

Research article

Tax Incentives to Reinstate Tourism Post the COVID-19 Pandemic

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Abstract.

The COVID-19 pandemic has brought about a great disruption in the value chain of businesses through the implementation of social and physical distancing policies, thereby affecting several aspects of Indonesian economy. One of the severely affected sectors is the tourism sector. To reduce the impact on tourism businesses, the government of Indonesia have provided them with an economic stimulus in the form of tax incentives. Thus, the current study investigated the impact of implementing tax incentives in the tourism sector from the post-COVID-19 pandemic standpoint. A descriptive qualitative research was conducted. Data were obtained from the Central Statistics Agency (BPS), the World Travel and Tourism Council (WTTC), the director-general of taxes, the articles on tax incentives in the tourism industry, as well as laws and regulations related to taxation and tourism. The analysis of data was done in three stages of analytical techniques – data collection, data reduction, and conclusion withdrawal. The results showed that the benefits of tax incentives for tourism businesses were to decrease in rates up to the exemption of income tax and to maintain the stability of the cash flow of tourism businesses. Furthermore, this policy will particularly help the businesses that have stopped operating either temporarily or permanently to get back on their feet.

Keywords: tax incentives, tourism industry, COVID-19

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1. Introduction

On December, 31 2019, WHO of China Country Office reported a case of pneumonia that was unknown for its etiology in Wuhan, Province of Hubei, China. On January, 7 2020, World Health Organization (WHO) identified that pneumonia called as Coronavirus Disease 2019 (COVID 19) caused by Severe Acute Respiratory Syndrome Coronavirus-2 (SARS-CoV-2) virus [1]. This disease had been spreading quickly from human to human and also outside Wuhan area and other countries. Therefore, WHO announced that COVID-19 was a pandemic on March 12, 2020 [2]. The first case was suspected from a finding of woman of 31 years old and Japanese people who came to Indonesia [3]. It was

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listed in 15 August, 2020 that there were around 135.123 cases of positive *COVID-19*, 6.021 people was died, and 89.618 people was cured[4]

The tourism sector is considered as the important sector in Indonesian economy. Over a few years, the contribution of tourism sector has a significantly increased.

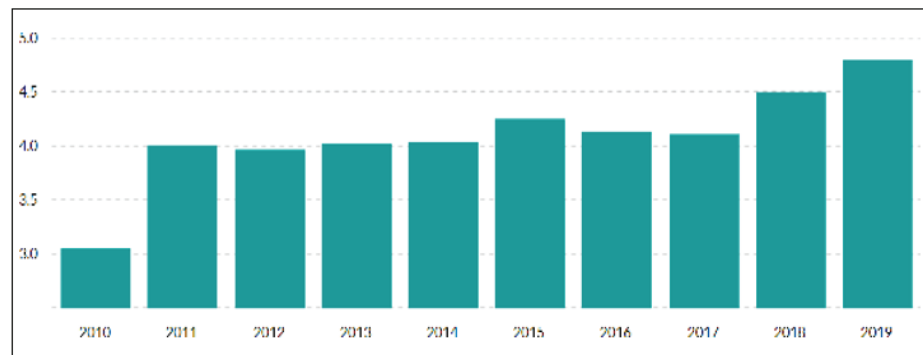


Figure 1: Contribution of Tourism Toward PDB in 2010-2019. (Source: Ministry of Tourism, 2020).

It could be seen from the contribution of tourism sector that gives a direct contribution toward PDM about 4.8% in 2019, its value increased 0.30 point from 2018 about 4.5%[5]. The increasing of contribution are also supported by the number of foreign visitors and domestic people and the number of infestations in the tourism sector.

The outbreak of *COVID-19* carries out a great impact in the field of health and economics around the world. Indonesian government takes an action to prevent the spreading of *COVID-19* by implementing the rule of lockdown or restricting all countries or cities that are most impacted by *COVID-19* to enter their boundary area. It is conducted to emphasize the *COVID-19* spreading[6]. The president of Indonesia, Joko Widodo, issues the instruction to have restriction with social policy of social distance and physical distance (keep away among people in 1.8 meter minimally).

The ongoing restriction has an impact in a paralysis in all sectors, especially, in economic sector. Tourism sector is the most impacted due to the pandemic[7]. Recently, it is predicted that around 75 million of job vacancies are experiencing in a shock condition and tourism industry has a risk to lost their turnover, more than 2,1 trillion[8]. In Indonesia, a pressure toward tourism sector can be seen from the decreasing of the number of foreign people visiting, that is, 2.9% million falls into 53.36% from a previous year (6.3% visits)[9]. Besides, there is also the decreasing in domestic people visit, particularly Indonesian people who are reluctant to have a trip because of the impact of *COVID-19*.

Based on data of ministry of tourism, it was noted around 1 million works in tourism sector that are jobless and they have a reduction in their working hours significantly

as COVID-19. Those total numbers are come from the number of workers in tourism sector that decreases 6.67% from Rp 14.96 million workers in 2019, to 13.96 million workers. This condition increases the workforce vulnerability in tourism sector in case of a possibility in increasing layoffs.

Therefore, some efforts are needed to be realized by the Indonesian government in order to speed up a recovery in the tourism sector due to *COVID-19*. One of the instruments that can be utilized is the fiscal policy including tax related policies[10]. Peraturan Menteri Keuangan Republik Indonesia Nomor 23/PMK.03/2020 tentang Insentif Pajak Untuk Wajib Pajak Terdampak Wabah Virus Corona Tax policy focuses on giving any reliefs, such as tax income (PPH) chapter 21 that is certified by government, PPh micro, small and medium enterprises (MSMs) and a reduction of installment PPh chapter 25 is of 30%. PPh Article 21 DTP in general can accommodate all businesses in the tourism sector, both directly and indirectly related. The final PPh of DTP MSMEs can also be used by tourism sector entrepreneurs who are subject to tax in accordance with PP No. 23 of 2018. The reduction in the payment of Article 25 PPh was initially only given 30%, but since the issuance of change PMK 110/PMK.03/2020 the reduction has increased by 50%. The issuance of policies by the government related to taxes aims to reduce tariffs to income taxes and maintain the stability of the tourism business cash.

There are several previous studies reviewing the post-COVID-19 linkages with tax incentive policies.[11]has reviewed the tax policies that have been implemented in the United States, resulting in the conclusion that one of them causes significant changes in tax policies designed to maintain economic stability in the United States during the pandemic. In addition, research conducted by [12]shows that there is still a need for the tourism sector that has not been responded to by tax incentive policies, namely support to increase demand and consumption and ease of access to business credit. Therefore, researchers want to conduct this research with the aim of describing the implementation of tax incentives in an effort to recover the tourism industry after the COVID-19 pandemic.

2. Literature Review

2.1. Tourism

According to the World Tourism and Travel Council (WTCC), tourism is all activities of people who travel to and live in places outside their daily environment for a period of not more than a year for leisure, business and others. Tourism is a social, cultural and

economic phenomenon that requires the movement of people to countries or places outside their usual environment for personal or business professional purposes[13]. In addition, confirms that tourists are people who have a trip or recreation. There are two types of tourists, including domestics and foreigners. According to World Bank, domestic tourists are people who do a trip in their country, while foreigners do their trip to other countries for no more than 12 months.

2.2. Disaster Recovery

Based on the law No 24 2007 about Disaster Management, disaster is a sequence of event that thread or disturb society's life caused by a factor of nature, non-nature and human. Disaster is categorized into three types: natural disaster, non-nature and social disaster Indonesian Government, 2017. It can be concluded that *COVID-19* is non-nature that is also supported by the President Decision No. 12 2020. As it is declared in the laws, *COVID-19* disaster management has been confirmed as national disaster, so that the government should be responsible in managing the impact of disaster until it is fully recovered.

2.3. Government Policies

Carl Friedrich said that policy is an activity proposed by an individual, a group or government in a certain environment. In connection with obstacles and where policies are proposed, in order to overcome its obstacles or achieves aim of a policy. Simply, policy is the rules that consists of principles to direct people in doing something conceptually and consistently to overcome problems and certain goals. Government implements two policies; fiscal policy and monetary policy with its different purposes. Moneter policy is a policy that done via a central bank to control the flow of money, while fiscal policy is to reduce or increase the outcome of country.

2.4. Fiscal Policy

Fiscal Policy in [14] is an action or implementation of a plan of the operational form of budget policy carried out by the government in regulating the country's finances by referring to the policies made by the government to direct the economy of a country through government expenditures and revenues (in the form of taxes). The policy is applied to regulate the economy by managing state revenues and expenditures through

setting the level of state taxes and expenditures. It can be concluded that fiscal policy is a policy to direct economic conditions in a better direction through spending and income that can be in the form of taxes.

2.5. Tax Incentives

[15] said that tax incentives are a form of business facilities provided by the government to certain taxpayers in the form of a reduction in tax rates aimed at minimizing the amount of tax burden that must be paid. According to Asson & Zolt defining tax incentives as an exception to the imposition of taxes, tax exemptions, certain tax deductions or credits, special rates or deferred tax liabilities. According to PMK no. 86 of 2020 to handle the impact of the current Coronavirus Disease 2019 pandemic, it is necessary to expand the sector that will be given the tax incentives needed during the national economic recovery period by providing ease of utilization of broader incentives.

3. RESEARCH METHODS

Researchers use a qualitative approach with more descriptive research, namely research that describes an event that becomes a research phenomenon, then explains the situation based on the data found and has an analysis base [16]. The data taken for this study is secondary data, which is the result of data obtained indirectly, where researchers obtain secondary data from various reference sources that have been directly collected such as data, regulations, literature and readings and other sources related to research such as data collectors directly [17]. Data analysis is carried out using three stages of techniques to analyze data in the form of (1) collected data, (2) data reduction and (3) draw conclusions from research [18].

4. RESULTS AND DISCUSSION

Tourism is one of the important sectors for the Indonesian economy. Realization of the contribution of the tourism sector to national GDP based on the National Tourism Satellite Balance (NESPARNAS) for 2019 amounted to 4.7%. Meanwhile, in 2020 the contribution of the tourism sector to National GDP at 4.1%. In the year 2019, Tourism sector foreign exchange reached US \$ 16.9 billion. However, by 2020 it will drop dramatically to \$3.54 billion. Then, the number of tourism workers also decreased, to 13.97 million people in 2020 from 14.96 million people in 2019.

4.1. Impact of COVID-19 on tourism sector businesses

All tourism businesses are affected by the COVID-19 pandemic. The impact felt is caused by the restriction of tourists, flights, and the closure of tourist attractions. Thus, impacting the value chain of the business therefore many businesses in various sectors and business scales stop operations permanently or temporarily. Here are the challenges experienced by Tourism Businesses based on the [19].

4.2. Transportation and Travel Services

Airlines have to drastically reduce and, in some cases, stop their fleets and stop their activities. Cruise companies face the dual challenge of ensuring the safety of visitors and workers, as some cruise ships are unable to lean back and repatriate clients, and suffer losses due to booking cancellations, train companies due to restricted movement of people, railways experience significant revenue declines and travel services experience a decrease in revenue along with restrictions on tourist attractions, flights, and closure of tourist attractions.

4.3. Accommodation and culinary services

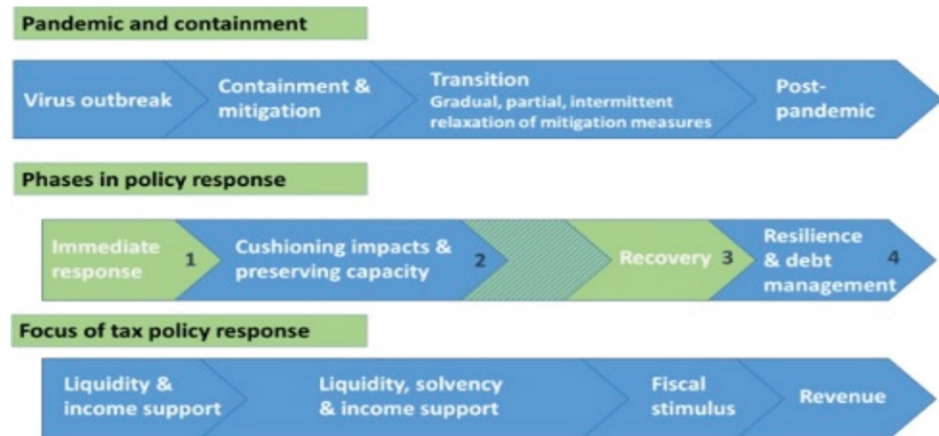
Businesses such as hotels, accommodation booking platforms (such as hotels, flights, and lodging), resorts and restaurants experienced a decrease in revenue with restrictions on tourists, flights and the closure of tourist attractions.

4.4. The role of the government in the tourism sector

Policy phases that can be taken by the government during and after the pandemic:

In Figure 2 above, it can be seen that the OECD places tax revenues as the final focus of tax policy. In the early stages of liquidity and income support is the main focus that will be continued with solvency support. All three support is provided in the form of fiscal stimulus that has an impact on increasing tax revenues after the pandemic ends.

The states that industry and governments during pandemic times are more focused on facilitating recovery in the medium to long term. Guidelines provided by the WTTC in [20] provide a list of what the government must do to realize tourism as a "top priority", including the following: 1) Placing travel and tourism as key issues to be raised in policy formulation, 2) Creating a competitive business environment, 3) Ensuring that



Source: OECD (2020)

Figure 2: Policy phase scheme during and post-covid-19. (Source: OECD (2020)).

the data used in policy and decision-making is quality data, 4) Investing in human resource development, 5) Facilitating/freedom of trade, transportation, communication and investment, 6) Building trust in terms of safety and security, 7) Promote product diversification to increase demand, 8) Plan for sustainable tourism growth, in accordance with local culture and character.

The guidelines are very appropriate for the government to use to make policies after the pandemic ends. During the pandemic, the government is more appropriate to provide liquidity, income, and solvency support in the form of fiscal stimulus while preparing policy strategies after the pandemic ends. As an example of the following is the public policy for the tourism sector summarized from several countries: 1) Provide subsidies on employee salaries provided by tourism businesses, 2) Provide convenience to apply for loans for entrepreneurs who are classified as MSMEs (with certain turnover limits), 3) Support MSMEs to keep opportunities open interns, as well as providing subsidies for salaries provided, 4) Providing tax exemptions on credits obtained by eligible business entities and certain credit limits, 5) Local authorities (in Indonesia similar to local governments) suspend taxes on tourism accommodation, 6) Delays in interest payments and/or principal on loans.

The previous OECD study was in line with on the main issues and required a stimulus package in the tourism sector due to the COVID-19 pandemic. In general, the needs of the tourism sector should be support to increase demand for tourism businesses due to declining numbers of tourists, maintaining cash flow stability, and handling job cuts.

Efforts made by the government to encourage the recovery of tourism after the COVID-19 outbreak provide tax incentives by tourism businesses, among others:

4.5. PPh Article 21 the Government (DTP)

1. Incentive Recipients are employees who receive / earn income from employers who have a certain Business Field Classification (KLU) code based on PMK 86 / PMK.03 / 2020, have an NPWP, and at the tax period concerned receive / obtain a fixed and regular Gross Income that is annualized no more than 200 million rupiah
2. PPh Chapter 21 DTP must be paid in cash by the employer at the time of payment of income to the Employee Excluded from PPh Incentive Article 21 DTP in terms of employee income derived from APBN / APBD and has been borne by the government PPh Chapter 21 based on tax provisions
3. PPh Chapter 21 DTP is given from the Tax Period notice submitted until the Tax Period of December 2020
4. The employer submits a notice to the Head of KPP registered through certain channels on the www.pajak.go.id
5. Notice of utilization of incentives (based on KLU criteria), only submitted by WP Employer who has central status and incentive applies to the center along with all registered branches and has the obligation of PPh Chapter 21.
6. In general, all types of Tourism Businesses and their derivative sectors can take advantage of the Incentive of PPh Chapter 21 by the Government (DTP).

4.6. PPh Final MSMEs Borne by the Government

1. The incentive recipient is a Taxpayer who has a certain gross circulation & subject to Final PPh based on PP Number 23 of 2018
2. The final PPh borne by the Government is given from the April 2020 Tax Period until the December 2020 Tax Period
3. The incentive recipient must submit the Final PPh realization Report borne by the Government through certain channels on the www.pajak.go.id page no later than the 20th after the expiration of the Tax Period (Taxpayers do not need to deposit the final PPh of 0.5%)
4. The final PPh realization report borne by the Government includes PPh owed on income received / obtained by WP including from transactions with Cutters / Collectors.

5. For transactions with cutters / collectors, taxpayers submit photocopies of certificates.

In general, all types of tourism businesses and their derivative sectors that belong to the MSME Taxpayer (PP Number 23 of 2018) in accordance with the incentives of the Final MSME PPh borne by the Government.

4.7. Reduction of Article 25 PPh Installment by 30%

1. The incentive recipient is a Taxpayer who has a Business Field Classification code as stated in PMK 86/PMK.03/2020
2. The Government provides a reduction in the amount of Article 25 PPh installment by 30% (thirty percent) of the Installment of Article 25 PPh that should be owed as referred to in Article 25 of the PPh Act
3. The Classification of Business Fields as referred to previously is as the Business Field Classification listed in: Annual Tax Year 2018 Tax Return that has been reported by the Taxpayer; or data contained in the taxpayer's tax administration (master file), for taxpayers who are newly registered after 2018.
4. Taxpayers who take advantage of the reduction in the amount of installments of Article 25 PPh must submit a report on the realization of the reduction in the amount of installment of Article 25 PPh every month through certain channels on the www.pajak.go.id.
5. Taxpayers must submit a report on the realization of the reduction in the amount of installment of Article 25 PPh no later than the next 20 months after the Tax Period ends.
6. Reduction in the amount of installment of PPh Article 25, valid since the Tax Period notice of the reduction in the amount of installment of Article 25 PPh submitted until the Tax Period of December 2020.
7. In general, all types of tourism businesses and their derivative sectors can take advantage of incentives to reduce Article 25 PPh Installments by 30%.

The existence of the Covid-19 pandemic that hit Indonesia, in general, has hampered the survival of tourism businesses. The provision of tax incentives during the Covid-19 pandemic is very helpful for tourism businesses. Starting with a decrease in rates to tax exemptions, the provision of these incentives can reduce the burden of tourism

businesses as well as increase income in this pandemic period which greatly helps maintain the stability of the cash flow of tourism businesses. PPh article 21 Borne by the Government can reduce the impact of the COVID-19 pandemic which results in job cuts. In addition, the conditions given by the government that ask for Article 21 PPh to be paid in cash to take home pay obtained by employees becomes greater. Which taxpayers no longer need to make tax deposits as referred to in the Financial Minister Regulation.

Reduction of Installment of PPh Article 25 and Final PPh of MSMEs Borne by the Government in general can make the cash flow of the tourism sector in a stable state. Given the operational burden in the tourism sector business that runs but revenue decreases, then this incentive is appropriately given to the tourism sector.

5. CONCLUSION

Based on the results of the study can be concluded that tax incentives can encourage the recovery of the tourism sector, among others:

1. The granting of Article 21 Government-Borne PPh incentives (DTP) can reduce the occurrence of mass layoffs and encourage household consumption.
2. The granting of final MSME PPh incentives borne by the Government and the reduction of Article 25 PPh Installment by 30% can maintain the stability of tourism business cash flow.

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