

## Tax Facilities Provided in the Context of Realizing the Nusantara Capital (IKN)

The President of the Republic of Indonesia has issued Government Regulation Number 12 of 2023<sup>1</sup>(PP 12), which regulates business permits, ease of doing business, and investment facilities for business players in the Nusantara Capital. This regulation was made in order to realize the Nusantara Capital as a sustainable city in the world, the key driver of Indonesia's economy in the future, and a symbol of national identity.

To achieve this objective, the government provides tax facilities that are specifically applicable to the Nusantara Capital. All tax facilities that are regulated in the taxation laws and regulations, which are not specifically regulated in this Government Regulation, apply *mutatis mutandis*<sup>2</sup> in the Nusantara Capital.

PP 12 provides tax facilities that are solely available in the Nusantara Capital in the form of:

1. Reduction of Income Tax for domestic corporate taxpayers,

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<sup>1</sup> Government Regulation Number 12 of 2023 is effective as of March 6th, 2023

<sup>2</sup> Changes deemed important may be made

2. Reduction of Income Tax on financial business activities in the Financial Center,
3. Reduction of corporate Income Tax for the establishment and/or relocation of headquarters and/or regional offices;
4. Gross income deduction (super tax deduction) in the vocational fields with specific competencies, research and development, donations and/or development costs of public facilities, social facilities, and/or other non-profit facilities;
5. Income Tax Article 21 is borne by government and is final,
6. 0% Income Tax rate for small and medium enterprises,
7. Reduction of Income Tax on the transfer of land and/or buildings, and
8. Unimposed VAT and exemption of Sales Tax on Luxury Goods.

In this Tax Update, we only highlight the provisions regarding tax facilities regulated in PP 12, which are:

- Domestic corporate taxpayers who invest in the Nusantara Capital are given a 100% or 50% reduction in corporate Income Tax from the amount of corporate Income Tax payable (tax holiday). This facility is provided for investment values of at least IDR10,000,000,000 (ten billion rupiahs) in strategic sector businesses to accelerate the development of the Nusantara Capital, including infrastructure and public services, economic development, and other business sectors.<sup>3</sup>

The table below shows the tax holiday period and corporate Income Tax reduction facilities for such investments:

| Business Sector                    | <i>Tax Holiday Period</i> |   |           |
|------------------------------------|---------------------------|---|-----------|
|                                    | 2023-2030                 | 2031-2035   | 2036-2045 |
| Infrastructure and public services | 30 years                  | 25 years  | 20 years  |
| Economic Development               | 20 years                  | 15 years  | 10 years  |
| Other sectors                      | 10 years                  | 10 years<br>(50% reduction in corporate Income Tax) |           |

<sup>3</sup> Article 28, 29

- Domestic corporate taxpayers who invest in Partner Regions are given a corporate Income Tax reduction facility of 100% of the amount of corporate Income Tax payable (*tax holiday*). This facility is provided for investment values of at least IDR10,000,000,000 (ten billion rupiahs) in infrastructure and public services sectors.<sup>4</sup>

The table below shows the reduction in corporate Income Tax for such investments:

| Business Sector                    | Tax Holiday Period |           |           |
|------------------------------------|--------------------|-----------|-----------|
|                                    | 2023-2030          | 2031-2035 | 2036-2045 |
| Infrastructure and public services | 25 years           | 20 years  | 15 years  |

- Domestic corporate taxpayers and permanent establishments engaging in financial business activities in the Financial Center of the Nusantara Capital are given a corporate Income Tax reduction facility with a certain percentage of the amount of corporate Income Tax payable.<sup>5</sup>

The table below shows the percentage and *tax holiday* period for such investments:

|    | Business Sectors in the Financial Center              | Percentage | Tax Holiday Period |           |
|----|---|------------|--------------------|-----------|
|    |   |            | 2023-2035          | 2036-2045 |
| a. | Banking   | 100%       | 25 years           | 20 years  |
| b. | Insurance   |            |                    |           |
| c. | Sharia Finance  |            |                    |           |
| d. | Capital market, derivative finance, and carbon market | 85%        |                    |           |

<sup>4</sup> Article 30, 31

<sup>5</sup> Article 32, 33

|    |  |  |  |  |
|----|--|--|--|--|
| e. | Pension funds  |  |  |  |
| f. | Financing  |  |  |  |
| g. | Venture capital  |  |  |  |
| h. | Financial technology innovation  |  |  |  |
| i. | Guarantee  |  |  |  |
| j. | International commodity trading/exchange                               |  |  |  |
| k. | <i>Bullion</i> <sup>6</sup>  |  |  |  |
| l. | Trust fund management  |  |  |  |
| m. | Financial instrument management  |  |  |  |
| n. | Financial conglomerate holding company                                 |  |  |  |
| o. | Financial market infrastructure  |  |  |  |
| p. | Money market, foreign exchange market, and its derivative transactions |  |  |  |
| q. | Payment system service provider  |  |  |  |
| r. | Other financial services   |  |  |  |

- Income derived from investments in the Financial Center of the Nusantara Capital obtained by foreign taxpayers is exempted from Income Tax Article 26 deduction and/or collection for a period of 10 years from the first placement of funds.<sup>7</sup>
- Corporate Income Tax reduction for the establishment and/or relocation of headquarters and/or regional offices is provided until 2025. The reduction in

<sup>6</sup> Gold bank, a place for buying and selling precious metals transactions

<sup>7</sup> Article 33

corporate Income Tax (*tax holiday*) is given for 100% for the first 10 years, and 50% for the following 10 years.<sup>8</sup>

- The deduction of gross income (*super tax deduction*) in the vocational fields with specific competencies, research and development, donations and/or development costs of public facilities, social facilities, and/or other non-profit facilities are regulated as follows:<sup>9</sup>

| <b>Activity</b>   | <b>Period</b> | <b><i>Super Tax Deduction</i></b> |
|---|---------------|-----------------------------------|
| Internship, apprenticeship, and/or learning practices   | until 2035    | 250%                              |
| Certain research and development in the Nusantara Capital   | until 2035    | 350%                              |
| Donations and/or development costs of public facilities, social facilities, and/or other non-profit facilities in the area of the Nusantara Capital | until 2035    | 200%                              |

- Income Tax Article 21 is borne by government and is final on the income of specific employees. This facility is provided until 2035.<sup>10</sup> Income Tax Article 21 that is borne by government and is final does not apply to employees who receive income from the State Budget (APBN) or Regional Budget (APBD).
- The 0% Income Tax rate for small and medium enterprises could be applied on the condition that the investment is at least IDR 10,000,000,000 (ten billion rupiahs) and the revenue is up to IDR 50,000,000,000 (fifty billion rupiahs). This tax facility is provided until 2035.<sup>11</sup>
- Reduction of Income Tax on land and/or building transfers is provided up to 100%. This tax facility is provided until 2035.<sup>12</sup>
- The unimposition of Value Added Tax (VAT) and exemption of Sales Tax on Luxury Goods is provided until 2035, with the following conditions<sup>13</sup>:

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<sup>8</sup> Article 36

<sup>9</sup> Article 42-45,

<sup>10</sup> Article 53

<sup>11</sup> Article 56

<sup>12</sup> Article 57

<sup>13</sup> Article 58

| Region            | Facilities  |
|-------------------|---|
| Nusantara Capital | VAT is unimposed on: <ul style="list-style-type: none"> <li>- the delivery of certain taxable goods and/or services that are strategic,</li> <li>- the import of certain taxable goods that are strategic.</li> </ul> |
| Partner Regions   | unimposition of VAT is provided on the delivery of certain taxable services that are strategic in the form of construction services related to development in Partner Regions.  |
| Nusantara Capital | Sales Tax on Luxury Goods exemption is provided on the sale of luxury housing to individuals, corporations, and/or ministries/institutions, who conduct business, duties, or are located in the Nusantara Capital.    |

The issuance of PP 12 has become a concrete form of the government in providing legal certainty and ease of doing business for entrepreneurs who want to participate in the development of the Nusantara Capital, by providing attractive policy packages through various tax incentives.

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