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Tax Competition for Foreign Direct Investment in ASEAN: Is Corporate Income Tax Harmonization the Solution?

Haris Fajar Afrianto

Department of Taxation, PKN STAN, South Tangerang, Indonesia

Abstract

This research is motivated by the global trends that indicate many countries are competing to attract foreign direct investment flows through the adaptation of the tax policies that encourage harmful tax competition issues. The interests of addressing these issues are to minimize the distortion of single market as in EU (European Union) and to ensure efficient tax structure in ASEAN. Adopting quantitative approach, secondary data were obtained through literature review. It was found that the phenomenon of tax competition in ASEAN strengthened as indicated by the higher rate of tariff reduction of corporate income tax in ASEAN, fundamental differences system of taxation in ASEAN and various tax incentives offered. To overcome this problem, the author examines the urgency of the harmonization of income tax in the ASEAN with comparative study with CCCTB (Common Consolidated Corporate Tax Base) in EU. Looking ahead, ASEAN will need the political commitment to start corporate income tax harmonization in ASEAN with regard to neutrality and subsidiarity criteria that could be a solution to overcome the practice of harmful tax competition.

Keywords: tax competition, corporate income tax harmonization, foreign direct investment, corporate income tax rate, tax administration

Corresponding Author:
Haris Fajar Afrianto
harisfajarafrianto@gmail.com

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1. Introduction

Globalization presents opportunities for multinational companies to minimize and avoid the tax burden by utilizing the mobility of capital ([2], p. 7). Such capabilities have implications for fiscal structure of a country and thus potentially reducing the ability of the state to provide social protection or public service ([3], p. 5).

The international market is currently more integrated and will lead to a gradual reduction of barriers to capital mobility ([4], p. 1). Diminishing of obstacle of capital mobility is motivated by trade liberalization ([5], p. 340). Consequently, there are fiscal externality tend to push many countries design strategic interaction to attract foreign direct investment (Keen and Konrad, 2011, p. 2). These conditions encourage the tax authorities compete with each other which lead to international tax competition ([6], p. 1).

Today, the trend show many countries to compete to attract global investment flows ([7], p. 1575–1576). Investment is become prima donna for many countries to robust economic performances. Hence, many countries to compete for foreign direct investment (FDI) inflows (This proved by research in OECD conclude that outward FDI contribution to Gross Domestic Product (GDP) dramatically increased from 10 percent in 1990 to 39 percent in 2009 meanwhile inward FDI increased from 8 percent to 31 percent ([8], p.7)).

According to IMF report in World Economic Outlook (2016, p. 3), recent condition indicate China economic transition that oriented from investment (Evidence show that investment's contribution in Gross Domestic Product (GDP) of China reached peak point in 49 percent in 2012 and indicate to decrease in the future [10]) and economic growth (Empirical evidence indicate that slowdown of economic performance's China, from 14,2 percent in 2007 dramatically fell down until 6,9 percent in 2015 [10]) changes to consumption and services. This condition impact for many countries (Especially for developing countries to robust economic performance) to design strategy especially such adaption of tax policy to grab investment flow to their countries.

In general, tax competition occurs when a country seeks to attract global investments through a decrease of corporate tax rate ([12], p. 546). As many countries to attempt to attract FDI tax competition may be arise to harmful tax competition [13]. The effect of intensifying competition to attract a mobile capital base by declining corporate tax base may lead to 'race to the bottom of tax rates ([14], p. 476).

The literature has focused that the positive effects of tax competition is on the reduction of expenditure with regard to inefficient public policies ([18], p. 1). Meanwhile it can have negative effects such as adopting the lower tax rates will decrease tax revenue ([19], p. 19) that impact to the budget deficit may arise as government are unable to cover the cost of providing public services with tax revenue ([1], p. 100). Consequently, government need to find other sources of finance deficit. In the short term, these sources may be a reduction of public expenditure or increase in taxes, or alternatively increase of public debt.

Today, ASEAN would like to increase of FDI to robust economic performances. At individual countries in ASEAN, like Indonesia, Vietnam, Malaysia, or another offers many incentives especially using adaption of tax policy through reducing corporate income tax to attract foreign investors. This phenomenon is become significantly important for many countries, as based by research and empirical evidence, enhanced tax competition occurs in developing countries may be more severe, as government are confronted by budgetary constraints. Consequently, any reduction in tax revenue reduces necessary expenditure.

According to the thesis of Hayes (2008, p. 21) concluded there has been a reduction in corporate income tax rates in ASEAN-6 with an average of 6.6% in the period 1998 to 2006, the rate of decline is still below the average for Asia Pacific 7.4% and 17.8% for OECD. Then in the thesis of Berlianto (2009) using tax rate and tax burden concluded there is no significant tax competition in ASEAN but it has tendency reduction of tax rate furthermore. Meanwhile, according to dissertation of Setyowati (2014) using Effective Marginal Tax Rates and Effective Average Tax Rates concluded there is no strong evidence of tax competition in ASEAN. However, researched by Hayes, Berlianto and Setyowati still need to investigate furthermore because trend of tax competition seems to be strengthened (Current condition show that, last year Indonesia plan to lower the corporate income tax (CIT) rate from 25 percent to 18 percent [68]. Philippines plans to reduced CIT rate from 35 percent up to 20 percent by 2019 (International Tax Review, 2015), Vietnam ([17], p.3) and Malaysia ([70], p.1) even just lowering the corporate tax rate this year.).

The phenomenon of tax competition is not only occur in ASEAN but also in area of economic integration like NAFTA, MERSOCUR, and Andean. Then similar as ASEAN, EU since the decade of the 90s are having problems tax competition became stronger (Based on Hayes (2008,p.29) concluded there has been a reduction in corporate income tax rates in the EU in the period 1998 to 2006, with the rate of decline reached 19%). Along with the development of economic integration of the EU, further strengthen the trend of tax competition through the reduction of CIT rates between countries EU (According to the study Davies and Voget (2011) found that EU member states are much more sensitive to react to changes in tax rates between countries members of the European Union than with other non-EU countries. According to the study of Overesch and Rinke (2011) concluded tax competition in the EU increasingly trigger a decline in corporate income tax rates between countries in Europe). Therefore, the EU seeks to overcome these problems by arranging the harmonization of corporate income taxes.

In 2011 the average corporate tax rate in the EU is 23%, earlier in 1998 by 34%. Then, after the year 2011 in the EU tax reduction is not as great as before, due to the tax rates considered to have been quite low and their prevention efforts through corporate tax harmonization. Therefore respond to the phenomenon of tax competition at ASEAN became stronger, this article will review the corporate income tax harmonization.

Previously there have been a lot of research and observation in connection with the phenomenon of tax competition and tax harmonization in the European Union. Meanwhile, for the ASEAN region is still limited. Therefore, the authors are interested in examining the phenomenon of tax competition and tax harmonization, especially corporate income tax harmonization in the ASEAN region. The objective this article is to investigate and overview tax competition for foreign direct investment and ensure to minimize harmful tax competition phenomenon in ASEAN by corporate income tax harmonization such as EU did.

2. Research Method

The phenomenon being research is a feature of tax competition consisting of a trend in corporate tax rates and tax burdens. Data used in this study are statutory (corporate) tax rates and the total tax income. The tax ratio from tax revenue as percentage of GDP are used to investigate trend in tax burden.

Method of the data collection were used secondary data. Secondary data analysis is a method of the data collection that involves further analysis of existing data-sets to come up interpretations,

Conclusions or knowledge that is additional or different to that presented in the primary data ([4], p. 23). This includes second hand information such as quotations from other researcher, newspapers or reference books, to name a few ([20], p. 93). Data was collected from reports, books, academic journals and magazines that might contain relations with tax competition and corporate income tax harmonization. This article focuses on the ASEAN-6 comprising (Indonesia, Malaysia, Singapore, Thailand, Vietnam and Philippines) because the country's economic ASEAN-6 has significantly contribution to GDP of ASEAN and the indication of the tax competition phenomenon occurs more intense in ASEAN-6. This article used data over the time period of 2007–2016 for tax competition and period 2007–2012 for tax ratio due the lack of data in World Bank.

2.1. Measuring

Numerous studies have attempted to develop and introduce methods to measure tax competition. Devereux et al. (2008, p. 1212) have recently remarked that, with respect to international competition, "part of the reason for the lack of empirical evidence to date is the difficulty in developing appropriate measures of taxation." ([4], p. 11).

Measuring tax rates is not easy task to see the phenomenon of tax competition, the corporate tax rate has been used by many previous researchers ([22], p. 456). The corporate tax rate is a easily benchmark observed ([23], p. 4).

Some researcher argued need to measure the effective tax rate, only constrained by issues of methodology and data search (Kelly and Graziani, 2004, p. 24), It is also supported by Azemar and Delios (2008, p. 86), the best way to measure the phenomenon of tax war in developing countries are using the corporate tax rate so that the corporate tax rate be the major benchmarks in the calculations in this article.

This article addresses the question of tax competition in the region. Simmons (2006, p. 19) argued that if there is the phenomenon of tax competition should be evidence that the phenomenon has impact to lower total tax revenue. Therefore, this article will look at effect of tax competition to tax burden to see the trend of tax revenue as percentage of GDP is declining or not.

2.2. Methodology

According Wisker (2007, p. 67) The methodology used for the guide for method's researchers in the article. There are two types of methodology namely quantitative and qualitative methodologies. Therefore, this study will use a quantitative approach that provides an objective description of a phenomenon and tells how a phenomenon studied by overview and analysis variables and determine their relationship ([20], pp. 235–236). The main objective quantitative approach is to produce a valid and objective description of phenomena and process data and analysis are not quantitative. ([20], p. 91). A quantitative approach using numerical calculations and manipulation of observation with the aim to describe and explain the observed phenomena ([28], p. 443).

Phenomena being observed is tax competition, using benchmarks trend of corporate tax rates, trend of foreign direct investment in ASEAN-6 and the tax burden (the ratio of tax revenue to GDP). The data used is the corporate tax rate, FDI and total tax revenue as percentage of GDP to seek tax burden.

3. Discussion and Result

3.1. Tax competition in ASEAN-6

Last year, Indonesia was allegedly emerging issues that will lower corporate tax rate of 25 to 18% [68]. The plan is intended to hold corporations in Indonesia are not moved operations out of country. This is because for many domestic investors who park their funds in Singapore which has the lowest corporate tax rates in ASEAN is 17% is much lower than Indonesia 25%.

Referring to the research Tohari (2008), Hayes (2008), Berlianto (2009), Tohari and Retnawati (2010) and strengthened by Setyowati (2014) concluded that there is still no sufficient evidence the phenomenon of tax competition at ASEAN although there are indications of a decrease in the corporate tax rate.

On the other hand, the evidence suggests there are indications of harmful tax competition practices in ASEAN. According to the thesis of Berlianto (2009, p. 6) with reference to the OECD report distinguishes two types of harmful tax competition, first tax havens and second, preferential tax regimes. Until now, Singapore is a preferential tax regime in the ASEAN region ([40], p. 15). In fact, according to the Financial Stability Forum - the IMF in the report of the Tax Justice Network (2007, pp. 8–9) and reinforced by reports Gravelle (2013) concluded that Singapore is tax haven country. Therefore, the issue of tax competition in ASEAN needs attention either through a reduction in corporate income tax rates, tax havens and preferential tax regimes.

Current conditions in ASEAN indicate there are issue tax amnesty that has relevance with tax competition. Tax amnesty is becoming prima donna policy to get basis data of taxation and first step to reform tax administration. Thailand has imposed a tax amnesty since January 1, 2016 (Asia Tax Bulletin, 2015), while Indonesia has just legalized tax amnesty beginning July 2016 [85, 86].

The concerns that unfavorable tax amnesty policy in Indonesia for Singapore as potentially lower liquidity in the banking finance Singapore through repatriation of assets (Aliandu, 2016). Thus, tax policy of a country has impact to economy and potential to influence other countries tax policy (fiscal externalities) entered the era of tax competition.

3.2. System of taxation and tax administration

According Surahmat (2012) as cited Setyowati (2014, p. 262) to identifying tax competition is not solely the views from the tax rate, but it is also necessary to study the system of taxation and tax administration.

3.2.1. System of taxation

In general there are two systems of taxation on income from international business activities are worldwide basis and territorial income base. Refers to a worldwide basis, the tax imposed on total income of resident companies, including income from abroad. To avoid double taxation, the system provides solution through worldwide income tax credit for the taxes paid abroad. The goal, to provide fairness for taxpayers resident in order not to distort the investment decisions of companies to countries with lower tax rates ([6], pp. 263–264).

Table 1: System of taxation in ASEAN-6.

Indonesia	**Thai-land**	**Viet-name**	**Philip-pines**	**Malaysia**	**Singapore**
Worldwide income	Worldwide income	Worldwide income	Worldwide income	Territorial and remittance basis	Territorial and remittance basis
Source: Processed from dissertation of Setyowati (2014: 264).					

Furthermore, the territorial system. This suggests a system of taxation levied on income earned within its jurisdiction. The purpose of the territorial system to equalize the tax charges multinational companies operating in the same country so that all companies can compete and increase capital flow to locations that provide the best return on investment after taxes. Since 2000, many developed countries replace the world wide system to the territorial system for because it can reduce the cost and complexity of compliance. Even in 2010 only 7 out of 34 OECD countries that apply the system of worldwide income ([43], pp. 1–2).

When viewed more deeply, most countries in ASEAN adopts worldwide income, except for Malaysia and Singapore, which use a system of territorial and remittance basis. The tax system is global (worldwide) is considered less competitive especially coupled with high tax rates. If the domestic tax rate is higher than the tax rates abroad, the profits of the company will be subject to domestic tax rates are higher because of the world wide income system imposes high taxes on total income wherever they are earned ([6], p. 264).

In contrast, a territorial tax system to tax on income earned from these countries, so companies can enjoy the benefits of investing in foreign jurisdictions with lower tax rates. Consequently, business decisions become more efficient because the income is sent into the country is not taxed again. The condition of the domestic tax rate is higher than the tax rate abroad is a major disincentive for the delivery of earnings into the country (home country) that adopts worldwide [44].

Efforts to Singapore and Malaysia implemented a system of territorial be an incentive for companies to invest in both countries. The two countries strategy to adopt this system support with low corporate tax rate have indicate strengthened phenomenon of tax competition in ASEAN. The statement reinforced the provisions of the OECD stated that the use of a territorial tax system is one indication of the tax policies that are harmful preferential tax regimes ([6], p. 265).

3.2.2. Tax administration

Table 2: Tax administration in ASEAN.

Countries	Paying Taxes (from 183)	Tax Compliance Total Time (hours)
Singapore	5	82
Brunei	20	96
Malaysia	36	133
Cambodia	65	173
Thailand	70	264
Myanmar	107	155
Laos	119	362
Philippines	131	193
Indonesia	137	259
Vietnam	149	872

Source: KPMG 2015 (2014: 11).

In general, Paying Taxes Singapore has ranked the best in the ASEAN region. Singapore is also far superior to the tax affairs administration service which takes just 82 hours a year far above Vietnam which takes up to 872 hours to fulfill tax obligations. Taxpayers in Indonesia takes reaching 259 hours a year just to fulfill tax obligations (tax compliance total time in hours).

3.2.3. Trend reducing corporate income tax rate

Referring to the thesis of Hayes (2008, p. 21), a decrease in the average corporate tax rate in the period 1998–2006 ASEAN countries amounted to 6.6%. Then, since 2008 Singapore started the trend of reducing of corporate income tax rates. Consequently, Singapore's policy was followed by Malaysia, Thailand, Vietnam, Indonesia, and the Philippines to lower corporate income tax rates.

Table 3: Reduced CIT rate in ASEAN-6 period of 1998–2006.

Country	1998	2006	Change
Singapore	26	20	−23.1%
Thailand	30	30	0.0%
Vietnam	35	28	−20.0%
Malaysia	28	28	0.0%
Indonesia	30	30	0.0%
Philippines	34	35	2.9%
Average reduction			−6.6%
Source: Processed from Hayes (2008)			

It seems that the arguments of Wilson and Wildasin (2004, p. 1084) regarding the model 'strategic interaction' in tax competition was proven in ASEAN. The strategy is associated if the neighboring countries do decrease the tax rates these countries tend to respond with a similar policy. According to the Table 4 in 2009, a year after Singapore lowered the corporate tax rate, Indonesia also applied the same policy to lower the corporate income tax rate of 30 to 28%. The policy is set out in article 17, paragraph 1, letter b of Law No. 7 of 1983 on Income Tax as already amended by Law No. 36 of 2008. A year later, Singapore again reduced the corporate tax rate to 17% and followed by Indonesia fell to 25%.

Overview through Hayes (2008) concluded that the corporate income tax rate reduction in the ASEAN-6 is relatively small, only 6.6% compared to 7.4% in the Asia-Pacific region and 19% in European Union. However, based on the data processed by authors, the downward trend in corporate income tax rates in ASEAN dramatically increasing and alarming. The rate of decline in the period 1998–2006 only 6.6%, while the rate of decline in the period 2007 to 2016 tripled compared to the period from 1998 to 2006 reached 19.83%. Meanwhile, according Table 5, rate of CIT rate decline ASEAN-6 1998–2016 reached more than 25%.

According to Table 6, Indonesia experienced a slight decline in the tax ratio of –3.54%, and even Malaysia and Singapore experienced an increase in the tax ratio is better than the other ASEAN-5 countries. From Figure 1, the trend declining CIT tax rate is being followed by stable trend of tax ratio. So, it can be concluded that although there are indications of a downward trend in the corporate tax rate, but still have

Table 4: Reduced CIT rate in ASEAN-6 period of 2007–2016.

Year/ ASEAN-6	Singa-pore	Thai-land	Viet-nam	Malay-sia	Indo-nesia	Philip-pines
2007	20	30	28	27	30	35
2008	18	30	28	26	30	35
2009	18	30	25	25	28	30
2010	17	30	25	25	25	30
2011	17	30	25	25	25	30
2012	17	23	25	25	25	30
2013	17	20	25	25	25	30
2014	17	20	22	25	25	30
2015	17	20	22	25	25	30
2016	17	20	20	24	25	30
Change	–15.0%	–33.3%	–28.6%	–11.1%	–16.7%	–14.3%
Average ASEAN-6 of Change		**–19.8%**		**Average EU-27**	**–6.12%**	

Source: Processed from Tobing and Mukarromah (2015), Delloite and KPMG.

Table 5: Average reduced CIT rate in ASEAN-6 period of 1998–2016.

ASEAN-6	1998	2016	Change
Singapore	26	17	–34.62%
Thailand	30	20	–33.33%
Vietnam	35	20	–42.86%
Malaysia	28	24	–14.29%
Indonesia	30	25	–16.67%
Philippines	34	30	–11.76%
Average	30.5	22.666667	–25.59%

Source: Processed from Hayes (2008), Delloite and KPMG.

no significant impact on the tax ratio in other words tax competition phenomenon is still do not appear strong evidence. However, this phenomenon should be a concern, especially for Indonesia and Philippines are experiencing a downward trend in the tax ratio. If there is a data of tax ratio up to 2015 and beyond may be obtained results are quite interesting to study and be able to get a different conclusion.

Figure 1: Tax ratio versus tax rates ASEAN-5. Source World Bank

Table 6: Tax ratio in ASEAN-5 period of 2007–2012.

Countries	2007	2008	2009	2010	2011	2012	Change
Indonesia	12.43	13.04	11.43	11.21	11.77	11.99	**-3.54%**
Malaysia	14.3	14.66	14.94	13.33	14.79	15.61	**9.16%**
Thailand	15.14	15.38	14.2	14.94	16.37	15.19	**0.33%**
Philippines	13.54	13.59	12.23	12.15	12.38	12.89	**-4.80%**
Singapore	12.89	13.85	13.07	12.97	13.3	13.82	**7.21%**
Average (%)	**13.6**	**14.10**	**13.17**	**12.92**	**13.72**	**13.9**	**1.67%**

Source: World Bank.

3.2.4. Tax incentives for FDI

There are tendencies the urgency of investment from foreign direct investment (FDI) to support high economic growth performances ([50], p. 237). This phenomena has significant impact to increase tendency to tax competition for foreign direct investment (Each countries offers many incentives especially through tax policy to attract foreign capital ([51], 50)). FDI has significant contribution for the economic development of ASEAN, particularly for country like Singapore due to shortage of natural resources ([4], p. 33). Recent condition showed that Indonesia, Malaysia, Philippines, Vietnam and Thailand tend to design strategy to grab investment flows (Indonesia, Malaysia and Thailand have recognize important of FDI to the robust economic performance of Singapore ([52], p. 148)) through modernized tax administration and accelerate infrastructure development.

Many countries issued with the purpose of tax incentives to lure inward investment flows. It's interesting to assess a variety of 'sale' of tax incentives offered ASEAN-6 countries provide a variety of conveniences for investors in order to attract foreign investment flows.

Table 7: Tax incentive in ASEAN-6.

Country	Tax Incentives
Singapore	1. Reduction of costs double for research and development activities 2. Exemption of corporate income tax for the industry pioneer 3. Income tax exemption on interest income, royalties, technical services, management services, or lease of movable property qualifies promote technological and economic development 4. Other tax incentives
Malaysia	1. Reduction of costs double for research and development activities 2. Companies that undertake development or technological innovation may be possible to obtain tax exemption Agency 3. Extension of tax exemption on company travel until December 31, 2018 4. Other tax incentives
Thailand	1. Reduction of costs double for research and development activities 2. Exemption or reduction of corporate income tax rates for companies engaged in the sectors of investment promoted by Board of Investment 3. Other tax incentives
Indonesia	1. Corporate Tax Exemption for pioniir industry. 2. Income Tax Incentives for investments in certain sectors or regions 3. Reduction of the final rate revaluation of assets 4. Tax incentives for employers who take advantage of Bonded Logistics Center (BLC) 5. Other tax incentives
Philippines	1. Corporate Tax Exemption for investment in certain industries 2. Other tax incentives
Vietnam	1. The reduced rate or exemption of corporate income tax for investments in certain sectors or regions 2. Other tax incentives

Source: Tobing and Mukarromah (2015), Asia Tax Bulletin, and MoF Indonesia.

Indonesia launched a bonded logistic center facilities with a legal basis Law of Ministry of Finance Number 272/PMK.04/2015 About Bonded Logistics Center (BLC). The facility offers tax incentives in return for exemption of VAT, luxury sales tax, and taxes in the framework of import Plus, the exemption of excise duty and suspension. BLC facility serves as a distribution center and international logistics. BLC is a bonded hoarding to hoard goods from abroad and domestically. Interesting to explore, apparently is not much different purposes of BLC with the goal of tax incentives in general, which is to attract investment into Indonesia while lowering logistics costs and lowers dwelling time.

Historically, the struggle for investments with tax incentives in the ASEAN region is quite interesting to be studied more in depth. In the competition of getting investment Samsung, Indonesia offers the corporate income tax exemption for 10 years meanwhile Vietnam offers 15 years. When the competition to attract investment of General Motors, the Philippines offers 8-year corporate tax exemption and Thailand offer the same thing with an additional 15 million dollar grant for the training facility. For investment seizure Canon, Vietnam provides the corporate income tax exemption for 10 years, then Philippines change the rules and give the corporate income tax exemption from 8 years to 12 years ([40], p. 11).

Majority of international experiences have concluded that tax incentives give under expected effect in attracting FDI. In ASEAN the empirical evidence seems that tax incentives have little effect on FDI flows. In Indonesia, according to the thesis of Dewi (2012) tax holiday facility does not significantly influence investment decisions in Indonesia. Meanwhile in Malaysia, tax holidays have insignificant value in attracting FDI ([4], p. 36). Further, according to researched by Banga (2003) in 17 countries Asia including Indonesia concluded a tax incentive does not have a significant effect on improving the FDI. On the other hand, Gunadi (2013, p. 498) argued that basically most investors believe that a good tax system at low rates and have certainty more preferable than tax incentives

3.2.5. Tax competition for FDI

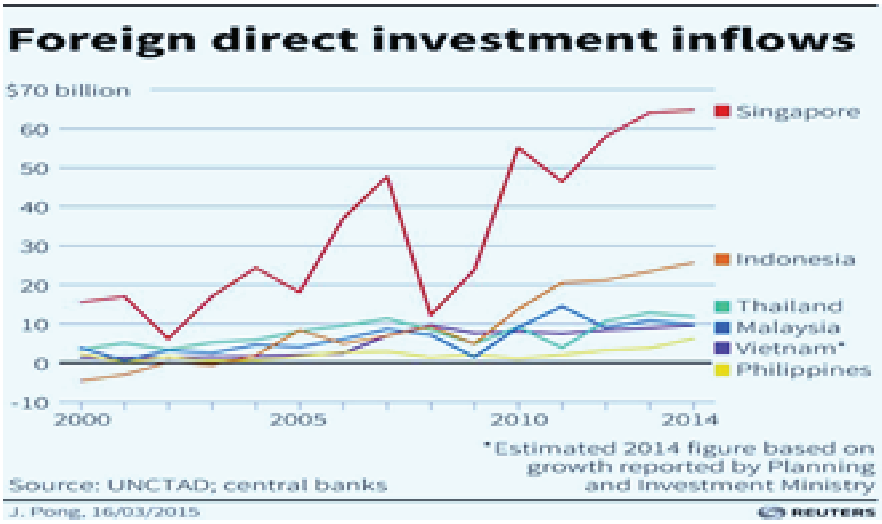

Figure 2: FDI inflows ASEAN.

When examined more deeply, according to a study PricewaterhouseCoopers, ZEW and the University of Mannheim (2010) to the countries of East Asia concluded that the reduction in corporate income tax rates by 1% will increase the flow of FDI amounted to 5% ([84], p. 75). It seems that the results of these studies is reinforced by the conditions of Singapore. Singapore deliberately designed the lowest corporate income tax rate policies of ASEAN-6 to increase the flow of FDI inflows. Empirical evidence indicate that until now the Singapore corporate income tax (CIT) rates set at 17% or lows throughout the region. Later, other evidence indicate according to the World Investment Report, FDI inflows to Singapore 2014 reached USD 67523 millions or highest in ASEAN and in the second position Indonesia only USD 22580 millions, or less than 35% of FDI inflows to Singapore.

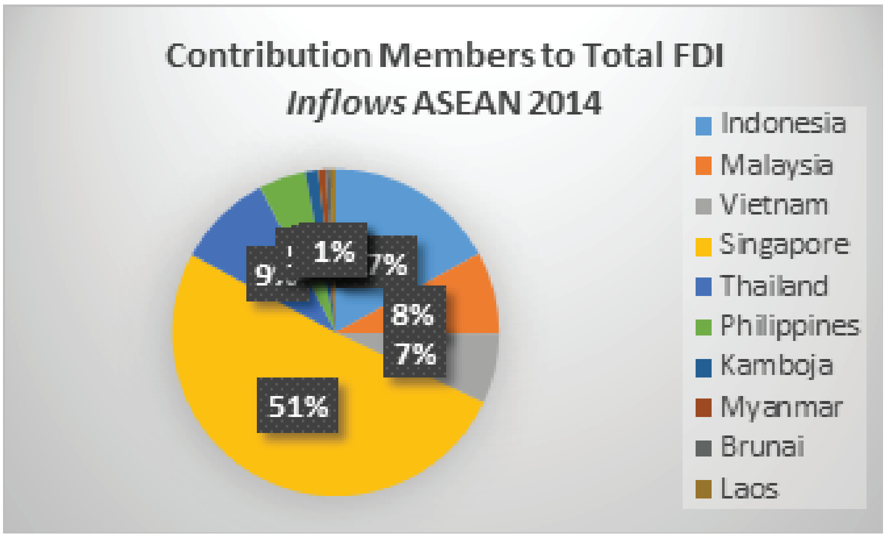

Figure 3: Contribution of FDI inflows ASEAN. Source: UNCTAD, 2015.

Based on Figure 4, allocation foreign investment into ASEAN approximately 51% enjoyed by Singapore. There are only two countries that enjoy the flow of inward investment exceeds USD 20000 million. The rest, eight other countries enjoy the flow of inward investment that the overall number is still less than Singapore. Can be concluded, Singapore until now a major destination countries of foreign investment in the ASEAN region.

Interesting to observe more deeply when the comparison of the corporate income tax rates and FDI flows by taking the case of Thailand because Thailand policy to lower the corporate tax rate drastically in 2012. According to the Table 8, Thailand corporate income tax rates fall dramatically in 2012 from 30 to 23%.

Thailand turns bold step followed by a significant increase in FDI. Proven by the report World Investment Report 2015, FDI inflows (foreign direct investments) Thailand in 2012 to reach US $ 9168 millions increased rapidly from the position of USD 1195

Table 8: CIT rates vs FDI inflows Thailand.

Year	CIT rate Thailand	FDI Inflows (millions USD)
2009	30%	4854
2010	30%	9147
2011	30%	1195
2012	23%	9168
2013	20%	14016
2014	20%	12566
Source: UNCTAD, WIR 2015, United Nations Publications.		

millions in 2011. However, these positions are still far below Singapore and Indonesia USD 64793 millions, USD 18817 millions.

Table 9: CIT rate vs FDI inflows Indonesia.

Year	CIT rate Indonesia	FDI Inflows (Millions USD)
2009	28%	4877
2010	25%	13771
2011	25%	19241
2012	25%	19138
2013	25%	18817
2014	25%	22580
Source: UNCTAD, WIR 2015, United Nations Publications.		

The increase in FDI inflows Thailand did not last long. Thailand experienced a decline in FDI inflows in 2014 to USD 12566 millions from the position of USD 14016 millions in 2013 despite Thailand again reduced corporate income tax rates from 23 to 20%. On the other hand, Indonesia consistently recorded growth of FDI inflows on up to USD 22580 millions in 2014.

3.2.6. Tax harmonization

Discussing the experiences of ASEAN Harmonization especially with corporate income tax harmonization requires many aspect such as tax rates, rules, procedures and practices of the tax system ([4], p. 43). For practically, this article will focus tax harmonization using Velayos et al. model (2007). This article also point out literature reviews of

CCCTB in the European Union (EU). Because EU as integrated economic area has many experienced to tackle tax competition with many instruments such as corporate tax harmonization.

According to Edwards (2008, p. 154) there are two ways to minimize the phenomenon of tax competition. **First**, the government reduced (barrier) in the flow of capital and labor. **Second**, policymakers can design tax harmonization in order to eliminate a variety of benefits for taxpayers who tend to operate business abroad.

Larkin (IBFD, 2005), as cited by Velayos, Barreix, and Villela (2007, p. 2) defines tax harmonization as the elimination of discrepancies or inconsistencies between the tax systems of different jurisdictions to make a difference or inconsistency be in accordance with each other. Then, according to Musgrave (1967) as cited Velayos, Barreix, and Villela (2007, p. 2) defines tax harmonization as a process to make adjustments to the national fiscal system in the interest of economy in general.

3.2.7. Tax Harmonization Model

Based on the model of tax harmonization in the study Velayos, Alberto and Luis (2007) there are 5 types depicted in the form Paramida, the more upward the greater the degree of harmonization. Then, the model was constructed based on the political commitment among countries.

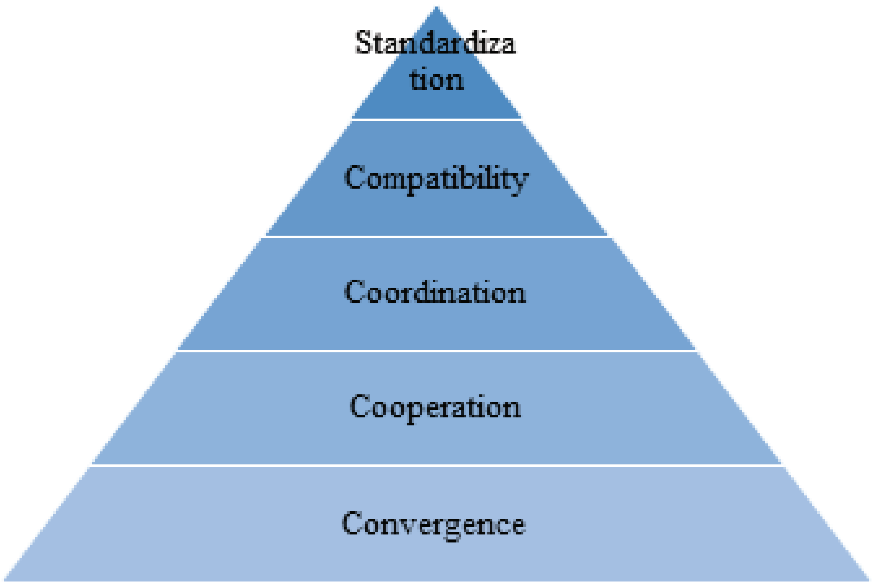

Figure 4: Tax harmonization model by Velayos, 2007.

(a) Standardization

Standardization is the highest level tax harmonization is defined as policies that have the same tax rate or equalize the tax burden imposed on the same type or the same state for example the Common External Tariff (CET).

(b) Compatibility

Adjust the tax structure to overcome or compensate for the effects of distortion caused by the difference in the tax burden in the process of economic integration. Including adjusting the tax structure in order to compensate for the effect of distorting the tax burden disparities that occur during the integration process. This does not mean that the elements of the tax structure is identical to the rates or tax benefits for full development (full extents) otherwise it will not be different from the standardization.

(c) Coordination

Category 'in between' that all the circumstances were not the same as one of the four category. Coordination including efforts harmonization mechanism that may not be limited to one category of harmonization.

(d) Cooperation

Assistance on a reciprocal basis, for reasons of reciprocity (e.g., one country gave supply tax information in the hope that it would receive information from partner nation at a later time) or for the common interest (such as double taxation detected and the two countries decided to cooperate). Cooperation does not include sharing the same tax policy (common tax policy) as well as the highest level of harmonization (standardization) but maybe more to the practical level. Velayos states that share the recommendation of taxation (taxation advice and sharing) as ulcerative corresponding general rules (best practice) according to the theory of cooperation. The cooperation contributes to the consistency of application of the tax system among jurisdiction to establish bilateral and multilateral cooperation which can align tax administration.

(e) Convergence

Convergence is a spontaneous action as a solution to the problems between two countries or more, as a result of globalization and competition. The fifth and final step is from the standpoint of political commitment voluntarily. No party has to harmonize with the excuse/reason for political pressure. However, such attempts occurred more due to the factor conditions the state cannot turn away from the current trend is that the effort is a step in the right priority to the interests of the state.

National sovereignty is a fundamental consideration in any discussion in the context of national policies. State sovereignty is also the most appreciated things (most respected) in the classification of cooperation. As a consequence of these efforts there is no compromise or the exception in the policy.

As the case in ASEAN, because majority of member are developing countries, it will be classic problem to initiative standardization tax harmonization level. Because tax harmonization need high tax administration performances and good coordination among countries, meanwhile majority developing countries had low tax administration performance as indicated by high total time tax compliance in hours. Coordination and convergence is become good option for ASEAN to the future to start political commitment to design corporate tax income harmonization to overcome tax competition phenomena.

3.2.8. Corporate Income Tax Harmonization in EU

Trend of corporate tax rate reduction was raised in the European Union since the end of the 21st century gave rise to a debate to immediately conduct harmonization of taxes in an effort to prevent the phenomenon of race to the bottom. Efforts are made as a consequence of regional integration that eliminates trade barriers on cross-country. What should be emphasized is the rationale for immediate harmonization there are economic considerations that if harmonization is not done immediately it will have a negative impact state revenues will decrease continuously and ultimately affects the provision of public goods and services, even though it violates the principle of sovereignty of a country on taxation ([15], p. 34).

Based on the perspective of the single market, national tax policies contrary (conflict) with the principle of non-discrimination and the smooth flow of services and capital, making the European Union (EU) considers it necessary to adopt tax harmonization efforts to support economic integration. Another reason, efforts to establish the single market actually increase the intensity of tax competition that needs to be addressed through tax harmonization ([54], pp. 6–7).

The process of tax harmonization in the EU is divided into two major groups namely the harmonization of indirect taxes and direct tax harmonization [91]. Then, this article will focus to direct tax harmonization in EU with CCCTB.

CCCTB is a common system for calculating the tax base for the taxpayer in EU and non-EU resident who has branches in UE. The calculation of CCCTB is depend on big/volume of companies, for multinational companies level, then the company will benefit (Step of harmonization of income tax is to build a consensus Common Consolidated Corporate Tax Base (CCCTB) in EU is not only meant for the harmonization, but also to reduce the complexity and compliance cost including dealing with transfer pricing issues) from taxation cost (Based on studies conducted by the European Commission states that a large reduction in the costs associated with tax obligations to reach 7% by using the provisions CCCTB. In general, the provisions CCCTB could reduce discriminatory practices that can reduce compliance costs, especially for SMBs/SMEs (Small Medium Enterprises) [94]) in the context of the single market ([56], p. 49). CCCTB aims to ensure the consistency of the national tax provisions in each EU member state, because, basically expected a fair competition on the determination of the tariffs in the domestic market of a country and the transparency provisions on investment activities. The existence of a fair tariff is expected to encourage an internal market in each country can run well, so the process of determining the budget which was also supported by the taxation sector.

In the context of the EU crisis, since March 2011 the Commission EU adopted a proposal for a CCCTB (Common Consolidated Corporate Tax Base), and submitted for decision-making procedure attempts. The move was approved and amendments from the EU Parliament. Adoption CCCTB Directive require the approval of all members of the European Union at the level of Ministers (Council of Ministers). Since its adoption, CCCTB should be implemented by the national tax system every member state with additional regulations (Siu, 2014: 21–22).

Referring to the experience of the European Union, the biggest challenge of the harmonization of direct taxes there are some member states that have higher tax rates than other countries that potentially will suffer losses if it implemented. Then, system of taxation each EU member state is different because their sovereignty.

According to the study Bénassy-Quéré, Trannoy and Wolff (2014, p. 9) required further tax harmonization in the European Union (EU) due to tax competition cause distortion of the single market (single market). Furthermore, the euro zone crisis has had an impact on the fiscal capacity of the euro zone or budget needed to sustain the single currency (single currency). Therefore, the CCCTB project could be a joint effort to recover tax sovereign and accommodate automatic exchange of information (AEOI) on capital income and CIT base erosion.

Referring to the experience of EU efforts to apply CCCTB open to uniform tax rates directly, but aims to define a uniform tax base. This can be observed from the corporate tax rate among the EU countries in the Table 10 that are not uniform with the rates range between the 10–35%. This shows the tax rates in the EU are not necessarily uniform but varies due to interstate has the sovereign will of tax policy.

3.2.9. Corporate Income Tax Harmonization in ASEAN

Before review the literature leading to these corporate income tax harmonization, it seems wiser to stress the relevance of the topic. The corporate income tax is an important source of revenue for the member states of ASEAN-6 constituting between 25 and 60% of total tax revenue. (According data from Revenue Statistics from Asian Countries 2015 in Indonesia, Malaysia and Philippines, corporate tax revenue contribution to total tax revenue for Indonesia reach 25,9 %, 53% for Malaysia, 26,1 % for Philippines (2013). [93]) Tax competition among ASEAN-6 countries order to attract foreign direct investment is expected to erode corporate income tax revenue in the long run especially for country with highest tax rate.

According to Table 11, average decline CIT rate in ASEAN-6 dramatically increasing from 6.6% to 19.83%. On the contrary, EU average decline CIT rate not as much as higher from period 1998–2006 because EU effort to implemented corporate income tax harmonization through CCCTB since 2011. Then, this article will focus to examine corporate income tax harmonization in ASEAN such EU did before.

As the case in ASEAN, there are two important criteria that need to be considered in the harmonization of corporate income tax. Such as neutrality and subsidiarity criteria (Mansury, 1996, p. 9).

First, the criteria of neutrality requires harmonization of taxation on income was not to cause any competition in the regional member countries determine the tax system, which is reflected by a race between countries of ASEAN to attract foreign investment. All countries should strive for scaling up capabilities together optimally. All member states should seek to harmoniously so that their combined market share in the US, Europe and Japan can be improved.

Table 10: CIT rate EU-27 (%).

No.	EU-27	2007	2016	Change
1	Austria	25	25	0.0%
2	Belgium	33.99	33.99	0.0%
3	Bulgaria	10	10	0.0%
4	Cyprus	10	12.5	25.0%
5	Czech	24	19	−20.8%
6	Denmark	25	22	−12.0%
7	Estonia	26	20	−23.1%
8	Finland	28	20	−28.6%
9	France	33.3	33.3	0.0%
10	Germany	38.36	29.72	−22.5%
11	Greece	25	29	16.0%
12	Hungary	16	19	18.8%
13	Ireland	12.5	12.5	0.0%
14	Italy	37.25	31.4	−15.7%
15	Latvia	15	15	0.0%
16	Lithuania	15	15	0.0%
17	Luxembourg	29.63	29.22	−1.4%
18	Malta	35	35	0.0%
19	Netherlands	25.5	25	−2.0%
20	Poland	19	19	0.0%
21	Portugal	25	21	−16.0%
22	Romania	16	16	0.0%
23	Slovakia	19	23	21.1%
24	Slovenia	23	17	−26.1%
25	Spain	32.5	25	−23.1%
26	Sweden	28	22	−21.4%
27	United Kingdom	30	20	−33.3%
	Average	24.33	22.21	−6.12%

Source: KPMG.

Table 11: ASEAN-6 vs EU average decline CIT rate.

Average Decline	ASEAN-6	EU
2007–2016	19.86%	6.12%
1998–2006	6.6%	19%

Source: Hayes (2008) for average decline period 1998–2006 using ASEAN-6 and EU-15; for period 2007–2016, using ASEAN-6 and EU-27 with calculations from Tables 10 and 4.

Therefore, the harmonization of taxation is also intended to reduce unfair competition between countries of ASEAN to be an investment location. On the contrary, harmonization of taxation should encourage the realization of optimal regional integration capabilities together in order to integrate into the world economy becomes more optimal. Through the criteria of neutrality, ASEAN member countries remain a sovereign state, therefore each country to design in products law (as agreed by the representatives of the people) determines the tax collection based on a particular system.

Second, the criteria of subsidiarity, sovereign member countries to tax on income is based on a particular system, all while complying with the harmonization agreement within the framework of free trade. In other words, do not let the system of taxation on income in ASEAN member states become obstacles in the framework of the establishment of a free trade area mainly inhibits flexibility of human resources and capital flows between countries of ASEAN. Then this criteria could be adopted by design such as coordination policy among ASEAN countries but still support maintain the competitiveness of ASEAN. Adopt minimum CIT rates policy using subsidiarity criteria among ASEAN countries can be can be good option to maintain competitiveness and minimize harmful tax competition phenomenon ASEAN region.

The increasingly phenomenon of tax competition in ASEAN needs attention. Especially in the era of competition to seize foreign investment through the adoption of tax policy. Reviewing the implementation efforts of corporate income tax harmonization in ASEAN at least need to review a few things.

First, the corporate income tax harmonization until now proved to be a solution to minimize the tax competition in the EU. Tax competition in the EU is not as powerful as the period of 1998–2006 because since 2011, EU adopt the CCCTB to reduce harmful tax competition practices. This indication from the level of reduction in the CIT rate of only 6.12% in the period from 2007 to 2016, ASEAN could at least adopt it.

Second, the main effort toward the CCCTB does not aim for the level of standardization in the model tax harmonization of Velayos but toward harmonization of tax base. This is evident from the range of the corporate tax rate in the EU-27 in the 10–35% range is quite varied much more different than the ASEAN-6 17–30%. ASEAN is certainly easier to seek corporate tax harmonization than EU.

Thirdly, the contribution of corporate income tax to total tax revenue is significant in the ASEAN-6 could be the first step to encourage ASEAN-6 to start-coordinated efforts by model Velayos to formulate harmonization of the corporate tax. Then, it becomes an opportunity to minimize the phenomenon of harmful tax competition and encourage ASEAN into more competitive. Indeed ASEAN has competitive capital with a range of tariffs that are not too much different from the EU region so enough attractive to attract foreign investment flows.

Fourth, efforts toward corporate income tax harmonization in ASEAN have a valuable asset with their ASEAN Tax Forum since 2011 [92]. ASEAN Tax Forum aim to support the realization of the ASEAN region more competitive. The phenomenon of harmful tax competition in ASEAN has the potential to increase the unfair competition to attract foreign investment through various 'excessive' through the sale of tax incentives and decrease CIT rate continuously without coordination to overcome, consequently it potentially will decrease competitiveness of ASEAN because of the risk of reduction in potential tax revenue.

Fifth, it required further research and study to examine whether the corporate income tax harmonization could be the right solution for ASEAN in the future. It can see trends for tax competition after the implementation of these policies and see trends in foreign investment in ASEAN. Then the test can be performed according to the method Cortex referring to the OECD model tax [92].

There are several prime obstacle to adopt corporate income tax harmonization in ASEAN. **First**, ASEAN countries have different definitions of resident company for tax purpose. Some countries like Indonesia define resident company to include the place of effective management irrespective of the country of established. **Second**, if each country put priority option for national interest without considering collective interest, it seems will be impossible to adopt corporate income tax harmonization in ASEAN. As we know there are significant difference economic niches of ASEAN countries. Indonesia, Malaysia or Philippines has tremendous resources, but Singapore extremely relies on financial trading and services.

3.2.10. Urgency of Corporate Tax Harmonization

The existence of the downward trend in corporate income tax rates supported a wide variety of closeout fiscal incentives offered ASEAN strengthen their interstate tax competition issues. The impact of the phenomenon of tax competition is potentially declining tax revenues and the attempts to shift the tax burden to immobile tax bases (Genschell, 2002, p. 247). As a response to the decline in tax revenues, the tax burden will be shifted to the less mobile sectors such as VAT (Value Added Tax).

In the publication Asian Development Bank Institute ([79], p. 14) states that one-step integration pursued in the ASEAN region, namely the reduction of tariffs on international trade in goods among members of ASEAN. Based on Nugroho (2010, pp. 343–352) that the harmonization of various provisions in ASEAN including corporate income taxes is not impossible, especially when the interstate ASEAN agreed to minimize tariff barriers and the use of perspective that taxes are one cost of doing investment. In fact, according to a study Sulistyo (2015, p. 3) harmonization of tax rates between countries of ASEAN is required to minimize the difference in tax rates although the diversity of tax rates in the ASEAN countries would be difficult to be homogenized.

According to Gunadi (2015), as cited by Sulistyo (2015, pp. 1–2) disharmony in tax rates between countries will allow the flight of capital (capital). In the area of economic integration of countries that apply lower tax rates will have a negative impact on the trend of capital flows countries with higher tax rates Consequently, when the high tax burden potentially shifting the tax burden to countries with lower tax. On the other hand, is based on the thesis of Kristiaji (2015, p. 90) every 1% difference in tax rates between countries, approximately 1.2% profit lost due to the practice of profit shifting. Disparities in tax rates between countries could potentially reduce the potential tax among countries in ASEAN especially for Indonesia with highest CIT rate after Philippines

According to the study Budiantoro (2015) tendency of Indonesia governments to design a policy to expand, simplify, and extend the application of the policy of 'tax holidays' to encourage the investment of up to 20 years is quite interesting to observe carefully. Because of this policy is risky to provoke a tax war discount (tax competition) with neighboring countries so as to increase the intensity phenomena of racing into a ravine (race to the bottom). Starting from concerns about the phenomenon of race to the bottom pushing the need for tax harmonization ([60], p. 178).

Indeed, tax holiday eliminating potentially large tax revenues. Of the 20 studies of developing countries, granting exemption from corporate income tax turned out to eliminate potential tax revenue of around 0.5 per cent of gross domestic product (ActionAid, 2013). The phenomenon of race to the bottom with the growing intensity of the tax competition in the area of economic integration, such as Africa, the EU and ASEAN risk of carrying every state in the position of a lose-lose situation. Providing tax facilities more and more and that the lower taxes will result in a loss of potential revenue.

3.2.11. Tax competition risk for Indonesia

The loss of potential revenue could potentially increase the risk of failure Indonesia to raise the tax ratio target to achieve 16%by 2019 in accordance Nawacita Programs not being achieved. There are at least three fundamental reasons.

First, this is due to the phenomenon of tax competition in the ASEAN region has the potential to encourage Indonesia governments to design more investor-friendly tax policies through the sale of tax incentives as well as the corporate income tax rate reduction in the future. As a consequence, it is likely to reduce the potential tax revenue.

Second, the trend of the phenomenon of failure to achieve the target of tax revenue (According data from Directorate General of Taxes Indonesia, since successfully implemented sunset policy programs 2008, Indonesia since 2009 has always failed to reach 100 percent the target of tax revenue. It seem at this year (2016), Indonesia will fail meet the tax revenue target, as indicated by Sri Mulyani (Ministry of Finance) programs to cut government spending until more than 130 trillions rupiahs) by Indonesia government since 2009 until 2015 increase the risk of failure to achieve the target of tax revenue to GDP ratio of 16% in 2019. As a consequences, the deficit target in danger of not being met. Other consequences, it causes the government debt dramatically increase. In fact, when viewed more in depth, based on data from the Ministry of Finance Indonesia, government debt has reached USD 316 billion or 4312 trillion rupiahs until April 2016, though still in its early stages safe (Indonesia's debt ratio to GDP of 27 percent, below the safe limit of 60 percent as stipulated in the elucidation of article 12 paragraph 3 of Law No. 17 Year 2003 on State Finance of Indonesia). But actually, the true modern state is a state that is able to maximize the potential of the tax, not just rely on the debt [62].

Third, the global economy in 2016 is still uncertain (Brazil and Russia are still in recession this year [64]. The results of the referendum the British people (Brexit) who decided to get out of the economic and political bloc the European Union to increased profile global uncertainty and threaten the future of the integration economic phenomenon) thus affecting the performance of tax revenues. The main factors triggered by the transition of the Chinese economy (China's economic growth this year according to the IMF is estimated to slow to 6.3 percent and 6 percent next year.) [63]. Brexit (Britain Exit) also encourage uncertainties plan the Fed's interest rate hikes. Plan for Federal Reserve policy rate hike also potentially increase the risk of economic growth in developing countries slowed, including Indonesia. So it is not surprising that the World Bank corrected estimates Indonesia's economic growth to 5.1% just in condition the Economic Policy Package notes that rains by President Jokowi actually realized.

4. Conclusions

Trends in world investment competitions push the issue of tax competition, especially in the area of economic integration such as the European Union and ASEAN. This is because the tax is one of the factors determining the location of investment. Current conditions indicate a transition economy of China. This condition potentially increase 'strategic interaction' (Strategic interaction from Wilson and Wildasin (2004) argumentation about tax competition. The strategy occur if the neighboring countries do decrease the CIT rate these countries tend to respond with a similar policy) phenomenon among member of ASEAN which majority is developing countries to design tax policy to grab foreign investment.

Tax competition conditions in ASEAN concerns some researchers to find the evidence of phenomenon of tax competition. Based Hayes (2008), Tohari and Retnawati (2008) Berlianto (2009), Setyowati (2014) and reinforced by researched in this article through CIT rate and tax ratio concluded the phenomenon of tax competition in ASEAN still do not have enough strong evidence.

In the future, there is the urgency of harmonization of corporate income tax at ASEAN. This was confirmed from Nugroho (2010) suggests the possibility of harmonization of income taxes at ASEAN and Budiantoro (2015) concluded the need for harmonization of income tax in ASEAN. In fact, the current conditions showed a downward trend in corporate income tax rates in ASEAN more alarming. The decline in CIT tax rates 2007–2016 ASEAN reached 19.83%. This phenomenon strengthened because difference of system of taxation among member ASEAN-6 and increasingly tax incentives offered for foreign investors.

Looking ahead, the ASEAN regional economic integration should seek solution to tackle or prevent the practice of harmful tax competition. Such efforts could be through harmonization of corporate income tax while maintaining the criteria of neutrality and subsidiarity. ASEAN needs to consider the application of the minimum CIT rate for prevention of the phenomenon of race to the bottom CIT rate. The EU initiate the CCCTB could be comparative studies for the ASEAN region to formulate efforts begin political commitment to adopt corporate income tax harmonization the ASEAN region in the future.

However, this adoption still need depth research. Further work need investigate current trend of tax competition in ASEAN, the progress of CCCTB in EU and overview challenges to initiate corporate income tax harmonization policy in ASEAN.

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