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Analysis of Tax Incentives Policy for Tourism Sector in Indonesia as Economic Stimulus during the Covid-19 Outbreak

Made Laksmi Sena Hartini[1], Kadek Apriada[2]
Faculty of Economics and Business Mahasaraswati University Denpasar[1,2]
Jl. Kamboja No.11A, Dangin Puri Kangin, North Denpasar, 80233, Indonesia
Correspondence Email: laksmisena23@unmas.ac.id

ABSTRACT

Tourism sector is one of the sectors significantly affected by Covid-19 pandemic. The government has provided various stimulus in fiscal and non-fiscal, one of them is tax incentives for tourism sector. This study used explorative and descriptive approach, and a qualitative method with exploratory and descriptive approach. The study underlined several tax incentives to increase the people's purchasing power and productivity in the tourism sector, thus socializing any tax regulation is necessary to avoid problems in the application.

Keywords: Covid-19, Indonesia, Tax Incentive, Tourism Sector

INTRODUCTION

Most of us believe 2020 is a year of crisis as countries around the world are apprehensive of novel virus pandemic spread, namely 2019 Corona Virus Disease (Covid-19). The World Health Organization (WHO) states that Covid-19 infects the human's respiratory tract. It brings mild to highly serious flu, equivalent to or even more severe than Mers-Cov and Sars-Cov (Nasution, 2020). The virus was first detected in Wuhan, China on December 31, 2019. It has rapidly spread around the world and turned into a pandemic teriifying the world. By mid-September 2020, 215 countries total confirmed cases of 29,444,198 cases (World Health Organization, 2020).

In Indonesia, the virus began to spread on March 2020, significantly increased in Jakarta and Java. Thus, on April 13, 2020, President Joko Widodo officially declared Covid-19 as a non-natural national disaster by the Decree of the President of the Republic of Indonesia No. 12 of 2020. As of September, there were 228,993 cases confirmed, 164,101 total cases recovered, and 9,100 total deaths (Covid-19 Task Force, 2020).

The data do not show the cases decline and is predicted to increase in number. Thus, the government implemented "Work from Home" policy for employees, remote learning for students, social distancing, until implementing Large-Scale Social Restrictions (PSBB) in various areas, one of which was implemented in DKI Jakarta on April 2020 and September 2020. This condition severely disrupted global supply chain and domestic financial market volatility, demand shocks and other negative impacts in key sectors such as travel and tourism.

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In addition to its negative impacts on travelling agencies (Chin et al., 2020), Covid-19 increases the pressure on tourism sector particularly noticeable as it sharply decreases foreign tourist arrivals with massive cancellations and bookings. It also occurred decelerates domestic travel, mainly due to concerns about Covid-19 spread. Despite this, the decrease in tourism and travel businesses, the labor-intensive sector which absorbs more than 13 million workers, has impacted MSMEs businesses, and disrupted employment opportunities.

This illustration does not include the multiplier effects on the derivative industries (Sugihamretha, 2020), with its other effect upon economic growth. The Indonesia Central Bureau of Statistics (BPS) recorded Indonesia's Gross Domestic Product (GDP) in the second quarter of 2020 was negative 5.32%, in which tourism sector itself significantly decreased by 22.02% compared last year rate of growth (Central Bureau of Statistics, 2020a).

To get it under control this, the government certainly need occupy their role by providing economic stimuli, for the tourism sector in particular, one of which short-term fiscal policy stimuli, namely tax incentives (Selvi & Ramdhan, 2020). This study examines several government’s tax incentive policies amid Covid-19 outbreak, especially those related to the tourism sector.

RESEARCH METHOD

This research used a qualitative method with exploratory and descriptive approach. The exploratory and descriptive approaches were conducted by collecting and reading various literatures including books, journals, articles, and taxation laws, as well as their implementing regulations.

RESULTS AND DISCUSSION

This section provides this study findings by providing insights and understanding of this study objects by describing tourism development since the pandemic outbreak, and tax incentives.

Tourism Development in Indonesia since Covid-19 Outbreak

The development of the tourism sector is indivated with several factors, such as foreign exchange earnings and the number of tourist arrivals. In 2019, both showed an upward trend. Based on the 2020 Indonesia Economic Report, in 2015 it was recorded that 10.23 million foreign tourists came to Indonesia and in 2019, it increased to 16.11 million. Indonesia's tourism sector in 2018 was the 9th highest growth sector in the world, the 3rd in Asia, and the first in Southeast Asia according to The World Travel & Tourism Council (WTTC) (Central Bureau of Statistics, 2020b). In addition, based on The Travel & Tourism Competitiveness Report, at the World Economic Forum, in 2019, Indonesia's tourism competitiveness index ranking in the world rose from 42 in 2017 to 40 in 2019 among 140 countries (Indeks daya saing, 2019). However, since the pandemic, the number of foreign tourists visiting Indonesia has gone into a downhill.

Central Bureau of Statistics (BPS) noted that foreign tourists in early 2020 decreased. At the End of 2019, foreign tourist visits achieved 1.37 million visits. It continued to

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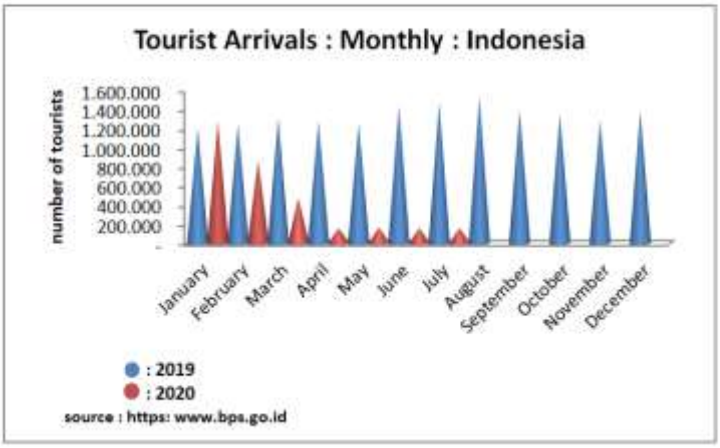
dramaticly decrease. The number of visits to Indonesia was only 159 thousand visits by July 2020 or decreased by 89% compared to July 2019 (see Table 1).

Table 1. Chart of Tourist Arrival in Indonesia on 2019-2020



The decrease in foreign tourist visits to Indonesia was also indicated by Room Occupancy Rate (ROR) of star classification hotels in Indonesia as in January 2020 its average rate is 49.17% or reduced by 2.30 points compared to 2019 January ROR by 51.47%. The most significant decrease was in April 2020 where the average ROR was 12.67% (Central Bureau of Statistics, 2020c). The low occupancy resulted in many business closures and temporary dismissals of employees. Based on Indonesian Hotel & Restaurant Association (PHRI) data, by April 2020, there have been 1,642 hotels, a half of total previously hotels. This forced hospitality industry businesses into catalysmic decision to close their businesses due to several reasons such as high operating costs, government policy, and to protect hotel employees from being exposed to the Covid-19 virus (Diayudha, 2020).

Local and central governments have stepped up various efforts to prevent tourism from the deterioration. One of them is providing non-fiscal and fiscal economic stimulus. The Ministry of Tourism and Creative Economy of the Republic of Indonesia developed special incentives for tourism as stipulated in Ministerial Regulation No 12 of 2020 (Permen Kemenparekraf 12/2020) on the Strategic Plan of the Ministry of Tourism and Creative Economy of 2020-2024 and in cooperation with the Coordinating Minister for Economic Affairs. They includes:

1. The additional budget allocation for the Ministry of Tourism and Creative Economy of IDR 298.5 billion;
2. Incentives for airlines, travel agents, incentives in joint promotion schemes, tourism promotion activities;
3. Domestic ticket discount 51.44% for 25% of seat quota in single flight, including 30% discount on 25% seat quota on each flight to ten tourist destinations. This is valid for three months starting from March, April, and May 2020. An additional 15.8% discount is provided for Pertamina' Avtur, and a 5.64% discount on airfares (PJP2u/PSC and NAV) from AP and Airnav which is for three months, for domestic

airlines to Denpasar, Batam, Bintan, Manado, Yogyakarta, Labuan Bajo, Belitung, Lombok, Lake Toba, and Malang;
4. The government grants to local governments affected by the reduction in the local hotel and restaurant tax rate by IDR 3.3 trillion;
5. A state budget of IDR 147 billion of special allocation fund (DAK) provided for tourism which has not been able to be used in the region. The budget will be converted into grants for regions to spur tourism development;
6. Encouraging domestic tourists by campaigns, encouraging government agency and corporation meetings in domestic tourist destinations;
7. Promoting national or international events (music, sports)

Tax Incentives in Tourism Sector

In addition to economic stimulus by non-fiscal incentives, the government provided fiscal incentives to support tourism sector performance, by making several tax incentives. On March 2020, the Government issued a Replacement Government Regulation of the Republic of Indonesia Law No. 1 of 2020 on State Financial Policy and Financial System Stability for the Handling of Coronavirus Virus Disease Pandemic 2019 and/or to Meet Threats harming National Economy and/or Financial System Stability known as Regulation in Lieu of Law (*Perppu*) No. 1/2020. These regulations stated that the government increased the allocation of spending and financing in the state budget of 2020 to IDR 405.1 trillion to deal with the disease.

The budget was allocated to several areas such as health and economy. In addition, the regulations are related to the adjustment of the Income Tax rate reduction for domestic corporate taxpayers and permanent establishments. Article 17 paragraph (1) letter b of the Income Tax Law from 25% to 22% applicable in the Tax Year 2020 and Tax Year 2021 as well as a reduction in the tax rate to 20% will take effect in the Tax Year 2022. It is expected to ease the burden of entrepreneurs due to Covid-19 preventing bankruptcy and downsizing.

Additionally, for the implementation of *Perppu* No. 1 of 2020, the government through the Ministry of Finance issued special regulation on tax incentives by Minitrial Regulation of Finance of the Republic of Indonesia No. 23/PMK.03/2020 on Tax Incentives for Taxpayers Affected by Coronavirus Outbreak. It provide tax incentives on Income Tax Article 21 for employee, Income Tax Article 22 for import tax, Income Tax Article 25 installment tax and Value Added Tax (VAT) in terms of accelerating the refund (restitution) on VAT overpaid. The Income Tax Article 21 was limited to employees with gross income not more than 200 million rupiah per year or 16.6 million rupiah per month. As for Income Tax Article 25 got a tax installment reduction of 30%, Income Tax Article 22 was exempted, all these incentives were valid for 6 months, from April 2020 to September 2020. However, this tax incentive was provided for certain industrial sectors and taxpayers with ease of import status for export purposes (KITE) and KITE IKM i.e. ease of import export destination for small and medium industry. It was set out in PMK 23/2020 widely protested by entrepreneurs in the tourism sector, since the tourism sector including hotels, restaurants and the provision of other accommodation were not excluded in the business sector.

Considering that the tourism sector is one of the sectors significantly affected by the pandemic, on April 2020 the Government issued Ministrial Regulation of Finance of the

Republic of Indonesia No. 44/PMK.03/2020 amended to PMK 23/2020. PMK 44/2020, included 18 business sectors entitled to utilize the tax facility, including tourism sector with total 52 Business Field Code (KBLI/KLU). With the addition of the business sector, the total KBLI entitled to utilize tax incentives will be 1,062 KBLI/KLU. In addition, PMK 44/2020 consists of additional tax incentives, including Income Tax Article 21, 22, 25, VAT and Income Tax for MSMEs.

As for the expansion of the business sector with tax incentives in accordance with PMK 44/2020, the tourism sector can utilize the following tax incentives:

1. Incentive of Income Tax Article 21
   This incentive is entitled to employees who receive income from employers which include taxpayer with a specific KLU, taxpayer KITE company, or taxpayer in a bonded zone, having Tax ID Number (NPWP) and during the tax period, having gross income not more than IDR 200 million yearly. This incentive was valid from tax notification submitted by the employer until tax period of September 2020. Liability in the form of the realization report of Income Tax Article 21 Borne by the Government was no later than the 20th of the following month after the tax period ends. The procedures are:
   a. Employers are required to submit notification of the use of these incentives through a certain channel of the Directorate General of Taxes (DGT), namely www.pajak.go.id.
   b. Employers must submit a report on the realization of Income Tax Article 21 by attaching a Tax Billing Code. Reports are submitted through certain channels on www.pajak.go.id.
   c. If the employer who has submitted the notification does not meet the criteria, the Tax Office (KPP) where the company registered will issue a notification letter is not entitled to utilize the incentives of Income Tax Article 21, and
   d. Employers are obliged to provide in cash the Income Tax Article 21 to employees. This has the implication that although the Income Tax Article 21 of employee is borne by the Government and technically there is no tax payment to the government, the employer should give tax payment to employees who indirectly increase the amount of take-home pay received. This was expected to increase employee's purchasing power. Income Tax Article 21 Borne by the Government was received by employees is not subject to Income Tax (non-taxable income).

2. Incentive of Income Tax for MSMEs
   Previously in 2018, the government has issued a special tax incentive for MSMEs, by the application of final Income Tax rates of 0.5% of gross turnover (Hartini, 2018). PMK 44/2020 stated taxpayers who are entitled to utilize the Income Tax for MSMEs are those with certain gross turnover and are subject to Final Tax based on Government Regulation No. 23 of 2018. This incentive was valid from tax period of April 2020 to September 2020. The procedures are:
   a. Taxpayers apply for a certificate to utilize Income Tax for MSMEs. The certificate can be obtained by taxpayers including those who have the same certificates before this Ministerial Regulation comes into effect by applying to the DGT through certain channels on www.pajak.go.id.

b. Taxpayers are entitled to incentives as long as they submit a report on the realization of Income Tax for MSMEs in each tax period no later than the 20th of the following month.
c. Taxpayers do not need to pay the Income Tax for MSMEs to the government. In the absence of tax payments, this can indirectly be an increase in the working capital of MSMEs businesses.
d. Withholders or collectors do not deduct or collect the tax payment, yet need to submit e-billing to the counterparty of taxpayers.

3. Incentive of Income Tax Article 22 Exemption
The tourism sector is entitled to utilize this incentive since it is specifically designed for KITE taxpayer, or taxpayer in a bonded zone.

4. Incentive of Reduction on Installment of Income Tax Article 25
The reduction of installment of Income Tax Article 25 in PMK 44/2020 is 30%. This incentive is intended for taxpayers with gross income/turnover above IDR 4.8 billion a year or non-MSMEs. Taxpayers with these categories are required to make the installments of Income Tax Article 25 based on the Annual Income Tax of previous tax year. It became effective from the tax period notification of the reduction submitted up to the tax period of September 2020. The procedures are:
   a. Taxpayers must submit a notification of the use this incentive through certain channels of Directorate General of Taxation (DGT) on www.pajak.go.id.
   b. If taxpayers do not meet the criteria, the Tax Office (KPP) will issue a notification letter.
   c. Taxpayers who utilize this incentive must submit a report every three months through certain channels on www.pajak.go.id.

5. Incentive of Refund Value Added Tax (VAT)
This incentive does not apply to tourism sector since tourism sector which includes hospitality and restaurant services is not subject to VAT in accordance with Value Added Tax Article 4 A of Law No. 42 of 2009.

Due to increasing Covid-19 cases, on July 2020, the Government issued Ministrial Regulation of Finance of the Republic of Indonesia No. 86/PMK.03/2020 to amend PMK 44/2020. The procedures to apply for the tax incentives according to PMK 86/2020 is not too much different from PMK 44/2020. The significant difference is the extension of the utilization period and additional business sectors entitled to utilize the incentives. Table 2 presents the summary of the difference.

Table 2. The Summary of Tax Regulation PMK 44/2020 and PMK 86/2020

Types of Incentives	PMK 44/2020	PMK 86/2020
Income Tax Article 21 Borne by the Government	Specific sectors (1,062 KLU), KITE Taxpayer & Bonded Zone Taxpayer. Valid until September 2020. Head office & branch	Specific sectors (1,189 KLU), KITE Taxpayer & Bonded Zone Taxpayer. Valid December 2020 Notification for Main Office & Branch (for

	need to submit notifications.	KITE Taxpayer & Bonded Zone Taxpayer) Notification is only delivered centrally & all branches (for taxpayer besides KITE Taxpayer & Bonded Zone Taxpayer)
Income Tax for MSMEs Borne by Government	• Only for taxpayers who subject to Final Tax based on PP 23 of 2018 • Taxpayers must submit a certificate & the realization report • Monthly realization report submission no later than the 20th of the following month • Incentives period until September 2020	• Only for taxpayers who subject to Final Tax based on PP 23 of 2018 • Taxpayers do not need to file a certificate, simply submit a realization report • Monthly realization report submission no later than the 20th of the following month • Incentives are valid until December 2020
Reduction on Installment of Income Tax Article 25	• Specific sectors (846 KLU), KITE Taxpayers & Bonded Zone Taxpayers • Incentives are valid until September 2020 • Monthly realization report submission every three months	• Specific sectors (1,013 KLU), KITE Taxpayers & Bonded Zone Taxpayers • Incentives period up to December 2020 • Report submission for April-June is no later than July 20, 2020 and for period July-Dec is no later than the 20th of the following month

To increase production and/or business circulation for taxpayers, the government revised PMK 86/2020 by issuing Government Regulation No. 110/PMK.03/2020 on August 2020. Its significant change in PMK 110/2020 is the increase of percentage of the reduction on installment of Income Tax Article 25 incentive from 30% to 50% which is valid since the Tax Period of July 2020 – December 2020 for taxpayers who has submitted a notification of installment of Income Tax Article 25 Reduction. The PMK 110/2020 were issued in the middle of August 2020, where there might be taxpayers who already made an installment payment of Income Tax Article 25 for the Tax Period of July 2020 with 30% decrease. This indicates that the taxpayers need to do an overbooking mechanism to move the overpayment of taxes in the July 2020 Tax Period due to the changes of percentage of tax incentive.

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CONCLUSIONS

The spread of Covid-19 in Indonesia is increasing. It creates enormous impact on the decrease of economic growth. The tourism sector is one of the sectors which has been significantly affected by the pandemic up to 89% in July 2020. The impact is also can be seen in the decrease on Room Occupancy Rate. To stimulate economic growth, especially in tourism sector, the Government through Ministry of Tourism and Creative Economy and Ministry of Finance provide various fiscal and non-fiscal stimuli, one of which is tax incentive. It consists of Incentive of Income Tax Article 21 borne by the Government, Incentive of Income Tax for MSMEs borne by the Government, Incentive of Income Tax Article 22 Exemption, Incentive of Reduction on Installment of Income Tax Article 25 and Incentive of Refund Value Added Tax (VAT). Tourism sector is only eligible to three out of five types of tax incentives. These incentives were regulated in PMK 44/2020 amended by PMK 86/2020 and revised by PMK 110/2020. The tax incentive was expected to increase people's purchasing power and productivity in tourism sector.

To reach its maximum potentials, the government need to socialize the changes of tax regulations, to avoid mistakes in applying the regulation. In addition, it is necessary to ease the mechanism by producing easy-to-understand procedures. The government should regularly evaluate the tax incentives. If the regulations fail to overcome the economic conditions, modifications are necessary to address this situation.

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