



**INTERNATIONAL TAX FORUM**  
**BALI, 24-26 SEPTEMBER 2024**  
**Macro-economic impact Pillar 2**

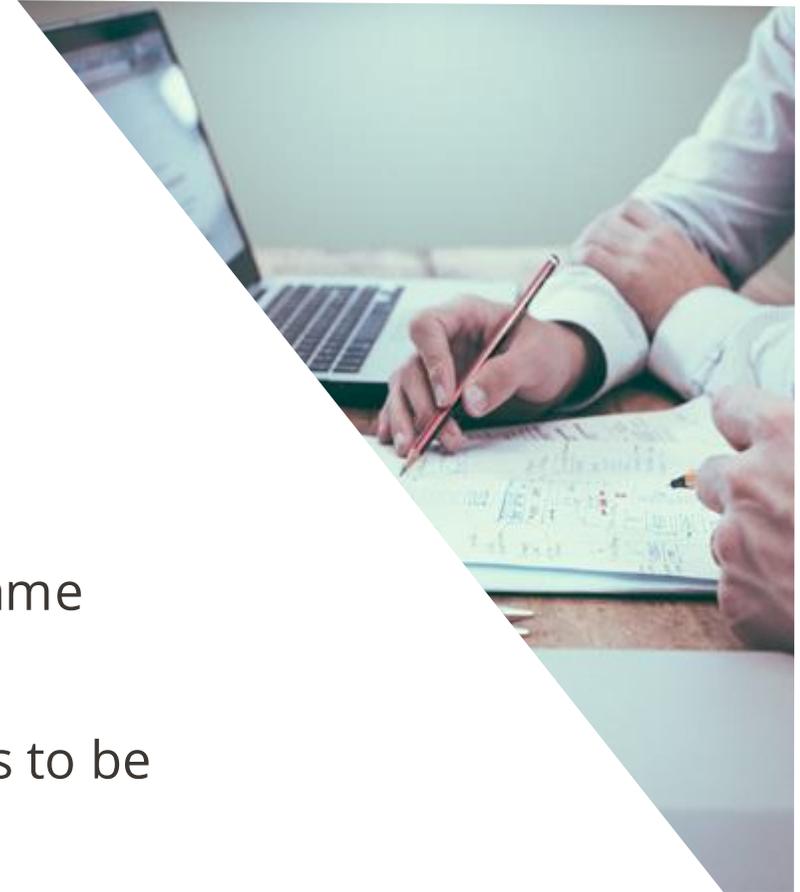
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# Agenda

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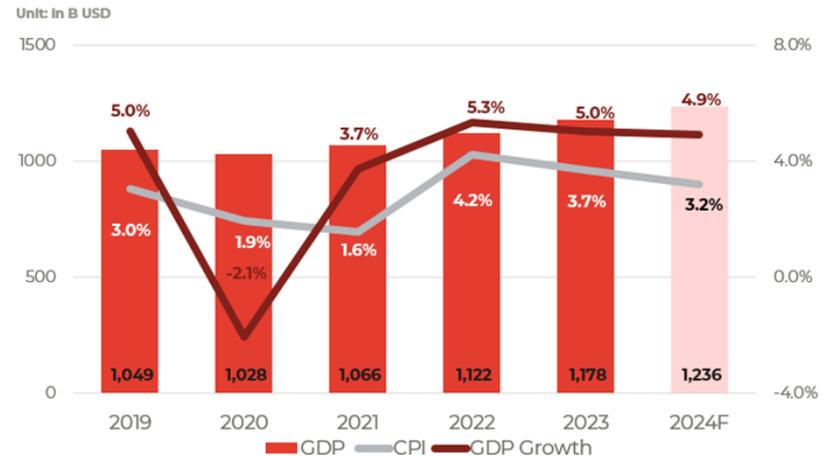
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# The economy (Unctad reports)

- Indonesia in 2023 growth 5% GDP
- (return to pre-Covid level)
- Vietnam, Malaysia and Thailand experiencing similar or lower growth rates at 5%, 3.7% and 2%.
- weak domestic consumption held back further economic recovery
- the export value decreased by 12.0%
- inflation levels between 2%-4%
- Forecast 2024, Indonesia is projected to sustain its economic growth momentum, with a forecasted GDP growth of 4.9%.

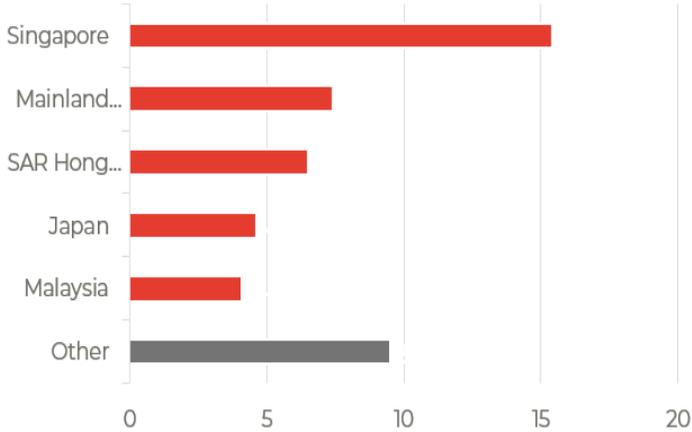
GDP in constant 2015 USD, GDP Growth and Consumer Price Index (2019-2024F)



Source: World Bank, Bank of Indonesia.

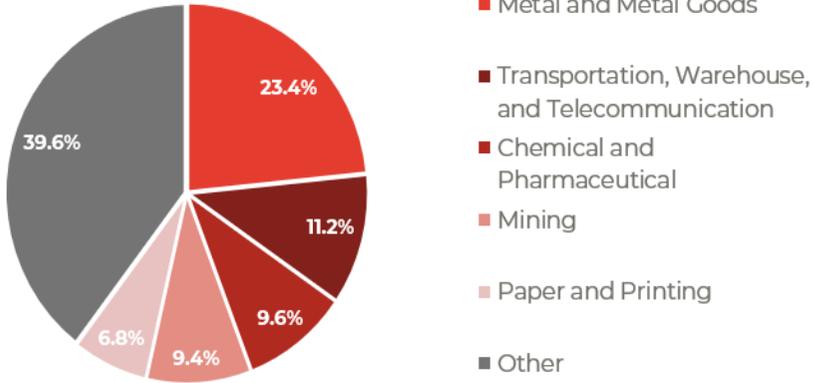
# Some reflections on the economy

FDI by Country in 2023 (in B USD)



Source: Investment Ministry of Indonesia

FDI by Sector in 2023 (in %)



Source: Investment Ministry of Indonesia



# Economic strategy

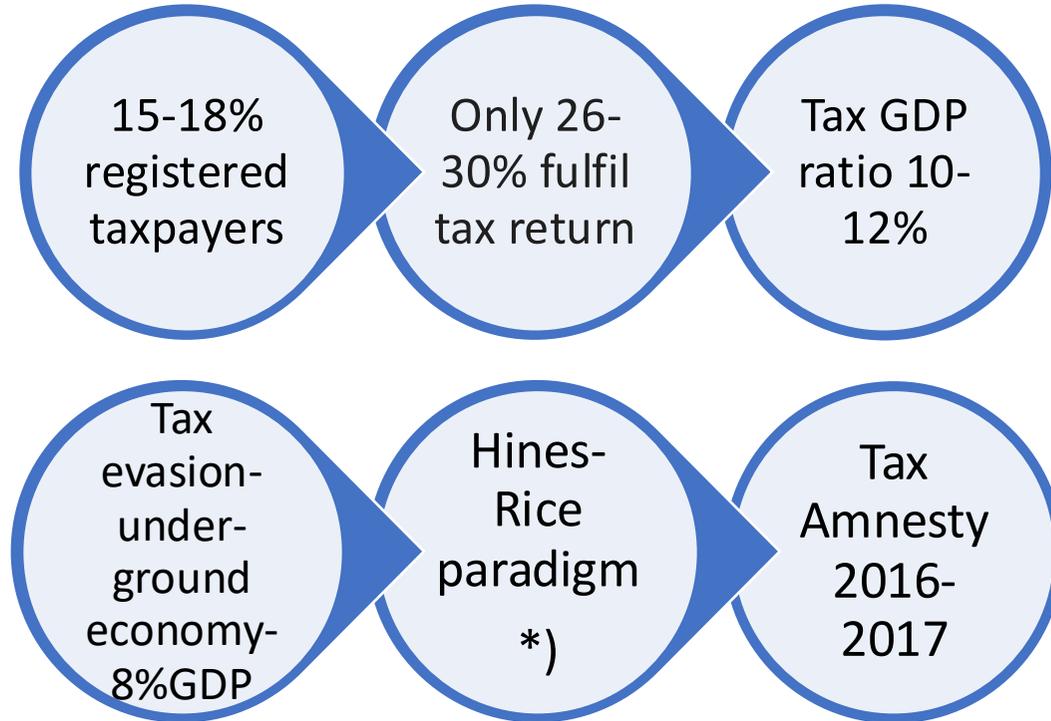
Commitment to strengthening and balancing the domestic economy through infrastructure development.

Focus on becoming a critical hub for foreign investors with special attention to industrial and special economic zones.

Strategic measures to attract significant foreign investment, including the establishment of the Indonesian Investment Authority (INA).

Strong momentum in the M&A market, especially in telecommunications, technology, and energy sectors

# Facts about Indonesia and taxation results



# The nature of tax incentives in Indonesia

- ▶ Long period of tax holidays 10-30 years
- ▶ Super tax deductions of 100-350% of the investment
- ▶ 100% reduction of corporate tax
- ▶ Accelerated depreciation
- ▶ Tax exemptions for transfer of land and assets
- ▶ Loss carry forward provisions up to 10 year
- ▶ Exemption from VAT and exemption income tax on profits related to the import of capital goods and raw materials
- ▶ 50% reduction of withholding tax payable on dividends

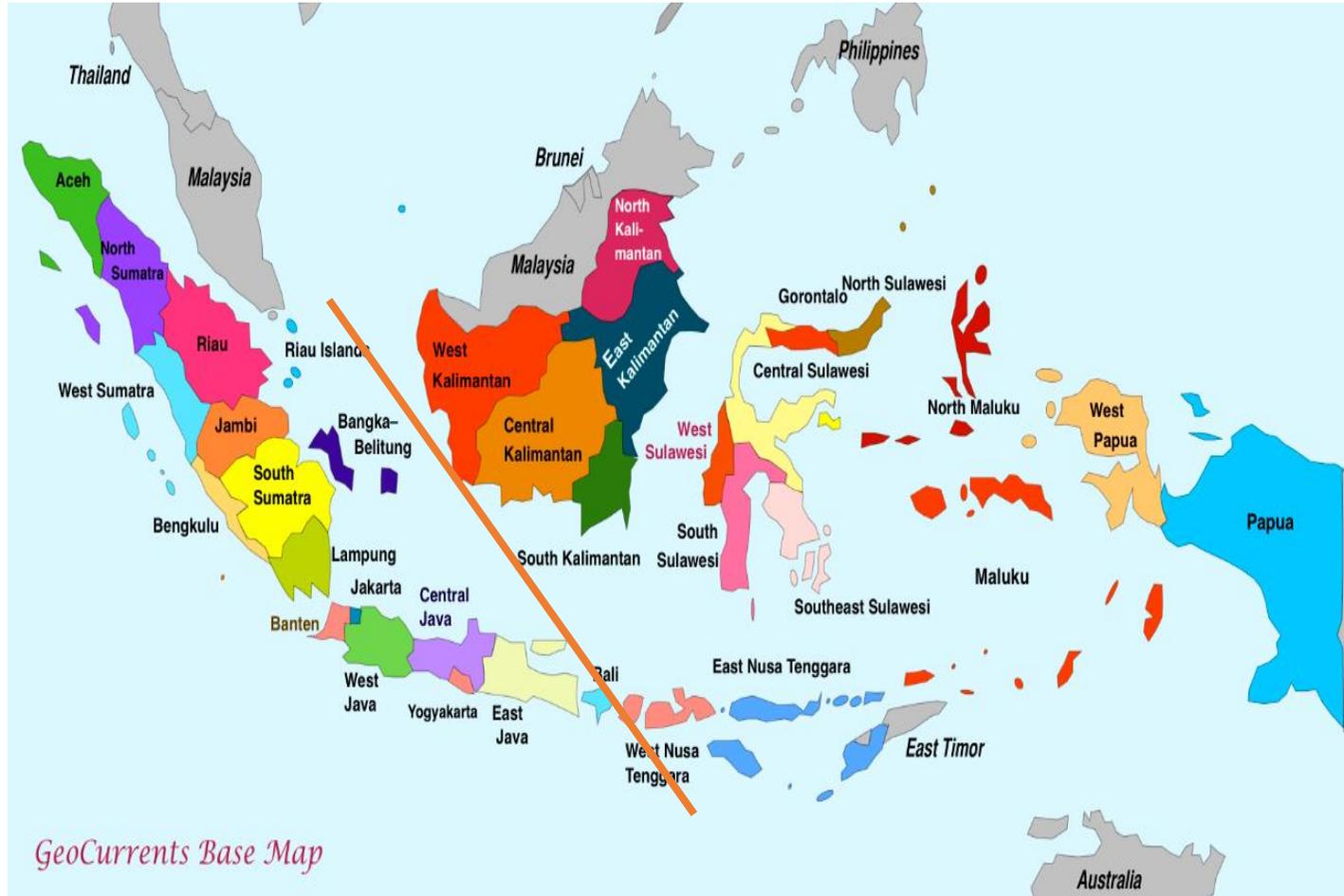
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Some have an impact of the calculation of the ETR



| Economic development zones (KAPET)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Less developed provinces                                                                                                                                                                                                                                                                                                                                | Hardship areas                                                                                                                                      | Capital city of Nusantara (IKN)                                                                                                                       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ol style="list-style-type: none"> <li>1. Biak;</li> <li>2. Natuna Island;</li> <li>3. Batulicin;</li> <li>4. Samarinda;</li> <li>5. Sanga-Sanga;</li> <li>6. Muara Jawa;</li> <li>7. Balikpapan;</li> <li>8. Sanggau;</li> <li>9. Manado-Bitung;</li> <li>10. Mbay;</li> <li>11. Betano;</li> <li>12. Natarbora;</li> <li>13. Viqueque;</li> <li>14. Buton;</li> <li>15. Kolaka-Kendari;</li> <li>16. Batui;</li> <li>17. Kahayan river;</li> <li>18. Kapuas river;</li> <li>19. Barito river;</li> <li>20. Sabang;</li> <li>21. Seram;</li> <li>22. Bima;</li> <li>23. Pare-pare.</li> </ol> | <ol style="list-style-type: none"> <li>1. East, Kalimantan</li> <li>2. West, K</li> <li>3. Middle K</li> <li>4. South K</li> <li>5. North Sulawesi</li> <li>6. South S</li> <li>7. Middle S</li> <li>8. South-East S</li> <li>9. East Nusa Tenggara</li> <li>10. West NS</li> <li>11. East Timor</li> <li>12. Maluku</li> <li>13. Irian Jaya</li> </ol> | <p>A hardship area means a place with economic potential (normally with mineral reserves, including natural gas) which is not easily accessible</p> | <p>Granting of business licences, ease of doing business, and investment facilities for businesses in the capital city of Nusantara,</p>              |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                         | <p><b>Pioneer Industries</b></p>                                                                                                                    | <p><b>Other tax holidays by law</b></p>                                                                                                               |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <p><b>Free trade zones</b></p> <p>Batam, Bintan and Karimun Islands free trade zones</p>                                                                                                                                                                                                                                                                | <p>17 pioneer industries, and revises the corporate income tax reduction rate to a single rate of 100%.</p>                                         | <ul style="list-style-type: none"> <li>• financial sectors</li> <li>• establishment/ relocation of headquarters or regional offices in IKN</li> </ul> |

# SEZ and Indonesia



# Findings of Indonesian tax incentives

- ▶ Multiple incentives (even competing, overlapping)
- ▶ Enormous complexity
- ▶ Impact analyses (what are the objectives, budgetary impact, compliance, enforcement, effectiveness) is not clear
- ▶ Many surveys made evident that the tax incentives policy is costly for Indonesia
- ▶ Meaning a fast majority of large companies have not paid any CIT for years

# Main considerations for FDI



| Type of Investment                        | Factors that drive it                                                                                                                                                                                              | Response to investment incentives                                                                                                                 |
|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Natural Resource/Skill-seeking FDI</b> | Location of Natural Resources/Skills                                                                                                                                                                               | Low response. FDI driven primarily by non-tax factors.                                                                                            |
| <b>Market-seeking FDI</b>                 | <ul style="list-style-type: none"> <li>Market potential</li> <li>Market dimensions</li> <li>Income per-capita</li> <li>Customer specific preferences</li> <li>Kind of goods and services to be provided</li> </ul> | Low response. Level playing field between firms is critical (same tax system for all competitors).                                                |
| <b>Strategic Asset-seeking FDI</b>        | <ul style="list-style-type: none"> <li>Acquiring Strategic Assets</li> <li>Brands and Market positioning</li> <li>Know-how</li> <li>Technology</li> <li>Distribution Networks</li> <li>Human Capital</li> </ul>    | Low response. FDI is driven by the location of the asset. However lower taxes on capital gains reduces the costs of the transfer of these assets. |
| <b>Efficiency-seeking FDI</b>             | <ul style="list-style-type: none"> <li>Lower Costs</li> <li>Mostly export oriented</li> <li>Availability of skills at a Low cost skills</li> <li>Close to markets</li> <li>Low relocation costs</li> </ul>         | High response to tax incentives. Firms are expected to compete globally, hence the lower the costs, the better their ability to compete globally. |

# OECD game changer

## Pillar 2 proposed by the OECD:

Imposes deal, a minimum effective rate of 15% on corporate profits. The policy is aimed at ending the benefit of shielding multi-billion-dollar profits in low tax jurisdictions/ tax havens

It is also intended to combat the impact of incentives in countries that operate as low tax jurisdictions /tax havens for corporate giants.

The OECD estimates the Global Minimum Tax (GMT) policy will reduce under-taxed profits by around 80%, as it applies across geographies, national income boundaries and tax haven structures.

We have to keep in mind a 15% minimum tax is still much lower than what small and medium businesses pay in most countries



**Countries in SE Asia who are committed or even realised legislation and policies**  
**Source: IBFD Tax Research Platform**

# What has to be done?

- There must be a strategic plan for tax and non-tax incentives in the light of Pillar 2
- More challenging for less developed economies
- There are studies that explain the benefits (capital import, employment, increase production-trade, growth GDP) of tax incentives (meaning negative impact by abolishing them) but they were all conducted in isolation. Pillar 2 will establish a more transparent level playing field
- There are concerns that less developed countries have not the cash to finance a qualified refundable tax credit (QRTC), compared to developed countries. However, if Pillar 2 will be implemented – often through QMDTT- revenues will rise
- And subsidies and grants can be much better monitored (effectiveness, efficiency, budget impact)
- Evident is that less developed economies need assistance in their capacity to handle Pillar 2 implementation

ASEAN is aware of the impact and has the following recommendations:

- Assess the potential impact of the global minimum tax on the region's attractiveness for international investors.
- Review all investment treaties and FDI promotion policies that rely on tax-based incentives to bring them in line with the international tax reform.
- Review SEZ programmes that offers tax incentives to attract FDI with a view to linking SEZ development to non-tax measures. This could include offering efficiency, better ecosystem connectivity, better digital and physical infrastructure facilities, and connections to universities and research and development (R&D) parks
- Carry out a review of IIAs to assess the risk of disputes arising from the implementation of the global minimum tax

# What can be the economic impact?

According to UNCTAD (The impact of a Global Minimum Tax on FDI, 2024)

An average growth of 1.7-3.1% (tax GDP/ratio) for Asian countries



# Risks and opportunities?

- ▶ If tax incentives will not be redesigned there is the risk that foreign jurisdictions, through Income Inclusion Rule (IIR) and (even ultimately) an Undertaxed Profits Rule (UTPR) can tax, the effect of tax and nontax incentives of a state where the CE is located
- ▶ The calculation of ETR and Pillar 2 is complex- however tax authorities can start to rely of information provided by MNE's and their tax advisors
- ▶ Uncertainty about dispute resolution mechanism
- ▶ Indonesia is more in charge of the Pillar 2 implementation by reforming their own CIT and related incentives
- ▶ Possible conflict Pillar 2 with tax and investment treaties and WTO rules (that have more impact on less developed economies due to the nature o their tax incentives)

**Thank you  
Terima Kasih**

Thank you for your attention.

