

The Influence of Tax Competition on Corporate Income Tax Rates and Tax Holidays in ASEAN-6

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ABSTRACT

This research is motivated by the tax competition phenomenon, where countries compete to offer attractive tax policies to attract investors and boost national revenue. Two key instruments often employed are Corporate Income Tax (CIT) rate adjustments and tax incentives in the form of tax holidays. The purpose of this research is to analyse the impact of tax competition on CIT rates and tax holiday policies in six ASEAN countries: Indonesia, Malaysia, Thailand, Philippines, Singapore, and Vietnam. Over the past decade, most ASEAN-6 countries have reduced CIT rates and extended the maximum tax holiday period. This research employs a quantitative approach using regression coefficient tests, a reliability analysis model, and determination coefficient values. The findings reveal that tax competition has a positive impact on CIT rates and tax holidays in ASEAN-6. However, the effect on CIT rates is not significant, neither partial nor simultaneity effect. In contrast, tax competition significantly influences tax holiday policies, either a partial or a simultaneous effect. These findings are expected to provide insights into understanding the dynamics of tax competition and its implications for tax policy.

Keywords: tax competition, corporate income tax (CIT) rate, tax holiday, fiscal policy, ASEAN

1. INTRODUCTION

With a large population, stable economic growth, and diverse resources, the Association of Southeast Asian Nations (ASEAN) plays an important role in international trade and investment flows. According to a press release from the Coordinating Ministry for Economic Affairs of the Republic of Indonesia (2023), ASEAN recorded an average economic growth of 4–5% over the past decade, making it the fifth largest economy globally and the second largest Foreign Direct Investment (FDI) destination in 2022. The ASEAN-6 countries dominate the economy in Southeast Asia (Santosa & Purnomo, 2025).

ASEAN-6 refers to the six ASEAN member states, grouped by the Organization for Economic Co-operation and Development (OECD), based on their contributions and active roles in the ASEAN region. The OECD (2022) states, "Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam are particularly active and have become providers of development co-operation in their own way." Therefore, the ASEAN-6 have a significant influence on policy-making within ASEAN.

In efforts to design more efficient policies to increase state revenue, ASEAN-6 countries show a trend of lowering Corporate Income Tax (CIT) rates and increasing the provision of tax incentives such as tax holidays. An external factor influencing the reduction in CIT rates is the strengthening of

“tax competition” (race to the bottom) at the regional and global levels (Hidayat et al., 2020). These policy changes reflect each country’s strategy to strengthen fiscal competitiveness in the global market through tax competition practices, a condition where countries actively adjust tax policies—either in rates or incentives—to attract FDI and stimulate economic growth.

The phenomenon of tax competition in the ASEAN-6 region is reflected in fiscal policy reforms in taxation aimed at strengthening investment attractiveness. The Philippines implemented the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act in 2021, which lowered the CIT rates to 25% for foreign companies meeting specific criteria. Singapore applies pro-investment fiscal policies by offering various incentives, including low taxes (Mubarok et al., 2025). Vietnam grants tax holidays of up to 50 years to large multinational companies such as Apple to attract long-term investment. Malaysia adopts the Investment Tax Allowance (ITA) scheme, a tax incentive providing deductions based on a company’s capital expenditure to encourage investment in priority sectors. Thailand’s Board of Investment (BOI) launched an incentive package on October 17, 2022, valid through 2023–2027, which includes an additional CIT exemption for three years (HKTDC Research, 2022). Indonesia also extended CIT reduction facilities by issuing Minister of Finance Regulation No. 69 of 2024 as a revision of PMK No. 130/PMK.010/2020, as part of a strategy to maintain national fiscal competitiveness. These policy changes indicate aligning fiscal strategies among ASEAN-6 countries to improve the region’s economic competitiveness. Harmonisation of tax policies is an important instrument in responding to global and regional dynamics, especially in capturing increasingly competitive foreign investment flows.

This phenomenon aligns with Afrianto’s (2018) view that tax competition in ASEAN is strengthening, as evidenced by significant reductions in CIT rates, differences in tax systems among countries, and the variety of tax incentives offered. In line with this, Ika (2024) states that tax rate setting must consider other countries’ tax

policies as part of economic competitiveness strategies. Therefore, tax competition in ASEAN-6 can no longer be seen as unilateral policies, but as part of a mutually influential regional dynamic. ASEAN-6 countries actively adjust their fiscal policies. Regional tax policy harmonisation also shows a collective tendency to create a competitive, transparent, and highly competitive business climate amid global pressures.

Given the intensifying of tax policy dynamics in Southeast Asia, empirical studies analysing the combined effects of tax competition on CIT rates and tax holidays in ASEAN-6 countries remain relatively limited. Most previous studies evaluate each instrument separately, focus on specific countries, or use cross-regional data outside ASEAN. However, the heterogeneity of economic characteristics, fiscal capacity, and tax competition design in ASEAN-6 shows a unique configuration that cannot be fully equated with other regions.

The urgency of this research increases as regional competition intensifies in attracting global investors, prompting ASEAN-6 countries to reform tax policies to strengthen fiscal competitiveness. On the other hand, growing international scrutiny of tax competition practices raises concerns about the potential for a race to the bottom, which may harm long-term fiscal stability through tax base erosion and dependence on aggressive fiscal incentives. In line with this, global initiatives such as the OECD Inclusive Framework and the global minimum tax (GMT) implementation require ASEAN-6 countries to evaluate the effectiveness of their tax policies, especially regarding CIT rates and fiscal incentives like tax holidays.

This study provides new insights into the dynamics of tax competition in ASEAN-6 by examining the partial and simultaneous effects on CIT rates and tax holiday policies in these six countries over a decade (2014–2023). This study also considers the interaction between tax rates and fiscal incentive policies, allowing for a more comprehensive understanding of the combined effects of tax policies.

By understanding trends and regulations, this research is expected to contribute theoretically to understanding the impact of tax competition on

CIT rates and tax holiday incentives in ASEAN-6, as well as practically provide a reference for policymakers in formulating tax policies that support sustainable economic growth.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

2.1 Tax Competition

The concept of tax competition originates from the research of Charles Tiebout (1956) in his journal article titled "A Pure Theory of Local Expenditures." This theory was later developed by Zodrow and Mieszkowski (1986) through their Standard Tax Competition theory. Furthermore, Wilson and Wildasin (2004) examined the impacts of tax competition in both the private and public sectors. Tiebout (1956) argued that individuals live in areas that provide the best public goods and services. In the context of tax competition, this concept explains how each region competes to attract residents as taxpayers or capital providers, thereby increasing state revenue through government policy adjustments. The theory posits that competition among countries arises because residents choose locations that best match their preferences, especially considering the trade-off between taxes paid and public services received. Consequently, this competition encourages countries to optimise fiscal policies and public services to meet the needs and expectations of their citizens, which in turn can potentially increase government revenue.

Zodrow and Mieszkowski (1986) developed the theory by viewing tax competition as a result of countries competing to expand their tax base, particularly by attracting investments or residents through offering lower tax rates than other countries. Subsequently, Wilson and Wildasin (2004) further reviewed the Standard Tax Competition theory concerning tax competition's positive and negative impacts. Their study considered various scenarios and conditions, concluding that the effects of tax competition vary depending on the specific circumstances and mechanisms in place within each jurisdiction.

Tax competition among countries, as explained by the theories of Tiebout (1956) and

Zodrow & Mieszkowski (1986), can influence a country's fiscal policies, including setting CIT rates and providing tax incentives. Theoretically, in efforts to attract investment and residents, countries compete to offer lower tax rates compared to others, thereby expanding the tax base and promoting economic growth. As a result, tax competition leads countries to race to lower CIT rates to be more competitive and offer various tax incentives to attract more foreign investors. Empirical studies also support this view, showing strong evidence that governments adjust their tax policies in response to changes in other countries' taxes (Devereux et al., 2002).

2.2 Corporate Income Tax Rate

The Corporate Income Tax (CIT) rate is a statutory rate set by a country's government, expressed as a percentage of tax imposed on a company's net profit. This rate is one of the fiscal instruments the state uses to collect government revenue through tax income. The tax is levied based on the income or profit earned by a company after deducting allowable expenses, according to the tax regulations applicable in each country.

Various factors influence the CIT rates, including countries' competition. In the modeling conducted by M. Mansour and G. Rota-Graziosi (2013), the tax competition model includes two important characteristics: positive spillover, which is equivalent to ordinary complementarity (Eaton, 2004, as cited in Mansour & Rota-Graziosi, 2013), and strategic complementarity of tax rates (Bulow, Geanakoplos, & Klemperer, 1985, as cited in Mansour & Rota-Graziosi, 2013). Ordinary complementarity occurs when an increase in one country's CIT rates leads to capital shifting to another country, thereby increasing the tax base, revenue, and welfare in the other country. Strategic complementarity happens when an increase in one country's CIT rates encourages other countries to raise their tax rates. Thus, tax competition influences a country's fiscal policy by determining the CIT rate, whereby countries adjust their rates to attract investment or respond to the tax policies of other countries.

Over the past decade, CIT rates in the ASEAN-6 region have shown significant variation, ranging from 17% to 30%. The average rate in this region is around 21%–23%, consistently higher than the global average of approximately 20%–21%, as illustrated in Figure 1. Although there was a sharp decline in 2021, the average rate in ASEAN-6 remains above the global average.

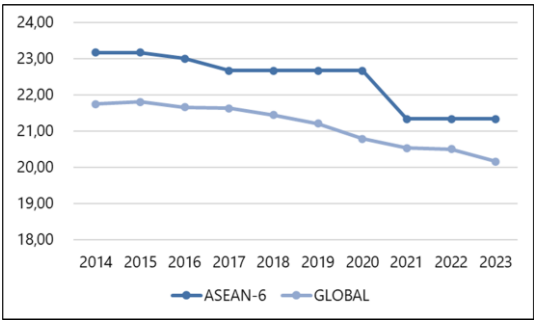
Globally, the trend of declining corporate tax rates in ASEAN-6 appears more stable and progressive, reflecting more balanced tax competition pressures. Adjustments in ASEAN-6 tax rates can be understood as strategic responses to global pressures. Buettner and Poehnlein (2024) explain that jurisdictions with higher rates tend to respond quickly by lowering their rates soon after introducing global minimum tax policies. On the other hand, changes in CIT rates are also heavily influenced by domestic political dynamics, given that CIT is a significant source of government revenue and is sensitive to political interests (Heimberger, 2021). Therefore, fluctuations in CIT rates in ASEAN-6 reflect a combination of external pressures from global fiscal competition and domestic fiscal and political considerations.

activity and attract investment, which is expected to increase state revenue. A tax holiday can be defined as the exemption or reduction of taxes for a specific period (Nar, 2020). This policy generally applies to investors who meet specific criteria, such as foreign investors or those who invest in sectors or activities that significantly contribute to economic growth (Stausholm, 2017). Tax holidays focus more on companies in pioneer industries (Nugraeni, 2021).

The ASEAN-6 countries have diverse economic conditions and regulatory frameworks, so tax holiday policies vary depending on each country's regional needs and investment priorities. The incentives usually range from five to twenty years, depending on the industry sector, project location, and investment value.

In Singapore, tax holidays are generally targeted at high-technology projects or those that significantly contribute to industrial development, with tax exemptions lasting between five and fifteen years. Malaysia offers similar incentives to strategic sectors such as high technology and manufacturing, with durations of up to five to ten years. In Indonesia, the provision of tax holiday incentives depends on the amount of investment made by the company, with a maximum period ranging from five to twenty years, as regulated in

Figure 1
Comparison of Average CIT Rates in ASEAN-6 and the Global Average



Note. Source: Processed by the Author

2.3 Tax Holiday

One common tax incentive applied in the ASEAN-6 countries is providing a tax holiday. This incentive is a tax relief granted by a country to reduce or eliminate tax obligations to promote economic

the Minister of Finance Regulation (PMK) Number 69 of 2024, which replaced PMK Number 130/PMK.010/2020 concerning the Provision of CIT Reduction Facilities. Meanwhile, Thailand offers incentives ranging from one to thirteen years, depending on project classification and criteria set

by the Board of Investment (BOI), including contributions to job creation and economic development. The Philippines provides tax exemptions lasting four to seven years, depending on location and priority sectors determined by the Strategic Investment Priority Plan (SIPP) under the CREATE Law. Vietnam offers incentives with a typical period of two to four years, depending on the region and type of project. However, the Vietnamese government can sometimes grant much more extended tax holiday periods involving significant and strategic investments.

Tax holiday policies are part of a tax competition strategy in a region like ASEAN-6, where countries compete to attract FDI. Each country offers increasingly competitive fiscal incentives to become a more attractive investment destination than neighbouring countries.

2.4 Literature Review

Previous research is the primary foundation for developing this study because it provides theoretical and empirical frameworks supporting or refuting the proposed assumptions and hypotheses. Research on the influence of tax competition phenomena in the global context and within ASEAN becomes an important reference in this study.

Devereux, Lockwood, and Redoano (2002) examined whether corporate taxation is competitive among OECD countries. Their study concluded that OECD countries actively respond to changes in other countries' tax rates through two main dimensions of competition: statutory tax rates aimed at attracting mobile profits, and effective marginal tax rates (EMTRS) related to capital allocation.

Another study by Berlianto (2009) investigated evidence of tax competition by analysing tax rates and tax revenues using related tax literature and empirical data from ten ASEAN countries between 1996 and 2006. The findings indicated the presence of tax competition in Southeast Asia. However, its impact on reducing statutory CIT rates was insignificant except for Singapore. Tax competition was more dominant in

the form of aggressive tax incentives that countries offered to attract FDI.

Tohari and Retnawati (2010) conducted research to test the existence of tax competition in the ASEAN region by comparing statutory tax rates, effective tax rates (EMTR and EATR), tax ratios, and tax burden allocation in ASEAN-5 (Indonesia, Malaysia, Singapore, Thailand, and the Philippines) during the periods 1980–2005 (average and coefficient calculations of tax rates) and 1975–2005 (tax revenue as a percentage of GDP). The results showed insufficient evidence of regional tax competition, except for Singapore and Malaysia. Their descriptive analysis revealed no convergence in tax rates, either statutory or effective rates. Furthermore, although tax rates declined, there was no impact on tax revenue reduction and no significant change in tax burden allocation.

A similar study by Tambunan (2014) examined the existence of tax competition in ASEAN using CIT rates for six ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam) from 1981 to 2010. The study concluded that tax competition did not occur significantly among ASEAN countries, despite a trend of declining corporate tax rates in some countries. The granting of tax incentives and other factors, such as economic and social conditions, had a greater influence on the reductions.

The UNCTAD (2022) Investment Policy Monitor report stated that tax competition to attract investment has led to a decline in statutory CIT rates across various regions and economic activities since the 1980s. These rates have been reduced by more than half, from 40% in 1980 to 23% in 2021. The most significant decreases in average statutory tax rates between 1980 and 2021 occurred in Europe (down 25.5%) and Asia (down 19.5%). Meanwhile, the average maximum duration of tax holiday periods globally between 2011 and 2021 was five years, with the highest prevalence in Africa. Conversely, Latin America and the Caribbean more frequently granted six to ten-year tax holidays. In Asia, dominant tax holiday durations ranged from zero to five years and six to ten years. Europe and North America showed a

balanced proportion of durations between zero to five years, six to ten years, and over ten years.

2.5 Hypothesis

The hypotheses in this study are formulated based on the theory of tax competition and its impact on fiscal policy, particularly the Corporate Income Tax (CIT) rate and the provision of tax incentives (tax holidays) in ASEAN-6. Referring to the theory of tax competition, which posits that countries facing high levels of tax competition tend to lower tax rates and increase incentives to attract investment, the hypotheses of this study are:

H_{a1} : Tax competition significantly influences the corporate income tax rate in ASEAN-6.

H_{a2} : Tax competition significantly influences the provision of tax holiday incentives in ASEAN-6.

3. RESEARCH METHODOLOGY

The research method employed in this study is quantitative. This approach is chosen because it enables the measurement, analysis, and testing of relationships or effects between relevant variables in a numerical manner. In the context of this study, it also allows for a more objective analysis. The data used are annual data from ASEAN-6 countries over the past ten years, from 2014 to 2023. These are secondary data sources from the World Development Indicators (WDI) of the World Bank, KPMG, OECD, PwC, and others.

This study utilises three data analysis methods: literature review, descriptive method, and comparative study. The literature review is conducted during the data and information collection stage from various written sources, including legislation, reports, books, bulletins, journals, theses, working papers, and other references, both national and international, to gain a deeper understanding of the concepts and theories relevant to the research topic. Subsequently, the descriptive method is applied to describe or identify existing facts based on the collected data. Lastly, the comparative study is used to compare data and information obtained from the literature review to identify and analyse

the existence of relationships or significant differences between the studied objects.

These research and data analysis methods aim to analyse the influence of tax competition on tax policy in ASEAN-6, particularly in the context of CIT rates and tax holidays. Accordingly, the variables used in this study are tax competition as the independent variable (X), and CIT rates (Y₁) and tax holiday (Y₂) as the dependent variables (Y). The operational definitions of each of these research variables are described as follows:

1. Tax Competition (X)

The tax competition variable (TC) is constructed based on the Standard Tax Competition theory by Zodrow and Mieszkowski (1986), highlighting the higher mobility of capital compared to labour in financing public goods. Taxes on capital, such as income taxes, profit taxes, and capital gains taxes, are more susceptible to cross-jurisdictional relocation due to differences in tax rates. The following ratio is used:

$$\%TC = \frac{\text{Taxes on income, profits, and capital gains}}{\text{Tax revenue}} \times 100\% \quad (1)$$

This ratio is considered valid for measuring the intensity of tax competition as it reflects a country's reliance on types of taxes that are most sensitive to global competition. The greater the contribution of income and capital-related taxes to total tax revenue, the greater the competitive pressure the country faces in maintaining its capital base. Thus, this ratio indicates a country's participation in and exposure to international tax competition, which aligns with the predictions of the standard theory.

2. Corporate Income Tax Rate (Y₁)

The Corporate Income Tax rate (CIT) is represented by the percentage rate officially set by each ASEAN-6 country.

3. Tax Holiday (Y₂)

The tax holiday variable (TH) is projected through the tax holiday percentage (%TH) using a normalisation approach, which compares the maximum duration of tax holiday granted by a country (country-X) to

the highest maximum duration among ASEAN-6 countries. The formula is as follows:

$$\%TH = \frac{\text{Longest tax holiday period in country} - X}{\text{Longest tax holiday period in ASEAN-6}} \times 100\% \quad (2)$$

This approach aims to convert absolute data (in years) into a relative percentage indicator, allowing for quantitative analysis and proportional cross-country comparison. Using a scale of 0% to 100%, this indicator reflects the relative generosity of a country's tax holiday incentive compared to the most generous one in the region.

A similar approach has been used in various studies evaluating the competitiveness of fiscal incentives across countries, such as the study by S. Van Parys and S. James (2010), which compares the effectiveness of tax incentives using cross-country panel data. Therefore, this formula is considered relevant in analysing investment policy and tax competition in the regional context.

The three research variables are tested using four model feasibility tests. First, the t-test (regression coefficient test) is conducted to analyse the partial effect of each independent variable on the dependent variable. Second, the F-test (model reliability test) is used to assess the simultaneous effect of the independent variables on all dependent variables. Third, a hypothesis test is performed to analyse the relationships between variables. Lastly, the coefficient of determination (R^2 test) is applied to determine the percentage of variance in the dependent variable (Y) that can be explained by the independent variable (X) collectively, thus indicating how well the model explains the relationship between variables.

4. RESULTS AND DISCUSSIONS

4.1 Descriptive Statistical Analysis

In conducting descriptive statistical analysis, four measurement scales were used to describe the data: mean, minimum value, maximum value, and standard deviation, based on 60 data points. The results of the descriptive statistical analysis are as follows:

The Tax Competition (TC) variable has a standard deviation value (12.50) that is smaller than the mean (41.87), indicating that the data range is

Table 1

Descriptive Statistical Analysis Results

	N	Min	Max	Mean	Std. Deviation.
TC	60	24,39	70,95	41,87	12,50
CIT	60	17,00	30,00	22,40	3,90
TH	60	25,00	100,00	53,25	22,38

Note. Source: Processed by the Author using SPSS

relatively uniform and not excessively dispersed. The gap between the minimum value (24.39) and the maximum value (70.95) shows varied and fluctuating contributions. Overall, the data for the TC variable suggest that although the proportion of income tax to total tax revenue differs across countries, its distribution remains relatively contained within a certain range.

The Corporate Income Tax (CIT) variable also shows a standard deviation (3.90) that is smaller than the mean (22.40). The gap between the minimum value (17.00) and the maximum value (30.00) reflects a variation in CIT rates, but still within a relatively controlled range. Overall, the CIT variable data indicate that although CIT rates vary, the differences are not significant, and the rates remain relatively stable.

The Tax Holiday (TH) variable shows a mean (53.25) that is lower than the standard deviation (22.38), indicating a wide disparity in the duration of tax holiday periods. The gap between the minimum value (25.00) and the maximum value (100.00) demonstrates a significant variation in the tax holiday provisions. Overall, the data for the TH variable reflect a substantial disparity in tax holiday policies among ASEAN-6 countries, likely due to differing national goals and strategic approaches.

4.2 Regression Coefficient Test (t-test)

The results of the t-test (regression coefficient test) are as follows:

Table 2

Results of the Regression Coefficient Test (t-Test)

Model	Variable	X	Y	Coef.	t Stat.	Sig.
1	TC-CIT	TC	CIT	0,208	1,616	0,112
2	TC-TH	TC	TH	0,687	7,210	0,000

Note. Source: Processed by the Author using SPSS

The first model represents the partial effect of tax competition (TC) on the Corporate Income Tax rate (CIT). Based on the data in the table, the t-statistic for the effect of TC on CIT is 1.616, which indicates that the effect is not statistically significant (<1.96). In addition, the significance value (0.112) is greater than the 0.05 significance level, meaning there is no significant effect of TC on CIT. The regression coefficient of 0.208 indicates a positive relationship between TC and CIT. The first model suggests that higher tax competition is associated with a country's higher CIT rates, although this effect is not statistically significant.

The second model represents the partial effect of tax competition (TC) on tax holiday (TH). The t-statistic for the effect of TC on TH is 7.210, indicating a statistically significant effect (>1.96). Moreover, the significance value (0.000) is lower than the 0.05 threshold, meaning there is a significant effect of TC on TH. The regression coefficient of 0.687 indicates a positive relationship between TC and TH. Overall, the second model suggests that higher tax competition leads to greater provision of tax incentives in the form of tax holidays in a country.

4.3 Model Reliability Test (F-test)

Table 3 presents the results of the reliability test. In the first model, which examines the effect of tax competition (TC) on CIT rates, the significance value is 0.112, greater than the threshold of 0.05. This result indicates that tax competition has no

Table 3

Results of Model Reliability Test (F-Test)

Model	X	Y	Sig.
1	TC	CIT	0,112
2	TC	TH	0,000

Note. Source: Processed by the Author using SPSS

statistically significant simultaneous effect on CIT rates.

In contrast, the second model analyses the effect of tax competition (TC) on tax holidays (TH) and yields a significance value of 0.000 below the 0.05 threshold. This finding indicates that tax competition has a statistically significant simultaneous effect on the provision of tax holidays.

4.4 Hypothesis Test

The results of both the partial and simultaneous tests show a significance value of 0.112, greater than the significance level of 0.05. This indicates that tax competition does not significantly affect CIT rates, either partially or simultaneously. Therefore, H_{a1} is rejected, and the statistical test results confirm that the effect of tax competition on CIT rates is insignificant.

Meanwhile, the results of both the partial and simultaneous tests show a significance value of 0.000, which is lower than the significance level of 0.05. This indicates that tax competition significantly affects tax holidays, both partially and simultaneously. Therefore, H_{a2} is accepted, and the statistical test results confirm that the effect of tax competition on tax holidays is significant.

4.5 Determination Coefficient Test (R^2 test)

The results of the coefficient of determination test are presented below. For the first model, the coefficient of determination is 0.027 or 2.7%, indicating that tax competition (TC) explains only 2.7% of the variation in Corporate Income Tax rates (CIT). The remaining 97.3% of the variation is

attributable to other factors not included in the model.

In contrast, the second model yields a coefficient of determination of 0.464 or 46.4%, suggesting that tax competition (TC) accounts for 46.4% of the variation in tax holidays (TH). Other variables beyond the scope of this study explain the remaining 53.6%.

4.6 Discussion and Analysis of Research Results

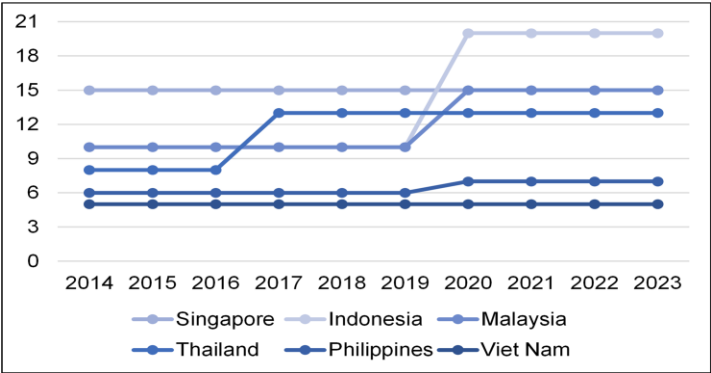
The ASEAN-6 countries design tax policies according to their respective economic characteristics, national development strategies, and fiscal competitiveness. The diversity in these policies is demonstrated by the variation in CIT rates, as illustrated in Figure 2, along with differing fiscal incentive policies such as tax holidays. Michel (2024) explains that one of the main channels of international fiscal competition is maintaining low CIT rates and reforming the tax base, for instance, by transitioning to a territorial tax system that taxes only domestic profits. According to the OECD (2023), the statutory CIT rates represent the headline rate faced by corporations and serve as a valuable metric for cross-jurisdictional and temporal comparisons. Meanwhile, Readhead and Taquiri (2019) argue that both CIT rate reduction

strategies employed by ASEAN-6 countries to attract FDI while maintaining a sustainable tax base. In the global context, Mathur (2025) asserts that FDI is highly responsive to cross-country tax rate differences, intensifying competition among nations.

Based on panel data analysis covering the ASEAN-6 countries over a decade (2014–2023), this study finds that tax competition has no significant effect on CIT rates, contradicting predictions from the standard tax competition theory. Theoretically, increasing tax competition should encourage governments to lower tax rates, but this is not evident in the ASEAN-6 context, most of which are developing countries. In contrast, tax competition has a positive and significant influence on tax holiday policies, supporting theories suggesting countries rely on incentives to attract investment amid competitive pressures.

The standard tax competition theory predicts a reduction in CIT rates in response to rising fiscal competition. However, developing countries often focus their tax competition efforts on sectors with high entry barriers, such as extractive industries or sectors that have historically received tax incentives. Additionally, these countries rely heavily on revenues from a limited number of multinational firms, making aggressive

Figure 2
Comparison of Average CIT Rates in ASEAN-6 and the Global Average



Note. Source: Processed by the Author

and the provision of tax holidays are forms of fiscal incentives, although their impact on government revenue may vary. The combination of these two instruments reflects the competitive fiscal

rate cuts risky due to potential tax base erosion and fiscal instability. Consequently, many governments have shifted their taxation strategies toward indirect taxes, disproportionately burdening

middle- and low-income groups (Haldenwang et al., 2018). Furthermore, rate reductions do not always result in increased revenue, as there is an optimal point on the Laffer curve (Munoz, 2019). Thus, significant tax cuts may prove counterproductive, especially for countries with a narrow tax base and substantial public spending needs. The Tax Justice Network (2020) also emphasises that CIT rate reduction primarily benefits large corporations at the expense of public services such as education and infrastructure. Alternatively, countries with stronger fiscal capacity can maintain relatively high tax rates while attracting investment through selective and temporary incentives like tax holidays (Buettnner, 2024). Therefore, a more sustainable fiscal strategy tends to rely on non-rate incentives rather than broad-based tax reductions.

Tax incentives are a typical response by countries facing tax competition (Tobing & Mukarromah, 2015). According to UNCTAD (2022), more than one-third of fiscal incentives are profit-based. One such incentive is the tax holiday, which reduces tax rates on generated profits (Tanh et al., 2020). Approximately two-thirds (66.67%) of the ASEAN-6 countries revised the maximum duration of their tax holiday policies during 2014–2023 by extending the period, while the remaining third (33.33%) did not make any changes.

Within the framework of the standard theory of tax competition, incentives such as tax holidays are viewed as strategic tools for enhancing a country's investment appeal. This theory suggests that incentives strengthen a country's fiscal competitiveness, prompting nations to adjust their policies by offering more attractive benefits or extending the duration of existing incentives. These theoretical predictions align with the findings of this study, which show that tax competition has a positive and significant effect on tax holiday policies due to the competitive pressure that drives countries to modify their fiscal instruments to remain attractive (Stausholm, 2017; Quak, 2018). In developing countries, tax holidays have proven effective in attracting FDI (Bella & Yudianto, 2021), particularly because tax considerations are a key factor in investment location decisions (Afrianto, 2018). In practice, tax

holidays are even used as monetary policy instruments and are widely implemented across countries (Nar, 2020). Policy adjustments to tax holidays are also frequently adopted due to their relatively low long-term fiscal risks—companies are taxed at the prevailing rate once the incentive period ends. Consequently, tax holidays serve as short-term economic stimuli and components of long-term development strategies, particularly in priority sectors. Indonesia's policy, for example, offers alternative tax holiday schemes for new investments and expansions in specific sectors (Chooi & Chongvilaivan, 2021).

5. CONCLUSION

This study contributes to the scholarly literature on tax competition in the ASEAN-6 region during 2014–2023 by highlighting the differing fiscal policy responses to pressures from tax competition. The main findings indicate that tax competition does not reduce corporate income tax (CIT) rates as predicted by standard theory. Instead, tax competition encourages the expansion of non-rate incentives, such as tax holidays. These results reflect that the ASEAN-6 countries, most of which are developing economies, tend to adopt selective and pragmatic fiscal strategies by relying on flexible incentive policies rather than rate cuts. Such strategies enable the ASEAN-6 to remain competitive in attracting foreign investment without incurring significant long-term fiscal risks. Therefore, this study emphasises the importance of designing fiscal incentives that are targeted, efficient, and sustainable to maintain competitiveness while safeguarding the stability of government revenue.

6. IMPLICATIONS AND LIMITATIONS

The findings of this study have important implications for policy formulation, particularly regarding fiscal and tax strategies in response to tax competition. The results indicate that tax competition significantly affects tax holiday policies but does not significantly impact adjustments to corporate income tax (CIT) rates. Governments may consider optimising tax incentives, such as tax

holidays, as a primary instrument rather than relying solely on reducing CIT rates. Such policies can be designed by considering the needs of national priority sectors while maintaining long-term fiscal stability.

However, this study has several limitations. First, the data scope is limited to the ASEAN-6 countries over the last ten years (2014–2023), which may restrict the generalizability of the findings to other countries or longer periods. Second, the study focuses only on two main instruments, CIT rates and tax holidays, without exploring other variables that might influence the relationship, such as macroeconomic conditions.

Future research could expand the data coverage of geographic regions and periods to provide a more comprehensive overview. Additionally, subsequent studies could investigate other variables, including the impact of socio-economic conditions, inflation rates, tax structure, and economic sustainability within the context of tax competition.

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