



## ANALYSIS OF TAX INCENTIVE POLICIES TO ENCOURAGE INVESTMENT IN THE NUSANTARA CAPITAL CITY (IKN)

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### Abstract

This study aims to analyze tax incentive policies that can encourage investment in the development of the Nusantara Capital City (IKN). This study employs a qualitative research method with a descriptive approach, utilizing secondary data gathered from a range of sources, including literature, documents, scientific journals, official government websites, and other reliable sources. The study's results indicate that the government provides various types of tax incentive policies to encourage investment in the development of the IKN. These various tax incentives have a positive impact on increasing investment in the IKN. However, this policy faces challenges due to the existence of global minimum tax provisions, as implemented through Pillar 2 of the Base Erosion and Profit Shifting (BEPS) 2.0 initiative. Additionally, tax incentives are not the primary factor that encourages investment. Therefore, the government can immediately formulate further regulations related to tax incentive policies by adjusting the provisions of Pillar 2 BEPS 2.0. For further researchers, it is advisable to develop more concrete and specific tax incentive policies in the IKN.

**Keywords:** Global minimum tax; Investment; Nusantara Capital City (IKN); Pillar 2 BEPS 2.0; Tax incentive

### INTRODUCTION

With the enactment of Presidential Regulation Number 79 of 2025 concerning the Update of the 2025 Government Work Plan, the Indonesian government officially targeted Nusantara as its political capital by 2028. The government bases this regulation on Law Number 3 of 2022 concerning the National Capital. The Nusantara Capital City (IKN) serves as the axis and identity of the Indonesian nation. The relocation of the IKN can achieve economic equality in Indonesia (Tasya, 2024). With its Indonesia-centric characteristics, IKN will unlock strategic economic potential through economic transformation, resulting in economic diversification and a multiplier effect (Purnama & Chotib, 2023).

However, the Indonesian government still faces several challenges, one of which is funding. The development of the IKN requires a substantial budget of IDR 466 trillion, equivalent to approximately US\$30 billion. Meanwhile, the State Budget (APBN) can only cover 20% of this total. Therefore, the government needs to seek alternative funding sources outside the state budget, for example, through collaboration with business entities and private investment, targeted to reach IDR 253.4 trillion (IKN, 2021). To realise this development, approximately US\$24 billion in investment is required, comprising both foreign direct investment (FDI) and domestic direct investment (DDI). Currently, almost all investors are domestic, with total investment interest reaching IDR 41.4 trillion collected during the first three phases (groundbreaking) (IKN, 2023).

The Indonesian government has issued Government Regulation (PP) No. 12 of 2023, in conjunction with PP No. 29 of 2024, concerning the Granting of Business Licenses, Ease of Doing Business, and Investment Facilities for Business Actors in the IKN. This regulation aims to provide investment facilities and incentives to IKN investors. The government has also established an Investment Acceleration Task Force in the IKN, tasked with strengthening policy coordination between the IKN Authority, ministries/agencies, and partner regions. In addition, the task force plays a role in aligning land acquisition processes, development, and spatial planning, as well as land development and utilisation for priority investments in the new capital city (Warastri, 2024).



Tax incentives are one of the fiscal instruments used by the government to attract investors. These tax incentives take various forms, ranging from tax exemptions and tax breaks to tax deferrals (Kartiko, 2020). This instrument can increase Indonesia's attractiveness by providing higher financial returns at a lower cost to investors (Aribowo & Irawan, 2021). The government regulates tax incentives in the new capital city through the Minister of Finance Regulation (PMK) No. 28 of 2024, concerning Tax and Customs Facilities in the National Capital City.

Several previous studies have focused more on the general tax incentive policies applicable in Indonesia. Aribowo & Irawan (2021) found that tax holiday policies alone are insufficient to attract investment. Other factors, such as ease of obtaining business permits, a large domestic market, access to international markets, adequate infrastructure, conducive social and security conditions, and the availability of natural resources, also significantly influence investor interest. Meanwhile, research by Lusiana *et al.* (2021) indicates that tax holidays and tax allowances have a positive impact on investment, as evidenced by increased investment in Indonesia, whereas the tax ratio has no effect.

Based on this description, we need to review the tax incentive policies in the Nusantara Capital City (IKN). This study answers several questions: (1) How are tax incentive policies regulated in the IKN? (2) How do tax incentive policies encourage investment in the IKN? (3) What are the challenges of implementing tax incentive policies in the IKN?

This research provides both theoretical and practical benefits. Theoretically, this research can contribute to the existing literature on tax incentive schemes designed to encourage investment in the IKN. Practically, the results of this study can provide input for the government, particularly the Directorate General of Taxes and the Nusantara Capital City Authority, in designing, implementing, and evaluating tax incentive policies to be more effective in attracting investment and creating added economic value without reducing potential state revenue.

## **LITERATURE REVIEW**

### **Tax Incentives**

Tax incentives are a form of incentive provided to companies to reduce their tax burden, to encourage them to invest in specific projects or sectors (UNCTAD, 2000). Furthermore, tax incentives can also be defined as special provisions that allow for exemptions, tax credits, preferential tax rates, or deferrals of tax obligations (UN, 2018). Easson & Zolt (2002) define tax incentives based on their impact in reducing the effective tax burden for a particular project by comparing the relative tax burden on a project eligible for tax incentives with the tax burden that would be borne in the absence of special tax provisions. Based on these definitions, tax incentives come in various forms, aimed at reducing a company's tax burden to attract investment. Tax incentives are used by almost every country in the world. In developing countries, tax incentives have been widely used to stimulate domestic industry and attract foreign investment, thereby driving economic growth through various forms of tax incentives (Easson & Zolt, 2002).

### **Investment**

Investment can be defined as the placement of funds by both domestic and foreign parties in various business sectors with the expectation of future profits (Salim & Sutrisno, 2014). Investment plays a crucial role in driving a country's economic growth. At a macro level, investment plays a crucial role in supporting economic growth, as reflected in increased production capacity resulting from increased investment (Mankiw, 2020). In the context of the Nusantara Capital City (IKN), investment is required in the form of domestic direct investment (DDI) and foreign direct investment (FDI). According to Investment Law No. 25 of 2007, DDI



refers to an investment activity undertaken by Indonesian citizens to establish a business in Indonesia.

Furthermore, FDI refers to foreign investors investing in Indonesia. This activity can take the form of full foreign investment or joint ventures with domestic investors. FDI is specifically used to describe the activity of establishing or developing a business in a country, generally with long-term objectives.

### **Pillar 2 of BEPS 2.0**

BEPS 2.0 is a development of the OECD/G20 project aimed at addressing the challenges of tax base erosion and profit shifting arising from the digitalization of the economy. This project consists of two main pillars as a solution to these problems. Pillar 2 of the BEPS 2.0 solution comprises Anti-Base Erosion Rules (GloBE) and Subject to Tax Rules (STTR), which are designed to address the issue of unfair tax competition between countries. By setting a minimum tax rate of 15%, it is hoped that this will prevent the practice of profit shifting to low-tax jurisdictions (Worokinasih *et al.*, 2022). This policy is aimed at multinational companies with a gross turnover threshold exceeding EUR 750 million (Wahidiyah & Hermawan, 2023). Thus, this minimum tax aims to reduce tax avoidance practices and unfair tariff competition between countries.

## **METHODS**

This study uses a qualitative research method with a descriptive approach. Qualitative descriptive research analyzes problems by describing, comparing, and explaining data or conditions to conclude (Kuncoro, 2009). The data used is secondary data obtained through literature studies, documents, scientific journals, official government websites, and various other reliable sources. This research uses narrative data analysis, which aims to analyze and examine various descriptions of events that occurred and then present them in narrative form.

## **RESULTS AND DISCUSSION**

### **Tax Incentive Policy Regulation in the Nusantara Capital City (IKN)**

The Indonesian government has established a tax incentive policy to encourage investment in the IKN. The provisions are outlined in Government Regulation No. 29 of 2024 concerning the Granting of Business Licensing, Ease of Doing Business, and Investment Facilities for Business Actors in the Nusantara Capital City, which is further regulated in Minister of Finance Regulation No. 28 of 2024 concerning Tax and Customs Facilities in the Nusantara Capital City. The details of the tax incentives are as follows.

a. Corporate income tax reduction for domestic corporate taxpayers

Domestic corporate taxpayers investing more than IDR 10 billion in the IKN are entitled to a 100% corporate income tax reduction. This incentive is provided to companies operating in sectors deemed essential to accelerating the development of the IKN and is effective from the first tax year of commercial operations.

b. Income tax on financial sector activities in the financial centre

Corporate taxpayers conducting business activities in the financial sector of the IKN financial centre will be granted a 100% corporate income tax reduction for the banking, insurance, and Islamic finance sectors, and 85% for other business sectors, such as the capital market. This incentive is valid for 25 years for investments made between 2023 and 2035 and 20 years for investments made between 2036 and 2045.

c. Corporate income tax reduction for establishing, relocating head offices, or regional officers



Domestic and foreign taxpayers establishing or relocating head offices or regional offices to the IKN will be granted a 100% corporate income tax reduction for the first 10 tax years and a 50% reduction for the next 10 tax years. This facility is available until December 31, 2045.

- d. Gross income deduction for internships and competency-based human resource development programs

Domestic corporate taxpayers are entitled to a gross income deduction of up to 250% of the total costs incurred for work training, internships, or learning programs. This tax deduction consists of two parts: a basic deduction of 100% and an additional deduction of up to 150% if specific requirements, such as a cooperation agreement and a fiscal certificate, are met. This facility applies to costs incurred until 2035.

- e. Gross income deduction for specific research and development activities

Domestic corporate taxpayers conducting certain research and development activities in the Nusantara Capital City (IKN) are entitled to a gross income deduction of up to 350% of the total costs incurred. This deduction consists of a basic deduction of 100% and an additional deduction of 250% if the research falls within the eleven established priority categories. This facility is provided as an incentive to encourage research and development activities in the Nusantara Capital City. This additional facility is available until 2035.

- f. Gross income deduction for donations or construction costs for public, social, and other non-profit facilities

Domestic corporate taxpayers who make donations or construction costs for public, social, or other non-profit facilities in the Nusantara Capital City (IKN) are entitled to a gross income deduction of a maximum of 200% of the total donation or cost incurred, consisting of a 100% deduction for the amount of the donation or cost provided, plus an additional deduction of up to 100%. This facility is valid until 2035.

- g. Article 21 income tax is borne by the government and is final

The government provides a final Article 21 Income Tax exemption for certain employees, state officials, civil servants, members of the Indonesian National Armed Forces (TNI), and members of the Indonesian National Police (Polri). This facility is valid until the December 2035 tax period.

- h. 0% final income tax for business income of MSMEs

Domestic taxpayers who are MSMEs other than Permanent Establishments (PE) and invest in the IKN with a capital of less than IDR 10 billion are entitled to a 0% final income tax facility on income from gross business turnover of up to IDR 50 billion in one tax year.

- i. Income tax reduction for transfer of land and/or building rights.

Taxpayers who conduct land and/or building sales transactions in the IKN are granted a 100% income tax reduction facility. This facility is available until 2035.

- j. Value added tax (VAT) is not collected

This facility is provided for the delivery of certain Taxable Goods (BKP) or Taxable Services (JKP) and the import of certain strategic BKP.

- k. Sales tax exemption on luxury goods for the delivery of BKP

This tax reduction facility is provided for the sale of luxury residences to individuals, companies, or government agencies operating or domiciled in the IKN.

### **Tax Incentives to Encourage Investment in the Nusantara Capital City (IKN)**

The government has stated that the State Budget (APBN) for the development of IKN will account for only 20% of the total budget requirement of IDR 446 trillion. The Indonesian government is prioritizing the IKN development scheme through public-private partnerships (PPP) and the private sector. More specifically, the government is currently prioritizing investment in the IKN for domestic investors (DDI). However, it does not preclude foreign investors (FDI) from investing in the IKN (Putri *et al.*, 2024).



To attract investment, both domestic and foreign, the government introduced tax incentives in the IKN through Government Regulation No. 12 of 2023, which is further regulated in Minister of Finance Regulation No. 28 of 2024. According to Kusumastuti & Fatin (2023), the PP Number 12 of 2023 policy was welcomed by potential investors and domestic business actors. However, they did not immediately invest their capital, as the IKN project was still ongoing. It was estimated that potential investors who might join had substantial capital to wait until the IKN became an active capital city with stable economic and government activities.

One tax incentive that has made a significant contribution is the tax holiday. This incentive is considered attractive to investors. By May 2023, 300 investment packages had been opened in the first phase of package 3 (Kusumastuti & Fatin, 2023). Indonesia's 7th President, Joko Widodo, also stated that the development and growth of investment in the IKN showed a positive trend, with 55 investors having entered various projects as of August 2024 (Evandio, 2024). Furthermore, the Minister of Investment and Downstream Development/Head of the Investment Coordinating Board (BKPM), Rosan Roeslani, revealed in a joint press conference with the Coordinating Ministry for Economic Affairs on November 3, 2024, that tax holidays play a significant role, accounting for approximately 25% of inward investment (Ambarwati, 2024). This demonstrates the crucial role that tax incentives play in attracting investment.

As a follow-up to the first phase of development, the government initiated the second phase of IKN development in April 2025, which is expected to last until 2028. Unlike the first phase, which was primarily funded through the State Budget (APBN), the second phase focuses more on funding through private investment through various mechanisms, including the Public-Private Partnership (PPP) scheme. The Head of the Nusantara Capital City Authority, Basuki Hadimuljono, explained that the shift in focus to private investment was made after seeing a positive response from various investors, both domestic and foreign. The total investment value received at this stage reached approximately IDR 132 trillion (Perkumpulan Ahli Profesional KPBU Indonesia, 2025). This shift in funding focus underscores the importance of tax incentives as a strategic instrument to attract and retain investor interest in the IKN.

Investment growth in the IKN is also reflected in the realized investment value in East Kalimantan, the province hosting the IKN (Putri *et al.*, 2024). Quarterly press releases from the East Kalimantan Provincial Secretariat indicate that the investment target consistently increases year after year. Quarterly investment realization fluctuates, but never declines drastically. However, when viewed annually, investment almost always increases, with a notable spike in the third quarter of 2024.

**Table 1. Investment Realisation in East Kalimantan**

Quarter	Target/ Year (IDR)	Realisation (IDR)	Details		Increase
			DDI (IDR)	FDI (IDR)	
Quarter I (Jan-March 2021)	32,53 T	5,37 T	3,93 T	1,44 T	13,59%
Quarter II (April-June 2021)	32,53 T	8,56 T	6,23 T	2,33 T	15,21%
Quarter III (July-Sept 2021)	32,53 T	10,88 T	7,18 T	3,70 T	-1,72%
Quarter IV (Oct-Dec 2021)	32,53 T	16,37 T	12,95 T	3,14 T	49,73%
Quarter I (Jan-March 2022)	54 T	14,95 T	10,18 T	4,77 T	178,40%
Quarter II (April-June 2022)	54 T	12,1 T	8,83 T	3,26 T	41,36%
Quarter III (July-Sept 2022)	54 T	14,15 T	9,74 T	4,41 T	30,06%
Quarter IV (Oct-Dec 2022)	54 T	16,55 T	10,83 T	5,72 T	1,10%
Quarter I (Jan-March 2023)	64,5 T	15,42 T	11,36 T	4,06 T	3,14%



Quarter	Target/ Year (IDR)	Realisation (IDR)	Details		Increase
			DDI (IDR)	FDI (IDR)	
Quarter II (April-June 2023)	64,5 T	15,54 T	10,99 T	4,54 T	28,43%
Quarter III (July-Sept 2023)	64,5 T	18,78 T	13,79 T	4,98 T	32,72%
Quarter IV (Oct-Dec 2023)	64,5 T	22,14 T	16,01 T	6,12 T	33,78%
Quarter I (Jan-March 2024)	76,02 T	16,73 T	11,92 T	4,80 T	8,50%
Quarter II (April-June 2024)	76,02 T	16,50 T	12,47 T	4,02 T	6,18%
Quarter III (July-Sept 2024)	76,02 T	55,82 T	38,65 T	17,16 T	197,23%
Quarter IV (Oct-Dec 2024)	76,02 T	20,48 T	16,40 T	4,08 T	-7,50%
Quarter I (Jan-March 2025)	79,86 T	19,78 T	12,57 T	7,21 T	18,25%
Quarter II (April-June 2025)	79,86 T	23,62 T	19,79 T	3,83 T	43,14%

Source: Processed from Putri *et al.* (2025)

Tax experts have also acknowledged that well-designed tax incentives have been successful in increasing investment. In other words, when tax incentives are well-designed and implemented, they can be a valuable tool in attracting investment that would not have occurred without tax benefits (UN, 2018). Based on the data showing a positive trend in investment, tax incentives for the new capital city (IKN) can be a helpful instrument in attracting investment. This aligns with the explanation of Diana Dewi, Chairperson of the Indonesian Chamber of Commerce and Industry (KADIN) Jakarta, who stated that both domestic and foreign investors will be attracted by offers of tax incentives they perceive as favorable. Suppose no investors have yet committed to investing in the Indonesian IKN. In that case, the regulations governing the tax incentives are not yet in sync or still appear burdensome to potential investors (KADIN, 2024). Given that many investors have already committed to investing in the IKN, these tax incentives are considered favorable for potential investors.

Proportionally, realized investment in East Kalimantan and the IKN is dominated by domestic investment (DDI), in line with government priorities. This dominance aims to ensure investment in the first cluster of the IKN, which includes vital facilities such as the presidential palace, hotels, hospitals, restaurants, and other public facilities. The first cluster is strategic and constitutes the core of the government area; therefore, it must be controlled by domestic investors. This does not imply a lack of foreign interest, but rather a gradual strategy to ensure the stability and readiness of infrastructure before foreign investors enter. Therefore, focusing on domestic investment in the initial phase is a realistic step to build the foundation of the domestic economy and increase global market confidence. According to Putri *et al.* (2024), subsequent FDI is targeted when domestic investment ceases and for high-tech development.

Although some literature, such as Aida *et al.* (2021), suggests that foreign investment is generally more efficient in driving economic growth in developing countries, the government's strategy of prioritizing domestic investment remains justified. This is because tax incentives do not solely drive foreign investment. According to Aribowo & Irawan (2021), factors such as infrastructure, international market access, social and security conditions, and the quality of human resources also influence foreign investor decisions. Therefore, strengthening the role of domestic investment (DDI) through tax incentives for basic infrastructure development is a strategic step to create a more attractive investment environment for foreign direct investment (FDI) in the next phase.

Although Foreign Direct Investment (FDI) is not a priority, foreign investors have shown interest in investing in the Nusantara Capital City (IKN). Sandiaga Uno expressed a strong interest in collaborating and investing in the Nusantara Capital City by Middle Eastern



countries during his working visit to the region (Hariani, 2023). The 7th President of the Republic of Indonesia, Joko Widodo, also stated that by September 2024, foreign investors had entered the Nusantara Capital City, including Australia in education, and Russia and China in property, demonstrating confidence in investing in the IKN (Ulya & Ihsanuddin, 2024). In fact, at the groundbreaking for the 8th Nusantara Capital City, the investment value is estimated to reach IDR 1.57 trillion, sourced from one pure foreign investor, two foreign partnerships, and two domestic investors. The Nusantara Capital City continues to attract foreign investors, but they are selective in choosing those relevant to its development (IKN, 2024). In the second phase of IKN development, the IKN Authority is also processing several investments through a Public-Private Partnership (PPP) scheme involving both domestic and foreign investors. These include IJM Corporation (Malaysia) and China Harbour Engineering (China), with a total investment value of approximately IDR 132 trillion for the Multi-Utility Tunnel (MUT), road, and housing projects (Rahayuningsih, 2025). These developments suggest that tax incentive policies play a role in maintaining the attractiveness of investment in the IKN.

### **Challenges of Implementing Tax Incentives in the Nusantara Capital City (IKN)**

Tax incentives to encourage investment in the IKN still face challenges, especially in the medium- and long-term. The challenge in implementing tax incentives is that the incentives themselves are not the primary factor in encouraging investment. Countries often offer tax incentives to increase economic competitiveness. For countries with less attractive investment climates, tax incentives can be a policy option to enhance investor appeal (Wildan, 2024). However, tax incentives currently serve only as a sweetener in encouraging investment in Indonesia. Tax incentives are not the primary factor in attracting investment; other factors play a significant role in this process. Putri (2017) stated that investors consider various factors when making investment decisions, including ease of licensing, domestic market size, international market access, infrastructure, social and security conditions, and human resource availability.

The provision of income tax incentives is also insignificant in encouraging foreign investment. In both the short and long term, tax incentives such as tax holidays have a significant impact on FDI in Indonesia, as they are not the primary factor driving investors to invest in the country. The introduction of tax holidays actually leads to a decrease in potential state revenue, particularly from corporate income tax (Tovi, 2022). Although there has been an increasing trend in investment in the Nusantara Capital City (IKN) due to tax incentive policies, this does not fully explain the extent of these incentives' role in encouraging investment. The government needs to re-examine the various reasons why investors are willing to invest in the new capital city.

The next challenge is implementing the global minimum tax (GMT) through Pillar 2 of the Base Erosion and Profit Shifting (BEPS) initiative. The implementation of the global minimum tax is motivated by tax avoidance by many multinational companies, which shift their profits to countries with tax incentives or lower tax rates. This results in losses in global tax revenue. According to a (2015) report from the Organisation for Economic Cooperation and Development (OECD), tax avoidance practices by multinational companies can result in annual tax losses of up to USD 240 billion. This is supported by research conducted by Cobham and Jansky in 2018, which estimated that for OECD members, the loss of tax revenue due to shifting corporate profits amounts to 0.66% of Gross Domestic Product.

The implementation of Pillar 2 will undoubtedly impact several tax regulations in Indonesia, including regulations related to tax incentives. This policy is considered to reduce the effectiveness of tax incentives as a strategy to increase investment interest in Indonesia. First, the reduction in the corporate income tax rate for the financial center sector. In this case, the reduction in the corporate income tax rate of 100% and 85% indicates that the effective tax rate is below 15%. In such cases, multinational companies will be subject to a top-up tax from



their country of residence. Pillar 2 states that if there is a difference between the minimum tax rate and the effective tax rate in the country where the company invests, two consequences can occur: the difference can be taxed in the country of residence through the income inclusion rule and/or the undertaxed payment rule (Setyawan, 2022).

Table 2 illustrates that if a taxpayer (WP) receives a 100% incentive, a 15% top-up tax can be collected by the country of residence, provided that Indonesia has not implemented a qualified domestic minimum top-up tax (QDMTT). However, suppose the taxpayer receives an incentive of 85%. In that case, the taxpayer still benefits by not paying all the tax owed, namely only 15%, of which 3% is paid in Indonesia and 12% is paid in the country of domicile.

**Table 2. Calculation of Top-Up Tax Payable**

Descriptions	Tax Holiday (100%)	Tax Holiday (85%)	Information
Location		Indonesia	
Net Income	Rp100.000.000	Rp100.000.000	Tarif 22% x Ph Neto
Corporate Income Tax	Rp22.000.000	Rp22.000.000	
Deduct (Facilities)	(Rp22.000.000)	(Rp18.700.000)	
Corporate Income Tax Paid	0	Rp3.300.000	
Effective Tax Rate (ETR)	0%	3%	Corporate Income Tax Paid/Net Income
Top-Up Tax	15%	12%	15% - ETR

Source: Processed by the author (2025)

Furthermore, there is a Corporate Income Tax (PPh) reduction facility for companies establishing and/or relocating head offices or regional offices. This incentive offers a 100% tax reduction on income tax payable for a period of 10 years. This policy impacts taxpayers who meet the GMT requirements by lowering the Effective Tax Rate (ETR). Furthermore, there is a 100% reduction in corporate income tax on the transfer of land and/or building rights, valid until 2035.

The Indonesian government has attempted to address this issue, one of which is through the enactment of Minister of Finance Regulation No. 69 of 2024 concerning the Provision of Corporate Income Tax Reduction Facilities. Article 15A stipulates that taxpayers who receive the tax holiday facility will be subject to an additional domestic minimum tax in accordance with the provisions of this Article. This means that taxpayers will continue to be taxed at the minimum rate agreed upon under Pillar 2 of BEPS 2.0, which is 15%.

However, following the issuance of the PMK, there are still no further or derivative regulations that clearly regulate taxpayers who receive benefits, such as tax holidays, with the imposition of a domestic minimum rate. The absence of derivative regulations could impact investor interest in investing in Indonesia. Widyaningrum (2023) stated that regulations play a crucial role in providing legal certainty because they are one of the main attractions for investors. Therefore, implementing incentives with tariff exemptions of up to 15% remains a challenge amidst the Pillar 2 BEPS 2.0 agreement.

## CONCLUSION

The Indonesian government has implemented various tax incentive policies to support investment in the New Capital Market (IKN), aiming to attract both domestic and foreign investors. These policies are stipulated in Government Regulation Number 12 of 2023 and further regulated through PMK Number 28 of 2024. The tax incentives available in the IKN include nine Income Tax (PPh) facilities, one VAT facility, and one Sales Tax on Luxury Goods



(PPnBM) facility. These policies affirm the government's commitment to accelerating the development of the IKN as a new economic hub.

The tax incentives provided by the Indonesian government play a significant role in attracting investors to the IKN. Investment in the IKN has also had a positive impact, leading to increased investment in East Kalimantan Province. Tax holidays alone account for approximately 25% of investment in the IKN. Investment, which now focuses more on domestic direct investment (DDI) in building basic infrastructure, is expected to strengthen foreign investor confidence in investing in the IKN.

Although the role of tax incentives in the IKN tends to be positive, the tax incentive policy in the IKN still faces two challenges, especially in the medium and long term: tax incentives are not the primary driver of investment and commitment to Pillar 2 of BEPS 2.0. Tax incentives are merely a sweetener to encourage investment in Indonesia. Other factors influencing the investment decision include licensing conditions, infrastructure, security, and the domestic market. Furthermore, the global minimum tax (GMT) policy has the potential to weaken the attractiveness of tax incentives, such as tax holidays, because multinational companies are still required to pay a minimum effective tax rate of 15% globally. The implications of this GMT result in various tax incentives in the IKN, which yield an effective tax rate of less than 15%. However, this rate is at risk of being subject to top-up taxes by the company's home country. Although the government has issued Ministerial Regulation Number 69 of 2024 to align tax incentive policies with GMT provisions, the absence of more specific derivative regulations creates uncertainty for investors.

## **Recommendations**

### **For the government**

The government can issue follow-up regulations that explicitly stipulate the criteria for taxpayers eligible for tax incentives in the Nusantara Capital City (IKN) following the implementation of Pillar 2 of BEPS 2.0. This step aims to provide substantial legal certainty for investors, thereby increasing investment interest in the IKN. These regulations should outline the criteria for determining the types of businesses and sectors eligible for incentives, as well as the mechanism for imposing an additional domestic minimum tax in accordance with the provisions of Pillar 2 of BEPS 2.0. In addition, the government needs to ensure that derivative regulations related to the calculation and implementation of top-up taxes, as well as administrative procedures for taxpayers receiving benefits, such as tax holidays, are transparent and easy to understand. Clear and detailed regulations will create a conducive investment climate in the IKN. This will increase investor confidence, thereby driving economic growth and the success of the new capital city's development.

### **For further research**

1. Future research can use primary data through interviews with government agencies authorized to regulate tax incentive policies in the IKN.
2. Future research can focus on discussing one tax incentive and its impact on domestic and foreign investment.
3. Further research can compare various types of tax incentives to analyze the most effective incentives in attracting investor interest.

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