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The Role of Tax Holiday in Increasing Investment Volume

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Abstract

One of the main revenues of the Indonesian state comes from the taxation sector. The state imposes taxes on almost all aspects of society, ranging from transportation, income, purchases, and so on. However, these taxes have the potential to hamper investment in Indonesia, both from foreign and domestic parties. Investment is one of the drivers of development in Indonesia, especially in the infrastructure sector. The main problem faced by investors is the high taxes imposed by the government. One solution to this obstacle is the introduction of a tax holiday. The policy reduces taxes for investors who want to invest in Indonesia. This policy was first regulated in Article 15 of Law No.1 of 1967 on Foreign Investment. It is intended to attract foreign investors into Indonesia. The researcher observes that the tax holiday policy can increase the volume of investment, but this policy must be carried out according to the procedures stipulated in the law so that there is no mismanagement by the state which causes losses to the state itself.

Keywords: *Tax Holiday, Economy, Investment*

INTRODUCTION

Background

Indonesia as a welfare state encourages its people to participate in national development and economic stability. This can be achieved through the fulfillment of employment and stable currency value. The state as the manager and driver of welfare uses tax as one of the sources of state revenue for regional and national development programs.

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Various aspects of people's lives have been taxed by the government, such as business income, transportation, purchases, and so on. Taxes also enter the realm of asset ownership such as buildings and land. The transfer of ownership of assets is also taxed under the local tax and retribution law (UU PDRD). Investment in Indonesia is regulated in the 1967 Foreign Investment Law and Act. No. 25/2007 on Investment.

1967 Foreign Investment Law only regulates foreign investment, while Act. N0.25/2007 on Investment also regulates domestic investment (PMDN). One of the interests of investors in investing is the ease offered by the state to invest. The state as the opening of investment opportunities is the main party that protects investors with legal regulations as the main instrument. One of the barriers to investor entry is the high taxes demanded by the state on infrastructure development and business income. High taxes make investors reconsider investing in Indonesia. However, to encourage the entry of foreign investors in Indonesia, the 1967 Foreign Investment Law has arranged to provide tax concessions to foreign investors. For now, tax reduction or tax holiday is regulated in Article 15 of the Income Tax Law (UU PPh).

In its development, foreign investors have enjoyed this facility since the issuance of the 1967 Foreign Investment Law, however, domestically sourced investment has not been able to enjoy it until post-reform. Nevertheless, it is evident that foreign investment managed to enter significantly starting from the New Order period. From 1969 to 1990, Taufik H. Simatupang showed that 6.51% of the entire investment volume in Indonesia was foreign-owned. Although the volume was small, foreign investment encouraged domestic investment to participate in the volume of investment in Indonesia. The tax holiday policy has proven to encourage investment volume in Indonesia.

State of the article of previous research

Various studies have been conducted on the effect and effectiveness of tax holidays in Indonesia. Usti Nugraeni (2021) argues that tax holidays are one of the main pillars in attracting both foreign and domestic investors to invest in Indonesia. This goes hand in hand with the implementation of the global minimum tax policy agreed at the 2021 G20 conference which was attended by 136 countries. Researchers observe that the tax holiday policy, if implemented effectively and appropriately, can increase the volume of investment constantly. However, the tax holiday policy must be implemented based on the Income Tax Law to maintain the stabilization of state revenue, and also to keep investment in Indonesia running smoothly.

Problem and Gap Analysis

In this study, researchers want to know how the law regulates tax holidays and how tax holidays affect the volume of investment in Indonesia, both foreign investment and domestic investment (PMDN). In previous research, it was argued that the tax holiday policy can be a driver of foreign investment inflows due to the tax facilities offered. However, researchers found that the tax holiday policy can reduce state revenues in the field of taxation,

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for which the government must find other alternatives through the investment field. Thus, the tax holiday policy also needs to be observed in terms of its effectiveness.

Research Method

In this study, researchers used a qualitative method of literature study based on journals and articles. Researchers took data related to the effectiveness of tax holidays in tax policy and how it affects the volume of investment in Indonesia both from abroad and foreign countries. In addition, researchers also took comparative data on other countries that apply tax holidays as a comparison to determine the level of effectiveness of tax holidays based on the Income Tax Law.

ANALYSIS & DISCUSSION

Tax as a Government Income

Taxes are one of the main sources of state revenue in Indonesia. Most aspects of people's lives have been taxed, such as income tax, purchase, business, land, luxury goods, and so on. In practice, taxes are regulated centrally and handed back to the regions based on their respective regional regulations, namely the Regional Tax and Retribution Law (UU PDRD). Of course, taxes are regulated based on the weight of the object subject to tax. The higher the value of the item, the higher the tax. Tax- sourced revenues are managed by the state and regions to carry out development programs based on the state budget that has been prepared by the state every year.

The government has issued various legal regulations governing taxation, such as Law No.7 /2021 on General Provisions and Tax Procedures, Income Tax Law, and Local Tax and Retribution Law. Based on these regulations, tax collection and management by the state has been structured.

Tax Holiday Policy in Indonesia

Tax Holiday is a state policy to cut taxes in various sectors in order to increase economic turnover and investment volume. Act No.25/2007 regulates tax holidays in various sectors, especially in investment development. The government reduces income tax to investors on a certain amount of income, so that entrepreneurs are facilitated to develop their business in the form of investment, this is regulatedspecifically in Article 18 of Act No.25/2007. Thus, the entry of foreign investment is also facilitated by the net tax reduction. It can be said that the government is aware of the importance of development through the investment route itself. By encouraging the entry of foreign investors, domestic investors are encouraged to invest in various sectors in the sense of competition. This directly has the potential to increase the volume of investment in Indonesia. In addition, tax holiday is also regulated through Government Regulation No. 45/2019 on Calculation of Taxable Income and Payment of Income Tax in Current Year. In this government regulation, taxpayers classified as pioneer industries can be given a reduction in income tax with applicable provisions. The reduction in the amount of tax varies, ranging from 100% (or) not

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subject to income tax, and 50% depending on the amount of payable capital invested by investors.

Of course, this tax holiday strongly supports investment in Indonesia, which directly contributes to increasing the volume of investors and encouraging national development.

IKN as an Example of Tax Holiday Effectiveness

The state has set up a development program in collaboration with the private sector in the form of private sector investment. The development currently being carried out by the national goverment is the National Capital of the Archipelago (IKN). Of course, this development is of great interest to the private sector as a business field. Knowing the high private interest, the government provides investment opportunities to private investors with the convenience of full tax exemption (100% reduction in tax). This policy is a form of tax holiday to encourage the development of the country. With this policy, the volume of investment in the development of IKN has grown drastically, and has proven to drive most of the development in IKN, this can happen because most of the capital used to carry out development is privately owned capital, or private investment. With IKN as an example of the effectiveness of tax holiday in increasing the volume of investment and the economy, researchers found that the same thing can also be done by local governments to succeed their regional development programs.

The government provides tax rebates to entrepreneurs who invest in various fields, such as transportation, airports, power operators, toll roads, health facilities, education, and housing and offices. Thus, infrastructure development in IKN can be completed quickly. Strategically, the tax holiday policy is considered successful in encouraging development through investment, both from foreign and domestic sources.

Special requirements such as a minimum investment value of IDR10 billion to obtain a tax holiday are also applied to increase the amount of funds invested in the development of facilities and infrastructure in IKN. The tax holiday policy in IKN and its provisions are regulated in the Minister of Finance Regulation (PMK) No.28 of 2024. This regulation takes several pre-existing regulations such as derivative regulations from Government Regulation No.12 of 2023 concerning Provision of Business Licenses, Ease of Doing Business, and Investment Facilities for Business Actors in the Capital City of the Archipelago. These policies applied to IKN are a tangible form of the government's awareness of the effectiveness of the tax holiday in encouraging investment volume in general. This policy is considered a win win solution, both for the government and for investors.

CONCLUSION

Based on research conducted by researchers on the effect of tax holidays on investment volume by taking the example of IKN Development, it can be concluded that the tax holiday policy implemented by the government has proven effective in increasing the volume of investment from both domestic and foreign sources. In addition, the tax holiday

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policy has proven successful in increasing the turnover of money and business development in Indonesia. If business development and money circulation in Indonesia are smooth, then employment will be more open and people can be more prosperous. Taxes as one of the main revenues of the state in various sectors can be set aside to create a relatively increased investment volume, especially thanks to net income tax cuts between 100% and 50%.

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