

Facilities for business
players in IKN^{P1}

Facilities for business players in IKN

On 6 March 2023, the Government issued Regulation No.GR-12¹ to provide facilities for projects in the National Capital to be named "Nusantara" (*Ibu Kota Negara bernama Nusantara/"IKN"*). These facilities were introduced under the IKN Law² and are dated and effective on 6 March 2023.

GR-12 facilities cover business licensing, the ease of doing business, and capital investment. This TaxFlash only covers the capital investment facilities as follows:

A. Facilities under the authority of the Central Government:

1. Income Tax
2. Value-Added Tax (VAT)/Luxury Goods Sales Tax (LST)
3. Import

B. Facilities under the authority of the IKN Authority:

1. Special tax and revenue
2. Facilitation, land provision, and infrastructure for the implementation of investment activities in the IKN.

The GR facilities are not necessarily new in concept but are generally more attractive and available only for eligible taxpayers in the IKN.

The GR-12 facilities can generally be applied for through the Online Single Submission ("OSS") or the electronic channel within the Ministry of Finance ("MoF").

A. Facilities under the authority of Central Government

1. Income Tax facilities

a. Corporate Income Tax ("CIT") reductions in the IKN and Partner Regions

Domestic corporate taxpayers whose investment in the IKN or a Partner Region (*Daerah Mitra/"DM"*) is at least IDR 10 billion can be granted a 100% or 50% reduction of their CIT payable. A DM is an area on

¹ Government Regulation No.12 Year 2023 (GR-12) dated and effective from 6 March 2023

² Law No.3 Year 2022 on IKN (IKN Law) dated and effective from 15 February 2022

Kalimantan Island established for the construction and development of the IKN economic superhub in collaboration with the IKN Authority and determined through a Decree of the Head of the Authority.

The facilities depend on the place of investment, the field of investment, and the period of investment as follows:

Investment field	Investment period	Facility	
		Reduction period	Reduction rate
IKN			
Infrastructure and public services	2023 - 2030	30 years	100%
	2031 - 2035	25 years	100%
	2036 - 2045	20 years	100%
Economic revival	2023 - 2030	20 years	100%
	2031 - 2035	15 years	100%
	2036 - 2045	10 years	100%
Other business fields	2023 - 2030	10 years	100%
	2031 - 2045	10 years	50%
DM			
Infrastructure and public services	2023 - 2030	25 years	100%
	2031 - 2035	20 years	100%
	2036 - 2045	15 years	100%

Taxpayers must apply via the OSS system prior to starting commercial operations. Once granted the CIT reduction is applicable from the tax year when commercial operations begin.

GR-12 provides more detail of each investment field, as well as obligations, prohibitions and sanctions applicable to taxpayers who have obtained a CIT reduction.

b. CIT reductions and withholding tax exemptions in Financial Centres

CIT Reduction facility

Domestic corporate taxpayers and Permanent Establishments (PEs) conducting financial services in the IKN Financial Centre can be granted a 100% or 85% reduction of their CIT payable. The facilities depend on the investment field and the period of the investment. The reduction periods are 25 and 20 years for the investment periods of 2023 – 2035 and 2036 – 2045 respectively.

The investment fields entitled to a 100% reduction are banking, insurance and sharia finance services. This 100% reduction is applicable on income used for investment or funding construction, development, and economic activities in the IKN/DM.

The fields entitled to an 85% reduction are as follows:

1. Capital markets, derivative finance, and carbon exchanges
2. Pension funds
3. Financing
4. Venture capital
5. Technology innovation in the financial sector
6. Guarantees
7. International commodity trading
8. Bullion trading
9. Management of trust funds
10. Management of special purpose financial instruments
11. Financial holding companies
12. Financial market infrastructure
13. Money market, foreign exchange and derivative transactions
14. Payment system services
15. Other financial services.

The 85% CIT reduction is for points 1 and 7 above and applicable for CIT payable on the income originating from foreign investors. The reduction for points 2 to 6 and 8 to 15 is applicable on CIT payable on income originating from business players/communities in the IKN.

To obtain approval, taxpayers must apply via the OSS system prior to starting commercial operations. Once granted the CIT reduction is applicable from the tax year when commercial operations begin.

Withholding tax (WHT) exemption facility

Income derived from investment in the IKN Financial Centre that is received/earned by a foreign tax subject is exempt from WHT for 10 years. This starts from the first placement of funds in the IKN Financial Centre.

GR-12 provides details on the issuer of business licences, the determination of the Financial Centre area, the obligations/rights of business players, the monitoring of licensing/business activities, and the imposition of sanctions.

c. CIT reductions for establishment/relocation of headquarters/ regional offices to the IKN

Businesses with foreign tax status or domestic taxpayers who establish/ relocate their headquarters/regional offices ("HQ/RO") to the IKN can be granted a CIT reduction as follows:

- a) having at least two affiliated units/business entities outside Indonesia (i.e. a subsidiary, branch, joint venture, or other similar entity) – for business players with foreign tax subject status only;
- b) having economic substance in the IKN; and
- c) having a limited liability company (*Perseroan Terbatas*) in Indonesia.

The CIT reduction is 100% for the first 10 years and 50% for the following 10 years. This facility is available up until 2045.

To obtain approval, taxpayers must apply via the OSS system no later than 30 days from the end of the tax year when the establishment/ relocation of the taxpayer's HQ/RO is carried out. Once granted, the CIT reduction facility is applicable from the tax year when commercial operations begin.

GR-12 provides more details on the obligation and sanction for taxpayers who have obtained the CIT reduction facilities.

d. Super deduction for internship programmes and/or a vocational training

Domestic corporate taxpayers that carry out internships and/or vocational training programmes to develop competency-based human resources in the IKN are entitled to a maximum deduction of 250% of the costs incurred for those activities. This facility is available up to 2035.

To obtain this facility, taxpayers must apply via the OSS system.

The activities eligible are as follows:

- a) Internship programmes being part of a vocational education curriculum to enable the mastering of skills or expertise in certain fields for:
 - i. Students, trainees, and teachers from vocational education institutions in a high school, a diploma level institution, or a training centre; or

- ii. a vocational programme for unemployed people run by the Government; and/or
- b) Vocational training conducted by parties assigned by a taxpayer in a vocational education institution in either a high school, a diploma level institution, or a training centre in the IKN.

e. Super deduction for Research and Development (“R&D”) activities

Domestic corporate taxpayers that have places of business that carry out certain R&D activities in the IKN are entitled to a maximum deduction of 350% of the costs incurred for a certain period. This facility is available up until 2035.

To obtain this facility, taxpayers must apply via the OSS system.

GR-12 defines R&D activities as those carried out in the IKN to produce inventions, develop innovations, master new technologies, and/or transfer technology for industrial development to increase the competitiveness of a national industry.

f. Super deduction for donations and/or building public, social, and/or other non-profit facilities

Domestic corporate taxpayers who donate and/or pay for the construction of public, social, and/or other non-profit facilities in the IKN are entitled to a maximum deduction of 200% of the expenditure. Utilisation of the expenditure is determined by the Head of the Authority. This facility is available up until 2035.

To obtain this facility, taxpayers must apply via the OSS system or electronic channel within the MoF system. If not available, the application can be submitted offline to the Head of the Authority with a copy to the Director General of Taxes (DGT).

The requirements are as follows:

- a) the taxpayer has a prior year fiscal net income based on its CIT return;
- b) the construction costs do not result in a loss in the tax year;
- c) the spending is supported by valid evidence; and
- d) the IKN Authority provides technical approval if the donation is in the form of goods and/or construction costs.

Donations and/or construction costs cannot be deducted from the gross income of the donor if they are mandatory in nature.

g. Final Article 21 Income Tax facilities borne by the government

Employees are entitled to enjoy an Article 21 Income Tax facility in the form of Final Income tax borne by the government where the employee:

- a) resides in the IKN;
- b) is registered at a tax office in the IKN;
- c) receives/earns income from eligible employers.

Eligible employers are those who:

- a) are residing, having domicile, or having business activities in the IKN;
- b) are registered at a tax office in the IKN or having a tax identity at their place of business in the IKN;
- c) have submitted a notification to utilise the facility and received a validation from the DGT; and
- d) have submitted a realisation report to the DGT.

Under this facility the Article 21 Income Tax is calculated but not deducted from the employees nor paid to the government. This facility is available up until 2035.

The following are not eligible for this facility:

- a) income of state officials, civil servants, members of the Indonesian National Armed Forces (*Tentara Nasional Indonesia*) and members of the Indonesian National Police (*Kepolisian Negara Republik Indonesia*);
- b) income from the State/Regional Budget; and
- c) where Article 21 Income Tax has separately been borne by the government based on other tax laws and regulations.

h. Zero-rated final tax for Micro, Small and Medium Enterprises (“MSME”)

Domestic taxpayers (excluding PEs) whose investment in the IKN is below IDR 10 billion and meet certain requirements can be granted a 0% Final Tax for certain periods.

The 0% Final Tax is applicable for an annual gross turnover of up to IDR 50 billion in the IKN. This facility is granted from the approval of the facility up until 2035.

Eligible taxpayers are as follows:

- a) are residing, having domicile, or having a branch in the IKN;
- b) are conducting business activities in the IKN;
- c) are registered at a tax office in the IKN;
- d) have made an investment in the IKN and have an MSME business qualification issued by an authorised agency; and
- e) have submitted an application to use the facility within three months of the investment being made.

Income not eligible is similar to that stipulated under GR-23³ which governs the final tax for MSME (e.g. income from certain freelance services by individuals, income subject to other final tax, etc.). However, GR-12 adds incomes from services performed outside of the IKN or utilised by a service recipient outside of the IKN.

The procedures on technical implementation (such as the submission of applications, the issuance of approval letter, etc.) will be further regulated by the MoF.

i. Income Tax reduction on transfer of Land and/or Building (L&B) rights

Taxpayers who transfer L&B rights in the IKN can be granted a 100% reduction of Income Tax if the L&B is the buyer’s first L&B acquisition in the IKN.

To obtain an Exemption Letter (*Surat Keterangan Bebas/SKB*) taxpayers must apply via the electronic channel within the MoF system. This facility is available up until 2035.

The procedures on the technical implementation (such as submission of applications, issuance of SKB, etc.) will be further regulated by the MoF.

³ GR Regulation No.23 Year 2018 (GR-23) dated 8 June 2018 and effective from 1 July 2018

2. VAT Not-collected and LST exemption facilities

These facilities are available up until 2035.

a. Facilities in the IKN

VAT Not-collected

VAT is not collected on the following

- a) Delivery of certain strategic taxable goods and services
 - Strategic taxable goods cover certain buildings, locally produced electric vehicles registered in the IKN and other strategic taxable goods needed for preparation, construction, relocation, and development activities in the IKN.
 - Strategic taxable services cover certain building rental services, construction services for certain infrastructure, garbage or waste management services, and other services needed for preparation, construction, relocation and development activities in the IKN.
- b) Import of certain strategic taxable goods.

The above facilities are also applicable for imports by and deliveries to VATable Entrepreneurs (*Pengusaha Kena Pajak*) that generate new or renewable energy in the IKN.

LST exemption

LST is exempted on the delivery of luxury residential accommodation for individuals, entities or ministries/institutions with business activities in the IKN.

b. Facilities in a DM

VAT is not collected on the delivery of construction services relating to developments in a DM for:

- power plants;
- toll roads, seaports, and airports;
- the provision of clean water.

This facility is only available for taxpayers granted a CIT reduction under point A.1.a for a DM above.

Restrictions on taxable goods that enjoy “VAT Not-collected” facilities include certain application and administrative procedures. These will be further regulated by the MoF.

3. Import facilities

Import facilities are available up until 2045 and consist of:

- a. Import Duty and Article 22 exemptions as well as a VAT Not-collected on imports by the Central or Regional Government for the public interest in the IKN and a DM;
- b. Import Duty and Article 22 exemptions as well as a VAT Not-collected on the import of capital goods for industrial, construction and development activities in the IKN and a DM; and
- c. Import Duty exemptions on the import of goods and materials for industrial construction and development in the IKN and/or a DM.

The Import Duty exemption can be granted for capital goods as well as goods and materials originating from Free Trade Zones, Special Economic Zones, and/or Bonded Stockpiling Areas.

The facilities in point b and c above are only available for taxpayers granted a CIT reduction facility set out under point A.1.a above for a DM which support the construction and development in the IKN for:

- power plants;
- toll roads, seaports, and airports;
- the provision of clean water.

The Import Tax facilities in point a and b above may be granted for the import of goods from Bonded Logistic Centres.

Applications for this facility are submitted through the OSS system. GR-12 provides further details on the technical implementation of these facilities.

B. Facilities under the authority of the IKN Authority

1. Special tax and revenue

The IKN Authority can provide reductions, relief or exemptions in regional tax or revenue. Under GR-12 these facilities consist of:

- a. Zero-rated (0%) Duty on the Acquisition of L&B Rights (*Bea Perolehan Hak atas Tanah dan Bangunan*) for certain periods on:
 - Rights to Land (*Hak Atas Tanah*) in the form of the Right of Exploitation (*Hak Guna Usaha*), the Right of Building (*Hak Guna Bangunan*), or the Right to Use (*Hak Pakai*) on the Right to Manage (*Hak Pengelolaan*);
 - The transfer, inheritance, or imposition of mortgage rights approved by the IKN Authority.
- b. A charge of IDR 0 for the granting of a building approval and certificate of proper function for a certain period.

The facilities will be granted in accordance with the priorities set by the Head of the IKN Authority.

2. Facilitation, land provision, and infrastructure for the implementation of investment activities in the IKN

These facilities consist of:

- a) the provision of land/locations for business players;
- b) the provision of facilities/infrastructure;
- c) the provision of investment convenience and security; and/or
- d) easy access to ready-to-use and skilled labor.

The facilities, land provisions, and infrastructure will be granted by the IKN Authority in accordance with the set priorities.

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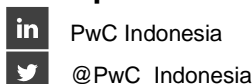
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