Relaxing MSME’s in Tax Incentives During the Covid-19 Pandemic to Create Social Welfare

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Abstract. A very significant decline in economic activity in Indonesia began to be felt at the end of 2019 and will continue until 2021. The constraint in economic activity has an impact on reducing the Indonesian government's income, including from the tax revenue sector. The effect of this covid 19 has greatly reduced the income of large-scale businesses and also on micro, small and medium enterprises (MSMEs) spread throughout Indonesia. Indonesia reliably alludes to the idea of a Welfare State in which the state is expected to grow its liabilities to financial issues looked by the more extensive local area, particularly during the ongoing pandemic. The state is considered significant, even committed to mediate in different social-financial issues to guarantee the formation of shared success in the public arena. In response to this, the Indonesian government issued various policies in the aspect of taxation to maintain the country's economic and financial conditions.

Keywords: UMKM; Incentive; Tax

1 Introduction

The Covid-19 pandemic has hit almost all countries including Indonesia. President Joko Widodo, on April 13, 2020, gave Presidential Decree Number 12 of 2020 concerning the Management of Non-catastrophic events for the spread of Corona Virus Disease 2019 (COVID-19) as a National Disaster. It takes the social, economic, political, and national security readiness and resilience of all countries to be tested to overcome the various impacts arising from the pandemic. In the context of the world community, Indonesia as a modern country cannot be separated from the influence and cooperation with countries worldwide. Collaboration with various mutually beneficial countries is very helpful for Indonesia in realizing the goal of advancing the national interest and general welfare. On the other hand, Indonesia's financial condition is vulnerable to being influenced by global economic conditions experiencing sluggishness, even stagnation that cannot be predicted.

The significant decline in economic activity in Indonesia began at the end of 2019 and still continue until 2021. The next obstacle in economic activity has reduced the Indonesian government's income, including tax revenue. The effects of COVID-19 have also greatly affected micro, small and medium enterprises (MSMEs) spread throughout Indonesia and reduced the income of large-scale businesses. Businesses run by MSMEs in Indonesia make a significant contribution to the economy. Therefore, this pandemic impacting MSME actors, many negative impacts, and even many who eventually go out of business. MSME business performance experienced a very sharp decline in consumer demand due to the decline in

ICLSSEE 2022, April 16, Semarang, Indonesia

DOI 10.4108/eai.16-4-2022.2320152

people's purchasing power. This, in turn, reduces the production activities of the goods and/or services it produces, ultimately resulting in a significant reduction in MSME income. This situation is also caused problems with the termination of the employment relationship of its employees, which ultimately threatens the smooth payment of credit, both principal and interest, due to many MSMEs which end up suffering losses. MSME employees who experience layoffs cause unemployment is increase during this pandemic.

In view of the circumstances, the Indonesian government, through the Ministry of Finance made an unwinding strategy as assessment impetuses for citizens impacted by the 2019 Coronavirus pandemic. The Indonesian Ministry of Finance then gave the Minister of Finance Regulation Number 44/PMK.03/2020, which gives PPh unwinding to MSME entertainers. Numerous MSME business entertainers didn't not be aware of the duty offices presented by the public authority through the Ministry of Finance of the Republic of Indonesia. MSME business people who were already dependent upon Final Income Tax as per Government Regulation Number 23 of 2018, in the ongoing period of the COVID-19 pandemic, the PPh is borne by the public authority. The PPh time frame taken by the public authority from April to September 2020 has been broadened a few times, most as of late in light of PMK Number 82/PMK.03/2021 MSME PPh office borne by the public authority is substantial until December 31, 2021.

The Government of Indonesia through the Ministry of Finance has taken a policy several times to extend the validity period of the relaxation of PPh for MSME actors during the COVID-19 pandemic, recently by issuing the Minister of Finance Regulation Number 9/PMK.3/2021 and starting from February 1, 2021 until June 30, 2021, then extended again with PMK Number 82/PMK.03/2021 which occurs from July 1, 2021, until December 31, 2021. Based on the description, it is deemed necessary to conduct training for MSME actors so that they can take advantage of the tax facilities provided by the government.

Taking into account the current conditions and predictions of the stagnation of economic and monetary growth that Indonesia came as the result of the Covid-19 pandemic, it is necessary to prepare the state to face and anticipate the global financial crisis through the perspective of national fiscal policy with the tax function as an instrument that has flexibility. for sustainable budgeted income, with a combination of regulating functions (regular) and economic stability to maintain conditions of contraction and relaxation of the national economy, in the event of unbalanced fluctuations, even if they tend to become unhealthy.[1]

2 Literature Review

1. Theory of the Taxation System in Indonesia

The word tax in the Dutch-Indonesian legal dictionary [2] is the equivalent of the word belasting (Dutch), burdening/taxation/rating (English). In the Dutch-Indonesian legal dictionary [3], belasting means tax(ation), fiscal. Synonyms of the word “tax” are taxation, duty, revenue, levy, excise, impost, contribution, lot, scot, gild, cess (English), stever (Germany), tax (Latin), Fiscales (France), Impuesto (Spain). [4]

In the Indonesian of the Dutch-Indonesian Law dictionary, belasting means tax, namely [5] a levy by the government from its people to finance government spending. Usually, this term is used for government levies for the general needs of the community, levies for special purposes for the use of certain goods, for services, and so on are called levies. Tax is a levy carried out by the government based on statutory regulations; the results are used to finance general government expenditures whose remuneration is not directly given to payments, while its implementation where necessary can be forced. [6]

As indicated by Article 23 An of the 1945 Constitution of the Republic of Indonesia, "Charges and different tolls that are coercive for the state are controlled by regulation". Charge, as indicated by the Great Dictionary of Indonesian Languange is an obligatory toll, typically as cash that inhabitants should pay as a compulsory commitment to the state or government regarding pay, possession, price tag of products, etc. Charges are commitments to the state (which can be forced) owed by the people who are obliged to pay them as per guidelines, without getting execution back, which can be straightforwardly named, and whose object is to fund general costs connected with the obligations of the express that controls the public authority. [7]

The government collects taxes solely to obtain money or funds. The government will use the funds to finance routine government expenditures and development costs. Marí Muhammad said that the tax function in developing countries, including Indonesia is:[8]

a. Tax is a tool or instrument of state revenue;
b. Tax is a tool to encourage investment; and
c. Tax is an instrument of redistribution.

As the main source of state budget revenue, taxes have a strategic role in generating development and meeting the needs of the state and society. This shows that the role of taxes in realizing the stability of the wheels of state life is increasing and complex. Taxes for modern countries are state policies with economic, legal, and socio-political dimensions that adhere to the principle of justice in realizing shared prosperity.

Because taxes are the main source of state revenue and become an important instrument in fiscal policy on the country's economy, it is imperative for the government in addition to implementing and enforcing a fair tax law in the imposition and collection of taxes, it must be an obligation for state administration officials to maintain, manage, allocate and utilize tax revenue funds under their designation for financing government and development tasks.

2. Social Welfare Theory

Welfare is a measuring point for certain society that already in a prosperous condition. Welfare is an equal level of life higher than the previous life. Feeling happy, not lacking anything within the limits that may be achieved, he is free from poverty and threatening dangers are the characteristics of someone who lives a prosperous life.

Welfare is a standard of living, well-being, and quality of life. Law Number 11 of 2009, concerning Community Welfare, community welfare is defined as the condition that citizens' material, spiritual, and social needs are fulfilled so that they can live properly and develop themselves, so that they can carry out their social functions. Therefore, based on the law, it can be seen that the level of welfare can be measured and assessed based on an individual or group's ability to meet their material and spiritual needs.

In the idea of the Welfare State, the state is expected to grow its liabilities to financial issues looked by the more extensive local area. This improvement is the foundation that gave the 20th 100 years "interventionist state" legitimization. The state needs and even needs to mediate in different social and monetary issues to guarantee shared thriving in the public eye. The capacity of the state additionally incorporates exercises that were already outside the extent of state capacities, for example, growing the arrangement of social administrations to people and families in specific matters, for example, "federal retirement aide", wellbeing, social government assistance, instruction, and lodging. [9] The concept of the Welfare State is also an alternative to constitutional democracy in the 20th century as a reaction to the access of liberal-liberalism to the 19th-century constitutional democracy system. [10]

"Equity" for the Republic of Indonesia is the primary objective in executing public turn of events, as expressed in the introduction to the 1945 Constitution of the Republic of Indonesia when state ought to take an interest in completing world request in light of opportunity, everlasting harmony, and civil rights. [11]

The government assistance state's philosophy is the reason for the position and capacity of government (bestuursfunctie) by present day nations. The idea of the government assistance state was brought into the world on the reason of doing severe management of the organization of state power, particularly the chief who during the outright government had been demonstrated to have manhandled power a ton.

The concept of a welfare state is what inspired and at the same time became the objection of the activists of the Indonesian independence movement, especially Bung Hatta as the figure and one of the founder of the Republic of Indonesia, and even became the central figure.[12] Based on the thoughts of the state's founders, especially Bung Hatta, the 1945 Constitution of the Republic of Indonesia contains the spirit towards the establishment of a welfare state model with the goals to be achieved.

3 Results and Discussion

1. MSME Relaxation in Tax Incentives during the Covid 19 Pandemic

The spread of the Corona Virus Disease 2019 (COVID-19) pandemic, which impacts and compromises Indonesia's financial development, among others due to declining state incomes and worldwide monetary vulnerability, requires phenomenal approaches and measures. In the field of state funds, remembering for the tax collection area and provincial money, and the monetary area, which the Government and related organizations should promptly take to address these critical circumstances with regards to saving wellbeing and the public economy, with an emphasis on wellbeing spending, social security nets, and the recuperation of the business world. impacted.

Thusly, satisfactory legitimate instruments are expected to give a strong groundwork to the Government and related organizations to make such arrangements and measures. [13] Tax incentives are one of the policy steps taken by the Government in dealing with the economic slowdown due to the COVID-19 pandemic. The policy of providing tax incentives is expected to provide a positive stimulus in moving the wheels of the economy, which is correlated with taxpayer income and impacts taxpayer compliance in paying taxes owed.

Adam Smith revealed that tax collection should pay attention to the principle of convenience [14], namely that tax payments should be possible when the taxpayer is in a pleasant condition or makes it easier for the taxpayer. Furthermore, the International Tax Glossary [15] states that tax collection should be based on the ability to pay principle, namely that tax collection should pay attention to the ability of the population to pay taxes.

In the other hand, the government needs very large funds to prevent the coronavirus obtained from the tax sector. However, the economy is paralyzed, which is very unwise if the government still has to burden the people to continue paying taxes. Because the impact of the COVID-19 virus is very large, the government has issued several fiscal policies, one of which is the provision of tax incentives.

Bolnick [16] points out the negative side of giving tax incentives. The negative side is the loss of government revenue, which the revenue may need to carry out government and development, especially considering that the main tax function is budgetary.[17] In addition, tax incentives can be misused to avoid paying taxes, not to mention the increase in tax administration costs.

In fact, Article 6 of the Income Tax Law regarding deductible expenses also indirectly has a role in fiscal disaster relief. Article 6 of the Income Tax Law states that donations from national natural disasters can be used as income deduction costs. Indirectly, by allowing national disaster donations to be a cost, companies can take advantage of this for both taxation and CSR purposes.

Regarding Tax Incentives, Winardi mentioned the term tax incentives with Incentive Taxation, which means Taxation intending to provide incentives. The use of taxes is to generate government revenue and give an impetus towards economic development in certain fields [18]. Spritz, as quoted by Erly Suandy states that in general, there are four types of tax incentives, including:[19]

1. Exemption from taxation.
2. Reduction of tax base.
3. Reduction of tax rates.
4. Tax Deferral.

By guideline, the strategy for taking care of the Covid-19 pandemic, one of which is connected with monetary dependability, is managed in Law Number 2 of 2020 concerning the Stipulation of Government Regulation in Lieu of Law Number 1 of 2020 concerning State Financial Policy and Financial System Stability for Handling the 2019 Corona Virus Disease (Covid-19) Pandemic and additionally In Facing Threats That Endanger the National Economy as well as Stability Financial System Becomes Law.

That the COVID-19 pandemic is announced a public fiasco that influences financial steadiness and local area efficiency as laborers and business entertainers so endeavors are made to give charge motivations to help alleviating the effect of COVID-19. As the Minister of Finance Regulation Number 86/PMK.03/2020 concerning Tax Incentives for Taxpayers Affected by the COVID-19 Pandemic as revised by Minister of Finance Regulation Number 110/PMK.03/2020 concerning the a quo alteration, it is important to rearrange as different regulations and guidelines that are supposed to go about as an upgrade for monetary improvement locally by giving Minister of Finance Regulation Number 9/PMK.03/2021 in regards to Tax Incentives for Taxpayers Affected by the 2019 Corona Virus Disease Pandemic.

As specified in the Regulation of the Minister of Finance Number 9/PMK.03/2021, there is an impetus and unwinding strategy in the field of Taxation for citizens impacted by the COVID-19 pandemic, one of which is the MSME charge motivation. Citizens who are MSME entertainers with a specific gross turnover following Government Regulation Number 23 of 2018, and store Final PPh of 0.5% of the all-out gross pay, get Final PPh impetuses borne by the Government. The last personal duty isn't determined as pay subject to burden. On the off chance that MSME entertainers import, the Directorate General of Customs and Excise doesn't gather Article 22 Income Tax on imports.

2. Juridical Analysis of Giving MSME Tax Incentives during the Covid 19 Pandemic

National tax reform policies that the Government designed before, can support nationwide financing through reform of modern taxation regulations and administration with policies in tax practice that combine tax functions that are well synergized with each other. In addition, taxes as an instrument of fiscal policy are expected to be a consideration for making policies for the Government as the stakeholder that has the authority to anticipate the possibility of an economic crisis due to the impact of the COVID-19 pandemic.

Covid 19 makes Tax Officer as tax collectors face a dilemma. On the one hand, the high increase in public spending to cope with Covid-19 has put great demands on achieving the revenue target. On the other hand, humanity towards the socio-economic situation of the community also demands that tax collectors open up space for the relaxation of tax obligations. This is as empathy for the burden of society during the pandemic, as well as a stimulus for accelerating economic recovery.

Those who want to reduce taxes argue that lowering taxes will positively impact economic growth. Because in the short term, it will trigger investment that will provide long-term benefits for the community's economy (trickle-down effect). They believe that tax reductions are highly recommended in conditions without a pandemic, especially during a pandemic, where the people's economic capacity is greatly reduced, and economic movements tend to lead to a recession. [20]

The doctrine of reducing taxes for the sake of economic growth and considered a recession is increasingly being used in recent days, especially by very influential businessmen. First, for taxpayers who are well-established and affluent. The economic situation of the pandemic will only result in reducing the contents of savings and holding back spending. As for taxpayers with medium and weak financial abilities, this pandemic has left no money to be saved and pushed them into the practice of moneylenders because of their urgent cash flow needs.

So that the tax reduction, if seen as a form of incentive, has a different impact in each sector, for the well-to-do and affluent, it will impact increasing tertiary savings and consumption. Meanwhile, for the lower middle class, it will generate real spending that is directly consumed and has a great opportunity to encourage the pace of economic growth so that transactions can continue.

This opinion is in line with the argument of Nobel laureate Joseph Stiglitz in his paper entitled, “Inequality and Economic Growth” (2016) [21], which states that it is money in the pockets of the lower middle class which tends to benefit the society at large. Thus, tax reduction should not be carried out on a pro-rata basis but must reflect the principle of fairness in tax collection, where taxes must be imposed proportionally according to the taxpayer's ability.

Second, it’s important to understand that the central government and local governments in carrying out routine and development expenditures depend on sources of tax revenue. During the Covid-19 pandemic, we must continue to accomplish public services properly and optimally. So that people still get the rights and feel the benefits of paying taxes either central and/or local. So, this will encourage economic dynamics which have implications for the consumer purchasing power.

Tax reduction policies in the pandemic era, in essence, doesn’t significantly reduce the Government's ability to maintain all forms of quality routine spending and planned development, although in fact, many allocations have been shifted to be transferred as part of the handling of the Covid-19 pandemic.

For the central government, the widening deficit due to a decrease in tax revenues may still be covered by additional debt. However, this condition is not the same for local governments. Tax reductions will have a very significant impact on the regional budget posture. This is because there are no flexible debt instruments available, although recently, the central government has introduced several new debt schemes to a limited extent.

Therefore, the public needs to realize that the submission of tax reductions, in essence, indirectly encourages the emergence of additional state debt for the central government. In addition, it also reduces the ability of the government, both central and especially regional governments to provide excellent public services for the people, which ironically is even more needed in the era of the Covid-19 pandemic.

There is an urgency to reformulate effective tax strategy arrangements while taking attention the conditions of the people affected by the Covid-19 pandemic. Utilization of tax collection proceeds to increase consumer purchasing power is needed for the economic stimulus which correlated with growing state or regional revenues from the tax sector.

The synergy between the Central Government, Regional Governments, and taxpayers is needed as a form of cooperation in fulfilling state expenditures and development. The ability of the Government to manage tax proceeds to open up economic opportunities is very much needed for taxpayers. So, it creates the ability of taxpayers to pay tax debt obligations as a source of state revenue.

Taxpayer compliance in paying tax debts is needed for the state for routine and development expenditures. Where the economic capacity of the taxpayer greatly influences taxpayer compliance in the pandemic era. If the government can control and manage the economy to remain productive and get a stimulus, the community's financial capacity will run, as will the level of taxpayer compliance.

4 Conclusion

At the point when the public authority proclaimed the COVID-19 pandemic as a public fiasco, it impacted financial solidness and local area efficiency as laborers and business entertainers, so the public authority put forth attempts to give charge motivating forces to help the moderation of the effect COVID-19. The arrangement of expense motivators is given to miniature, little and medium undertakings (MSMEs) in light of the fact that the Covid 19 impact is likewise affecting on MSMEs all through all around Indonesia. This should be upheld by the reformulation of viable assessment procedure courses of action and citizen consistence.

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