

## Tax and Indonesian Creative Economy

### Pajak dan Ekonomi Kreatif Indonesia

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#### ABSTRACT

*This research develops a creative economy model as a strategy to increase tax revenues in Indonesia and to develop theory in the field of taxation in the creative industries sector through empirically testing influence of tax revenues from the creative industries sector on economic growth in Indonesia. The sample used was 8,203,826 creative economy actors in 16 subsectors registered in the Data Center of the Ministry of Tourism and Creative Economy / Tourism and Creative Economy Agency of the Republic of Indonesia on the recent decade. The result provides empirical evidence that there is a significant positive influence of taxes from the creative economy on Indonesian economic growth. The implication of this research is Indonesian government should facilitate the regulation and policy in order to enhance the creative entrepreneurship in Indonesia.*

**Keywords :** entrepreneurship, creative economy, tax, economic growth.

#### ABSTRAK

Penelitian ini mengembangkan model ekonomi kreatif sebagai strategi untuk meningkatkan penerimaan pajak di Indonesia dan mengembangkan teori di bidang perpajakan di sektor industri kreatif melalui pengujian secara empiris pengaruh penerimaan pajak dari sektor industri kreatif terhadap pertumbuhan ekonomi di Indonesia. Sampel yang digunakan adalah 8.203.826 pelaku ekonomi kreatif di 16 subsektor yang terdaftar di Pusat Data Kementerian Pariwisata dan Ekonomi Kreatif/Badan Pariwisata dan Ekonomi Kreatif Republik Indonesia pada satu dekade terakhir. Hasil penelitian ini memberikan bukti empiris bahwa terdapat pengaruh positif yang signifikan dari pajak ekonomi kreatif terhadap pertumbuhan ekonomi Indonesia. Implikasi dari penelitian ini adalah pemerintah Indonesia harus memfasilitasi peraturan dan kebijakan untuk meningkatkan kewirausahaan kreatif di Indonesia.

**Kata kunci:** kewirausahaan, ekonomi kreatif, pajak, pertumbuhan ekonomi.

#### 1. Introduction

The creative economy is a form of business that can be utilized to increase economic growth through innovative industrial activities, such as intellectual activities, arts, culture, entertainment and technological innovation. The creative economy in Indonesia has become one of the main factors in social development. Indonesian creative economy has become the focus of sustainable economic development. Since 2010, the Ministry of Tourism and Creative Economy has tried to maximize the potential and opportunities of the creative economy in Indonesia. The creative economy sector supports national economic strength. The creative economy is a trigger for Indonesia's economic growth. The creative economy receives widespread attention in various countries. Along with technological developments and globalization, creative industries such as art, design, music, film, video games, fashion, and many more have become significant contributors to economic growth. However, when we talk about the creative economy, it cannot be ignored that taxation is one of the key factors that influences the dynamics and development of this sector.

The government has made great efforts to increase economic growth by improving the structure of fiscal and monetary policies and encouraging foreign investment to reduce regional Gross Domestic Product imbalances. Regulations in the field of taxation in Indonesia are aimed at increasing domestic income. Progressive international trade policies allow local



Regulation theory underlies various empirical studies in the field of taxation. Bruce, Gurley-Calvez, and Norwood (2020) conducted a literature review regarding the relationship between entrepreneurial activities in small and medium business units (MSMEs) and variations in regulations and tax rates in the United States. This condition shows that entrepreneurial activities which are part of the creative economy must be based on tax regulations which can provide opportunities to develop business, so that they can improve the country's economy. The creative economy is an economic sector that is growing rapidly in various countries. It covers industries such as art, design, fashion, music, film, and more. In the context of the creative economy, the role of regulatory theory is very important. First, regulations are needed to protect copyright and intellectual property rights in the creative industries, ensuring that creators and industry players receive fair credit for their work. One of the main influences of regulation theory in the creative economy is in the regulation of copyright and intellectual property rights. Existing rules and regulations must provide sufficient protection for creators and creative industry players so that they have incentives to continue creating new works. This means the government needs to create an appropriate regulatory framework, as well as strictly monitor and enforce copyright. Regulation theory is also relevant in market regulation and competition in the creative economy. The government needs to monitor and regulate the market to prevent monopolies or illegal business practices. This ensures that creative economy actors, especially small and medium sized ones, have a fair opportunity to compete.

Law of the Republic Indonesia Number 24 of 2019 is a regulation for the creative industry which provides a basis for legal certainty to the government and/or regional governments in creating and developing a creative economic ecosystem. Law of the Republic Indonesia Number 24 of 2019 shows the government's aim to encourage all aspects of the creative economy in accordance with developments in culture, technology, creativity, innovation of Indonesian society, and changes in the global economic environment and aims to improve the welfare of the Indonesian people and increase state income, create a creative economic ecosystem that is globally competitive, create new job opportunities that support the artistic and cultural values of the Indonesian nation as well as local economic resources, optimize the potential of actors creative economy, protecting the results of the creativity of creative economy actors, and mainstreaming the creative economy in national development plans.

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fiscal incentives. The provision of fiscal incentives comes from tax revenues received by the state. The creative economy in Indonesia has experienced significant growth in recent years. As a country with a rich culture and great ethnic diversity, Indonesia has great potential in the creative economy sector. The government is responsible for creating and developing a creative economic ecosystem so that it can contribute to the national economy and increase global competitiveness in order to achieve sustainable development goals.

The creative economy in Indonesia has developed rapidly in the last decade. This sector includes industries such as art, music, fashion, design, film and culinary. The creative economy has become an important contributor to Indonesia's Gross Domestic Product. This sector makes a significant contribution to the country's economic growth. Indonesia has a variety of traditional arts and culture which are an important part of the creative economy. Handicrafts, shadow puppetry, traditional dances, and gamelan music are examples. The Indonesian fashion industry, including batik and traditional weaving, is increasingly recognized internationally. Indonesian designers have achieved global recognition. Indonesian films have also gained significant popularity in recent years, with various films winning awards at various international film festivals. Despite the very positive growth of the creative economy, this sector still faces various challenges, including copyright protection, access to global markets, and creative education. However, opportunities continue to grow with creative economic potential that has not yet been fully explored. With great potential and growing support, the creative economy in Indonesia has an increasingly important role in strengthening the country's economy and promoting Indonesian culture and creativity at the global level.

Indonesian government has provided active support for the creative economy sector through various programs, tax incentives and funding. The digital era has changed the way this sector operates. Many artists and creative economy players use online platforms to promote and sell their work. More and more individuals are becoming creative entrepreneurs in Indonesia. They create startups, art galleries and design companies that generate significant revenues. Investment in creative projects, such as film production or arts events, increasingly comes from private investors and financial institutions. The state helps make this happen by providing incentives for creative economy industry players. Tax incentives refer to efforts made by a country to attract investors in order to encourage economic activity. Tax incentives can be in the form of reduced tax rates on profits, tax exemptions, reduced tax bases, reduced tax rates imposed, and tax deferrals. Further provisions regarding the provision of incentives for creative economy actors are contained in the Government Regulation of the Republic of Indonesia Number 24 of 2022 in Chapter V concerning Incentives for Creative Economy Actors. In this case, the government and/or regional governments can provide incentives to creative economy actors in the form of fiscal incentives and/or non-fiscal incentives. Fiscal incentives for creative economy actors provided by the government can be in the form of tax facilities, customs facilities, and/or excise facilities. Meanwhile, fiscal incentives for creative economy actors provided by regional governments can take the form of incentives.

The Micro, Small and Medium Enterprises (MSME) sector is the backbone of the country's economy. MSMEs must be managed well in order to produce good performance so that they can contribute to state tax revenues and can increase Indonesia's economic growth. This condition is supported by the research results of Septiyanti (2020 a) in the context of micro business entities and Septiyanti (2020 b) in the context of small business entities. Septiyanti and Zerlina's (2021) provides empirical evidence that micro entities in the fashion subsector focus more on self-enhancement values which are negatively correlated with the public interest. This condition shows the importance of regulation in the creative economy sector which prioritizes innovation. The performance of creative economy sector entities will have an impact on tax payments made by business entities. State tax revenues will have an impact on increasing economic growth in Indonesia.

### 3. Research Method

The population of this research is all creative economy actors in Indonesia. The sample used is creative economy entities registered in the Data Center of the Ministry of Tourism and Creative Economy / Tourism and Creative Economy Agency of the Republic of Indonesia on a decade observation period. The characteristic of sample is shown on Table 1.

**Table 1. Samples**

No	Creative Economy Subsector	Number of Industry
1	Architecture	5.740
2	Interior Design	798
3	Visual Communication Design	616
4	Product Design	3.367
5	Movies, Animation and Videos	2.418
6	Photography	40.436
7	Craft	1.194.509
8	Culinary	5.550.960
9	Music	34.242
10	Fashion	1.230.988
11	Application and Games	12.441
12	Publishing	83.496
13	Advertisements	3.055
14	Television and Radio	3.944
15	Performing Arts	19.772
16	Fine Arts	17.044
<b>Total</b>		<b>8.203.826</b>

Source: Ministry of Tourism and Creative Economy (2020)

### 4. Results and Discussion

**Table 2. The Result**

<b>Model 1: <math>Y = \alpha + \beta X + \epsilon</math></b>					
$\alpha$ (Sig.)	$\beta$ (Sig.)	$R^2$	Adjusted $R^2$	F (Sig.)	N
.001 (0.008)	3.840 (0.015)	0.515	0.511	25.950 (0.015)	8,203,826

Source: Data Proceed, 2023

The testing for taxation of creative economy and economic growth is based on Model 1 as shown on Table 2. The R2 test is used to measure how far the modeling capability is in explaining variations in the dependent variable. In this research, the coefficient of determination applies the R2 value. R-square is 0.515. This means that 51.5% of the variation in economic growth can be explained by tax revenues from the creative economy sector. The adjusted R-Square value functions to overcome problems that are often encountered with the R-square value, namely that the value continues to increase if there are additional independent variables into the model, while the adjusted R-Square can measure the level of confidence in adding independent variables appropriately in increasing predictive power. The adjusted R-Square value in this study was 0.511 or 51.1%. The value  $\beta$  is 3.840 with p-value 0,015 which shows that taxation of creative economy positively influences the economic growth. This result supports Bruce, Gurley-Calvez, and Norwood (2020) where tax from entrepreneurial activities and the creative economy provide opportunities for the economic growth.

## 5. Conclusion

The results of this research provide empirical evidence about the tax contribution of the creative economy sector in Indonesian economy. Taxes from the creative economy sector are the potential backbone of Indonesian economy. These contributions are among financial, creativity and innovation. The creative economy is the key of economic growth through investment in human capital. Digitalization and services strengthen this aspect by enhancing productivity and quality of life through access to information and services. Appropriate policies and facilities need to be developed to optimize the benefits of digitalization. Regulations and policy are crucial to accommodate digital realities for economic growth.

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