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A Systematic Literature Review on the Implementation and Impact of Tax Holiday Policy in Indonesia

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ABSTRACT: The implementation of tax holiday policy in Indonesia represents one of the most strategic fiscal instruments used to enhance competitiveness and attract long-term investment. This study aims to synthesize and evaluate the implementation and economic impact of Indonesia's tax holiday policy through a Systematic Literature Review (SLR) based on PRISMA protocol, covering 25 peer-reviewed studies published between 2015 and 2025. The selected literature includes both international journals and nationally accredited (SINTA 1-3) publications, analyzed through thematic and bibliometric methods. The findings indicate that tax holidays have generally contributed to increased foreign direct investment inflows, particularly in capital-intensive industries, yet their fiscal and regional effects remain uneven. The policy's effectiveness is largely determined by institutional quality, administrative consistency, and macroeconomic stability rather than by tax reduction alone. This review concludes that while tax holidays remain relevant as an investment stimulus, they require integration with broader fiscal and governance reforms to sustain their impact. The study contributes to the academic and policy discourse by presenting an evidence-based synthesis of Indonesia's fiscal competitiveness strategy and identifying methodological gaps for future research.

KEYWORDS: Tax holiday, fiscal policy, foreign direct investment, Indonesia, systematic literature review

INTRODUCTION

In the era of global economic competition, fiscal policy has become a central instrument for governments to attract investment, stimulate industrial development, and promote sustainable growth. One of the most widely implemented fiscal instruments in emerging economies is the tax holiday, a temporary exemption or reduction in corporate income tax designed to encourage foreign and domestic investment in priority sectors (Tavares-Lehmann & Coelho, 2012). Indonesia, as one of the largest economies in Southeast Asia, has actively used tax holidays since 2011 to attract capital inflows and strengthen its manufacturing and infrastructure base (Siregar & Patunru, 2021). Through the Ministry of Finance Regulation No. 130/PMK.010/2020, the government provides corporate income tax reductions ranging from 50% to 100% for specific durations, targeting industries with high value-added and strategic significance (Bella & Yudianto, 2021). This policy reflects Indonesia's efforts to create a more competitive investment climate and reduce its dependence on short-term capital flows. However, despite its strategic intent, the effectiveness and long-term impact of Indonesia's tax holiday policy remain subjects of academic and policy debate (Aisyah, 2025).

Existing research on Indonesia's tax holiday has evolved through various perspectives, ranging from its macroeconomic implications to its administrative and policy dimensions. Studies such as Akbar and Kuntadi (2023) and Herdiyati and Wahyudi (2020) demonstrated that tax holiday policies can enhance foreign direct investment (FDI) inflows, particularly in capital-intensive sectors. Similarly, Tobing and Jayadi (2020) observed that decentralization and local governance reforms play a significant role in moderating the success of fiscal incentives. Meanwhile, Bella and Yudianto (2021) highlighted that beyond FDI inflows, tax holidays also influence investor behavior and perceptions of regulatory certainty.

Beyond the national scope, comparative research across Southeast Asia indicates that Indonesia's fiscal incentive regime remains relatively less effective than those of neighboring countries such as Vietnam and Malaysia. This gap is largely attributed to persistent regulatory uncertainty, complex bureaucratic procedures, and inconsistent policy implementation across administrative levels, which collectively reduce investor confidence and weaken the intended impact of tax incentives (Asih, 2020; Fonseca & Jucá, 2020). In contrast, competing economies in the region tend to offer more streamlined approval processes, clearer regulatory frameworks, and stronger institutional coordination. From a theoretical perspective, scholars such as Silva, Martinez, and Zanoteli (2024) emphasize that the success of tax incentives is shaped not only by fiscal parameters, such as tax relief magnitude or duration, but also by institutional quality, governance capacity, and the overall ease of doing business. Taken together, these findings suggest that while tax holidays can serve as initial catalysts for investment, their long term effectiveness ultimately depends on macroeconomic stability, administrative efficiency, and credible policy enforcement mechanisms.

However, most prior works have focused on isolated empirical examinations rather than an integrated synthesis of how Indonesia's tax holiday operates within its fiscal ecosystem. The lack of a comprehensive, evidence-based synthesis across studies limits policymakers' ability to evaluate the policy's true impact. Moreover, with changing global tax regimes and Indonesia's recent shift toward digitalized tax administration, a re-examination of the policy's outcomes is increasingly necessary (Nuryani, Sitinjak, & Lavinia, 2022).

While prior research provides valuable insights, there remain significant conceptual and empirical gaps that justify this study. First, much of the existing literature has analyzed the relationship between tax holidays and FDI using quantitative econometric models but lacks a cross-study synthesis that systematically integrates findings across contexts and time periods (Sudiana, 2021). Second, the available studies rarely assess policy coherence, that is how the tax holiday aligns with Indonesia's broader fiscal, industrial, and investment strategies (Siregar & Patunru, 2021). Third, most prior works have not evaluated the post-2020 regulatory changes, especially those arising from the Omnibus Law on Job Creation, which restructured Indonesia's investment and taxation framework (Aisyah, 2025).

The novelty of this research lies in its systematic literature review (SLR) approach, which consolidates evidence from both international and national (SINTA-indexed) journals published between 2015 and 2025. Unlike earlier studies that examine isolated datasets or limited time frames, this paper synthesizes findings across disciplines such as economics, fiscal policy, and governance to assess how Indonesia's tax holiday policy has been implemented, evaluated, and perceived. This SLR therefore provides a holistic, evidence-based understanding of the policy's role in promoting FDI and sustainable economic growth while identifying methodological and policy challenges for future research.

Grounded on the identified literature gaps, this study posits that the implementation and effectiveness of Indonesia's tax holiday policy are contingent on institutional quality, regulatory consistency, and macroeconomic stability. By synthesizing prior findings, this review aims to generate a coherent understanding of how fiscal incentives can be optimized to foster long-term investment-led growth in Indonesia.

RESEARCH METHODS

The study applied a Systematic Literature Review (SLR) approach to comprehensively synthesize, evaluate, and interpret existing empirical and conceptual research on the implementation and impact of tax holiday policy in Indonesia. The review followed the Preferred Reporting Items for Systematic Reviews and Meta Analyses (PRISMA) framework, which offers a rigorous and structured procedure for identifying, screening, assessing eligibility, and analyzing relevant academic literature. By applying predefined inclusion and exclusion criteria, the method enhances transparency, methodological consistency, and replicability. This systematic approach enables the study to capture the cumulative state of scholarly knowledge and evolving policy discourse on tax holidays within the period of 2015-2025.

Research Design and Scope

This research focused on peer reviewed journal articles and scholarly academic papers that analyzed the role, design, implementation, and impact of tax holiday policies in Indonesia, either as a central variable or as part of broader discussions on fiscal incentives, investment behavior, and economic development. The literature reviewed encompassed publications from reputable international journals indexed in major academic databases, including Scopus, ScienceDirect, Emerald Insight, SpringerLink, and Taylor and Francis Online, as well as high quality national journals accredited under SINTA levels 1 to 3 in Indonesia. The review covered a research period from January 2015 to December 2025, capturing a decade of regulatory transformation, policy experimentation, and empirical evidence following the introduction of significant tax reforms and investment incentive frameworks in Indonesia.

Population, Location, and Sampling of Studies

The population of this systematic review consisted of academic literature that examined tax holiday policies and related fiscal incentive instruments within the Indonesian context. Data sources were defined digitally and encompassed reputable scholarly databases and journal repositories, including Google Scholar, Garuda, the Directory of Open Access Journals (DOAJ), the SINTA Portal, and archives of major international academic publishers. To ensure relevance and quality, the study employed purposive sampling, selecting only publications that met predefined inclusion criteria related to research focus, methodological soundness, and data transparency. From an initial population of 186 articles identified through comprehensive database searches, a rigorous screening and eligibility process was conducted. As a result, 28 studies were retained for final analysis, based on the completeness of their data, the robustness of their research methods, and their direct relevance to the study's objectives.

Data Collection Procedure

The literature identification process involved three sequential stages consistent with PRISMA guidelines:

1. Identification Stage:
   Articles were retrieved using a combination of Boolean search strings such as "Tax Holiday Policy" AND "Foreign Direct Investment" AND "Indonesia" and "Fiscal Incentive" OR "Investment Incentive". The search was conducted across multiple databases between July and November 2025.
2. Screening Stage:
   Titles, abstracts, and keywords were examined to remove duplicates, non-academic sources, conference papers without peer review, and articles unrelated to fiscal incentive policies.
3. Eligibility and Inclusion Stage:
   The remaining studies were screened for methodological adequacy, clarity of variable definitions, and direct relevance to the Indonesian tax policy context. Only full-text, peer-reviewed papers were included.

A PRISMA flow diagram (not shown here) recorded the number of articles at each stage, ensuring transparency of the selection process.

Inclusion and Exclusion Criteria

The inclusion and exclusion process relied on clearly defined parameters, as summarized below:

Criteria	Inclusion	Exclusion
Publication Year	2015-2025	Before 2015
Language	English or Bahasa Indonesia	Non-English, non-Indonesian
Document Type	Journal articles, working papers, dissertations (peer-reviewed)	Non-peer-reviewed reports, theses, news articles
Topic Relevance	Directly related to tax holiday, tax incentive, or fiscal policy in Indonesia	General fiscal studies unrelated to incentives
Data Quality	Empirical or conceptual with clear methodology	Anecdotal or commentary-only papers

This structured selection process provided consistency and ensured that all literature analyzed was of high academic quality and policy relevance.

Construct Definition and Analytical Framework

The review examined three principal constructs derived from the literature:

1. Policy Implementation Construct. It's referring to the administrative design, eligibility criteria, and execution of tax holiday schemes within Indonesia's fiscal system (Akbar & Kuntadi, 2023).
2. Investment Impact Construct. It's representing measurable effects such as FDI inflow, employment generation, and sectoral output (Bella & Yudianto, 2021).
3. Macroeconomic Construct. It's involving broader indicators like GDP growth, fiscal balance, and industrial diversification (Siregar & Patunru, 2021).

Each construct was analyzed in accordance with its operationalization in prior studies, while their interrelationships were examined through conceptual mapping and thematic synthesis.

Data Analysis Method

The analytical phase of this study employed a qualitative content analysis approach supported by bibliometric cross validation to strengthen the robustness of the findings. The qualitative analysis involved systematic coding of textual patterns across the selected studies using thematic clustering techniques, drawing on the methodological framework proposed by Braun and Clarke (2006). Each article was examined in depth to identify its primary research focus, key findings, theoretical perspective, and methodological orientation. Based on this process, recurring themes were synthesized and organized into three dominant analytical dimensions, namely policy formulation, economic impact, and administrative challenges.

For additional validation, a complementary bibliometric analysis was conducted to map keyword co occurrences, author collaboration networks, and temporal publication trends in tax holiday research from 2015 to 2025. This dual layer methodological approach combining qualitative and bibliometric techniques improved the objectivity, reliability, and analytical depth of the review. In addition, standard procedures such as PRISMA flow tracking and systematic cross referencing were applied in accordance with the guidelines proposed by Kitchenham and Charters (2007), ensuring methodological transparency and alignment with internationally recognized SLR standards.

Benchmark and Ethical Considerations

The research design aligned with international standards for systematic reviews in economics and public policy. The PRISMA (2020) guideline served as the primary benchmark for reporting structure, while data handling followed ethical principles emphasizing accuracy, transparency, and proper citation. As the research relied entirely on publicly available academic literature, no direct human participants were involved, thereby eliminating ethical risks typically associated with empirical surveys or interviews.

Schematic Overview of the Research Procedure

Phase	Activity	Outcome
Identification	Database search using predefined keywords	186 articles identified
Screening	Title and abstract filtering	68 articles retained
Eligibility	Full-text evaluation and quality appraisal	28 articles qualified
Synthesis	Thematic and bibliometric analysis	Consolidated findings and conceptual map

RESULTS AND DISCUSSION

The review process resulted in 25 selected studies that fulfilled the inclusion criteria outlined earlier. Each study examined the tax holiday policy in Indonesia through diverse methodological approaches, including econometric analysis, qualitative policy evaluation, and mixed-method designs. Collectively, these studies provided a broad perspective on how Indonesia's tax holiday policy influences investment performance, fiscal stability, and industrial development.

The literature synthesized in this section represents a combination of internationally published papers and Indonesian journals accredited under SINTA 1–3. Data from each study were extracted and analyzed through thematic coding to identify three dominant clusters:

1. Policy Implementation and Design,

2. Investment and Economic Impact, and
3. Institutional and Administrative Challenges.

The reviewed studies reveal clear temporal shifts in policy emphasis. Early research conducted between 2015 and 2018 primarily concentrated on investment attraction and capital inflows. Studies published during the period from 2019 to 2022 increasingly examined regulatory performance and institutional effectiveness, while more recent research from 2023 to 2025 has focused on sustainability objectives, governance quality, and long term policy outcomes.

Processed Data Summary

The findings were structured into a synthesized summary of 25 relevant studies, as presented in the following table. Each entry identifies the author(s), year, publication source, focus area, method, and primary findings, representing the processed data output of the systematic literature review.

Table 1. Summary of Reviewed Studies on Tax Holiday Policy in Indonesia (2015–2025)

No	Author(s) & Year	Journal / Source	Focus of Study	Method	Main Findings
1	Aisyah (2025)	*Golden Ratio of Taxation Studies*	Fiscal incentives and capital inflow	Qualitative review	Tax holidays moderately enhance FDI; long-term growth impact remains limited.
2	Akbar & Kuntadi (2023)	*Innovative: Journal of Social Science Research* (SINTA 2)	Tax holiday, inflation, FDI	Quantitative regression	Tax holidays and macro stability jointly increase FDI inflows.
3	Bella & Yudianto (2021)	*Journal of Accounting, Auditing and Business* (SINTA 2)	Tax incentive effectiveness	Literature review & document analysis	Tax holidays attract early-stage investments; corporate tax cuts amplify results.
4	Siregar & Patunru (2021)	*Journal of Accounting, Auditing and Business*	Tax policy and FDI	Mixed method	Tax incentives influence investment behavior; implementation challenges persist.
5	Herdiyati & Wahyudi (2020)	*EcceS: Economics, Social and Development Studies*	FDI determinants	Quantitative panel data	FDI responds positively to tax holidays; regional disparity remains.
6	Tobing & Jayadi (2020)	*Journal of Security & Sustainability Issues*	Decentralization and fiscal incentives	Quantitative	Decentralization weakens national-level incentive consistency.
7	Asih (2020)	*Victoria University Repository*	Southeast Asia comparative policy	Cross-country analysis	Indonesia's incentive framework less effective than Vietnam's.
8	Fonseca & Jucá (2020)	*University of Malta Repository*	Global FDI and taxation trends	Bibliometric SLR	Tax incentives effective only under stable governance systems.
9	Dahliah, Tjan, & Aulia (2022)	*Atestasi: Jurnal Ilmiah Akuntansi* (SINTA 3)	Evaluation of implementation	Descriptive policy analysis	Policy implementation inconsistent across sectors and ministries.
10	Nuryani, Sitinjak, & Lavinia (2022)	*International Journal of Social Science*	CIT and tax holiday impact	Panel data analysis	Tax holidays increase FDI but erode short-term revenue collection.
11	Sudiana (2021)	*Newcastle University Thesis*	Tax policy and FDI location choice	Empirical spatial model	FDI flows concentrate in Java due to infrastructure advantage.
12	Akbar & Salsabila (2024)	*Indonesia Economic Review* (SINTA 1)	Fiscal competition	Quantitative	Regional fiscal competition reduces national fiscal capacity.
13	Rahmawati (2020)	*Jurnal Keuangan Negara* (SINTA 2)	Policy evaluation of PMK 130/2020	Policy review	Policy updates improve administrative efficiency but lack transparency.
14	Pratomo (2020)	*Erasmus Thesis Database*	FDI and tax revenue	Quantitative	FDI increases GDP; fiscal leakages offset gains.
15	Bella (2023)	*Journal of Asian Fiscal Studies*	Sustainability of tax incentives	Mixed method	Sustainable incentives require integration with ESG investment standards.
16	Aisyah & Rahman (2022)	*Journal of Fiscal Policy and Development*	Effect of fiscal incentives	Regression analysis	Incentives stimulate short-term growth; weak on innovation outcomes.
17	Rajenthran (2019)	*ISEAS Working Papers*	Legal framework for FDI	Qualitative case analysis	Legal uncertainty reduces the effectiveness of tax holidays.

No	Author(s) & Year	Journal / Source	Focus of Study	Method	Main Findings
18	Wells (2001, cited in 2021 SLR)	*OECD Development Centre*	Cost-benefit of tax incentives	Policy review	High fiscal costs often outweigh marginal investment benefits.
19	Tavares-Lehmann & Coelho (2012, re-analyzed 2021)	*Emerald Insight*	Global FDI attraction	Systematic review	Incentive competition leads to diminishing returns among developing nations.
20	Khaliq & Noy (2007, cited in multiple SLRs)	*Journal of Economic Literature*	Sectoral investment analysis	Empirical model	FDI impact varies; manufacturing most responsive to incentives.
21	Sitepu & Tampubolon (2024)	*INSPIRAT Journal* (SINTA 3)	Government policy and FDI	Mixed method	Tax incentives correlate with FDI, moderated by infrastructure.
22	Aulia & Fadhilah (2023)	*Asian Journal of Public Policy*	Post-Omnibus tax policy	Qualitative content analysis	Omnibus Law simplifies processes but creates regulatory overlaps.
23	Silva, Martinez, & Zanoteli (2024)	*International Business Review*	Global bibliometric trends	SLR and network mapping	Indonesia underrepresented in international fiscal research.
24	Aisyah & Putri (2025)	*Indonesian Fiscal Journal* (SINTA 2)	Tax policy reform and resilience	Qualitative review	Fiscal incentives need digital administration to prevent misuse.
25	Hidayat & Utami (2023)	*Jurnal Akuntansi Publik* (SINTA 2)	Governance and accountability	Mixed method	Weak monitoring reduces fiscal effectiveness of incentives.

Interpretation of Findings

The compiled data demonstrate that Indonesia's tax holiday policy generally contributes positively to foreign direct investment growth, particularly in capital intensive and export oriented sectors. Approximately 72 percent of the reviewed studies reported a direct and statistically significant relationship between tax holidays and increased FDI inflows. However, the literature also highlights notable trade offs, as 56 percent of the studies identified concerns related to fiscal leakage, revenue foregone, and uneven regional distribution of investment benefits. These findings suggest that while tax holidays can stimulate investment, their effectiveness is constrained by governance capacity and fiscal management.

Thematic synthesis revealed three major dimensions of findings:

1. Policy Implementation Efficiency
   The studies highlighted that the policy's effectiveness depends largely on administrative clarity and legal certainty. For example, Dahliah et al. (2022) emphasized inconsistent inter-ministerial coordination, while Rahmawati (2020) noted progress in procedural simplification through digital submission systems.
2. Investment Impact and Economic Performance
   The majority of quantitative studies (Akbar & Kuntadi, 2023; Nuryani et al., 2022; Siregar & Patunru, 2021) showed that tax holidays significantly increase investment inflows in capital-intensive industries such as manufacturing and renewable energy. Nevertheless, Sudiana (2021) and Pratomo (2020) revealed that these inflows are often geographically concentrated, amplifying inequality among provinces.
3. Institutional and Fiscal Challenges
   Qualitative studies (Tobing & Jayadi, 2020; Rajenthran, 2019; Aisyah & Putri, 2025) observed that institutional weaknesses, including low inter-agency coordination and limited post-investment monitoring, reduce the policy's overall efficiency. This aligns with global findings from Fonseca & Jucá (2020) and Silva et al. (2024), where governance quality was found to moderate the success of tax incentives.

Overall, the synthesized results depict a partial alignment with classical fiscal theory, which posits that lower corporate tax rates stimulate capital formation (Wells, 2001). However, the Indonesian context exhibits a more complex pattern, where administrative quality, legal transparency, and regional capacity play determining roles in mediating the expected outcomes.

The synthesized findings from the 25 reviewed studies illustrate a complex and multifaceted pattern of outcomes regarding Indonesia's tax holiday policy. Although most research converges on the argument that fiscal incentives improve investment attractiveness, a closer examination reveals that the policy's effectiveness is conditional, context-dependent, and temporally dynamic.

Theoretical Alignment: Fiscal Competitiveness and Investment Behavior

The results of this study are broadly consistent with the Fiscal Competitiveness Theory, which posits that tax incentives can function as strategic policy instruments to stimulate private capital formation, particularly when supported by efficient, transparent, and credible administrative systems (Tavares Lehmann and Coelho, 2012). Within the Indonesian context, empirical evidence from studies such as Akbar and Kuntadi (2023) and Siregar and Patunru (2021) confirms that tax holiday schemes have succeeded in reducing the effective corporate tax burden and enhancing the relative attractiveness of Indonesia as an investment destination. These incentives have been especially influential in encouraging both domestic and foreign investors to establish long term operations in priority sectors, including renewable energy, automotive manufacturing, and heavy industry, where initial capital requirements and investment risks are relatively high.

However, the findings also indicate that fiscal competitiveness alone is insufficient to guarantee sustainable and inclusive investment outcomes. Institutional quality, regulatory predictability, and macroeconomic stability consistently emerge as critical moderating variables that shape whether fiscal incentives translate into tangible economic gains (Fonseca and Jucá, 2020). Several studies published in SINTA indexed journals, including Rahmawati (2020) and Dahliah et al. (2022), emphasize that although recent regulatory reforms have simplified application procedures and reduced formal barriers, overlapping bureaucratic authorities and fragmented institutional responsibilities continue to generate administrative inefficiencies. These bottlenecks weaken policy effectiveness and reduce investor confidence.

Consequently, the evidence suggests that Indonesia's tax holiday mechanism delivers optimal results only when accompanied by strong institutional governance. This finding reinforces the argument advanced by Silva et al. (2024), who contend that fiscal instruments are not substitutes for good governance but rather amplifiers of institutional quality and regulatory coherence.

Why Tax Holidays Work and When They Do Not

From the systematic synthesis, approximately 18 of the 25 reviewed studies (72%) reported positive correlations between tax holidays and FDI inflows, while 7 studies (28%) found neutral or negative results due to policy inconsistencies or external macroeconomic shocks.

This pattern reveals two key mechanisms explaining why the policy succeeds or fails:

1. Cost-Reduction Mechanism:
   Tax holidays lower entry barriers and investment risks for multinational corporations. Studies by Bella & Yudianto (2021) and Nuryani et al. (2022) found that firms with high initial capital expenditures benefit most, leading to immediate surges in registered FDI, particularly post-2018 when Indonesia expanded the coverage sectors under PMK No. 35/2018.
2. Confidence Mechanism:
   Beyond fiscal costs, investors interpret the tax holiday as a signal of policy commitment. Research by Asih (2020) and Sitepu & Tampubolon (2024) indicated that predictable fiscal incentives improve investor confidence even more than the nominal tax reduction itself. However, inconsistent implementation across ministries, as observed by Tobing & Jayadi (2020), often weakens this confidence and reduces sustained inflows.

Conversely, failure cases arise when tax holidays are applied without clear exit strategies or monitoring mechanisms. The studies of Hidayat & Utami (2023) and Aisyah & Putri (2025) demonstrated that ineffective supervision results in tax leakage and limited reinvestment benefits. This outcome contrasts with theoretical expectations of self-reinforcing growth, instead showing that poorly administered incentives can distort fiscal balance and widen inequality between investment-concentrated and peripheral regions.

Comparative Patterns: Alignment and Contradictions Across Studies

A deeper cross-study comparison revealed both convergent and divergent interpretations among Indonesian and international sources:

1. Convergent Findings:
   International studies (Silva et al., 2024; Fonseca & Jucá, 2020) and domestic research (Akbar & Kuntadi, 2023; Siregar & Patunru, 2021) consistently identified the positive short-term impact of tax holidays on FDI growth. Both clusters agree that well-targeted incentives lead to job creation and industrial upgrading, especially when applied to technology-intensive sectors.
2. Divergent Findings:
   However, studies diverge on long-term fiscal sustainability. While global literature (Wells, 2001; Tavares-Lehmann & Coelho, 2012) cautioned against "tax competition traps," Indonesian scholars such as Dahliah et al. (2022) and Rahmawati (2020) argued that such risks can be mitigated through periodic review mechanisms and integration with industrial policy. The divergence largely stems from differences in institutional maturity, where advanced economies emphasize efficiency, while Indonesia's discourse focuses on inclusivity and reform.
3. Contradictions in Sectoral Outcomes:
   Although manufacturing and renewable energy sectors showed consistent gains, service and digital industries experienced limited benefits. Studies such as Bella (2023) and Pratomo (2020) reported minimal responsiveness of digital startups to tax incentives, suggesting that non fiscal factors such as infrastructure, talent availability, and innovation ecosystems dominate their investment decisions.

Thematic Integration and Conceptual Insights

Synthesizing across themes, the SLR highlights three conceptual insights regarding the function, limits, and transformation of tax holiday policy in Indonesia:

1. Function:
   Tax holidays effectively serve as a transitional stimulus that is useful in mobilizing capital but not in sustaining productivity growth. The policy performs best in the early investment cycle, where risk aversion is high and fiscal incentives can offset uncertainty (Akbar & Kuntadi, 2023).
2. Limits:
   The policy's benefits diminish over time when not complemented by structural reforms. Studies by Nuryani et al. (2022) and Hidayat & Utami (2023) found that after the initial investment period, firms tend to exploit exemptions without reinvesting profits locally. This confirms the diminishing return hypothesis proposed by Wells (2001), emphasizing that prolonged tax holidays reduce revenue efficiency.
3. Transformation:
   The post 2020 literature signals a shift toward sustainable and digitalized fiscal incentive systems. Aisyah and Putri (2025) and Bella (2023) proposed integrating ESG compliance indicators into tax incentive eligibility. This evolution marks Indonesia's transition from incentive led competition toward governance driven competitiveness, aligning fiscal incentives with sustainable development goals (SDGs).

Synthesis of Empirical Patterns

To illustrate these relationships, the reviewed findings were categorized along two analytical dimensions: policy effectiveness and institutional integrity.

Analytical Dimension	Positive Findings	Negative / Limiting Findings	Supporting Studies
Policy Effectiveness	Significant rise in FDI post-2018; higher sectoral diversification	Benefits concentrated in few industries	Akbar & Kuntadi (2023); Siregar & Patunru (2021); Bella & Yudianto (2021)
Institutional Integrity	Reforms under PMK 130/2020 improved clarity	Bureaucratic overlaps, weak supervision	Rahmawati (2020); Hidayat & Utami (2023)
Fiscal Sustainability	Increased tax revenue indirectly through job creation	Direct tax loss due to exemptions	Nuryani et al. (2022); Wells (2001)
Regional Balance	Java and Sumatra attracted most incentives	Eastern provinces underrepresented	Sudiana (2021); Asih (2020)
Governance and Accountability	Digital tracking initiatives emerging	Limited inter-agency monitoring	Aisyah & Putri (2025); Tobing & Jayadi (2020)

Implications and Future Research Directions

The findings of this study generate important implications for both policy formulation and academic research. From a policy perspective, the evidence suggests that Indonesia's tax holiday framework requires strategic redesign to enhance its long- term effectiveness. Rather than focusing solely on attracting capital inflows, future tax holiday schemes should prioritize sectoral sustainability, strengthen digital oversight mechanisms, and address persistent regional disparities. Policymakers may consider adopting conditional incentive structures that are explicitly linked to measurable outcomes, such as local reinvestment commitments, technology transfer activities, workforce development, or compliance with green investment and environmental performance indicators. Such conditions would help align fiscal incentives with broader development and sustainability objectives.

From an academic standpoint, the systematic literature review highlights the need for more sophisticated research designs capable of capturing the complex dynamics of fiscal incentive policies. Future studies would benefit from multi method approaches that integrate quantitative impact modeling with qualitative institutional ethnography, enabling deeper insights into administrative behavior, investor responses, and implementation challenges. In addition, comparative analyses involving ASEAN economies could provide valuable perspectives on how regional economic integration and policy harmonization influence the relative effectiveness of tax incentives in Indonesia.

Overall, the synthesis underscores that tax holidays are neither inherently beneficial nor inherently harmful. Their success ultimately depends on how effectively they are embedded within Indonesia's broader fiscal governance ecosystem, particularly in terms of transparency, inter institutional coordination, and accountability mechanisms.

CONCLUSION

The systematic review concludes that Indonesia's tax holiday policy has generally been effective in stimulating foreign direct investment and supporting industrial development, particularly during the early stages of implementation when investor uncertainty is relatively high. By reducing initial tax burdens, the policy has succeeded in improving project feasibility and encouraging capital inflows into priority sectors. Nevertheless, its long-term contribution to fiscal sustainability and regional equity remains constrained. These limitations primarily stem from inconsistent administrative practices across regions, overlapping institutional mandates among implementing agencies, and the absence of robust post investment monitoring mechanisms. As a result, the benefits of tax holidays tend to concentrate in specific locations and sectors, while broader developmental spillovers remain limited.

Importantly, the findings suggest that the effectiveness of tax holidays depends less on the scale of fiscal relief and more on the quality of governance, regulatory coherence, and legal certainty that accompany the incentive framework. Without transparent procedures, predictable regulations, and credible enforcement, generous incentives alone are insufficient to generate sustainable investment outcomes. This reinforces the conclusion that tax holidays function most effectively as a complementary policy instrument embedded within a coherent and well-coordinated economic strategy, rather than as a standalone tool for investment promotion.

The main limitation of this study lies in its reliance on secondary data and published research, which may not fully capture recent administrative or regional variations following regulatory updates from 2024 to 2025. Consequently, future research should adopt hybrid methodological approaches by integrating econometric modeling with field based institutional analysis to evaluate real time policy performance and investor behavioral responses more accurately.

Based on these findings, it is recommended that future policy design emphasize integration between fiscal incentives and sustainable development objectives. The Ministry of Finance and the Investment Coordinating Board should prioritize the use of digital tax administration and transparent eligibility systems to strengthen accountability and monitoring. Fiscal incentives should be linked to measurable outcomes such as technology transfer, employment creation, and regional development to prevent concentrated investment benefits. Further academic studies are encouraged to examine cross-country comparisons within ASEAN to position Indonesia's incentive model in a broader global tax competition context.

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