

The Effectiveness Of Tax Incentives On The Attractiveness Of Electric Vehicle Investments In Indonesia: A Case Study Of Tesla

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Abstract

This study examines the effectiveness of tax incentives in attracting electric vehicle (EV) investment in Indonesia, focusing on Tesla as a case study. The Indonesian government has introduced various fiscal incentives, including tax holidays, tax allowances, exemption of import duties, and a reduced value-added tax for electric vehicles, to enhance its competitiveness in the EV sector. Using a qualitative descriptive approach with secondary data analysis, this research evaluates the role of these incentives in stimulating investment and market growth. The findings show that tax incentives have contributed significantly to increasing EV sales in Indonesia, with sales growing by 43.4 percent in the first quarter of 2025. Several global producers, such as BYD, Hyundai–LG, and VinFast, have responded positively by establishing production facilities in Indonesia. However, Tesla has not yet made direct investment despite showing interest in Indonesia's nickel resources. This indicates that fiscal incentives alone are insufficient to attract world-class investors without the support of non-fiscal factors such as regulatory certainty, efficient bureaucracy, and adequate infrastructure. The study concludes that Indonesia's tax incentives are effective in stimulating EV market development but less effective in securing Tesla's investment. The implication is that fiscal incentives need to be integrated with non-fiscal measures to create a more attractive investment climate.

Keywords: *electric vehicle, investment, tax incentives, tesla, Indonesia*

JEL Codes : H25, F21, L62

INTRODUCTION

The development of the *electric vehicle (EV)* industry has become one of the main highlights in the global economy, in line with the world's increasing concern for climate change, energy efficiency, and the transition to renewable energy. Indonesia, as a developing country with a large population, has great potential in developing an electric vehicle ecosystem. The Indonesian government has issued various fiscal policies, including tax incentives, to encourage investment in this sector. These incentives include *tax holidays, tax allowances*, exemption from import duties on electric vehicle components, and Value Added Tax (VAT) relief for battery-based electric motor vehicles. This policy is expected to strengthen Indonesia's appeal to foreign and domestic investors, as well as make Indonesia a center for electric vehicle production in the Southeast Asia region (Susilo, 2024).

The effectiveness of tax incentives in attracting investment in electric vehicles is still debatable. Several studies show that fiscal incentives can reduce capital costs and increase investment interest, but other factors such as regulatory certainty, infrastructure readiness, raw material availability, and socio-economic stability also have a significant influence on investor decisions (Siregar & Patunru, 2021). Tesla, as a global automotive company that pioneered electric vehicles, is an interesting example in analyzing the extent to which Indonesian tax incentives can attract investment interest. To date, although Tesla has shown interest in Indonesia's market potential and nickel resources, the company has not yet directly built production facilities in Indonesia, unlike neighboring countries such as Malaysia and Thailand, which have succeeded in attracting investment in the EV sector through a combination of tax incentives and regulatory certainty (Uddin et al., 2019; Akbar & Kuntadi, 2023).

In addition, Indonesia's competitiveness in attracting investment in electric vehicles still facing significant challenges. The implementation of tax incentives is often hampered by complex bureaucracy, legal uncertainty, and limitations in supporting infrastructure such as *charging* stations. Meanwhile, in the context of regional competition, countries such as Vietnam and Thailand are able to offer a more attractive investment ecosystem through a more comprehensive combination of fiscal and non-fiscal incentives (Diva Natasha et al., 2023). Therefore, evaluating the effectiveness of tax incentives in encouraging investment in the electric vehicle sector, particularly in the case of Tesla, is important as a basis for more targeted policy recommendations. Based on this description, the research question in this study is the extent to which the effectiveness of tax incentives provided by the Indonesian government is able to attract investment in electric vehicles, particularly by Tesla, as well as the factors that support or hinder the successful implementation of tax incentives in creating a competitive investment climate.

LITERATURE REVIEW

Tax Incentives

Tax incentives are fiscal facilities provided by the government to encourage economic activity in certain sectors. They can take the form of tariff reductions, income tax exemptions (*tax holidays*), or reductions in the tax base. The main objective is to reduce capital costs so that investment is more attractive to both foreign and domestic investors (Dewi et al., 2020).

In Indonesia, tax incentives are regulated in Law No. 25 of 2007 concerning Investment and reinforced by Government Regulation No. 45 of 2019. These facilities are intended for priority sectors such as renewable energy, technology, and electric vehicles (Utami, 2019).

Investment

Investment can be understood as the allocation of capital to generate future profits. From a macroeconomic perspective, investment plays a role in increasing economic growth, creating jobs, and supporting equitable development. Investment is divided into portfolio investment, which is carried out through capital market instruments, and direct investment (*Foreign Direct Investment/FDI*), which involves production activities in a country (Jufrida et al., 2017).

For developing countries such as Indonesia, FDI plays an important role because it not only brings in capital but also supports technology transfer and improves the quality of the workforce. However, the attractiveness of investment is not only determined by fiscal incentives but also by non-fiscal factors such as political stability, clear regulations, and adequate infrastructure (Akbar & Kuntadi, 2023).

Electric Vehicles in Indonesia

Electric vehicles are one of the government's strategic programs to support the 2060 *Net Zero Emission* target. In addition to fiscal incentives, the government is also encouraging the development of an ecosystem through the construction of charging station infrastructure and nickel downstreaming. Indonesia has the largest nickel reserves in the world, which is a major attraction for global investors, including Tesla (IEA, 2022). However, despite the incentives offered, Tesla has yet to build a factory in Indonesia. This indicates that fiscal incentives alone are not enough without the support of non-fiscal factors such as regulatory certainty, efficient bureaucracy, and adequate infrastructure (Hakim, 2024).

RESEARCH METHOD

This research uses a qualitative approach with a descriptive method. The aim is to analyze the effectiveness of tax incentives on the attractiveness of electric vehicle investment in Indonesia, with a focus on the Tesla case study. The qualitative method was chosen because this research places emphasis on understanding phenomena, policies, and factors that influence investment decisions, rather than quantitative measurements alone.

The type of data used is secondary data. The data was obtained through literature studies from various sources, such as tax laws and regulations, official government reports, scientific articles, international organization reports, and news from relevant online media. This secondary data was used to describe tax incentive policies in Indonesia, trends in electric vehicle investment, and Tesla's strategy in determining its investment location.

RESULTS AND DISCUSSION

Tax incentive policies in Indonesia have proven to have a positive impact on the development of electric vehicles. Data from PwC (2025) shows that in the first quarter of 2025, sales of electric vehicles in Indonesia reached 27,616 units, an increase of 43.4 percent compared to the same period in 2024. The *battery electric vehicle* (BEV) category even jumped by 152.5 percent. This increase is inseparable from government fiscal policies such as PPnBM exemption, a reduction in VAT to 1 percent for electric vehicles with a minimum local content level (TKDN) of 40 percent, and exemption from import duties for battery components. This fact proves that fiscal incentives have succeeded in growing a potential domestic market for global electric vehicle manufacturers.

Despite the continued growth of Indonesia's electric vehicle market, Tesla has yet to realize any direct investment in Indonesia. This contrasts with other manufacturers such as BYD from China, Hyundai–LG from South Korea, and VinFast from Vietnam, which have already decided to build factories and production ecosystems in Indonesia. In fact, the Indonesian government has repeatedly offered fiscal incentives, including *tax holidays* of up to 20 years for investments in the electric vehicle sector, as well as various other fiscal facilities.

Several factors may explain why Tesla has not yet taken concrete steps. First, although the tax incentives are quite attractive, regulatory certainty and bureaucracy in Indonesia are still considered obstacles. Tesla prefers countries with stable regulations such as Thailand, which offers similar fiscal incentives but is equipped with a more ready charging infrastructure. Second, supporting infrastructure is also a consideration. Indonesia still has a limited number of *charging stations* that are evenly distributed, while the electric vehicle market is highly dependent on the readiness of the supporting ecosystem. Third, Tesla's business strategy tends to be cautious in choosing new factory locations. Until now, Tesla has preferred to establish short-term cooperation with Indonesia in terms of nickel supply for battery needs, rather than directly building an electric vehicle factory.

This Tesla case study shows that tax incentives alone are not enough to attract world-class global investors. Unlike other manufacturers who have invested because they see a rapidly growing domestic market, Tesla is still waiting for regulatory certainty, business climate stability, and the readiness of the overall electric vehicle ecosystem. This shows that the effectiveness of tax incentives will only be optimal if accompanied by non-fiscal support in the form of efficient bureaucracy, consistent regulations, and adequate infrastructure.

Therefore, it can be concluded that tax incentives in Indonesia have increased the attractiveness of investment in the electric vehicle sector, but in the case of Tesla, their effectiveness is still limited. Tesla still considers non-fiscal risks to be more dominant than the fiscal benefits offered by the Indonesian government.

CONCLUSION AND SUGGESTION

This study shows that tax incentive policies in Indonesia, such as *tax holidays* of up to 20 years, PPnBM exemptions, PPN reductions of up to 1 percent for electric vehicles with a minimum TKDN of 40 percent, and import duty exemptions for battery components, have proven effective in increasing electric vehicle sales and attracting foreign investment. This is reflected in the 43.4 percent increase in electric vehicle sales in the first quarter of 2025 and the influx of large investments from global manufacturers such as BYD, Hyundai–LG, and VinFast.

The Tesla case study shows that tax incentives alone are not enough to attract direct investment from world-class electric vehicle manufacturers. Tesla has so far only shown interest through nickel supply cooperation, but has not yet realized the construction of a factory in Indonesia. This indicates that, in addition to fiscal incentives, there are highly influential non-fiscal factors, such as regulatory certainty, bureaucratic efficiency, the availability of charging infrastructure, and business climate stability. Thus, the effectiveness of tax incentives in attracting Tesla's investment in Indonesia can be said to be limited because they have not been able to meet the company's strategic needs.

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