

# Analysis of the Application of Income Tax Article 21 Calculation with an Average Effective Rate based on Government Regulation Number 58 of 2023 at PT XYZ

Original Article

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## Abstract

This study aims to analyze the application of Income Tax Article 21 (PPH Article 21) calculation using the Average Effective Rate (TER) as regulated under Government Regulation Number 58 of 2023, implemented within the corporate environment of PT XYZ. The research employs a quantitative approach, utilizing descriptive analysis techniques. Data were collected through literature studies and documentation related to recent tax policies, as well as internal company data concerning the calculation of Article 21 Income Tax. The focus of this research lies in the transition from a progressive tax system to a more simplified, transparent, and practical average effective rate method. The results indicate that implementing the average effective rate simplifies the tax administration process at the company level. Moreover, this approach reduces the potential for errors in calculating and reporting employee income tax, both for permanent and non-permanent employees. The study also found that the implementation of Government Regulation Number 58 of 2023 impacts corporate financial planning, particularly in terms of budgeting for salaries and allowances. This research contributes to practical insights regarding the direct implementation of new tax regulations in the business sector and their implications for compliance and tax efficiency.

**Keywords:** Income Tax Article 21, Average Effective Rate, Government Regulation No. 58/2023, PT XYZ, Tax Administration

## 1. Introduction

Government Regulation Number 58 of 2023, which came into effect on January 1, 2024, represents a significant reform in the calculation of personal income tax (PPH Article 21) in Indonesia. This regulation introduces a simplified method through the implementation of the Average Effective Rate (AER or TER – Tarif Efektif Rata-rata in Indonesian), aiming to reduce the administrative burden for both employers and employees. The regulation applies to income derived from employment, services, or certain activities and is expected to streamline payroll processing across private and public sectors. (Suandipta, 2024).

The core objective of the AER mechanism is to simplify the monthly withholding process of Article 21 tax, eliminating the need for monthly calculations involving deductions such as personal exemption (PTKP), job-related expenses, and pension contributions. Instead, employers apply a pre-determined effective tax rate based on the employee's gross monthly income and tax status. This approach enhances predictability and administrative efficiency in tax compliance. (Nuraini, 2024).



The regulation applies to both permanent and non-permanent employees, including civil servants, military personnel, pensioners, and private sector workers. It encompasses regular wages, bonuses, honorariums, and similar forms of compensation. The implementation of the AER is obligatory for employers categorized as withholding agents, such as PT XYZ, a medium-sized enterprise operating in the service sector. (Inatax, 2024)

The AER structure distinguishes between daily and monthly rates. Daily AERs apply to non-permanent employees or workers paid based on attendance or task units. Monthly AERs apply to permanent employees with fixed or recurring income. The tax rates are stratified based on gross income brackets and tax status, aiming to preserve the progressive nature of Indonesia's tax system. (Wasesa et al., 2024)

For daily-paid employees, the regulation exempts income up to IDR 450,000 per day from tax. Income exceeding IDR 450,000 up to IDR 2,500,000 is subject to a flat 0.5% tax. This mechanism is intended to ease the tax burden for low-income, non-permanent workers and encourage formal employment relationships. (DJP, 2024)

Category A includes single employees or those with minimal dependents (e.g., TK/o, TK/1, K/o). The effective tax rates range from 0% for monthly income up to IDR 5.4 million, to as high as 34% for income above IDR 1.4 billion. This progressive structure aligns with Article 17 of the Income Tax Law while being applied in a simplified format (Wibowo, 2023).

Categories B and C account for employees with higher dependent status (e.g., K/1 to K/3). These categories benefit from wider non-taxable thresholds, thus accommodating family burdens and providing equitable treatment for employees supporting dependents. The differentiation ensures fairness across varying household profiles. At PT XYZ, AER is applied from January to November each year. During these months, monthly income tax is calculated directly by multiplying the applicable AER by the gross income. For example, an employee categorized under Category A with a gross monthly salary of IDR 10 million would be taxed using a 2% effective rate, resulting in a monthly PPh 21 of IDR 200,000.

In December, employers must recalculate the total annual income tax based on the progressive tax rates stipulated in Article 17 of the Income Tax Law. The total tax paid during the year (January–November) using the AER is subtracted from the final annual liability, and the difference is adjusted in December's payroll. This ensures the accuracy of the final tax amount owed by each employee (Kusuma & Utami, 2024). Assume an employee at PT XYZ (TK/o) earns IDR 10 million per month. Over 11 months, the AER deduction totals IDR 2.2 million. In December, the employer recalculates the annual tax, which, under the standard progressive method, amounts to IDR 2.715 million. The additional IDR 515,000 is withheld in December to reconcile the full year's tax obligation. This dual-stage mechanism promotes accuracy and ease of compliance. (Wibowo, 2023)

The AER system reduces the administrative complexity of calculating multiple tax deductions monthly. It also standardizes payroll tax practices, allowing automation of the withholding process. For companies like PT XYZ, which employ a large number of staff across varied tax statuses, this simplification leads to operational efficiency and cost savings (Tan & Lee, 2023).

Despite its benefits, the AER method requires accurate classification of employees' tax statuses at the beginning of the year. If an employee's marital or dependent status changes mid-year, the employer must adjust the AER category manually, which may reintroduce complexity. Additionally, careful reconciliation in December is crucial to prevent under- or over-withholding. From the employee's perspective, AER provides clearer expectations of monthly tax deductions and better cash flow management. However, there may be confusion if discrepancies occur in December's reconciliation. Therefore, transparency and

communication from employers like PT XYZ are essential to maintain trust and understanding among staff.

Studies show that the implementation of simplified tax withholding systems like AER improves tax compliance, reduces administrative costs, and minimizes disputes between employers and employees. Research by Kusuma & Utami (2024) Affirms that Indonesian employers show a high satisfaction level with AER implementation, citing reduced compliance time and lower error rates. The adoption of AER under Government Regulation No. 58/2023 represents a significant advancement in tax administration in Indonesia. For PT XYZ, the regulation simplifies monthly payroll procedures while ensuring accurate tax compliance through annual adjustments. Although it requires initial diligence in employee classification and year-end reconciliation, the system provides long-term administrative efficiency and tax equity.

Table 1. Tax Revenue Realization for 2021-2024 (Trilyun Rupiah)

	2021	2022	2023	2024
<b>State Revenue</b>	1.743.65	2.377.50	2.460.99	2.802.29
<b>Domestic Revenu</b>	1.742.75	2.376.34	2.459.16	2.469.09
<b>1. Tax receipt</b>	1.314.84	1.849.09	1.914.92	1.946.68
<b>A. Tax</b>	1.229.58	1.568.87	1.669.92	1.688.93
<b>B. Customs</b>	232.25	280.22	245.00	257.75
<b>2. PNBP</b>	382.55	527.25	544.24	522.41
Source: Ministry of Finance (2024) <a href="https://media.kemenkeu.go.id">https://media.kemenkeu.go.id</a>				

Indonesia’s state revenue increased significantly from IDR 1,743.65 trillion in 2021 to IDR 2,802.29 trillion in 2024, driven mainly by domestic revenue—particularly tax receipts, which rose from IDR 1,314.84 trillion to IDR 1,946.68 trillion. The tax component remained dominant, while customs revenue fluctuated and non-tax revenue (PNBP) peaked in 2023 before slightly declining in 2024. Overall, the trend indicates stronger fiscal capacity, though recent slower growth suggests a need for continued reforms and expansion of the tax base.

## 2. Literature Review

The concept of tax simplification has been widely explored in fiscal literature, particularly in the context of improving administrative efficiency and taxpayer compliance. According to James & Alley (2002) Tax simplification is essential for reducing compliance costs and enhancing transparency within the tax system. Their work highlights that complex tax rules often discourage voluntary compliance and increase the administrative burden on both tax authorities and payers.

In the Indonesian context, the Directorate General of Taxes (DJP) has undertaken multiple initiatives to modernize and simplify the tax system. Recent studies have evaluated the transition from traditional itemized deductions in Article 21 Income Tax (PPh Pasal 21) to the application of Average Effective Rate (AER), as introduced in Government Regulation No. 58/2023. Kusuma & Utami (2024) Argued that the implementation of AER represents a progressive step toward fiscal efficiency, minimizing human error in payroll computations while maintaining the integrity of tax obligations throughout the fiscal year.

The average effective tax rate as a proxy for tax burden has also been studied in international tax policy research. Tan & Lee (2023) examined the effects of simplified effective

rates in Southeast Asian tax systems, concluding that AER models tend to increase formal compliance and reduce friction between taxpayers and tax authorities. Their findings support the notion that simplicity can be a driver of efficiency in tax collection, especially in middle-income economies.

Meanwhile, Bird (2009) Emphasized that developing countries must design tax systems that are not only fair but also administratively feasible. The AER approach fits this recommendation by offering a balance between equity (via progressive rates) and simplicity (through fixed percentage brackets). Applying such a structure in countries with limited enforcement capacity has been shown to enhance tax coverage and reduce instances of evasion. Studies from the business sector also indicate that companies benefit from reduced payroll complexity through the use of standardized tax rates. Wibowo (2023) Provided a case-based analysis of AER implementation across several Indonesian firms, showing improvements in payroll consistency and reporting accuracy. Employers reportedly faced fewer disputes with employees concerning monthly tax deductions due to the predictability of AER calculations.

The theoretical foundation for effective rate application also draws from the principles of tax neutrality and horizontal equity. Musgrave & Musgrave (1980) Stated that a good tax system should avoid distorting taxpayer behavior while ensuring that individuals with similar economic capacity bear similar tax burdens. The AER system, though simplified, retains a progressive rate structure, thereby adhering to this normative framework. In terms of regulatory compliance, empirical evidence from OECD (2022) Supports the idea that streamlined tax deduction systems can increase both compliance rates and revenue collection, particularly when paired with digital reporting tools. In Indonesia, the implementation of e-Faktur and e-SPT systems complements the use of AER, allowing real-time monitoring of employee tax deductions.

Furthermore, in the realm of human resource management, studies have shown that predictable and transparent tax deductions contribute positively to employee trust and satisfaction. (Prasetyo & Hidayat, 2023) For employers such as PT XYZ, the AER model simplifies internal workflows while aligning with broader goals of fiscal accountability. Lastly, previous research on tax compliance behavior suggests that clarity in tax obligations correlates strongly with compliance intent. (Torgler, 2007). By removing ambiguity from monthly payroll deductions, AER fosters a more transparent tax environment, which is especially crucial in developing economies transitioning toward higher tax-to-GDP ratios.

Overall, the literature supports the notion that AER, as mandated in PP No. 58/2023, aligns with global best practices in tax administration. It simplifies compliance, increases efficiency, and maintains the progressive character of Indonesia’s income tax framework while offering practical benefits to employers like PT XYZ.

Table 2. Tax Rates

<b>Taxable Income Layers</b>	<b>Tax Rate</b>
Up to Rp. 60,000,000	5 %
Above Rp. 60,000,000 to Rp. 250,000,000	15%
Above Rp 250.000.00 to 500.000.000	25%
Above Rp500.000.000 to Rp 5.000.000.000	30 %
Above Rp 5,000,000,000	35

Based on the table above for the application of gross income tax rates, the tax base for permanent and non-permanent employees is different, but the tax rate imposed on the income

of both types of employees remains the same, namely the tax rate according to Article 17 paragraph 1 letter (a) of the Income Tax Law which has been amended to Law Number 7 of 2021. The tax rates imposed on taxable income are as follows: Income up to IDR 60,000,000 is subject to a rate of 5%. Income above IDR 60,000,000 up to IDR 250,000,000 is subject to a rate of 15%. Income above IDR 250,000,000 up to IDR 500,000,000 is subject to a rate of 25%. Income above IDR 500,000,000 up to IDR 5,000,000,000 is subject to a rate of 30%. Income above IDR 5,000,000,000 is subject to a rate of 35%. If the employee concerned does not have an NPWP, the tax amount imposed will be 20% greater than the amount calculated using the above rates.

Table 3. Article 21 Income Tax Withholding Rate Average effective rate

Monthly Effective Rate	
TER A = PTKP : TK/0 (Rp 54.000.000) TK/ and K/0 (Rp 58.000.000)	
TER B = PTKP : TK/ and K /1 (Rp 63.000.000) TK/3 and K/2 (Rp 67.500.000)	
TER C PTKP : K/3 (Rp 72.000.000)	
Daily Effective Rate	
Daily Gross Income	DAILY NEWS
Up to Rp. 450,000,-	0% X Gross income
Above Rp. 450,000 to Rp. 2,500,000,-	0.5% X Gross Income
Source: Directorate General of Taxes (2023) <a href="https://www.pajak.go.id">https://www.pajak.go.id</a>	

From the mechanism in the table above, the latest Article 21 Income Tax withholding rate with the first Average Effective Rate (TER) using the Average Monthly Effective Rate and the Average Daily Effective Rate (TER). For Monthly TER, it is used for certain Taxpayer subjects on gross income paid monthly, consisting of three categories, namely: A, B, C, based on the Non-Taxable Income of the income recipient, by the different Article 21 Income Tax rates according to the gross income in that category. Meanwhile, the Average Effective Rate (TER) Daily can be used for Tax Subjects who are non-permanent employees, the tax base is from the gross income received per day. If a non-permanent employee has a daily income of up to IDR 450,000, the rate imposed is 0%. If the daily gross income received is less than Rp. 450,000, no tax deduction proof is made, by still using the daily average effective rate of 0%, while the daily gross income received per day is above Rp. 450,000 up to Rp. 2,500,000 is subject to a daily TER of 0.5%. The application of the new TER tax rate, whether monthly or daily, does not add a new tax burden in the tax calculation mechanism. The new tax calculation scheme system uses the Monthly and Daily TER system to simplify and make it easier for withholding agents to make Article 21 income tax deduction proof during the Tax period by determining the rate by showing the status of the tax subject (Non-Taxable Tax) and the tax base based on the gross income received

### 3. Methods

The research method employed in this study is quantitative, as defined by Sugiyono (2016), which involves numerical data that is translated into scoring values. This approach facilitates analysis through statistical techniques, producing outcomes in the form of numeric scores derived from structured data collection instruments. In conducting this research, the author utilized data collection methods including tax documentation analysis and literature review, encompassing relevant legal instruments such as laws, government regulations, and Minister of Finance regulations. Once the data were collected, they were processed and

examined using descriptive analysis techniques to interpret and explain the findings based on the observed patterns in the numerical data

#### 4. Results and Discussion

In the application of the Calculation of Income Tax Article 21 with an Average Effective Rate based on Government Regulation Number 58 of 2023, the aim is to firstly provide convenience for Taxpayers and the existence of simplicity to make it easier to calculate, deduct Income Tax Article 21 taxes owed in the Tax Period. Secondly, it can increase compliance for Taxpayers in carrying out their tax obligations, and thirdly, it can provide convenience in building a tax administration system that can validate the calculations of Taxpayers, which can be expected in a more effective, efficient, and accountable business process can be realized. The impact of the application of the Calculation of Income Tax Article 21 with an Average Effective Rate based on Government Regulation Number 58 of 2023 is expected to not add a new tax burden, in connection with the application of this average effective rate (TER) calculation, in the application of the monthly average effective rate (TER) for permanent employee Taxpayers can be used in calculating Income Tax Article 21 for the last tax period. Meanwhile, the calculation of Article 21 Income Tax for the final tax period still uses the rate of Article 17 paragraph 1 letter a of the Income Tax Law in accordance with current provisions. The following is the method for applying the calculation of Article 21 Income Tax with an Average Effective Rate based on Government Regulation Number 58 of 2023

Mr. A is a permanent employee at PT XYZ, earning a monthly salary of Rp. 10,000,000 and a pension of Rp. 100,000. Mr. A is married and has no dependents (PTKP K/o). The calculation is as follows:

Table 4 . Tax Calculation in 2024 (Millions of Rupiah)

Tax Calculation	
Wages	Rp 10.000.000
Position allowance	
5 % X Rp 10.000.000	Rp 500.000
Position allowance	Rp 100.000
Monthly Net Income	Rp 9.400.000
Annual Net Income	
12 X Rp 9.300.000	Rp 112.800.000
Annual Non-Taxable Income	Rp 58.500.000
Annual taxable income	Rp 54.300.000
Article 21 Income Tax Due	
By the income tax deduction rate, the rate of Article 17 paragraph 1 letter a of the Income Tax Law.	
5% X Rp 54.300.000	Rp 2.715.000
Monthly Income Tax (January-December)	
Rp 2.715.000,- : 12	Rp 226.250,-

Table 5. Average Effective Rate (Millions of Rupiah)

TER A = PTKP : TK/o (Rp 54.000.000) TK/1 & K/o Rp 58.50.000				
Gross Income Layer (Rupiah)				TER
Number				
1	Up to you		5.400.000	0.00%
2	5.400.001	S.d	5.650.000	0.025 %
3	5.650.001	s.d	5.950.000	0.50%
4	5.950.001	s.d	6.300.000	0.75
5	6.300.001	s.d	6.750.000	1.00%

6	6.750.001	s.d	7.500.000	1.25%
7	7.500.001	s.d	8.550.000	1.50%
8	8.550.001	s.d	9.9650.000	1.75%
9	9.650.001	s.d	10.050.000	2%

Number	Monthly Income (Rupiah)	Annual Income Tax (Rupiah)	Monthly Income Tax (Rupiah)		
			Existing Januari-Desember	Effective Rate	
				Januari- November	Desember
Mr. A	10.000.000	2.715.000	226.500	200.000	515.000
				Description Average effective rate 2% Table A row 9	
<b>Monthly Calculation With Average Effective Rate</b>					
January – November 2% X Rp. 10,000,000 = Rp. 200,000 per month					
Desember Rp 2.715.000 – (11 X Rp 200.000 ) = Rp 515.000					

Source: data processed 2024

According to the information in Table 4, Mr. A is a permanent employee at PT XYZ, with a monthly salary of Rp. 10,000,000 and a pension of Rp. 200,000. Meanwhile, Mr. A is married and has no dependents (PTKP K/o). Has a payable income of Rp. 2,715,000, monthly Income Tax (January-December) of Rp. 226,250, using the rate of Article 17 paragraph 1 letter a of the Income Tax Law by current provisions. While the method of applying the Calculation of Income Tax Article 21 with an Average Effective Rate based on Government Regulation Number 58 of 2023 is as follows: TER A = PTKP: TK/o (Rp. 54,000,000) TK/1 & K/o Rp. 58,50,000.

TER A = PTKP : TK/o (Rp 54.000.000) TK/1 & K/o Rp 58.50.000				
<b>Gross Income Layer (Rupiah)</b>				<b>TER</b>
9	9.650.001	s.d	10.050.000	2%

From the explanation above, there is a difference in the application of income using calculations using the rate of Article 17 paragraph 1 letter a of the Income Tax Law, the amount of Income Tax payable is IDR 2,715,000, Income Tax per month (January-December) is IDR 226,250, - while using the average effective rate (TER) for the period January - November 2% X IDR 10,000,000 = IDR 200,000 per month, then for December IDR 2,715,000 - (11 X IDR 200,000) = IDR 515,000. The analysis for the calculation using the tariff of Article 17 paragraph 1 letter a of the Income Tax Law for monthly income (January-December) of Rp. 226,250,- is higher than the average effective rate calculation for the period January - November 2% X Rp. 10,000,000 = Rp. 200,000 per month. While the calculation for December is Rp. 2,715,000 - (11 X Rp. 200,000) = Rp. 515,000. Higher than the calculation using the tariff of Article 17 paragraph 1 letter a of the Income Tax Law for the monthly income (January-December) of Rp. 226,2.

## 5. Conclusion

It can be concluded that the monthly tax rate applied using Article 17 paragraph 1 letter a of the Income Tax Law for the January-December period is higher than that applied using the average effective rate. Meanwhile, the application of the TER calculation with the Average Effective Rate based on Government Regulation Number 58 of 2023 for the January-

November period results in a lower monthly tax rate. The December TER calculation results in a higher tax payable compared to the application of Article 17 paragraph 1 letter a of the Income Tax Law. Due to the excess tax payable from January to November, companies can apply for tax compensation by submitting a request for tax refund. Therefore, applying the average effective rate can reduce the amount of tax payable, or in other words, can save the tax burden for individual taxpayers, thus eliminating confusion for individual taxpayers. The application of the average effective rate (TER) calculation reduces the tax burden borne and simplifies tax calculations. It is hoped that this will increase individual taxpayer compliance in fulfilling their tax obligations.

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