

Tax Holiday and Investment in Indonesia

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Abstract

Tax holiday is a facility given by the government to investors in Indonesia to attract foreign and local investors in Indonesia, especially in the industrial sector as well as to improve national economic growth. Purpose of this research is to analyze the tax holiday policy and how the impact on the investment in Indonesia. Data consists of primary and secondary data which are collected through interview, questionnaire and literature study. Respondents are Honam Petrochemical Corp, PT. Asahimas Chemical, PT. Nippon Shokubai, PT Petrokimia Butadiene Indonesia and PT. Ebel Industries. The results showed that all companies meet the criteria to obtain the facility of tax holiday. Giving tax holiday facility is very influential against the growth of industry in Indonesia especially for petrochemical industries that has an important role in the economic growth.

Keywords : Tax holiday, investment, petrochemical industries

INTRODUCTION

The vision of the national industry development as listed in the *Peraturan Presiden Nomor 28 Tahun 2008* about National Industry Policy stated that Indonesia has become Strong Industrial Country on 2025, with the vision between on 2020 as a new advanced industrial country, because in accordance to the declaration of Bogor 1995 between the heads of the APEC countries on the year when liberalization in APEC countries should have been realized.

As a new advanced industrial country, Indonesian industry sector must be able to meet some basic criterias among others (www.kemenperin.go.id): 1) Obtaining the role and high contribution to the national economy, 2) Small and Medium Enterprises (SMEs) has the ability to balance with the large industries, 3) Obtaining a strong industry structure (a complete and detailed Industry Tree), 4) Obtaining an advanced technology which has been at the forefront of the development and the creation of the market, 5) Obtaining a tough industry service supporting the international competitive power industry, 6) Obtaining the competitiveness which is able to deal with the full liberalisation with APEC countries.

It is expected that 2020, non-oil and gas industry contribution to the GDP will be able to reach 30%, where small industries (SI) plus medium industries (MI)

will contribute as well as or close to the large industries (LI) contribution. During the period of 2010 – 2020, industries must grow to the average of 9,43% with the growth of SI, MI, and LI each at least 10,00%, 17.47%, and 6,34%. (www.kemenperin.go.id)

To realize the targets, it is required structured and measured efforts which must be elaborated into a strategy map to accommodate the desire of stakeholders in the form of strategic outcomes consist of: 1) increasing added value of the industry, 2) increasing control of domestic and foreign market, 3) increasing stronger factors on supporting industry development, 4) increasing innovation capabilities and mastering technology industry which is energy efficient and environmental friendly, 5) increasing stronger and more complete industry structure, 6) increasing distribution of the industry development, and 7) increasing the role of small and medium industry against the GDP.

To achieve the targets above, it is needed to increase domestic or foreign investment. Foreign Investment is a capital investment activities to operate business in the territory of Republic of Indonesia that is done by foreign investors, both using foreign capital entirely or teaming up with investors (Anna & Suratman, 2009).

The terms of Capital Investment is regulated in the *Undang-undang No. 25 tahun 2005* about foreign investments. Foreign Investments can be done by a

foreign citizen, foreign business company, and/or foreign government which invest in the territory of Republic of Indonesia. Business activities or types are open for business investment activities, unless the business sector or the type of business that declared closed and open with the requirements and limitations of foreign capital ownership of the business sector stated in the *Peraturan Presiden No. 36 tahun 2010*.

Based on the result of a survey conducted by the United Nations Conference on Trade and Development (UNCTAD), during the time frame of the last four years, Indonesia ranked 9th as main destination country for direct investment (Foreign Direct Investment). In 2010 until 2011, the growth of investment in Indonesia has been sharply increasing, Indonesia can even out do Germany, Thailand, Japan and Malaysia. Therefore, Indonesia must continue to encourage investment facilitation especially for the industrial sector which is replete with capital, such as Petrochemical industry sector.

The latest development of the response of foreign

Table 1. World Investment Prospects Survey 2008 - 2012
"the most attractive economies for the location of FDI"

No	Countries	Ratings (Period of Year)	
		2009-2011	2010-2012
1	China	1	1
2	India	3	2
3	Brazil	4	3
4	USA	2	4
6	Mexico	12	6
7	United Kingdoms	6	7
8	Vietnam	11	8
9	Indonesia	9	9
10	Germany	7	10
11	Thailand	n/a	11
12	Poland	13	12
13	Australia	8	13
14	France	14	14
15	Malaysia	n/a	15
16	Japan	n/a	16
17	Canada	10	17
18	Chile	n/a	18
19	South Afrika	n/a	19
20	Spain	n/a	20

Source : Indonesian Economic Observation 2011-2012 (BKPM)

policy toward Indonesia is already showing positives. The results of the visit to some countries that conducted by officials in the Directorate of Chemical Industry basically concluded that:

- a) Foreign investors are not interested to invest in the United States. Currently they start focusing in some countries in Asia, Africa and Latin America.

Indonesia, as one of the countries that are in the Asian region, is viewed as a country that qualify to be investment objectives. This is of course the opportunities that must be used optimally by Indonesia;

- b) There are several foreign investors who have expressed interest in investing in Indonesia began 2012, with the calculation of the investment value of around \pm US 200M;
- c) Specifically, Japan (which the current condition of the economy is slow), is interested to lay some investments in Indonesia. One of the things which attract the Japanese investor is the existence of this facility offers tax holiday. This shows that foreign investors is seriously focusing on Indonesia for the other countries had far already implementing holiday tax earlier.

Tax holiday is one form of capital investment facilities given by the government to investors that will invest in Indonesia. These terms arranged in *Pasal 18 Undang-Undang Nomor 25 tahun 2007* about foreign investment. *Pasal 18 ayat (4) UU 25/2007* mentioned that the form of facilities given to investors can be in the form of income tax through the reduction of nett income to a certain level of capital investment that is done in a certain time (*Pasal 18 ayat (4) poin a*), (Dedi Arief Setiawan, 2011).

But not all investors are entitled to the income tax facility. *Pasal 18 ayat (5)* provides an elaboration of companies that are entitled to this facility :

"The exemption or reduction of income tax in number of companies and at certain time can only be given to the new investment which is the pioneer industry, namely industry which has wide interconnection, give added value and high externality, introducing new technology and has a strategic value for national economic"

However in *UU No.36 tahun 2008* about income tax (PPh), providing incentives for Income Tax can only be given the maximum of 30%, as mentioned in pasal 31A, pasal 1(a), as follows :

"To tax payers that make capital investment in certain areas of the business and/or in certain areas which have high priority in the national scale can be given tax facility in the form of a reduction of nett income with the highest of 30% (thirty percent) from the amount of planting that is done"

To implement the *UU No.25 tahun 2007* about the facility of dismissing PPh, the government has issued *PP Nomor 94 tahun 2010* which is the rule that connected two laws, namely Law on Income Tax and Law on Capital Investment. The rules about providing tax facility in the Law on Income Tax, it was not known the term of tax holiday, listed in *pasal 31 A* that stressed the facility was only given to the sector of certain business and or certain areas. Specific business sector is the sector of business in the sector of economic

activities that have a high priority in the national scale, while certain areas are areas that are economically has potential worth developed.

On the contrary, capital investment law regulates the facility of income tax exemption or reduction in number of companies and at certain time, which emphasized on the new capital investment which is the pioneer industry. In the *PP 94 tahun 2010* about investment facility as mentioned in *Pasal 29 (1)* which stated:

“To tax payers that make new capital investment which is the pioneer industry, who did not get the facilities referred to in *Pasal 31 A* of Law on Income Tax can be given the facility of exemption or reduction of corporate income tax as referred to in *Pasal 18 ayat (5) Undang-Undang Nomor 25 tahun 2007* about foreign investment.”

Following up the issue of the regulation, the next finance minister had already issued a *Peraturan Menteri Keuangan 130/PMK.011/2011* about the Exemption or Reduction of Corporate Income Tax Facility. Through this rule, it is reaffirmed about the recipient criteria and procedures of the facility to obtain.

Tax payers that can be given the facility of exemption or reduction of corporate income tax as referred to in Article 2 is new corporate Tax payers met the criteria as followed (*Permenkeu No.159/pmk.010/2015*): a) It is the pioneer industry; b) It must have a new investment plan that has received ratification from the issuing authority at least Rp1.000.000.000.000,00 (one trillion rupiah); c) It must placing the funds in one of the banks in Indonesia at least 10% (ten per cent) of total capital investment plan referred to in letter b, and cannot be with drawn before the commencement of the implementation of the capital investment realization; and d) It must have a status as the body of law of Indonesia where the ratification is set for atleast 12 (twelve) months before the Regulation of the Minister of Finance is starting to apply. Or, its ratification is set since or after the enactment of the Regulation of the Minister of Finance.

What is meant by the pioneer industry is an industry that has wide interconnection, gives added value and high externality, introduces new technology and has a strategic value for the national economy. The Pioneer industry includes (*Permenkeu No.159/pmk.010/2015*): a) The basic metals industry; b) The mining of crude oil industry and/or chemical organic base that comes from oil and natural gas; c) Machinery industry; d) The industry in the field of renewable resources; and/or e) The industry of communication equipment.

Petrochemical Industries in general can be defined as industries whose main raw materials include oil and gas products (naphtha, separation properties which is a side product of gas exploitation, natural gas), coal, methane gas coal and biomass containing compounds olefins, the aromatic, n-paraffin, synthesis gas, asetilena and produce a wide variety of organic compounds that can be derived from the main raw materials, to

produce products that have added value which is higher than the raw material. The condition of availability of raw materials from oil and gas products are becoming more limited and expensive resulted in the start of searching for raw material replacement, including ethane gas, coal, gas from coal methane, and waste refinery (coke). Indonesia has a potential source for petrochemical industry cluster development that are related to the fulfillment of basic human needs such as clothing, housing and food. Petrochemical products are strategic products because they are the raw material for the downstream industry (textile industry, plastic, synthetic rubber, cosmetic pesticides, abrasive cleaning, pharmaceutical materials, explosives, fuel, skin imitate an, and others), A.S.C (2009), Abdini & Adywarman (2010), Aboumahboub, et. al (2012), Bassi & Baer (2009).

In 2010 the government targeted foreign direct investment of Rp 240 trillion. Until the quarter III/2011, realization of foreign investment has reached Rp 122 trillion from the total realization of Januari-September 2011 of Rp 181 trillion. But this figure is still considered small compared to the neighboring countries of Indonesia. Especially in petrochemical industry, Indonesia still needs to get a great support given by the petrochemical upstream sector. In this case, the support is not strong enough in providing supply for the downstream sector. Most of the petrochemical industries rely on imports to run their business. Classification of Basic Chemical Industry which includes petrochemical industries are among other organic basic chemical industry sourced from the oil and natural gas, damar/resin industry and made artificial rubber industry.

Research of the tax holiday on Foreign Direct Investment (FDI) was made by some previous researchers. Eisha Diba Andini (2014) concluded that FDI in pioneer sector has increased after the tax holiday, but not a major factor. Selvi & safri Nurmanto (2014) concludes that the tax holiday had a positive effect on FDI.

The purpose of this study is to examine and analyze the policy of tax holiday and its impact on the state revenue on petrochemical industries. While the purpose of this study is in order to attract investors to invest through the simulation implementation of tax holiday, either foreign capital investment or domestic capital investment, especially on petrochemical industries, still need to get a great support given the petrochemical upstream sector which is not strong enough in providing supply for the downstream sector.

METHOD

Based on the plan of the government to realize the petrochemical industry competitiveness and independent in accordance with *Permenperin No.14/M-IND/PER/1/2010* about Road Map of

Cluster Development of Petrochemical Industries, the government action is to create a policy that can support the plan by issuing the policy of tax holiday in accordance with *Permenkeu No. 130/PMK.011/2011* about the Exemption or Reduction of Corporate Income Tax Facility. The types of data collected to analyzed consists of primary data and secondary data. Primary data obtained from the results of the interview comes directly with the respondents who use the questionnaires and make field observation. The source of secondary data obtained from the results of the library study, documentary review, Ministry, institutions, companies and agencies are related to each other.

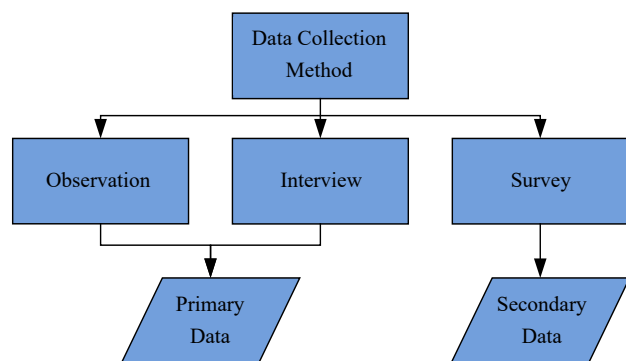


Figure 1. Data Collection Method Illustration

Towards respondents' answers, data regarding expectations on tax holiday are processed as followed:

1. The data tabulation (score) of respondents' answers

No. of Respondents	Question score					
	1	2	...	J	...	P
1	X11	X12	...	X1j	...	X1p
2	X21	X22	...	X2j	...	X2p
...
I	Xi1	Xi2	...	Xij	...	Xip
...
N	Xn1	Xn2	...	Xnj	...	Xnp

2. Calculation on the average score for each question with the formula:

$$\bar{x}_j = \frac{1}{n} \sum_{i=1}^n x_{ij}$$

3. Count on the average overall score with the formula:

$$\bar{x} = \frac{1}{np} \sum_{i=1}^n \sum_{j=1}^p x_{ij}$$

4. Count on the percentage of the average scores of each question and the overall average on maximum score (5). This percentage value can be made by the size of the importance level (hope) against each question and of the entire;
5. Do the interpretation or analysis or discussion of the information.

RESULT

Respondents are 5 petrochemical industries in Indonesia, are presented on Table 2.

Table 2. Respondents

NO	Company
1	Honam Petrochemical Corp. • Sector: Petrochemical Industry • Status: Foreign Investment
2	PT. Asahimas Chemical • Sector: Inorganic Petrochemical Industry • Status: Foreign Investment
3	PT. Nippon Shokubai • Sector: Chemical Industry • Status: PMA
4	PT. PetrokimiaButadiene Indonesia • Sector: Petrochemical Industry • Status: PMA
5	PT. Ebel Industries • Sector: Anodizing Industry • Status: PMA

Tax holiday is one of the forms of capital investment facilities given by the government to investors that will invest in Indonesia. These terms arranged in *Undang-Undang Nomor 25 Tahun 2007* about foreign investments. *Pasal 18 ayat (4) poin a)* mentioned that the form of facility given to investors can be: "Income tax through the reduction of nett income until a certain level of capital investment that is done in a certain time (*Pasal 18 ayat (4) poin a)*".

But not all investors are entitled to the income tax facility. *Pasal 18 ayat (5)* provides an elaboration of companies entitled to this facility: "Income tax exemption or reduction in number of companies and at certain time can only be given to the new investment which is an pioneer industry, namely industry which has wide interconnection, has added value and high externality, introduces new technology and has a strategic value for national economic"

However, in *UU No.36 Tahun 2008* about income tax (PPh), providing incentives for Income Tax can only be given at the maximum of 30%, as mentioned in *pasal 31A, pasal 1(a)*, as followed:

"To Tax payers that make capital investment in certain areas of business and/or in certain areas which have high priority in the national scale can be given tax facility in the form of a reduction of income neto most high 30% (thirty percent) from the amount of planting is done"

To implement *UU No.25 tahun 2007* about the facility of dismissing PPh, the government has issued *PP Nomor 94 Tahun 2010* which rules two laws, namely Law on Income Tax and Law on Capital Investment. The rules about providing tax facility in the Law on Income Tax is not known as tax holiday, listed in *pasal 31 A*

that stressed the facility was only given to the field of certain business and or certain areas. Specific business field is the field of business in the sector of economic activities that has a high priority in the national scale, while certain areas are areas that are economically has potential worth developed.

On the contrary, Capital Investment Law has a regulation on the facility of income tax exemption or reduction in number of companies and at certain time, emphasizing on the new capital investment which is the pioneer industry. In the *PP 94 Tahun 2010*, it stated about the investment facility as mentioned in *Pasal 29 (1)*:

“To Tax payers making new capital investment which is the pioneer industry who did not get the facility referred to in *Pasal 31A* of Law on Income Tax, it can be given the facility of exemption or reduction of corporate income tax as referred to in *Pasal 18 ayat (5) Undang-Undang Nomor 25 Tahun 2007* about foreign investments.”

Following up the issuance of the regulation, the next finance minister has already issued a *Peraturan Menteri Keuangan 130/PMK.011/2011* about the Exemption or Reduction of Corporate Income Tax Facility. Through this rule, it is reaffirmed about the recipient criteria and procedures of the facility to obtain. Form of exemption or reduction of corporate income tax provided for in *Pasal 2*, as followed:

- a. Corporate Income Tax Exemption referred to in paragraph (1) may be granted for a maximum period of 10 (ten) years of tax and at least 5 (five) years of tax, starting from the tax year of commercial production.
- b. After the expiration of the provision of the Corporate Income Tax exemption facility referred to in paragraph (2), the tax payer is given the reduction of corporate income tax as referred to in paragraph (1) by 50% (fifty percent) of the Income Tax payable for 2 (two) tax year.

Tax payers that can be given the facility of exemption or reduction of corporate income tax as referred to in *Pasal 2* is new corporate Taxpayers met the criteria as followed:

- a. It is the pioneer industry;
- b. It must have a new investment plan that has received ratification from the issuing authority at least Rp1.000.000.000.000,00 (one trillion rupiah);
- c. It must place the funds in one of banks in Indonesia at least 10% (ten per cent) of total capital investment plan referred to in letter b, and cannot be with drawn before the commencement of the implementation of the capital investment realization; and
- d. It must have a status as the body of law of Indonesia where the ratification is set for at least 12 (twelve) months before the Regulation of the Minister of Finance is starting to apply. Or, its ratification

was already set since or after the enactment of the Regulation of the Minister of Finance.

What is meant by the pioneer industry is an industry that has already had wide interconnection, has given added value and high externality, has introduced new technology and has already had a strategic value for the national economy. The Industry Pioneer includes:

- a. The basic metals industry;
- b. The mining of crude oil industry and/or chemical organic base that comes from oil and natural gas;
- c. Machinery industry;
- d. The industry in the field of renewable resources; and/or
- e. The industry in communication equipment

The facility of exemption or reduction of corporate income tax can be used by Tax payers throughout these following requirements:

- a. It has already set the entire planting invest; and
- b. It has already been producing commercially (when the commencement of commercial production is specified by the Director General of Taxation, which the procedure is arranged by the Regulation of the Director General of Taxation).

To obtain the exemption or reduction of corporate income tax facility, tax payers delivers the petition to the Minister of Industry or the head of the Capital Investment Coordinating Board. As a technical guide to obtain the exemption or reduction of corporate income tax facility, Minister of Industry and the Head of the Capital Investment Coordinating Board has each issued a regulation as followed:

- a. The Regulation of Head of the Capital Investment Coordinating Board of the Republic of Indonesia Number 12 Year 2011 about Guidelines and Procedures for the Submission of Application for Exemption or Reduction of Corporate Income Tax Facility;
- b. The Regulation of the Minister of Industry of the Republic of Indonesia Number 93/M-IND/PER/11/2011 on Guidelines and Procedures for the Submission of Application for Exemption or Reduction of Corporate Income Tax Facility in the Industrial Sector.

The tax exemption or relief is a break-through methods for foreign investors to invest in the real sector. With this facility, the government has been trying to catch the flow of foreign capital to be a direct investment. The decision of the government launching tax holiday seems to get momentum at a time when the economic condition in Europe and the United States are indefensible. Prospective investors are expected to move the funds to a potential market, especially in developing countries.

Basically investment in petrochemical industries needs a strong business climate, an easy chance of the availability, a clear and profitable procedure. The investment climate, including the policy, institutional and environmental, either in progress or expected-to-happen in the future, can affect the return rate and the investment risk. Three main factors in a healthy investment climate include: (1) The macro economic condition: including macro economic stability, economic openness, market competition and social and political stability; (2) The governance management and various rules, such as taxation and fiscal policy, competencies facilitation institutions business activities, labor market flexibility and labor existence who is highly educated and skilled; and (3) infrastructure consisting of other things such as economic (financial institution), physical facility such as transportation network and telecommunication, electricity and water capacity.

The enactment of tax holiday is expected to encourage the development of petrochemical industry sector where its development was fairly slow all this time. The enactment of tax holiday in this industry should be prioritized in the primary and upstream industry sector where its intensive capital and hidg technology are expected to provide benefits for companies to develop business from the obtained facility. With the rapid development in both petrochemical industry sector, this will show a positive impact on the other petrochemical industry sector and therefore, will also strengthen the structure of the petrochemical industries as well.

In this case, the appropriate, structured and on target policy of the enactment of tax holiday can increase the economic growth widely. The increased production utilities on all sectors and an increase in the number of jobs in the industrial sector between the downstream and end-user will automatically add tax revenue.

The implementation of tax holiday can be realized in the shape of the continuum of tax reduction for a certain period of time. In the end, the effectiveness of tax holiday policy instruments in spurring the development of petrochemical industries will depend on :

1. The accuracy in determining the objectives in accordance with the policy targeted goals. This is related to the types of needs on the subject that becomes the target of tax holiday administration.
2. The accuracy of tax holiday administration in accordance with the level of needs of the petrochemical industries.
3. The government's commitment in implementing tax holiday and providing optimum service for companies that will file for to get tax holiday facility.
4. Expecting the existence of clarity and certainty in the process flow for filing tax holiday facility.
5. Expecting the support from the government and related institutions in the process of capital investment plan.

Based on observation of petrochemical industries,

they appropriately providing tax holiday which can cause motivation and attractiveness for investors to invest in petrochemical industries in Indonesia. With the entry of investment to Indonesia, it is now expected that Indonesia to have a positive impact towards the expansion of employment opportunities. Therefore, it will both help reduce unemployment and poverty in Indonesia and increase the economic growth and also increase the multiplier effect for other economic activities.

Since the publication of *Peraturan Menteri Keuangan No.130/PMK.011/2011*, the socialization about it has been conducted to the concerned parties including investors and potential investors whose regulation or policy can be used and implemented. In accordance to the strategic role of petrochemical industries in its contribution to the growth of the manufacturing industry and improving added value towards the natural wealth for the interests of the community, the government has set the focus of its development into fulfilling the needs of raw materials in the country. However, related to the basic characteristics of intensive capital of petrochemical industries and the intensive demands and continuous investment or capital spent in a very large number, the policy of tax holiday became one of the instruments which is expected to be able to attract investment from both domestic and foreign country to invest in petrochemical industries in Indonesia.

Important points of the survey with several petrochemical companies regarding the perception, expectations and response to the policy of tax holiday are : i) Socialization of tax holiday policy, ii) Mechanism of filling for tax holiday, iii) tax holiday requirements, iv) The evaluation of the feasibility of the company to obtain the tax facility.

According to the government's plans or strategies in attracting investors to invest in Indonesia through the tax holiday policy, the continuity of this policy must be intensively delivered to all business practitioners of petrochemical industries in both domestic and foreign countries. It is a must for every employees in the industry itself. The policy of tax holiday is further described as Figure 2.

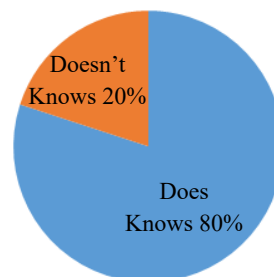


Figure 2. Knowledge of the Petrochemical Industries regarding Tax Holiday Facility

Based on the data in Figure 2, about 80% of the respondents were aware of the existence of the enactment of the tax holiday facility policy in Indonesia, but there is still a 20% of respondents who did not know of the existence of the policy. The level of respondents' expectancy towards the socialization of this policy illustrates the need for more intensive efforts from the government in delivering the policy information. Therefore, the information/socialization can be fully received by businessmen/women in the petrochemical industries.

They also respond to the explanation and reply that the government will be able to provide a clear definition that this policy information can be easily understood and understood.

The socialization of a policy including the policy of tax holiday is the first step that must be done by stakeholders. Socialization is intended to convey the full information about a policy that has been made to the targets, therefore the policy will be noticed, understood and implemented at the same time.

Socialization needs to be done intensively and repeatedly. It will be shown until there is an adoption process, or until there is process of acceptance and behavior changes of the target, either in the form of knowledge (cognitively intact), attitude (affective), or individual skills (psychomotoric) after knowing and receiving "the policy" conveyed by the government. Here, acceptance does not only about "knowing" and "noticing", but also about "applying" and "appreciating" it in supporting supporting the business. Acceptance usually can be directly or indirectly observed by the others, as a reflection of the existence of the changes: attitudes, knowledge and/ or skills.

Basically, the process of policy acceptance will be implemented through some stages before the perpetrators of the petrochemical industries are willing to receive/apply it based on its confidence on doing these stages. However, the time lapse between stage one to another is not always the same: depending on the nature of policy, target characteristics, environmental state, and activities carried out by the officers who have been doing the socialization. These stages are further explained as followed:

- 1) Awareness: the perpetrators of the petrochemical industries start to notice that there is a policy offered by the government of Indonesia.
- 2) Interest: the growing interest often marked as a desire to ask or to know more/far about all things related to the policy of the Government of Indonesia.
- 3) Evaluation or assessment of good/bad benefits of the policies that have been fully known to the information. In this assessment, the industry employess are assesing not only the technical aspects, but also the economic, social, cultural aspects, or even more political aspect or global policy.

- 4) Trial to calculate the advantages and benefits for more conclusive assessment, before they propose to apply to obtain tax holiday facility.
- 5) Adoption or receivment/ appliant based on their own assessment and calculation.

The success of socialization that has been done can be easily seen and measured based on some standards. By applying the study of communication, it can be seen that the target has already given a response to a form of behaviour changes. On the other hand, oppositely, by using the study of science, policy acceptance can be seen from the behaviour and attitude change, knowledge and skills observed directly or indirectly. Dusseldorf stated that the measurment of acceptance level of sosialization results is able to be viewed by the levels of participation indicated by the target.

In conducting these socializations, some requirements are needed in order to obtain the effective and efficient communication. The communication process is determined by four elements consisting of: source, message, channels, and its recipients. In the opposite side, socialization process is determined by quality, policy attribution, communication channels, target characteristics which include social-economic status, and their perception on the executive officer as well as activities of industry development programs in general.

The stimulus response theory proposed the acceptance process of policy which is a form of response to the stimuli received depends on the benefits or reward as expected before, while the speed and its amount of respons depend on:

- a) The large or the number of benefits; the larger or the more benefits accepted, the faster and more positive the response will be
- b) The speed of time; the more benefits and responses received, the faster arrival of the benefits will be. The faster and more positive the response will be.
- c) The frequency of the acceptance of the benefits; the more often the benefits accepted, the faster and more positivethe response will be
- d) The amount of energy spent; many sacrifices spent (time, energy, money, etc), the slower and more negative the response will be.

Based on definitions above, it can further show and explain some fundamental ideas about the socialization of tax holiday policy, as followed:

- 1) The socialization process requires the process of communication continuously to introduce, explain, educate and help the perpetrators of the industry. It is needed in order to make them know, will, and be able to take advantage of the tax holiday facility.
- 2) The socialization process is a process to influence the target in the process of decision making. Which is sustainable and hardworking. These are needed in order to make them notice, receive, understand, ponder, and utilize tax holiday facility.
- 3) The socialization process of policy requires enough

preparation either from the party which distributes the socialization (appliance, ingredients, Media etc) or from the target. Therefore, the socialization process will be effectively and efficiently running.

The Mechanism of Filing for tax holiday. Through both rules, it is set about the procedures for filing the exemption or reduction of corporate income tax facility and also the evaluation of the facility that has been given. Steps in applying for tax holiday are as followed:

1. The Applicant (the Company) filed a form request of document application of exemption or reduction of Corporate Income Tax facility to the Minister of Industry. Each documents must be copied, sent to the Director General of Industrial Supervision through the Secretariat Team of Director General of Industrial Supervision. The copies must include:
 - a. Copy of the Tax Registration Number Card;
 - b. New Capital Investment Approval Letter issued by the Head of the Capital Investment Coordinating Board, equipped with details;
 - c. Statement of Capability to pay the tuition for placing the funds in one of banks in Indonesia when the request is approved by the Minister of Finance;
 - d. The legalized document of Corporate Law Firm from the Ministry of Law and Human Rights;
 - e. Statement of the terms of Tax Sparing from the original country where the company reside, equipped with supporting documents,
 - f. The form filled with explanation of research must include:
 - i. Information on the availability of infrastructure in investment locations;
 - ii. Employment of domestic labor;
 - iii. The study of the fulfillment of the criteria as a Pioneer Industry; and
 - iv. Stage plan for technology transfer
2. After the application document has been filed up, Minister of Industry commissioned the documents to the General Director of Industrial Supervision and send them to the team to verify and review the application documents.
3. The Applicant (the Company) needs to do a presentation to the team, with the complete application documents. If there are some missing documents/ data, they still have 7 working-day to complete the details. All documents must be submitted to the Minister of Industry.
4. The results of the document verification and examination from the applicant must be further submitted to the Director General of Industrial Supervision and sent them to the Minister of Industry.
5. Based on the results of the verification and review, Minister of Industry commissioned Head of BPKIMI to coordinate with the Capital Investment

Coordinating Board (BKPM) and related institutions (by no later than 3 working days) and convey the results in a format of proposal. The result of the study must also be submitted to the Minister of Industry at least in 1 working day.

6. The Minister of Industry will give some decisions about the proposal and the result of requested study. If it is approved, the Minister of Industry commissioned Head of BPKIMI to prepare the proposed request of the exemption or reduction of Corporate Income Tax to the Minister of Finance, by no longer than 1 working day.

If it is approved, the Minister of Industry commissioned Head of BPKIMI to prepare the proposed request of the exemption or reduction of Corporate Income Tax to the Minister of Finance, by no longer than 1 working day; If it is rejected, the Minister of Industry commissioned Head of BPKIMI to prepare the detailed written notification of the rejection to the Applicant at the latest 1 working day.

The mechanism and the process flow for filing request of tax holiday can be seen in the Figure 3 (appendix). In the process of filing tax holiday, stages of time and the process flow are still not clear and definite, therefore the impact will also be less good to all employees of this industry.

Information about the mechanism of tax holiday proposition have not been completely heard and understood by respondents. By 20% of respondents does not really know how the procedures and process flow for filing this policy. The major expectation of respondents is clarity and certainty on the mechanism of tax holiday proposition, therefore there will be no doubt for prospective investors to apply this facility. Data statistics of the survey results on mechanism of tax holiday proposition can be seen in the Figure 4.

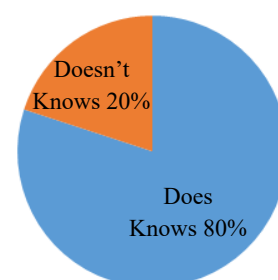


Figure 4. Percentage of respondents knowing the mechanism proposed tax holiday

There is a notion of industrial businessmen that the government still doubts in establishing this policy, so that the mechanism proposal is not appropriate and seems to have obstacles. Responding to this, governments should act more decisively, open and transparent to potential investors in every stage of the process of filing tax holiday facility. Broadly speaking, the implementation of the mechanism of tax holiday proposition still must

be delivered clearly, definitely and transparently to the business players of petrochemical industries, in accordance with the stages of the process and the time that has been determined.

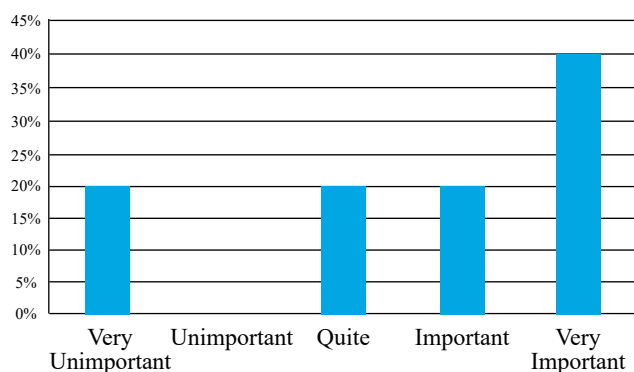


Figure 5. Level of Respondents' Expectation towards the Clarity and Certainty of the Mechanism of tax holiday Application

The Requirements of tax holiday. The determination of tax holiday policy requirements is an important factor in improving competitiveness for the potential investors to invest in Indonesia. The easier the requirements submitted by the government, the higher the interest will be, and vice versa. The government must also be completely accurate in determining who is eligible for this facility therefore the benefits can be obtained by both parties and in accordance to the expected goals.

Information regarding the requirements for filing for tax holiday should be presented clearly and focused, therefore it can be easily understood by businessmen of petrochemical industries. Illustration of the facility providing to certain sectors of the industry should at least be clear and focused. It should also provide strong reasons and be easy to understand in order to avoid gaps to other industries.

Data statistics of the survey results regarding to the requirements of tax holiday Figure 6.

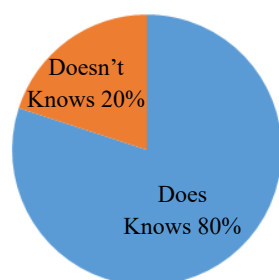


Figure 6. Percentage of Number of Respondents who know the Requirements for filing tax holiday

Along with less intensive socialization of the tax holiday policy distributed to businessmen of petrochemical industries, it make them fully understand the terms given in proposing the facility of tax holiday.

Expectations and response to the requirements of filing the facility of tax holiday from some of the

Table 3. Difficulty Level of the Requirements of tax holiday

No	Meaning	Score Interval	Answer Score		
			Percentage	Average Score	Meaning
1	Very difficult met	1.00 - 1.80	20%	2.45	Difficult to Fulfill
2	Difficult met	1.81 - 2.60	20%		
3	Enough	2.61 - 3.40	40%		
4	Easy met	3.41 - 4.20	20%		
5	Very easy to met	4.21 - 5.00	0%		

respondents are as followed :

1. The pioneer industry is an industry that has wide interconnection, has given added value and high externality, has introduced new technology and has applied a strategic value for the national economy. Some respondents still have not fully understood how the pioneer industry that referred to by the government, so that they are still reluctant to apply this facility. In the petrochemical industries, it appears to be the government prioritizing on the upstream industry sector, such as industry of ethylene, propylene, butadiene, benzene & paraxylene that integrates with naphtha crackers. The determination of the industry priority has made and disappointed a number of companies in other petrochemical industries. This will increase a new hope that the government could expand the industry sector farther.
2. The Legal Entity Status after August 15, 2010, this requirement is a constraint requirement for a number of companies of petrochemical industry in Indonesia. The government also appear to be prioritizing the new investors more than the old companies which want to develop the business. In accordance to the strategy and government's policy, a new investment is expected to be a joint partnership between foreign companies and local companies.
3. The Investment plan at least Rp 1 trillion, Based on the priority of petrochemical industries upstream with the intensive capital, the large investment can be concluded as worth and fair. However, a number of the opinion conclude that the large investment will make it harder for local companies to apply for this facility. According to their reconsideration, the determination of the minimal value scale of this investment can truly given the impact for the industry that are worthy to obtain this facility, which in the end will be useful also for the government.
4. Tax Sparing agreement with Indonesia. This appears to be also difficult requirements to fulfill by several companies asking for facility of tax holiday. According to some potential investors, based on the information from the Indonesian Embassy in some countries, many countries do

not have Tax sparing agreement with Indonesia. Tax sparing is the recognition of the facility of exemption and reduction of corporate income tax from the Indonesian government located in the domicile country of the tax insentive receiver. And thus the inclusion of tax sparing agreement should be reconsidered for specific cases.

Apart from the above requirements, a number of potential investors also said that the provision of infrastructure and utilities charged to them would be a burden in the stage of project development. The value of their investment feasibility with the burden become a problem for them, especially new potential investor who would build a plant in the upstream sector. According to them, the availability of infrastructure and utilities is one of the attractiveness of investment in a country, so that the provision of infrastructure and utility should be supported by the local state government.

The opinions and suggestions from the perpetrators of the petrochemical industries regarding the holiday tax are as followed:

1. The criteria of the type of product/industry that needs to be expanded,
2. The certainty will get holiday tax be known before the investment started; and when the document is complete and correct to SKMK for tax holiday to be immediately published;
3. Considering the same policies in other countries, it is advised that the type of industry and the provisions regarding to the establishment of company needs to be broaden and expanded.
4. The tax holiday Facility should be given not only to the new company, but also to the companies that already exists to do business expansion;
5. Socialization of tax holiday explained to businessmen is less sufficient so there are many companies that did not know the indepth technical assistance;
6. The requirements of the Tax Sparing is to be eliminated, because based on the information at the Indonesian Embassy in some countries, many countries do not have the Tax Sparing agreement with Indonesia;
7. The government should have the same perception about understanding the capital investment, because the criteria for investment between the Directorate General of Taxation and the BKPM is different with each other (Fixed Capital and Working Capital);
8. The bureaucracy should not be convoluted;
9. Speed up the legal protection and validation for those who already fulfilled a completed and correct document.

The Evaluation of the Feasibility of the Company to obtain the tax holiday facility. There are five sectors that are considered important to be developed in Indonesia. These are also ensured to obtain the exemption of taxes or special tax incentives previously mentioned above.

Potential investors who deserve special facility are those who intends to invest in large number and absorb manpower significantly. The five sectors are the basic metal industry, the mining of oil and/or chemical organic base-industry that comes from oil and natural gas; renewable resources industry, machinery industry and telecommunications industry. It is the capital investment that will be prioritized to obtain the tax holiday facility .

Based on the terms or criteria that must be met by companies that deserve the tax holiday facility, there should be some criterias determined on how to get the tax holiday facility, as followed:

A. Main Conditions

1. The industry is a high priority in the national scale.
2. The status of the legal entity in Indonesia that was approved after August 15, 2010.
3. The status of ownership of a minimum investment value of Rp 1.000.000.000.000,00 (one trillion rupiah).
4. Period of Foreign Investor to invest Tax Sparing agreement with Indonesia.

B. Supporting requirements

For supporting conditions, one of these following requirements should be fulfilled, namely:

1. The location of the factory that will be built already have the infrastructure (road, energy, water, ports, and others);
2. Labor that will be used in the investment phase is derived from Indonesian citizens (Indonesian native);
3. Product that will be produced is a product of the upstream of petrochemical industry;
4. Raw materials that will be used is derived from the local communities (Indonesia);
5. The domestic market become the target of marketing product that will be produced;
6. The technology that will be used is new technology;
7. The using of capital goods or machine or equipment are produced in the lands of Indonesia;
8. The company will partner with micro, small, medium businesses or co-operatives;
9. The company will conduct research, development and innovation.

Based on the Regulation of the Minister of Finance No.130/PMK.011/2011 and the Regulation of the Minister of Industry No.93/M-IND/PER/11/2011, companies that deserve the tax holiday Facility is the company that meets both all the main requirements and at least one of the various supporting requirements as added value for potential investors in proposing.

Based on the criteria of the requirements of filing the facility of tax holiday and the analysis results, the determination has been successfully done by obtaining

this facility. The other conclusion is that PT Honam Petrochemical Corp and PT Petrokimia Butadiene Indonesia are considered worthy to obtain the tax holiday facility.

CONCLUSION

Based on the results of research, it showed that petrochemical industries have already met the requirements set out to obtain the tax holiday facility given by the government of Indonesia. The giving of holiday tax facility to petrochemical industries is because this industry is the upstream industry which have high priority and national scale which is able to absorb manpower in large number.

The dissemination of granting the tax holiday required by other industries due to government's role did not maximize many high-priority industries who do not know in detail about the facility. The number of large industries who want to invest in Indonesia is looking forward to the tax holiday. The entry of holiday tax will have a direct impact on the growth of investment and industry in Indonesia.

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APPENDIX

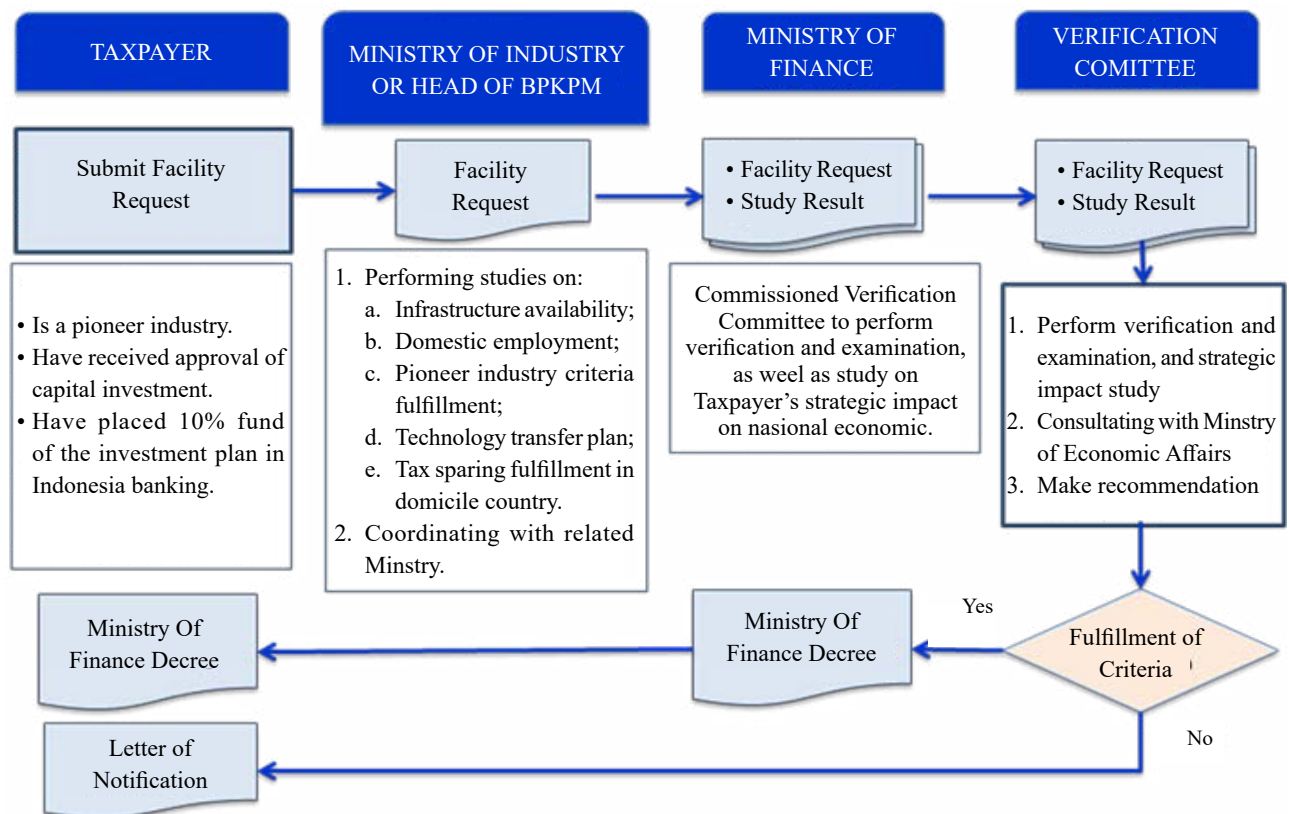


Figure 3. The Mechanism and Process Flow for Tax Holiday Request Filing