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# Course: Advanced Taxation

**Lecture 4:** Personal Income Tax (2) - PPh 21

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# WELCOME!

Personal Income Tax (2) - PPh 21

- Income Tax (PPH) Article 21, as per the Director General of Tax Regulation Number PER 16/PJ/2016, refers to the taxation on income in the form of salaries, wages, honorariums, allowances, and other payments under any name and in any form related to employment or position, services, and activities performed by individual taxpayers within the country.
- Income Tax (PPH) Article 21, according to Law Number 36 of 2008, entails the withholding tax on income related to employment, services, or activities under any name and in any form received or acquired by Domestic Individual Taxpayers from employers, government treasurers, pension funds, or other bodies paying pensions, bodies paying honorariums or other payments, and event organizers.

- The Income Tax (PPH) Article 21 system applicable in Indonesia essentially adheres to the self-assessment system, meaning individuals who meet the subjective and objective criteria as taxpayers are entrusted to calculate, pay, and report the due tax according to prevailing taxation regulations.
- Income tax falls under the category of subjective taxes, where the tax liability is inherent to the respective taxpayer and cannot be transferred to others.
- Income tax is levied on taxpayers concerning their income received or acquired during the Tax Year. Taxpayers are defined as individuals targeted by the law for taxation purposes.

Subjects of Article 21 PPh include:

1. Individual Taxpayers (OP)
  - a. Domestic Individual Taxpayers
  - b. Foreign Individual Taxpayers
1. Entities
2. Undivided Inheritance
3. Permanent Establishment

Excluded from tax subjects are:

1. Foreign State Representative Offices
2. Diplomatic and Consular Representatives or other Officials of Foreign States.
3. International Organizations
4. Officials of International Organizations

Objects of Article 21 PPh include:

1. Remuneration or compensation related to work or services received or acquired, including salaries, wages, allowances, honorariums, commissions, bonuses, gratuities, pension funds, or other forms of compensation.
2. Prizes from lotteries or work or activities, and awards.
3. Business profits.
4. Gains from sales or transfers of assets.
5. Reimbursements for previously taxed expenses and additional tax refunds.
6. Interest including premiums, discounts, and compensation for debt repayment guarantees.
7. Dividends, in any name and form, including dividends from insurance companies to policyholders, and distributions of cooperative surplus.

Objects of Article 21 PPh include:

8. Royalties or compensation for the use of rights.
9. Rent and other income related to asset use.
10. Periodic payments received or acquired.
11. Profits from debt forgiveness, except up to a certain amount stipulated by government regulations.
12. Foreign exchange gain differences.
13. Surplus from revaluation of assets.
14. Insurance premiums.
15. Contributions received or acquired by associations from their members consisting of taxpayers engaged in business or freelance work.

Objects of Article 21 PPh include:

16. Additional net wealth derived from untaxed income.

17. Income from Sharia-based businesses.

18. Interest compensation as defined in laws governing general taxation provisions and procedures.

19. Bank Indonesia surplus.

Taxable income is final, including:

1. Income in the form of deposit and savings interest, bond and state debt securities interest, and cooperative savings interest paid to individual cooperative members.
2. Lottery prize income.
3. Income from stock transactions and other securities, derivative transactions traded on the exchange, and stock sales transactions or capital participation transfers in its subsidiaries received by venture capital companies.
4. Income from the transfer of land and/or buildings, construction service businesses, real estate businesses, and land and/or building rentals.

Withholding agents for Article 21 PPh include:

1. Employers paying salaries, wages, honorariums, allowances, and other payments as compensation for work performed by employees or non-employees.
2. Government treasurers paying salaries, wages, honorariums, allowances, and other payments related to work, services, or activities.
3. Pension funds or other bodies paying pensions and other payments under any name for pensions.
4. Entities paying honorariums or other payments as compensation for services, including expert services provided by freelancers.
5. Event organizers making payments related to the implementation of an activity.

According to Directorate General of Tax Regulation PER-16/PJ/2016 Article 5 Paragraphs (1) and (2), Income subject to Article 21 PPh withholding includes:

1. Income received or acquired by permanent employees, whether regular or irregular income.
2. Regular income received or acquired by pension recipients in the form of pensions or similar income.
3. Severance pay, pension benefits, old-age benefits, or old-age guarantees paid at once, where payment exceeds 2 (two) years since the employee stopped working.
4. Irregular income received by Non-Permanent Employees or Freelancers, in the form of daily wages, weekly wages, unit wages, piecework wages, or monthly wages.
5. Compensation to Non-Employees, including honorariums, commissions, fees, and similar compensation under any name for services rendered.

According to Directorate General of Tax Regulation PER-16/PJ/2016 Article 5 Paragraphs (1) and (2), Income subject to Article 21 PPh withholding includes:

6. Compensation to Activity Participants, including pocket money, representation money, meeting allowances, prizes or awards under any name and form, and similar compensation under any name.
7. Irregular honorarium or compensation received by members of the board of commissioners or supervisors who do not concurrently serve as permanent employees in the same company.
8. Production service fees, royalties, gratuities, bonuses, or other irregular compensation received by former employees.

According to Directorate General of Tax Regulation PER-16/PJ/2016 Article 5 Paragraphs (1) and (2), Income subject to Article 21 PPh withholding includes:

9. Pension fund withdrawals by program participants who are still classified as employees from pension funds whose establishment has been approved by the Minister of Finance.

10. Receipts in kind and/or other benefits under any name given by:

- a. Taxpayers subject to final Income Tax (PPh).
- b. Taxpayers subject to Income Tax (PPh) based on special calculation norms (deemed profit).

Exclusions from the definition of Income subject to Article 21 PPh withholding include:

1. Payments of benefits or insurance benefits from insurance companies related to health insurance, accident insurance, life insurance, dual-purpose insurance, and scholarship insurance.
2. Receipts in kind and/or benefits in any form provided by taxpayers or the government.
3. Pension contributions paid to pension funds approved by the Minister of Finance, old-age allowance contributions, or old-age guarantee contributions to old-age allowance providers or social security institutions paid by employers
4. Zakat received by eligible individuals from zakat institutions authorized or approved by the Government, or mandatory religious contributions for recognized religions in Indonesia received by eligible individuals from religious institutions formed or approved by the Government, as long as there is no relationship with business, employment, ownership, or control between the concerned parties.
5. Scholarships.

According to Directorate General of Tax Regulation PER-16/PJ/2016 Article 3, Recipients of Income subject to Article 21 PPh withholding include:

1. Employees.
2. Recipients of severance pay, pensions or retirement benefits, old-age benefits, or old-age guarantees, including their heirs.
3. Non-Employees receiving or acquiring income related to the provision of services.
4. Members of the Board of Commissioners or Supervisors not serving as permanent employees in the same company.
5. Former Employees.
6. Activity Participants receiving or acquiring income related to their participation in an activity.

- Taxable Income, according to Law Number 36 of 2008 Article 6 Paragraph (1), is the income of domestic taxpayers and permanent establishments determined based on gross income minus the expenses incurred to obtain, collect, and maintain income within one tax year.
- In other words, Taxable Income (PKP) is the income of taxpayers that forms the basis for calculating income tax in a tax year calculated by deducting from the income, where each taxpayer who has income is obliged to pay tax and calculate taxes in accordance with tax laws and regulations.

Rate Layers	Taxable Income (2008)	Rate	Taxable Income (2021)	Rate
1	0 – 50 million Ruiah	5%	0-60 million Rupiah	5%
2	>50-250 million Rupiah	15%	>60-250 million Rupiah	15%
3	>250-500 million Rupiah	25%	>250-500 million Rupiah	25%
4	>500 million Rupiah	30%	>500 million – 5 billion Rupiah	30%
5	-	-	>5 billion Rupiah	35%

- Based on Law Number 36 of 2008 Article 21 Paragraph (5a), regarding the rate of Taxable Income (PKP) for Taxpayers (WP) who do not possess a Taxpayer Identification Number (NPWP), it is stipulated that the rate may be up to 20% higher than the rate applied to Taxpayers able to provide an NPWP.

Calculation Time		Rate	
		Before	Become
1	Every period, except the last tax period	([Monthly gross income - office/pension fees - pension contributions] annualized - non-taxable income) x Article 17 rate) / 12	Monthly Gross Income x Average Monthly Effective Rate
		Income Tax 21 a year = (Yearly gross income - office/pension costs - pension contributions - non-taxable income) x article 17 rate	Income tax 21 a year = (Yearly gross income - office fees/pension - pension contributions - mandatory zakat/religious donations paid through the employer - non-taxable income) x Article 17 rate
2	Last tax period	Income tax for the last 21 tax periods = Income tax for 21 years - 21 income tax that has been withheld other than the last tax period	Income Tax 21 Last Tax Period = Income Tax 21 a Year - Income Tax 21 which has been deducted other than the last tax period

Before		Become	
Gross Income	Rate	Income	Rate
<450.000/day	Not deducted	<=450.000/day	0% x daily gross income
>450.000/month – 4,5 million/month	5% x (gross income – 450.000)	>450.000/day – 2,5 million/day	0,5% x daily gross income
>4,5 million/month – 10,2 million/month	5% (gross income – one day non taxable income)	>=2,5 million/day	Article 17 rate x 50% x gross income
>10,2 million per month	Article 17 rate x (annual gross income – non taxable income)	Paid monthly	Average Monthly Effective Rate x gross income
Paid monthly	Article 17 rate x (gross income – non taxable income)		

- Income tax for non-employees = Article 17 Rate x (gross income x 50%)

Tax Subject	Rate
Event participant	Article 17 rate x gross income
Employee withdraw pension money	
Former employee receive bonuses	
Supervisory board/commissioner receives irregular non-fixed income	Average Monthly Effective Rate x gross income

- The Non-Taxable Income (PTKP) is a deduction component used in calculating the income tax liability of individual taxpayers, or it can also be interpreted as the threshold of income not subject to tax for Individual Taxpayers.
- The Non-Taxable Income (PTKP) serves as a deduction from the taxpayer's net income. Thus, the PTKP acts as a reduction from the calculation basis of Article 21 Income Tax (PPh) that must be paid by the taxpayer, and for taxpayers whose income falls below the PTKP, their income tax is considered nil or not subject to income tax.

The amount of PTKP per year:

- For Individual Taxpayers = 54  
million

- Additional for married taxpayers = 4.5  
million

- Additional for each taxpayer's dependents (max. 3 individuals) = 4.5 million

The amount of PTKP per month:

- For Individual Taxpayers = 4.5 million
- Additional for married taxpayers = 375,000
- Additional for each taxpayer's dependents (max. 3 individuals) = 375,000

<b>Not Married</b>		<b>Married</b>	
TK/0	54 mio.	K/0	58,5 mio
TK/1	58,5 mio	K/1	63 mio
TK/2	63 mio	K/2	67,5 mio
TK/3	67,5 mio	K/3	72 mio

1. Not married (TK)
  - TK/0: unmarried and no family member dependents
  - TK/1: unmarried with 1 family member dependent
  - TK/2: unmarried with 2 family member dependents
  - TK/3: unmarried with 3 family member dependents
2. Married (K)
  - K/0: married and no family member dependents
  - K/1: married with 1 family member dependent
  - K/2: married with 2 family member dependents
  - K/3: married with 3 family member dependents

- In the explanation above, family member dependents refer to blood relatives and adoptive relatives in a direct lineage and adopted children, which are fully dependent, with a maximum of 3 individuals per family. Examples of bloodline relatives include father, mother, and biological children.
- Examples of adopted lineage relatives include parents-in-law and stepchildren. Siblings and in-laws who are dependents of the taxpayer do not receive additional PTKP deductions, as siblings of the father/mother are not considered blood relatives or adoptive relatives in a direct lineage.

- Employment Costs are expenses designated by law and tax regulations as deductions from gross income for taxpayers classified as permanent employees during the tax year. In other words, employment costs are expenses incurred to obtain, collect, and maintain income that can be deducted from the income of every permanent employee, regardless of their job title. Therefore, whether one is an ordinary staff or a CEO, they are entitled to the deduction of employment costs.
- Director General of Taxation Regulation PER-32/PJ/2015 Article 10 Paragraph (3) stipulates that the employment cost for Permanent Employees is subject to a rate of 5% (five percent) of the annual gross income and a maximum of Rp. 500,000 per month or Rp. 6,000,000 per year.

- Pension Costs are expenses deductible from the gross income in the calculation of income tax payable on periodic pension income received every month.
- Director General of Taxation Regulation PER-32/PJ/2015 Article 10 Paragraph (4) sets the pension costs for recipients of periodic pensions at a rate of 5% (five percent) of the annual gross income and a maximum of Rp. 200,000 per month or Rp. 2,400,000 per year.
- Pension costs are calculated by the Income Tax Withholder (PPh) Article 21, in this case, it includes Pension Funds, Social Security Organizers, and other bodies paying periodic pensions, allowances, or Old Age Security (JHT) in accordance with prevailing laws and tax regulations.

- Average Monthly Effective Rate (TER) is used to calculate income tax under Article 21 during tax periods other than the Last Tax Period or on a monthly and daily basis.
- The latest calculation scheme for Article 21 Income Tax or To Be scheme is based on the recipient subject to the type of income and the timing of tax calculation application.

The main changes in the Article 21 Income Tax calculation scheme include:

1. Modification of the entire Article 21 Income Tax calculation scheme.
2. Expansion of the scope of Article 21 Income Tax calculation.
3. Deduction of Zakat/religious contributions.
4. Addition of income exceptions subject to Article 21 Income Tax.
5. Consolidation of all income within the tax period.

The adjustments to the Article 21 Income Tax calculation scheme include:

1. Clarification of criteria for employers not required to withhold Article 21 Income Tax.
2. Combining Minister of Finance Regulations on employment/pension costs and Minister of Finance Regulations on daily income deductions.
3. Addition of income types exempt from Article 21 Income Tax withholding.
4. Adjustment of Non-Employee gross income deductions.
5. Affirmation of income recipients' entitlement to withholding proof, and employers are not required to provide withholding proof if no income is paid.

- The calculation and withholding of Article 21 Income Tax are quite complex and involve confusing calculation schemes. Thus, simplification and streamlining of calculations, withholding, and administrative management are required, ensuring taxpayers can fulfill their tax obligations accurately without undue burden.
- With the introduction of the TER scheme for Article 21 Income Tax, the calculation process becomes more straightforward. The TER scheme does not alter the annual Article 21 Income Tax calculation since it is still based on Article 17 paragraph (1) letter a of the Income Tax Law.
- Furthermore, the TER scheme does not introduce new tax burdens as it essentially remains a method of monthly and daily tax calculation.

- The Article 17 paragraph (1) letter a Income Tax withholding rate uses a progressive tax rate based on taxable income layers. The TER calculation scheme, according to PP 58/2023, consists of two effective rate categories.

<b>Categories</b>	<b>Non Taxable Income Status</b>
Category A	TK/0
	TK/1
	K/0
Category B	TK/2
	TK/3
	K/1
	K/2
Category C	K/3

- The following is a breakdown of monthly effective rates based on categories for calculating the amount of Article 21 income tax according to the Average Effective Rate (TER) divided into Category A, B, and C.

## Example Calculation of Article 21 Income Tax for Permanent Employees

Mr. Anthony is married and has 1 dependent (K/1) working as a permanent employee at Shopy Company, Indonesia. During the year 2024, he receives a monthly gross salary of 11 million Rupiah, a monthly allowance of 6 million Rupiah, payment of accident and death insurance premiums (JKK and JKM) amounting to 2.5 million Rupiah, pension contributions of 1.2 million Rupiah, job-related expenses of 6 million Rupiah, a December bonus of 11 million Rupiah, and an April holiday allowance of 11 million Rupiah. Calculate Mr. Anthony's Article 21 Income Tax.

## Example Calculation of Article 21 Income Tax for Permanent Employees

Mr. Harry is unmarried and has 1 dependent (TK/1) working as a permanent employee at Albalone Company, Indonesia. During the year 2024, he receives a monthly gross salary of 7.5 million Rupiah, a monthly allowance of 2 million Rupiah, payment of accident and death insurance premiums (JKK and JKM) amounting to 1 million Rupiah, pension contributions of 1 million Rupiah, job-related expenses of 3.5 million Rupiah, a December bonus of 5 million Rupiah, and an April holiday allowance of 7.5 million Rupiah. Calculate Mr. Harry's Article 21 Income Tax.

- The issuance of Government Regulation Number 58 of 2023 aims to simplify taxpayers' calculation and administration of Article 21 Income Tax to make the business process more effective, efficient, and accountable.
- However, the application of this monthly effective rate calculation scheme does not impose additional new tax burdens. The monthly effective rate is only used in the calculation of Article 21 Income Tax for tax periods other than the Last Tax Period (January-November).
- This means that Article 21 Income Tax withholdings can be calculated for each Tax Period (monthly). Meanwhile, the calculation of Article 21 Income Tax for the Last Tax Period (December) still uses the Article 17 paragraph (1) letter a Income Tax Law rate as currently applicable.

- Article 21 Income Tax is a tax on income in the form of salaries, wages, honorariums, allowances, and any other payments with any name and in any form related to employment, positions, services, and activities performed by individual taxpayers within the country.
- The withholder of Article 21 Income Tax is an individual taxpayer or a corporate taxpayer, including permanent establishments, who is obligated to withhold income tax related to the income from employment, services, and activities of individual taxpayers.
- Activity organizers are individuals or entities acting as organizers of activities who make payments of compensation in any name and form to individuals in connection with the implementation of those activities.

- Employees are individuals who work for an employer, based on written or unwritten employment agreements or arrangements, to perform specific duties or activities in a certain position, receiving compensation paid periodically, upon completion of work, or as determined by the employer, including individuals performing duties in public positions.
- Permanent employees are employees who receive or obtain income regularly, including members of the board of commissioners and supervisory board members, as well as employees working under contracts for a certain period who receive or obtain income regularly.
- Non-permanent employees/Freelancers are employees who only receive income when they work, based on the number of days worked, the number of units of work produced, or the completion of a specific type of work requested by the employer.

- Activity participants are individuals involved in specific activities, including attending meetings, hearings, seminars, workshops, education, performances, sports, or other activities, and receive or obtain compensation for their participation in those activities.
- Pension recipients are individuals or their heirs who receive or obtain compensation for work performed in the past, including individuals or their heirs who receive old-age benefits or pensions.
- Regular Income of Permanent Employees is income for Permanent Employees in the form of salaries or wages, various allowances, and compensation of any kind given periodically based on the provisions established by the employer, including overtime pay.

- Irregular Income of Permanent Employees is income for Permanent Employees other than regular income, received once in a year or another period, including bonuses, Holiday Allowances (THR), production services, royalties, gratuities, or similar compensation under any name.
- Daily wage is the wage or compensation received or obtained by employees owed or paid on a daily basis.
- Weekly wage is the wage or compensation received or obtained by employees owed or paid on a weekly basis.
- Unit wage is the wage or compensation received or obtained by employees owed or paid based on the number of units of work produced.

- Piece-rate wage is the wage or compensation received or obtained by employees owed or paid based on the completion of a specific type of work.
- Compensation to Non-Employees is income in any name and form owed or given to Non-Employees in connection with work, services, or activities performed, including honorariums, commissions, fees, and other similar income.
- Continuous Compensation to Non-Employees is compensation to Non-Employees paid or owed more than once in a calendar year in connection with work, services, or activities.

- Compensation to activity participants is income in any name and form owed or given to specific activity participants, including pocket money, representation funds, meeting funds, honorariums, gifts, or awards, and similar income.
- Last Tax Period is the period of December or a specific tax period in which Permanent Employees cease working.

# THANK YOU

**LECTURE 4: PERSONAL INCOME TAX (2) - PPh 21**

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