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WAKE UP CALL

RSM Indonesia **Newsletter**

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Welcome to issue 62 of Wake Up Call , RSM Indonesia's newsletter covering topics related to audit, tax and consulting.

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VALUATION OF RENEWABLE COMPANY

SYAHADAM MANAF, CONSULTING PRACTICE

In recent years, tackling the issue of climate change in Indonesia has become increasingly important. As previously mentioned, the Government has made efforts to address this issue, one of which is encouraging the development of the NRE power plant.

Based on those issues the Government has new Regulation on National Energy Policy and Indonesia's target for the new renewable energy ("NRE") mix in 2025 is at least 23% and 31% in 2050. As part of their commitment, the Government has encouraged the development of NRE for various types of power plants.

Statistic records from the Ministry of ESDM show that the average growth for the past 5 years (2017–2021) of installed NRE power plants in Indonesia is 5.2% per year. Furthermore, the target capacity installed for 2022 is 12.451 megawatt ("MW"), an increase of 920 MW from 2021.

Indonesia has a substantial potential for new and renewable energy to meet the primary energy mix target shown in the following table:

Type of Energy	Potential
Water-powered	94.3 GW
Geothermal	28.5 GW
Bio Energy	PLT Bio: 32.6 GW & BBN: 220 Thousand Bph
Solar-powered	207.8 GWp
Wind	60.6 GW
Ocean-powered	17.9 GW

Source: The Ministry of ESDM

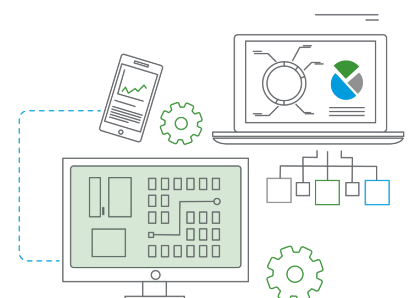
This could result in more potential M&As and understanding the valuation of a renewable company has become an increasingly important part of the process.

UNDERSTANDING THE KEY DRIVERS OF RENEWABLE ENERGY COMPANY

Before doing a valuation, it is essential to consider the key drivers of a renewable energy company. The major value driver for this sort of company comes from the price/tariff per kilowatt/megawatt established in the Power Purchase Agreement ("PPA"). Price or tariff will directly impact the company's revenue. Whereas its minor value driver comes from carbon credit generated that can be monetized.

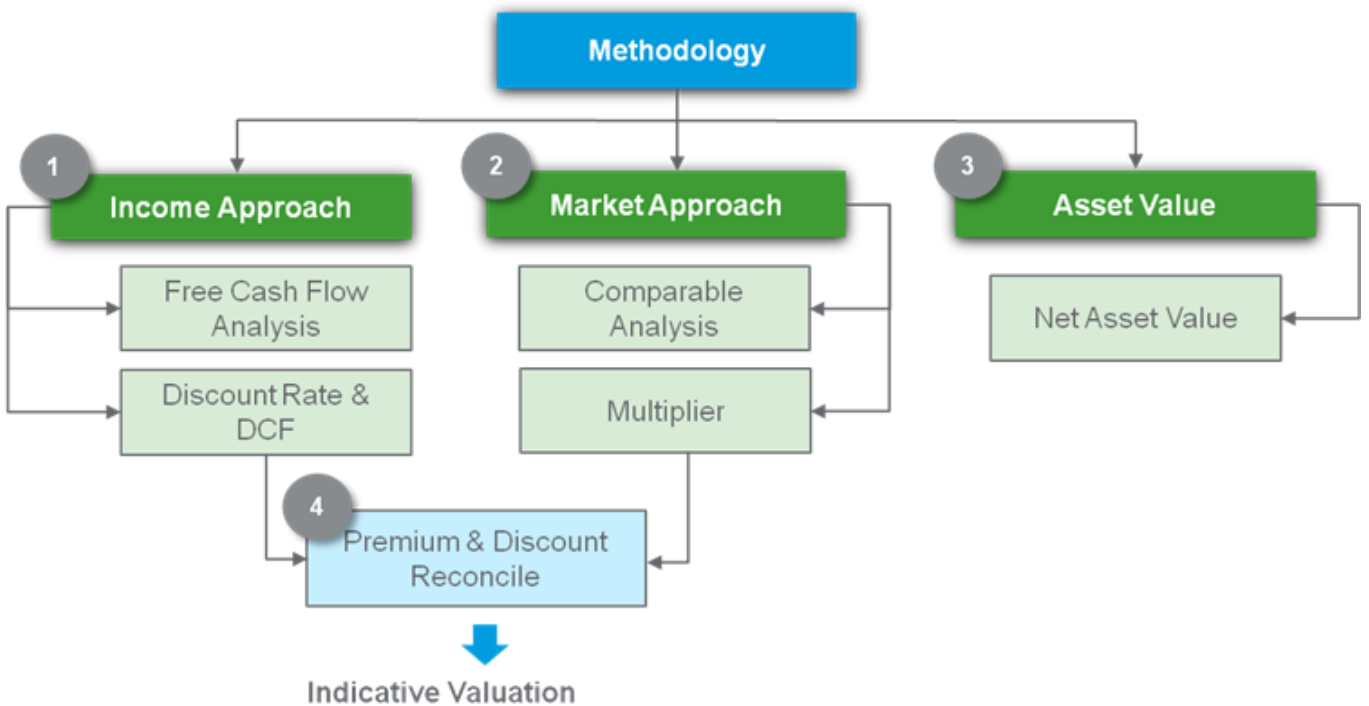
The cost drivers, it is mainly focused on the following:

1. Major cost driver
 - Royalty to the state for hydro
 - Land rental (if any)
 - Equipment rental/lease (if any)
 - Interest to banks/financial institutions
 - Management fee (if any)
 - Technology royalty (if any)
 - Maintenance cost & re-CAPEX
2. Minor cost driver
 - Employee cost
 - Social cost (CSR)



HOW TO VALUE AN INTANGIBLE RICH OR RENEWABLE ENERGY COMPANY?

In order to value these companies, we must first understand various methods of valuation.



1. Income Approach

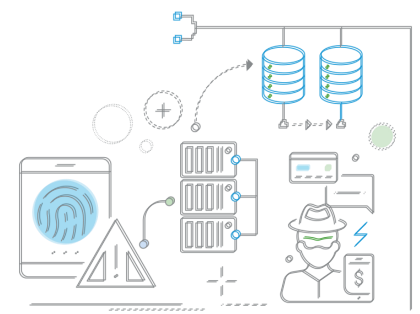
Two income-based approaches are primarily used when valuing a renewable energy company, which are the **Free cash flow to the firm ("FCFF")** or often referred to as "Free Operating Cash Flow" is the free cash flow available to all debt holders, and shareholders, and the **Free cash flow to equity ("FCFE")** defined as the free cash flow available to all shareholders only. In calculating the FCFE, there are several items to be considered such as Working Capital and Debt.

2. Market Approach

The market approach method uses publicly listed market information and data to determine the market value of the company undervalued. This method utilizes the last transaction of similar companies or assets in the market. According to OJK Regulation, the number of similar companies that are being used as a comparison is at least 5 or at least 8 companies, in terms of the criteria that are referred, at least 3 criteria are fulfilled.

3. Net Asset Value

Asset valuation is the process of determining the current value of a company's assets, such as stocks, buildings, equipment, brands, goodwill, etc. There are 2 values based on asset valuation, which are **Market Value**, which uses the estimation of the amount of money that can be obtained from a transaction done by trading an asset or liability on the valuation date, and **Liquidation Value**, which uses the amount of money that could be generated from selling an asset in a short period to fulfill the marketing deadline or on a rush basis.



For further information, please contact:
inquiry@rsm.id

BALI DIGITAL NOMAD VISA – TAX CONSIDERATIONS

ICHWAN SUKARDI, TAX PRACTICE

Today, a growing number of countries offer so-called “digital nomad visas.” These visas allow longer stays for remote workers and provide clarity about allowable work activities.

What are digital nomads? “digital nomads” are generally defined as workers who had left behind their homes, cities, and most of their possessions to embark on what they call “location independent” lives.

This year, the Indonesian Government announced its intention of introducing a new digital nomad visa leveraging on the trend and public's liking for working from Bali – the new digital nomad visa is also known as Bali Nomad Visa. Based on a statement made by Ministry of Tourism and Creative Economy, the Bali Nomad Visa shall be issued in the form of long-term visa, and it can be valid for 5 years!

While waiting for the formal launch of Bali Nomad Visa, let us take you through an immigration as well as tax perspective.

IMMIGRATION CONSIDERATION

We understand that one of the essential requirement for Bali Nomad Visa is that the applicant must have a remote job either by working for a company, freelancing, or working for your business (if the income is coming from outside Indonesia). This effectively means 2 things:

- i) The visa holder cannot work for a local company or business or derive any income locally.
- ii) The visa holder should have an existing job or income – the identity of the visa holder cannot be a pure tourist in nature.

More information regarding the eligibility and evidential proof requirements to a nomad visa applicant are required, for example, on whether there is any income level threshold for the applicant, what kind of document is sufficient to prove that the applicant currently holds a job or runs a business outside Indonesia, etc.

Further, typically a long-term visa in Indonesia supports spousal visa and/or dependent visa as well – it is unsure whether the Bali Nomad Visas would allow such a scheme whereby the spouse and /or the children of the visa holder can also opt into a similar long-term visa program to allow them to stay in Indonesia.

TAX CONSIDERATIONS – TAXABILITY OF OVERSEAS INCOME AND PERMANENT ESTABLISHMENT

Though branded as a tax-free scheme, the potential visa holders as well as foreign companies engaging personnel with Bali Nomad Visa needs to take a deeper look at the potential tax implications and risks.

Individual Tax Consideration

In general, a foreign individual will be considered as Indonesian tax resident if he/she is physically present in Indonesia for more than 183 days within 12-month period or intends to reside in Indonesia. Given the fact that Bali Nomad Visa will have a general validity period of up to five years, the visa holder will potentially be considered as an Indonesian resident for tax purposes.

A tax resident in Indonesia is subject to income taxes on his/her worldwide income. Based on the prevailing tax regulations, the individual income tax rate in Indonesia is currently on progressive basis from 5% to 35%. Therefore, to the extent that the foreign income derived by a digital nomad has been subject to tax overseas (and the tax rate is higher or the same to Indonesia's) and a tax credit can be claimed, he/she will have additional tax payable in Indonesia based on the above and in certain cases double taxation can occur (if a foreign tax credit is not claimable).

Tie-breaker rule under tax treaty may provide some relieve to help individual in determining his/her “true tax residency” – this generally takes into consideration of the individual's permanent home, “center of vital interests”, economic relations, and habitual

abode". In extreme cases, Mutual Agreement Procedure (MAP) may need to be considered in case tie-breaker rule fails to apply and no clear regulations issued by the government to address the relevant conflicts.

Foreign Company Tax Consideration

Foreign companies that hire personnel holding Bali Nomad Visa may potentially be exposed to Permanent Establishment ("PE") risks particularly if the companies have customers and/or business going on in Indonesia.

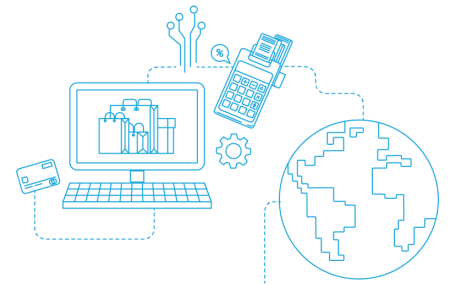
Based on domestic law, a foreign company with no fixed place of business can constitute a PE in Indonesia if it engages with personnel physically present in Indonesia for more than 60-day within a 12-month period. Tax treaty normally extend such time-test to 91-day or 120-day.

A PE deemed for tax purposes may give rise to adverse fiscal impact for foreign companies given the domestic tax regime as well as "rules of attraction".

CONCLUSION AND WAY FORWARD

As much as Indonesia is welcoming the Bali Nomad Visa program, potential tax exposures and risks need to be addressed for both individual applicant as well as hosting foreign entity.

Most countries offering similar visa scheme do not provide direct tax exemption to the digital nomads since there is still a need to honor the conventional time test provision followed by the tax consequences. Further tax guidelines need to be issued to provide clarify as well as to encourage compliance behavior of the digital nomads in otherwise case they could simply not adhere to local compliance procedure (either voluntarily or passively) and risk being penalized in the future.



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INDONESIA FACTS



PINK BEACH LOMBOK

Tangsi Beach or known as Pink Beach from Lombok Island is located in Sekaroh village, Jerowaru sub-district. This beach is one of seven beaches in the world that has pink sand, and one of two beaches in Indonesia that has pink sand.

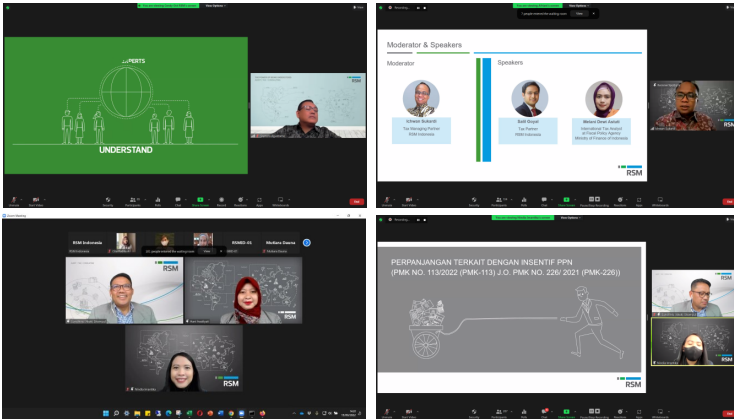
The pink color of the sand is formed because the original white sand grains are mixed with pink coral flakes. The refraction of sunlight and exposure to sea water adds to the more clearly visible pink color of the beach. This beach is so calm and only has small waves.

The beauty of Pink Beach also looks perfect with the expanse of hills around it. On the left side there is a hill with a wide meadow and from this hill the view of Pink Beach looks very beautiful. In addition, there is also an exotic headland on the right side with a gazebo that is provided on it.

Source: Wikipedia

OUR ACTIVITIES

RSM Indonesia Webinar



We successfully conducted several Tax and Consulting webinars during the 3rd quarter of this year. The webinars were delivered by our Senior Managers and Partners. More than 100 participants attended each webinar.

We also got a chance to have Ibu Melani Dewi Astuti, International Tax Analyst at Fiscal Policy Agency, Ministry of Finance of Indonesia as one of our speaker in our webinar series. *See you at our next events!*

RSM INDONESIA PUBLICATION

How are organizations addressing the working arrangements in this second year of pandemic?

RSM Indonesia conducted a survey in 2022, to understand what policies are in place on the working from home (WFH) and working from office (WFO).

The results show that each organization has different approach on the working arrangement which decision is influenced on multiple factors, and that the current approach taken can be altered depending on the circumstances.

Click [HERE](#) to download the infographic.

DEMOGRAPHIC

EMPLOYEES

190+ respondents	from	23 industry sector
54% female	51% 25-34 years old	92% jabodetabek location

EMPLOYERS

45+ respondents	from	19 industry sector
56% female	48% 45-48 years old	90% jabodetabek location

MORE PRODUCTIVE

45% of Employees believed that WFH or hybrid working arrangement is more productive and only 15% think it is less productive.

BUILD IT & THEY WILL COME

42% of Employers advised they had re-designed or planned to re-design the office space to encourage WFO and 23%* intended to reduce their office space.

* Not all Employers answered this question

FORMAL POLICY

73% of Employees and 56% of Employers, said that their organization has a formal policy for WFO and/or WFH at the current time.

FULL WFH POLICY

30% of Employees and 35% of Employers said most staff are permitted full WFH.

FULL WFO POLICY

23% of Employees and 29% of Employers state that 100% WFO is required.

WHO IMPLEMENTS THE POLICY?

25% of Employers stated that hybrid policy in their organization allows management to decide when the staff should WFH & WFO and 21% of Employees said it so. Meanwhile, 21% of Employees and 19% of Employers also stated that staff have the discretion when to WFH & WFO.

FLEX IS BEST

54% of Employees thought that complete flexibility is a good option for WFO/WFH. However, for Employers, complete flexibility and hybrid model (on average 3 days per week WFO) are equally good options for WFH/WFO (35% each).

Thank you
for reading



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