



# Tax News Flash

April 2023

## Tax holidays and various tax facilities in the new Capital City of Nusantara

The Government recently issued Government Regulation Number 12 Year 2023 (“GR-12/2023”) to grant business licenses, increase the ease of doing business, and create investment facilities for enterprises in the new Capital City of Nusantara (“IKN”). This was set forth and became effective on 6 March 2023.

In GR-12/2023, the Government has offered a tax holiday and various tax facilities for investors to help spur investment in IKN and its supporting areas (“Partner Areas”). These Partner Areas consist of certain regions on the island of Kalimantan that were established for the construction and development of the IKN economic superhub. The establishment of all Partner Areas has been achieved through a collaborative effort with the IKN Authority and is authorized through a decision made by the authority’s head.

GR-12/2023 offers capital investment facilities including tax and non-tax incentives which are provided by the Central Government or by the IKN Authority. Below are the tax incentives provided by the Central Government only for activities held in IKN and Partner Areas:

- Income tax facilities, such as tax holidays, super tax deductions, Income Tax Article 21 will be borne by Government, and the exemption of Income Tax Payable on the Transfer of Land and/or Building Rights.
- Value Added Tax (“VAT”) and/or Sales Tax on Luxury Goods (“STLG”) facilities, i.e., not-collected VAT and an exemption for STLG.
- Customs facilities, such as the exemption of import duties and tax facilities relating to importation (“PDRI”). PDRI facilities consist of not-collected import VAT and an exemption for Income Tax Article 22 on Imports.

A high-level overview of the tax and customs facilities are summarized below:

### 1. Income tax facilities

There are several tax facilities that have been granted for IKN:

#### a. A tax holiday for up to 30 years

One of the attractive fiscal facilities in IKN is a tax holiday in the form of a 100 percent reduction in corporate income tax (“CIT”) payable that will be granted for up to 30 years for investors (resident corporate taxpayers) who invest a minimum of IDR 10 billion in strategic business fields, i.e. (i) infrastructure and public services, (ii) economic rise, and (iii) other business fields detailed below:

No	Business fields	Tax facility	Period of tax facility for the investment made in the following respective years		
			2023 - 2030	2031 - 2035	2036 - 2045
1	<b>Public infrastructure and services</b> a. power plant including new and renewable energy b. construction and operation of toll roads c. construction and operation of seaports d. construction and operation of airport e. construction and provision of clean water f. construction and operation of health facilities g. construction and implementation of educational units h. construction and provision of telecommunications and informatics infrastructure i. construction and management of urban park forests j. construction of housing, residential areas, and offices k. construction and management of waste water l. construction and management of underground utility network systems m. construction and operation of industrial estates as well as research and innovation centers (industrial and science parks) n. construction and operation of public markets o. provision of public transportation p. construction and operation of passenger or goods transport vehicle terminals q. construction and operation of sports stadiums/ facilities.	100% reduction in CIT payable	30 years	25 years	20 years
2	<b>Economic rise</b> a. construction and operation of shopping centers (malls) b. provision of tourism facilities and accommodation/star-hotel services c. provision of meeting, incentive, conference, and exhibition (MICE) facilities d. refueling and/or charging stations for electric vehicles (battery charging).	100% reduction in CIT payable	20 years	15 years	10 years
3	<b>Other business fields</b> a. urban farming and/or fishery cultivation b. the value-added industry and/or industrial engineering c. the hardware industry (hardware and/or software industry) d. trading services e. construction services f. real estate brokerage services g. tourism services and the creative economy.	100% reduction in CIT payable	10 years	10 years (50% reduction in CIT)	

### Tax facilities in Partner Areas

Resident corporate investors who invest in Partner Areas will also receive a tax holiday for 25 years. This will need to invest a minimum of IDR 10 billion into infrastructure and public services as follows:

No	Business fields	Tax facility	Period of tax facility for the investment made in the following respective years		
			2023 - 2030	2031 - 2035	2036 - 2045
1	<b>Public infrastructure and services</b> a. power plants including new and renewable energy b. construction and operation of toll roads c. construction and operation of seaports d. construction and operation of airports e. construction and provision of clean water.	100% reduction in CIT payable	25 years	20 years	15 years

b. A tax holiday for financial sectors for up to 25 years

A tax holiday for up to 25 years will be granted to resident corporate taxpayers and the permanent establishment that conduct their business in the financial sectors in the IKN Financial Center. The details are as follows:

No	Financial sector	Tax facility	Period of tax facility for the investment made in the following respective years	
			2023 - 2035	2036 -2045
1	a. banking b. insurance c. sharia finance.	100% reduction in CIT payable on the part of income which is used for investment or for funding construction, development, and economic activity in IKN and Partner Areas.	25 years	20 years
2	d. capital markets, financial derivatives and carbon exchanges e. pension funds f. financing g. venture capital h. financial sector technological innovation i. guarantees j. international commodity trading k. bullions l. trust fund managers (trusts) m. financial instruments management (special purpose vehicles) n. financial holding companies o. financial market infrastructure p. money markets, foreign exchange markets, and derivative transactions q. operation of payment system services r. other financial services.	85% reduction in CIT payable: – On the part of income from foreign investment for financial sectors - (d) and (j) – For the other financial sectors, the reduction is calculated from the part of the income that comes from business actors and communities located in IKN.	25 years	20 years

Income received by foreign investors from their investments in the IKN Financial Center will be exempt from the withholding/collection of income tax for a period of 10 years starting from the first placement of funds in the IKN Financial Center.

c. A tax holiday for the establishment or the relocation of a head office (“HO”) or regional offices (“RO”) in IKN up to 2045.

A CIT reduction facility will be granted to foreign enterprises and resident taxpayers for the establishment or relocation of their HO or RO in IKN up to 2045. The details are below:

No	Taxpayer’s requirement for tax facility	Tax facility		Period of tax facility
		First 10-year period	Second 10-year period	
1	<b>Non-resident taxpayers with the following conditions:</b> a. has at least two affiliated units and/or entities, related businesses outside Indonesia (subsidiaries, business branches, joint ventures or other similar entities) b. has economic substance in IKN c. has a limited liability company in Indonesia.	100% reduction in CIT payable	50% reduction in CIT payable	until 2045
2	<b>Resident taxpayers with the following conditions:</b> a. has economic substance in IKN b. has a limited liability company in Indonesia.	100% reduction in CIT payable	50% reduction in CIT payable	until 2045

d. Super tax deduction up to 350 percent

The super tax deduction facility offers up to 350 percent in tax deductions and will be granted to the resident corporate taxpayer who is domiciled in and has a place of business that conducts the following activities in IKN:

No	Tax facility	Percentage amount	Period of tax facility
1	Tax deduction of gross income from certain research and development activities (if certain criteria is met and the facility application is requested through the online single submission or "OSS system").	Maximum 350% from the total costs incurred for research and development activities charged for a certain period of time.	until 2035
2	Tax deduction of gross income from organizing work practice activities, apprenticeships, and/or learning in the context of fostering and developing certain human resource competencies that will be decided by the authority's head (the facility application must be requested through the OSS system).	Maximum 250% from the total costs incurred for work practices, apprenticeship, and/or learning activities.	until 2035
3	Tax deduction of gross income from donations and/or the cost of constructing public facilities, social facilities, and/or other non-profit facilities (this needs to meet certain requirements - for example a taxpayer needs to have a net taxable income based on last year's annual tax return that is supported by valid evidence, etc.). The facility application must be submitted through the OSS system or any electronic canal available in the ministry of finance. It can also be submitted directly to the authority's head and copied to directorate general of taxation ("DGT").	Maximum 200 % from the amount of donations and/or expenses incurred for the construction of public facilities, social facilities, and/or other non-profit facilities	until 2035

e. Income Tax Article 21 will be borne by the Government

Income Tax Article 21 will be borne by the Government for any income received by certain employees who receive income from certain employers who are domiciled in IKN and who have a tax ID number that is registered in the tax office in the IKN region. The nature of this is final, and this facility is valid until 2035. There are also requirements for certain employers, for example:

- i. The employer needs to submit a notification letter for the utilization of the "Income Tax Article 21 borne by Government facility" to the DGT and it needs to be validated by the DGT,
- ii. The employer needs to submit a realization report for the utilization of the "Income Tax Article 21 borne by Government facility" to the DGT. The employer must also prepare a withholding tax slip and their monthly employee income tax returns.

f. Zero percent final income tax for micro, small & medium enterprises

The zero percent final income tax will be granted to any resident corporate investor that has capital investments in IKN that are less than Rp 10 billion and that also meet certain other requirements. Final income tax will be applied to income from gross turnover up to Rp 50 billion in a fiscal year. This can be received by businesses within the IKN region and is granted since tax facility approval until 2035.

g. Exemption of Income Tax Payable on the Transfer of Land and/or Building Rights

An income tax deduction facility of 100% from the total Income Tax on the Transfer of Land/Building Rights will be provided to any taxpayer who transfers the rights of their land/building in IKN on the condition that the transfer is made to the first buyer. The application for the exemption is submitted through an electronic channel in the Ministry of Finance. This facility will be granted until 2035.

2. Not-collected VAT and exempted STLG facilities

a. VAT

Not-collected VAT facilities will be granted to the delivery of certain strategic taxable goods/services and to the import of certain strategic taxable goods until 2035. This facility also applies to any imports or deliveries to taxable entrepreneurs who produce electricity from new or renewable energy in IKN. This can take the form of factories, machines or equipment (either primary or supporting) that generate new or renewable energy there. Below are the details of certain strategic taxable goods and services:

VAT facility	Certain strategic taxable goods	Certain strategic taxable services	Period of VAT facility
VAT is not collected for: a. Delivery of certain strategic taxable goods/ services b. Import of certain strategic taxable goods.	a. New buildings in the form of landed houses, housing units flats, offices, shops/shopping centers, warehouses for certain individuals, certain entities, and certain ministries/institutions b. Motorized vehicles registered with police numbers in IKN, that are battery powered and produced inside the country for individuals, entities, and ministries/institutions c. Certain strategic taxable goods and other goods necessary for the preparation, development, transfer, and development of IKN.	a. Rental services for landed houses, apartment units, offices, stores/shopping centers, and warehouses submitted to individuals, entities, and ministries/institutions that carry out business activities, served, or are domiciled in IKN b. Construction services for road construction, bridges, dams, water treatment plants clean, new energy power plants and renewable energy, drinking water supply systems, networks telecommunication, energy networks, water/ irrigation networks, waste/sewage treatment plants, hospitals/clinics, health laboratories, schools/college, government building, house sites, flats, offices, shops, warehouses, airports, ports, terminals, rail networks, fire stations or other similar infrastructure built in IKN c. Waste/waste processing services, waste/waste generated in IKN d. Certain strategic taxable services and other necessary services for the preparation, development, transfer, and development of IKN.	Until 2035

### Not-collected VAT facilities in Partner Areas

This not-collected VAT facility will also be granted to the delivery of certain strategic taxable services in the form of construction services in Partner Areas to taxpayers who obtain tax deduction facilities and work in the following business fields:

- a. power plants which use new or renewable energy
  - b. the construction and operation of toll roads
  - c. the construction and operation of seaports
  - d. the construction and operation of the airport
  - e. the construction and provision of clean water.
- b. Sales Tax on Luxury Goods

The exemption of STLG, on the transfer of luxury residential groups to individuals, entities, and ministries/institutions, which carry out business activities, services, or are domiciled in IKN, will be granted until 2035.

### 3. Customs facilities

Customs facilities such as an exemption of import duties and PDRI will also be granted to the import of capital goods, goods and materials for industrial construction and development in IKN and Partner Areas. PDRI facilities consist of not-collected import VAT and exemptions for the Income Tax Article 22 on Imports. Customs facilities require certain conditions as detailed below:

No	Customs facility	Certain requirements	Period of customs facility
1	The exemption of import duties and PDRI facilities on the import of goods by the central or regional government for the public interest in the IKN and Partner Areas.	The import of goods can be carried out by: <ul style="list-style-type: none"> <li>– the central or local government;</li> <li>– third parties based on contracts or work agreements; and/or</li> <li>– other parties.</li> </ul> The import of goods may originate from: <ul style="list-style-type: none"> <li>– state revenue and expenditure budgets and/or regional revenue and expenditure budgets;</li> <li>– foreign grants or loans; and/or</li> <li>– other legitimate sources in accordance with the provisions of the legislation.</li> </ul>	Until 2045

No	Customs facility	Certain requirements	Period of customs facility
2	The exemption of import duties and PDRI facilities on the import of capital goods for construction and industrial development in the IKN and Partner Areas.	All capital goods, goods, and material must meet the requirements below: <ul style="list-style-type: none"> <li>– not yet produced domestically</li> <li>– already produced domestically but don't yet meet the required specifications</li> </ul>	Until 2045
3	The exemption of import duties on the import of goods and materials for construction and development in the IKN and Partner Areas.	– is being produced domestically but not in quantities sufficient for industrial needs. (This is based on a list of goods determined by the minister that organizes government affairs in this industry.)	

**Notes:**

1. The exemption of import duties can be granted for the importation of capital goods, goods, and materials originating from Free Port and Free Trade Areas, Special Economic Zones, and Bonded Zones. This applies to no. 1, 2, and 3.
2. PDRI facilities can be granted for the import of goods from the Bonded Logistics Center. This applies to no. 1 and 2.

GR-12/2023 stipulates those investors who start and carry out business activities in IKN and Partner Areas are not required to confirm their taxpayer status and there are no limitations on any foreign capital ownership in certain business fields. However, until now there are no implementing regulations that guide the subject or form of the facilities, the criteria for obtaining facilities, the application procedures, obligations, and prohibitions, or the criteria for the revocation of facilities.

**KPMG notes:**

- In general, GR-12/2023 provides various tax and customs facilities for investors that want to invest in IKN and Partner Areas and we expect there will be some implementing guidelines to follow.
- For tax holiday facilities in IKN, the required investment is less than non-IKN tax holiday requirements and the period is longer. Nevertheless, investors are advised to familiarize themselves with the regulations in greater detail, as these will be further clarified in later implementing regulations.

Please also consult with your legal advisor on the necessary requirements for establishing an entity in IKN.



# Contact us

## **KPMG Advisory Indonesia**

### **Tax Services**

33<sup>rd</sup> Floor, Wisma GKBI  
28, Jl. Jend. Sudirman  
Jakarta 10210, Indonesia  
T: +6221 570 4888  
F: +6221 570 5888

## **Abraham Pierre**

### **Head of Tax Services**

Abraham.Pierre@kpmg.co.id

[kpmg.com/id](https://kpmg.com/id)

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

©2023 KPMG Advisory Indonesia, an Indonesian limited liability company and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.