



Investment and Sustainability Incentives for Msmes

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ABSTRACT

The government continues to make efforts to increase the role of Micro, Small and Medium Enterprises after Covid 19 as the national economy recovers. In the national economy, MSMEs continue to make a major contribution to economic development, job creation, equal distribution of people's income, and providing products and services for the community. In the midst of unstable economic conditions, efforts to increase Gross Domestic Product originating from this sector continue to be made. MSMEs are expected to grow again in the long term and become a source of sustainable financial potential. The government, through fiscal policy, provides wider space for MSMEs, the roots of which become economic society, which absorbs the workforce. Through fiscal policy, the government can provide investment incentives to MSMEs. This fiscal policy is aimed at providing relief in fulfilling tax obligations and encouraging MSME activities to grow and develop again after Covid 19, which has had a negative impact on MSMEs. Through incentives, MSMEs have more freedom to increase production. Investment incentives are also intended to increase the capacity of MSMEs to fulfill tax obligations.

INTRODUCTION

There is no doubt about the existence of MSMEs as drivers of economic growth. This is proven by its contribution to economic development, especially through tax payments. Taxation problems for some MSMEs have become a crucial problem, amidst unstable economic conditions. Covid 19 puts strong pressure on its performance. For this, the role of the government is needed, to encourage MSME activities to continue to grow. The government can provide investment incentives. Investment incentives are a fiscal instrument, based on costs and profits (Kader, 2018). Efforts to stimulate the growth of MSMEs through investment incentives, but for now they need to be increased. With taxes drying up, MSMEs get tax reductions. MSMEs get smaller tax credits than they should. A number of studies state that MSMEs contribute to the creation of new jobs. The existence of MSMEs is so important for the economy, so the government's role is needed (Gade, 2018).

There is an urgent need to provide an environment and conditions that can provide ample space for the growth of MSMEs, so that they have a role in the transformation of the national economy. These roles include the mobilization of domestic savings for investment; increased use of local raw materials; major contribution to gross domestic product; job creation, and contribution to efforts to eradicate poverty and increase income (Ermilova, 2017). There is a question whether tax policy can regulate investment behavior so that MSMEs can grow and develop. If so, of course this is it

stimulus for the development of MSMEs. Complex taxation is considered a major threat to the growth of MSMEs. Especially in less developed countries (Arifin, at all 2021). This study aims to obtain empirical evidence related to efforts that can be made to minimize the impact of taxes on the growth of MSMEs in the country. The aim of this research is to obtain empirical evidence regarding the role of investment in the growth of MSMEs in Indonesia. This research will provide benefits to the government and MSMEs. This is closely related to evaluation material related to tax policy. To produce research that is competitive, this research has gone through a feasibility study process. Research feasibility is measured through the use of research issues, which are national issues. So the results of this research will really provide benefits to the government, especially related to tax fiscal policy. one of which is investment for MSMEs in the country.

LITERATURE STUDY

2.1 Tax Studies

This theory starts from the assumption that basically there is an exchange or contractual relationship between taxpayers and the state. The state supplies certain goods and services to society and society contributes to the financing of this supply. The amount of costs is proportional to the benefits received (Dzobelova and Berkaeva, 2017). In this setting, there is no such problem as fair distribution of income and wealth. Instead, the benefits received are used as a basis for distributing the tax burden. Taxes are levied based on this principle. then justice can be achieved. However, the utility theory has been subject to

criticism. There are several arguments among them; (i) if tax revenues are used to finance the construction of elementary schools, people who do not use the schools are certainly not taxed. This is because there is no benefit.

Taxation based on benefit theory will not generate much revenue for the government (Artemenko et al, 2017). This is because many people are unable to pay taxes, or do not pay taxes, which causes them not to receive benefits from government spending. If a country maintains a certain relationship between the benefits provided and the benefits served, then infrastructure is not aimed at certain parties, but for all. Another weakness of the utility theory is that most government spending is in the public interest. The problem with this theory is that it is impossible to identify the benefits enjoyed by a particular individual each year.

2.2 Principles of Justice and Equity

Tax efficiency can be achieved through fiscal policy, the benefit-to-pay theory was originally developed. According to Lukjanchikova et al, (2017) this theory states that a person must impose taxes according to their ability to pay. This is simply an attempt to maximize explicit value judgments about the distributional effects of taxes. This approach considers tax obligations in their true form, namely mandatory payments to the state without quid pro quo. This does not imply a commercial or semi-commercial relationship between the State and citizens. The basic assumption of this theory is that the burden of taxation must be shared by members of society based on the principles of justice and equality. This principle requires that the tax burden be distributed according to their relative ability to pay.

Theorists argue that if the government's goal is to distribute income, it should set taxes according to the ability-to-pay principle. contradicts the ability-to-pay theory, that a citizen should pay taxes only because he can and his relative share in the total tax burden is determined by his relative paying capacity (Dzobelova and Berkaeva, 2017). This doctrine has been popular at least as long as the benefit theory has been. This theory is supported by socialist thinkers because of its suitability to the expenditures over a certain time (Aguzarova and Elbakieva, 2014). The tax holiday policy can not only increase state income, but can also reduce state income. This is due to state revenues from the taxation sector such as corporate income tax. In a number of countries, corporate tax amnesty is granted for three to five years. In research conducted by Kader (2018), it was found that tax holidays have a significant and positive relationship with the growth of MSMEs, this shows that the growth of MSMEs can be explained through tax holidays, ideas and concepts of justice and equality. The doctrine also received equally strong support from nonsocialist thinkers as well and became part of welfare economic theory. However, this theory has been subject to criticism, due to the fact that it is difficult to measure ability. In general, there are three measures of capability: income, expenditure and property namely; (i) income which is said to be a better measure of ability than wealth; (ii) expenditure as the best measure of ability.

2.3 Tax Investment Incentives

Tax investment incentives as a deduction from tax revenues, based on some percentage of new investments. Incentives are used to encourage investment in several strategic sectors of the economy. According to Tirlea (2018), investment incentives are given to companies that use equipment in the country. Domestic investment problems, especially their realization, have stopped. Tax holidays are a form of investment incentive that is commonly used by developing countries and countries with economic conditions in transition. The purpose of a tax holiday is to attract investment in certain sectors. During a tax amnesty, companies that meet certain conditions will receive payments from tax payments. It covers tax expenditures over a certain time (Aguzarova and Elbakieva, 2014). The tax holiday policy can not only increase state income, but can also reduce state income. This is due to state revenues from the taxation sector such as corporate income tax. In a number of countries, corporate tax amnesty is granted for three to five years. In research conducted by Kader (2018), it was found that tax holidays have a significant and positive relationship with the growth of MSMEs, this shows that the growth of MSMEs can be explained through tax holidays.

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2.4 Tax Holiday

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countries and countries with economic conditions in transition (Sari, at all 2015). The purpose of tax holidays is to attract investment in certain sectors. During tax amnesty, companies that meet certain conditions will receive payments from tax payments. This can include tax expenditures over a certain time (Aguzarova and Elbakieva, 2014). The tax holiday policy can not only increase state income but can also reduce state income. This is due to state income from the tax sector such as corporate income tax (Corporate Income Tax). In a number of countries, taxes forgiven by companies are forgiven for three to 5 years. In research conducted by Kader (2018), it was found that tax holidays have a significant and positive relationship with the growth of MSMEs, which shows that the growth of MSMEs is explained by tax holidays.

2.5 Tax Credits

Credit is the amount of tax that has been paid or calculated by the taxpayer at the beginning of the tax period. Tax credit is the accumulation and tax taken by another party and has been reduced by the tax owed (Tassej, 2007). The tax credit benefit itself can reduce the tax owed by taxpayers. This also means that taxpayers know whether there is an overpayment or underpayment of their tax obligations (Bondarenko, 2017). According to Myasnikova et al, (2017), investment tax credits are obtained as a fixed percentage of investment expenditure incurred in one year on capital that meets certain requirements. According to Toyakovna, et al (2017). Tax Investment Credits are essentially tax-related incentives that allow individuals or entities to obtain tax deductions in the amount of a certain percentage of the costs associated with certain investments (Okoth, 2023). According to Zagorodniy and Olikhovskiy (2017), tax credit investments are aimed at stimulating a country's economic conditions to grow by encouraging capital-related expenditures, for which taxpayers receive tax credits.

RESEARCH METHODOLOGY

3.1 Data Types and Sources

This research uses time series data with a research period starting from 1985-2021. To support this research, data was obtained from government agencies, including: Bank Indonesia, BPS RI, Ministry of Finance, National Fiscal Agency and other relevant sources. To determine the existence of a long-term relationship between variables, the Long Run Bounds Cointegration Test was carried out. Meanwhile, the VECM estimation model is used to determine whether there is a short-term relationship. Time series data has a tendency to be non-stationary. Data that is not stationary will produce a pseudo regression model, namely the results of statistical processing show a high R Square and significant t-statistics. However, the result has no scientific meaning. The data stationary test was carried out using the unit root test for each variable.

3.2 Root Test Unit

Data that is not stationary does not meet the requirements, or in other words the data has a mean and variance that changes over time. Unit root testing is used

using ADF (Augmented Dicky Fuller). The concept of ADF-test testing is that if a time series data is not stationary at order zero, $I(0)$, then the stationarity of the data can be searched through the next order to obtain a level of stationarity at the n th order (first difference) or $I(1)$, or the second difference or $I(2)$, and so on. This test has the following equation:

$$Y_t = \beta_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \dots + \beta_P X_{Pt}$$

$$\Delta Y_t = \beta_0 + \beta_1 X_{1t} - X_{1t-1} + \beta_2 X_{2t} - X_{2t-2} + \dots + \beta_P X_{Pt} - X_{Pt-1}$$

Determining the optimal lag in the model is intended to determine the combination of lags in the VECM model. The optimal lag is selected based on the basic values of the Akaike Information Criterion (AIC), Schwarz Bayesian Criterion (SC), and Hanna Quinn Criterion (HQ). These results can show better capabilities in the tests carried out. This also shows that the Schwarz Bayesian Criterion (SC) is a consistent model selection criterion when the Akaike Information Criterion (AIC) is inconsistent. Determining the optimum lag is done by selecting the smallest criterion value. Next, a cointegration test between variables was carried out.

3.3 Cointegration Test

After the unit root test was carried out for all research variables and the data were stationary, both at level $I(0)$ and at the first and second order differential levels. The next stage is to carry out a cointegration test. This test is intended to obtain information regarding whether there is a long-term relationship between the variables. Before carrying out the cointegration test, the optimal lag length is first determined. This can be done through the values for AIC, SC, LR, FPE and HQ. This cointegration is formed when a combination of non-stationary variables produces a stationary variable. The cointegration test has the equation:

$$y_t = \beta_0 + \beta_1 X_1 + \varepsilon_t$$

Then, the variant of the equation becomes:

$$\varepsilon_t = y_t - \beta_0 - \beta_1 X_1$$

Note that ε_t is a linear combination of X_1 and X_2 . The concept of cointegration introduced by Engle and Granger requires that ε_t must be stationary at $I(0)$ to be able to produce equilibrium in the long run.

3.4 Estimation of VECM Model

The VECM estimation model is an econometric model. This research adopts the Johansen cointegration test and the vector error correction model (VECM). This test is carried out for the reason that most of the time it is not stationary. So the regression results will produce pseudo regression.

Engle and Granger proposed the concept of cointegration, which means there is a long-term stable relationship between economic variables. Sims and Watson explained further and derived a multivariate analysis model with unit root variables. Based on this, the VECM model is the appropriate analysis model to use. The VECM model is used to explore long-term and short-term equilibrium relationships with cointegration variables. If these variables are cointegrated in this research (Poh and Tan, 1997).

3.5 Research Formulation

Model analysis in this research was carried out using VAR analysis, where all variables were assumed to be endogenous variables. VAR analysis includes Granger Causality testing which is used to find out that two variables are interconnected, causing other variables to change. The general model of equations in this research is as follows:

$$\begin{aligned}\Delta EG_t &= \alpha_1 + \alpha_{11}\Delta EG_{t-1} + \alpha_{12}\Delta Inv_{t-1} + \alpha_{13}\Delta TH_t + \alpha_{14}\Delta TC_t + \mu_{1t} \\ \Delta Inv_t &= \alpha_1 + \alpha_{21}\Delta EG_{t-1} + \alpha_{22}\Delta Inv_{t-1} + \alpha_{23}\Delta TH_t + \alpha_{24}\Delta TC_t + \mu_{2t} \\ \Delta TH_t &= \alpha_1 + \alpha_{31}\Delta EG_{t-1} + \alpha_{32}\Delta Inv_{t-1} + \alpha_{33}\Delta TH_t + \alpha_{34}\Delta TC_t + \mu_{3t} \\ \Delta TC_t &= \alpha_1 + \alpha_{41}\Delta EG_{t-1} + \alpha_{42}\Delta Inv_{t-1} + \alpha_{43}\Delta TH_t + \alpha_{44}\Delta TC_t + \mu_{4t}\end{aligned}$$

Where:

ΔEG = Growth of EG as a form of economic growth

ΔInv = Growth of Inv as a form of investment incentive level

ΔTH = Growth of TH as a form of Tax Holiday rate

ΔTC = Growth of TC as a form of Tax Credit level

t-1 = lag value of each variable

RESULTS AND DISCUSSION

4.1 Unit Root Test Results

To carry out unit root testing in this research, this research was carried out using the Augmented Dickey Fuller (ADF) test. This test aims to determine whether the research variables are stationary or not. If the t-statistic is smaller than the critical value at the alpha confidence level of 5 percent, then the research variable data is at the stationary level. Variables that are not stationary at a level will be tested at the next differential level, so that a stationary level will be obtained. Table 4.1 is the result of unit root testing.

Table 4.1 Unit Root Test Results for Research Variables

	Level	1st	2st
ΔEG	0,0889	0,0516	0,0001
ΔInv	0,6155	0,0668	0,0021
ΔTH	0,3836	0,2682	0,0000
ΔTC	0,9697	0,0228	0,0000

Source: Data processed in 2023.

Table 4.1 shows the test results for the research variables, which are at the first difference level. The variables ΔEG and ΔInv are stationary at the level $\alpha=10\%$. Meanwhile, for the stationary ΔTH variable, it is at the first difference at the $\alpha=5\%$ level. Then the variable ΔTC is stationary at the second difference level at the level $\alpha=5\%$.

4.2 Determination of Optimal Lag Length

The stage of determining the optimal lag is an important stage because it aims to determine the time given by the dependent variable to respond to changes in other variables that are influenced.

Table 4.2 Optimal Lag

	F	A	SI	H
	1.	-	-	-
	1.	-	-	-
	4.	-	-	-
	5.	-	-	-
	3.98e-18*	29.88871*	2.600.306	28.62208*

Source: Data processed in 2023.

From Table 4.2, it shows the results of determining the optimal lag. The FPE, AIC and HQ criteria recommend a lag of 4. Meanwhile, the LR and SC criteria choose a lag of 2. So it is concluded that the optimal lag selection in this study is lag 4.

4.3 Estimasi Vector Error Correction Model

To find out the VECM estimate, it is done by comparing the t-statistic value with the t-table (1.305 and 1.688). if the t-statistic is greater than the t-table, it means that the independent variable has a significant effect on the dependent variable. The VECM estimation in this study uses a quadratic cointegration model with an intercept and trend and a three-period lag interval where (k-1).

Table 4.3 VECM Estimation Results

Variable	Coefficient	T-Statistics
D(LInv(-1))	0,018041	-1,06817
D(LInv(-2))	0,038906	-1,23107
D(LInv(-3))	-0,021553	-1,46444*
D(LTH(-1))	-0,000139	-0,06417
D(LTH(-2))	0,00918	-1,90375**
D(LTH(-3))	0,001224	-0,28356
D(TC(-1))	0,016024	-0,11011
D(TC(-1))	0,058192	-0,27982
D(TC(-1))	-0,204049	-1,55291*
Adjustment Coefficient Value		
D(LEG)	-0,181661	-2,10330**
D(LInv)	6,318613	-1,96856**
D(LTH)	-14,79427	-0,47829
D(TC)	-0,115274	-0,33415
R-squared	0,892286	
Adj. R-squared	0,803581	
F-statistic	10,059	

Source: Data processed in 2023.

Based on the estimation results in Table 4.3, the F-statistic is greater than the F-table ($10.059 > 2.90$), meaning that all the independent variables in this study together have a significant effect on the dependent variable, namely economic growth. The R-square shows 0.892286, which means that the independent variables Inv, TH and TC together explain EG by 89.22 percent while the rest is explained by variables outside the research.

In the estimation of the long-term VECM model, investment incentives and tax credits have a significant effect on economic growth in the third lag. A one percent change in the variable investment incentives and tax credits in the previous third period will affect economic growth in the current period. Meanwhile, the tax holiday has a significant effect on economic growth in the second lag, namely a one percent change in the tax holiday variable in the previous second lag will result in economic growth in the current period.

The adjustment coefficient (error correction term) indicates the speed of adjustment to balance. Where in the VECM estimation results it can be seen that the domestic investment variable is statistically significant. So that the investment incentive variable is corrected towards equilibrium movement in the long term. It can be seen in this table that the long-term VECM estimation results show that investment incentives, tax holidays and tax credits have a significant effect on economic growth, with coefficient values of -0.121532 percent, 0.014451 percent and -1, respectively. 954190 percent. Thus, this means that when there is

a change in tax incentives, tax holidays and tax credits in the first lag of one percent, it will cause changes in economic growth in the long term.

4.4 VECM in the Long Term

Table 4.4 Long Term VECM

Variable	Coefficient	T-statistics	Information
Inv(-1)	-0,12153	[-12,3990]**	Significant
TH(-1)	0,014451	[5,83809]**	Significant
TC(-1)	-1,95419	[-12,6857]**	Significant

Source: Data processed in 2023.

4.5 Granger Causality Test

To test the causality of variables that have the opportunity to be endogenous or exogenous variables. Meanwhile, the bivariate (two-way) causality test in this study used the Granger Causality Test with an alpha level of 5 percent and 10 percent. If the F-statistic value is greater than the F-table value or the probability value is smaller than alpha 5 percent, then the hypothesis H₀ is rejected, or H₁ is accepted

Table 4.5 Granger Causality Test

Null Hypothesis:	F-	Prob.
Inv does not Granger Cause EG	321.757	0.0391*
Inv does not Granger Cause TH	480.958	0.0085*
Inv does not Granger Cause TC	270.928	0.0657**
EG does not Granger Cause TH	0.29032	0.8320
EG does not Granger Cause TC	376.210	0.0228*
TH does not Granger Cause TC	354.286	0.0283*

Source: Data processed in 2023.

Table 4.5 shows that domestic investment towards EG has an f-statistic that is greater than the f-table, which means that the null hypothesis can be rejected at a confidence level of 5 percent. On the other hand, PE for domestic investment has a probability of less than a 5 percent degree of confidence so that the null hypothesis can be rejected. This means that domestic investment and EG influence each other or have a two-way causal relationship pattern. The results

of the TH Granger Causality test on EG show that the f-statistic value is greater than the f-table so that H_0 is rejected at a confidence level of 1 percent. On the other hand, the PE variable on Inv shows an f-statistical value that is smaller than the f-table at a confidence level of 5 percent so that H_0 cannot be rejected. Thus, the causal relationship between TH and EG has a one-way pattern, TH encourages EG.

After Covid-19, state revenues originating from taxes have decreased. Economic conditions have not improved, resulting in economic activity not yet growing. Efforts to increase state income through MSME activities are intended to increase tax revenues originating from MSME activities. Up to 80 percent of government spending comes from taxes. The form of effort made by the government is related to tax policy (investment incentives (tax holidays, tax credits and investment incentives). This requires efforts that are believed to be able to increase state revenues originating from taxes. The investment incentive policy is one of the investment incentives that can be used in tax practices in Indonesia. Investment incentives are not intended for a certain period of time, but are fixed. So that MSME players get certainty and tax relief. This policy is also intended to increase investment and job creation.

One of the roles of tax (fiscal) policy is to provide a healthy investment climate for business actors. This policy is in the form of government concern for world business actors in increasing competitiveness. Taxes are one of the factors that influence investment, but the lack of transparency in laws and regulations actually has a significant negative impact on business actors and investors. In this condition, the government does not see taxpayers as tax subjects, namely sources of state income. The government supports tax policy through fiscal stimulus instruments, thereby influencing the economy. Fiscal stimuli/incentives such as: investment incentives, tax holidays and tax credits. Tax policy through incentives that are right on target and reduce the costs of MSME activities. To keep economic activity growing after Covid 19, the government needs to provide taxes to MSMEs, this is the government's response to responding to sectors affected by the pandemic so that they do not spread further. The government needs to reduce corporate income tax as an effort to support the sustainability of the business world (MSMEs), as well as encourage the investment climate.

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