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A Policy Evaluation on Tax Incentives: Corporate Income Tax Rat Reduction for Listed Company

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Abstract: This study aims to evaluate the policy in corporate income tax rate reduction for listed company using public policy evaluation indicator comprises of effectiveness, equity, responsiveness, appropriateness and adequacy. Results of analysis show that policy to reduce corporate income tax rate has not been able to provide solutions to develop Indonesian capital market. Policy has not been able to intensify companies in Indonesia to do listing on stock exchange. It is due to the fact that this policy is more widely used by companies that have long been listed. Furthermore, policy has not been able to optimally increase number of public shareholding in company.

Key words: Policy evaluation, tax incentives, corporate income tax, tax rate, company

INTRODUCTION

The existence of capital market is more than solely as a source of financing, it also works as a means for people to get the opportunity to acquire and improve their well-being. The capital market has imperative roles to the economy of a country because it performs two main functions, namely as a platform of funding for business or as a platform to raise funds from the public (investors) The capital market is also a means for people to invest in financial instruments such as stocks, bonds, mutual funds and others (Boediono, 2001).

Pursuant to the record conducted by World Federation Exchange, compared to other Asian countries, firms in indonesia are less interested to go public due to lack of incentives and not familiar with the culture of openness. The number of listed companies in Indonesia is relatively small, there were only 347 companies recorded by Ilmar, 2007. Meanwhile, the number of listed companies in Malaysia Kuala Lumpur stock exchange reached 1,009 companies, Singapore 732 companies, Thailand 520 and Korea 1717.

Taxation policies related to capital markets are regulated in Government Regulation No. 77 year 2013 as amended in previous Decree No. 81 year 2007 regarding Income Tax rate reduction by 5% of the general applicable tax rate under study 17 paragraph one letter b about income tax act for listed company. Analyzing from the purpose of the policy, the incentives in a form of reduction of the corporate income tax rate is more geared towards the fulfillment of regulerend (regulator) function in order to enhance the role of capital markets in Indonesia by stimulating an increase in the number of listed company as well as increasing public ownership in a publicly listed company. The procedure for the implementation and supervision of the provision of tariff reduction are set out in the Ministerial Decree issued by Minister of Finance of the Republic of Indonesia Number 238/PMK.03/2008. Incentives in a form of income tax rates abatement can be granted if a company listed on the Stock Exchange cumulatively meets several requirements as stipulated in study 2 Paragraph two PP 77 in 2013, namely:

- At least 40% of the total paid-up shares accounted for trading on the stock exchanges in Indonesia and included in collective custody at the depository institutions and settlement institutions
- Shares referred on the paragraph A must be owned by at least 300 parties
- Each party referred on the paragraph B may only have a share of <5% of the total shares issued and must be fully paid and
- The provisions referred on paragraphs A-C must be fulfilled in a short time at least 183 calendar days within a period of one Fiscal year

Theoretical framework: Dunn (2003) unravels the criteria for public policy evaluation into 6 points, namely effectiveness, efficiency, adequacy, equity, responsiveness and appropriateness:

- Effectiveness, measures whether the desired outcome of a policy-making has been achieved

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- Efficiency, involves how much effort is needed to achieve the expected results. Criteria related to the efficiency is about the implementation of cost of taxation
- Adequacy, encompasses how far the achievement of expected results in solving a problem
- Equity is about whether the benefits of the policy is evenly distributed. Fairness criterion is analyzed based on horizontal and vertical equity
- Responsiveness, it is in regard to whether the results of certain policy can satisfy the needs, preferences, or values of certain groups
- Appropriateness is about whether the ideal objectives from certain policy are by virtue advantageous for both decision maker and the beneficiaries of the policy

MATERIALS AND METHODS

The approach used in this study is a quantitative approach that analyzes policy evaluation in the form of tax incentives for listed company by reducing the corporate income tax rate using the theory of policy evaluation according to Dunn (2003). Based on its objectives this study is included as descriptive research in which the research is conducted to provide a more detailed conception about a symptom or phenomenon (Prasetyo and Jannah, 2005). Data collection techniques employed for this research is using literature study and field research by conducting direct in-depth interviews with informants related to the problem. Data analysis techniques used in this research is qualitative data analysis. The process of qualitative data analysis in this research is conducted by delving the results of interviews and field notes.

RESULTS AND DISCUSSION

Evaluation of incentive policy to reduce corporate income tax rate for public companies is conducted based on the criteria proposed by Dunn (2003). To analyze the evaluation of the policy in terms of effectiveness, it is necessary to know the purpose of the incentive given through the policy. This policy aims to increase the role of capital market in Indonesia by increasing the number of companies listed on the Indonesia Stock Exchange as well as increasing the number of public ownership in a publicly listed company.

Incentives of reduction in the corporate tax rate for publicly listed companies has been enacted since 2007. An increase in the number of new issuers listed on the Indonesia Stock Exchange from 2004-2006 recorded in a total of 12 companies while in 2007 an increasing number of issuers listed on previous year reaching up to 22 issuers. An increase in the number of issuers continued to occur until 2014 when the number of listed companies amounted to 506 companies.

According to the report of study by the Capital Market Supervisory Agency and Financial Statements (Bapepam-LK) in 2009 regarding the potential number of companies that went public in the Indonesian capital market, a decline in the number of new issuers listed incurred because of the global financial crisis in 2008. The Indonesian stock market experienced a dramatic decline in the performance as reflected in the fall of Jakarta Composite Index (down 50.5%) and market capitalization (down 45.8%) if compared to the year end of 2007.

In 2013 when the change in Government Regulation No. 81 year 2007 to the Government Regulation No. 77 year 2013 enacted, an increase in the issuer's number was also recorded more than the number in the previous year as many as 31 issuers were listed. The increase in the number of listed companies showed that there was a greater interest coming from the company to participate in the Indonesian capital market. However, it needs to be analyzed further to determine whether the increase in the number of issuer post-2007 was due to the tax incentive in a form of reduction of corporate income tax rate for publicly listed companies or it was caused by other factors. Based on interviews with various parties, it was found that the main reason companies listing on the Stock Exchange is to obtain funding from buying or selling shares to meet the financing needs of the company. In addition to that the objective of the company to go public is to obtain prestige which will affect the conveniences in obtaining credit facilities from banks or third-party funding. Thus, incentive in a form of reduction of corporate income tax rate does not provide sufficient reason for the company to go public.

Study Reports on the effectiveness of PP 81 year 2007 and PMK No. 238/PMK.03/2008 prepared by a effectiveness evaluation study team of the Capital Market Supervisory Agency and Financial Institution stated that most of the listed companies acknowledge that the terms set forth in the PP and the PMK are relatively difficult, the three main reasons stated by the respondent is under shareholder's discretion the requirements are set too high, one of which is shares for the public up to 40% and transactions concerning stocks are beyond the company's control.

There upon, the reason of companies to do listing on the Stock Exchange and the increasing number of issuers listed on the Indonesia stock Exchange (IDX) each year is not directly related to the incentive of reduced corporate income tax rate imposed by regulation. Incentive

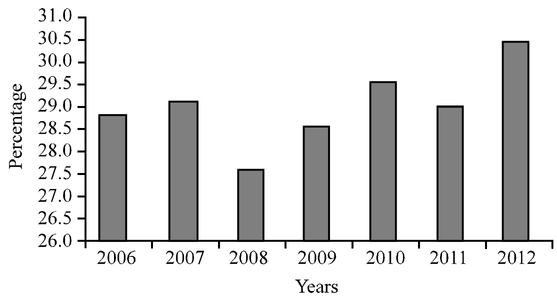

Fig. 1: Increase in the average percentage of public shareholding Indonesia central securities depository

of lower corporate income tax rates for publicly listed companies has not been able to attract companies to do listing on the IDX. The requirements set for the companies to be able to make use of the incentive makes this policy not optimal to stimulate an increasing number of publicly listed company. Companies that are still closed are not interested enough to become a listed company because most companies will think of the cost and benefit to list on the IDX. Consequences from listing the companies are as following, first is shared ownership which means that the percentage of ownership will be reduced and second, companies have to comply with the prevailing capital market regulations. It is difficult for the close companies to sell shares to the public up to 40% just to get a tax incentive, not to mention that 60% of companies in Indonesia are still family-owned business or the case of where the shareholders are still controlled by the family. The release of shares to the public leads to the decrease of private strength and the distribution of profits in the form of dividend also becomes smaller. In addition to that, the growing number of shareholders makes it more difficult to determine the direction of the company's policy.

Second objectives of tax incentive of corporate income tax rate reduction for public companies is to increase the number of public ownership in a public listed company. The criteria of "public" in determining the taxpayer who meets the provisions of income tax rate is the party which has a stake of less than 5% of the total paid up shares of issuers. In regards to the percentage of ownership of the shares owned by the public, based on data by KSEI as the Central Securities Depository (CSD), for the period of 2007-2012 there was a slight increase in the percentage of public shareholding, the average was in the range of 27-30% which is shown in the graph following (Fig. 1).

Based on the graph, throughout 2006-2012 the percentage of public shareholding (below 5%) tend to experience ups and downs. In 2008 and 2009 or in the year after their policy to reduce the corporate tax rate for publicly listed companies, the average percentage of public shareholding is lower than in the period of 2007 or there is a declining trend. One factor alleged to contribute to determine these conditions is the global financial crisis which caused most of the listed-companies to do stock buyback because the stock price declined. But through 2010-2012 there was a rising trend in return on the average proportion of public shareholding although in 2011 it had decreased.

In terms of equity, according to Dunn (2003), a particular program may be effective, efficient and adequate if the benefit is equitable. Implementation of a policy should be fair, in the sense that all sectors of the whole society, especially target of the policy should equally gain the benefits of the policy. Analyzing from the perceived benefits, the policy of corporate tax rate reduction for publicly listed companies cannot be accessed by all listed company because not all public companies listed on IDX get a tax rate reduction, it is only applicable to companies that meet the requirements. Notwithstanding the fact, Easson (2004) said that the thing that distinguishes tax incentives with the general tax treatment is that tax incentives are selectively applicable only to certain investments that are eligible to receive preferential treatment. Therefore, equitable criteria should be seen from the taxpayer who is eligible that meet the requirements in accordance with the provisions of Government Regulation No. 77 year 2013. This tax incentive policy can be regarded as adequate to fulfill equity criterion because this policy can be accessed by all issuers that fulfill the requirements, there is no difference in treatment. The procedure to get a rate reduction is further stipulated in the Ministerial Decree by Minister of Finance 238/PMK.03/2008 on Procedures for the Implementation and Monitoring Provision Rate Reduction for Resident Corporate Taxpayers in the form of a publicly listed company.

In terms of responsiveness this criterion is used to see whether the results of a policy can satisfy the needs, preferences or values of certain groups. The first thing to be evaluated within this criterion is the response given by taxpayer to the reduction of income tax rate for publicly listed companies. Public response to this policy has arguably not been satisfying since the main reason companies listing on the stock exchange is to get fresh money or gain prestige and not because of incentive in a form of corporate income tax rate reduction. Secondly, the

Table 1: Percentage of issuer growth on Indonesia stock exchange

Years	Number of issuer	Issuer listed	Percentage
2004	331	12	3.6
2005	336	8	2.4
2006	344	12	3.5
2007	383	22	5.7
2008	396	19	4.8
2009	398	13	3.2
2010	420	23	5.5
2011	440	25	5.7
2012	459	23	5.0
2013	483	31	6.4
2014	506	24	4.7

thing that should be taken into consideration is taxpayer satisfaction with the policy incentive on corporate income tax rate reduction.

Corporate tax payers who use the facilities of reduction in the corporate tax rate are largely the issuer that has fine working industry or large companies that have a large enough net profit before tax. The reduced rate of 5% can be a great tax saving for the company which can be used to develop the company. Having smaller rates charged to a company will give a big impact to the increase in net income after tax.

The next indicator in this evaluation study is appropriateness. Indicator of appropriateness is closely related to the value or price of the objectives of the program and the strong assumptions underlying these goals whether these goals are appropriate for society (Dunn, 2003). Analyzing from its goal, incentive of reduction in the corporate income tax rate for the public companies aims to enhance the role of the capital market, namely by increasing the number of listed company and increase the number of public ownership in a publicly listed company. However, in practice, entities that utilize this policy in general are a state-owned enterprise or large corporations. This is not in accordance with the initial target of the policy which is to encourage private companies to go public. In fact an increasing number of listed company before and after the policy of reduction of corporate income tax rates for the listed company was not largely significant as it is shown in the following Table 1.

After 2007 when the policy of corporate tax rate reduction for public companies started to be implemented, number of listed companies in Indonesia has not experienced a significant increase. Although, there is an increasing number of listed companies from year to year, that number is still fairly minimal when compared to some countries in Asia. Indonesia per 30 September 2013, only has 479 listed companies. The company's inclination in Indonesia to do listing on Indonesia Stock Exchange cannot be separated from characteristics of companies that are owned and controlled by the family. These companies grow and become a listed company but the control remained in families is so significant (Surya, 2006). Moreover, the fact observed from registered domestic investors sub-accounts, there were only about 376,000 by 30 September 2013 (IDX Newsletter, 2014). In comparison with the population of Indonesia that reached 220 million, the number is still fairly minimal. The policy to reduce corporate income tax rates is not appropriate or well-targeted in practice because the fact that the users are mostly state-owned enterprises in the form of the company or the companies who had been long listed in the Indonesia stock exchange, not the private company becomes publicly traded.

There are 2 substantial matters in regards to the appropriateness of incentives by Easson (2004) which is first determining the investments that meet the requirements and second determining the suitable form of tax incentives to be applied. First, for investments that meet the requirements in this case is an incentive for the development of the capital market so that incentives should be provided to the public (in this case the corporate taxpayer) who already utilize of the Indonesian capital market. Second, determining the form of incentives which in this case is in the form of a rate reduction. The reason of granting convenience in taxation is to provide necessary tax facilitation to catalyze business growth and increase the competitiveness (Hariyani and Purnomo, 2010). Policy on reduction of corporate income tax rate for listed company is deemed not appropriate to be given because it is not able to achieve the purpose of the tax facilitation.

In policy evaluation, adequacy measures how far a level of effectiveness to satisfy the needs, values or the opportunity to cause problems. This adequacy criterion emphasizes on the strength of the relationship between policy alternatives and expected results (Dunn, 2003). This criterion is to analyze the nexus of the policy taken with the existing problems and further whether the policy has been enough to overcome such problems. Incentive of reduction in the corporate income tax rate for publicly listed entities is measure taken in order to increase the role of capital market in Indonesia with consideration of the importance of the capital market as a source of financing and as country's economic benchmarks.

Constraints in the implementation of incentive policies in a form of corporate income tax rate abatement occurred after the change of Government Regulation No. 81 year 2007 to the Government Regulation Number 77 of 2013. The main problems are the requirements of paragraph is a publicly held shares of at least 40% must be recorded in a depository institution and completion which means the amount of 40% of shares owned by the public should be script less. Whereas the current transaction on the stock market is open to 2 possibilities either in the form of a script and also in script-less form. Regulation of shares owned by the public must be script-less become problematic for two reasons, firstly because the announcement is given at the end of the year and second for its enforcement occurs at the time as well, so that companies that had had been granted the incentives in the previous year were not ready with their sudden requirements change. Addition of requirements that shares owned by the public must be in script-less form is there because financial services authority expects future stock transactions on the exchange will be script-less form in order to facilitate supervision.

By having additional requirement that public shareholding must be listed in the depository and settlement institution has caused some companies to lose their tariff reductions incentive in 2013 when in the previous years these companies received incentives. It can be seen from the number of companies that received incentives in 2013 declined compared to previous year from 113-104 listed companies.

With a small number of issuers or the people who dwell in capital markets, trading in the stock is not liquid enough and as consequence Indonesia is still very dependent on foreign investors. Therefore, policy incentive on corporate income tax rate reduction for publicly listed companies taken as an effort to overcome the problems associated with the capital markets is still not able to overcome the problems, characterized by the number of issuers in Indonesia has not experienced significant growth after rate reduction policy.

CONCLUSION

Policy incentive on corporate income tax rate reduction for publicly listed companies has not met all the criteria of a good policy according to Dunn. Analyzed from the following terms) the effectiveness, the policy of reduction in the corporate tax rate has not been able to lead the company in Indonesia for listing on the stock exchange and has not optimally increased the number of public share holding in the company) equity, the policy has been equitable because of all listed companies that meet the requirements for obtaining the incentives will automatically get a rate reduction incentive without any different treatment) responsiveness, this policy has not been able to optimally meet the criterion of responsiveness even though the taxpayer had felt quite satisfied both in terms of socialization, the service and the result of this rate reduction policy) the appropriateness, this policy cannot be regarded to be right on target because looking back to the goal of the policy is to increase the number of publicly-listed companies but in reality this policy is more widely used by companies who have been listed) adequacy, policy incentive in a form of rate reduction is not enough to provide solutions to develop the Indonesian capital market which reflected by the small number of listed companies on the IDX.

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