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Latest Income Tax Facilities to Address Covid-19 and Guidelines for the DGT's Tasks in the New Normal

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ABOUT DDTC Newsletter

Published every two weeks, DDTC Newsletter provides a summary of key tax law changes, both the current modifications and changes in taxation regulations, particularly those pertaining to domestic policies.

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Latest Income Tax Facilities to Address Covid-19 and Guidelines for the DGT's Tasks in the New Normal

Income Tax Facilities to Address Covid-19

The government has issued a policy on income tax to address the ongoing pandemic. This policy is outlined in Government Regulation No. 29 of 2020 concerning Income Tax Facilities to Address the Corona Virus Disease 2019 (Covid-19) (PP 29/2020). This regulation has been issued in response to the impact of Covid-19 spread in Indonesia on health and safety, as well as on business sectors. Promulgated on 10 June 2020, this policy has taken effect thereafter.

Income tax facilities under this government regulation include five areas. *First*, an additional reduction in net income. Resident taxpayers that produce medical devices and/or household health supplies (*Perbekalan Kesehatan Rumah Tangga*/PKRT) to handle Covid-19 are entitled to an additional reduction in net income by 30% of the costs incurred.

The additional reduction in net income is calculated from the production costs of medical devices and/or PKRT required to address Covid-19 incurred until 30 September 2020. All additional reductions are charged in the tax year when the production costs of medical devices are incurred. In the event that there are shared costs for taxpayers that cannot be separated in the calculation of the taxable income amount, the burden is allocated proportionally.

Medical devices and/or PKRT are medical devices and/or PKRT stipulated by statutory provisions in the health sector. These medical devices include: N95 surgical masks and respirators; body protection in the form of medical coveralls, medical disposable gowns, heavy-duty aprons, caps, shoe covers, goggles, face shields, and waterproof boots; surgical gloves; examination gloves; ventilators; and diagnostic test reagents for Covid-19. PKRT, however, may include antiseptic hand sanitizers and disinfectants.

In certain aspects, the minister of finance may change the details of medical devices and PKRT based on recommendations from the minister who carries out government affairs in the health sector. Taxpayers that have taken advantage of the additional reduction in net income must submit a report on the production costs of the medical devices and/or PKRT to address Covid-19 to the Directorate General of Taxes (DGT).

Such a report is submitted online through the DGT system. If the online system is not yet available, taxpayers may submit reports to DGT offline through the head of the tax office where the taxpayer is registered. Examples of report formats are listed in appendix A of PP 29/2020.

The report must be submitted upon the filing of annual income tax returns of the relevant tax year at the latest. In the event that taxpayers do not submit reports within this period, an additional reduction in net income of 30% cannot be charged by the taxpayer. This incentive is given up to 30 September 2020.

Second, donations that may be deducted from net income. Donations to address Covid-19 in Indonesia that are submitted by taxpayers to donation organizations: National Disaster Management Authority (*Badan Nasional Penanggulangan Bencana*/BNPB), Regional Disaster Management Authority (*Badan Penanggulangan Bencana Daerah*/BPBD), ministries that carry out governmental affairs in the health sector, ministries that carry out government affairs in the social sector, or charitable institutions.

These donations can be deducted from gross income under two conditions, i.e. supported by the receipt of donations and received by charitable institutions that have Taxpayer Identification Numbers (TIN). Deductible donations include those donated up to 30 September 2020.

The abovementioned receipt of donations must at least contain the following information: name, address, and the TIN of the donor; the name, address, and TIN of the charitable institution; date of donation; form of donation; and value of donations. Donations which may be deducted from gross income amount to the value of the actual donations incurred. Donations to address Covid-19 that have been deducted as a reduction in gross income under Government Regulation No. 93 of 2010, however, cannot be deducted as a reduction in gross income under this regulation.

In this regard, donations may be given in the form of money, goods, services, and/or utilization of assets without compensation. The value of donations in the form of goods is determined based on acquisition value, fiscal book value, or cost of goods sold. Further, the value of donations in the form of services and/or use of assets without compensation is determined based on the cost of services sold and/or use of assets.

The donating taxpayer must submit a nominative list of donations upon the filing of annual income tax returns of the relevant tax year at the latest. The nominative list is submitted online through the DGT system. If the online system is not yet available, taxpayers may submit the nominative list offline through the tax office where the taxpayer is registered. In addition, the charitable institution must submit a report on the collection of donations.

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Third, additional income received or earned by human resources in the health sector. Additional income from the government in the form of honoraria or other benefits received or earned by individual taxpayers that are health workers, health support staff, and assigned to provide health services to address Covid-19, including compensation from the government received by heirs, are income tax objects.

Under this regulation, the additional income is subject to final Article 21 Income Tax withholding at a rate of 0% of the total gross income received or earned. The final Article 21 income tax is withheld by the government as the provider of income at the end of the month in which the payment is made or the income is due, whichever event occurs first. The provisions on the withholding also apply to taxpayers that are state officials, civil servants, members of the Indonesian National Armed Forces (*Tentara Nasional Indonesia*/ TNI), members of the Indonesian Police, and retirees. This regulation is valid until 30 September 2020.

Fourth, income in the form of compensation and reimbursement for the use of assets is subject to a final income tax of 0%. The final income tax is withheld by the government as the provider of income at the end of the month in which the payment occurs or the payment is due, whichever event occurs first.

Income tax is withheld by preparing withholding slips according to the sample format listed in Appendix D and/or Appendix E of PP 29/2020. The withholding slips must be reported on the Periodic Article 4 Paragraph (2) Income Tax Return. Costs to obtain, collect, and maintain income cannot be charged as a deduction from gross income.

The income tax is imposed on income received or earned until 30 September 2020. The imposition applies to all leasing or use of assets prior to the enactment of this regulation, i.e. from 1 March until 30 September 2020 or from the enactment of this regulation, i.e. from 10 June until 30 September 2020.

Fifth, buyback of shares traded on the stock exchange. Resident taxpayers in the form of publicly-listed companies, with a total number of paid shares traded on the Indonesian stock exchange of a minimum of 40%, and meeting certain conditions are entitled to a 3%-lower rate than the rates listed in Law No. 2 of 2020. To obtain this incentive, four specific requirements below must be met.

i. The shares must be owned by at least 300 parties.

ii. Each party may only own shares of less than 5% of the total issued and fully paid shares.

iii. Requirements relating to the entity being a publicly-listed company and the total number of shares being traded on the Indonesian stock exchange must be at least 40% fulfilled within a minimum of 183 calendar days within a tax year.

iv. These requirements are to be fulfilled and reported to the DGT by the publicly-listed company.

The parties referred to in points i and ii above do not include publicly-listed company taxpayers that repurchase their shares and/or are affiliated. The policy of share buyback is carried out no later than 30 September 2020. Shares that are repurchased may only be held by taxpayers until 30 September 2022. After the expiry of this period, if share ownership does not meet the specified conditions, the parties cannot take advantage of incentives under this regulation.

Adjustments to the DGT's Tasks in the New Normal

The Director General of Taxes has published technical guidelines that set out the provisions relating to the adjustments of the manner in which tasks are carried out in the areas of supervision, extensification, audits, preliminary investigations, investigations, digital forensics, collection, assessments, objection, and non-objection.

The technical adjustments to the implementation of tasks are the adaptation of duties to the new normal within the DGT. The technical guidelines have been released to ensure that tasks within the DGT may be implemented effectively in the new normal.

The technical guidelines are outlined in the Director General of Taxes Circular No. SE-34/ PJ/2020 concerning the Technical Guidelines for the Implementation of Tasks in the New Normal within the Directorate General of Taxes (SE-34/2020).

In addition, the implementation of tasks are adjusted to prevent, reduce the spread, and protect DGT's employees from Covid-19 risk. The adjustments, thus, are mainly related to activities that require direct interaction with taxpayers, taxpayers' power of attorney, or other parties.

These activities are adjusted by optimizing the use of electronic channels, postal, and/or shipping companies/courier services with proof of postage, and face-to-face interactions that take into account the guidelines in the Director General of Taxes Circular No.

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SE-33/PJ/2020 concerning the General Guidelines for the Implementation of Tasks in the New Normal within the Directorate General of Taxes (SE-33/PJ/2020).

The electronic channels include DGT webpage, e-mail, and other electronic channels, such as video conferences, facsimile, and messaging applications. There are, however, six conditions to be met if the task is carried out using electronic channels.

First, DGT officials must request written statements from taxpayers/taxpayers' power of attorney/other parties that the parties concerned agree or are able to use electronic channels. The written statement is to be prepared using the sample form in Appendix G of SE-34/2020.

Second, DGT officials must take into account the ethics and security of data and information as stipulated in SE-33/2020. *Third,* DGT officials must assist taxpayers/taxpayers' power of attorneys/other parties appropriately and fairly in connection with technical matters in the use of electronic channels.

Fourth, DGT officials must ensure the identity of taxpayers/taxpayers' power of attorney/other parties in the form of e-mail addresses, telephone numbers, and video conference accounts in accordance with the submitted agreement or written statement. In addition, DGT officials must ensure that the e-mail and telephone numbers used by the taxpayers are registered in the DGT information system.

Fifth, the Tax Office where the taxpayer is registered updates the data ex officio based on the taxpayer's written statement. *Sixth,* administering and documenting the implementation of certain activities in administrative orderly manner. This is integral to the task completion.

Certain activities involving law enforcement officers/agencies/institutions are coordinated with the parties according to their tasks and functions. Other adjustments relate to ways of signing minutes and/or other documents by the taxpayers/taxpayers' power of attorney/other parties.

This regulation stipulates the signing of minutes and/or other documents related to the implementation of supervision, extensification, audits, preliminary investigation, investigation, digital forensics, collections, assessment, objection, and non-objection that are carried out directly/face to face as per legislative provisions.

However, if direct/face-to-face signing cannot be carried out due to constraints of taxpayers/taxpayers' power of attorney/other parties, document signing may be conducted in two ways.

First, physical documents are sent by post and/or shipping/courier service with proof of postage signed by the taxpayer/taxpayer's power of attorney/other parties. Scans of the documents are subsequently resent via email or messaging applications. Further, physical documents that have been signed by the taxpayer/taxpayer's power of attorney/other parties are sent by post and/or shipping company/courier service with proof of postage.

Second, softcopies of these documents are sent by e-mail or messaging applications to be printed and signed by taxpayers/taxpayers' power of attorney/other parties. Next, signed documents are scanned and sent back via email or messaging applications. Physical documents that have been signed by the taxpayer/taxpayer's power of attorney/other parties are sent by post and/or shipping company/courier service with proof of postage.

Promulgated on 12 June 2020, SE-34/2020 came into force on 15 June 2020. The regulation also attaches more detailed technical guidelines and sample of forms used in the implementation of DGT's tasks in the new normal.

Taxable Persons for VAT Purposes at Small Tax Offices are 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 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 concerning the Stipulation of Article 23 and/or Article 26 Income Tax Withholders Obliged to Prepare Withholding Slips and Submit Periodic Article 23 and/or Article 26 Income Tax Returns as per the Director General of Taxes Regulation No. PER-04/PJ/2017 (KEP-269/2020)

The stipulation of PKP as withholders of Article 23 and/or Article 26 Income Tax requires that PKP prepare withholding slips and submit Periodic Article 23 and/or Article 26 Income Tax Returns as per the provisions under the Director General of Taxes Regulation No. PER-04/PJ/2017 concerning the Form, Content, Procedures for the Completion and Filing of Periodic Article 23 and/or Article 26 Income Tax Returns and the Format of Article 23 and/or Article 26 Income Tax Withholding Slips (PER-04/2017)

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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 PKP status. The obligation to prepare withholding slips and submit Periodic Article 23 and/or Article 26 Income Tax Return will come into force as of August 2020

For a taxpayer that has recently been inaugurated as PKP after the stipulation of KEP-269/2020, however, the obligation to produce withholding slips and submit Periodic Article 23 and/or Article 26 Income Tax Returns applies as of the tax period in which such a taxpayer is inaugurated as a PKP. Promulgated on 10 June 2020, KEP-269/2020 takes effect thereafter.

Under the provisions in PER-04/2017, withholding slips and Periodic Article 23 and/or Article 26 Income Tax Returns may be submitted in hard copy or electronic documents.

There are two criteria of withholders that may submit withholding slips and Periodic Article 23 and/or Article 26 Income Tax Returns in hard copy. *First*, the withholder issues no more than 20 Article 23 and/or Article 26 Income Tax withholding slips in one tax period. *Second*, the amount of gross income as the income basis does not exceed Rp100 million for each withholding slip in one tax period.

Withholders required to submit withholding slips and Periodic Article 23 and/or Article 26 Income Tax Returns in the form of electronic documents are those that meet four conditions. *First,* the withholder issues more than 20 Article 23 and/or Article 26 Income Tax withholding slips in one tax period.

Second, the amount of gross income as the income tax base exceeds Rp100 million in one withholding slip. *Third*, the withholder has submitted electronic period tax returns. *Fourth*, the withholder is registered at a Medium Tax Office, Jakarta Special Regional Tax Office, or Large Regional Tax Office.

KEP-269/2020 is aimed at expanding the scope of PKP required to prepare withholding slips and submit Periodic Article 23 and/or Article 26 Income Tax Returns under PER-04/2017.

On 5 September 2019, a similar decree, the Director General of Taxes Decree No. Kep-599/PJ/2019 was released. Under this decree, the Director General of Taxes stipulated PKP registered in 18 tax offices listed in the attachment as withholders of Article 23 and/or Article 26 Income Tax.

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