Insight

Special Economic Zones as Ultimate Facilities for Taxpayers, How Significant are the Benefits?

Various issues regarding the prediction of the global economic recession in 2023 have been widely discussed on various digital platforms, both through electronic media and social media. It is undeniable that Indonesia is one of the countries that may experience a recession. The decline in global economic stability post-Covid-19 pandemic over the last 2 (two) years is one of the indicators in predicting a recession, including for Indonesia. Some time ago, the Indonesian government even warned about the global economic conditions that are in the midst of "dark clouds" and the prediction of the possibility of a major storm or a recession threat to the global economy, including Indonesia.

The Ministry of Finance released data in 2023 stating that the projected inflation in developed countries ranges from 6.6% with an economic growth of 1.4%. Meanwhile, in developing countries, the projected inflation is estimated at 9.5% with an economic growth of 3.9%. With a relatively high inflation rate, Indonesia needs to be cautious and vigilant in preparing the economy to face the threat of a future recession. It is not excessive that the Ministry of Finance then sets the theme for the 2023 State Budget as optimistic and remains vigilant. The government must be optimistic considering the fact that the economic recovery in the first and second quarters of 2022 was above 5%[1], the inflation is still moderate, and the recovery in various economic sectors is quite evenly distributed. However, caution should be emphasized when considering the global economic statistics mentioned earlier.

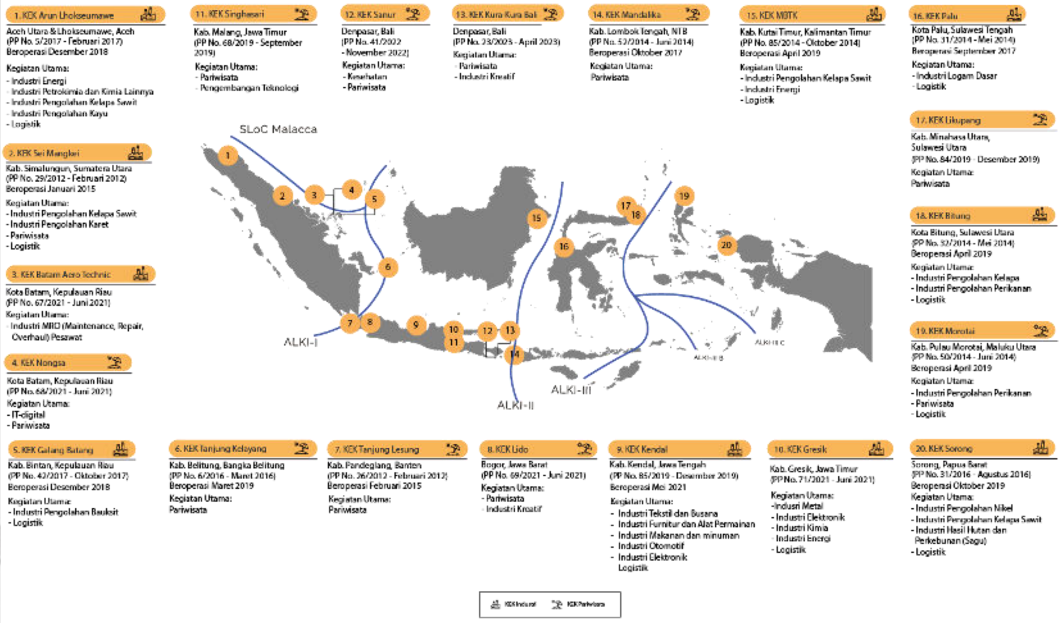
[1] *Kementerian Keuangan, Menkeu : Tema APBN 2023 Optimis dan Tetap Waspada, https://kemenkeu.go.id/informasi-publik/publikasi/berita-utama/Tema-APBN-2023-Optimis-dan-Tetap-Waspada, 11 Mei 2023.*

In general, a global recession will lead to adjustments and/or changes in the economic landscape of a country on both macro and micro levels. Changes driven by a global recession have a significant and dangerous impact on the global economic order. This situation is predicted not to be resolved quickly; it requires a lengthy process and serious attention from all sectors, especially for the government that holds control over fiscal and monetary policies. And one way to address economic issues to maintain economic stability and enhance economic growth to preserve the resilience of the national economic system is to provide facilities that can attract investors to invest in Indonesia. One option is to provide facilities within the framework of fiscal policies related to taxation.

Photo: Special Economic Zone Palu

The importance of investment or capital infusion for the economic growth of a country encourages the Indonesian government to provide tax facilities to attract domestic investment. It is generally understood that the taxation aspect of a country significantly influences investment decision-making by investors. One of the government strategy is to offer ultimate facilities specifically for investors in a Special Economic Zone

(SEZ). SEZ is an area with specific boundaries within the legal territory of the Republic of Indonesia designated to carry out economic functions and obtain specific facilities. The basic concept of an SEZ is to provide facilities for the preparation of areas located with access to the global market (access to ports and/or airports). The following is a map showing the distribution of SEZ locations in Indonesia:



Source: Dewan Nasional Kawasan Ekonomi Khusus Republik Indonesia (https://kek.go.id/peta-sebaran-kek)

Several fiscal and non-fiscal facilities that can be utilized by investors in SEZ, as regulated in PMK-33/PMK.010/2021, include:

a. Tax Holiday
b. Tax Allowance
c. VAT is not collected according to Article 22 PMK 33/PMK.010/2021
d. Delivery of taxable goods and/or services originating from maintenance, repair, and overhaul (MRO) is not collected.

e. Exemption from Import Duty and not collecting PDRI for the import of capital goods and consumer goods in Tourism SEZ
f. Exemption from import duties and non-collection of PDRI (Import Duty Tax) for imported capital goods and consumer goods in Tourism SEZs.
g. Exemption from excise tax for raw materials or auxiliary materials used in the production of non-taxable final goods.
h. Reduction of local taxes and/or local levies by 50% to 100%.

The ultimate facilities offered by the Indonesian government in SEZs should be leveraged by investors to maximize their business potential. Investors can utilize the facilities in SEZs to establish market strategies and, furthermore, for legal tax savings. SEZs with access to inter-modal infrastructure and transportation services will significantly facilitate investor access to market their product outputs domestically and internationally. In addition to the economic benefits obtained by companies, SEZs can have a positive impact on the economy of a country or region on a macroscopic scale. By attracting investment from both domestic and foreign sources, SEZs can create new job opportunities and increase the income of the surrounding community. Furthermore, the economic growth generated by SEZs has the potential to increase the purchasing power of the population and have a positive impact on the growth of other sectors, such as tourism and the creative industry. Thus, through the strategy of providing ultimate facilities in SEZs, the Indonesian government can be a 'mainstay' to maintain resilience, ensure survival, foster growth, and successfully navigate the threat of a global recession in Indonesia.

Photo: Special Economic Zone Morotai

Behind the insight

Nur Yadin

nuryadin@taxprime.net

Wawan Setiyo H.

wawan@taxprime.net

Anang Febita K.

anang@taxprime.net

taxprime®

www.taxprime.net