ABSTRACT

ALI, SUTRISNO. The Effectiveness of Income Tax Incentives: A Study of Taxpayer’s Satisfaction with Foreign Investments in Agribusiness during 2000 – 2007. Under the supervision of BUNASOR SANIM, HARIANTO, and SETIADI DJOHAR.

Tax is a form of compulsory contribution to the state from its society whose legal basis and existence were originated in the Tax Law and its regulations thereunder. Economically, tax – from taxpayer’s point of view- is an additional cost which has to be taken into consideration as an integral part in running a business. Tax incentives were created by the Government to help foster and stimulate foreign investments and to create a more competitive business climate in Indonesia. On the other hand, for the business owner, tax incentives are considered a type of tax savings which can be utilized to finance other business activities such as business expansion. In summary, an effective tax incentive has to achieve dual objectives: first, it has to meet the Government’s objective as an effective way to attract foreign investors and second, it has to meet the business owner’s objective as an effective way to finance a business expansion. The research is concentrated on taxpayer’s satisfaction with the income tax incentives pursuant to the Government Regulation Number 1 Fiscal Year 2007 which is regulated by the Government Regulation Number 62 Fiscal Year 2008 concerning income tax incentives for investments in certain bussiness sectors and certain locations. The research has concluded that the income tax incentives regulation is well-implemented and there is a significant and positive correlation between the income tax incentives with taxpayers’ satisfaction. On the other hand, taxpayers’ satisfaction is positively and significantly related to taxpayer’s compliance. The result of the research is confirming the consumers behaviour theory that a consumer’s loyalty to a product will depends on the consumer’ overall satisfaction with the product itself. The overall satisfaction is driven by many components in product buying decision including the quality, the price and the usefulness of the product.

Keywords: tax law, tax incentives, investment, taxpayers’ satisfaction, taxpayers’ compliance, business characteristics