Tax Incentives for Taxpayers Affected by COVID-19

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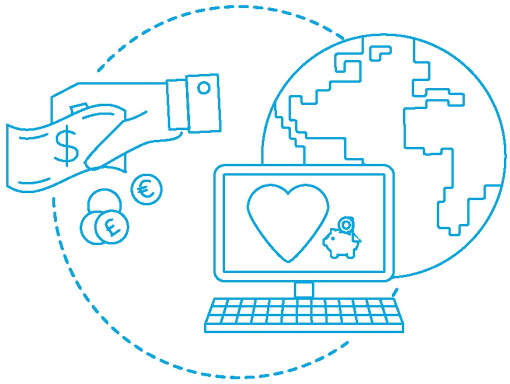
On 23 March, the Minister of Finance issued Regulation No. 23/PMK.03/2020 ("PMK-23/2020") dated 21 March 2020 to assist taxpayers that are being affected by the impacts of COVID-19. The issuance of PMK-23/2020 is intended to support economic stability, purchasing power, and productivity of certain sectors.

PMK 23/2020 is effective from 1 April 2020.

PMK-23/2020 potentially provides tax incentives for the following:



- Article 21 tax to be borne by the Government ("ditanggung") for employees of businesses in specified sectors, subject to their gross employment income.
- Article 22 on imports will be exempted ("dibebaskan") for businesses in specified sectors.
- Article 25 corporate income tax instalments can be reduced by 30% for businesses in specified sectors.
- Advance restitution of VAT for businesses in specified sectors.

Although the title of the regulation suggests it has broad coverage and benefit, the use of specified sectors limits the tax incentives to industry/manufacturing and some ancillary sectors based on the taxpayer's KLU (Business Classification Code) as recorded on the 2018 Annual Tax Return or, if registered after 2018, the SKT — Tax Registration Letter.

The tables below summarises the criteria, application and reporting requirements to access the tax incentives.

Tax Incentive	Who is eligible	How is the incentive accessed	Period for Tax Office rejection	When effective	Period of incentive	Reporting obligations
Article 21 borne by Government (Note 1).	Employees that have Tax ID, receive annualised fixed remuneration of no more than IDR 200 million, and work for an employer that is in a specified industry (KLU Note 2) or that is designated as a KITE (Note 3).	Submit standard notification form to the Tax Office ("KPP") as per Attachment C to PMK-23/2020.	5 working days to provide written rejection; otherwise approved.	For the month that the notification form was submitted.	No earlier than April. Up to and including September 2020.	Yes. Refer Attachment E to PMK-23/2020. The reports are due on 20 July (for April-June months) and 20 October (for July-September months). PMK 23/2020 also requires reporting of the tax borne by the Government using the Billing Code mentioning "Tax Is Borne by the Government per 23/PMK.03/2020."

Tax Incentive	Who is eligible	How is the incentive accessed	Period for Tax Office rejection	When effective	Period of incentive	Reporting obligations
Article 22 (import) exemption.	Taxpayers operating in a specified industry (KLU Note 2) or that is designated as a KITE (Note 3).	Submit standard application form to the KPP as per Attachment G to PMK-23/2020.	3 working days; otherwise *SKB – Surat Keterangan Bebas* should be issued.	From date of SKB.	From date of SKB until 30 September 2020.	Yes. Refer Attachment J to PMK-23/2020. Due on 20 July (for April-June months) and 20 October (for July-September months).

Tax Incentive	Who is eligible	How is the incentive accessed	Period for Tax Office rejection	When effective	Period of incentive	Reporting obligations
Article 25 reduction (Note 4).	Same as per Article 22.	Submit standard notification form to KPP as per Attachment C to PMK-23/2020.	5 working days to provide written rejection; otherwise approved.	For the month that the notification form was submitted.	No earlier than April. Up to and including September 2020.	Yes. Refer Attachment L to PMK-23/2020. Due on 20 July (for April-June months) and 20 October (for July-September months).

Tax Incentive	Who is eligible	How is the incentive accessed	Period for Tax Office rejection	When effective	Period of incentive	Reporting obligations
VAT refund (Note 5).	Same as per Article 22, for refund requests of no more than IDR 5 billion .	Via monthly VAT Return.	N/A .	For VAT for April onwards	No earlier than April. Up to and including September 2020 (lodged no later than 31 October 2020).	No additional reporting.

Notes:

1. **ARTICLE 21 INCENTIVE**

The incentive only applies for employees working in one of the specified sectors and only if their annualised fixed remuneration is not more than IDR 200 million – i.e. not more than IDR 16,666,667 per month, on average. THR (for example) is not included for the purposes of determining the amount of annualized remuneration; and the tax on THR is not eligible for the incentive.

Although the Article 21 is borne by the Government, PMK-23/2020 requires this tax is paid to the employee. Therefore the practical effect is an increase to the employee's take-home salary with no increase or reduction to the employer's cost base. There is no direct benefit to the employer.

The incentive also applies in the case that the employer provides a tax allowance or the tax is borne by the employer.

2. KLU

The list of KLU cover 440 sectors for the Article 21 incentive and 102 sectors for the Article 22, 25 and VAT incentives.

The sectors that can access the Article 21 incentive are primarily industry/manufacturing plus repair and industrial equipment installation services. The sectors that can access the Article 22, 25 and VAT incentives are more limited and are all industry/manufacturing.

3. KITE (IMPORT FACILITY FOR EXPORT ORIENTED BUSINESS)

KITE businesses are permitted to access all the incentives. A KITE business wishing to access an incentive for Article 21, Article 22 or Article 25 (as a KITE business) must include evidence of the designation as a KITE in the application.

4. ARTICLE 25 REDUCTION

The 30% reduction to the monthly corporate income tax instalment does not require any proof that COVID-19 has impacted on the taxpayer, and there are no penalties if the taxpayer's year-end profit and tax liability was not effected by COVID-19.

5. PRELIMINARY RESTITUTION OF VAT

The incentive deems the applicant is a low risk taxpayer and is entitled to access the existing facility for preliminary refund of VAT, provided the amount of the refund (per VAT Return) is not more than IDR 5 billion.

Although this accelerates the early receipt of overpaid VAT compared to the usual tax audit process, the downside is the taxpayer will be subject to a 100% penalty if a subsequent tax audit rejects any Input VAT credits.

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