



TAX FACILITIES FOR BUSINESSES OPERATING IN NATIONAL CAPITAL CITY (IBU KOTA NUSANTARA)

RSM INDONESIA CLIENT ALERT – 29 MAY 2023

Government Regulation No 12 Year 2023 concerning the Granting of Business Licenses, Ease of Doing Business, and Investment Facilities for Business Players in Ibu Kota Nusantara (“GR-12”) was issued on 6 March 2023 to encourage investment by businesses in Ibu Kota Nusantara (“IKN”) and specific areas nearby, known as Partner Regions.

The regulation is effective on 6 March 2023.

There are two broad types of investment facility:

1. Those under the authority of the Central Government:
 - a. Income tax
 - b. VAT and Sales Tax on Luxury Goods
 - c. Customs
2. Those under the authority of the IKN Authority:
 - a. special tax and special revenue facilities
 - b. facilitation, provision of land and infrastructure to implement investment activities in IKN

This Client Alert summarises the tax facilities for income tax, VAT and Sales Tax on Luxury Goods.

The over-arching concept is that the facilities are only available in relation to activity and income generated in the IKN by taxpayers located in the IKN.

INCOME TAX FACILITIES

The income tax facilities provided are:

- Reduction of corporate income tax (“tax holiday”) of either 50% or 100% of the corporate income tax for businesses in the IKN or a Partner Region
- Tax holiday of either 85% or 100% for financial services businesses operating in the IKN Financial Centre
- Elimination of withholding tax on income earned by foreign investors from investment into the IKN Financial Centre
- Tax holiday for Head Offices or Regional Offices that are relocated to the IKN
- Super deduction of expenses for internship programs and vocational training
- Super deduction of expenses for research & development
- Super deduction for donations and/or for constructing public, social and/or other non-profit facilities
- Article 21 tax for certain employees to be borne by Government
- Final tax for micro, small and medium enterprises
- Reduction of tax on the transfer of rights over land and/or buildings

In general, most facilities require that an application is lodged through the OSS licensing portal or electronic systems provided by the Minister of Finance (“MoF”). The MoF shall also issue necessary implementing regulations.



THE TABLES BELOW SUMMARISE THE VARIOUS INCOME TAX FACILITIES:

Tax incentive: 100% reduction of CIT payable for domestic corporate taxpayers (not PE)			
Place of investment	Eligible line of business	Period when investment realised	Period of facility
IKN (minimum investment of IDR 10 billion)	Infrastructure and public services, comprising:	2023 - 2030	30 tax years
	<ul style="list-style-type: none"> ▪ Power generation, including new & renewable energy 	2031 - 2035	25 tax years
	<ul style="list-style-type: none"> ▪ Construction and operation of toll roads, airports, seaports, health facilities, industrial estates as well as research & innovation centres (industrial & science parks), public markets, vehicle terminals for passengers or goods, and stadiums/sport facilities 	2036 - 2045	20 tax years
	<ul style="list-style-type: none"> ▪ Construction and provision of clean water, telecommunications and information infrastructure 		
	<ul style="list-style-type: none"> ▪ Construction and implementation of education units 		
	<ul style="list-style-type: none"> ▪ Construction and management of urban forest parks, waste water and underground utility networks 		
	<ul style="list-style-type: none"> ▪ Construction of housing, residential areas and offices 		
	<ul style="list-style-type: none"> ▪ Provision of public transportation 		
	Economic revival, comprising:	2023 - 2030	20 tax years
<ul style="list-style-type: none"> ▪ Construction and operation of malls 	2031 - 2035	15 tax years	
<ul style="list-style-type: none"> ▪ Provision of tourism facilities, accommodation services/ star-rated hotels and MICE facilities 	2036 - 2045	10 tax years	

Tax incentive: 100% reduction of CIT payable for domestic corporate taxpayers (not PE)

Place of investment	Eligible line of business	Period when investment realised	Period of facility
	<ul style="list-style-type: none"> Refuelling and/or charging stations for electric vehicles 		
	Other business sectors, comprising: <ul style="list-style-type: none"> Urban farming/ fishery Value added industry and/or industrial engineering Hardware and/or software industry Services: trading, construction, real estate, tourism and creative economy 	2023 - 2030	10 tax years
		2031 - 2045	10 tax years (reduction of income tax is 50%, not 100%)
Partner region (minimum investment of IDR 10 billion)	<ul style="list-style-type: none"> Power generation, including new & renewable energy Construction and operation of toll roads, airports, and seaports Construction and provision of clean water 	2023 - 2030	25 tax years
		2031 - 2035	20 tax years
		2036 - 2045	15 tax years

Note:

Income earned by trading, construction and real estate businesses are only eligible for the facility if the business is in the IKN and the income is derived from the IKN

Tax incentive: Reduction of CIT payable for financial business activity in IKN Financial Centre for domestic corporate taxpayers and Permanent Establishments (PE)

Eligible line of business	Reduction of CIT	Period when investment is realised	Period of facility
Banking, insurance, and sharia finance	100% reduction of CIT payable on income that is used for investment or financing the development, growth, and economic activities in IKN or Partner Region	2023 - 2035	25 tax years
		2036 - 2045	20 tax years

Tax incentive: Reduction of CIT payable for financial business activity in IKN Financial Centre for domestic corporate taxpayers and Permanent Establishments (PE)

Eligible line of business	Reduction of CIT		Period when investment is realised	Period of facility
a. Capital market, derivative finance, and carbon trading b. Pension fund c. Financing d. Technology innovation in finance sector e. Venture capital f. Guarantee g. International commodity trading h. Bullion i. Trust fund management j. Management of financial instruments (special purpose vehicles) k. Financial holding company l. Financial market infrastructure m. Money market, foreign exchange market, and derivative transactions n. Operation of payment system services o. Other financial services	85% reduction of CIT payable on	Income earned from foreign capital investment (only for financial business activities per letter (a) and (g)) Income earned from businesses and/or community located in IKN (for all other financial business activities)		

The Financial Centre will be an area in IKN designated for the concentration of financial services as well as a centre for technology development and supporting services in the field of financial services.

In addition, income earned by foreign investors from investment in the IKN Financial Centre shall not be subject to withholding tax for a period of 10 years (the regulation does not stipulate “tax years”) commencing when funds are first placed in the Financial Centre.

Tax incentive: Reduction of CIT payable for the establishment and/or relocation of Head Office (HO) and/or Regional Office (RO) to IKN			
Eligible taxpayer	The requirements	Reduction of CIT	Period of facility
Foreign taxpayers	<ul style="list-style-type: none"> ▪ Have at least 2 affiliated units and/or related business entities located outside Indonesia (subsidiaries, branches, joint ventures, or similar entities) ▪ Have economic substance in IKN¹ ▪ Establish a limited liability company in Indonesia 	100% of CIT payable	First 10 tax years
Domestic taxpayers ²	<ul style="list-style-type: none"> ▪ Have economic substance in IKN¹ ▪ Establish a limited liability company in Indonesia 	50% of CIT payable	Next 10 years, but no longer than 2045

Tax administration regarding approval, utilization, obligations, prohibitions, and revocation of CIT reduction facility		
Provisions	Domestic corporate taxpayers (including PE, where permitted)	Establishment or relocation of HO/RO to IKN
Timing for submission of applications	<p>Submit application for tax facility prior to the commencement of commercial operations</p> <p>Submit request for use of tax facility after commencement of commercial operations</p>	<p>Submit application for tax facility no later than 30 days after the end of the tax year of the establishment and/or relocation of HO or RO</p> <p>Submit request for use of tax facility after commencement of commercial operations</p>
Authority to issue the approval	Delegated to the Minister of Investment (minister responsible for investment & investment coordination)	
Commencement of tax facility	Tax facility can be utilized from the tax year when commercial operations commence, based on field inspection (audit) conducted by the Director-General of Taxation	

¹ "Economic substance" is met if the HO/RO has its own management with sufficient authority to run the business; has its own assets sufficient to undertake business activities in IKN; has sufficient employees with qualifications/expertise consistent with the business sector; there are business activities in addition to receiving dividends, interest, royalties and/or income from sale of assets; and the HO/RO undertakes strategic activities for the Group such as consolidating the execution of new investments, expansions, mergers, acquisitions or liquidations of affiliates, consolidation of financial management and/or human resources.

² The income subject to the reduction of CIT is income received or earned from businesses/the community in the IKN.

Tax administration regarding approval, utilization, obligations, prohibitions, and revocation of CIT reduction facility		
Provisions	Domestic corporate taxpayers (including PE, where permitted)	Establishment or relocation of HO/RO to IKN
	("DGT"). Confirmation is then issued by the DGT under delegated authority from the Minister of Finance	
Obligations	Realization of investment within 2 years since the DGT issued the approval of the tax facility	Initiate realization of the relocation of HO/RO within 1 year since the DGT issued the approval of the tax facility
	Submit realization report regarding investment and business activity or the establishment and/or relocation of HO/RO	
	Make separate bookkeeping between investments that obtain tax facilities and those that do not obtain tax facilities	
	Withhold and collect income tax based on provisions of the Income Tax Law	
Prohibitions	<ul style="list-style-type: none"> ▪ Cannot import, purchase, or obtain second-hand capital goods to realize investment that receives the tax facilities, except for second-hand capital goods forming part of equipment required for implementation of investment in the health sector, for research & innovation, and construction in the IKN ▪ Cannot use capital goods that obtained the tax facility other than for purpose related to that tax facility during the period of the tax facility ▪ Cannot transfer capital goods that obtained the tax facility during the tax facility period unless such transfer does not reduce the realized investment below the minimum threshold ▪ Cannot relocate the investment outside IKN or Partner Region 	No information

The CIT reduction facility will be revoked if the taxpayer:

- a. Does not comply with the timing for submission of applications;
- b. Breaches the provisions regarding the prohibitions that are mentioned above;
- c. Is already operating commercially at the time of submitting the application for CIT reduction; and/or
- d. There are non-conformities for the realization and plan on main business activities.

If the CIT reduction facility is revoked, then any CIT reduction that has been utilized must be repaid.

The amount due to be repaid is also subject to tax administrative sanctions based on existing tax regulations.

Super deduction from gross income for activities related to work practices, apprenticeships, and/or teaching for fostering and developing specific competency-based human resources

Eligible taxpayer	Tax deduction	Period of facility
Domestic corporate taxpayer	Maximum of 250% of costs spent for work practices, internship, or teaching activities	Up to 2035
Note: <ul style="list-style-type: none">▪ Work practice and/or internship activities can be attended by students, teachers, instructors and/or educational staff as part of structured vocational education at educational institutions or job training centres, or by individuals under a program coordinated by specified government institutions, including the Ministry of Manpower and IKN Authority▪ Teaching activities shall be conducted by parties assigned by the taxpayer to teach in an educational institution or job training centre located in IKN▪ The work competencies shall be regulated by the Head of IKN Authority		

Super deduction from gross income for activities related to certain research and development

Eligible taxpayer	Tax deduction	Period of facility
Domestic corporate taxpayer	Maximum of 350% of costs spent for certain R&D that are expensed during certain time period	Up to 2035
Note: <ul style="list-style-type: none">▪ Taxpayer must be domiciled and/or have business activities and conduct the R&D activities in IKN▪ Certain R&D activities are defined as activities taking place in IKN to create inventions, develop innovations, master new technology and/or transfer of technology for industrial development to increase the competitiveness of national industry		

Super deduction from gross income for donation and/or cost of constructing public facilities, social facilities, and/or other non-profit facilities located in IKN

Eligible taxpayer	The requirements	Tax deduction	Period of facility
Domestic taxpayers	<ul style="list-style-type: none"> ▪ Have taxable net income based on the previous year's CIT return ▪ Donation or costs do not create a tax loss for the current tax year ▪ Supported by valid evidence ▪ Receive technical approval and specification from IKN Authority if the donations are in the form of goods and/or costs for the construction of facilities ▪ The donations/costs are not already obligations of the donor in relation to its business activities in IKN 	Maximum 200% of total donation and/or costs spent to construct public facilities, social facilities, and/or other non-profit facilities	Up to 2035

Note:

- The value of donation and/or costs can be in the form of:
 - a. Money (with the value determined based on the nominal amount of money) or
 - b. Goods (with the value determined based on: (1) acquisition value (if the goods have not been depreciated), (2) book value (if the goods have been depreciated); and (3) COGS (for self-produced goods)
- The utilisation of donations and/or costs for construction of facilities shall be stipulated by the Head of the IKN Authority

Article 21 Income Tax borne by the Government (PPH 21 DTP) for certain employees – Final Tax

Eligible employees	Exclusions from tax facility	Requirements and obligations for certain employers	Period of facility
<ul style="list-style-type: none"> Earns income from certain employers Resides in IKN Has NPWP registered at a tax office (KPP) located in IKN 	<ul style="list-style-type: none"> State officials, civil servants, TNI, Police (if not already eligible for PPh 21 DTP under existing regulations) Income earned from the State Budget (APBN) or Regional Budget (APBD) Article 21 tax that is already borne by the government based on other tax regulations 	<ul style="list-style-type: none"> Resides, domiciled or having business activity in IKN Has NPWP registered at a tax office (KPP) in IKN Submit notification letter for the utilization of PPh 21 DTP that has been validated by DGT Submit realization report of PPh 21 DTP to DGT Submit proof of deduction of PPh 21 DTP and report that proof in monthly Article 21 income tax return 	Up to 2035

Note:

- The PPh 21 DTP final tax shall be paid in cash to the employee by the employer and is not calculated as taxable income
- Income earned by the employee other than connected with work is subject to normal income tax rate
- The relevant employee is still required to submit an annual income tax return

Final tax for gross income of Micro, Small and Medium Enterprises (MSME) (Domestic taxpayers excluding PE)

The requirements	Tax facility	Period of facility
<ul style="list-style-type: none"> Investment in IKN is less than IDR 10 billion Gross income up to IDR 50 billion in 1 tax year* Taxpayer shall reside, be domiciled and/or have a branch located in IKN Taxpayer is undertaking business in IKN Taxpayer is registered as taxpayer under KPP in IKN Has conducted investment in IKN and has MSME qualification from the responsible authority 	0% final tax	Up to 2035

**Final tax for gross income of Micro, Small and Medium Enterprises (MSME)
(Domestic taxpayers excluding PE)**

The requirements	Tax facility	Period of facility
<ul style="list-style-type: none"> ▪ Has applied for utilization of facilities no later than 3 months from investment and received approval <p><i>* Eligible income does not include income:</i></p> <ul style="list-style-type: none"> a) earned by individual taxpayers from independent work b) earned by corporate taxpayers established as a limited partnership or firm by individuals having specific expertise to deliver services similar to services connected to independent work c) from services conducted outside IKN and/or utilized by a user that resides or is domiciled outside IKN d) imposed by final tax based on separate regulation (other than income subject to final tax because the taxpayer's revenue is below a certain threshold) e) exempt from tax object 		

Note:

- If the taxpayer's gross income exceeds IDR 50 billion, the facility is still available for the profit related to the first IDR 50 billion of gross income
- If taxpayer has more than 1 place of business in IKN, the determination of the limit of investment value and gross income are based on the sum of all locations of business places/branches in IKN
- Taxpayers are required to maintain bookkeeping/recording (according to the provisions) separately between income that obtains tax facility and non-tax facilities
- Costs should be allocated between income subject to the facility and other income. Inseparable joint costs shall be allocated proportionally to determine the taxable profit if the taxpayer has income subject to the facility and income that is not subject to the facility

Reduction of tax on the transfer of rights on land and/or buildings

Subject	Eligibility	Reduction of tax	Period of facility
Taxpayer transfers rights on land and/or building located in IKN	If the transfer represents the 1 st acquisition of rights to land and/or buildings in IKN	100% of total income tax payable	Up to 2035

VAT & LUXURY GOODS SALES TAX FACILITIES

The VAT and Luxury Goods Sales Tax facilities provided are:

Facility for non-collected VAT and the exemption for Luxury Goods Sales Tax		
Facility for non-collected VAT is given for:		
The delivery of certain strategic taxable goods	The delivery of certain strategic taxable services	Import and/or delivery of certain strategic taxable goods
<ul style="list-style-type: none"> a. New buildings (landed house, apartments, offices, shops/shopping centres, warehouses) for certain individuals, entities and/or ministries/institutions b. Vehicles registered in IKN that use battery electric vehicle technology produced in Indonesia c. Certain other strategic taxable goods necessary for preparation, construction, transfer, and development in IKN 	<ul style="list-style-type: none"> a. Rental of buildings (landed house, apartments, offices, shops/shopping centres, or warehouses) to individuals, entities or ministries/institutions carrying out business activities, working or domiciled in IKN b. Construction service for building of roads, bridges, dams, water treatment, drinking water and energy supply, telecommunications networks, energy networks, water/irrigation networks, garbage and/or waste treatment plants, health and education facilities, government buildings, landed houses, apartments, offices, shops, and/or warehouses, airports, ports, terminals, railway networks, or other similar infrastructure in IKN c. Garbage & waste treatment services for waste generated in IKN d. Certain other strategic taxable services necessary for preparation, construction, transfer and development in IKN e. Construction services for the building of power plants for new & renewable energy, toll roads, seaports, airports and clean water in Partner Regions 	<p>Machine and factory equipment - both main machinery/equipment as well as supporting machines/equipment to generate new and renewable energy in IKN</p>

Facility for non-collected VAT and the exemption for Luxury Goods Sales Tax

Facility for non-collected VAT is given for:

Note:

- VAT facility is given up to 2035
- VAT will become payable if: (a) for taxable goods, within 4 years, are used other than for the initial purpose, transferred partly/ wholly to other parties, and/or registered outside IKN (specifically for vehicle); and (b) for taxable services, the usage within 4 years is other than for the initial purpose and/or leased back to other parties during the rental period (if the taxable service is rental)

The exemption for Luxury Goods Sales Tax

Subject	Period of facility
The delivery of luxurious residences to individuals, entities, and/or ministries/institutions that are doing business, working, or domiciled in IKN	Up to 2035

For further information please contact:

RSM INDONESIA

Plaza ASIA Level 10
Jl. Jend. Sudirman Kav.59
Jakarta 12190
P: +62 21 5140 1340
E: inquiry@rsm.id

www.rsm.id