

EVALUATING COVID-19' TAX INCENTIVES: MEASURING THE POLICY EFFECTIVENESS AND PROSPECTIVE POLICY ANALYSIS ON THE EXTENDED PROVISION

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ABSTRACT

Policy-making strength is an integral part of the government vigor. When policies fail, monetary and fiscal costs would significantly increase. Covid-19's Tax Incentive is one of the costs that must be incurred due to the Covid-19 pandemic. However, the absorption of this tax incentive has not been optimal, as indicated by the large gap between the budget and the realization of the tax incentives absorption. This research's aims are to evaluate the policy effectiveness of the Covid-19's tax incentives and analyzing the prospective policy of extended provision based on the evidences. This qualitative research was conducted with literature study as data collection technique. The qualitative data was processed using NVivo software. As the result, the policy aims of Covid-19's Tax Incentives are to maintain the economic growth stability, maintain people's purchasing power, maintain the productivity of certain sectors, support the handling of the Covid-19's impact, and maintain stock market stability. Covid-19's Tax Incentives provides quite effective results in dealing with the negative impacts of the pandemic. Most of the tax incentive policy targets appear to have been achieved, step by step. However, some policies have not been optimally absorbed. The provision of tax incentives can have a positive impact on the economy. However, on the other hand, evidence of increasing national debt can be an indicator that these incentives can also harm financial conditions. The government must be more effective. According to the data, not all types of tax incentives have a level of leverage for national economic recovery.

Keywords: *Policy Effectiveness, Policy Evaluation, Policy Aims, Covid-19, Tax Incentives, Economic Recovery*

1. INTRODUCTION

Policy-making strength is an integral part of the government vigor. When policies fail, costs (monetary or non-monetary) would significantly increase. Tax Incentives is a type of cost that becomes government expenditure in the State Budget posture. The tax incentive is tax expenditure, where the government does not incur costs directly, but through reductions or cuts in state revenues (International Monetary Fund, 2019).

In 2020, state spending has increased due to the global Covid-19 outbreak which has had a negative impact on the economic sector and the business world. This can be seen from the Purchasing Managers Index (PMI) data for Manufacturing Indonesia. At the end of 2019, PMI Manufacturing Indonesia reached 49.5 (Katadata, 2020). Then there was a contraction in March 2020 of 45.3 (Rudiyanto, 2020). However, a significant contraction occurred in April 2020, where Indonesia's Manufacturing PMI was only recorded at 27. (Katadata, 2020). Therefore, Indonesia is intensively providing tax incentives as one of the instruments in the National Economic Recovery (PEN) program. This tax incentive is included in the PEN program to provide support to the business world, in particular providing support to Micro, Small and Medium Enterprises (MSMEs) and

corporations (Kementerian Keuangan Republik Indonesia, 2020b).

All tax incentives provided by the government are not regulated in the same regulation. The government issued these incentives in stages through the issuance of several different tax regulations. The first regulation issued by the government is Minister of Finance Regulation (MFR) Number 23 of 2020 which is set on March 21, 2020. In MFR Number 23 of 2020 it consists of four tax incentives, namely Income Tax Article 21 Borne by the Government (BG), exemption of Article 22 on Import Tax, reduction of Article 25 income tax installments, and preliminary refund of Value Added Tax (VAT). Furthermore, on April 6, 2020, the government issued MFR Number 28 of 2020 which stipulates the provision of two tax incentives, namely incentives for VAT DTP for Certain Parties on the import or acquisition of Taxable Goods, acquisition of Taxable Services, and/or utilization of Taxable Service from outside the Customs Area within the Customs Area needed in the context of handling Covid-19 in Indonesia and exemption from Article 22 Income Tax for Certain Parties who import Taxable Goods needed in the context of handling Covid-19 in Indonesia.

On April 27, 2020, the Indonesian government issued MFR Number 44 of 2020 which consists of five tax

incentives, four of which are the same as the tax incentives that have been described in MFR Number 23 of 2020 which is then added with one other tax incentive, namely incentives Final Income Tax of Micro, Small and Medium Enterprises (SMEs) Borne by Government. Then on June 10, 2020, the government re-launched the five tax incentives regulated in Government Regulation (GR) No. 29 of 2020. The five incentives are additional net income reduction, donations that can be deducted from gross income, additional income received or earned by Human Resources in Health sector subject to Employment Income Tax is final at a rate of 0%, income in the form of compensation and replacement for the use of assets subject to final tax at a rate of 0%, as well as repurchase of shares traded on the stock exchange which obtains a reduced rate of 3%. Finally, the government issued MFR Number 110 of 2020 on August 14, 2020 which added one tax incentive, namely the Final Income Tax Borne by Government for Construction Services.

However, the tax incentives absorption has not been maximized. Nevertheless, the government has extended the tax incentives provision until end of December 2021. Even though the amount of Personal Income Tax (PPH OP) receipts did not even penetrate 1% of total tax revenues in the last decade (2010-2019) (Directorate General of Taxes in Susilawati et al., 2021). In author opinion, a prior evaluation regarding the effectiveness of Covid-19's tax incentives policies is necessary. In addition, a prospective policy analysis will provide benefits for more appropriate extended policy. This is crucial when the government intended to have a significant positive impact on Indonesia's economic recovery.

2. FOCUS & SCOPE

According to the background, this study aims are to identify the policy aims of Covid-19's tax incentives problems, analyze the policy effectiveness of the extended Covid-19's tax incentives provision, describe the prospective policy analysis on the extended Covid-19's tax incentives provision, and recommend a better policy for tax incentives implementation. The discussion on policy formulation is part of the discussion on policy making or the policy process. Policymaking can be seen as the process of how policies are made in a step-by-step sequence; but in reality, these processes overlap and intertwine (Dye, 2013). Birkland describes the policy-making process referred to as the policy stage model as shown in Figure 1.

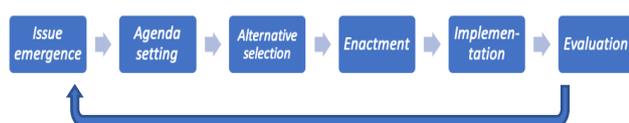


Figure 1. Model of Policy Process Stages

Problem identification is the first stage where social problems are publicized so that demands for government

action can be expressed. After identifying the problem, the government conducts agenda setting, namely deciding what problems will be decided and handled by the government. Followed by policy formulation, that is developing policy proposals to solve and fix problems (Dye, 2013).

3. MATERIAL & METHOD

This section describes the materials and methods which will be used in this research, including.

3.1 Policy Effectiveness

An effective policy is a policy that can answer the problems that occur. Effectiveness should be a basic component of policy design. In its implementation, a policy can be judged as an incentive policy if it fulfills four components, namely appropriate policy, appropriate implementation, appropriate targets, and appropriate environment (Bali; Azad Singh, 2019). The appropriate implementation is how much of a policy contains the aspects needed to provide the intended impact. Appropriate implementation needs to be met by both the relevant government agencies and the private sector. The appropriate target is related to the evaluation of the target with the implementation, with reference to the conditions of policy implementation. An appropriate environment is harmonization between the internal and external environment for the interactions that occur in implementing policies. To ensure this accuracy, political, strategic, and technical support is needed.

The effectiveness of a policy can be seen from the impact caused by the policy. Effective policy cannot be measured by the dichotomy between effective or ineffective, but rather by comparing the situation before and after the policy was implemented. Measurement of policy effectiveness can be determined in certain criteria or indicators that describe the objectives of the policy.

The expected result of a policy as a result of political-administrative activities is the real impact (tangible result). The final result is the impact that is felt in the social environment of the community. This final result then can be used as one of the dimensions of policy effectiveness, namely the impact dimension which includes quantitative evaluation indicators and qualitative evaluation. The main determinant of the impact dimension is an identifiable impact on the target by a public policy.

3.2 Prospective Policy Analysis

Prospective policy analysis is the production and transformation of information **before** policy action is initiated and implemented (William N. Dunn in Abdoellah and Rusfiana, 2016). Policy analysis is a tool to synthesize information to be used in formulating policy alternatives and preferences which are stated comparatively, predicted in quantitative and qualitative language as a basis or guide in policy decision making.



The prospective analysis system allows the analyst to create a model that describes the situation in the future with the support of current data and information. This method includes two techniques, namely, indications-based and supports the estimation of the results from the observed evidence, and assessing risk factors that may lead to different results. The prospective analysis is used as an analytical tool to assess and reduce the occurrence

of losses by analyzing situations or processes that have risks.

3.3 Evidence Based Policy

The table 1 is a concept operationalization of policy effectiveness that will be used to analyze the policy effectiveness level of Covid-19 Tax Incentives which is discussed in the sub chapter 4.2.

Table 1. Concepts Operationalization

Concept	Variable	Dimension	Indicators
Policy Effectiveness		Appropriate policy	<ul style="list-style-type: none"> The policy drawn up are following the problems that arise due to the impact of Covid-19
		Appropriate execution	<ul style="list-style-type: none"> Policy implemented by taxpayers Policy implemented by Tax Withholder/Collector Policies are implemented well by the government
		Appropriate targets	<ul style="list-style-type: none"> Policies can support handling the negative impacts of the Covid-19's pandemic Policies can increase the productivity of the targeted business sector Policies can maintain capital market stability Policies can increase people's purchasing power Policies can maintain the stability of economic growth
		Appropriate environment	<ul style="list-style-type: none"> Policies according to the needs of SME's Policies according to the needs of the targeted business sector Policies according to the needs of individual taxpayers Policies according to the needs of Corporate Taxpayers
		The real impact	<ul style="list-style-type: none"> Policies can analyze the desired changes in the context of overcoming the negative impacts of the Covid-19's pandemic Policies can best describe efforts to cope with the negative impacts of the Covid-19's pandemic
Prospective Policy Analysis	Policy Prospect Level	Information before policy implementation	<ul style="list-style-type: none"> Policies are formulated by reviewing the sectors most in need of the tax incentives Policies are formulated by reviewing the budget that can be provided by the government Policies are formulated by reviewing the time period for providing incentives
		Identify arise problems	<ul style="list-style-type: none"> Policies can identify developing community needs
		Alternative solutions in case of problems	<ul style="list-style-type: none"> Policies can accommodate the development of community needs

Evidence based policy is a collection of evidence needed to provide information for current and future policy decisions. There are four main types of evidence according to Shaxson, namely: first, statistical and administrative data to describe the current condition of a problem and explain historical trends; second, research-based evidence to describe causal relationships, and relationships between issues; third, evidence from

communities and stakeholders to provide an understanding of who assesses the policy and how the community responds; fourth, evidence from evaluations to explain past successes or in similar situations (Shaxson, 2016). The evidence obtained must be comprehensive so that the information obtained will be accurate (Fuadi et al., 2020)

Cairney and Oliver also explain that the application of evidence-based policies focuses too much on providing evidence to reduce uncertainty. Meanwhile, what is really needed is an effort to increase the demand for various kinds of evidence to reduce ambiguity. That is, the evidence does not come from the researchers. Therefore, it must also be ensured that there is a need for policy makers to be able to establish relevant policies (Dharma, 2020).

The analysis model in this article describes the author's framework. The effectiveness of the policy is measured from the achievement of the policy objectives specified in the policy formulation. The results of this policy effectiveness measurement are the material for conducting a prospective policy analysis so that it can provide evidence-based policy recommendations. As described in Tabel 1: Policy Aims → Policy Effectiveness → Prospective Policy Analysis → Evidence-Based Policy Recommendation. The description of operationalized concepts can be seen as follows.

This study uses a qualitative approach with a literature study method. In this literature study method, the author uses secondary data sources obtained through relevant and credible sources to conduct analysis and discussion, as well as present data on the background and discussion sections in writing this journal. Literature studies can be accessed through several sources, such as derivative regulations related to the Covid-19 tax incentive policy, websites, journals from Google Scholar and Elsevier using the keywords "Covid-19 Policy Effectiveness" and "Evidence-Based Covid-19 Tax Incentive Policy". From the literature study, the author also collected the objectives of each Covid-19 policy which was then processed using NVivo.

4. DISCUSSION

This section is divided into several discussions, including.

4.1 Initial Policy Aims of Covid-19's Tax Incentives

Researchers conducted a systematic literature review of several regulations that contained the purpose of providing Covid-19 tax facilities. Departing from the publication of the Directorate General of Taxes (DGT) in the DGT Responding to Covid-19, the researchers inductively conducted a search on related matters to find quotes about the page tax incentive policies formalized in the regulations. The Figure 2 illustrates the results.

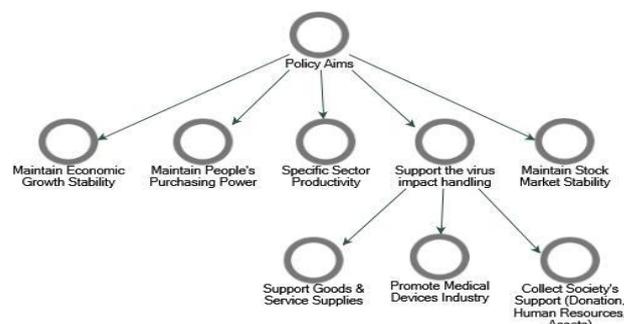


Figure 2. Literature Study Results of Policy Objectives

Of the 12 tax incentive items published on the DGT website (DJP, n.d.), only 5 regulatory documents on Covid-19 tax incentives contain the purpose or reasons for providing tax incentives. **Not all Covid-19 Tax Incentives are derived in tax regulations that specifically state the policy objectives.** The government only describes the general purpose of tax incentive policies for almost all types of tax incentives. In fact, each type of tax incentive certainly has a different target locus so that it will have a different impact on each policy target.

The objectives of the Covid-19 tax incentives are generally divided into 5 points, those are maintaining stability in economic growth, maintaining people's purchasing power, increasing the productivity of certain sectors, supporting overcoming the impact of the spread of Covid-19, and maintaining financial market stability. In terms of supporting handling the impact of the spread of Covid-19, there are 3 important points, which related to supporting goods and services, supporting the health service industry, and gathering community support (donations, human resources, and assets).

The government only describes the general purpose of tax incentive policies for almost all types of tax incentives. In fact, each type of tax incentive certainly has a different target locus so that it will have a different impact on each policy target. In this case, with the generalization of objectives, in determining the objectives of each incentive, there are multiple interpretations. This can have an impact on the implementation of the evaluation. For example, the Income Tax Article 21 is borne by the government incentive. This incentive generally has the aim of maintaining people's purchasing power because with this incentive, the take home pay received by employees will be greater (assuming that the withholding of Income Tax Article 21 is borne by the employees themselves). Other goals, that increasing the productivity of certain sectors, supporting overcoming the impact of the spread of Covid-19, and maintaining financial market stability are only supportive. However, it may be viewed differently by others.

This becomes a problem. In the sub-chapter of policy theory, it can be seen that the policy process is a system

because there is a circular process that occurs (Birkland, 2015). Once implemented, the policy should be evaluated. One of the dimensions of policy evaluation is the measurement of policy effectiveness, whether the policy has met the achievement indicators? Have you answered the problem? Has there been a change in conditions from the previous situation? Of course, this cannot be separated from the initial purpose of providing specific policies. “What if the initial purpose of each type of Covid-19 tax incentive is not known?” For sure, the measurement of policy effectiveness will only be based on very general achievement indicators and it is difficult to obtain accurate targets and environmental accuracy. Therefore, it is necessary to improve documentation in policy formulation, especially at the problem identification stage and agenda-setting.

4.2 Policy Effectiveness of the Extended Covid-19’s Tax Incentives

Four dimensions of policy effectiveness are used in this analysis as described in table 1. First, the appropriate policy. On March 11, 2020, the World Health Organization (WHO) has officially declared the Covid-19 outbreak a pandemic, where this outbreak has occurred in various parts of the world. This virus can

spread easily and quickly like the influenza virus in general, it can even be said to be more virulent. Limiting physical and social contact is a solution that is considered appropriate to overcome and prevent the spread of the virus.

These social restrictions certainly have an impact on the pattern of people’s lives in the world, not least in Indonesia. With limited physical and social contact, people cannot carry out normal activities as usual, for example, work. This has a direct impact on the economy of a country. Therefore, the fiscal and non-fiscal stimulus is needed to help the economy.

The Covid-19 tax incentive policy was given to help overcome the negative impact of the pandemic in the economic sector which caused a slowdown in economic growth from 2.97% in the first quarter of 2020 to -5.32% in the second quarter of 2020 (Bank Indonesia, 2021). One of the reasons is the decline in household consumption by -2.23% in 2020 (Kementerian Keuangan Republik Indonesia, 2021b).

Second, appropriate execution. This Covid-19 tax incentive policy is carried out well by the government and can be applied by taxpayers and collectors/cutters. The realization of the use of this tax incentive can be seen in the following Figure 1.

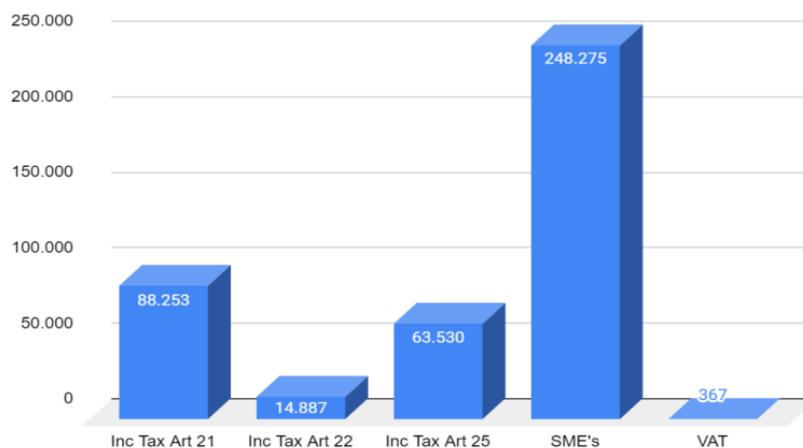


Figure 1. Realization of Covid-19 Tax Incentive Users

Source: Ministry of Finance, Indonesia, 2021

According to the data in Figure 1, it is known that MSMEs use the most tax incentives. However, this number is still very small when compared to the number of MSMEs in Indonesia, wherein 2018 there were 64.2 million MSME units in Indonesia (Badan Pusat Statistik, 2020). This is due to the lack of socialization from the government to MSMEs (Kurniati, 2021). In addition, another reason for the low utilization of incentives for MSME Final Income Tax borne by the government is because MSMEs do not want to add additional obligations in terms of administration, such as in the submission of realization reports (Kurniati, 2021).

Furthermore, it is related to the use of the import Income Tax Article 22 incentive which is also relatively low or not optimal. This is due to a decline in imports because there is indeed a decline in the business climate due to the impact of the Covid-19 Pandemic. However, the number of Indonesian imports in 2020 is still supported by the import of medicines, vaccines, and other goods needed to handle the Covid-19 virus. The import activity is also exempt from Income Tax Article 22 but is regulated in a different tax incentive, which stated in the Minister of Finance Regulation Number 28 of 2020. As for the Income Tax exemption incentive for Article 22 imports, the above is an import Income Tax

incentive which is regulated in Minister of Finance Regulation Number 23 of 2020.

The realization of the use of reduced Income Tax Article 25 installments is in third place as shown in Figure 1. Among the five incentives, this incentive can be said to have a large impact on the company's cash flow. By using this incentive, the company can control cash flow for more important purposes first than having to pay installments of Income Tax Article 25. However, this realization is also not maximized, as is the case with other types of incentives. This is because one of them is because there are companies that experience payment status in the obligation to deposit corporate income tax returns. In 2019, in general, the company still had a stable income, but with the Covid-19 pandemic, the company's turnover decreased. This affects the amount of income tax payable with a tax credit, in which case the amount of income tax payable is smaller than the tax credit, so that the installment of Income Tax Article 25 cannot be determined in the following year.

Then the use of incentives for Income Tax Article 21 to be borne by the Government is also very low when compared to the large number of employees in Indonesia. This is due to several factors. The first relates to the difference between the party applying and the beneficiary of this Income Tax incentive article 21 Borne by the Government, where the party applying is the company and the beneficiary is the employee (Rinasih, 2020). For companies that support or bear Income Tax Article 21 for their employees, it may be beneficial to take advantage of this incentive for Income Tax Article 21 Borne by the Government. However, companies that withhold Income Tax Article 21 from employee salaries may feel burdened by applying for income tax Incentives Article 21 Borne by the Government because there are administrative burdens such as submitting monthly realization reports to the tax office so they may choose not to apply for Income Tax incentives Article 21 Borne by this Government. The second is related to the problem of the number of layoffs due to the Covid-19 pandemic caused by the declining business climate (Rinasih, 2020). In addition, there are also several companies that, although they do not lay off their employees, they reduce their salaries which are even below the Non-Taxable Income (PTKP). Of course, this causes the number of employees who can use this incentive to decrease.

Furthermore, it is related to the VAT pre-refund incentive which is also not optimal in its absorption. This is because the Covid-19 pandemic has caused people's purchasing power to decline in almost all countries so that companies that are included in the Ease of Import Export Destination also experience a decline in their export activities so that the company will also reduce the purchase of raw materials which will reduce the company's input tax. Therefore, the company experienced an Overpayment which was not that significant when compared to previous years.

For the government itself, the Directorate General of Taxes has carried out socialization in various media as illustrated in Figure 2. Then, the Directorate General of Taxes also explained that 73% of taxpayers were aware of the tax stimulus (Setiawan, 2020). This fact is slightly contradictory to the MSME incentives provided by the government. Although it has been explained that the socialization provided by the government is quite good, it turns out that this does not necessarily describe the realization of the achievement of the use of the incentives itself. This indicates several things, such as the inappropriateness of the socialization media used, the inappropriateness of the socialization method used, or the target of the socialization that was present.

From the view of compliance costs, the government has made efforts to keep the costs incurred by taxpayers to take advantage of this incentive to a minimum. From the view of material costs, it can be said that taxpayers do not need to incur costs at all. In terms of using these incentives, taxpayers only need to apply to the DGT website. This convenience indirectly also has an impact on time costs and physiological costs. Taxpayers do not need to spend a long time to take advantage of these incentive. Applications can be made anywhere and anytime as long as there is an internet connection. In addition, from a physiological cost perspective, taxpayers do not need to worry about the refusal to use this incentive. Because the administration used is a notification which is only provide information to the DGT that the Taxpayer will take advantage of the Covid-19 tax incentives. It is different from the application which can be rejected by DGT.

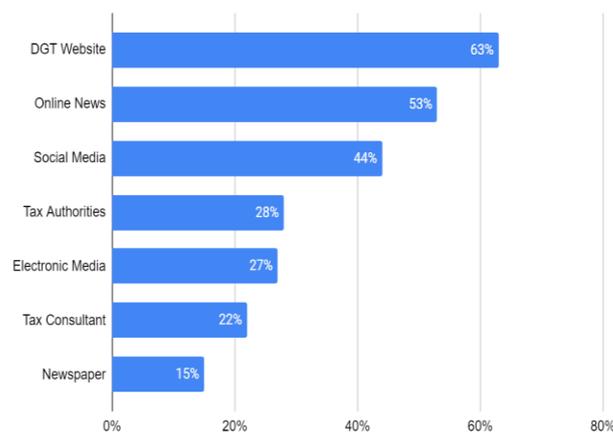


Figure 2. Social Media for Tax Incentives
 Source: Setiawan, 2020

Third, right on target, namely policy objectives. The first goal is to support the handling of the negative impacts of the Covid-19 Pandemic. The provision of various tax incentives in the health sector, which one is an import duty and tax on import exemption for importing vaccines and medical devices in connection with the handling of Covid-19 until the third week of

April 2021 reaching Rp1.56 trillion (Wildan, 2021). The second objective is to increase the productivity of certain

business sectors as shown in Figure 3, indicating a change for the better.

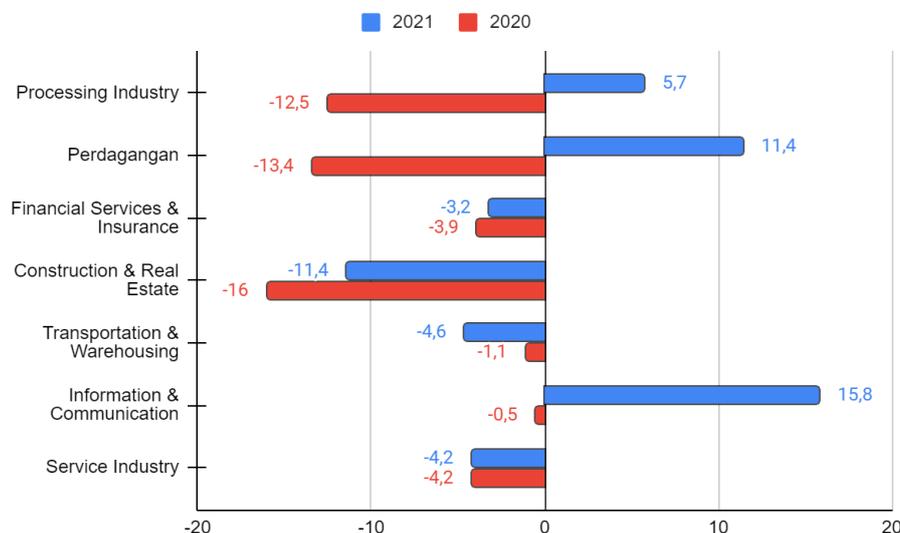


Figure 3. Primary Sector Income (%)
Source: Ministry of Finance, Indonesia, 2021

Based on Figure 3, revenues from the financial services & insurance, construction & real estate, transportation & warehousing, and industrial services sectors earn minus revenues during the pandemic. This is due to the low purchasing power of society. Furthermore, financial services & insurance companies got a slowdown in economic growth. The performance of insurance companies weakened due to the decline in premium income. Premium income in aggregate decreased by 6% in August 2020. Meanwhile, under normal conditions, the growth of insurance companies reached 10% - 17% per year (Avisena, 2020). In construction & real estate companies, for example, PT Alam Sutera Realty Tbk (ASRI) experienced a decline in performance, namely in 2019 it had a net profit of Rp. 158.8 billion, while in 2020 it had a net loss of Rp. 512.5 billion (Jayani, 2020).

Furthermore, transportation sector companies had a decrease in revenue where according to the Land Transport Organization, the revenue of land transportation companies decreased by 75%. This is because the Covid-19 pandemic has caused restrictions on community mobility, for example, the existence of a lockdown policy, social restrictions (social distancing), restrictions on physical contact (physical distancing). Meanwhile, logistics transportation companies had a decrease in revenue up to 85% (Yunianto, 2020). This is because logistics transportation companies have experienced a decrease in demand for delivery of goods, both from corporations and individuals, so the companies have to make a cost-efficiency. Furthermore, business

actors had a decrease in revenue of 82.55% due to the Covid-19 pandemic (Fauzia, 2020).

The third objective is to maintain capital market stability. In 2019, before the Pandemic, the total transaction volume in the capital market was 36,534,971,048. Meanwhile, during the Covid-19 pandemic, the total transaction volume in the capital market was 27,495,947,445. Based on statistical data from PT Kustodian Sentral Efek Indonesia (KSEI) the number of capital market investors has increased, from 1,619,372 investors in 2018, 2,484,354 investors in 2019, to 3,880,753 investors at the end of 2020. The increase in transaction volume because the majority of investors tend to wait for the right time to invest (Kementerian Keuangan Republik Indonesia, 2021). The capital market contracted at the end of March 2020. To make a stability in capital market, the government provided tax incentives in the form of reducing tariffs on repurchase activities of shares traded on the exchange. With this incentives, at the end of 2020, the stock market has increased by 53.7% compared to the end of March 2020 (OJK, 2021).

The fourth objective of the policy of providing tax incentives is to increase people's purchasing power. People's purchasing power can be seen from household consumption data. At the end of the year or the fourth quarter of 2019, household consumption recorded a growth of 4.97% (Databoks, 2021). Then in the first quarter of 2020 where the Covid-19 pandemic began, household consumption got a slowdown with a growth of only 2.83% and even in the second quarter of 2020, there was a decline of -5.52% (Databoks, 2021). However, the

provision of tax incentives can restore people's purchasing power. This can be evidenced by the 5.93% growth in household consumption in the second quarter of 2021 (Databoks, 2021).

The last objective of providing incentives is to maintain the stability of economic growth. This can be said to be the main objective of the government's provision of tax incentives. The Covid-19 tax incentives have a positive impact in economic growth which is gradually recovering as shown in Figure 4. It can be concluded that the Covid-19 tax incentives meet the dimensions of appropriate targets because almost all policy aims are gradually fulfilled.



Figure 4. Indonesia's Economic Growth (2020-2021)
 Source: Bank Indonesia, 2021

From the right environmental dimension, these tax incentives are expected to be following the needs of MSMEs, the targeted business sector, individual taxpayers, and corporate taxpayers. For MSMEs and corporate taxpayers, tax incentives are useful for recovering cash flow. MSMEs are the sector most affected by the Pandemic because MSMEs have relatively small capital and are not legal entities so it is not easy to get loan funds from financial institutions. On August 9, 2021, the government through BKPM issued an OSS (Online Single Submission) to improve the ease of doing business, one of which is the speed of obtaining an NIB (Business Registration Number) which can be obtained in just 10 minutes. OSS is the right step to encourage the growth of MSMEs (*Bahlil: Tingkat Keberhasilan Sistem OSS Berbasis Risiko 83 Persen, 2021*).

For Personal Tax Payers, Income Tax Art 21 Borne by The Government incentive can increase purchasing power because the take home pay received by employees is greater than before. The government hopes that the money received is used for consumption. The rise of discounts offered by e-commerce and low bank interest loans during the pandemic have also made people tempted to consume. From the description above, the authors conclude that the Covid-19 tax incentives are

quite effective in overcoming the impact of the Covid-19 Pandemic, although not in all aspects.

4.3 Prospective Policy Analysis on the Extended Covid-19's Tax Incentives

The Covid-19 tax incentive has been extended several times as stipulated in the finance minister's regulation. Initially, this incentive was regulated in MFR Number 23/MFR.03/2020, then changed to MFR Number 86/MFR.03/2020, then changed to MFR Number 110/PMK.03/2020, then changed again to MFR Number 9 / MFR.03/2021, and lastly amended in MFR Number 82/MFR.03/2021. In addition to the extension of the incentive period, the Minister of Finance regulation also regulates the reduction of incentives. For example, in reducing the rate of incentive exemption.

A policy must consider the impacts that will be caused in the future. In this case, the extension of tax incentives is able to maintain people's purchasing power, strengthen corporate cash flows, attract investors to Indonesia, and maintain economic balance. Brozka stated that tax incentives are one of the factors that can attract investors and strengthen economic growth (Brozka, 2013). For example, based on research conducted in Vietnam, it was found that companies that were privatized in Vietnam were greatly helped by the existence of tax incentives because they could increase the profitability and efficiency of the company's operations (Trung & Tan, 2020).

Austria provides fiscal stimulus in the form of cuts to individual and corporate tax burdens as well as an administrative convenience. This administrative convenience is provided in the form of delaying payments or providing installments of taxes owed. Various developed countries also provide more fiscal stimulus in the form of administrative conveniences such as an extension of carrying out tax obligations between 1 month to 6 months (Tambunan, 2020). ASEAN member countries prefer to provide fiscal stimulus in the form of lowering tax rates and tax exemptions. Fiscal stimulus in the form of administrative ease will not be very meaningful for the economy. The OECD suggests providing a stimulus in the form of cutting, eliminating, or reducing tax payment obligations for a certain period of time (Zulkarnaen et al., 2020).

The extension of this tax incentive policy can also have a negative impact in the future. Based on the OECD, there are four costs that will arise from the implementation of tax incentives, namely as follow:

1. Loss of income, either because it should have been received during normal conditions, there was a project that should have been carried out even though investors did not receive tax incentives, or because of the misuse of tax incentives by business actors. Based on a statement from the Ministry of Finance, the provision of this tax incentive can actually cause losses to state revenues, for example the Income Tax on Wages Borne by Government

incentive which is estimated to cause a loss in state income of Rp. 15 trillion, and incentives for reducing Income Tax installments will eliminate state revenues of Rp. 4.2 trillion (Kementerian Keuangan Republik Indonesia (Ministry of Finance), 2020).

2. The cost of resource allocation arising from tax incentives causes a distortion of investment choices by investors.
3. Rising enforcement and compliance costs are due to the complexity of the tax system and tax incentives. In addition, tax incentives can lead to unfairness that will increase compliance costs.
4. Lack of transparency arises when tax incentives are provided based on subjective discretion and requirements that should be provided through an automated process and objective requirements.

Tax incentives can lead to loss of state revenue and there is a possibility to be misused in order to avoid paying taxes. In fact, the state needs a source of revenue which will later be used to run the government and state development. Considering that the most important tax function is the function of the budgeter, namely as a source of state revenue. Therefore, the existence of tax incentives can eliminate the potential for state revenue as it can be obtained under normal conditions.

In addition, the extension of this tax incentive policy can also reduce the level of investment in Indonesia (Pane, 2020). Indeed, the existence of tax incentives can be a stimulus to increase household consumption spending. When household consumption increases, the demand for goods and/or services will increase so that the production of these goods and/or services will also increase. This can create increased employment. However, this condition on the other hand can also reduce national saving. When national saving decreases, the interest rate will rise. When interest rates rise, the level of investment will decrease because the prices of investment instruments fall. Therefore, in addition to providing various tax incentives that are aimed at maintaining the stability of economic growth, the government must also provide education regarding the use of tax incentives. This is done so that people are able to think visionary that after the Covid-19 pandemic there will be a higher tax burden.

4.4 Evidence Based Policy Recommendation for the Appropriate Covid-19's Tax Incentives

The Government of Indonesia has decided to extend the incentives provided previously because the business sectors targeted for these incentives still need incentives to continue their business. However, the government must pay attention to state revenues which will be the source of the incentive budget. In this case, the contribution of tax revenue as a source of state revenue reached 89,25 the state budget. The main source of tax revenue comes from Non-Oil and Gas Income Tax and VAT / Sales Tax on Luxury Goods (PPnBM)

(Kementerian Keuangan Republik Indonesia, 2021). In 2020, Indonesia's income tax was only Rp1.404.507, 50 billion. The details of the receipts include: Income Tax of Rp670.379,50 billion, VAT and Sales Tax on Luxury Goods of Rp507.516,20 billion, Land and Building Tax of Rp13.441,90 billion, Customs on Acquisition of Rights on Land and Building of Rp0, Excise of Rp172.197,20 billion, Other Taxes of Rp7.485,70 billion, Import Duty of Rp31.833,80 billion, and Export Tax of Rp1.653,20 billion. This amount has decreased compared to 2019 with tax revenues of Rp1.546.141,90 billion. The details of the receipts include: Income Tax of Rp772.265,70 billion, VAT and Sales Tax on Luxury Goods of Rp531.577,30 billion, Land and Building Tax of Rp21.145,90 billion, Customs on Acquisition of Rights on Land and Building of Rp0, Excise of Rp172.421,90 billion, Other Taxes of Rp7.677,30 billion, Import Duty of Rp37.527,00 billion, and Export Tax of Rp3.526,70 billion (Badan Pusat Statistik, 2021).

In addition, there is a need for non-fiscal stimulus, especially in the health sector, which is also very draining of state revenues. For example, the stimulus for Recipient of National Health Insurance Contribution Assistance participants, assistance for JKN BPBU/BP contributions, incentives for health workers, compensation for 153 health workers, medical materials for 110 Defense Ministry/TNI Hospitals, and medical equipment for 53 Police Hospitals, as well as other non-fiscal stimuli such as for infrastructure, education, and social (social assistance, government assistance, subsidies, and MSME support). If state revenues are continuously eroded by tax expenditure and non-fiscal stimulus without being accompanied by state revenues and significant economic growth, this could jeopardize Indonesia's financial condition. The real impact that can be seen is the increase in state debt from the original Rp 6,074.56 trillion as of December 2020 to Rp6,554.56 trillion as of June 2021 (Kementerian Keuangan Republik Indonesia, 2021a).

Therefore, the government should no longer extend tax reduction or exemption incentives to all sectors. If it is deemed necessary, the government can extend these incentives only to the MSME sector, Ease of Import for Export Destinations, and sectors related to health services. As for other sectors, such as certain labor-intensive sectors, construction services, and Article 21 Income Tax Borne by the Government, the government can change the form of stimulus into a deferred payment scheme for taxes owed.

5. CONCLUSION

The policy aims of Covid-19's Tax Incentives are to maintain economic growth stability, maintain people's purchasing power, maintain productivity for specific sectors, support the virus impact handling (collect society's support, promote medical devices industries, and support goods and service supplies), and maintain stock market stability. Covid-19's Tax Incentives has

result quite effective in handling negative impacts of the pandemic. Most of policy targets of the tax incentive has seen to be accomplished, step by step. Even though, some policies are not optimally absorbed. The provision of tax incentives can have positive impacts on the economy, but on the other hand it can endanger financial conditions with evidence of increasing state debt. After policy evaluation on the effectiveness of Covid-19's Tax Incentive policy, the government must be more selective. According to the data, not every tax incentive type has leverage level for national economic recovery.

6. SUGGESTIONS

In formulating tax incentive policy, the government (DGT) has to deliver the policy purpose details and formalize it in the derivative regulation. The policy aims information will be useful for policy evaluation, especially for effectiveness measurement. The government must conduct policy effectiveness measurement on each type of Covid-19's tax incentives, to identify which tax incentives has high leverage level in improving the national economic recovery. It is due to the trade-off that the government faced, between the need for expenditure and revenue. The Covid-19's Tax Incentive provision is good to be extended, but must be more selective and only focus on the high-level leverage incentive in term of the locus (target), types, form, scheme, or prerequisite. For instance, the government can change the incentive scheme, which was originally in the form of exemption, into a delay payment. This scheme can be applied for fiscal year 2022 on Income Tax 21 Borne by Government and certain labor-intensive sectors.

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