Vol. 2

Updates from Indonesia (Vol. II): Capital Requirements, Beneficial Owner Requirements, Domestic Component Level and Impact of US Tariffs on Indonesia

SHIFT COUNSELLORS AT LAW

Following Volume 1 of our article on the Updates from Indonesia, this is the second volume of the article, which discusses updates on the capital requirements for foreign investment companies, the beneficial owner requirements, domestic component level and the impact of US tariffs on Indonesia.

I. An Update on the Capital Requirements for Foreign Investment Companies

Minister of Investment and Downstreaming / Head of the Investment Coordinating Board (*Badan Koordinasi Penanaman Modal* / "**BKPM**") Regulation No. 5 of 2025 on the Guidelines and Procedures for the Organization of Risk-Based Business Licensing and Investment Facilities Through the Electronically Integrated Business Licensing System (Online Single Submission) ("**BKPM Regulation No. 5/2025**") was issued as an implementing regulation of GR No. 28/2025.

One of the main changes under BKPM Regulation No. 5/2025 is regarding the minimum issued / paid-up capital of a foreign investment company. While the minimum investment value remains unchanged (ie Rp10,000,000,000 (approximately USD625,000[1]), excluding land and buildings per 5 digits of the Indonesian Standard Business Fields Classification per project location), the minimum issued / paid-up capital has now been reduced from Rp10,000,000,000 (approximately USD625,000) to Rp2,500,000,000 (approximately USD156,250). Certain sectors, such as property development, accommodation, agriculture, plantation, livestock and aquaculture, may include land and building value as part of the capital and/or investment calculation.

It is worth noting that foreign investment companies are not permitted to transfer their issued / paid-up capital from their bank accounts for at least 12 months, except for such purposes as asset acquisition and/or business operations.

II. Updates on the Beneficial Owner Requirements

The government issued Minister of Law ("**MOL**") Regulation No. 2 of 2025 on the Verification and Supervision of a Corporate's Beneficial Owner ("**MOL Regulation No. 2/2025**") to enhance compliance with the beneficial ownership reporting requirements and to optimize the accuracy of a beneficial owner's data.

[1] At the exchange rate of USD 1 = Rp16,000

MOL Regulation No. 2/2025 expands the types of corporations required to determine their beneficial owner by including civil partnerships (*persekutuan perdata*).

Further, MOL Regulation No. 2/2025 provides that to verify the accuracy of the information provided by corporations and/or notaries, the MOL may conduct data examination through direct and/or indirect clarification.

MOL Regulation No. 2/2025 also introduces administrative sanctions, ie warnings, blacklisting and blocking of access to the AHU online system, for corporations that (i) fail to report their beneficial owners and (ii) submit incorrect beneficial owner information.

III. Other Important Updates to Note

A. Minister of Industry Regulation No. 35 of 2025 on the Provisions and Procedures for Certification of Domestic Component Level and Company Benefit Weight ("MOI Regulation No. 35/2025")

MOI Regulation No. 35/2025 was issued to among other things improve legal certainty in the certification of Domestic Component Level (*Tingkat Komponen Dalam Negeri* / "**TKDN**").

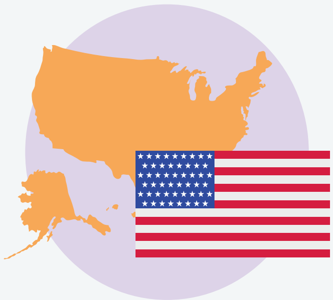
This regulation replaces several TKDN-related ministerial regulations and consolidates them into a single, comprehensive framework.

Below is a comparison of certain matters under MOI Regulation No. 35/2025 and the previous regulation (Minister of Industry Regulation No. 16/M-IND/PER/2/2011 of 2011 on the Provisions on and Procedures for the Calculation of TKDN ("**MOI Regulation No. 16/2011**")):

MOI Regulation No. 16/2011	MOI Regulation No. 35/2025
TKDN Calculation for Goods	
TKDN is calculated based on the ratio of the price of a finished product minus the price of foreign components to the price of the finished product (ie the costs for producing the product). Production costs include costs for direct materials, direct labour and factory overhead (excluding profit, company overhead costs and Value Added Tax ("**VAT**")).	TKDN is calculated based on the production factors' weights, ie direct materials (75%), direct labour (10%) and factory overhead (15%). This regulation no longer provides any exclusion for the components of production costs as provided under MOI Regulation No. 16/2011.
TKDN Calculation for Services	
TKDN is calculated based on the ratio of the total services price minus the foreign services price to the total services price (ie the costs for rendering services, which are calculated until the services are rendered at the work site (on site)). Costs include costs for labour, work equipment/ facilities and general services (excluding profit, company overhead costs and VAT).	TKDN is calculated based on the ratio of the total industrial service costs minus the foreign industrial service costs to the total industrial service costs. MOI Regulation No. 35/2025 generally uses the same approach for calculation; it is just that services are stated as "industrial services". This regulation no longer provides any exclusion for the components of costs as provided under MOI Regulation No. 16/2011.

MOI Regulation No. 16/2011	MOI Regulation No. 35/2025
TKDN Calculations for Combined Goods and Services	
TKDN is calculated based on the ratio of the total price of the domestic components of the goods plus the total price of the domestic components of the services to the total price of the goods and services.	TKDN is calculated by totalling the results of (i) the multiplication of the combined TKDN value of the goods by the proportion of the combined acquisition value of the goods and (ii) the multiplication of the TKDN value of the services by the proportion of the acquisition value of the services.
Additional TKDN Value	
Research and development (“**R&D**”) costs incurred by an industry conducting R&D domestically could be taken into account in the assessment of the TKDN for goods.	To support the development of domestic industry, business players possessing intellectual capability (*brainware*) value may be granted an additional 20% of TKDN value for goods. The above calculation is applied to goods produced by business players that meet certain criteria related to R&D.

B. The Impact of US Tariffs on Indonesia



The **19%** tariff on Indonesian exports to the US came into effect on 7 August 2025. The US and Indonesia have, however, agreed to a framework to reduce the tariff on certain commodities to strengthen the bilateral economic relationship between the two countries.

Tariff Exemptions

Copper
Currently, copper is the only Indonesian commodity benefiting from a **0%** tariff rate.

Additional Items
Indonesia is also seeking tariff exemptions for textiles, footwear, furniture and fishery products.

Under Discussion
Tariff exemptions for cocoa, palm oil and rubber are currently under negotiation.