



Indonesia Tax Info March 2023

Tax incentives and facilities to promote investment in new capital city announced

In February 2022, the Indonesian government issued Law Number 3 of 2022 in relation to the plan to move Indonesia's capital city from Jakarta to a new city named Nusantara (*Ibu Kota* Nusantara (IKN)). To expedite the construction and development process, the government decided to provide various incentives and facilities for investments and business activities in IKN through the issuance of Regulation Number 12 (PP-12) on 6 March 2023. Further implementing regulations are awaited to give effect to the provisions of PP-12.

PP-12 serves as an introduction to the various incentives and facilities related to the development of IKN, which include:

- Business license;
- Ease of doing business; and
- Investment facilities.

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The incentives and facilities are provided for investments and business activities carried out in both IKN and the partner regions (*Daerah Mitra*), i.e., certain areas in Kalimantan Island that will be developed as economic superhubs for IKN.

This article covers only the tax facilities provided in PP-12, as follows:

- A reduction in the corporate income tax (CIT) rate;
- Super tax deduction facilities for certain activities or expenditure;
- Employee income tax being borne by the government;
- Final income tax of 0% on certain gross income for 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) facilities.

Reduction of CIT rate

The CIT rate reduction is provided for:

- Domestic taxpayers (*wajib pajak dalam negeri*) investing and doing business in IKN and the partner regions;
- Financial businesses operating from the financial center; and
- The establishment and/or relocation of head offices and/or regional offices to IKN.

The CIT rate for domestic taxpayers that invest a minimum of IDR 10 billion in certain business sectors in IKN and the partner regions can be reduced by 100% (50% in certain circumstances). PP-12 provides the list of business sectors eligible for the facility, which generally fall under one of the following categories:

- Infrastructure and public services;
- Economic revival; and
- Other business.

For investments by domestic taxpayers in the partner regions, only a limited number of business sectors in the infrastructure and public service category are eligible for the 100% CIT rate reduction.

Certain financial businesses operating in the financial center are eligible for the CIT rate reduction facility at 85% or 100%, depending on the financial sector. Revenue received by offshore tax residents in relation to their investments in the financial center will be exempt from withholding tax for 10 years.

The rate reduction may be available for a period of between 10 and 30 years, depending on the year when the investment is made.

Foreign and domestic taxpayers that establish and/or relocate their head offices and/or regional offices to IKN are provided with an income tax facility until 2045 in the form of a 100% CIT rate reduction for the first 10 years, followed by a 50% CIT reduction for the following 10 years, provided:

- There are at least two affiliates and/or business entities located outside Indonesia (only applicable for foreign taxpayers);
- There is economic substance in IKN; and
- The entity's presence in IKN is in the form of a limited liability company (*perseroan terbatas*).

Taxpayers that wish to benefit from the CIT rate reduction must request the approval of the Minister of Finance (MoF) via the Online Submission System (OSS). Taxpayers that invest in IKN or the partner regions and/or the financial center must apply for approval prior to commencing commercial activities and by no later than 30 days after the end of the fiscal year when the head office or regional office is established or relocated.

Once the facility has been approved, it can only be utilized after the regional tax office has conducted a tax audit. The tax audit is carried out following the taxpayer's request via OSS to utilize the facility after it has commenced commercial activities.

Taxpayers utilizing the income tax facilities must comply with the obligations and prohibitions shown in the following table; otherwise, the facility will be forfeited, and any CIT reduction already utilized must be repaid to the government together with any applicable interest penalty.

Obligation	Prohibition
<p>Taxpayers are required to:</p> <ul style="list-style-type: none"> • Realize their investment plan within two years (or start moving the head office and/or regional office to IKN within one year); • Submit the investment realization report and business activities realization report (or submit the head office and/or regional office establishment and/or relocation report); • Carry out separate bookkeeping for business activities that are subject to the facility and business activities that are not subject to the facility; and • Comply with the withholding tax obligation in accordance with the prevailing income tax regulations. 	<p>Taxpayers must not:</p> <ul style="list-style-type: none"> • Import, purchase, or obtain used capital goods to fulfill the investment realization requirement (with certain exceptions); • Use the capital goods for different purposes during the facility utilization period; • Transfer the capital goods to another party during the facility utilization period (with certain exceptions); or • Relocate the investment outside IKN and/or the partner regions.

Super tax deduction facility

A "super tax deduction" facility is available until 2035 for the following business activities or expenditure:

- **Apprenticeship, internship, and/or learning programs in human resources development:**
Domestic taxpayers that carry out certain apprenticeship, internship, and/or learning programs in human resources development in IKN are eligible for an income tax facility in the form of a maximum deduction of 250% of the total qualifying expenses.
- **Activities related to research and development (R&D):**
Domestic taxpayers having a domicile and/or place of business in IKN while carrying out R&D activities in IKN are eligible for an income tax facility in the form of a maximum deduction of 350% of the total qualifying expenses.
- **Donations and/or nonprofit construction of public and social facilities:**
Certain donations and/or nonprofit construction of public and social facilities are eligible for an income tax facility in the form of a maximum deduction of 200% of the total qualifying expenses. The donations and/or expenses can be in the form of money, goods, and/or construction expenses.

Employee income tax borne by the government

The government will bear the employee income tax for employees earning income from certain qualifying employers until 2035. The requirements that employees and employers must fulfill to benefit from this facility are shown in the following table:

Employees	Employers
<p>Employees must:</p> <ul style="list-style-type: none"> • Derive income from qualifying employers; • Live in IKN; and • Register their tax identification number (NPWP) with the tax office in IKN. 	<p>Employers must:</p> <ul style="list-style-type: none"> • Live, be domicile in or have their place of business in IKN; • Register their NPWP with the tax office in IKN; • Have submitted a notification to the Directorate General of Taxation (DGT) regarding their intention to utilize the employee income tax facility, and the notification must have been validated by the DGT; and • Submit a facility realization report to the DGT.

Employers utilizing the facility must pay the employee income tax borne by the government to the employee together with the salary, prepare the withholding tax slip for the employees, and report the withholding tax slips in their employee income tax return.

Income tax borne by the government is not taxable income for the employees; however, other types of income received by employees that are not eligible for this facility will be subject to income tax in accordance with the prevailing regulations.

Final income tax of 0% on certain gross income for UMKM in IKN

Domestic taxpayers (excluding permanent establishments) that fulfill certain requirements 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 taxpayers have several places of business or branches in IKN, the investment amount must be aggregated for the purpose of checking the eligible limit. The same concept applies when calculating the gross revenue threshold. Certain types of revenue are not eligible for this facility, including income:

- Earned by an individual taxpayer in relation to freelance activities;
- Earned by CV (*commanditaire vennootschap*) or firm (*firma*) taxpayers established by several individual taxpayers that provide the same type of freelance activities;
- From services provided outside IKN and/or utilized by service recipients living or domiciled outside IKN; and
- Subject to final income tax in accordance with the prevailing regulations (with certain exceptions).

Income that is not eligible for this facility and gross income exceeding the IDR 50 billion threshold will be subject to income tax in accordance with the prevailing tax regulations. Taxpayers utilizing this facility must maintain separate bookkeeping for eligible and ineligible income.

The income tax facility can be utilized as from the date the approval is obtained from the DGT until 2035.

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

Until 2035, a taxpayer that transfers its rights over land and/or buildings to a buyer that is purchasing land and/or buildings in IKN for the first time is exempt from income tax on the transfer. The reduction is applicable upon obtaining a tax exemption letter from the DGT.

VAT and LST facilities

Various VAT and LST facilities are provided until 2035.

VAT facilities are provided for businesses in IKN and the partner regions.

In IKN, VAT on deliveries and/or imports of certain strategic taxable goods and/or strategic taxable services is not collected and the supplies are exempt from LST.

Qualifying strategic taxable goods include certain:

- New buildings, such as apartments and shopping malls;
- Domestically manufactured battery electric vehicles registered in IKN; and
- Strategic taxable goods required for the purpose of preparation, construction, relocation, and development in IKN.

Qualifying strategic taxable services include:

- Some rental services, such as of apartments and shopping malls;
- Certain construction services, such as the construction of roads, bridges, and shopping malls;
- Management of waste generated in IKN; and
- Certain strategic taxable services that are required for the purpose of preparation, construction, relocation, and development in IKN.

The VAT not-collected facility is also available for the importation and/or delivery of capital goods to taxable entrepreneurs that generate new and renewable electricity in IKN and investments by domestic taxpayers in partner regions that are eligible for the CIT reduction facility.

Taxpayers utilizing the VAT facility must fulfill specified requirements for four years; otherwise, the outstanding VAT must be paid to the tax authorities and a tax penalty will apply.

Certain sales of luxury housing in IKN are not subject to LST.

Closing Remarks

PP-12 is intended to increase IKN's attractiveness to investors and "superior talents," by providing a tax holiday, relocation assistance, better living conditions in IKN, improved infrastructure, affordable land and housing options, simplified licensing processes, easier access to goods and services procurement, streamlined export and import procedures, and assistance in creating new markets for products from emerging industries in IKN. However, further regulations are awaited to provide more detailed on the application of the facilities mentioned above, and taxpayers are advised to monitor further development on PP-12 for tax planning purposes.

PP-12 is to increase IKN's attractiveness to investors and "superior talents".

Reduced imposition base for withholding tax on royalty income received/obtained by certain domestic individual taxpayers

On 16 March 2023, the DGT issued Regulation Number 1/PJ/2023 (PER-1) regarding technical guidelines for withholding, settling, and reporting of Article 23 income tax on royalty income received/earned by certain domestic individual taxpayers. This new provision, which comes into effect on issuance, is aimed to provide fairness and certainty for certain domestic individual taxpayers receiving/earning royalty income.

By law, any royalty income paid, provided for payment, or that has been due, to domestic taxpayers in any form or name is subject to Article 23 withholding tax at the rate of 15% of the gross royalty amount. However, under PER-1, if the recipients of royalty income are domestic individual taxpayers who calculate income tax using net income calculation norm (*Norma Penghitungan Penghasilan Neto (NPPN)*) (i.e., domestic individual taxpayers that: (i) have business activities or independent work; (ii) have annual gross revenue less than IDR 4.8 billion; and (iii) have submitted a notification for using NPPN to the DGT within the first three months of the relevant fiscal year), the gross royalty amount will be 40% of the royalty amount. Therefore, the effective rate of the withholding tax becomes 6% of the royalty amount (i.e., 15% x (40% x royalty amount)). The Article 23 income tax withheld is tax creditable for the income recipient.

Customs Focus

Customs facilities for business players in IKN

As previously explained in the first article of this Tax Info (see above), there are various tax facilities provided by the central government for business players in IKN. In addition to providing income tax, VAT and LST facilities, PP-12 also provides customs facilities and streamlines export and import procedures. Please see below the salient points on customs provision under PP-12:

Customs facilities

Investors in IKN are provided with import duty exemption and import tax (*pajak dalam rangka impor*) facilities until 2045, including:

1. Exemption of import duty and import tax facilities for imported goods by the central government or local governments intended for public interest in IKN and partner regions (*Daerah Mitra*);
2. Exemption of import duty and import tax facilities for imported capital goods for the development of industries in IKN and partner regions; and
3. Exemption of import duty for imported goods and materials for the development of industries in IKN and partner regions.

PP-12 specifies the rules and requirements for obtaining import duty and import tax exemptions for businesses or industries planning to import capital goods and/or materials. These industries must be of a type that supports the construction and development of IKN and its partner regions.

Corporate taxpayers eligible for the exemption of import duty/import tax facilities

Corporate taxpayers eligible for the exemption of import duty and import tax facilities until 2045 are businesses that support the construction and development of IKN, encompassing:

1. Development of power plants, including new and renewable energy;
2. Construction and operation of toll roads;
3. Development and operation of seaports;
4. Development and operation of airports; and
5. Development and provision of clean water.

Import duty exemption and import tax facilities shall be provided insofar as capital goods as well as goods and materials are:

1. not yet produced domestically;
2. already produced domestically but have not met the required specifications; or
3. already produced domestically but the quantity is insufficient for industrial needs.

Import duty exemption facilities can be provided for capital goods as well as goods and materials originating from free port and trade zones, special economic zones, and/or bonded storage facilities, while import tax facilities can be provided for imported goods from Bonded Logistics Centers. To obtain import duty exemption and/or import tax facilities, taxpayers can file a request through the OSS system.

Period of import duty and import tax facilities

- Import duty exemption and import tax facilities for capital goods are provided for a maximum period of two years, starting from the date of the import duty exemption and import tax facilities decision. The import period can be extended according to the completion of construction and development.
- Companies that have completed industrial development and are ready for production are granted import duty exemption for imported goods and materials for a maximum import period of four years, according to the installed capacity, starting from the date of the import duty exemption decision. The import period can be extended for two years, starting from the expiration date of the import duty exemption facility.
- For companies that have completed business sector development, as long as they increase the capacity by at least 30% of the installed capacity, the import duty exemption for imported goods and materials can be granted for a maximum period of four years, according to the installed capacity, starting from the date of the import duty exemption decision. The import period can be extended for two years, starting from the expiration date of the import duty exemption facility.
- For companies that have completed industrial development and/or construction, as long as they use domestically-manufactured production machines for at least 30% of the total machine value, the import duty exemption for imported goods and materials can be granted for six years, according to the installed capacity, starting from the date of the import duty exemption decision.
- Industries that provide services are exempted from import duty exemption extension facilities as referred to in the provisions above.

PP-12 takes effect as from 6 March 2023.

Updates on notifications of completely-produced excisable goods

In the framework of supporting the ease of doing business and ease of administration, the MoF has issued Regulation Number 161/PMK.04/2022 (PMK-161) regarding Notifications of Completely-Produced Excisable Goods. PMK-161 revokes MoF Regulation Number 94/PMK.04/2016, as most recently amended by MoF Regulation Number 134/PMK.04/2019 (PMK-134).

The salient points of PMK-161 are as follows:

1. Excisable goods that must be notified through periodic reporting to the customs authority

PMK-134 stated that sliced tobacco producers must notify the customs authority, through periodic reporting, products that are packaged for retail sales only, whereas PMK-161 requires sliced tobacco producers to also report products that are packaged for non-retail sales.

2. Procedures for notifications of completely-produced excisable goods

PMK-161 states that notifications of completely-produced excisable goods shall be made by the manufacturer independently (self-assessment) whereas previously there was no provision regarding this matter under PMK-134.

3. Removal of minimum information in notifications of completely-produced excisable goods

PMK-161 removes the number and date of the production document in notifications of completely-produced excisable goods for ethyl alcohol, beverages containing ethyl alcohol, tobacco products, and sliced tobaccos packaged for non-retail sales.

PMK-161 takes effect as from 12 February 2023.

Under PMK-161, tobacco production in the form of sliced tobaccos must be notified to the customs authority whether it is packaged for retail or non-retail sales.

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