Income Tax Incentives Policy in Special Economic Zones

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Abstract: Income tax incentive policy and the development of Special Economic Zones are two policies used to increase Indonesia's economy through investment. With the implementation of an income tax incentive policy in Special Economic Zones is the government's maximum effort to increase investment. Therefore, to implement a better tax incentive policy and a more effective implementation, a tax incentive policy assessment can be carried out through the 10 principles of Good Tax Policy to know and understand more deeply about the consideration of formulation and implementation of the policy and can provide solutions so that policies can work better at doing its purpose. Using post-positivist method, the results of the assessment using the ten principles are the income tax incentive policy fulfills several principles by fulfilling the main objective of increasing investment in special economic zones, but from several principles that are not fulfilled, the certainty principle is a principle that plays a major role in not fulfilling these principles because the certainty of the policy of providing incentives is considered unclear which affects the interest of taxpayers to use incentives. To assess the income tax incentive policy in the Special Economic Zones based on the related principles, it becomes difficult because of the lack of taxpayers who take advantage of these incentives. It means that the policy still needs improvement in implementing policies so that they can be implemented effectively and efficiently. The taxpayer informant obtained as resource persons is taxpayers from the food processing industry and chemical industry so that they are less able to represent the opinion of taxpayers in Special Economic Zones with a different industry thus this paper cannot represent the entire industries in Special Economic Zones.

1 INTRODUCTION

Fiscal policy is an economic policy in the context of directing economic conditions to be better by changing government revenues and expenditures (Rahayu, 2010, p.1). According to John. F. Due cited by Rahayu (2010, p.3), fiscal policy refers to three things, namely ensuring economic growth that actually equates with potential growth rates, by maintaining full employment; achieve a stable and reasonable general price level; increase the rate of potential growth without disrupting the achievement of other goals of the community. One of the fiscal policy instruments set by the government in carrying out the policy function is tax policy. In practice, the tax policy needs to be assessed according to the country's economic goals. One way to assess the policy can perform well or not through the principles of Good Tax Policy issued by Parasthai Shome in his book titled Tax Policy Handbook which was later developed further by AICPA (2001). The principle consists of ten principles that can be reviewed from various parties related to the application of these principles in the formulation and implementation of tax policies. One of the tax policies that can be assessed based on the principles of the Good Tax Policy is the income tax incentive policy in the Special Economic Zones (SEZ) in the form of tax holidays and tax allowances aimed at increasing investment for the development of Special Economic Zones.

The granting of income tax incentives in the Minister of Finance Regulation No. 104 / PMK.010 / 2016 is divided into two classifications. Income tax incentives for new investments regulated in Article 3 of the PMK state that the provision of income tax incentives for new taxpayers with business fields is the main activity of SEZs that carry out new investments with investment plans of more than Rp. 1,000,000,000,000 will get income tax reduction facilities with a period of at least ten years and a maximum of 25 years, and new taxpayers with business fields are the main activities of SEZs which carry out new investments with investment plans of at

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least Rp500,000,000,000 to Rp1. 000,000,000,000 will get an income tax reduction facility with a period of at least ten years and a maximum of 15 years. The income tax incentive provided is a reduction of income tax of at least 20% to 100% of the amount of the Corporate Income Tax owed.

It is different with domestic taxpayers who invest in business sectors where the main activity in SEZs does not get facilities or business fields which are other activities outside the main activity of SEZs will get different income tax incentives. Income tax incentives obtained to reduce the net income by 30% from the amount of investment, depreciation of tangible fixed assets and amortization of intangible assets accelerated, income tax rates on dividends paid to foreign taxpayers other than Permanent Establishment by 10%, and compensation losses can be longer than 5 years but not more than 10 years.

With these facilities, the growth of investor interest in Special Economic Zones in 2017 has increased significantly with the accumulation of investment commitments reaching IDR41.05 trillion with 2016 and 2015, respectively IDR17.8 trillion and IDR541 billion. The increase in 2016 was due to the taxation facility in advance in Government Regulation No. 18/2015 which first came into force in 2016 and then was further regulated in Minister of Finance Regulation No. 104 / PMK.010 / 2016 which took effect in 2017. The accumulated investment realization figure also showed significant growth within 2017, reaching Rp5.83 trillion from 2016, which amounted to Rp3.74 trillion and in 2015 amounted to Rp168 billion.

Meanwhile, it can be seen from the table below that the investment value that receives incentives is basically at least 500 billion and from the grouping of these sectors, companies that can take advantage of the tax holiday income tax incentives in SEI Sei Mangkei are 3 companies, Palu SEZ are 3 companies, Tanjung Api SEZ - As many as 3 companies, SEZ Maloy Batula Trans Kalimantan as much as 2 companies, and Galang Batang SEZ as many as 1 company. As for the tourism sector, in the Tanjung Lesung SEZ there is only one company whose investment value exceeds the minimum number of incentives, and in the Mandalika SEZ there are five companies.

Table 1. Number of Companies with Special Economic Zone (SEZ) Investment Plans of more than 500 billion in 2017

Special Economic Zones	Number of Companies
Sei Mangkei	3
Tanjung Lesung	1
Palu	3
Mandalika	5
Bitung	0
Morotai	0
Tanjung Api-Api	3
Maloy Batula Trans Kalimantan	2
Tanjung Kelayang	0
Sorong	0
Arun Lhokseumae	0
Galang Batang	1
Total	18

Source: Coordinating Ministry for Economic Affairs National Council for Special Economic Zones, kek.go.id, 2018

However, in increasing investment in Special Economic Zones, investment commitments in SEZs which have increased quite dramatically are not in line with developments with the realization of these investments, which is indeed to get income tax incentives in the form of income tax reduction, one of the conditions is only an investment commitment or plan, but if it has been obtaining the tax incentive, the taxpayer must do some investment realization. This can be interpreted as saying that income tax incentives have not yet been provided with an incomparable rate of increase in investment commitments with investment realization in Special Economic Zones.

So in order to implement a better tax incentive policy and more effective implementation and increase investment in order to increase the development of Special Economic Zones, a tax incentive policy assessment can be done through the 10 principles of Good Tax Policy in order to know and understand more deeply related to the consideration of the formulation and implementation of the policy and can provide solutions so that the policy can work better in carrying out its objectives. This is related to the income tax incentive policy in the Special Economic Zones; this research is to find out the reasons or influencing factors related to the lack of interest of taxpayers in increasing investment realization compared to the level of investment commitments in the Special Economic Zones. So that with the issuance of tax policies related to income tax incentives in the Special Economic Zones (SEZ) established by the government to improve what is stipulated in the Minister of Finance Regulation No. 104 / PMK.010 / 2016 concerning Tax, Customs and Excise Treatment in Special Economic Zones, the subject raised can be elaborated in the research

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question is "How is the Analysis of Income Tax Incentive Policy in Special Economic Zones based on the principle of Good Tax Policy?"

2 THEORETICAL REVIEW

2.1 Fiscal Policy

Fiscal policy is a policy carried out by the government in relation to state revenues, expenditures, and financing. Fiscal policy in a country has a very important role in driving the country's economic growth. Thus, the determination of fiscal policy must go through a carefully crafted process. Valid and accurate information is very important as a consideration tool for determining fiscal policy (Nazier, 2004, p.504). Fiscal policy is an economic policy in the context of directing economic conditions to be better by changing government revenues and expenditures (Rahayu, 2010, p.1).

2.2 Tax Incentives

Tax incentives or tax facilities can be interpreted as facilities provided by the government in the field of taxation. Viherkenttä (1991, p.6), states that there is no fixed definition for defining tax incentives. Bolnick (2004, p.4) states, tax incentives are fiscal measures used to attract investors both from within and outside the country, into certain economic activities, or certain regions in a country. According to Easson, tax incentives are special tax provisions given to certain investment projects that have the effect of reducing the effective tax burden. Furthermore, tax incentives are defined as special exemptions, exemptions, reductions, preferential tax treatment, or deferral of tax obligations (Easson, 2004 p.2-3).

2.3 Income Tax

Tax is a mandatory contribution to the state owed by individuals or entities that are coercive based on the law with no direct compensation and is used for the country's needs for the greatest prosperity of the people. An alternative application of the concept of ability to pay approach that is most widely used is to approach the taxation of income, which is an additional economic received by taxpayers at a certain time period.

Income Tax is carried out in accordance with the accreditation concept. The concept means that all additional economic capabilities are objects of income tax. The exact formula of "additional economic capacity" is the calculation of taxable income which includes total income as an object of income tax, which must then be reduced first by reducing tax burden or tax relief. Can be interpreted that corporate income tax or corporate tax is a policy that is applied to the profits of an entity to increase taxes with taxable income calculated by deducting expenses, including COGS and depreciation of profits.

2.4 Good Tax Policy

Good Tax Policy Principles as detailed by Shome (1995) in the Tax Policy Handbook, have ten principles which are then further explained and further updated by the Association of International Certified Professional Accountants (2001). The ten principles can be used as benchmarks in analyzing new tax policy proposals and existing policies. Ten principles of Good Tax Policy, namely:

1. Equity and Fairness
2. Certainty
3. Convenience of payment
4. Economy in collection
5. Simplicity
6. Neutrality
7. Economic growth and efficiency
8. Transparency and visibility
9. Minimum tax gap
10. Appropriate government revenues

2.5 Special Economic Zones

Special Economic Zone (SEZ) is an area that is geographically and jurisdictionally an area where free trade, including facilities and duty-free facilities for the import of capital goods for export commodity raw materials, are opened as widely as possible (Johansson and Nilsson, 1997). Understanding of the definition of Special Economic Zones (SEZ), which can be interpreted as one form of specificity in trade and investment activities such as bonded zones, trade zones, etc. or can be interpreted as zones within the zone.

In Indonesia, the Special Economic Zone is also a form of government facilitation to develop growth centers to support the acceleration and expansion of Indonesia's economic development. The aim of developing centers of economic growth is to maximize the benefits of agglomeration, explore the potential and superiority of the region, and correct the social and spatial inequality of economic development in Indonesia. The centers of economic growth are developed in the form of industrial clusters and SEZ in each economic corridor. The development of growth centers is accompanied by strengthening connectivity between centers of economic growth and between centers of economic growth with the location of economic activities and supporting infrastructure. The government can provide special treatment to support these centers, especially those located outside Java.

3 RESEARCH METHOD

This research is based on a post-positivist paradigm approach. In this research, descriptive research is used, which is used to describe or analyze a research result but is not used to make broader conclusions by using qualitative data collection techniques with field studies and library studies. While the data analysis technique used is quantitative data analysis techniques with coding.

4 RESULTS AND DISCUSSION

This research was compiled by evaluating using the following principles, which were then assessed as income tax incentive policies in the Special Economic Zones which met or did not meet the following dimensions:

Table 2. Operating Concept

Concept	Variable	Dimension	Indicator
Good Tax Policy	Fairness and Fairness of Policy	Equity and Fairness	Equity income tax incentive policies Equally the treatment of income tax incentives for individuals who have the same situation Consideration of the ability to pay taxpayers in the formulation stage
		Transparency and Visibility	Ease of calculating the tax incentive obligations obtained by the Taxpayer Taxpayers understand the reasons for the policy Taxpayers know the incentives obtained by other taxpayers
	Level of Operability Policy	Certainty	Income tax incentive policies specifically explain when and how these incentives can be received and where the number of incentives they have come from
		Convenience of payment	the ease of obtaining income tax incentives
		Economy in collection	the costs for implementing minimal income tax incentives for the government and taxpayers
		Simplicity	Ease in implementing income tax incentives
		Minimum tax gap	Potential taxpayers who do not meet the requirements to get income tax incentives
		Appropriate Government Revenues	The potential for error in fulfilling obligations in order to obtain incentives
	Level of Fulfillment of Policy Objectives	Neutrality	The policy can estimate revenue or the number of taxpayers who make use of tax incentives
		Economic growth and Efficiency	the policy is in favor of one industry or not in the formulation

Source: The data is processed by the researcher

Referring to the evaluation criteria provided by Joint Venture, which states that the ten taxation principles can be applied to identify and evaluate the advantages and disadvantages of existing taxation policies. The evaluation will emphasize the advantages and disadvantages of tax policies to identify ways to reduce these shortcomings. The rating system uses a rating that can be used:

Table 3. Good Tax Policy Rating System

Assesment	The principle being assessed
+	This principle is fulfilled
-	This principle is not fulfilled
+/-	Some aspects meet the principle, and some aspects do not meet the principle

Source: Joint Venture's Tax Policy Group, 2003

In the case of the assessment of income tax incentives in the Special Economic Zones, it is done by looking at two sides, namely the government represented by the Directorate of Taxation Regulations II, the Fiscal Policy Agency, and the Coordinating Ministry for Economic Affairs of the National Council of the Special Economic Zones of the Republic of Indonesia, while in terms of taxpayers based on a statement from Andi as PT X's Tax Manager Assistant and Sumarno as PT Y Tax Manager who both carry out business activities in Special Economic Zones. So that in assessing the income tax incentive policy in Special Economic Zones, it can be assessed both from the government and taxpayers' basis based on the explanation above as follows:

Table 4. The trend of Fulfillment of Income Tax Incentive Policy towards Good Tax Policy Principles

Principle	Assesment	
	Government	Taxpayer
Equity and Fairness	-	-
Transparency and Visibility	+/-	+/-
Certainty	+/-	+/-
Convenience of payment	+/-	+/-
Economy in collection	-	+/-
Simplicity	+	-
Minimum tax gap	+	+
Appropriate government revenues	+	+
Neutrality	+	-
Economic growth and efficiency	+	+

Source: The data is processed by the researcher

The principle aspect of Equity and Fairness which is assessed based on three aspects, namely, fairness of income tax incentive policies, whether or not the treatment of income tax incentives for individuals who have the same situation, and consideration of the ability to pay Taxpayers in the formulation stage, policies providing income tax incentives by giving income tax incentives given only to certain taxpayers and formulations that are only based on generally applicable regulations.

For the principle of transparency and visibility, from the three indicators that are owned, the ease of calculating the tax incentive obligations obtained by the Taxpayer, the Taxpayer understands the reasons for the policy, the Taxpayer knows the incentives obtained by other Taxpayers, the aspects that are fulfilled namely the aspect that the taxpayer know the main reason for the existence of an income tax incentive policy in Special Economic Zones, which is to increase investment.

For certainty principle, the indicator is the income tax incentive policy explaining specifically when and how the incentive can be received and where the amount of incentives derived from, the unmet aspects of income tax incentives which according to the government or taxpayers, tax incentive policies holiday is still ambiguous with loading bracket while the aspect that is fulfilled is for income tax incentive tax allowance which is relatively clear for the government and taxpayers.

For the principle of convenience of payment, the indicator is the ease of obtaining income tax incentives, aspects that are met in the difference in the ease of obtaining income tax incentives and tax allowance, which for income tax incentives for tax holidays in Special Economic Zones must verify with the Investment Coordinating Board Capital and research by the Verification Committee for the Reduction of Corporate Income Taxes, while tax allowances tend to be easier than tax holidays because the submission of incentives is only through the Investment Coordinating Board with the help of the Ministry of Finance.

Income tax incentive policies in Special Economic Zones are assessed through the principle of economy in collection based on the costs for implementing minimal income tax incentives for the government and taxpayers, the costs incurred in the implementation of these incentives are not a problem because they are comparable with the objectives of issuing income tax incentives in Special Economic Zones. But it is different for taxpayers whose bracket of income tax deduction that is not specified becomes the potential for high costs that can be issued through negotiations with the government. However, in practice, this income tax incentive policy will incur more costs for taxpayers to conduct audits and reports that need to be prepared periodically to be reported to the Tax Office for tax allowance and the Tax Office and the Corporate Income Tax Reduction Verification Committee for tax holidays.

Assessing the income tax incentive policy through the principle of simplicity is assessed based on indicators of ease in implementing income tax incentives, in fact it cannot be assessed because the implementation of the tax holiday so far only one business actor has registered with data including from the Directorate General of Taxes that cannot disclose companies that register themselves the. However, the implementation of the income tax incentive policy in the Special Economic Zones for this type of tax holiday is not complicated by submitting reports that must be submitted periodically, but there may be obstacles that the report must be audited which will certainly take time. For the implementation of tax allowance incentives can be assessed more or less the same as the implementation of income tax incentives in general tax allowance so that taxpayers consider that the implementation of tax allowance incentives is simpler because the reporting stage is only carried out to the Tax Office and there is no regulating policy change compared to tax incentives allowance in general.

The principle of minimum tax gap by assessing through indicators of the lack of non-compliance of taxpayers in implementing income tax incentives in the Special Economic Zones for the type of tax holiday incentives cannot be assessed because so far there is only 1 (one) company that registers and is uncertain of getting the incentive so that there are no taxpayers who carry out tax holiday incentives, while for tax allowance incentives, non-compliance with the implementation of these incentives is very minimal because the policies governing tax allowance incentives have been applied in previous policies regarding tax allowance incentives given in general. For taxpayers who do not meet the requirements to get income tax incentives, it will also be difficult with document verification, and continued verification carried out by the government so that the minimum tax gap principle is fulfilled.

The principle of appropriate government revenues is assessed from the indicator that the policy estimates revenues or the number of taxpayers who utilize tax incentives. In the matter of utilizing tax incentives, according to DGT, the number of taxpayers who use tax incentives is not targeted because the main purpose of the formulation of the policy is to encourage investment not to increase the interest of taxpayers in using incentives. So it can be concluded that the income tax incentive policy in Special Economic Zones does not pay attention to the principle of appropriate government revenues because basically, the issuance of this policy focuses on increasing investment rather than on state revenue.

Assessment of the principle of neutrality with policy indicators in favor of one industry or not in the formulation. The provision of income tax incentives cannot be said to be neutral because for the tax holiday tax facility is only enjoyed by certain taxpayers mentioned in PMK-104 / PMK.010 / 2016 and for taxpayers who do not get a tax holiday will only get a tax allowance with the granting of different facilities which are certainly less profitable for taxpayers than tax holidays.

So in the assessment of income tax incentive policies based on the principles of economic growth and efficiency, it is assessed from indicators of economic efficiency, reduction of unemployment rates, and increased economic growth, sufficiently fulfilled by providing these incentives to increase economic growth and reduce unemployment indirectly with the presence of investment and industrial development new in the Special Economic Zone.

5 CONCLUSION

Based on the description in the previous discussion, it can be concluded that the income tax incentive policies in the Special Economic Zones which are analyzed through the ten principles of Good Tax Policy are assessed from two sides, namely the government and the taxpayer only meet certain principles. For the government, income tax incentive policies in Special Economic Zones meet the principle of simplicity, minimum tax gap, appropriate government revenues, neutrality, and economic growth and efficiency. As for taxpayers, the principles fulfilled are the principle of the minimum tax gap, appropriate government revenues, and economic growth and efficiency. Meanwhile, in terms of the principle of equity and fairness, it was not fulfilled by the two parties. Meanwhile, transparency and visibility, certainty, the convenience of payment, and economy in the collection are principles which some aspects are fulfilled, and some aspects are not fulfilled.

Based on the element aspects that are not met, the most significant principle is the certainty principle because the number of tax holiday tax incentives that can be obtained are not explained in detail, using a bracket, which then influences the taxpayer's interest in utilizing the tax holiday income tax incentives which then affect the fulfillment of income tax incentive policies on the principle of simplicity, transparency and visibility, convenience of payment due to the lack of taxpayers who take advantage of the income tax incentives while the tendency for the fulfillment of the principle of tax allowance for certainty principles, transparency and visibility, and convenience of payment has been fulfilled.

But on the other hand, the principles that focus on economic growth and investment increase, namely the principle of the minimum tax gap, appropriate government revenues, and economic growth and efficiency are met according to both the government and the taxpayer. This is in line with the main objective of the income tax incentive policy in the Special Economic Zone, namely, to increase investment, regional development, and economic growth.

LIMITATIONS

A limitation in the study, entitled Analysis of of Income Tax Incentives Policy in Special Economic Zones, was the limitations of researchers to get taxpayers to be informant, because many taxpayers are not willing to be interviewed as research objects so that taxpayers obtained as resource persons are taxpayers from the food processing industry and chemical industry so that they are less able to represent the opinion of taxpayers in special economic zones with a different industry

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