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# Course: Advanced Taxation

**Lecture 3:** Personal Income Tax (1) - general

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# WELCOME!

Personal Income Tax (1) - general

- Tax according to the General Provisions and Tax Procedures Law (UU KUP) is a compulsory contribution to the state owed by individuals or entities, enforced by law, without receiving direct compensation and used for the country's needs to the maximum welfare of the people.
- Meanwhile, the definition of Income Tax according to the Income Tax Law (UU PPh) is a tax imposed on Tax Subjects on the income received or obtained during the tax year. Furthermore, as stated in Article 4 paragraph (1) of the Income Tax Law, income refers to any increase in economic capacity received or obtained by the Taxpayer, whether originating from Indonesia or abroad, which can be used for consumption or to increase the wealth of the Taxpayer in question, in any name and form.

- In tax law, there are several main characteristics of Income Tax (PPH), namely subjective tax, direct tax, central tax, self-assessment and withholding system, and progressive in nature.
- One fundamental characteristic of PPh is subjective taxation. In determining the amount of PPh burden, the taxpayer's circumstances are closely observed. This is closely related to the ability-to-pay theory, where taxation depends on the taxpayer's ability to pay. The ability to pay taxes is not only determined by income factors but also influenced by other factors such as the number of taxpayer dependents, resulting in different amounts of income tax paid. Furthermore, in subjective taxation, tax imposition begins by first establishing the taxpayer, then finding the objective conditions.

- Conversely, objective taxation is imposed by first looking at the object, then connecting it with the taxpayer, often without much consideration for the taxpayer. Taxes such as Value Added Tax (VAT), Land and Building Tax, and Stamp Duty fall under objective taxation.
- Administratively, in direct taxes, taxpayers calculate, estimate, pay, and report their own taxes. However, in indirect taxes, the party bearing the tax burden and the party responsible for calculating, paying, and reporting the tax owed are different. For example, in VAT, the end consumer bears the tax burden, while the administrative responsibility lies with the entity delivering Taxable Goods and/or Taxable Services (Taxable Entrepreneurs).

- The government institution responsible for administering Income Tax is the central government, specifically the Ministry of Finance through the Directorate General of Taxes. Apart from Income Tax, central taxes include Value Added Tax, Luxury Goods Sales Tax, Stamp Duty, and Land and Building Tax. Conversely, local taxes include motor vehicle tax, cigarette tax, restaurant tax, hotel tax, and so on.

- Income Tax collection uses the self-assessment and withholding systems. In the self-assessment system, taxpayers are required to calculate, estimate, pay, and report their own taxes, without waiting for a tax assessment from the tax authorities. Income Tax reporting at the end of the year is done by submitting the Annual Income Tax Return (SPT). Conversely, in the withholding system, third parties are mandated by law to deduct/collect Income Tax on income received/obtained by taxpayers. Examples include Article 21 Income Tax, Article 22 Income Tax, Article 23 Income Tax, and Article 26 Income Tax.

- The opposite of self-assessment is official assessment. In official assessment, the tax owed is determined by the tax authorities. Examples of this system can be found in Rural and Urban Land and Building Tax (PBB P2) and some local taxes such as advertising tax and motor vehicle tax.
- The Indonesian Income Tax system adopts self-assessment and withholding systems. Taxpayers fulfill their tax obligations through self-assessment for annual tax obligations such as Individual and Corporate Annual Income Tax Returns. Furthermore, tax obligations under the withholding system, often referred to as withholding and collection of Income Tax, are carried out for Article 21, Article 22, Article 23, Article 26, and Article 4 paragraph (2) Income Taxes.

- Taxpayer Income Tax obligations can be divided into obligations for the current year and the end of the year. In the current year, taxpayers pay taxes themselves and withhold/collect Income Tax from others.
- This self-payment mechanism is done through self-deposit for Article 25 Income Tax and Article 25 Income Tax Principal (STP), and withholding/collection by others for Article 21/22/23/24 and Article 4 paragraph (2).
- This self-payment of taxes is prepaid taxes that can be credited in the year-end Income Tax calculation, applicable to non-final Income Tax.
- Furthermore, in the current year, taxpayers also have obligations to withhold and collect taxes and report them through Monthly Income Tax Returns, applicable to taxpayers engaged in businesses or freelance work. At the end of the year, when taxpayers know their annual income, they must submit the Annual Income Tax Return.
- The calculation of underpaid/overpaid/nil Income Tax is done by subtracting the tax owed from the tax paid during the current year that is not final. Through this pattern of fulfilling Income Tax obligations, it can be understood that both self-assessment and withholding systems are used by taxpayers.

- Considering the tax burden borne by taxpayers, the higher the income, the higher the Income Tax imposed. The general rate for corporate taxpayers uses a proportional rate, while for individual taxpayers, a progressive rate applies. This results in a higher amount of tax owed as the income received or obtained by the taxpayer increases. Based on the progressive rate, the applicable tax rate consists of several layers, adjusted to the layers of taxable income. The higher the layer of taxable income, the higher the tax rate layer. This progressive rate is stipulated in Article 17 of the Income Tax Law.

- The Income Tax Law stipulates that Income Tax is a tax imposed on Tax Subjects on the income received or obtained during the tax year.
- Furthermore, to be subject to Income Tax, two conditions must be met, namely meeting subjective and objective tax obligations. Taxpayers who have objective tax obligations are called taxpayers.
- The tax year refers to the calendar year, but taxpayers can use a fiscal year different from the calendar year, as long as the fiscal year covers a period of 12 months.

## Individuals.

- Based on the explanation in Article 2 paragraph (1) letter a of the Income Tax Law, individuals as taxpayers may reside in Indonesia or outside Indonesia.

## Undivided inheritance.

- Often, an inheritance cannot be divided immediately due to various reasons. There is a period between the death of the testator and the division of the inheritance. To ensure that taxation on income derived from the inheritance can still be implemented, the undivided inheritance is designated as the taxpayer. Thus, the undivided inheritance as a whole is considered a substitute taxpayer, replacing the rightful heirs.
- Article 32 paragraph (1) letter c of the General Provisions and Tax Procedures Law regulates that in fulfilling their tax obligations, an undivided inheritance can be represented by one of its heirs; the executor of the will; or the party managing the estate.

## Entity.

- An entity refers to a group of people and/or capital that constitutes a unity, whether engaged in business or not, including limited liability companies, commandite partnerships, other partnerships, state-owned enterprises or regional-owned enterprises in any name and form, firms, partnerships, cooperatives, pension funds, associations, associations, mass organizations, socio-political organizations, or other organizations, institutions, and other forms of entities including collective investment contracts and permanent establishments. The term "association" also includes associations, unions, associations, or unions of parties with similar interests.
- Government agencies' offices, both central and regional governments, generally meet the criteria above. For example, the Central Office of the Directorate General of Taxes, Tax Service Offices, district offices, public elementary schools, and so on. These government agency offices are exempt from taxation.

## Permanent Establishment.

- Permanent Establishment (PE) is a form of business used by individuals not residing in Indonesia, individuals in Indonesia for not more than 183 days in a 12-month period, and entities not established or not domiciled in Indonesia to conduct business or activities in Indonesia. Tax treatment for PEs is the same as for corporate taxpayers.

- PE taxpayers arise when individuals or entities from abroad conduct business or activities through a Permanent Establishment in Indonesia. Conversely, their status as taxpayers ends when they no longer conduct business or activities through a PE in Indonesia.
- PEs in Indonesia can be categorized into 5 types as follows:
  1. Physical PEs include: management headquarters; branch offices; representative offices; office buildings; factories; workshops; warehouses; spaces for promotion and sales; mining and natural resource extraction; oil and gas mining areas; fisheries, animal husbandry, agriculture, plantations, or forestry; computers, electronic agents, or automatic equipment owned, leased, or used by electronic transaction organizers to conduct business activities via the internet.
  2. Project PEs include: construction projects, installations, or assembly projects.
  3. Service PEs include: provision of services in any form by employees or others, provided for more than 60 (sixty) days in a 12 (twelve) month period;
  4. Agent PEs include: individuals or entities acting as agents whose position is not independent.
  5. Insurance PEs include: agents or employees of insurance companies not established and not domiciled in Indonesia who receive insurance premiums or assume risks in Indonesia.

- Article 2 paragraph (2) of the Income Tax Law distinguishes taxpayers into domestic and foreign taxpayers. Domestic taxpayers are mentioned in Article 3 as:
  - a. individuals residing in Indonesia,
  - b. individuals staying in Indonesia for more than 183 (one hundred and eighty-three) days in a 12 (twelve) month period, or
  - c. individuals who are in Indonesia for a tax year and intend to reside in Indonesia.
- Determination of residence according to the Regulation of the Director General of Taxes Number PER-04/PJ/2020 is based on the actual circumstances, namely:
  - a. the permanent residence of individuals and their families;
  - b. the place where personal and economic interests are conducted, if the individual has a permanent residence at (two) or more places or does not have a permanent residence; or
  - c. the place where the individual stays longer in the last 1 (one) calendar year, if the place where personal and economic interests are conducted as referred to in point b cannot be determined.

Furthermore, the definition of "individuals residing in Indonesia" is further regulated in the Regulation of the Director General of Taxes Number PER-43/PJ/2011, namely individuals who:

have a residence (place of residence) in Indonesia used by individuals as a place for:

- permanent residence, which is not temporary and not only used as a transit place. Individuals are considered to have a place of residence in Indonesia if they have a place in Indonesia used as a residence, which is not temporary and not only used as a transit place.
  - daily activities or carrying out their habits (ordinary course of life). Individuals are considered to have a place for carrying out their daily activities or habits (ordinary course of life) in Indonesia if they have a place in Indonesia used for daily activities related to their economic, financial, or personal social affairs, including participating in community activities, participating in activities, memberships, or management of an organization, group, or association in Indonesia.
  - Habitual abode, individuals are considered to have a habitual abode in Indonesia if they have a place in Indonesia used for habits or activities, whether routine, frequent, or not, including engaging in favorite activities or hobbies, or
- have a domicile (place of domicile) in Indonesia, namely individuals born in Indonesia who are still in Indonesia. Individuals' places of residence include:
  - can be occupied by individuals themselves or together with their families, which can be owned, rented, or available for use; and
  - based on the actual circumstances

- For individuals who become domestic taxpayers because they stay in Indonesia for more than 183 days in a 12-month period, their presence in Indonesia can be continuous or intermittent, and part of a day is counted as a full day.

- Regulation of the Director General of Taxes Number PER-43/PJ/2011 also regulates individuals deemed to have the intention to reside in Indonesia, namely
  - individuals who clearly show their intention to reside in Indonesia, which can be proven by documents such as
    - Work visas,
    - Limited Stay Permits (KITAS), or
    - contracts/agreements to perform work, business, or activities carried out in Indonesia for more than 183 days;
  - individuals who take actions indicating their intention to reside in Indonesia or prepare to reside in Indonesia, such as renting or leasing a place, including renting a residence in Indonesia, moving family members, or obtaining places provided by others.

- The difference in tax subject obligations between domestic and foreign taxpayers:
  1. Taxable income: for domestic taxpayers, income received or obtained from Indonesia and abroad is taxable, while for foreign taxpayers, income sourced from Indonesia is taxable.
  2. Tax assessment basis: for domestic taxpayers, it is net income, and for foreign taxpayers, it is gross income.
  3. Tax reporting obligations: domestic taxpayers must submit an Annual Income Tax Return (SPT), while foreign taxpayers are not obliged to do so.

Article 3 of the Income Tax Law regulates parties that are not included as Income Tax Subjects, namely

- foreign state representative offices;
- officials of diplomatic and consular representations or other officials of foreign states and persons assigned to them who work and reside together with them on condition that they are not Indonesian citizens and in Indonesia do not receive or obtain income outside of their duties or employment, and the respective countries provide reciprocal treatment;
- international organizations designated by the Minister of Finance, on the condition that:
  - a. Indonesia becomes a member of the organization; and
  - b. does not carry out other business or activities to obtain income from Indonesia other than providing loans to governments funded by the contributions of members.

Last established by Regulation of the Minister of Finance Number 235/PMK.010/2020.

- officials of international organization representations as referred to in number 3, on the condition that they are not Indonesian citizens and do not carry out business, activities, or other work to obtain income from Indonesia.

- Individual tax subjects are considered individual taxpayers if they have met the subjective and objective requirements. The subjective requirements as explained earlier are individuals residing in Indonesia, individuals staying in Indonesia for more than 183 days in any 12-month period, or individuals who are in Indonesia for a tax year and have the intention to reside in Indonesia. Furthermore, the objective requirement is met if the individual receives or obtains income.
- In accordance with Regulation of the Minister of Finance Number 147/PMK.03/2017, individual taxpayers include:
  1. Taxpayers who do not carry out business activities or freelance work and receive income above the Non-Taxable Income.
  2. Taxpayers who carry out business activities or freelance work.

- In general, income from business activities includes income from industrial, commercial, or service activities. Freelance work means work performed by individuals with special skills as an effort to obtain income that is not tied to an employment relationship.

- Further explained in Government Regulation Number 23 of 2018 that freelance work includes:
  1. Experts who carry out freelance work, including lawyers, accountants, architects, doctors, consultants, notaries, PPAT (Land Deed Official), appraisers, and actuaries.
  2. Musicians, presenters, singers, comedians, movie stars, soap opera stars, advertising stars, directors, film crews, photo models, male/female models, actors, and dancers; athletes.
  3. Advisors, teachers, trainers, lecturers, counselors, and moderators.
  4. Authors, researchers, and translators.
  5. Advertising agents.
  6. Supervisors or project managers.
  7. Intermediaries.
  8. Traders or sellers of goods.
  9. Insurance agents.
  10. Distributors of multilevel marketing companies or direct selling companies and similar activities.

- The procedure for registering NPWP for individuals. Individual tax subjects who meet the requirements are required to register themselves with the Tax Service Office (KPP) whose jurisdiction covers their residence or domicile, and they will be given a Taxpayer Identification Number (NPWP). The easier way can be done online through e-registration on the website [www.pajak.go.id](http://www.pajak.go.id).
- This NPWP is a means of taxation administration used as a form of self-identification or taxpayer identity. This identity is unique so that each taxpayer is only given one NPWP. In addition to being an identity, NPWP also serves to maintain order in tax payments and tax administration supervision.

- In accordance with the Income Tax Law, the family is considered as one economic unit, which means that the income or loss of all family members is combined as one unit subject to tax, and their tax obligations are fulfilled by the head of the family
- Therefore, basically one NPWP applies to one family. However, for married women who are taxed separately based on a court decision or at the written request of the husband and wife based on a separation of property and income agreement, the married woman can register an NPWP in her own name.

- The registration period for individual taxpayers is as follows:
  1. Taxpayers who do not carry out business activities or freelance work must register no later than the end of the following month after the taxpayer's income in a month that equals or exceeds the Non-Taxable Income.
  2. Taxpayers who carry out business activities or freelance work must register no later than 1 (one) month after the business activities or freelance work begin.
  3. Article 4 paragraph (1) of the Income Tax Law regulates that the object of taxation is income, namely any increase in economic capacity received or obtained by taxpayers, whether from Indonesia or abroad, which can be used for consumption or to increase the wealth of the taxpayer concerned, by any name and in any form.

Furthermore, the definition of income is not limited by name and form. This is known as substance over form. Income is not bound by what is written in the taxpayer's books or records, but emphasizes its nature or essence. In other words, the Income Tax Law adopts a broad definition of income.

Based on the explanation of Article 4 paragraph (1) of the Income Tax Law, seen from the flow of additional economic capacity, income can be grouped into:

1. income from work in an employment relationship and freelance work, such as salaries, allowances, honoraria, wages; Freelance work is work performed by individuals with special skills as an effort to obtain income that is not tied to an employment relationship, such as tax consultants, lawyers, medical practitioners, notaries, accountants, and so on.
2. income from business and activities: Income from business is in the form of business profits obtained by taxpayers conducting business. Income obtained from activities, such as organizing tennis matches, musical performances, seminars, and the like.
3. income from capital, which includes movable or immovable property, such as interest, dividends, royalties, rent, and profits from the sale of property or rights that are not used for business purposes; and
4. other income, such as debt forgiveness, prizes, exchange rate gains, revaluation surpluses of assets.

Income subject to the general tax rate is regulated in Article 4 paragraph (1) of the Income Tax Law, which includes, among others, the following:

1. Compensation or remuneration for work or services, received or obtained including salaries, wages, allowances, honoraria, commissions, bonuses, gratuities, pension money, or other forms of remuneration.
2. Prizes from lotteries or work or activities, and awards.
3. Business profits.
4. Profits from the sale or transfer of assets.
5. Recovery of tax payments previously charged as expenses and additional tax refunds.
6. Interest including premiums, discounts, and compensation for repayment guarantees.
7. Dividends in any form, including dividends from insurance companies to policyholders and the distribution of the remaining business results of cooperatives.
8. Royalties or compensation for the use of rights.

9. Rent and other income related to the use of assets.
10. Receipts or acquisitions of periodic payments.
11. Profits from debt forgiveness, except up to a certain amount determined by Government Regulation.
12. Gains Due to Foreign Currency Exchange Differences.
13. Surplus Due to Revaluation of Assets.
14. Insurance premiums.
15. Membership fees Received or Obtained by Associations From Their Members consisting of Taxpayers Conducting Business or Freelance Work.
16. Additional Net Wealth Originating from Income Not Subject to Tax.
17. Income from sharia-based business activities.
18. Interest compensation as referred to in the Law governing General Tax Provisions and Procedures.
19. Bank Indonesia Surplus.

Income subject to final income tax means that the tax imposition is final and there is no reassessment at the end of the year. In addition, several characteristics of income subject to final taxation include the following:

1. The tax rate is specific.
2. Income subject to final tax at the end of the year is not combined with income subject to the general rate.
3. The mechanism for payment is usually deducted or collected by other parties. However, if the income payer is not a withholder/collector, the taxpayer must pay the tax himself.
4. Final Income Tax that has been deducted or collected by other parties, or that has been paid by the taxpayer himself at the end of the year, cannot be credited against the Income Tax due calculated at the general rate.
5. The costs/expenditures to obtain, collect, and maintain income subject to final tax cannot be deducted.
6. The taxpayer is still subject to final tax, even if experiencing a business loss.

The types of income excluded from the tax object are regulated in Article 4 paragraph (3) of the Income Tax Law. The following are types of income excluded from the tax object as regulated in Article 4 paragraph (3) of the Income Tax Law:

1. Aid or donations and grants.

Aid or donations and grants excluded from the Tax Object are:

- a. Aid or donations, including zakat received by zakat amil institutions or zakat amil institutions established or authorized by the Government and received by entitled zakat recipients or mandatory religious donations for adherents of recognized religions in Indonesia received by religious institutions established or authorized by the government and received by entitled donation recipients whose conditions are regulated by or based on Government Regulation Number 18 of 2009;
- b. Gifts received by blood relatives in a direct line of descent, religious institutions or educational institutions, social institutions including foundations, cooperatives, or individuals engaged in micro and small businesses, the conditions of which are regulated by or based on the Minister of Finance Regulations as long as there is no relationship with the business, occupation, ownership, or control between the parties involved.

## 2. Inheritance

3. Assets including cash deposits received by entities as a substitute for shares or as a substitute for capital contributions.

4. Compensation or remuneration in connection with work or services received or obtained in the form of goods and/or benefits from the Taxpayer or the Government, except those given by non-Taxpayers, Taxpayers subject to final tax, or Taxpayers subject to Article 15 of the Income Tax Law or special calculation norms (deemed profit).

5. Payments from insurance companies to individuals in connection with health insurance, accident insurance, life insurance, dual insurance, and student duty insurance.

6. Dividends or profit shares received or obtained by limited liability companies as domestic Taxpayers, cooperatives, state-owned enterprises, or regional-owned enterprises, from capital participation in business entities established and domiciled in Indonesia, under the condition:

- the dividends come from retained earnings;
- for limited liability companies, State-Owned Enterprises and Regional-Owned Enterprises that receive dividends, the ownership of shares in the entity giving dividends is at least 25% of the total paid-up capital.

7. Premiums received or obtained by pension funds whose establishment has been approved by the Minister of Finance, whether paid by the employer or employees.

8. Income from capital invested by pension funds as referred to in letter g, in certain fields determined by the decision of the Minister of Finance.

9. Profit shares received or obtained by members of limited partnerships whose capital is not divided into shares, partnerships, associations, firms, and joint ventures, including holders of unit participation contracts of collective investment contracts.

10. Income received or obtained by venture capital companies in the form of profit shares from joint venture entities established and conducting business or activities in Indonesia, under the condition that the joint venture entity is a micro, small, medium enterprise, or conducting activities in sectors regulated by or based on Minister of Finance Regulations, and its shares are not traded on the Indonesia Stock Exchange.

11. Scholarships that meet certain requirements regulated further by or based on Minister of Finance Regulations.

12. Surplus received or obtained by non-profit organizations engaged in education and/or research and development activities, registered with the relevant authorities, which are reinvested in the form of educational and/or research and development facilities, within a period of up to 4 years since the surplus is obtained, the conditions of which are regulated further by or based on Minister of Finance Regulations.

13. Aid or benefits paid by Social Security Organizers to certain Taxpayers, the conditions of which are regulated further by or based on Minister of Finance Regulations.

The basis for imposing tax on income that is not final tax object is taxable income. Furthermore, income tax due in one tax year is calculated by multiplying taxable income by the general rate in Article 17.

Taxable income can be calculated in the following stages:

1. Calculate net income

Fiscal net income is calculated by subtracting allowable deductions from gross income of non-final tax objects.

2. Calculate taxable income

- If there are compensable losses, these losses are deducted from net income.
- For domestic individual taxpayers, deductions in the form of non-taxable income (PTKP) are given.
- Zakat payments or mandatory religious donations to religious institutions established or authorized by the government can also be deducted.

After taxable income is determined, Income Tax due is calculated by multiplying taxable income by the general rate in Article 17 of the Income Tax Law.

Non-Taxable Income is a fictitious cost that reflects the subjectivity of Income Tax. The amount of Non-Taxable Income is as follows:

1. Personal PTKP of Rp54,000,000.00;
2. Additional PTKP for married taxpayers amounting to Rp4,500,000.00;
3. Additional PTKP for a wife whose income is combined with her husband's income amounting to Rp54,000,000.00;
4. Additional PTKP for dependents, with an amount for each blood relative and adopted family member in the direct line of descent and adopted children amounting to Rp4,500,000.00.

- Blood relatives in the direct line of descent, vertically downwards, such as biological children, while vertically upwards, such as parents. Adopted family members in the direct line of descent, vertically downwards, such as stepchildren, while vertically upwards are the parents-in-law of the taxpayer.
- Furthermore, the definition of becoming a dependent according to the Income Tax Law is based on visible circumstances, namely:
  1. living together with the Taxpayer;
  2. clearly not having their own income;
  3. not being assisted by other family members or by their own parents.

The application of PTKP provisions based on the taxpayer's circumstances at the beginning of the tax year (January 1) or the beginning of the tax year part, if the taxpayer is a domestic taxpayer not from the beginning of the year. The PTKP status based on the taxpayer's circumstances is as follows:

1. TK/...: single, plus the number of dependents entitled to receive PTKP
2. K/...: married, plus the number of dependents entitled to receive PTKP
3. K/I/...: married, wife's income combined with husband's income, plus the number of dependents entitled to receive PTKP
4. PH: married, separate property and income conditions
5. HB/...: married, living separately, plus the number of dependents entitled to receive PTKP

Example 1: Mr. Marco is an employee, has a wife, and has family members as follows:

1. Name: Sarah, Relationship: Wife
2. Name: Hanna, Relationship: Biological Child
3. Name: Harry, Relationship: Father-in-law

How much Mr. Marco's PTKP for the tax year 2023?

Example 1: Mr. Marco is an employee, has a wife, and has family members as follows:

- 1. Name: Sarah, Relationship: Wife
- 2. Name: Hanna, Relationship: Biological Child
- 3. Name: Harry, Relationship: Father-in-law

How much Mr. Marco's PTKP for the tax year 2023?

For individual	54,000,000
Married status	4,500,000
2 dependents (2x4,500,000)	<u>9,000,000</u>
Total PTKP	67,500,000

Example 2: Mr. Martin is a private employee, has a wife, and family members as follows:

1. Name: Eve, Relationship: Wife
2. Name: Betty, Relationship: Biological Child
3. Name: Eva, Relationship: Biological Child
4. Name: Susan, Relationship: Mother-in-law

How much Mr. Martin's PTKP for the tax year 2023 if the wife's income is combined with the husband's income?

Example 2: Mr. Martin is a private employee, has a wife, and family members as follows:

- 1. Name: Eve, Relationship: Wife
- 2. Name: Betty, Relationship: Biological Child
- 3. Name: Eva, Relationship: Biological Child
- 4. Name: Susan, Relationship: Mother-in-law

How much Mr. Martin's PTKP for the tax year 2023 if the wife's income is combined with the husband's income?

For individual	54,000,000
Married status	4,500,000
Wife's income combined	54,000,000
3 dependents (3x4,500,000)	<u>13,500,000</u>
PTKP	126,000,000

Article 8 paragraphs (1) and (4) of the Income Tax Law explain that essentially the family is one economic unit, the income of the husband, wife, and underage children is one unit, and the head of the family is responsible for fulfilling tax obligations. The determining factor is the situation at the beginning of the year, which is January 1. If at the beginning of the year a woman is already married, then her income or loss is combined with her husband's income.

Furthermore, Article 8 of the Income Tax Law also regulates deviations from the general conditions, namely:

a. Wives who earn or receive income solely from one employer.

Income earned or received by a wife from one employer that has been subject to Article 21 Income Tax withholding is considered to have been subject to final tax with the following conditions:

- the income is solely from one employer;
- the work is not related to the business or freelance work of the husband or other family members.

Thus, the wife's income is not combined with her husband's income

b. Husband and wife are taxed separately in case of:

- Husband and wife have lived separately based on a court decision.

In this condition, the calculation of taxable income and tax imposition is done separately. Each husband and wife is given PTKP with single status, with the number of dependents based on actual circumstances, maximum of 3 persons.

- Husband and wife make a written agreement to separate property and income.

In this condition, the calculation of taxable income is based on the sum of the net income of the husband and wife, then reduced by married status PTKP, the wife's income is combined with the husband's income, and the maximum number of dependents is three.

- Wife chooses to carry out her own tax rights and obligations.

In this condition, the tax treatment is the same as for husband and wife who make a written agreement to separate property and income. In the calculation of taxable income, it is based on the sum of the net income of the husband and wife, then reduced by married status PTKP, the wife's income is combined with the husband's income, and the maximum number of dependents is three.

Basically, there are three mechanisms for calculating individual income tax (PPh OP) distinguished based on the amount of income and the use of recording or bookkeeping methods, namely:

## General Mechanism of PPh OP

- This general mechanism applies to taxpayers who run businesses and/or freelance work by keeping books.
- Bookkeeping here is a financial recording process covering assets, liabilities, capital, income and expenses, and the amount of purchase and sale prices of goods or services, which is closed by preparing financial statements in the form of balance sheets, and income statements for the Tax Year period.
- The calculation of tax for individuals who maintain these books is done using the usual calculation mechanism according to the rate provisions in Article 17 of the Income Tax Law.

## Final PPh Mechanism PP 23/2018

- This mechanism applies to personal taxpayers whose gross revenue does not exceed Rp4.8 billion per year. These taxpayers only maintain records for one tax year.
- The calculation of this PPh OP does not maintain bookkeeping, so it will be subject to final PPh according to the rate and provisions in PP 23 of 2018, namely the Final PPh rate of 0.5% of gross turnover.

## PPh OP Mechanism by NPPN

- Calculation of PPh OP using this NPPN mechanism is for those who do not maintain bookkeeping. The normative calculation of net income can be used by taxpayers with gross revenue of less than Rp4.8 billion in one year.
- To use this NPPN mechanism, individual taxpayers / income tax object must submit a notification to the Directorate General of Taxes (DGT).
- Thus, the calculation of income tax is done by first determining the amount of net income based on the norms stipulated in the Director General of Taxes Regulation Number PER-17/PJ/2015. Then the income tax is calculated based on the tariff in Article 17 of the Income Tax Law.

## Mechanism of Income Tax Calculation for Individual Taxpayers with Different Conditions:

- a. If Gross Turnover > Rp4.8 Billion: Individual taxpayers engaged in business or employment with a gross turnover exceeding Rp4.8 billion annually must keep proper books and calculate Income Tax (PPh) based on the General Mechanism.
- b. If Gross Turnover < Rp4.8 Billion: Individual taxpayers engaged in business or employment with a gross turnover of less than Rp4.8 billion annually may choose the method of income tax calculation:
  1. Maintaining Records: Income tax is calculated based on the Norm of Net Income Calculation (Article 17 of Income Tax Law No. 38 of 2008), or based on Government Regulation (PP) No. 23 of 2018.
  2. Choosing Bookkeeping: If choosing bookkeeping, income tax is calculated based on the General Mechanism.

## Payment of Individual Income Tax (PPh):

- a. General Mechanism and NPPN: Payment of tax due by Individual Taxpayers using the General Mechanism or Norm of Net Income Calculation (NPPN) must be made before March 31 of the following period, before the submission of the Annual Income Tax Return (SPT).
- b. PP 23 of 2018: Payment of tax due by Individual Taxpayers using PP 23 of 2018 is made monthly, based on the value of business turnover (gross turnover) each month. This final tax payment must be made no later than the 10th of the following month.

## Submission of Annual Income Tax Return (SPT) for Individual Taxpayers:

- Individual taxpayers are required to report their income, assets, and liabilities annually using the Annual Income Tax Return form to the Tax Office (KPP).
- The reporting period for Individual Income Tax Returns is from January 1st to December 31st, and must be submitted to the Tax Office before March 31st of the following year

## Form for Submission of Annual Notification Letters (SPT) for Individuals:

1. If an Individual Taxpayer is an employee, they use Form SPT 1770SS or 1770S
2. If an Individual Taxpayer is engaged in business or employment, they use Form SPT 1770.

# THANK YOU

**LECTURE 3: PERSONAL INCOME TAX (1) - GENERAL**  
**LECTURER: DIMAZ RAMANANDA**

## Reference:

- Law Number 28 of 2007 concerning the Third Amendment to Law Number 6 of 1983 concerning General Provisions and Taxation Procedures
- Law Number 36 of 2008 concerning the Fourth Amendment to Law Number 7 of 1983 concerning Income Tax