

Nonprofit Law in Indonesia

Current as of August 2023

This report describes the legal framework governing nonprofit organizations (also known as non-governmental organizations or NGOs) in Indonesia, and includes translations of legislative provisions relevant for a foundation or advisor undertaking an equivalency determination of a foreign grantee under IRS Revenue Procedure 92-94.

These reports have been prepared by the [International Center for Not-for-Profit Law](#) (ICNL). Please direct corrections and comments to [Lily Liu](#).

We include hyperlinks to the following information, to the extent available:

- Longer country reports analyzing various aspects of local legislation; and
- Texts of local laws that affect the decision whether or not to qualify a grantee (generally in translation, although ICNL and the Council cannot warrant the accuracy of any translation; in addition, legislative excerpts were selected by in-country contacts, and ICNL and the Council cannot warrant that all relevant provisions have been translated).

Table of Contents

- I. [Summary](#)
 - A. [Types of Organizations](#)
 - B. [Tax Laws](#)
- II. [Applicable Laws](#)
- III. [Relevant Legal Forms](#)

- A. General Legal Forms
- B. Public Benefit Status
- IV. Specific Questions Regarding Local Law
 - A. Inurement
 - B. Proprietary Interest
 - C. Dissolution
 - D. Activities in General
 - E. Political Activities
 - F. Discrimination
 - G. Control of Organization
- V. Tax Laws
 - A. Tax Exemptions
 - B. Deductibility of Charitable Contributions
 - C. Value Added Tax
 - D. Customs Duties
 - E. Other Taxes
 - F. Double Tax Treaty

I. Summary

A. Types of Organizations

Indonesia has three primary forms of not-for-profit, non-governmental organizations (NPOs), collectively classified under the law as “societal organizations”:

- Foundations
- Associations, and
- Societal organizations without legal entity status. [\[1\]](#)

Only foundations can be founded by foreign entities. There are three types of such foundations: (a) foreign foundations, (b) Indonesian foundations founded by foreign nationals or by foreign nationals

together with Indonesian citizens, and (c) Indonesian foundations founded by a foreign legal entity.

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*, Law No. 20 of 2003 on National Education System Article 53); and NPOs structured as for-profit entities.

B. Tax Laws

Indonesian NPOs are generally subject to income tax. Donations, including religiously-motivated donations and grants, are not taxed if 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 (*sisal lebih*) of an NPO working in the area of education or research and development that is re-invested in its work as per the timing requirements of the income tax law (Law No.36 of 2008 on Income Tax, Article 4 Section 3).

Tax deductions for charitable contributions are available for natural disasters, research and development activities, development of 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 goods are exempt from customs duties as well.

II. Applicable Laws

- [1945 Constitution](#)
- Indonesian Civil Code (Article 1653), August 18, 1945 (originally from the Dutch civil code, it continues to apply under Clause II of the Transitional Provision of the 1945 Constitution) [\[2\]](#)

- Law No. 16 of 2017 regarding the Enactment of Government Regulation in Lieu of Law (*Perppu*) No. 2 of 2017 on the Amendment of Law No. 17 of 2013 regarding Societal Organizations, October 24, 2017
- [Law No. 17 of 2013 regarding Societal Organizations \(*Organisasi Kemasyarakatan*, replacing Law No. 8 of 1985\), July 22, 2013](#)
- 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](#)
- *Staatsblad* (State Gazette) 1870-64 on Associations with Legal Person Status, March 28, 1870
- Law No. 36 of 2008 on the Fourth Amendment of Income Tax Law 1984, August 2, 2008
- Law No. 28 of 2007 on the Third Amendment of Law No. 6 of 1983 of General Rules of Taxation Procedure, July 17, 2007
- Law No. 18 of 2000 on the Second Amendment of Value Added Tax 1984, August 2, 2000
- 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
- Law No. 11 of 2009 on Social Welfare (*Kesejahteraan Sosial*), January 16, 2009
- Law No. 9 of 1961 on the Collection of Money or Goods.
- Government Regulation No. 2 of 2013 on the Amendment of Government Regulation No. 63 of 2008 on the Implementation of Law on Foundations, January 2, 2013
- Government Regulation No. 58 of 2016 on the Implementation of Law No. 17 of 2013 regarding Societal Organizations, December 6, 2016

- Government Regulation No. 59 of 2016 on Societal Organizations Established by Foreign Nationals, December 6, 2016
- Government Regulation in Lieu of Law (*Perppu*) No. 2 of 2017 on the Amendment of Law No. 17 of 2013 regarding Societal Organization Law
- Government Regulation No. 29 of 1980 on the Implementation of Donation Collection
- Presidential Decree No. 18 of 2017 on the Procedures for Receiving and Giving Donations by Societal Organization in the Prevention of Terrorism Funding's Criminal Acts, February 22, 2017
- Minister of Home Affairs Regulation No. 56 of 2017 on the Supervision of Societal Organization in the Ministry of Home Affairs and Local Governments' Circle
- Minister of Home Affairs Regulation No. 57 of 2017 on Registration and Information System Management for Societal Organization
- Minister of Home Affairs Regulation No. 58 of 2017 on Ministry of Home Affairs and Local Government Cooperation with Societal Organization and Bureau or Institution in Politics and General Administration Sector
- Minister of Finance Regulation No. 80 of 2009 on Income Received by a Not-for-Profit Organization in Education and/or the Research and Development Sector which are Exempted from Income Tax
- General Directorate of Taxation Regulation No. 44 of 2009 on Implementation of the Acknowledgement of Income Received by a Not-for-Profit Organization in Education and/or the Research and Development Sector which are Exempted from Income Tax
- Law No. 20 of 2003 on Principles on Conducting Education (*Prinsip Penyelenggaraan Pendidikan*)
- Minister of Law and Human Rights Regulation No. 2 of 2016 on the Procedures to Request Legalization of Legal Body and Approval of Revised Constitution along with Information on the Modification of Constitution and Foundation's Data

- Minister of Law and Human Rights Regulation No. M.HH-02.AH.01.01 of 2011 regarding the Registry of Foundations, September 21, 2011
- Government Regulation No. 93 of 2010 regarding contributions for national disaster management, research and development, education facilities, sport, and social infrastructure that can be deducted from gross income, December 30, 2010
- Minister of Finance Regulation No. 76/PMK.3/2011 regarding procedures to record and report contributions for national disaster management, research and development, education facilities, sport, and social infrastructure that can be deducted from gross income, April 5, 2011
- Ministry of Home Affairs Circular Letter No. 220/1485/SJ regarding guidelines on surveillance and reporting of societal-based organization, February 17, 2020
- Minister of Social Affairs Decree No. 8 of 2021 on the Management of Money or Goods Collection.

III. Relevant Legal Forms

A. General Legal Forms

In 2013, the Indonesian Government enacted Law No. 17 on Societal Organizations (hereafter Law on Societal Organizations). The Law regulates "all organizations founded and formed by the society voluntarily on the basis of shared aspiration, will, needs, interest, activity and purposes in order to participate in the development with the intention to achieve the objective of the Unitary State of the Republic of Indonesia based on the *Pancasila*" (Law on Societal Organizations Article 1). Law No. 17 regulates civil society organizations by placing all forms into a single category (i.e. societal organizations) and making all permits and supervisory mechanisms subject to regulation by the government.

According to the Law on Societal Organizations, foundations and incorporated associations fall under the category of “societal organizations with legal entity status,” while all other NPOs are categorized as “societal organizations without legal entity status.” Articles 5 and 6 of the Law on Societal Organizations provide for the Ministry of Home Affairs to have control over the activities of all forms of NPOs. For foundations, regulations are provided in the Law on Foundations. Associations and societal organizations without legal entity status do not have a detailed regulatory framework.

This Note primarily refers to Law No. 16 of 2001 on Foundations (hereafter Law on Foundations) for provisions governing NPOs, whereas the Law on Societal Organizations is only referred to when relevant. Most general features, including organizational structures and permits, are regulated in the same manner under both laws.

Foundation (*Yayasan*)

[The Law on Foundations](#) came into effect in August 2002 and was amended by Law No. 28 of 2004, which came into effect in October 2004. The Law on Foundations defines a foundation 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 (Law on Foundations Article 1 Section 1). A foundation may be established for public benefit or for the benefit of its members.

The Law stipulates that the organizational structure of a foundation must consist of three bodies: 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 bodies.

Associations (*Perkumpulan*)

There are two types of associations in Indonesia: (1) incorporated associations, which possess legal personality; and (2) ordinary associations, which do not. Both are membership-based organizations. Like foundations, associations can be established for public or mutual benefit. The Law on Societal Organizations requires that associations be formed by a minimum of three Indonesian citizens.

Incorporated associations are based on the *Staatsblad* 1870-64 (Dutch Colonial State Gazette) on Associations with Legal Person Status, along with the Law on Societal Organizations. Individuals wishing to create an incorporated association must submit articles of association containing the association's statutory purposes to the Minister of Law and Human Rights. Approval by the Minister confers legal personality.

As for the ordinary association, Articles 8 and 9 of the *Staatsblad* 1870-64 acknowledges the existence of an association without legal personality. 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. [3]

Societal Organizations without Legal Entity Status

Societal organizations without legal entity status are established by a minimum of three Indonesian citizens. They are formally recognized upon the issuance of a registration certificate (*Surat Keterangan Terdaftar* or SKT) either from the Ministry of Home Affairs, if the organization has a tiered structure, or from the local government where the organization is located, if it does not have a tiered structure. [4]

B. Public Benefit Status

Public benefit status does not entail any tax advantages or other benefits for Indonesian NPOs. Foundations may be public benefit organizations, although they may also operate to benefit only their stakeholders. Associations may be public benefit or mutual benefit organizations.

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, Executive Board, the foundation's employees, or any other parties having an interest in the foundation ([Law on Foundations Article 5](#)). A foundation must not distribute the income of its commercial enterprises among the members of the Governing Board, Supervisory Board, or Executive Board ([Law on Foundations Article 3](#)).

Moreover, the "Elucidation" section of the Law on Foundations states that members of the Governing Board, Supervisory Board, or Executive Board must be volunteers who do not receive a salary, wages, or honoraria (beyond reimbursement for expenses). [\[5\]](#) Law No. 28 of 2004 introduced an exception to this prohibition, such that members of the Executive Board may 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 ([Law on Foundations Article 38](#)). 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, this prohibition is not applicable when the agreement seeks to help the foundation to attain its objectives.

2. Association

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

3. Societal Organizations without Legal Entity Status

There is no law restricting a member from receiving a direct or indirect benefit from a societal organization without legal entity status.

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 reacquire their property.

2. Association

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

3. Societal Organizations without Legal Entity Status

The Law on Societal Organizations does not have any provisions regarding proprietary interests in the assets or income of societal organizations without legal entity status, nor does it provide any guidance regarding liquidation.

C. Dissolution

The 2017 Government Regulation in Lieu of Law (*Perppu*) on Societal Organizations provides detailed rules on the dissolution of societal organizations. [6] Societal organizations of all types can be dissolved if they violate certain obligations under the 2017 Law on Societal Organizations.

Societal organizations that violate their obligations under the Law will first be given written notice. If the organization continues the violation, the government may freeze its activities and revoke its registration certificate (*SKT*) or its legal status (*Perppu* on Societal Organizations Article 61). Societal organizations incorporated by foreign citizens will also be given immigration-related sanctions.

The *Perppu* on Societal Organizations gives the Minister of Law and Human Rights the power to revoke an organization's registration certificate and legal status without consulting the Supreme Court. The Ministry must issue written notice of a finding of a violation, and the organization in question has seven days from receipt of the notice to correct the violation. If the organization continues the violation during that time, the Minister of Law and Human Rights may freeze its assets and revoke its registration certificate or legal status.

1. Foundation

The Law on Societal Organizations provides that the Minister of Law and Human Rights may dissolve a foundation, including one founded by foreign legal entity, if the foundation continues to violate its obligations under the Law after a temporary ban. The Minister of Law and Human Rights has absolute power to revoke a foundation's legal status, which results in the immediate dissolution of the foundation (Law on Societal Organizations Articles 61(4) and 80A).

Because the legal entity status of foreign foundations does not depend on the Indonesian government, there are additional sanctions for foreign foundations after a temporary ban. These sanctions are, in order of operation: to freeze their operational permit, to revoke their operational permit, to freeze their principle permit, to revoke their principle permit, and, lastly, to impose immigration sanctions according to immigration law (see Section 4.G. below for more detail on the permit system).

After dissolution, the Law on Foundations stipulates that the assets remaining after liquidation shall be given to other foundations that share the same objectives, as selected by the Governing Board ([Law on Foundations Article 68](#)). Law No. 28 of 2004 adds that the remaining assets may also be given to legal entities other than foundations that pursue the same objectives, provided the laws regulating those legal entities allow such transfers. If neither of these laws 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 if 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.

The government can involuntarily dissolve an association by revoking its legal entity status if it continues to violate its obligations under the Law on Societal Organizations after a temporary ban. The Minister of Law and Human Rights has the absolute authority to revoke the legal status of an association, and revocation of legal status results in the

dissolution of the association (Law on Societal Organizations Articles 61(4) and 80A).

Members of an association can receive their contributions back from remaining assets after the State Receiver (*Balai Harta Peninggalan*) completes the liquidation process.

3. Societal Organizations without Legal Entity Status

The government can revoke the Registration Certificate (SKT) of societal organizations without legal entity status. The *Perppu* gives absolute authority to the Minister of Home Affairs to revoke an organization's registration certificate without consulting the Supreme Court (*Perppu* Article 62).

There are no rules on the liquidation process of a societal organization without legal entity status.

D. Activities

1. General Activities

In general, a foundation or an association can undertake any lawful, not-for-profit activities. However, Articles 21 and 59 of the Law on Societal Organizations provide that all societal organizations, including associations and foundations, are subject to certain obligations and prohibitions. Article 21 of the Law requires all societal organizations to: conduct activities according to the organization's purposes; guard the unity and integrity as well as integrality of Indonesia; maintain religious, cultural, moral, and ethical values and decency; provide benefits for society; maintain public order and social peace; manage their finances in transparent and accountable ways; and participate in pursuing the goal of the country (Law on Societal Organizations Article 21).

Article 59 prohibits societal organizations from certain activities, including: the use of the flags and symbols of any separatist movements

or forbidden organizations; activities related to disturbing public order, separatism, or hatred against any ethnicity, religion, race, or group; law enforcement activities; or subscribing, promoting, or spreading ideologies contradictory to *Pancasila* (Law on Societal Organizations Article 59).

There are additional obligations and prohibitions for foreign foundations and foundations founded by foreign entity. These entities must: respect the sovereignty of Indonesia; comply with all laws and regulations; honor and respect the religious and cultural values of Indonesian society; provide benefits to Indonesian society and the state; publish the value of all resources and all spending of funds; and make periodic reports to the government or local government and publish them in the Indonesian language news media (Law on Societal Organizations Article 51). Foreign foundations and foundations founded by a foreign entity are specifically prohibited from: conducting activities that violate laws or regulations; disturbing the stability and unity of Indonesia; conducting intelligence activities; conducting political activities; conducting activities that may disturb diplomatic relations; conducting activities that are not in line with the foundation's purposes; raising funds from the Indonesian society; or using government facilities.

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. A societal organization without legal entity status is formally recognized upon the issuance of Registration Certificate (SKT).

2. Public Benefit Activities

The Law on Societal Organizations requires all societal organizations—including those without legal status—to provide benefits to society (Law on Societal Organizations Article 21). While the law does not explicitly define a public benefit activity, Articles 4 and 5 provide illustrative

examples of permissible objectives that serve a public good, including but not limited to: providing services to the community; developing social solidarity, mutual cooperation, and tolerance in social life; and maintaining, nurturing, and strengthening the unity and integrity of the nation.

3. Economic Activities

A foundation can engage in commercial activities to support the attainment of its objectives by setting up commercial enterprises (*badan usaha*), or participating as a shareholder in commercial enterprises. [\[7\]](#) If the foundation sets up its own commercial enterprise, the activities of that enterprise must relate to the foundation's statutory purposes. The law defines these activities broadly to include the fields of human rights, art, sport, consumer protection, education, environment, health, and the pursuit of knowledge. If the foundation seeks to participate as a shareholder in other, unrelated commercial enterprises that are deemed to be prospective, it may do so provided that such shareholding does not exceed 25 percent of the total value of the foundation's assets ([Law on Foundations Article 7\(2\)](#)). Dividends received by the foundation from investment in its commercial enterprise are not subject to income tax.

To maintain good 'corporate' governance, no member of the governing, supervisory, or executive board of the foundation may 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.

According to the Law on Societal Organizations, associations may also engage in commercial activities to support their objectives (Article 39), but the Law does not provide further regulations on this matter. Societal organizations without legal entity status cannot engage in any commercial activities.

Law No. 9 of 1961 on the Collection of Money or Goods, Government Regulation No. 9 of 1980 on the Implementation of Donation Collection, and the Social Affairs Minister Regulation No. 8 of 2021 on the Management of Money and Goods Collection permit NPOs to collect goods and money from the public to implement their objectives.

E. Political Activities

Indonesian law does not restrict an NPO from participating in the political process by lobbying public officials, endorsing or opposing candidates, or otherwise. However, the Law on Societal Organizations clearly prohibits foreign foundations and foundations founded by foreign entities from engaging in political activities.

F. Discrimination

The [1945 Constitution](#) provides a legal basis for non-discrimination in Article 28, which provides that every person shall have the right to be free from discriminatory treatment based upon any grounds whatsoever and shall have the right to protection from such discriminatory treatment. This is further regulated by Law No. 12 of 2005 regarding the Ratification of the International Covenant on Civil and Political Rights (ICCPR).

Furthermore, Law No. 20 of 2003 concerning the National Education System requires the government to help provide an excellent education for every citizen without discrimination (Article 11 Section 1). The non-discrimination regulation applies to non-governmental educational institutions as well (Law No. 20 of 2003 Article 4 Section 1).

G. Control of Organization

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

The Law on Foundations and the Law on Societal Organizations permit foreign citizens together with Indonesians or otherwise to establish a foundation under Indonesian law. The laws also permit foreign foundations, such as foundations established under foreign laws, to operate in Indonesian territory. A foreign foundation must operate in partnership with an Indonesian foundation and is limited to the pursuit of social, religious or humanitarian objectives. The Law on Foundations and Government Regulation No. 59 of 2016 on Societal Organizations Established by Foreign Nationals outlines a set of rules regarding foundations established by foreign individuals or entities.

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 (Government Regulation 63/2008 Article 12). 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*) (Government Regulation 63/2008 Article 13).

There are no other provisions regarding the control of an organization. It is therefore possible that an Indonesian NPO could be controlled by a for-profit entity or by an American grantor charity (which requires that the charity specifically so provide in the affidavit). However, it is important to note that such NPOs may face additional requirements for registration.

V. Tax Laws

A. Tax Exemptions

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

Donations, including religiously-motivated donations and grants, are not taxed if 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 (*sisal lebih*) of an NPO working in the area of education, or research and development that is re-invested in its work as per the timing requirements of the Income Tax Law (Law No. 36 of 2008 on Income Tax Article 4 Section 3). These provisions are regulated in detail by Minister of Finance Regulation No. 80 of 2009 and General Directorate of Taxation Regulation No. 44 of 2009. These technical regulations provide that the tax exemption is applicable for income (*sisal lebih*) generated by NPOs that is reinvested in the form of facilities for education and/or research and development that are open to the public within four years after the income is generated.

B. Deductibility of Charitable Contributions

Tax deductions are recognized only for a limited number of activities, namely: national disaster management; research and development; education facilities, including education related to sports, art, and culture; sports activities; and the development of public facilities (termed "social infrastructure" in the law), including religious buildings, cultural centers, and health clinics.

Individual and corporate taxpayers may deduct charitable contributions for natural disasters, research and development activities, the development of social infrastructure, education facilities, and sports (Law No. 36 of 2008 on Income Tax Article 6 Section 1). [8] In 2010, the Indonesian Government issued Government Regulation No. 93 of 2010 regarding these deductions. The regulation stipulates that the amount of a donation that can be deducted from gross income in a year may not be more than 5 percent of the net income of the previous year (Government Regulation No. 93 of 2010 Article 3). In addition, the contributions must not be provided for parties that have conflicts of

interest according to tax law (Government Regulation No. 93 of 2010 Article 4). The technical procedures for the tax deduction are provided by the Minister of Finance Regulation No. 76/PMK.3/2011 regarding procedures to record and to report contributions for national disaster management, research and development, education facilities, sport, and social infrastructure that can be deducted from gross income.

C. Value Added Tax

Indonesia imposes a Value Added Tax (VAT). The applicable rates are 10 percent on most goods and services, and between 10-50 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, and corn; and services such as medical, social (public benefit), religious, educational, 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 are often unfamiliar with it. Grants related to government projects are clearly exempt from VAT (Government Regulation No. 42 of 1995 Article 2).

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 or 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 (approximately \$15,000-\$30,000), depending on the nature of the activities conducted by the NPO.

D. Customs Duties

Certain items are exempted from customs duties on imports (Law No. 17 of 2006 on Customs Article 25 Section 1; Law No. 39 of 2007 on Duties Article 9 Section 1). Those items include the following: goods

belonging to a registered international institution and its officers on duty in Indonesia based on the 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. [\[9\]](#)

E. Other Taxes

NPOs are subject to Land and Building Taxes, 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 NPOs.

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.

Footnotes

[1] The original term in Indonesian is *Organisasi Kemasyarakatan*. While the Indonesian government does not publish official translations of laws and regulations, this term is generally translated as “social organizations” or “mass organizations.” Indonesian media generally use “mass organizations.” However, the correct translation according to local partners is “societal organizations” because it refers to “groups in the society” instead of groups that are “social” in their work, as in providing charity or providing a social network. Translating *Organisasi Kemasyarakatan* as “social organizations” may also confuse it with another type of organization, *Organisasi Sosial*, which is correctly translated as “social organizations.” Social Organizations are regulated by the Law on Social Welfare and supervised by the Ministry of Social Affairs. Therefore, this note uses the term “societal organizations.”

[2] Article 1653 of Chapter 9 of the Third Book of the Civil Code is generally regarded as the source of Indonesia’s primary not-for-profit legal forms, the foundation and association.

[3] 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.”

[4] Although the Constitutional Court revoked several articles under the Law on Societal Organizations pertaining to the categorization of an organization as national, provincial, or local, and the obligation to register, the Minister of Home Affairs has revived these articles through Regulation No. 57 of 2017 on Registration and Information System Management for Societal Organizations.

[5] “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. 12 of 2011 regarding Lawmaking Process).

[6] Some of the *Perppu*'s provisions differ from the 2013 Law. For example, the *Perppu* no longer requires the Government (through the Ministry of Law and Human Rights) to confer with the Supreme Court before an organization's registration certificate or its legal status may be revoked. The *Perppu* also provides for imprisonment for a minimum of six months to a maximum of 20 years for violations of Article 59 of the Law on Societal Organizations (barring societal organizations from certain activities).

[7] The 2004 Law amending the 2001 Law on Foundations in 2004 more explicitly prohibits foundations in Indonesia from directly conducting any business activities (Law No. 28 of 2004 amending the Law on Foundations Article 3(1) (Elucidation)).

[8] Before the enactment of the 2008 Law, additional tax incentives were set up on an ad hoc basis. For 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).

[9] 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 (Law on Customs and Duties Article 25(4)).