DDTC Fiscal Research

Equality, Certainty, Convenience, Economy

INDONESIA TAXATION QUARTERLY REPORT

Q2 - 2020

Tax Revenue Prospect during Economic Recovery

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About DDTC Fiscal Research
DDTC Fiscal Research constantly provides objective, clear, and quality fiscal system analyses for stakeholders in the taxation sector, including business associations, multinational companies, and government agencies (central and regional). In addition, we effectively voice and advocate for the development and results of research. With our experience and expertise supported by complete literature and database, DDTC Fiscal Research is able to provide benefits in the process of formulating the tax system and business decision making.

Forewords

Praise be to God Almighty, that by His blessings and approval, this report entitled "Indonesia Taxation Quarterly Report II-2020" can be published.

This publication preserves countenance of DDTC's consistency in providing most updated guidance for tax stakeholders –including investors, business associates, policy makers, academicians, media and society as a whole.

In this time of hardships caused by Covid-19 pandemic, we would like to extend our sincere sympathy to every affected person and family. We do hope that permanent solution can soon be offered so that we can rise stronger together.

Hence, we also need to be optimistic that this momentum will shall pass in near future. By acknowledging the 'sense of crisis', we will all need to persevere and come together for the sake of our collective future.

Having mentioned that, the government also continues to be mindful of the path to resilient recovery. The various measures announced recently underscores the multi-pronged approach that will help Indonesia endure and recover from the economic impact of Covid-19.

From above context, tax instruments continue to present in the times of difficulty and uncertainty. Notably, tax policy plays significant role not only to finance the recovery program (budgetair) but also as supporting tools for affected households and businesses (regulerend).

Accordingly, this report primarily presents Indonesia's tax revenue prospect during economic recovery. Based on our analysis, the speed and strength of the tax revenue recovery will depend eventually on the ability of tax base to keep the fiscal sustainability alive. Furthermore, we also present report on how tax office's approach changes to adapt tax business process in the 'new normal' phase.

In all sincerity, we do hope that "Indonesia Taxation Quarterly Report II-2020" may offer a strong impact and meaningful that will benefit the whole tax system and its surroundings.

Jakarta, August 2020

Darussalam
Managing Partner DDTC

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Abbreviation

APBN	= *Anggaran Pendapatan dan Belanja Negara*/State Budget
AR	= Account Representatives
ASP	= Application Service Providers
BI	= Bank Indonesia
BKF	= *Badan Kebijakan Fiskal*/Fiscal Policy Agency
BPS	= *Biro Pusat Statistik*/Central Bureau of Statistics
CHT	= *Cukai Hasil Tembakau*/Tobacco Product Excise
CIT	= Corporate Income Tax
COVID-19	= Coronavirus Disease-2019
DGCE	= Directorate General of Customs and Excise
DGT	= Directorate General of Taxes
DTP	= *Ditanggung Pemerintah*/Borne by the Government
FTA	= Forum on Tax Administration
GDP	= Gross Domestic Product
GEP	= Global Excess Profit
ICP	= Indonesian Crude Price
KPP	= *Kantor Pelayanan Pajak*/Tax Office
IMF	= International Monetary Fund
ML	= Machine Learning
MSME	= Micro, Small and Medium Enterprise
NLP	= Natural Language Processing
NPWP	= *Nomor Pokok Wajib Pajak*/Taxpayer Identification Numbers
OECD	= Organisation for Economic Cooperation and Development
PDRD	= *Pajak dan Retribusi Daerah*/Local Taxes and Retribution
PEN	= *Pemulihan Ekonomi Nasional*/National Economic Recovery
PERPPU	= *Peraturan Pemerintah Pengganti Undang Undang*/ Government Regulation in Lieu of Law
PIT	= Personal Income Tax
PKP	= *Pengusaha Kena Pajak*/Taxable Entrepreneurs
PMN	= *Penyertaan Modal Negara*/State Equity Participation
PMSE	= *Perdagangan Melalui Sistem Elektronik*/Trade Through Electronic System
PNBP	= *Penerimaan Negara Bukan Pajak*/Non-Tax State Revenues
RAPBN	= *Rencana Anggaran Pendapatan dan Belanja Negara*/State Budget Plan
SARS	= Severe Acute Respiratory Syndrome
SKP	= *Surat Keterangan Pajak*/Notice of Tax Assessment
SDTK	= *Sidang Di Luar Tempat Kedudukan*/Outside Domicile Trial Proceedings
SPHP	= *Surat Pemberitahuan Hasil Pemeriksaan*/Notice of Tax Audit Findings
SPPT	= *Surat Pemberitahuan Pajak Terutang*/Notice of Tax Due
SPT	= *Surat Pemberitahuan Tahunan*/Annual Income Tax Return
STLG	= Sales Tax on Luxury Goods
VAT	= Value Added Tax

Executive Summary

Survey of Recent Developments

Currently, the uncertainty remains high as the ongoing domino effect of Covid-19 pandemic has been inevitably widespread. This is evidenced by the development of health-related root causes to social, economic, and financial problems throughout the world. The direction of the world economy has changed dramatically, and this leads to a recession with unknown timeframe.

Two international institutions, IMF and OECD, project that Indonesia's 2020 economy will be contracted by -0.30% and -2.80% respectively. In contrast, the World Bank projects that Indonesia's 2020 economy will remain stagnant with the growth of 0.00% while the Ministry of Finance also projects that Indonesia's growth will be in range between 0.00% and 0.50% for the third quarter and around 3.00% for the fourth quarter. Conversely, within the last few years Indonesia's economic growth has always been positive and in the range of 5%.

In terms of revenue performance, by the end of June 2020, Indonesia's taxation revenues had reached IDR 811.18 trillion and contributed 57.76% to the APBNP target set in Presidential Reg. No. 72 of 2020 whereas Indonesia's tax revenues stood at IDR 531.71 trillion or 44.35% of the APBNP-Presidential Reg. No. 72 of 2020 target. Further, customs and excise revenues until the end of the second quarter in 2020 have reached 93.21 or 31.69% of the APBNP-Presidential Reg. No. 72 of 2020.

Growth of tax revenues experienced a significant contraction mainly in May 2020. This pressure was caused by the economic activities' downturn as a side effect of social restrictions imposed during the pandemic, as well as the utilization of various tax incentive facilities granted by the government in order to maintain economic stability.

Overall, the growth of tax revenue components until the end of June 2020 remained suppressed due to the economic and international trade activities downturn as a result of the Covid-19 pandemic, as well as the utilization of fiscal incentives in the context of economic recovery. However, in terms of customs and excise, the revenue performance in the second quarter in 2020 was far higher than the average revenues within the last 5 years.

Meanwhile, non-tax state revenues (*Penerimaan Negara Bukan Pajak*/PNBP) add up to IDR 203.94 trillion. In terms of PNBP sources, oil and gas natural resource revenues contributed 78.89% of revenues but experienced negative growth of -24.58% (yoy) by the end of second quarter this year. Similarly, non-oil and gas natural resources revenues also experienced the same issue with the annual growth of -20.69% in same period. The negative growth was due to the substantial contraction in the mining and forestry sectors.

Responding the continuing effect of Covid-19, the government has followed up a number of adjustments of taxation business process and expansion of fiscal facilities. For instance, the Director General of Taxes has implemented on-field operational guidelines regarding the granting of tax incentives for taxpayers affected by the Covid-19 virus pandemic. These operational guidelines are outlined in the Director General of Taxes Circular No. SE-19/PJ/2020. This implementing regulation then has been revised two times, namely SE-29/PJ/2020 and SE-43/PJ/2020. In addition, the government again expanded the sectors to receive tax incentives for taxpayers affected by the Covid-19 pandemic.

Tax Revenue Prospect during Economic Recovery

The second quarter of this year marked surprising significant economic downturn, yet nobody can assure whether we have passed the worst. Despite the uncertainty, arising optimisms already take place to give us hopeful sense that this alarming condition will not hold for long.

In the State Budget Plan (*Rancangan Anggaran Pendapatan dan Belanja Negara*/RAPBN) 2021, the government set assumptions that the economy will grow between 4,5-5,5%. Previously, many experts and institutions has also said the next quarter will streak the U-turn and the growth will slowly recover. Thereafter, in 2021, IMF predicts that Indonesia's economic growth will rebound by 6.1%, notably above the world average projection– 5.4%. Morgan Stanley even anticipates that Indonesia can be one of the fastest countries whose economy will restore and even go back stronger than ever.

Despite of that, the level of fiscal severity is still under big question mark. No one can guarantee that the performance will follow the restoration of the economy. History (as will be shown in section C) has shown that tax revenue betterment will need many years to follow.

Anticipating the upcoming state, the government has adjusted national fiscal posture for current year. In June, the government released Presidential Regulation (Perpres) Number 72 of 2020 as a revision of Government Reg. Number 54 of 2020 which contained changes in posture and details of the APBN 2020 fiscal year. Next year, similar prudence would be required to put priorities in place, while long-term fiscal sustainability must be put in mind. IMF projects that Indonesia would face fiscal deficit by 5.0% of GDP, while the rest of the worlds are estimated to have worse.

Many have raised the issue of what the tax systems will look like when we exit from the crisis that caused by the Covid-19 pandemic. On the one side, this is about questioning the taxation structures in the future whether there will be new type of taxes or new tax basis. On the other side, this is also related to how effortful and how skilful the governments in raising tax revenues to finance higher levels of their expenditures.

Furthermore, since the current crisis does not only hit some countries or some regions, a global response is also needed including the tax cooperation as the part of a set of effective and well-coordinated multilateral actions. In a broader scope, this crisis also can be meant as the momentum to restructure the fundamental of tax systems in many countries.

Hence, the importance of a compelling vision for future tax revenue prospect also needs to be considered. This is given that the governments' effort to raise tax revenue may be too politically challenging and may also lead to spiralling deficits. Another risk is that 'expansive' tax policies could trigger vicious political conflict between the groups who feel under 'threat' of additional tax and who are entitled to special consideration.

In the past, although the impetus and effects of the financial crisis are substantially different from the current economic crisis, changes in tax revenues during the period provide an example of scale of the revenue impact of a major global shock and not independent between one and another. On average, it might also be seen that trends in tax revenues and in GDP tend to move together in normal phase. However, during the crisis, tax revenues tend to fall faster and recover much slower than GDP when GDP growth is limited or negative.

For the present crisis, some experts in taxation mainly suggest the alternative to revisit the fundamental tax system in taxing the digital economy. The other alternative is to suggest a wealth tax for those who have avoided economic 'pain' during the crisis. We can infer from the past that the ability of the government to manage fiscal space becomes very important to consider in the time of economic crisis related to health sector.

As much as economy needs tax policy supports, it will eventually have to ensure that future tax bases, or so-called 'tax base' are able to keep the fiscal sustainability alive. Otherwise, second economic downturn may possibly arise rooted from unpaid debts or unfunded development. In addition, to anticipate future possible crises with more resilient revenue performance, tax revenue should be more diversified and more reliant on personal income tax than corporate one. In parallel, broadening tax bases should be carried out to balance the tax expenditures, particularly in personal income taxes, VAT, and new taxes based on wealth.

Adapting Tax Administration to the New Normal

The inevitable developments in technology and globalization have led to new business processes in line with the increase in domestic and cross-jurisdictional transactions. Parallel with this trend, tax standards and administrative processes must adapt to the required developments and needs. Not only will these reforms play a role in collecting tax revenues, but also in establishing an equal and collaborative relationship with taxpayers and other stakeholders.

While the need for digitization increases, the Covid-19 pandemic poses challenges for tax authorities to speed up the pace of technology utilization in the tax system. Such situation, which demands social distancing and avoiding crowds to prevent the spread of the virus, certainly plays a role in changing the tax administration system from face-to-face to online using electronic means.

Accordingly, tax administration transformation has to be bolstered by appropriate, easy-to-implement, and efficient regulations, business processes, and roadmaps. Accordingly, the Directorate General of Taxes (DGT) has issued several policies on the digitalization of tax administration and amended policies related to reporting, auditing, objections, tax dispute resolution, and so forth. These policies aim to facilitate the implementation of tax rights and obligations and adapt to the current pandemic.

In responding to the economic slowdown challenges, one of the widely used instruments is tax policies, ranging from income tax relief, accelerated refunds, to tax administration relief. The pandemic and technological developments significantly drive various continuous tax policy in a short period of time. Unfortunately, this may lead to tax information asymmetries in the society that results in obstacles to the implementation of tax administrative policies and the realization of incentive utilization. Regarding to this, the Indonesian Government currently provides a number of tax incentives,

A set of policies issued by the government during the pandemic may be imperfect, but adaptation and revision in substance and in administration can be expected. Now may be the momentum for the government to introduce taxes and socialize an understanding of the role of taxes in future developments to the wider community. Not only should the tax education target (unregistered) taxpayers, but also prospective future taxpayers, such as students or university students. To realize mutual understanding, a new paradigm based on transparency, openness, mutual trust, and mutual understanding between taxpayers and tax authorities is called for.

In the future, in addition to taking anticipatory measures towards digital transformation, the tax authorities should also take precautionary steps towards the consequences of digital transformation that is or will be carried out in the future. Thorough and consistent evaluation and monitoring processes are, therefore, needed, and definitely involve competent human resources in their respective fields.

In terms of the tax authority organization's business processes, the taxpayers' convenience aspect needs to be maximized. As such, easily accessible integrated services are essential. For example, the Australian tax authorities have moved from web-based to smartphone-based business processes, making it easier for taxpayers to interact or consult with tax officials. Moreover, another aspect worth considering is reducing the use of currency in all business processes, from registration to payment processing.

Further, the use of advanced analytics through machine learning in Indonesia needs to be improved in implementing the tax compliance framework. With the new technology, the DGT can automate business processes, ranging from the taxpayer registration process, processing notices, tax returns, and other tax documents, processing tax payments, supporting auditing and billing, to the taxpayer accounting function.

In other words, digitization is ought to offer convenience for taxpayers in obtaining information or fulfilling their tax obligations. This transformation, however, may frequently lead to new problems that may the original purpose of these changes.

Hence, it is important that the tax authorities not only focus on the use of new and cutting-edge technologies but also prepare anticipatory measures concerning the consequences and conflicts arising due to the use of these technologies. Additionally, adjustments to the procedures during the transition period cannot be taken for granted. In addition to requiring reliable human resources, these adjustments require infrastructure that can support the resolution of problems arising from changes in policy procedures and data that are not fully integrated.

To conclude, the tax system transformation calls for excellent cooperation and coordination among taxpayers, tax consultants, tax authorities, and software providers to establish a stable tax system. Each of these parties has an equal role in promoting stability and consistent innovation in the world of taxation. Last but not least, tax administration modernization should facilitate the development of sustainable tax compliance, which is driven by mutual trust, transparency and certainty.

Survey of Recent Developments

The first chapter describes the taxation circumstances during the second quarter of 2020. They include the highlights and key trends on policy, administration and law on macro-fiscal situations, revenue performance, issues on the sector of domestic tax, customs and excise, non-tax, local taxes, international aspects of Indonesia taxation and global taxation trends. It is expected that the readers will see the current state of taxation landscape and its direction ahead.

1

1 Chapter Survey of Recent Developments

The third quarter of 2020 will be decisive whether our economy in a recession state or not.

A. Macro-Fiscal Framework

The third quarter of 2020 will be decisive whether our economy in a recession state or not. As of now, the uncertainty remains high as the ongoing domino effect of Covid-19 pandemic has been inevitably widespread. This is evidenced by the development of health-related root causes to social, economic, and financial problems throughout the world. The direction of the world economy has changed dramatically, and this leads to a recession with unknown timeframe.

Two international institutions, IMF and OECD, project that Indonesia's 2020 economy will be contracted by -0.30%[1] and -2.80%[2] respectively. In contrast, the World Bank projects that Indonesia's 2020 economy will remain stagnant with the growth of 0.00%[3] while the Ministry of Finance also projects that Indonesia's growth will be in range between 0.00% and 0.50% for the third quarter and around 3.00% for the fourth quarter.[4] Conversely, within the last few years Indonesia's economic growth has always been positive and in the range of 5%.

This crisis then has prompted the government to promulgate a new legal standard, namely Government Regulation in Lieu of Law No. 1 of 2020 which then was ratified by Law No. 2 of 2020 as the basis for the main economic policy of extraordinary measures in addressing the pandemic. Referring to this basis, the government

1 IMF, "World Economic Outlook (WEO)" (June 2020), Internet, can be accessed at: https://www.imf.org/~/media/Files/Publications/WEO/2020/Update/June/English/data/WEOJun2020update.ashx?la=en.
2 OECD, "Economic Forecast Summary" (June 2020), Internet, can be accessed at: http://www.oecd.org/economic-outlook/. The projected figures are projected figures within a certain scenario.
3 World Bank, *Indonesia Economic Prospects: The Long Road to Recovery* (July 2020), 32.
4 This information is obtained from the Ministry of Finance's statement in KSSK Press Conference (5 August 2020).

The government then revised the 2020 State Budget posture through Presidential Reg. (*Peraturan Presiden*/ Perpres) Number 54 of 2020, which was later revised by Presidential Reg. No. 72 of 2020 as a form of countercyclical policy to tackle the impact of the pandemic.

then revised the 2020 State Budget posture through Presidential Reg. (*Peraturan Presiden*/Perpres) Number 54 of 2020, which was later revised by Presidential Reg. Number 72 of 2020 as a form of countercyclical policy to tackle the impact of the pandemic.[5]

Looking at the whole economic context, Indonesia's GDP in the first quarter still recorded positive growth despite a significant slowdown as of 2.97% which then followed by the negative growth of -5.32% in the second quarter. In fact, these situations give the total growth in the first semester into -1.26% (yoy).

Within the first two quarters, the most affected sectors include the tourism sector which involves hospitality, aviation, restaurants, and so forth. A demand decrease in these sectors then has encouraged business players to take responsive measures, i.e. reducing activities, employees, and terminating production activities. Therefore, the government responded this situation by issuing some policies through fiscal stimulus in order to support health care, public protection, and directly affected sectors by the Covid-19 outbreak. Besides, this policy is also intended to strengthen the financial stability.

These realizations then respectively made state deficit in April, May, and June 2020 stood at 0.44%, 1.10%, and 1.57% of GDP compared to the target of of the Revised State Budget as mentioned in Presidential Reg. No. 72 of 2020.

The other economic indicator, inflation level based on consumer level was recorded at 0.08%, 0.07%, and 0.18% (mtm) from April to June 2020. The low inflation in April 2020 was contributed by the controlled food prices due to adequate supply and reduced public demand in social activity which led to a reduction in household consumption. On the other hand, inflation value in May 2020 was mainly affected by deflation in chili commodities due to harvest time, oversupply of broiler eggs despite its low demand, and also increased supply of imported garlic. Conversely, inflation in April to June 2020 was recorded at 0.84%, 0.90%, and 1.09% (ytd) and 2.67%, 2.19%, and 1.96% (yoy).

In the same period, from April to the end of June 2020, the level of Indonesia's foreign exchange reserves was seen as stable and also relatively high, amounting to USD 127.60 billion, USD 130.5 billion, and USD 131.7 billion. As of the end of second quarter this year, Indonesia's foreign exchange reserve was equivalent to 8.1 months of imports and payments of government debt. This value is above the international adequacy standard of around 3 months of imports.

Yet, in terms of exchange rate, the movements of rupiah against the US dollar was suppressed until early April to May 2020 due to the strengthening trend in the Dollar Index and financial market shocks. Per 13 May 2020, it made the position of IDR 14,887. However, the exchange rate of the rupiah against the US dollar then showed a strengthening trend, which was set in the position of IDR 14,733 at the end of May and IDR 14,302 as of 30 June 2020.

In terms of state revenues and grants, the realization reached 47.72% of the State Budget target set in Presidential Reg. Number 72 of 2020 by the end of second quarter. Thus, the annual growth for April to June 2020 was 3.23%, -9.02%, and -9.83% compared to same period last year. These realizations then respectively made state deficit in April, May, and June 2020 stood at 0.44%, 1.10%, and 1.57% of GDP compared to the target of of the Revised State Budget (*Anggaran Penerimaan dan Belanja Negara-Perubahan*/APBNP) as mentioned in Presidential Reg. Number 72 of 2020.

The central government expenditure in April, May, and June 2020 amounted to IDR 382.53 trillion, IDR 537.33 trillion, and IDR 668.53 trillion or grew by 3.37%, 1.23%, and 5.99% (yoy) respectively. On the other hand, transfers to Regions and Village Funds within said period amounted to IDR 241.45 trillion and IDR 306.60 trillion.

5 This information is obtained from the Work Meeting of the Ministry of Finance and Budget Committee of the House of the Representatives entitled "*Realisasi Semester 1 2020 dan Outlook APBN 2020*" (July 2020).

Figure 1 Comparison of Taxation and Tax Revenue for the Period of April to June in 2020 and in the Average of Previous Five Years (2015 – 2019) in Trillion Rupiah and Percentage

Source: Ministry of Finance (calculated by DDTC Fiscal Research). The monthly taxation and tax revenue data was obtained from the documents of realization of the State Budget/*Realisasi APBN*[6] (for data from 2015 to 2017) and APBN KiTa[7] (for data from 2018 - 2020). The data for Revised State Budget (APBNP) is obtained from the Law of Revised State Budget for 2015 – 2017 while data from the Revised State Budget Law is not/ has yet to be issued thus we used data from the Law of State Budget will not/has yet to be issued.

By the end of June 2020, Indonesia's taxation revenues had reached 57.76% while the tax revenues stood at 44.35% of the APBNP target.

Next, in terms of subsidy expenditure, the realization until the end of June 2020 added up to IDR 70.84 trillion or 36.90% of the Presidential Reg. Number 72 target. This type of expenditure consists of energy subsidies of IDR 48.30 trillion and non-energy subsidies of IDR 22.54 trillion with a proportion of 62.8% and 22.54%, and growth of -14.04% and 1.98% respectively (yoy).

On another note, the position of government debt until the end of June 2020 was at a ratio of 32.67% to GDP and amounted to IDR 5,264.07 trillion. The increase in the central government's debt was caused by financing due to the Covid-19 pandemic, which particularly intended to support health sectors, social safety nets, and the recovery of the national economy.

B. Revenue Performance

Tax Sector

By the end of June 2020, Indonesia's taxation revenues had reached IDR 811.18 trillion and contributed 57.76% to the APBNP target set in Presidential Reg. Number 72 of 2020 whereas Indonesia's tax revenues stood at IDR 531.71 trillion or 44.35% of the APBNP-Presidential Reg. Number 72 of 2020 target (Figure 1). Further, customs and excise revenues until the end of the second quarter in 2020 have reached 93.21or 31.69% of the APBNP-Presidential Reg. Number 72 of 2020 (Figure 2).

Based on the source of revenues per type of tax, the structure of Indonesia's tax revenues until the end of June

6 The Ministry of Finance of the Republic of Indonesia, "*Realisasi APBN*," Internet, can be accessed at: https://www.kemenkeu.go.id/informasi-publik/realisasi-apbn/.

7 The Ministry of Finance of the Republic of Indonesia, "*APBN KiTa*," Internet, can be accessed at: https://www.kemenkeu.go.id/publikasi/apbn-kita/.

Table 1 Tax Revenue Performance for the Period of April to June 2020 (Cumulative)

Type of Tax	Realization (Trillion Rupiah)			Growth (yoy)		
	Apr	May	Jun	Apr	May	Jun
Income Tax	241.53	281.81	330.27	-5.69%	-12.44%	-12.49%
Oil and Gas	15.01	16.98	18.06	32.30%	-35.58%	-40.13%
Non-Oil and Gas	226.52	264.83	312.21	3.17%	-10.38%	-10.10%
VAT and STLG	132.82	159.99	189.52	1.88%	-7.95%	-10.68%
Other Taxes	2.32	2.76	11.93	4.90%	-3.45%	-18.89%
TOTAL	**376.67**	**444.56**	**531.71**	**-3.09%**	**-10.82%**	**-12.01%**

Source: Ministry of Finance (APBN KiTa May – July 2020)

Table 2 Performance of Sectoral Tax Revenue for the Period of April to June 2020 (Cumulative)

Sector	Realization (Trillion Rupiah)			Growth (yoy)		
	Apr	May	Jun	Apr	May	Jun
Trade	73.92	84.91	98.57	-4.83%	-12.00%	-13.40%
Manufacture	108.36	126.14	145.30	-1.58%	-6.80%	-12.80%
Financial Services	57.88	69.36	80.98	8.16%	-1.60%	-3.10%
Construction and Real Estate	22.52	27.63	32.36	-4.61%	-11.00%	-11.80%
Transportation and Warehousing	16.97	19.99	23.52	-2.95%	-6.40%	-4.40%
Mining	16.46	18.66	21.31	-27.55%	-34.90%	-35.80%

Source: Ministry of Finance (APBN KiTa May – July 2020)

Growth of tax revenues experienced a significant contraction mainly in May 2020. This pressure was caused by the economic activities' downturn as a side effect of social restrictions imposed during the pandemic, as well as the utilization of various tax incentive.

2020 was dominated by income tax of 62.11% of total tax revenues. The income tax is dominated by the non-oil and gas sector, whose realization until the end of June 2020 amounted to IDR 312.21 trillion. However, income tax revenues from this sector experienced negative growth by -10.10% (yoy).

On the other hand, the realization of Value Added Tax (VAT) and Sales Tax on Luxury Goods (SLTGs) revenues until the end of June 2020 were IDR 189.52 trillion and IDR 159.99 trillion with yoy growth of 1.88% and -7.95%, respectively. Moreover, the annual growth of the realization of Land and Building Tax (*Pajak Bumi Bangunan*/PBB) and other taxes in this period stood at 4.90% and -3.45%.

Growth of tax revenues experienced a significant contraction mainly in May 2020. This pressure was caused by the economic activities' downturn as a side effect of social restrictions imposed during the pandemic, as well as the utilization of various tax incentive facilities granted by the government in order to maintain economic stability.

In sectoral terms, manufacturing/processing industries and trade remain the backbones of taxation revenue. Respectively, their contributions by the end of May 2020 were 36.38% and 24.49%. The growth of these two sectors, however, experienced a slowdown during the period and grew negatively by -6.80% and -12.00% (yoy), respectively.

The slowdown in the manufacturing sector was mainly caused by the deep contraction of the Purchasing Managers' Index (PMI) which stood at -28.60 by the end of May 2020, which was also related to the contraction of Indonesia's main trading partners' PMI. In addition, the slowdown in the tax revenue realization of trade sector was caused by social restrictions to address Covid-19 whereas the contraction related to import in this sector was due to the slowdown in international trade.

By the type of tax, Article 25/29 Corporate Income Tax dominated the Income Tax revenue realization. Until the end of June 2020, this type of tax amounted to IDR 96.44 trillion to state

Table 3 Revenue Performance per Type of Tax for the Period of April to June 2020 (Cumulative)

Type of Tax	Realization (Trillion Rupiah)			Growth (yoy)		
	Apr	May	Jun	Apr	May	Jun
Income Tax						
Article 25/29 Income tax	88.08	95.47	104.67	-14.16%	-19.07%	-20.98%
Corporate	80.80	87.66	96.44	-15.23%	-20.46%	-22.47%
Individual	7.28	7.81	8.23	-0.13%	0.55%	1.92%
Final Withholding Tax	38.91	46.39	55.31	7.22%	-2.96%	-1.92%
Article 21 Income Tax	48.38	61.96	76.32	4.12%	-5.30%	-2.43%
Value Added Tax (VAT)						
Domestic VAT	76.93	94.51	113.45	10.09%	-2.71%	-7.93%
Taxes on Imports						
Import VAT	51.41	60.61	70.95	-8.90%	-14.80%	-13.71%
Import STLGs	1.35	1.58	1.73	9.46%	-4.18%	-14.99%
Article 22 Income Tax on Imports	16.20	17.90	19.64	-13.37%	-24.97%	-29.07%

Source: Ministry of Finance (APBN KiTa May– July 2020)

In terms of excise revenue, Excise on Tobacco Products (*Cukai Hasil Tembakau*/CHT) showed the grow by 14.23% (yoy) until the end of June 2020 despite a slowdown compared to May 2020.

revenue. However, compared to the previous year, Article 25/29 Corporate Income Tax experienced quite high negative growth of up to -22.47%. On the other hand, Final Withholding Tax and Article 21 Income Tax also experienced negative growth although not as low as Article 25/29 Corporate Income Tax. Their growths by the end of second quarter in 2020 were 1.92% and 2.43% respectively.

Overall, the growth of tax revenue components until the end of June 2020 remained suppressed due to the economic and international trade activities downturn as a result of the Covid-19 pandemic, as well as the utilization of fiscal incentives in the context of economic recovery.

Customs and Excise Sector

In terms of customs and excise, the revenue performance in the second quarter in 2020 was far higher than the average revenues within the last 5 years. The achievement of customs and excise revenues in May and June, however, was still lower than the average revenue achievements against the target within the last 5 years as can be seen in Figure 2.

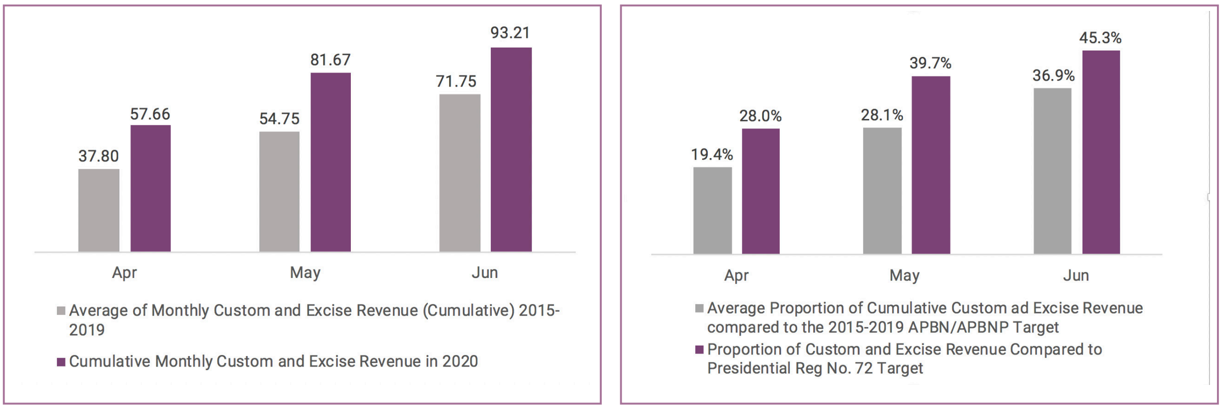
In terms of excise revenue, Excise on Tobacco Products (*Cukai Hasil Tembakau*/CHT) showed the grow by 14.23% (yoy) until the end of June 2020 despite a slowdown compared to May 2020. During this period, CHT was the main source of excise revenue and contributed 96.76% of the total custom and excise revenue. In addition, Ethyl Alcohol (EA) excise also experienced significant growth by 205.17% until the end of June due to the increased demand for for medical supplies.

On the other hand, import duty contributed up to 92.54% of the total customs revenue. However, this revenue realization experienced negative growth of -4.62% compared to the same period in the previous year.

Until the end of June 2020, non-tax state revenues (*Penerimaan Negara Bukan Pajak*/PNBP) add up to IDR 203.94 trillion.[8] In terms of PNBP sources, oil and gas natural resources revenues contributed 78.89% of revenues but experienced negative growth of -24.58% (yoy) by the end of second quarter this year. Similarly, non-oil and gas natural resources revenues also experienced the same issue with the annual growth of -20.69% in same period. The negative growth was due

8 The percentage is the value of the achievement of State Budget in Presidential Reg. Number 72 of 2020.

Figure 2 Comparison of Custom and Excise Revenue for the Period of April to June in 2020 and in the Average of Previous Five Years (2015 – 2019) in Trillion Rupiah and Percentage



Source: Ministry of Finance (calculated by DDTC Fiscal Research). The monthly Customs and Excise revenue data was obtained from the documents of realization of the State Budget /Realisasi APBN[9] (for data from 2015 to 2017) and APBN KiTa[10] (for data from 2018 - 2020). The data for Revised State Budget (APBNP) is obtained from the Law of Revised State Budget for 2015 – 2017 while data from the Revised State Budget Law is not/ has yet to be issued so that we used data from the Law of State Budget will not/has yet to be issued.

Table 4 Performance of Customs and Excise Revenue from April to June 2020 (Cumulative)

Type of Customs and Excise	Realization (Trillion Rupiah)			Growth (yoy)		
	Apr	May	Jun	Apr	May	Jun
Customs						
Import Duties	11.48	13.79	16.50	-2.64%	-7.86%	-4.62%
Export Duties	0.95	1.09	1.33	-34.97%	-27.45%	-18.19%
Excise						
Excise on Tobacco Products (CHT)	43.33	64.65	72.91	26.05%	20.46%	14.23%
Beverages Containing Ethyl Alcohol (MMEA)	1.73	1.79	2.26	0.63%	-27.32%	-18.94%
Ethyl Alcohol (EA)	0.15	0.17	0.18	277.62%	226.99%	205.17%

Source: Ministry of Finance (APBN KiTa May – July 2020)

to the substantial contraction in the mining and forestry sectors.

For commodities sector, the average Indonesian Crude Price (ICP) from January to April 2020 stood at USD 44.22/barrel, lower than the same period in the previous year which was USD 62.44/barrel. On the other hand, the average Coal Price Reference (*Harga Batubara Acuan*/HBA) for the January until May 2020 period was set at USD 65.36/ton. This value itself was also relatively lower than the same period in 2019, USD 89.10/ton. The dropped standard prices of these commodities have then led to a significant decline in Indonesia's natural resource revenues.

On another note, Restricted State Assets (*Kekayaan Negara Dipisahkan*/KND) revenues grew by -32.71% at the end of June 2020. The low realization of KND in the end of this second quarter was mainly due to the unfinished General Meeting of Shareholders (*Rapat Umum Pemegang Saham*/RUPS) in most State-Owned Enterprises (*Badan Usaha Milik Negara*/BUMN) contributing to PNPB from dividend payments. In addition, this was due to a shift in the remittance of Bank Indonesia's surplus to mid-June 2020. Conversely, the realization of this revenue at the end of April reach significant growth due to the accelerated audits in the most of State-Owned Enterprises from the banking sectors.

9 The Ministry of Finance of the Republic of Indonesia, "*Realisasi APBN*," Internet, can be accessed at: https://www.kemenkeu.go.id/informasi-publik/realisasi-apbn/.

10 The Ministry of Finance of the Republic of Indonesia, "*APBN KiTa*," Internet, can be accessed at: https://www.kemenkeu.go.id/publikasi/apbn-kita/.

Table 5 Performance of Non-Tax State Revenues from April to June 2020 (Cumulative)

Source of Income	Realization (Billion Rupiah)			Growth (yoy)		
	Apr	May	Jun	Apr	May	Jun
Natural Resources	42,182.80	49,257.40	54,517.10	-7.68%	-24.23%	-22.92%
Oil and Gas	33,492.90	38,860.10	41,704.00	-3.78%	-24.38%	-23.58%
Oil	33,492.90	38,860.10	41,704.00	-3.74%	n/a	-23.58%
Gas	0	0	0	n/a	n/a	n/a
Non-Oil and Gas	8,689.90	10,397.40	12,813.10	-20.15%	-23.69%	-20.69%
Mining	7,184.00	8,558.10	10,156.90	-22.24%	-25.67%	-21.11%
Forestry	1,070.30	1,356.30	1,648.00	-14.92%	-19.70%	-17.25%
Fishery	207.50	250.90	316.20	8.93%	9.38%	24.98%
Geothermal	228.10	232.10	692.00	16.42%	19.84%	-33.19%
Restricted State Assets Revenue	23,988.10	24,017.70	46,210.20	n/a	-26.79%	-32.71%
Other Non-Tax State Revenue	31,071.10	44,100.50	53,217.90	-11.91%	4.30%	9.86%
Public Service Agency	17,261.60	19,514.80	30,570.30	31.60%	6.29%	43.82%

Source: Ministry of Finance (APBN KiTa May – July 2020)

Starting 1 April, the Director General of Taxes has implemented on-field operational guidelines regarding the granting of tax incentives for taxpayers affected by the Covid-19 virus pandemic.

C. Domestic Taxes

C.1 Fiscal Relaxation Amidst Covid-19 Outbreak

Implementing Regulations of Tax Incentives for Taxpayers Affected by Covid-19

Starting 1 April, the Director General of Taxes has implemented on-field operational guidelines regarding the granting of tax incentives for taxpayers affected by the Covid-19 virus pandemic. These operational guidelines are outlined in the Director General of Taxes Circular No. SE-19/PJ/2020. This implementing regulation then has been revised two times, namely SE-29/PJ/2020 and SE-43/PJ/2020.

After the first expansion at the end of April, the government again expanded the sectors to receive tax incentives for taxpayers affected by the Covid-19 pandemic on 16 July 2020.

In general, these circulars outline the technical provisions on the implementation of four types of tax incentives to address the impact of Covid-19. *First,* the provision of Article 21 Income Tax borne by the government (*Pajak Penghasilan Pasal 21 Ditanggung Pemerintah/PPh Pasal 21 DTP*). *Second,* the provision of particular Final Income Tax for Micro, Small, and Medium Enterprise (MSME) borne by the government (*Pajak Final Ditanggung Pemerintah untuk UMKM/PPh Final DTP*). *Third,* exemptions from Article 22 Income Tax on certain imported products. *Fourth,* the reduction of Article 25 Income Tax installments. *Fifth,* accelerated refunds for Value Added Tax (VAT).

Expanded Criteria to Receive Tax Incentives for Taxpayers Affected by Covid-19

After the first expansion at the end of April, the government again expanded the sectors to receive tax incentives for taxpayers affected by the Covid-19 pandemic on 16 July 2020. The expansion of the scope of incentive recipients is outlined in the Minister of Finance Regulation Number 86/PMK.03/2020 concerning Tax Incentives for Taxpayers Affected by the Corona Virus Disease 2019 (MoF Reg. 86/2020).

The types of incentives granted under MoF Reg. 86/2020 remain the same as those provided under the former regulation, MoF Reg. 44/2020. Under this regulation, however, the government adds the number of business classifications (*Klasifikasi Lapangan Usaha*/KLU) that may apply for incentives for taxpayers affected by the Covid-19 pandemic.

For Article 21 Income Tax borne by the government (*PPh Pasal 21 DTP*), 1,189 KLU are given tax incentives, whereas formerly only 1,062 KLU were entitled to such incentives. Next, the number of KLU

In mid-April, the Director General of Taxes released a regulation on the procedures for filing, receiving, and processing Annual Income Tax Returns for the 2019 Fiscal Year.

The Director General of Taxes has released a regulation stipulating new income tax rates for corporate taxpayers as the basis for calculating Article 25 Income Tax installments.

receiving the exemption of Article 22 Income Tax on import has been added from 431 KLU to 721 KLU.

The number of KLU that may apply for accelerated VAT refund has been added to 716 KLU from 431 KLU whereas the reduction of Article 25 Income Tax installments incentive can now be utilized by 1,014 KLU from previously only 846 KLU. In addition to expanding the scope of KLU that may receive these incentives, the government has also extended the validity period of all types of incentives from previously only until September 2020 to until December 2020.

MoF Reg. 86/2020 also provides some other relief for taxpayers wishing to take advantage of tax incentives during the Covid-19 pandemic. This facility includes that the notification of the utilization of Article 21 Income Tax that borne by the government is to be submitted at the central level only when employers have branches elsewhere.

On another note, Micro, Small, and Medium Enterprise (MSME) taxpayers that will use the Final Income Tax facilities that borne by the government do not need to submit the Certificate of Gov. Reg. Number 23 of 2018 but are only required to submit a realization report every month. However, should also be noted that not all MSMEs are exempted from this obligation.

Another change in MoF Reg. 86/2020 is that taxpayers that utilize the exemption of Article 22 Income Tax and Article 25 Income Tax installment incentives are required to submit monthly reports on incentive realization. The reports are submitted no later than the 20th of the following month after the tax period ends. Previously, the incentive realization was to be reported every three months.

Under this regulation, the government also stresses that compensation for overpayment of taxes from the previous tax period can be calculated in the VAT refund-related incentive mechanism. The threshold for accelerated initial refunds under the latest regulation remains the same as before, i.e. IDR 5.0 billion.

Procedures for Filing, Receiving, and Processing Annual Tax Returns Amidst the Pandemic

In mid-April, the Director General of Taxes released a regulation on the procedures for filing, receiving, and processing Annual Income Tax Returns for the 2019 Fiscal Year. These procedures are outlined in the Director General of Taxes Regulation No. PER-06/PJ/2020. This regulation has been released to provide legal certainty and ease for individual and corporate taxpayers in filing Annual Income Tax Returns for the 2019 Fiscal Year in force majeure due to the Covid-19 pandemic.

Calculation Method of Income Tax Article 25 Installments with New Rates

The Director General of Taxes has released a regulation stipulating new income tax rates for corporate taxpayers as the basis for calculating Article 25 Income Tax installments that take effect since the filing deadline of annual returns. This affirmation is stated in the Director General of Taxes Regulation No. PER-08/PJ/2020.

This regulation has been released to provide legal certainty to taxpayers related to the adjustment of corporate income tax rates as regulated under Government Regulation in Lieu of Law No. 1 of 2020 that has been ratified into Law No. 2 of 2020. Under the regulations, the resident corporate and permanent establishment (*Bentuk Usaha Tetap*/BUT) income tax rate which was formerly 25% has been reduced to 22% for the fiscal years 2020 and 2021. Furthermore, the rate will again be lowered to 20%, which will come into force in the 2022 Fiscal Year. Taxpayers entitled to the facilities in Article 17 paragraph (2b) of the Income Tax Law, however, are subject to a 3% lower rate than the standard tariff, i.e. 19%.

Ratification of Government Regulation in Lieu of Law No. 1 of 2020 into Law

The government and the House of Representatives have ratified Government Regulation in Lieu of Law (*Peraturan Pemerintah Pengganti*

Undang-Undang/Perppu) No. 1 of 2020 in the House of Representatives plenary meeting. This ratification is outlined in Law No. 2 of 2020.

The government provides tax incentives for goods and services required to counter the pandemic, including medicines, medical equipment, and other required supporting equipment to address the pandemic.

As is *known*, Government Regulation in Lieu of Law No. 1 of 2020 also regulates four policies in the field of taxation. *First,* the income tax rate reduction for resident corporate taxpayers and permanent establishments. *Second,* the tax treatment of Trade through Electronic Systems (*Perdagangan Melalui Sistem Elektronik*/PMSE). *Third,* the time extension to implement the right and to fulfill tax obligations. *Fourth,* the granting of authority to the Minister of Finance to provide customs facilities in the form of exemption or relief of import duties to address emergencies situation as well as to recover and strengthen the national economy.

The Granting of Income Tax Facilities to Address the Economic Impact of Covid-19

The Director General of Taxes has issued a regulation outlining the procedures for calculating the time extension of the implementation of taxation rights and obligations.

The government has issued a policy on income tax facilities to address the ongoing pandemic. This policy is outlined in Government Regulation No. 29 of 2020 concerning Income Tax Facilities in the Context of Addressing Corona Virus Disease 2019 (Gov. Reg. No. 29 of 2020). This regulation has been issued to respond to the impact of the Covid-19 outbreak in Indonesia mainly for health and safety sectors, as well as for other business sectors. Promulgated on 10 June 2020, this policy shall come into force thereafter.

Income tax facilities under this government regulation covers five aspects. *First,* an additional reduction in net income for medical equipment producers. *Second,* donations as the deduction of gross income. *Third,* zero-rated tax facility for bonus received or earned by human resources in the frontline sectors to combat Covid-19. *Fourth,* income in the form of compensation and reimbursement for the use of assets subject to final tax of 0%. *Fifth,* tax facility for repurchasing shares traded on the exchange.

Tax Facilities on Required Goods and Services to Address the Covid-19 Pandemic

The government provides tax incentives for goods and services required to counter the pandemic as outlined in the MoF Reg. 28/2020. These facilities are granted to support the availability of medicines, medical equipment, and other required supporting equipment to address the pandemic.

Under this regulation, the government provides four types of tax incentives. *First,* the non-withholding of VAT and the government-borne VAT incentives. *Second,* exemptions from Article 22 Income Tax on the import or purchase of goods for handling Covid-19 by certain parties. *Third,* exemptions from the withholding of Article 21 Income Tax for certain resident taxpayers. *Fourth*, exemptions from Article 23 Income Tax for certain resident corporate taxpayers and permanent establishments.

Extended Implementation Period of Taxation Rights and Obligations

The Director General of Taxes has issued a regulation outlining the procedures for calculating the time extension of the implementation of taxation rights and obligations. The guidelines are outlined in the Director General of Taxes Circular No. SE-22/PJ/2020. Effectively entry into force since 9 April 2020, the Director General of Taxes extends the period of five matters related to the implementation of taxation rights and obligations.

First, the extension of the filing period of taxpayer objections. *Second*, the extension of the period of tax overpayment refunds. *Third,* the extension of the issuance period of notice of tax assessment (*Surat Ketetapan Pajak*/SKP) in connection with the request for tax overpayment refunds. *Fifth,* the extension of decisions on requests for reduction or elimination of administrative sanctions, reduction or cancellation of incorrect notices of tax assessment, reduction or cancellation of incorrect notices of tax collection, and cancellation of audit results.

Extension of Non Face to Face Services in the DGT

The Director General of Taxes extends the prevention period of the Corona virus spread to 29 May 2020 as stipulated in the Director General of Taxes Circular No. SE-23/PJ/2020. The prevention period of the Covid-19 spread within the DGT was formerly set only until 21 April 2020. In view of the current information on Covid-19, the prevention period then has been extended through this regulation.

This policy has resulted in an automatic time extension of the validity period of some administrative tax measures during the prevention period of the Covid-19 spread, including the implementation period of work from home (WFH) for the DGT's employees. However, this circular has been revised many times and as of 22 July 2020, SE-42/PJ/2020 is the one that comes into force regarding this matter.

The Director General of Taxes has released a circular regarding the procedures for implementing tax administration services in force majeure due to Covid-19.

Procedures for the Implementation of Administrative Services in Force Majeure Due to Covid-19

The Director General of Taxes has released a circular regarding the procedures for implementing tax administration services in force majeure due to Covid-19 through SE-26/PJ/2020. Through this circular the Director General of Taxes reiterates the procedures for providing administrative services that were previously stipulated in MoF Reg. 29/2020.

This circular states that throughout force majeure, the vertical units within the DGT continue to operate as per the WFH policy. In addition, activities in the taxation service units requiring direct contact with taxpayers will be temporarily suspended.

Administrative services, however, will continue to be provided through the optimization of available electronic facilities. Nonetheless, in the event that electronic means are not available or cannot be used, such services may be given through post or expedition/courier services with proof of postage.

Extended Period of Trial Proceedings with Prevention Procedures of the Covid-19 Spread

The Tax Court has once again extended the prevention period of Covid-19 break within the Tax Court. This extension is outlined in the Chairperson of the Court Circular No. SE-09/PP/2020. Under this regulation, the prevention period of the COVID-19 spread within the Tax Court formerly set from 17 March 2020 to 1 June 2020 has been revised to 17 March 2020 to 7 June 2020.

The extended prevention period implies that trial proceedings in Jakarta, which were originally set to resume on 2 June 2020, would be postponed to 8 June 2020. Outside Domicile Trial Proceedings (*Sidang Di Luar Tempat Kedudukan*/SDTK), however, will be held and subject to further provisions.

C.2 Income Tax

The Director General of Taxes has released a regulation stipulating Permanent Establishment & Expatriate Tax Offices (KPP Badan dan Orang Asing/KPP Badora) as the place of registration and reporting for trade through electronic system business players.

Special Tax Office for Business Players that Conduct Trade through Electronic System

The Director General of Taxes has released a regulation stipulating Permanent Establishment & Expatriate Tax Offices (*KPP Badan dan Orang Asing*/ KPP Badora) as the place of registration and reporting for trade through electronic system business players. Trade through electronic system business players refer to business players carrying out activities in trade through electronic systems (*Perdagangan Melalui Sistem Elektronik*/ PMSE) consisting of foreign traders, foreign service providers, domestic and foreign PMSE provider (PPMSE). These provisions are outlined in the Director General of Taxes Regulation No. PER-07/ PJ/2020.

The regulation was released to provide legal certainty, ease of administration, and enhance the supervision of the implementation of taxpayers' rights and/ or the fulfilment of taxpayers' obligations for PMSE business players. Based on this regulation, trade through electronic systems business players in forms of permanent establishments that are PPMSE and domiciled outside Jakarta, resident and non-resident corporate

PPMSE taxpayers, foreign traders, and foreign service providers will be registered as taxpayers in Permanent Establishment & Expatriate Tax Offices.

The Director General of Taxes has stipulated that taxable persons for VAT purposes (*Pengusaha Kena Pajak*/PKP) registered at Small Tax Offices throughout Indonesia are obliged to withhold Article 23 and/or Article 26 Income Tax.

Taxable Persons for VAT Purposes at Small Tax Offices are Obliged to Prepare Article 23/26 Income Tax Withholding Slips

The Director General of Taxes has stipulated that taxable persons for VAT purposes (*Pengusaha Kena Pajak*/ PKP) registered at Small Tax Offices throughout Indonesia are obliged to withhold Article 23 and/or Article 26 Income Tax. These provisions are outlined in the Director General of Taxes Decree No. KEP-269/PJ/2020.

The stipulation of taxable persons for VAT purposes as withholders of Article 23 and/or Article 26 Income Tax will require them to prepare withholding slips and submit periodic income tax returns for these type of taxes as per the provisions under the Director General of Taxes Regulation No. PER-04/PJ/2017.

In addition, the obligation will continue to apply even if the taxable person for VAT purposes that has been determined as an Article 23 and/or Article 26 Income Tax withholder no longer holds the status as PKP. The obligation to prepare withholding slips and submit Periodic Article 23 and/or Article 26 Income Tax Return will come into force as of early August 2020.

The government has issued a new regulation regarding the reduction of income tax rates for resident corporate taxpayers in the form of publicly listed companies.

CIT Rate Reduction for Publicly Listed Companies

The government has issued a new regulation regarding the reduction of income tax rates for resident corporate taxpayers in the form of publicly listed companies. The provision is outlined in Gov. Reg. No. 30 of 2020. This Government Regulation is one of the derivative regulations of Law No. 2 of 2020 that has been valid since the promulgation date, 19 June 2020.

Article 2 affirms the adjustments of Income tax rates for resident corporate taxpayers and permanent establishments to 22% which shall be valid in 2020 and 2021 fiscal years. The rate will reduce to 20% and this will come into force in 2022. Resident taxpayers are entitled to a 3% lower rate if three conditions are met. *First,* such a taxpayer is in the form of a publicly listed company. *Second,* a minimum of 40% of the total number of shares is traded on the Indonesian stock exchange. *Third,* meeting certain requirements.

New Income Tax Treatment for Scholarships and Surplus Received by Non-Profit Institutions

The Ministry of Finance has issued a regulation on income tax treatment for scholarships and surplus received by non-profit institutions engaged in education and/or research and development (R&D). These provisions are outlined under MoF Reg. 68/2020. This regulation simultaneously revokes two former regulations, namely MoF Reg. 246/2008 with its amendments and MoF Reg. 80/2009.

This regulation outlines two important aspects. *First,* scholarship costs can be deducted from gross income to calculate taxable income. Residents and/or non-residents' income in the form of scholarships that meet certain requirements is exempted from being income tax objects. *Second,* the surplus received or earned by non-profit bodies or institutions are exempted as a tax object.

C.3 VAT and SLTGs

Procedures of Non-Withheld VAT Incentive for Certain Means of Transport

The Indonesian government has issued a regulation on the procedures for the imports and utilization of Taxable Services for means of transport on which VAT is not withheld. The provisions are outlined in the MoF Reg. 41/2020. Under the regulation that has come into force since 24 April 2020, there are four types of economic activities related to certain means of transport on which VAT is not withheld.

First, imports of certain means of transport. *Second*, the supply of certain means of transport. *Third*, the utilization

The Ministry of Finance has issued a regulation on tax facilities for upstream oil and gas businesses with gross split production sharing contracts.

of taxable services in relation to certain means of transport of which the supply is conducted in the customs area. *Fourth*, the utilization of taxable services related to certain means of transport originating from outside the customs area.

VAT Provision for the Utilization of Intangible Taxable Goods and/or Taxable Services from Overseas through PMSE

The government has issued a regulation on the imposition of VAT on intangible taxable goods and taxable services from outside the customs area which are carried out via Trade through Electronic Systems The regulation (PMSE) refers to the MoF Reg. 48/2020.

Promulgated on 5 May 2020 and coming into force on 1 July 2020, this regulation has been issued to implement the provisions of Article 6 paragraph (13) point a of Government Regulation in Lieu of Law No. 1 of 2020. VAT for utilizing the intangible taxable goods and/or taxable services from overseas will then be withheld, deposited, and reported by PMSE business players who have been appointed by the Minister of Finance as withholders. A PMSE business player itself refers to an individual or entity that carries out business activities in the PMSE sector.

The Director General of Taxes has stipulated the regulation on certain criteria as the basis for the appointment of trade through electronic systems (PMSE) business players as PMSE VAT withholders.

Automatic Extension of the Certificate of VAT Payable Centralized Location

DGT automatically extends the validity of decrees on the centralization of location of VAT payable which ends at force majeure due to Covid-19 pandemic. The automatic extension is outlined in Announcement No. PENG-5/PJ.09/2020.

The time extension is to be notified in January 2020 to May 2020 at the latest with the validity of the centralization ending in the March until July 2020 tax period. However, if a taxable person for VAT purposes does not want to extend the decree on the centralization of VAT payable location, the taxable person for VAT purposes must submit written notification to the Head of the DGT Regional Office.

Tax Facilities for Upstream Oil and Gas Business Activities with Gross Split Production Sharing Contracts

The Ministry of Finance has issued a regulation on tax facilities for upstream oil and gas businesses with gross split production sharing contracts. The granting of these facilities is outlined in the MoF Reg. 67/2020 concerning the Granting of Value Added Tax or Value Added Tax and Sales Tax on Luxury Goods as well as Land and Building Tax to Upstream Oil and Gas Business Activities with Gross Split Production Sharing Contracts.

In further detail, the VAT and SLTGs facilities in this regulation are provided in the form of the non-withholding of VAT and/or SLTGs on the procurement of taxable goods or taxable services used in the context of petroleum operations. The VAT and SLTGs facilities are also provided for the utilization of intangible taxable goods or taxable services from outside the customs area in the framework of petroleum operations.

Conversely, land and building tax facility in accordance with this regulation take the form of a rate reduction of 100% of its due as stated in the notice of tax due (*Surat Pemberitahuan Pajak Terutang*/SPPT). This land and building tax facility is provided from the exploration stage and exploitation stage, and until the commencement of commercial production.

Threshold of Transaction Value and Access to PMSE VAT Withholders

The Director General of Taxes has stipulated the regulation on certain criteria as the basis for the appointment of trade through electronic systems (PMSE) business players as PMSE VAT withholders. These criteria are outlined in the Director General of Taxes Regulation No. PER-12/PJ/2020 concerning the Certain Criteria for the Appointment of Withholders, Withholding, Deposit, and Reporting of Value Added Tax on the Utilization of Intangible Taxable Goods and/or Taxable Services from Outside the Customs Area into the Customs Area through Trade Through Electronic Systems (PER-12/PJ/2020).

In general, the criteria include two provisions as non-cumulative requirements. *First,* the value of transactions with buyers in Indonesia exceeds IDR 600 million in one year or IDR 50 million in one month. *Second,* the amount of traffic or access in Indonesia exceeds 12,000 accesses in one year or 1,000 accesses in one month.

The Appointment of Digital Product VAT-Withholding Companies

The DGT has appointed six global companies that meet the criteria to withhold VAT on digital goods and services sold to customers in Indonesia. Through Press Release Number SP-29/2020 which was published on 7 July 2020, the DGT states that six business players have received certificates of registration and tax identification numbers as VAT withholders in this first period.

The VAT-withholding companies include Amazon Web Services Inc., Google Asia Pacific Pte. Ltd., Google Ireland Ltd., Google LLC., Netflix International B.V., and Spotify AB. With this appointment, digital products and services sold by the six business players will be subject to VAT withholding starting 1 August 2020.

The Chairperson of the Tax Court has issued a new regulation on electronic trial proceedings at the Tax Court.

D. Tax Administration

Adjustments to the Format, Content, and Procedures for Filling in Tax Payment Slips

The Director General of Taxes has released the Director General of Taxes Regulation No PER-09/PJ/2020 that simultaneously revokes the former regulation, the Director General of Taxes Regulation Number PER-38/PJ/2009. The regulation has been issued due to the need for tax account codes and tax payment codes as per the legislative developments in the field of taxation. On another note, this regulation was released to realize administrative order in terms of tax payments and deposits.

In addition, the format and contents of the latest Tax Payment Slips (*Surat Setoran Pajak*/SSP) refer to the form listed in Appendix A of PER-09/PJ/2020. Furthermore, the filing procedures are carried out as instructions stipulated in this regulation. Moreover, the lates tax payment slips may also be filled in by following the instructions contained in the DGT billing application or other code billing issuance services, products, applications, or systems that are connected to the DGT billing system.

In addition, the form and contents of the latest form from the tax refer to the form listed in Appendix A PER-09/PJ/2020. The procedure for filling is also done in accordance with the filling instructions listed in the appendix concerned. Besides, the instruction to fill the new tax payment slip format also can be found on the DGT billing application or other billing services, products, applications, or publishing code systems that are connected to the DGT billing system.

In general, the tax payment slip needs to be prepared in two copies. The first copy is submitted to the perception bank/post office or other perception institutions. in addition, the second copy can be filed for the taxpayer. However, the tax payment slip can be prepared in more than two copies. The main contrast of this provision is that the former regulation required the tax payment slip to be prepared in four to five copies.

Electronic Trial Proceedings at the Tax Court

The Chairperson of the Tax Court has issued a new regulation on electronic trial proceedings at the Tax Court. The policy on electronic trials is outlined in the Head of Tax Court Decree No. KEP-016/PP/2020 concerning Electronic Trial Proceedings at the Tax Court (KEP-016/PP/2020). An electronic trial proceeding is defined to a series of processes of examining and deciding on tax disputes by the Tax Court which are carried out with the support of information and communication technology through a video-conferencing application.

This decree is stipulated as the legal basis to organize electronic trial proceedings at the Tax Court and realize orderly procedures to handle tax disputes in a professional, transparent, accountable, effective, efficient, and modern manner. Trial proceedings through the electronic system have been renewed to resolve obstacles and constraints in the conduct of trial proceedings at the Tax Court by utilizing information and communication technology.

Thus, electronic tax disputes can be resolved through fast, inexpensive, and simple processes. Further, electronic court procedures are included in the appendix of this decree.

Implementation of Electronic Outside Domicile Trial Proceedings

The Chairperson of the Tax Court has issued provisions on the implementation of electronic outside domicile trial proceedings (*Sidang di Luar Tempat Kedudukan*/SDTK). This regulation is outlined in Circular No. SE-12/PP/2020. This circular is intended as the guidelines for conducting electronic trial proceedings outside domicile during the pandemic.

The Director General of Taxes has both amended the provisions on and expanded the scope of services provided by taxation application service providers.

It should be noted that electronic SDTK refers to a series of processes of examining and deciding tax disputes that are based on the Chairperson of the Tax Court's decision to be heard outside domicile with the support of information and communication technology.

Electronic SDTK applies to trial proceedings and/or pronouncements of decisions as per the general trial plan that has been established by the deputy registrar. The implementation of electronic SDTK does not require the approval of the appellant/plaintiff under the provisions in KEP-016/PP/2020 as it is carried out during the Covid-19 pandemic. The circular also outlines the procedures of the trial proceedings and evidence verification.

Tax Identification Number Registration for Interest Subsidy Recipients of the National Economic Recovery Program

The government provides interest subsidies and margin subsidies for the credit and financing process carried out by Micro, Small and Medium Enterprises (MSMEs). The provisions on interest or margin subsidies are outlined in the MoF Reg. 65/2020. Under this regulation, interest subsidies are defined as the share of the interest borne by the government and the amount is set to be the difference between the interest rate received by the creditor or financing institutions and the interest rate charged to the debtor.

Margin subsidies, on the other hand, are defined to the share of the margin borne by the government. The amounts of margin subsidy will then be the difference between the margin received by the creditor or financing institutions and the margin charged to the debtor in the shariah financing scheme.

The main objectives set by the government through this stimulus are to protect, to maintain, and to improve the debtor's economic performance in doing business during the pandemic. These fiscal incentives are also part of the efforts to support the national economic recovery (*Pemulihan Ekonomi Nasional*/PEN) program. The granting of interest subsidies and margin subsidies will be carried out for a maximum period of six months and will be implemented as of 1 May 2020.

Expanded Scope of Services by the Taxation Application Service Providers

The Director General of Taxes has both amended the provisions on and expanded the scope of services provided by taxation application service providers (*Penyedia Jasa Aplikasi Perpajakan*/PJAP). The amendments and expansion of the scope of services are outlined in the Director General of Taxes Regulation No. PER-10/PJ/2020 concerning the Amendments to the Director General of Taxes Regulation No. PER-11/PJ/2019 concerning Taxation Application Service Providers (PER-10/PJ/2020).

Enacted and coming into force on 19 June 2020, this regulation has been issued to harmonize the policies on taxation service provision with government regulations in lieu of laws relating to state financial policies to address the Covid-19. PJAP or application service providers (ASP) refers to a party appointed by the Director General of Taxes to provide tax application services for taxpayers.

The implementation of reporting obligation for tax withholding and/ or collecting and depositing using unified periodic tax returns for government agencies comes into force in January 2021 tax period and the thereafter.

Adjustments to the Implementation of Unified Periodic Tax Returns for Government Agencies

The implementation of reporting obligation for tax withholding and/or collecting and depositing using unified periodic tax returns for government agencies comes into force in January 2021 tax period and the thereafter.

The adjustments to the implementation period are outlined in the Announcement No. PENG-75/PJ/2020 concerning the Adjustments to the Implementation of Unified Periodic Tax Returns for Government Agencies (PENG-75/PJ/2020). Under the announcement, the Director General of Taxes states that the Covid-19 pandemic has hindered the implementation of government agencies' unified periodic tax returns, so that the implementation will be delayed until January 2021.

The Directorate General of Customs and Excise (DGCE) has amended some provisions pertaining to the supervision and services in excise sectors to prevent and reduce the spread of Covid-19.

Implementation of Tax Transaction Recording Application

The Director General of Taxes has published a scheme for the implementation of a tax transaction recording application. This policy is outlined in the Director General of Taxes Circular No. SE-38/PJ/2020 concerning the Implementation of the Taxpayer Accounting Module Revenue Accounting System Application in the Context of Recording Tax Transactions (SE-38/ PJ/2020). This regulation will come into force on 1 July 2020.

The taxpayer accounting module revenue accounting system (TPA Module RAS) itself is an application used to record double-entry accounting for tax transactions relating to tax revenues, tax receivables, and debt of tax revenue overpayment.

Tax transactions recorded by the TPA Module RAS include tax revenue-related transactions consisting of tax revenues from the budget realization report (*Laporan Realisasi Anggaran*/ LRA), tax revenues from operational reports (*Laporan Operasional*/LO), tax receivable-related transactions, and transactions related to debt of tax revenue overpayment stored in the tax administration system.

E. Customs and Excise

Supervision and Service System Changes in the Excise Sector

The Directorate General of Customs and Excise (DGCE) has amended some provisions pertaining to the supervision and services in excise sectors to prevent and reduce the spread of Covid-19. These amendments are outlined in the Director General of Customs and Excise Circular No. SE-05/BC/2020. Based on this regulation, the DGCE reorganizes 6 types of business processes related to the provision of services and supervision in the excise sector.

First, extending the deadline for the submission of transfer notification of goods subject to excise (*Pemberitahuan Mutasi Barang Kena Cukai*/CK-5) documents to no later than 1 August 2020. *Second,* re-importing goods subject to excise into factories to be reprocessed/destroyed or to other places outside the factory within a period of 30 days from the notification of the CK-5 date. *Third,* the excise stamp affixing of brands owned by the same manufacturer under the supervision of a different Customs and Excise office is allowed insofar as there is an approval letter.

Fourth, to the most possible extent, CK-5 document services should apply the independent CK-5 mechanism. *Fifth,* the monitoring of the market price of tobacco products for the March 2020 period is deferred and carried out in conjunction with the monitoring of the market price of tobacco products for the June 2020 period. *Sixth*, the enumeration of goods subject to excise in the form of ethyl alcohol and beverages containing ethyl alcohol in factories and/or storage facilities for the period of April and May 2020 shall not be carried out.

Customs Treatment of Differences in Weight and/or Volume of Imported and Exported Bulk Goods

The Ministry of Finance has issued a regulation stipulating the customs treatment of differences in weight and/ or volume of imported and exported bulk goods. The provisions are outlined in the

The Ministry of Finance has issued a regulation stipulating the customs treatment of differences in weight and/or volume of imported and exported bulk goods.

MoF Reg. 26/2020 and aim to provide legal certainty and optimize services in the import and export of bulk goods.

Under this regulation, customs and excise officials may provide customs treatment for differences in weigh or volume. *First,* the difference is found when imported goods are unloaded. *Second,* the difference is found during the physical examination of imported and/or exported bulk goods. *Third,* the difference is found during customs audits on imported or exported bulk goods.

Provisions on the IMEI Notification and Registration for Telecommunications Equipment

The DGCE has issued a regulation on the International Mobile Equipment Identity. The policy is outlined in the Director General of Customs and Excise Regulation No. PER-05/BC/2020. This regulation aims to prevent and suppress the number of illegal imported telecommunications equipment. Additionally, the government also want protect the public from the use of telecommunications devices that do not meet technical requirements through the application of this regulation.

Based on this regulation, imported telecommunication devices that are released from a bonded zone to another place in the customs area and that are entered or released into or out of a free trade zone are required to have IMEIs. IMEIs must be notified to the DGCE when the telecommunications devices are imported to be used or entered or released into or out of the free trade zone.

The government has issued a regulation to facilitate import licensing outlined in Presidential Reg. No. 58 of 2020.

Organization and Simplification of Import Licensing

The government has issued a regulation to facilitate import licensing outlined in Presidential Reg. Number 58 of 2020. This regulation mainly aims to maintain the availability of affordable consumer goods and to uphold the sustainability of industrial production processes that require raw materials and/or auxiliary materials.

In order to obtain simpler import licensing procedure, the products need to meet as one of five types of needs as follows. *First,* staple goods and foodstuffs. *Second*, government food reserves. *Third*, raw materials or auxiliary materials. *Fourth*, goods and raw materials for disaster prevention or handling. *Fifth*, other needs stipulated by the government.

Under the process to organize and simplify import licensing, the requirements will include some documents, such as permits, approvals or letters of consent, certificates, recommendations, and technical considerations. In addition, the authority will determine other documents based on information related to adequacy of consumption needs, production of staple food, and government food reserves.

Relaxation for the Submission of Certificates of Origin

The government has released a regulation on the relaxation of the submission procedures of Certificates of Origin (*Surat Keterangan Asal*/SKA), as well as invoice declarations along with customs complementary documents for the certificates of origin examination to importers. The relaxation of the submission procedures is outlined in the MoF Reg. 45/2020. The regulation states that amidst the Covid-19 pandemic, the documents may be submitted to the customs office of the port of entry via e-mail. Other than e-mail, importers may also utilize other electronic media.

Under this regulation, the availability of Certificates of Origin, invoice declaration, and other customs complementary documents may also provide preferential tariffs for the importers. In further detail, preferential tariffs can be provided if the importer meets procedural requirements, fulfills the origin criteria, consignment criteria, and procedural provisions.

Customs Declaration System for Free Trade Zones

The government has amended the provisions on customs declarations on the export and import of goods to and from the free trade zone and free port. The provisions are outlined in the MoF

The government has amended the provisions on customs declarations on the export and import of goods to and from the free trade zone and free port. The provisions are outlined in the MoF Reg. 42/2020.

Reg. 42/2020. The issuance of this regulation also revokes Article 122 of MoF Reg. 47/2012. Promulgated on 24 April 2020 and coming into force 30 days thereafter, the regulation stipulates several important amendments.

First, additional types of customs declaration for the export of goods from the Free Trade Zone. *Second*, rules concerning customs declaration submitted using PPFTZ-01, PPFTZ-02, and PPFTZ-03 documents are to be submitted with documents in uniform customs declaration format.

Third, changes in the provisions on the types of documents in the customs declaration that need to be submitted. *Fourth,* additional customs complementary documents used to fulfill customs obligations within the Free Trade Zone, i.e. in the form of certificates of origins (CoO).

The government imposes safeguard import duties (*Bea Masuk Tindakan Pengamanan*/BMTP) on imports of textiles and textile products (Tekstil dan Produk Tekstil/TPT)

Fifth, additional material in the form of Article 8A concerning the institutions or parties to which the customs declaration must be submitted. *Sixth,* additional material in the form of Article 13A that stipulates the cancellation of customs declaration. *Seventh,* additional material in the form of Article 17A which contains provisions on the mandate from the Minister of Finance to the DGCE to formulate technical guidelines. *Eighth,* customs declarations that have been submitted and on which registration numbers have been issued prior to the promulgation of this regulation still refer to MoF Reg. 48/2012 up to 30 days as of the enactment of the new regulation.

Minimum Provisions on the Physical Form, Specifications, and Design of Excise Stamps

The government has released a new regulation on the physical form, specifications, and design of excise stamps. Amendments to these provisions are outlined in the MoF Reg. 52/2020. The enactment of this regulation simultaneously revokes the former regulation, MoF Reg. 191/2009. In comparison, there are four main differences between these two regulations.

First, MoF Reg. 52/2020 expressly stipulates the definition of excise stamps. MoF Reg. 191/2009, however, does not provide an explicit description of the definition of excise stamps. *Second,* MoF Reg. 52/2020 does not define the series of excise stamps. Under MoF Reg. 191/2009, however, PCHT is available in three series, namely Series I, Series II, and Series III, whereas PCMMEA is available in one series.

Third, MoF Reg. 52/2020 provides a more detailed description regarding the shape of excise stamps. Referring to Article 2 paragraph (1) of MoF Reg. 52/2020, excise stamps are stipulated to have certain physical forms, specifications, and designs in which the physical form is made of paper with security-related characteristics or elements. *Fourth*, MoF Reg. 52/2020 outlines more minimum component-wise specifications for the design of excise stamps, i.e. containing the symbol of the Republic of Indonesia, the symbol of the DGCE, excise tariffs, fiscal year figures, retail sale prices, and/or contents in the packaging.

BMTP on the Import of Textiles and Textile Products

The government imposes safeguard import duties (*Bea Masuk Tindakan Pengamanan*/BMTP) on imports of textiles and textile products (*Tekstil dan Produk Tekstil*/TPT) through the promulgation of MoF Reg. 55/2020. Imports of textiles and textile products are subject to BMTP because based on the final report on the investigation results by the Indonesian Trade Security Committee (*Komite Pengamanan Perdagangan Indonesia*/KPPI), there are threats of injuries or serious losses to the domestic industry due to the surge in TPT imports. In further detail, there are three types of TPT of which the imports are subject to BMTP according to this regulation.

First, curtain products (including gordynes), blinds, bed nets, and other furniture items included in the HS Codes 6303.12.00, 6303.19.90, 6303.91.00, 6303.92.00, 6303.99.00. *Second,* fabric products. BMTP on imports of fabric products is imposed on 107 HS Codes with BMTP tariffs ranging from IDR 1,718 per meter to IDR 7,142 per meter depending on the type of fabric and the import period. *Third*, yarn products (other than sewing thread) from synthetic and artificial staple fibers included in HS Codes 5509.22.00, 5509.32.00, 5509.51.00, 5509.53.00, 5510.12.00, and 5510.90.00.

The government has set import duties tariffs in the framework of the ASEAN-Hong Kong Free Trade Agreement (AHKFTA).

Import Duty Tariffs in the Framework of AHKFTA

The government has set import duties tariffs in the framework of the ASEAN-Hong Kong Free Trade Agreement (AHKFTA). The stipulation of the import duty tariffs is outlined in the Minister of Finance Regulation No. 79/PMK.010/2020 concerning the Stipulation of Import Duty Tariffs in the Framework of the ASEAN-Hong Kong, the People's Republic of China Free Trade Agreement (MoF Reg. 79/2020).

The Government of the Republic of Indonesia has ratified the Indonesia-Australia Comprehensive Economic Partnership Agreement.

Promulgated on 3 July and entered into force on 4 July, the regulation outlines the import duties rates in the framework of AHKFTA for 2020 to 2031 onwards. Upon further observation, a large number of import duty tariffs in the framework of AHKFTA have decreased. Then, this regulation emphasizes that if the statutory import duty tariff is lower than the import duty tariff in the framework of AHKFTA, the tariff that shall apply will be the statutory one.

If the preferential import duty tariffs are set in MoF Reg. 79/2020, the mechanism to implement the concerned import duties is then referred to the Minister of Finance Regulation No. 80/PMK.04/2020 concerning the Procedures for the Imposition of Import Duty Tariffs on Imported Goods Based on the Asean-Hong Kong, People's Republic of China Free Trade Agreement (MoF Reg. 80/2020).

Under MoF Reg. 80/2020, the government confirms that imported goods must meet the Rules of Origin to obtain import duties in the framework of AHKFTA or preferential tariffs. The provisions consist of origin criteria, consignment criteria, and procedural provisions.

Import Duty Tariffs in the Framework of IA-CEPA

The Government of the Republic of Indonesia has ratified the Indonesia-Australia Comprehensive Economic Partnership Agreement through Law No. 1 of 2020 concerning the Ratification of the Indonesia-Australia Comprehensive Economic Partnership Agreement.

The entry into force of this agreement provide preferential tariffs for imported goods from Australia. The stipulation of the preferential tariffs is then outlined in the Minister of Finance Regulation No. 81/PMK.010/2020 concerning the Stipulation of Import Duty Tariffs in the Framework of the Indonesia-Australia Comprehensive Economic Partnership Agreement (MoF Reg. 81/2020).

Under MoF Reg. 81/2020, the government also applies a tariff rate quota (TRQ) scheme on imported goods from Australia. The TRQ scheme is a scheme to impose import duty tariffs based on the quota for certain products specified in MoF Reg. 81/2020. Preferential rates based on the TRQ scheme are listed in Appendix B of the regulation.

The IA-CEPA-based preferential tariffs are imposed as per published time of the Minister of Finance Regulation No. 82/PMK.04/2020 concerning the Procedures for the Imposition of Import Duty Tariffs on Imported Goods Based on the Indonesia-Australia Comprehensive Economic Partnership Agreement (MoF Reg. 82/2020).

Under MoF Reg. 82/2020, the government asserts that to utilize the preferential tariffs, in-quota preferential tariffs, and/or out-quota preferential tariffs, certain imported goods must meet the Rules of Origin. The criteria consist of origin criteria, consignment criteria, and procedural provisions.

Elimination of Some Types of Imported Goods Entitled to Taxation Facilities

The government eliminate some types of imported goods to address Covid-19 pandemic entitled to customs and/or excise and taxation facilities.

The government eliminate some types of imported goods to address Covid-19 pandemic entitled to customs and/or excise and taxation facilities.

The reduction is outlined in the Minister of Finance Regulation No. 83/ PMK.04/2020 concerning Amendments to the Minister of Finance Regulation No. 34/PMK.04/2020 concerning the Granting of Customs and/or Excise and Taxation Facilities for Imported Goods to Address the Corona Virus Disease 2019/ Covid-19 (MoF Reg.83/2020). Compared to the appendix of the previous regulation, MoF Reg. 34/2020, several types of goods are no longer listed in the appendix of MoF Reg. 83/2020.

These items include hand sanitizers, disinfectants, and products containing ready-to-use disinfectants. In addition, the facilities formerly given for import of masks in three HS Codes are currently reduced to two HS Codes.

IMEI Registration Procedures of Telecommunications Equipment Originating from Outside the Customs Area

The Directorate General of Customs and Excise (DGCE) has established procedures for registering international mobile equipment identity (IMEI) of imported mobile phones carried by passengers that are released from the customs area.

The government has issued implementing regulation for the national economic recovery program. These provisions are stipulated through Gov Reg. No. 23/2020. To implement this program, the government may undertake several measures.

The regulation refers to the Director General of Customs and Excise Circular No. SE-12/BC/2020 established on 14 July. This Circular has been issued because the Director General of Customs and Excise Regulation No. PER-05/BC/2020 only regulates the IMEI registration procedures of mobile phones that have not been released from customs areas. In the latest Circular, passengers who have already left the customs area but have not yet registered the IMEI may register the IMEI of their telecommunications equipment at the nearest customs office.

F. Taxation in General

Implementing Regulation for the National Economic Recovery Program

The government has issued implementing regulation for the national economic recovery program. These provisions are stipulated through Gov Reg. No. 23/2020. To implement this program, the government may undertake several measures.

First, state equity participation (*Penyertaan Modal Negara*/PMN) to State-Owned Enterprises or appointed State-Owned Enterprises. *Second*, the placement of funds to provide liquidity support to banks that carry out credit/ financing restructuring and/or provide additional credit/working capital financing.

Third, in implementing the PEN program, the government may make government investments. *Fourth,* to implement the PEN program, the government may provide guarantees. The guarantee may be provided directly by the government and/or through the appointed guaranteeing business entity. *Fifth,* policy through state expenditure, such as the provision of interest subsidies to eligible banking debtors, finance companies, and institutions channeling government credit programs.

Ministry of Finance's 2020-2024 Strategic Plan

The Ministry of Finance has issued a regulation concerning the Ministry of Finance's 2020–2024 strategic plan. The strategic plan is regulated through MoF Reg. 77/2020. This regulation stipulates some key issues for middle term strategic plan within Ministry of Finance.

First, the plans to accelerate national economic growth through increasing output in mining sector. To implement this, the government will apply fiscal and non-fiscal incentives to encourage investment, relief some export duties, and also give incentive in form of tax allowance.

Second, Ministry of Finance plans to change the land and building tax (*Pajak Bumi Dan Bangunan*/PBB) collection system from an official assessment to self-assessment. The state, thus, may earn revenues from this type of tax earlier than previous implementation without waiting for the provisions issued by the tax authorities.

Third, revising the Stamp Duty Act to improve compliance and expand the database. *Fourth,* the establishment of a Draft Law on Taxation Provisions and Facilities to Strengthen the Economy or Omnibus Law to improve business climate, legal certainty, encourage foreign nationals' interest in working in Indonesia, and encourage voluntary compliance. *Fifth,* revising the Law of General Provisions and Tax Procedures in order to apply the more convenient and more affordable principles and also to improve right implementation and obligation fulfilment of taxpayers by improving the technology and information system.

The government has again revised the posture and details of the 2020 State Budget (*Anggaran Pendapatan dan Belanja Negara/* APBN) by the end of June 2020.

Sixth, revising the Income Tax Law to expand the tax base, improve tax compliance, and increase taxation revenue from cross-border transactions. *Seventh*, stipulating a Tax Draft Law on Goods and Services to improve the VAT compliance level in Indonesia and expand the tax base. *Eighth*, revising the Customs Law to increase international trade, protect MSMEs, establish revitalization, provide simplification, modernize the export sector mechanisms, improve IT services and data exchange, and strengthen supervision mechanism.

Ninth, revising the Excise Law to emphasize the paradigm of excise as an instrument to control consumption and assert that administrative sanctions take precedence over penalty sanctions. In addition, the government plans to change the concept of excise earmarking, convert some STLGs objects to excise objects, and adjust other administrative materials.

Ex-officio Granting of Tax Identification Numbers to Support National Economic Recovery Program

The Director General of Taxes has issued policies on technical guidelines for the *ex-officio* granting of taxpayer identification numbers to support the implementation of the National Economic Recovery program. The policies are regulated in the Director General of Taxes Regulation No. PER-13/PJ/2020 concerning Technical Guidelines on the Ex-Officio Granting of Taxpayer Identification Numbers in Connection with the Granting of Interest Subsidies/Margin Subsidies for Credit/Financing of Micro, Small, and Medium Enterprises to Support the Implementation of the National Economic Recovery Program (PER-13/PJ/2020).

Coming into force on 26 June 2020, this regulation has been issued to implement the provisions of Article 8 paragraph (6) of the MoF Reg. 65/2020. Based on this regulation, interest subsidies or margin subsidies are given to MSME business debtors with a maximum credit or financing ceiling of IDR 10 billion. In order to receive this type of incentives, four criteria must be met by debtors to obtain this interest subsidies or margin subsidies. *First,* having outstanding credit debit or financing until 29 February 2020. *Second,* not included in the national blacklist. *Third,* included in the current performing loan category as collectibility 1 or 2 as of 29 February 2020. *Fourth,* having an taxpayer identification number or has registered to obtain a taxpayer identification number.

Changes to the Posture and Details of Revised State Budget for the 2020 Budget Year

The government has again revised the posture and details of the 2020 State Budget (*Anggaran Pendapatan dan Belanja Negara*/APBN) by the end of June 2020. The changes in the posture include all indicators in the state budget, ranging from revenues, expenditure, surplus/deficit to financing.

The revised State Budget posture is outlined in Presidential Reg. Number 72 of 2020 concerning the Second Amendments to the Posture and Details of the State Budget for the 2020 Budget Year (Presidential. Reg. Number 72 of 2020). Several budget posts in the 2020 State Budget were formerly amended to the 2020 Revised State Budget (*Anggaran Pendapatan dan Belanja Negara Perubahan*/APBNP) through Presidential Reg. Number 54 of 2020 (Presidential Reg. Number 54 of 2020).

In further detail, under Presidential Reg. Number 72 of 2020, the government reduces the state revenue target which was formerly set at IDR 2,233 trillion to IDR 1,699 trillion. On the contrary, the state expenditure target that was formerly set at IDR 2,540 trillion then raised up to IDR 2,739 trillion.

Table 6 Details of the Revision to the Taxation Revenue Posture for Budget Year 2020 (in Thousand Rupiahs)

Code	Detail	Former (2020 State Budget/Law No, 20 of 2019)	Current (Pres. Reg. Number 72 of 2020)
1	**Domestic Tax Revenues**	**1,823,100,176,382**	**1,371,020,559,002**
1,1	Income Tax Revenues	929,902,819,000	670,379,543,400
1,2	Value Added Tax and Sales Tax on Luxury Goods Revenues	685,874,886,800	507,516,237,696
1,3	Land and Building Tax Revenues	18,864,632,582	13,441,937,380
1,4	Excise Revenues	180,530,000,000	172,197,172,827
1,5	Other Tax Revenues	7,927,838,000	7,485,667,699
2	**International Trade Tax Revenues**	**42,602,640,000**	**33,486,946,770**
2,1	Import Duty Revenues	40,002,070,000	31,833,785,159
2,2	Export Duty Revenues	2,600,570,000	1,653, 161,611
TOTAL TAX REVENUES (WITHOUT CUSTOMS AND EXCISE)		**1,642,570,176,382**	**1,198,823,386,175**
TOTAL TAXATION REVENUES		**1,865,702,816,382**	**1,404,507,505,772**

Source: Appendix of Pres. Reg. No. 72 of 2020.

Table 7 Details of Taxes Borne by the Government (in Thousand Rupiah)

No	Memorandum Item	Former	Current
1	Income Tax	11,542,556,273	20,145,686,273
2	Import Duties	694,100,000	405,574,336
3	Additional Other Tax and Import Duties	0	57,000,000,000

Source: Appendix of Presidential Reg. Number 72 of 2020

Under Presidential Reg. No. 72 of 2020, the government reduces the state revenue target which was formerly set at IDR2,233 trillion to IDR1,699 trillion. On the contrary, the state expenditure target that was formerly set at IDR2,540 trillion then raised up to IDR2,739 trillion.

Further, the primary balance formerly set at around IDR 12 trillion plunges to minus IDR 700 trillion. Likewise, the budget financing formerly set at IDR 307 trillion has been revised to IDR 1,039 trillion. The deficit level formerly set at IDR 307,2 trillion has now reached IDR 1,039 trillion. In other words, the deficit ceiling has also been expanded to 6.34% of Gross Domestic Product (GDP) from previously below 3% of GDP.

This regulation renders flexibility to the Minister of Finance. In this context, in the event of a a shift in the details of budget financing and its use, the Minister of Finance is authorized to stipulate its provisions. In the event that several provisions under Presidential Reg. Number 72 of 2020 as well as various implementing regulations of the Presidential Reg. Number 54 of 2020 are not revised; the provisions remain valid insofar as they do not conflict with the provisions under the presidential regulation set on 24 June 2020.

Next, in the Appendix of Presidential Reg. Number 72 of 2020, the government also details the changes in the tax revenue target. The tax revenue target has been decreased from Rp1,865 trillion to Rp1,404 trillion. Detailed changes to the tax revenue target can be seen in Table 6.

In addition to taxation revenues, the appendix contains Memorandum Items concerning the details of the Government Borne Taxes (*Pajak Ditanggung Pemerintah*/DTP) amount. The amount of DTP Taxes is a fiscal stimulus provided by the government to address the Covid-19 pandemic. In further detail, the amount of DTP Tax can be seen in Table 7.

G. Local Taxes

Establishment of the Bank Data on Local Tax

The Corruption Eradication Commission (*Komisi Pemberantasan Korupsi*/KPK) plans to establish an interconnection of local tax data by collaborating with

The Corruption Eradication Commission (*Komisi Pemberantasan Korupsi*/KPK) plans to establish an interconnection of local tax data by collaborating with districts and cities in Indonesia.

districts and cities in Indonesia. Bogor, Depok, and Bekasi then will act in the pilot projects as the initial process as mentioned in the the meeting between the local governments and KPK. This meeting is also planned to be followed up by the signing of the Cooperation Agreement (*Perjanjian Kerja Sama*/PKS).

KPK Data Information Task Force, Nanang Farid Syam, explained that the KPK plans to establish a big data system on Land and Building Tax of Rural and Urban Areas (*Pajak Bumi dan Bangunan Perdesaan dan Perkotaan*/PBB-P2) in the five regions.

H. International Aspects of Taxation

Additional Numbers of Indonesia's Participating and Reportable Jurisdictions in AEoI

The government of Indonesia has again announced the addition to the number of jurisdictions that will automatically exchange financial information with the DGT. The addition to the number of jurisdictions is outlined in Announcement Number PENG-65/PJ/2020.

The Japanese Ministry of Finance has published a tax treaty document between Japan and Indonesia that has been modified based on a multilateral instrument (MLI).

Promulgated on 28 May 2020, the regulation is intended to implement the provisions of article 16 paragraphs a and b of MoF Reg. 70/2017 as amended by MoF Reg. 19/2018 and to follow up on the addition to the number of jurisdictions that have signed and/or activated the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information.

Referring to the appendix of the announcement, 103 participating jurisdictions will then exchange financial statement information for taxation purposes. Formerly, as of July 2019, there were only 98 participating jurisdictions. This implies that five jurisdictions, Dominica, Ecuador, Kazakhstan, Liberia, and Oman, have just joined.

The Publish of MLI Modification of Indonesia and Japan Tax Treaty

The Japanese Ministry of Finance has published a tax treaty document between Japan and Indonesia that has been modified based on a multilateral instrument (MLI).[11] According to the Ministry of Finance of Japan, the latest tax treaty is prepared based on reservations and notifications sent by the two countries to the OECD as the depositary.

Within the document, some terminologies in MLI have been changed to be in line with the terminologies used in the tax treaty signed by the two countries since 1982. Some MLI terminologies that have been changed to be in line with the tax treaty include *covered tax agreements* that is revised to *agreements* and *contracting jurisdiction* that is revised to *contracting state*. This modification has come into force in Japan as of 1 January 2020, whereas Indonesia will enact MLI on 1 August 2020. OECD also notes that Indonesia has sent the ratification of MLI since 28 April 2020.

US Based-Institution Comments on Indonesia's Electronic Transaction Tax

The United States-based think tank, the Tax Foundation, deems that electronic transaction tax (*Pajak Transaksi Elektronik*/PTE) policies outlined in Law No. 2 of 2020 are discriminatory.[12] This was conveyed by the Tax Foundation at the request of public comment from the Office of the US Trade Representative (USTR) on the initiation of an investigation into digital taxes of 10 countries, including Indonesia.

The Tax Foundation considers that there is a substantial difference between the imposition of PTE and income tax that applies to other business entities in Indonesia. Due to the lack of detail of this policy, the Tax Foundation still has difficulty understanding the full impact of the policy. On the other hand, the Tax Foundation states that

11 DDTC News, *Jepang Publikasikan P3B Jepang-Indonesia Dengan Modifikasi MLI*, Internet, can be accessed at https://news.ddtc.co.id/jepang-publikasikan-p3b-jepang-indonesia-dengan-modifikasi-mli-21639?page_y=1200.

12 DDTC News, *Think Tank AS: Pajak Transaksi Elektronik Indonesia Diskriminatif*, Internet, can be accessed at https://news.ddtc.co.id/think-tank-as-pajak-transaksi-elektronik-indonesia-diskriminatif-22251?page_y=1210.6666259765625.

non-resident e-commerce businesses that do not meet the requirement of a significant economic presence will be subject to PTE. Whereas in fact, as per Law No. 2 of 2020, PTE is still imposed on traders, service providers, or trade through electronic systems organizers (*Penyelenggara Perdagangan Melalui Sistem Elektronik*/PPMSE) that have met the requirement of a significant economic presence.

The OECD assesses that many countries need to be encouraged to implement progressive taxation policies that could mitigate climate change.

Response of the US Companies Association in ASEAN Regarding Indonesia's Digital Tax

The US-Asean Business Council (US-ABC), an association of United States (US) companies operating in Southeast Asian countries declares that Indonesia's electronic transaction tax (*Pajak Transaksi Elektronik*/PTE) under Law No. 2 of 2020 may result in double taxation. Therefore, this might undermine Indonesia's ease of doing business (EoDB) score due to the disproportionate compliance burden on non-resident digital companies for the provision of services and products to Indonesian consumers.

The government has officially ratified a tax treaty (*Perjanjian Penghindaran Pajak Berganda*/P3B) between Indonesia and Cambodia.

US-ABC also states that the PTE clause in Law No. 2 of 2020 violates the tax treaty between Indonesian and the US. According to the council, the imposition of PTE is a form of tax collection that should become another country's right instead of Indonesia's. The imposition of PTE as an unilateral measure is said can undermine the progress of global consensus on digital economic taxation. In this regard, US-ABC emphasizes the importance of upholding the principle of multilateralism to render fair treatment for multinational companies at present and in the future.

The Ratification of Indonesia - Cambodia Tax Treaty

The government has officially ratified a tax treaty (*Perjanjian Penghindaran Pajak Berganda*/P3B) between Indonesia and Cambodia. The ratification of the treaty is outlined in Presidential Reg. Number 74 of 2020. Previously, both countries signed the tax treaty circularly on 23 October 2017 in Jakarta and on 13 October 2017 in Phnom Penh.

The consideration section of treaty which was promulgated on 3 July 2020 states that Indonesia and Cambodia have the urgency to improve bilateral relationship in the taxation sector, thus an agreement between the two countries is required. Specifically, this tax treaty is meant to avoid the double taxation and as the prevention measure of tax evasion.

Presidential Reg. Number 74 of 2020 is also attached with the original text of the treaty in Indonesian, Khmer, and English. Type of Indonesia taxes covered in the tax treaty include Income Taxes whereas Cambodian type of taxes that covered in the treaty include taxes on profits, minimum taxes, taxes on additional profits in the distribution of dividends, taxes on profits from transfers of assets, and taxes on salaries.

I. Global Taxation Trends and Issues

OECD Provides Some Tax Recommendations for Post-Pandemic

The OECD assesses that many countries need to be encouraged to implement progressive taxation policies that could mitigate climate change. In the Economic Outlook that was published on 10 June 2020, the OECD advises tax authorities in various countries to impose carbon taxes.[13]

In addition, some taxation policies that also need to be implemented in order to improve the performance of post-pandemic state revenues include the maximizing tax revenues from VAT and the overcoming tax challenges that arise due to economic digitalization. The reform agenda itself then needs to be well-coordinated among all countries. Accordingly, the practices of tax avoidance and trade war due to tax disputes may be effectively prevented.

13 OECD, "OECD Economic Outlook, Volume 2020 Issue 1", Internet, can be accessed at https://www.oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2020/issue-1_0d1d1e2e-en,jsessionid=_1UT99w7gBSOqDpiHZMYbWM7.ip-10-240-5-33.

The Forum on Tax Administration (FTA) of the OECD has released a report regarding the tax authorities' work methods during the recovery period of the impact of the Covid-19 pandemic with a number of important notes.

One of the contents of the FTA report is the recommendation that tax authorities increase remote work options for fiscus and implement flexible working hours. In addition, authorities are advised to implement a digital identification and verification system.

New Instrument for Indirect Transfer of Assets Taxation

The Platform for Collaboration on Tax (PCT) has released an instrument related to the determination of the allocation of taxing rights on offshore indirect transfers (OIT).[14] Published in early June 2020, the instrument is planned to be arranged in the form of a toolkit.

Broadly speaking, this instrument contains various guidelines when a country seeks to tax profits from the transfer of ownership of an enterprise's assets located within that country, but the business entity is a taxpayer from another country. The discussion regarding this instrument is then elaborated in the context of developing countries and other countries that are rich in natural resources.

One of the most important causes of the issue is the perspective of the country where the underlying assets are located. To date, taxation on the asset income of which the transfer is carried out indirectly is a prolonged public discussion topic. The report also outlines two main approaches to taxation of OIT by countries where underlying assets are located.

In the first model, OIT is treated as total disposal of assets by the company through a local entity. In other words, OIT profits from sales or certain other transactions will be considered as deemed disposal from local parties that are affiliated with the company. The affiliation may be deemed to exist through simple domestic rules. Thus, the source country where the assets are located will still obtain taxing rights.

Further, the second model assumes that the sale of OIT assets is actually carried out by the company, but the profits of the transfer of such assets are considered to originate from the country where the assets are located. As such, the source country has the right to tax.

Risks of Work from Home for Tax Authorities

The Forum on Tax Administration (FTA) of the OECD has released a report regarding the tax authorities' work methods during the recovery period of the impact of the Covid-19 pandemic with a number of important notes.[15] This FTA report confirms the importance of tax authorities finding a balance between maintaining a positive reputation during the pandemic with incentives and reducing taxpayers' negative perception of fiscal consolidation by boosting revenues.

The FTA has recorded and analyzed the impact of the crisis on tax revenues and it is highly significant as the information basis for tax administration and government policy formulation. One of the contents of the FTA report is the recommendation that tax authorities increase remote work options for fiscus and implement flexible working hours. In addition, authorities are advised to implement a digital identification and verification system.

The security aspect is also of special concern in this report, in which it mentions that remote working and work from home programs pose risks to taxpayers' data security. This may increase the risk of fraud in the name of the authorities. This report also states that security risks may occur intentionally or due to tax officials' negligence in accessing taxpayer data without adequate security devices. In addition, this report states that a remote work scheme instead of an electronic tax office system may expose confidential taxpayer data.

European Union Bailout for Companies in Tax Haven

European Union countries cannot ban the Covid-19 outbreak bailouts for companies based in tax haven countries, such as the Netherlands or Luxembourg. The European Commission states that European Union member states must comply with the free capital rules described in the European Union agreements. This implies that the members cannot

14 OECD, "The Taxation of Offshore Indirect Transfers A Toolkit", Internet, can be accessed at https://www.oecd.org/ctp/PCT-offshore-indirect-transfers-draft-toolkit-version-2.pdf.

15 DDTC News, "*Ini Risiko Work from Home bagi Otoritas Pajak*", Internet, can be accessed at https://news.ddtc.co.id/ini-risiko-work-from-home-bagi-otoritas-pajak-21330.

The OECD has released a tax reporting framework for sharing and gig economy titled as Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy.

exclude companies from aid schemes based on headquarters or tax domiciles in different EU countries.

The comments respond to the measures have been undertaken by Denmark, Poland, and France that refuse to bailout the companies registered in some tax haven countries, such as the US Virgin Islands and Panama. The US Virgin Islands and Panama are among a dozen jurisdictions on the European Union's blacklist of tax haven countries where both are not members of the European Union. The European Commission itself has received some aid for companies after the recession caused by the Covid-19 outbreak.

Global efforts to reach an agreement on multinational corporation taxation rules later this year face obstacles following the disagreement of a number of countries, specifically, on the OECD's Pillar One.

Discussion on the Global Consensus of Digital Economy Tax May Be at Risk

Global efforts to reach an agreement on multinational corporation taxation rules later this year face obstacles following the disagreement of a number of countries, specifically, on the OECD's Pillar One. Pascal Saint-Amans, Director of the OECD Centre for Tax Policy and Administration, stated that more than 130 countries that form an inclusive framework on Base Erosion and Profit Shifting (BEPS) are currently pursuing global consensus targets.[16]

At present, the United States and China have not yet agreed if the reallocation of taxing rights is limited to digital companies. Conversely, although there are one or two countries that have called for a delay of the global consensus for a year, Saint-Amans believes that an agreement on the OECD's Pillar One and Pillar Two will be reached by October 2020.

OECD Releases Tax Reporting Framework for Sharing and Gig Economy

The OECD has released a tax reporting framework for sharing and gig economy titled as Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy (MRDP).[17] The public consultation regarding the reporting framework was previously held on 19 February 2020 until 20 March 2020.

Within the tax reporting framework for sharing and gig economy, the OECD defines digital platform and service provider as broadly as possible to cover all transactions to be reported to the tax authorities. In addition, the MRDP defines a platform as a site/application that can be accessed and allows sellers to be connected with users to provide direct/indirect services.

Within the MRDP framework, digital platforms are required to collect information on income from parties offering accommodation, transportation, and other services offered through the platform to be reported to the tax authorities. With the digitization of the economy on the platform, many transactions are not reported to the tax authorities either by the platform or by taxpayers who provide services through the platform.

The OECD writes that the existence of this digital platform can enhance tax authorities' access to economic transaction information. Transactions previously performed in cash and tend to be informal now become non-cash and digital. The OECD prepares the MRDP framework to assist taxpayers in complying with their tax obligations while ensuring a level playing field between business players on a digital platform and conventional business players.

Upon the implementation, the MRDP framework may avoid the emergence of a tax reporting mechanism regime that differs from the generally accepted one, and provide solutions that utilize technology and engender a climate that supports digital economic growth.

16 DDTC News, "*Kabar Konsensus Global, OECD: Ada Negara Tidak Sepakat Dengan Pilar I*", Internet, can be accessed at https://news.ddtc.co.id/kabar-konsensus-global-oecd-ada-negara-tidak-sepakat-dengan-pilar-i-20719?page_y=1026.13330078125.

17 OECD, *Model Rules for Reporting by Platform Operators with Respect to Sellers in the Sharing and Gig Economy*, https://www.oecd.org/ctp/exchange-of-tax-information/model-rules-for-reporting-by-platform-operators-with-respect-to-sellers-in-the-sharing-and-gig-economy.pdf.

Tax Revenue Prospect during Economic Recovery

This chapter brings perspective on how tax revenue will possibly perform when the economy starts to recover. Several proposals are presented as almost every country need to gain balance between tax incentives and revenue optimization. In addition, multiple points of view are taken together to critically examine potentials and challenges ahead, including lessons from the past crises.

2

2 Chapter Tax Revenue Prospect during Economic Recovery

"For perhaps the first time in modern century, the entire, interconnected world is focused on solving one single problem."

Mahlet Mesfin[18]

In the State Budget Plan (*Rancangan Anggaran Pendapatan dan Belanja Negara*/ RAPBN) 2021, the government set assumptions that the economy will grow between 4,5-5,5%.

A. Is It Too Early to be Optimistic?

The second quarter of this year marked surprising significant economic downturn, arising optimisms already take place to give us hopeful sense that this alarming condition will not hold for long.

In the State Budget Plan (*Rancangan Anggaran Pendapatan dan Belanja Negara*/RAPBN) 2021, the government set assumptions that the economy will grow between 4.5-5.5%.[19] Previously, many experts and institutions has also said the next quarter will streak the U-turn and the growth will slowly recover. Thereafter, in 2021, IMF predicts that Indonesia's economic growth will rebound by 6.1%, notably above the world average projection– 5.4%.[20] Morgan Stanley even anticipates that Indonesia can be one of the fastest countries whose economy will restore and even go back stronger than ever.[21]

Given the predictions, should we not be optimistic for economic revival in 2021? Even if so, we should not forget the fact that the second quarter's economic performance was worse than everybody expected. Moreover, most of projections lean on the assumptions that 2021 will be the point where Covid-19 viruses is not existed anymore.

18 As quoted in Tax Notes International, "It Takes A World to End A Pandemic", Foreign Affairs (2020).

19 Republic of Indonesia, *Nota Keuangan Beserta Rancangan Anggaran Pendapatan dan Belanja Negara – Tahun Anggaran 2021* (2020), 1-34.

20 CEIC, "Indonesia Forecast: Real GDP Growth". Internet, can be accessed at: https://www.ceicdata.com/en/indicator/indonesia/forecast-real-gdp-growth.

21 See Deyi Tan, Jin Choi and Jonathan Cheung, "Which Economy Emerges First on the Path to Recovery?", *Morgan Stanley Report* (2020). It can be seen as well in Deyi Tan, Zac Su, Jin Choi and Jonathan Cheung, "Tracking Covid-19 and real time indicators", *Morgan Stanley Research* (2020): 1.

Anticipating the upcoming state, the government has adjusted national fiscal posture for current year.

This requirement is fundamental, but often neglected. So, while having optimists among economic actors are vital to revitalize future expectations, we should also be prepared for the worse scenarios. Many countries show they have different pace in controlling the spread of the virus, showing that domestic economies might be recovered in different time frames, while international trade and mobility will depend on other countries' performances.

Equally important, we should note as well that while most eyes are currently on health and economics, fiscal sustainability is increasingly under pressure. Even before the pandemic reached Indonesia, there was already much concern about the size of the country's deficit as well as tax revenue elasticity to economic growth.

Despite of that, the level of fiscal severity is still under big question mark. No one can guarantee that the performance will follow the restoration of the economy. History (as will be shown in section C) has shown that tax revenue betterment will need many years to follow.

Since the current crisis does not only hit some countries or some regions, a global response is also needed including the tax cooperation as the part of a set of effective and well-coordinated multilateral actions.

Anticipating the upcoming state, the government has adjusted national fiscal posture for current year. In June, the government released Presidential Regulation (Perpres) Number 72 of 2020 as a revision of Government Regulations Number 54 of 2020 which contained changes in posture and details of the APBN 2020 fiscal year.

In the regulation, the 2020 State Budget deficit is set at Rp1,039.2 trillion or 6.34% of GDP. The revision was carried out by considering various economic dynamics influenced by the Covid-19 pandemic.

"To maintain the quality and sustainability of the 2020 State Budget in order to meet the needs of handling the Covid-19 pandemic and/or face threats that endanger the national economy and/or financial system stability, it is necessary to make adjustments to the Posture and Details of the 2020 State Budget," stated in the Presidential Regulation.

Next year, similar prudence would be required to put priorities in place, while long-term fiscal sustainability must be put in mind. IMF projects that Indonesia would face fiscal deficit by 5.0% of GDP, while the rest of the worlds are estimated to have worse (see Table 8).

Table 8 – IMF's General Fiscal Balance Projections for 2021

Regions/Countries	Projections (%)
World	**-8.2**
G-20	**-9.1**
Advanced Economies	-8.3
Emerging Market Economies	-8,5
Asia	-9.8
China	-10.7
India	-9.4
Indonesia	**-5**
Europe	-4.8
Latin America	-4.8
Low-Income Deloping Countries	-5.1

Source: IMF, "World Economic Outlook Update – June 2020", (2020): 20.

B. Proposals to Tax the Riches More

Many have raised the issue of what **the tax systems will look like when we exit from the crisis that caused by the Covid-19 pandemic.** On the one side, this is about questioning the taxation structures in the future whether there will be new type of taxes or new tax basis. On the other side, this is also related to how effortful and how skilful the governments in raising tax revenues to finance higher levels of their expenditures.

Furthermore, since the current crisis does not only hit some countries or some regions, a global response is also needed including the tax cooperation as the part of a set of effective and well-coordinated multilateral actions. In a broader scope, this crisis also can be meant as the momentum to restructure the fundamental of tax systems in many countries.[22]

Yet, the importance of a compelling vision for future tax revenue prospect also needs to be considered. This is given that the governments' effort to raise tax revenue may be too politically challenging and may also lead to spiralling deficits. Another risk is that 'expansive' tax policies could trigger vicious political conflict between the groups who feel under 'threat' of additional tax and who are entitled to special consideration.

During this crisis, some experts in taxation mainly suggest the alternative to revisit the fundamental tax system in taxing the digital economy.

During this crisis, some experts in taxation mainly suggest the alternative **to revisit the fundamental tax system in taxing the digital economy.** Accordingly, the OECD digital tax project becomes more relevant than ever as many governments are looking to tax huge digital companies through unilateral measure. Besides, many governments are also not likely to tolerate tax avoidance conducted by digital corporations that receive coronavirus-related bailout money.[23]

The other alternative is to suggest a wealth tax for those who have avoided economic 'pain' during the crisis.

This statement has publicly appeared since some digital service providers allegedly succeeded in increasing their companies' profits significantly due to social restrictions that make people utilize more digital-based services while other businesses face financial difficulties.[24] Moreover, the excess profits of the giant digital company earned during pandemic are also proposed to be taxed through new type of tax named as Global Excess Profit (GEP) tax.[25] The concept of GEP tax itself is similar to windfall profit tax but will be coordinated globally.

The other alternative is to suggest **a wealth tax for those who have avoided economic 'pain' during the crisis.** This also shows that the tax system should present a vision for the future which the plan is designed not only to raise revenue but also to address other major societal problems.

Although a wealth tax oftentimes considered as a new policy idea, it is in fact a traditional – and some would say intuitive – form of taxation. Some of them are "Eisphora" -a wealth tax on the richest Athenians, particularly during times of war- and "Zakat" -a 2.5% wealth tax on liquid assets throughout Islamic history and is a key part of the aim of Islamic economies to facilitate free trade while limiting inequality-. But it should also be noted that **the type of assets that will be taxed post-Covid 19 crisis will determine whether such a wealth tax would effectively be punishing the risk-averse and rewarding the taxpayer who are willing to invest that assets into the real economy to the benefit of all instead of "hoarding" them.[26]**

According to the IMF, the opt to implement a wealth tax policy be justified as "solidarity surcharge" in obtaining additional funds to help the government in mitigating Covid-19 impact.[27] For the developing and emerging countries, however, this policy needs to be gradually implemented by preparing the significant investment in the capacity to administer these taxes.[28]

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22 Jeffrey Owens, "Use the Crisis to Rethink How Governments Raise Tax Revenue," (13 May 2020), Internet, can be accessed at: https://www.ft.com/content/7ec55f93-a4b5-4625-8e04-212ed53308a2.

23 Stephanie S. Johnston, "Politicians Refocusing on Global Tax Reform Talks, OECD Tax Chief Says," *Tax Notes International* (25 May 2020): 955 – 956.

24 Reuven S. Avi-Yonah, "Taxing the Digital Economy: The Effect of Coronavirus on Pillar 1," *Tax Notes International* Vol. 87 No. 13 (30 March 2020): 1364.

25 Allison Christians dan Tarcísio Diniz Magalhães, "It's Time for Pillar 3: A Global Excess Profits Tax for COVID-19 and Beyond," Tax Notes International Vol. 98 No. 5 (4 Mei 2020): 507 – 510.

26 Ibrahim Khan, "Here's How A Revamped Wealth Tax Could Fuel the COVID Recovery," (3 August 2020), internet, can be accessed at: https://www.weforum.org/agenda/2020/08/how-redesigned-wealth-taxes-could-help-us-weather-the-coronavirus-crisis/.

27 IMF Fiscal Affairs, "Tax Issues: An Overview," *Special Series on Fiscal Policies to Respond to COVID-19* (2020): 2.

28 David Coady and Nghia-Piotr Le, "Designing Fiscal Redistribution: The Role of Universal and Targeted Transfers," *IMF Working Paper* WP/20/105 (June 2020): 16 – 19.

Table 9 - Tax Proposals for HNWI During the Covid-19 Pandemic

Country	Proponent	Proposed Rate	Patrimonial Level on which It Would Be Taxed
Spain	***Officialism and Opposition*** 1. Unidas Podemos 2. Más País	1. "It is in the proposal phase" 2. From 1% to 2%	1. "It is in the proposal phase" 2. From three million euros
Italy	***Officialism*** Part of the Democratic Party	From 4% to 8%	From 80 thousand euros
Switzerland	***Opposition*** Swiss Labor Party - Workers and People's Party	2%	3 million francs
Russia	***Officialism*** Putin	13%	Interest on bank accounts above one million rubles
Brazil	***Opposition*** 1. PT. Legislators of PT (Fontana), left-wing parties and support of CUT union center 2. Senator of Podemos 3. Independent Senator 4. Non-political associations	1. 2,5% 2. 0.5% 3. 0.5 - 1% 4. From 1% to 3%	1. Over 50 million reais 2. Over 50 thousand minimum wages 3. Over 12 thousand times the income tax exemption limit 4. From 20 million reais
Peru	***Opposition*** 1.Nuevo Perú 2.Frepap	1. 1% 2. From 0.22% to 3%	1. Million-dollar companies 2. From a million soles
Chile	***Opposition*** Communist Party (sector of the Deputy Camila Vallejos)	2% annual	2% annual
Ecuador	***Opposition*** Citizen Revolution Movement (Assemblyman Pabel Muñoz)	0.9% to equity 10% to banks 25% to 15 companies	Assets greater than $ 1 million 2019 private banking profits 15 companies most benefited by the tax reform
Paraguay	***Opposition*** Frente Guasú (related to ex-President Fernando Lugo	1%	Assets greater than $1 million
Argentina	Frente Todxs and Union Bloc Support in Congress + CTA	Up to 5.5%	Assets greater than $ 2-3 million

Source: Centro de Economía Política Argentina – CEPA (April 2020)

As much as we need to relax the taxpayers' burden, the low-income society needs subsidies that is sourced from the tax itself. Accordingly, stimulus needs to be well-timed and proportional with securing the additional revenues needed to restore fiscal sustainability once growth has been put on an upward path.

This tax agenda also agreed by some taxation experts. A study by Richard Murphy, a professor in political economy at City University in London, considered a tax on wealth at the same rate as a tax on income. He suggested that the UK government has the potential to raise up to £174 billion a year and increasing the progressive rate of tax from 3.4% to 29.4%.[29] In addition to wealth tax, amid high pressure to repay the deficit by taxing the perceived wealthy, he also suggested to reconsider the system of capital gain taxation in the UK.

Not only from academician, the alternative of restructuring this current tax system by expanding the basis of taxes also proposed by some head of governments and also the opposition parties. Table 9 shows the proposal to the imposition of this type of tax in the framework of the Covid-19 pandemic.

C. Tax Revenue Optimization vs Tax Incentives

As much as we need to relax the taxpayers' burden, the low-income society needs subsidies that is sourced from the tax itself. Accordingly, stimulus needs to be well-timed and proportional with securing the additional revenues needed to restore fiscal sustainability once growth has been put on an upward path. **However, striking the appropriate balance will not be simple.** Especially,

29 Larry Elliott, "Wealth Tax Rise Could Raise £174bn to Tackle Covid-19, Expert Says," *The Guardian* (22 April 2020), Internet, can be accessed at: https://www.theguardian.com/politics/2020/apr/22/wealth-tax-rise-could-raise-174bntackle-covid-19-expert-says.

Table 10 – Taxation Revenue Per Type of Tax

Type of Tax	Proportion in 5 Years	Simple Average Growth in 5 Years	Weighted Average Growth in 5 Years	Growth yoy June 2019 – June 2020
Income Tax (IT)	**57.6%**	**7.3%**	**4.2%**	
Non-Oil and Gas IT	**53.2%**	**9.5%**	**5.0%**	
Article 21 Income Tax	10.4%	7.2%	0.7%	12.7%
Article 22 Income Tax	1.2%	21.9%	0.2%	
Article 22 Import Income Tax	3.8%	6.9%	0.2%	-54.6%
Article 23 IT	2.8%	11.8%	0.3%	
Article 25/29 IT for Individual	0.7%	25.3%	0.1%	35.8%
Article 25/29 IT for Company	17.7%	12.2%	2.1%	-21.9%
Article 26 Income Tax	3.7%	-11.0%	-0.4%	17.1%
Final IT	9.8%	8.4%	0.8%	4.3%
Other Types of Oil an Gas IT	2.6%	13707.8%	359.7%	
IT Borne by the Government	0.7%	22.5%	0.1%	
Oil and Gas Income Tax	**4.3%**	**-2.2%**	**-0.1%**	
VAT and STLGs	**39.9%**	**5.7%**	**2.2%**	
Domestic VAT	25.9%	7.7%	2.0%	-13.6%
Import VAT	12.6%	3.6%	0.4%	-6.7%
Other VATs	0.0%	3.2%	0.0%	
Domestic STLGs	1.0%	6.6%	0.0%	
Import STLGs	0.3%	-1.2%	0.0%	
Other STLGs	0.0%	533.7%	0.0%	
Land and Building Tax	**1.8%**	**0.4%**	**0.0%**	
Other Type of Taxes	**0.5%**	**6.3%**	**0.0%**	
TOTAL or AVERAGE	**100.0%**	**19.7%**	**7.3%**	

Source: 2015 – 2016 (DGT Annual Report); 2017 – 2018 (LKPP Audited); 2019 (APBN KiTa January 2020); 2020 (DGT Presentation on 24 July 2020) (Processed by DDTC Fiscal Research).

when taxation must play a role in future macroeconomic stimulus to regain growth. Later, Covid-19 will change taxation in at least two important ways with lasting implications.

Firstly, taxation plays a role at this current crisis stage in helping to sustain universal access to basic goods and services through "lifeline" measures, such as the providing of tax incentives and other tax expenditures to tackle the Covid-19 impact to economy. In this context, taxation is also objected to compensate for the uneven playing field due to the various vulnerability levels across social groups in the society to Covid-19 and to its economic impact. A wide variety of tax policy options may address three main different phases of the Covid-19 crisis, namely short-term tax responses, recovery period, and long-term measures.[30]

30 Richard Collier, Alice Pirlot, and John Vella, "Tax Policy and the COVID-19 Crisis," *WP 20/01* (June

Taxation will play a determining role as the primary recovery ingredients for the world economies. In this context, countries with limited fiscal space that going into the crisis will be clearly hit harder compared to others that have more flexibility.

One of the examples is that it was recommended that tax cuts focus on reducing the income burden on low-income workers in the short term period or initial phase, as a way to both boost short-term spending –as this target group is more likely to spend rather than save additional net earnings– as well as lower the cost of labour and hence cushion employment levels. The extent of labour taxation can have substantial effects on labour supply and demand, especially in the long run. [31] In the case of Indonesia, it is shown by providing the provision of Article 21 Income Tax Borne by the Government (PPh Pasal 21 DTP).

Hence, in the midst of Covid-19 pandemic, tax incentives should be seen as protection on tax base in the long run.

Secondly, taxation will play a determining role as the primary recovery ingredients for the world economies. In this context, **countries with limited fiscal space that going into the crisis will be clearly hit harder compared to others that have more flexibility.** Responding to the situation, the Government of Indonesia has adjusted the State Budget deficit during the Covid-19 pandemic to enlarge country fiscal space.

In accordance with this, the government of Indonesia also needs to rethink about its flexibility for the sake of national fiscal sustainability in the future considering the recurrent government debt might be harmful in the long term. One of the instruments is by observing the growth pattern of taxation revenue per type of tax.

In general, revenue performance at the end of the second semester this year showed an improved pattern compared to the period of May 2020. However, there were still many types of tax revenues that were contracted, especially for VAT which had a significant contribution to taxation revenue in Indonesia in the past five years. In addition, the positive growth for Article 21 Income Tax in June 2020 might be mostly contributed from the tax incentives provided by the government, namely PPh Pasal 21 DTP and cannot be considered in the long-term impact.

Yet, the impact of this Covid-19 pandemic on the economy itself is hard to be measured until this time because it is very dynamic. The other previous outbreaks, such as SARS, H1N1, and Ebola, might be said that they were differed from Covid-19 with SARS having very limited community spread and H1N1 very low mortality, so neither led to widespread social distancing measures.[32] Even if the cure or vaccine for Covid-19 has been found in the future, **the speed of economic recovery will also depend on the deepness on the impact it causes.**

As for the recovery, it will be relatively faster if this crisis does not have an impact on changes in economic structure or increasing the composition of the informal sector. Hence, in the midst of Covid-19 pandemic, **tax incentives should be seen as protection on tax base in the long run.** We may change the perspective that tax policies also contribute to cover the costs of the crisis only aftermath the crisis.

D. How Other Countries Perform

While several views were optimistic that Indonesia will dodge the recession, some signs of economic recession have now become more apparent while taxation is profoundly affected by the pandemic. Unsurprisingly, the government is now accelerating its planned tax reforms, including cutting the corporate income tax (CIT) rates and collecting taxes from tech companies to boost the fund Covid-19 relief.

On the other side, the government has set the tax revenue growth due to the pandemic in the second revised State Budget to -10% compared to 2019, including the consideration of “revenue forgone” by providing tax incentives and also the temporary loss of tax bases due to crisis. Besides, the tax ratio was also projected to be less than 9% this year.

2020): 2 – 10.

31 OECD, *Economic Policy Reforms 2010 Going for Growth: Going for Growth* (Paris: OECD Publishing), 27.

32 IMF Fiscal Affairs, “Challenges in Forecasting Tax Revenue,” *Special Series on Fiscal Policies to Respond to COVID-19* (2020): 2.

In the longer term, the impact on tax revenues will depend in large part on the effectiveness of policy responses taken to limit the economic impact of the crisis and on international transmission channels.

Impacts on revenues will vary across countries and across time. **In the short-term,** the extent of reductions in tax revenues will be seen in countries that are heavily affected by Covid-19 themselves and that impose confinement measures for longer periods, as well as those that have a greater exposure to the global economy via trade, tourism, or participation in global value chains. **In the longer term,** the impact on tax revenues will depend in large part on the effectiveness of policy responses taken to limit the economic impact of the crisis and on international transmission channels.[33]

In developing countries, the revenue impacts of the crisis may be more severe for some reasons. *Firstly,* the sharp decline in global and domestic trade will affect revenues more in developing countries as many rely more heavily on revenues from on and international transactions. *Secondly,* several developing countries have a high share of revenues from commodities and natural resources are more exposed to fluctuations in global demand and prices. *Thirdly,* developing countries are typically more reliant than developed countries on corporate taxes and on consumption taxes, which are both likely to face substantial falls and a slower recovery than many other tax types.

On average, it might also be seen that trends in tax revenues and in GDP tend to move together in normal phase. However, during the crisis, tax revenues tend to fall faster and recover much slower than GDP when GDP growth is limited or negative.

The direct impact of Covid-19 on tax revenues even before the revenue impact of any fiscal policy responses is considered has the potential to be significant in the short-run across the globe. Countries may experience losses in tax revenues to different extents depending on their tax mix. The decline in consumption tax revenues could have a particularly significant impact on developing and emerging countries as they rely heavily on consumption tax revenues as similar as Indonesia. While a decline in PIT would be more strongly felt by advanced countries. Hence, **the high dependency of a country to certain type of tax and certain sector will make the crisis hits it harder.**

In conclusion, the Covid-19 pandemic will cause a major decline in tax revenue in most countries. This is caused both directly by the economic slowdown and indirectly by tax policy and administration measures taken in response. The implications for households and businesses cause a disruption of economic activity in ways that are unique to this crisis. For instance, the need for social distancing has distinct effects on the tax base, tax administration, and taxpayer compliance. Furthermore, the pandemic may affect the structure of economies more permanently. In some economies the external sector is also likely to come under pressure resulting in depreciations or devaluation, which may also affect tax revenues, with the sign of such effect dependent on the economic structure.

E. Learn from the Past

Let us now take a look how tax perform in past crises. In general, many macroeconomics literatures distinguish types of crises into two, namely the economic crisis and financial crisis. The economic crisis itself is usually marked by the falling points of GDP and the rising numbers of unemployment while financial crisis indicates the sharp pressure occur in the indicators in financial markets only, such as balance of payment, currency, and debts.

Yet, although the impetus and effects of the financial crisis are substantially different from the current economic crisis, changes in tax revenues during the period provide an example of scale of the revenue impact of a major global shock and not independent between one and another. **On average, it might also be seen that trends in tax revenues and in GDP tend to move together in normal phase. However, during the crisis, tax revenues tend to fall faster and recover much slower than GDP when GDP growth is limited or negative** as can be seen in Figure 3.[34]

33 OECD, *Tax and Fiscal Policy in Response to the Coronavirus Crisis: Strengthening Confidence and Resilience* (Paris: OECD Publishing, May 2020), 36 – 44.

34 Vincent Belinga, Dora Benedek, Ruud de Mooij, and John Norregaard, "Vincent Belinga,

Figure 3 Trends of Tax Ratio and GDP Growth in Southeast Asia[35] and World

Source: World Bank (Calculated by DDTC Fiscal research, 2020)

The financial crisis, both in 1997–1999 and in 2007–2009, had a dramatic impact on national tax revenues, creating both increasing annual revenue shortfalls or deficits and increasing public debt. Tax revenues face pressures first because most national tax systems have come to rely increasingly on some different types of taxes such as PIT in advanced countries and consumption taxes in emerging countries.

Besides, the response of governments to the crisis -in the form of stimulus and rescue packages, as well as increased benefits pay-outs- created additional spending commitments.[36] Therefore, additional revenue was significantly needed where some that have largely been met by borrowing and some were from the taxes.

We can infer from the past that the ability of the government to manage fiscal space becomes very important to consider in the time of economic crisis related to health sector. One example is when the SARS outbreak hit the East Asian region in the period 2002 to 2004. Apart from the "cyclical

We can infer from the past that the ability of the government to manage fiscal space becomes very important to consider in the time of economic crisis related to health sector.

Dora Benedek, Ruud de Mooij and John Norregaard," *IMF Working Paper* WP/14/110 (June 2014): 4 – 16.

35 Observed Countries: Indonesia, Malaysia, Singapore, Philippines, Thailand.

36 Allison Christians, "Taxation in a Time of Crisis: Policy Leadership from the OECD to the G20," *Legal Studies Research Paper Series Paper No. 1107 5 Northwestern Journal of Law & Social Policy* (2010): 3 – 4.

Lesson Learnt for Fiscal Policy from the SARS Outbreak[37]

In the SARS cases, **the fiscal implication will be most significant for Hong Kong where its fiscal position is already weak compared to its neighbours like China and Taiwan.** For China, SARS has not dented its economic growth since prior to the outbreak of the deadly epidemic, China was already expanding nearly 10.00% annual growth in the first quarter. Moreover, after SARS, the economy registered a sharp recovery by growing 9.10% in the third quarter after plunging 6.70% in the second quarter as a result of the viral outbreak.

For Taiwan, whose economy was already slowing down before the SARS crisis, the effects of SARS appear to be short-lived as the economy bounced back to respectable growth, underpinned by a moderate recovery in exports and industrial production.

Yet, Hong Kong was the worst hit compared to China and Taiwan. SARS dealt a double whammy to its economy which was already mired in recession before the crisis occurred. Lost revenue from tourism further compounded the weak local consumption expenditure and exacerbated the already worsening unemployment situation. Even when SARS was brought under control, economic recovery at this country remained weak, incipient, and fragile as Hong Kong continued to be plagued by persistent deflation, serious structural unemployment and high budget deficit.

We then may conclude that, apart from the fact that its economic fundamentals that will help to weather the external shocks during the economic crisis, **the ability of tax policies to deal with long-term economic impacts is also highly dependent on how a country manage its fiscal position to finance the public needs and also mobilize the revenue.**

effects", the SARS crisis also exposed or perpetuated the structural weaknesses of the economies, for instance, the high structural unemployment, budget deficits and persistent deflation. In addition, there was a significant decline in revenue mobilization as economic grew more slowly.

As much as economy needs tax policy supports, it will eventually have to ensure that future tax bases, or so-called 'tax base' are able to keep the fiscal sustainability alive.

F. Tax Policies Going Forward

As much as economy needs tax policy supports, it will eventually have to ensure that future tax bases, or so-called 'tax base' are able to keep the fiscal sustainability alive. Otherwise, second economic downturn may possibly arise rooted from unpaid debts or unfunded development.[38]

Taking that stance, well-targeted tax incentives by considering future fiscal sustainability will be vital. Quoting from IMF in June outlook update titled 'A Crisis Like No Other, An Uncertain Recovery', tax policies should selectively take into account the diverse impact from Covid-19 to every layer of society, economic sectors, ability to pay and different spill-over impacts to other part of the economy. As it said in terms of fiscal context that holds true to tax as well:[39]

37 John Wong, Sarah Chan, and Liang Ruobing, "The Impact of SARS on Greater China Economies," in *The Sars Epidemic: Challenges to China's Crisis Management,* ed. John Wong Zheng Yongnian (Danver: World Scientific Publishing, 2004), 3 – 12.

38 Carlo Cottarelli, "Fiscal Sustainability and Fiscal Risk: An Analytical Framework", in *Post-Crisis Fiscal Policy*, Carlo Cottarelli, Philip Gerson, and Abdelhak Senhadji, eds. (Cambridge: The MIT Press, 2014), 15-16.

39 IMF, "A Crisis Like No Other, An Uncertain Economy", *World Economic Outlook Update* (2020): 19.

Table 11 Taxes by type to GDP, average between 2000-2015

	Total Taxes (%)	Corporate Income Tax (%)	Personal Income Tax (%)	Property Tax (%)	Tax on goods & services (%)	Tax on international trade (%)
High-income (OECD)	25.8	3.1	9.3	1.3	11.6	0.1
High-income (Non-OECD)	15.6	2.5	2.5	0.4	7.3	2.3
Upper-middle income	19.4	3.7	2.5	0.3	8.7	3.7
Lower middle income	16.8	2.9	2.3	0.2	7.2	3.4
Low income	11.2	1.6	1.4	0	5.5	2.5
Indonesia	**9.8**	**1.62**	**1.0**	**0.1**	**3.3**	**0.3**

Source: Ali Compaore, Rasmane Ouedraogo, Mousse Sow, and Rene Tapsoba, "Fiscal Resilience Building: Insights from A New Tax Revenue Diversification Index", IMF Working Paper (2020): 7, APBN Kita Januari 2020 and BPS.

Notes: For Indonesia's calculation, total taxes include taxation revenue collected by the DGT and the DGCE.

"Where the pandemic remains acute and stringent lockdowns continue, fiscal policies should accommodate health care services to save lives and provide emergency lifelines to protect people. Where lockdowns are easing, fiscal policies should gradually transition away from firm support to better targeted household support, taking into account the extent of informality in the economy…"

In addition, to anticipate future possible crises with more resilient revenue performance, tax revenue should be more reliant on personal income tax than corporate.

In addition, to anticipate future possible crises with more resilient revenue performance, tax revenue should be more reliant on personal income tax than corporate one. There is ample evidence supportive of the long-held view that tax revenue diversification matters a great deal for mitigating government revenue volatility.

Compared to other income-group of countries, it is clear that Indonesia's tax revenue diversification is significantly lacking behind.

Moreover, this step is believed to also boost tax revenue collection. Hence, aiming for more balance in tax revenues stands as a key factor for strengthening resilience to fiscal risks arising from government revenue volatility and crucial for maintaining sustainable delivery of public provisions throughout every phase of the economic recovery and onwards.[40]

Compared to other income-group of countries, it is clear that Indonesia's tax revenue diversification is significantly lacking behind (see Table 11). Countries with higher income tend to have bigger reliance to personal income tax than corporate one, while consumption-based taxes' revenue still covers the biggest percentage of the countries' GDP. To preserve stronger resilience, bettering the tax revenue structure will be the primary task for Indonesia's ahead.

Meanwhile, as occurred in the past crises, should we also expect new round of tax competition after the pandemic ends? It might be the case. However, as much as it might happen in the future, Indonesia should resist to take the first initiative. As we learn from the past, developing countries with huge tax base will be the most to suffer.[41]

All in all, there are still much uncertainties concerning what lies ahead. Too much generosity in tax incentives will be risky for long-term fiscal sustainability. Well-targeted ones that is given temporarily and adjusted as different phases goes

40 Ali Compaore, Rasmane Ouedraogo, Mousse Sow, and Rene Tapsoba, "Fiscal Resilience Building: Insights from A New Tax Revenue Diversification Index", *IMF Working Paper* (2020): 3-5.

41 Denny Vissaro, "Optimal Corporate Income Tax Policy for Large Developing Countries", *Tax Law Design and Policy Series* No. 1516 (2016).

on are much better but require extensive research and good policy making.

In parallel, broadening tax bases should be carried out to balance the tax expenditures, particularly in personal income taxes, VAT, and new taxes based on wealth. This is not only important to preserve the economy during recovery, but also to anticipate possible second wave in any time in the future as well.

Adapting Tax Administration to the New Normal

As the economy and business are embracing new landscape, tax authorities are required to adjust their administration to preserve the business process. This chapter provides information how Indonesia's tax authority has responded so far. Furthermore, it elucidates potentials given from digitalization and other factors that need to be optimized.

3

Chapter

3 Adapting Tax Administration to the New Normal

The inevitable developments in technology and globalization have led to new business processes in line with the increase in domestic and cross-jurisdictional transactions. Parallel with this trend, tax standards and administrative processes must adapt to the required developments and needs.

The inevitable developments in technology and globalization have led to new business processes in line with the increase in domestic and cross-jurisdictional transactions. Parallel with this trend, tax standards and administrative processes must adapt to the required developments and needs. Not only will these reforms play a role in collecting tax revenues, but also in establishing an equal and collaborative relationship with taxpayers and other stakeholders.[42]

Specifically, the reforms in tax administration include the area of managing the tax system, identifying and registering taxpayers, collecting taxes, and providing services to taxpayers.[43]

Broadly speaking, four elements must be taken into account in implementing the tax administration transformation.[44] *First,* the need for continuous interaction between taxpayers and tax authorities. *Second,* simplicity. Simplified tax services for taxpayers imply less interaction, simpler forms and processes, and faster response to requests. *Third,* transparency. Transparency promotes voluntary taxpayer compliance. *Fourth,* data management. In this regard, taxpayers need a guarantee of privacy, security, and data protection to build trust.

A. How Indonesia's Tax Administration Has Responded Thus Far

While the need for digitization increases, the Covid-19 pandemic poses challenges for tax authorities to speed up the pace of technology utilization in the tax system. Such situation, which demands social distancing and avoiding crowds

42 Darussalam, Danny Septriadi, B.Bawono Kristiaji, and Denny Visaro, *Era Hubungan Otoritas Pajak Dengan Wajib Pajak*, (DDTC Publishing: Jakarta, 2019),10. See also Darussalam, "Meracik Agenda Pajak: Kini dan Ke Depan", *Bisnis Indonesia Newspaper Opinion Article* (2020).
43 Mtthijs Alink and Victor van Kommer, Handbook on Tax Administration, IBFD, 2016, 166.
44 Microsoft and PwC, Digital Transformation of Tax Administration, 2018, 21.

While the need for digitization increases, the Covid-19 pandemic poses challenges for tax authorities to speed up the pace of technology utilization in the tax system.

to prevent the spread of the virus, certainly plays a role in changing the tax administration system from face-to-face to online using electronic means.

By digitizing services during the pandemic, the tax authority is expected provide accurate and easily accessible information for all parties.[45] In Indonesia, tax administration has undergone long and significant developments since the use of e-SPT in 2002, e-filling in 2007 to the core tax system that is subject to further testing in 2023 and to take effect in 2024.

Current circumstances render an increased use of digital technology by government bodies and the public as a response to the impact of the crisis in the short term (react), resolving problems in the medium term (resolve), and reformulating systems and policies in the long term (reinvent).[46] On the one hand, face-to-face services are eliminated. Administrative process and tax services, on the other hand, must continue so as not to disrupt tax revenues.

Prior to the Covid-19 pandemic, the government had already started the integration of tax administration with technology by providing electronic reporting and remittance features, i.e. e-filling, e-invoicing, and e-reporting.

Tax administration transformation has to be bolstered by appropriate, easy-to-implement, and efficient regulations, business processes, and roadmaps. Accordingly, the Directorate General of Taxes (DGT) has issued several policies on the digitalization of tax administration and amended policies related to reporting, auditing, objections, tax dispute resolution, and so forth. These policies aim to facilitate the implementation of tax rights and obligations and adapt to the current pandemic.

A.1 Reporting

Prior to the Covid-19 pandemic, the government had already started the integration of tax administration with technology by providing electronic reporting and remittance features, i.e. e-filling, e-invoicing, and e-reporting. Using similar mechanism, the use of various tax incentives granted during the pandemic period is also reported electronically and accessible through DGT Online.

There are currently nine features in the reporting of the realization of incentives, including final Income Tax (*Pajak Penghasilan*/PPh) borne by the government (*Ditanggung Pemerintah*/DTP), Article 21 PPh DTP, Article 22 Import PPh exemption, and Article 25 PPh installment discounts which are all regulated under MoF Reg. 44/2020. Further, MoF Reg. 28/2020 stipulates a number of incentives, including Article 21 PPh exemption, Article 22 PPh exemption, Article 22 Import PPh exemption, Article 23 PPh exemption, and VAT DTP.

These kind of online reporting policies are certainly beneficial for the efficiency of administrative services and facilitates the tax authorities to supervise. Moreover, it facilitates taxpayers to carry out their tax obligations without having to meet face-to-face and be present at Small Tax Offices (*Kantor Pelayanan Pajak Pratama*/KPP Pratama).

A.2 Audits

The audit process, which starts with audit preparation and ends with the issuance of the Notice of Tax Audit Findings (*Surat Pemberitahuan Hasil Pemeriksaan*/SPHP) is prioritized using electronic means.[47] This is aimed at adapting to the new normal and adjusting certain activities as well as the implementation of duties within the DGT. Several electronic channels are employed in adjusting audit activities, including the DGT's website, e-mail, and other means, such as video conferencing, facsimile, and messaging applications.

Prior to the implementation of online audit processes, a taxpayer is required to prepare a written statement informing the taxpayer's official email address used as the means of communication. This statement letter guarantees the validity of online communications undertaken by the taxpayer and tax authorities. As such, the results of communications

45 United Nations Department of Economic and Social Affairs, *COVID-19: Embracing Digital Government During The Pandemic and Beyond*, April 2020, hlm. 1.

46 United Nations Department of Economic and Social Affairs, Covid-19: Embracing Digital Government During the Pandemic and Beyond, Internet, can be accessed at https://www.un.org/development/desa/dpad/publication/un-desa-policy-brief-61-covid-19-embracing-digital-government-during-the-pandemic-and-beyond/

47 Procedures for electronic audits are outlined in the Appendix of Circular No. 34/PJ/2020.

between the two parties are deemed binding and legitimate.

The tax auditor, however, must agree on the method, venue, and time of the audit with the taxpayer. For instance, audit documents via email, online meetings, and discussions, or using video calls, or audit documents borrowed by the auditor from the taxpayer may be submitted by sending soft copies or scans.

The agreement is to be documented by the auditor and is part of the audit working paper (*Kertas Kerja Pemeriksaan*/KKP). The online audit policy, however, does not rule out face-to-face audits if so required by notifying the Head of the Unit of Audit Executor (*Unit Pelaksana Pemeriksaan*/UP2).

All electronic audit activities will be documented by the auditor to anticipate lawsuits/legal measures from taxpayers. Said documentation may be in the form of images, audio/audio recordings, or messages.

In the event that the taxpayer is not willing to be audited online or in-person, the auditor must still document it in an official report. The document on the refusal serves as the basis to determine the next audit process. If an audit is conducted via video conference and the taxpayer is absent and does not confirm, the taxpayer is deemed absent in the audit process.

A.3 Objections

Presently, objections may be submitted more conveniently through the e-objection feature on the DGT's website an alternative for submitting objections to the tax authorities.

Presently, objections may be submitted more conveniently through the e-objection feature on the DGT's website an alternative for submitting objections to the tax authorities. This policy has taken effect as of 1 August 2020.

The electronic submission of objection letters has been mandated under MoF Reg. 9/2013 as amended by MoF Reg. 202/2015. However, the features and procedures for the electronic submission of objection letters are currently only regulated in the Directorate General of Taxes Regulation No.PER-14/PJ/2020 and will take effect as of 1 August 2020.

PER-14/PJ/2020 outlines that objection letters are submitted electronically (e-filing) using objection letters in the form of electronic documents. The amount of tax payable or the amount of tax withheld or the amount of losses as per the taxpayer's calculations, along with the reasons as the basis of the calculations, are submitted by uploading the documents in the portable document format (pdf). On another note, the electronically-submitted objection letters (e-filing) must be signed by the taxpayer by means of electronic signatures.

A.4 Tax Dispute Resolution

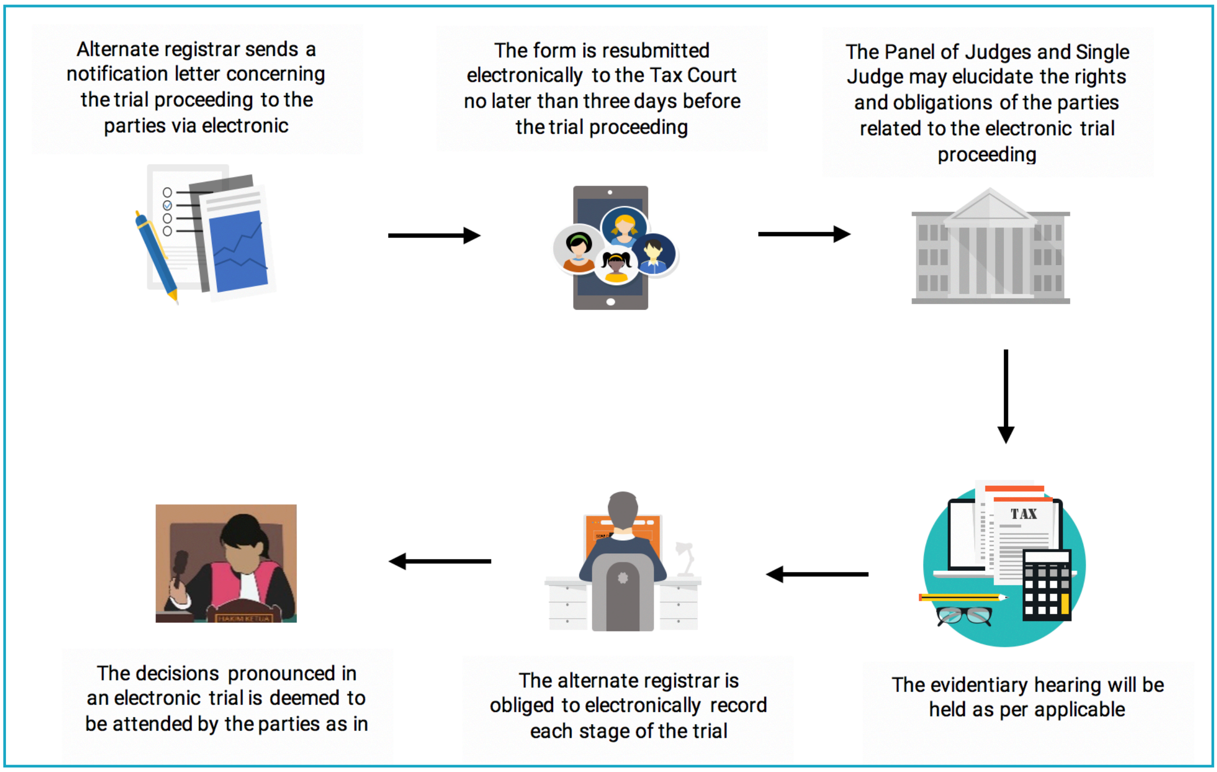
At the start of the pandemic in Indonesia in March, the call for social distancing and avoiding crowds to prevent the spread of the virus had implications for trial proceedings at the Tax Court. In response, policies on the temporary suspension of trial proceedings and services at the Tax Court were issued.

At that time, a number of Tax Court activities were temporarily suspended. *First,* the implementation of trial proceedings at the Tax Court. *Second,* services of receiving letters of appeal and/or lawsuit. *Third,* services of receiving letters of application for case reviews. *Fourth,* services through the helpdesk other than the filing of appeals/lawsuits and the submission of requests for case reviews. *Fifth,* the policy on sending copies of the Tax Court's decisions and copies of the decision of case reviews.

To keep the dispute settlement process at the Tax Court running and prevent tax disputes from accumulating, the Tax Court initiated electronic trial proceedings. In addition, to resolve tax disputes fairly through fast, cheap, and simple procedures and processes, the Tax Court has renewed trial proceedings by utilizing information and communication technology. The renewal refers to electronic trial proceedings.

Electronic trial proceedings are enforced under the Chairperson of the Tax Court Decree No. KEP-016/PP/2020. An electronic trial proceeding refers to a series of processes for investigating and deciding tax disputes by the Tax Court that are carried out with the support of information and communication technology through video conferencing applications. The electronic trial proceeding scheme differs from trial proceedings conducted offline at the Tax Court.

Figure 4 Electronic Trial Process at Tax Court



Source: Processed from Tax Court Decree No. KEP-016/PP/2020

An electronic trial proceeding at the Tax Court comprises several stages, starting with the sending of the notification of trial proceeding to the parties by the alternate registrar to the electronical issuance of the decision (see Figure 4).

An electronic trial proceeding at the Tax Court comprises several stages, starting with the sending of the notification of trial proceeding to the parties by the alternate registrar to the electronical issuance of the decision.

First, the alternate registrar sends a notification letter concerning the trial proceeding to the parties via electronic means attached with an electronic trial proceeding consent form. The notification is considered valid insofar as it has been sent to the parties.

The consent form for the conduct of an electronic hearing must be affixed with sufficient stamp and signed by the appellant or plaintiff. Subsequently, the form is resubmitted electronically to the Tax Court no later than three days before the trial proceeding. In the event that the consent form is not submitted within the set time limit, the electronic trial proceeding cannot be held. If before the trial is held, both the appellant and the plaintiff declare their disagreement with the electronic trial proceeding, the applicant/appellee and the plaintiff/defendant may appear in person in the Tax Court courtroom.

In the implementation, the Panel of Judges and Single Judge may elucidate the rights and obligations of the parties related to the electronic trial proceeding. The trial is held using a video conferencing application as per the predetermined trial schedule.

The evidentiary hearing will be held as per applicable procedural laws. Electronic documents shall be submitted no later than the day and hour of the trial according to the set schedule. Parties that do not submit electronic documents according to the trial schedule and events without valid reasons based on the judgment of the Panel of Judges or Single Judge are deemed not to exercise their rights.

The Panel of Judges and Single Judge may request the parties to submit physical documents for trial purposes if necessary. Examination of information by witnesses, experts, and interpreters whose oaths need to be taken may be carried out remotely through audio-visual communication media.

The alternate registrar is obliged to electronically record each stage of the trial proceeding. Further, the decisions pronounced in an electronic trial is deemed to be attended by the parties as in an open-to-public trial. Next, the verdict will be outlined in the form of an electronic copy of the decision which is affixed with an electronic signature as per legislative provisions regarding electronic information and transactions. Electronic copies of decisions have legal force and effect and will be published to the public on the Tax Court's information system.

The Tax Court may also carry out electronic Outside Domicile Trial Proceedings during the pandemic period as regulated under Tax Court Circular No. SE-12/PP/2020.

Electronic trial proceedings conducted using video conferencing applications legally comply with the principles and provisions of open trials to the public. The procedures will be carried out in stages as per the provisions subject to further regulation.

On another note, the Tax Court may also carry out electronic Outside Domicile Trial Proceedings (*Sidang di Luar Tempat Kedudukan*/SDTK) during the pandemic period as regulated under Tax Court Circular No. SE-12/PP/2020. The electronic SDTK refers to a series of processes for examining and deciding tax disputes based the Chairperson of the Tax Court's judgment to be heard outside the domicile with the support of information and communication technology.

E-court is defined as an application used to process various matters electronically, such as lawsuits, small claim court, denials of applications, payment of court fees, making court summons and notifications, hearings, decisions, and legal remedies, and application services for other matters.

Prior to the policy on electronic trial proceedings at the Tax Court, the Chief Justice of the Supreme Court issued Circular No. 1 of 2020 which provides guidelines for the implementation of duties for the Supreme Court and judicial bodies under it. Courts under the Supreme Court are urged to implement e-court and e-litigation for the administration and implementation of trial proceedings.

E-court is defined as an application used to process various matters electronically, such as lawsuits, small claim court, denials of applications, payment of court fees, making court summons and notifications, hearings, decisions, and legal remedies, and application services for other matters. In contrast, e-litigation refers to an electronic trial proceeding that applies to the trial process by submitting lawsuits/appeals/objections/rebuttals/adversarial/interventions, and their amendments, responses, counter plea, rejoinder, evidencing, conclusions, and pronouncements of verdicts/decisions. As such, the electronic trial at the Tax Court policy is in line with the policies issued by the Supreme Court.

Electronic trial proceedings are also supported by the Tax Court One (TC One) application inaugurated in November 2019. This application consists of pre-trial, trial, and post-trial modules. Moreover, TC One is useful in providing easy access to accurate databases in business processes at the Tax Court.[48]

A.5 Further Adaptations

The ongoing pandemic has prompted the tax authorities to continue innovating and setting strategies to carry out tax collection as usual. The use of technology in the field of taxation will provide both opportunities and challenges in the foreseeable future. Further, digitization has broad implications for the taxation system, including taxation policies and administration.[49]

Moreover, the pandemic has also urged the government to relax the term of the implementation procedures of taxpayers' rights and obligations, postpone the submission of lawsuits and/or appeals, and so forth. The new policies are as follows.

First, in the filing and payment of taxes, the government extended the filing deadline for the 2019 annual income tax return (*Surat Pemberitahuan Tahunan/*SPT) to no later than 31 March 2020 for individual taxpayers and no later than 30 April 2020 for corporate taxpayers.

Second, Government Regulation in Lieu of Law No.1/2020 and SE-22/PJ/2020 stipulate the extension of the issuance period of notice of tax assessment (*Surat Ketetapan Pajak*/SKP) in connection with the request for refunds as referred to in Article 17B paragraph (1) of the General Tax Provisions and Procedures Law to a maximum of 18 months.

48 Secretariat of the Tax Court, *Peluncuran Aplikasi Tax Court One, Internet*, can be accessed at http://www.setpp.kemenkeu.go.id/berita/Details/1106.
49 OECD, *Tax and Digitalisation* (Paris: OECD Publishings, 2019), 1.

Third, in the case of filing objections, the government extends the filing deadline of objections by a maximum of six months.

Third, in the case of filing objections, the government extends the filing deadline of objections by a maximum of six months. Article 25 paragraph (3) of the General Tax Provisions and Procedures Law formerly stipulated that objections were to be filed within three months. Accordingly, the filing period of objections is nine months as of the date when the tax assessment is sent or the date of the tax withholding.

Fourth, the temporary suspension of trial proceedings at the Tax Court is followed by the suspension of the filing of tax dispute lawsuits and appeals. Under Circular No. 03/PP/2020 as amended by Circular No. 11/PP/2020, administrative services related to the filing of lawsuits and/or appeals via the helpdesk are temporarily suspended during the pandemic.

The filing period of objections is nine months as of the date when the tax assessment is sent or the date of the tax withholding.

The filing of lawsuits is postponed for a maximum of 14 days since the end of the prevention period of Covid-19 spread within the Tax Court. The prevention period in question started on 17 March 2020 and ended on 7 June 2020 or lasted for 83 days. However, if the filing deadline of a lawsuit falls during the prevention period of Covid-19 spread, the direct filing deadline for such a lawsuit is postponed.

In contrast, directly-submitted appeals do not take into account the prevention period of Covid-19 spread in the calculation of the filing deadline of appeals as referred to in Article 35 paragraph (2) of Law Number 14 of 2002. In the event that the filing deadline of an appeal submitted directly falls during the prevention period of Covid-19 spread, postponement is given for the number of days of the prevention period of Covid-19 spread. If an appeal is last submitted on 1 April 2020, the appeal letter is postponed for 36 days to 7 May 2020.

In responding to economic slowdown challeng, one of the widely used instruments is tax policies, ranging from income tax relief, accelerated refunds, to tax administration relief.

Fifth, an extension of the issuance period of notice of tax assessment (*Surat Ketetapan Pajak*/SKP) in connection with requests for tax overpayment refunds for a maximum of six months. Referring to Article 17B paragraph (1) of the General Tax Provisions and Procedures Law, SKP in connection with the application for tax overpayment refunds is issued no later than twelve months. As such, the issuance period will be eighteen months after the notification stating the overpayment is received in full.

Sixth, the period for rendering the decision on objections submitted by taxpayers is extended no longer than six months. Initially as stipulated under Article 26 paragraph (1) of the General Tax Provisions and Procedures Law, the objection decision was to be issued no later than twelve months since the date the objection letter was received. This implies that currently the objection decision may be issued for a maximum of eighteen months.

Seventh, a maximum of a six-month extension of the issuance period of a decision on applications for reduction or elimination of administrative penalties, reduction or cancellation of incorrect notices of tax assessments, reduction or cancellation of incorrect notices of tax collection, and cancellation of audit findings.

Referring to Article 36 paragraph (1c) of the General Tax Provisions and Procedures Law, the DGT must make a decision within six months as of the submitted application. As such, the issuance period of a decision is now twelve months. Based on the description above, several tax policies have been continuously amended, both substantively and administratively. It is an indisputable fact that numerous adjustments are to be undertaken to adapt to the latest developments.

B. Is Digitization Alone Enough?

In responding to economic slowdown challenge[50], one of the widely used instruments is tax policies, ranging from income tax relief, accelerated refunds, to tax administration relief. The pandemic and technological developments significantly drive various continuous tax policy in a short period of time. Unfortunately, this may lead to tax information asymmetries in the society that results in obstacles to the implementation of tax administrative policies and the realization of incentive utilization.

50 World Bank Group, "Global Economic Prospects" (June 2020): 139.

Based on the records of the Fiscal Policy Agency (Badan Kebijakan Fiskal/ BKF), as of July, the realization of tax incentives that had been utilized only amounted to IDR 16.2 trillion or 13.34% of the total budgeted allocation of IDR 120.61 trillion.

With regard to incentives, the Indonesian Government currently provides a number of tax incentives, including final PPh borne by the government (*Ditanggung Pemerintah*/DTP), Article 21 PPh DTP, Article 22 Import PPh exemption, and Article 25 PPh installment discounts which are all regulated under MoF Reg. 44/2020. Next, there are incentives stipulated under MoF Reg. 28/2020, including Article 21 PPh exemption, Article 22 PPh exemption, Article 22 Import PPh exemption, Article 23 PPh exemption, and VAT DTP. All use of incentives by taxpayers is also reported online. In this regard, the realization of the use of these tax incentives remains low.

A set of policies issued by the government during the pandemic may be imperfect, but adaptation and revision in substance and in administration can be expected.

Based on the records of the Fiscal Policy Agency (*Badan Kebijakan Fiskal*/ BKF), as of July, the realization of tax incentives that had been utilized only amounted to IDR 16.2 trillion or 13.34% of the total budgeted allocation of IDR 120.61 trillion.[51] Tax facilities whose realization is low include Article 21 PPh DTP. In addition, the Directorate General of Treasury (*Direktorat Jenderal Perbendaharaan*/DJPb) states that taxation facilities for the health sector are relatively low. Currently, the utilization of incentives in the health sector only amounts to 15.5% or IDR 1.4 trillion of the incentive allocation of IDR 9.05 trillion utilized by hospitals or related parties.[52]

Now may be the momentum for the government to introduce taxes and socialize an understanding of the role of taxes in future developments to the wider community. Not only should the tax education target (unregistered) taxpayers, but also prospective future taxpayers, such as students or university students.

On the other hand, facilities for MSMEs indicate better realization of IDR 30.21 trillion or 25.3% of the total National Economic Recovery (*Pemulihan Ekonomi Nasional*/PEN) program ceiling for MSMEs of IDR 123.47 trillion. One of the facilities most welcomed by MSMEs is the placement of government money in state-owned banks with working capital loans guaranteed by the government. New working capital loans that flow to MSMEs have reached IDR 36 trillion.

The low utilization of the tax facilities provided by the government is, among others, caused by the non-optimal socialization. Under current circumstances, direct socialization of policies or through face-to-face counseling cannot be held. As such, electronic media serves as the main solution for policy outreach. The underlying problem is that the internet in Indonesia may be inaccessible by parties not exposed to technology, for example, in the frontier, outermost, and least developed (*Terdepan, Terluar, dan Tertinggal*/3T) regions.[53]

A set of policies issued by the government during the pandemic may be imperfect, but adaptation and revision in substance and in administration can be expected. The policies are set in a short period of time and have been undergone several adjustments as more and more parties are affected. For this reason, it is necessary to evaluate, redesign, and simplify tax incentives according to the taxpayers' needs. Simplifying procedures and administration might be of certain considerations to reduce compliance costs and improve transparency.[54]

Moreover, another element to encourage the use of tax incentives and the success of digital service policies, the human resource factor, should not be taken for granted. In this regard, it is necessary to enhance taxpayers' knowledge in two aspects, i.e. understanding of their taxation rights and obligations and awareness of the role of taxes for the society.[55] Both of these aspects are crucial to achieving voluntary tax compliance.

Now may be the momentum for the government to introduce taxes and socialize an understanding of the role of taxes in future developments to the wider community. Not only should the tax education target (unregistered) taxpayers, but also prospective future

51 DDTCNews, *Pemanfaatan Insentif Pajak Minim, Ini Kata Kepala BKF*, Internet, can be accessed at https://news.ddtc.co.id/pemanfaatan-insentif-pajak-minim-ini-kata-kepala-bkf-22680?page_y=0.

52 DDTCNews, *Realisasi Insentif Perpajakan Bidang Kesehatan Sangat Rendah*, Internet, can be accessed at, https://news.ddtc.co.id/realisasi-insentif-perpajakan-bidang-kesehatan-sangat-rendah-22993.

53 BPPT, "Strategi Nasional Kecerdasan Artificial Indonesia 2020-2045" (2020): 66.

54 The Association of Chartered Certified Accountants, "Foundation for A Sound Tax System: Simplicity, Certainty and Stability" (2015): 4.

55 OECD, *Tax Administration 2019: Comparative Information on OECD and Other Advanced and Emerging Economies* (Paris: OECD Publishing, 2019), 36.

Now may be the momentum for the government to introduce taxes and socialize an understanding of the role of taxes in future developments to the wider community. Not only should the tax education target (unregistered) taxpayers, but also prospective future taxpayers, such as students or university students.

taxpayers, such as students or university students. Such significant measure improvements have been undertaken by several countries, notably United Kingdom, Canada, and Japan. To realize mutual understanding, a new paradigm based on transparency, openness, mutual trust, and mutual understanding between taxpayers and tax authorities is called for.[56]

C. Potentials to Move Forward

The digital economy is characterized by a management system based on a digital platform, technology, and a fully-integrated computer system.[57] The Covid-19 pandemic has concurrently encouraged many organizations and companies to accelerate the digitalization of their business processes in the digital cooperation roadmap formulated by the United Nations (UN).[58]

In the digital economy era, tax systems generally involve individual taxpayers, corporations, tax consultants (tax agents), tax authorities (government), and software vendors. Each party has an important role in establishing an optimal tax system.

In the digital economy era, tax systems generally involve individual taxpayers, corporations, tax consultants (tax agents), tax authorities (government), and software vendors.[59] Each party has an important role in establishing an optimal tax system.

Currently, the anticipation of the tax system in the digital economy era in Indonesia is marked by several things. *First,* as previously mentioned, the Directorate General of Taxes (DGT) has introduced e-filing for tax reporting to e-assessment to issue SKP/STP electronically. This is expected to encourage the effectiveness and efficiency of organizational business processes in anticipating digital disruption in the economy.[60]

Second, we can anticipate huge leap in several years as the DGT is currently developing a new system called *Sistem Inti Administrasi Perpajakan* (SIAP) in line with the development of artificial intelligence, which shows an increasing trend from year to year due to business process transformation.[61] This is allegedly able to improve the supervisory and audit functions of taxpayers, which leads to a reduction in the tax authorities' burden in the tax assessment process.

Third, changes in the tax system are also marked by changes in companies' business models that force tax authorities to adjust their work methods to reduce the potential for the digital divide among various stakeholders in the tax system.[62]

Fourth, the DGT's digitalization encourages changes in the manner tax staff work. Initially, as account representatives (AR), employees were required to handle hundreds of taxpayers with various complaints and questions. Now, the application of the e-taxpayer account engenders more efficient work methods, better services, and ease in solving problems with the support of integrated data through the core tax system as a substitute for the DGT's Information System (*Sistem Informasi DJP*/SIDJP).[63]

In the future, in addition to taking anticipatory measures towards digital transformation, the tax authorities should also take precautionary steps towards the consequences of digital

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56 Justin Dabner and Mark Burton, "Lessons for Tax Administrators in Adopting the OECD's "Enhanced Relationship" Model – Austria and New Zealand Experiences," *Bulletin for International Taxation,* IBFD (July 2009), 318.

57 A. Kh. Tsakayev and Saidov, Z. A, "Regional aspect of digital transformation of the Russian economy: Development of the Regional Economy in the Context of Digitalization" (2018).

58 United Nations (UN), "Roadmap for Digital Cooperation" *Report of the Secretary-General* (June 2020).

59 Institute of Chartered Accountants in England and Wales (ICAEW), "Digitalisation of tax: international perspectives, 2019 edition", *ICAEW IT Faculty* (2019), 4.

60 Mochammad Bayu Tjahjono, "*Mendongkrak Kepatuhan Lewat Transformasi Digital*". Internet, can be accessed at: https://pajak.go.id/artikel/mendongkrak-kepatuhan-lewat-transformasi-digital.

61 Directorate General of Taxes (DGT), "*SIAP untuk Multilayanan Terbaik*". Internet, can be accessed at: https://www.pajak.go.id/id/artikel/siap-untuk-multilayanan-terbaik.

62 Alif Radix Tegar Sejati, "*Meraba Tantangan Perpajakan di Era Ekonomi Digital*". Internet, can be accessed at: https://www.pajak.go.id/artikel/meraba-tantangan-perpajakan-di-era-ekonomi-digital-bagian-1.

63 Dian Anggraeni, "*DJP Tingkatkan Layanan Berbasis Teknologi*". Internet, can be accessed at: https://pajak.go.id/artikel/djp-tingkatkan-layanan-berbasis-teknologi.

Box 2 The Relevance of Natural Language Processing (NLP) in Tax System[66]

Natural language processing (NLP) is a by-product of artificial intelligence through which we can bridge communications between unstructured human language with helps computers to grasp information and interpret human intentions. The science of NLP is rooted mainly from computer science and computational linguistics, in its pursuit to fill the gap between human communication and computer understanding. In short, it helps computers communicate with humans in their own language and scales other language-related tasks.

As people communicates verbally or in form of written information, its role is to comprehend the unspoken intent, then transform it into a recommended action and provided feedback in a well-structured specific language. The process is supported along with other artificial intelligence products such as machine learning (ML) and deep learning.

In practice, for example, NLP can interpret unstructured data, even free-form text. ML then uses the given data to develop a knowledge 'warehouse' by consuming huge amounts of data to comprehend and produce a set of algorithms. After that, the new algorithms is utilized to predict future movement of the data.

In taxation, this mechanism can greatly deal with processes that involve sophisticated and unstructured business transactions and require advanced level of analytics comprised of both structured and free-form data. The top benefit is this: this tool can learn and benefit from years of experience gained across multiple sets of data, information, and knowledge.

Digital transformation of the tax system is a must. The transformation includes changes to the overall business processes of the tax authority organization, the audit process, and the dispute process.

transformation that is or will be carried out in the future. Thorough and consistent evaluation and monitoring processes are, therefore, needed, and definitely involve competent human resources in their respective fields.

One of the above mentioned consequences is the application of VAT on trade through electronic systems (*Perdagangan Melalui Sistem Elektronik*/ PMSE) which may lead to multiple payments. This inevitably leads to inconvenience between taxpayers and tax authorities.

Possible anticipatory measures include evaluating and monitoring an online-based application called Taxpayer Accounting, an application used to record double-entry accounting for tax transactions related to tax revenues, tax receivables, and tax overpayment debt as per applicable provisions.[64]

C.1 Future Necessary Changes

In times of pandemic as well as digital economy, both of which incite the urgency of digitalization, digital transformation of the tax system is a must. The transformation includes changes to the overall business processes of the tax authority organization, the audit process, and the dispute process.

According to the OECD, innovation is the implementation of new or significantly developed products, in the form of goods and services, processes, marketing methods, new organizational methods in business practices, organizations, and new or significantly developed external relations.[65]

64 DDTCNews, "*Apa itu TPA Modul RAS?*". Internet, can be accessed at: https://news.ddtc.co.id/apa-itu-tpa-modul-ras-22552.

65 OECD, *The Measurement of Scientific and Technological Activities: Guidelines for Collecting and Interpreting Innovation Data: Oslo Manual*, 3rd edition, prepared by the Working Party of National Experts on Scientific and Technology Indicators, OECD, Paris, 2005, para. 146.

66 SAS, "NLP: What It Is and Why It Matters" (2020), internet, can be accessed on: https://www.

In terms of the tax authority organization's business processes, the taxpayers' convenience aspect needs to be maximized. As such, easily accessible integrated services are essential.

In terms of the tax authority organization's business processes, the taxpayers' convenience aspect needs to be maximized. As such, easily accessible integrated services are essential. For example, the Australian tax authorities have moved from web-based to smartphone-based business processes, making it easier for taxpayers to interact or consult with tax officials.

Moreover, another aspect worth considering is reducing the use of currency in all business processes, from registration to payment processing. Austria, France, and Russia are among the countries that have abandoned the use of currency.[67] Other than offering convenience, the use of digital transactions may also prevent errors related to payment amounts and a more transparent transaction flow and reduce shadow economy transactions.

Furthermore, amidst the current pandemic, the tax authorities should prioritize socialization and counseling related to changes in policies and business processes, such as those carried out by the Canadian tax authorities. On another note, the tax authorities are required to be more proactive in advertising taxes, in particular, for sectors included in the shadow economy, such as in New Zealand.[68]

In the registration process related to tax extensification, the tax authorities can focus on the permits and legality of businesses run by taxpayers. In Britain, for example, the tax authority employs banking transaction data. Additionally, British tax authorities assign VAT numbers to online marketplace-based taxpayers.[69]

The tax authorities in Brazil, Italy, and Russia are currently improving and integrating e-invoicing systems for VAT transactions. Similar measures have to be considered to avoid and correct double taxation cases on PMSE VAT that may arise in Indonesia.

The use of advanced analytics through machine learning in Indonesia needs to be improved in implementing the tax compliance framework.

Further, **the use of advanced analytics through machine learning in Indonesia needs to be improved in implementing the tax compliance framework.** In Belgium, the measurement of the risk level of taxpayer compliance and tax payable reduction using a predictive model has been implemented and is under a significant development process through artificial intelligence.[70]

The machine learning model implemented in the Netherlands and Singapore is more aimed at unstructured data in the form of text. The tax authorities, therefore, apply Natural Language Processing (NLP) in processing tax-related documents.[71] Moreover, China is developing a cloud-based big data platform that can integrate VAT invoices, export tax rebates, and historical data.[72]

With the new technology, the DGT can automate business processes, ranging from the taxpayer registration process, processing notices, tax returns, and other tax documents, processing tax payments, supporting auditing and billing, to the taxpayer accounting function.

With the existence of core tax in the future, several potential breakthroughs can be unlocked. With the new technology, the DGT can automate business processes, ranging from the taxpayer registration process, processing notices, tax returns, and other tax documents, processing tax payments, supporting auditing and billing, to the taxpayer accounting function.[73]

On another note, the tax authorities should adapt to changes in digital transactions using digital currency, commonly known as cryptocurrency. In this regard, the tax authorities in Finland

sas.com/en_us/insights/analytics/what-is-natural-language-processing-nlp.html#world; and Stephen K. Rainey, Brad Brown and David B. Kirk, "Bots, Natural Language Processing, and Machine Learning", 2017. Internet, can be accessed on: https://taxexecutive.org/bots-natural-language-processing-and-machine-learning/.

67 OECD, *Tax Administration 2019:* "Comparative Information on OECD and Other Advanced and Emerging Economies" (Paris: OECD Publishing, 2019), 63.

68 OECD, "Shining Light on the Shadow Economy: Opportunity and Threats" (2017), 42.

69 OECD, *Tax Administration 2019:* "Comparative Information on OECD and Other Advanced and Emerging Economies" (Paris: OECD Publishing, 2019), 49.

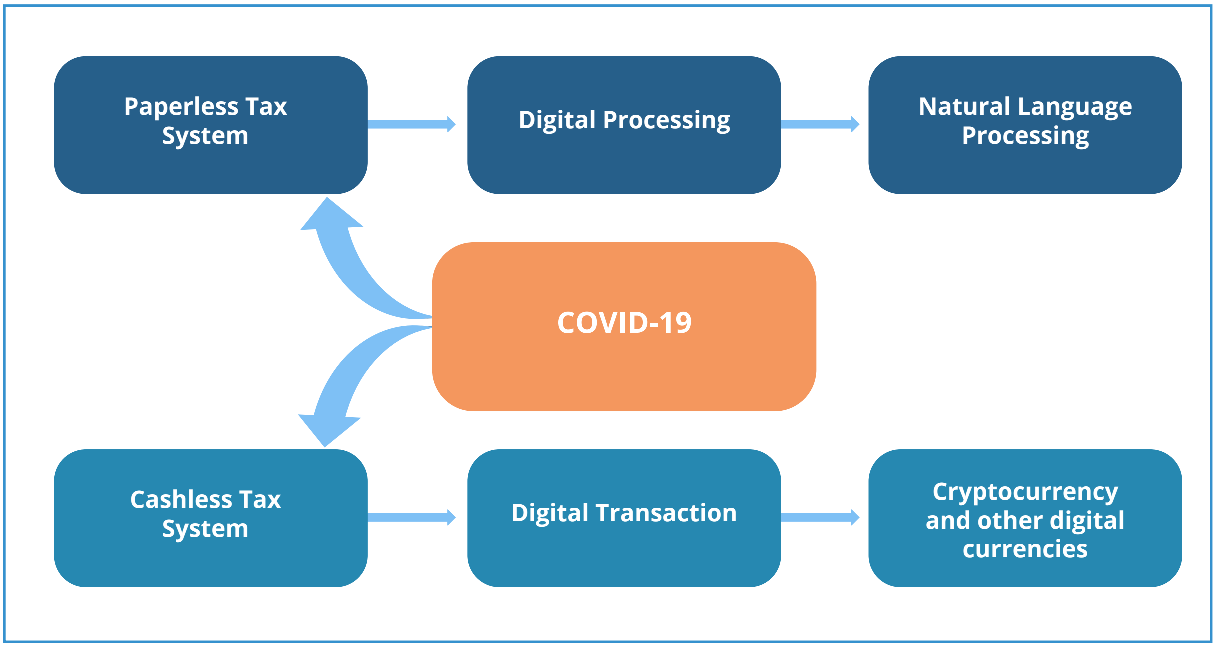
70 *Ibid*, 50.

71 *Ibid*, 58.

72 *Ibid*, 50.

73 DDTCNews, "*Sedang Diperbarui DJP*, *Core tax Administration System* itu Apa Ya?". Internet, can be accessed at: https://news.ddtc.co.id/sedang-diperbarui-djp-core-tax-administration-system-itu-apa-ya-18664.

Figure 5 Possible Adjustment of Tax Business Processes Technology



can access data on digital transactions using cryptocurrency.[74]

Efforts to digitalize the tax system has long been a major concern since the start of 21st century, and has not changed ever since.

Next, the use of paper in the audit process needs to be reduced. Consequently, in addition to simplifying the audit process, this will encourage the implementation of health protocols during the pandemic by reducing virus transfers caused by file exchanges. Further, this may also reduce the risk of losing important files due to technical errors.

Another important issue is encouraging internal tax control in companies to avoid auditing errors. Taxpayers are, thus, expected to be more cooperative due to their increased trust in the tax authorities.

Finally, in the case of the dispute process in court, to avoid inconvenience for taxpayers due to the lengthy waiting time for trial proceedings, a real-time progress system, a system that can track the extent to which the trial has progressed, should be built. With this information, the right to receive optimal services as taxpayers can be fulfilled.

In line with the underlying reasons behind the reduction in paper use as explained earlier, documentary evidence available during the dispute process should also use digital documents. Moreover, other matters that may be improved in the verdict include the inclusion of oral elucidations during trial proceedings, the unclear logic of the judge's decision, and the reduction in the number of disputes per panel of judges that are deemed too many.

C.2 A Long Way Ahead

Efforts to digitalize the tax system has long been a major concern since the start of 21st century, and has not changed ever since. Digitalization is expected to increase transparency and reduce the risk of tax avoidance practices due to asymmetric information.[75]

Further, digitalization has implications and impacts on tax policy and administration on the domestic and international scales. Current and future issues do not affect one jurisdiction only. It is indisputable that digitalization has led to global-scale debates that are not easy to resolve.

The digitalization of the tax system is a form of anticipation of tax-related challenges in the digital economy, as stated in the 2015 BEPS Action 1 Report. One of the tangible changes in the digital economy (gig/sharing economy)

74 OECD, *Op.Cit.*, 49.
75 OECD, "Tax and Digitalisation"(March 2019).

The existing digital transformation is expected not to result in an imbalance in digital literacy (digital divide) which is, in fact, disruptive.

is the changes in business processes using online platforms that facilitate the sale and purchase of goods or services online.[76]

Referring to these changes, the competent authorities certainly need to prepare supporting factors as the main components of the digital economy, i.e. in the form of infrastructure for business processes (hardware and software), business process integration, as well as e-business/online platforms.[77]

It is noteworthy that the realization of the main objectives of the Indonesian tax system transformation requires time and adjustment processes, depending on the conditions and readiness of the parties involved and other supporting factors.

With the adjustment of organizational business processes that refer to these main components, digital-economy-related challenges in the tax system may be addressed optimally. A tax system with an integrated and mature business process infrastructure, thus, will boost tax revenue performance in the digital era.

On another note, the existing digital transformation is expected not to result in an imbalance in digital literacy (digital divide) which is, in fact, disruptive. By and large, during a pandemic like now, the government is required to simplify all administrative matters. It is noteworthy that the realization of the main objectives of the Indonesian tax system transformation requires time and adjustment processes, depending on the conditions and readiness of the parties involved and other supporting factors.

D. Closing Remarks

It is important that the tax authorities not only focus on the use of new and cutting-edge technologies but also prepare anticipatory measures concerning the consequences and conflicts arising due to the use of these technologies.

To conclude, digitization is ought to offer convenience for taxpayers in obtaining information or fulfilling their tax obligations. This transformation, however, may frequently lead to new problems that may the original purpose of these changes.

Hence, it is important that the tax authorities not only focus on the use of new and cutting-edge technologies but also prepare anticipatory measures concerning the consequences and conflicts arising due to the use of these technologies.

Furthermore, internal revamps are crucial to ensure that the available human resources can optimize the tax system transformation. Other than being required to have adequate knowledge of taxes, they should be well-versed with the transformation of business and digital processes.

Additionally, adjustments to the procedures during the transition period cannot be taken for granted. In addition to requiring reliable human resources, these adjustments require infrastructure that can support the resolution of problems arising from changes in policy procedures and data that are not fully integrated.

For this reason, the tax system transformation calls for excellent cooperation and coordination among taxpayers, tax consultants, tax authorities, and software providers to establish a stable tax system. Each of these parties has an equal role in promoting stability and consistent innovation in the world of taxation.

Despite the ongoing and continuously improved digital transformation of the Indonesian taxation system, many potentials are subject to future improvement and optimization. On another note, the transformation may widen the digital divide that occurs between tax authorities and corporate taxpayers and may affect the entire tax system that is being built.

Therefore, specifically, during a pandemic like now with significantly intense changes, the tax authority's evaluation and supervision functions need to be implemented and improved. In the absence of an optimal evaluation and monitoring function, the issues arising from this transformation may generate ineffective policies and a premature tax system.

Certainly, the various incentives offered in times of crisis indirectly encourage innovation from the government to improve the ease of administration of tax incentives provided through digital devices. But the transformation should not stop there. Compliance simplicity and efficiency should be framed as part

76 *Ibid.*
77 Thomas L. Mesenbourg, "Measuring the Digital Economy" (2001), 2.

of government's effort in developing strong connection between taxation, responsiveness and state building.[78]

Last but not least, tax administration modernization should facilitate the development of sustainable tax compliance, which is driven by mutual trust, transparency and certainty.[79] Let us hope that tax matters would have its proper attention in government's political will, supported by every tax stakeholder with the same spirit of state building.

78 Wilson Prichard, Anna Custers, Roel Dom, Stephen Davenport and Michael Roscitt, "Innovations in Tax Compliance: Conceptual Framework", *Policy Research Working Paper* No. 9032 (2019); 4-8.

79 Benno Torgler, "Tax Morale, Rule-Governed Behavior and Trust", *Constitutional Political Economy* No. 14(2) (2003): 119-140.

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Regulations

Circular No. 22/PJ/2020.

Circular No. 03/PP/2020.

Circular No. No. 11/PP/2020.

Circular No. 34/PJ/2020.

Director General Regulation No. 14/PJ/2020.

Government Regulation in Lieu of Law No.1/2020.

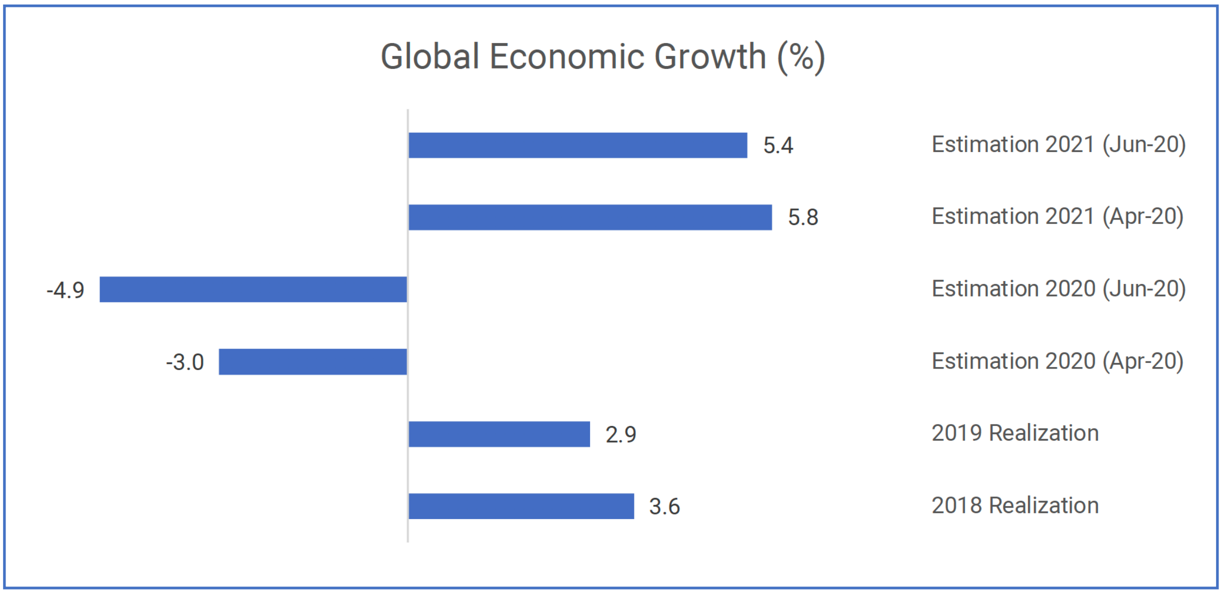
Minister of Finance Regulation No. 28/PMK.03/2020.

Presidential Regulation No. 72 of 2020.

Tax Court Decree No. KEP-016/PP/2020.

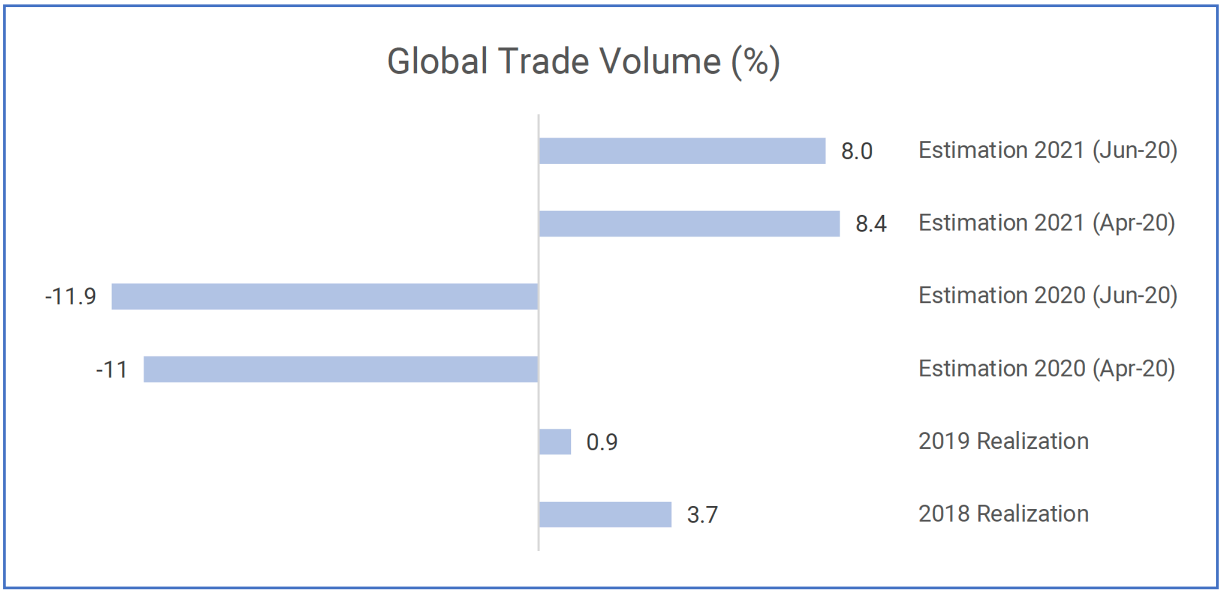
Appendix

A. Global Economic Growth (%)



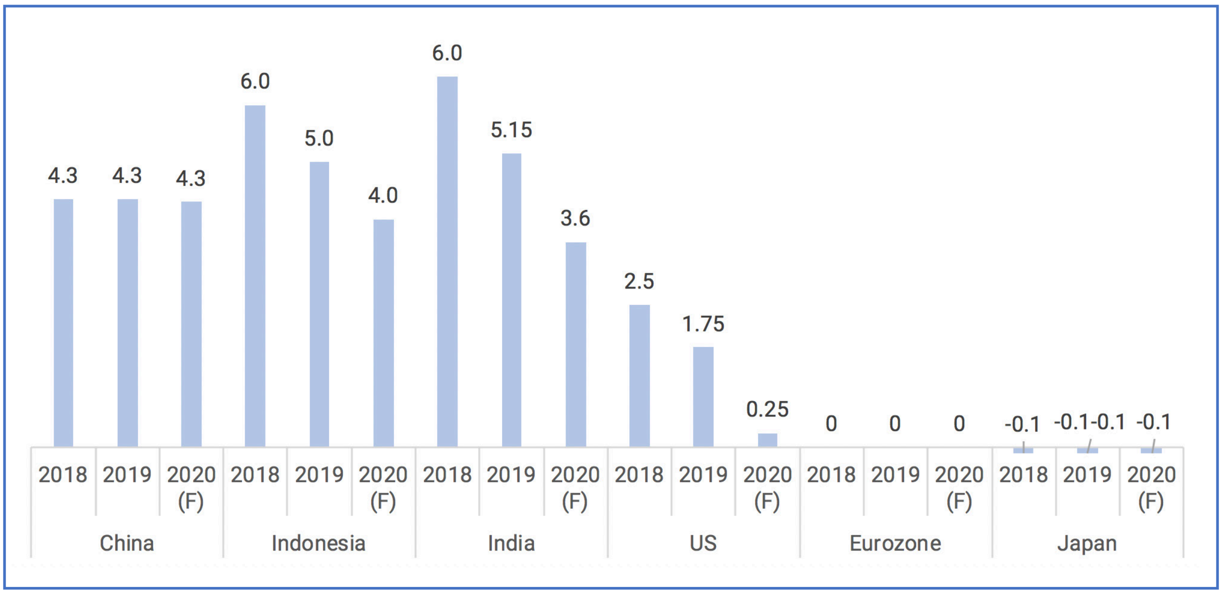
Source: Republic of Indonesia "Book II Financial Notes and Draft State Budget 2021"

B. Global Trade Volume (%)



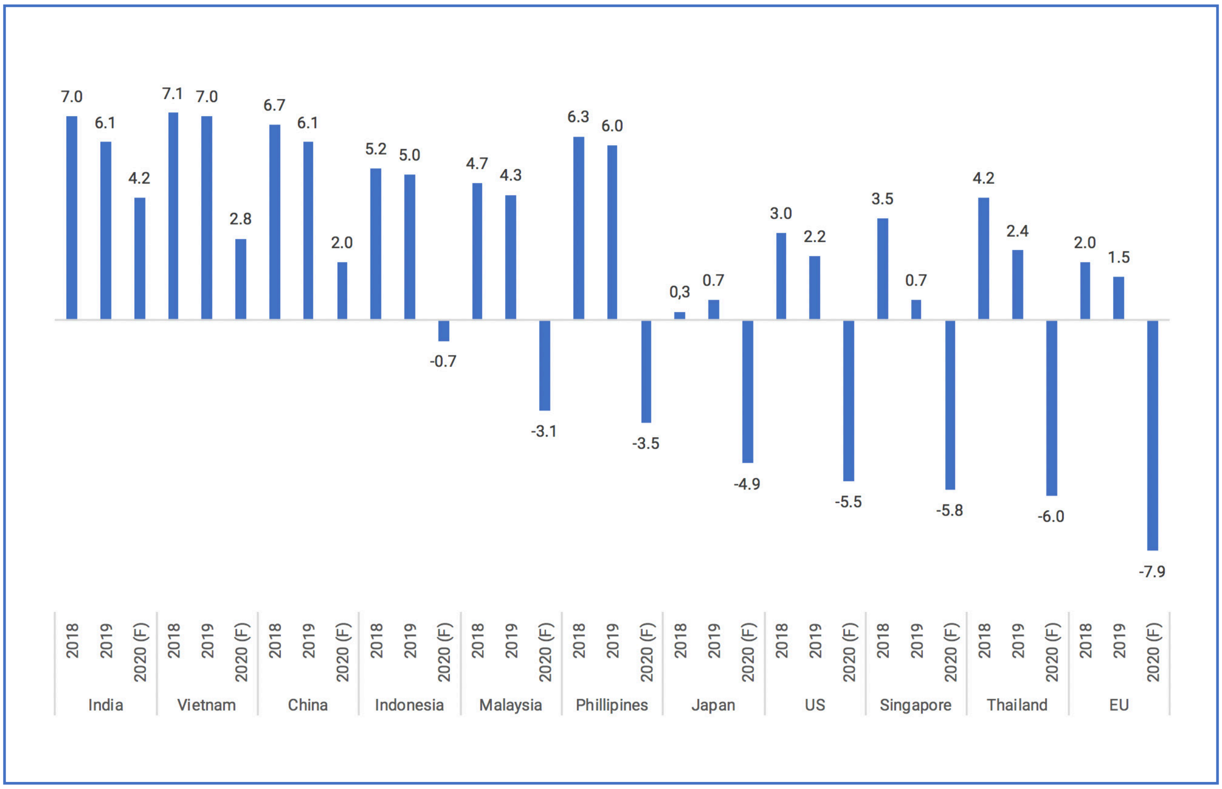
Source: Economic and Analysis Unit Research Division IDX, "Indonesia's Economic and Capital Market Development" (August 2020)

C. Global Interest Rate Trend (%)



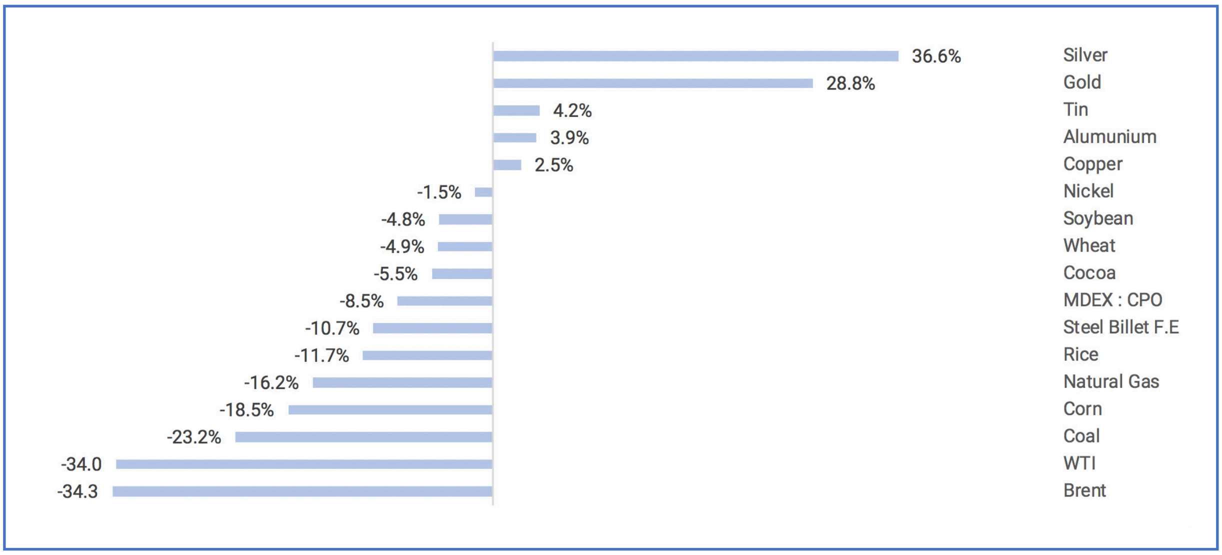
Source: Economic and Analysis Unit Research Division IDX, "Indonesia's Economic and Capital Market Development" (August 2020)

D. Gross Domestic Product (%, yoy)



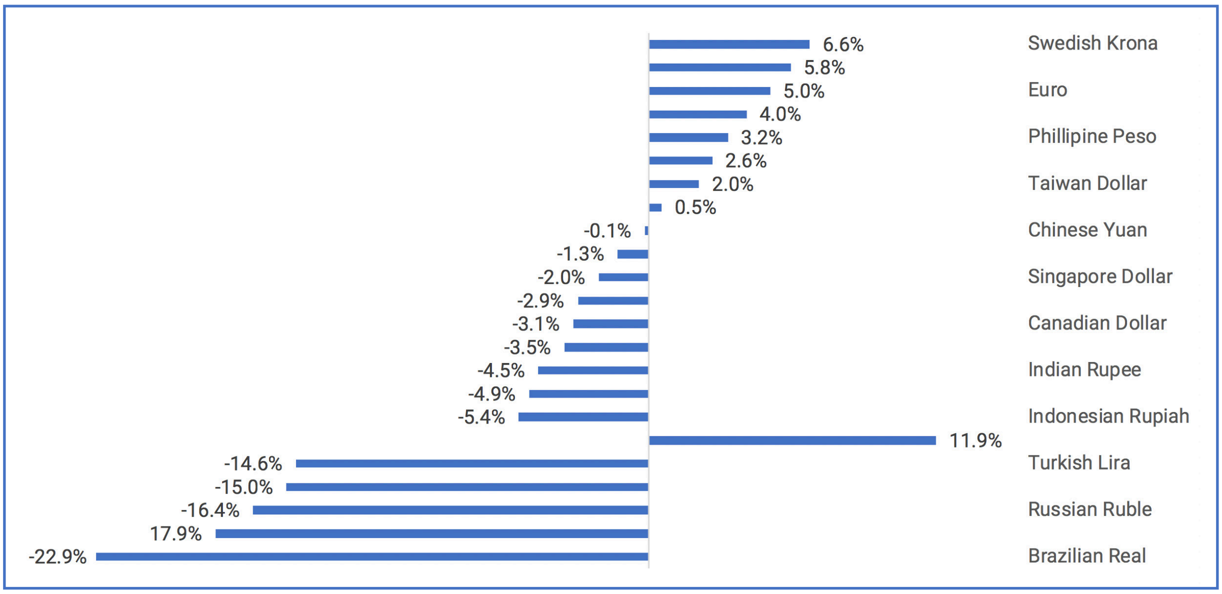
Source: Economic and Analysis Unit Research Division IDX, "Indonesia's Economic and Capital Market Development" (August 2020)

E. Global Commodity Prices Growth (ytd)



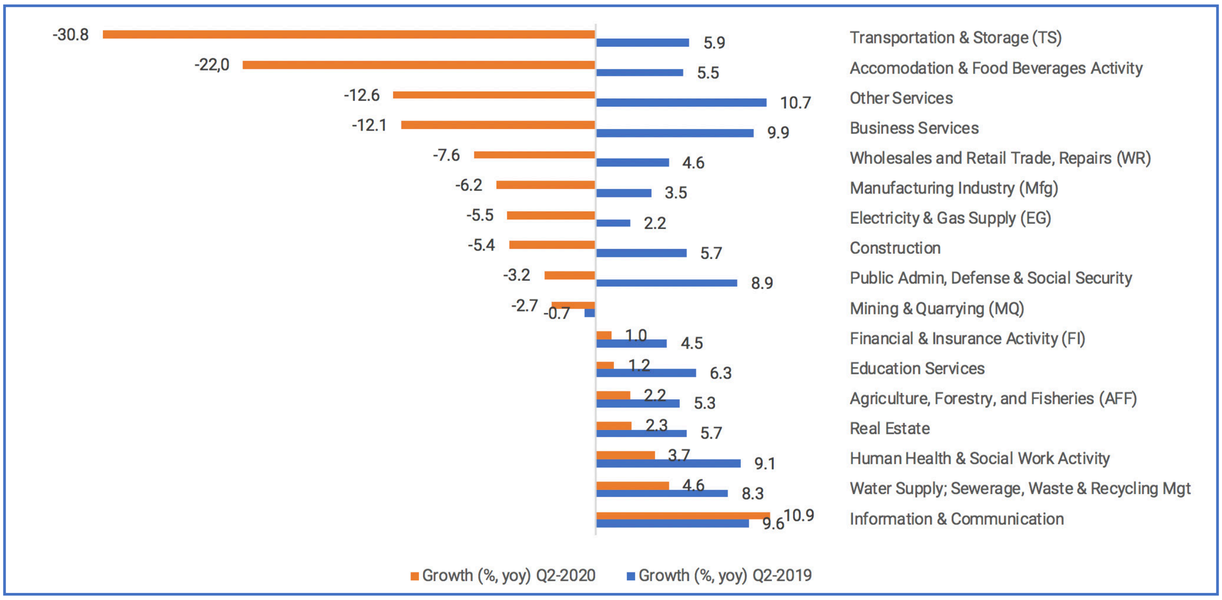
Source: Economic and Analysis Unit Research Division IDX, "Indonesia's Economic and Capital Market Development" (August 2020)

F. Global Currency Growth (ytd)



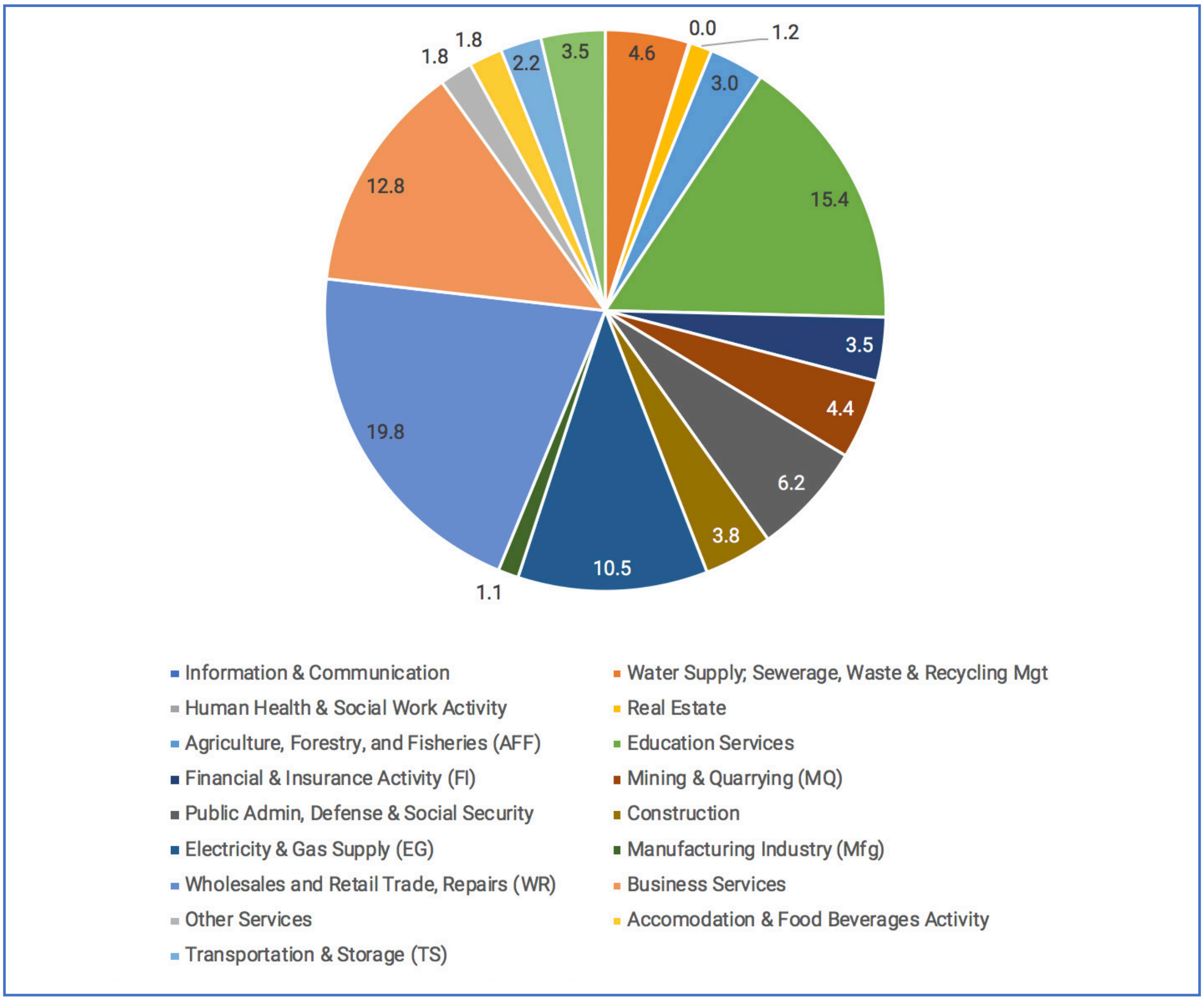
Source: Economic and Analysis Unit Research Division IDX, "Indonesia's Economic and Capital Market Development" (August 2020)

G. Indonesia's Sectoral Growth (%, yoy)



Source: Economic and Analysis Unit Research Division IDX, "Indonesia's Economic and Capital Market Development" (August 2020)

H. Indonesia's Sectoral Composition (%, yoy)



Source: Economic and Analysis Unit Research Division IDX, "Indonesia's Economic and Capital Market Development" (August 2020)

I. Indonesia's Credit Rating

Year	Fitch	S&P	Moody's
2006	BB-/Baa3	BB-/Baa3	B+/B1
2007	BB-/Baa3	BB-/Baa3	BB-/Baa3
2008	BB/Ba2	BB-/Baa3	BB-/Baa3
2009	BB/Ba2	BB-/Baa3	BB/Ba2
2010	BB+/Ba1	BB/Ba2	BB/Ba2
2011	BBB-/Baa3	BB+/Ba1	BB+/Ba1
2012	BBB-/Baa3	BB+/Ba1	BBB-/Baa3
2013	BBB-/Baa3	BB+/Ba1	BBB-/Baa3
2014	BBB-/Baa3	BB+/Ba1	BBB-/Baa3
2015	BBB-/Baa3	BB+/Ba1	BBB-/Baa3
2016	BBB-/Baa3	BB+/Ba1	BBB-/Baa3
2017	BBB/Baa2	BBB-/Baa3	BBB-/Baa3
2018	BBB/Baa2	BBB/Baa2	BBB/Baa2
2020	BBB/Baa2	BBB/Baa2	BBB/Baa2
Latest Adjusment (2020)	BBB/Stable	BBB/Negative	BBB/Stable

Source: Economic and Analysis Unit Research Division IDX, "Indonesia's Economic and Capital Market Development" (August 2020)

J. ASEAN's Credit Rating

Country	S&P	Moody's	Fitch
Indonesia	BBB	Baa2	BBB
	17-Apr-20	10-Feb-20	10-Aug-20
Singapore	AAA	Aaa	AAA
	28-Apr-20	12-Nov-18	23-Aug-19
Thailand	BBB+	Baa1	BBB+
	13-Apr-20	21-Apr-20	17-Mar-20
Malaysia	A-	A3	A-
	25-Feb-20	7-Dec-18	9-Apr-20
Phillipines	BBB+	Baa2	BBB
	30-Apr-19	20-Jul-18	7-May-20
Vietnam	BB	Ba3	BB
	5-Apr-19	10-Aug-18	8-Apr-20

Source: Economic and Analysis Unit Research Division IDX, "Indonesia's Economic and Capital Market Development" (August 2020)

K. Indonesia's Macroeconomic Assumption

Indicators	APBN 2020*	APBN 2019	Realization 2019
Economic growth (%)	5.3	5.3	5.02
Inflation (%)	3.1	3.5	2.72
Interest rate SPN 3 months (%)	5.4	5.4	5.6
Exchange rates (IDR/USD)	14,400	15,000	14,146
Oil Price (USD/brl)	63	70	62
Oil Lifting (thousand brl/day)	755	775	741
Gas Lifting (mboepd)	1.19	1.25	1,050

Source: Economic and Analysis Unit Research Division IDX, "Indonesia's Economic and Capital Market Development" (August 2020)

L. Indonesia's State Budget and Realization

Breakdown (Trillion Rupiah)	APBN 2019	APBN 2020	APBN 2020 (Perpres 72/2020)	Realization (per Jun-20)	% Realization to APBN 2020 (Perpres 72/2020)	RAPBN 2021
GOVERNMENT INCOME	2,165.1	2,233.2	1,699.9	811.2	47.7	1,776.4
I. Domestic Revenue	2,164.7	2,232.7	1,698.6	809.4	47.7	1,775.5
1. Tax	1,786.4	1,865.7	1,404.5	624.9	44.5	1,481.9
2. Non-tax Revenues	378.3	367	294.1	184.5	62.7	293.5
II. Grant	0.4	0.5	1.3	1.7	133.8	0.9
GOVERNMENT EXPENDITURES	2,461.1	2,540.4	2,739.2	1,068.9	39.0	2,747.5
I. Central Government Expenditure	1,634.3	1,683.5	1,975.2	668.5	33.8	1,951.3
1. Ministry/ Agency Expenditure	855.4	909.6	836.4	350.4	41.9	1,029.9
2. Non Ministry/ Agency Expenditure	778.9	773.9	1,138.9	318.1	27.9	921.4
II. Transfer to the Region and Village Fund	826.8	856.9	763.9	400.4	52.4	796.3
PRIMARY BALANCE	-20.1	-12	-700.4	-100.2		-597.9
BUDGET SURPLUS/ (DEFICIT) (A-B)	-296.0	-307.2	-1,039.2	-257.7	24.8	-971.2
%Suprlus/Deficit Toward GDP	-1.8	-1.8	-6.34	-1.57		
BUDGET FINANCING	296.0	307.2	1,039.2	416.2	40.1	971.2

Source: Economic and Analysis Unit Research Division IDX, "Indonesia's Economic and Capital Market Development" (August 2020), Republic of Indonesia "Book II Financial Notes and Draft State Budget 2021"

M. Indonesia's GDP Expenditure and Sectoral Growth Year 2016 – 2021

DESCRIPTION	2016	2017	2018	2019	Outlook 2020	RAPBN 2021
Utilization						
Household Consumption dan Household Non-Profit Agency	5.0	5.0	5.1	5.2	(1.3)-0.0	4.1-5.3
Government Consumption	-0.1	2.1	4.8	3.2	2.0-4.0	4.5-7.0
Gross Fixed Capital Formation	4.5	6.2	6.6	4.4	(4.2)-(2.6)	6.0-7.1
Export Goods and Services	-1.7	8.9	6.5	-0.9	(5.6)-(4.4)	2.7-6.2
Import Goods and Services	-2.4	8.1	11.9	-7.7	(10.5)-(8.4)	3.2-8.5
Sector						
Agriculture, Forestry, and Fisheries	3.4	3.9	3.9	3.6	1.1-1.3	3.3-3.9
Mining & Quarrying	0.9	0.7	2.2	1.2	(1.0)-(0.5)	0.3-1.7
Manufacturing Industry	4.3	4.3	4.3	3.8	(2.4)-(0.5)	4.7-5.5
Electricity & Gas Supply	5.4	1.5	5.5	4	(0.1)-0.7	4.8-5.8
Water Supply; Sewerage, Waste & Recycling Mgt	3.6	4.6	5.6	6.8	4.6-4.8	4.8-5.8
Construction	5.2	6.8	6.1	5.8	(0.9)-(0.3)	5.3-6.5
Wholesales and Retail Trade, Repairs	4.0	4.5	5.0	4.6	(3.3)-(1.0)	4.3-5.3
Transportation & Storage	7.4	8.5	7.1	6.4	(15.4)-(12.7)	5.6-6.9
Accomodation & Food Beverages Activity	5.2	5.4	5.7	5.8	(12.7)-(7.3)	5.5-7.9
Information & Communication	8.9	9.6	7.0	9.4	10.7-11.2	8.3-10.1
Financial & Insurance Activity	8.9	5.5	4.2	6.6	4.3-4.7	5.6-6.8
Real Estate	4.7	3.6	3.5	5.7	3.0-3.2	3.4-4.8
Business Services	7.4	8.4	8.6	10.3	(1.4)-(0.3)	6.6-7.8
Public Admin, Defense & Social Security	3.2	2.0	7.0	4.7	1.0-1.5	3.7-5.5
Education Services	3.8	3.7	5.4	6.3	3.0-3.6	4.0-5.8
Human Health & Social Work Activity	5.2	6.8	7.1	8.7	5.8-6.4	4.6-6.1
Other Services	8.0	8.7	9.0	10.6	(3.0)-(0.2)	5.5-8.3

Source: Republic of Indonesia "Book II Financial Notes and Draft State Budget 2021"

N. Indonesia's Medium-term Basic Macroeconomic Assumption Year 2022 – 2024

Indicator	2022	2023	2024
Gross Domestic Product (%,yoy)	5.4-6.0	5.5-6.3	5.5-6.5
Inflation (%,yoy)	2.0-4.0	1.5-3.5	1.5-3.5
Interest Rate of 10-year Government Securities (%)	5.98-8.07	5.82-8.16	5.67-8.24
Exchange rate (Rp/US$)	13,900 -14,700	13,900-14,850	13,900-15,000
Indonesia Crude Oil Price (US$/barrel)	60-70	60-70	60-70
Crude Oil Lifting (thousand barrel per day)	636-735	570-735	534-722
Gas Lifting (thousand barrel equivalent to oil per day)	1,232-1,341	1,223-1,336	1,228-1,324

Source: Republic of Indonesia "Book II Financial Notes and Draft State Budget 2021"

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