricity maintenance and installation worth at least 10 billion rupiah.

Further, the JPTLA representative office must appoint an Indonesian citizen in charge of the office and conduct technology and knowledge transfers to Indonesian workers. The JPTLA must prioritize the utilization of domestic products as well as use high-tech and environmentally friendly technology.



RELATED SERVICES

For advice on incorporating a business in Indonesia, please email our specialists at Indonesia@dezshira.com

[EXPLORE MORE](#)

Representative office for a foreign oil and gas company (KPPA MIGAS)

Foreign oil companies can set up a representative office through a KPPA MIGAS permit. The license is valid for three years and applicants will need to seek prior approval from the BKPM.

General set up requirements for ROs

Foreign investors looking to open an RO will need to fulfil the following requirements:

- Register through the OSS online portal;
- The parent company's Articles of Association legalized by a notary and the Indonesian Embassy of the parent company's country of origin (in English or Indonesian translated);
- Letter of Appointment notarized by a public notary and legalized by the Indonesian Embassy located in the parent company's country of origin;
- Latest financial statements of the parent company;
- Letter of intent notarized by a notary and legalized by the Indonesian Embassy located in the parent company's country of origin;
- Certificates demonstrating competency in the relevant industry or sub-sector;
- Recommendation letter from the Ministry of Energy and Mineral Resources (for KPPA MIGAS applicants);
- Lease agreements;
- Must be located in the capital of a province (unless it is a KP3A applicant);
- A letter of statement that states the RO will not engage in any commercial activities in Indonesia (if the letter is signed outside the territory of Republic of Indonesia, it shall be notarized by a public notary and legalized by the Indonesian Embassy located at the place of signing); and
- Letter of Reference from Indonesian Embassy/ Trade Attache/ Indonesia Investment Promotion Center (IIPC) located in the parent company's country of origin.



The Harmonized Tax Law (HTL) or Law No. 7/2021 overhauls Indonesia's existing tax structure. Changes include an increase in the value-added tax (VAT) rate, a new carbon tax, scrapped plans to reduce the corporate income tax (CIT), and changes to the topline personal income tax (PIT) rate.

Corporate taxation

Corporate income tax is set at a basic rate of 22 percent. There are several facilities given to businesses regarding the CIT if they fulfil the following conditions:

- Companies that are listed on the stock exchange that offer the minimum requirement of 40 percent of total share capital are subjected to a three percent tax cut from the standard rate;
- Companies that have an annual turnover of 50 billion rupiah (US\$2.9 million) are eligible for a 50 percent tax cut from the standard rate, which is imposed proportionally on the part of the gross turnover of up to 4.8 billion rupiah (US\$284,542); and
- Companies with gross turnover of no more than 4.8 billion rupiah are subject to a 0.5 percent tax of total turnover.

Value-added tax

Value-added tax in Indonesia is imposed on the provision of services or the transfer of taxable goods. VAT rates are set out below:

- 12 percent imposed on most manufacturers, retailers, wholesalers, and importers. However, certain regulations may allow for an "effective" rate of 11 percent to continue for some transactions, but the general legal rate is 12 percent;
- Export of tangible and intangible goods are subject to zero percent VAT; and
- Export of services is subject to zero percent VAT.

Personal income tax

Expatriate workers need to know that personal income tax (PIT) in Indonesia is determined through a self-assessment scheme.

The country has adopted a worldwide income taxation system, meaning that individuals considered as Indonesia tax residents pay tax to the government on the income they earned in Indonesia, and also on income they earned from abroad, unless there is an applicable double tax agreement.



Non-resident taxpayers will only be liable to pay PIT for income they earn in Indonesia, unless the country in which they are a tax resident has an applicable tax treaty with Indonesia. In these cases, the taxpayer might not pay any tax in Indonesia or pay a reduced amount.

Given these tax treatments, it is important for expatriate workers to understand their tax liabilities in Indonesia. It is advisable to use the services of registered local tax advisors to help determine which tax law regime will be applicable along with any exemptions that may bring.

Eligibility to pay income tax

Under Indonesia's previous income tax law, an individual is considered a domestic tax subject if they were present in the country for more than 183 days during a 12-month period, or they have an intention to stay in Indonesia.

Through PMK 18/2021, the government has provided further clarification on the definition of 'residing in Indonesia' and the 'intention to stay in Indonesia'.

'Residing in Indonesia' is defined as an individual who:

- Lives at a place of residence in Indonesia that is at their disposal and can be accessed at all times, which they own, rent, and is not a place of transit;
- Have their vital interests in Indonesia; and
- Have their habitual abode in Indonesia.

An 'intention to stay in Indonesia' needs to be substantiated with the following documents:

- A permanent stay permit;
- A limited stay visa;
- A limited stay permit; or
- Other documents that support their stay of more than 183 days in Indonesia.

Territorial taxation for foreigners

Foreigners who have become domestic tax subjects will only be taxed on Indonesian-sourced income. This is only applicable if they meet the expertise requirements from Appendix II of PMK-18.

Their expertise, however, must be supported by:

- A certificate issued by a government-authorized institution, or have a minimum of five years' work experience in the field of science, technology, and math; and
- An obligation for knowledge transfer to an Indonesian citizen.



The territorial tax treatment is available for four years of residency. If the foreign individual leaves Indonesia and re-enters Indonesia within the four-year period, the territorial taxation will begin from the time they first became a domestic tax subject.

Foreigners looking to apply for the territorial tax treatment must do so through the Directorate General of Taxes (DGS). Those who were already a domestic tax subject prior to the issuance of PMK-18/2021 can also apply to the DGS for this tax treatment. Certain foreign expatriates, because of their special legal status, are not considered as Indonesian tax residents and are exempted from paying PIT, even if they stay for more than 183 days per year or reside and intend to stay in Indonesia.

These exemptions apply for:

- Foreign diplomatic and consular personnel;
- Military personnel and civilian employees of foreign armed services; and
- Representatives of international organizations specified by the Minister of Finance.

When it comes to tax rates, residents and non-residents are taxed differently:

- Residents are subject to a withholding progressive tax (their net taxable income is set at graduated rates, with current rates ranging from five percent up to a maximum of 35 percent, depending on an individual's income); and
- Non-residents are subject to a final withholding flat tax of 20 percent on gross income.

The government introduced Government Regulation 58 of 2023 (GR 58/2023) on new income tax deduction rates for individual taxpayers. GR 58/2023 became effective on January 1, 2024.

GR 58/2023 aims to simplify the monthly withholding tax calculation to the income received by individuals. The regulation also provides the categories of taxpayer and the deduction rate for their income bracket.

Monthly income tax calculation

GR 58/2023 stipulates that the monthly withholding tax calculation for the months from January to November must now be done using an 'effective tax rate' (ETR). However, the annual calculation that is carried out in December is still done using the progressive income tax rate under Article 17(a) of the Income Tax Law.

The ETR is calculated based on the individual's gross monthly income or an individual's daily income.

Taxpayer categories

Monthly ETR

There are three categories of taxpayers.

Category A

- Single with no dependents (S/0);
- Single with one dependents (S/1); and
- Married with no dependents (M/0).

Category B

- Single with two dependents (S/2);
- Single with three dependents (S/3);
- Married with one dependent (M/1); and
- Married with two dependents (M/2).

Category C

Married with three dependents (M/3).

Daily ETR

This ETR is applied to non-permanent employees who are paid on a daily/weekly/unit/piece rate basis.

- Zero percent income tax rate for a daily income of up to 450,000 rupiah (US\$28.79); and
- 0.5 percent tax rate for daily income above 450,000 rupiah (US\$28.79) and up to 2.5 million (US\$159) rupiah.

Category A	
Monthly gross income (IDR)	ETR (%)
Up to 54 million (US\$318)	0
540 million IDR (US\$318) – 5.65 million IDR (US\$333)	0.25
5.65 million IDR (US\$333) – 5.95 million IDR (US\$351)	0.5
5.95 million IDR (US\$351) – 6.30 million IDR (US\$371)	0.75
6.30 million IDR (US\$371) – 6.75 million IDR (US\$398)	1
6.75 million IDR (US\$398) – 7.50 million IDR (US\$442)	1.25
7.50 million IDR (US\$442) – 8.55 million IDR (US\$504)	1.5
8.55 million IDR (US\$504) – 9.65 million IDR (US\$569)	1.75
9.65 million IDR (US\$569) – 10.05 million IDR (US\$592)	2
10.05 million IDR (US\$592) – 10.35 million IDR (US\$610)	2.25
10.35 million IDR (US\$610) – 10.70 million IDR (US\$631)	2.5
10.70 million IDR (US\$631) – 11.05 million IDR (US\$651)	3
11.05 million IDR (US\$651) – 11.60 million IDR (US\$684)	3.5
11.60 million IDR (US\$684) – 12.50 million IDR (US\$737)	4
12.50 million IDR (US\$737) – 13.75 million IDR (US\$810)	5
13.75 million IDR (US\$810) – 15.10 million IDR (US\$890)	6
15.10 million IDR (US\$890) – 16.95 million IDR (US\$999)	7
16.95 million IDR (US\$999) – 19.75 million IDR (US\$1,164)	8
19.75 million IDR (US\$1,164) – 24.15 million IDR (US\$1,423)	9
24.15 million IDR (US\$1,423) – 26.45 million IDR (US\$1,558)	10
26.45 million IDR (US\$1,558) – 28 million IDR (US\$1,650)	11
28 million IDR (US\$1,650) – 30.05 million IDR (US\$1,771)	12
30.05 million IDR (US\$1,771) – 32.40 million IDR (US\$1,910)	13
32.40 million IDR (US\$1,910) – 35.40 million IDR (US\$2,086)	14
35.40 million IDR (US\$2,086) – 39.10 million IDR (US\$2,305)	15
39.10 million IDR (US\$2,305) – 43.85 million IDR (US\$2,585)	16

Category A	
Monthly gross income (IDR)	ETR (%)
43.85 million IDR (US\$2,585) – 47.80 million IDR (US\$2,818)	17
47.80 million IDR (US\$2,818) – 51.40 million IDR (US\$3,030)	18
51.40 million IDR (US\$3,030) – 56.30 million IDR (US\$3,318)	19
56.30 million IDR (US\$3,318) – 62.20 million IDR (US\$3,665)	20
62.20 million IDR (US\$3,665) – 68.60 million IDR (US\$4,042)	21
68.60 million IDR (US\$4,042) – 77.50 million IDR (US\$4,568)	22
77.50 million IDR (US\$4,568) – 89 million IDR (US\$5,245)	23
89 million IDR (US\$5,245) – 103 million IDR (US\$6,069)	24
103 million IDR (US\$6,069) – 125 million IDR (US\$7,366)	25
125 million IDR (US\$7,366) – 157 million IDR (US\$9,254)	26
157 million IDR (US\$9,254) – 206 million IDR (US\$12,142)	27
206 million IDR (US\$12,142) – 337 million IDR (US\$19,868)	28
337 million IDR (US\$19,868) – 454 million IDR (US\$26,742)	29
454 million IDR (US\$26,742) – 550 million IDR (US\$32,412)	30
550 million IDR (US\$32,412) – 695 million IDR (US\$40,974)	31
695 million IDR (US\$40,974) – 910 million IDR (US\$53,637)	32
910 million IDR (US\$53,637) – 140 billion IDR (US\$82,500)	33
140 billion IDR (US\$82,500)	34

Category B	
Monthly gross income (IDR)	ETR (%)
Up to 6.2 million (US\$365)	0
6.20 million IDR (US\$365) – 6.50 million IDR (US\$383)	0.25
6.50 million IDR (US\$383) – 6.85 million IDR (US\$404)	0.5
6.85 million IDR (US\$404) – 7.30 million IDR (US\$430)	0.75
7.30 million IDR (US\$430) – 9.20 million IDR (US\$542)	1
9.20 million IDR (US\$542) – 10.75 million IDR (US\$633)	1.5
10.75 million IDR (US\$633) – 11.25 million IDR (US\$663)	2
11.25 million IDR (US\$663) – 11.60 million IDR (US\$684)	2.5
11.60 million IDR (US\$684) – 12.60 million IDR (US\$742)	3
12.60 million IDR (US\$742) – 13.60 million IDR (US\$801)	4
13.60 million IDR (US\$801) – 14.95 million IDR (US\$881)	5
14.95 million IDR (US\$881) – 16.40 million IDR (US\$967)	6
16.40 million IDR (US\$967) – 18.45 million IDR (US\$1,087)	7
18.45 million IDR (US\$1,087) – 21.85 million IDR (US\$1,288)	8
21.85 million IDR (US\$1,288) – 26 million IDR (US\$1,532)	9
26 million IDR (US\$1,532) – 27.70 million IDR (US\$1,633)	10
27.70 million IDR (US\$1,633) – 29.35 million IDR (US\$1,729)	11
29.35 million IDR (US\$1,729) – 31.45 million IDR (US\$1,853)	12
31.45 million IDR (US\$1,853) – 33.95 million IDR (US\$2,001)	13
33.95 million IDR (US\$2,001) – 37.10 million IDR (US\$2,186)	14
37.10 million IDR (US\$2,186) – 41.10 million IDR (US\$2,421)	15
41.10 million IDR (US\$2,421) – 45.80 million IDR (US\$2,698)	16
45.80 million IDR (US\$2,698) – 49.50 million IDR (US\$2,917)	17
49.50 million IDR (US\$2,917) – 53.80 million IDR (US\$3,170)	18
53.80 million IDR (US\$3,170) – 58.50 million IDR (US\$3,448)	19
58.50 million IDR (US\$3,448) – 64 million IDR (US\$3,771)	20

Category B	
Monthly gross income (IDR)	ETR (%)
64 million IDR (US\$3,771) – 71 million IDR (US\$4,185)	21
71 million IDR (US\$4,185) – 80 million IDR (US\$4,715)	22
80 million IDR (US\$4,715) – 93 million IDR (US\$5,480)	23
93 million IDR (US\$5,480) – 109 million IDR (US\$6,424)	24
109 million IDR (US\$6,424) – 129 million IDR (US\$7,603)	25
129 million IDR (US\$7,603) – 163 million IDR (US\$9,607)	26
163 million IDR (US\$9,607) – 211 million IDR (US\$12,436)	27
211 million IDR (US\$12,436) – 374 million IDR (US\$22,036)	28
374 million IDR (US\$22,036) – 459 million IDR (US\$27,047)	29
459 million IDR (US\$27,047) – 555 million IDR (US\$32,700)	30
555 million IDR (US\$32,700) – 704 million IDR (US\$41,493)	31
704 million IDR (US\$41,493) – 957 million IDR (US\$56,404)	32
957 million IDR (US\$56,404) – 141 billion IDR (US\$83,080)	33
141 billion IDR (US\$83,080)	34

Category C	
Monthly gross income (IDR)	ETR (%)
Up to 6.6 million (US\$389)	0
6.60 million IDR (US\$389) – 6.95 million IDR (US\$410)	0.25
6.95 million IDR (US\$410) – 7.35 million IDR (US\$433)	0.5
7.35 million IDR (US\$433) – 7.80 million IDR (US\$460)	0.75
7.80 million IDR (US\$460) – 8.85 million IDR (US\$522)	1
8.85 million IDR (US\$522) – 9.80 million IDR (US\$578)	1.25
9.80 million IDR (US\$578) – 10.95 million IDR (US\$645)	1.5
10.95 million IDR (US\$645) – 11.20 million IDR (US\$660)	1.75
11.20 million IDR (US\$660) – 12.05 million IDR (US\$710)	2
12.05 million IDR (US\$710) – 12.95 million IDR (US\$763)	3
12.95 million IDR (US\$763) – 14.15 million IDR (US\$834)	4
14.15 million IDR (US\$834) – 15.55 million IDR (US\$916)	5
15.55 million IDR (US\$916) – 17.05 million IDR (US\$1,005)	6
17.05 million IDR (US\$1,005) – 19.50 million IDR (US\$1,149)	7
19.50 million IDR (US\$1,149) – 22.70 million IDR (US\$1,338)	8
22.70 million IDR (US\$1,338) – 26.60 million IDR (US\$1,568)	9
26.60 million IDR (US\$1,568) – 28.10 million IDR (US\$1,656)	10
28.10 million IDR (US\$1,656) – 30.10 million IDR (US\$1,774)	11
30.10 million IDR (US\$1,774) – 32.60 million IDR (US\$1,921)	12
32.60 million IDR (US\$1,921) – 35.40 million IDR (US\$2,086)	13
35.40 million IDR (US\$2,086) – 38.90 million IDR (US\$2,292)	14
38.90 million IDR (US\$2,292) – 43 million IDR (US\$2,535)	15
43 million IDR (US\$2,535) – 47.40 million IDR (US\$2,794)	16
47.40 million IDR (US\$2,794) – 51.20 million IDR (US\$3,016)	17
51.20 million IDR (US\$3,016) – 55.80 million IDR (US\$3,288)	18
55.80 million IDR (US\$3,288) – 60.40 million IDR (US\$3,561)	19

Category C	
Monthly gross income (IDR)	ETR (%)
6040 million IDR (US\$3,561) – 66.70 million IDR (US\$3,929)	20
66.70 million IDR (US\$3,929) – 74.50 million IDR (US\$4,390)	21
74.50 million IDR (US\$4,390) – 83.20 million IDR (US\$4,903)	22
83.20 million IDR (US\$4,903) – 95.60 million IDR (US\$5,633)	23
95.60 million IDR (US\$5,633) – 110 million IDR (US\$6,485)	24
110 million IDR (US\$6,485) – 134 million IDR (US\$7,896)	25
134 million IDR (US\$7,896) – 169 million IDR (US\$9,962)	26
169 million IDR (US\$9,962) – 221 million IDR (US\$13,023)	27
221 million IDR (US\$13,023) – 390 million IDR (US\$22,981)	28
390 million IDR (US\$22,981) – 463 million IDR (US\$27,278)	29
463 million IDR (US\$27,278) – 561 million IDR (US\$33,045)	30
561 million IDR (US\$33,045) – 709 million IDR (US\$41,785)	31
709 million IDR (US\$41,785) – 965 million IDR (US\$56,875)	32
965 million IDR (US\$56,875) – 141 billion IDR (US\$83,080)	33
141 billion IDR (US\$83,080)	34

Deductions and relief

There are several elements that can be deducted from the gross income when determining the annual taxable income of an individual.

It is worth noting that a family is regarded as a single tax reporting unit with a single tax identity number (NPWP) in the name of the head of the family. The head of the family needs to report the income of their dependent spouse and children on their tax return.

The following personal deductions are available for resident taxpayers.

Income Tax Deductions in Indonesia	
Basic of deduction	Deductible amount per year
Individual taxpayer	54 million rupiah (US\$3,202)
Spouse	Additional 4.5 million rupiah (US\$266)
Each dependent (max. 3)	Additional 4.5 million rupiah



RELATED SERVICES

For Indonesia tax advisory and compliance support, contact Dezan Shira at Indonesia@dezshira.com.

[EXPLORE MORE](#)

Employer compliance obligations

Income tax in Indonesia is mostly paid by withholding by the employer. The tax withheld by employers must be remitted to the government body on a monthly basis.

Employee compliance obligations

Expatriate employees are required to complete an annual tax return and compute their tax liability by March 31 of the following tax year.

The majority of PIT is paid through statutory employer withholdings on earned income. However, for any other income that a taxpayer in Indonesia earns on a regular basis, they must make monthly provisional tax payments to the tax department based on the income earned in the previous year.

Filing a tax return

To file a tax return, an individual must register as a taxpayer to obtain a tax identification number (NPWP). Expatriates must obtain a NPWP if they are a tax resident.

While employers are responsible for deducting tax from their employees' salaries, it is the individual employee's responsibility to register as a taxpayer and file their tax returns.

Tax deregistration when leaving Indonesia

It is highly recommended that expatriates leaving Indonesia permanently cancel their tax registration to avoid any misunderstandings, and thus avoid being continuously considered a tax resident of Indonesia.

To do so, expatriates should submit an application to the local tax office, which will then perform a tax audit on the taxpayer's returns and supporting documents prior to granting approval to deregister.

The individual should ensure that all tax related documents are readily available in anticipation of a tax audit (including bank statements, salary slips, foreign tax documentation if applicable, work contracts, etc.).

Dividends and offshore income exempted from income tax

To increase investments in Indonesia's financial markets and the real sector, the government has provided income tax exemptions for foreign dividends received by domestic taxpayers. The reinvestment requirements are not required for domestic dividends received by domestic corporate taxpayers.

Qualifying reinvestments are shown below.

Investment in financial market instruments, such as:

- Government bonds, including shariah instruments;
- Bonds or sukuk issued by a state-owned enterprise, private companies;
- Financial investments in perception banks including shariah banks; or
- Other legal forms of investments.

Investments in financial instruments outside the money market, which include:

- Investment in real sector;
- Investment in infrastructure through a private-public partnership;
- Equity cooperation in an already existing company domiciled in Indonesia;
- Cooperation with the Indonesian Sovereign Wealth Fund; or
- Lending to small and medium-sized businesses in Indonesia.

The investment must be held for a minimum of three years from when the dividend or offshore income is received. The taxpayer must also invest the dividend or offshore income recorded as part of the qualifying investment by the end of the third or fourth month after the end of the fiscal year. Finally, the investment cannot be transferred except to another qualifying investment.

Type of income	Reinvestment required	Threshold (%)
Domestic dividends received by corporate taxpayers	No	N/A
Domestic dividends received by domestic individual taxpayers	Yes	No
Offshore dividends received by domestic taxpayers - from a listed company	Yes	No
Offshore dividends received by domestic taxpayers - from a listed company	Yes	30
Offshore income received from a permanent establishment (PE)	Yes	30
Offshore income received from an active business (not from a PE or subsidiary)	Yes	No

Note: 30 percent from profit after tax

Source: PwC - Taxflash

If the reinvestment requirement provides a 30 percent threshold, the taxpayer can enjoy the full exemption if this threshold is fulfilled. However, if the reinvestment is less than the 30 percent threshold, the taxpayer must pay income tax on the spread between the investment amount and the 30 percent threshold to enjoy the exemption.

Investors should note that the exemption does not apply to foreign citizens who utilize the double tax avoidance agreement (DTA) between Indonesia and the partner country/jurisdiction of the DTA.

Digital tax

Non-resident suppliers of digital services within Indonesia can now be appointed as VAT collectors and, as such, are now required to collect 11 percent VAT and pay to the Indonesian government.

The following digital intangible goods will now be subject to VAT:

- The use or the right to use copyrights material in the field of art, science, and literature, such as e-books, magazines, software;
- The right to use recorded images or sounds which are distributed via fiber optics, satellite, or cable, among others;
- Image recordings or sound recordings used in television broadcasts, radio broadcasts, which are distributed via fiber optics, satellite, or cable, among others; and
- Motion-picture films or videotapes used as television broadcasts.

The government recognizes the following e-commerce entities based on their activities:

- **Merchants (sellers):** Businesses or individuals that conduct electronic offerings through electronic systems either managed or owned by themselves or through an e-commerce organizer.
- **E-commerce organizers (PPMSE):** Businesses or individuals that provide electronic systems to facilitate e-commerce transactions. These include business models, such as online streaming platforms, online marketplaces, online classified advertisements, and price comparison platforms, among others.
- **Intermediary Service Organizers (PSP):** These are businesses or individuals that provide search system facilities (for example, Google, Bing) or those that provide information storage services (hosting and caching).

The aforementioned entities can be either domestic or foreign businesses and the legal requirements for each type will also differ.

Domestic merchants

Domestic merchants must obtain a business license from the government's Online Single Submission (OSS) Agency. Under the country's Standard Classification of Business Fields, businesses carrying out trading via the internet need to comply with KBLI classification 4791.

Domestic e-commerce organizers

Businesses who operate their own e-commerce facilities are classified as PPMSEs and must obtain a special license named Surat Izin Usaha Perdagangan melalui Sistem Elektronik (business license for trading through an electronic system (SIUPMSE).

The SIUPMSE can be applied through the OSS system and businesses will need to adhere to certain criteria to be eligible. These are:

- Obtaining an Electronic System Provider certificate within 14 days after the SIUPMSE is issued;
- Must provide a website and/or application name to the government;
- Must establish a consumer complaints section on their website/application, which includes e-mail address and contact number in addition to the details of the Directorate-General of Consumer Protection and Trade Compliance;
- The PPMSE must provide facilities that inform or link customers to the OSS Agency's website; and
- The business must submit its transaction data (subscribers, payments, complaints, contracts, shipments etc.) to Statistics Indonesia (BPS), the government agency responsible for conducting statistical surveys.

Foreign merchants

Foreign merchants must provide a valid business license issued in the country where they are established to the domestic PPSME company which provides their electronic communication facilities. The domestic PPSME will then need to report all the transactional activities (subscribers, payments, complaints, contracts, shipments, etc.) of the foreign merchant to the BPS.

Foreign e-commerce organizers

Foreign PPSMEs that have been appointed as a 'VAT collector' by the Ministry of Finance are obligated to charge the 11 percent VAT rate on the sales of digital products to Indonesian consumers.

They must first have local transaction values of the following:

- The PPSME has completed transactions with Indonesian consumers that exceeds 600 million rupiah in a year or 50 million rupiah (US\$3,500) per month; or
- Traffic or visitors to the e-commerce site exceeds 12,000 users per year or 1,000 users per month.

Withholding tax

Withholding tax applies to both residents and non-resident companies in Indonesia. The tax rate on dividends is 15 percent for residents and 20 percent for non-residents (unless they have an applicable tax treaty). The withholding tax rate on interest and royalties are also set at 15 percent for residents and 20 percent for non-residents.

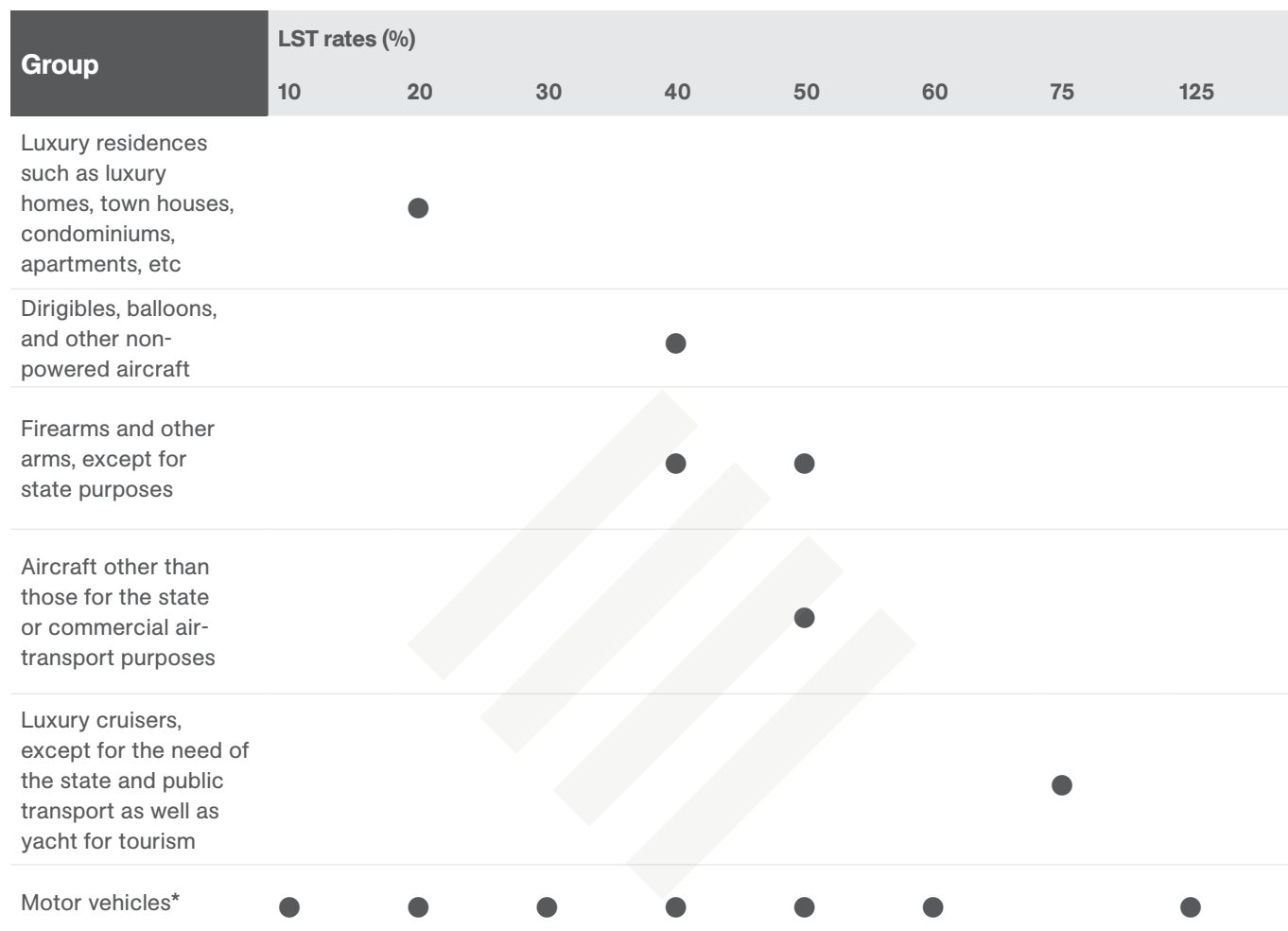
Withholding Tax Rates for Resident and Non-Resident Companies in Indonesia		
Nature of income	Tax rate (%)	
	Residents	Non-residents
Dividends	15	20
Interest	15	20
Royalties	15	20

Luxury goods sales tax

The import of certain manufactured taxable goods may be liable to luxury goods sales tax (LST). LST must be accounted every month together with VAT.

A summary of the LST rates is set out below.

Luxury Goods Sales Tax in Indonesia



Stamp duty

Individuals, companies, and other organizations in Indonesia must pay stamp duties on certain legal documents. As of January 2021, the standard stamp duty tax rate is IDR 10,000 (US\$0.59).

Indonesia requires stamp duties on two main types of documents: documents created to explain events of a civil nature and documents to be used as evidence in a court of law.

Documents of a civil nature include the following:

- 
- Agreements, certificates, statement letters, and similar documents and their copies;
 - Notarial deeds and executorial deeds (grosse) and their copies;
 - Deeds made before a land deed officer (also known as a land conveyance officer) and their copies;
 - Securities in any form and name; and
 - Documents stating a sum of money above IDR 5 million (US\$296), which describe the receipt of money or contain an acknowledgment of debt payment or settlement, either entirely or partially.

In addition to these documents, the Law also applies to the following civil documents:

- Securities transaction documents, including futures contract transactions in any name or form;
- Auction documents in the form of excerpts, minutes, copies, and minutes of auction executorial deeds (grosse); and
- Other documents stipulated by Government Regulation.

The Law exempts the following documents from stamp duty:

- Land transfer and building rights documents used for handling and restoring social conditions following natural disasters;
- Land transfer and building rights documents used solely for religious or non-commercial activities;
- Documents relating to the implementation of government programs and monetary or financial policies; and
- Documents relating to the implementation of international agreements under binding international treaties or reciprocal laws.

Electronic stamp duty

Electronic stamps, which carry a unique code and description, will apply to electronic transaction documents with a value above 5,000,000 rupiah (US\$350).

The Indonesian government, however, is still building the infrastructure to manage electronic stamp duties.

Indonesia's DTA network

Indonesia has signed over 70 double tax avoidance (DTA) agreements with various countries, which eliminate instances of double taxation from cross-border activities. The withholding tax rate on dividends are set between seven to 15 percent whereas interest rates are set between five to 15 percent unless an applicable tax treaty is in place wherein there will be no tax.

The tax rate for royalties is between 10 to 15 percent.

Countries with Signed DTAs with Indonesia				
A-B	C-J	K-O	P-S	T-Z
Algeria	Cambodia	Korea (North)	Pakistan	Taiwan
Armenia	Canada	Korea (South)	Papua New Guinea	Tajikistan
Australia	China	Kuwait	Philippines	Thailand
Austria	Croatia	Laos	Poland	Tunisia
Bangladesh	Czech Republic	Luxembourg	Portugal	Turkey
Belarus	Denmark	Malaysia	Qatar	Ukraine
Belgium	Egypt	Mexico	Romania	United Arab Emirates
Brunei	Finland	Mongolia	Russia	United Kingdom
Bulgaria	France	Morocco	Serbia	United States of America
	Germany	Netherlands	Seychelles	Uzbekistan
	Hong Kong	New Zealand	Singapore	Venezuela
	Hungary	Norway	Slovakia	Vietnam
	India		South Africa	Zimbabwe
	Iran		Spain	
	Italy		Sri Lanka	
	Japan		Sudan	
	Jordan		Suriname	
			Sweden	
			Switzerland	
			Syria	

The withholding tax rates of the applicable tax treaties are as follows:

Dividends					
	Portfolio	Substantial Holdings	Interest	Royalties	Branch Profit Tax
1. Algeria	15%	15%	15/0%	15%	10%
2. Armenia	15%	10%	10/0%	10%	10%
3. Australia	15%	15%	10/0%	15/10%	15%
4. Austria	15%	10%	10/0%	10%	12%
5. Bangladesh	15%	10%	10/0%	10%	10%
6. Belarus	10%	10%	10/0%	10%	10%
7. Belgium	15%	10%	10/0%	10%	10%
8. Brunei	15%	15%	15/0%	15%	10%
9. Bulgaria	15%	15%	10/0%	10%	15%
10. Cambodia	10%	10%	10/0%	10%	10%
11. Canada	15%	10%	10/0%	10%	15%
12. China	10%	10%	10/0%	10%	10%
13. Croatia	10%	10%	10/0%	10%	10%
14. Czech Republic	15%	10%	12.5/0%	12.5%	12.5%
15. Denmark	20%	10%	10/0%	15%	15%
16. Egypt	15%	15%	15/0%	15%	15%
17. Finland	15%	10%	10/0%	15/10%	15%
18. France	15%	10%	15/10/0%	10%	10%
19. Germany	15%	10%	10/0%	15/10%	10%
20. Hong Kong	10%	5%	10/0%	5%	5%
21. Hungary	15%	15%	15/0%	15%	20%
22. India	10%	10%	10/0%	10%	15%
23. Iran	7%	7%	10/0%	12%	7%
24. Italy	15%	10%	10/0%	15/10%	12%
25. Japan	15%	10%	10/0%	10%	10%
26. Jordan	10%	10%	10/0%	10%	20%
27. Korea (North)	10%	10%	10/0%	10%	10%
28. Korea (South)	15%	10%	10/0%	15%	10%
29. Kuwait	10%	10%	5/0%	20%	10/0%
30. Laos	15%	10%	10/0%	10%	10%

Dividends					
	Portfolio	Substantial Holdings	Interest	Royalties	Branch Profit Tax
31. Luxembourg	15%	10%	10/0%	12.5%	10%
32. Malaysia	10%	10%	10/0%	10%	12.5%
33. Mexico	10%	10%	10/0%	10%	10%
34. Mongolia	10%	10%	10/0%	10%	10%
35. Morocco	10%	10%	10/0%	10%	10%
36. Netherlands	10/15%	5%	10/5/0%	10%	10%
37. New Zealand	15%	15%	10/0%	15%	20%
38. Norway	15%	15%	10/0%	15/10%	15%
39. Pakistan	15%	10%	15/0%	15%	10%
40. Papua New Guinea	15%	15%	10/0%	10%	15%
41. Philippines	20%	15%	15/10/0%	15%	20%
42. Poland	15%	10%	10/0%	15%	10%
43. Portugal	10%	10%	10/0%	10%	10%
44. Portugal	10%	10%	10/0%	10%	10%
45. Romania	15%	12.5%	12.5%	15/12.5%	12%
46. Russia	15%	15%	15/0%	15%	12.5%
47. Serbia	15%	15%	10/0%	15%	15%
48. Seychelles	10%	10%	10/0%	10%	20%
49. Singapore	15%	10%	10/0%	8/10%	10%
50. Slovakia	10%	10%	10/0%	15/10%	10%
51. South Afrida	15%	10%	10/0%	10%	10%
52. Spain	15%	10%	10/0%	10%	10%
53. Sri Lanka	15%	15%	15/0%	15%	20%
54. Sudan	10%	10%	15/0%	10%	10%
55. Suriname	15%	15%	15/0%	15%	15%
56. Sweden	15%	10%	10/0%	15/10%	15%
57. Switzerland	15%	10%	10/0%	10%	10%
58. Syria	10%	10%	10/0%	20/15%	10%
59. Taiwan	10%	10%	10/0%	10%	5%

Dividends					
	Portfolio	Substantial Holdings	Interest	Royalties	Branch Profit Tax
60. Tajikistan	10%	10%	10/0%	10%	10%
61. Thailand	20/15%	20/15%	15/0%	15%	20%
62. Tunisia	12%	12%	12/0%	15%	12%
63. Turkey	15%	10%	10/0%	10%	10%
64. Ukraine	15%	10%	10/0%	10%	10%
65. United Arab Emirates	10%	10%	7/0%	5%	5%
66. United Kingdom	15%	10%	10/0%	15/10%	10%
67. United States of America	15%	10%	10/0%	10%	10%
68. Uzbekistan	10%	10%	10/0%	10%	10%
69. Venezuela	15%	10%	10/0%	20%	10%
70. Vietnam	15%	15%	15/0%	15%	10%
71. Zimbabwe	20%	10%	10/0%	15%	10%

Human Resources and Payroll

Labor law

The main sources of employment and labor laws in Indonesia are:

- Labor Law of 2003 on Manpower as amended by Law No. 11 of 2020 on Job Creation and recently revoked by Government Regulation in Lieu of Law No. 2 of 2022 on Job Creation and further stipulated under Government Regulation 6 of 2023;
- Law No. 21 of 2000 on Labor Union; and
- Law No. 2 of 2004 on Industrial Relations Dispute Settlement.

Fixed-term contracts

Under implementing regulation 35 of 2021 (GR35/2021), the government recognizes three types of fixed-term contracts (FTC):

- FTC based on the completion of work;
- FTC based on the period of time; and
- FTC related to non-permanent work.

GR 35/2021 states that all FTC types are for work that is temporary and can be completed within a set time period, therefore any contract extensions cannot be for prolonged periods (5 years maximum in total). Failing to adhere to these rules will result in the employee deemed to be on a permanent employment contract.

Indonesia's Fixed-Term Contract System			
	FTC based on completion of work	FTC based on period	FTC related to non-permanent work
Type of work	• Temporary work; or • One-time work.	• Work that can be completed in short time; • Seasonal work; or • Work related to new products that are in trial or experimentation.	• Work that is based on attendance; or • Work that changes based on volume or time.
Contract period	There is no specific maximum period, however, the employment agreement must include provisions on the expected period for work completion.	Maximum five years (including extension).	Maximum 20 days per month. if the employee works for 21 days per month or more for three consecutive months, then they will be considered permanent workers.

Compensation for FTC workers

Prior to the Omnibus Law, any party terminating the FTC was required to pay the other party compensation equivalent to the employee's salary for the remaining time of the FTC. If an FTC expired naturally, then neither party would have to pay compensation.

This has changed with GR 35/2021, which now obligates the employer to pay compensation to the employee, even if the employee terminates the FTC prematurely.

The employers must pay compensation upon:

- The expiry of an FTC;
- Each extension of the FTC; and
- Early termination of the contract, irrespective of who terminates the contract.

How is it calculated?

Compensation is calculated using the following formula:

Contract period	Compensation amount
More than one month but less than 12 months	(Work period in months/12) x One month's salary
More than 12 months	
12 consecutive months	One month's salary

When an FTC expires and is then extended, the compensation for the initial contract must be paid when the FTC expires.

For any ongoing FTCs, the compensation payment will be calculated from November 2, 2020, the date from which the Omnibus Law came into effect. Further, foreign workers are not entitled to the aforementioned compensation.

Working hours

Normal working hours in Indonesia is 40 hours per week, which can be divided into eight hours per day for five working days or seven hours per day for six working days.

GR 35/2021 recognizes working hours of less than 40 hours per week if the company has the following characteristics:

- Undertake work that can be completed in less than 35 hours per week;
- Can implement flexible working hours; and
- Undertake work that can be completed outside a particular location.

Overtime

The regulation extends the overtime working hours to four hours per day and 18 hours per week, which does not apply to public holidays. GR 35/2021 requires that collective labor agreements, company regulations, or employment agreements specifically state which roles are entitled to overtime pay. If this is not expressed, then the employee will automatically be entitled to receive this payment.

The overtime payment is based on the employee's monthly wage. Every hour, the calculation is applied, which is 1/173 times the monthly wage. The calculation of the overtime payment is also categorized by the day of the overtime: working days, weekends, or public holidays.

The regulation does include provisions on employees that are exempt from overtime pay eligibility. These are:

- Employees that hold certain positions with responsibilities as thinkers, controllers, planners, executors, etc.;
- Workers whose working hours cannot be capped, such as those in managerial roles; and
- Workers that are paid high salaries.

Outsourcing

The new regulation makes it clear for employers to include the provisions of transfer of rights protection in the contract in the event of a change in an outsourcing company. The outsourcing company must be a legal entity and comply with the business license they were issued from the central government.

Termination of employment

GR 35/2021 sets out the procedures for unilateral termination of employment. An employer must first notify the employee in writing, stating the reasons for termination as well as the applicable termination payments and entitlements, at least 14 business days before the effective termination date.

If the employee does not object to the termination, the employer may proceed to notify the Ministry of Manpower. If the employee objects, they must submit their reasons in writing within seven business days of receiving the termination notice. Any disagreement related to the termination should first be discussed between the parties to seek a mutual separation. If no agreement is reached, the matter may be referred to the local employment office for mediation and, failing that, to the Industrial Relations Court.

Prior to the Omnibus Law reforms, employers did not have the right to unilaterally terminate employment under any circumstances unless termination was mutually agreed through negotiations. In such cases, employers were required to obtain approval from the labor courts, and employees were entitled to compensation of up to six months' salary.

Termination payments

Terminated employees are entitled to termination payments and the amount varies depending on the length of employment of the employee.

Termination payments are comprised of severance payments, long service pay, and compensation of rights. There is another component called separation pay, but this must be stipulated in the employment agreement.

Compensation pay refers to compensation for any untaken annual leaves and other costs incurred such as for relocation.

Long service pay refers to a type of compensation given to employees based on the number of years they have worked at the company. An employee who has had their contract terminated may be eligible for the long service pay in addition to their severance pay.

Severance Payment in Indonesia	
Completed years of service	Severance payment
Less than 1 year	1 month wage
More than 1 year but less than 2	2 months wage
More than 2 years but less than 3	3 months wage
More than 3 years but less than 4	4 months wage
More than 4 years but less than 5	5 months wage
More than 5 years but less than 6	6 months wage
More than 6 years but less than 7	7 months wage
More than 7 years but less than 8	8 months wage
More than 8 years	9 months wage

Service Payment in Indonesia	
Completed years of service	Service payment
More than 3 years but less than 6	2 month wage
More than 6 years but less than 9	3 months wage
More than 9 years but less than 12	4 months wage
More than 12 years but less than 15	5 months wage
More than 15 years but less than 18	6 months wage
More than 18 years but less than 21	7 months wage
More than 21 years but less than 24	8 months wage
More than 24 years	10 months wage

Reg 35/2021 does provide changes to calculating termination pay for certain cases, such as merger or consolidation of the company resulting in the termination of the employee, or closure of the company due to mounting losses, among others. In such cases, the severance pay is not as high as mentioned in the previous tables.

Termination Payment Formula				
Reason for termination	Severance payment (as per previous tables)	Long service payment (as per previous tables)	Compensation of rights (as per previous tables)	Separation pay
Long-term illness or disability resulting in the worker unable to work for 12 months	2x	1x	1x	No
Employee death				
Retirement	1.75x	1x	1x	No
• Merger, consolidation, separation of company and which the employee is not willing to continue with their employment or the employer will no longer accept the employee; • Employer carries out efficiency to prevent losses; • Acquisitions; • Employee's self-termination due to violations committed by the employer; and • Employer is involved in debt payment proceeding without suffering losses	1x	1x	1x	No
Force majeure but does not result in the company closing down	0.75x	1x	1x	No
• Acquisition resulting in changes of employment for the employee; • Efficiency due to employer's losses; • Closure of the company due to force majeure; • Company bankruptcy; • Employee's violation of the employment agreement (after being served warning letters); and • Employer is involved in debt payment proceeding as a result of its losses	0.5x	1x	1x	No
• Court decision finds the employee's allegations against the employer not proven; • Employee's voluntary terminations; • Employee's absence without permission for five continuous days, and • Employee being found guilty of a violation that creates losses for the company			Yes	Yes
Employee unable to work for six months due to detention by the authorities and creates losses for the company			Yes	No
Employee unable to work for six months due to detention by the authorities but does not create losses for the company		1x	Yes	No

Relevant visa categories for foreign workers

There are a variety of visas foreign visitors can apply for depending on their purpose of visit.

Business visas

This is a single-entry visa valid for 60 days upon arrival and can be extended up to four times. This type of visa is intended for businesspeople who are engaging in meetings in the country, attending conferences, or undertaking market research.

This visa must be sponsored by a legal entity in Indonesia and the holders are not allowed to gain employment while in the country.

Multiple entry business visas

Multiple entry business visas allow foreign visitors to make repeated trips into Indonesia for one year. The visa, however, has a 60-day limit upon arrival, meaning that visitors will have to leave the country before it expires before entering Indonesia again.

The requirements for obtaining this visa type are the same as that of the business visa. The fee is US\$100.

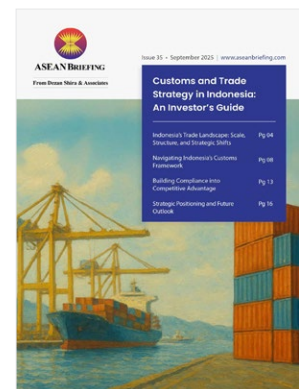
Application requirements

The application requirements for the business visa is as follows:

- A passport valid for at least six months;
- A letter of invitation from the Indonesian-based sponsor mentioning the purpose of the applicant's visit, and length of stay. The Indonesian sponsor will also need to do an online application to the immigration office in Jakarta on behalf of the applicant;
- The process usually takes five working days by which the immigration office will issue a visa approval letter. This will then be sent to the applicant's nearest Indonesian Embassy, who will issue the visa.
- A business cover letter from the applicant's own company;
- One passport-sized photograph (white background);
- A copy of the applicant's round trip, electronic airline ticket;
- Pay the US\$50 fee; and
- A bank statement proving the applicant has at least US\$1,500.



KNOWLEDGE RESOURCE



**Customs and Trade
Strategy in Indonesia:
An Investor's Guide**
*ASEAN Briefing Magazine
September, 2025*

As shifting supply chains, new trade agreements, and a growing manufacturing base reshape the economy, investors must understand how to navigate customs regimes, bonded zones, and compliance strategies. This magazine provides a strategic outlook on turning Indonesia's import and export systems into competitive tools - reducing costs, unlocking preferential rates, and positioning Indonesia as a launchpad for ASEAN growth.

AVAILABLE HERE

Work visas

A work visa (IMTA) can only be applied by the Indonesian company that will hire the foreign worker. The company must prove to the Ministry of Manpower (MOM) that the foreign applicant is required to fulfil certain positions.

Foreign employees are not allowed to obtain work in the following sectors:

- Human resource management;
- Legal;
- Health and safety;
- Quality control; and
- Supply chain management.

Foreign worker utilization plan

On March 31, 2021, Indonesia's Ministry of Manpower issued Regulation No. 8 of 2021 (MOM Reg 8/2021) on the Employment of Foreign Workers. MOM Reg 8/2021 is an implementing regulation to GR 34/2021 and provides in detail the requirements for businesses to fulfill in order to hire foreign workers.

For a local company to employ a foreign worker, they must prepare a Foreign Worker Utilization Plan (Rencana Penggunaan Tenaga Kerja Asing (RPTKA)) – a document that details the specific work, position, and length of employment the foreign employee will undertake in Indonesia. The RPTKA now also serves as the basis for the MOM to grant visas and stay permits.

Types of RPTKA

There are four types of RPTKA categorized under MOM 8/2021.

RPTKA Categories	
RPTKA type	Validity
Temporary work (production quality control, filming work, installation of machines etc)	Valid for up to six months and cannot be extended
Employment for more than six months	Valid for up to two years with possibility for extension
Employment that does not require payment to the Foreign Worker Utilization Fund	Valid for up to two years with possibility for extension
Employment in special economic zones (SEZ)	Valid for five years with possibility for extensions; or The SEZ RPTKA for directors or commissioners can be granted for a period as needed by the employer

What is the process of hiring foreign workers in Indonesia?

It is the responsibility of the local company to apply for the RPTKA, which can be done through the online portal, under the Ministry of Manpower. The application is addressed to the Director of Foreign Manpower Utilization Management (Direktur Pengendalian Penggunaan Tenaga Kerja Asing). However, if the application is for less than 50 foreign workers – then the application is addressed to the Director-General of Manpower Placement Guidance and Expansion of Work Opportunity (Direktur Jenderal Pembinaan Penempatan Tenaga Kerja dan Perluasan Kesempatan Kerja).

Who can apply?

According to MOM 8/2021, employers that can employ foreign workers include:

- Government institutions, international bodies, and foreign state representatives;
- Foreign trade representatives, foreign news agencies conducting activities in Indonesia, and foreign representative offices;
- Foreign private companies conducting business in Indonesia;
- Legal entities such as private limited companies established in Indonesia;
- Social, religious, or cultural institutions;
- Entertainment management entities; and
- Other business entities are allowed to employ foreign workers.

RPTKA assessment

Once submitted, the MOM will conduct a feasibility study to see if the employer and prospective employee meet all the requirements. Employers are required to submit the following information:

- Identity of the employer;
- Reasons for utilizing a foreign worker;
- The position of the foreign worker within the company's organization structure;
- Number of foreign workers being employed;
- Contract length of the foreign employee;
- Working location of the foreign employee;
- Proof of mandatory employment reporting by the employer; and
- Statement letter affirming the following:
 - The designation of the Indonesian employee(s) assigned as a co-worker to the foreign employee;
 - The Indonesian employee(s) will receive training or education from the foreign employee in accordance with the position and qualifications of the foreign employee; and
 - Ensure the foreign worker returns to their home country once their work contract expires.
- Future plans to absorb Indonesian workers.

The results of this assessment will be issued in no more than two working days.

Personal information submission

The employer can submit the personal information and documents of the foreign worker after the RPTKA assessment or during the submission of the RPTKA documents. The personal information will be verified by the MOM within two working days.

RPTKA approval and payment

If the documents and information declared to the MOM are correct and complete, the MOM will issue a payment notification letter for the amount of US\$100 to the Foreign Workers Compensation Fund (Dana Kompensasi Penggunaan Tenaga Kerja Asing or DKP-TKA). This amount is to be paid to the MOM every month..

Once the employer has made the payment, the MOM will issue the RPTKA approval, and the data will be sent to the Ministry of Law and Human Rights, who will process the visa and stay permits. Payment of the DKP-TKA is waived for foreign state representatives, international bodies, religious institutions, social institutions, and certain positions in the education sector.

Annual reporting obligations

Employers must submit an annual report to the MOM that covers the scope of the foreign worker's employment, the education or training facilitated to Indonesian co-workers, and the types of technology transfer implemented..

RPTKA exemptions

There are RPTKA exemptions for foreign workers that are the members of the board of directors, members of the board of commissioners, diplomatic or consular staff, or are hired by the local employer in connection to emergency activities, vocational activities, or in connection to production activities of an Indonesian-based tech startup.

Specifically, for tech-based startups and vocational training activities, the RPTKA exemption lasts for no more than three months, after which the company must apply for RPTKA approval. This application must be submitted at least two weeks before the expiration of the period of employment of the foreign worker, as stated in the foreign worker employment statement letter, which is issued in place of an RPTKA approval.

The MOM will issue the IMTA, and the immigration office will issue a limited stay visa (VITAS). Upon arriving in Indonesia, the applicant must convert their VITAS into a limited stay permit Kartu Izin Tinggal Terbatas (KITAS).

Additional requirements to obtain a VITAS

Once a foreigner has received sponsorship to work in Indonesia, they can apply for a limited stay visa (Visa Tinggal Terbatas or 'VITAS'). After the VITAS is secured, their immigration status changes to a limited stay permit (ITAS), which requires an official stamp from an immigration office.

After the VITAS is secured, their immigration status changes to an ITAS, which requires an official stamp from an immigration office.

Once the ITAS is secured, the foreign worker can receive a KITAS, which will permit them to work in Indonesia for up to 12 months. This can then be extended when the expiry date approaches.

The additional requirements to obtain a VITAS are:

- A letter detailing the applicant is of good standing from the embassy or consulate of the foreigner's country of origin; and
- A health letter stating that the applicant is free from any contagious diseases.

Changes in the length of limited stay permits

Before the changes were implemented in regulation GR 48/2021 (issued in March 2021) and amended through GR 40/2023 (issued in August 2023), the limited stay permit (ITAS) was valid for a maximum of two years with the possibility to extend twice for two years each time. After six years, the foreigner must apply for a new ITAS.

ITAS is now valid for 10 years and in the event the permit is granted for less than 10 years, it can be extended to a maximum of 10 years. Any ITAS for work purposes that is valid for no more than 90 days can be extended up to a maximum of 180 days.

Further, expatriates who have obtained their ITAS at a designated port of entry, such as airports and ports, will not be required to apply for the ITAS at their local immigration office in Indonesia, as was previously stipulated. This should ease the burden on expatriates and provide added certainty.

Permanent stay visas

The permanent stay visa Kartu Izin Tinggal Tetap (KITAP) allows expatriates to permanently stay in Indonesia. To qualify for this visa, expatriate workers would need to have held a KITAS for four consecutive years, work in the same company, and having the same position.



As with other visas, applicants will need a local sponsor. In addition to their employer, this could also be their spouse (who must be Indonesian).

Conversion of stay permits

Foreigners can now convert their visit stay permit to an ITAS, or an ITAS to a permanent stay permit (KITAP), or permanent stay visa/permanent residence. The KITAP is valid for five years and is extended automatically if the status of the expat does not change.

Obtaining a KITAP means the foreigner is no longer required to make the annual trip to the immigration office, as in the case of KITAS/ITAS holders, and no more costly visa extensions.

Introduction of the second home category

The government has now allowed foreigners who treat Indonesia as a 'second home category' to be eligible to receive a VITAS. The applicant must show evidence that they have settled in Indonesia. Further requirements will be issued in upcoming government regulations.

Visa on arrival, social visit visas, and multiple-entry visas

Visa on arrivals is still valid for 30 days but can no longer be extended. Previously, this visa type could be extended for a further 30 days once it expired.

The single-entry visa, or the social visit visa, is issued to foreigner travelers entering Indonesia for short internship programs, volunteer programs, meeting family, sports activities, and social activities, among others. The length of this stay is for 180 days and with no extension possible. This visa type was previously valid for 60 days and could be extended four times with a maximum stay of six months.

Finally, foreigners applying for the multiple entry visa can be granted 180 days stay in Indonesia, which can be extended for a total stay of no more than one year.

New category for social visit visas

The government has added 'pre-investment' activities as one of the activities foreigners can undertake in Indonesia under a visit visa. This refers to foreigners looking to start a business in Indonesia, and undertaking feasibility studies, among others.

Previously, a letter from a guarantor in Indonesia was required as part of the application process. Under the latest changes, if the foreigner does not have a guarantor, then the guarantee letter can be replaced with proof of payment of an 'immigration guarantee' to the Directorate General of Immigration.

Guarantors of expatriates

The government has also provided an exemption for the requirement of a foreign worker in Indonesia to have a guarantor. Depending on their visa, foreigners needed a guarantor who was responsible for their activities in the country and report any change to their civil or immigration status to the authorities. This requirement was not required for foreigners legally married to Indonesians, foreign investors, or citizens of countries that also waived the guarantee requirements for Indonesians.

Foreign investors, foreigners who make Indonesia a second home, and foreigners engaged in pre-investment activities can now make an official payment to the Directorate General of Immigration, which will act as their immigration guarantee.

The payment will cover the cost of repatriation, deportation, or other immigration costs. If the immigration guarantee is not used during the foreigner's stay in Indonesia, the full amount will be paid back.

Second home visa

Indonesia has announced plans to issue second home visas, the first of its kind for the country, which will allow foreigners to stay for up to 10 years. Applicants must have a minimum of 2 billion rupiah (US\$133,000) as proof of funds, a passport that is valid for a minimum of 36 months, and a curriculum vitae.

Golden visa

Indonesia has introduced a 'golden visa' program to attract quality, high-net-worth individual and corporate foreign investors. Under this new visa scheme, foreign investors can receive a resident permit of between five and 10 years, depending on the value of their investment.

Individual investors must establish an Indonesian company worth US\$2.5 million to receive the five-year visa or a US\$5 million investment for the 10-year visa. Further, individuals who do not wish to establish a local entity can invest at least US\$350,000 into shares of a local public company, deposit or savings accounts, or Indonesian government bonds, to be eligible for the five-year visa, or US\$700,000 for 10 years.

Meanwhile, directors and commissioners of businesses can obtain a five-year visa if their company invests at least US\$25 million, or US\$50 million for the 10-year visa.

Minimum wage

Minimum wage is implemented through Government Regulation No. 36 of 2021 (GR 36/2021) and amended through Government Regulation 51 of 2023, which states that calculations for the monthly minimum wage are carried out by the provincial or district wage council.

The local government will determine the minimum wage based on economic and employment conditions. These comprise of the following variables:

- Purchasing power parity;
- Manpower absorption levels; and
- Median wage variables (the margin between the 50 percent of the highest wages and 50 percent from the lowest 50 percent of the lowest wages from employees in the same position).

These variables are assessed based on existing data from the last three years. In addition, the wage council will also consider economic growth or provision rate inflation, as well as the per capita consumption of working household members.

If the provincial, regional, or city minimum wage is currently higher than the sectoral minimum wage, then businesses will have to apply the provincial, regional, or city minimum wage.

Who does the minimum wage apply to?

The minimum wage applies to all workers with less than one year of working in the company. After one year, the employee is eligible to be paid in accordance with the scale of wages in the particular company, if they wish to do so.

Moreover, businesses are no longer permitted to postpone the payment of the minimum wage for their employees like before, unless they are classified as micro or small businesses.

Hourly wages for part-time workers

Part-time workers are now eligible for hourly wages — a first for Indonesia. Hourly wages are reserved for part-time workers only.

The formula for determining the hourly wage is as follows:

Hourly wage = Monthly wage/126



To calculate the daily wage:

Six working days/week

Daily wage = Monthly wage/25

Five working days/week

Daily wage = Monthly wage/21

Employers and employees may agree on wage arrangements, provided that the final salary is not lower than the amount calculated under the aforementioned formulas. The agreed wage structure must also be reported to the Ministry of Manpower.

Wages must be paid in Indonesian rupiah, or in the rupiah equivalent of a foreign currency. Any non-cash portion of remuneration may not exceed 25 percent of total wages.

Minimum wages for micro and small businesses

Micro and small enterprises are exempted from paying the provincial, regional, or city-level minimum wage. However, their workers should be paid at least 50 percent of the average public consumption or 25 percent above the poverty line at the provincial level.

Deductions

Any deductions made from an employee's salary must only be for one of the following:

- The payment of fines;
- Payment of damages caused by the employee (must not exceed 50 percent of the employee's monthly salary);
- Salaries paid upfront;
- Rent for property rented by the employer for the employee;
- Employee debts or installments to the employer; or
- Salary overpayment.

Sanctions

Employers who fail to pay their employees within the specified deadline can face a fine of five percent of the employees' wage, every day, starting from the fourth day after the deadline. If the wage is unpaid after the eighth day, the employer will be imposed an additional one percent of the employees' wage, per day.

Further, if an employer does not prepare a wage structure and wage scale for the employee, they can face the following sanctions:

- Written warning letters;
- Restriction on business activities;
- Temporary suspension of business; and/or
- Revocation of business license.

What are the new rates for 2025?

The following rates represent the minimum wage of each province in Indonesia. The rates in cities or districts are normally higher than the provincial minimum wage.

Indonesia Minimum Wage 2026	
Province	Monthly Minimum Wage
Aceh	3,685,615 (US\$218)
North Sumatra	3,228,701 (US\$191)
West Sumatra	3,214,846 (US\$190)
Riau	3,508,775 (US\$208)
Riau Islands	3,879,520 (US\$229)
Jambi	3,471,497 (US\$205)
South Sumatra	3,942,963 (US\$233)
Bangka Belitung	4,035,000 (US\$239)
Bengkulu	2,827,250 (US\$167)
Lampung	3,047,734 (US\$180)
Banten	3,100,881 (US\$183)
DKI Jakarta	5,729,876 (US\$339)
West Java	2,317,601 (US\$137)
Central Java	2,317,386 (US\$137)
Special Region of Yogyakarta	2,417,495 (US\$143)
East Java	2,446,880 (US\$145)
Bali	3,207,459 (US\$190)
West Nusa Tenggara	2,673,861 (US\$158)

Indonesia Minimum Wage 2026	
Province	Monthly Minimum Wage
East Nusa Tenggara	2,455,898 (US\$145)
West Kalimantan	3,054,552 (US\$181)
South Kalimantan	3,686,138 (US\$218)
Central Kalimantan	3,686,138 (US\$218)
East Kalimantan	3,759,313 (US\$223)
North Kalimantan	3,770,000 (US\$223)
Maluku	3,334,499 (US\$197)
North Maluku	3,552,840 (US\$210)
Gorontalo	3,405,144 (US\$201)
North Sulawesi	4,002,630 (US\$237)
Southeast Sulawesi	3,306,496 (US\$196)
Central Sulawesi	3,179,565 (US\$188)
South Sulawesi	3,921,088 (US\$232)
West Sulawesi	3,315,935 (US\$196)
Papua	4,436,283 (US\$262)
West Papua	3,840,947 (US\$227)
Central Papua	4,295,848 (US\$254)
Highland Papua	4,285,847 (US\$254)
South Papua	4,508,850 (US\$267)
Southwest Papua	3,766,000 (US\$223)

Social insurance

Indonesia's social security programs are run by two organizations – the Social Security Administrator for Health (BPJS Kesehatan) and the Workers Social Security (BPJS Ketenagakerjaan) for pensions. The country launched its universal healthcare and pension programs in 2014, mandating every citizen and expatriate to join.



Registered Indonesians and expatriates are eligible for free health services ranging from dental care to medicines to physiotherapy. Further, patients are also eligible for free emergency and chronic care, in addition to organ transplants. Expat employees must also enroll their families in the programs.

Classification of healthcare class facilities

The BPJS healthcare system is divided into three classes. This does not determine the level of treatment a patient receives, but it does determine the type of hospital room they will be given. Hospital rooms in Indonesia come with varying levels of comfort and size.

Class I patients are provided rooms with two to four other patients while class II patients have to share with three to five others. Class III patients will have to share with five to six patients.

How to calculate the healthcare premiums for employees?

The premium for employees is calculated as five percent of the monthly salary, with a salary cap of IDR 12 million (US\$712).

In the private sector, the employer must pay four percent and the employee the remaining one percent. For civil servants, the government contributes to three percent while the employee contributes two percent. In addition to the employee, the premium also covers their spouse and up to three dependent children up to the age of 21.

Employees earning less than IDR 4 million (US\$237) per month are eligible to receive Class I room facilities at the hospitals. Employees earning lower than this can receive Class II and III room facilities.

How to calculate the healthcare premiums for non-employees

The new premiums for individuals that are classified as non-employees/self-employed /non-formal workers is as follows:

- Class I – 100,000 rupiah (US\$5.93) per person, per month;
- Class II – 150,000 rupiah (US\$8.90) per person, per month; and
- Class III – 35,000 rupiah (US\$2.07) per person, per month (for this specific class, the government will pay 7,000 rupiah (US\$0.44) of the total amount, per person, per month)

How do you calculate pension premiums for employees?

Indonesia's social security program for workers covers the following areas:

- **Accident compensation (JKK):** Provides protection for accidents occurring during or as a result of work.
- **Old age benefits (JHT):** Offers protection for participants entering retirement or who have been laid off.
- **Pension benefits (JP):** Provides guaranteed income during retirement.
- **Life insurance (JKM):** Upon the death of a participant, their heirs are entitled to claim the benefits.

In addition, under Government Regulation No. 37 of 2021, Indonesia introduced the Job Loss Guarantee (Jaminan Kehilangan Pekerjaan or JKP) program, the country's first unemployment benefit scheme. The program was significantly updated in 2025 through Government Regulation No. 6 of 2025.

The JKP program is available only to employees registered with the Workers Social Security program (BPJS Ketenagakerjaan). Employers are responsible for enrolling any new employees into the program. Eligible employees who are laid off can receive monthly stipends for up to six months, skills training, and career counseling services.

Contribution rates and funding structure:

- As of 2025, the total JKP contribution has been reduced from 0.46 percent to 0.36 percent of monthly wages.
- Contributions are fully sourced from the employer and the government; employees do not contribute.
- The 0.36 percent contribution is funded as follows:
 - » 0.22 percent is paid by the central government.
 - » 0.14 percent is reallocated from the employer's contributions to the Work Accident Insurance (JKK) program.

Benefit updates under the 2025 revisions:

- Eligible employees will receive 60 percent of their last drawn salary, capped at a maximum salary of IDR 5 million (US\$302).
- The maximum payout is IDR 3 million per month (US\$181).
- Benefits are provided for a maximum of six months.
- Beneficiaries now have six months after termination to submit their claims, extended from the previous three months.



RELATED SERVICES

For end-to-end HR and payroll support in Indonesia, contact Dezan Shira at Indonesia@dezshira.com.

EXPLORE MORE

- Contract workers (PKWT) who are terminated before the end of their contract are now explicitly eligible for JKP benefits.
- In cases where the employer becomes bankrupt or insolvent, BPJS Ketenagakerjaan will continue paying JKP benefits directly to affected employees, although employers remain liable for any unpaid contributions or penalties.

Expanded support services:

- JKP beneficiaries can now access enhanced training programs, including certified courses.
- Integration with digital job market platforms has been introduced to help workers find new employment opportunities faster.

Other adjustments under GR 37/2021:

- The employer's contribution to life insurance (JKM) was reduced by 0.1 percent, from 0.3 percent to 0.2 percent of the employee's monthly wage.
- The employer's contribution to accident compensation (JKK) was reduced by 0.14 percent, adjusting the range to 0.10–1.60 percent depending on the company's risk level.

Areas Covered	Employer Contributions	Employee Contributions	Notes
Life insurance	0.3%	-	No recent changes
Accident Insurance	0.24-1.74%	-	No recent changes
Old age benefits (JHT)	3.7%	2%	No recent changes
Pension plan (JP)	2%	1%	No recent changes
Job Loss Guarantee (JKP)	0.36%	-	0.36% (April 2025 update)

Sanctions for employers

Employers who fail to register their employees to the program must pay cash compensation to the employee as a lump sum in addition to providing job training.

Accident insurance and life insurance

Participants of the accident insurance and life insurance programs are divided into three categories:

- Salary recipient participants who work for state administrators;
- Salary recipient participants who work for employers other than state administrators; and
- Participants who are not salary recipients.

Salary recipient participants are employees who receive a monthly salary and include employees in the public and private sectors. Salary recipient participants who work for state administrators are civil servants, government employees, members of the armed forces, state officials, as well as members of the police force.

Non-salary recipient participants are individuals, entrepreneurs, companies, and other entities that hire employees.

Accident Insurance Premium		
Risk level	Employees not registered in JLS program	Employees registered in JLS program
Very low risk	0.24% of monthly salary	0.10% of monthly salary
Low risk	0.54% of monthly salary	0.40% of monthly salary
Medium risk	0.89% of monthly salary	0.75% of monthly salary
High risk	1.27% of monthly salary	1.13% of monthly salary
Very high risk	1.74% of monthly salary	1.60% of monthly salary

Religious holiday allowances

The payment of the religious holiday allowance (Tunjangan Hari Raya – THR) by employers to their employees is mandatory in Indonesia. This is in accordance with the Ministry of Manpower's Regulation No. 6 of 2016 (Reg 6).

What is THR?

The THR is a yearly bonus given to employees at least one week before the start of the religious holiday observed by the employee (based on the employee's religion), equivalent to one month's salary (based on the period of employment). The recognized religious holidays for THR payment are:

- Eid-il-Fitri for Muslims;
- Christmas for Catholics and Protestants (considered as two different religions in Indonesia);
- Nyepi for Hindus;
- Vesak for Buddhists; and
- Chinese New Year for Confucianism.

The practice of many businesses in the country has been to pay the THR of non-Muslim employees prior to the Christmas holidays, and those of Muslim employees before the Eid-il-Fitri break.

Who is eligible to receive THR and how is it calculated?

All employees, whether permanent or contract-based are eligible for THR and it must be paid using Indonesian rupiah.

The amount paid is based on the employees' service period. For employees working for more than 12 continuous months, they are entitled to THR equivalent to one month's salary.

For employees who have served one month or more but less than 12 months, the THR is calculated on a pro-rata basis using the following formula:

$(\text{Service period}/12) \times 1 \text{ month's salary}$

Freelance workers are also entitled to THR. Those working for more than 12 continuous months must receive the equivalent of one month's salary, which is calculated on the average salary they received throughout this period.

For those working more than one month and less than 12 months, the THR is calculated based on the average monthly salary throughout the employment period.



Fines for non-compliance

The regulation reiterates that businesses who fail to pay the THR will be fined five percent of the THR amount, which will be used for the employees' welfare. Further, this sanction does not waive the employer's obligation to pay the THR.

In addition to financial sanctions, employers will be subject to administrative sanctions for failure to pay the THR. These are:

- Restriction of business activities;
- Permanent or temporary suspension of production facilities; or
- Suspension of business activities.

Audit and Compliance

Indonesia does not have a single, consolidated regulation governing auditing and compliance. Instead, the requirements for auditing, accounting, and financial reporting are dispersed across multiple laws and implementing regulations. For foreign investors, understanding how these rules intersect is essential to maintaining compliance.

In practice, the primary reference point is the Company Law, which sets out when statutory audits are mandatory and outlines the accounting standards that companies must follow when preparing their financial statements. A strong grasp of these obligations helps foreign businesses ensure they remain compliant as they operate in Indonesia.

Auditing and compliance requirements

The Investment Law lays out the basic requirements on how to operate in Indonesia. These are part of key compliance norms:

- Implementing good corporate governance;
- Undertake corporate social responsibility activities;
- Comply with the labor law;
- Submit quarterly investment activities to the Investment Coordinating Board (BKPM); and
- Honor the cultural traditions of communities.

The Company Law mandates that financial statements of a limited liability company must be audited by a public accountant registered in Indonesia if they meet at least one of the following criteria:

- Companies with assets exceeding 50 billion rupiah (US\$2.96 million);
- Public companies;
- Companies that issue debt instruments;
- Certain types of state-owned enterprises; or
- The company collects or manages public funds (such as banks and insurance companies).

By law, a company must keep its accounting records and books for at least 10 years from the end of its reporting period.

Public companies

Under the Capital Markets Law, foreign companies are allowed to be listed in the country's bourse.

Their prospectus, however, must first be audited by an auditing firm that is recognized by the country's Financial Services Authority (OJK), the main regulator of Indonesia's financial services sector.

The annual financial statement must be submitted to the OJK and announced to the public by no later than the end of the third month from the date of the annual financial statement.

The submission of periodic financial statements must be conducted through the electronic reporting system of the OJK.

Public companies must also establish internal audit committees, an internal audit unit, and a company secretary. The audit committee supports the board of commissioners to ensure the effectiveness and integrity of a company's financial statements and internal controls.

Auditor independence

Indonesian Auditing Standards require that the auditor must be a registered and independent public accountant as stipulated by the Ministry of Finance (MOF). They must avoid all potential conflicts of interests and adhere to MOF regulations.

The Indonesia Financial Services Authority stipulates the mandatory rotation of the public accountant every three years with a two-year cooling period. This only applies to the public accountant and not the public accountant firm.

One-month rule

Taxpayers undergoing an audit must furnish the documents and information requested by tax auditors within one month of the request date. Failure to comply within this timeframe may lead the Directorate General of Taxes (DGT) to assess tax liabilities based on deemed profits. Any documents or information not provided within the specified period cannot later be utilized by the taxpayer to contest the assessed tax amount.

Following the conclusion of a tax audit, the taxpayer will receive a written notification detailing the audit findings from the tax auditors. In the event of disagreement, the taxpayer must respond in writing. Subsequently, during the closing conference discussion, the taxpayer can reaffirm its stance regarding the tax audit corrections and provide pertinent supporting documents.

If there remains a dispute regarding the legal basis of an adjustment during the discussion of the tax audit findings, the taxpayer has the option to request a discussion with the Quality Tax Audits and Tax Assessments Assurance Team (QAT). This team is appointed either by the Regional Tax Office or the Directorate of Tax Audit and Collection.

Fiscal year

The annual deadline for reporting and paying corporate income tax is April 3. If a company's fiscal year begins from January 1, then the deadline is December 30. If a company's fiscal year differs from the calendar year, then their deadline is four months after the end of their fiscal year.

Accounting standards

Audits are to be conducted based on the Indonesian Financial Accounting Standards (SAK), which are set by the Financial Accounting Standards Board (DSAK IAI) and the Indonesian Sharia Accounting Standards Board (DSAS IAI), for sharia-based companies.

Since 2015, the DSAK IAI has converged its accounting standards with that of the International Financial Reporting Standards (IFRS), issued by the IFRS Foundation and the International Accounting Standards Board (IASB). Current harmonization revolves around the chronological adoption of past IFRS with emphasis on closing the gap between Indonesia's adoption status and the most up to date international standards.

Currently SAK is broken down into two tiers:

- Tier 1 –SAK: applies to listed companies and other entities with significant public accountability; and
- Tier 2 – SAK ETAP: applies to entities with low public accountability. Tier 2 SAK ETAP was developed with IFRS for SE (small entities) as its point of reference.

This is part of Indonesia's efforts to make local financial statements more comparable and understandable across international boundaries as the country aims to attract greater foreign investment and play a more prominent role within the G20.

Annual reports

All registered company's annual financial statements are to be submitted to a regional tax office once a year. Financial statements consist of the following:

- Balance sheet;
- Cash flows;
- Profit and loss statement; and
- Statement of changes in equity.



Financial statements are required to provide both the current and previous year's figures and need to be presented on a comparative basis.

Periodic financial statements must be presented in the Indonesian language and a foreign language. The obligation to use foreign languages does not apply to small- and medium-sized enterprises. Periodic financial statements that utilize foreign languages must contain the same information as the periodic financial statements that use the Indonesian language.

If there is a difference in the interpretation of information presented in foreign languages with those presented in the Indonesian language, the information in the Indonesian language shall be used as a reference.

The accounting books must also use the rupiah as its currency. Companies will need to seek permission from the tax authorities for the use of the US dollar, the only other eligible functional currency. This must be done no later than three months before the start of the accounting year.

Penalties for non-compliance

Companies that fail to comply with Indonesia's audit and tax requirements can expect to receive monthly interest penalties starting from two percent and up to 48 percent. Furthermore, issuing false tax and accounting documents can also result in imprisonment.

Mandatory annual legal audits

Indonesia is introducing significant changes to its auditing and compliance landscape for 2025, designed to strengthen governance, accountability, and transparency across sectors. These updates focus on mandatory legal audits and the implementation of global internal audit standards, alongside other compliance initiatives.

Key features of mandatory legal audits

- **Certified legal auditors:** All entities must appoint certified legal auditors to conduct the audits.
- **Comprehensive process:** The audit involves planning, data collection, assessment, and reporting.
- **Regulatory oversight:** Reports must be submitted to the Minister of Law and relevant authorities, with required follow-up actions based on the findings.
- **Sanctions for non-compliance:** Businesses failing to conduct or report audits could face penalties.

This regulation seeks to establish a robust legal compliance framework, encouraging businesses to maintain governance standards and mitigate legal risks.

Implementation of Global Internal Audit Standards

Effective January 2025, Indonesia has adopted the new Global Internal Audit Standards (GIAS), marking a significant enhancement in internal audit practices across public and private sectors.

What the GIAS framework includes:

- **Structure:** Five domains, 15 guiding principles, and 52 specific standards.
- **Focus areas:** Governance, risk management, and compliance (GRC) frameworks.
- **Objective:** Elevating the quality and consistency of internal audits to align with international standards.

The implementation of GIAS underscores Indonesia's commitment to strengthening accountability and internal controls, benefiting organizations and stakeholders alike.

Enhanced compliance framework

The mandatory audits and GIAS adoption are part of Indonesia's broader efforts to foster a compliance-oriented culture. Key anticipated outcomes include:

- Improved transparency in corporate governance
- Mitigation of legal risks for businesses
- Enhanced business valuations and investor confidence

Integrated risk-based audit by the BPK

Complementing these initiatives, the Audit Board of the Republic of Indonesia (BPK) will introduce an integrated risk-based audit strategy for state-owned enterprises (BUMN). This approach emphasizes:

- Analyzing work plans and budgets
- Conducting pre-audit data analysis to identify anomalies
- Examining financial ratios and management policies for actionable recommendations

Transfer pricing

Transfer pricing rules in Indonesia apply to transactions between companies within the same group, such as subsidiaries, or with other "related" parties. Parties are considered related where:

- One party directly or indirectly controls the other (for example, a head office and its branch); or
- Both parties are controlled by the same person or entity (for example, multiple subsidiaries owned by a single parent company).

Such relationships may give rise to preferential pricing, potentially resulting in profit shifting and underpayment of taxes.

- A taxpayer owns, directly or indirectly, at least 25 percent of another taxpayer's capital;
- A taxpayer holds at least 25 percent ownership in two or more taxpayers;
- There is a family relationship through marriage or blood; or
- There is participation in management or technology, even in the absence of ownership.

The arm's length principle

Indonesia endorses the arm's length principle as the standard guide to transfer pricing. Under this principle, profits are taxed on where the profits are generated and where the real economic activities have occurred.

TP documentation

Indonesia issued Regulation No. 213/PMK.03/2016 (PMK 213) in 2016, introducing a three-tiered system for transfer pricing documentation.

The three-tiered system consists of the following documents:

- A master file, that consists of the standardized information related to the business group;
 - » Structure and ownership of each member of the group;
 - » Any intangible assets owned by the group;
 - » The business activities of the group; and
 - » Consolidated financial statements;
- A local file, that consists of information specifically related to the transactions of the local taxpayer;
 - » Business identity and activities of the taxpayer;
 - » The related party transaction information;
 - » Determination of the arm's length principle;
 - » The taxpayers' financial information;
 - » Non-Financial Events/Incidents Influencing Pricing or Profit Levels; and
 - » A country-by-country report (CbC), which relates to the global allocation of the group's income and taxes.



Master and local file documentation obligations are imposed on taxpayers who, apart from having related-party transactions, must meet the following criteria:

- Have gross revenue of more than 50 billion rupiah (US\$2.96 million) for the previous fiscal year;
- Taxpayers that conduct related-party transactions exceeding 20 billion rupiah (US\$1.18 million) in the previous fiscal year;
- Taxpayers that conduct related-party transactions exceeding five billion rupiah (US\$296,528) pertaining to services, interest payments, or intangible goods; or
- Taxpayers that conduct transactions with related parties located in a jurisdiction with a lower income tax rate than Indonesia.

The CbC reporting obligations are imposed on taxpayers that fulfill the following criteria:

- Taxpayers that are considered the parent entity of a group with consolidated gross revenue of 11 trillion rupiah (US\$757 million); or
- Taxpayers that are not parent entities but are members of entities of a group with an ultimate parent entity that is a tax resident in a country that;
 - » Does not have an exchange of information agreement with Indonesia;
 - » Does not make CbC reports available to the Indonesian tax authorities; or
 - » Do not impose obligations to file CbC reports.

Selection of transfer pricing methods

There are five transfer pricing methods for tangible or intangible transactions in Indonesia. These are:

- The comparable uncontrolled price (CUP) method;
- The cost-plus method;
- The resale price method;
- The profit split method; and
- The transactional net margin method (TNMM).

The CUP method is the most favored method used by Indonesia's Directorate General of Taxes (DGT), such as for royalty and interest payments. If the CUP method is not applicable, then the Indonesian tax authorities will apply the TNMM method.

Advance pricing agreement

An APA is designed to prevent transfer pricing disputes before they arise. By agreeing in advance on pricing methods, comparables, and assumptions, both the taxpayer and the tax authority reduce uncertainty and future litigation risk.



For multinational enterprises operating in Indonesia, this is primarily a risk-management instrument rather than a tax-minimization tool.

Types of APA

Unilateral APA

Concluded solely between the taxpayer and the Indonesian DGT. It provides domestic certainty but does not automatically eliminate the risk of double taxation in another jurisdiction.

Bilateral or multilateral APA

Involves the Indonesian DGT and one or more foreign tax authorities under applicable tax treaties. These arrangements are coordinated through mutual agreement procedures and are designed specifically to prevent cross-border double taxation.

Term and rollback

An APA typically covers a prospective three-year period.

Indonesia also allows rollback to prior fiscal years, provided those years are not already under audit, investigation, or dispute. This can be strategically important where historical exposure exists but has not yet crystallized into an audit.

Application process and timeline

The APA process requires extensive submission of documentation, including:

- Functional and risk analysis
- Economic benchmarking studies
- Financial projections
- Critical assumptions

Under PP 55/2022, the statutory processing timeframe is:

- Up to 22 months for unilateral APAs
- Up to 24 months for bilateral APAs

Actual timelines may vary depending on complexity and cross-border coordination.



Ongoing compliance

Taxpayers must submit annual compliance reports within four months after the end of each fiscal year covered by the APA. These reports confirm that critical assumptions and agreed methodologies remain valid.

Failure to comply can result in cancellation.

Renewal

Renewal applications must be submitted during the final fiscal year of the existing APA term. Early planning is essential to avoid coverage gaps.

Strategic benefits of an APA in Indonesia

No government application fees

Indonesia does not charge official filing fees for APA applications. While advisory costs may be significant due to documentation and benchmarking requirements, there is no administrative fee imposed by the tax authority.

Reduced audit and adjustment risk

An approved APA substantially reduces the likelihood of transfer pricing adjustments for covered transactions. This lowers exposure to penalties, interest, and reputational risk.

Certainty for financial planning

An APA provides predictable taxable income treatment, improving budgeting, forecasting, and group reporting accuracy. For capital-intensive or long-term projects, this certainty can materially affect investment decisions.

Double taxation protection (for Bilateral APAs)

Where bilateral or multilateral APAs are secured, exposure to cross-border double taxation is significantly reduced, as both jurisdictions agree on the methodology in advance.

When an APA makes strategic sense

An APA is generally appropriate where:

- Intercompany transactions are material in value
- The business model involves complex intangibles or financing
- Audit activity is increasing
- The group seeks long-term tax certainty in Indonesia

For low-risk or low-value transactions, the administrative burden may outweigh the benefits.

Tax collection through a distress warrant

If a taxpayer fails to pay a legally mandated tax collection instrument within the specified timeframe, the Directorate General of Taxes (DGT) is empowered to issue a Distress Warrant (Surat Paksa). These instruments encompass various documents such as Tax Collection Letters (Surat Tagihan Pajak/STP), Overpaid Tax Assessment Letter (Surat Ketetapan Pajak Lebih Bayar/SKPLB), (Surat Ketetapan Pajak Kurang Bayar/SKPKB), Tax Objection Decision Letters, Tax Court Decisions, and Correction Decision Letters, all of which may require additional payments from the taxpayer.

The taxpayer in question is obligated to settle any underpaid tax specified in the tax collection instrument within one month of its issuance. Failure to do so incurs an interest penalty, calculated based on the applicable monthly Ministry of Finance Interest Rate, for a maximum period of 24 months.

If the underpaid tax remains outstanding beyond the specified timeframe, the DGT may proceed with the following steps as part of executing the Distress Warrant:

- Issuance of a Warning Letter (Surat Teguran) if the underpaid tax is not resolved within seven days of the due date.
- Issuance of a Distress Warrant if the underpaid tax remains unsettled within 21 days of the Warning Letter issuance.
- Implementation of a Confiscation Order (Surat Sita) if the underpaid tax is not resolved within 48 hours of the Distress Warrant issuance.
- Publication of an auction announcement regarding the confiscated assets if the underpaid tax persists beyond 14 days from the Confiscation Order issuance.
- Conduct of a public auction within 14 days of the auction announcement.

Tax disputes

Tax disputes between taxpayers and the DGT typically stem from disagreements arising after the issuance of an SKP by the DGT, which the taxpayer contests. Legal tax collection instruments such as an SKPKB, an SKPKBT, and an STP serve as the basis for the DGT to issue a Distress Warrant if the taxpayer fails to settle the underpaid tax promptly.



There are several avenues available to address such tax disputes:

Objections

A taxpayer dissenting with an SKP can lodge an Objection with the DGT within three months from the SKP's date of issue. The Objection must outline the taxpayer's calculated tax amount and provide reasons for disputing the DGT's tax assessment.

The DGT is obligated to render a decision on the tax Objection within 12 months of its filing date. Failure by the DGT to issue a decision within this timeframe automatically results in the Objection being deemed approved by the DGT.

Appeals

If the DGT rejects the Objection, any underpayment incurs a surcharge of 30 percent. However, if the taxpayer lodges an Appeal with the Tax Court regarding the Objection Decision, neither the underpaid tax nor the surcharge are payable.

Additionally, taxpayers have the option to file an Objection with the DGT office concerning tax withheld by a third party, subject to the same time limits for filing and the DGT's decision. Regarding Appeals, if a taxpayer disagrees with the DGT's Objection Decision, they can submit an Appeal to the Tax Court within three months of receiving the DGT's decision. According to the Tax Court Law, at least 50 percent of the tax due must be settled before filing the Appeal if the DGT's decision calls for a tax payment.

The Tax Court typically renders a decision on appeals within 12 months. Any underpaid tax resulting from the Tax Court's decision is subject to a surcharge of 60 percent.



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

Are you making changes to your operations in Asia?
Get started by speaking to our professionals today

Accounting | Audit and Financial Review | Business Advisory | Business Intelligence
China Outbound | Corporate Establishment | Government and Economic Development
HR and Payroll | Mergers and Acquisitions | Risk Management and ESG | Tax | Technology

Our Offices in ASEAN

VIETNAM

Ho Chi Minh City
hcmc@dezshira.com

Hanoi
hanoi@dezshira.com

Da Nang
danang@dezshira.com

INDONESIA

Jakarta
indonesia@dezshira.com

SINGAPORE
singapore@dezshira.com

MALAYSIA
malaysia@dezshira.com

Our Alliance Members in ASEAN

THAILAND

thailand@dezshira.com

CAMBODIA

cambodia@dezshira.com

THE PHILIPPINES

philippines@dezshira.com

China · Hong Kong SAR · Australia · Bangladesh · Cambodia · Dubai UAE · Germany · India · Indonesia · Italy · Japan
Malaysia · Mongolia · Nepal · Singapore · South Korea · Sri Lanka · Thailand · The Philippines · United States · Vietnam

