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The Impacts of Dividend Tax Exemption: Evidence from Indonesian Listed Companies

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ABSTRACT

Recently, the Indonesian government introduced a new tax incentive known as the dividend tax exemption as part of its broader economic recovery and investment promotion strategy. Theoretically, lower tax rates are expected to encourage higher dividend payments and greater corporate investment, although there is conflicting empirical evidence on this relationship. Employing the difference-in-differences (DID) method, this study investigates the impacts of the dividend tax exemption policy in Indonesia using data on Indonesian publicly listed companies from 2018 to 2022. The results reveal that the incentives are insufficient to promote higher dividend payments or corporate investment. The results reveal that the incentives are insufficient to promote higher dividend payments or corporate investment. This finding indicates that dividend taxation plays a limited role in shaping firms' investment behavior, as corporate investment decisions are primarily driven by internal financial capacity such as retained earnings and cash flow.

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INTRODUCTION

The Indonesian government, through the Omnibus Law (Undang-Undang Cipta Kerja) and the Tax Harmonization Law, implemented several tax incentives, notably the dividend tax exemption effective from the 2021 tax year. Before the implementation of this policy, income from dividends is subject to taxation with the following conditions: 10% final tax rate for individual taxpayers; 15% tax rate for domestic corporate taxpayers with less than 25% share ownership and a permanent establishment; and 20% tax rate or according to the tax treaty for overseas individual taxpayers, overseas companies that receive income in Indonesia through a permanent establishment, and overseas companies without a permanent establishment. Theoretically, changes in the tax rate on dividends can influence two corporate decisions: those on dividend payout (Miller and Scholes, 1978) and those on investment (Feldstein, 1970; Harberger, 1962). This study aims to investigate whether this policy change affects dividend payout and investment strategies of public listed companies in Indonesia.

Starting from the 2021 tax year, dividend income can be exempt from tax under certain conditions as stipulated in the Omnibus Law. The primary requirement of this tax exemption is that domestic individual taxpayers must reinvest their dividend income in Indonesia for at least three years in eligible investment instruments regulated and outlined by the government, through which taxpayers can benefit from the dividend tax exemption. This dividend tax exemption applies to both domestic and foreign sources. Dividend incomes from foreign sources include those received from foreign companies based on the share ownership, regardless of whether the shares are publicly traded.

Taxing dividends increases the cost of equity and may encourage companies to retain their earnings, with the expectation of reinvesting them to generate higher future profits. However, Jensen (1986) argued that corporate management tends to mismanage high retained earnings by investing in unprofitable or inefficient instruments. The “old view” of the relationship between dividend tax and corporate decisions claims that reducing dividend tax rates can lower the cost of equity, thereby providing companies with access to cheaper capital to finance their investment. Conversely, the “new view” states that the dividend tax rate does not affect corporate decisions on investment. Instead, corporate investment is more driven by the availability of internal funds. This is in line with the argument of Miller and Modigliani (1961) - which is based on a perfect capital market without taxes and transaction costs - that dividend policy is irrelevant to corporate value.

Various empirical studies have investigated the impact of taxation on dividend policy; however, their findings remain mixed, with some suggesting that higher taxes discourage dividend payouts while others report limited or no significant effect. For instance, Chetty and Saez (2005) demonstrated that dividend tax exemptions can encourage companies to increase dividend payouts and reduce agency problems. After the implementation of the dividend tax exemption policy, companies in the United States improved their dividend payout ratios and experienced an increase in market value (Chetty and Saez, 2005). Similarly, the reduction of dividend taxes in South Korea provided strong incentives to increase dividend payouts (Lee and Lee, 2019). Other studies, on the other hand, indicate that taxes are generally not a primary factor that influences dividend policy, suggesting that managerial consideration, cash flow needs, and market expectations play a more dominant role (Brav et al., 2008; Baker and Powell, 2012).

With regard to the “old view” and “new view”, empirical studies on the effects of the dividend tax rate on investment have also yielded diverse results. Studies carried out in Sweden demonstrated that after the tax cuts, cash-poor companies actually increased their investment compared to cash-rich companies (Alstadsæter et al., 2017). Evidence from South Korea lends support to the “old view”, as documented by Lee and Park (2023), who find that firms affected by the tax reform tend to increase their investment following a dividend tax reduction, which lowers the cost of capital and motivates firms to raise additional equity to finance new investment projects. This indicates that, in certain contexts, dividend tax policy can still serve as an effective instrument in influencing corporate investment. Conversely, evidence from the United States (Chay et al., 2023; Yagan, 2015) and Switzerland (Isakov et al., 2021) indicates that dividend tax reductions do not necessarily lead to higher investment, which is consistent with the “new view” suggesting that dividend tax rates have little influence on corporate investment decisions.

Although numerous empirical studies have been conducted on dividend tax in developed countries, evidence from developing nations such as Indonesia remains limited. While the introduction of dividend tax exemption in Indonesia through the Omnibus Law in 2021 represents a significant fiscal policy, no empirical study has examined how corporate investment responds to this policy. This creates a policy gap, where the

government has taken fiscal measures without understanding their empirical impacts. Theoretically, this study aims to fill the gap in the literature regarding whether the Indonesian context aligns more with the "old view" or the "new view" and to contribute to existing debates on the effects of dividend tax exemption in developing countries, with a focus on public companies.

LITERATURE REVIEW

To promote sustainable economic development, many countries design public financial instruments through taxation. Currently, almost all countries seek to stimulate investment by using various types of tax incentives, such as tax exemption, tariff reduction, tax allowance, and tax credit (Trepelkov and Verdi, 2018; OECD, 2022). Through the Omnibus Law and the Harmonization Law, the Indonesian government offers tax incentives, including exemptions for income from dividends. Tax exemptions provide a full or partial relief from income tax under certain conditions, either permanently or temporarily. Tariff reductions involve lowering tax rates below previous levels, also on a permanent or temporary basis. Tax allowances are typically granted as deductions or reliefs tied to certain investment requirements. Meanwhile, tax credits directly reduce the amount of tax payable, usually in relation to capital or other qualifying expenditures.

Investors frequently have to decide between receiving dividends and reinvesting their money for capital gains. This is central to the tax preference theory, which proposes that investors weigh the tax differences between these two types of income when making their decisions (Lee and Hong, 2020). If the tax rate on dividends is higher than the tax rate on capital gains, the option will fall at the lower tax rate. Conversely, the "bird-in-hand" theory argues that investors prefer receiving dividends, which provide a more certain and immediate cash flow, rather than relying on future capital gains that become uncertain when the company retains its earnings. Meanwhile, the clientele effect theory examines how corporate dividend policy can be viewed from the perspective of investor demand. If investors are subject to a high dividend tax rate, they will prefer to invest in stocks with low dividends, and vice versa. This can influence how the company sets its dividend at a certain level (Lee and Hong, 2020).

The impacts of dividend tax on investments are also determined by the origin of the investment funds. The "old view" posits the need for external capital to invest. The tax policy on dividends affects the cost of equity; an increase in dividend tax rates raises the cost of equity. As a result, the higher the dividend tax rate, the higher the cost of equity, ultimately leading to a lower investment. Therefore, dividend taxes negatively affect investment (Feldstein, 1970; Harberger, 1962). Lee and Park (2023) stated that the underlying premise of "the old view" is that taxes decrease the post-tax dividend amount, making it challenging for businesses to reduce their cost of capital. Such barriers can be removed when the dividend tax rate is reduced, prompting companies to increase dividends to lower their weighted average cost of capital. This causes a decrease in overall discount rates, which encourages greater investment. The "new view", on the other hand, takes into account the availability of internal funds, which influences the company's ability to finance its investments (Jacob, 2022). In the "new view", dividend taxes have no impact on corporate investment. With their agency model, Chetty and Saez (2010) demonstrated that higher dividend taxes can lead to additional—but inefficient—corporate investment.

According to Alstadsæter et al. (2017), if a company needs USD 1 to invest, it will receive a return of r (after tax) from this investment. It is assumed that the company will share all of the profits as dividends, which are subject to a tax of τ. The company will decide to invest if the after-tax return of r is higher than the return from other investments—such as purchasing bonds—with an after-tax return of i. In this case, it is assumed that there are two types of companies: the first company (Type 1) finances the investment with new equity, while the second (Type 2) uses internal funds. In this regard, Type 1 company's investment will generate a post-tax return of r and a post-tax profit of 1+r. Its investors will receive income in the form of dividends and pay a dividend tax at the rate of τ. As a result, investors will receive income amounting to (1+r)*(1-τ). Or, the investors can invest in bonds with a yield of i and a net return of 1+i. Thus, the necessary rate of return on investment financed by new equity is:

$$r^{NewEquity} = \frac{i}{1-\tau} \quad (1)$$

If the dividend tax rate is higher, the required rate of return is:

$$\frac{\partial r^{NewEquity}}{\partial \tau} = \frac{i}{(1-\tau)^2} > 0 \quad (2)$$

A higher dividend tax rate increases the demanded rate of return from an investment financed by new equity, thereby decreasing investment. Conversely, a reduced dividend tax lowers the demanded rate of return, thus increasing investment.

Type 2 company uses its internal funding source (retained earnings). If a company makes a profit, it can be distributed as dividends or kept as retained earnings. If the profits are distributed as dividends, shareholders will receive a dividend of 1- τ. If they are invested in bonds, shareholders will receive a final return of (1-τ)*(1 +i). Alternatively, the company can retain the profits as retained earnings, reinvest them, and generate a return of 1+r to be distributed to shareholders. In this scenario, shareholders will receive a final return of (1-τ)*(1+r). When comparing these two options, the rate of return on investments funded by the company's internal resources is:

$$r^{RetainedEarning} = i \quad (3)$$

This required rate of return is not affected by the tax rate on dividends.

$$\frac{\partial r^{RetainedEarninge}}{\partial \tau} = 0 \quad (4)$$

The "old view" assumes that investment is financed by issuing new equity (Isakov et al., 2021). Prospective investors inject funds into the company by purchasing newly issued shares. These investors compare the returns on their investment in the form of dividends with other types of investment, such as bonds. Investors will be willing to provide funds to buy new shares if the returns or dividends are at least equal to bond yields. With the imposition of dividend taxes, the actual cash received will be lower. In other words, prospective investors will be willing to fund new investments if the returns offered are higher to offset the dividend tax. For this reason, taxes increase the cost of equity, according to the "old view". Contrarily, if the dividend tax rate is reduced, the cost of equity decreases, providing companies with better opportunities to secure funding.

Jacob (2022) highlighted that the theories that predict the effects of dividend taxes produce different projections. These differences are based on two assumptions: (1) the availability of internal funds, whether high (cash-rich firm) or low (low-cash firm), which influences the availability of investment funds; and (2) the presence of an agency conflict between managers and shareholders. Alstadsæter and Jacob (2016) concluded that reducing dividend taxes encourages more income shifting due to increased tax incentives and the ability to convert high-tax labor income into low-tax dividend income. Similarly, the reduction of dividend taxes in South Korea also creates a strong incentive to increase dividend payouts, with negligible substitution effects between share buybacks and dividend payouts (Lee and Lee, 2019). Therefore, dividend tax policies generally provide investors with opportunities to invest, as they will continue to exploit any changes in tax policy, particularly those concerning modified or even abolished dividend taxes.

Several studies on the impacts of tax policy on payout policy have put forward differing views. In the context of South Korea, Lee and Hong (2020) revealed that tax policy in the form of reduced dividend taxes only has a small impact on increasing dividend distribution. Meanwhile, Yu et al. (2021) showed that companies tend to increase dividend payouts when controlling shareholders demand higher dividends after a tax reduction. Li et al. (2017) conducted their study in China and concluded that companies facing a reduction in dividend tax rate for their investors are more likely to increase dividend payouts, and vice versa. Such effects are concentrated in companies with aligned incentives of controlling and minority shareholders. Deslandes et al. (2015) indicated that following the imposition of a lower tax rate in Canada, companies raised their dividend payouts, with larger increases found in companies whose shareholders benefited from the lower tax rate. Conversely, Brav et al. (2008) reported based on a survey of financial executives in the United States that a reduction in the dividend tax rate is less essential compared to future cash flow stability, cash holdings, and historical dividend levels.

Numerous studies have been conducted in Indonesia on how companies pay their dividends, particularly during the COVID-19 pandemic. Several studies have examined how the COVID-19 pandemic affects corporate

behavior in distributing dividends (Hartono et al., 2024; Santosa et al., 2023; Tinungki et al., 2022; Usman et al., 2024). In their study, which focuses on the manufacturing sector, Hartono et al. (2024) found that companies tend to maintain or increase dividends during the pandemic. This aligns with the findings of another study by Santosa et al. (2023), which focuses on the banking sector. A study in the property sector by Usman et al. (2024), on the other hand, showed a negative trend during the pandemic.

The impact of dividend tax has also been widely studied in the context of Indonesia and other developing countries before the COVID-19 pandemic. Le et al. (2019), for example, investigated corporate payout policy in the ASEAN region, including Indonesia, and concluded that profitability positively affects dividend payout in 2012–2016. Similarly, Danila et al. (2020) revealed that profitability positively impacts dividends. Another study by Setiawan et al. (2016) revealed that, from 2015 to 2018, consumer goods firms with high profitability and firm size tend to pay dividends. This study also found that state-owned enterprises and foreign controlling firms positively impact dividend payouts (Setiawan et al., 2016). These studies, however, do not include tax policy as a variable.

Prior studies on this topic that considered tax as a variable include those by Baker and Powell (2012), Zagonel et al. (2018), and Labhane (2017). Baker and Powell (2012) explored this topic in the Indonesian context and found that taxes are not the primary variable influencing payout policy. The results of their study suggest that earnings stability, current earnings, and the forecast of future earnings are the most critical factors in corporate dividend policy (Baker and Powell, 2012). Another study conducted in Brazil proved that changes in tax provisions affect dividend payments (Zagonel et al., 2018). Meanwhile, a study in India by Labhane (2017) showed that dividend tax, profitability, and leverage are among the variables that influence dividend distribution.

Empirical evidence on the relationship between taxation and investment remains mixed, with studies reporting differing impacts across contexts. Alstadsæter et al. (2017) discovered that reduced dividend tax in Sweden does not influence overall investment, but affects the allocation of corporate investment. Companies with limited funds typically boost investment more than those with large cash reserves. Likewise, studies by Chay et al. (2023) and Yagan (2015) on the change in dividend taxation in the United States also found that the policy cannot promote investment. Yagan (2015) concluded that dividend tax cuts do not lead to changes in corporate investment; they have little impact on the corporate cost of capital, with investment responding minimally to changes in that cost of capital. Tax cuts may fail to lower the cost of capital because marginal investment is financed from retained earnings and risk-free debt, as suggested by the "new view" of the dividend tax model.

Meanwhile, other studies report mixed findings, highlighting the influence of institutional context and economic sector on the effectiveness of tax policy. DeYoung and Jang (2023) also conducted a study on dividend policy in the United States, but focused primarily on the banking sector. In the United States, banks with easy access to external capital markets typically respond to tax cuts by increasing loan growth and issuing equity to fund new investments (DeYoung and Jang, 2023), aligning with the "old view". Conversely, in line with the "new view", banks lacking such access tend to show minimal change in loan growth. A study by Isakov et al. (2021) in Switzerland revealed that affected companies do not increase their equity; instead, they exploit additional funding sources from retained earnings. Using international data, Becker et al. (2013) indicated that high "payout taxes" are inclined to lock capital within companies with ample internal cash flows, preventing it from flowing to companies requiring external funding through issuing new shares. The "old view" and "new view" of dividend taxation have also been examined by Lee and Park (2023) within the context of South Korea. Their study concluded that affected firms increase their investments as lower dividend taxes reduce the cost of capital, and these firms tend to offer additional shares to the market to fund their new projects (Lee and Park, 2023).

Drawing on the preceding discussion, the hypotheses are formulated as follows:

Hypothesis 1: Dividend tax exemption results in an increase in dividend payments.
Hypothesis 2: Dividend tax exemption results in an increase in corporate investment value.

RESEARCH METHODOLOGY

The Difference-in-Differences (DID) method measures the impacts of a policy by comparing a treatment group (affected by the policy) with a control group (not affected) across periods before and after the policy implementation (Gertler et al., 2011). To investigate the effect of Indonesia's dividend tax exemption policy on dividend payout decisions, this study divides the data into the treatment group (i.e., companies with controlling shareholders who are either domestic companies or individuals in Indonesia) and the control group (i.e., comprises companies with controlling shareholders who are foreign companies or individuals) based on Indonesian regulations regarding dividend exemption for individual and domestic corporate taxpayers.

Furthermore, this study also divides the data into two different groups (treatment and control) to investigate how the policy impacts company investment. The treatment group includes cash-poor companies, which are assumed to need external funding (equity) for their investments. With the exemption of dividend tax, the cost of equity will decrease, leading to greater availability of public funds for corporate investment financing. Meanwhile, the control group consists of cash-rich companies (with ample internal cash) that do not need new equity to finance their investment. For these companies, reducing the cost of equity does not influence their investment.

In this study, companies are classified as cash-rich or cash-poor based on their cash-to-asset ratio. Companies whose average cash-to-asset ratio from 2018 to 2020 falls within the lowest quintile of the sector ratio are considered cash-poor, while the other companies are categorized as cash-rich. The classification used in this study adopts the methodology by Alstadsæter et al. (2017), with a modification that companies that are not in the top quintile are also considered cash-rich. To test the hypothesis, the following models are estimated:

Payout Model

$$Div_{it} = \alpha_0 + \alpha_1 Time_{it} + \alpha_2 Treat_{it} + \alpha_3 Time_{it}.Treat_{it} - \alpha_4 DTA_{it} + \alpha_5 Growth_{it} + \alpha_6 RE_{it} + \alpha_7 CFO_{it} + \alpha_8 Covid_{it} + e \quad (5)$$

Investment Model

$$Inv_{it} = \alpha_0 + \alpha_1 Time_{it} + \alpha_2 Treat_{it} + \alpha_3 Time_{it}.Treat_{it} + \alpha_4 CTA_{it} + \alpha_5 DivPayer_{it} + \alpha_6 WorCap_{it} - \alpha_7 DTA_{it} + \alpha_8 Turnover_{it} + \alpha_9 RE_{it} + \alpha_{10} Growth_{it} + \alpha_{11} Covid_{it} + e \quad (6)$$

The dependent variable for the Payout Model is the Dividend-to-Asset Ratio, which is the ratio of the dividend distributed to the previous year's total assets (Alstadsæter et al., 2017). The "time" variable is a dummy variable with a value of 1 for the years after the policy implementation (2021 and 2022) and 0 for the preceding years (2018–2020). The "treat" variable has a value of 1 for companies with domestic taxpayers as controlling shareholders and 0 for those with foreign shareholders. DID is the interaction variable between "time" and "treat" variables.

For the Investment Model, the dependent variable is the change in fixed assets from the previous year to the current year, plus depreciation, compared to the fixed assets in the prior year. The "time" variable is a dummy variable with a value of 1 for the years after the policy implementation (2021 and 2022) and 0 for the preceding years (2018–2020). The "treat" variable has a value of 1 for cash-poor companies and 0 for cash-rich companies. DID is the interaction variable between "time" and "treat" variables.

The ratio of total company debt to total assets from the previous year is used as a proxy for company debt. Meanwhile, growth represents the company's sales growth (Alstadsæter et al., 2017). Retained Earnings (RE) is the ratio of retained earnings to total assets from the previous year (Alstadsæter et al., 2017). Cash Flow from Operations (CFO) refers to the cash flow generated from operational activities (Lee and Lee, 2019), while Cash to Total Assets (CTA) is the ratio of cash or equivalents to the total assets from the previous year (Alstadsæter et al., 2017). Dividend Payer (DivPayer) is a dummy variable, with a value of 1 for companies that pay dividends in the year, and 0 if otherwise (Alstadsæter et al., 2017). WorCap represents the company's working capital, which is the difference between current assets and current liabilities, while turnover is the ratio of the company's sales to its total assets (Alstadsæter et al., 2017). The data used in this study covers the period from 2018 to 2022, during which the COVID-19 pandemic occurred. Following previous studies (Hartono et al., 2024; Santosa et al., 2023; Tinungki et al., 2022), this study added the COVID variable to analyze the pandemic's impact on corporate behavior. In this context, the pandemic can be reflected through economic conditions. Therefore, the economic growth rate (GDP Growth) is used as a proxy for the pandemic situation.

To capture the periods before and after the policy implementation, this study utilizes financial report data from publicly listed companies on the Indonesia Stock Exchange for the 2018–2022 period. Companies in the financial industry, those listed after 2018, and those with incomplete financial statements are excluded from the sample. The financial sector is excluded due to the following reasons: 1) differences in financial report structures; 2) different types and sources of income; and 3) different performance assessment criteria. The study sample consisted of 458 companies that met the criteria for data completeness and reporting consistency throughout the observation period

RESULT AND DISCUSSION

As shown in Table 1, the descriptive statistics for the Payout Model reveal notable differences between the treatment and control groups. On average, the treatment group has a lower dividend payout ratio (DAR = 0.017 vs. 0.030) and significantly higher debt levels (DTA = 2.693 vs. 0.625) than the control group. Companies in the treatment group also exhibit higher average growth with greater variability in financial indicators, including highly negative and dispersed retained earnings (RE = –5.194, SD = 144.809), compared to more stable figures in the control group (RE = –0.034, SD = 1.064). These differences suggest fundamental financial disparities between the two groups that may influence their payout policies.

Table 1 Descriptive Statistics for Payout Model

Variable	Observation	Mean	Std. Dev	Min	Max
Treatment Group					
DAR	600	0.017	0.057	0.000	0.789
DTA	600	2.693	47.508	0.000	1762.598
Growth	600	0.33	5.861	-3.144	236.961
RE	600	-5.194	144.809	-5757.523	2.096
CFO	600	0.055	0.11	-1.289	0.948
COVID (GDP_Growth)	600	3.426	2.811	-2.07	5.31
Control Group					
DAR	1690	0.03	0.09	0.000	1.357
DTA	1690	0.625	0.571	0.042	5.191
Growth	1690	0.206	2.614	-0.855	63.02
RE	1690	-0.034	1.064	-9.613	1.067
CFO	1690	0.071	0.117	-0.372	0.62
COVID (GDP_Growth)	1690	3.426	2.811	-2.07	5.31

Table 2 Descriptive Statistics for Investment Model

Variable	Observation	Mean	Std. Dev	Min	Max
Treatment Group					
Investment	460	1.72	18.680	-1	267.228
CTA	460	0.019	0.037	4,76e-07	0.331
DivPayer	460	0.154	0.362	0.00	1.00
WorCap	460	-0.055	0.369	-2.143	0.921
DTA	460	0.609	0.407	.0000697	3.243
Turnover	460	0.474	0.879	-0.038	11.617
RE	460	-0.318	0.947	-6.629	1.03
COVID (GDP_Growth)	460	3.426	2.811	-2.07	5.31
Control Group					
Investment	1829	1.805	45.712	-0.935	1911.268
CTA	1830	0.143	0.419	0.0004	13.575
DivPayer	1830	0.452	0.498	0.00	1.00
WorCap	1830	-0.09	7.617	-274.055	130.563
DTA	1830	2.539	45.657	0.003	1762.598
Turnover	1830	1.332	12.321	0.00	523.073
RE	1830	-4.728	139.166	-5757.523	2.096
COVID (GDP_Growth)	1830	3.426	2.811	-2.07	5.31

Table 2 presents the descriptive statistics for the Investment Model, highlighting differences between cash-poor (treatment) and cash-rich (control) companies. While both groups have similar average investment levels, the control group shows much higher variability (SD = 45.712 vs. 18.680). Cash availability is significantly lower in the treatment group (CTA = 0.019 vs. 0.143), as is the proportion of dividend-paying companies (15.4% vs. 45.2%). Companies in the control group also display extreme working capital, debt, and

turnover values, indicating structural and scale differences. These disparities support the distinction between the two groups and justify the use of the DID method to estimate the policy's impacts on investment behavior.

As shown in Table 3, the DID estimation indicates that the primary variable used in this study has a coefficient of 0.126 with a t-statistic value of 1.07. This result is not statistically significant. It suggests that the dividend tax exemption does not convincingly influence the behavior of listed companies in distributing dividends in the 2018–2022 period. To validate these findings, placebo tests were conducted using 2019 and 2020 as the policy years, as shown in Columns (2) and (3), respectively. The results reveal that the interaction between the treatment year and the placebo years (DiDPlacebo2019 and DiDPlacebo2020) is not statistically significant, with t values of 1.61 and 1.14, respectively. This indicates no pseudo-effect before the policy was implemented, thus supporting the conclusion that the DID model has captured empirically relevant dynamics.

Table 3 Effect on Dividend Payout Policy

	(1) LnDAR		(2) LnDAR		(3) LnDAR	
Time	-0.0314	***				
	(-0.30)					
DiD1	0.126					
	(1.07)					
LnDTA	0.480	***	0.437	**	0.487	***
	(3.39)		(3.21)		(3.43)	
LnGrowth	0.0463	*	0.0533	*	0.0439	*
	(2.09)		(2.43)		(2.00)	
LnRE	0.880	***	0.914	***	0.877	***
	(9.31)		(8.90)		(9.30)	
LnCFO	0.156	***	0.159	***	0.154	***
	(4.57)		(4.67)		(4.51)	
COVID (GDP_Growth)	0.0243	**	0.0186	*	0.0346	***
	(2.83)		(2.39)		(3.80)	
Placebo2019			-0.367	**		
			(-3.16)			
DiDPlacebo2019			0.213			
			(1.61)			
Placebo2020					-0.0290	
					(-0.24)	
DiDPlacebo2020					0.151	
					(1.14)	
_cons	-1.967	***	-1.733	***	-2.036	***
	(-11.52)		(-9.91)		(-11.51)	
N	898		898		898	

Note: t-statistics in parentheses: * p<0.05, ** p<0.01, *** p<0.001.

It can be concluded that the policy of reducing (or exempting) dividend tax has not influenced corporate decisions to share profits as dividends. The results of this study differ from those of previous studies conducted by Chetty and Saez (2005) in the United States, Deslandes et al. (2015) in Canada, and Lee and Lee (2019) in South Korea. Compared to other emerging markets, this study also produces different results from those of Zagonel et al. (2018) in Brazil and Labhane (2017) in India, who concluded that changes in tax policy can influence corporate decisions to distribute dividends. However, the findings of this study confirm a previous qualitative study by Baker and Powell (2012), which indicated that tax factors on dividends are ranked 22nd in considerations for dividend distribution. This study also supports prior studies by Lee and Hong (2020) and Brav et al. (2008). Lee and Hong (2020) concluded in their study that South Korea's dividend tax reduction policy fails to impact corporate dividend distribution policies. Meanwhile, Brav et al. (2008) found in their survey of 323 financial executives that the reductions in dividend tax rates are less significant compared to the importance of stable future cash flows, cash holdings, and historical dividend levels.

In addition to the main policy variables, several control variables show statistically significant results. For example, the variable of total debt-to-asset ratio has a positive and significant coefficient at the 1% level, indicating that the higher the company's leverage, the more likely the company is to pay a dividend. This supports the findings of Ali (2022) and Tinungki et al. (2022) and may reflect the need for highly leveraged companies to maintain their reputation and investor trust through stable dividend payments. Likewise, retained earnings and operating cash flow also have a positive and significant effect at the 1% level, indicating that companies with high profitability and liquidity are more likely to distribute dividends. Furthermore, the growth variable also has a positive and significant effect at the 5% level, suggesting that companies with better growth prospects tend to have higher dividend payout ratios. Additionally, the COVID variable shows a positive and

significant effect. In this study, GDP Growth is used as a proxy for the COVID-19 pandemic era. The GDP growth was -2.07% in 2020, and the economy expanded by 3.7% in 2021. The regression result indicates that the GDP Growth positively influences the dividend-to-asset ratio, suggesting that the COVID-19 pandemic outbreak in 2020 has decreased the dividend-to-asset ratio. These findings are in line with those of Ali (2022) in G12 Countries and Usman et al. (2024) in the Indonesian property sector.

As presented in Table 4, the DID estimation results also indicate that the policy does not have a statistically significant effect on corporate investment. The coefficient for the DID variable is 0.137 with a t-value of 0.60, which is far below the typical threshold for significance. This finding implies that there is no strong evidence that the dividend tax exemption influences corporate investment decisions. The placebo test results for the investment model also show an insignificant interaction coefficient, both for DiDPlacebo2019 (t = -1.44) and DiDPlacebo2020 (t = 0.18). This further confirms the validity of the main model, signifying that there are no pseudo effects before the policy is implemented.

Table 4 Effect on Investment

	(1) LnInvestment		(2) LnInvestment		(3) LnInvestment	
Time	-0.444	***				
	(-5.36)					
DiD	0.137					
	(0.60)					
LnCTA	0.226	***	0.207	**	0.225	***
	(3.64)		(3.27)		(3.59)	
DivPayer	0.0310		-0.0312		0.0339	
	(0.31)		(-0.30)		(0.34)	
LnWorCap	-0.00945		-0.00159		-0.00913	
	(-0.19)		(-0.03)		(-0.19)	
LnDTA	0.319		0.296		0.315	
	(1.77)		(1.63)		(1.75)	
LnTurnover	0.142		0.172		0.152	
	(0.93)		(1.13)		(1.00)	
LnRE	-0.0633		-0.0795		-0.0643	
	(-0.65)		(-0.82)		(-0.65)	
LnGrowth	0.0263		0.00365		0.0234	
	(0.82)		(0.12)		(0.73)	
COVID (GDP_Growth)	0.0680	***	0.0251	*	0.00922	
	(5.29)		(2.05)		(0.66)	
placebo2019			-0.372	**		
			(-3.27)			
DiDPlacebo2019			-0.314			
			(-1.44)			
Placebo2020					-0.426	***
					(-4.76)	
DiDPlacebo2020					0.0343	***
					(0.18)	
_cons	-1.531	***	-1.285	***	-1.251	***
	(-4.21)		(-3.48)		(-3.33)	
N	2265		2265		2265	

Note: t-statistics in parentheses: * p<0.05, ** p<0.01, *** p<0.001.

The cash-to-total-assets ratio is one of the variables affecting corporate investment decisions. Based on the regression results, it can be concluded that the policy of reducing or exempting dividend tax does not influence corporate investment decisions. These findings contradict a study by Lee and Park (2023), who concluded that investment increases due to a decrease in the cost of capital. However, this outcome aligns with previous studies by Yagan (2015), Isakov et al. (2021), and Chay et al. (2023), which indicated that dividend tax policy does not impact corporate investment decisions.

Based on the regression results, the availability of internal cash funds and the economic condition are the main factors that influence corporate investment decisions. The investment model shows that the cash-to-total assets ratio has a significant positive effect of 0.226 (t = 3.64). This is both statistically significant and economically meaningful. To put it simply, a 1% increase in the cash-to-total assets ratio is associated with a 0.23% rise in the company's investments. This finding indicates that internal liquidity is crucial for supporting investment decisions, particularly in difficult economic circumstances. Typically, companies with sufficient cash reserves are better prepared to grow, even in the face of external pressures or limited access to external financing. This supports the "new view" perspective that dividend tax policy is irrelevant to corporate

investment decisions. Instead, corporate investment decisions are more affected by the availability of internal funds (Jacob, 2022).

The insignificant impact of the dividend tax exemption policy on dividends of public company investments can be explained by several possibilities. First, public companies generally access various sources of financing and tend to adopt long-term investment plans unaffected by short-term tax incentives. Second, corporate investment decisions may be more influenced by business prospects and other internal and external factors than by changes in dividend tax policy. The findings of this study reveal that internal cash conditions positively influence corporate investment. This is in line with the findings of Zaludin et al. (2021), which indicated that managerial confidence, internal financing, and corporate governance positively and significantly affect investment decisions. Third, funds repatriation or dividend exemptions are not immediately used for investment or expansion, but may be allocated for other purposes such as debt repayment or held as reserves.

CONCLUSION

This study presents a preliminary evaluation of the impacts of the dividend tax exemption policy, focusing specifically on corporate investment among companies listed on the Indonesia Stock Exchange. Using data from 458 public listed companies in Indonesia over the 2018-2022 period. Using the DID estimation technique, the results reveal that the dividend tax exemption policy did not significantly influence firms' dividend distribution or fixed asset investment decisions. Instead, corporate decisions are primarily driven by internal financial factors such as retained earnings, cash flow from operations, and debt levels, as well as by broader economic conditions during and after the COVID-19 pandemic.

Despite its significant contribution to the literature, this study has a limited scope, as it includes only public companies listed on the Indonesia Stock Exchange. Consequently, the results do not directly capture the behavior of non-public (non-listed) companies, small and medium-sized enterprises, or other public entities such as government institutions, which may also allocate dividend funds for investment or alternative purposes. In addition, the findings may differ across sectors, ownership structures, and organizational types that are not represented in the sample. Therefore, the results of this study should be interpreted cautiously and within the context of this limited data coverage.

Nonetheless, the findings of this study have considerable implications for shaping fiscal policy. The limited impact of this policy on encouraging corporate investment may be attributed to several factors, including corporate expectations that are not significantly influenced by tax incentives, as well as other determinants that play a more dominant role in shaping dividend policy and investment decisions. For instance, market conditions, access to financing, and internal liquidity may outweigh the effects of dividend tax exemptions. Therefore, to effectively achieve fiscal objectives, particularly increasing investment, it is essential to strengthen complementary support measures that directly address firms' financial constraints, such as improving credit accessibility, enhancing regulatory certainty, and providing targeted investment grants.

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