



## Indonesia Tax Info June 2024

### Regulation implementing tax incentives for investment in new capital city issued

In order to promote investment in and the development of Indonesia’s new capital city, Ibu Kota Nusantara (subsequently referred to in this article as IKN), the Indonesian government has introduced various fiscal and other incentives for investments and business activities in IKN through Regulation Number 12 of 2023 (PP-12) issued in March 2023 (please refer to [Tax Info March 2023](#)). As a follow up to PP-12, on 16 May 2024, the Minister of Finance issued Regulation Number 28 of 2024 (PMK-28) to provide further details of and the application procedures for the tax- and customs-related incentives introduced by PP-12. These include detailed conditions of the incentives; eligibility criteria; procedures to apply for and utilize the incentives; and obligations, sanctions, and templates for application, notification, and reporting. The regulation comes into effect immediately upon issuance.

This article covers some key observations related to the tax incentives covered by PMK-28, namely:

- A reduction in the corporate income tax (CIT) rate;
- A “super tax deduction” incentive for certain activities or expenditures;
- Employee income tax (EIT) borne by the government;

#### In this issue:

1. [Regulation implementing tax incentives for investment in new capital city issued](#)

#### Customs Focus:

2. [Further update on import policies and regulations](#)
3. [Policies and regulations governing export in mining sector](#)

- A final income tax of 0% on certain gross income of micro, small, and medium-sized enterprises (*usaha mikro, kecil, dan menengah* (UMKM));
- An income tax exemption on the transfer of rights over land and/or buildings; and
- VAT and luxury-goods sales tax (LST) incentives.

### Reduction of CIT rate

The CIT rate for eligible taxpayers that invest a minimum of IDR 10 billion in certain business sectors as listed below may be reduced by up to 100% for a specific period of time:

- In IKN and/or the partner regions (*daerah mitra*—certain areas in Kalimantan Island that will be developed as economic superhubs for IKN): A CIT rate reduction of 100% (or 50% in certain circumstances);
- In financial centers (areas designated as concentrations of financial services as well as centers of technology development and supporting services in the financial services sector): A CIT rate reduction of 85% or 100% (depending on the financial sector); and
- For the establishment and/or relocation of head and/or regional offices to IKN through 31 December 2045: A CIT rate reduction of 100% for the first 10 years, followed by a 50% reduction for the following 10 years.

This CIT rate reduction applies as from the fiscal year in which the commercial operation commences.

PMK-28 further specifies details of eligible sectors, activities, or requirements. For example, for taxpayers engaged in trading activities, the goods must be supplied from a warehouse located in IKN, the sale must be from a store located in IKN, and/or the goods must be sold to customers living in IKN. PMK-28 also sets out the other financial sectors that are eligible for the incentive, such as digital financial assets (including crypto assets) and nonbank foreign exchange business activities.

For foreign and domestic taxpayers wishing to benefit from the CIT rate reduction incentive by establishing and/or relocating their head and/or regional offices to IKN, the IKN entity must meet the following economic requirements:

- Have business activities in IKN that are managed by the entity's own management, and the management has sufficient authority to carry out the business activities;
- Carry out strategic activities for the company and/or business group;
- Have annual operating costs of at least IDR 15 billion;
- Employ at least 50 Indonesian residents as permanent employees that are subject to article 21 income tax; and
- Have active business income (defined as income other than dividends, interest, royalties, and gains on the transfer of assets).

To apply for this incentive, the taxpayer must obtain approval through the online single submission (OSS) system. If the taxpayer applying for the incentive is owned by other domestic shareholders, the shareholders must provide a tax clearance certificate (*surat keterangan fiskal*). The application must be submitted prior to the commencement of commercial operations and no later than one year from the date of issuance of the business license. The investment period starts as from the date the business license is issued.

Once commercial operations commence, the taxpayer must also request approval via the OSS system to utilize the incentive. PMK-28 clarifies that the commencement of

Government has introduced a range of fiscal and other incentives to promote the development of Ibu Kota Nusantara.

commercial operations is marked by the first time the products are commercially sold, the first time the goods produced or services provided through the main business activities are used for further processing, or the start of commercial business activities in a financial center.

To ensure the taxpayer’s eligibility to utilize the incentive, the Directorate General of Taxation (DGT) will conduct a field audit to determine the commencement of commercial operations and test various criteria that the taxpayer has to meet. If the taxpayer’s investment is in the form of tangible fixed assets, these assets must have been acquired in a new condition (with certain exceptions) on or after the date of issuance of the business license but before the commencement of the commercial operations. In addition, tax incentives must not have been obtained previously in respect of the fixed assets.

For main business activities that have already benefitted from the reduced CIT rate, a withholding tax exemption facility is available for income from the main business activities or the purchase or import of goods or materials related to those activities. The exempted portion of the withholding tax is aligned with the reduced CIT rate.

To encourage foreign investments in the financial center, a 10-year withholding tax exemption facility applies on income earned from such investments, provided that the foreign investor (either an entity or an individual, but not a permanent establishment) is the beneficial owner of the income. The foreign investor must provide its tax ID number or passport number, as appropriate, and a written statement confirming the date of the investment.

In general, the tax incentive approval letter also serves as a tax exemption letter (*surat keterangan bebas* (SKB)), other than for transfers of land and/or buildings by taxpayers of which the main business activities involve real estate, industrial and science parks, “wet markets” selling fresh produce and perishable goods, and malls, which require a separate SKB.

**Super tax deduction incentive**

A super tax deduction incentive is available through 2035 for certain activities conducted and expenses incurred in IKN, as shown in the following table.

	Type of activities conducted/expenses incurred in IKN		
	Apprenticeship, internship, and/or learning programs in human resources development	Research and development (R&D) activities	Donations and/or nonprofit construction of public and social facilities
<b>Incentive</b>	Deduction from gross revenue of up to 250% of the total qualifying expenses: <ul style="list-style-type: none"> <li>• 100% deduction of the total qualifying expenses; and</li> <li>• Additional deduction of up to 150% of the total qualifying expenses</li> </ul>	Deduction from gross revenue of up to 350% of the total qualifying expenses: <ul style="list-style-type: none"> <li>• 100% deduction of the total qualifying expenses; and</li> <li>• Additional deduction of up to 250% of the total qualifying expenses</li> </ul> The additional deduction of up to 250% is determined cumulatively based on the prerequisites fulfilled by the R&D activities, for each of which the deduction ranges between 25% and 125%	Deduction from gross revenue of up to 200% of the total qualifying expenses: <ul style="list-style-type: none"> <li>• 100% deduction of the total qualifying expenses; and</li> <li>• Additional deduction of up to 100% of the total qualifying expenses</li> </ul>

	Type of activities conducted/expenses incurred in IKN		
	Apprenticeship, internship, and/or learning programs in human resources development	Research and development (R&D) activities	Donations and/or nonprofit construction of public and social facilities
<b>Qualifying expenses</b>	<ul style="list-style-type: none"> <li>Expenses incurred for the provision of dedicated facilities for training, infrastructure supporting the facilities, payment of instructors, human resources development program, and/or other development-related expenses</li> <li>Specific provisions may apply to calculate the additional gross revenue deduction for certain qualifying expenses</li> </ul>	<ul style="list-style-type: none"> <li>Expenses related to assets, salaries, honoraria, and/or other similar payments made to employees and others are charged based on each proposal of R&amp;D activities</li> <li>If the expenses for each proposal cannot be identified, they are allocated proportionately to each proposal based on the utilization or assignment time</li> <li>The calculation of the additional gross revenue deduction is further illustrated in the attachment to PMK-28</li> </ul>	The donations and/or expenses may be in the form of money, goods, and/or construction expenses for the development of public, social, and/or other nonprofit facilities. PMK-28 provides further details of eligibility
<b>Application for incentive</b>	<ul style="list-style-type: none"> <li>Eligible taxpayers must submit a notification via the OSS system</li> <li>One of the documents required to be submitted is a cooperation agreement with the educational and/or learning institution prior to the commencement of the apprenticeship, internship, and/or learning program</li> </ul>	<ul style="list-style-type: none"> <li>Eligible taxpayers must first submit an incentive approval request via the OSS system by attaching a proposal for R&amp;D activities. Once the taxpayer is ready to utilize the incentive, the taxpayer must submit a notification via the OSS system with the required supporting evidence attached</li> <li>If the taxpayer cooperates with other parties to conduct the R&amp;D activities, each party must apply for the incentive separately according to its respective R&amp;D tasks and budget</li> </ul>	Eligible taxpayers must submit a notification via the OSS system prior to donating, including a cooperation agreement if the donations and/or expenses are funded jointly by more than one taxpayer

### EIT borne by the government

The government will bear the EIT for permanent and/or nonpermanent employees earning income from certain qualifying employers in IKN. The requirements that employees and employers must fulfill to benefit from this incentive are further detailed in PMK-28. EIT borne by the government is not taxable in the hands of employees; however, other types of income received by employees that are not eligible for the incentive remain subject to normal income tax.

PMK-28 clarifies that an overpayment arising from the EIT borne by the government cannot be refunded or compensated. It also clarifies that, if the amount of EIT borne by the government in the calendar year is greater than the amount of Article 21 income tax payable for the fiscal year, the excess is not refundable.

### Final income tax of 0% on certain gross income of UMKM

Domestic taxpayers (excluding permanent establishment) that qualify as UMKM and invest less than IDR 10 billion in IKN are subject to a 0% final income tax on the first IDR 50 billion of gross income per fiscal year. If the taxpayer has several places of business or branches in IKN, the investment amount and gross revenue would be aggregated.

To apply for this incentive, taxpayers with main office status must submit a request to the tax office within three months from the date of the investment in IKN. The

incentive may be utilized as from the date the approval is obtained from the DGT through 2035.

Taxpayers utilizing the incentive must maintain separate bookkeeping for business activities that are eligible and not eligible for the facility.

### Income tax exemption on the transfer of rights over land and/or buildings

A transfer of rights over land and/or buildings, including through a sale and purchase commitment agreement (*perjanjian pengikatan jual beli* (PPJB)), to a buyer that is purchasing land and/or buildings in IKN for the first time is exempted from income tax. To apply for this incentive, the transferor must submit a request for tax exemption for each transaction to the tax office. The exemption applies through 2035.

### VAT and LST incentives

Business activities carried out in IKN and/or the partner regions may be eligible for the VAT not-collected facility and LST exemption through 2035.

#### VAT not-collected facility

The VAT not-collected facility is available for the following imports and/or deliveries:

Activity	Examples
Delivery and import of certain strategic taxable goods and/or delivery of certain strategic taxable services in IKN	<ul style="list-style-type: none"> <li>• New buildings handed over to qualifying buyers;</li> <li>• Certain domestically manufactured battery electric vehicles registered in IKN that are delivered to qualifying buyers; and</li> <li>• Space rental service provided to renters doing business in IKN</li> </ul>
Delivery of certain strategic taxable services in the partner regions	<ul style="list-style-type: none"> <li>• Construction of physical infrastructure or building installations in the form of: <ul style="list-style-type: none"> <li>– buildings for power plants including new and renewable energy;</li> <li>– buildings for toll roads, seaports, and airports; and</li> <li>– clean water supply buildings, as well as buildings for their operations</li> </ul> </li> </ul>

PMK-28 provides details of the qualifying criteria for taxable goods and/or taxable services, the deliverers and recipients eligible for the facility, and the procedures to obtain the facility.

#### LST exemption

Sales of certain luxury residential housing are exempted from LST. The buyer must submit a request for tax exemption.

## Customs Focus

### Further update on import policies and regulations

To enhance the efficiency of import processes, in May 2024, the Minister of Trade (MoT) issued Regulation Number 7 of 2024 (Permendag-7) and Regulation Number 8 of 2024 (Permendag-8). Both regulations are the second and third amendment, sequentially, to Regulation Number 36 of 2023 (Permendag-36) regarding import policies and regulations (please refer to [Customs Focus January 2024](#)), which had already been amended by Regulation Number 3 of 2024 (Permendag-3) (please refer to [Customs Focus April 2024](#)).

#### Permendag-7

Permendag-7, which is the second amendment to Permendag-36, highlights the following key points:

- Import of goods for business or nonbusiness activities

Previous MoT regulations provided no distinction between the import of goods for business activities and the import of goods for nonbusiness activities. Under Permendag-7, business activities are defined as importers' economic activities related to import of goods to obtain remuneration/compensation or the use of imported goods for capital goods, raw materials, auxiliary materials, and/or materials supporting production processes/business activities. Activities outside this category are considered as nonbusiness activities.

- Import and export of goods to and from a special economic zone (SEZ)

An SEZ is an area within the jurisdiction of the Republic of Indonesia that has certain boundaries and is designated to carry out economic functions and obtain certain facilities. In general, the import policies and regulations do not apply in SEZs; however, the MoT is authorized to impose the import policies and regulations on business activities in SEZs relating to national interests (e.g., security, safety, health, and/or the environment) after consulting with the National Council for SEZ.

While the release of goods produced in an SEZ to other places within the customs area (*Tempat Lain dalam Daerah Pabean (TLDDP)*) is still subject to the import policies and regulations, Permendag-7 provides some exemptions from this provision, such as for the goods produced in an SEZ as results of processing, assembly, or installation of goods and materials.

- Release of goods from bonded stockpiling areas

Permendag-7 also adds an exemption from the implementation of the import policies and regulations for the release of goods from bonded stockpiling areas (*Tempat Penimbunan Berikat (TPB)*) to TLDDP for the purpose of importing-for-use, amongst others, for:

- Remaining goods from production process, packaging leftovers, or waste from destruction in bonded zones; and
- Sample goods from bonded zones.

- Import of import-free goods by importers that are unable to obtain a business identification number (*Nomor Induk Berusaha* (NIB))

Under Permendag-7, provisions related to import-free goods for importers that are unable to obtain an NIB are amended:

- Importers unable to obtain an NIB may now import both new and used import-free goods for nonbusiness activities, with certain formalities for used import-free goods.
- The following goods are no longer listed in the category of import-free goods:
  - Temporary imported goods;
  - Goods sent by Indonesian migrant workers;
  - Goods that have been exported for the purposes of repair, workmanship, and testing that are re-imported in an amount, at most, equal to the amount at the time of export in accordance with the goods export declaration (*Pemberitahuan Ekspor Barang* (PEB));
  - Relocated goods or personal effects of Indonesian citizens as evidenced by a notice from an overseas Indonesian government representative;
  - Personal belongings of passengers, crew of transportation facilities, or border crossers; and
  - Goods for exhibition purposes abroad that are re-imported in an amount, at most, equal to the amount at the time of shipping, as evidenced by an export declaration.

- Import of import-free goods and import-restricted goods by importers that are able to obtain an NIB

Importers that have NIB are able to import import-free and import-restricted goods which are exempt from the provisions of the import policies and regulations listed in Appendix VI of Permendag-7 (e.g., goods imported for government institution purposes)

## Permendag-8

Permendag-8 serves as the third amendment to Permendag-36. This regulation is issued to rectify a problem posed by Permendag-36, of which the implementation has led to container piling at ports due to certain restricted-goods being unable to complete clearance processes to enter Indonesia's customs area. The salient points of Permendag-8 are as follows:

- New provisions regarding the treatment of personal shipments

Permendag-8 provides the following import treatment of certain personal shipments:

- Import of personal shipments through postal service providers may be carried out for import-free goods and/or import-restricted goods.
- Import of personal shipments other than those related to security, safety, health, and/or environmental purposes cannot be carried out for motor vehicles.
- Import of personal shipments through postal service providers is exempted from the requirement related to an NIB.
- Entry of passenger personal belongings (in the form of cellular phones and handheld and tablet computers) from outside the customs area into a free trade zone and a free port (*Kawasan Perdagangan Bebas dan Pelabuhan*

*Bebas* (KPBPB)) is limited to two units per person, at maximum, for one arrival within one year.

- Entry of personal shipments (in the form of cellular phones and handheld and tablet computers) from outside the customs area into KPBPB is limited to two units per shipment, at maximum.
- Import of personal shipments through postal service providers for import-restricted goods is exempted from the provisions relating to import business licensing, verification or technical tracing, and/or restrictions on the port of destination.

- Updates on import requirements for certain restricted goods

Import requirements for certain restricted goods are updated, as follows:

- Certain restricted goods that previously required an import approval (*persetujuan impor* (PI)) and a surveyor report (*laporan surveyor* (LS)) are now free to import without restriction.
- Certain restricted goods that previously required a PI and an LS now only require LS.
- Certain restricted goods that previously required a PI now only require an LS.
- Certain restricted goods that previously required a PI with a technical consideration from the Ministry of Industry, now no longer require technical considerations.
- Certain restricted goods that previously could only be imported by the holders of API-general (API-U) can now be imported by holders of API-U and API-producer (API-P).

Certain restricted goods in this case refer to electronic goods, traditional medicines and health supplements, cosmetics and household supplies, footwear, apparel and apparel accessories, bags, valves, lubricant raw materials, textiles and textile products, other finished textile goods, and certain chemicals.

- Relaxations for import of restricted goods

Permendag-8 provides certain relaxations for imported goods with Manifest (BC 1.1), which is a document containing a list of commercial goods transported by sea, air, and land upon entering the customs area between 10 March and 17 May 2024. The relaxations are as follows:

- Import of textiles and textile products as well as iron, steel, alloy steel, and their derivative products is permitted without a PI, but still requires an LS. In addition, surveyors may conduct an analysis in the customs area of the port of destination or other customs areas rather than at the port of loading abroad.
- Surveyors are also permitted to conduct an analysis in the customs area of the port of destination or other customs area for imported goods other than those mentioned in the previous point, provided that all other requirements have been met (such as those relating to import approvals, importer producers, and registered importers).

These relaxations will no longer apply to Manifest (BC 1.1) dated 17 May 2024 onwards.

Furthermore, changes regarding the import of raw materials for lubricants and valves come into effect 30 days after the effective date of this regulation (i.e., 16 June 2024).



Detailed information on the restricted goods is further stated in the appendix of Permendag-8.

## Policies and regulations governing export in mining sector

In June 2024, the MoT issued Regulation Number 10 of 2024 (Permendag-10) and Regulation Number 11 of 2024 (Permendag-11) to amend, respectively, Regulation Number 22 of 2023 (Permendag-22) regarding goods prohibited for export and Regulation Number 23 of 2023 (Permendag-23) regarding export policies and regulations. The objectives of these amendments are to facilitate exporters with opportunities to export metal mineral processing products of copper, iron, lead, and zinc commodities and provide them with legal and business certainty.

### Permendag-10

The effective date of certain export-prohibited goods in the mining sector is postponed to 1 January 2025 (initially planned to start as from 1 June 2024).

### Permendag-11

The deadline of export permission for certain mining products resulting from processing and/or refining activities previously stipulated under Permendag-23 is postponed by Permendag-11. These mining products can be exported until 31 December 2024 as regulated by Permendag-11; however, as from 1 January 2025, they can only be exported for research and development, re-export, and/or export of industrial products that use imported and/or recycled metal raw materials.

Please refer to the appendix of Permendag-11 for the list of the certain mining products.

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