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Innovative Challenges: Exploring Tax Incentive Policies in Indonesia's Special Economic Zones

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ABSTRACT

Providing tax incentives to attract investment is still one of the strategies relied on by the government, especially in Indonesia. This is realized by providing tax incentives in various Special Economic Zones (SEZ). Although many countries use tax incentives to encourage foreign investment, the actual impact of these tax incentives remains a subject of debate. This research aims to describe the role of tax incentive policies in industrial activities in SEZ, along with the various challenges that arise from implementing these policies. This study used qualitative research methods. Data was collected using literature studies with criteria by theme relevance, objectivity, and source reliability. Then, triangulation was carried out to reduce subjectivity and bias in the research. The research found that tax incentives needed to be more effective in attracting investment in SEZ. Apart from that, there is tension between the tax incentive policies that Indonesia is implementing massively to attract investment. At the same time, the country is also subject to the global minimum tax rate standard of 15%. This research provides recommendations for the government in developing non-tax facilities and implementing expenditure-based tax incentives such as investment allowances and tax credits so that they do not conflict with globally agreed standards. This research is still limited to the challenges of implementing tax incentives in the Indonesian SEZ. Furthermore, research can be carried out to identify how Indonesian SEZs can adapt to the global minimum tax rate standard of 15% and evaluate the impact on investment attractiveness in SEZs after the policy is implemented in Indonesia.

INTRODUCTION

When the world economy is developing rapidly, every country that decides to become a world market must play an active role. As a result, each country must increase investment and exports (Peiss, 2020). Several countries have created areas to become industrial centers to accelerate industrial activity. This center is expected to influence the growth of the surrounding community (Kastratović, 2020). In Indonesia, the government is trying to accelerate industrial growth by issuing Economic Policy Packages 1-16, most of which use fiscal ease instruments to encourage industry (Sudibyo, 2018; Tijaja & Faisal, 2014).

In Indonesia, there are several types of economic areas, including industrial zone (IZ), special economic zone (SEZ), integrated economic zone (IEZ), bonded zone (BZ), free trade and free port zone (FTFPZ), and integrated economic zone (IEZ) (Gunawan & Maryoni, 2017). In the context of economic development and encouraging investment in Indonesia, SEZ has the most strategic and profound role. SEZ is a strategic policy that promotes national economic growth in Indonesia. In the 1970s, Indonesia began to implement this strategy in forming policies in several regions of Indonesia. The policy regarding SEZ is stated in Law Number 39 of 2009 concerning Special Economic Zones (Hadi, 2021).

SEZ aims to enable industrial activities, exports, imports, and other economic activities with high economic value and are internationally competitive. The aim is to build financial capacity and competitiveness at the national level through industrial and tourism development that creates added value and a multiplier effect. SEZ comprises logistics zones, export processing, technology development, industry, tourism, and energy (Trabelsi & Kachout, 2024). The following image is a map of SEZ distribution in Indonesia until 2023.

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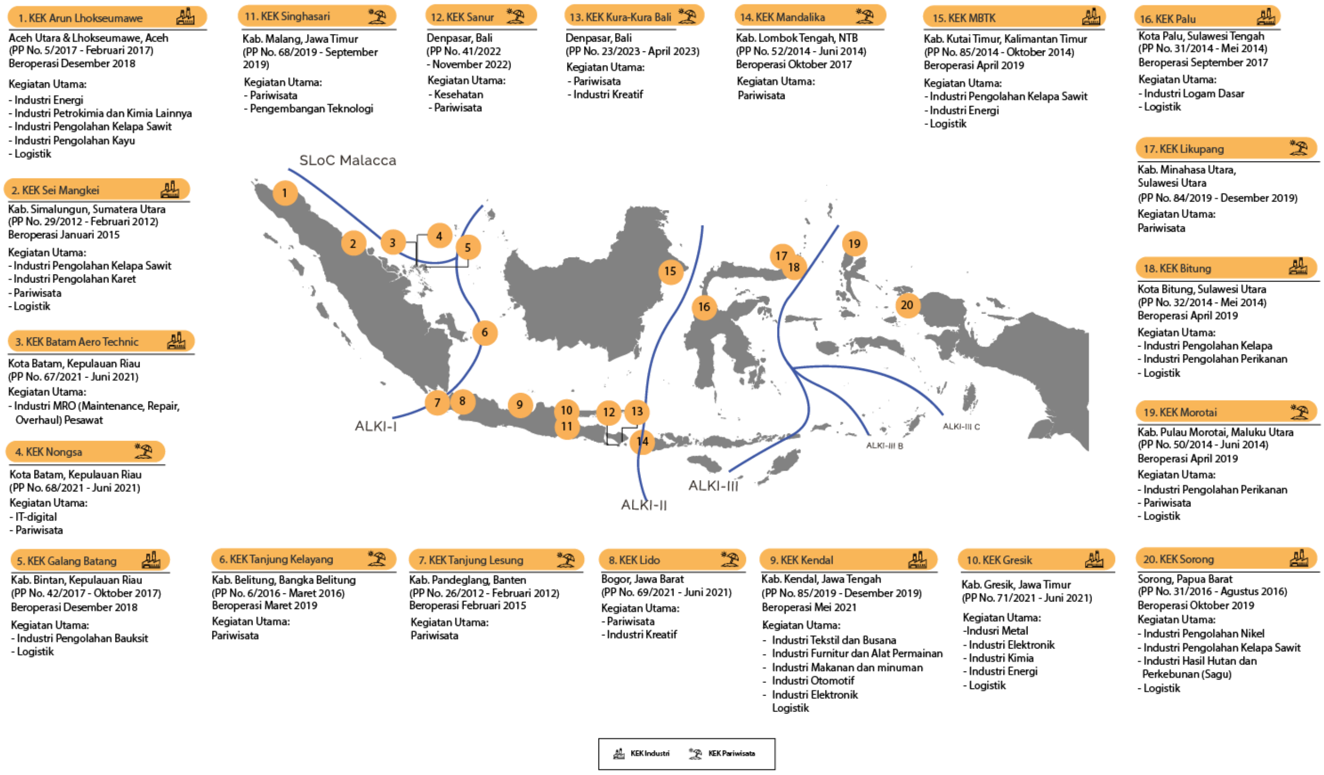

Figure 1. Map of SEZ Distribution in Indonesia Until 2023
Source: Plus.Bisnis.com

Based on the picture above, by 2023, Indonesia will have 20 (twenty) SEZs spread across various regions, with the newest SEZ being the Bali Kura-Kura SEZ, which was only inaugurated in 2023 (SEZ.go.id). The selection and formation of an economic area must consider geographical location, development of logistics centers, and international trade routes. Complete infrastructure and various investment facilities are equally important. These facilities can be fiscal or non-fiscal (Aflah et al., 2023).

Fiscal facilities usually encompass tax and non-tax incentives, while non-fiscal facilities include licensing, marketing activities, etc. In reality, in terms of distribution, allocation, stabilization, regulation, or a combination, taxes play an important role in carrying out state and government responsibilities. Rosdiana (2014) states that tax objectives fall into two broad categories: tax objectives as a socio-political instrument and the purpose of tax as a means of increasing state revenues safely and sustainably. Taxes, as a socio-political instrument, are used by the government to achieve specific goals.

Tax incentives are still a fiscal instrument that the government often uses to encourage economic growth by increasing the productivity of industrial players (ESCAP, 2017). Klemm (2009) defines *tax incentives* as all types of preferential tax treatment that target certain activities or sectors only, in contrast to general preferential tax treatment that applies to all. According to Gunadi (2013), tax incentives are a deviation from general tax rules that reduce the tax burden companies must bear to encourage investment in specific projects or sectors. In addition, UNCTAD defines *tax incentives* as any incentive that reduces a company's tax burden to encourage companies to invest in specific projects or sectors (Prasetyo, 2008). Therefore, the policy must be considered carefully. The existence of tax incentives can encourage investors to invest capital, which will result in much incoming investment and increased economic growth for the benefit of the people.

Tax holidays, investment allowances and tax credits, timing differences, reduced tax rates, and administrative discretion are several tax incentives (Holland & Vann, 1998). Tax Holidays are a tax incentive often used by developing countries, where taxpayers are exempt from income tax for a certain period. Investment allowances and Tax Credits are incentives based on the company's investment level by reducing the company's fiscal profit. In contrast, tax credits reduce the amount of the tax burden directly. Timing Difference is an incentive that arises due to the time difference in the recognition of accounts between commercial and tax financial reports, especially regarding the recognition of expenses and income. A reduced Tax Rate is an incentive that offers a reduction in tax rates to taxpayers who meet specific criteria by reducing the tax rate to a lower level. Administrative Discretion is an incentive related to a selective administrative process in providing tax relief. This means whether tax facilities can be automatically given to every taxpayer who meets the requirements or whether taxpayers must apply first.

Tax incentives are a very influential instrument in attracting foreign investment. Tax incentives are facilities that taxpayers can immediately feel the benefits of because it can reduce their tax burden. Taxpayers can increase productivity from the money that should be spent to pay taxes. In this way, new factories, investments, or increased production capacity will likely emerge. So that new jobs or employment opportunities are opened and can reduce the unemployment rates. Tax incentives can create a multiplier effect for a country (Rosdiana & Irianto, 2014).

Based on previous research conducted by Tambunan (2021), it was concluded that the response to providing tax incentives in various economic areas looks positive. However, on the other

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hand, these tax incentives have yet to become a significant attraction. In fact, in some cases, fiscal incentives are misused for inappropriate purposes, such as manipulating financial reports so that they experience losses over a long period but still operate.

If tax incentives are successful in helping to encourage investment and growth in the long term, they can generate more income than the loss of potential income from tax incentives. According to a 2015 OECD report, the cost of tax incentives should be considered when setting rules. Several factors, including reduced tax revenues, administrative and compliance costs, and ineffective allocation of resources, can influence the social costs of tax incentives. According to (OECD, 2015), country governments that provide tax incentives also need to pay attention to reports of losses in the form of loss of tax revenue (tax expenditure). This is done to determine how effective the tax incentives are and assess the policies implemented. Regarding the success of tax incentives in Indonesia, one of the steps that needs to be taken is to prepare a tax expenditure report.

Referring to the 2022 SEZ Development Report, the National SEZ Council stated that of the 19 (nineteen) SEZ locations in Indonesia as of 2022, there are still 5 (five) SEZs that are not yet optimal and 6 (six) SEZs that are not operational. There was even a revocation of the Tanjung Api Api SEZ status through the stipulation of Government Regulation Number 2 of 2022. This was due to the failure of the Tanjung Api Api SEZ to meet the requirements for readiness to operate within the stipulated time. The government has provided massive tax incentives in SEZ areas. Based on this gap phenomenon, this research aims to (i) discuss the role of tax incentive policies in industrial activities in SEZ and (ii) discuss challenges that arise when implementing tax incentive policies in SEZ. Thus, it is hoped that this research can provide input to the government about things that need to be considered when managing SEZ in Indonesia so that the benefits obtained in attracting investment are more significant than the loss of potential tax (tax potential loss) due to not collecting taxes from business actors located in designated SEZ.

METHOD

This study was conducted using qualitative research methods. Qualitative research involves a naturalistic interpretive approach to the world by trying to make sense of phenomena from the point of view given by society to researchers (Creswell, 2014). This exploratory study will describe the understanding and challenges of tax incentive policies in Indonesian SEZs. Qualitative methods were chosen because analysis of research objects requires an in-depth understanding of relevant previous research. The choice of qualitative analysis techniques is what Patton (1980) defines, data analysis techniques are the process of organizing data sequences, which are then carried out step by step to organize the data sequences into one pattern, category, and fundamental unit of description.

The data used to compile this research was obtained from literature studies from various sources such as relevant journals and articles. Reading and analyzing literature is used to understand the theory and knowledge needed to analyze journal topics. Furthermore, triangulation is carried out to ensure the correctness of the data or information obtained by researchers from various points of view by minimizing subjectivity and bias that occurs during data collection and analysis.

RESULTS AND DISCUSSION

Implementation of Tax Incentives in Special Economic Zones

At the global level, SEZs are often called Special Economic Areas (SEZ). *SEZs* are intended to attract businesses to certain areas, especially those experiencing economic problems, by offering incentives such as special tax treatment. SEZs have developed in various forms and often have different names in different countries (World Bank, 2017). *SEZs* are defined as geographic areas with clear boundaries for specific economic activities (Ge, 1999; Hamada, 1974).

In the Indonesian context, SEZ is an area determined by the Indonesian government with specific boundaries, with the main aim of encouraging economic growth, participation in development, and increasing the country's competitiveness. SEZ aims to enable industrial activities, exports, imports, and other economic activities with high economic value and are internationally competitive. The aim is to build economic capacity and competitiveness at the national level through industrial and tourism development that creates added value and a multiplier effect.

Some facilities provided to SEZ include subsidies, loan support with favorable terms, and favorable tax treatment (IBFD, 2015). Government Regulation Number 40 of 2021, later revealed in Minister of Finance Regulation Number 33/PMK.010/2021, regulates tax facilities and convenience for investors. This facility can include reductions in income tax (PPh), import duties excise, value-added tax (VAT), and luxury-goods sales tax (LST).

Referring to the 2022 SEZ Development Report, the National SEZ Council stated that of the 19 (nineteen) SEZ locations in Indonesia as of 2022, 7 (seven) SEZs have been running optimally, 5 (five) SEZs are not yet optimal, 6 (six) SEZ is not running, and 1 (one) SEZ is in the development process, which is presented in the following table.

Table 1. SEZ Status in 2022

Status	SEZ location	
Optimal	1. Galang Batang 2. Kendal 3. Gresik 4. Mandalika	5. Sei Mangkei 6. Nongsa 7. Batam Aero Technic
Not Optimal	1. Tanjung Lesung 2. Arun Lhokseumawe 3. Tanjung Kelayang	4. Lido 5. Singhasari
Not working	1. Palu 2. Bitung 3. Maloy Batuta Trans Kalimantan	4. Morotai 5. Sorong 6. Likupang
Development Process	1. Sanur	

Note: The Bali Kura-Kura SEZ is not included in the assessment in the 2022 final report because it will only be determined in 2023.
Source: 2022 SEZ Development Report (Processed by the author)

Implementation of Tax Incentives in Special Economic Zones: Study in Tanjung Lesung

The Tanjung Lesung SEZ, located in Pandeglang Regency, Banten Province, at the westernmost tip of Java Island, is one of the tourism SEZs established based on Government Regulation Number 26 of 2012. The Tanjung Lesung SEZ was inaugurated in February 2015. The Tanjung Lesung SEZ is in a strategic location and easy to reach, namely only 170 km from DKI Jakarta, and can be reached by road in around 2.5 to 3 hours.

The Tanjung Lesung SEZ is expected to impact one of Banten's most attractive tourist attractions majorly. This 1,500-hectare area is close to Ujung Kulon National Park, Anak Krakatau Mountain, and Umang Island, which makes it a cultural heritage site. In addition, the region has many tourism options, including beautiful beaches, diverse flora and fauna, and extraordinary cultural attractions. Tanjung Lesung is also near other tourist attractions, such as the Old City of Banten, Bedouin traditions, and Debus. Tanjung Lesung has a coastal plain that juts into the sea, resembling a mortar. The name comes from the word "lesung", which means a traditional rice pounder. SEZ Tanjung Lesung has attracted domestic and international tourists because of its white sand beaches and clear water. The location of the Tanjung Lesung SEZ is as follows.

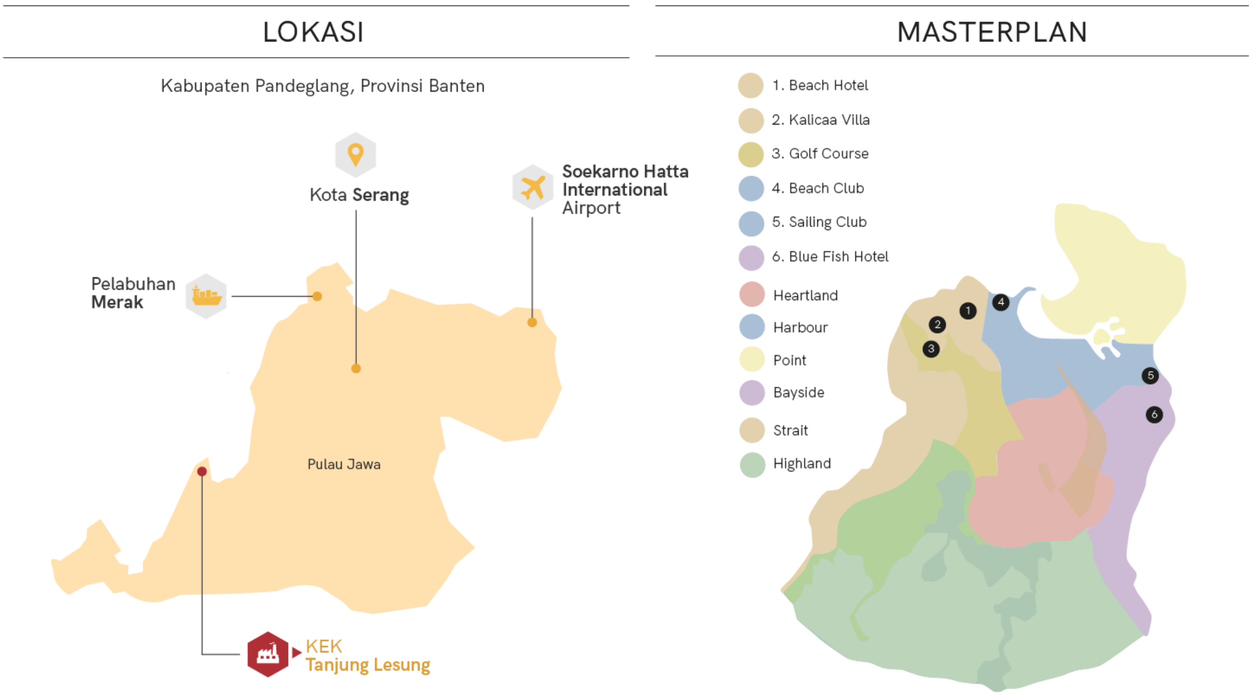

Figure 2. Location map of the Tanjung Lesung SEZ
Source: Ministry of Investment/BKPM

Based on the picture above, SEZ Tanjung Lesung has a very strategic location close to famous tourist attractions in Banten province, and the master plan that has been made is beautiful. The provision of facilities in the form of tax incentives provided at the Tanjung Lesung SEZ has also been carried out massively. However, based on the 2022 SEZ development report, the Tanjung Lesung SEZ is considered one of the SEZs that still needs to be optimal. This can be seen from the accumulated realization of labor absorption and investment in Tanjung Lesung until 2022, which is still very far from the target set until 2025.

Table 2. Target and Realization of Labor Absorption and Investment in the Tanjung Lesung SEZ

Information	Target until 2025	Realization Until December 2022	% Realization Until December 2022
Employment	85.000 People	2.930 People	3,45%
Investment	92,4 Triliun	2,1 Triliun	2,27%

Source: 2022 SEZ Development Report and SEZ.go.id (Processed by the author)

Based on this table, the percentage of realization of labor and investment in the Tanjung Lesung SEZ until the end of 2022 is only 3.45% and 2.27%, respectively, of the expected target until 2025. Low realization of labor absorption and investment in the Tanjung SEZ This dip shows that more than fiscal incentive policies are needed to attract investment interest. Many things could have improved the development and needed to be improved, Lesung.

First, the Sunda Strait coastal tsunami in December 2018 greatly impacted Tanjung Lesung's image. Therefore, the government is working to build the Tanjung Lesung SEZ beach protection to support infrastructure and protect the beach from abrasion caused by waves. Second, the need for more resource readiness in developing the Tanjung Lesung SEZs is reflected in the minimal number of human resources in the Tanjung Lesung SEZ Administrator's Office and limited capacity, including the community's readiness to support the development of the SEZ. Apart from that, the factors of facilities and infrastructure that still need to be available, such as the Administrator's office, cooperative stores, and MSMEs, also affected the implementation of the Tanjung Lesung SEZ.

Third, the characteristics of implementing agents are reflected in the absence of Standard Operating Procedures (SOP) in the development of the Tanjung Lesung SEZ, an ineffective licensing system by the Administrator, and unclear supervision

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by the Regional Council regarding the operations and control of the Tanjung Lesung SEZ.

Fourth, there needs to be more coordination between organizations and implementing activities, especially in terms of coordination between the private sector and the government in conveying information to the public about the Tanjung Lesung SEZ. This causes many people to need to learn more clearly about the Tanjung Lesung SEZ, and there needs to be more follow-up to the socialization carried out by the government regarding the Tanjung Lesung SEZ (Komala, 2015).

Based on this, even though the government has provided massive tax incentives in the Tanjung Lesung SEZ, the many non-tax obstacles still make the Tanjung Lesung SEZ less attractive for attracting foreign investment. Therefore, non-tax factors such as human resources, infrastructure, effective licensing, and good supervision are essential things that must also be considered to increase the attractiveness of the Tanjung Lesung SEZ.

Implementation of Tax Incentives in Special Economic Zones: Study in Likupang

Likupang is a tourism SEZ that was inaugurated based on Government Regulation Number 84 of 2019, which promotes Minahasa culture and carries the concept of intelligent and sustainable tourism. In this concept, visitors are only permitted to use private vehicles up to a certain point at the front of the area. Electric transportation is provided to take visitors into the area.

The geostrategic advantage of the region that East Likupang has is the tourism sector with the themes of lodging and cultural tourism. With an area of 197.4 hectares, SEZ Likupang has become a super-priority tourist destination expected to attract investment quickly. The location of SEZ Likupang is as follows.

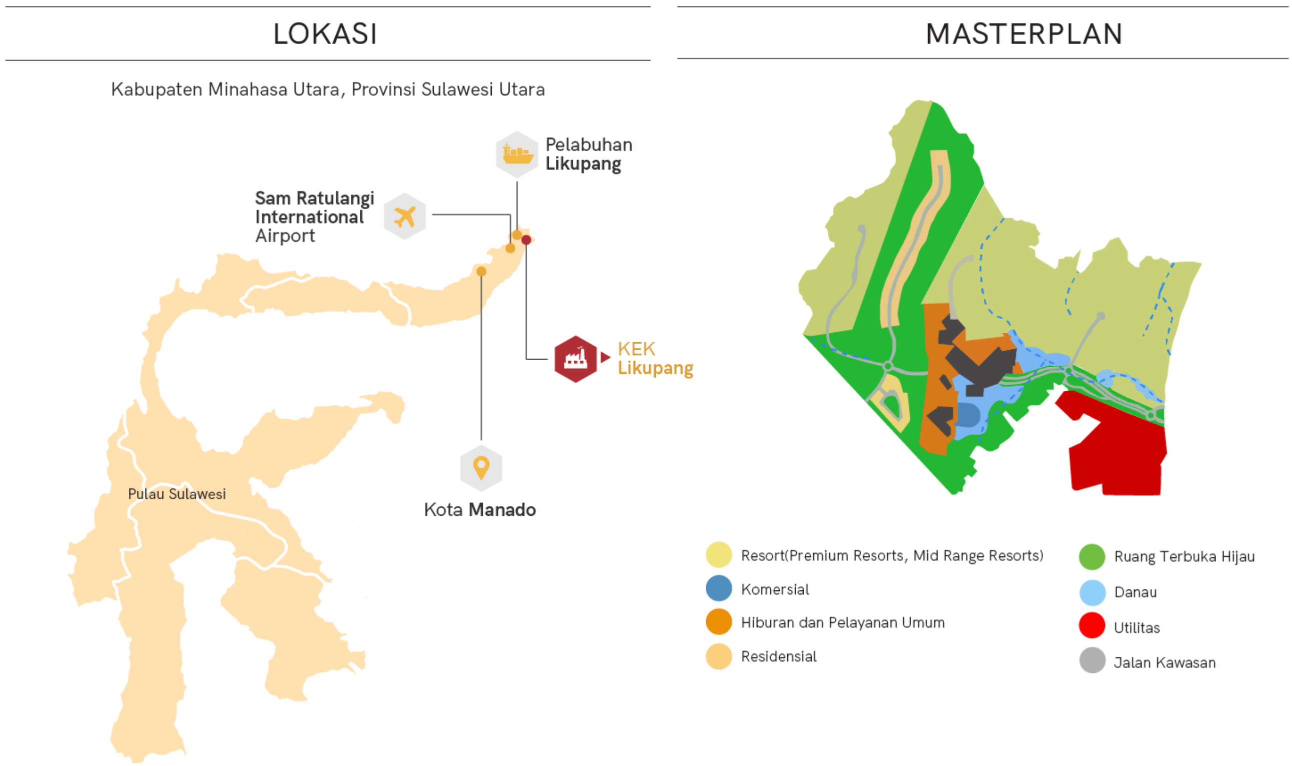

Figure 3. Location map of the Likupang SEZ
Source: Ministry of Investment/BKPM

Based on this image, SEZ Likupang has a strategic location in North Minahasa Regency, North Sulawesi Province, and an exciting master plan. Even though it provides a multiplier effect to the surrounding community, such as the large number of homestays in areas that are full of visitors on weekends, community centers are being built that will accommodate local communities to carry out training in hospitality services, creative and local arts training, arts and cultural performance venues, and tour guides. , in fact, the Likupang SEZ is rated as one of the SEZs that is not running based on the SEZ development report for 2022. This can be reflected in the accumulated realization of labor absorption and investment in Likupang until 2022, which is still very far from the target set until 2040.

Table 3. Target and Realization of Labor Absorption and Investment in the Likupang SEZ

Information	Target until 2040	Realization Until December 2022	% Realization Until December 2022
Employment	65.300 People	110 People	0,17%
Investment	5 Trillion	354,12 Biliion	7,08%

Source: 2022 SEZ Development Report and SEZ.go.id (Processed by the author)

The table above shows that the percentage of actual employment and investment in the Likupang SEZ until the end of 2022 is only 0.17% and 7.08%, respectively, of the expected target until 2040. This fact shows that more than the fiscal incentive policy is needed to attract investment interest in SEZ Likupang. Several factors hinder the development of the Likupang SEZ. First, the lack of facilities and infrastructure in tourist areas, such as no internet access, the presence of scattered rubbish, limited water, and electricity supplies, the possibility of landslides along the roads to tourist destinations, the average travel distance an average of more than 1 hour to tourist destinations. Second, there needs to be more promotional/marketing efforts for tourist attractions, such as insufficient sales of souvenirs and the absence of supporting industries in handicrafts (Lengkong et al., 2018). Third, the land acquisition process, the presence of PLN and Telkom poles and utilities, and others are some of the obstacles to development (SEZ Development Report, 2021). Fourth, the Development and Management Business Entity (*Badan Usaha Pembangun dan Pengelola*/BUPP) has yet to make significant investments and has proposed extending the construction time until 2024, which is also an additional strategic issue that needs attention.

Based on this, more than providing tax incentives is needed to attract foreign investment. It needs to be balanced with other non-tax facilities. Some of the infrastructure improvements related to tourism are replacing the Marinsow Bridge, upgrading Sam Ratulangi Airport, and improving roads along Pulisan Beach.

Taking Lessons from the Revocation of the Tanjung Api Api SEZ

SEZ Tanjung Api Api was inaugurated in 2014 through Government Regulation Number 51 of 2014 to maximize its natural resources' potential to encourage South Sumatra's economy. However, along its journey, SEZ has faced several challenges. The need for more funds for land acquisition and infrastructure development in designated areas is disrupting the sustainability of the Tanjung Api-Api SEZ. Several factors that cause a lack of investment interest in the Tanjung Api-Api SEZ are uncertainty for investors, such as issues related to peatlands, prone to natural disasters, and changes in the Tanjung Api-Api SEZ area, causing investors to experience complete fear and doubt (Seprihadi, 2020). The lack of non-tax facilities gave rise to SEZ's disappointment and doubt among investors, ultimately making them withdraw their investment from SEZ Tanjung Api-Api. Previously, the investors had carried out land clearing and compaction work covering an area of 67 hectares and incurred significant other costs to carry out all the necessary studies, including environmental impact analysis (Seprihadi, 2020).

Based on the 2022 SEZ Development Report, the South Sumatra Provincial Government, as the proponent, has made various efforts to ensure that SEZ development can continue. Starting from accelerated development to how changes to the area are proposed. However, it has yet to achieve the desired results. The process of evaluating the sustainability of the Tanjung Api Api SEZ continues to be carried out. However, the SEZ National Council members decided the Tanjung Api Api SEZ would not operate at the SEZ National Council session on 5 May 2021. This was due to the failure of the Tanjung Api Api SEZ to fulfill the operational readiness requirements within the stipulated time. Even though an extension of time has been given, SEZ Tanjung Api Api still needs to complete the construction process and has yet to receive investment.

SEZ Tanjung Api Api is considered incapable of carrying out development according to PP provisions. According to statutory regulations, the Tanjung Api Api SEZ must be completed within 3 (three) years after its establishment. Therefore, the National Special Economic Zone Council Session revoked the status of the Tanjung Api Api SEZ, South Sumatra, through the stipulation of Government Regulation Number 2 of 2022 concerning the revocation of Government Regulation Number 51 of 2014 concerning the Tanjung Api-Api Special Economic Zone.

Challenges of Implementing Tax Incentive Policies in Special Economic Zones

The large number of SEZs that still need to be optimal and are not working shows that the role of tax incentives in encouraging investment interest is still doubtful. Countries at all stages of development have actively used tax incentives to encourage Foreign Direct Investment (FDI). This has happened in OECD countries (Oman, 2000), transition economies (Cass, 2007), African countries such as the Southern African Development Community and sub-Saharan Africa (Bolnick, 2004; Cleeve, 2008), and many different countries around the world (UNCTAD, 2000). Tax incentives are so widespread that they have become global (Klemm, 2009). However, much of the literature also shows that the effect of tax incentives could be more credible.

Several surveys or experimental studies of executives of multinational companies find that tax incentives have very low significance in the factors that attract foreign-owned companies (Rondinelli & Brupitt, 2000; Single, 1999). Most notably, James (2013) reports that in several Foreign Investment Advisory Service surveys in various developing countries, most investors, ranging from 61% to 98%, answered that they would invest even if incentives were not provided. In line with this, Rolfe and White (1992) also found that tax incentives such as tax holidays can influence investment location decisions only when non-tax factors such as wage levels, infrastructure quality, and dividend policy for the country of residence are also favorable. In a study of post-socialist transition economies, Beyer (2002) finds that tax incentives have little effect on FDI levels.

In contrast, empirical support for the positive effects of tax incentives is minimal. Loree and Guisinger (1995) and Hines (1999) argue that foreign investors respond significantly to tax incentives and that investment incentives are effective. Warr (1989) reports that corporate managers in East Asia indicated that only some would invest with tax incentives. In an empirical analysis, Tung and Cho (2001) show that many regions in China that offer lower tax rates and higher tax incentives attract more FDI. Therefore, as a developing country in Asia like China, Indonesia still requires a large flow of investment funds using tax incentive instruments to attract foreign investors to Indonesia. Even if Indonesia currently provides significant incentives, it will still only succeed in attracting investment interest if Indonesia provides attractive incentives.

It is important to note that relying on tax incentives as the only strategy to attract investment in SEZs can have negative long-term impacts. If tax incentives are changed or repealed in the future, investors may lose interest or reduce their investments. This is because various factors hinder the development of SEZ, including BUPP SEZ not owning and managing SEZ land assets. After all, the regional government controls the assets; BUPP lacks the funding, professional management and business plan to attract investment; SEZ location unsuitable for development; BUPP is waiting for infrastructure support from the government;

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the requirements and period of the tax holiday/tax allowance are not yet following the Minister of Finance Regulation; the online single submission (OSS) system is not yet appropriate, there is a lack of understanding of officers in the field, and there are limited human resources (Kamalina, 2023). Therefore, developing other attractive factors, such as stable investment policies, good infrastructure, and efficient licensing, is essential so that SEZs remain attractive to investors even without significant tax incentives.

If, in the short term, over the past few years, tax incentives have yet to succeed in making the SEZ attract widespread investment, then it is necessary to study its effects in the long term. However, providing tax incentives must still be done carefully and balanced. Ensuring these incentives maintain tax fairness and reasonable state revenues is essential. In addition, regular evaluation of the effectiveness and impact of tax incentives must be carried out to ensure that they encourage investment and provide the expected benefits for the development of the SEZ and the country as a whole.

A further issue of tax incentives is competition among governments for foreign capital (Stopford & Strange, 1991). As firms gain more outside options due to increased capital mobility and financial integration, countries must compete with each other to attract and retain capital investment. The greater bargaining power of companies leads to a race to the top among governments so that they have to offer more and more tax incentives. As a result, tax incentives can further erode the tax base.

In response, the OECD issued BEPS Action 5 Harmful Tax Practices. The OECD has conducted reviews of the preferential regime since its creation in 1998 to determine whether it could harm the tax base of other jurisdictions. BEPS Action 5 aims to reduce tax avoidance practices that have the potential to harm the state by limiting the benefits obtained from tax exemptions or reductions related to ownership. As one of the countries that adopted minimum standards in BEPS Action 5, Indonesia lowered domestic regulations in Government Regulation in Lieu of Law Number 1 of 2017 concerning Access to Financial Information for Tax Purposes.

One of the points in BEPS Action 5 is to introduce minimum standards that countries must implement to ensure the adoption of Action 5 principles in the tax system. This minimum standard includes economic substance requirements, information exchange, and supervision of tax exemption schemes that can potentially harm the state. In this case, tax incentives are one of the points highlighted by the OECD regarding tax exemptions that can potentially harm the country. Providing incentives that are too massive can create tax competition.

Indonesia, as a Group of Twenty (G20) member, also adopted BEPS Action 1 related to digital economy taxation, which was then incorporated into the BEPS 2.0 Inclusive Framework through Pillar One and Pillar Two solutions. Tax competition is one of the points highlighted in Pillar Two. Pillar Two discusses Global anti-Base Erosion Rules (GLoBE) and Subject to Tax Rule (STTR) by introducing minimum tax rates that can reduce profit shifts to low tax jurisdictions due to rate competition (OECD, 2021). Pillar Two is an effort to set a global minimum corporate tax rate of 15% to reduce tax competition and protect the tax base of multinational companies with a total annual turnover of €750 million or more. (Hajar, 2022).

Pillar Two proposes that international companies pay a global minimum tax of at least 15%. In the GLoBE framework, there are three main rules. First, the Qualified Domestic Minimum Top-up Tax (QDMTT) authorizes the home country to impose additional taxes on domestic excess profits from entities in the home country that are included in multinational companies under Pillar Two, with an Effective Tax Rate (ETR) of less than 15 %, to ensure that the total tax imposed on multinational companies reaches a minimum of 15%. Second, the Income Inclusion Rule (IIR) requires parent companies to pay additional taxes imposed on their subsidiaries. IIR adopts a top-down approach. Suppose the parent company is in a jurisdiction that does not implement IIR. In that case, the GLoBE rules generally provide that additional tax will be imposed on the following highest entity in the chain of ownership located in a jurisdiction with an IIR that meets the requirements. Third, the Undertaxed Payments Rule (UTPR) is applied when IIR cannot be applied because the parent company's ETR is less than 15% or the IIR does not apply in domestic tax law. Thus, UTPR is applied by the country where the subsidiary of a multinational company covered by Pillar Two is located, which has an ETR lower than 15%. Meanwhile, STTR complements the regulations in GLoBE and integrates its basic principles and mechanisms into the treaty framework (OECD, 2023).

As a country that has adopted Pillar Two, Indonesia should comply with the global minimum tax rule of 15%. However, this contrasts with Indonesia, which often provides massive tax incentives to encourage investment. The tax incentives provided in the SEZ result in an effective rate of less than 15%, below the global minimum tax rate in Pillar Two of the OECD. Therefore, the OECD encourages all jurisdictions to reform tax incentives, considering the influence of the global minimum tax on implementing these incentives. Countries are expected to increase their offering of expenditure-based tax incentives, such as investment allowances and tax credits. This is because investment allowances and tax credits are incentives based on the company's investment level by reducing the company's fiscal profit. In contrast, tax credits reduce the total tax burden directly. Not by way of tax exemption or reduction in tax rates.

CONCLUSION

Developing countries face opportunities and challenges in revenue mobilization in an increasingly globalized world economy. Many governments try to attract foreign capital by providing tax incentives to broaden the tax base. Although many countries use tax incentives to encourage FDI, the effects of these tax incentives are still debated. Several studies find that tax incentives have a low impact on attracting foreign companies. In contrast, several studies support the positive effect of tax incentives on FDI. In the Indonesian context, SEZ has many tax incentives to encourage foreign investment.

This research finds that more than tax incentives are needed to attract investment interest in the SEZ area. The low realization of labor absorption and investment in SEZ from the targets set shows the need to evaluate the tax incentive policies provided. In addition, there is tension between the tax incentive policies that Indonesia is still implementing massively to attract investment. At the same time, the country is also subject to international standards, such as the global minimum tax rate of 15%. This creates challenges in balancing attracting investment and complying with international standards.

This research recommends that the government develop non-tax facilities, such as stable investment policies, good infrastructure, and efficient licensing so that SEZ remains attractive to investors without significant tax incentives. In addition, to respond to the challenges of Pillar Two policies regarding global minimum tax rates, the government can implement expenditure-based tax incentives such as investment allowances and tax credits so that they do not conflict with internationally agreed standards. This research is also still limited to the challenges of implementing tax incentives in the Indonesian SEZ. Furthermore, research can be carried out related to identifying how Indonesian SEZ can adapt to international standards, especially in the context of the global minimum tax rate of 15%, as well as evaluating the impact on investment attractiveness in SEZs after the global minimum tax rate is implemented in Indonesia.

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