Analysis of the Corporate Income Tax Cuts Policy Year 2020 to Mitigate the Effect of Covid-19 Outbreak on the Indonesian Economy

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Abstract. The decrease in Indonesia's economic growth rate due to Covid-19 outbreak resulted in the Government issuing various stimulus/policies to mitigate the impact of this huge Covid-19 shock, one of the policies issued in the form of tax policy. This study used explorative and descriptive approach. This is a literature study with qualitative approach. Based on the conducted study, one of the extraordinary policies issued by the Government is the issuance of The Government Regulation Law No. 1 of 2020 (Perppu 1/2020) on March 31, 2020. One of the policies highlighted in Perppu 1/2020 is the policy of cutting the Corporate Income Tax (PPh Badan) Rate from 25% to 22% for the 2020-2021 tax year and for tax year 2022 onwards using a 20% rate. The expected positive impact of this Policy is to improve the liquidity of the company and secondly with the adjustment of the instalment of Income Tax Article 25 (PPh Pasal 25) can prevent the tax overpayment of corporate taxpayer due to the decrease on business profit as impact of Covid-19 outbreak. The negative impact that can be caused is the potential loss in tax revenue.

1 Introduction

The spread of the coronavirus outbreak in the world continues to expand. According to the World Health Organization (WHO), Corona Virus Disease (Covid-19) has spread to 215 countries 215, including Indonesia. Recorded as of September 30, 2020, the number of positive cases worldwide amounted to 33,441,919 cases and 1,003,497 death cases (WHO, 2020). While in Indonesia, Covid-19 has spread to 279 districts/cities spread across 34 provinces. Data from the Task Force on The Acceleration of Covid-19 Handling (Gugus Tugas Percepatan Penanganan Covid-19) as of September 30, 2020 shows the total number of positive cases of corona in Indonesia reached 287,008 cases. On an average day there are 4,000 new positive cases found throughout Indonesia (Satgas Penanganan Covid-19, 2020). In order to suppress the spread of Covid-19 in Indonesia, the government issued various policies such as closing schools and some business activities to large-scale social restrictions (PSBB). Referring to the Minister of Health Regulation No. 9/2020 concerning PSBB Guidelines for the Acceleration of Handling COVID-19, PSBB includes restrictions on certain activities of residents in an area suspected of being infected with COVID-19 including restrictions on the movement of people and / or goods for a particular province or district / city to prevent the spread of COVID -19. These restrictions are at least carried out through school and work vacations, restrictions on religious activities, and/or restrictions on activities in public places or facilities. Policies restricting social activities and economic activities can indeed prevent the transmission of this virus, but it has a negative impact on people's social and economic lives. Limited economic activities ranging from production, distribution and marketing of products resulted in a decrease in income that is not only experienced by businesses, the Covid-19 outbreak also had an impact on the decrease in labor/worker income. Not a few workers become unemployed because of layoffs by the company. Of course, the company is reducing their workforce to anticipate a decrease in income due to reduced work capacity. The company has certainly implemented various measures in dealing with the impact of this Covid-19 outbreak such as implementing WFH (work from home), pay cuts, reductions in the number of workers and others (Riyadi, 2020).

Based on the Indonesia Economic Report 2020 by the Indonesia Central Bureau of Statistics (BPS), Indonesia's economic growth rate figures are assessed from Indonesia's Economic Output or Gross Domestic Product (GDP) figures in the second quarter of 2020 experienced a contraction (negative growth) by -5.32% compared to the same period last year (year-on-year/YoY). Previously, in the first quarter of 2020, BPS reported that Indonesia's economic growth grew only by 2.97 percent, down far from 5.02 percent growth in the same period of 2019 (BPS, 2020). Compared to neighboring countries in the ASEAN region, the difference or change in Indonesia's economic growth is not the worst. However, according to Trading Economics, Indonesia is one of the countries with a double-digit decline in economic growth in the second quarter of 2020 of 10.37% when compared to the second quarter of 2019 (Gusman, 2020).

This decline in economic growth resulted in the Government issuing various stimulus/policies to mitigate the impact of Covid-19. One of the extraordinary policies issued by the Government is the issuance of The Government Regulation Law No. 1 of 2020 (Perppu 1/2020) on March 31, 2020 concerning State Financial Policy and Financial System Stability for the Handling of Covid-19 and/or in Order to Face Threats that Endanger the National Economy and/or Financial System Stability. One of the policies in the spotlight is the policy of cutting the Corporate Income Tax (PPh Badan) Rate. The policy of cutting the Corporate Income Tax (PPh Badan) Rate is one of the four taxation policies in Perppu 1/2020. Based on the data of National Income Realization, tax revenue always occupies the top position in contributing state income (BPS, 2020). The publication of this policy is certainly a fresh breeze for businesses amid the deterioration of Indonesia's current economic situation. The publication of this policy is inseparable from the government's efforts to encourage economic stability. The Minister of Finance of the Republic of Indonesia, Sri Mulyani Indrawati stated that the policy of cutting the Corporate Income Tax (PPh Badan) Rate is expected to ease the burden on employers due to the Covid-19 outbreak so as to improve the liquidity of the company and not many companies that have experienced bankruptcy until doing the employee termination (Layoffs) (Kurniati, 2020). In this study, researchers will examine the mechanism for utilizing Government Regulations in Perppu 1/2020 related the cutting of the Corporate Income Tax (PPh Badan) Rate to help the national economic recovery, especially in terms of business activities, community businesses, so that it is expected to be able to mitigate the impact of Covid-19 on the economy.

2 Method

This research uses an exploratory and descriptive approach. The research method used is a literature study with a qualitative approach. The literature study in this research is by collecting and reading various literatures in the form of books, journals, articles, and the Taxation Law and its implementing regulations.

3 Results and Discussion

3.1 Tax Revenue in Indonesia during Covid-19 Outbreak

From year to year, Indonesian State Revenues is dominated by tax revenue where in 2019, tax revenues reached 80.9% of the total State revenue, which was followed by 19% non-tax revenues and revenue from grants of 0.1%. In 2020, economic growth decreased to -5.32% due to the widespread Covid-19 outbreak not only in Indonesia but around the world. This decrease in economic growth certainly resulted in a decrease in state revenue both in tax revenues and non-tax revenues. In the "*APBN Kita"* press conference, the Finance Ministers of the Republic of Indonesia, Sri Mulyani Indrawati explained that tax revenues until July 2020 were still contracting by 14.7% compared to the same period last year. This contraction was recorded deeper than the end of the previous month which was 12%. The realization of tax revenue until the end of July 2020 amounted to IDR 601.9 trillion or 50.2% against the target of the State Budget 2020 which has been changed in accordance with Presidential Decree No. 72/2020 worth IDR 1,198.8 trillion. As a comparison, the realization of tax revenue for the first seven months of 2019 was recorded at IDR 705.4 trillion or 44.7% of the target. This performance also recorded a growth of 2.7%. Meanwhile, the realization of customs and excise revenues as of July 31, 2020 was recorded at IDR 109.1 trillion or 53.0% of the target of IDR 205.7 trillion. This realization recorded growth of 3.7% compared to the realization of the same period last year of IDR 105.2 trillion. On the other hand, state spending until July 31, 2020 was recorded at IDR 1,252.4 trillion or 45.7% of the ceiling of IDR 2,739.2 trillion. Realization of state spending grew by 1.3% compared to the absorption at the end of July last year which amounted to IDR 1,236.3 trillion. With the performance of state revenues and state expenditures, the state budget (*APBN*) deficit reached IDR 330.2 trillion or 31.8% of the benchmark in the 2020 *APBN* of IDR 1,039.2 trillion. The realization of the budget deficit is equivalent to 2.01% of GDP (Kurniati, 2020). The decrease in tax revenue was caused by the economic slowdown that occurred during the Covid-19 outbreak. On the other hand, the government is also focusing on tax facilities that have an impact on the decrease in tax revenues (Thomas, 2020).

Fig. 1. Tax Revenue July 2019 and July 2020.

3.2 Corporate Income Tax (PPh Badan) Rate in Indonesia until Year 2019

Indonesia underwent tax reform in 1983, where as a result of these tax reforms, Indonesia's tax system was systematically divided into two large groups of tax provisions, namely general provisions and special provisions. This reform also introduced the principle of self-assessment system in calculating income tax (PPh) since 1984, and the enactment of Value Added Tax/VAT (PPN) replaces Sales Tax (PPn) (Bawazier, 2011). Regulations related to Income Tax are set out in the Law of the Republic of Indonesia No. 7 of 1983 (UU 7/1983) concerning Income Tax, where based on this regulation, PPh Badan rate is a progressive rate with a maximum limit of 35%. Then the second tax reform took place in 1994 with the main goal being to maintain the effectiveness of the implementation of the principle of self-assessment system, namely by minimizing the interaction of tax officials with taxpayers to prevent corruption, collusion, and nepotism. The1994 reformation amended several tax laws, one of which is the Income Tax Law that is stated in the Law of the Republic of Indonesia No. 10 of 1994 (UU 10/1994). In the amendment of this Law, the highest Corporate Income Tax Rate is reduced to 30%. The third tax reform took place in 2000, in the tax reform, Government amended the Income Tax Law to the Law of the Republic of Indonesia No. 17 of 2000 (UU 17/2000). Where on this tax reform, there are significant changes related to the determination of Income Tax (PPh) rates for Individual Taxpayers and Corporate Taxpayers. In UU 17/2000, the Income Tax rate for Individual Taxpayers is using progressive tax rate with the highest rate of 35% while the Corporate Taxpayers are using progressive tax rate with the highest rate of 30%. In 2008, the Government again reformed taxation by making the fourth amendment to the Income Tax Law, namely through the Law of the Republic of Indonesia No. 36 of 2008 (UU 36/2008). The main focus of these reforms is securing state revenues, a tax system that is neutral, simple, stable, fairer, and more able to create legal certainty and transparency. In UU 36/2008, the mechanism for the imposition of Corporate Income Tax (PPh) rates was changed using a single rate which previously used progressive rate. The single rate charged is 28% and for 2010 a single rate of 25% applies.

Fig. 2. Indonesia Income tax Law Reformation.

3.3 Corporate Income Tax Cuts Policy Year in Accordance with Perppu 1/2020

In order to mitigate the implications of the Corona Virus Disease 2019 (Covid-19) on the economy, the government released the Government Regulation No. 1 of 2020 (*Perppu 1/2020*) dated March 31, 2020. Through *Perppu 1/2020*, the government took four policies of taxation, one of which was to adjust the Corporate Income Tax (*PPh Badan*) Rate for domestic Corporate Taxpayers and Permanent Establishment (*BUT*). The rate adjustment is stipulated in Article 5 *Perppu 1/2020* which stated:

"(1) Adjustment of Corporate Tax (*PPh Badan*) Rate for Corporate Taxpayers and Permanent Establishment (*BUT*) in the form of lowering the rates of Article 17 paragraph (1) letter b of the Income Tax Law (PPh Law) into :

a. 22% applicable in the 2020 fiscal year and the 2021 fiscal year;
and b. 20% effective in the 2022 fiscal year.

(2) Domestic taxpayers:

a. in the form of an public company;
b. with the total number of paid-up shares traded on the Indonesia stock exchanges at least 40%; and
c. meet certain requirements

can get a rate of 3% lower than the rate as referred to in paragraph (1) letter a and letter b.

(3) Further provisions regarding certain requirements as referred to in paragraph c are governed by or under government regulations."

Thus, through the *Perppu 1/2020*, the government lowered the Corporate Tax (*PPh Badan*) rate for the 2020 fiscal year which was carried out in two stages. In the first stage, Corporate Income Tax (*PPh Badan*) rate, which was previously 25%, is reduced to 22% for the 2020 and 2021 fiscal years. Meanwhile, from 2022 onwards the applicable rate is even lower, becoming 20%. As for companies that have traded their shares at least 40% on the Indonesia Stock Exchange (IDX), the amount of the *PPh Badan* rate is 3% lower than the general rate. Thus, the *PPh Badan* rate for listed companies will be 19% in 2020 and 2021 fiscal years, and will drop to 17% from 2022 fiscal year onwards. Furthermore, based on a statement from the Director of Counseling, Services, and Public Relations of the Directorate General of Taxation (DGT) Hestu Yoga Saksama and referring to the FAQ related to the taxation policy in *Perppu 1/2020* published on DGT official website, it states that the reducing *PPh Badan* rate also impact to installment payment of Income Tax Article 25 for 2020 (Mukarromah, 2020). The calculation and payment of Corporate Income Tax Installment (Income Tax Article 25) for 2020 can use a rate of 22% starting from the 2019 Annual Tax Return submitted and the onwards fiscal period. For taxpayers who have not delivered the Annual SPT 2019 until the end of March 2020 the calculation and installment of Income Tax Article 25 are as follows:

a. Installment of Tax Article 25 for the fiscal period of March 2020 (paid no later than April 15, 2020) is the same as the installment in the previous fiscal period.
b. Installment of Tax Article 25 for the fiscal period of April 2020 (paid no later than May 15, 2020) is calculated based on fiscal profit reported in the 2019 Annual Tax Return, but already uses a new rate of 22%.

Therefore, the government urges the Corporate Taxpayers to immediately submit their 2019 Annual Tax Return in order to start utilizing the reduction of the installment of Income Tax Article 25. Based on a comparative study as of May 7, 2020 conducted by

DDTC, there are other countries that take similar steps with Indonesia in order to maintain economic stability in this Covid-19 outbreak condition, one of which is by relying on tax instruments that is Kenya, where Kenya issued a policy of lowering the Corporate Income Tax rate from 30% to 25% (Asmarani, 2020). In addition Singapore also took a similar step by providing Corporate Income Tax rebate of 25% of the tax payable to be paid for fiscal year 2020 with certain criteria (KPMG, 2020). The policy of reducing the Corporate Income Tax rate is expected to have a positive impact, that is first to improve the liquidit of the company so that there is no termination of employment (layoffs) and secondly with adjustments to the installment of Income Tax Article 25 due to the reduction of the Corporate Income Tax rate, certainly this is one of the Government efforts to prevent the tax overpayments resulting from a decrease in business profit in the midst the Covid-19 outbreak. Besides the positive impact, there is also a negative impact that may result from the existence of a decrease in tax revenue (potential losses). In the government's scenario, according to *Bisnis Indonesia* and *Kontan* report, the gradual decrease makes economic growth decrease by 0.09% in 2021, but gradually increase in 2022 to 2025 which is 0.02%, 0.30%, 0.49%, 0.63%. By 2030, there will be an economic increase of 1.02%. The potential losses in tax revenue due to the Corporate Income tax reduce in 2021 and 2022 are estimated at IDR 52.83 trillion and IDR 50.13 trillion. The number of decreases in tax revenue continues to grow in 2023-2025, amounted to IDR 90.46 trillion, IDR 99.11 trillion, IDR 108.15 trillion (DDTC, 2020).

4 Conclusion

The spread of coronavirus (Covid-19) in all around the world continues to expand, including in Indonesia. The impact of the situation is the decrease in the rate of economic growth around the world, in Indonesia itself the economic growth rate assessed from Indonesia's economic output or Gross Domestic Product (GDP) in the second quarter of 2020 contracted (negative growth) by -5.32% compared to the same period last year (year- on-year/YoY). This decrease in economic growth resulted in the Government issuing various stimulus/policies to mitigate the impact of this huge Covid-19 shock. One of the extraordinary policies issued by the Government is the issuance of Government Regulation No. 1 of 2020 (*Perppu 1/2020*) on March 31, 2020 concerning concerning State Financial Policy and Financial System Stability for the Handling of Covid-19 and/or in Order to Face Threats that Endanger the National Economy and/or Financial System Stability. One of the policies in the spotlight is the policy of cutting/reducing the Corporate Income Tax (*PPh Badan*) rate. The reduction of the Corporate Income Tax is one of four taxation policies in *Perppu 1/2020*. Through the *Perppu 1/2020*, the government lowered the Corporate Income Tax Rate for the 2020 fiscal year through two stages. . In the first stage, Corporate Income Tax (*PPh Badan*) rate, which was previously 25%, is reduced to 22% for the 2020 and 2021 fiscal years. Meanwhile, from 2022 onwards the applicable rate is even lower, becoming 20%. As for companies that have traded their shares at least 40% on the Indonesia Stock Exchange (IDX), the amount of the *PPh Badan* rate is 3% lower than the general rate. Thus, the *PPh Badan* rate for listed companies will be 19% in 2020 and 2021 fiscal years, and will drop to 17% from 2022 fiscal year onwards. The policy of reducing the corporate income tax rate is expected to have a positive impact, firstly to improve the company's liquidity and secondly with the adjustment of the Income Tax Article 25 can prevent tax overpayment due to decrease on company profit during Covid-19 outbreak.

Besides the positive impact, there is also a negative impact that may result from the existence of a decrease in tax revenue (potential losses).

Related to the above conclusion, some suggestions can be proposed by the researcher related to the negative impact of the decrease in tax revenue due to the Corporate Income Tax Cuts Policy are the Government should make anticipatory steps such as by adjusting the state tax targets and strengthening the tax system which includes tax regulations with an implementation mechanism that does not burden the taxpayer to increase taxpayer compliance so that no source of tax revenue is missed. For the potential issue of tax overpayment that can be occur due to the decrease of business profit, the Government, especially Directorate General of Taxation (DGT) can be issue the tax regulation to regulated special treatment for tax refund for the tax overpayment of fiscal year that affected by Covid-19.

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