DOING BUSINESS IN INDONESIA

PREFACE

The Company's operation may be adversely impacted by the outbreak of Covid-19. The adverse effects of Covid-19 to the global and Indonesia economy includes negative effect to economic growth, decline in capital markets, increase in credit risk, depreciation of foreign currency exchange rates and disruption of business operation. The future effects of the outbreak of Covid-19 to Indonesia and the Company are unclear at this time. A significant rise in the number of Covid-19 infections or prolongation of the outbreak could have severe affect to Indonesia and the Company. However, future effects will also depend on the effectiveness of policy responses issued by the Government of the Republic of Indonesia in response to the pandemic.

Investment in Indonesian presents a broad overview of the economic and social background of the country together with discussions on taxation and investment. It provides a guide to those contemplating doing business in Indonesia as it reviews the opportunities for and conditions under which foreign investment may be made in Indonesian.

The information set out in this publication is by no means exhaustive. Potential investors and other readers are therefore advised to seek professional advice before taking investment decisions concerning in Indonesian.

LATEST COVID-19

Development and Responses

The government imposed its first social distancing measures. Less than a month later, the government eased these restrictions and shifted into a transition mode. In hindsight, the government's decision to ease social distancing rules was premature and the number of daily new cases spiked further thereafter

As the hospitals started to fill up and with health front-liners working overtime, the government reverted back to its social distancing measure with an added emphasis on wearing masks and associated fines. However, there was a brief drop in daily confirmed cases, the government moved back to a new transition mode with stricter and more detailed guidelines.

It should be expected that due to the COVID-19 outbreak, sales in most industries will decline and lead to cash flow and debt covenant issues. On the other hand, since stay at home is enforced now, it will potentially change customer behaviour. This forces companies with limited or no online channels to struggle to keep their business running. Countermeasures have to be applied and sales strategy should be revisited. Companies should also cope with changes in customer behaviour.

On The Economy

The external account saw a notable decline in Foreign Direct Investment (FDI), which was worsened by portfolio investment outflow, However, this was soon offset with sizable trade surpluses, causing a positive drop in the Current Account Deficit supported by a low inflation environment, moved to cut its policy rate stagnant.

The economy has been seriously hampered by the COVID-19 outbreak, especially by disruptions of global supply chains. Hard information is lacking; concerns are mounting over depleting stock; and companies fear they won't meet contractual obligations on time. Exporters and Importers will be among the hardest hit as the local currency has plummeted, and increased the cost of loan repayments, particularly foreign currency loans. To anticipate business risks, the Government team has a primary role in preparing contingency plans for liquidity and financial market shocks.

Fiscal and Monetary Response

The Government made sure that sufficient funds were available to fund the government's stimulus programme. The receipts will be spent on social protection and for stimulating demand, to revive the economy. However, there were the usual problems with prompt spending of the government budget. Disbursements for the health and business sectors only started to accelerate, with the government needing time to learn and work. Only social spending went relatively well; this did not involve new or additional bureaucracy, and so could meet realization targets.

Companies around the world face the challenge of disrupted supply chains, which potentially cause shortages in stocks and inventories, making it difficult to meet customer demands. It is evident through the crisis regarding shortage of medical supplies – this has become a critical issue in which everyone must work together to overcome. On the other hand, there are some companies with pre-existing high levels of purchase commitments which are now facing a slow down in sales which leads to cash flow issues. Companies have to revisit supply chain strategies, including identification of alternate suppliers of cutting some unnecessary costs.

Financial Market

First and foremost, organizations must protect their people. Organizations have to quickly identify whether or not there are employees affected, any report of sickness or suspected symptoms, provide protocols for working from home.

System availability is critical at this point, since enabling a work from home arrangement is a must. Staff on-site support should also be limited to prevent the emerging outbreak. Shift arrangements have to be made while ensuring support availability for smooth system-based business operations.

Technology should be utilised more since digital platforms help ensure business are able to keep running without physical attendance at on-site offices.

SETTING UP A COMPANY

Foreign Capital Investment (FCI)

The common type of presence for a foreign investor who wants to invest and engage in business in Indonesia is by establishing an incorporated limited liability company, commonly known as a Foreign Capital Investment company. There must be two parties holding shares in a FCI company. These can be a legal entity or an individual.

The shareholders must also appoint at least one director and one commissioner of the company. The director serves as management of the company and has he authority to represent the company, while the commissioner supervises and provides advice to the director.

An exception applies to representative offices of foreign companies engaged in construction services. This type of representative office is allowed to deliver construction services in Indonesia under a joint operation with a local construction company. A branch office is generally not allowed, except for the banking sector.

Other types of presence for conducting business in Indonesia include Production Sharing Contract with the government. This is common in the oil and gas mining.

INDONESIA TAXATION

Resident taxpayers have to settle their tax liabilities by direct payments, third-party withholdings, or a combination of both. Foreign companies in Indonesia have to settle their tax liabilities for their Indonesian-sourced income through withholding of the tax by the Indonesian party paying the income.

Tax rate for corporate

On March 31, 2020 the Government issued a Government Regulation in lieu of the Law of the Republic of Indonesia Number 1 Year 2020 which stipulates, among others, reduction to the tax rates for corporate income tax payers and permanent establishments entities from previously 25% to become 22% for fiscal years 2020 and 2021 and 20% starting fiscal year 2022 and onwards.

The normal tax period is January to December. If corporate taxpayers would like to use a different tax period, they would have to obtain an approval from the Director General of Tax (Directorate General of Taxation) and then maintain the approved tax period consistently. Branch (or Permanent Establishment Company) profits are subject to the same corporate tax rate, but the after-tax profits are subject to withholding tax, regardless of whether the profits are remitted to the home country. However, a reduced withholding tax rate may be applicable where a tax treaty is in force.

The Directorate General of Taxation, on behalf of the Minister of Finance and based on the recommendation of the Investment Coordinating Board Chairman, may provide tax concessions to Indonesian Limited Liability companies following their investment in certain designated business area or in certain designated regions.

Taxable business profits are calculated on the basis of normal accounting principles as modified by certain tax adjustments. Deduction is allowed for all expenditure incurred to obtain, collect, and maintain taxable business profits. A timing difference may arise if an expenditure recorded as an expense for accounting cannot be immediately claimed as a deduction for tax.

Transfer Pricing

Transaction between related parties must be dealt with consistently using the arm's length transaction. If the arm's length principle is not allowed, the Directorate General of Taxation is authorized to recalculate the taxable income or deductible costs arising from such transactions applying the arm's length principle.

Value Added Tax (VAT)

With a few exceptions, VAT is applicable on deliveries (sales) of goods and services within Indonesia at a rate of 10%. VAT on export of goods is zero-rated while the import of goods is subject to VAT at rate of 10%. Zero-rated VAT is also applicable on exported services, but subject to Ministry of Finance limitation. Currently, only certain exported services, are subject to the 0% VAT rate.

In addition to the VAT, some goods are subject to Luxury-goods Sales Tax upon import or delivery by the manufacturer to another party at rates ranging from 10% to 200%.

ACCOUNTANCY

The financial statements of a company must comply with the requirement. In addition, they must comply with the Statements of Accounting Standards issued from time to time by the Indonesian Accounting Standard Board. These accounting standards in content, form and style are broadly similar and consistent with those issued by the International Accounting Standards Committee.

Accounting Period

Business entities generally use the 1 January to 31 December calendar year as their accounting year. For tax purposes the fiscal year in the most cases is also the calendar year; however, companies are allowed to choose a fiscal year that does not start on 1 January.

Bookkeeping Currency

Accounting books and financial statements are prepared using the company's functional currency. An entity may present financial statements using a currency other than its functional currency. Functional currency is the currency of the primary economic environment in which an entity operates; this is usually the currency in which sales prices or costs for the company's goods and services are denominated and settled.

For most business entities in Indonesia, the functional currency is generally the Indonesian Rupiah; however, there are a number of companies whose functional currency is a currency other than Rupiah. For tax purposes, the prevailing tax regulation in Indonesia only allows a company to use US Dollar currency, as an alternative to Rupiah, in its accounting books. The company should obtain approval from the tax authority before it is eligible to use US Dollar currency in its accounting.

By law, all accounting books, records and financial statements should be prepared using the Indonesian language. A company is allowed to use other languages only after obtaining permissions from the Ministry of Finance.

Business entities must apply the accrual basis, the effects of transactions are recognized when they occur (which is not necessarily the same as when cash is received or paid) and when certain criteria for recognizing and measuring those transactions are met.

Companies are required to maintain accounting records and prepare annual financial statements in accordance with Financial Accounting Standards issued by Indonesia's accounting standards-setting body, the Indonesian Financial Accounting Standards Board. They must keep journals and ledgers as well as appropriate memorandum records. Entities that have no public accountability are allowed to adopt Financial Accounting Standards for Entities that have no Public Accountability, which is simpler than the full of Financial Accounting Standards.

AUDIT REQUIREMENT

Statutory audit by a qualified auditor is mandatory for the following types of entities, which are required to submit their annual financial statements to the Ministry of Trade: Audit are conducted based on auditing standards promulgated by the Indonesian Institute of Certified Public Accountants. Auditing standards is from International Standards on Auditing.

Public companies are required to submit to the capital market regulator, audited annual financial statements within three months after the end of the annual financial statements period. For interim financial statements, the submission to authority should be conducted within one month after the date of the interim financial statements if not audited; within two months if statements are reviewed, and within three months if the statements are audited.

There has been a decline in Rupiah currency exchange rates which contributed by the impact of Covid-19. However, specific impact to the business, earnings, recoverability of assets and liabilities are difficult to be determined as this stage.