Indonesia

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I. Summary

A. Types of Organizations

Indonesia has two primary forms of non-for-profit, nongovernmental organizations (NPOs):

- foundations,
- associations.

Most Indonesian NPOs are foundations. [1] ¹
The Indonesian legal system is somewhat complex because it is the convergence of two distinct systems: namely, laws inherited from the period of Dutch colonization and Indonesia’s modern law. Since independence, there has been a general trend toward replacing outdated Dutch laws with laws enacted by the Indonesian legislative body. Yet many Dutch laws remain in place. Associations, for example, are still governed by a Dutch law enacted in 1870.

Foundations, by contrast, are governed by Indonesian statutes. Law No. 16 of 2001 on Foundations was subjected to strong criticism even before it took effect in August 2002, and it was ultimately amended in October 2004 by Law No. 28 of 2004.

Because most NPOs in Indonesia are foundations, this Note is focused on the laws governing Foundations, i.e., Law No. 16 of 2001 and Law No. 28 of 2004.

This Note will not discuss several other forms of NPOs, including cooperatives and political parties (regulated by separate laws); organizations that operate under specific laws, such as the Educational Legal Entity (Badan Hukum Pendidikan) (Article 53 Law on National Education System (Law No. 20 of 2003); social organizations; and NPOs structured as for-profit entities.

**B. Tax Laws**

Indonesian NPOs are generally subject to income tax. Exemptions are extended to income that an NPO uses to provide scholarship funds and income (sisa lebih) of an NPO engaged in education, research and development, provided that the funds are re-invested in the NPO’s work.

Tax deductions for charitable contributions are available for natural disasters, research and development activities, development of the social infrastructure, education facilities, and sport.

Indonesia subjects the sale of most goods and services to a Value Added Tax (VAT), with some exemptions pertinent to NPOs. Certain relevant goods are exempt from customs duties as well.

**II. Applicable Laws**

The prevailing constitution of Indonesia is the [1945 Constitution](#) which was enacted a day after the proclamation of independence. There were also the Constitutions of 1949 and of 1950. However, the 1945 Constitution was reenacted in 1959 and has been in effect since. It was amended only after the fall of Suharto’s administration (1966-1998), and again in October 1999, August 2000, November 2001, and August 2002.

The second amendment to the [1945 Constitution](#) guarantees the freedom of association (Article 28) and freedom of expression (Article 28E section (3)). In October 2005, the Indonesian parliament ratified the International Covenant on Civil and Political Rights (ICCPR) by enacting of Law No. 12 of 2005 regarding the Ratification of ICCPR.
• Indonesian Civil Code (Article 1653), August 18, 1945 (originally Dutch civil code; continued to apply under Clause II of the Transitional Provision of the 1945 Constitution).  
• Law No. 12 of 2005 regarding the Ratification of the International Covenant on Civil and Political Rights (ICCPR), October 28, 2005.  
• Law No. 16 of 2001 on Foundations (Yayasan), August 6, 2001.  
• Law No. 28 of 2004 regarding the Amendment to Law No. 16 of 2001 on Foundations, October 6, 2004.  
• Law No. 8 of 1985 on Social Organizations (Organisasi Kemasyarakatan), June 17, 1985.  
• Staatsblad (State Gazette) 1870-64 on Associations with Legal Person Status, March 28, 1870.  
• Law No. 17 of 2006 regarding the Amendment to Law No. 10 of 1995 on Customs, November 15, 2006.  
• Law No. 39 of 2007 regarding the Amendment to Law No. 11 of 1995 on Duties, August 15, 2007.  
• Ministry of Internal Affairs Regulation No. 5 of 1986 on the Scope and Notification Procedure to the Government and the Sign and Logo of the Social Organizations, October 1, 1986.  
• Instruction from the Minister of Internal Affairs No. 8 of 1990 on Non-Governmental Organization Supervision, March 19, 1990.  
• Ministry of Internal Affairs Regulation No. 38 of 2008 on the Obtainment and Granting Social Organization Donations From and To Foreign Entities, August 15, 2008.  

III. Relevant Legal Forms

A. General Legal Forms

Foundation (Yayasan)
Law No. 16 of 2001 on Foundations came into effect in August 2002 and was amended by Law No. 28 of 2004, which came into effect in October 2004.³

Under Law No. 16 of 2001, a foundation is defined as a non-membership legal entity, established based on the separation of assets, and intended as a vehicle for attaining certain purposes in the social, religious, or humanitarian fields (Article 1 section (1) Law on Foundations (2001)). It should be highlighted that the broad term “social” in this definition might cause a problem in practice, because it is applicable to any not-for-profit activity. Consequently, there is no overall rule that a foundation must provide a public benefit, as opposed to serving only its stakeholders. It depends on the foundation’s statutory purposes.

The law stipulates that the organizational structure of a foundation must consist of three organs: the Governing Board (Badan Pembina), Supervisory Board (Badan Pengawas), and Executive Board (Badan Pengurus). The Governing Board delegates some functions, powers, and duties to the other organs.⁴

**Associations (Perkumpulan)**

There are two types of associations in Indonesia: (i) incorporated associations, which possess legal personality; and (2) ordinary associations, which do not. Both are membership-based organizations. Associations can be public-benefit organizations or mutual-benefit ones.

Incorporated associations in Indonesia are based on the Staatsblad 1870-64 (Dutch Colonial State Gazette) on Associations with Legal Person Status.⁵ Individuals wishing to create an incorporated association submit the Articles of Association containing the statutory purposes to the Minister of Law and Human Rights. Approval by the Minister confers legal personality.

As for the ordinary association, Staatsblad 1870-64 acknowledges the existence of an association without legal personality (articles 8 and 9). The ordinary association is commonly known by various titles in Indonesian language such as Perhimpunan, Ikatan, and Paguyuban. An ordinary association is prohibited from conducting activities as a legal entity; any action taken will be considered the action of an individual member of the association. Even though such associations are not considered legal entities, they are still regulated by Articles 1663 and 1664 of the Indonesian Civil Code.⁶

At present, there are initiatives from various parties, including the government, NGOs, and scholars, to draft a new law concerning associations. However, as of the date of this Note's update, the Parliament has not put it on the schedule.⁷

**B. Public Benefit Status**

Foundations may be public-benefit organizations, although, as noted above, "social" foundations might operate to benefit only their stakeholders, which would be inconsistent with public benefit status. Associations can be public-benefit or mutual-benefit organizations.

Public benefit status does not entail any tax or other benefits.
IV. Specific Questions Regarding Local Law

A. Inurement

1. Foundation

A foundation’s assets (cash, goods or other types of assets) must not be transferred or distributed directly or indirectly among the members of the Governing Board, Supervisory Board, or Executive Board, the foundation’s employees, or any other parties having an interest in the foundation (Article 5 Law on Foundations (2001)). A foundation must not divide the income of its commercial enterprises among the members of the Governing Board, Supervisory Board, or Executive Board (Article 3 Law on Foundations (2001)).

Moreover, the elucidation of the law states that members of the Governing Board, Supervisory Board, or Executive Board must be volunteers who do not receive salary, wage, or honorarium (beyond reimbursement for expenses). Law No. 28 of 2004 introduces an exception to this prohibition: members of the Executive Board can be compensated if they: (i) work directly and full-time for the foundation, (ii) are not the founders of the foundation, and (iii) are not affiliated with the founders, the Governing Board, or the Supervisory Board.

The Executive Board is also prohibited from entering into “self-dealing” transactions (Article 38 Law on Foundations (2001)). It may not enter into agreements with any organization affiliated with the foundation, the members of the Governing Board, Supervisory Board, or Executive Board of the foundation, or an employee of the foundation. However, the prohibition is not applicable when the agreement seeks to help the foundation to attain its objectives.

2. Association

There is no law restricting a member from receiving a direct or indirect benefit from an association.

B. Proprietary Interest

1. Foundation

The Governing Board, Supervisory Board, and Executive Board are all prohibited from receiving a direct or indirect benefit from a foundation. No party is allowed to receive a proprietary interest
in the assets or income of a foundation. No party (including founders and donors) is allowed to revoke a contribution and receive property back.

2. Association

*Staatsblad* 1870-64 does not regulate proprietary interests in the assets or income of associations. However, members are allowed to receive their contributions back from remaining assets after the association's liquidation (Article 7 *Staatsblad* 1870-64).

C. Dissolution

1. Foundation

Law No. 16 of 2001 stipulates that the remaining assets after liquidation shall be given to other foundations that share the same objectives, as selected by the Governing Board (Article 68). Law No. 28 of 2004 adds that the remaining assets can also be given to other legal entities pursuing the same objectives, provided the laws regulating those legal entities allow such transfers. If neither of these is applicable, then the remaining assets shall be given to the State and used in accordance with the activities of the foundation.

2. Association

As a membership-based organization, an association is governed substantially by the agreement among its members. An association can be voluntarily dissolved if it reaches its expiration date, accomplishes its objectives, or its members agree to dissolve it (as long as doing so is not prohibited by law). Under Article 7 of *Staatsblad* 1870-64, assets remaining after liquidation can be owned by the members or divided based on their contributions.

An association can be involuntarily dissolved if the Ministry of Law and Human Rights revokes its legal entity status for a violation against public order. If an association violates its statutory purposes, a District Attorney can file a case in civil court seeking to revoke the association’s legal entity status. The judge hearing the case also settles the association’s assets. Members of the association are allowed to receive their contributions back from remaining assets after the State Receiver (*Balai Harta Peninggalan*) completes the liquidation process.

D. Activities

1. General Activities

In general, a foundation or an association can undertake any lawful, not-for-profit activities. A foundation or an incorporated association becomes a legal entity, with all the attendant rights and responsibilities, upon the approval of the Ministry of Law and Human Rights.
2. Public Benefit Activities

Both foundations and associations may undertake public benefit activities but are not required to do so.

3. Economic Activities

A foundation can engage in commercial activities to support the attainment of its objectives through:

- setting up commercial enterprises (badan usaha); and/or
- participating as a shareholder in commercial enterprises.

If the foundation sets up its own commercial enterprise, the activities of the enterprise must relate to the foundation’s statutory purposes. These activities are defined broadly, including the fields of human rights, art, sport, consumer protection, education, environment, health, and the pursuit of knowledge (see Elucidation of Article 8, Law on Foundations (2001)).

Apart from setting up its own commercial enterprise, a foundation may participate as a shareholder in other (unrelated) commercial enterprises that are deemed to be prospective, provided that such shareholding does not exceed 25 percent of the total value of the foundation’s assets (Article 7 (2) Law on Foundations (2001)). Dividends received by the foundation from investment in its commercial enterprise are not subject to income tax.

The revision of the Law on Foundations in 2004 provides a more explicit provision prohibiting foundations in Indonesia from directly conducting any business activities (Elucidation of Article 3(1) Law on Foundation (2004)).

In order to maintain good 'corporate' governance, no member of the governing, supervisory, or executive board of the foundation can simultaneously serve as a manager, supervisor, member of the Board of Directors, or member of the Board of Commissioners of any commercial enterprise that a foundation establishes or in which it invests.

The law does not clearly restrict associations from engaging in commercial activities.

E. Political Activities

Nothing in Indonesian law restricts an NPO from participating in the political process by lobbying officials, endorsing or opposing candidates, or otherwise.

F. Discrimination

According to local experts, the 1945 Constitution provides a legal basis for anti-discrimination. This is further regulated by Law No. 12 of 2005 regarding the Ratification of the International Covenant on Civil and Political Rights (ICCPR).
Further, Law No. 20 of 2003 concerning the National Education System, in Article 11 section (1), requires the government to help provide an excellent education for every citizen without any discrimination. The anti-discrimination regulation also applies to nongovernmental educational institutions (“Principles on Conducting Education” (Prinsip Penyelenggaraan Pendidikan), Article 4 section (1), Law No. 20 of 2003).

G. Control of Organization

No law bars a third party from forming or controlling an NPO. Foreign parties and for-profit entities are allowed to form NPOs in Indonesia, though it is not easy for overseas entities to do so in practice.

The Law on Foundations permits foreign citizens together with Indonesians or otherwise to establish a foundation under Indonesian law, and foreign foundations, i.e. foundations established under foreign laws, to operate in Indonesian territory; these foundations must be operated in partnership with an Indonesian foundation and are limited to the pursuit of social, religious or humanitarian objectives. The Law and relevant regulations outline a set of rules regarding foundations established by foreign individuals or entities.9

Such foundations must have a minimum of one Indonesian member on the executive board and that member must serve as the NPO’s chair, secretary or treasurer (Article 12 of Government Regulation 63/2008). In addition, all members of the executive board must be residents of Indonesia. Members of the executive board, governing board and supervisory board who are not Indonesian citizens must have work and temporary residence permits (KITAS or Kartu Izin Tinggal Sementara) (Article 13 of Government Regulation 63/2008).

There is also a special registration procedure for foreign NGOs. Foreign NGOs must register with the Ministry of Internal Affairs as outlined in a letter sent by the Ministry of Foreign Affairs to embassies and foreign NGOs in January 2008.10

In addition, there is a special regulation for foreign NGOs that cooperate with the Ministry of Internal Affairs. Ministry of Internal Affairs Regulation No. 15 of 2009 requires a foreign NGO that wants to cooperate with the Ministry of Internal Affairs, including at the regional government level,11 to: (1) have approval from the Indonesian government; (2) get an appointment letter from the Ministry of Foreign Affairs to cooperate with the Ministry of Internal Affairs; (3) have a representative office in Indonesia; (4) have a legitimate source of funding; (5) be listed as an NGO in its home country; (6) get approval from its headquarters in the appointment of its representative officer in Indonesia; and (7) obtain a recommendation letter from the embassy of its home country.

There are, however, no other provisions regarding an organization’s control. It is, therefore, possible that an Indonesian NPO be controlled by a for-profit entity (which will lead to additional IRS scrutiny) or by an American grantor charity (which requires that the charity specifically so provide in the affidavit).
With regard to state control over NPOs, the Ministry of Internal Affairs and the Ministry of Social Affairs are responsible for NPOs in Indonesia (Law No. 8 of 1985 on Social Organizations (Organisasi Kemasyarakatan or Ormas) and Law No. 6 of 1974 on Social Welfare). These two ministries exercise supervisory authority over all NPOs in Indonesia.

V. Tax Laws

A. Tax Exemptions

NPOs are generally subject to income tax on the same basis as other legal entities (Article 2 section (1) (b) Law No. 36 of 2008 on Income Tax).

Donations, including religious-based donations and grants are not taxed provided that there is no business or ownership relationship between the parties. In addition, the following types of income are tax exempt: (i) income that an NPO uses to provide scholarship funds and (ii) income (sisa lebih) of an NPO working in the area of education, or research and development that is reinvested in its work as per the timing requirements of the income tax law (Article 4 section (3) Law No. 36 of 2008 on Income Tax).

B. Deductibility of Charitable Contributions

Individual and corporate taxpayers may deduct charitable contributions for natural disasters, research and development activities, development of social infrastructure, education facilities, and sport (Article 6 section (1) Law No. 36 of 2008 on Income Tax).12 There is no limit on the amount of the deduction. The tax law stipulates that recipients of such contributions shall further be regulated by a Government Regulation; however, the relevant Government Regulation has not been issued.

C. Value Added Tax

Indonesia imposes a Value Added Tax (VAT). The applicable rates are ten percent on most goods and services and between ten and fifty percent for goods and services covered by the Luxury Sales Tax. Certain goods and services are exempt from VAT, including basic food supplies such as rice, salt, corn, and the like; and medical, social (public benefit), religious, education, and art services.

Foreign grants to private NPOs are exempt from VAT upon the approval of the Director General of Tax in the Ministry of Finance. However, this procedure is conducted on an ad-hoc basis, and NPOs often are unfamiliar with it. Grants related to government projects are clearly exempted from VAT (Article 2 Government Regulation No. 42 of 1995).
Every legal entity, including an NPO, conducting business activities that produce taxable income above a certain threshold is called a Taxable Entrepreneur, and must require its buyers/clients to pay VAT. These thresholds are quite high, so most NPOs in Indonesia are not affected. The thresholds are generally between 180 and 360 million IDR, depending on the nature of the activities conducted by the NPO.

**D. Customs Duties**

Certain items are exempted from customs duties on imports under Article 25 section (1) Law No. 17 of 2006 on Customs and Article 9 section (1) Law No. 39 of 2007 on Duties. Those items include the following: goods belonging to a registered international institution and its officers on duty in Indonesia based on reciprocity principle; science books; grants for religious, charity, social, or cultural activities and for the purpose of natural disaster relief; goods for museums, zoos and other similar public places as well as nature conservation; goods for scientific research and development; goods for the use of disabled people; and goods for social purposes.

To receive such an exemption, the importer must submit a proposal to the Minister of Finance through the Director of Customs and Duties. The proposal must include details of the imported goods, a gift certificate or letter of donation, and a recommendation letter from the related Ministry. If the proposal is approved, the Director of Customs and Duties in the name of the Minister of Finance will issue a decree for the exemption.13

**E. Other Taxes**

NPOs are subject to Land and Building Tax, Stamp Duty, and Real Property Acquisition Fee.

**F. Double Tax Treaties**

A double taxation treaty exists between the United States and Indonesia, but it does not specifically address the deductibility of contributions to NGOs. ([http://www.irs.gov/pub/irs-trty/indo.pdf](http://www.irs.gov/pub/irs-trty/indo.pdf))

**VI. Knowledgeable Contacts**

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**Appendix: Foreign Grants**
No specific rule sets forth the process by which domestic NPOs can receive foreign grants. At present, the Secretary of State through the Overseas Technical Cooperation Bureau tries to coordinate the process. However, procedures vary widely from one donation to another.

Under the Law on Social Organizations, the government may dissolve a social organization for, among other reasons, receiving donations from a foreign institution without the government’s consent (Article 13 Law No. 8 of 1985). In addition, Ministry of Internal Affairs Regulation No. 38 of 2008 on the Obtainment and Granting Social Organization Donations From and To Foreign Entities and Government Regulation No. 18 of 1986 on the Implementation of Law on Social Organizations provide detailed approval and reporting procedures for social organizations seeking to receive or provide donations to/from foreign entities. According to a local expert, the regulations should only apply to social organizations and not foundations and associations, although the Ministry of Internal Affairs continues to insist that all organizations are "social organizations" subject to this set of regulations.

Footnotes


2 Article 1653 of Chapter 9 of the Third Book of the Civil Code is generally regarded as the source of Indonesia’s non-profit legal forms -- the foundation and association.

3 Law No. 28 of 2004 changed 19 provisions and deleted two provisions from Law No. 16 of 2001, mostly provisions addressing administrative and financial procedures.

4 The law also requires every foundation to publish the abridged version of its annual report on an announcement board in its office. Furthermore, foundations which have received donations from the state, overseas parties, or third parties totaling 500 million Indonesian rupiah (IDR) or more, or which possess assets other than endowed assets of over 20 billion IDR, must be audited by a public accountant and have their annual report summaries published in an Indonesian-language daily newspaper. See Article 52 Foundation Law (Law No. 16/2001).

5 The word “Perkumpulan” (Association) is “Vereneging” in Dutch and “Verein” in German, which means an opposite of maatschap or vennootschap (company or corporation). See Chidir Ali, Badan Hukum (Bandung: Alumni, 1999), at 119.

6 Article 1663 states: “All other corporate bodies shall continue their existence until they are specifically dissolved in accordance with their rulings, agreements and regulations, or until the purpose or the object of the corporate body ceases to exist.”
Indonesia’s Law on Social Organizations covers all organizations established by Indonesian citizens voluntarily on the basis of similarity of activity, profession, function, or religion (Article 1 of Law No. 8 of 1985). The law has a broad scope of purposes, including public benefit and member interests. A social organization is designed to advance the interests of the society in a political manner. Suharto’s authoritarian regime (1966-1998) called it “Single Pot” (Wadah Tunggal). The idea was to set one form of organization for all types of interests (whether activity, profession, function, or religion), so that it would be easier for the regime to control them.

Given that its background is more political than legal, Law No. 8 of 1985 includes strong controlling aspects. The government may dissolve a social organization that: conducts any activities that disturb security and order; receives donations from foreign institutions without the government’s consent; or provides assistance to foreign institutions that may harm the nation (Article 13 Law on Social Organizations). According to a local expert, although the Ministry of Internal Affairs insists that this law addresses all organizations, only a few NPOs have admitted that their organizations are social organizations. Most NPOs prefer the foundation or the association as their legal status.

In June 2008, a working group organized by the Ministry of Internal Affairs proposed a change to Law No. 8 of 1985. The draft Law on Civil Society Organizations (RUU Organisasi Masyarakat Sipil) was presented by the Ministry of Internal Affairs to the committee on the preparation of National Legislation Program in 2007 and 2008, but the committee, backed by civil society organizations rejected the proposal.

“Elucidation” (in Indonesian language “Penjelasan”) of Law in the Indonesian legal system is considered as the law itself and has the same power (Law No. 10 of 2004 regarding Lawmaking Process).

The Law, for example, mandates a minimum contribution to the foundation’s assets of 100 million IDR. For registration, the minimum contribution must be documented, the foreign individual/entity must provide identification, and there must be a statement that the foundation will not be detrimental to the Indonesian society, nation and country. Activities must be in partnership with foundations established by Indonesian citizens/entities that have the same goal and purpose as the foreign foundation. Further, such partnership must be “safe” from the political, legal, technical and security perspective (article 26 of Government Regulation 63/2008); the Regulation does not further define what is meant by these terms.

It is important to note that in February 2005, the Ministry of Home Affairs submitted a Draft Law on Mass Organizations to the Parliament. This Draft Law provides that Mass Organizations, including foundations, cannot be founded by foreign parties. This Draft Law overlaps with other laws concerning NPOs. It has not been formally submitted to the Parliament.

As Indonesia is a unitary state, regional governments, both at the provincial and regional levels are placed under the Ministry of Internal Affairs. Regional autonomy does not include foreign policy, defense, security, judicial matters, monetary and fiscal policy, or religious issues.

Before the enactment of the 2008 Law, additional tax incentives were set up on an ad hoc basis. As but one example, the Minister of Finance issued a special regulation concerning the tax deductibility on donations for the Tsunami disaster in Aceh (Regulation Number 609/04).

There is no specific provision about the abuse of this exemption through resale, but a general provision states that those who violate these exemption regulations and cause losses to the country’s income will be fined in the amount of 100 percent of the duty (Article 25 (4) Law on Customs and Duties).