



Phenomenology of Employee Income Tax Policies during the Covid-19 in Indonesia

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ABSTRACT

Objective - Covid-19 is a disaster that impacts various sectors of life, one of which has an impact on a country's tax revenue. Tax incentives are one of the policy steps that the Indonesian government has taken to face the economic strike due to the Covid-19 pandemic. This study aims to examine the factors that influence the implementation of employee income tax policies during the Covid-19.

Methodology/Technique – This is a qualitative research using an interpretive paradigm with phenomenological methods. The data of this study are the results of observations and interviews with Corporate Taxpayers, Tax Experts, and Tax Officers. Based on the results of the interview, there are several factors that affect taxpayers' willingness to take advantage of this policy, including the ease of submitting incentives, certainty not to be audited, and not adding to the company's burden.

Findings - Employers take advantage of this incentive, namely the company has an interest in maintaining the internal stability of the company. The provision of this incentive will increase (at least maintain) the purchasing power of workers and create a conducive business atmosphere. So, it is true that entrepreneurs will flock to take advantage of this facility.

Novelty - This policy is expected to reduce the burden on business activities and help improve the condition of the company's cash flow, particularly during and after the epidemic. Thus, the company is expected not to terminate employment. If this condition occurs, there is potential for the national economy to keep moving, both in terms of production and consumption.

Type of Paper: Empirical.

JEL Classification: H24, H29.

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1. Introduction

In the middle of March 2020, the World Health Organization (WHO) declared a pandemic of the highly transmissible coronavirus disease (WHO, 2020a, b, c, d, e) COVID-19, signaling its global spread. Since then, the rapid worldwide outbreak of the novel coronavirus has triggered an alarming global health crisis.

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Many countries' governments have taken measures dramatically affecting the daily life of society. To slow down the transmission and spread of the coronavirus, the public health tactic of "social distancing" has been widely applied. Regions and even countries have been entirely locked down; schools, universities, and public facilities are shut down; and public events (including sports matches, concerts, and even marriages) are currently prohibited in most countries. These measures not only affect the populations' daily life but have caused significant economic consequences in economies around the world (Kraus et al., 2020). Stock markets have crashed dramatically (Baker et al., 2020), with economists consistently forecasting harsh economic recessions (Baldwin and Weder di Mauro, 2020; McKibbin & Fernando, 2020). Governments have set severe restrictions on firms in various industries, mandated social distancing and health protection policies, and even locked down non-essential businesses in many countries, triggering simultaneous demand as well as supply-side issues (Maria del Rio-Chanona et al., 2020). Whereas demand in industries such as healthcare has skyrocketed, demand in industries such as restaurants, air transportation, and tourism has evaporated. General buying power and consumption in private households have also been affected (Muellbauer, 2020).

The Covid-19 pandemic that has occurred since the beginning of 2020 has put enormous pressure on world conditions, especially in the economic and health sectors. Fiscal policies have provided large emergency lifelines to people and firms during the COVID-19 pandemic. They are also invaluable to increase a country's readiness to respond to a crisis and to help with the recovery and beyond (Vitor Gaspar, W. Raphael Lam, 2020). When the Great Lockdown finally ends, a strong economic recovery that benefits everyone will depend on improved social safety nets and broad-based fiscal support. This includes public investment in health care, infrastructure, and climate change. Countries with high debt levels will have to carefully balance short-term fiscal support for the recovery stage with long-term debt sustainability. World institutions are changing strategies to maintain global financial stability and allocating financing to deal with the Coronavirus from various directions.

In Indonesia, all economic sectors are predicted to experience a decline. The Ministry of Finance projects that GDP growth will fall to 2.3%. The rupiah exchange rate against the dollar will increase to IDR 17,500. The inflation rate could touch 3.9%. The export sector can touch -14.00% and imports at -14.50%. The prediction of nominal GDP in 2020 could fall to IDR 16,829.8 trillion.

The government has issued a Government Regulation in lieu of the Law of the Republic of Indonesia Number 1 of 2020 concerning State Financial Policy and Financial System Stability for Handling the 2019 Corona Virus Disease (COVID-19) Pandemic and / or in the Context of Facing Threats that Endanger the National Economy and/or Stability Financial System. This Perppu contains various state financial policies, including in the field of taxation and the financial sector in order to prevent a crisis situation due to the Coronavirus outbreak.

Further discussion regarding tax incentives is in the Regulation of the Minister of Finance of the Republic of Indonesia (PMK) Number 44 / PMK.03 / 2020 concerning Tax Incentives for Taxpayers Affected by the Corona Virus Disease 2019 Pandemic which was stipulated on April 27, 2020. This regulation replaces PMK Number 23 /PMK.03/2020 which was previously effective as of April 1, 2020.

Tax incentives are one of the government's efforts to maintain the supply side so that business activities do not stop due to COVID-19. Tax incentives are provided to reduce layoffs due to social restrictions to prevent transmission of COVID-19. The total tax incentive prepared by the government for the business world is Rp. 123.01 trillion. The budget includes incentives for Government Borne MSME Final Income Tax (DTP), additional income tax incentives (PPh) Article 21 DTP of IDR 14 trillion and reserves and other stimuli of IDR 26 trillion.

Examples of sectors that corrected in response to social restrictions on COVID-19 in Q1 (Q1) 2020 are manufacturing 2.1%, trade 1.6%, and transportation 1.3%. "The manufacturing sector is very deep (corrected) by 2.1%, usually (growing) 4% (in 2019). Trade has been hit, both big and retail. Sellers have to close, on the other hand, many buyers have reduced their purchases because they did not leave. At home, he spends much less. People only buy their basic needs; other items are not much needed nowadays. Many are

on guard, don't spend too much. Transportation is clear, because of mobility, "explained the Head of the Fiscal Policy Agency (Head of BKF) FebrioKacaribu at a virtual press conference asked BKF about the National Economic Recovery Program and Other Fiscal Issues, Wednesday (03/06) in Jakarta.

The form of tax incentives provided by the government related to Taxpayers who receive Easy Import Export Purpose (WP KITE) and Bonded Zone facilities is the first, income tax (PPh) Article 21 borne by the government (DTP) for employees with regular and regular gross income who are not annualized. more than IDR 200 million. This applies to 440 Business Field Groups (KLU) in the manufacturing sector and WP KITE according to PMK 23/2020. Meanwhile, sectors related to PMK 44/2020, PPh 21 is given for 1,062 KLU, WP KITE, and Bonded Zone WP. The total PPh 21 DTP is IDR 25.66 trillion.

The 2020 "Great Lockdown" related to the COVID-19 pandemic is yet another policy challenge that can benefit from insights from IB scholarship (Van Assche & Lundan, 2020). Companies in all industries and of all sizes adapt their business models to changing environmental conditions within a short period of time (Kraus et al., 2020).

This study contributes to the implementation of tax incentive policies on employee income during the Covid-19 pandemic is then expected to be input to the government in formulating a tax incentive policy model for employee income during the Covid-19 pandemic.

2. Literature Review

From a national perspective, we need to consider not only the effects on the agents in the location providing incentives, but also on the agents in all other locations (Slattery & Zidar, 2020). Much of the literature on tax competition (for a survey, see (Pasteur & Koch, 1941)Agrawal, Hoyt, and Wilson 2019) highlights the possibility of a race to the bottom and over-subsidization of firms. A prisoner's dilemma perspective in which every location acting in its own self-interest, leading to a suboptimal equilibrium for all helps reveal why some policymakers have called for subsidy bans in the United States (Markell, 2017) and has led to bans on such subsidies within the European Union (Slattery & Zidar, 2020).

Equity considerations are the basis for some of the most compelling arguments for place-based incentives. Income and opportunity vary substantially across regions and place-based policies can provide unique targeting benefits for addressing these disparities (Slattery & Zidar, 2020). (Gaubert et al., 2021) characterize these conditions, which relate to sorting, productivity differences across locations, worker mobility, and other features affecting the equity and efficiency of the optimal income tax system (Slattery & Zidar, 2020).

The relaxation of taxes is expected to increase Indonesia's cash flow because it can help increase a country's gross income (munandar, 2020). This is a positive impact if tax relaxation is carried out in articles 21, 22, and 25. Therefore the finance minister and his staff who take care of the tax relaxation aim to make Indonesia's financial cash flow stable. Surrey and Sunley (1976), pp. 16–17 formulated a definition that was primarily aimed at the income tax:

"A special item in the income tax - such as a special exclusion or exemption - that represents a deliberate departure from accepted concepts of net income and the regular rate structure in order to affect the private sector in a way that is often accomplished by direct expenditures."

Later this definition was generalized, for example by Willis and Hardwick (1978), p. 1:

"A tax expenditure is an exemption or relief which is not part of the essential structure of the tax in question but has been introduced into the tax code for some extraneous reason."

and the Committee on Fiscal Affairs of the OECD (1984), p. 7:

"A departure from the generally accepted or benchmark tax structure which produces a favorable tax treatment of particular types of activities or groups of taxpayers."

The OECD (2010), p. 12 uses the definition by Anderson (2008), slide 4:

"Provisions of tax law, regulation, or practices that reduce or postpone revenue for a comparatively narrow population of taxpayers relative to a benchmark tax."

In these later definitions, the relationship with direct expenditures is omitted. (Kraan, 2004), p. 130 still includes a reference to direct expenditures:

“A tax expenditure can be defined as a transfer of public resources that is achieved by reducing tax obligations with respect to a benchmark tax, rather than by a direct expenditure.”

Article 21 Employee Income Tax the Government will bear the Article 21 Employee Income Tax payable for the months of April through December 2020 for each employee who:

- Receives income from a qualified employer (see above table);
- Has a Tax ID number (NPWP); and
- Receives an annualized regular gross income not exceeding IDR 200 million.

Qualified taxpayers must inform the tax office that they are utilizing this incentive via DJP Online website. The Article 21 Employee Income Tax Incentive must be paid to the employees, regardless of whether the income tax is borne by the individual or by the employer. The incentive received by employees will not be considered as taxable income.

(Bénassy-Quéré & Weder di Mauro, 2020), (O'Reilly et al., 2020), (World Health Organization (WHO), 2020)

3. Research Methodology

This is a qualitative research using an interpretive paradigm with phenomenological methods. The data of this study are the results of observations and interviews with Corporate Taxpayers, Tax Experts, and Tax Officers in West Java Regional Tax office I environment. There are 38 Corporate Taxpayers involved as respondents in this study. Data analyzed with NVivo to find out the formula of the respondents' answers.

4. Results & Discussions

The working area of West Java Directorate General of Taxes Regional Office I consists of 15 cities/districts (figure 1.), including: The city of Sukabumi, District of Sukabumi, District of Cianjur, District of Purwakarta, City of Cimahi, District of West Bandung, District of Bandung, City of Bandung, District of Sumedang, District of Garut, City of Tasikmalaya, District of Tasikmalaya, District of Ciamis, District of Pangandaran, City of Banjar. From the working area, we found 38 Corporate Taxpayers who were willing to be respondents in this study. Taxpayers run various businesses, some are engaged in trading, contractors, hospitals, hotels, service companies, and others.



Figure 1. West Java Directorate General of Taxes Regional Office I Working Area

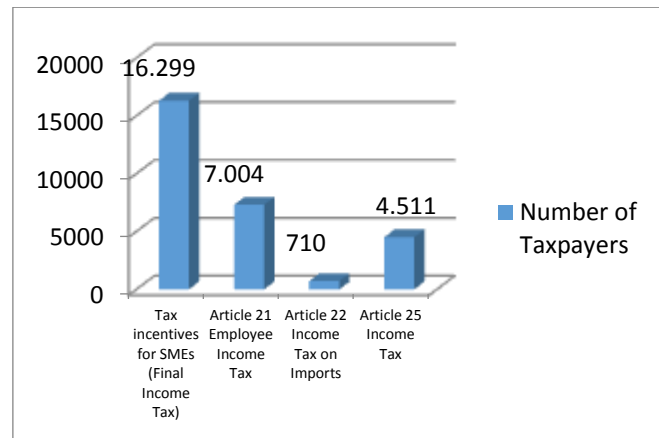


Figure 2. Number of Incentives Beneficiary Taxpayers

Figure 2 shows that the highest recipients of tax incentives are small and medium-sized businesses through final income tax of 16,299. This can be due to the fact that small and medium enterprises are the business sector most affected by the COVID-19 pandemic, therefore small and medium entrepreneurs are more likely to take advantage of tax incentives than large entrepreneurs. In the second position tax incentives received by employees through article 21 as much as 7,004. This is because many companies affected by covid 19 cut employee salaries, so it will automatically decrease the ability of the company or employees to pay taxes.

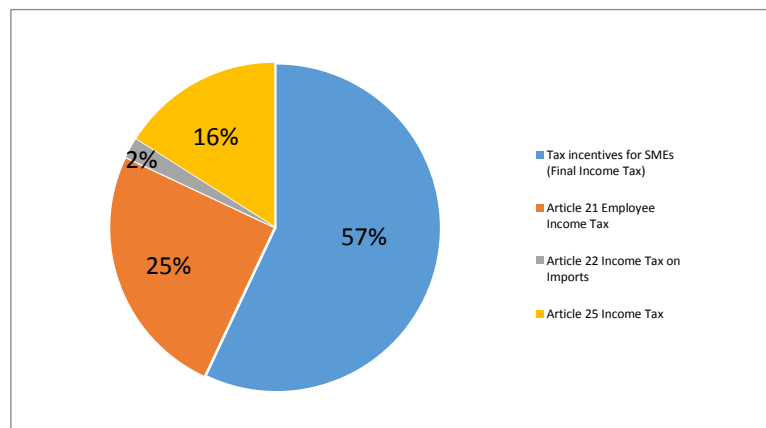


Figure 3. The percentage of the number of incentive beneficiary taxpayers

Figure 3 shows the percentage of a number of incentive beneficiary taxpayers. The highest percentage of recipients of tax incentives are small and medium-sized businesses through final income tax of 57%. In the second position percentage of tax incentives received by employees through article 21 as much as 25%, followed by article 25 for income tax as much as 16% and the last article 22 tax for imports as much as 2%.

Table 1. Number of Incentive Proposes approved

Sector	Article 21 Employee Income Tax
Processing Industry	1.795
Trading	3.541
Agriculture	141
Transportation and Communication	167

Construction and Real Estate	373
Culture and Recreation	60
Services	-
Information and Communication	127
Education Services	122
Accommodation	368
Maining	17
Health Services	109
Finance Services and Insurance	117
Water Supply and Recycling	3
Other Services	29
Procurement of Electricity, Gas, Water Vapor	35
Total Applications Approved	7.004

Table 1 shows that out of a total of 7,004 tax incentive submissions for article 21 employee income tax, the most submitted and approved submissions are submissions from the trading sector, this can be due to the decrease in people's purchasing power so that it will also have an impact on the decrease in the revenue of trading sector companies. The second-placed that submitted and approved submissions are submissions from the manufacturing sector (processing industry). This illustrates that the manufacturing sector is quite large in Indonesia and absorbs a considerable workforce is also severely affected by the covid-19 pandemic. The majority of the manufacturing sector experienced a decline in demand and sales. In addition, the manufacturing sector is also faced with the problem of raw material prices and helpers rising due to the origin of importing countries that are limited access, the increasing dollar exchange rate, as well as the prohibition to operate for the industry in some regions resulting in salary cuts and layoffs and will ultimately decrease the ability to pay taxes.

Table 2. Realization of Article 21 Employee Income Tax Revenues until August 2020

West Java Directorate General of Taxes Regional Office I

Description	State Revenue and Expenditure Budget Targets in 2020	Tax Revenue Realization in 2020	Tax Revenue Realization in 2019	Achievements	Growth
Article 21 Employee Income Tax	4,999.78	3,515.55	3,789.63	70 %	- 7.23 %

From table 2 can be concluded that in 2020 the revenue of pph article 21 in the Directorate General of Taxation of West Java Kanwil 1 shows unsatisfactory results. The realization of pph 21 receipts were only 3,515.55 lower than the target of 4,999.78 or in other words, achieved the target of tax receipts pph 21 years 2020 only reached 70%. Meanwhile, when compared to the achievement of pph receipts article 21 in 2019, the growth in tax receipts pph article 21 the year 2020 decreased by 7.23%.

Referring to the statement of the Head of Data and Supervision of Taxation Potential, Regional Office of the Directorate General of Taxes, West Java I, Mr. Zulkarnain Pasaribu during the Focus Group Discussion on 18 September 2020 in Bandung, there are a number of things that are noted for the realization of this Article 21 income tax incentive, including:

- For this government-borne tax incentive can still be recognized and recorded as tax revenue by the DGT, but for the reduction of the PPh Ps. 25 were considered as incentives only not recorded.

- Judging by the impact on revenues in the West Java Regional Office I for PPh Ps. The 21 targets in 2020 are 4.9 trillion, for this tax incentive there is no positive impact for the West Java Regional Office of the DGT 1. Judging from the data, incentives have not had an effect on increasing tax revenue for the West Java 1 Regional Tax Office until August.

- Since Indonesia's current economic growth has also entered into a recession, what is expected is that the size of the reduction in tax revenue is equal to the percentage decline in the Indonesian economy. According to a 2020 study of tax incentives in the United States, "states spent between 5 USD and 216 USD per capita on incentives for firms (Slattery & Zidar, 2020). There is some evidence that this leads to direct employment gains but there is not strong evidence that the incentives increase economic growth (Slattery & Zidar, 2020).

Research question 1:

Do you know about this tax incentive policy?

Of all respondents, almost all know about the tax incentive policies issued by the tax directorate general for taxpayers who are affected by covid-19. The sources of information regarding this incentive are various. Most of the taxpayers get information about this tax incentive from electronic media, and only a small portion get this information from the tax service office through an account representative.

Research question 2:

How is the process of submitting this incentive application, is it easy?

The first time this incentive policy was issued, we had difficulty accessing the tax office. We did not receive any information on how this application was carried out and how technical it was implemented. The tax officers, especially the account representatives who handle our company, also do not yet understand the technical implementation of this tax incentive submission. Information is still confusing, which hinders the submission of this incentive application. However, as time goes by, the technical implementation of this tax incentive submission.

Whether the company benefits from this incentive policy

The incentive for income tax article 21 in the form of exemption from payable tax for employees with a gross income of less than 200 million per year does not provide direct benefits for the company, but the company becomes the mediator in filing this incentive for its employees. Even though they did not get the benefits directly, the company helped its employees to get lighter in the tax burden they were carrying during this Covid-19 pandemic so that the purchasing power of employees increased which then had an impact on improving employee performance in the office.

However, not all companies that were respondents in this study took advantage of this incentive, some of which, namely 3 companies did not take advantage of this incentive for several reasons, including because they were worried that after receiving this incentive their company or their employees would be examined by tax inspector. This concern arises because they think that the data submitted to the tax office will be more transparent, and open, and will then become the object of the tax office's audit if findings are found.

5. Conclusions

Based on the results, it can be stated that there are three factors that influence taxpayers in deciding to take advantage of tax incentives, namely first, the ease in making the incentive application process, the easier the process for submitting incentive applications, the more taxpayers will take advantage of this incentive policy. It is undeniable that information related to how to report the realization of tax incentives provided by the government is indeed quite difficult to understand. This should be material for future improvements for the government so that taxpayers can easily understand the tax incentive facilities provided by the government. Second, it does not increase the company's burden. when the process for applying for these incentives is easy

to do, the company is not burdened with doing so. The company does not directly feel the impact of providing this incentive, but employee performance will increase when they receive this tax incentive. This is actually beneficial for the company because the company's performance will also increase. Third, there is a certainty that taxpayers who take advantage of this incentive will not be audited. Tax audits are not easy for taxpayers to face, because it will take time and energy for the company and employees so as much as possible, they should be avoided. Although the taxpayer has the right to refuse to be audited by the tax authorities, entering the tax audit category is not a pleasant thing for the taxpayer.

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