

# The Effectiveness Of Tax Policy In Encouraging Domestic Investment In Indonesia

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## ABSTRAK

Penelitian ini berfokus pada analisis terhadap efektivitas kebijakan perpajakan dalam merangsang pertumbuhan investasi domestik di Indonesia. Pemerintah secara aktif telah mengeluarkan berbagai instrumen insentif fiskal, antara lain fasilitas tax holiday, tax allowance, serta penurunan tarif pajak penghasilan badan, sebagai strategi untuk memperbaiki iklim investasi dan menarik minat pelaku usaha dalam negeri. Namun demikian, efektivitas implementasi kebijakan tersebut belum sepenuhnya mencapai hasil yang optimal. Hal ini disebabkan oleh berbagai hambatan struktural, seperti prosedur birokrasi yang masih rumit, ketidakpastian regulasi yang membingungkan investor, serta keterbatasan pemahaman perpajakan di kalangan pengusaha lokal. Penelitian ini menggunakan pendekatan kualitatif dengan metode deskriptif, memanfaatkan data sekunder yang diperoleh dari laporan kebijakan fiskal, publikasi lembaga keuangan, serta dokumentasi akademik yang relevan. Hasil analisis menunjukkan bahwa meskipun insentif fiskal memiliki dampak positif terhadap minat investasi domestik, namun realisasinya masih terhambat oleh lemahnya koordinasi antarinstansi, kurangnya transparansi, dan keterbatasan dukungan teknis. Oleh karena itu, diperlukan reformasi yang lebih komprehensif melalui penyederhanaan sistem regulasi, digitalisasi layanan perizinan usaha, serta peningkatan literasi fiskal melalui program pembinaan terpadu. Selain itu, penguatan kapasitas kelembagaan fiskal dan jaminan kepastian hukum menjadi faktor penentu dalam meningkatkan kepercayaan investor serta memperkuat kontribusi investasi dalam negeri terhadap pertumbuhan ekonomi nasional.

## ABSTRACT

*This study focuses on analyzing the effectiveness of tax policies in stimulating domestic investment growth in Indonesia. The government has actively introduced various fiscal incentive instruments, including tax holidays, tax allowances, and reductions in corporate income tax rates, as strategies to improve the investment climate and attract domestic entrepreneurs. However, the implementation of these policies has not fully achieved optimal outcomes. This is due to several structural obstacles, such as complex bureaucratic procedures, regulatory uncertainty that confuses investors, and limited tax literacy among local business actors. This research adopts a qualitative approach with descriptive methods, utilizing secondary data sourced from fiscal policy reports, financial institution publications, and relevant academic documentation. The analysis reveals that although fiscal incentives positively impact domestic investment interest, their realization is still hindered by weak inter-agency coordination, lack of transparency, and limited technical support. Therefore, a more comprehensive reform is needed, including simplification of regulatory systems, digitalization of business licensing services, and improvement of tax literacy through integrated training programs. Furthermore, strengthening the capacity of fiscal institutions and ensuring legal certainty are crucial factors in enhancing investor confidence and reinforcing the contribution of domestic investment to national economic growth.*

## INTRODUCTION

The role of domestic investment is very important for a country's economic growth, especially in expanding the production base and opening up new jobs. The Indonesian government has implemented various fiscal policies as an instrument to attract local investors, one of which is through the provision of tax incentives. As explained by Siregar and Adiputra (2021), incentive schemes such as temporary tax holidays, tax allowances, and corporate income tax rate cuts are designed to create a competitive and attractive investment climate for the domestic business sector. These steps are expected to encourage greater investment flows to the productive sector.

However, the effectiveness of these tax policies is still being debated. Technical and structural obstacles are still often found in their implementation. The results of a study by Wibowo and Mahardika (2020) show that business actors, especially small and medium-scale businesses, often do not understand the procedures for submitting available incentives, so that fiscal facilities that should be utilized are not used optimally. In addition, uncertainty in regulations and weak coordination between government agencies have also worsened the business world's perception of policy consistency.

Considering these various problems, the main question in this study is: how effective is tax policy in stimulating domestic investment in Indonesia? And, what are the most influential obstacles in its implementation? The purpose of this study is to comprehensively examine the impact of tax policy on domestic investment interest and realization, and to provide strategic input in the form of fiscal policy recommendations that can strengthen the attractiveness of domestic investment through a more efficient and investor-friendly regulatory approach.

## LITERATURE REVIEW

Tax policy is one of the main instruments in government fiscal that functions to influence economic conditions through the regulation of tax rates and tax bases imposed (Musgrave & Musgrave, 2018). In the context of investment, tax incentives are given with the aim of reducing the burden of company costs while increasing profit prospects, thus encouraging investors to invest their capital. The Keynesian theory approach suggests that the role of government in intervening in the economy through fiscal policy, including tax regulations, can increase aggregate demand and stimulate investment activity (Blanchard, 2020).

The strategy of providing fiscal incentives such as tax holidays and tax allowances is a common policy implemented in developing countries as an effort to attract investment in the real sector (Zee et al., 2002). However, the success of these incentives is highly dependent on the effectiveness of the implementation and support of other policies that run in parallel. According to Porter's market structure theory (1990), the existence of a stable, transparent, and efficient regulatory environment is one of the key factors in attracting and maintaining investment.

The framework of thought in this study is built on the basis of a causal relationship between tax policy as an independent variable and domestic investment as a dependent variable, where the effectiveness of the policy is influenced by moderator variables in the form of bureaucratic efficiency, legal certainty, and ease of access to information for business actors. These factors are seen as important determinants in increasing investor confidence and optimizing fiscal policy results.

## METHODS

This study uses a qualitative approach with a descriptive method, which focuses on literature studies and secondary data analysis. The data used comes from official sources, including the annual report of the Investment Coordinating Board (BKPM), the Ministry of Finance, and various relevant academic publications in the period 2019 to 2024. The main variables analyzed include the types and characteristics of tax policies and the development of domestic investment in Indonesia. In the data analysis process, content analysis techniques are used to evaluate the contents of documents and reports, as well as source triangulation to ensure the consistency and validity of the information obtained. The analysis is carried out by comparing the implemented fiscal policies with the realization of investment that occurs, so that correlational relationships can be identified contextually. Data validity is maintained by checking the credibility of sources and cross-confirmation between reference documents. This method aims to provide a comprehensive picture of the effectiveness of tax policies in influencing the investment behavior of domestic business actors, by considering the factors that support and hinder the implementation of the policy.

**RESULTS AND DISCUSSION**

**Result**

Analysis of data obtained from BKPM shows an increase in the value of domestic investment over the past few years, especially after the implementation of the tax incentive policy in the form of a tax holiday in 2020. The manufacturing, energy, and transportation sectors recorded significant growth in investment realization. However, this increase was not evenly distributed because the majority of the benefits of fiscal policy were felt more by large companies. Meanwhile, Micro, Small, and Medium Enterprises (MSMEs) still face obstacles in accessing these incentives due to limited socialization and complicated administrative access.

**Discussion**

**Table 1. Domestic Investment Realization 2019–2023 (in trillion rupiah)**

Year	Investment Value
2019	328.6
2020	370.2
2021	421.3
2022	468.0
2023	490.5

Source: BKPM (2024)

Table 1 shows the trend of increasing domestic investment value during the period 2019 to 2023 which was followed by the implementation of fiscal incentive policies.

**Figure 1 investment value trend from 2019 to 2023**

Grafik Nilai Investasi per Tahun (2019-2023)

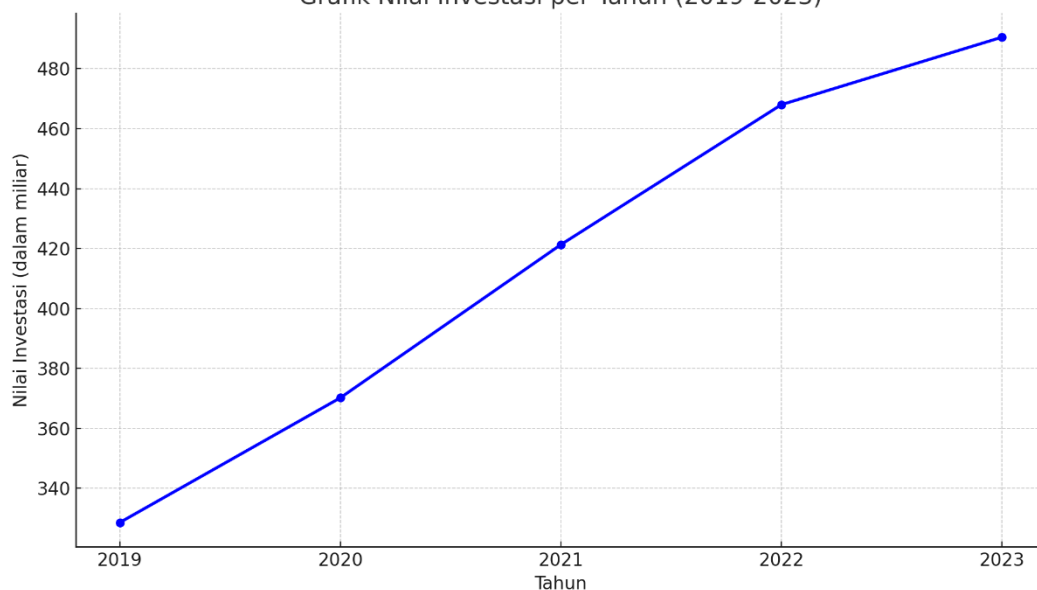


Figure 1 illustrates domestic investment growth which tends to be stable since fiscal incentives were implemented, although there is a visible slowdown in growth in 2023 influenced by global economic uncertainty and ongoing geopolitical dynamics. Although tax policy plays a role in boosting investment, its effectiveness has not reached its maximum potential. The main obstacles that are still found include complex bureaucratic procedures and minimal data coordination between related agencies. In addition, uncertainty in the consistency of fiscal policy often causes anxiety among investors, especially related to sudden regulatory changes that impact their business planning. Therefore, improving policy governance and increasing transparency are crucial to support the sustainability of domestic investment.

## CONCLUSION AND SUGGESTION

### Conclusion

This study confirms that tax policy in Indonesia has a strategic role in supporting increased domestic investment, especially through the provision of comprehensive fiscal incentives. However, its implementation has not been fully effective because it is still faced with structural challenges such as complicated bureaucratic procedures, frequent regulatory changes, and low levels of fiscal understanding among business actors. The results of the analysis show that improving the institutional system and ensuring legal certainty are key elements in optimizing the role of fiscal policy in a sustainable manner. This finding also strengthens previous findings from various international studies that show the importance of regulatory stability and institutional efficiency in creating a conducive investment climate through tax policy.

### Suggestion

Referring to the findings, it is recommended that the government simplify the procedure for submitting tax incentives, by utilizing digital technology and strengthening the one-stop service system. This effort is considered important to increase the effectiveness and transparency in providing fiscal facilities. In addition, efforts are needed to increase the capacity of business actors, especially MSMEs, through comprehensive tax education and direct technical support. On the other hand, synergy between the central and regional governments needs to be strengthened so that fiscal policies can run synchronously without causing implementation conflicts in the field. Periodic evaluation of the impact and effectiveness of fiscal incentives is also a strategic step so that the policies implemented remain adaptive and relevant to the needs of the business world.

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