

Tax Incentive during Covid-19 Pandemic: How Effective is it to Recover Indonesia's Economy?

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Abstract. The Indonesia government grants an incentive for Article 21 Income Tax to increase public consumption which has decreased due to Covid-19 pandemic. This article discusses the effectiveness of tax incentives for taxpayers and factors that contribute to the effectiveness. We measured the effectiveness with taxpayers awareness and the economic effect for taxpayers. Data was collected through questionnaires and analyzed using multiple regression analysis. The results are publicized tax policy and personal financial planning have positive significant effects towards the effectiveness of Article 21 Income Tax incentive.

Keywords: Covid-19, Indonesia, Tax Incentive, Government Policy

1 Introduction

Covid-19 pandemic has made many countries introduce policy responses including fiscal policy. Stimulus package for industries, social welfare payments, and provision of income support are types of policy response of Covid-19 pandemic [1]. Tax relief for individuals provided by governments (e.g., Australia, Ireland, and Indonesia) [2]. The Government of Indonesia in April 2020 declared Covid-19 pandemic as a national disaster. The Ministry of Finance has issued Decree No.23/PMK.03/2020 [3] on Tax Incentives to stabilize the economy, purchasing power, and productivity of some industry sectors due to Covid-19 pandemic. One of the tax incentives is Article 21 Income Tax borne by the Government (DTP) from the tax period of April 2020 until December 2021 [4]. The employer will give Article 21 Income Tax as additional payment to the employees who receive an annualized regular gross income not exceeding IDR 200 million [5].

Based on the calculation, the employees will receive between IDR 3 thousands – IDR 1,3 million per month from the tax income, depending on their income. Employers have to prepare and submit some documents to implement the incentive of Article 21 Income Tax (DTP) [6]. The Tax Incentives for Article 21 raised some concerns for the employer and employees. Companies have to break down employees' income to determine the eligibility for tax incentive. For those employees who are unqualified with the criterias, the management has to explain to avoid the feeling of unfairness between co-workers. There are also some possibilities employees do not realize they get the incentive due to insufficient information.

Sri Mulyani, Minister of Finance of Indonesia stated there were only 62.875 out of 72.869 companies that got approval by the government to implement the incentive [7]. As a comparison, in 2016, Statistics Indonesia recorded 26,7 millions companies in Indonesia [8].

This research will focus on employees' perspective about the tax incentive because the purpose of the policy is to increase public expenditure. We also want to know independent factors related to the effectiveness of tax incentives.

2 Literature Review

Rittel and Webber in wicked policy problems theory [9] stated some barriers to make perfect planning for government. One of the barriers is heterogeneous society. To make it worse, when there is plurality in politics, it will make impossible to aim for the same objectives. For information, Indonesian has over 200 ethnic with their own languages [10] and the 2019 Indonesia general election had 14 parties [11]. Ferro, Loukis, Charalabidis, and Osella [12] suggested the government to increase their approaches to citizens using social media during their policy making. However, the government need to train their staff about content posting in social media.

Individual tax rates for resident taxpayer in Indonesia are [13]:

Table 1. Individual Tax Rate in Indonesia

| Taxable Income | Rate |
|--|-------------|
| Up to IDR 50 million | 5% |
| Over IDR 50 million – IDR 250 million | 15% |
| Over IDR 250 million – IDR 500 million | 25% |
| Over IDR 500 million | 30% |

Guiding principles of good tax policy are including effective tax administration, equity and fairness, simplicity, transparency and visibility, and accountability to taxpayers [14]. An efficient tax administration need support from a well educated and well trained staff [15]. Communicate with taxpayers to inform their rights and consistently deliver quality information are some guidances for revenue authorities [16]. According to Sri Mulyani, Minister of Finance, human resources and information technology system and database are component to reform Directorate General of Taxes [17]. Tax reform might be needed during economy crisis, for example the government gives lower tax rate to increase public consumption [18]. Consumption taxes during Covid 19 pandemic has to carefully designed because low income households tend to spend most of their income on consumption so they are heavily burdened to consumption taxes [19].

Based on explanation above, there are 4 hypotheses for this research:

Ha₁: Publicized tax policy has positive effect towards the effectiveness of Article 21 Income Tax incentive

Ha₂: Tax system modernization has positive effect towards the effectiveness of Article 21 Income Tax incentive

Ha₃: Tax knowledge has positive effect towards the effectiveness of Article 21 Income Tax incentive

Ha₄: Personal financial planning has positive effect towards the effectiveness of Article 21 Income Tax incentive

3 Methodology and Data Analysis

The research used questionnaire to get data with respondent criteria consists of:

- a. Have a Taxpayer Identification Number (NPWP),
- b. receive monthly income around IDR 6 million – IDR 16 million,
- c. business classification are eligible for Article 21 incentives

The effectiveness of Article 21 Income Tax incentive is variable dependent and there are 6 questionnaire statements to measure it. Indicators of Tax Incentive effectiveness consists of understanding policy, amount materiality, how to use incentive, and time of payment. First variable independent is publicized tax policy (6 statements). Indicators of publicized tax policy consists of received publicized about tax incentive, taxpayers felt helpful by the tax officers, knowledge about tax incentive, and use of social media. Second is tax system modernization (5 statements) with indicators consists of technological sophistication and find it helpful for taxpayer. Third is tax knowledge (6 statements) consists of understanding tax including the purpose of tax incentive and procedural knowledge about tax. Last is personal financial planning (7 statements) with indicators consists of prepare financial planning, get benefit by financial planning, and use of financial planning application. A Likert scale from 1-5 was used for each questionnaire statement. Data analysis used multiple regression analysis with SPSS 25 software. The equation is:

$$Y = \alpha + \beta_1X1 + \beta_2X2 + \beta_3X3 + \beta_4X4 + e \quad (1)$$

Desc:

- α : Constant
- $\beta_1, \beta_2, \beta_3, \beta_4$: Regression coefficient
- Y : The effectiveness of Article 21 Income Tax incentive
- X1 : Publicized tax policy
- X2 : Tax system modernization
- X3 : Tax knowledge
- X4 : Personal financial planning
- e : error

Reliability test, validity test, classic assumption test, F-test, and t-test, are statistical tests for this research.

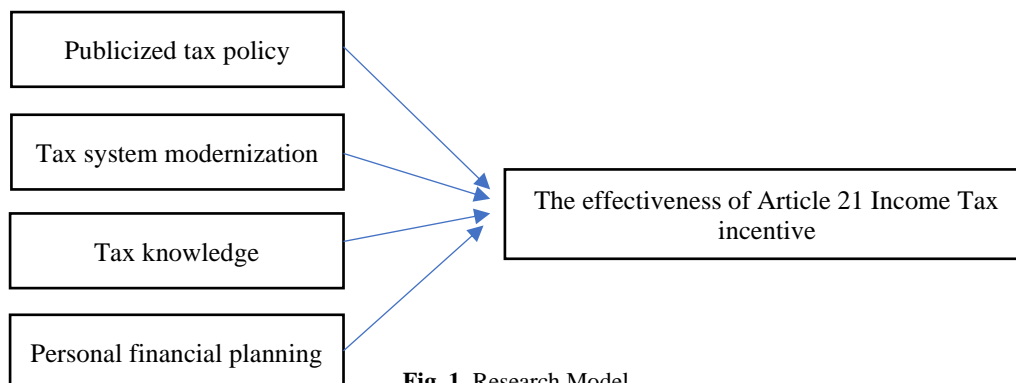


Fig. 1. Research Model

4 Research Result and Discussion

Table 2. Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviation |
|--------------------|-----|---------|---------|-------|----------------|
| Y1Total | 170 | 6 | 30 | 20.68 | 5.908 |
| X1Total | 170 | 6 | 30 | 20.25 | 4.894 |
| X2Total | 170 | 13 | 25 | 21.25 | 3.130 |
| X3Total | 170 | 10 | 30 | 24.01 | 3.637 |
| X4Total | 170 | 18 | 35 | 26.92 | 3.987 |
| Valid N (listwise) | 170 | | | | |

Desc:

Y1 : The effectiveness of Article 21 Income Tax incentive

X1 : Publicized tax policy

X2: Tax system modernization

X3: Tax knowledge

X4: Personal financial planning

Table 2 shows there are 170 eligible respondents. The effectiveness of tax incentive has a mean value 20.68 (6 statements), it means most respondents gave neutral answers for the effectiveness of tax incentive. Publicized tax policy has mean value 20.25 (6 statements) and personal financial planning has 26.92 (7 statements). These two independent variables give the same results with tax incentive, most respondents from scale 1 to 5 (disagree to very much agree), gave scale 3 for publicizing tax policy and their financial planning. Modernization systems and tax knowledge have average answers around scale 4. Tax reform for the modernization system in the Directorate General of Tax is quite successful to implement. The respondents also have good knowledge about taxation.

Table 3. Validity test

| Variable | Sig (2-tailed) | Description |
|--|----------------|-------------|
| The effectiveness of Article 21 Income Tax incentive | 0,000 | Valid |
| Publicized tax policy | 0,000 | Valid |
| Tax system modernization | 0,000 | Valid |
| Tax knowledge | 0,000 | Valid |
| Personal financial planning | 0,000 | Valid |

Table 4. Validity Test

| Variable | Cronbach Alpha based on Standardized Item |
|--|---|
| The effectiveness of Article 21 Income Tax incentive | 0,878 |
| Publicized tax policy | 0,808 |
| Tax system modernization | 0,820 |
| Tax knowledge | 0,769 |
| Personal financial planning | 0,762 |

Table 5. ANOVA^a

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|--------------|----------------|-----|-------------|--------|-------------------|
| 1 Regression | 2906.776 | 4 | 726.694 | 40.069 | .000 ^b |
| Residual | 2992.430 | 165 | 18.136 | | |
| Total | 5899.206 | 169 | | | |

- a. Dependent Variable: The effectiveness of Article 21 Income Tax incentive
b. Predictors: (Constant), Publicized tax policy, Tax system modernization, Tax knowledge, Personal financial planning

Table 6. t-test

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.603 | 2.900 | | .553 | .581 |
| | X1Total | .858 | .076 | .711 | 11.301 | .000 |
| | X2Total | -.034 | .129 | -.018 | -.265 | .792 |
| | X3Total | -.156 | .129 | -.096 | -1.213 | .227 |
| | X4Total | .230 | .091 | .155 | 2.525 | .013 |

Desc:

Y1 : The effectiveness of Article 21 Income Tax incentive

X1 : Publicized tax policy

X2: Tax system modernization

X3: Tax knowledge

X4: Personal financial planning

Table 6 shows the result, publicized tax policy and personal financial planning have positive significant effects towards the effectiveness of Article 21 Income Tax incentive. Therefore, Ha1 and Ha4 are accepted. Policies with much publicity helped tax payers understand their rights and they felt a significant increase in their income. Respondents with sensible financial planning notice government effort during Covid 19 pandemic and the purpose of it. Tax system modernization and tax knowledge have negative effects with significant above 0.05, and consequently Ha2 and Ha3 are rejected.

5 Implication and Suggestion for Future Research

The Indonesia Government has to increase their effort for fiscal policies to get acknowledged by the taxpayer. Most of the respondents gave neutral answers about tax incentives. Social media usage could improve public awareness for government policies. It might be dissapointing if the public remained oblivious when the government lost potential income tax for the incentive. For future research, it might be better to conduct research based on a company's perspective to understand their constraint to implement tax incentives in their place.

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6 Reference

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