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Evaluation of the Tax Allowance Facility in the Indonesian Fish Processing Industry

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This study aims to analyze the achievement of policy objectives in terms of effectiveness, similarity and accuracy of income tax incentives in the form of tax allowances for the Indonesian fish processing industry. This research was conducted with a qualitative approach and qualitative data collection techniques through literature study and field study. The results show that although the tax allowance facility procedure has met the principle of simplicity, the facility has not effectively increased investment because it is still a relatively small industry that uses it. The fiscal cost burden still incurred by the taxpayer that makes this policy inefficient. This facility is also not appropriate for the fish processing industry because the allowance can only be utilized by large-scale industries, while small- and medium- scale fish processing industries cannot utilize the tax allowance facility.

Keywords: *policy evaluation, income tax incentives, tax allowance, fish processing industry*

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Introduction

Indonesia holds immense natural resource potential in the fisheries industry. This is well-supported by its geographical condition, with the majority of the Indonesian national territory consisting of territorial waters. The total area of Indonesian territorial waters is 5.8 million km^2; 2.3 km^2 of the total area is deep sea waters, 0.8 million km^2 is territorial waters, and 2.7 million km^2 of it make up exclusive economic zones (EEZ). Additionally, inland bodies of waters total up to 0.54 million km^2 (Ministry of Maritime Affairs and Fisheries/MMAF 2015a). Indonesia's sustainable natural resources potential is estimated at 6,520.1 million tons per annum across all Indonesian territorial waters.

Having considered such sustainable natural resources potential, the total allowable catch (TAC) has been set at 5.2 million tons per annum, or around 80% of the available-for-capture fish. Furthermore, the aquaculture sector holds an equally large potential with 19,000,000 Ha of available-for-use land areas for aquaculture (MMAF 2015a). However, less than 25% of this potential has been used. With this consideration, there is still a sizeable opportunity to take advantage of the available cultivation lands. Key to boosting the national fish production level is an optimal management system, which would also help in meeting both domestic and foreign market demands.

As one of the global fish producers, Indonesia's fish production level has been continuously increasing at an average rate of 15.80% from 2010 to 2016 (MMAF 2017). The overall increase in Indonesia's aggregate fish production could be ascribed to both the aquaculture and capture fishery sectors. In 2016, the aquaculture sector was the main contributor with 16,675,031 tons, while the capture fishery sector contributed only 6,831,330 tons during the same year (MMAF 2017).

In itself, the sheer production volume of the Indonesian fisheries industry has elevated the national GDP growth for fisheries industry, which has consistently outperformed the national GDP average from 2010 to 2016. Based on the data obtained by Indonesia's Statistics Agency and analyzed by the MMAF (2017), the fisheries sector exhibited fluctuating GDPs historically, with its highest growth demonstrated at 8.91% in 2014 and its lowest at 5.15% in 2016. Comparatively, the 2014 national GDP was only 5.01% and increased only slightly to 5.02% in 2016.

The increasing fishery production volume has consequently increased

TABLE 1
Volume and Value of Export of Indonesian Fishery Products by Main Commodity, Years 2010-2015

Main Commodity	Year					
	2010	2011	2012	2013	2014	2015*
Total Volume (Ton)	**1.103.576**	**1.159.349**	**1.229.114**	**1.258.179**	**1.274.982**	**872.379**
Shrimp and Lobster	145.092	158.062	162.068	167.565	196.623	162.580
Tuna, Tongkol, Cakalang	122.450	141.774	201.159	209.072	206.553	142.023
Pearl	9	24	336	315	475	619
Seaweed	123.075	159.075	174.011	183.075	208.197	178.280
Crab	21.357	23.089	28.212	34.173	28.091	19.937
Other Fishes (includes from inland water)	622.932	621.632	538.723	524.752	502.027	246.727
Others	68.481	55.693	124.605	149.841	134.660	122.214
Total Value (US $1.000)	**2.863.831**	**3.521.091**	**3.853.658**	**4.181.857**	**4.641.913**	**3.273.085**
Shrimp and Lobster	1.056.399	1.309.674	1.304.149	1.684.086	2.140.862	1.393.095
Tuna, Tongkol, Cakalang	383.230	498.591	749.992	764.791	692.281	491.981
Pearl	31.429	31.792	31.186	27.766	31.188	26.248
Seaweed	135.939	157.587	177.923	209.975	279.916	178.382
Crab	208.424	262.321	329.724	359.304	414.372	265.911
Other Fishes (includes from inland water)	898.039	1.100.576	965.062	1.056.117	771.147	616.730
Others	150.371	160.550	295.622	79.817	312.146	300.738

Source.—Indonesia's Statistics Agency, analyzed by the MMAF (2015b)
* Preliminary Figures up to October 2015

the demands for fishery products from both domestic and foreign markets. Between 2010 and 2015, fishery export volumes increased with 12.98% growth and were the largest contributor to the nation's foreign exchange reserves at a value of USD 4,641,913 (MMAF, 2015b). Most of the Indonesian fishery product exports remained dominated by unprocessed fishery products, suggesting less-than-optimal exploitation of the processed fishery

sector. This is shown in the Table 1.

In fact, processed fishery products should have been relatively more valuable and competitive compared to raw, unprocessed fish. Export volumes of processed fishery products remain low due to the low utilization of the fishery sector's downstream activities, i.e. the fishery processing sector. Subsequently, it is considered necessary to improve the level of downstream activities in the fishery sector to hike up its utilization rate and thus produce higher quality, more competitive and more valuable processed products, which ultimately could propel economic growth.

One of the initiatives launched by the government of Indonesia in order to advance the fishery processing industry was the development of the downstream fishery sector by accelerating the overall development of the national fishery industry, as stipulated in the Presidential Instruction No. 7/2016. According to this Presidential Instruction, the MMAF, in its capacity as the supervising ministry of the sector, is required to evaluate those regulations that may possibly inhibit the development of capture fishery, aquaculture, processing, domestic retailing, fishery product exports, and national salt cultivation ponds. In addition, they are also required to establish a road map and action plans to accelerate developments. One of these initiatives is realized in the establishment of Integrated Maritime Affairs and Fisheries Centers across Indonesia. This initiative has opened up investment opportunities in the maritime and fishery products processing sectors, which is targeted to be the pull factor for investments in the Indonesian fishing industry.

In order to encourage investments in the fish processing industry, the government has launched tax incentive schemes through the Ministry of Finance. With the issuance of the Government Regulation No. 18/2015 *jo* and Government Regulation No. 9/2016, the government of Indonesia has launched tax incentive schemes such as a tax allowance scheme, among others. Tax allowance incentive here means a deduction in the taxable tax base or tax credit that is calculated based on the amount invested (Thuronyi 1998, pp. 6). These incentives were aimed at encouraging investments in Indonesia. Furthermore, these tax incentives were also aimed at boosting natural resource utilization and to open up employment opportunities in less favored areas (Bird and Oldman 1967, p. 222).

However, since the Government Regulation No. 18 of 2015 *jo* and the Government Regulation No. 9 of 2016 became effective in 2015, we have not witnessed any application or attempt from any investors to benefit from the tax allowance provided for in those regulations. Against this backdrop, this

study is carried out to evaluate the tax allowance incentive scheme policies in the fishery processing industry in Indonesia between 2015 and 2016.

Literature Review

Policy implementation will result in output which will then act as feedback to the policy implementation itself. For this reason, the policy evaluation stage is critical in analyzing policy implementation. Dye (2008, pp. 547) was of the opinion that policy evaluation is an objective, systematic, and empirical assessment on the effects of public policies and programs against its targeted outcomes based on the desired end results. On the other hand, Anderson, as quoted by Winarno (2002, p. 166), suggested that policy evaluations could be considered as related to the estimation or assessment of policies that covers the aspects of its substance, implementation, and impact. In this manner, policy evaluation is not merely carried out at the final stage but is done throughout the whole process. A proper policy evaluation requires several criteria or indicators. Table 2 lists six criteria that may be used for policy evaluation, as recommended by Dunn (2003, p. 610).

This study aims to evaluate three of the policy evaluation criteria as proposed by Dunn, namely effectiveness, equity and fairness, and appropriateness. The efficiency factor has been embedded into effectiveness since they are considered inseparable in the measurement of effectiveness of a government-issued policy. This study will also look at two principal tax

TABEL 2
Evaluation Criteria

Type	Questions
Effectiveness	Has the desired result been achieved?
Efficiency	How much effort is needed to achieve the desired outcome?
Adequacy	How far does the desired outcome achievement go toward solving the problem?
Equity	Are costs and benefits distributed equally among different groups?
Responsiveness	Do the policy outcomes satisfy the needs, preferences or values of particular groups?
Appropriateness	Are the desired results (goals) really useful or valuable?

Source.—Dunn (2003, p. 610)

policy indicators as recommended by American Institute of Certified Public Accountants (AICPA), which are used for evaluating income tax facilities in the fishery processing industry.

Tax policies refer to those policies used for the determination of what constitutes a tax base, who are considered as tax subjects and those who are exempted, what are considered as taxable objects and what are exempted, as well as in determining the settlement for tax amount due (Mansury 1999, p. 1). According to Devereux cited by Rosdiana and Irianto (2013, p. 85), the key issues in tax policy are:

a) What should the tax base be: income, expenditure, or a hybrid?
b) What should the tax rate schedule be?
c) How should international income flows be taxed?
d) How should environmental taxes be designed?

The two tax principles used for the evaluation of income tax facilities are the principles of simplicity and equity and fairness (AICPA 2001, pp. 10-12). These two principles were used by Dunn as indicators of income tax facility policy evaluation in the fish processing industry in Indonesia. The principle of simplicity emphasizes the need to simplify tax policies as much as possible so as to ensure that tax subjects are able to efficiently comply with their tax obligations and thus improve the tax compliance rate of the same tax subjects. This is in line with the opinions of Rosdiana and Irianto (2013, p. 167), who suggested that tax policies are simple when they are easy to adhere to and straightforward.

The principle of equity and fairness relates to the principle of tax fairness, which means that the amount of tax payable shall be fair and equal. Fairness in this context refers to both horizontal and vertical fairness. Tax subjects in the same "condition" shall receive equal treatments so as to ensure that the applied tax is consistent with the principle of horizontal fairness. On the other hand, vertical fairness is attained when tax subjects with additional economic abilities are treated differently (Rosdiana and Irianto 2013, pp. 161-162).

Tax incentives may be perceived as government-granted tax relief. In his book the *Principles of Economics*, Mankiw describes how tax incentive policies could affect people's decision-making processes (Mankiw 2001, p. 7). Tax incentive programs are rolled out to encourage investors to invest in a country. Similarly, these are also aimed at increasing the utilization of natural resources and employment opportunities in less-favored areas (Bird and

Oldman 1967, p. 222). An example of tax incentives takes the form of investment allowance and tax credit, as described by Holland and Vann in *Tax Law Design and Drafting* (Thuronyi 1998, pp. 4-9).

Investment allowance and tax credit is a form of deduction in the taxable tax base or tax credit that is calculated based on the amount invested. Generally, the government would assign a certain pre-determined percentage, which would then be incorporated into the calculation of amount of tax payable by the tax subject.

Methodology

The research method uses a qualitative approach. The data that has been collected needs to be further processed and analyzed to answer the research questions through other data analysis techniques. The collected data are qualitative data with data collection done through two ways, namely literature study and field study. Field studies were conducted through in-depth interviews with policy makers and policy implementers of tax allowance facility policies in the fish processing industry in Indonesia. The collected data will then be analyzed to evaluate the tax allowance facility policy in the fish processing industry in Indonesia by using the Dunn evaluation criteria and the tax policy principles according to the AICPA.

Discussion

Effectiveness

According to Mahmudi (2010), effectiveness refers to the relationship between output and objective. The more a contribution is made by the output towards attaining the objective, the more effective a policy becomes. A policy is considered as effective if the output produced has the ability to accomplish a certain desired objective. An income tax incentive is considered effective if the resulting output could meet its original purpose(s), namely, to encourage direct investment, boost economic development, attain equitable development, and increase manpower absorption.

Since the tax allowance became effective in 2007, the number of investors who have applied for the facilities has in fact decreased. It is shown in the Table 3, that lists down the approvals granted for tax allowance

TABLE 3
Approval List of Tax Allowance Facility in the Field Fish Processing Industry

Business Fields	Value of Investment (US$)	Year of Approval
Fish canning industry, fish freezing and other fish processing	3.170.867	2010
Catching and processing industry and preservation of fish and other aquatic biota and ice cubes	400.000	2008
Industry processing and preservation of fruits, vegetables, fish and other aquatic biota	2.425.000	2007
Shrimp breeding and enlargement and shrimp freezing industry Fish processing and preservation industry and other water Biota	19.500.000	2007
Fish processing and preservation industry and other water biota	500.000	2007

Source.—Interview with Investment Coordinating Board (2017)

applications in the fish processing industry.

According to Table 3, tax allowance approval procedures were based on the Government Regulation No. 1/2007 and its latest amendment, Government Regulation No. 52/2011, which stipulates that only five companies have successfully applied for this facility. 2007 witnessed the greatest number of companies applying for tax facility. According to the Coordinating Ministry of Economic Affairs' data (2015), this was due to the resulting industry-wide enthusiasm and euphoria during the first year of the implementation of tax allowance incentive. However, as the latest version of the tax allowance came into effect through the Government Regulation No. 18/2015 *jo* Government Regulation No. 9/2016, (within two years of its implementation), no tax facility application had been submitted by any company in the fish processing industry by the end of 2016.

In early May of 2017, only one fish processing company submitted a tax allowance application to Indonesia's Investment Coordinating Board, which was subsequently approved by the Directorate General of Taxation. The company (PT ILS) obtained the tax allowance facility for domestic investment for a project based in the South Lampung Regency, in Lampung.

The company operates in supplying other frozen aquatic biota (KBLI 10293), i.e. frozen shrimp, and has invested Rp 268,933,900,000.00 (Interview with Investment Coordinating Board 2017).

Three factors caused the limited use of the tax allowance in the fish processing industry from 2007 up to the end of December 2016. First, upon obtaining the tax allowance, the receiving companies felt inconvenienced as their finances became subject to detailed monitoring by the Directorate General of Taxation. According to the Coordinating Ministry of Economic Affairs (2015), such monitoring activities have been misinterpreted by investors as comprehensive financial audits that may reveal the companies' confidential, internal matters. Second is the cost benefit analysis aspect in taking advantage of the tax allowance facility. Naturally, a company would take into account all potential relevant costs that would be incurred, either during application or after facility approval. Based on the Coordinating Ministry of Economic Affairs' analysis (2015), companies that engage tax consultants during the application stage would incur higher costs. In addition, they often encountered impediments in realizing their investments, namely the possibility of failure during the development phase or even production failure. Last, there are limited introductions of the program and promotional activities targeted at companies. The role of the introduction of the program is imperative in ensuring investor awareness of the existence of beneficial tax allowances for their companies in realizing their investments (i.e. in carrying out their production activities).

Investment realization in the fish processing industry is not solely influenced by the tax allowance, but also by non-fiscal factors. The most crucial non-fiscal factor relates to land rights issues. Often there are difficulties in obtaining land use permits during land acquisitions. To surmount this issue, the government provides land areas designated for fish processing industry that are not free but are available for rent. The associated rental costs are also taken into account by the investors in considering for land acquisition. Furthermore, rented land (vs. acquired land) is not eligible for one of the facilities from the tax allowance, which is accelerated depreciation. This is because land falls under asset and is not eligible for tax incentive if it is not owned.

Efficiency

The principle of efficiency relates closely to effectiveness as it concerns the amount of efforts and costs required to attain a set of desired objectives.

According to Rosdiana and Irianto (2013, p. 172), efficiency may be attained when a taxation cost is low, meaning that the costs incurred by a tax subject in complying with its tax obligations are kept at a minimum.

The Investment Coordinating Board's Directorate of Investment Facility Services acts as the direct liaison with investors as the unit that processes applications for tax allowance facilities and thus incurs a certain amount of administrative costs. These costs consist of costs necessary for technical coordination, such as clarification and trilateral meetings, as well as the costs to introduce tax allowance facility application procedures. These costs have been budgeted by the Investment Coordinating Board to prevent potential excessive costs incurred with regards to tax allowance facility processing and to ensure budget transparency. Another institution that incurs administrative costs is the Directorate General of Taxation, particularly in performing field inspections. Administrative costs are necessary to cover costs incurred for inspections in certain areas.

Nonetheless, investors would also incur costs related to application for the tax allowance facility, including compliance costs. These costs may be quantified in monetary and non-monetary terms. Compliance costs comprise fiscal costs, time costs, and psychological costs (Rosdiana and Irianto 2013). Fiscal costs borne by investors in complying with their tax obligations include transportation costs, meeting costs with the Investment Coordinating Board, performance reporting costs, annual tax filing, etc. There are also time costs for investors, considering the lengthy application process. Furthermore, there are psychological costs related to the anxiety and uncertainty experienced by the investors while waiting to hear back on their tax allowance applications. In general, compliance costs incurred by investors are yet to be considered as efficient because the amount of fiscal costs incurred by investors in taking advantage of the tax allowance facilities remains high. As such, the tax allowance facility does not yet satisfy the principle of efficiency.

Simplicity

The principle of simplicity also relates closely to efficiency, and as such, also affects effectiveness. According to AICPA, tax regulations should ideally allow the parties involved to efficiently honor their tax obligations. Two indicators are used as measurement benchmarks for this criterion, namely ease of use and straightforwardness (Rosdiana and Irianto 2013).

Each of the institutions involved in the approval for tax allowance

facilities, i.e. the Investment Coordinating Board, the Directorate General of Taxation, and the MMAF, fulfills their respective roles and responsibilities as governed by their respective relevant operating procedures. In each institution's operating procedure there would be a standard operating Pprocedure (SOP) with regards to the time limit for processing tax allowance applications. Generally, the approval process for a tax allowance application should take a maximum of 28 working days. This consists of processing by the Investment Coordinating Board during the first 18 working days, during which they verify facility application documents, assemble a clarification meeting, call for a trilateral meeting, and finally issue an Investment Coordinating Board recommendation letter. The remaining 10 working days consist of processing by the Directorate General of Taxation in order to issue a decision letter approving the tax allowance. Meanwhile, based on its SOP, the MMAF must issue one of the required supporting documents, namely the Technical Recommendation Letter. The Technical Recommendation Letter shall be issued within 5 days upon submission of complete and correct data by the applicants.

In addition to imposing a time limit for tax allowance facility application processing, the procedure for the tax allowance application has also been simplified with the establishment of the One-Stop Integrated Service of the Investment Coordinating Board. This One-Stop Integrated Service functions as the processing center for license and non-license documents (one of them being the tax allowance incentive), resulting in a simpler and speedier investment license application process by eliminating the need for investors to go back and forth between ministries and institutions to apply for their licenses. With the establishment of the One-Stop Integrated Service, investors who are interested in taking advantage of the tax allowance incentive are now only required to come with the required documents to the front office of the One-Stop Integrated Service of the Investment Coordinating Board. The rest of the procedure consists only of the One-Stop Integrated Service of the Investment Coordinating Board processing the application. Because of this pathway, we could consider the implementation procedure for the tax allowance incentive as smooth-running and simple due to the ease of application, and because each institution has clearly assigned roles and responsibilities, as well as time limits for application processing. Ultimately, the One-Stop Integrated Service of the Investment Coordinating Board has helped ease the applications for the tax allowance facility by creating a one-door application system and thus eliminating the otherwise lengthy process by designating a single point of application.

Equity and Fairness

According to Dunn, the equity and fairness principle refers to the equitable distribution of opportunities, costs, and benefits in relation to a policy. This criterion relates closely to the principles of fairness in tax, namely horizontal and vertical fairness. Tax subjects in the same "condition" shall receive equal treatments so as to ensure that the applied tax is consistent with the principle of horizontal fairness. On the other hand, vertical equity is attained when tax subjects with additional economic abilities are treated differently (Rosdiana and Irianto 2013, pp. 161-162).

To be eligible for the tax allowance incentive, the fish processing company must satisfy the requirements stipulated in the regulations relevant to the facilities, namely the Ministerial Regulation No. 17/PERMEN-KP/2015. The regulation lists in detail the applicable criteria for each type of fish processing company, and those criteria have been carefully considered by the MMAF, the supervising ministry for the sector. The MMAF has also paid attention to aspects considered influential on the industry prior to finalizing the criteria, including geographic and economic aspects, as well as the supply of raw materials. By exercising careful consideration in compiling the criteria, the MMAF ensures that the process involved in taking advantage of the tax allowance facilities does not backfire and hinder companies from using them.

In addition to the criteria and terms, the fish processing industry is also required to already be in the commercial production stage to be eligible for the tax allowance facility. The use of this facility by fish processing companies is mandatory despite suffering from losses or enjoying profit from failing or successful production, respectively. The requirement is also applicable during times of loss so as to benefit from its carrying forward feature for a maximum period of 10 years, as described in the tax allowance facility regulations. As such, the benefits of tax allowance are equally accessible by companies that are already profitable and those that are still in the reds. In conclusion, the distribution of benefits in relation to the tax allowance facility as stipulated in the Government Regulation No. 18/2015 *jo* Government Regulation No. 9/2016 can be considered as equitable for the fish processing industry overall.

Appropriateness

Appropriateness looks at the objectives of a specific policy and its underlying assumptions. This criterion is used to assess whether the objective of a policy

is beneficial or detrimental for the targeted community. In this context, appropriateness emphasizes the fitness of the use of the tax allowance facility in the fish processing industry.

In line with that purpose, the tax allowance facility plays a role in developing the fish processing industry so as to ultimately boost economic growth and equitable development in Indonesia. Based on the roadmap established by the MMAF, one of the initiatives launched by the government for the development of the fish processing industry is the development of smaller islands and border territories based on spatial borders, better known as the Integrated Marine and Fishery Centers, with maritime affairs and fisheries as the key driving forces. These Integrated Marine and Fishery Centers are established on Indonesia's 12 outermost islands, namely Natuna, Saumlaki, Merauke, Mentawai, Nunukan, Talaud, Morotai, Biak Numfor, Timia, Rote Ndao, Kota Sabang, and East Sumba islands. This development was aimed to accelerate wellness advancements in border communities through a chain of integrated processes, from landing, processing, and marketing of marine and fishery products. With the establishment of the Integrated Marine and Fishery Centers, the MMAF seeks to achieve economic expansion within these locations, and ultimately increase fish production volume and the utilization rates of fish processing units, export values, processed product varieties, manpower absorption, community income level, and investment amount.

The Integrated Marine and Fishery Centers could be the pioneering triggers for industrial advancements in isolated areas, and subsequently open up investment opportunities by increasing investment appeal to investors. In this context, the income tax facility is expected to stimulate the fish processing industry to optimize its production capacity, resulting in a higher absorption of manpower, an increase in export value, and the development of adequate infrastructures to support equitable national development and eliminate disparities among regions.

Although the provision of tax allowance facilities has been appropriately targeted at developing the fish processing industry capacity and attaining economic growth and equitable growth in Indonesia, a segment of the industry remains ineligible for this facility. This is due to the tax allowance facility eligibility restriction that makes it available only to large-scale fish processing units, where only 718 processing units are considered as large-scale according to MMAF data. Meanwhile, the Indonesian fishery industry is populated with numerous mid- to small-scale fish processing companies, i.e. 61,084 units (MMAF 2015b).

Therefore, we conclude that the tax allowance facility is misguided in terms of appropriateness. At this point we observe a policy gap regarding the target companies, where the actual targets are the mid- to large-scale industries with large capital, but the actual reality is that there are more small- to mid-scale fish processing industries established on a smaller capital base. As such, the tax allowance facility in the fish processing industry has not yet fulfilled the principle of appropriateness.

Conclusion

As they are, the policies on tax allowance facilities in the fish processing industry could not yet be considered as effective to help encourage investment in the industry, despite satisfying the principles of simplicity in terms of the tax allowance facility application procedure. This is because only 1% of the aggregate fish processing industry in Indonesia utilizes the tax allowance facility and because the fiscal cost burden remains high, leading to inefficiencies. On the other hand, the distribution of benefits of this facility appears to be equitable as it is available for the fish processing industry both prior to and post 2015. However, this tax allowance facility misses the set target for appropriateness, particularly in the fish processing industry, as its criteria and terms could only be satisfied by large-scale industries, while in reality more small- to mid-scale fish processing industries are present at the moment.

Three issues result in a lack of investors utilizing the tax allowance facility. First, companies objected to the supervision process from the DGT after receiving the approval decision of the income tax facility. Second is the internal consideration of the company related to the cost benefits of utilizing the tax allowance facility, and the last is the lack of socialization programs conducted by the implementing parties for the investors.

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