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DOES CORRUPTION AND MSMES AFFECT THE CORPORATE INCOME TAX (CIT) RATE IN ASEAN COUNTRIES?

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Abstract

The corporate income tax rate is an important component of a country's tax revenue, especially in developing countries. Business entity taxes in ASEAN countries are different because they have different economic and political foundations. This study aims to determine the effect of the level of corruption, which is often an obstacle in business and the economy, and the number of MSMEs, which have a large proportion in the ASEAN economy. The sample used is of 10 ASEAN countries from 2011 to 2020. The method used is a panel model with random effects. The results show that corruption has a negative and significant effect on the level of corporate tax. The better the control of corruption in a country, the lower the level of corporate tax. Meanwhile, the number of MSMEs and GDP have no significant effect on the level of corporate tax. On the other hand, world oil prices have a positive and significant effect on corporate tax rates.

Keywords: *Corruption; Micro and Small Medium Entreprises; Corporate Income Tax*.

JEL Classification: *D73, H2, M1*

INTRODUCTION

Tax is one of the important instruments in the economy. Taxes can stimulate the economy in a better direction. Besides that, they can create a conducive climate for business and encourage efforts to distribute welfare. There are three types of taxes that have important contributions to many countries, namely: personal income taxes (PIT), corporate income taxes (CIT), and value-added taxes (VAT). Several previous empirical studies have shown a link between foreign direct investment (FDI) and CIT. CIT is one of the factors that can influence investment decisions. CIT at the global level has been gradually decreasing since 1980. In 1980, the average global corporate tax rate was 40.11 percent, and 46.52 percent when weighed against GDP. This decreases to 23.54 percent and 25.44 percent when weighed against GDP in 2021 for 180 distinct tax jurisdictions (Bray, 2021). This decline in corporate tax rates has become a global trend because several empirical studies show that low corporate tax rates reduce the opportunity for companies to avoid paying taxes (Alm & Liu, 2018; Belitski et al., 2016).

Alm & Liu (2018) found that corruption is a statistically and economically significant determinant of tax avoidance. They also revealed that there is strong

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empirical evidence that more audits reduce corporate tax avoidance. Corruption is an important issue because its existence creates a misallocation of resources that affects the amount of investment, unemployment, and economic growth (Rose-Ackerman, 1975). Corruption can also change the distribution of income to widen economic inequality and increase poverty in a country. More broadly, corruption reduces the government's ability to meet the needs of citizens. Furthermore, according to Bray (2021), the global corporate income tax decline is because many countries have realized the impact of high corporate tax rates on business investment decisions. Belitski et al. (2016) show that consistently higher tax rates discourage business entry. Furthermore, we find that although the direct effect of corruption on entry is also consistently negative, the interaction effect of corruption and tax rates is positive. This shows that corruption can harm business entry decisions due to high tax rates.

The corporate income tax rate plays an important role because of the strategic position of corporate income tax in an economy. Competitive corporate income tax rates can affect economic growth primarily through tax revenues for the state and encouraging capital flows and suppressing tax evasion and the shadow economy. According to Mourmans (2016), this level of CIT is influenced by several things. Strategic fiscal interaction between countries is the main driver of corporate tax rate setting behavior by the state and it has a significant negative impact on the level of tax revenue collected in a country.

Furthermore, A high tax rate is significantly affected by corruption and evasion in a developing country (Ivanyna et al., 2016). Amoh & Ali-Nakyea (2019) recommend future research to analyze corruption and tax rate relationships in developing and emerging economy countries. Although evidence study is abundant about the relationship between corruption and tax rate in developing countries, such as China (Yousefi et al., 2020), India (Mishra et al., 2008), and Iran (Yousefi et al., 2020), the research stream is scarce in the Southeast Asian countries. The trend of reducing taxes has been carried out by many countries including ASEAN countries. ASEAN members are classified as developing countries that require capital flows, especially foreign ones, for development and to encourage their economic activities. The data series (taxfoundation.org) shows that there has been a deep decline in CIT levels in ASEAN countries. Tax reductions in Indonesia and Singapore are sufficient from 1980 to 2022, reaching 23%. In 1980, Indonesia's CIT rate was 45% and in 2022 it was 22%. Meanwhile in 1980 Singapore's CIT rate was 40% and in 2022 it was 17%. The average CIT level in ASEAN in 2022 is 20.85% with Singapore as the country with the lowest CIT level. ASEAN's CIT level is still lower when compared to developed countries such as the United States, Japan and South Korea.

According to Vo & Ly (2014), there is limited evidence on the relationship between corruption and tax rates in ASEAN countries. Besides, economy of ASEAN countries is dominated by MSMEs in which there are still many problems, especially in tax collection. The tendency to upgrade to become a corporation becomes more severe if the CIT level is high. In addition, many SMEs enter the informal sector, which on average has not been touched by taxes. The number of MSMEs in ASEAN countries is more than 90% of their economy. Research that has been conducted so far has not looked much at the effect of SMEs on CIT rates. Therefore, our research aims to examine the impact of corruption and MSMEs on the Corporate Income Tax (CIT) in the ASEAN Countries.

LITERATURE REVIEW

Corporate Income Tax (CIT)

Government tax revenue is generally seen as a significant means to encourage economic growth by increasing the country's gross domestic product (Jelena et al., 2018) because it can provide the necessary capital to improve the welfare of citizens by allocating it to the public sector. The optimal tax theory in such a way that only an adequately created tax system can lead to the maximization of the social wealth function. Taxes are important and their basic purpose is reflected in raising funds to finance public spending and cover public needs. However, it is important to emphasize that the structure and level of taxes can impact the economy, such as CIT.

According to (Hungerford, 2013)corporate income tax has three important functions. First, it raises a significant amount of revenue for the government. Second, corporate income tax contributes to the overall progress of the tax system to the extent that the corporate tax burden falls on capital. In practice, many tax policy analysts and government agencies impose significant negative corporate tax burdens on capital (between 75% and 82%). This evidence supports the view that corporate income taxes contribute to the whole tax system's progress. Third, corporate income taxes serve as a backstop for personal income taxes because they block the use of corporations as a tax haven for high-income taxpayers.

(Gravelle & Hungerford, 2008) state that "if there is no corporate tax, high-income individuals can channel funds to the company and, with large negative retained earnings, earn lower tax rates than if they operated in partnership or ownership". In the last decade, there has been a lot of literature that discusses the relationship between taxation, corruption, and the number of micro, small, and medium enterprises (MSMEs), both theoretically and empirically. We use corporate income tax as an analytical theoretical framework to map the impact of corruption and the number of MSME growth on government revenue in the form of taxes. Mapping these influences in this study allows the government and related stakeholders to identify the influence of the level of corruption, which is often an obstacle in business and the economy, and to know the influence of the number of MSMEs that have a large proportion in the economy.

Corruption

Corruption is an act of abusing power for personal benefits (Aidt, 2003; Shleifer & Vishny, 1993) or moral ends (Hogdson & Jiang, 2007). Our article analyses corruption following the consensus on economics (Aidt, 2003; Shleifer & Vishny, 1993) and political science literature (Nye, 1967). that define corruption as an act that solely motive by personal gains. Consequently, this definition of corruption explains that corruption may arise in public officials that have discretionary power that allows economic rents and weak institutions to incentivize them (Aidt, 2003).

Government officials' ability to exploit their authority may also occur in public finance. Corruption in public finance could occur either in the collection of economic resources, i.e., taxation (Alm et al., 2016) or the allocation of government spending (Tanzi & Davoodi, 1998). In general, the effect of corruption is harmful to the country's economic condition. Corruption in government spending allocation may cause less economic growth since corrupt public officers may manipulate the composition of public expenditure more on the corrupt sector (Mauro, 1996; Shleifer & Vishny, 1993). Similarly, corruption in taxation may cause fewer tax revenues, limiting the government's ability to fulfil its obligations to society (Alm et al., 2016; Tanzi & Davoodi, 1998).

The Influence of Corruption on Corporate Income Tax (CIT)

Several studies show a positive relationship between taxation and corruption (Alm & Liu, 2018; Baum et al., 2017). This study found a positive relationship between aggressive tax avoidance and the level of corruption. This study also proves empirically the effect of good governance on the weakening of the relationship between aggressive tax avoidance and corruption. Data was collected from 840 companies that went public in ASEAN during the 2015–2018 period. Other research shows a positive relationship between aggressive tax avoidance and corruption levels, and a greater increase in bribery cases against officers results in higher tax avoidance rates (Alm & Liu, 2018; Rusydi, 2020). The results of this study are also consistent with the results of previous studies (Alm & Liu, 2018; Picur & Riahi-Belkaoui, 2006)which provide strong support for evidence that more audits reduce corporate tax avoidance and that stringent tax regulations and higher tax rates generally increase evasion. Implementing good governance at the state level will also make company owners avoid damaging reputations and the additional costs of tax audit results in countries with effective controls on corruption, as stated by Picur & Riahi-Belkaoui (2006).

Second, on the other hand, some economists argue that excessive taxes can have a detrimental impact on economic activity (Imam & Jacobs, 2007; Němec et al., 2021). As Němec et al. (2021) suggests, high tax rates have the potential to cause more corruption in the economy by encouraging tax avoidance practices. Another study with similar results by Sen Gupta (2007) showed that corruption harmed tax collection, but the implementation of good governance and improvement of institutional aspects contributed to reducing the negative impact caused by corrupt practices (Ajaz & Ahmad, 2010). Similar results were found in direct tax estimates in case studies of Middle Eastern countries, which also showed a negative relationship to corporate taxes (Imam & Jacobs, 2007). In addition to corporate taxation being negatively related to tax revenue, (Akdede, 2006) also found that the number of corruption bribes was negatively related to tax evasion. This shows that the negative relationship of a country that has a low bribe rate will cause demotivation of taxpayers and the tendency of companies to increase tax avoidance practices (Němec et al., 2021). As a result, the market share of the official economy will decrease while the market share of the shadow economy will increase, as evidenced by the studies by (Borlea et al., 2017; Hoinaru et al., 2020). They postulate that the negative effects of corruption and the shadow economy are higher in high-income countries than in low-income countries. This conclusion reveals how important the transmission channel for the impact of corruption on economic fundamentals and the shadow economy is.

H1: Control of corruption has a positive impact on the decline of CIT rate

The Influence of MSMEs on Corporate Income Tax (CIT)

SMEs in several empirical studies are included in the shadow economy category because of the large number of informal sectors in it. This has a significant relationship to tax revenue according to research in Indonesia (Lestari et al., 2022). There are still many informal sectors that have not been reached by the tax radar so that the relationship is negative with tax revenues. The more weight the number of informal sector in SMEs will be negatively related to tax revenue. Meanwhile Boly (2020) shows that the formalization of the informal sector in SMEs will increase tax revenue.

The negative relationship between taxation and amount is shown in various literature. In general, previous research analyzed how the realationship between MSME entrepreneurship and CIT (Borchers et al., 2015; Darnihamedani et al., 2018; Venâncio et al., 2022). Each of these studies found a significant negative relationship between the two variables. Other research related to progressive taxes shows a significant negative effect on entrepreneurship among MSMEs with above-average income (Baliamoune-Lutz & Garello, 2014). Empirical research by (Atawodi & Ojeka, 2012) on taxation and MSMEs shows two important results. First, there is a negative correlation between taxes and the ability of small businesses to develop. The implication is that the higher the amount paid as tax by MSMEs, the lower the number of funds available for reinvestment into the business. Low reinvestment will ultimately lead to a slow rate of business expansion for MSMEs. Second, there is a negative relationship between taxes and the ability of small businesses to sustain themselves. This means that companies that pay lower taxes can stay in business longer than those that pay lower taxes as lower tax rates can free up more funds that can be used as working capital for MSMEs.

Another study discovered a significant negative relationship between MSME size (Le et al., 2020) and MSME age on productivity growth and tax compliance (Benedek et al., 2017). This is because larger MSMEs have lower growth potential, regardless of the advantages of economies of scale. Econometric results also show that tax incentives related to the size of MSMEs have significant negative implications for the level of productivity and growth of the company's total factor (Benedek et al., 2017). In addition, Koranteng et al. (2017) revealed that MSMEs have a negative relationship with the general perception of taxes. Thus creating a negative relationship between MSME compliance with taxes. Meanwhile, the relation between number of SMEs and CIT rate is expected to be negative. This means that the higher number of SMEs will decrease the CIT rate (Boly, 2020; Lestari et al., 2022).

H2: The number of MSMEs has a positive impact on the decline of CIT rate

METHODOLOGY

This study uses a quantitative method with an econometric approach to determine the determinants that affect the corporate income tax rate (CIT) in ASEAN countries. Using panel regression for 10 countries in ASEAN with a balanced panel structure, it is done by testing the data so that BLUE is met. The secondary data used a span of 10 years from 2011 to 2020. The data is obtained from the World Bank, IMF, Tradingeconomics, ASEAN statistics, and OECD. The estimation approach that will be used in this research is to use the model:

$$CIT_{i,t} = \beta_i + \beta_1 COR_{it} + \beta_2 NMSME_{it} + \beta_3 X + \varepsilon_{it}$$

In this analysis, the dependent variable is the corporate income tax rate (CIT rate), while the independent variable is the Corruption Index (the higher the value, the better the government at controlling corruption), is a component of the estimated value in the Worldwide governance indicator for control of corruption, and the number of MSMEs. According to Purina (2017) there are many external control indicators, which can affect the effective tax rate. Kubatova & Rihova (2009) include into the model statutory tax rate, GDP, FDI, inflation, unemployment rate, incorporation rate, tax evasions and tax avoidance, level of corruption, and some other factors related to the above-mentioned groups. Purina (2017) also included oil price as a control variable affecting the CIT rate.

Table 1 Operational Variable

Variable Type	Variable	Description
Dependent Variable	CIT	CIT is the corporate tax rate
Independent Variable	COR	Corruption, the higher the value, the better the government in controlling corruption, is a component of the estimated value in the Worldwide Governance Indicator for control of corruption (World Bank), range value -2.5-2.5.
Independent Variable	NMSME	Number of MSME, amount of SME's company
Independent Variable	X	Control variable: GDP , is log (ln) of the GDP value COWTI (Crude Oil Price WTI) is log (ln) of the crude oil price
	ε_{it}	Error term
	I	Unit cross section
	T	Period
	β_i	Intercept
	$\beta_1 - \beta_5$	Regression Coefficient

RESULT AND DISCUSSION

Tax Development in ASEAN

Taxes are an important component in the development efforts of a country. Improved tax performance indicates the government's ability to boost the economy and level of welfare. Tax performance in ASEAN on average shows an increasing trend, even though when entering the year of the COVID-19 pandemic in 2020, the average tax ratio has decreased. Cambodia, Vietnam, the Philippines, and Thailand are countries whose tax ratios experienced an increasing trend before the pandemic, while

Singapore's was relatively stable. Indonesia, Lao PDR, and Malaysia's tax ratios experienced a downward trend before the pandemic (OECD, 2022).

In 2020, tax performance as indicated by the tax ratio, the percentage of tax revenue value to GDP, shows that Lao PDR is the lowest among the 8 ASEAN countries at 8.9 percent. At 22.7 percent, Vietnam has the highest tax ratio. Meanwhile, the tax ratio values of other countries are Cambodia at 20.2 percent, the Philippines at 17.8 percent, Thailand at 16.5 percent, Singapore at 12.8 percent, Malaysia at 11.4 percent, and Indonesia at 10.1 percent. When compared with countries in other regions, ASEAN countries have middle to upper income per capita, but their tax ratio performance is relatively low compared to Asia-Pacific countries in the category of developed countries whose per capita income is directly proportional to their tax ratio performance (OECD, 2022).

In 2020, the tax structure in ASEAN is composed of 21.6 percent value added taxes, 26.5 percent other taxes on goods and services, 13.2 percent personal income taxes, 24.1 percent corporate income taxes, 7.5 percent social security contributions, and 7.1 percent other taxes (OECD, 2022). The largest contribution is made by value-added taxes (VAT), other taxes on goods and services, and corporate income taxes (CIT). Tax revenue in Vietnam is supported by social security contributions, VAT, CIT, and other taxes on goods and services. Meanwhile, Lao PDR's tax income is based on other taxes on goods and services and VAT. Cambodia, the Philippines, and Thailand rely on other taxes on goods, VAT, and CIT, although at different proportions. Singapore relies on CIT, PIT, other taxes, and VAT. Malaysia relies on CIT, PIT, and other taxes on goods and services. Indonesia relies on CIT and VAT.

Regression Analysis

Observations were made in 10 ASEAN countries: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam from 2011 to 2020. The standard deviation for NMSME is high because the differences in each major country are in the tens of millions, while in other countries they only number in the thousands. For GDP and WTI world crude oil prices, the figures are made in ln because they are in currency units.

Table 2 Descriptive Statistics of The Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
CIT	100	22.945	4.053864	17	35
COR	100	-0.18145	0.950574	-1.58677	2.174483
NMSME	66	8870665	2.04E+07	5248	6.55E+07
ln_GDP	100	11.70118	1.502385	8.994743	13.92986
ln_COWTI	100	4.168536	0.342156	3.671437	4.584383

The following are the results of variable regression:

Table 3 Regression Results

Variabel	**Model 01: RE**	**Model 02: RE**	**Model 03: RE**	**Model 04: OLS,ro**	**Model 05: XTGLS**
	Dependen Var: CIT				
COR	-2.303892 (0.9050949)***	-2.213422 (0.9567398)**	-1.757492 (0.9278441)**	-2.77144 (0.2669979)***	-2.77144 (0.4501248)***
NMSME	3.19E-08 (0.0000000557)	4.23E-08 (0.0000000641)	4.40E-08 (0.0000000606)	1.65E-08 (0.00000000921)*	1.65E-08 (0.0000000201)
ln_GDP		-0.2717552 (0.7775241)	0.0596684 (0.7437081)		
ln_COWTI			1.687676 (0.6747144)***		
Cons	22.13492 (1.160169)***	25.25911 (9.022652)***	14.46164 (9.455715)	22.65458 (0.4566218)***	22.65458 (0.4448391)***
R2	0.3716	0.3273	0.3438	0.381	0.381

*Alpha = 10%, **Alpha = 5%, ***Alpha = 1%

The corruption variable is significant in all models with a negative relationship. This shows that when the estimated value of a country's corruption increases, it means that a country is becoming increasingly free of corruption, so the CIT tax rate will decrease. The better the country's management of corruption is, the more effective and efficient the economy will be. It means that we accept the first hypothesis.

This can encourage economic and business improvement. The estimated value of corruption is taken from the assessment of the Worldwide Governance Indicator for control of corruption issued by the World Bank. Countries with good corruption assessments are Brunei Darussalam, Malaysia, and Singapore, while other ASEAN countries are still of low value. This is in line with Monteiro (2011) that high tax rates encourage tax avoidance. For ASEAN countries with high PIT rates, the level of corruption is also high.

The number of MSME actors is positively related to the level of CIT in all models. It shows that an increase in the number of MSME actors will encourage an increase in the corporate tax rate. However, the number of MSME actors is not significant in all models except model number 4. It means that we reject the second hypothesis.

The number of MSME actors in ASEAN varies from thousands to millions to hundreds of millions. The data obtained is limited so this makes the data difficult to capture and see its relationship with the level of corporate tax. However, the proportion of MSMEs in ASEAN is very high, accounting for more than 90% of the total. Countries in ASEAN with a high number of MSMEs have high CIT rates, such as Indonesia (the number of MSMEs in 2019 was 119.5 million with a CIT rate of 25 percent); Malaysia (the number of MSMEs in 2019 was 7.3 million with a CIT rate of 24 percent); and the Philippines (the number of MSMEs in 2019 was 5.5 million with a CIT of 30 percent). Nonetheless, Thailand and Vietnam have a high proportion of MSMEs, and the tax rate is low at 20%.

In model number 3, GDP is positively but not significantly related to the level of CIT. While in model number 2, GDP is negatively but not significantly related to the level of CIT. An increase in the value of GDP does not affect the corporate tax rate in ASEAN. The increase in GDP has not been able to describe its effect on the PIT rate.

In model number 4, the price of crude oil has a positive and significant effect on the CIT level. This shows that an increase in world crude oil prices can encourage an increase in CIT levels in ASEAN countries. In Indonesia, the activities of palm oil plantations significantly affect the socio-economic and cultural aspects of nearby communities, including their financial contributions to the state through increased company obligations like taxes and compensation costs, surpassing those of other industries (Syahza & Asmit, 2019). Implementing higher corporate taxes on palm oil firms may encourage them to embrace sustainable approaches and allocate resources toward environmental conservation, thereby addressing the adverse effects of palm oil production on deforestation and the loss of biodiversity.

Corporate Income Tax and Tax Harmonization Law in Indonesia

Corporate income tax in Indonesia has experienced at least four reductions between 1980 and 2022. The first tax cut occurred in 1984 when the rate was reduced from 45 percent to 35 percent. Then, in 1994, there was a decline back to 30 percent. The corporate income tax was amended in 2008 through Law No. 36 of 2008, which changed the previous tax regulation from 30 percent to 28 percent in 2009, and then lowered it back to 25 percent in 2010. As a result, the corporate income tax rate will be 25% from 2010 to 2020, and the corporate income tax will be reduced to 22% in 2021.

This reduction in corporate income tax will continue to be lowered in Indonesia through Law No. 2 of 2022 in the third part regarding policies in the field of taxation. Article 5 paragraph (1) states that the corporate income tax is 22 percent in 2020 and 2021. A tax of 20 percent will be enacted in 2022. However, the plan to reduce corporate income tax in 2022 was canceled by Law No. 7 of 2021 in article 7 paragraph (1) part b, which states that the corporate income tax from 2022 is set at 22 percent.

The decline in the corporate tax rate is influenced by commodity prices (OECD, 2021). In addition, the decline in corporate income taxes was also influenced by changes in corporate income taxes at the global level, which have gradually decreased since 1980. In 1980, the average global corporate tax rate was 40.11 percent, and 46.52 percent when weighed against GDP. This decreases to 23.54 percent and 25.44 percent when weighed against GDP in 2021 for 180 distinct tax jurisdictions (Sean Bray, 2021). Furthermore, according to Bray (2021), the decline in corporate income tax at the global level is because many countries have realized the impact of high corporate tax rates on business investment decisions.

The structure of tax revenue in Indonesia issued by the OECD (2021) shows that the largest component comes from corporate income tax, which is 32 percent, followed by value-added tax and income tax. The reduction in corporate income tax in Indonesia is intended to attract foreign investment to increase development. However, the plan intended in Law No. 2 of 2022 to reduce corporate income tax to 20 percent has been hampered by the COVID-19 pandemic, which has forced the country to issue additional stimuli. Thus, the plan was postponed preventing further deficits.

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Meanwhile, the level of corruption in Indonesia is still negative in the Worldwide Governance Indicator issued by the World Bank, indicating that the level of corruption is still in a bad stage. High levels of corruption lead to high levels of tax avoidance, so the correlation is negative with income from corporate income taxes. So, any improvement in the perception of corruption will lower the corporate income tax rate. Based on the data series, shows that perceptions of corruption show an improvement every year in line with the decline in the level of corporate income.

In the new tax harmonization law, the income tax for MSMEs is reduced to 0.5 percent with a gross income limit of 500 million rupiahs. So, if the gross income is below 500 million rupiahs, it is not subject to income tax for MSMEs. This is intended so that MSMEs can be lighter in paying taxes so that they increase tax payment compliance. An increase in the number of MSMEs can encourage an increase in corporate income tax to make MSMEs able to advance to class. The high number of MSMEs in Indonesia is not accompanied by an increase in tax revenues from MSMEs. High taxes for MSMEs make MSMEs not report their income and are even reluctant to go to class. As compensation, the corporate income tax increases.

Table 4 Comparison of Factors Indicators Affecting CIT Rate, 2020

Country	CIT Rate (%)	Corruption	Number of MSME		Tax Incentive
Singapore	17	2.15	279,700	2020	Yes
Brunei Darussalam	18.5	1.28	5,990	2019	Limited
Cambodia	20	-1.23	512,870	2014	Limited
Lao PDR	20	-1.07	133,721	2020	Yes
Thailand	20	-0.42	3,134,442	2020	Yes
Vietnam	20	-0.35	651,138	2019	Yes
Indonesia	22	-0.40	65,465,497	2019	Yes
Malaysia	24	0.25	1,151,339	2020	Yes
Myanmar	25	-0.65	75,116	2019	Yes
Phillippines	30	-0.48	996,701	2020	Yes

Source: Processed from various source by author, 2022

Based on the table above, the level of perception of corruption in ASEAN is still high, except for Singapore and Brunei Darussalam. Indonesia is one of those whose perceptions of corruption are still low, with negative numbers. In Vietnam and Malaysia, the perception value of corruption is better than in Indonesia. Brunei Darussalam and Singapore, with good perceptions of corruption, have relatively lower CIT rates compared to other ASEAN countries. The ASEAN CIT figure hovers around 20%. Although Indonesia's CIT rate is at a moderate level, it has a variety of tax incentives that can reduce the final tax rate for companies.

Indonesia has the highest number of MSMEs, followed by Thailand and Malaysia. Countries with a high number of MSMEs tend to have moderate CIT rates. In the case of Indonesia itself, many MSMEs have not received a taxpayer number and have not registered their business. So that the achievement of tax revenue from MSMEs is still low. This leads to a high CIT rate.

Countries in ASEAN, as well as Indonesia, have reduced their CIT rates in the last few decades. This is in line with global trends. Besides that, many ASEAN countries are included in the category of emerging markets that need investment so that they can achieve a competitive CIT level. The case is different for Singapore and Brunei Darussalam, which are already economically established.

CONCLUSION

This research finds that the better the corruption value of a country, the lower the corporate income tax rate in ASEAN countries. This shows that the economy is more efficient in countries with high corruption control scores. Meanwhile, the number of MSMEs does not affect the level of corporate income tax in ASEAN. The same thing also happened to the value of the GDP, which did not have a significant effect on the level of corporate income tax in ASEAN.

When corruption is prevalent, businesses often engage in corrupt practices to navigate bureaucratic hurdles and secure favorable treatment. This may include paying bribes to officials in order to obtain permits, licenses, or tax exemptions. When corruption is reduced, these illicit costs diminish, allowing businesses to operate more efficiently and transparently. As a result, governments can afford to lower corporate income tax rates, as they no longer need to compensate for revenue lost through corrupt practices. This fosters a more competitive business environment, attracting both domestic and foreign investment, which can, in turn, stimulate economic growth and job creation.

Furthermore, better corruption management instills confidence in the rule of law and the overall business climate. When businesses perceive a fair and predictable regulatory environment, they are more inclined to invest and expand their operations. This increased investment translates into higher economic activity, increased profits, and a broader tax base for the government. With a healthier and more robust economy, governments can lower corporate income tax rates without sacrificing the revenue needed for essential public services. Lower taxes can incentivize businesses to reinvest their profits, stimulating further economic growth in a positive feedback loop.

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