



**PrimeGlobal**

*An Association of  
Independent Accounting Firms*

# DOING BUSINESS IN INDONESIA



# COMPANY FORMATION IN INDONESIA

## MAIN FORMS OF COMPANY/BUSINESS IN INDONESIA

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The main forms of companies in Indonesia:

1. Business entity established in Indonesia such as Limited Liability Company (PT), Firm (Firma), Limited partnership (CV). Partnership (Kongsi), Koperasi (Cooperative), and Association (Perkumpulan).
2. Foreign business entity or foreign personal who set up business in Indonesia as permanent establishment.
3. Personal as citizens of Indonesia.

## SPECIFIC TAX CONCERNS RELATED TO ESTABLISHING A COMPANY

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There are no specific tax concern in connection with the establishment of a company, and to set up a new company, the new company must have Taxpayer Identification Number (NPWP) to carry out tax obligations in Indonesia.

## LEGAL ISSUES RELATED TO ESTABLISHING A COMPANY

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Legal issues related to the establishment of a new company is a legal entity that is:

1. The founder minimum two person and/ or entity.
2. Each founder must take part for the shares (for PT and CV consisting of shares).
3. Make a company establishment deed in Indonesian language by Indonesian notary.
4. The deed must be approved by the Minister for Justice and published in Minutes of the Republic of Indonesia.
5. The authorized capital of at least US Dollar 50 million and must be issued and fully paid at least 25 percent from the authorized capital (for PT and CV consisting of shares).
6. The Company's Management minimum of one director and one commissioner.

## CULTURAL CONCERNS RELATED TO ESTABLISHING A COMPANY

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Culture in Indonesia in connection with the establishment of a new company, namely:

- a. The Company Name can not have the same name as another company.
- b. For the Closed Company in the form Limited Company must imprint "PT" in front of the company name for example "PT ABC".
- c. For the Public Company in the form Limited Company must imprint "Tbk" in the behind of the company name for example "PT ABC, Tbk".
- d. For the limited partnership (CV) must imprinted "CV" in the front of the companya name for example "CV Pelita Jaya Utama".



## DOING BUSINESS IN INDONESIA

- e. For the Firm (Firma), the name of the firm must include the name of the Firm partnership for example "Firma Pelita Jaya Selalu".
- f. For Individual Company shall identify the owners of the Company or Trade Enterprises (UD) for example "UD Maju Terus".

### **OTHER COUNTRY-SPECIFIC ISSUES RELATED TO ESTABLISHING A COMPANY**

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The Company must register and obtain permission from the Investment Coordinating Board (BKPM).

## PERMANENT ESTABLISHMENT IN INDONESIA: BRANCH OR SUBSIDIARY?

### DEFINITION OF A PERMANENT ESTABLISHMENT

Permanent Establishment (PE) is a form of business that used individual who does not live in Indonesia or in Indonesia less than 183 days within a period of 12 months or entities who do not and are not domiciled in Indonesia, but running a business or activity in Indonesia, in the form of:

- a. Place of management;
- b. Branch company;
- c. Representative office;
- d. Office building;
- e. Factory;
- f. Workshop;
- g. Warehouse;
- h. Space for promotion and sales;
- i. Mining and quarrying of natural resources;
- j. Mining area of oil and gas;
- k. Fisheries, animal husbandry, agriculture, farms or forestry;
- l. Construction, installation or assembly project;
- m. The provision of services of any kind by employees or others, all made more than 60 (sixty) days within a period of twelve (12) months;
- n. Persons or entities acting as agents as dependent agents.
- o. Agent or employee of an insurance company that is not established or domiciled in Indonesia that collects premiums or insures risks in Indonesia; and
- p. Computers, electronic agent, or automated equipment owned, leased, or used by the organizers of electronic transactions to conduct business via the Internet.

### DEFINITION AND MAIN DIFFERENCES BETWEEN A BRANCH AND A SUBSIDIARY

The Branch represent an extension of the Central Office, which is limited by different geographic and regions. The capital of Branch is not consists of shares that owned directly by the Central Office because the branch and head office is a one legal entity.

The Subsidiary is a company owned by the Parent Company through the investment in shares. The parent company and its subsidiary are separate legal entities.

Differences Branches and Subsidiaries:

No.	Description	Branch	Subsidiary
1.	The form of business	Not to be a separate legal entity.	Must be a separate legal entity.
2.	The company management	The Company's management is representative of the Head Office.	The company management consists of Commissioner and Director.



## DOING BUSINESS IN INDONESIA

No.	Description	Branch	Subsidiary
3.	Investment in share	No investment in share.	Have investment in shares.
4.	Profit sharing	Directly to Head Office.	Must be in the form of Dividend to shareholders.
5.	The form of financial statements.	Combined Financial statements.	Consolidated financial statements.
6.	The independence of the office	Depending on Headquarters	The independent status just shows with the number of shares.
7.	The company establishment deed	Only deed of establishment of branch offices	The company's deed of establishment must have approved by the Minister of Law and Human Rights.
8.	Minimum capital	No requirement of minimum capital.	Must deposit 25% of the authorized capital.

### TAX AND ACCOUNTING OBLIGATIONS

The Company must make the book keeping in accordance with Indonesian Statements of Financial Statements, calculate, and report tax obligations.

For the related party transactions that exceed Rp.10 billion required to prepare transfer-pricing documentation.

For sales transactions that exceed Rp.4,8 billion must register to be a Taxable Entrepreneur (PKP) and each submission shall levy Value Added Tax (VAT).

### REGISTRATION FORMALITIES

- The Company must obtain permission from the Regional Local Government, Central Government, Ministry of Related and the Investment Coordinating Board (BKPM) in Indonesia.
- The Company, Commissioner and Director are required to have a Tax Identity.

### STANDARD LEGAL OBLIGATIONS AND FORMALITIES FOR A BRANCH

The license of Representatives Foreign Trade Company must be permission to Director of Business Development and Corporate Registration with the following documents:

- a. Request Letter from Head Office or Branch Office;
- b. Filling Application Form correctly given the stamp duty as necessary;
- c. The temporary Approval letter to appointment the representative in Indonesia;
- d. Letter of Appointment;
- e. Copy Hiring Licensed Foreign Employment (IMTA) for Foreign Workers (TKA);
- f. Certificate of domicile of the local municipality or certificate from the Building management of office space;



## DOING BUSINESS IN INDONESIA

- g. Photo size 4 X 6 cm 2 pieces (colored);
- h. Copy of Proof of Payment of Deposit
  - To the Foreigner Chief Representative Rp 5 million
  - To the Indonesian Chief Representative Rp. 1 million





# HOW TO HIRE MY FIRST EMPLOYEE IN INDONESIA

## MAIN LEGAL STEPS TO FOLLOW TO HIRE A FIRST EMPLOYEE

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The main legal steps to follow to hire a first employee:

1. Ask the Curriculum Vitae, Summary of Employee and Identity card of employee.
2. Ask the employee's photocopy of certificate.
3. Do the test and interview.
4. Filled the employee form.
5. Sign the contract.

## DESIGN AND CONTENTS OF AN EMPLOYMENT CONTRACT

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Design and contents of an employment contract consist of:

1. Date
2. The Parties.
3. The status of employee.
4. Term of contract and probation period.
5. Salary
6. Dispute settlement.
7. Signing Contract both Parties.

## CAN SOMEBODY DO BUSINESS FOR ME AND NOT BE AN EMPLOYEE?

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No one cannot do business for you and you can outsource the employee.





## HOW TO READ FINANCIAL STATEMENTS IN INDONESIA

a. The main Indonesian financial statements consist of:

- Accounting Standards Entities Without Public Accountability (ETAP) for the company doesn't have public accountability.
- Statements of Financial Accounting Standards (SFAS) for the company have the public accountability.

b. Please attach an example of a financial statements

- For ETAP the financial statements consist of Balance Sheets, Statements of Profit or Loss, Statements of changes in equity, Statements of cash flows, and Notes to financial statements.
- For SFAS the financial statements consist of Statements of financial position, Statements of profit or loss and other comprehensive income, Statements of changes in equity, Statements of cash flows, and Notes to financial statements.





## DOING BUSINESS IN INDONESIA

### The illustration of ETAP:

<b>PT ABC</b>		
<b>Balance Sheets</b>		
<b>As of December 31, 2015</b>		
<b>(in thousand rupiah)</b>		
	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash	0	0
Account receivables	0	0
Inventories	0	0
Prepaid expense and Prepayments	0	0
<b>Total Current Assets</b>	<b>0</b>	<b>0</b>
<b>Non Current Assets</b>	0	0
Investment in shares	0	0
Fixed assets	0	0
Other assets	0	0
	0	0
<b>Total Non Current Assets</b>	<b>0</b>	<b>0</b>
<b>Total Assets</b>	<b>0</b>	<b>0</b>



	2015	2014
<b>Revenue - nett</b>	0	0
<b>Cost of revenue</b>	0	0
<b>Gross profit</b>	<b>0</b>	<b>0</b>
<b>Operating expenses:</b>	0	0
Selling expenses	0	0
General and administrative expenses	<b>0</b>	<b>0</b>
<b>Total operating expenses</b>	<b>0</b>	<b>0</b>
Other income and expenses	0	0
Income before tax	0	0
Income Tax	0	0
<b>Net income</b>	<b>0</b>	<b>0</b>



The illustration of SFAS:

<b>PT ABC</b>		
<b>Statements of Financial Position</b>		
<b>As of December 31, 2015</b>		
<b>(in thousand rupiah)</b>		
	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash	0	0
Account receivables	0	0
Inventories	0	0
Prepaid expense and Prepayments	0	0
<b>Total Current Assets</b>	<b>0</b>	<b>0</b>
<b>Non Current Assets</b>	0	0
Investment in shares	0	0
Fixed assets	0	0
Other assets	0	0
<b>Total Non Current Assets</b>	<b>0</b>	<b>0</b>
<b>Total Assets</b>	<b>0</b>	<b>0</b>



	2015	2014
<b>Revenue - nett</b>	0	0
<b>Cost of revenue</b>	0	0
<b>Gross profit</b>	<b>0</b>	<b>0</b>
<b>Operating expenses:</b>	0	0
Selling expenses	0	0
General and administrative expenses	<b>0</b>	<b>0</b>
<b>Total operating expenses</b>	<b>0</b>	<b>0</b>
Other income and expenses	0	0
Income before tax	0	0
Income Tax	0	0
<b>Income for the year</b>	<b>0</b>	<b>0</b>
<b>Other comprehensive income</b>	<b>0</b>	<b>0</b>
<b>Comprehensive income</b>	<b>0</b>	<b>0</b>