

Identification of Tax Allowance Policies and Mechanisms in Indonesia

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ABSTRACT

The government issued a tax allowance policy to increase the amount of investment in Indonesia. This policy is given to Foreign Investors (PMA) and Domestic Investors (PMDN). This research aims to identify the policy and implementation mechanism of tax allowance in Indonesia. This research uses a qualitative method with a descriptive approach. First, the study found that the tax allowance policy is contained in article 31A, paragraph 21 of Law Number 7 of 1983 on Income Tax. Then, in Law Number 36 of 2008 on the Fourth Amendment to Law Number 7 of 1983 on Income Tax and Government Regulation Number 78 of 2019 on Income Tax Facilities for Capital Investment in Certain Fields of Business and/Or in Districts -Specific Areas. Furthermore, the tax allowance mechanism is regulated in the Regulation of the Minister of Finance of the Republic of Indonesia Number 11/PMK.010/2020 Regarding the Implementation of Government Regulation Number 78 of 2019 Regarding Income Tax Facilities for Capital Investment in Certain Fields of Business and/or in Certain Districts.

Keywords: *tax allowance, investment, capital investment*

INTRODUCTION

One of the factors that influence economic growth is an investment. Investment can come from within the state and abroad (Ningrum, 2008). Domestic investment is also referred to as Domestic Capital Investment (PMDN). Furthermore, investment from abroad is called Foreign Investment (PMA). Ridgway and Thalib (2003) argue that investment is expected to produce multiplier effects on national economic development (Hardianti & Setyowati, 2019). It is because investment activities do not only transfer goods and capital but also transfer knowledge (Hardianti & Setyowati, 2019). Investment increases productivity and economic growth (Dewi et al., 2013).

One of the most profitable industries and bringing rapid economic upheaval in a reasonably short time in Indonesia is an investment. It is in line with the fact that Indonesia has abundant natural resource potential. In addition, Indonesia's natural resources can be a gateway to attracting investors to invest their capital in Indonesia. Because Indonesia has long relied on foreign investment in its economic development, as a developing country, Indonesia desperately needs this kind of investment injection to support the economy. (Christian, 2017)

The presence of investment can affect the improvement of the community's welfare and the country's acceptance. Therefore, the government in Indonesia is trying

to increase the inflow of investment from various fields. It is both from within the country and abroad. One of these efforts is to use a tax instrument as a tax allowance. A *tax allowance* is a tax facility that is given for economic stimulus in various fields of business only. (Syanti Dewi, 2020)

In the current era of globalization, there is competition between developed countries and developing countries, including Indonesia, to attract capital from investors, both foreign capital and domestic capital. At the same time, to neutralize obstacles or problems faced by investors who invest or invest in Indonesia, the Indonesian government offers tax incentives in the form of tax exemptions, namely: reduction or exemption of certain taxes. Against corporate income tax announced by the government through the Minister of Finance, issuing Minister of Finance Decree (PMK) No.159/PMK.010/2015 regarding Provisions for Reduction of Corporate Income Tax (taxable corporate income).

Previously, tax evasion was regulated by PMK number 130/PMK.011/2011, so the application of the tax exemption itself continued since 2011 when PMK came into force. This offer of tax incentive opportunities is undoubtedly also the reason for the Indonesian government itself that in the coming year, many investors can be attracted to the country of Indonesia. See, Tax incentives make investors choose Indonesia as an investment location. Therefore, investing in Indonesia is very beneficial for the Indonesian economy. Of course, with the grant, this institution has conditions to enjoy it, but the Indonesian government provides opportunities for investors who want to invest their capital in Indonesia (Bayunanto, 2018).

The purpose of the tax allowance is to increase direct investment activities, both through foreign capital investment and domestic capital investment. The tax allowance is expected to encourage economic growth, equalization of development, and acceleration of development in specific business areas and/or regions (Agung, 2021). In Indonesia, Based on the data of the Strategic Plan of the Investment Coordinating Board (BKPM) 2020-2024, the Realization of Domestic Capital Investment (PMDN) and Foreign Capital Investment (PMA) experienced an increase from Rp463.1 trillion in 2014 to Rp545.4 trillion in 2015, Rp612.8 trillion in 2016, Rp692.8 trillion in 2017, Rp721.3 trillion in 2018 and Rp809.6 trillion in 2019. Thus, on average (BKPM, 2020) notes that the realization of planting capital in 2015-2019 grew by 11.9 per cent. In detail, this is illustrated in Table 1.

Table 1. Capital Investment Development Year 2014-2019

Description	Year					
	2014	2015	2016	2017	2018	2019
FDI Realization (Rp Trillion)	307.0	365.9	396.6	430.5	392.7	423.2
FDI target (Rp trillion)	297.3	343.7	386.4	429.0	467.5	483.7
PMDN Realization (Rp Trillion)	156.1	179.5	216.2	262.3	328.6	386.5
PMDN Target (Rp Trillion)	159.3	175.8	208.4	249.8	297.6	308.3
Total Realization (Rp Trillion)	463.1	545.4	612.8	692.8	721.3	809.6
Total Target (Rp Trillion)	456.6	519.5	594.8	678.8	765.0	792.0
Realization Achievement (%)	101.4%	105.0%	103.0%	102.1%	94.3%	102.2%
Growth (%)	16.2%	17.8%	12.4%	13.1%	4.1%	12.2%

Source: BKPM (2020)

Although investment has experienced a significant increase from the foreign sector, tax incentives were not sold to potential investors in 2017, for tax allowances

were only used by 137 taxpayers (Pohan et al., 2021). However, based on Government Regulation 78 of 2019, the income tax facility, known as tax allowance, aims to encourage and increase direct investment activities. In addition, with the existence of this regulation, the government has simplified the procedure for granting facilities. It is to accelerate the implementation of efforts. In addition, it is done to help electronically integrate business licensing and taxation. Therefore, the tax allowance policy needs to get the attention of all parties.

Capital Investment is related to all forms of investment activities, both by domestic investors and foreign investors, to do business in the territory of the Republic of Indonesia. Furthermore, tax allowance is related to the Income Tax facility given to PMA and PMDN in two forms. First, a reduction in net income amounting to 30% of the total value of Capital Investment is used for the Main Business Activity in the form of tangible fixed assets, including land, which is charged for 6 (six) years, each amounting to 5% per year. Second is accelerated depreciation on tangible fixed assets and amortization on intangible assets. It is obtained in the framework of Capital Investment, with the benefit period and the depreciation tariff and the amortization tariff, as set by the regulations.

Tax Allowance is related to tax relief facilities given to investments that meet the qualifications, including absorbing a large workforce, having a high investment value for export, and having a high level of local content. Tax relief is given in the form of a reduction in net income of 30% of the total investment value for six years, each of 5%; accelerated depreciation on tangible fixed assets and accelerated amortization on intangible assets. (BKPM, 2020)

Tax allowance can also be defined as tax relief based on the production value of investments that meet specific qualifications (Holland & Vann, 1998). Furthermore, according to Astuti (2014), tax allowance can also be interpreted as an incentive the government gives as a reduction of taxable income.

Investment is placing funds in one or more types of assets during a specific period to obtain income and/or increase the value of the investment in the future. (Amalia, 2017) Thus, the concept of investment is: a) Placing funds in the present, b) A certain period, c) In order to obtain benefits (compensation or profits) in the future. It means funds that should be able to be consumed, but because of investment activities, the funds are diverted to be invested for future profits. Investment can be seen from 3 (three) aspects. First, the aspect of money that is invested and expected. So the concept of money is also used to evaluate investment eligibility. Second, Aspects of the present time and the future, therefore to evaluate the investment eligibility, the concept of time (time value of money) is used. Third, Investment benefits. From this aspect of benefits, the assessment of investment eligibility must also look at the benefits and costs it causes using the benefit principle (cost-benefit ratio).

According to Sumanto (2020), investment is binding a certain amount of funds during a certain period to obtain the expected return as a compensation unit from the amount invested. Investment is the investment of capital in a company, the purpose of which is to increase the company's or business's wealth. Invest too much in goods individuals or companies buy to accumulate capital (Mankiw, 2019).

A lot of research has been done on tax allowance. Research results (Hardianti & Setyowati, 2019) found that this tax allowance facility has not been utilized optimally in the marine and fisheries sectors. It is because the content of the policy and the context of the implementation itself can influence the implementation. For that, (Hardianti &

Setyowati, 2019) recommended the Ministry of Marine and Fisheries review the right business areas to be given tax allowance facilities and carry out intensive socialization.

In addition, the research results Lusiana (2014) concluded that after the publication of Finance Minister Regulation No. 150/PMK.010/2018 and Government Regulation No. 78 of 2019, investment in Indonesia increased and positively impacted investment in Indonesia. However, it has not been able to increase the tax ratio in Indonesia. It is due to the granting of income tax reductions and exemptions affecting tax receipts, which have directly impacted the tax ratio in Indonesia.

However, research that identifies tax allowance policies and mechanisms is rarely done. Therefore, this research aims to identify the policy and implementation mechanism of tax allowance in Indonesia. This research needs to be done because it can provide information about how tax allowance policies and mechanisms work in Indonesia. In addition, the findings obtained can be the basis of development research on developing investment and tax incentive policies in Indonesia. Investment management entities in Indonesia can also use the results.

METHOD

This research uses a qualitative method. It uses a descriptive qualitative approach. First, data and documents are obtained from literature studies originating from reference journals. Data is in the form of figures obtained from reports from government institutions that deal with investment. Then, the documents used in this research are in the form of policies and mechanisms related to tax allowance. Next, documents were analyzed with a descriptive approach. The results of the analysis are finally presented descriptively.

RESULT AND DISCUSSION

Tax Allowance Policy

The tax allowance policy is an income tax facility for capital investment in specific business areas and/or certain regions. Specific Business Areas are business areas in the economic activity sector that receive high priority nationally. The Tax Allowance Policy in Indonesia refers to Article 31A paragraph (21) of Law No. 7 of 1983 on Income Tax as amended several times last by Law No. 36 of 2008 on the Fourth Amendment to Law No. 7 of 1983 on Income Tax. In detail, the rules on Tax Allowance in Indonesia are presented in Table 2.

Table 2. Tax Allowance Policy in Indonesia

No	Kebijakan	Tahun
1	Article 31A paragraph (21) of Law Number 7 of 1983 on Income Tax	1983
2	Law Number 36 of 2008 on the Fourth Amendment to Law Number 7 of 1983 on Income Tax	2008
3	Government Regulation Number 78 of 2019 Regarding Income Tax Facilities for Capital Investment in Certain Fields of Business and/Or in Certain Districts	2019
4	Regulation of the Minister of Finance of the Republic of Indonesia Number 11/PMK.010/2020 Regarding the Implementation of Government Regulation Number 78 of 2019 Regarding Income Tax Facilities for Capital Investment in Certain Fields of Business and/or in Certain Districts	2020

Source: Processed (2022)

Based on Government Regulation Number 78 of 2019, what is meant by Certain Fields of Business and in Certain Regions is a field of business in the economic activity sector and regions that economically have potential worthy of development that is given high priority on a national scale. Furthermore, according to Government Regulation 78 of 2019, the Main Business Activity is the field of business and the type of production/service at the time of applying to Income Tax facilities by the Taxpayer. It is as stated in the permit in principle, investment permit, registration of Capital Investment that has been issued by the Agency and One-Stop Integrated Services of the Province/Department of Coordination of Capital Investments/Department of Investment of Capital Investment and One-Stop Integrated Services of the Regency/City or business permit issued by the Board OSS obtained by the Taxpayer.

As for benefit users who get Tax Allowance based on government regulation No. 18 of 2015 jo. No. 9 of 2019 is the first, taxpayers with an 'IP' principle permit and its amendments published by BKPM, an 'IP-PL' expansion principle permit and amendments issued by BKPM, an investment permit issued by other authorized agencies. These three permits have been issued since May 5, 2015. Second, taxpayers who have chosen to obtain Tax Allowance facilities based on PP No 18/2015 jo. No. 9 of 2016. Third, taxpayers who have applied for exemption or reduction of Corporate Income Tax following Article 29 of Government Regulation 94 of 2010 have been rejected by the Minister of Finance.

Tax Allowance Mechanism

The tax allowance mechanism is regulated in the Regulation of the Minister of Finance of the Republic of Indonesia Number 11/PMK.010/2020 Regarding the Implementation of Government Regulation Number 78 of 2019 Challenging Income Tax Facilities for Capital Investment in Certain Fields of Business and/or in Certain Districts, consists of 9 Chapters and 20 articles. Regulation of the Minister of Finance of the Republic of Indonesia Number 11/PMK.010/2020, consisting of Chapter X, with details in Table 3.

Table 3. Scope of Finance Minister Regulation Number 11/PMK.010/2020

Chapter No	Scope
Chapter I	General Provisions
Chapter II	Subject and Type of Facility
Chapter III	Requirements And Procedures For Determining The Value Of Tangible Fixed Assets
Chapter IV	Procedures for Submission of Income Tax Facility Application
Chapter V	Requirements And Procedures For Utilization Of Income Tax Facilities
Chapter VI	Reporting Obligations
Chapter VII	Asset Replacement Procedures
Chapter VIII	Revocation of Income Tax Facility
Chapter X	Transitional Provisions

Source: Regulation of the Minister of Finance Number 11/PMK.010/2020

Based on Table 2, Regulation of the Minister of Finance Number 11/PMK.010/2020 regulates the Subject of Tax Allowance: To Taxpayers of domestic entities that make Capital Investments in Main Business Activities. Both new Capital Investments and expansion of existing businesses at (a) Certain Business Areas as listed in Appendix I of Government Regulation 78 of 2019. It is regarding Income Tax Facilities for Capital Investment in Certain Business Areas and/or Certain Districts;

and/or; (b). Specific Fields of Business and in Certain Regions, as listed in Appendix II of Government Regulation 78 of 2019 regarding Income Tax Facilities for Capital Investment in Certain Fields Business and Certain Regions, meet specific criteria and requirements can be given Income Tax facilities.

Facilities provided in the form of tax allowance to taxpayers Income Tax Facility in two forms. First, reduction of net income amounting to 30% (thirty per cent) of the total value of Capital Investment in the form of tangible fixed assets, including land, which is used for Main Business Activities, charged for 6 (six) years each amounting to 5% (five per cent) per year. Second, accelerated depreciation of tangible fixed assets and the amortization of intangible assets acquired in Capital Investment.

Based on the Minister of Finance Regulation Number 11/PMK.010/2020, the benefit period, depreciation, and amortization tariff is set, as explained in Table 4.

Table 4. Benefit Period And Depreciation Tariff And Amortization Tariff

Table 1. Benefit Period, Depreciation Tariff and Amortization Tariff				
No	Category	Benefit Time	Depreciation Tariff	
			Straight line method	Declining balance method
1	For accelerated depreciation on tangible fixed assets			
a	Not a Group I Building	2 years	50%	100%
b	Not a Group II Building	4 years	25%	50%
c	Not a Group III Building	8 years	12,5%	25%
d	Not a Group IV Building	10 years	10%	20%
e	Permanent building	10 years	10%	
f	Buildings are not permanent	5 years	20%	
2	For accelerated amortization of intangible assets			
a	Group I	2 years	50%	100%
b	Group II	4 years	25%	50%
c	Group III	8 years	12,5%	25%
d	Group IV	10 years	10%	20%

Source: Regulation of the Minister of Finance Number 11/PMK.010/2020

Regulation of the Minister of Finance Number 11/PMK.010/2020 also regulates the imposition of Income Tax on dividends paid to foreign Taxpayers other than permanent business in Indonesia amounting to 10% (ten per cent), or a lower rate according to the tax avoidance agreement double that happens. In addition, Based on the Regulation of the Minister of Finance Number 11/PMK.010/2020, it is arranged about Compensation for losses that are longer than 5 (five) years but not more than 10 (ten) years, as in Table 4.

Table 5. Loss Compensation for Taxpayers

No	Compensation
1	Additional 1 (one) year for Capital Investment as referred to in Article 2 made by the Taxpayer
2	Additional 1 (one) year if Capital Investment as referred to in Article 2 is carried out in industrial areas and/or bonded areas
3	An additional 1 (one) year if the Capital Investment as referred to in Article 2 is carried out in the field of new and renewable energy
4	Additional 1 (one) year when issuing costs for economic and/or social infrastructure at the business location of at least Rp.10,000,000,000.00 (ten billion rupiah)
5	Additional 1 (one) year when using raw materials and/or components of domestic production at least 70% (seventy percent) no later than the 2nd (second) tax year
6	Additional 1 (one) year or 2 (two) years: a) additional 1 (one) year when adding at least 300 (three hundred) Indonesian workforce and maintaining that number for 4 (four) consecutive years; or b) an additional 2 (two) years when adding at least 600 (six hundred) Indonesian

- workers and maintaining that number for 4 (four) consecutive years;
- 7 An additional 2 (two) years when spending research and development costs in the country in the framework of product development or production efficiency at least 5% (five percent) of the capital investment within a period of 5 (five) years; and/or
 - 8 An additional 2 (two) years when exporting at least 30% (thirty percent) of the total value of sales in a tax year, for Capital Investment in the field of business regulated in Article 2 letter a that is carried out outside the bonded area.
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Source: Regulation of the Minister of Finance Number 11/PMK.010/2020

Regulation of the Minister of Finance Number 11/PMK.010/2020, in Chapter VII, regulates that capital investment has a reporting obligation, which consists of a) the amount of Capital Investment realization; and b). total production realization. It is explained in this regulation that the reporting period includes: a) from the publication of the approval decision for the granting of Income Tax facilities until the publication of the Commercial Production Commencement Decision. Then, b) from the publication of the decision When Commercial Production Begins until the end of the asset's fiscal benefit period for reporting.

CONCLUSION

The government issued a tax allowance policy aimed at encouraging and increasing the amount of investment in Indonesia. This policy is given to Foreign Investors (PMA) and Domestic Investors (PMDN). This research has identified the policy and implementation mechanism of tax allowance in Indonesia. This research was conducted using a qualitative method with a descriptive approach. The research results show that the tax allowance policy is contained in article 31A, paragraph 21 of Law No. 7 of 1983 on Income Tax. Then, in Law No. 36 of 2008 on the Fourth Amendment to Law No. 7 of 1983 on Income Tax and Government Regulations Number 78 of 2019 Regarding Income Tax Facilities for Capital Investment in Certain Fields of Business and/Or in Certain Districts.

Furthermore, the tax allowance mechanism is regulated in the Regulation of the Minister of Finance of the Republic of Indonesia Number 11/PMK.010/2020 Regarding the Implementation of Government Regulation Number 78 of 2019 Regarding Income Tax Facilities for Capital Investment in Certain Fields of Business and/or in Certain Districts. Investors need to pay attention to the tax allowance regulations published in Indonesia. It is related to the income tax facilities that can be obtained from the government.

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