

# Economic Stimuli in response to COVID-19

On 25 February 2020, the Indonesian Government announced the first stimulus in response to COVID-19 impact. The Government will provide an estimate of IDR 10 trillion in incentives for the tourism industry, including airlines and travel agents, that are deeply impacted by the COVID-19 outbreak. The incentive will be provided, among other ways, in the form of airline ticket discounts to the 10 priority domestic tourism destinations, discounts on airplane fuel provided by Pertamina, Central Government subsidy to Regional Governments for the decrease in hotel and restaurants taxes due to the decrease in their businesses.

On 11 March 2020, the World Health Organization (WHO) announced that 2019 Coronavirus Disease (COVID-19) has become a global pandemic. In response to this unprecedented challenge, the Indonesian Government has issued a second economic stimulus for reducing the negative impact of COVID-19 on the Indonesian economy. Several economic issues are now the focus of the Indonesian Government:

1. The availability of food supplies that can affect food price stability;
2. Travel limitation and employee mobility that can affect transportation and tourism sectors;
3. Disruption of production, distribution and supply chains that can affect the performance of the manufacturing sector and its derivatives; and
4. The falling global oil price due to weakened demand and oil price competition between Saudi Arabia and the Russia.

On 13 March 2020, the Coordinating Ministry for the Economy conducted a press conference announcing a second economic stimulus to restrain the negative impact of COVID-19 on the Indonesian economy. The second economic stimulus covers both taxation and non-taxation stimulus as well as measures for the financial sector.

We set out in this Alert some key measures provided for in the second economic stimulus.

A. Tax stimulus to manage COVID-19 impact

On 21 March 2020, the Minister of Finance (MoF) issued MoF Regulation No 23/ PMK.03/ 2020 ("PMK-23") as the legal foundation of the tax stimulus. PMK-23 will be effective on 1 April 2020.

**1. Article 21 income tax incentive**

The incentive for Article 21 income tax (withholding from salaries etc.) is given by way of the Government bearing 100% of the Article 21 income tax (*Ditanggung Pemerintah - "DTP"*) on the employees' income.

To be eligible for this tax incentive, an employee must meet the following criteria:

- a) The employer has an industry sector classification for tax purposes (*Klasifikasi Lapangan Usaha - "KLU"*) listed in attachment A of PMK-23. The KLU should be in accordance with the ones stated and reported by the employer in its 2018 annual income tax return. The complete list of eligible KLUs can be found at: <http://www.jdih.kemenkeu.go.id/fullText/2020/23~PMK.03~2020Per.pdf>; and/ or
- b) The employer has received an Incentive for Inward Processing for Export Purpose (*Kemudahan Impor Tujuan Ekspor - "KITE"*) taxpayer status; and
- c) The employee has a Tax ID Number ("NPWP"); and
- d) During the tax incentive period, the employee receives or earns fixed and regular annual gross income not more than IDR 200 million.

The Article 21 income tax DTP must be paid in cash by the employer to the employee, including in the case that the employer provides Article 21 income tax allowance or bears the employee's Article 21 income tax; and this Article 21 income tax DTP received by the employee is not included as taxable income for the employee.

The Article 21 income tax DTP is given by the Government to eligible employees for six months from April to September 2020.

The employer can utilize this tax incentive by submitting a written notification to the Head of Tax Office where the employer is registered by using a prescribed form as stated in Attachment C of PMK-23. The Article 21 income tax DTP incentive is effective starting from the tax period on when the written notification is submitted until September 2020. For employers with KITE taxpayer status, the written notification must be attached with the MoF Decree concerning the KITE facility.

When utilizing this tax incentive, the employer must submit Article 21 income tax DTP realization report to the Head of Tax Office on where the employer is registered by using a prescribed form as stated in attachment E of PMK-23. In addition, the employer must prepare a tax payment slip ("SSP") or print out of the billing code, stamped with statement "*Article 21 income tax borne by the Government according to PMK No 23/ PMK.03/2020*" on the Article 21 income tax DTP.

The Article 21 income tax DTP realization report attached with the stamped SSP or print out of the billing code must be submitted by:

- a) 20 July 2020, for tax periods of April up to June 2020; and
- b) 20 October 2020, for tax periods of July up to September 2020.

The income tax amount that will be borne by the Government is estimated at Rp 8.60 trillion. With this stimulus, the Government intends that employees in manufacturing sectors can obtain additional income so that their purchasing power can be maintained.

## 2. Article 22 income tax incentive

The incentive of Article 22 income tax (a non-final withholding tax on imports and other events) is given by way of an exemption on Article 22 income tax withholding on imports.

A taxpayer that is eligible for an exemption on Article 22 income tax withholding on imports must meet the following criteria:

- a) A taxpayer within the KLU as stated in attachment F of PMK-23. These KLU should be in accordance with the ones stated and reported by the taxpayer in its 2018 annual income tax return. The complete list of the taxpayers' KLU can be found at <http://www.jdih.kemenkeu.go.id/fullText/2020/23~PMK.03~2020Per.pdf>; and/ or
- b) Taxpayers with KITE status.

The exemption on Article 22 income tax withholding on imports is given through an Article 22 income tax on imports exemption letter. The written application to obtain Article 22 income tax on imports exemption letter should be submitted by the taxpayers to the Head of Tax Office where the taxpayer is registered by using a prescribed form as stated in Attachment G of PMK-23. For taxpayers with KITE taxpayer status, the written application must be attached with the MoF Decree on the KITE facility.

The exemption from Article 22 income tax is provided for six months from April to September 2020. However, for each taxpayer, it is effective from the date the tax exemption letter is issued until 30 September 2020.

Taxpayers that have received an exemption on Article 22 income tax withholding on imports must submit quarterly realization reports to the Head of Tax Office by using a prescribed form as stated in Attachment J of PMK-23. The timing of realization report submission is the same as Article 21 income tax incentive in point 1 above.

Total exemptions for this Article 22 income tax incentive are estimated to be IDR 8.15 trillion. With this stimulus, the Government is hoping to provide cashflow capacity for the industries needing to meet switching costs (i.e. costs related with changes to the sources of imports).

## 3. Article 25 income tax incentive

The incentive of Article 25 income tax (corporate income tax instalments) is given by way of a 30% reduction of Article 25 income tax payments. The eligible taxpayers that can obtain Article 25 income tax incentive must meet the same criteria as the taxpayers receiving Article 22 income tax incentive stated in item 2 above.

The reduction on Article 25 income tax payments is applied for by submitting a written notification on the reduction of Article 25 income tax installment to the Head of Tax Office on where the taxpayers are registered by using a prescribed form as stated in Attachment C of PMK-23.

The reduction of Article 25 income tax is given for six months from April to September 2020. However, for each taxpayer, it is effective from the tax period on when the notification letter is submitted until September 2020.

Taxpayers that utilize the reduction on Article 25 income tax payments incentive must submit quarterly realization reports to the Head of Tax Office by using a prescribed form as stated in Attachment L of PMK-23. The timing of realization report submission is the same as Article 21 income tax incentive in point 1 above.

Total income tax reductions under this tax incentive is estimated to be IDR 4.20 trillion. With this stimulus, as per for Article 22 income tax, the Government is hoping to provide cashflow capacity for these industries to meet "switching" costs.

#### 4. VAT refund incentive

The incentive on VAT refunds is to be by way of accelerated VAT refunds (preliminary refund without audit).

An eligible taxpayer that can obtain VAT refund incentive is one that:

- a) meets the same criteria as the taxpayers receiving Article 22 income tax incentive stated in item no. 2 above; and
- b) filed overpaid monthly VAT returns with the amount of tax refunds no more than Rp 5 billion.

The eligible taxpayers for accelerated VAT refund incentive are deemed as low risk VAT-able Entrepreneurs under PMK-23. They do not have any requirement to apply to be low risk VAT-able Entrepreneurs and the Directorate General of Taxation (DGT) will not issue a decree to determine them as low risk VAT-able Entrepreneur ex-officio.

For taxpayers with KITE status, the MoF Decree on KITE facility must be attached to the monthly VAT returns that are filed for preliminary VAT refunds.

The accelerated VAT refunds is to include revised monthly VAT returns for tax periods since the enactment of PMK-23 up to September 2020, which is filed by 31 October 2020.

Accelerated VAT refund is given for six months from April to September 2020 with estimated VAT refund of Rp 1.97 trillion. With this stimulus, the Government is hoping that the companies can maintain their liquidity in an optimal way.

#### B. Non-tax stimulus to manage COVID-19 impact

To complete the fiscal stimulus, the Government also prepare four non-fiscal measures to encourage export - import activities. The non-fiscal stimuli are as follows:

##### 1. Reduction of Prohibition and Restriction for export activities

The simplification and reduction in the number of Prohibition and Restriction (*Larangan dan Pembatasan* - "*Lartas*") for export activities. This is to expedite exports and increase competitiveness for export products. In this case, Health Certificate and V-Legal documents will no longer be needed as part of export requirement documents unless it is necessary for the exporters due to the requirements of the destination export country. The implication is that there will be reduction in *Lartas* export for up to 749 Harmonized System (HS) codes, consisting of 443 HS codes on fishery commodities and fish products, and 306 HS codes for forestry industry products.

##### 2. Reduction of Prohibition and Restriction for import activities

The simplification and reduction on *Lartas* for import activities, especially for raw materials. This is for the purpose of increasing the flow and availability of raw materials. This stimulus is provided to companies with a producer status and in an early stage this will be implemented on steel products, alloy steel and its derivative products. Further, this stimulus will also be implemented for strategic food products such as salt, sugar, flour, corn, meat, potatoes, etc. which are used as raw materials for manufacturing industry.

There will also be simplification of the areas that are subject to regulations by more than one Ministry (duplication on import regulations), for horticulture, animal and animal products, medicine, raw material for medicinal ingredients and food commodities.

### 3. Export and import process acceleration for Reputable Traders

The stimulus is to accelerate the export and import process for Reputable Traders, which are companies that have export-import activities and have high compliance levels. Currently, there are 735 reputable traders consisting of 109 Authorized Economic Operator (AEO) companies and 626 companies with Priority Lane Importer (*Mitra Utama Kepabeanan* - "MITA") status. The stimulus for Reputable Traders covers:

- a) The implementation of auto response and auto approval for Lartas process for both export and import activities;
- b) The removal of surveyor report requirements on the relevant commodities;
- c) The Indonesian Customs Authorities will send the import realization report to the related ministries and Government institutions.

### 4. Export and import process acceleration through National Logistic Ecosystem

The stimulus is to accelerate the export and import process, including supervision through the development of National Logistics Ecosystem (NLE). NLE is a platform that facilitates an information system collaboration between Government institutions and private sector to simplify and synchronize information flow and documents on export/ import activities at the port, and also on trading or distribution of goods within the country through data sharing, business process simplification and removal of repetitions and duplications.

The NLE roadmap covers, amongst others, an integration between Indonesia National Single Window (INSW), Inaport, Inatrade, Customs-Excise Information System Automation (CEISA), trucking system, warehouse system, transportation system, operator terminal system, etc. NLE will become a tool to monitor service level agreement and other technical standards determined by each law and regulation and become a control tool in their implementation.

The Government is hoping that with NLE, it can increase the efficiency of national logistics, to integrate Government services with business logistic platforms currently in operation.

## C. Financial sector stimulus to manage COVID-19 impact

The Financial Service Authorities (*Otoritas Jasa Keuangan* - "OJK") has also issued OJK Regulation No 11/POJK.03/2020 ("POJK-11") regarding National Economic Stimulus as Countercyclical Policy on COVID-19 Spreading Impact, which effective on 16 March 2020 and consist of:

1. Banks can implement policies that can support economic growth stimulus for debtors, which have been impacted by COVID-19, especially for micro, small and medium business (UMKM) debtors, while still observing the precautionary principle.
2. The stimulus policies consist of:
  - a) For credit amounting up to Rp 10 billion, the credit quality/financing/other provision of fund valuations can only be based on the timely payments of the principal and/or interest payments; and
  - b) Improvement of the quality of credits to become "current" after conducting restructuring on the credit/financing without considering their credit limits or type of debtors, including UMKM debtors.
3. For UMKM debtors, banks can implement the said two stimulus policies as follows:
  - a) The credit quality/financing/other provision of fund valuations can only be based on the timely payment of the principal and/ or interest payments; and



- b) Conduct restructuring on the said UMKM credits/financing, where the quality of credits/financing that have been restructured is determined to be current.
- 4. Banks can provide new credit/financing/other provision of fund facility to the debtors that have special treatments under this POJK-11 by implementing separate credit/financing/other provision of fund quality determination from the existing credit/financing/other provision of fund facility.

The above stimulus policy is effective until 31 March 2021.

Other incentive for employees as stimulus for COVID-19 spreading impact is the relaxation on Employee Social Security Organization (*BP Jamsostek*) Program, which consist of:

- a) The stimulus that will be provided will be further discussed, where the formula should not impact the participant benefits and does not disrupt the financial security of social security program fund.
- b) The stimulus does not disrupt the operational and BP Jamsostek services to the participants. This may require some changes/revisions on the regulations that regulate the Budget and Working Plan of BP Jamsostek.
- c) The stimulus should be regulated in accordance with the prevailing laws. The follow up action will be related to the issuance of regulation from the Ministry of Manpower for the temporary relief on work accident insurance (JKK) and mortality insurance (JKM) program contributions.

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