Implementation Evaluation Tax Holiday and Tax Allowance Policies on the Growth of Foreign Investment

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Abstract

This study investigates the impact of tax holidays and tax allowance policies on the development of foreign investment in the BKPMD South Sulawesi Province from 2017 to 2020. Documentation is used for data collection techniques that involve direct observation of the object of study. Descriptive statistical analysis, classical assumption tests (normalizes test, heteroskedasticity test, multicollinearity test), and testing of the entire hypothesis via partial testing, simultaneous testing, and determination coefficient test are employed for data analysis. This study demonstrates that applying tax holidays and tax allowances do not affect the growth of a foreign investment. Therefore, the government should streamline licensing and conditions and promote policy facilities, so investors are fully aware of them. This is because factors other than tax incentives determine investment, such as the size of the domestic market, wage levels and worker productivity, infrastructure availability, government spending growth, inflation rates, interest rates, and investment risks. Tax exemptions and tax credits are still inadequate for enthusiasts. This demonstrates that the tax holiday and tax credit cannot be considered effective and efficient regarding investor interests. We recommend that the government or relevant agencies immediately improve and review the licensing process at the central and regional levels so as not to diminish investor confidence in Indonesia's legal certainty; improving the investment climate through better regulations can positively impact the investment climate. The investment tax incentive policy must be widely publicized and promoted so that investors can be aware of and benefit from it.

Keywords: Tax Holiday, Tax Allowance, Development, Foreign Investment

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Introduction

The development's implementation requires sufficient capital available at the appropriate time. The government and the larger community can provide money, especially the private sector. However, developing nations, including Indonesia, cannot develop comprehensively if they rely solely on domestic capital due to low savings, ineffective and
inefficient capital accumulation, and a lack of skills. Diverse options, including foreign assistance and cooperation necessary to supplement immediately deployable domestic capital, are used to overcome these obstacles (Sari, 2018).

As a result of the rapidly expanding global economy, developed nations are becoming more insular, posing challenges for developing countries, particularly Indonesia. This circumstance motivates the government to explore other investment options, particularly Foreign Direct Investment (FDI). In this regard, Indonesia faces the same challenges in obtaining foreign loans, so it has adopted a policy of opening its doors to foreign investment to conduct business in Indonesia (Lusiana et al., 2022).

Foreign Direct Investment (FDI) is one of the sources of funds and services in developing nations, particularly in capital packages, selective management expertise, technology, and the utilization of the country in question (Pohan et al., 2021). Foreign capital is advantageous not only in terms of capital fulfillment but also because it provides engineering skills, experts, market information, organizational experience, advanced production techniques, etc. Foreign investment helps accelerate economic growth in developing nations (Fahmi, 2012).

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Foreign Direct Investment (FDI) is an option for meeting development capital requirements (Mulyono & Mustikasari, 2017). Foreign Direct Investment (FDI) in Indonesia is governed by the Foreign Investment Law (UUPMA), which serves as the legal basis for FDI inflows. By alterations in social, political, and economic conditions, FDI regulations are also required to accelerate national economic development by promoting the attainment of national economic development objectives. This was the primary reason for the formation of UUPMA in 2007. The Investment Law (UUPM) enactment comprehensively regulates various issues about direct investment activities in Indonesia to foster a favorable investment climate while maintaining a focus on the national interest.

The objective of foreign investment is to obtain a greater return, which can be attained through higher economic growth. To attract direct foreign investment, the countries visited typically offer trade incentives to reduce foreign investors' capital costs. However, the Visited States occasionally lack transparency in their incentive practices. This will impede the calculating of the obtained profit (Melatnebar et al., 2020).

<table>
<thead>
<tr>
<th>Year</th>
<th>PMA (Million US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>28,617.50</td>
</tr>
<tr>
<td>2018</td>
<td>29,275.90</td>
</tr>
<tr>
<td>2019</td>
<td>28,964.10</td>
</tr>
<tr>
<td>2020</td>
<td>32,239.80</td>
</tr>
</tbody>
</table>

The data in table 1 shows the increase in FDI in 2017 from 28,617.50 trillion to 29,275.90 trillion in 2018. However, in 2019 FDI experienced a decrease of 28,964.10 trillion. In 2018 it experienced an increase of 32,239.80 trillion. This data proves that foreign investment in Indonesia may decline at any time, although it is unlikely. The role of investment is significant in helping the economic development of a country. Investment performance is a decisive determinant, although not instantly, as a source of economic development of a country. According to Rulandari (2021), investment can be trusted to
increase a country's economic growth through capital accumulation and knowledge transfer. Several international forums, such as The Doha Development Agenda, The Monterrey Summit on Financing for Development, and The OECD Ministerial 2002, unequivocally recognize that investment brings significant benefits to the country in terms of financial improvement, economic growth, employment opportunities, skills, and technology transfer. Therefore, it is unsurprising that countries are vying to increase investment attractiveness.

Investment in a country can be sourced from domestic and foreign investments. Both domestic and foreign investment equally improve the nation's economy. These investments can be in the form of direct investment in asset purchases and even the formation of new businesses and indirect investments, namely in the form of investments in the money market and capital market. The investment that is currently being increased by developing countries is a foreign direct investment called Foreign Direct Investment. Foreign Direct Investment is a long-term investment made by foreign investors in a domestic citizen's business field (Kumalasari & Wicaksana, 2021).

The United Nations Conference on Trade and Development (UNCTAD) argues that one of the strategies that states use to attract foreign investment is by providing policies. The efforts made by the government by offering policies that are attractive and benefit investors, namely tax holidays and tax allowances. This policy is a facility for reducing or exempting corporate income and income tax for a certain period in the field of investment (Aribowo & Irawan, 2021).

The tax holiday policy is a facility provided by the Minister of Finance to provide convenience for investors in the form of exemption or reduction of corporate income tax as regulated in the Minister of Finance Regulation Number 35 / PMK.010 / 2018. Kumalasari (2021) argues that a tax holiday is a facility to exempt corporate income tax from foreign investment. Some developing countries already have tax incentive provisions by implementing tax holidays for investors valid for 5 (five) to 10 (ten) years. The implementation of this policy is very close to developing countries that need financial support for development.

Most developing countries with low to middle incomes impose tax holiday facilities. Most of these developing countries use the tax holiday policy to encourage the creation of the desired investment climate. Based on a survey by James Sebastian (2013), around 80% – 90% of low-, low-middle-income, and middle-income countries apply for tax holidays. Meanwhile, developed countries with high incomes tend to use only about 27% use the tax holiday policy. Indonesia is one country that implements a tax holiday policy to attract investment directly. Foreign direct investment tends to be safer and low risk. Direct investment avoids the occurrence of investors unilaterally withdrawing investment assets from the country of an investment destination.

Tax holidays in Indonesia offer exemptions from income tax. Income tax is imposed on tax on the income received. The tax subjects are private persons; bodies consisting of PT, CV, other companies, BUMN and BUMD with any name and form, firms, congregations, cooperatives, pension funds, partnerships, associations, foundations, socio-political organizations, institutions, and other forms of bodies; Permanent Establishment (BUT) consisting of domestic tax subjects and foreign tax subjects (Andriansyah & Nam, 2021). Each tax subject becomes a taxpayer if he has obtained income, be it income received from
sources of income in Indonesia or obtained through a permanent establishment in Indonesia (www.pajak.co.id).

Corporate tax subjects who have become taxpayers can get income tax exemption through the tax holiday facility. The tax holiday provision is given to foreign investors who invest their capital by establishing companies, joint ventures, or other forms in Indonesia. Corporate/corporate income tax relief certainly benefits the company because it exempts any deductions to income received by the company. The relationship between the tax holiday facility and FDI is related to the provision of investment incentive facilities in the form of tax holidays aimed at attracting the attention of investors, especially foreign investors (Utami, 2019).


Purnamasari (2016) explained the criteria that are eligible to receive tax allowance facilities in Indonesia, namely the national periodic industry, industries with an investment value of at least 500 billion, and employing at least 300 people for labor-intensive sectors or at least 100 billion with a minimum number of workers of 100 people for capital-intensive industries. In addition, the business field must also meet one of the regulations regarding the tax allowance facility. The tax allowance facilities provided are a net income of 30% of the investment amount charged for six years at 5% per annum each, depreciation and accelerated amortization, imposition of income tax on dividends paid to foreign tax subjects of 10% and compensation for losses longer than five years but not more than ten years.

This policy aims to encourage investment activities in Indonesia through foreign and domestic investment in specific business fields and in certain areas that have received high priority on a national scale, especially export promotion. In addition, this tax incentive is also given to encourage industrial development in remote areas for equitable development. Investment, which is included in the high priority scale, can promote diversification of economic activities, strengthen the national industrial structure, have high prospects to compete in the international market, and have a relationship with the development of strategic investment in the fields of food, infrastructure, and energy (Lisardi, 2020).

The government hopes foreign investors will be more interested in investing in Indonesia to develop potential sectors that have not been processed or utilized correctly. The application and provision of tax holidays and tax allowances must be used appropriately to maximize the positive influence of foreign investment in the development of the country's economy because if it is not used appropriately, the purpose of the program will be ineffective and efficient and will undoubtedly have a negative impact. Therefore, careful consideration from the government in making investment tax incentive policies is expected, and the relationship and objectives of implementing this policy must be explicit (Zulfikar, 2011).

Tax holidays and allowances in the application have drawn debate from various circles.
about whether the policy will positively affect or even harm state revenues. For example, in the short term, the provision of tax facilities in tax holidays and tax allowances will reduce the amount of corporate income tax so that state income from the tax sector will be reduced. The implementation of the period of providing facilities has an impact due to abuses committed by companies that only pursue the investment tax policy provided and transfer their investments to other countries after the validity period is over. In setting tax incentive policies, the government still does not meet the expectations of several related parties. However, despite all that, it can be believed that establishing such procedures indeed aims at the nation's and the state's interests in a better direction (Ngadiman & Felicia, 2017). Based on this description, this study aims to analyze the application of tax holiday and tax allowance policies to the development of foreign investment in BKPM South Sulawesi Province in Indonesia.

Investment is the second component in determining the level of aggregate expenditure. Investment is also defined as a company's capital expenditure to buy capital and production capacity to increase the number of capital goods and production equipment to increase the ability to produce goods and services provided in a country's economy (Agoes & Trisnawati, 2016). Increasing the number of capital goods will create a greater quantity of goods and services than before.

Foreign Direct Investment (FDI), better known as Foreign Direct Investment (FDI), is one of the sources of funds and services in development for developing countries, especially in the form of capital packages, selective management expertise, and technology, as well as the utilization of the country concerned (Mitri Wika, 2015). Therefore, there is not only the transfer of resources but also the imposition of control of overseas enterprises. Meanwhile, Foreign Direct Investment, according to the United Nations World Investment Report (UNCTAD, 1999), suggests that FDI is an investment that involves long-term relationships and reflects the role of foreign investors or holding companies towards several branch companies in other countries. FDI is a type of direct investment closely related to establishing a company engaged in specific sectors in the country of an investment destination.

Several theories explain Foreign Direct Investment (Lisardi, 2020), including 1) The Differential Rate of Return Hypothesis. This theory states that the flow of capital from a State with a low rate of return moves to a State with a high return rate rapidly. The investors are more interested in the State with low wages, an educated labor force, increased productivity, taxes that are judged not to impose on investors, easy administrative servants, and efficient bureaucracy. 2) The Diversification Hypothesis. This theory explains that the level of return determines the decision to invest in a project and the amount of risk faced based on its nature risk. 3) The Output and Market Size Hypothesis. This theory states that companies in a country with a substantial currency value, compared to other countries, tend to divest their capital to countries with a weak currency. 4) The Currency Areas Hypothesis. This theory states that companies in a country with a substantial currency value, compared to other countries, tend to divest their capital to countries with a weak currency. 5) The Product Life Cycle Hypothesis. They explained that the product that first appeared in the FDI destination country is considered an innovation in its home country. Then the product will spread to other countries so that the product is usually standardized. FDI can arise from reactions by companies with expectations abroad that can potentially lose the market as their products develop.
The attracting factor of foreign investors is the transparency of reliable financial market information in a stable flow that will attract foreign investors to invest. An open market like this must be out of government control and underhand trade. From the rule of law made and agreed upon by economists, a flexible exchange rate can make it easier for investors to invest. Factors affecting foreign investment according to the theory of elective design. This theory establishes three requirements for a company to participate in foreign investment: company-specific advantages, internalization advantages, and State-specific advantages (Putri, 2017).

According to Zulfikar, (2011), the targets of providing tax incentives are a. Types of Investment Ownership, given for foreign or domestic investment, or both; b. Types of investments entitled to incentives, given only to new acquisitions or the expansion of pre-existing ventures and investments; c. Target sectors that get tax incentives. Some sectors entitled to tax incentives in several countries include manufacturing, pioneer industries, and specific sectors such as infrastructure development, film, and tourism: d. The location of the stimulus; e. Job creation; f. Technology transfer; and g. Export development.

The tax holiday policy is a facility provided by the Minister of Finance to provide convenience for investors in the form of exemption or reduction of Corporate Income Tax with the provision that the business is a Pioneer Industry and a new Taxpayer, regulated in the Ministry of Finance Regulation Number 35 / PMK.010 / 2018. The Ministry of Finance has several considerations related to the provision of these facilities, including (Ngadiman & Felicia, 2017): 1) Indonesia's investment rating given by an investment rating agency from Japan, rating and investment value is quite good, namely BBB-. This is because Indonesia's economic growth is supported by conservative fiscal management and sound financial system stability. 2) Indonesia's inflation rate is relatively under control, as is the low fiscal deficit in Indonesia, which is below 2%. 3) Indonesia's debt ratio is below 24 percent of the Gross Domestic Product (GDP). 4) Indonesia has a wealth of a variety of Natural Resources that are very abundant.

The advantages of tax incentives in the form of tax holidays include benefits in terms of simplicity because, in the absence of taxes that must be paid during the holiday period, both tax offices and taxpayers do not need to conduct filing and tax audits, and there are no administrative costs (Mitri Wika, 2015). At the same time, the disadvantages include: a) The cost of tax holiday, in the sense of lost tax revenue for the host country that cannot be estimated in front of a sufficient level of accuracy. b) Tax holidays are often used by investors who tend to be mobile by moving their business to other countries to get a new tax holiday if the useful life in a country has expired. With this practice, the host country loses the benefits of having these investors. c) Tax holidays create opportunities for tax avoidance or tax manipulation.

Bustamar Ayza (2016) defines tax allowance or investment allowance as a tax relief based on the value of expenses on investments that meet the qualifications. Tax allowance is contained in Government Regulation 18 of 2015 concerning Income Tax Facilities for Investment in Certain Business Fields and Areas. The provision of the tax allowance is also regulated in the Regulation of the Minister of Finance No.89 / PMK.010 / 2015 concerning Procedures for Providing Income Tax Facilities for Investment in Certain Business Fields and Certain Areas as well as Transfer of Assets and Sanctions for Domestic Corporate Taxpayers Provided with Income Tax Facilities. The factors that must be considered in designing the
investment allowance are (Hardianti & Setyowati, 2019): 1) Eligible investment, namely that the investment allowance is applied to all forms of capital investment, or it can also be on special categories only, such as machines or equipment with advanced technology. 2) The amount of tax allowance, generally in the form of a percentage of a specific investment. In Indonesia, the amount of allowance is 30% of eligible investments. 3) Term (duration) and other restrictions, namely the time limit when the investment allowance can be claimed. For Indonesia, the term is six years.

The government regulates the tax allowance policy in Indonesia itself. The implementation of the tax allowance policy to further increase direct investment activities to encourage economic growth, as well as for equitable development and acceleration of development for specific business fields and in certain regions, provisions have been established regarding income tax facilities for investment in specific business fields and certain areas with Government Regulation Number 18 of 2015 concerning Income Tax Facilities for investment in specific business fields and certain areas with Government Regulation Number 18 of 2015 concerning Income Tax Facilities for investment in specific business fields and certain areas with Government Regulation Number 18 of 2015 concerning Income Tax Facilities for Investment in Certain Business fields and Certain Areas. The legal basis for changing tax allowance is PP Number 18 of 2015, the second amendment from PP Number 1 of 2007. Article 31 A of Law Number 36 of 2008 concerning Income Tax. PER-41/PJ 2014 concerning procedures for providing income tax facilities, determining the realization of investment, submitting reporting obligations, and revoking the decision to approve the provision of income tax facilities for taxpayers who invest in specific business fields/or in certain areas. Government Regulation of the Republic of Indonesia Number 9 of 2016 concerning Amendments to government regulation number 18 of 2015 concerning income tax facilities for investment in specific business fields and certain areas (Lusiana et al., 2022).

Business fields can get tax allowance, an extension of the previous regulation of 143 segments. Agriculture consists of; Livestock, Corn plantations, Soybean plantations, Rice farming, and Tropical fruit plantations. The power plant is composed of Geothermal and Alternative or renewable energy. Oil and Gas Industry excluded from; Refining Oil, Liquefied Natural & Petroleum Gas, and Lubricants. The manufacturing plant consists of; Iron and Steel, Clothing, Semiconductors, Electronic components, Computers, Communication Devices, Televisions, Tires, Pharmaceuticals, Cosmetics, Processed Fish, and Shrimp (Purnamasari, 2016). The form of facilities obtained by taxpayers who invest in specific business fields and areas can be given tax facilities in the form of a reduction in net income of 30% of the investment amount charged for six years. Accelerated depreciation of tangible assets and accelerated amortization of intangible assets. The imposition of income tax on dividends paid to overseas taxpayers other than permanent establishments in Indonesia at 10%, or a lower rate according to the applicable double taxation avoidance agreement. Compensation for losses over five years but not more than ten years (Putri, 2017).

**H1:** There is an influence on applying the tax holiday policy on the development of foreign investment.

**H2:** There is an influence on applying the tax holiday policy on the development of
Research Design and Method

The type of data used in this study is in the form of quantitative data. The population in this study is data on foreign direct investment in BKPM South Sulawesi Province in 2017 - 2020. As for the sampling technique with purposive sampling. Purposive sampling is a technique to determine research samples with specific considerations that aim to make the data obtained later more representative. Data collection techniques used by direct observation of the object of study are with documentation. The sources used are secondary data on foreign investment per Kabupaten throughout South Sulawesi and the number of companies that received tax holidays and tax allowances from 2015 to 2018. The data collected will be analyzed through several stages of testing. The first stage is to conduct a descriptive analysis. The second stage is a classical assumption test (normality, multicollinearity, and heteroskedasticity). The third stage is to test all the hypotheses proposed in this study which will be proven through partial tests, simultaneous tests, and coefficient of determination tests.

Results and Discussion

Statistical Result & Discussion

The first stage in analyzing the data of this study is descriptive statistical analysis. Descriptive analysis is generally related to the collection and summarization of data, as well as describing the characteristics of the data used in the study, such as the amount of data, average value, standard deviation from the variable tax holiday, tax allowance, and Foreign Investment.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Median</th>
<th>Sd</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Investment</td>
<td>6.553.991</td>
<td>6.891.235</td>
<td>2.946.129</td>
<td>2.916.719</td>
<td>9.516.774</td>
</tr>
<tr>
<td>Tax Holiday</td>
<td>0.500</td>
<td>0.500</td>
<td>0.577</td>
<td>0.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Tax Allowance</td>
<td>0.500</td>
<td>0.500</td>
<td>0.577</td>
<td>0.00</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Source: Processed Data (2022)

Table 2 shows that the mean value of foreign investment variables within four years (2017-2020) looks lower than the median value, so it can be concluded that the value of foreign investment fluctuates yearly. The standard deviation value also confirms this above 2, which indicates the instability of foreign investment (see figure 1). The variable tax holiday and tax allowance have the same value, so it can be interpreted that there is no significant change every year.
Figure 2. The Value of Foreign Investment in 2017-2020 in South Sulawesi.

The second stage is a classical assumed test consisting of a normality test that aims to see whether the independent variable or the dependent variable has a normal distribution or not. A good regression model is a standard or near-normal distribution.

Table 3. Normality Test Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Statistics</th>
<th>Significance</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Investment</td>
<td>0.440</td>
<td>0.990</td>
<td>Normal</td>
</tr>
<tr>
<td>Tax Holiday</td>
<td>0.614</td>
<td>0.846</td>
<td>Normal</td>
</tr>
<tr>
<td>Tax Allowance</td>
<td>0.614</td>
<td>0.846</td>
<td>Normal</td>
</tr>
</tbody>
</table>

Table 3 shows the results of the data normality test using the Kolmogorov-Smirnov test and obtained a significant value of > 0.05 for all variables, which means the data are typically distributed. The data in this study can be further analyzed using multiple linear regression analysis. Furthermore, a multicollinearity test was carried out to see whether there was a correlation between independent variables in the regression model. If there is a strong correlation, it can be said that there has been a multicollinearity problem in the regression model.

Table 4. Multicollinearity and Autocorrelation Test Results

<table>
<thead>
<tr>
<th>Variable 1</th>
<th>Variable 2</th>
<th>r</th>
<th>VIF</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Holiday</td>
<td>Tax allowance</td>
<td>&lt;0.001</td>
<td>1.000</td>
<td>No multicollinearity occurs</td>
</tr>
<tr>
<td></td>
<td>Durbin Watson</td>
<td></td>
<td>2.000</td>
<td></td>
</tr>
</tbody>
</table>

Judging from the magnitude of the correlation coefficient (r) between free variables, the value of r < 0.001 is far below 0.60, and the importance of VIF = 1,000, so it can be concluded that between free variables, there is no multicollinearity which means that there is no tightness or relationship between the tax holiday and tax allowance variables. Judging from the value of the Durbin-Watson test obtained, the value of DW = 2, it can be concluded that in the data above, there is a negative autocorrelation so that the regression equation model obtained can still be used to complete.

To see heteroscedasticity is seen; the figure below shows the residual value spreading on the Y-axis and not having a regular pattern, so it can be concluded that no
heteroscedasticity means that the data have the same variant.

![Heteroskedasticity Test Results](image)

**Figure 3. Heteroskedasticity Test Results**

The third stage is the testing of the entire hypothesis. F-test or simultaneous test is carried out to determine whether simultaneously or together independent variables have a significant effect or not on dependent variables. The test results can be seen in table 5.

<table>
<thead>
<tr>
<th>F count</th>
<th>F table</th>
<th>Sig</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.028</td>
<td>9.280</td>
<td>0.376</td>
<td>Insignificant</td>
</tr>
</tbody>
</table>

The results of the F-test show that F-calculates ≤ F-estimated, then H0 is accepted, meaning that independent variables simultaneously do not affect the dependent variable significantly so that it can be interpreted that the tax holiday policy and the tax allowance policy together do not affect foreign investment.

<table>
<thead>
<tr>
<th>Regression Coefficient</th>
<th>Standard error</th>
<th>t-calculated</th>
<th>t-estimated</th>
<th>Sig (p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constanta</td>
<td>3.877.191</td>
<td>1.663.586,3</td>
<td>2.331</td>
<td>3.1824</td>
</tr>
<tr>
<td>Tax Holiday</td>
<td>674.489</td>
<td>1.920.944</td>
<td>0.351</td>
<td>0.785</td>
</tr>
<tr>
<td>Tax Allowance</td>
<td>4.679.111</td>
<td>1.920.944</td>
<td>2.436</td>
<td>0.248</td>
</tr>
</tbody>
</table>

The t-test results show that the calculated value of ≤ t-estimated, which means that H0 is accepted, so it can be concluded that the tax holiday and tax allowance partially do not affect foreign investment. This answers the research hypothesis that there is no influence on the application of the tax holiday on the development of foreign investment (H0). There is no influence on applying for tax allowance on the result of foreign investment (H2). From the obtained regression coefficients can be made a model of the regression equation can be as follows:

$$\text{Foreign Investment} = 3.877.191 + 674.489\_\text{Tax Holiday} + 4.679.111\_\text{Tax allowance}$$

The hypothesis test results above show that the tax holiday application to foreign
investment, especially in South Sulawesi, has no effect. This is based on the level of foreign investment fluctuating yearly based on the results of descriptive tests conducted in 2017-2020. The t-calculated results show that the calculated value of the ≤ t-estimated, which means that H0 is accepted so that it can be concluded that the tax holiday partially does not affect foreign investment. Based on the multicollinearity test of the implementation of tax policies carried out by the relevant government, which is expected to be able to attract and influence the development of foreign investment, assist the government in the development of human resources (HR) and overall economic growth does not seem to have any effect. This is in line with previous research (Blomström et al., 2010) entitled "The economics of Foreign Direct Investment Incentives." The study shows that many countries provide business incentives to foreign investors to aim that the government will positively affect foreign direct investment activities, such as improving development and the domestic economy. However, according to the researcher, the positive effect of such direct investment cannot occur if domestic entrepreneurs cannot absorb it properly. Therefore, the government must create a business incentive that can directly stimulate domestic entrepreneurs to absorb knowledge from foreign investors who invest in the country. The results of this study are also in line with research (Tovi & Purwanit, 2022) which found that tax holidays do not have a significant effect on FDI in Indonesia because tax holidays are not the primary determinant of investors in investing, so it can be interpreted that the provision of tax holidays is less effective in increasing FDI in Indonesia.

The provision of tax allowance facilities intended for specific regions is considered effective in helping to level the economic level of a country. However, the t-calculated results show that the calculated value ≤ t-estimated, which means that H0 is accepted so that it can be concluded that the tax allowance policy partially does not affect foreign investment. The implementation of the tax allowance has not been effective and efficient either. Viewed from the point of view of investor interests, it has not been effective because those who get investment tax incentives are still very few. At the same time, they are not efficient because the process of getting investment tax incentives is not easy because of the complicated bureaucracy. Investors do not yet fully have an interest in the tax incentive facility. There are three reasons the Tax Allowance is not the main factor for investors or entrepreneurs to invest. The second reason is that the tax incentive facility requires accountability reporting. The third reason is that the economic climate is already good, so investors feel they do not need such policies—lack of promotion and socialization regarding the procedure. The lack of promotion and socialization will lead to the ignorance of investors. If investors do not know that such a policy exists, how can the government expect them to take advantage of it? The results of this study are not in line with research (Lusiana et al., 2022) which shows that investment in Indonesia has increased after the tax holiday and tax allowance policies. However, the application of tax holidays and tax allowances has not been able to increase the tax ratio in Indonesia because the provision of tax reductions and exemptions affects tax revenues, which directly impacts the tax ratio in Indonesia.
Conclusions

Based on the research results, it is concluded that the application of tax holidays and tax allowances does not affect the development of foreign investment. Not always, investment tax incentives can increase the value of investments. This is because factors other than tax incentives determine investment more. These factors include the size of the domestic market, the wages and productivity of workers, the availability of infrastructure, the growth of government spending, the inflation rate, the interest rate, investment risk, and various other things. Tax holidays and Tax allowances are still empty of enthusiasts. This shows that tax holidays and tax allowances cannot be said to be effective and efficient from the point of view of investor interests. The advice that researchers can give in connection with the results of this study is that the Government or relevant agencies should improve and review the licensing process at the central and regional levels. It requires conceptual investment and taxation regulations for the long term so that the government does not have to make regulatory changes relatively quickly. Because this will decrease investor confidence in legal certainty in Indonesia, improving the investment climate through better regulations can positively influence the investment climate. There must be massive promotion and socialization so that the investment tax incentive policy can be known so that investors can utilize it.

Reference


