

# Analysis of Strategies and Challenges for The Development of Fiscal and Non-Fiscal Incentives in the Indonesia's New Capital City (IKN) and Its Comparison to Other Economic Zones After the Implementation of PMK 136 of 2024

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## Abstract

The implementation of Global Minimum Tax (GMT) through Indonesia's Finance Minister Regulation No. 136/2024 has fundamentally transformed investment incentive strategies, particularly challenging traditional tax-based approaches used to attract foreign investment to Indonesia's New Capital City (IKN). This study analyzes strategies and challenges in developing fiscal and non-fiscal incentives in IKN post-GMT implementation and compares them with existing Special Economic Zones (KEK), Batam Zone, and Bonded Zones. The research employs descriptive qualitative methods through in-depth interviews with key stakeholders from the Directorate General of Taxes, Fiscal Policy Agency, tax practitioners, and academics, complemented by comprehensive literature review. Findings reveal Indonesia's strategic transformation from rate-based incentives toward GMT-compliant alternatives including Qualified Refundable Tax Credit (QRTC) and enhanced non-fiscal incentives such as regulatory simplification and infrastructure support. Key challenges include GMT regulatory complexity, inter-agency coordination limitations, and fiscal capacity constraints. IKN demonstrates competitive advantages through lowest investment thresholds, longest incentive duration, and most comprehensive incentive portfolio compared to other economic zones. This study provides the first comprehensive analysis of GMT adaptation in new capital city development, offering theoretical insights on international taxation policy and practical guidance for developing countries navigating similar challenges.

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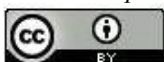
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## INTRODUCTION

The development of the Indonesian New Capital City (IKN) is a national strategic project requiring large-scale investment from both the public and private sectors. To support this funding, the Indonesian government offers various fiscal and non-fiscal incentives, as stipulated in Government Regulation 12 of 2023 and Minister of Finance Regulation 28 of 2024 (Azzahra et.al., 2024). However, global dynamics also influence the effectiveness of these incentives, particularly after Indonesia issued Finance Minister Regulation 136 of 2024, which implemented the Global Minimum Tax (GMT) starting in the 2025 fiscal year (Imelda & Mukhtaruddin, 2025).

This research addresses three critical research objectives: First, to analyze the strategies that the Indonesian government can employ to develop effective fiscal and non-fiscal incentives for IKN while ensuring GMT compliance. Second, to identify and examine the primary challenges in implementing these new incentive frameworks in the context of regulatory complexity, inter-agency coordination, and fiscal capacity constraints. Third, to conduct a comprehensive comparative analysis of IKN's incentive strategies with existing special

economic zones in Indonesia, including Special Economic Zones (SEZs), Batam Zone, and Bonded Zones, drawing lessons from their implementation experiences and competitive positioning in the post-GMT era.

The implementation of Global Minimum Tax has fundamentally transformed the international taxation landscape, creating unprecedented challenges for developing countries in designing effective investment incentive frameworks. This regulatory shift, rooted in the OECD's Base Erosion and Profit Shifting (BEPS) Pillar Two initiative, establishes a 15% minimum tax rate for multinational corporations with consolidated revenues exceeding EUR 750 million, effectively limiting the traditional tax-based incentives that have been cornerstone policies for investment attraction in emerging economies (Amalia & Tambunan, 2024). This transformation raises critical questions about whether existing incentive schemes remain relevant and competitive, particularly for multinational companies operating under GMT constraints. If the effective rate falls below the 15% threshold, the parent country can impose a "top-up tax" to reach that minimum level. In fact, as (Belianto & Rahayu, 2024) explain, conventional tax incentives such as tax holidays have the potential to lose their appeal because tax savings in Indonesia can be offset by taxation in the investor's home country.

This phenomenon raises the urgency to compare incentive strategies in the new capital city with those implemented in Special Economic Zones (SEZs), Batam, and Bonded Zones, three areas that have long been Indonesia's mainstays in attracting investment. A study by (Ginting & Saptono, 2024) shows that 62% of investment in SEZs, Batam, and Bonded Zones during 2015–2021 was driven by fiscal incentives such as 10–20-year tax holidays, 30% tax allowances, and VAT and import duty exemptions. However, the implementation of GMT through PMK 136/2024 has the potential to reduce the effectiveness of these incentives, as multinational companies will be subject to top-up taxes in their home countries if the effective tax rate in Indonesia is below 15%. Jusoh & Ramli (2024) in their comparative analysis of ASEAN policies found that fiscal incentives in Batam and SEZs (for example, a 0% tax rate for the manufacturing sector) are now at risk of losing their appeal, as tax savings in Indonesia may be offset by top-up tax obligations in the investor's country.

To attract investment, the government offers extensive fiscal incentives in IKN, such as tax holidays of up to 30 years and super tax deduction of 350%, as stipulated in PP 12/2023 and PMK 28/2024 related to Taxation and Customs Facilities in the National Capital City. However, these incentives have the potential to collide with the GMT principle that requires an effective tax rate of at least 15%. If the tax rate in IKN is lower due to incentives, Indonesia risks losing taxation rights because multinational companies will be subject to top-up tax in the home country (Belianto & Rahayu, 2024).

The challenge in developing fiscal and non-fiscal incentives in IKN after the implementation of PMK 136 Year 2024 is how to align incentive policies with global minimum tax provisions. The government needs to ensure that the incentives provided remain attractive to investors, while not contradicting the principles of the GloBE Rules (Charles et al., 2024). The government also needs to develop more innovative and competitive non-fiscal incentives to attract investment to IKN.

This research makes novel contributions in three key aspects. First, it is the first study to analyze incentive strategies in new capital city (IKN) projects, specifically how developing countries can align investment policies with international tax standards. Second, it develops a systematic comparative framework for analyzing incentive strategies across different types of economic zones (IKN, SEZs, Batam, and Bonded Zones) in the GMT era, a practice not previously explored. Third, it provides empirical evidence from a developing country perspective on the practical challenges and strategic adaptations required to comply with GMT, filling a gap in the literature that has focused primarily on developed countries. Practically, this research offers concrete guidance for policymakers in emerging economies in balancing international tax compliance with national development priorities, and develops a methodological approach that can be applied to similar research in other contexts.

## **LITERATURE REVIEW**

### **Theory of Public Economics**

Public economics is a branch of economics that focuses on the role of government in allocating, distributing, and distributing economic resources for the public interest (Stiglitz & Rosengard, 2022). Public economic

theory provides a fundamental framework for understanding the justification and design of government intervention, particularly through fiscal and non-fiscal incentive instruments. According to (Gruber, 2019), government intervention, including the provision of incentives, can be justified when markets fail to allocate resources efficiently, for example due to positive externalities from new investments or imperfect information.

### **Foreign Direct Investment (FDI)**

Foreign Direct Investment (FDI) is a cross-border investment made by an entity in one country (a foreign investor) into a business or asset located in another country, with the aim of gaining managerial control over that entity. FDI is a crucial component of global capital flows and plays a significant role in economic growth, particularly for developing countries. (Kaddouri & Benelbar, 2024) state that FDI not only brings capital flows to the host country but also technology transfer, managerial skills, and access to global markets that can increase overall economic productivity.

### **Fiscal Incentive Policy**

Fiscal incentives are policy instruments used by governments to encourage investment, create jobs, or develop specific sectors or regions through tax relief. (Ilhamsyah, Wati, & Lestari, 2023) define fiscal incentives as deviations from the standard tax system granted to specific sectors, projects, activities, or entities with the aim of encouraging specific economic behavior. Fiscal incentives can take the form of temporary tax holidays, tax rate reductions, tax credits, accelerated depreciation, or other tax relief facilities.

### **The Concept of International Taxation**

International taxation is a system that regulates how cross-border transactions are taxed, including rules to avoid double taxation and minimize the possibility of tax evasion. (Avi-Yonah, 2022) explains that international taxation encompasses rules governing cross-jurisdictional taxation, aimed at preventing Base Erosion and Profit Shifting (BEPS) practices that harm countries, particularly developing countries that rely heavily on tax revenues to finance infrastructure development, education, and social programs.

### **Global Minimum Tax (GMT) Concept**

The Global Minimum Tax is a key element of international tax reform initiated by the OECD and the G20 through the BEPS Pillar Two framework. According to (Devereux, 2022), this initiative aims to ensure that multinational companies with annual global revenues exceeding EUR750 million are subject to a minimum effective tax rate of 15% in each jurisdiction in which they operate. One of the primary motivations of the GMT is to reduce the incentive for multinational companies to shift profits to jurisdictions with low or zero tax rates and to reduce harmful tax competition between jurisdictions.

## **RESEARCH METHODS**

### **Subject and Object Research**

This research uses a qualitative descriptive method with the research object to analyze the strategies and challenges for the development of fiscal and non-fiscal incentives in the Indonesian Capital City (IKN) and its comparison with other economic regions following the implementation of PMK 136/2024 concerning the Global Minimum Tax (GMT). The research subjects consisted of the Fiscal Policy Agency as the fiscal policy formulation institution, the Directorate General of Taxes as the tax administration authority, tax consultant practitioners who provided practical implementation perspectives, and readers who contributed to the theoretical analysis.

### **Data Collection Methods**

In this study, data collection was conducted through three main methods: observation, interviews, and documentation. Observations were conducted to gain an in-depth understanding of the implementation of fiscal and non-fiscal incentive policies within the government, particularly in the context of the implementation of

PMK 136/2024 concerning the Global Minimum Tax and the development of incentive strategies in the IKN. Interviews were conducted using a semi-structured approach, where researchers asked pre-prepared questions but still allowed flexibility to dig deeper into the answers. Documentation was also used to collect documents that included analysis of laws and regulations, OECD policy reports, academic publications, and international best practices relevant to the research topic.

Data Analysis Techniques

The data analysis in this study employed a triangulation method, following the interactive model developed by Miles and Huberman. This stage comprises four main stages: data collection, data reduction, data presentation, and conclusion drawing (data verification). First, data collection was conducted through systematic information gathering through observation, interviews, and documentation. Second, data reduction involved a systematic process of selecting, focusing, simplifying, and transforming raw data obtained from interviews and documents into manageable analytical units. Third, data presentation was conducted through organizing and displaying the reduced data using the Nvivo application. Fourth, conclusion drawing and verification involved an iterative process of developing insights, testing initial findings against collected evidence, and validating conclusions through ongoing comparison with empirical data.

RESULTS AND DISCUSSION

The Indonesian government has developed and established various comprehensive incentive schemes to support the development process and accelerate investment in the new capital city (IKN). These schemes are officially outlined in Minister of Finance (MoF) Regulation Number 28 of 2024, which reflects the government's fiscal policy direction in creating a competitive and conducive investment climate (Azzahra et.al., 2024). After that, Indonesia officially implemented the GMT policy through the MoF Regulation Number 136 of 2024 concerning the Imposition of Global Minimum Tax Based on International Agreements which came into effect on January 1, 2025. Of the total 142 jurisdictions that have stated their commitment to implementing Pillar 2 within the OECD/G20 Inclusive Framework, Indonesia is among the 37 countries that have taken concrete steps by starting to implement the Global Minimum Tax (GMT) rules (Herlambang, 2025). The following table shows data on the development of the implementation of the global minimum tax by region:

Table 1. Development of Global Minimum Tax Implementation by Region

Area	Committed to Implement	Planning to Implement	Already Implemented	Total
Asia Pasific	17	7	5	29
Europe	23	1	27	51
America	31	1	4	36
Africa	24	1	1	26

Source: OECD (2022)

Strategy for the Development of Fiscal and Non-Fiscal Incentive in the New Capital City (IKN)

The implementation of Minister of Finance Regulation 136/2024 concerning the Global Minimum Tax (GMT) has fundamentally changed the international tax landscape, necessitating a comprehensive fiscal incentive development strategy in the Indonesian Capital City (IKN). This paradigm shift not only impacts the effectiveness of traditional incentives such as tax holidays but also opens up opportunities to develop more innovative and sustainable incentive instruments. To address these challenges, the Indonesian Government has developed and prepared a comprehensive incentive package to support development and accelerate investment in the IKN. This incentive package is officially outlined in Minister of Finance Regulation Number 28 of 2024. The advantage of incentives in the IKN compared to other regions lies in the very low investment threshold. This statement aligns with what Mr. Purwitohadi conveyed in an in-depth interview with the author, as follows:

*“Even for MSMEs, while the turnover limit outside the capital city is 500 million rupiah, which is tax-free, in the capital city it's only 50 billion rupiah. Just imagine. So, we're being very generous in providing incentives in the capital city, including a super tax deduction that we add 50% more than what we apply outside the capital city. And for the investment threshold, for those outside the capital city, the threshold is 100 billion rupiah. In the capital city, 10 billion rupiah is enough. That's enough for us to get a tax holiday. When we talk about the benefits that investors can enjoy, it really depends*

*on the investment. Because the larger the investment, the greater the benefits that can be felt.” (In-depth interview with Mr. Purwitohadi, Middle Expert Policy Analyst at the Fiscal Policy Agency)*

After Indonesia officially implemented the GMT regulation through Minister of Finance Regulation 136 of 2024, various fiscal incentive packages previously offered were impacted. The government is attempting to adjust fiscal incentives to remain attractive and compliant with international tax regulations agreed upon within the OECD/G20 framework. Some of the fiscal incentive development strategies currently being implemented by the government are as follows:

#### 1) Redesign Alternative Fiscal Incentives

The Indonesian government needs to undertake a strategic transformation by redesigning its fiscal incentive portfolio to remain competitive in attracting investment while ensuring compliance with the 15% minimum GMT requirement. Currently, the government is reviewing the development of new incentives as a more GMT-resistant alternative. One key strategy being developed is the transformation from rate-based incentives to credit-based incentives, namely the Qualified Refundable Tax Credit (QRTC) and Marketable Transferable Tax Credit (MTTC). As explained by Ms. Melani Dewi and Mr. Dwi Setyobudi in an in-depth interview, the following:

*“In my view, the global minimum tax provision has simply shifted from tax holidays, tax allowances, and super tax deductions to cash-based incentives such as cash grants, tax credits, or qualified refundable tax credits (QRTCs). This is what has been happening since the global minimum tax was enacted in many countries around the world. It now covers more than 50 countries. Because tax holidays, tax allowances, and super tax deductions are no longer effective, especially for affected and covered taxpayers, countries have begun to provide cash-based incentives such as cash grants or refundable tax credits.” (In-depth interview with Melani Dewi Astuti, Senior International Tax Analyst at the Fiscal Policy Agency)*

*“Several countries have adopted QRTC and MTTC. Regarding this, several studies are currently underway in Indonesia. The concept is that, for example, if Indonesia were to adopt QRTC, the basis would be RND. Companies that implement RND would receive cashback in the form of tax credits.” (In-depth interview with Mr. Dwi Setyobudi, Head of Income Tax Regulation Section II, Directorate General of Taxation)*

This transformation represents not merely a technical adjustment to GMT requirements, but a strategic evolution toward more sophisticated and globally-compliant investment promotion frameworks that could serve as a model for other emerging economies navigating similar challenges in the post-GMT era. This transformation is in line with (Stiglitz & Rosengard, 2022) framework in Theory of Public Economics for government intervention in resource allocation, where the state plays a crucial role in correcting market inefficiencies and promoting the public interest through strategic policy design.

#### 2) Modification of the Tax Holiday Scheme

In facing the consequences of implementing the GMT regulation through Minister of Finance Regulation 136 of 2024, the Indonesian government recognized that several traditional forms of fiscal incentives, such as tax holidays and tax allowances, were no longer fully effective, particularly for large-scale business entities subject to the GMT provisions. This could make these incentives less attractive to investors, who would ultimately have to pay the tax difference in other jurisdictions (Amalia & Tambunan, 2024). During the evaluation process, various discussions emerged regarding the possibility of designing a new scheme or even a replacement for the tax holiday that is considered more compatible with the global minimum tax regime. However, a replacement for the tax holiday incentive cannot be definitively determined in the near future, as in-depth studies are still needed to determine its effectiveness, fiscal impact, and compliance with agreed international commitments. As explained by Mr. Dwi Setyobudi in an in-depth interview, he said:

*“This is indeed quite complex and related to future incentives. We are currently discussing whether a replacement for the tax holiday incentive is necessary. We are still assessing the pros and cons of this. So, as of now, no decision has been made regarding a replacement for the tax holiday.”*

To address this challenge, one adaptation strategy the government is developing is to modify the form and scheme of the tax holiday to remain competitive while still complying with the GMT principle. This

statement aligns with what Ms. Melani from the Fiscal Policy Agency conveyed in an in-depth interview with the author:

*“The government recently extended the Tax Holiday with Minister of Finance Regulation Number 69 of 2024. This means that investor taxpayers can still take advantage of the tax holiday until December 31, 2025. However, one article stipulates that even if taxpayers receive the tax holiday, if their effective tax rate is less than 15%, they will still be subject to the QDMTT. So, here, the government is simply emphasizing that even without this provision, taxpayers with an effective tax rate of less than 15% will still be subject to the QDMTT. What about after December 31, 2025? We are still analyzing and reviewing the effectiveness of the tax holiday. Other incentives may also be introduced, but since the tax holiday is the most impacted, we are still in the process of determining what will happen to this tax holiday after December 31, 2025: whether it will be discontinued, continued, or modified, for example, unless... no longer 100% but around 30% to equal a 15% effective tax rate.”*

The mechanism for modifying the tax holiday rate to 30% is based on calculating the ETR rate to ensure it does not fall below the 15% threshold set by the GMT rules. If a company is only granted a 30% exemption from the normal rate, then:  $ETR = 70\% \times 22\% = 15.4\%$ . This means the company still pays 70% of the normal rate, thus preventing the ETR from dropping below 15%, while still providing tax relief and not being subject to top-up taxes by other countries. This shift reflects the public economics principle that government intervention must adapt to changing economic conditions while maintaining its fundamental objective of correcting market failures and promoting efficient resource allocation.

### 3) Strengthening Non-Fiscal Incentives

Facing limited fiscal incentives due to the implementation of the Global Timeframe (GMT), a strategy to strengthen non-fiscal incentives has become increasingly crucial in maintaining investment attractiveness in the new capital city. Non-fiscal incentives have the advantage of being unaffected by the GMT provisions while still providing significant operational added value for investors. The government has identified various forms of non-fiscal incentives that can be developed, ranging from easier licensing and infrastructure support to special operational facilities (Djais, 2023). This statement aligns with what Ms. Syadesa, a tax consultant, conveyed in an in-depth interview:

*“There are other incentives, perhaps more non-fiscal in nature, that actually make them think, 'Okay, if we can't reduce tax costs, but there are other non-fiscal conveniences or facilities that might encourage people to invest in Indonesia. For example, like business administration. If that were made easier, it might make people willing to invest in Indonesia. So, it's not all about the numbers, but perhaps it's all about other relevant things, like other facilities that make doing business easier.”*

This confirms that, in the context of implementing the GMT, non-fiscal incentives are increasingly viewed as strategic instruments that can maintain and even increase investment attractiveness without violating international regulations. With limited scope for reducing the ETR, the government is encouraged to create competitive advantages through more practical operational aspects that directly impact investor business activities.

One strategy is to develop a comprehensive, integrated electronic business licensing system, or One-Stop Service (OSS), through the digitization of licensing processes and government services. This system allows investors to manage all licensing and administrative needs through a single, integrated digital platform. The advantages of this system lie not only in time and cost efficiency, but also in the transparency and certainty of the process, which can increase investor confidence (Fadhilah & Prabawati, 2023). This is supported by the following statement from Mr. Dwi Setyobudi from the Directorate General of Taxes in an in-depth interview:

*“From a non-fiscal perspective, licensing has been made very easy through the OSS system, which can be applied immediately. Likewise, if you want to apply for facilities, you can also do so through the OSS. So, for licensing, there's no need to come in person. As far as I know, the licensing is now real-time, so you can get it immediately.”*

With easy access to digital, real-time, and integrated services, investors not only save time and money but also gain greater certainty at every stage of the licensing process. This emphasizes that efforts to increase investment attractiveness depend not solely on fiscal incentives, but also on the effectiveness of government services in creating an efficient and investment-friendly business ecosystem.

#### 4) Legal Certainty

Legal certainty is one of the most fundamental factors influencing investment decisions and is a primary consideration for investors when selecting their investment destination. Investors, especially those operating on a large scale and with a long-term focus, require assurance that applicable regulations will not change suddenly and that their rights as business actors are protected by a credible legal system. In this context, legal certainty is often seen as more decisive than the amount of tax incentives offered by a country, as a clear legal climate can minimize risk and provide a sense of security when investing. As explained by Mr. Dwi Setyobudi from the Directorate General of Taxes in an in-depth interview with the author, he said:

*“Regarding tax facilities, based on the existing literature, they are actually number five or six for investors to invest. The first is, of course, political and economic stability, macroeconomic conditions, then legal certainty regulations, then adequate infrastructure, usually followed by a market, a sufficient market, and then taxes, or labor productivity.”*

This statement further confirms that tax incentives are not the dominant factor in determining investment decisions, but rather just one of many elements’ investors consider. Other aspects such as economic and political stability, macroeconomic conditions, regulatory certainty, adequate infrastructure availability, and access to broad markets are among the top factors influencing investor perceptions and decisions (Putri, 2017). This is further reinforced by the argument of Mr. Purwito Hadi from the Fiscal Policy Agency in an in-depth interview with the author, as follows:

*“Indeed, when we talk about investment, there are many factors... There are several journals that explain what actually influences investors to choose a country to invest in. Well, if you look closely, tax incentives and tax rates are actually at the top of the list of investor considerations, so it's more about legal certainty, market access, and so on.”*

This finding supports (Gruber, 2019) argument that government intervention is justified when markets suffer from imperfect information. The enhancement of non-fiscal incentives, including regulatory certainty, infrastructure provision, and administrative efficiency, addresses information asymmetries that prevent optimal private investment decisions. By providing comprehensive information through one-stop services and establishing clear regulatory frameworks, the government reduces transaction costs and uncertainty that would otherwise lead to suboptimal investment outcomes.

### Challenges to the Development of Fiscal and Non-fiscal Incentives in the New Capital City

Although the government has formulated various fiscal and non-fiscal incentive schemes to encourage investment in the New Capital City (IKN), its implementation in the field is inseparable from a number of challenges that need to be anticipated. The main challenges identified in developing incentives in IKN are as follows:

#### 1) Regulatory Complexity

The implementation of PMK 136/2024 creates unprecedented regulatory complexity in the development of incentives in the new capital city, requiring in-depth harmonization between domestic provisions and international standards, which often have different objectives and mechanisms. This regulatory challenge is not only technical but also involves fundamental changes in the government's approach to investment attraction and revenue management (Hapsari, 2024). This echoes the statement made by Mr. Dwi Setyobudi from the Directorate General of Taxes in an in-depth interview with the author:

*“PMK 136 is indeed new. It's just been launched, and we can't really move much, not quite freely, because it has to comply with the OECD model rules.”*

This illustrates that the main challenge facing the government lies not only in the design of the fiscal incentives themselves, but also in readiness to implement the highly complex Global Minimum Tax (GMT) framework. Implementing GMT isn't simply about adjusting rates or recalculating incentives; it requires a cross-disciplinary understanding that encompasses financial accounting, international tax principles, and business management aspects. The real challenge that emerges in the field is how tax officials, consultants, and business actors can understand and apply these highly detailed and multidisciplinary regulations. As emphasized by This statement echoes what Ms. Syadesa, a tax consultant, made in an in-depth interview:

*"Perhaps before delving into the challenges of fiscal incentives, let's first focus on the immediate challenges. First, the immediate challenge is definitely how to implement the GMT itself. Because if you've tried to figure it out, it's quite a rigid policy, very, very rigid. It's a policy that doesn't just address taxes, but truly encompasses all aspects of accounting, international tax, and business management."*

## 2) Challenges of Coordination Between Ministerial Agencies

In practice, efforts to implement PMK 136/2024 while simultaneously designing and optimizing fiscal and non-fiscal incentives in the new capital city face not only technical challenges but also complex inter-agency coordination challenges. This is due to the fragmentation of authority among various ministries, institutions, and relevant authorities, each with different mandates and policy priorities. Overlapping authority is not uncommon, where the authority of one agency overlaps with that of another, requiring a lengthy and compromise-filled harmonization process (Belianto & Rahayu, 2024). The importance of coordination in the policy-making process was emphasized by Mr. Purwitohadi from the Fiscal Policy Agency in an in-depth interview with the author, as follows:

*"Coordination is actually an important and crucial stage for us. Why? Because if we talk about the policy ultimately being a regulation, and that regulation must be harmonized at the Ministry of Law, that will then also involve everyone, so we really can't do it alone."*

These implementation challenges reflect the inherent difficulties in government coordination and institutional design that (Gruber, 2019) identifies as potential sources of government failure. The complexity of GMT implementation requires unprecedented coordination between multiple agencies with different objectives and capabilities, creating potential for coordination failures that may undermine policy effectiveness. With good synergy, the process of formulating and implementing incentives can be more focused, minimize overlapping policies, and create a conducive and credible investment ecosystem in the IKN area.

## 3) Fiscal Capacity Challenges

In designing and implementing new incentive schemes amidst the implementation of GMT, the government not only faces regulatory and coordination challenges but must also consider its fiscal capacity. Every incentive essentially reduces potential state revenue, so the government must ensure that the incentive design remains within budgetary capacity and does not create an excessive fiscal burden (Wahidiyah & Hermawan, 2023). In addition to government challenges, compliance costs for investors are also a significant issue. Complex GMT regulations force both multinational and domestic companies to make significant administrative adjustments. They must allocate additional resources, whether in the form of tax consultant fees, more sophisticated financial reporting systems, or in-house training for their staff. For some investors, especially those mid-sized or just starting out in the new capital city, this can be a significant burden. This aligns with the opinion expressed by Mr. Dwi Setyobudi in an in-depth interview:

*"Then there's also the issue of compliance costs; arbitrary costs will also be high. For taxpayers, this will also add new costs, consultant fees, and so on, to learn about the taxation aspects. Because we, as administrators and tax authorities, also face difficulties and need to read extensively and learn a lot about implementation."*

## 4) Global Regulatory and Political Uncertainty

Amidst Indonesia's efforts to align domestic policies with the GMT framework, significant challenges arise from the ever-changing dynamics of international regulations and politics. GMT implementation not only depends on a country's internal decisions but is also heavily influenced by global policy direction and the consistency of commitments from various jurisdictions. International regulatory uncertainty often poses a barrier to both investors and policymakers, as changes at the global level can directly impact the design of established fiscal incentives. Furthermore, political factors in key countries also add another layer of uncertainty, as changes in government or fiscal policy of major economies can impact the sustainability and implementation of GMT pillars, such as the IIR, QDMTT, and UTPR (Surbakti et al., 2023). As explained by Ms. Melani from the Fiscal Policy Agency in an in-depth interview:

*"After the GMT concept was released, there was the Trump phenomenon. This certainly created uncertainty. However, we still don't know what Trump's real objections are. Is it just the IIR, the QDMTT, or just the UTPR, or all of them, including the IIR and the DMTT."*



This uncertainty also impacts implementation in Indonesia, which must adjust its implementation schedule to global developments. This is evident in Mrs. Melani's statement:

*"It will take effect in 2025, while in Indonesia it will take effect in 2026. So, we will continue to implement it, but for the UTPR, we will continue to monitor international developments."*

This uncertainty requires the Indonesian government to be adaptive and responsive in formulating policies. This means that the design of fiscal and non-fiscal incentives to be implemented in the new capital cannot be rigid, but must allow for flexibility to adapt to global developments. The government also needs to strengthen coordination with international institutions, such as the OECD, and continue to participate in global discussions regarding the refinement of GMT regulations. In this way, Indonesia can minimize the risk of future policy inconsistencies and maintain investment attractiveness despite unpredictable international political dynamics.

## **Comparison of Fiscal and Non-Fiscal Incentive Strategies in the New Capital City with Other Economic Zones**

In formulating policies for developing the Indonesian Capital City (IKN) as a new center of government and economy, the government must not only ensure that the incentive packages offered are attractive to investors, but also review how these strategies compare with those of other economic zones that have already proven successful. This comparison is crucial for assessing the competitiveness of the IKN in a regional and global context, given that investors often conduct cross-jurisdictional evaluations before deciding on an investment location. By analyzing fiscal and non-fiscal incentive strategies implemented in other areas such as Special Economic Zones (SEZs), the Batam Area, and Bonded Zones, the government can identify best practices and anticipate weaknesses that need to be avoided. There are several differences in the incentive strategies implemented in the IKN compared to other economic areas, namely as follows:

### **1) Comparison of Investment Mechanisms and Thresholds**

To understand the advantages and competitive position of the Indonesian Capital City (IKN) as a new investment destination, it is important to review the tax incentive mechanisms and investment thresholds set in comparison to other economic zones. Although the tax incentive framework is generally designed with uniform principles for various economic zones, in practice, each zone can have varying levels of attractiveness depending on its characteristics and development objectives (Ginting & Saptono, 2024). As further explained by Mr. Dwi Setyobudi in an in-depth interview, he said:

*"So, the scheme is actually the same; the main difference is the investment amount. In the capital city, Rp10 billion is enough for 30 years; in special economic zones, Rp1 trillion is enough for 20 years; and outside of these two, Rp30 trillion is enough for 20 years."*

This explanation further emphasizes that differences in investment thresholds and facility durations are the primary instruments the government uses to differentiate the attractiveness of regions. In other words, each regulation is designed to suit the region's characteristics and development objectives. This aligns with the opinion expressed by Ms. Syadesa, a tax consultant, in an in-depth interview:

*"If you look closely, generally speaking, tax holidays are regulated in PMK 68, for example. But there are also tax holidays for specific regions, such as in Special Economic Zones (SEZs), in PMK 237. Let's compare them first; they're both tax holidays, but what's the difference? If you read it again, there are different investment thresholds."*

### **2) Unique Characteristics of Each Region**

In designing incentive policies, the government not only considers the size of the facilities offered but also considers the unique characteristics of each economic zone, which form the basis for determining special treatment. Each zone has a different strategic function, governance, and regulations, so the competitive advantages offered cannot be compared to one another. Understanding these characteristics is crucial, both for policymakers formulating appropriate incentive schemes and for investors in determining the zone that best suits their business needs. This aligns with what Mr. Agus Puji stated in an in-depth interview with the author:

*"Yes, in SEZs, what other facilities don't have is the foreign labor. Yes, they can be taxed territorially in SEZs. That's what I see elsewhere."*

In addition to Special Economic Zones (SEZs), free trade zones (FTZs) also possess characteristics not found in other regions. Areas like Batam and Karimun offer very specific tax treatment, designed to encourage international trade flows and more cost-efficient logistics activities. One of their main advantages lies in the special treatment for Value Added Tax (VAT), which provides significant benefits for businesses (Jatmiko, 2023). As further explained by Mr. Agus Puji Priyono:

*"Especially in free port, free trade, and FTZs areas like Batam and Karimun. There's no VAT. That's unique about Batam Island. It's a customs area, but from a tax perspective, it's considered outside the customs area."*

## CONCLUSIONS AND RECOMMENDATION

This research concludes that Indonesia's development of fiscal and non-fiscal incentives in IKN following PMK 136/2024 implementation represents a comprehensive strategic transformation from traditional rate-based incentives toward GMT-compliant mechanisms including Qualified Refundable Tax Credits (QRTC), modified tax holiday schemes, and enhanced non-fiscal incentives through streamlined administration and One-Stop Services, while facing multidimensional challenges encompassing regulatory complexity requiring cross-disciplinary expertise, inter-agency coordination difficulties among fragmented institutions, fiscal capacity constraints for cash-based incentives, and global regulatory uncertainty from evolving OECD provisions. Comparative analysis demonstrates that IKN achieves superior competitive positioning through the lowest investment threshold (IDR 10 billion compared to KEK's IDR 1 trillion), longest incentive duration (30 years), and unique incentives unavailable elsewhere such as financial center facilities with 25-year tax holidays and headquarters relocation incentives, strategically differentiating it from Special Economic Zones' industrial specialization, Batam Zone's free trade advantages, and Bonded Zones' export facilitation focus.

This study contributes by demonstrating how developing countries can adapt investment policies to comply with global standards while maintaining competitiveness, providing both theoretical insights on optimal fiscal policy design under international constraints and practical guidance for policymakers navigating GMT implementation challenges. Key recommendations include implementing QRTC through carefully designed pilot projects with integrated fiscal planning, establishing cross-ministerial task forces to address coordination challenges and regulatory harmonization, optimizing comprehensive One-Stop Service digitalization, formulating flexible derivative regulations ensuring legal certainty amid dynamic global conditions, and strengthening institutional capacity through training programs and technology infrastructure investment. Future research opportunities should focus on longitudinal effectiveness studies, comparative analyses with other developing countries, sector-specific impact investigations, and examination of GMT compliance interactions with broader international frameworks to inform integrated policy approaches in an increasingly interconnected global policy environment.

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