

Tax Incentive Analysis to Encourage Venture Capital Investing in Digital Start-up Companies

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Abstract: Digital start-up are generally the main drivers of the development of the digital economy. As a company that promotes innovation, investing in startups has a very high risk. One of the startup funding comes from venture capital investment. The purpose of this study is to analyze tax policy in Indonesia, which aims to encourage venture capital investment in startups and illustrate tax incentives for venture capital investment implemented in Singapore and China. This research was conducted using a qualitative approach and qualitative data analysis techniques. The results of this study indicate that to support venture capital investing in startups, the Indonesian government provides tax incentives in the form of tax exemptions on dividends. The tax incentives provided are not attractive because they do not fit into the venture capital investment model. Tax incentives for venture capital applied in Singapore are provided in the form of tax exemptions on capital gains, interest, and dividends, while China provides tax incentives in the form of tax reductions.

1 INTRODUCTION

The government has committed to establishing a tax incentive scheme for venture capital that funds companies in certain categories, including startup companies, which are listed in the 2017-2019 Electronic-Based National Trade System Roadmap (SPNBE), and realize it by issuing PMK No. 48 / PMK.010 / 2018 Concerning Taxation Treatment of Equity Participation of Venture Capital Companies in Micro, Small and Medium Enterprises (PMK 48/2018). However, this regulation does not create an attractive tax incentive scheme for Venture Capital Companies. The tax treatment of venture capital in PMK 48/2018 has not changed from the previous regulation; namely, the dividends received by venture capital companies from investee companies are not subject to tax on certain conditions. This regulation only changes the maximum threshold of net sales of investee companies that receive venture capital funding from the provisions previously stipulated in KMK No. 250 of 1995. The exclusion of dividends as a tax object, as stipulated in PMK 48/2018, is considered to be attractive for venture capital investors. There are several alternative tax policies to encourage investment from venture capital in the

form of incentives that can be given that have been implemented in other countries. The forms of incentives are tax exemption or exemption from taxation on certain income as applied in Singapore, and tax incentives in the form of tax reduction implemented in China. Singapore and China were chosen as benchmarks in this study because the venture capital industry in both countries is fairly advanced, and both are Indonesian competitors in terms of venture capital investment in startups in the Asian region. In addition, the two countries also paid special attention to the development of the initial stage of business and the use of technology and the development of innovation in business. Based on this background, the research questions raised are as follows: (1) how tax policies to encourage venture capital investing in digital startups (startups) that currently apply in Indonesia and (2) how tax policies in Singapore and China to encourage venture capital that invests in start-up companies.

2 LITERATURE REVIEW

2.1 Start-up

Initially, the concept of startup refers to business entities that have just entered the market. But over time, the definition of a startup is associated with specific business categories related to the development of information and communication technology, especially the internet as a universal, direct, and unlimited communication media. The startup is also associated with breakthroughs in the economic, social, and even civilizational dimensions related to the spread of information and communication technology, especially the internet. (Scale, 2019). Gaujarad (2008) explained that startup companies have the following characteristics:

- a) The company has not been long established (usually 3 years or less).
- b) The company has few employees or workers, usually less than 20 people. This is intended to save the cost of paying employee salaries. Employees tend to have the ability to hold several tasks/responsibilities at one time (multitasking).
- c) Very close to the use of technology and applications.
- d) There are operations carried out on websites. A startup company can certainly have a site as a corporate identity because the operations used are in that field. Even though the services offered are in the form of real products or services that use applications, startup companies will still have a website.
- e) The company is still in the development stage.

2.2 Ventura Capital

Venture capital is a risk-equity investment (Gerken and Wesley, 2014). Venture capital is a long-term investment in the form of risk-giving capital, where the capital provider (venture capitalist) expects capital gains (Tony Lorenz in Rivai, 2007). Venture capital is financial capital provided for early-stage companies that have high potential and grow quickly and are high risk. Venture capitalists make money by having equity in invested companies, which usually has new technology or business models in high-tech industries, such as biotechnology, information technology, software, and others (Maynard, Warren, and Trevino, 2010). According to (Klonowski, 2010), there are several advantages of companies that are funded by venture capital companies. First, venture capital financing does not expect regular interim

payments. Second, the addition of capital increases the creditworthiness of an investee company by increasing its capital base, thereby increasing the value of its net assets. This is important for investee companies when looking for additional bank financing or leasing arrangements. Third, venture capital financing generally increases the credibility of investee companies with customers, material suppliers, distributors, banks, and other financial institutions. This credibility is based on the assumption that venture capitalists are very selective in their choices and only invest in companies with strong potential for growth. Investee company stakeholders know that venture capitalist only benefit if the investee company continues to succeed, and this serves to increase the credibility of the investee company. Fourth, capital provided by venture capitalists does not require investee companies to pay dividends to ensure that founders can run their business without operational constraints

2.3 Tax Incentives for Venture Capital Investment

The provision of tax incentives for venture capital is one of the efforts to deepen the market because this industry has certain characteristics that are different from other financial industries. Compared to financing sources from banks, venture capital plays an important role in facilitating the development of young companies with high growth potential. In a journal titled "Venture Capital, Entrepreneurship, and Regional Economic Growth" Samila and Sorenson (2011) argue that venture capital companies fill a niche that allows capital needed to reach some of the undeveloped and most uncertain ideas as stated below: "venture capital firms fill a niche that allows the necessary capital to reach some of the least developed and most uncertain ideas. "He also believes that traditional bank financing cannot replace venture capital.

The high risk from startup requires banks to charge very high-interest rates to internalize risk. However, in general, the applicable law does not accommodate this. In addition, when considering lending, banks are more likely to choose safer options, for example, companies with collateral and credit history. Likewise, investment banks are limited by regulatory constraints. Therefore, 'safe' investments are made by banks, but risky businesses are left unfunded. In this regard, venture capital helps fill in the gaps. Players in both industries can also be distinguished, because usually, venture capital players are sophisticated investors, that is, investors

who have deep market experience and knowledge. Usually, they are investors who also have qualified information about technological developments.

3 RESEARCH METHODOLOGY

This research uses a qualitative approach. Research with a qualitative approach is research that intends to explore and understand social problems that occur by involving questions and procedures, with data collected from participants and analyzed inductively, and then the researcher makes an interpretation of the data. The purpose of this study is to describe and describe tax incentives as a public policy aimed at

venture capital companies that invest their capital in Indonesian digital startups and map income tax incentives for venture capital companies in Singapore and China.

The formulation of public policy will have an impact or produce good results if it is based on a rational thought process that is supported by complete or comprehensive data or information (Hoogerwerf in Islamy, 2004). In designing tax incentives to encourage venture capital investment, there are several things that the government must consider. This can be grouped into three main categories in the design of tax incentive features for venture capital investment, as formulated by the European Commission (2017) in Table 1.

Table 1. Design Feature of Tax Incentive for VC Investment

Design Feature of Tax Incentive for VC Investment	Qualifying criteria for tax incentives	Business Qualification
		Investor Qualification
		Investment Qualification
	Scope of tax incentive	Investment Duration
		Form of tax incentive
		The term on giving incentives at the investment stage
	Tax incentive administration	Discretion
		Monitoring fiscal costs
		Monitoring the impact of providing incentives

The policy analysis set out in PMK 48/2018 in this study will be reviewed from these three categories by also seeing whether the provisions regarding the scope, qualification criteria, and administration that currently apply in PMK 48/2018 have been formulated based on rational thought processes and supported by comprehensive information. However, in designing a policy, problem identification is very basic and becomes very important for the government to be able to take the right actions. Problems (core problems) that are not well defined are weaknesses in a policy (Patton and Sawicki, 1986). For this reason, in this discussion, it is first analyzed what is formulated by the government as a core problem in PMK 48/2018 through the background and purpose of its formation.

Based on the research objectives, this study is included in descriptive research. Descriptive research, according to Neuman (2014: 38), begins with questions or defining issues and tries to describe them accurately. The results of the study are detailed descriptions of the issue or answers to research questions. Data collection techniques used to obtain information relevant to the problem of this study are in-depth interviews and literature studies. In-depth

interviews were conducted with 12 informants, as listed in Table 2.

4 DISCUSSION AND CONCLUSION

4.1 Qualification Criteria

Esson & Zolt (2002) explained that tax incentives are tax expenditures specifically targeted at certain types of taxpayers or certain taxable activities. The targeting is achieved by using qualification criteria that explicitly limit eligibility. This is an important part of the design of tax incentives to support the achievement of underlying policy objectives and limit the fiscal costs borne by the government. The design of tax incentives for venture capital must be targeted at companies with certain criteria. The investor qualification criteria set out in PMK 48/2018 are Venture Capital Companies that are registered with OJK and invest in certain companies, including start-up companies. This also indicates that the business

Table 2. Summary of data sources

No. of informants	Position of informants	Institution	Role
1	Head of Income Tax Facilities Subdivision	Badan Kebijakan Fiskal / Fiscal Policy Agency	Policymakers
1	The staff of Directorate of Taxation Regulations II	Directorate General of Taxation / Direktorat Jenderal Pajak	The organizer of the formulation and implementation of policies
1	Acting Director of Informatics Empowerment	Ministry of Communication and Informatics	The ministry that promotes programs to develop the digital industry
1	The staff of Directorate of Informatics Empowerment	Ministry of Communication and Informatics	
1	Investment Manager	VC M	Venture Capitalist
1	Head of Investment and Venture Fund	VC M	Venture Capitalist
1	Investment Officer	VC K	Venture Capitalist
1	Investment Officer	VC X	Venture Capitalist
1	Secretary-General Amvesindo	Venture Capital Association for Indonesian Startups	The association consists of venture capital companies for startups in the technology and other creative fields
1	Tax Researcher	Danny Darussalam Tax Center	Tax Researcher
2	Lecturer	Universitas Indonesia	Academician

qualification criteria for obtaining investment are certain companies, including startup companies. PMK No.48 / 2018 does not specifically target groups of venture capital companies that invest in startup companies. This regulation uses MSME criteria as an eligible investment recipient qualification. The MSME criteria used are the net sales threshold. The PMK 48/2018 changed the threshold for UMKM net sales as a PMV business partner that was previously Rp. 5,000,000,000.00 (5 billion) in a year to Rp. 50,000,000,000.00 (50 billion) in a year. This change was made because the old boundaries were obsolete. While the figure of Rp 50,000,000,000.00 is determined by referring to Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises. In addition, PMK 48/2018 also explained further that the limitation of net sales for a year is intended to be the net income for the tax year when PMV makes capital participation to a Business Partner Company (PPU) or an investee company. This was previously not regulated in KMK 250/1995. This additional explanation is intended to avoid multiple interpretations of whether the net sales threshold is applied annually during the investment period or only in the year before the investment is made.

The definition of a startup company itself theoretically has experienced a narrowing of the meaning of being an early stage company engaged in technology and its close relationship with innovation. However, no specific definition was agreed upon. In practice in Indonesia, there is no specific regulation governing startup companies to date. In PMK 48/2018, the definition of a startup company that is currently indirectly agreed by the regulator is an early-stage company that in the process of developing its business, still needs assistance or in other words, it is not yet mature. In addition, PMK 48/2018 states that the conditions for utilizing dividend exclusions apply only to PMVs that invest in PPU that have not been listed on the stock exchange. Indirectly, this clause incorporates the characteristics of startup companies, because companies which take the floor on the exchange are generally considered to have been established or mature so that they cannot be called startup companies. The criteria for qualifying investment recipients do not limit the business sector and are only limited to income limits. Refinement of the definition of startup companies - as explained in the theoretical framework, namely companies that rely on technology and promote innovation in their business, are not applied to the criteria of investee

companies in PMK 48/2018. Thus, the qualification criteria in this regulation are more general but do not negate the definition of a startup company.

Although there are several characteristics of MSMEs that intersect with the characteristics of startup companies, there are differences between the two, namely, in terms of funding sources. At present, access to MSME capital has been easier since the availability of People's Business Credit (KUR) in various banks. In contrast to MSMEs, startup companies find it difficult to accept funding through KUR because the risks are large and usually do not have guarantees. In addition, startup companies are usually not funded by ordinary investors, but by investors with knowledge of innovations and technologies related to startup funded, or also called sophisticated investors. Thus, funding sources are more exclusive or limited.

Qualification criteria that limit the size of investments that meet the requirements are not regulated in PMK 48/2018. While the qualification criteria in the form of duration, namely, the minimum investment period before obtaining tax incentives is not regulated. However, PMK 48/2018 limits the maximum duration of incentive utilization, which is 10 years. The 10 year limit is a rational decision because theoretically, the age of venture capital investment is around 10 years. After this period, venture capital companies will usually divest because they have succeeded in increasing the valuation of the investee company. Thus, the existence of a limit on the use of incentives for 10 years will indirectly encourage venture capital companies to try to increase the company's valuation within a maximum period of 10 years.

4.2 Scope

The scope of tax incentives is a key factor or main determinant of the function of giving incentives, and their selection is driven by the underlying policy objectives. As previously explained, the incentives provided for Venture Capital Companies are provided in the form of an exemption from income tax on income received or obtained by PMV in the form of profit share from the Business Partner. These incentives — when viewed from the types of tax incentives according to the European Commission (2015), are tax exemptions or tax exemptions, i.e., incentives provided in the form of exempting certain tax bases from the scope of certain taxes. In this case, tax incentives are applied on a tax basis during the holding period, which is income in the form of profit or dividends. According to BKF, the reason why the

form of incentives provided is the exclusion of taxation on dividends is to restore the nature of the venture capital business that has not been reflected in the Indonesian venture capital industry, namely capital participation. With the exception of dividends, it is hoped that the venture capital industry in Indonesia will return to its business nature.

The determination of the scope of tax incentives is driven by the underlying policy objectives (European Commission, 2017). If the direction of government support is to restore the venture capital business model in accordance with its nature and to encourage the development of the venture capital industry, the tax exemption on dividends will become irrelevant. The alternative chosen by the government is not yet in line with the policy objectives due to the lack of a comprehensive understanding of the venture capital business model. Soemitra (2010: 308) states that investments made by venture capital are not carried out in order to receive short-term dividends, but together with investee companies to develop and increase the valuations of investee-funded companies. In the end, the investment must be sold, and the capital paid back to the investor. Theoretically, the characteristics of venture capital compared to other types of financing are venture capital financing that is long-term (although there is a certain time limit), so it does not expect profits by trading its shares in the short term, but rather targeting the gains in the form of capital gains after a certain period. Capital gain is the profit obtained by the PMV when divesting from a Business Partner Company (PPU) or investee, which arises due to an increase in valuation from PPU. The types of income received by venture capitalists include management assistance fees in return for management services received from investee companies, interest in return for productive loans, channeling fees in return for investee companies channeling services with investors, and capital gains. The same thing was stated by VC X, VC K, VC M, and Asmevindo. The main income expected from an investee company is the capital gain obtained when selling PPU when it has succeeded in increasing its valuations, while income in the form of dividends has never been received, and will be very unlikely to be received.

The perspective of policymakers on the venture capital business model is not based on general and theoretical concepts. Venture capital business activities in Indonesia are unique compared to general practice in other countries and on a theoretical level. Both in general practice in other countries and on a theoretical level, venture capital is a financing business that is carried out through equity

participation. However, in Indonesia, venture capital companies registered with OJK are more dominant in venture capital ventures in the form of financing transactions in the form of loans, as shown in Figure 1.

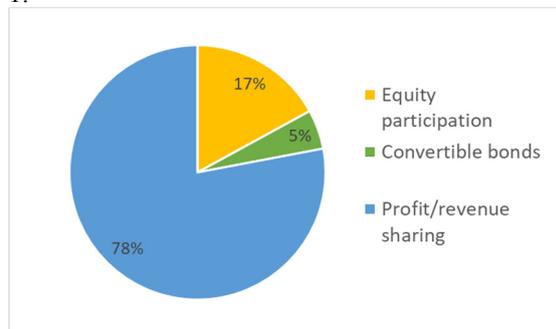


Figure 1. Percentage of Types of Business Activities of Venture Capital Companies Registered at the Financial Services Authority (Otoritas Jasa Keuangan) as of December 2018

Source: Otoritas Jasa Keuangan, 2018

Compared to the core of the business of venture capital that should be - that is, equity participation, venture capital companies in Indonesia that are registered with OJK are more likely to resemble financing institutions whose characteristics are debt financing. This type of financing is actually accommodated by regulations issued by the FSA, namely in POJK 35 which states that venture capital businesses consist of equity participation, participation through the purchase of convertible bonds (quasi-equity participation), financing through the purchase of bonds issued by the Spouse Businesses at the start-up stage and/or business development; and/or productive business financing. The POJK 35 provides a minimum inclusion obligation as a revitalization step, but only sets a ratio of 15% for a minimum inclusion obligation.

Policy makers must choose the best alternative - that is, the value of the consequences that are most suitable (rational) with the goals that have been set when formulating a policy (Islamy, 2004). The choice of incentive that is not in accordance with the characteristics of venture capital business indicates that the current policy is not an alternative that has the most suitable consequences for the objectives to be achieved. The current tax incentives are not attractive because the incentives do not reduce the distortion caused by taxes on the venture capital business. Taxation, in general, is explained by economists as a distortion of business. Thus, providing convenience or relief in the form of tax incentives can be an

investment attraction aimed at attracting as many investors as possible to invest in Indonesia. If dividends do not cause distortion, then tax incentives for dividends will not provide significant investment attractiveness. Tax incentives that are more desirable for venture capital are incentives that can reduce distortions arising from the taxation of capital gains when venture capital makes an exit strategy, for example, when selling investee companies that already have high valuations.

4.3 Administration

Tax incentives must be regularly monitored and evaluated in the interests of transparency, efficiency, and fiscal control. Governments must regularly prepare tax expense reports to measure and monitor costs, and they must be regularly reviewed to assess their effectiveness (European Commission, 2017). For this reason, the government must determine and use appropriate methodologies that can accurately measure investment trends so that the need for public sector interventions can be demonstrated, and the impact of these interventions can be measured. In PMK 48/2010, administrative requirements that must be met to be used by the government to carry out control and evaluation are in Article 3, which states that venture capital companies are required to book separately income that is an Income Tax Object and income that is not an Income Tax Object, then reported together with the Annual Corporate Income Tax Notification Letter. Until now, there has been no fiscal control to measure or monitor the use of these incentives.

4.3.1 Tax Policy to Encourage Venture Capital Investment in Singapore

Tax incentives in Singapore are included in the Income Tax Act Section 13H (S13H). The S13H is awarded after fulfilling the requirements which require direct investment into a locally based company and develop fund management expertise in Singapore. Tax exemption is a type of tax incentive that can be said to be the most "generous" because it is given by removing the entire tax base, both permanently and temporarily. Income from certain investments that are exempt from tax is (1) gains arising from divestment of approved portfolio holdings, (2) dividends from approved foreign portfolio companies; and (3) interest arising from the agreed convertible loan stock.

For tax purposes, in general, VC funds in Singapore are considered tax transparent. Taxes will

be imposed on the income of each investor according to the applicable tax rate (Singapore Venture Capital & Private Equity Association, 2019). Thus, this tax incentive will be applied at the investor level. Tax exemptions on profits occur when an exit strategy is conducted, while exceptions to dividends and interest occur in the holding period. Theoretical and empirical literature shows that higher tax rates on capital gains can have a negative impact on the quantity and quality of investments (Poterba, 1989a and 1989b, Keuschnigg, 2004 and Keuschnigg and Nielsen, 2004a, 2004b and 2004c in European Commission, 2017). This is the basis for giving tax exemption on capital gains. Meanwhile, the tax incentives provided in the holding period are less relevant for venture capital investment for early-stage companies, but the provision of tax incentives in the holding period in the S13H scheme becomes relevant considering the investment targets in these incentives are not only intended for investment in early-stage companies, but also for investments in established companies (later stage investment), as stipulated in the qualifications of investee companies.

4.3.2 Tax Policy to Encourage Venture Capital Investment in China

Tax incentives for venture capital in China are contained in Circular 55. These tax incentives allow venture capital investors to get tax deductions equal to 70% of the investment provided by meeting certain conditions. The requirements for venture capital companies that can claim these incentives are: First, it is established in mainland China (People's Republic of China) and is a tax resident (in the form of a company or partnership). Venture capital in the form of a partnership is the subject of an examination for tax purposes (within the framework of the verification process), and the partnership is not owned by the founder of the invested technology startup company. Second, submit to the National Development and Reform Commission (NDRC) as a venture capital company in accordance with the Provisional Measures in the Administration of the Interim Measures on Supervision and Administration of Private Investment Fund, which is officially regulated by NDRC on November 15, 2005. The venture capital company must also comply with article 8 (Special Provisions relating to the Venture Capital Investment Fund) of the Temporary Act of Supervision and Administration of the Private Investment Fund promulgated by the China Securities Regulatory Commission on August 21, 2014. Third, they may not own - together with its affiliates, 50% or more equity

in a startup company that is invested two years after the investment (International Financial Law Review, 2018).

The investment targets in Circular 55 are companies that are in the seed stage or startup stage engaged in technology. Qualified investee companies are tax-resident companies that: (1) are established in mainland China and are subject to audits for tax purposes, (2) at the time of investment, there are no more than 200 employees, and at least 30% of the tertiary education), (3) total assets or annual income does not exceed RMB30 million (\$ 4.63 million or around 56 billion Rupiah), (4) at the time of investment, not more than five years (60 months), (5) is not listed on the stock exchange (domestic or foreign) at the time of investment and for two years thereafter; and (6) has research and development costs of not less than 20% of the total costs and expenses in the investment tax year.

In contrast to tax incentives in Singapore, tax incentives for venture capital in China are more focused on developing technology and developing investee companies. This can be seen from the qualification criteria of investee companies that are limited through (1) targeting business size (limiting the number of employees, limiting total assets, and exceptions for listed companies), (2) company age, and indirectly (3) sector, namely the technology sector. Meanwhile, Singapore provides broader qualification criteria because the policy focus is to attract funds into the country. More specifically, the existence of criteria for the level of employee education and minimum requirements for the use of research and development costs in the investment tax year indicate the direction of this policy is to encourage the development of innovation and technology.

4.3.3 Alternative Tax Policy to Encourage Venture Capital Investment in Indonesia in Digital Startup Companies

From the analysis of tax incentives in China and Singapore, it can be seen that the purpose of providing tax incentives for venture capital in China is more relevant to the goal of establishing tax incentives for venture capital in Indonesia as mandated by Perpres 74 on the Roadmap for Electronic-Based National Trade Systems which was later realized in the PMK 48/2018, which is to support the growth of startups. Tax incentives in Singapore allow no taxes to be collected during the investment period in venture funds. Singapore applies a tax

incentive that is fairly "generous" because the country needs funds going into the country, given that Singapore's economic structure relies heavily on the non-real sector or financial sector, in contrast to Indonesia, which focuses on the real sector. This affects the tax incentives provided; namely, Singapore gives more incentives to portfolio investment, while Indonesia is more focused on providing incentives to direct investment, for example, foreign direct investment in pioneering companies.

As explained earlier, tax incentives for venture capital in China focus more on encouraging the development of high-tech industries and knowledge-based economies through encouraging startup companies to increase competitiveness and promote sustainable growth, while providing tax incentives for venture capital in Singapore is more aimed at encouraging inflows and anchors of local and foreign venture capital funds to Singapore regardless of whether the company invested is still at the startup stage or not. These different objectives are then reflected in the form of incentives and specified qualification criteria. In contrast to Singapore's core problem, the core problem that the Chinese government is focusing on in the Circular 55 tax incentive instrument is the need for encouragement to develop innovation and technology through startups and SMEs that are directed at employment. The core problem that has been clearly defined makes the policy in Circular 55 formulated in accordance with the objectives to be achieved. In contrast to Singapore, which provides tax incentives in the form of tax exemptions on capital gains, the Chinese government chose the form of tax incentives in the form of an investment allowance. There are several things that need to be considered in designing investment allowance: (1) investment criteria that qualify (eligible investment), (2) the amount of allowance given, is generally given in the form of a percentage, (3) time period (duration) and other limits which limits the duration of incentives that can be utilized. The investment criteria set out in Circular 55 clearly indicate the direction of the policy (encouraging innovation, technology, and small companies). This can be seen from the targeting of a business size determined by limiting the number of employees, limiting total assets, and the exception of companies listed on the exchange, age limits of the company, and the business sector, namely the technology sector.

Similar to China, the background to the idea of creating a tax incentive scheme for venture capital in Indonesia begins with the development of startup

companies. Since Indonesian startups began to show growth, the government began to pay attention to the venture capital industry by revitalizing venture capital by imposing various regulations. In addition, Indonesia also needs encouragement in terms of technology and innovation. Based on a report released by Cornell University, INSEAD, and the World Intellectual Property Organization (2018) in its report titled "The Global Innovation Index 2018", Indonesia is ranked 85th. Compared to neighboring countries, this ranking is still fairly low. Singapore ranked 5th, Malaysia ranked 35th, Thailand, and Vietnam ranked 44th and 45th, respectively. Meanwhile, China itself entered the list of the 20 most innovative countries in the report, ranking 17th. The ranking is a representation from breakthroughs made in overall development, especially in the economic field. The Chinese government also now prioritizes research and sustainable development.

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development of high-tech industries and knowledge-based economies through encouraging startup companies to increase competitiveness and promote sustainable growth, while providing tax incentives for venture capital in Singapore is more aimed at encouraging inflows and anchors of local and foreign venture capital funds to Singapore regardless of whether the company invested is still at the startup stage or not. These different objectives are then reflected in the form of incentives and specified qualification criteria. In contrast to Singapore's core problem, the core problem that the Chinese government is focusing on in the Circular 55 tax incentive instrument is the need for encouragement to develop innovation and technology through startups and SMEs that are directed at employment. The core problem that has been clearly defined makes the policy in Circular 55 formulated in accordance with the objectives to be achieved. In contrast to Singapore, which provides tax incentives in the form of tax exemptions on capital gains, the Chinese government chose the form of tax incentives in the form of an investment allowance. There are several things that need to be considered in designing investment allowance: (1) investment criteria that qualify (eligible investment), (2) the amount of allowance given, is generally given in the form of a percentage, (3) time period (duration) and other limits which limits the duration of incentives that can be utilized. The investment criteria set out in Circular 55 clearly indicate the direction of the policy (encouraging innovation, technology, and small companies). This can be seen from the targeting of a business size determined by limiting the number of employees, limiting total assets, and the exception of companies listed on the exchange), age limits of the company, and the business sector, namely the technology sector.

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