

Alternative Income Tax Incentives in Islamic Banks and Theory

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Abstract

Islamic bank financing has a greater influence on the economy compared to conventional bank credit. The ability to generate profits is inferior to that of conventional banks. To increase financing with the Profit Loss Sharing (PLS) scheme, Islamic banks need to be careful because of the high risk. Therefore, Income Tax incentives are needed for Islamic banks to increase financing with the PLS scheme. This Income Tax incentive will reduce the Income Tax burden and add capital to increase financing. By using grounded theory, two Income Tax incentive schemes can be obtained from financing with the PLS scheme, namely profit sharing from profit after Income Tax, which is like dividends, and income from financing, like venture capital companies. The most applicable scheme is financing from venture capital companies. The purpose of this Income Tax Incentive is supported by growth theory. In its application, it is supported by knowledge-based theory. To achieve the expected goals, the concept of stakeholder theory must be considered. To ensure that the tax authority is willing to make further regulations for its implementation, further study is needed regarding how much and how long Income Tax revenues are reduced from this incentive.

Keywords: Income tax, Incentive, Growth theory, knowledge-based theory, Stakeholder theory.

1. Introduction

Islamic bank financing has a more significant impact on the economy compared to credit provided by conventional banks (Abasimel, 2023). However, the ability of Islamic banks to generate profits and maintain efficiency is relatively weaker than that of conventional banks (Nurrafina et al., 2023). This difference creates a challenge for policymakers. It is necessary to provide policies that encourage Islamic banks to develop faster.

Aristotle's concept of justice explains that for equal things, they are treated equally, and for unequal things, they are treated unequally, but proportionally (Amin, 2014). This concept is relevant to designing special policies that support the growth of Islamic banks.

One of the critical differences is that financing with a Profit Loss Sharing (PLS) scheme carries higher risks compared to conventional bank credit, yet it has greater potential to improve people's welfare. Thus, special incentives are needed to support Islamic banks in expanding PLS financing while balancing risks and sustainability.

Different treatments need to be given so that Islamic bank profits can become a moderating variable that has a major influence on improving the economy (Ghoniayah & Hartono, 2020). One of the different treatments that can be applied is the provision of income tax incentives on income from financing distribution with the PLS scheme in Islamic banks. The reason for providing incentives for financing distribution with the PLS scheme is that the risks faced are greater compared to non-PLS financing distribution and credit distribution at conventional banks.

The Indonesian Income Tax Law explains that dividend income received by domestic Corporate Taxpayers from their investments in other domestic companies is non-taxable income (Pajak, 2022). Profit sharing from financing with the PLS scheme can be divided based on profit after tax, which is substantially the same as dividends. There is a possibility that Islamic bank income, which is like dividends, is non-taxable income.

The Indonesian Income Tax Law also explains that income received by a venture capital company in the form of a portion of profits from a partner company established and running a business activity in Indonesia is nontaxable income as long as it meets the requirements (Pemerintah Republik Indonesia, 2020b). The income of Islamic banks from financing distribution with the PLS scheme is like the income of venture capital companies. If the income conditions of Islamic banks are substantially the same as the income of venture capital companies, then this Islamic bank income can be a non-taxable income.

This article discusses the possibility of which schemes can be implemented in Islamic banks so that there are incentives for Islamic bank income, Income schemes in the form of dividends, or like venture capital income. The discussion is carried out by looking at the ease of implementation and from the theory, namely growth theory, knowledge-based theory, and stakeholder theory.

2. Literature Review

2.1 Growth Theory

The growth theory concept by Harrod-Domar is an investment in the form of capital that produces output. Growth will occur if investment and capital increase, which ultimately increases output. The growth theory explained by Harrod-Domar does not see any relationship between capital and labor (Solow, 1994). The alternative growth theory explained by Solow is the development of technology that does not directly affect the economy (Solow, 1994). Solow explains the existence of substitution between capital and labor. The addition of capital will reduce labor because capital can replace the role of labor.

The neoclassical model explains that there are exogenous factors in growth theory, namely technological progress. Further research results show that the technological factor in the form of knowledge that continues to grow as fully endogenous in the growth model causes its effectiveness to be diluted, so that a new development emerges, namely, semi-endogenous growth theory (Barcenilla-Visús et al., 2014). Using data from 6 developed countries from 10 economic sectors from 1979-2001, it is known that economic growth is strongly supported by the semi-endogenous growth theory (Barcenilla-Visús et al., 2014). Technology as a driver of growth is influenced by domestic innovation and international knowledge spillovers.

Income Tax incentives are a technology that can affect capital and labor. Income Tax incentives can increase capital and then increase financing distribution in Islamic banks. Increased financing will increase labor. Thus, income tax incentives can accelerate and increase financing distribution in Islamic banks.

The Harrod-Domar and Solow models show the central role of investment and technological progress in economic growth. Building on these, recent contributions emphasize semi-endogenous growth, where innovation and knowledge spillovers drive sustainable growth (Barcenilla-Visús et al., 2014). Income tax incentives can be conceptualized as a “technology” that stimulates capital and labor growth.

2.2 Knowledge-Based Theory

Knowledge reduces transaction costs and supports efficient decision-making (Coase, 1937; Foss, 1996). In Islamic banking, knowledge management systems are essential to interpret customer signals, reduce asymmetric information, and improve PLS performance. Based on the theory of the firm, there is a contract for a firm to survive; therefore, knowledge is needed to substitute for this contract (Foss, 1996a). Contracts in companies allow for moral hazard. To anticipate this moral hazard, knowledge is needed (Foss, 1996b). Experts who develop knowledge-based theory explain that the economic costs of transactions in companies are knowledge activities owned by the company (Kaplan et al., 2001).

Grant (1996) explains that knowledge resides in everyone. This knowledge is applied in the company. The company does not create knowledge. From the application of this knowledge, the implications are the creation of organizational design, a hierarchical system in the company, the emergence of authority in decision-making, and the creation of horizontal and vertical boundary determinants in the company. Other experts have different opinions regarding knowledge ownership. March and Simon (1958) and Levitt and March (1988) explain that organizations accumulate knowledge beyond what is in individuals through organizational learning (Kaplan et al., 2001).

Knowledge is exchangeable and can provide benefits. One of the benefits of exchanged knowledge is the occurrence of hierarchical efficiency and ultimately savings. This hierarchical efficiency will create alternative forms of organization. The form of organization results in the creation of new knowledge and the company's capabilities to improve performance (Nickerson & Zenger, 2004). Thus, there is a continuous cycle. The existence of problems will produce knowledge, give rise to alternative solutions, demand efficiency, and give rise to new knowledge.

In financing with the PLS scheme, Islamic banks must be able to understand the signals given by customers. By using signals in the form of financial reports, Islamic bank employees must interpret whether the signal provides positive or negative information. Therefore, Islamic bank employees must know how to understand the signal. This knowledge can be obtained by employees independently or assisted by the organization (Islamic bank). This knowledge can be obtained from external or internal parties of the Islamic bank. If the knowledge comes from the Islamic bank, then this knowledge comes from experiences that occur in the bank and from other parties that are collected and managed by the bank. To support the utilization of this knowledge, the bank should have a knowledge management system. This knowledge can increase the capabilities of Islamic banks, which ultimately increases growth and value creation.

2.3 Stakeholder Theory

Stakeholder theory was introduced by Freeman (1984) in his book entitled *Strategic Management: A Stakeholder Approach*. The initial goal that Freeman wanted to convey was to offer a pragmatic approach to strategy that urges organizations to be aware of stakeholders to achieve superior performance. With the development of discussions from experts, the basic argument of stakeholder theory is that an organization (company) must take care of the interests of all parties (stakeholders) related to the organization, not only taking care of the interests of shareholders. Stakeholder interests need to be a concern because companies often ignore environmental and social interests (Laplume et al., 2008).

Stakeholder theory emphasizes balancing the interests of shareholders, employees, customers, and external actors (Freeman, 1984; Laplume et al., 2008). In addition to banks, customers, and tax authorities, regulators, depositors, fintech competitors, and society at large must be considered. Their inclusion ensures that tax incentives align with governance and ethical principles in Islamic finance.

Freeman (1984) divides stakeholders into 2, namely internal and external stakeholders. Internal stakeholders consist of owners, customers, employees, and partners. External stakeholders consist of government, competitors, consumer protectors, environmentalists, special interest groups, and the media. Freeman explains that there must be a shift in environmental concern, namely from internal stakeholders to external stakeholders. Therefore, Freeman advises managers to pay attention to all parties, both individuals and groups, according to their respective interests and portions.

Concerning financing with the PLS scheme by Islamic banks, the internal shareholders of Islamic banks are shareholders and customers who deposit their funds in Islamic banks and receive financing from Islamic banks. External stakeholders of Islamic banks are the

government that receives income tax. Islamic bank management is interested in increasing the company's value and shareholders' interests by optimizing income from financing distribution. So that the interests of customers receiving financing are not 'harmed', Islamic banks can utilize Income Tax incentives to reduce Income Tax. On the other hand, the government will be 'harmed' due to reduced tax revenues in the short term. In the long term, Islamic banks will grow and their tax payments will increase.

2.4 Previous Literature

Tax income incentives are given for specific objectives, namely, for financial and non-financial. Financial objectives are related to the growth of the Company and the economy. Other objectives can be for the environment, technology, and others. Income Tax incentives in this study aim for the economy, namely, increasing financing growth with the PLS scheme and ultimately increasing economic growth.

Income Tax Intensive studies for financial purposes include variations in marginal income tax rates affecting the Company's leverage ratio (Devereux et al., 2018) Specific income tax incentives in the life cycle of companies in the manufacturing industry can affect the Company's assets and investment value (Ivanov et al., 2018) Annual allowances positively affect economic growth, and investment allowances negatively affect economic growth (Nnubia & Obiora, 2018) Income tax incentives will affect the accounting conservatism of transportation sector companies by slowing down the recognition of income and accelerating the recognition of costs (Rasmon & Safrizal, 2022) Income tax incentives for MSMEs with a rate of 0.5% have a positive effect on performance (Ramadhani et al., 2021) Income tax incentives provide growth opportunities for Companies and affect accounting conservatism (Sumantri, 2018) Incentives in the form of depreciation bonuses on asset purchases for investment affect capital investment (Ohm, 2019), and the Income Tax incentive is only used by companies that do not have financial constraints and use it for investment (Orihara & Suzuki, 2023).

Income Tax intensive studies for other purposes include income tax incentives for research expenditures, which can promote environmentally friendly product innovation (Song et al., 2020) and the quality of spending on research and development (Guceri & Liu, 2019) Income tax incentives for charitable donations affect the amount of donations to both old and new donors (Almunia et al., 2020) Income tax incentives due to COVID-19 affect taxpayer compliance (Sitorus & Tambunan, 2023) Incentives in the form of tax credit refunds for research and development (R&D) investment increase technology R&D spending (Agrawal et al., 2020) Income tax incentives on electric vehicles will increase sales and reduce CO2 emissions (Wangsa et al., 2023; Yan, 2018) Incentives in the form of accelerated asset depreciation increase the intensity of energy use and energy factor substitution (Lin & Xu, 2023), and tax reduction incentives are positively related to the Company's environmental performance (Li et al., 2022).

Recent studies (2023–2025) highlight the role of tax incentives in sustainable development, digitalization, and green finance (Lin & Xu, 2023; Orihara & Suzuki, 2023; Wangsa et al., 2023; Ahmed & Zulkhibri, 2024; Khan & Hussain, 2025). These reinforce the policy relevance of introducing tax incentives in Islamic finance.

3. Research Method

This study uses a qualitative approach with the grounded theory method. Grounded theory is a method and a research strategy that aims to produce a theory from data (Khan, 2014). The constructiveness of grounded theory is to distinguish between what is real and what is true. This constructive approach does not seek the truth, either a single, universal, or eternal truth. This constructive approach discusses reality and assumes the existence of the real world. The assumption in this constructive approach is that what we consider real is objective knowledge and truth based on the researcher's perspective (Khan, 2014). This study observes financing distribution transactions with the PLS scheme in Islamic banks as reality and then uses this reality to build the concept of tax incentives as a strategy, not to produce a theory. This research process is seen in Figure 1.

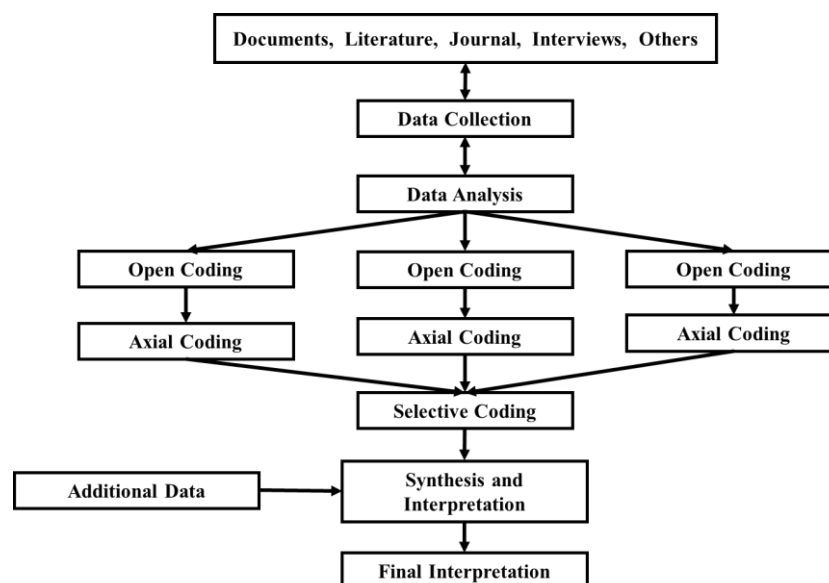


Fig. 1: Research Process. Source: (Lowe, 1995) and (Khan, 2014)

Figure 1 illustrates that data collection can be done more than once. If it is necessary, the researcher can collect the required data whenever needed. The existing data is analyzed by grouping it based on a code (open coding). In this study, open coding refers to categorizing keywords (e.g., mudharabah, musyarakah, tax incentives); "axial coding" connects categories into themes (e.g., financing schemes, regulatory models); "selective coding" integrates themes into a coherent framework for feasible incentives.

After open coding is complete, axial coding is carried out by creating codes based on themes. The themes used are financing with the PLS scheme, tax incentives that already have regulations, and proposed tax incentives. After axial coding is complete, selective coding is carried

out, namely, designing what tax incentives are feasible to implement. In this study, tax incentives were designed using income as dividends and income from the financing, like venture capital companies.

After the tax incentives are designed, synthesis and interpretation are carried out. At this step, an analysis of the existing tax incentive scheme is carried out for the possibility of its implementation. Additional data is sought from the existing data to find out more details. Once completed, a final interpretation is carried out to ensure that the tax incentive scheme can be implemented by looking at what needs to be prepared.

4. Result and Discussion

The data collected are in the form of the National Sharia Council of the Indonesian Ulema Council (DSN MUI) related to transactions with the PLS scheme, laws on Islamic banks and taxes, and other regulations related to transactions with the PLS scheme and taxes. Data related to taxes include taxes on dividends, income taxes received by venture capital companies, and others related. Articles related to Income Tax incentives are data to support this study. Data details are in the Appendix.

This data was analyzed using open coding steps. The keywords used are *musyarakah* and *mudharabah*. Both keywords are used because transactions in Islamic banks with PLS schemes are mostly with *musyarakah* and *mudharabah* contracts. After that, the data was grouped again using the axial coding step. The theme used in axial coding is Income Tax incentives on dividends and venture capital income.

After axial coding and conducting content analysis from the grouping results, selective coding is carried out. At the selective coding step, the Income Tax incentive design is carried out, which can be applied to Islamic banks. This design is then synthesized and interpreted by looking at the data that has been collected to find the advantages and disadvantages of the existing design. After knowing the character of each existing design, it is decided which design is prioritized. The design that is decided to be applied is interpreted with the conditions that may occur.

4.1 Dividend Income

Article 4 paragraph (3) letter f of Law No. 7 of 1983 concerning Income Tax as Amended Several Times, Last by Government Regulation in place of Law No. 2 of 2022 concerning Job Creation (Pemerintah Republik Indonesia, 2020b) explains that income in the form of dividends with certain provisions is not taxable income. One of the provisions for dividends that are not taxable income is that the dividends come from the participation of domestic companies and are received by domestic companies (Pajak, 2022). This law does not provide further requirements regarding dividends received by domestic corporate taxpayers as non-taxable income. There are no requirements regarding the percentage of share ownership by domestic corporate taxpayers in other domestic Limited Companies.

Article 24 paragraph (1) letter c of Law Number 21 of 2008 concerning Islamic Banking explains that Islamic general banks are prohibited from making capital participation, except as referred to in Article 20 paragraph (1) letters b and c (Pemerintah Republik Indonesia, 2008). Article 20, paragraph (1), letters b and c of Law Number 21 of 2008 explain that Islamic general banks may:

Letter b: carry out capital investment activities in commercial banks or financial institutions that carry out business activities based on Sharia principles;

Letter c: carry out temporary capital participation to overcome the consequences of failure to finance based on Sharia principles, with the condition that the investment must be withdrawn.

Based on Law No. 21 of 2008, in normal business, Islamic banks cannot make capital participation in companies other than general banks and financial institutions based on Islamic principles. When viewed from the nature of financing distribution with the PLS scheme, then in substance the nature of the financing is like capital participation, because it enjoys the profits and losses of customers who receive financing. However, formally, participation in the PLS scheme is not in the form of shares.

Profit sharing in financing with the PLS scheme can come from revenue, gross profit, operating profit, or net profit after tax. If the profit-sharing agreement between the Islamic bank and its customers in PLS financing is from net profit after tax, then the income of this Islamic bank is substantially the same as dividends, which are nontaxable income (based on the Income Tax Law). Therefore, the income from profit sharing received by Islamic banks, which is like dividends in substance, can be suggested as not being an object of income tax.

Article 4 paragraph (3) letter i of Law No. 7 of 1983 concerning Income Tax as Amended Several Times, Last Amended by Government Regulation in place of Law No. 2 of 2022 concerning Job Creation (Income Tax Law) explains that the portion of profit or remaining business results received or obtained by members of cooperatives, limited partnerships whose capital is not divided into shares, partnerships, associations, firms, and consortia, including holders of collective investment contract participation units are not subject to Income Tax (Pemerintah Republik Indonesia, 2020a). This portion of the profit has been subject to Income Tax on the business entity and is no longer subject to Income Tax when this after-tax income is attributed to members or partners.

Distribution of funds with the PLS scheme by Islamic banks can also be to business entities other than limited liability companies, such as limited partnerships, firms, and foundations. If Islamic banks receive income based on profit sharing from profits after income tax, and the distribution of funds to business entities in the form of limited companies or others, then the income received by Islamic banks is recommended not to be subject to income tax. The income received by Islamic banks has been subject to income tax on their customers.

4.2 Revenue Similar to Ventura Capital Company

Article 4, paragraph (3), letter k of Law No. 7 of 1983 concerning Income Tax as Amended Several Times, Last by Government Regulation in place of Law No. 2 of 2022 concerning Job Creation (Pemerintah Republik Indonesia, 2020b) explains that income received or obtained by venture capital companies in the form of a portion of profits from a joint venture entity (investee company) established and carrying out business or activities in Indonesia is not a taxable income, on the condition that the investee company:

1. is a micro, small, and medium company, or one that carries out activities in business sectors regulated by or based on the Regulation of the Minister of Finance; and
2. Its shares are not traded on a stock exchange in Indonesia.

Regulation of the Minister of Finance Number 18/PMK.010/2012 concerning Venture Capital Companies (PMK 18 of 2012) (Keuangan, 2012) explains that Venture Capital Companies (VCC) are business entities that carry out financing/capital participation in a company that receives financing assistance (Investee Company) for a certain period in the form of:

1. share or equity participation,
2. participation through the purchase of convertible bonds (quasi-equity participation), and/or

3. Financing based on the business results sharing (profit/revenue sharing).

Equity participation of VCC in the investee company is limited to 10 years. Participation through quasi-equity participation is limited to a maximum of 10 years from the time the bonds become shares. For participation in the form of financing based on profit/revenue sharing, there are no provisions regarding the deadline for participation.

The distribution of financing by Islamic banks with the PLS scheme includes financing based on the distribution of profit/revenue sharing, as in VCC. In substance, the activities of Islamic banks with the PLS scheme are included in one of the activities carried out by VCC.

PMK 18 of 2012 explains that an investee company in a venture capital company is a micro, small, and medium company or business that receives financing assistance and/or participation from a venture capital company. There are limitations to companies that become investee companies for VCC.

Article 8 of PMK 18 of 2012 explains that financing carried out by VCC based on the business results sharing is carried out with the following patterns:

1. Business results sharing based on profit resulting from the difference between total income and costs incurred (profit sharing); or
2. Business results sharing based on revenue (revenue sharing).

The distribution of the business results sharing is based on a certain percentage that has been agreed upon in advance and must be stated in a written agreement between VCC and the investee company. The income received by VCC based on profit sharing does not explain whether the profit received by VCC has been subject to income tax in the investee company. Business results sharing with a revenue sharing scheme is certainly not subject to income tax in the investee company.

VCC activities in distributing funds to the investee company aim to (Article 3 of PMK 18 of 2012):

1. Development of a discovery or innovation;
2. Development of companies or MSMEs that are experiencing financial difficulties in the early stages of their business;
3. Assisting companies or MSMEs that are in the development stage;
4. Assisting companies or MSMEs that are in a stage of business decline;
5. Development of research and engineering projects;
6. Development of various uses of new technology and technology transfer, both from within and outside the country; and/or
7. Assisting in the transfer of company ownership.

There are no provisions regarding the technicalities of fund distribution from a VCC. Does the VCC provide cash to an investee company, and then the investee company uses the cash according to the proposal, or does the VCC provide assets needed by the investee company according to its proposal? Thus, the technicalities of fund distribution by the VCC to the investee company are left to the interested parties. The distribution of financing with the PLS scheme by Islamic banks can be the same as that carried out by VCC. If, in substance, there are similarities in the distribution of funds between VCC and Islamic banks, then Islamic banks can be advised to obtain income tax incentives as obtained by VCC.

Regulation of the Minister of Finance of the Republic of Indonesia Number 48/PMK.010/2018 concerning Tax Treatment of Capital Participation of Venture Capital Companies in Micro, Small, and Medium Enterprises explains that micro, small, and medium enterprises are companies whose net sales or revenues do not exceed IDR 50 billion per year (M. K. R. Indonesia, 2018). The calculation of net sales is carried out in the tax year before the venture capital makes capital participation.

Decree of the Minister of Finance Number 227/KMK.01/1994 concerning Business Sectors of Investee Company, and Tax Treatment of Capital Participation and/or Transfer of Capital Participation of Venture Capital Companies explains which income of the business sectors obtained by a VCC from investee companies are not subject to income tax. KMK No. 227/KMK.01/1994 has been revoked with the issuance of PMK No. 48/PMK.010/2018. Thus, the requirements that must be met are only net sales or revenues, which are not more than IDR 50 billion per year. There are no more specific business-sector requirements for the investee company.

Therefore, the distribution of financing with the PLS scheme carried out by Islamic banks and financing carried out by VCC is substantially the same. Consequently, Islamic banks can be given income tax incentives on income received from customers with the PLS scheme.

An Islamic bank's income from financing distribution with the PLS scheme can receive income tax incentives as obtained by VCC, namely, not subject to income tax, and must meet the following requirements:

1. The net sales or revenues of customers receiving financing from Islamic banks are no more than IDR 50 billion per year.
2. The customer's business entity is not registered on the Indonesia Stock Exchange.
3. The purpose of distributing Islamic bank financing to its customers is limited to that regulated in Article 3 of PMK Number 18/PMK.010/2012, namely:
 - a. development of a discovery or innovation;
 - b. development of companies or MSMEs that are experiencing financial difficulties in the early stages of their business;
 - c. assisting companies or MSMEs that are in the development stage;
 - d. assisting companies or MSMEs that are in a stage of business decline;
 - e. development of research and engineering projects;
 - f. development of various uses of new technology and technology transfer, both from within and outside the country; and/or
 - g. assisting in the transfer of company ownership
4. Islamic banks are required to keep separate books on their income from financing distribution with the PLS scheme, so that the substance is the same as the financing distribution carried out by VCC.

The sharing method applied by Islamic banks for the PLS scheme to obtain income tax incentives can be profit sharing and revenue sharing.

4.3 Profit Loss Sharing (PLS) Scheme

Distribution of financing with the PLS scheme carried out by Islamic banks consists of mudharabah financing and musyarakah financing. Mudharabah financing is a cooperation agreement for a business between two parties, where the first party (malik, shahib al-mal, Islamic financial institutions) provides all the capital, while the second party ('amil, mudharib, customer) acts as the manager (executor), and the business profit is divided between them according to the agreement stated in the contract (D. S. N. M. U. Indonesia, 2000). However, based on Bank Indonesia Circular Letter Number 10/14/DPBs in 2008, in the distribution of funds for financing based on the mudharabah contract, customers can also include capital (mudharabah musyarakah) (Bank Indonesia, 2008). The financing scheme with the mudharabah scheme, with all funds from the bank, is shown in Figure 2.

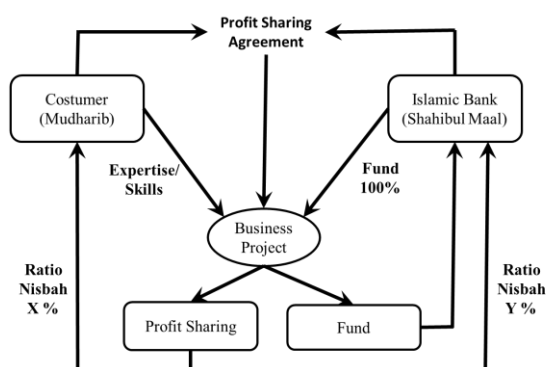


Fig. 2: Mudharabah Financing Scheme (Illustrates mudharabah financing flows between banks and customers, highlighting the absence of collateral)

Source: Muhammad Syafii Antonio, 2001

In principle, there is no guarantee in mudharabah financing. So that customers (mudharib) do not commit deviations, Islamic Financial Institutions (LKS) can request guarantees from mudharib or third parties (D. S. N. M. U. Indonesia, 2000). This guarantee can only be disbursed if the mudharib is proven to have violated the matters that have been agreed upon in the contract.

Musarakah financing is financing based on a cooperation agreement between two or more parties for a particular business, where each party contributes funds, with the provision that the profits and risks will be borne together according to the agreement (Dewan Syariah Nasional-MUI, 2000). The financing scheme with the musarakah scheme is shown in Figure 3.

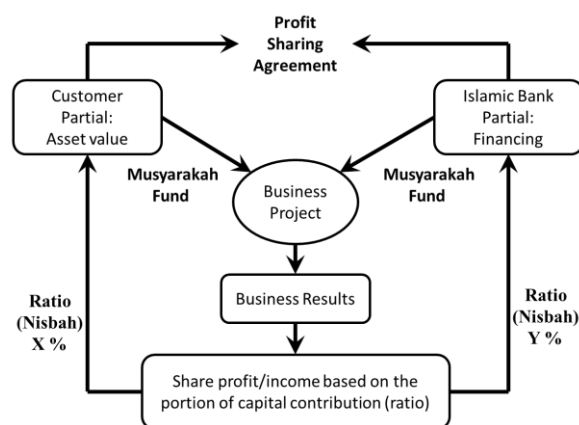


Fig. 3: Musarakah Financing Scheme (Depicts musarakah financing, where risks and profits are shared equally).

Source: Muhammad Syafii Antonio, 2001

To strengthen practical implications, Islamic banks must anticipate challenges in bookkeeping requirements, risk assessment, and compliance costs. Tax authorities must also prepare clear enforcement mechanisms. A pilot application or hypothetical example of implementation in an Indonesian Islamic bank would demonstrate feasibility.

4.4 Discussion

Conceptually, the Income Tax incentives studied can be implemented. There are no conflicting concepts and principles. All proposals for Income Tax incentives use references in the form of tax regulations that are still in effect in Indonesia. In order to be implemented, regulations are needed to confirm that there will be no disputes between the Tax authority (in Indonesia, it is the Directorate General of Taxes) and Islamic banks as taxpayers. If analyzed further, there will be many regulations for this confirmation. In the future, there could be rejections and disputes because they could overlap with existing regulations. Therefore, separate regulations are needed regarding income tax incentives that can be applied to Islamic banks. This regulation is better in the form of a Government Regulation.

From the Islamic bank's side, the implementation of this Income Tax incentive will increase the resources. There is an additional business process to ensure that this Income Tax incentive really provides benefits to the bank. Islamic banks need to measure the risks arising from changes in income on a profit-sharing basis, from revenue to profit, both before and after Income Tax.

Table 1 and Table 2 explain the advantages and disadvantages of each of the Income Tax incentives designed in this study:

Table 1: Dividend Income Advantages and Disadvantages

Advantages	Disadvantages
<p>Islamic Bank:</p> <ul style="list-style-type: none"> Overall, the profit is bigger. Income Tax burden is smaller. <p>Customers Receiving Financing:</p> <ul style="list-style-type: none"> Cash flow is more profitable 	<ul style="list-style-type: none"> Cash flow will be disrupted. Additional resources to monitor customer bookkeeping. Possibility of not receiving income if the customer loses. Required reports will increase Bothered by more intensive supervision from banks

Income Tax incentives to Islamic banks from profit sharing after Income Tax, which are like dividends, are appropriate if Islamic banks have conducted a more in-depth study, both on the benefits received and the risks involved. In principle, this incentive is appropriate to be implemented.

Table 2: Revenue Similar to Ventura Capital Company Advantages and Disadvantages

Advantages	Disadvantages
<p>Islamic Bank:</p> <ul style="list-style-type: none"> • Banks can choose the basis for profit sharing, from revenue or profit. • Revenue-based profit sharing is more profitable than profit sharing in other ways. • Revenue-based profit sharing is the same as the current business process. • If profit sharing is based on revenue, cash flow remains stable. <ul style="list-style-type: none"> • Overall profit is greater. • Income Tax payable is smaller. <p>Customers Receiving Financing:</p> <ul style="list-style-type: none"> • Profit sharing based on profit is more profitable than profit sharing in other ways because less money is shared <ul style="list-style-type: none"> • If profit sharing is based on revenue, cash flow is stable. • If profit sharing is based on revenue, the payment process to the bank and supervision from the bank remain the same as currently applicable. 	<ul style="list-style-type: none"> • If profit sharing is not based on revenue: <ul style="list-style-type: none"> ○ Supervision of customers will increase. ○ Additional resources. ○ System modification is needed. • Financing distribution can only be done to customers who meet certain criteria in the Tax Regulations. <ul style="list-style-type: none"> • If profit sharing is not based on revenue: <ul style="list-style-type: none"> ○ Reports required will increase ○ Bothered by more intensive supervision from banks

Income tax incentives to Islamic banks from revenue, like a venture capital company with profit sharing based on revenue, are worthy of being given to Islamic banks. If the profit sharing is based on something other than revenue, then a more in-depth study is needed, both regarding the benefits received and the risks involved. In principle, this incentive is worthy of being implemented.

Income Tax incentives are expected to result in a lower tax burden, and the performance of Islamic banks will be better. This increased performance must be able to provide benefits to the stakeholders of Islamic banks. Stakeholder theory explains that organizations must take care of the interests of all parties related to the organization, and not only take care of the interests of shareholders, but also must not ignore environmental and social interests (Laplume et al., 2008).

Income Tax incentives that can ultimately improve the Company's performance will benefit shareholders, especially from the increase in the company's value and dividends received. However, other stakeholders do not necessarily benefit. The Tax Authority, as one of the stakeholders of Islamic banks that implement tax incentives, will certainly suffer losses if this Income Tax incentive is implemented because tax revenues will decrease in the short term. The proposed Income Tax incentive in this study needs to be approved by the Tax Authority. Therefore, for the Tax Authority to be able to approve this incentive, it is necessary to look at long-term interests and broader interests, namely, economic growth. By increasing finance in the PLS scheme, economic growth will be faster. This economic growth can increase tax revenue. The provision of Income Tax incentives to Islamic banks will provide benefits to the Tax Authority in the long term, and not in the short term.

Based on data from 1981 to 2016 from India, it is known that in the case of capital formation in the form of assets, the relationship between the two tax revenues and economic growth is positive (Neog & Gaur, 2020). However, there is a distortion in the form of a lag, or there needs to be a time gap for its influence. Therefore, Neog & Gaur (2020) suggest that the tax policy implemented should be smoother (not suddenly changing). Concerning this study, the Income-tax incentives that can be given to Islamic banks are gradual.

Based on data from 28 countries in the European Union with different taxation systems, it is known that gross domestic product (GDP) has a positive and significant effect on total tax revenue (Andrejovská & Puliková, 2018). This total tax revenue consists of direct taxes (e.g., income tax) and indirect taxes (e.g., VAT). Andrejovská & Puliková (2018) did not explain the year of data used, and only explained that the data was taken from the Eurostat database report in 2015. It was further explained that the increase in tax rates had a negative effect on tax revenue, although not significant. If there is an income tax incentive for Islamic banks for the distribution of financing with the PLS scheme, this incentive will not significantly reduce tax revenue, especially in the long term. Increasing financing with the PLS scheme will increase GDP and, in the long term, increase tax revenues.

To further convince the tax authorities, further studies are needed on the impact of reduced tax revenue in the short term. This study will predict how much and how long the tax revenue shortfall will be. When there is an increase in economic growth due to increased financing distribution with the PLS scheme, further studies are needed on how much the increase in economic growth and tax revenue will be.

In addition, for the benefit of stakeholders, ethics and morality must also be considered in conducting business and implementing agreed regulations. When this incentive is given by the Tax Authority, then in its implementation, there must be good faith from the actors, especially Islamic banks and customers receiving financing with the PLS scheme. With the ethics and morality applied, all stakeholders will benefit in both the short and long term.

In financing with the PLS scheme and to obtain Income Tax incentives, Islamic banks and customers must have sufficient knowledge and provide signals to each other to reduce asymmetric information. Knowledge-based theory explains that a company can exist because the company is unique, depends on history, can collect certain resources, and produces different performances. In the application of this Income Tax incentive, each bank will receive different results from each customer. The benefits received by the bank depend on the knowledge it has, both the knowledge in the organization and everyone.

This knowledge is used by Islamic banks to determine which Income Tax incentives can be used and to find out which customers to channel financing to. Not all financing channels must receive Income Tax incentives. For example, to implement incentives in the form of revenues that are received by banks from shared profits after the Income Tax of the customer, it is necessary to sort out which customers meet the requirements. The selection of customers is based on the bank's knowledge and information provided by the customer to the bank.

Growth theory explains that growth is influenced by capital and labor. Experts explain that technology can be an endogenous and exogenous factor. Thus, technology will accelerate growth. The Great Dictionary of the Indonesian Language explains that technology is a scientific method to achieve practical goals, applied science, the whole means to provide goods needed for the continuity and comfort of human life. Income Tax incentives are included in the scientific method to achieve practical goals such as economic growth.

Income Tax incentives are technologies that can affect capital and labor. Incentives in the form of transaction schemes and policies can be factors that positively affect the amount of labor and capital. This change certainly also positively affects growth. The first growth that has an effect is the increase in the amount of financing with the PLS scheme. With the increase in this financing, the reach of customers who

receive financing increases, and ultimately, the economy grows. For Islamic banks, this incentive can reduce the income tax burden and improve bank performance.

Income Tax incentives encourage laborers to increase their ability to determine when incentives can be applied, which customers can receive financing, supervise customers, and others. With the increase in knowledge and skills needed by Islamic banks to implement this incentive, the number of laborers in Islamic banks will also increase. The increase in knowledge of this labor is a technology that affects the labor. The increase in labor related to financing with the PLS scheme will affect economic growth. In addition to improving quality, the quantity of labor also increases.

Income Tax incentives initially affect capital. After capital increases, additional labor is needed. In this condition, capital is not a substitute for labor as explained in growth theory. In addition, with the increase in the amount of capital and labor, Islamic banks will need new business processes or technologies to facilitate their operations. Thus, the first technology can create the next technology. This condition has not been discussed in growth theory.

5. Conclusion

Two Income Tax incentive schemes can be given to Islamic banks for their income from financing distribution with the PLS scheme, namely profit sharing from after-tax profits like dividends, and distribution like venture capital company businesses. Considering the existing conditions, the Income Tax incentive with a distribution scheme like a venture capital company is more applicable and easier to do. However, confirmation and further regulations are still needed from the tax authorities so that this Income Tax incentive can be implemented.

This Income Tax incentive follows the growth theory and can add further explanation to the theory. The addition of capital does not have to substitute labor but can add labor. Technology that affects production factors can be initiated by influencing capital first, then new technology arises that affects labor. With this growth, labor must increase its knowledge (following knowledge-based theory), and the growth of Islamic banks must pay attention to the interests of all its stakeholders (following stakeholder theory).

In the short term, Income Tax Incentives will reduce tax revenues from the banking sector, and in the long term, the incentives will increase economic growth and increase tax revenues. To convince the tax authorities to implement this Income Tax incentive, further studies are needed to determine how much and how long the Income Tax will be reduced. In addition, it is also necessary to know how much economic growth can be achieved and revenue growth in a certain period.

There are two schemes: (1) profit sharing after tax (dividend-like) and (2) venture capital-like. The latter is more applicable under Indonesian law but requires explicit confirmation through a Government Regulation.

Policy Recommendations:

- Future research should use econometric modeling to estimate trade-offs between short-term revenue losses and long-term GDP growth. Key variables include financing volume, GDP growth, tax revenues, and labor absorption.
- Specific regulatory language and implementation timelines should be developed, such as a Government Regulation on Islamic bank tax treatment.
- Additionally, the incentives must align with Islamic ethical and social principles, ensuring fairness, transparency, and shared prosperity for all stakeholders.

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Appendix:

Fatwa of the National Sharia Council of the Indonesian Ulema Council (Fatwa of DSN-MUI), consist of:

1. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 01/DSN-MUI/IV/2000 Concerning Giro.
2. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 02/DSN-MUI/IV/2000 Concerning Savings
3. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 03/DSN-MUI/IV/2000 Concerning Deposits
4. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 07/DSN-MUI/IV/2000 Concerning Mudharabah Financing (Qiradh)
5. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 08/DSN-MUI/IV/2000 Concerning Musyarakah Financing
6. Fatwa of the National Sharia Council of the Indonesian Ulema Council No.73/DSN-MUI/XI/2008 Concerning Musyarakah Mutanaqisah
7. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 87/DSN-MUI/XII/2012 Concerning the Income Smoothing Method for Third Party Funds
8. Fatwa of the National Sharia Council of the Indonesian Ulema Council No.113/DSN-MUI/IX/2017 Concerning the Bi Al-Ujrah Wakalah Agreement
9. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 114/DSN-MUI/IX/2017 Concerning the Syirkah Contract
10. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 115/DSN-MUI/IX/2017 Concerning Mudharabah Contracts
11. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 126/DSN-MUI/IX/2019 concerning the Bi Al-Istitsmar Wakalah Contract
12. Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 137/DSN-MUI/IX/2020 Concerning Sukuk.

The laws supporting the business processes of Islamic banks, tax regulations, and income tax incentives, consist of:

1. Law no. 21 of 2008 concerning Sharia Banking
2. Law No. 28 of 2007 concerning the Third Amendment to Law No. 6 of 1983 concerning General Provisions and Tax Procedures (KUP).
3. Law No. 7 of 1983 concerning Income Tax as amended several times, last by Law No. 7 of 2021 concerning Harmonization of Tax Regulations.

Other regulations that support the distribution of financing with the PLS scheme, and Income Tax incentives, consist of:

1. Government Regulation No.123 of 2015 concerning Amendments to Government Regulation Number 131 of 2000 concerning Indonesian Income Tax
2. Government Regulation No. 23 of 2018 concerning Income Tax on Income from Business Received or Obtained by Taxpayers with Certain Revenues
3. Government Regulation No. 91 of 2021 concerning Income Tax on Income in the Form of Bond Interest Received or Obtained by Domestic Taxpayers and Permanent Establishments
4. Regulation of the Minister of Finance of the Republic of Indonesia No. 18/PMK.010/2012 concerning Venture Capital Companies
5. Regulation of the Minister of Finance of the Republic of Indonesia No. 48/PMK.010/2018 concerning Tax Treatment of Capital Participation of Venture Capital Companies in Micro, Small and Medium Enterprises
6. Decree of the Minister of Finance of the Republic of Indonesia Number 227/KMK.01/1994 concerning Business Sectors of Partner Companies of Venture Capital Companies and Tax Treatment of Capital Participation and or Transfer of Capital Participation of Venture Capital Companies
7. Regulation of the Director General of Taxes Number Per-17/PJ/2015 concerning Net Income Calculation Norms (NPPN).
8. Financial Services Authority Regulation No. 18/POJK.04/2015 Concerning Sukuk Issuance and Requirements
9. Financial Services Authority Regulation No.31/POJK.05/2014 Concerning the Implementation of Sharia Financing Business.
10. Bank Indonesia Circular Letter No. 10/14/DPbS of 2008 Concerning the Implementation of Sharia Principles in Fundraising and Fund Distribution Activities and Sharia Banking Service Providers
11. Financial Accounting Standards Statement (PSAK) No. 1 Concerning Presentation of Financial Statements
12. Financial Accounting Standards Statement (PSAK) No. 23 Concerning Income