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ANALYSIS OF THE IMPLEMENTATION OF TAX INCENTIVES IN THE FORM OF TAX ALLOWANCE AND TAX HOLIDAY IN INDONESIA COMPARED TO THAILAND

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ABSTRACT

This study aims to determine the various differences between the application of tax incentives in the form of tax allowances and tax holidays in Indonesia and the application of tax incentives in Thailand, with an emphasis on evaluating the application of tax incentives and tax allowances in Indonesia. Researchers used qualitative research methods with a comparative descriptive qualitative design. This study uses two types of data sources, namely primary data and secondary data. Primary data is in the form of interviews with tax practitioners, tax officials, and companies that receive tax incentives. Then secondary data in the form of data from books, laws, and other regulations that lead to tax allowances and tax holidays. Researchers used data collection instruments in the form of a list of interview guidelines and notes on the results of the interviews. The results of this study indicate that the application of tax incentives in Indonesia in terms of processing time and usage is better than that in Thailand. As for the facilities, bureaucracy, application process, investment status, and the facilities provided in Thailand are better. The researcher also made comparisons based on infrastructure, socio-political, and population density factors, and found that these factors sufficiently influence investors to determine investment destination countries. In addition, the researchers also found that there are several conditions for submitting tax incentives that are quite burdensome for business people.

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1. INTRODUCTION

Investment in the form of Foreign Direct Investment (FDI) is believed to be highly potential in accelerating economic growth and transformation. The effort to attract foreign investors to invest in Indonesia is still one of the government's agendas, especially in terms of foreign direct investment, which has a close economic relationship with Indonesia [1]. The government continues to strive to achieve the required investment target by promoting various investment opportunities in Indonesia, hoping to stimulate foreign investors to invest in the country. As a result, one of the international rating agencies, 'Fitch,' has stated that Indonesia has achieved an investment-grade credit rating (BBB-), which adds value to Indonesia in the eyes of investors.

The development of investment in Indonesia has experienced a significant increase. Based on data from the Investment Coordinating Board (BKPM), investment realization in the past two years has exceeded the government's targets. In 2012, investment realization amounted to Rp313 trillion, and in 2013, it reached Rp398.6 trillion. In the first quarter of 2014, BKPM reported that the investment realization entering Indonesia reached Rp106.6 trillion, an increase of 14.6 percent compared to the same period the previous year. Therefore, the government is currently working to maintain and improve national economic stability amidst a global economy that is still slowing down.

The government's focus on attracting long-term investments is not without reason. This is done to ensure stability and sustainability of development. The global economic crisis that has affected the Americas, Europe, and surrounding regions has caused economic uncertainty that influences global investors, and there is still a lack of trust from global investors in the credibility of developing countries as their investment destinations. Many investors currently prefer short-term investments while observing and waiting for the recovery of the American and European economies [2].

Obtaining foreign funds is not an easy task for Indonesia, as it also has to compete with countries that have similar interests. Moreover, at present, among neighboring countries, they are better prepared than Indonesia in terms of infrastructure, ease of licensing, regulatory simplicity, and the provision of fiscal facilities to attract investors. However, achieving the desired economic growth for the country poses a challenge that Indonesia must address properly [3].

The intense competition makes Indonesia unable to sit idly and wait for investors to come. Therefore, to strengthen competitiveness, Indonesia offers tax incentives in the form of tax allowances and tax holidays. Tax allowance provides tax relief or reduction for a specific period, while tax holiday grants tax exemption for a certain period for entrepreneurs. Both of these facilities are issued by the government to encourage investors to invest in Indonesia. The tax incentives of tax allowance and tax holiday have different offered facilities and conditions [4].

Based on Government Regulation No. 52 of 2011 concerning the second amendment to Government Regulation No. 1 of 2007 regarding Income Tax Facilities for Investment in Specific Business Sectors and/or Certain Regions, tax allowance facilities include:

1. A 30% reduction in net income from the total investment, allocated over 6 years at a rate of 5% per year.
2. Accelerated depreciation and amortization.
3. Imposition of Income Tax on dividends paid to foreign taxpayers at a rate of 10% or a lower rate according to applicable Double Taxation Avoidance Agreements.
4. Longer compensation for losses, up to a maximum of 10 years, subject to existing provisions.

Unlike tax allowances, tax holidays are issued by the Ministry of Finance of the Republic of Indonesia through Minister of Finance Regulation Number 130/PMK.011/2011 concerning the Granting of Facilities for Exemption or Reduction of Corporate Income Tax, commonly known as tax holidays. The facilities provided by this tax holiday include the exemption of corporate income tax for a period of five to ten years starting from the tax year in which commercial production begins. After the tax holiday period, eligible companies still have the opportunity to receive additional facilities in the form of a 50% (fifty percent) reduction in the corporate income tax rate for the next two years. In addition, considering the importance of maintaining the competitiveness of the national industry and the strategic value of certain business activities, the Minister of Finance may extend the period of granting tax holiday facilities [5].

This tax holiday incentive is launched with the aim of attracting new investments in pioneering industries in Indonesia. Pioneering industries are defined as industries that have broad linkages, provide added value and high externalities, introduce new technologies, and have strategic value for the national economy [6]. The scope of these pioneering industries is quite broad, including basic metal industries, oil refining or organic basic chemical industries derived from oil and natural gas, machinery industries, renewable resource industries, or communication equipment industries.

However, it can be said that the interest in tax incentives in Indonesia is relatively low. Former Minister of Finance, Chatib Basri, revealed that so far only 78 companies have enjoyed the tax allowance facilities, while there are only 3 companies that have been granted tax holidays. This is a very small number considering that more than 100 industrial sectors are offered to receive these facilities and the number of investments entering Indonesia is in the thousands.

Tax incentives are also implemented by other countries. Therefore, the researcher intends to conduct a study on the tax facilities provided by Indonesia and compare them with the tax incentives provided by another developing country, in this case, Thailand. Thailand was chosen because it is a developing ASEAN country that competes with Indonesia [7]. Generally, tax incentives in Thailand are based on Board of Investment Announcement No. 1/2543, which has been in effect since 2000, where the tax incentives provided in Thailand are generally based on 3 zones in Thailand. These 3 zones naturally have different facilities, and the further the investment is from the center of Thailand, Bangkok, the greater the investment facilities provided by the Thai government. When compared to Indonesia, tax incentives in Thailand have been in effect for a longer period.

The implementation of tax incentives in Thailand is more successful than in Indonesia. In Thailand, the number of companies that received investment promotion in 2014 alone was 1,388, while in 2013, the number was even higher, with 1,627 approved companies spread across 3 zones. This is a significant difference compared to Indonesia, where not even 100 companies receive such facilities. This also affects the Foreign Direct Investment (FDI) inflow to Thailand, which was approximately IDR 344 trillion in 2012 and increased to around IDR 359 trillion in 2013 [8].

Moreover, Thailand is also considered by investors. Thailand is among the top 10 countries recognized as the best investment destinations worldwide by international consultants A.T. Kearney and the United Nations Conference on Trade and Development (UNCTAD). Thailand is ranked 7th, while Indonesia is ranked 4th [9].

So, based on the descriptions and explanations above, the author is interested in conducting a more in-depth analysis of tax incentive issues in general, as well as tax allowances and tax holidays specifically, with the title "Analysis of the Implementation of Tax Incentives in the Form of Tax Allowances and Tax Holidays in Indonesia Compared to Thailand." This research aims to identify various differences in the implementation of tax incentives, specifically tax allowances and tax holidays, between Indonesia and Thailand, with a focus on evaluating the implementation of tax incentive policies in Indonesia.

2. METHOD

The researcher employs a qualitative research method with a comparative descriptive qualitative design [10]. This study utilizes two types of data sources: primary data and secondary data. The primary data consists of interviews with tax practitioners, tax officials, and companies that have received tax incentives. The secondary data comprises information from books, laws, and other regulations related to tax allowances and tax holidays [11]. The researcher utilizes data collection instruments in the form of interview guidelines and note-taking during the interviews [12]. The analysis process involves three stages: data reduction, data presentation, and drawing conclusions [13].

3. RESULT AND DISCUSSION

Comparison of the Legal Basis for Providing Tax Incentives

Tax incentives are implemented by almost all countries in the world, tailored to the needs of the respective countries. The legal basis for these tax incentives also varies. In Law No. 25 of 2007, Article 3, paragraph (1a), concerning investment, it is stated that investment is conducted based on the principle of legal certainty. The principle of legal certainty refers to the rule of law in which laws and regulations serve as the basis for every policy and action in the field of investment [14].

There are differences in the legal basis governing tax incentives in Indonesia and Thailand. In Indonesia, tax incentives are regulated by two different legal bases. Tax allowance for specific sectors or specific areas is covered by Government Regulation No. 52/2011, which is the second amendment to Government Regulation No. 1 of 2007. On the other hand, tax incentives for pioneer industries (tax holiday) are governed by Minister of Finance Regulation No. 130/PMK.011/2011. In Thailand, the legal basis for tax incentives is regulated by the Board of Investment (BOI) in the country. Thus, we can see that Thailand has only one legal basis governing tax incentives, while in Indonesia, tax incentives are regulated by two different legal bases.

Comparison of Procedures, Application Period, and Commencement of Utilizing Tax Incentives

The criteria for comparing tax incentives between Indonesia and Thailand are the application process and the duration required for a company to obtain tax incentives. It is important to understand the process that a company goes through to obtain tax incentives and the other government bodies involved in determining the eligibility for tax incentives. When an investor comes to invest in a country, the government should welcome them with a positive and investor-friendly process. A good process and a reasonable timeframe will have a positive impact on investors and the country receiving their investments [15].

In Indonesia, the application process for tax allowance involves the company submitting an application to the Head of the Investment Coordinating Board (BKPM). The Head of BKPM then forwards the proposal to the Minister of Finance through the Directorate General of Taxation. The provision of income tax incentives is determined by the Directorate General of Taxation on behalf of the Minister of Finance, issued within a maximum period of 30 working days from the complete and accurate receipt of the proposal from the Head of BKPM. To utilize the tax incentive, the company must realize 80% of its investment and submit an application to the Directorate General of Taxation, followed by a field inspection by the Directorate General of Taxation.

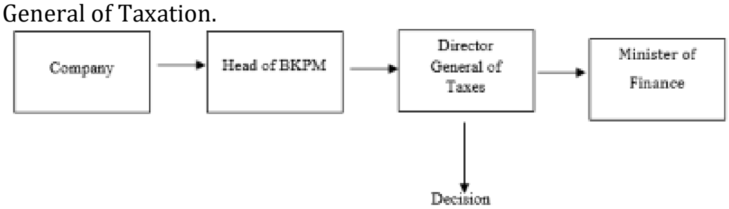

Figure 1. Tax Allowance Application Process

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On the other hand, if a company wants to obtain tax holiday incentives, the company will submit an application through the Ministry of Industry or the Head of BKPM (Investment Coordinating Board). The Ministry of Industry or the Head of BKPM will then coordinate with the relevant minister and submit a proposal to the Ministry of Finance. Based on the proposal submitted by the Ministry of Industry or the Head of BKPM, the Ministry of Finance will assign a committee to verify the granting of corporate income tax exemption or reduction. The committee will conduct research and verification, taking into account the strategic impact of the taxpayer on the national economy. Subsequently, the verification committee will consult with the coordinating minister for economic affairs. The research and verification results, along with considerations and recommendations, including recommendations regarding the duration of the facility, will be submitted to the Ministry of Finance. The Ministry of Finance will then decide on the provision of tax exemption or reduction facilities based on the considerations and recommendations of the verification committee, after consulting with the President of the Republic of Indonesia. A company can only utilize its tax incentives if it has realized its entire investment and has started commercial production, as determined by the Directorate General of Taxation.

Figure 2. Tax Holiday Application Process

Meanwhile, in Thailand, a company must submit an application to the Board of Investment (BOI) or the equivalent of BKPM. After that, the BOI will inform the applicant within 7 (seven) working days from the date of approval, detailing the conditions, rights, and benefits provided. If approved, the BOI will send an approval notification along with a registration form to obtain the promotion certificate. Once the company receives the approval letter from the BOI, it must respond by completing the acceptance of promotion form and returning it to the BOI within 1 (one) month. If there are any changes or specific conditions and privileges requested, the company must include them at that time. If the applicant feels unable to respond within the given one-month period, the company must send a clarification letter to the BOI to request an extension of the deadline for no more than one month. To receive the investment promotion certificate, the company must establish its business within 6 (six) months after receiving the approval. Then, the company must submit the required documents to the BOI, including the application for the promotion certificate, business registration certificate, registered capital certificate, a list of directors empowered to bind the company, the company's head office address, a list of shareholders and their countries of origin, a document showing the transfer of funds from abroad or an investment certificate from abroad issued by the Bank of Thailand for foreign investors, a joint venture contract, license agreement, technical assistance contract, and/or technology transfer contract (if applicable), and a form indicating utility and manpower requirements. If the applicant fails to submit the documents within 4 (four) months, the company must send an explanatory letter to the BOI, which will then consider extending the submission deadline. After that, the BOI will issue the investment promotion certificate upon receiving the specified documents, and the promoted company must comply with the requirements stated in the certificate. To utilize the obtained facilities, the company must import machinery and equipment within 30 (thirty) months to benefit from tax reduction or exemption and customs duty exemption. Within 36 (thirty-six) months, construction must be completed, machinery and equipment must be installed, and the factory must be ready to commence operations. The BOI must provide written permission before the promoted company can pledge, sell, transfer, or lease machinery. If the supervisor finds that the promoted company fails to meet the specified conditions, the BOI will issue an official warning notice. If there are sufficient grounds, the BOI will recommend to the board to withdraw the promotion certificate and inform the Department of Finance and other relevant agencies.

In terms of application, Indonesia and Thailand are relatively similar. In Indonesia, to obtain tax allowance incentives, companies submit applications through the Head of BKPM, while for tax holiday facilities, they can also apply through the Head of BKPM or the Ministry of Industry. In Thailand, the application for facilities is solely through the Board of Investment (BOI) or its equivalent in the country. However, there are differences between Indonesia and Thailand. In Indonesia, after going through BKPM or the Ministry of Industry, the process involves other government bodies such as the Directorate General of Taxation, the Ministry of Finance, or the Ministry of Economic Affairs. In Thailand, the application for facilities is limited to the company and the BOI. The decision-making authority for granting facilities also differs, as in Indonesia, it lies with the Ministry of Finance, while in Thailand, it is directly from the local BKPM. Furthermore, when looking at the application process, in Indonesia, once we submit the application to BKPM or the Ministry of Industry, we simply wait, and there is a possibility of being called back if there are any administrative requirements to be completed or if we are called to present the company's Regarding the impact that will be provided. In Thailand, after the company submits the application, we have to wait for a response from the BKPM. If the application is accepted, we will receive a form and a notification letter, which we need to fill out and send back to the BKPM within 1 (one) month. After that, we must immediately establish the company within 6 (six) months, and then fulfill the required documents for the BKPM. Only then can we obtain the incentives.

In terms of time, in Indonesia, if a company receives tax allowance, the decision will be issued by the Directorate General of Taxation within 30 (thirty) working days. However, for tax holiday, it takes longer, almost 1 (one) year, as it involves several lengthy processes. Similarly, in Thailand, the application process also takes a considerable amount of time. As seen above and calculated based on the maximum standard timeframe without extensions, companies require approximately 11 (eleven) months to obtain the incentives.

Furthermore, when considering the commencement of utilizing tax incentives, there are differences as well. In Indonesia, if a company receives tax allowance, it must realize 80% of its investment before being able to utilize the tax incentives. On the other hand, for tax holiday, a company can utilize the incentives once it has begun commercial operation. Both tax allowance and tax holiday require the submission of an approval request from the Directorate General of Taxation according to the specified criteria. In Thailand, to utilize the incentives, it can be done as soon as the promotion certificate is issued. However, in Thailand, there are certain conditions that must be met. For the facility of importing machinery, the company must import the machinery within 30 (thirty) months to utilize the facility, and within 36 (thirty-six) months, the company must be ready for operation.

Table 1. Comparison of Procedures, Submission Period, and Commencement of Utilizing Tax Incentives.

Country	Submission Process	Submission Period	Commencement of Facility Utilization
Indonesia a. *Tax allowance*	a. Head of BKPM, Director General of Taxes, Minister of Finance	a. 30 working days	a. When the investment realization is 80%
b. *Tax holiday*	b. Head of BKPM / Minister of Industry, Minister of Finance, Coordinating Minister for the Economy, President of the Republic of Indonesia	b. 1 Year	b. When it started commercial production
Thailand	Head of BKPM	11 mounths	From the date the investment certificate was issued

Comparison of Requirements

Furthermore, let's look at the status of investment or investment value, whether it is for new investments or expansion investments. In Indonesia, for both new investments and expansions, the value for tax allowance varies. Based on the existing regulations, the minimum value for new investments or expansion investments for companies seeking tax allowance ranges from IDR 50 billion to IDR 2 trillion, depending on the industrial sector. On the other hand, tax holiday in Indonesia focuses on new investments. The minimum required investment for new investments to qualify for tax holiday is IDR 1 trillion, applicable to all industrial sectors eligible for the facility. In contrast to Indonesia, Thailand has different value requirements. In Thailand, the minimum investment value to qualify for the tax incentive is THB 10,000,000 (ten million baht), which is approximately IDR 3,000,000,000 (three billion rupiahs) when converted. There is a significant difference between Indonesia and Thailand in this aspect. The policy regarding the minimum investment value depends on each country's respective policies.

Table 2. Comparison of Investment Status.

Country	Investment Status
Indonesia	
a. *Tax allowance*	a. IDR 50,000,000,000 – IDR 2,000,000,000,000
b. *Tax holiday*	b. Minimum IDR 1,000,000,000.00
Thailand	Minimum THB 10,000,000 (Approximately IDR 3,000,000,000)

Comparison of Industrial Sectors and Tariffs

The provision of tax incentives should align with the needs of the implementing country. The respective government should have a list of priority industries that are crucial for the country's economic development. With proper planning, these tax incentives can be targeted effectively and contribute to boosting the country's economy. The author will examine the facilities based on the industrial sectors in Indonesia and compare them to the same sectors with the facilities available in Thailand [16].

Upon closer examination of the incentives provided in terms of duration, there is not much difference between the facilities in Indonesia and Thailand. In Indonesia, the tax incentive duration for tax holiday ranges from 5 to 10 years, depending on the government's decision. After the incentive period ends, there is a 2-year period of 50% reduction for pioneer industries. As for tax allowance, the incentive is provided for 6 years, applicable to all industrial sectors eligible for the tax incentive. In Thailand, the facility duration ranges from 3 to 8 years, depending on the investment zone. If the investment falls under Zone 1, it is eligible for a tax incentive period of 3 years, provided that all the requirements mentioned above are met. If not all requirements are fulfilled, the investor can enjoy the tax incentive for 2 years. The same applies to Zone 2, where the tax incentive duration ranges from 3 to 5 years, and for Zone 3, it ranges from 5 to 8 years. If any requirements are not met, the entire duration is reduced by 1 year, both for Zone 2 and Zone 3. However, this only applies to industries such as oil and gas mining, chemical industry, metal goods industry, motor vehicle industry, metal ore industry, coal and lignite mining industry, renewable resources industry, real estate, leather industry, leather goods and footwear, paper and paper goods industry, non-metallic mineral products industry, coal, and oil refining.

As for the livestock industry, forestry industry, agriculture industry, food industry, fisheries industry, communication equipment industry, transportation equipment industry, machinery repair and installation services, waste processing and recycling, civil construction, land transportation, transportation via pipelines, waste treatment, and warehousing and transportation services, they are eligible for an 8-year tax incentive in all zones. For the textile industry, pharmaceutical industry, computer industry, electronic and optical goods industry, and fixed electrical equipment industry, the duration depends on the zone, but the provided duration is longer. If it falls under Zone 1, the tax incentive is granted for 5 years, whereas for investments in Zone 2, the tax incentive period is 7 years, and for Zone 3, it is 8 years.

Another difference can be observed in Indonesia, where tax allowance provides additional facilities such as accelerated depreciation and amortization, a 10% withholding tax on dividends paid to foreign taxpayers, and a loss carryforward of 5 to 10 years. In Thailand, different facilities are provided, including a 50%-100% exemption of import duties on machinery, 1-5 years of exemption on import duties for raw materials, and for areas in the intermediate development stage, an additional extension of a 50% annual tax reduction for 5 years. Furthermore, there is a 25% recognition of expenses for infrastructure development projects and a 100% recognition of expenses for transportation, electricity, and water costs for a duration of 10 years.

Other Factors Considered by Investors

It's not just tax incentives that investors consider; various studies have shown that the improvement of infrastructure availability and quality, socio-political factors, and law enforcement to provide legal certainty for investors are crucial factors in improving the investment climate in a country.

Infrastructure plays a vital role as one of the driving forces behind economic growth and accelerating national development. The economic progress and growth of a country are closely linked to the availability of infrastructure such as transportation, telecommunications, sanitation, and energy. With adequate infrastructure, businesses can achieve greater efficiency, leading to increased investment. Looking at infrastructure from a detailed perspective, according to data released by the World Economic Forum, Indonesia is ranked 56th, while Thailand is ranked 48th out of 144 listed countries [17]. Based on a survey with a highest score of 7 points, Indonesia scores 3.9 for road quality, 3.7 for railways, 4.0 for ports, 4.5 for airports, and 4.3 for electricity, resulting in an average score of 4.08. On the other hand, Thailand scores 4.5 for road quality, 2.4 for railways, 4.5 for ports, 5.3 for airports, and 5.1 for electricity, with an average score of 4.36. Thailand outperforms Indonesia in almost all aspects, except for railways where Indonesia surpasses Thailand.

In addition, socio-political factors influence every government policy. Currently, the political situation in Indonesia is considered better compared to Thailand. Indonesia has successfully conducted general elections at both the legislative and government levels. Despite the depreciation of the rupiah against the dollar, it has not undermined the public's trust in the government [18]. In contrast, Thailand has been experiencing political conflicts and widespread protests since the end of 2013 until now. This has affected the level of public trust. World Economic Forum data on public trust in politics indicates that Indonesia performs much better than Thailand, with Indonesia ranked 37th and Thailand ranked 129th. High levels of trust are advantageous for the government as it ensures that government policies are well-received by the public (Riccardi et al., 2020).

One significant advantage Indonesia has is its large population. Currently, Indonesia has a population of 240 million, while Thailand has only 60 million [19]. The large population in Indonesia provides an advantage in terms of the availability of human resources. According to M. T. E. Hariandja, human resources are crucial factors for a company, alongside other factors such as capital [20]. This becomes an attractive feature for Indonesia in attracting investor interest, as investors do not have to struggle to find a workforce. Moreover, with such a large population, there is a massive market opportunity that is highly beneficial. With such a vast market potential, investors do not face difficulties in marketing and selling their products. The World Bank also states that Indonesia is among the top 10 countries with the largest economies in the world.

These factors significantly influence how investors perceive Indonesia. International consulting firm A.T. Kearney and the United Nations Conference on Trade and Development (UNCTAD) rank Indonesia 4th as an investment destination, while Thailand is ranked 8th. This shows that Indonesia attracts more investor attention than Thailand. It proves that even though Indonesia may lag behind in terms of tax facilities, other factors that investors consider make Indonesia a more attractive destination for investment.

4. CONCLUSION

The legal basis governing tax incentives in Indonesia is regulated by Government Regulation (PP) for tax allowance and Minister of Finance Regulation (PMK) for tax holiday. In Thailand, the legal basis for tax incentives is found within the Board of Investment (BOI), which is the investment promotion agency in Thailand. To obtain tax incentives in Indonesia, such as tax allowance, applications are made through the Head of BKPM, Directorate General of Taxation, and Minister of Finance, with a submission period of 30 working days. For tax holiday, applications are made through the Ministry of Industry/Head of BKPM, Minister of Finance, Minister of Economic Affairs, and the President of the Republic of Indonesia, with a submission period of 1 year. In Thailand, to obtain tax incentives, applications are made through the Head of BKPM with a submission period of 11 months. In Indonesia, companies can utilize tax incentives after realizing 80% of their investment for tax allowance and when they begin commercial production for tax holiday. In Thailand, tax incentives can be utilized from the date of investment certificate issuance. In terms of investment thresholds, in Indonesia, the minimum investment for tax allowance ranges from 50 billion to 2 trillion IDR, while for tax holiday, it is a minimum of 1 trillion IDR. In Thailand, the minimum investment threshold is THB 10,000,000 or approximately 3 billion IDR. Regarding other factors influencing investors, Indonesia ranks lower than Thailand in terms of infrastructure, but higher in terms of socio-political aspects and population. Based on interviews conducted by the author with respondents, it was found that the implementation of tax incentives in Indonesia is in accordance with the existing regulations. However, there are certain requirements that can be burdensome, resulting in a relatively small number of companies receiving tax incentives in Indonesia.

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