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UPDATE

on COVID-19

The Belt and Road Initiative Tax
Administration Cooperation Mechanism

EDITOR'S NOTE:

At this critical moment in the world's fight against the COVID-19, the Special Edition of the BRITACOM Update on COVID-19 is issued, aiming to provide a platform for BRITACOM Council Members, Observers and other stakeholders to exchange views and share experience in responding to the outbreak. Issue 11 is the Package of Fiscal and Economic Measures took by Directorate General of Taxes of Indonesia to Counter Coronavirus Outbreak. Later we will share more experience of tax administrations from countries and regions and views of international organizations and tax experts with you. If you would like to make contributions to the Special Edition, please contact us via email britacom@163.com.

The Package of Fiscal and Economic Measures to Counter Coronavirus Outbreak: Experience of Indonesia

1. Overview

Since its first emergency, COVID-19 has spread to over two hundred countries and regions. As per 22 April 2020, WHO reported 2,471,136 positive cases confirmed and 169,006 deaths¹. While medical data showed that COVID-19 outbreak does not take the first rank of highest death toll pandemic in history, it has shaken the world by bringing the economy to a near-grinding halt. In early March 2020, prediction was that coronavirus outbreak could cost the global economy as much as USD 2.7 trillion, which is equal to the entire GDP of the UK².

The identical struggle happens in Indonesia. In Indonesia specifically, as per 22 April 2020, 7,418 confirmed cases are spreading along 34 provinces³. In early April 2020, the Minister of Finance of Indonesia conveyed that the economic forecast estimated the unemployment level in Indonesia could increase by 5.2 million people and the poverty level could increase by 3.78 million people⁴ if the economic impact cannot be controlled in due time and comes to the worst level of prediction.

Directorate General of Taxes (DGT) is at the vital role in the implementation of fiscal and other economic measures, since other than functioning as a revenue authority, DGT is functioning as policy-making body, in terms of taxation, which is indeed impactful to encourage economic activities to run, as well as to help mitigate the drastic addition of unemployment level and poverty level in Indonesia. Therefore, this article is written by focusing on fiscal and economic measures taken in Indonesia in response to COVID-19 pandemic.

2. The Package of Fiscal and Economic Measures

2.1 Reallocation of the State Budget 2020 for Combating COVID-19 Outbreak

The government promptly responded to the outbreak by taking several layers of measures. The first of which is creating a legal framework to enable reallocation of the state budget in order to properly facilitate the realisation of all measures. This step is essential, as the State Budget of Indonesia 2020 has been legislatively formalized in the State Budget Law since September 2019,

¹ World Health Organization (2020), *Coronavirus Disease 2019 (COVID-19) Situation Report-93*, 22 April 2020, https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200422-sitrep-93-covid-19.pdf?sfvrsn=35cf80d7_4.

² Orlik, Tom et al (2020), *Coronavirus Could Cost the Global Economy \$2.7 Trillion. Here's How*, Bloomberg Economics, <https://www.bloomberg.com/graphics/2020-coronavirus-pandemic-global-economic-risk/>.

³ National Disaster Management Agency (2020), *Update COVID-19*, National Disaster Management Agency Press Conference, 22 April 2020, <https://www.youtube.com/watch?v=ZAnXxRuXAb8>.

⁴ CNN Indonesia (2020), *Sri Mulyani: Skenario Terberat Penduduk Miskin Naik 3,78 Juta*, 14 April 2020, <https://www.cnnindonesia.com/ekonomi/20200414153236-532-493464/sri-mulyani-skenario-terberat-penduduk-miskin-naik-378-juta>.

by which the allocation of national revenue into expenditure item is legally locked. Thus, reallocation of the budget as to provide a huge amount of money in relation to the outbreak requires a legitimate legal basis. As a result, Government Regulation in Lieu of Law Number 1 of 2020 is enacted as the underlying legal ground for mitigating COVID-19 impact.

The State Budget reallocation is done by reviewing the previous allocation and assessing less essential expenditure posts, so as to sequentially reallocate the fund for medical expenditure, social safety net, and fiscal and economic stimulus. This resulted in the total fund of 405.1 trillion rupiahs to be reallocated into several grand divisions of expenditures. Those are 75 trillion rupiahs for medical expenditures, 110 trillion rupiahs for Social Safety Net Program, 70.1 trillion rupiahs for economic and fiscal stimulus, and 150 trillion rupiahs for countercyclical measures of national economic recovery⁵.

2.2 Fiscal Measures for Securing Medical Supplies and Essentials

To secure the availability of medical supplies and essentials, the Government provides tax incentives in the form of Value-Added Tax (VAT) relief, import tax relief, and import duty relief on the purchase and importation of medical supplies and materials. The relief also applies to certain services under the same purpose, such as technical, consultation, and construction service to build hospitals and medical facilities.

Those reliefs are stipulated in the Minister of Finance Regulation Number 28 of 2020 and Number 171 of 2019. As per 11 April 2020, the Ministry of Finance reported that 159 billion rupiahs of import taxes and customs duty have been relieved for medical supplies and services⁶.

Tax incentives also take an important role to secure domestic supplies of highly needed goods and services. As the global supply chain has been cluttered by the outbreak, which causes the quantity of goods to decrease and the price to increase, fiscal measure to boost the chain as well as to ease the burden of the suppliers is perceived as a critical strategy. Therefore, the Government releases import tax relief for industries that operate on highly needed products, such as food, confection, household necessities, and, education supplies.

2.3 Fiscal Measures for Protecting Business and Workforce

Protecting corporations and the workforce therein is one of the prominent concerns in this period of economic downfall. Government measures for this purpose incorporate several facilities for

⁵ Kompas (2020), Jokowi Gelontorkan Rp 405,1 Triliun untuk Atasi Covid-19, Ini Rinciannya, 31 March 2020, <https://nasional.kompas.com/read/2020/03/31/18253871/jokowi-gelontorkan-rp-4051-triliun-untuk-atasi-covid-19-ini-rinciannya>.

⁶ Kontan (2020), Kemenkeu Sudah Bebaskan Rp 159 Miliar Pajak Impor untuk Tangani Wabah Corona, <https://nasional.kontan.co.id/news/kemenkeu-sudah-bebaskan-rp-159-miliar-pajak-impor-untuk-tangani-wabah-corona>.

both of the business players and the workforces, namely corporate tax rate cut; borne-by-the-Government income tax; borne-by-the-Government employee's income tax; fast-track VAT refund for certain industries; and, administrative ease, such as the postponement of the annual tax return.

The policy to curtail the corporate tax rate plays dual-role in the context of mitigating the disruptive impact of the outbreak, which is to protect both of the business and the workforce therein. Corporate income tax rate is decreased to 22% for the fiscal year 2020 and 2021, and 20% for the fiscal year 2022⁷, from 25% previously. This is targeted to protect the business liquidity, yet at the same time to protect labour and employees from the possibility of losing their jobs.

Specifically, the Government also provides tax incentives for micro, small, and medium enterprises with the turnover maximum of 4.8 billion rupiahs, through the enactment of Minister of Finance Regulation Number 44 of 2020. Those who satisfy the turnover threshold and administrative condition could attain borne-by-the-Government income tax. Also, in the event the eligible enterprises carry on importation, they could obtain borne-by-the-Government import tax.

Likewise, the fast-track VAT refund is a protective shield for business liquidity and job vacancy by allowing taxable enterprises with criteria and certain business classification to request for early VAT refund, as regulated by Minister of Finance Regulation Number 44 of 2020. The monetary threshold to attain this incentive is a maximum of 5 billion rupiahs for the requested amount of the VAT refund.

The Minister of Finance Regulation Number 44 of 2020, also contains a protective measure that directly benefits individuals working as an employee. It is the borne-by-the-Government employee's income tax for April 2020 until September 2020, which is applicable to employee who meets certain criteria, such as those whose annual income is not more than 200 million rupiahs. In the event the employer bears the employee tax, such amount must be distributed to the employees' take-home pay. This measure is taken to support households' well-being as individuals' take-home pay will be in its full amount without the liability to pay tax.

The aforementioned incentives of the borne-by-the-Government income tax and import tax require the enterprises, as well as the employers, to file a report in respect of the execution of the obtained incentives to DGT. This reporting obligation does constitute an element of tax compliance and is subject to DGT supervision.

Sequentially, tax relief is also provided for taxpayers by giving fines relief in connection with the postponement of individual tax return until 30 April 2020, which previously was due on 31 March

⁷ The Government of Republic Indonesia (2020), Government Regulation in Lieu of Law Number 1 of 2020.

2020. Besides, DGT officially states that the postponement of due date also applies to other certain requests filed by taxpayers, for instance, the letter of tax objection and the letter of a fine reduction request. This policy is taken for alleviating the administrative burden that taxpayers embrace during this outbreak.

2.4 Economic Measures for Financial System Stability

Financial system stability is one of the priorities to protect, otherwise, the sideslip of the financial system could lead to an economic crisis which predictably could be worse than that in 2008. Hence the Government provides stimulant as a countercyclical measure of COVID-19 disruptive impact.

One of the economic stimulants is by allowing banks to do business loan restructuring, primarily for the borrowers that are categorized as micro, small, and medium enterprises. Those with a business turnover less than 10 billion rupiahs may request business incentives from their banks and financial institutions. The reliefs could take form as reduction of debts principal and/or interests, reduction of interest rate, or rearrangement of the debts maturity date.

Importantly, countercyclical measures are not provided merely for business loan but also debts borne by individuals working in the informal sector, such as online drivers and delivery. This is perceived as an important measure to prevent the poverty level to augment since it is predicted that 2.5 million people work as online drivers⁸.

According to the motorcycle loan contract, the borrower is obliged to pay their debt on a monthly basis. Yet, since their source of income is drastically decreasing during this pandemic, individuals working in the informal sector now are facing considerable financial hardship which makes it more strenuous to pay their motorcycle loan. Thus, the Government permits bank and financial institution to do motorcycle loan rearrangement, which enables individuals to pay a less monthly instalment, along with a restriction for the lender not to confiscate the motorcycle under leasing in the event of insolvency.

Other than that, the housing loan is also put in the economic measures package. The Government through Financial Services Authority Regulation Number 11 of 2020 facilitates the housing loan restructuring in banks, that is for the benefit of low and medium-income people. Similar with facilities given to micro, small, and medium enterprises, the housing loan relief could be a reduction of debts principal and/or interests, a reduction of interest rate, or rearrangement of the loan maturity date.

⁸ Institute for Demographic and Poverty Studies (2020), Press Conference of IDEAS' Research on Job Vacant in Urban Areas, 17 March 2020, <https://www.dompetdhuafa.org/id/berita/detail/Ojek-Online-Menjadi-Lapangan-Kerja-Para-Pengangguran>.

2.5 Social Safety Net Program for People in Need

2.5.1 Pre-Employment Program

One of the important features of the Social Safety Net Program is the Pre-Employment Card Program, to which the Government allocates 20 trillion rupiahs for approximately 5.6 million recipients⁹. This program is released to support the well-being of people in this outbreak hard-times, as well as to encourage human capacity enhancement as to prepare their qualities for the job-seeking process¹⁰.

It contains three-tier benefits for its recipients that are worth 3.5 million rupiahs in total for each cardholder. Those benefits are an allowance for online training, of which could be selected under each person's preference and educational background; living allowance for six months during the online training term; and another living allowance after the cardholder accomplishes the selected online courses¹¹.

2.5.2 Public housing subsidy

In relation to the protective shield for public housing, other than the loan restructuring program, the Government also provides the subsidy of monthly housing loan instalment, and, the subsidy of housing loan's down-payment, for low-income people. The State Budget allocation on this measure is 1.5 trillion rupiahs, which could cover 175 thousands of eligible households¹².

This measure is under the superintendence of the Ministry of Public Works and Public Housing and is actuated through the coordination of the Ministry with several national banks. These subsidies are provided for people who meet certain prescribed criteria, such as, the natural person is a citizen of Indonesia, the person's monthly income is not above 8 million rupiahs, the person does not own a house yet, and the person has never obtained a similar subsidy¹³.

The subsidy of monthly instalment of housing loan begins with subtracting the monthly payment on the interest rate of 5% from such amount on the actual interest rate. In result, the amount on 5% interest rate is borne by the individual, and the rest is borne by Government within a period of 10 years. While for the second kind of housing subsidy, namely the down-payment subsidy, is available for a non-vertical house only, in which the Government helps to pay the down payment

⁹ Cabinet Secretariat of the Republic of Indonesia (2020), setkab.go.id.

¹⁰ Ibid.

¹¹ Ibid.

¹² The Ministry of Public Works and Public Housing of Indonesia (2020), www.pu.go.id.

¹³ Ibid.

as much as 4 million rupiahs when the aforementioned eligibility criteria are met¹⁴.

2.5.3 Protection of household purchasing power

In the effort to protect household purchasing power and to avoid the devastation of people's well-being, the Government provides several programs under Social Safety Net Program, namely "Family Hope Program" (Program Keluarga Harapan), "Cash for Work Program" (Program Padat Karya Tunai), "Staple Food Card Program" (Kartu Sembako), "Electricity Subsidy" (Subsidi Listrik), and "Direct Cash Transfer" (Bantuan Langsung Tunai).

The Family Hope Program, as one of Social Safety Net Program for alleviating the outbreak disruptive effect, is actually an upgraded version of the same program that previously was designed as a national program to fight poverty level in Indonesia. This new Family Hope Program will reach people who lost their jobs with more plus factors than the old one. First, the number of benefits receiver is increased, from 9.2 million households to 10 million households. Secondly, the worth of cash benefit for each eligible household is 25% higher than the previous one. Thirdly, the distribution of cash is undertaken monthly, while it was once in three months in the old scheme¹⁵.

For low-income households that have not yet received any benefit from the above programs under Social Safety Net, the Government provides the Direct Cash Transfer Program. This is a monthly cash transfer of 600 thousand rupiahs for three month period. The State Budget allocation for this program is 22.48 trillion rupiahs, which is distributable to 12.49 million households, according to Ministry of Finance data. The respective distribution is conducted by the Ministry of Social Affairs¹⁶.

Cash for Work Program is implemented to help people in poverty to afford their basic household needs, especially for those located in villages and remote areas. The program has been released as a national program, of which coverage is expanded to mitigate the disruptive impact of the outbreak this year, in terms of allocation amount, distribution, number of the beneficiary, and realization time. In total, the State Budget allocation for the Cash for Work Program in 2020 is 72 trillion rupiahs¹⁷.

Staple Food Card Program is also an existing national program of which the benefits and coverage are upgraded for the purpose of mitigating economic hit of the outbreak for the poor. Compared to a previous 150 thousand rupiahs per month for each cardholder, such amount is now 30%

¹⁴ The Ministry of Public Works and Public Housing of Indonesia (2020), www.pu.go.id.

¹⁵ Cabinet Secretariat of the Republic of Indonesia (2020), setkab.go.id.

¹⁶ Cabinet Secretariat of the Republic of Indonesia (2020), setkab.go.id.

¹⁷ Ibid.

increased, which will be distributed monthly from April 2020 until the next nine months. Also, the number of cardholders is increased as to become 20 million people, from the prior 15.2 million people¹⁸.

Also, the Government releases Electricity Subsidy to help people in poverty to afford electricity power for their living. This subsidy is a facility given to people whose monthly electricity subscription is 450 Volt Ampere (VA) and 900 VA. Those on 450 VA subscription, counted as many as 24 million consumers, will receive 100% of monthly bill relief for three-month period. While those on 900 VA subscription, counted as many as 9 million consumers, will obtain 50% of monthly bill relief for 3 month period¹⁹.

3. Outlook

Indonesia has been fighting against the crisis for a period, of which the real impact and the time-length are theoretically unpredictable. Indonesian government is undertaking the best possible measures to protect its people and each aspect of life thereto, taking into account Indonesia's own capacity and specific conditions. The measures taken are subject to continuous evaluation and improvement, given the fact that the impacts of the outbreak are standing on a dynamic line. However the situation is, the Government is strongly willing to keep the commitment and the vision to protect its people amidst any rocky situation that we all may encounter.



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¹⁸ Ibid.

¹⁹ Ibid.