



## Tax Incentives for Taxpayers Affected by COVID-19 – Expansion

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On 23 March, the Minister of Finance issued Regulation No. 23/PMK.03/2020 dated 21 March 2020 ("PMK-23/2020") to assist taxpayers that are being affected by the impacts of COVID-19.

The issuance of PMK-23/2020 was intended to support economic stability, purchasing power, and productivity of certain sectors, and potentially provided 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



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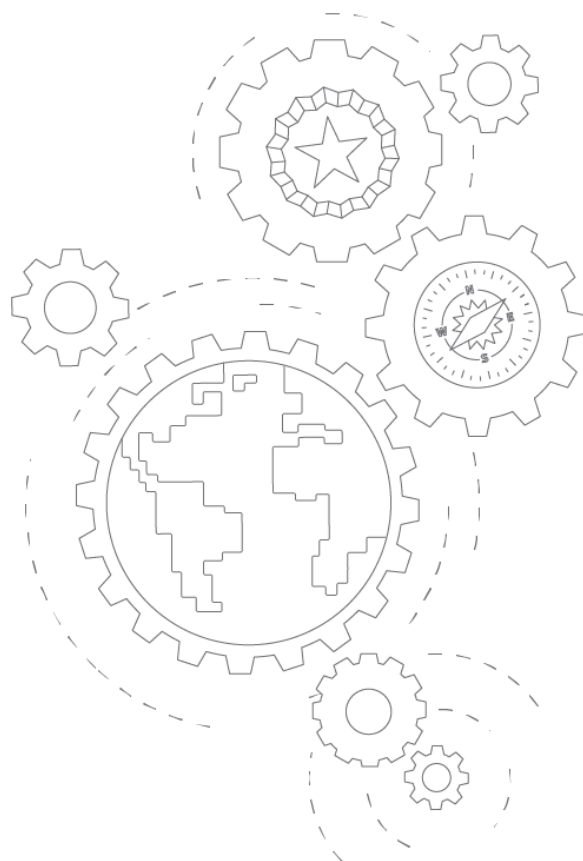
[Tax Incentives for Taxpayers Affected by COVID 19 - April 2020](#)

Although the title of the regulation suggested it had broad coverage and benefit, the tax incentives were limited to specific sectors - mostly industry/ manufacturing and some ancillary sectors based on the taxpayer's KLU (Business Classification Code). Therefore there were widespread requests for a revision to assist the many non-manufacturing businesses being impacted by the economic disruption from COVID-19.

In response, the Minister of Finance has issued Regulation No. 44/PMK.03/2020 dated 27 April 2020 ("PMK-44/2020") which revokes PMK 23/2020.

PMK-44/2020 still uses a KLU-based approach for granting the tax incentives, however, it significantly expands the number of KLU. In addition it now provides relief from tax for those small and medium-sized businesses (UMKM) that were currently accessing the Final Tax regime under Government Regulation No. 23 of 8 June 2018 ("PP-23/2018").

The general process to access the tax incentives for Articles 21, 22 and 25 and for VAT refunds, the period of the incentives and reporting obligations have not changed from PMK-23/2020.



The table below summarizes the criteria, application and reporting requirements to access the tax incentives:

Tax Incentive	Who is eligible	How is the incentive accessed	When effective	Period of incentive	Reporting obligations
Article 21 borne by Government (Note 1)	Employees that have a Tax ID, receive annualized fixed remuneration of no more than IDR 200 million, and work for an employer that is in a specified industry (KLU <sup>Note 2</sup> ), is designated as a KITE, or is a Bonded Zone Organizer or operates in a Bonded Zone. <sup>(Note 3)</sup>	Submit standard notification form online to the Director-General of Taxation ("DGT") as per Attachment C to PMK-44/2020. <sup>(Note 4)</sup>	For the month that the notification form was submitted. <sup>(Note 5)</sup>	No earlier than April. Up to and including September 2020.	Yes. Refer Attachment E to PMK-44/2020. The reports are due on the 20 <sup>th</sup> of the following month, for each month the incentive is utilised.  Must also report the tax borne by the Government using the Billing Code mentioning "Tax Is Borne by the Government per 44/PMK.03/2020."
Final Tax borne by Government	Taxpayers (individual or entity) eligible for 0.5% Final Tax as per PP-23/2018. <sup>(Note 6)</sup>	Apply for a Statement Letter ("Surat Keterangan" – "SK") via online system as per PP-23/2018.	From the date of SK (for customer withholdings) or for the month stated in SK (for self-withholdings). <sup>(Note 5)</sup>	From date/month of SK until 30 September 2020.	Yes. Refer Attachment H to PMK-44/2020. The reports are due on the 20 <sup>th</sup> of the following month, for each month the incentive is utilized.  Must also report the tax borne by the Government using the Billing Code mentioning "Tax Is Borne by the Government per 44/PMK.03/2020."



## NOTES:

### 1. Article 21 Incentive

The incentive only applies for employees working in one of the specified sectors and only if their annualized fixed remuneration is not more than IDR 200 million. THR and bonuses (for example) are not included for the purposes of determining the amount of annualized remuneration; and the tax on THR and bonuses is not eligible for the incentive.

Although the Article 21 is borne by the Government, PMK-44/2020 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. In each case, the Article 21 borne by Government must be paid to the employees.

Further, PMK-44/2020 confirms that the tax borne by the Government received by employee is not considered as taxable income. It also states that no refund will be made if there is any overpayment in the 2020 individual tax return that results from the tax borne by the Government.

### 2. KLU

The KLU refers to the taxpayer's 2018 Annual Income Tax Return or the DGT 'masterfile' if the taxpayer registered after 2018.

The number of KLU that are eligible for the incentives are increased, as follows:

	NOW (KLU per PMK- 44/2020)	BEFORE (KLU per PMK- 23/2020)	Reference in PMK-44/2020
Article 21	1,062	440	Attachment A
Article 22	431	102	Attachment I
Article 25	846	102	Attachment N
VAT	431	102	Attachment I

### 3. KITE (Import Facility for Export Oriented Businesses) & Bonded Zone Businesses

KITE businesses, Bonded Zone Organizers and businesses operating in Bonded Zones are permitted to access all the incentives. A KITE business, Bonded Zone Organizer or business operating in a Bonded Zone that wishes to access an incentive for Article 21, Article 22 or Article 25 (as a KITE business, Bonded Zone Organizer or business operating in a Bonded Zone) must provide evidence of the KITE designation or relevant license.

### 4. Process to access tax incentives for Articles 21, 22 and 25

The process to access the tax incentives for Articles 21, 22 and 25 is via the KSWP menu of the Tax Office's online portal. After selecting the relevant tax incentive, the system will display a note whether the taxpayer satisfies the requirements or not. If this is not consistent with the taxpayer's understanding (e.g. due to an error in the DGT database) then the taxpayer will need to resolve this with the DGT.

### 5. Extension of deadline for lodgement of notification for April

Taxpayers wishing to access the tax incentives for Article 21, 25 and Final Tax for April are granted an extension of the deadline for lodgement of the notification. As per the DGT Circular Letter No. SE-29/PJ/2020, SP-20 dated 30 April 2020, the deadlines for April are:

- Article 21 incentive – 20 May
- Article 25 incentive – 15 May
- Final Tax – 20 May

### 6. Final Tax

In general the 0.5% Final Tax applies for individuals (or groups of individuals) who are undertaking business activities that are not classified as 'independent services' and entities whose turn-over is not more than Rp 4,800,000,000 per year unless these individuals or entities request to be subject to

standard profits-based taxation. The Final Tax will continue to apply until the sooner of the expiry of the period stipulated in PP-23/2018 (e.g. 3 years for companies) or when the turn-over exceeds Rp 4,800,000,000.

The Final Tax will be borne by the Government for eligible taxpayers that access the incentive and obtain the Statement Letter.

## 7. 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.

## 8. 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 Rp 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.

## Transition

Taxpayers that have already received incentives under PMK-23/2020 do not need to re-notify/re-apply and the existing approvals continue to be valid.

## COMMENTS & ACTIONS

The expansion of the number of KLU that are eligible for the tax incentives is very appropriate when considering COVID-19 is affecting the entire economy.

It is also appreciated that the period for lodging notifications to access the tax incentives for April for Article 21, Article 25 and Final Tax has been extended. Therefore taxpayers should immediately check whether they are eligible to access the tax incentives for April.

For further information please contact:

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