STUDY OF INCOME TAX INCENTIVES IN CREATIVE INDUSTRY

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Abstract
Economic globalization and competition to get foreign direct investment made an increasing concern about the tax-effect. Many previous research shown that tax rate is one concern take into a consideration before starting up a new business and is the most influential to investment decision. In this article, we compare income tax incentives given for creative industry in Indonesia, Singapore and Malaysia. Using simulation method, approach used by Graham and Smith (1998) and Anwar and Mulyadi (2011), and shareholder's value approach proposed by Anwar and Mulyadi (2011). From our analysis, we conclude full income tax exemption in five years period offered by Malaysia is the most attractive income tax incentives compared to Indonesia and Singapore.

Keywords: income tax incentives, foreign direct investment, simulation method, creative industry

1. Introduction

Trend of economic globalization and competition to get foreign direct investment (FDI) among countries have led to increasing concerns about the effect of taxes on FDI. There are several research on what is the primary concern of FDI. The first concern is tax rate, a conclusion reached by Newlon, 1987; Swenson, 1994; and Hines, 1996. Another concern is location of FDI (Ondrich and Wasylenko, 1993).

To attract FDI, one of fiscal instrument could be used by a country is tax benefits and tax incentives. Tung and Cho (2001) found that tax incentives play important role in determining regional investment decisions. Tax incentives given could be in terms of lower income tax rate or in any other different kind. Adjustment of income tax rate is not an unusual approach to attract investment. According to Mintz and Smart (2004), some Canadian provinces cut tax rate to almost 50% and followed by other provinces.

In the other hands, compliance to income tax regulation is costly especially for big business (Slemrod and Blumenthal, 1996). Therefore, government could not avoid that tax instrument is one of important thing to consider to attract foreign direct investment. And it is also important to note that this policy could also work for domestic investor as well (Anwar and Mulyadi, 2012).

In this article, we are going to discuss income tax incentives given in creative industry, with our focus on selected South East Asian countries (Indonesia, Singapore and Malaysia). As both countries are close geographically, we believe all countries will face same circumstances in order to attract investment especially in this creative industry.

2. Literature review and previous research

2.1. Importance of tax incentives

Hutagaol, Darussalam and Septriadi (2006) grouped tax incentives into three: agreement between country to country, agreement with contractor and tax incentives based on regulations. While Holland and Vann (1998) divide this tax incentives to five: tax holiday, investment allowances and tax credits, timing differences, reduced tax rates, and free economic zones.

It is important to implement tax incentives policy as there is significant variation in return on investment with tax and incentives differences. Study by Fisher and Peters (1998) concluded that the differences in investment returns due to tax and incentives differences are quite substantial. And they could not deny that the differences are large enough to influence location choices.

2.2. Creative industry

Creative industry are economic activity related to creation or usage of knowledge and information. This industry also called as culture industry or creative economy. The most important point of this industry is sensitivity to new ideas that are feasible to develop and resulted in economic added value (Siagian, 2012).

According to Howkins (2001), creative economy is an economic concept in economic new era that used information and creativity intensively depends on idea and stock of knowledge from human resource as main production factor in economic activity.

There are six major group of creative industry: media publishing and presentation, electronic media presentation with cultural content, cultural presentation, arts and culture intensive, design and creativity with technology.

2.3. Previous research

Tax incentives is a policy to encourage investment by adjusting current tax structures. Previous research in tax structures used several analytical frameworks (Atkinson, 1995; Creedy, 1995). Tax incentives is concluded as one of the most influential to investment decision. Research by Wasylenko (1997), Graham and Smith (1998) and Tung and Cho (2001) support this conclusion. This tax incentives is attractive to both domestic and foreign investment. Once they receive tax incentives, they will have an advantage (Fernandez de Soto Blass, 2011).

3. Methodology

In this research, we use simulation methods to compare tax incentives provided by three countries (Indonesia, Singapore and Malaysia) to reach conclusion which country give the best tax incentives to attract FDI in creative industry.

This simulation method is commonly used to analyze tax incentives. The same method also used by Graham and Smith (1998) and Anwar and Mulyadi (2011). In the end, comparison of income tax incentives will be evaluated by each shareholder's value as proposed by Anwar and Mulyadi (2011).

4. Discussion

There are several tax incentives applied for creative industry in Indonesia, Singapore and Malaysia. We divide this discussion into three sections: each section will discuss tax incentives in each country.

4.1. Income tax incentives in Indonesia

Income tax incentives applied for creative industry in Indonesia are: lower income tax rate (50% from normal tax rate) in 6 years, accelerated depreciation and amortization, 5-10 years loss carry forward (only 5 years normally) and exemption from export tax and value added tax for import.

4.2. Income tax incentives in Singapore

Income tax incentives applied for creative industry in Singapore are: lower income tax rate (7% to 12% less than normal tax rate) in 3-5 years, fiscal incentive of maximum SGD 400,000 in 3 years, exemption on corporate income tax rate (depends on type of the corporation and the exemption rate is vary), lower tax rate (5% to 10% less than normal tax rate) for purchase of machine or modern equipment, and FDI facility from government.

Compared to incentives given in Indonesia, Singapore's income tax incentives are vary. And not also a quantitative incentive (ie. lower tax rate, tax exemption), Singapore also given a qualitative incentive in terms of FDI facility, which is known to ease start up of a new foreign investment.

4.3. Income tax incentives in Malaysia

There are several income tax incentives applied for creative industry in Malaysia. The most important incentives given is income tax exemption for 5 years. Beside income tax exemption, Malaysia also offering income tax exemption from capital gain for investor of creative industry.

4.4. Comparison of income tax incentives in Indonesia, Singapore and Malaysia

Based on above discussion, we consider all income tax incentives given by three countries. Using several assumption, we simulate five years period earning after tax for creative industry as shown in the following table.

Country	Year 1	Year 2	Year 3	Year 4	Year 5
Indonesia	30,625	28,437	35,000	43,750	48,125
Singapore	31,850	30,025	36,850	45,950	50,500
Malaysia	35,000	32,500	40,000	50,000	55,000

Table 1. Simulation of five years earning after tax

After presentation of earning after tax in previous table, we apply shareholder's value to analyze which country is the most attractive place for creative industry. Using 5.75% as interest rate, a rate constantly used by Indonesia Central Bank, we calculate the following shareholder's value.

Country	Total of shareholder's value
Indonesia	155,407
Singapore	163,107
Malaysia	177,608

Table 2. Total of shareholder's value in three countries

5. Conclusion

Based on above discussion and analysis, we find out that there are several method of income tax incentives given by government and tax authorities. All income tax incentives are offered in order to attract investment, either domestic or foreign investment.

In comparison of income tax incentives given by Indonesia, Singapore and Malaysia we conclude that based on shareholder's value, Malaysia is the most attractive place to invest in creative industry among Indonesia and Singapore. 5 years income tax exemption ultimately is the best offer given that could attract investor in the creative industry.

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