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Incentives for Taxpayers in Indonesia During the COVID-19 Pandemic

A. Legal Basis

1. Law No. 36 of 2008 concerning Fourth Amendment of Law No. 7 of 1983 on Income Tax **("Income Tax Law")**
2. Law No. 42 of 2009 concerning Third Amendment of Law No. 8 of 1983 on Value Added Tax of Goods and Services, and Sales Tax on Luxury Goods **("Value Added Tax")**;
3. Minister of Finance Regulation No. 44/PMK.03/2020 concerning Tax Incentives for Taxpayers as the impact of the Corona Virus Disease 2019 Pandemic **("MoF 44/2020")**;

B. Types of tax incentives

The Covid-19 Pandemic has significantly affected the economic growth of all countries in the world, including Indonesia. In an effort to maintain economic stability as a result of Covid-19, the government of the Republic of Indonesia through the Minister of Finance of the Republic of Indonesia has issued regulations regarding incentives for Taxpayers during the Covid-19 pandemic. There are 5 (five) types of incentives for Taxpayers from the government of the Republic of Indonesia, as follows:

1. Income Tax (PPh 21);

Income Tax (PPh 21) is a tax levied on salaries, wages, benefits and other types of payments in any form relating to work, position, services, and other activities of individuals as domestic tax subjects.

Under the provisions in article 2 section (1), the employees will receive incentives in which:

a. receive monthly income (from April 2020 to September 2020) from: companies with the classification as attached in MoF44/2020, or companies that are determined as companies with import facilities for export purposes, or companies that have obtained a Bonded Zone Operator permit, a Bonded Zone Entrepreneur license or PDKB permit;
b. have a Taxpayer Identification Number (NPWP); and
c. during the tax period, have regular and permanent of gross annual income no more than Rp200,000,000 (two hundred million Rupiah),

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are entitled to have their income tax borne by the government of the Republic of Indonesia. The amount of PPh 21 which is borne by the government must be paid in cash by the employer at the time of payment of the income to employees.

In addition, after the company deducts the employee Income Tax, the company must provide written notice to the Tax Office where the company is registered in order to determine whether the company is eligible to receive incentives.

2. Final PPh based on Government Regulation No. 23 of 2018;

Pursuant to the Government Regulation No. 23 of 2018 ("PP 23/2018"), income received or obtained by Taxpayers who have a certain amount of gross circulation as stated in PP 23/2018 is entitled to final PPh incentives in the amount of 0.5% (zero point five percent) of the gross circulation amount. The final PPh incentive of 0.5% will be borne by the government and not counted as the taxable income. That way, taxpayers do not need to make tax payments, and there are no tax deductions or collections when making payments.

Taxpayers must apply a statement letter to the Directorate General of Tax through the website to take advantage of the PPh Final incentives. Moreover, Taxpayers who take advantage of PPh Final incentives must convey the realization report through the website.

3. Export and Import Tax (PPh 22);

PPh 22 is a form of tax deduction or collection carried out by the Foreign Exchange Bank or the Directorate General of Customs and Excise when a Taxpayer imports goods. Under the provisions in article 9 section (3), Taxpayers are exempted from PPh 22 up to September 2020 if:

a) the company's business classification code is in the list as attached in the MoF 44/2020;
b) the company is determined as a company with import facilities for export purposes; or
c) The company has obtained a Bonded Zone Operator permit, a Bonded Zone Entrepreneur license, or a PDKB permit.

In order to be exempted from PPh 22, a Taxpayer must give written notice to the Tax office where the Taxpayer is registered and must attach the Ministry of Finance letter stating that the Taxpayer gets the ease of importing for export purpose. Moreover, Taxpayers exempted from PPh 22 must convey the realization report of PPh 22 exemption every 3 (three) months with the conditions that the report for April 2020 – June 2020 tax period is submitted no later than July 20, 2020 and the report for July 2020 – September 2020 tax period is submitted no later than October 20, 2020.

4. The installments of Tax (PPh 25);

PPh 25 is a tax paid in installments to ease the burden of Taxpayers, given that the tax payable must be paid within one year. Under the provision in article 8, PPh 25 installments in the current tax year accrued by Taxpayers get a 30% installment reduction of the installments that must be paid until September 2020. The deduction of PPh 25 must be done by giving written notice to the Tax office where the Taxpayer is registered. Moreover, a Taxpayer who gets the reduction of PPh 25 must convey the realization report of PPh 25 reduction every 3 (three) months with the conditions that the report for April 2020 – June 2020 tax period is submitted no later than July 20, 2020 and the report for July 2020 – September 2020 tax period is submitted no later than October 20, 2020.

5. Value Added Tax (PPN).

PPN is a tax imposed on every process of production and distribution. Under the provisions in article 14, taxpayers who run businesses that are classified in the field list as attached in the MoF23/2020 and/or have been determined to obtain import facilities for export purposes and have also submitted an annual notification letter and/or have paid the overpaid restitution of the Value Added Tax Period with the amount of overpayment of no more than Rp5,000,000,000.00 (five billion rupiahs) can be given a preliminary refund of tax overpayment as low-risk Taxpayers. The Taxpayer must submit the notification letter along with the Ministry of Finance letter stating that the Taxpayer gets the import facilities for export purposes.

Type of Tax	Tax Incentives	Tax Period Covered	Realization Report
PPh 21	Borne by Government	April – September 2020	Yes
PPh Final based on PP 23/2018	Borne by Government	April – September 2020	Yes
PPh 22	Exemption	Up to 30 September 2020	Yes
PPh 25	Discount 30%	Up to 30 September 2020	Yes
PPN	Preliminary VAT Refund	April – September 2020	No

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