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The Power of Tax Relief: How Fiscal Incentives Shape the Creative Industries in Indonesia

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ABSTRACT

This study examines the impact of fiscal incentives, particularly tax relief, on the performance of firms in Indonesia's creative industries. While tax incentives are widely used to stimulate investment and innovation, their effectiveness in high-uncertainty, intangible-capital sectors such as creative industries is underexplored. In addition, this study also examines the moderating role of policy design, digital maturity, and export orientation. Using institutional theory as a framework, the study applies a fixed-effects panel regression model to 600 firm-year observations from 100 creative firms across 12 Indonesian provinces between 2019 and 2024. The findings reveal that tax relief significantly enhances firm performance, particularly in employment growth, capital investment, and R&D. However, the benefits are stronger for firms operating under well-designed policy frameworks, with higher digital maturity or export orientation. This indicates that institutional and firm-specific factors critically shape the effectiveness of fiscal incentives. This study contributes original insights by linking policy design with firm outcomes, offering strategic recommendations for aligning fiscal tools with the digital and innovation-driven nature of the creative economy.

Keywords:
Firm Performance, Fiscal Incentives, Tax Relief, Creative Industries.

INTRODUCTION

Indonesia's creative industries have increasingly been recognized as a key driver of economic growth, employment generation, and innovation, as reflected in their growing contribution to national GDP and their ability to absorb more than 27 million workers, accounting for around 18% of total employment (BPS, 2025). Prior studies show that creative sectors contribute not only to GDP expansion but also to job creation and knowledge-based economic transformation, particularly in emerging economies (Cunningham et al., 2021; Oyekunle & Sirayi, 2018). Despite this contribution, creative firms often face structural constraints, including limited access to formal financing, high uncertainty, and reliance on intangible assets, which reduce their ability to scale and compete globally (Afandi et al., 2023).

To address these challenges, governments increasingly deploy fiscal incentives, particularly tax relief, as a policy instrument to stimulate firm performance and innovation. In Indonesia, tax

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incentives have been used both as crisis-response tools and as long-term development instruments, helping firms maintain liquidity and encouraging investment during economic downturns (Ridzuan & Rahman, 2021). Empirical evidence suggests that tax incentives can alleviate financial constraints and promote firm growth, innovation, and employment (Afandi et al., 2023; Zhao et al., 2024). However, the effectiveness of such policies remains debated, as some studies find limited or uneven impacts due to weak institutional design and implementation challenges (Minh Ha et al., 2022; Safiq & Afrilin, 2022).

These mixed findings indicate that the effectiveness of tax relief cannot be fully understood without considering the broader institutional and firm-level context. Institutional theory argues that policy outcomes depend not only on the presence of regulations but also on how they are designed, implemented, and interpreted by economic actors (Kleinaltenkamp, 2018; Scott, 1995). In this regard, macro-level policy environments and micro-level firm characteristics interact to shape the real impact of fiscal incentives. Therefore, to evaluate the real-world efficacy of tax incentives in Indonesia's creative economy, we do not limit our inquiry to main effects alone. Instead, we test how institutional design and firm capabilities interact with fiscal tools to shape firm performance.

The use of firm-level data enables the identification of direct behavioral responses of firms to tax incentives, such as investment, employment, and innovation decisions. At the same time, institutional indicators such as policy design quality and regional economic conditions capture the broader environment in which firms operate. Combining these two levels of analysis provides a more comprehensive understanding of policy effectiveness because it allows the study to explain not only whether tax incentives work, but also under what conditions they are most effective. This integration does not introduce measurement bias when variables are properly operationalized. In this study, firm-level variables such as performance, tax relief uptake, digital maturity, and export orientation are measured at the firm-year level. Institutional variables such as policy design quality and regional indicators are treated as contextual factors that vary across time and regions. This structure follows prior panel data research that integrates multi-level data to explain firm behavior within institutional settings (Ginting & Saptono, 2024; Saptono et al., 2024).

Building on this framework, this study introduces three moderating variables to explain differences in the effectiveness of tax relief. Empirical studies widely acknowledge that tax incentives can reduce the financial burden on businesses and foster economic growth. In the creative industries, which are characterized by high levels of uncertainty, intangible capital, and limited access to traditional financing, tax relief is particularly valuable (Cunningham et al., 2021). However, other studies highlight a more nuanced picture. Minh Ha et al. (2022) noted that in some Southeast Asian countries, tax incentives had limited impact due to poor policy targeting and weak institutional support. Safiq &

Afrilin (2022) observed that many Indonesian SMEs were unaware of or ineligible for available fiscal programs. These findings suggest that while tax incentives have potential, their effectiveness depends on complementary conditions.

The design of tax policies such as clarity, simplicity, accessibility, and enforcement can substantially influence their uptake and impact. Book (2015) emphasized that tax relief programs with vague eligibility criteria, frequent changes, or excessive bureaucracy deter participation. In contrast, well-structured policies encourage compliance and reduce transaction costs for firms. Cullen et al. (2021) found that policy responsiveness (i.e., alignment with firm needs) significantly increased participation in tax programs. This supports the inclusion of policy design as a moderating variable, suggesting that even well-funded tax programs may fail if the regulatory interface discourages engagement.

Digital maturity is defined as a firm's capacity to integrate and use digital tools across operations also shapes the efficacy of tax incentives. Digitally mature firms are more agile, data-driven, and capable of navigating complex administrative requirements, making them more likely to benefit from policy tools (Pingali et al., 2023). Noah & David (2025) demonstrated that digital infrastructure strengthens the relationship between public incentives and innovation outcomes. However, Javaid et al. (2024) noted that in some contexts, digitally advanced firms may be less dependent on public support due to their access to global financing or economies of scale.

Export-oriented firms are typically more formalized, competitive, and growth-focused. These attributes increase their ability to comply with fiscal requirements and strategically leverage tax incentives. Munawara et al. (2019) found that Indonesian exporters in the creative sector used tax savings to invest in product development and international marketing. Similarly, Mmadubuko et al. (2025) highlighted the synergy between export readiness and government incentives. Exporting firms often require certifications, branding investments, and R&D which are supported by tax relief. However, Patunru (2023) cautioned that tax policy alone cannot drive export success without supportive trade logistics and market access. These studies suggest that export orientation enhances the utility of tax incentives, particularly when incentives are linked to internationalization goals.

Despite the growing literature, several important gaps remain. First, prior studies mostly focus on direct effects of tax incentives and provide limited evidence on moderating mechanisms. Second, only a few studies combine firm-level and institutional-level data in a unified empirical framework. Third, empirical evidence on Indonesia's creative industries using recent panel data is still limited. Addressing these gaps is essential to better understand how fiscal incentives operate in innovation-driven sectors.

Using panel data from 100 firms across 12 provinces over the period 2019 to 2024, this study finds that tax relief has a positive and significant effect on firm performance. The results also show

that this effect becomes stronger when supported by high-quality policy design, higher digital maturity, and export orientation. These findings indicate that the effectiveness of fiscal incentives depends on both institutional conditions and firm capabilities.

Based on these findings, this study makes several contributions. Theoretically, it extends institutional theory by showing that the impact of fiscal incentives depends on interactions between policy design and firm-level absorptive capacity. Empirically, it contributes by integrating firm-level and institutional-level data within a panel framework to explain differences in policy effectiveness. Practically, the findings provide guidance for policymakers to design more effective tax incentive programs by improving policy clarity, supporting digital transformation, and strengthening export capacity in the creative industries.

LITERATURE REVIEW AND HYPHOTESIS DEVELOPMENT

Institutional Theory and Fiscal Incentives

Institutional theory offers a valuable lens for understanding how government policies such as tax relief affect firm behavior within specific regulatory environments. According to Kleinaltenkamp (2018), institutions shape organizational conduct through regulative, normative, and cultural-cognitive mechanisms. In the context of fiscal incentives, these mechanisms determine the extent to which firms perceive tax relief as legitimate, actionable, and strategically beneficial.

In developing economies like Indonesia, the institutional environment plays a crucial role in determining policy impact (Zainuri et al., 2025). Weak administrative capacity, fragmented regulations, and inconsistent enforcement can lead to low compliance and underutilization of available tax incentives (Svetlozarova Nikolova, 2023). Conversely, where institutions effectively implement and monitor tax relief programs, firms are more likely to internalize incentives as strategic levers, enhancing performance (Wangare, 2024). Institutional theory thus provides a foundation for understanding the heterogeneity in firm responses to tax incentives, underlining the need to examine both the structural design of tax relief programs and the contextual factors such as digital capabilities and market orientation that mediate their effects.

Hypothesis Development

Tax Relief and Performance Firm

Chege (2020) found that tax relief has a direct, significant impact on the financial performance of domestic airline companies in Kenya. The current tax relief regime allows domestic airlines to start and stabilize their businesses. Tax relief allows domestic airline companies to expand. Chege (2020) concluded that VAT exemption incentives have a direct, significant impact on the financial performance of domestic airline companies in Kenya. Ali & Zouaghi (2022) examined the impact of tax incentives on the company performance of 122 large Tunisian companies during the period 2015-2019. Ali & Zouaghi (2022) found that tax incentives

had a significant, positive impact on the financial performance of Tunisian companies. In Indonesia, Zainuri et al. (2025) found that tax incentives significantly increased profitability and employment in creative SMEs. Drawing on institutional theory, fiscal incentives can also serve as signals of government support, increasing firm confidence and encouraging risk-taking behavior in uncertain environments (Scott, 1995). Therefore, tax relief is expected to have a direct and positive impact on firm performance in the creative industries. Therefore, the first hypothesis proposed is as follows.

H_1: Tax relief positively affects the performance of creative industry firms.

Tax Relief and Performance Firm: Policy Design as a Moderator

While fiscal tools may be effective, their design and delivery matter critically. Policies that are poorly targeted, inconsistent, or difficult to access often fail to reach intended beneficiaries (Ridzuan & Rahman, 2021). Well-designed policies ensure administrative simplicity, transparency, and accessibility, which can amplify the intended effects of tax relief on creative firms (Ehsan, 2021). However, some studies suggest that even well-designed incentives do not always translate into improved firm outcomes unless coupled with adequate institutional support and enforcement (Bradley et al., 2021). In some contexts, overly centralized policy design alienates local creative clusters, reducing relevance and impact.

Moreover, excessively centralized or top-down policy frameworks risk alienating local creative ecosystems, limiting relevance and diminishing impact (Bradley et al., 2021; Indrawati et al., 2024). Recent evidence suggests that the effectiveness of fiscal incentives depends on policy design features such as clarity and accessibility, which shape firm participation and response (González Cabral et al., 2023; Ginting & Saptono, 2024). These tensions indicate that, while tax relief may have positive direct effects, its effectiveness varies depending on how policies are structured and perceived by firms. Accordingly, we argue that policy design quality moderates the relationship between tax relief and firm performance.

H_2: The quality of policy design moderates the positive effect of tax relief on firm performance.

Tax Relief and Performance Firm: Digital Maturity as a Moderator

Digital capabilities such as e-commerce readiness, cloud infrastructure, and digital marketing are critical for scaling creative businesses. Firms with higher digital maturity are generally more responsive to policy incentives, as they can better align fiscal advantages with growth strategies (Javaid et al., 2024; Noah & David, 2025). These firms also have better access to information and are more likely to comply with the technical requirements for tax relief. On the other hand, some evidence suggests that digitally

mature firms are not necessarily more sensitive to tax incentives, as their growth is driven more by innovation, platforms, and global networks than by local fiscal tools (Meyer et al., 2023). In such cases, tax relief may play a minimal or even marginal role in performance improvement. In such cases, tax relief may serve as a secondary or marginal input to performance. This contradiction highlights the need to empirically test whether digital maturity amplifies or diminishes the value of tax relief. We propose that, within the Indonesian creative economy context, digital maturity acts as a performance enabler, strengthening the positive relationship between tax incentives and firm outcomes. This leads to the following hypothesis.

H_3: Digital maturity strengthens the relationship between tax relief and firm performance.

Tax Relief and Performance Firm: Export Orientation as a Moderator

Exporters tend to be larger, more productive, and more exposed to international competition, which pushes them to reinvest any fiscal gains into efficiency and innovation. Studies show that tax incentives amplify these dynamics, enabling creative firms to scale globally (Liu & Mao, 2019; Mmadubuko et al., 2025). In this context, tax incentives serve not only as cost-saving mechanisms but also as strategic resources that enable firms to pursue international expansion, certification, and branding as key drivers of success in global creative markets. Exporters are also more likely to meet formal compliance standards, making them better positioned to access government support programs. However, other studies indicate that export performance is driven more by global market access, exchange rates, and supply chains than by domestic tax policy (Bustaman et al., 2022). In this view, the fiscal impact is indirect or negligible in export-oriented business models. According to this perspective, fiscal incentives may have only a marginal impact on exporter outcomes, as these firms rely on broader structural enablers. Thus, the last hypothesis stated as follows.

H_4: Export-oriented creative firms benefit more from tax incentives than non-exporting firms.

RESEARCH METHOD

This study employs a quantitative explanatory panel research design to examine the impact of tax relief on firm performance in Indonesia's creative industries. The sample consists of non-listed firms (SMEs), which represent the dominant structure of the creative sector. The data compilation process involved matching firm-level and regional data using sector and location identifiers, followed by harmonization of variables across time. Firm-level variables are measured at the firm-year level, while macro-level indicators are treated as contextual variables. This approach ensures consistency and minimizes measurement bias. The choice

of this approach is grounded in previous studies highlighting the efficacy of panel econometric techniques in capturing policy dynamics over time and across sectors (Ginting & Saptono, 2024; Saptono et al., 2024).

Table 1 shows a summary of the data used in this study. The study employs a panel dataset comprising 600 firm-year observations drawn from 100 creative industry firms across Indonesia, covering the period from 2019 to 2024. The study focuses on firms located in 12 provinces, including Jakarta, West Java, Central Java, East Java, Yogyakarta, and Bali, as these regions represent the main hubs of Indonesia's creative industries with the highest concentration of firms and economic activity. This selection ensures that the sample captures the most relevant and active segments of the creative economy while maintaining data availability and consistency across regions.

The three main data sources for this study include (1) Statistics Indonesia for creative industry economic output data, including Gross Value Added (GVA), employment, and firm characteristics; (2) Directorate General of Taxes (DGT) for fiscal incentive data, particularly relating to super deduction tax schemes under Minister of Finance Regulation No. 128/PMK.010/2019 (Indonesia, 2019); and (3) Ministry of Tourism and Creative Economy for sectoral policy documents and classifications under Indonesia Standard Industrial Classification (KBLI) 5-digit codes. Firm-level administrative records were linked across datasets using unique tax identification numbers and KBLI classifications. Secondary data, such as regulatory quality and regional economic indicators,

Table 1. Dataset Summary

Item	Description
Unit of Analysis	Firms operating in Indonesia's creative industry (based on Indonesian Standard Industrial Classification 5-digit codes)
Number of Firms	100 firms
Number of Observations (Panel Data)	600 firm-year observations (2019–2024, unbalanced panel)
Observation Period	6 years (2019–2024)
Geographical Coverage	12 provinces (e.g., DKI Jakarta, West Java, Bali, Yogyakarta, East Java, etc.)
Sectors Covered	6 sub-sectors: fashion, film, music, crafts, animation, digital content
Data Sources	BPS, DGT, Ministry of Finance, Ministry of Creative Economy, World Bank
Sampling Method	Purposive sampling (firms that applied for or received tax incentives)
Data Type	Secondary data; administrative records, national statistics, and firm surveys

Source: Data Processed

were sourced from World Bank Governance Indicators and OECD reports to support contextual understanding (Table 1). Table 2 shows the operational definitions of the variables in this study.

To empirically examine the effect of fiscal incentives on the performance of firms in Indonesia's creative industries, we employ a panel regression model using firm-level data over multiple years. The dependent variable is a composite firm performance index (PERF_INDEX), which captures standardized growth in employment, capital investment, and R&D expenditure. The key independent variable is tax relief (TR), measured both as a binary indicator (1 = received relief) and, where applicable, as a continuous variable representing the value of tax incentives relative to firm revenue.

Table 2. Operational Definitions of Variables

Variable	Definitions	Source
Fiscal Incentives (TR)	A dummy variable (1 = received tax relief, 0 = no relief) and a continuous variable (monetary amount of relief relative to revenue).	Afandi et al. (2023) Afida and Widodo (2023)
Creative Industry Growth (GVA)	Annual percentage change in sub-sectoral GVA at the regional (provincial) level.	Abisuga Oyekunle and Sirayi (2018)
Firm Performance (PERF_INDEX)	A standardized index capturing growth in employment, capital investment, and R&D expenditure	Afandi et al. (2023)
Policy Design Quality (DS)	Composite index (0–1) based on OECD's criteria for fiscal incentive effectiveness: targeting accuracy, duration, clarity, and administrative burden	González Cabral et al. (2023)
Digital Adoption/ Digital Maturity (DA)	Digital adoption/maturity index	Rauch et al. (2020)
Export (EX)	Dummy variable (1 = exporter, 0 = non-exporter). Its moderating effect is tested using an interaction term (TR × EX), which captures differences in the impact of tax relief between exporting and non-exporting firms.	Erdey et al. (2024)
Control Variables	Firm age, size, and regional GDP growth	

Source: Data Processed

To test the moderating effects hypothesized in H2 through H4, we introduce interaction terms between tax relief and (i) the quality of policy design (DS), a composite index constructed based on OECD criteria such as targeting accuracy, duration, clarity, and administrative burden; (ii) digital maturity (DA), which captures the extent of digital adoption at the firm level; and (iii) export orientation (EX), a binary variable indicating whether a firm exports its products or services. Control variables include firm age, size, regional GDP growth, and creative sector GVA growth.

We estimate a fixed effects panel regression model to account for unobserved, time-invariant heterogeneity across firms, such as managerial capability, brand strength, or location advantages. Firm fixed effects help isolate the within-firm impact of tax relief over time, while year fixed effects control for macroeconomic and policy shocks affecting all firms simultaneously. The choice of fixed effects over random effects is validated using the Hausman test; a significant result ($p < 0.05$) confirms the appropriateness of the fixed effects specification.

To ensure the robustness of the results, we implement several diagnostic tests. The Wooldridge test is used to detect serial correlation, while the Breusch-Pagan test checks for heteroskedasticity. Variance Inflation Factor (VIF) values are monitored to address potential multicollinearity, particularly around interaction terms. Standard errors are clustered at the firm level to address heteroskedasticity and autocorrelation across time within firms.

This modeling strategy allows us to test our main hypotheses. H1 assesses whether tax relief positively affects firm performance. H2 through H4 evaluate whether this relationship is conditioned by the quality of policy design, digital maturity, and export orientation, respectively. Interaction terms in the regression capture these moderation effects. Positive and statistically significant coefficients on the interaction terms would support the corresponding hypotheses, indicating that these contextual factors enhance the effectiveness of fiscal incentives.

$$PERF_INDEX_{it} = \alpha + \beta_1 TR_{it} + \gamma_1 AG_{it} + \gamma_2 SZ_{it} + \gamma_3 GDP_{it} + \gamma_4 GVA_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

The subsequent regression models are estimated to examine the moderating effects of policy design, digital maturity, and export orientation on the relationship between tax relief and firm performance. Specifically, interaction terms are introduced to capture whether the impact of tax relief varies across different institutional and firm-level conditions. The following models are specified.

$$PERF_INDEX_{it} = \alpha + \beta_1 TR_{it} + \beta_2 DS_t + \beta_3 (TR_{it} \times DS_{it}) + \gamma_1 AG_{it} + \gamma_2 SZ_{it} + \gamma_3 \gamma_3 GDP_{it} + \gamma_4 GVA_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

$$PERF_INDEX_{it} = \alpha + \beta_1 TR_{it} + \beta_2 DS_t + \beta_3 DA_{it} + \beta_4 (TR_{it} \times DS_{it}) + \beta_5 (TR_{it} \times DA_{it}) + \gamma_1 AG_{it} + \gamma_2 SZ_{it} + \gamma_3 GDP_{it} + \gamma_4 GVA_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

$$PERF_INDEX_{it} = \alpha + \beta_1 TR_{it} + \beta_2 DS_t + \beta_3 DA_{it} + \beta_4 EX_{it} + \beta_5 (TR_{it} \times DS_t) + \beta_6 (TR_{it} \times DA_{it}) + \beta_7 (TR_{it} \times EX_{it}) + \gamma_1 AG_{it} + \gamma_2 SZ_{it} + \gamma_3 GDP_{rt} + \gamma_4 GVA_{rt} + \mu_i + \lambda_t + \epsilon_{it}$$

Where:

PERF_INDEXit = firm performance index of firm i in year t, measured as a composite index of employment growth, capital investment, and R&D expenditure

TR_{it} = tax relief received by firm *i* in year *t*

DS_{it} = policy design quality index in year *t*

DA_{it} = digital maturity of firm *i* in year *t*

EX_{it} = export orientation (1 = exporter, 0 = non-exporter)

AG_{it} = firm age of firm *i* in year *t*

SZ_{it} = firm size (log of employees) of firm *i* in year *t*

GDP_{rt} = regional GDP growth in region *r* in year *t*

GVA_{rt} = growth of creative sector gross value added in region *r* in year *t*

α = constant term

β = coefficients of independent and interaction variables

γ = coefficients of control variables

μ_i = firm fixed effects controlling for unobserved time-invariant firm characteristics

λ_t = year fixed effects controlling for macroeconomic shocks and policy changes

ε_{it} = error term

RESULTS AND DISCUSSION

Descriptive Statistic

Table 3 presents the descriptive statistics of the main variables used in this study, based on 600 firm-year observations from the creative industries in Indonesia between 2019 and 2024. Firms in the sample had an average performance index score of 0.63, suggesting a medium-to-high level of growth in revenue, innovation, and employment. About 58% of the firms in the sample received tax relief (TR), reflecting a moderately high adoption of fiscal incentives under the national creative economy program. The average policy design score measuring clarity (DS), consistency, and accessibility

Table 3. Descriptive Statistics of Sample

Variable	Mean	Std. Dev.	Min	Max
Performance Index	0.63	0.18	0.21	0.97
Tax Relief (0/1)	0.58	0.49	0	1
Policy Design Score	0.71	0.14	0.40	0.92
Digital Index (0–1)	0.62	0.21	0.20	0.98
Export-Oriented (0/1)	0.36	0.48	0	1
Firm Size (log employees)	2.11	0.77	1.10	4.02
Firm Age (years)	6.8	3.4	1	22
Regional GDP Growth (%)	4.8	1.2	2.2	7.4
GVA_Growth (%)	5.24	3.11	-4.50	14.80

Source: Data Processed

of tax regulation was 0.71, indicating generally positive perceptions among stakeholders. Digital index (DA), and export orientation (EX) showed sufficient variation across firms and locations, supporting the reliability of the regression analysis. Control variables show most firms were relatively small in size, with an average of about 8–10 employees (log-transformed mean = 2.11), and had operated for approximately seven years. On average, firms experienced a Gross Value Added (GVA) growth rate of 5.24%, with some firms recording negative growth and others reaching up to 14.8%. Other control variables such as regional GDP growth showed sufficient variation across firms and locations, supporting the reliability of the regression analysis.

Table 4 shows the distribution of sample firms across six major sub-sectors of Indonesia's creative industries. The largest proportion of firms belonged to the fashion sector (22%), followed by digital content (20%), film and animation (18%), and crafts (16%). The music and game development sectors accounted for 14% and 10% of the sample, respectively. This distribution reflects the economic structure of Indonesia's creative economy, where fashion and digital industries have historically dominated due to strong domestic and export markets, while gaming and animation are rapidly growing segments supported by youth-led innovation and increasing digital infrastructure. Ensuring representation across these diverse creative fields helps strengthen the generalizability of the study's conclusions.

Table 4. Sample Distribution by Creative Sub-sector

Sub-sector	No. of Firms	% of Sample
Fashion	22	22%
Film and Animation	18	18%
Music	14	14%
Digital Content	20	20%
Craft	16	16%
Game & App Dev.	10	10%
Total	100	100%

Source: Data Processed

Table 5. Sample Distribution by Province

Province	Firms
Special Capital Region of Jakarta	20
West Java	14
Central Java	10
East Java	12
Bali	8
Yogyakarta	6
Banten	6
West Sumatra	5

Source: Data Processed

Table 5 presents the geographical distribution of firms in the sample across 12 provinces in Indonesia. The majority of creative firms are concentrated in Special Capital Region of Jakarta (20 firms), followed by West Java (14), East Java (12), and Central Java (10). Other significant hubs include Bali (8) and Yogyakarta (6), both of which are known for their cultural and tourism-linked creative economies. Smaller but emerging creative clusters were also captured in provinces such as South Sulawesi, West Sumatra, and East Kalimantan, ensuring geographical diversity. This distribution reflects the real-world concentration of creative industry activity while also incorporating regional voices in the evaluation of tax incentive effectiveness. The inclusion of firms from both urban and peri-urban regions enhances the robustness of spatial analysis within the study.

Tabel 6. Diagnostic Test Result

Test	Statistic	P-value
Wooldridge test (autocorrelation)	1.87	0.176
Breusch–Pagan test (heteroskedasticity)	12.45	0.002
VIF (mean)	2.31	–
VIF (max)	3.78	–

Source: Data Processed

Table 7. Panel Regression Results on Firm Performance

Variable	Model 1	Model 2	Model 3	Model 4
Tax Relief (TR)	0.173***	0.150***	0.146***	0.139***
Policy Design Quality (DS)	—	0.087*	0.091*	0.089*
Digital Maturity (DA)	—	—	0.112**	0.108**
Export Orientation (EX)	—	—	—	0.126*
TR × DS	—	0.131**	0.128**	0.125**
TR × DA	—	—	0.144**	0.142**
TR × EX	—	—	—	0.158**
Firm Size (log)	0.049**	0.048**	0.045**	0.044**
Firm Age (years)	0.003	0.003	0.004	0.004
Regional GDP Growth	0.021	0.018	0.019	0.017
Creative GVA Growth	0.034*	0.031*	0.029*	0.027*
Constant	0.627***	0.598***	0.583***	0.572***
N (firm-year obs)	600	600	600	600
R^2 (within)	0.211	0.247	0.268	0.287
Fixed Effects	Yes	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes	Yes

Note: ***p < 0.01, **p < 0.05, *p < 0.1
Source: Data Processed

To ensure the robustness of the regression results, several diagnostic tests were conducted (Table 6). The Wooldridge test indicates no evidence of serial correlation ($p > 0.05$). However, the Breusch-Pagan test suggests the presence of heteroskedasticity ($p < 0.05$). To address this issue, robust standard errors clustered at the firm level are applied in all regression models. In addition, Variance Inflation Factor (VIF) values are below the commonly accepted threshold of 10, indicating that multicollinearity is not a concern, including for interaction terms. Overall, these results confirm that the model specification is appropriate and the estimates are reliable.

Hypothesis Test and Discussion

The results of the research regression tests are shown in Table 7. Table 7 shows that tax relief has a positive effect on the performance of creative industry companies. The variable TR is positive and statistically significant in all models (β ranging from 0.139 to 0.173, $p < 0.01$). The first hypothesis is confirmed. This suggests that receiving tax relief leads to a substantial increase in firm performance, as measured by a composite index capturing growth in employment, capital investment, and R&D expenditure. Specifically, firms that received fiscal incentives outperformed those that did not, controlling for firm size, age, and regional economic conditions. The significance and magnitude of this effect confirm the central premise that well-targeted fiscal support stimulates firm-level growth in the creative economy.

The findings are also aligned with the institutional theory that government intervention through fiscal tools is most effective in industries characterized by high volatility and intangible capital features that define creative enterprises (Cunningham et al., 2021). Tax incentives provide liquidity relief, reduce uncertainty, and serve as strategic signals of government support, increasing firm confidence and risk-taking capacity (González Cabral et al., 2023). Furthermore, the effectiveness of tax incentives depends on how policies are designed and implemented. Policy design characteristics such as clarity, consistency, and accessibility influence firms' ability to understand, access, and utilize fiscal incentives effectively.

Table 7 also shows that the quality of policy design moderates the positive effect of tax relief on firm performance. The interaction term TR × DS is consistently positive and significant (β ≈ 0.125–0.131, $p < 0.05$). The second hypothesis is confirmed. This means that the effectiveness of tax relief is not uniform across firms; it depends on how well the policy is designed. Firms that received tax incentives through policies rated high on design quality (e.g., clear eligibility, well-defined objectives, minimal red tape, appropriate duration) experienced stronger performance improvements. In practical terms, the same fiscal value of relief can yield higher returns if embedded in a robust policy framework. These findings support Cullen et al. (2021) who emphasized that poorly designed or inconsistently implemented policies will undermine company

trust and participation. Zainuri et al. (2025) further highlight that policy responsiveness the degree to which policies align with real business amplifies the uptake and success of fiscal tools among SMEs which highlights the importance of integrated fiscal and institutional design. This study's results suggest that policy design acts as a crucial enabling environment, enhancing the behavioral and economic effects of tax relief among firms in the creative industries.

Table 7 also shows that digital maturity strengthens the relationship between tax relief and firm performance. The TR × DIGITAL interaction term is also positive and statistically significant ($\beta \approx 0.142–0.144$, $p < 0.05$). The third hypothesis is confirmed. This result implies that digital readiness acts as a facilitating condition firms that are more digitally mature are better able to leverage tax incentives to drive growth. Such firms may use tax relief to invest in digital infrastructure, automate operations, expand digital marketing, or scale their online platforms. Conversely, less digitally capable firms may lack the absorptive capacity to fully translate tax incentives into productive outcomes. Thus, digital maturity functions as a performance multiplier in the fiscal incentive-performance relationship. This finding indicates that digital maturity enhances fiscal responsiveness rather than replaces it.

These findings align with those of Pingali et al. (2023) and Noah & David (2025). Pingali et al. (2023) found that digitally capable firms benefit more from public support due to greater agility and data literacy. Noah & David (2025) also found that ICT infrastructure moderates the effectiveness of policy incentives, particularly in innovation-driven sectors. These findings suggest that policymakers should complement tax incentives with digital infrastructure development, particularly in regions where creative industry growth remains uneven.

Table 7 also shows that export-oriented creative firms benefit more from tax incentives than non-exporting firms. The interaction TR × EX is positive and significant ($\beta = 0.158$, $p < 0.05$), indicating that the positive effects of tax incentives are amplified for export-oriented firms. The fourth hypothesis is confirmed. These firms may face higher compliance burdens, international certification costs, or currency exposure conditions that make financial support particularly valuable. Exporters are also more likely to reinvest tax savings in quality upgrades, logistics, or foreign market expansion. This finding suggests that export-oriented creative firms are more responsive to fiscal stimuli, potentially due to their greater dynamism and international competitiveness. These findings align with a study by Munawara et al. (2019), which noted that exporters reinvest tax savings into R&D, product innovation, and international certification.

However, Bustaman et al. (2022) caution that export performance is often more dependent on market access, exchange rates, and trade logistics than domestic tax incentives. While this macro-level insight is valid, our firm-level data shows that tax relief

still plays a significant role in operational efficiency and strategic reinvestment for exporters in creative sectors. This implies that tax incentives should be linked to export promotion policies**,** such as support for international branding, trade fairs, and digital export platforms.

Table 7 also shows the results of the regression tests of the control variables. The firm size variable consistently proved significant ($\beta \approx 0.044–0.049$, $p < 0.05$), indicating that larger firms tend to perform better. This is due to economies of scale, better access to financing, or stronger managerial capabilities. The firm age variable was statistically insignificant across all models, indicating that the performance improvement from tax breaks does not depend on the firm's age or maturity level. The creative GVA growth variable was slightly positive and significant ($p < 0.1$), reflecting that subsector economic growth does have a positive effect on firm-level outcomes, but firm-specific factors (such as incentives and capabilities) are more determinant. The regional GDP growth variable was statistically insignificant, indicating that broader regional economic performance does not significantly shape individual firm growth after the control variables were applied.

Overall, the regression analysis affirms the multidimensional value of tax incentives, particularly when embedded within effective institutional and digital environments. The evidence from Indonesian creative firms supports a nuanced understanding: while tax relief can directly boost firm performance, its impact is conditional upon policy clarity, firm capabilities, and market orientation. These findings contribute to reconciling mixed results in the literature and inform a more targeted, evidence-based design of fiscal policy for creative industries.

CONCLUSIONS AND SUGGESTIONS

This study examined the influence of tax relief on the performance of Indonesia's creative industries through the lens of institutional theory. The empirical results show that tax relief has a significant positive effect on firm performance, particularly in enhancing profitability, innovation, and employment. However, this relationship is conditional. The effectiveness of fiscal incentives is moderated by three key factors: policy design, digital maturity, and export orientation. Firms with high digital capacity and export involvement derive greater benefits from tax relief programs, while complex or poorly communicated policies tend to limit access, especially among smaller enterprises. These findings emphasize that while tax incentives hold potential, they are not universally effective and must be supported by a conducive institutional and operational environment.

Based on these insights, several policy recommendations are proposed. First, simplifying tax policy procedures and improving communication are critical to increasing program uptake. Second, integrating fiscal incentives with programs that promote digital transformation and export capacity will enhance long-term

effectiveness. Third, aligning policy design with firm-level needs and sector-specific characteristics can optimize impact. Despite its contributions, this study has limitations. It relies on secondary and cross-sectional data, which restricts causal inference and excludes nuanced insights into firm behavior. Moreover, additional variables such as regional policy discrepancies, informal sector dynamics, and intellectual property protection were not fully explored.

Future research should employ longitudinal and mixed-method approaches to better capture the long-term effects and contextual complexity of fiscal incentives. Comparative analysis across countries or regions could also offer broader policy insights. In conclusion, tax relief can be a strategic tool for stimulating the creative industries, but its success hinges on institutional quality, firm capabilities, and coherent policy design.

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