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Analysis of the Implementation of the Average Effective Rate of Article 21 Income Tax Viewed from Calculation Accuracy, Employee Tax Burden, and Tax Administration

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Abstract

The implementation of the Average Effective Rate (TER) since January 1, 2024, changes the mechanism for withholding Income Tax (PPh) Article 21, especially for permanent employees during tax periods other than the last tax period. This study aims to analyze the implementation of TER from three perspectives: accuracy of calculation, the tax burden felt by employees, and the employer's tax administration. The study uses a qualitative descriptive approach with literature studies and normative analysis of Government Regulation Number 58 of 2023, Minister of Finance Regulation Number 168 of 2023, as well as related administrative provisions. The analysis is complemented by comparative simulations of fixed income and irregular income. The results show that TER simplifies the calculation from January to November because taxes are calculated directly from monthly gross income and rates according to the PTKP category. In terms of the amount of annual tax, TER does not change substantive obligations because the last tax period still uses the progressive rate of Article 17 of the Income Tax Law. However, TER can change the timing of withholding, especially when employees receive THR, bonuses, or fluctuating income. As a result, deductions in a given month can be higher or lower and only adjusted during the last tax period. Administratively, TER reduces the complexity of routine calculations but adds the need for control over PTKP status, gross components, annual reconciliation, employee transfers, refund of excess withholdings, and integration of payroll data with tax reporting systems. Thus, the effectiveness of TER is not only assessed by the simplicity of the formula, but also by data quality, internal control, and communication to employees.

Keywords: Average Effective Rate, Article 21 Income Tax, Employee Tax Burden, Tax Administration, Payroll

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INTRODUCTION

Article 21 Income Tax is a tax withheld on individual income related to work, services, or activities. In company practice, this withholding is directly related to payroll because it affects employees' net salaries, recording tax liabilities, deposits, issuance of withholding slips, and reporting of periodic tax returns. Before 2024, the calculation of permanent employees was generally done by estimating the annual net income, subtracting the Non-Taxable Income (PTKP), applying progressive rates, then dividing the annual tax into each tax period. This mechanism is quite accurate conceptually but becomes complicated when there are new employees, employees resigning, salary changes, holiday allowances, bonuses, tax allowances, benefits in kind, or employer transfers.

The government then issued Government Regulation Number 58 of 2023 and Minister of Finance Regulation Number 168 of 2023, effective from January 1, 2024. For permanent employees, withholding in tax periods other than the last tax period uses the monthly TER with the formula for gross income multiplied by the effective rate. In the last tax period, the employer recalculates the annual Article 21 Income Tax based on net income, PTKP, and the progressive rate of Article 17 of the Income Tax Law. The difference between annual tax and tax withheld becomes the amount withheld or refunded in the last tax period (Government of the Republic of Indonesia, 2023; Ministry of Finance of the Republic of Indonesia, 2023).

This change is often understood as if the government sets a new tax rate that raises employee taxes. This understanding is inaccurate. TER is a monthly withholding method, while annual tax obligations are still determined at a progressive rate. Nevertheless, differences in withholding times can have a real impact on cash flow and employee take-home pay. In the month when THR or bonuses are paid, gross income can enter the higher TER layer. The correction is only made in December or when employees stop working.

Previous research generally found that TER simplifies the withholding process and supports the integration of electronic systems, but still requires data adaptation and tax officer competence. Faisol, Norsain, and Rofiqi (2024) emphasize the ease of calculation based on gross income, while Hertiana, Abdurrachman, and Chandra (2025) show that the single monthly tariff facilitates implementation in the e-Bupot system. On the other hand, Melfianti and Abbas (2025) found that administrative ease has not been fully achieved because there are still issues with procedures, transparency, and adjustments in the last tax period.

Based on these conditions, this study addresses the following questions: first, whether TER improves the accuracy of Article 21 Income Tax calculation; second, how TER

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affects tax burdens and employee cash flow; and third, whether TER truly simplifies employer tax administration. The discussion is conducted in an integrated manner so that the evaluation does not stop at monthly formulas but also considers annual reconciliation and administrative processes.

LITERATURE REVIEW

Income Tax Article 21 and Withholding System

Article 21 Income Tax uses a withholding system. Employers or tax withholders calculate, withhold, deposit, and report tax on the recipient's income. This system transfers part of the collection function to third parties so that the quality of compliance does not depend solely on employees but also on the employer's administrative capability. Errors in payroll can directly affect employee rights and the company's tax position.

The progressive rate under Article 17 for individual taxpayers consists of 5 percent up to PKP Rp60 million, 15 percent for PKP above Rp60 million up to Rp250 million, 25 percent for parts above Rp250 million up to Rp500 million, 30 percent for parts above Rp500 million up to Rp5 billion, and 35 percent for PKP above Rp5 billion. These rates remain the basis for determining the annual obligation in the last tax period.

Concept of Average Effective Tariff

TER is a rate that considers the relationship between gross income, job expenses, PTKP, and progressive rates in simpler table form. For permanent employees, the TER category is determined based on the PTKP status at the beginning of the tax year. After the category is determined, monthly deductions are sufficient using the actual gross income in the relevant month.

Table 1 Monthly Effective Tariff Categories

Cate-gory	PTKP Status	Annual PTKP value	Usage
A	Kindergarten/0, Kindergarten/1, and Kindergarten	Rp54,000,000 or Rp58,500,000	Permanent employees or periodic retir-ees during periods other than the last tax period

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Cate-gory	PTKP Status	Annual PTKP value	Usage
B	Kindergarten/2, Kindergarten/3, Kindergarten/1, and Kindergar-ten/2	Rp63,000,000 or Rp67,500,000	Permanent employees or periodic retir-ees during periods other than the last tax period
C	K/3	Rp72,000,000	Permanent employees or periodic retir-ees during periods other than the last tax period

Source: Government Regulation Number 58 of 2023 and Minister of Finance Regulation Number 168 of 2023, processed.

TER also has a daily rate for non-permanent employees, namely 0 percent of daily gross income up to Rp450,000 and 0.5 percent for income above Rp450,000 up to Rp2,500,000. The focus of this study is on the monthly TER of permanent employees because this group most directly experiences changes in withholding patterns and reconciliation during the last tax period.

Accuracy of Calculation and Tax Burden

The accuracy of calculations in this study is divided into three categories. First, legal accuracy, which is the conformity of categories, rates, objects, and timing of withholding with regulations. Second, arithmetic accuracy, meaning there are no errors in formulas, rounding, or combinations of income components. Third, annual substantive accuracy, which is the conformity of the total withholding with Article 21 Income Tax per year. TER can improve legal and arithmetic accuracy in routine calculations, but substantive accuracy still depends on reconciliation of the last tax period.

Tax expense also needs to be distinguished between annual tax expense and monthly cash expense. Total annual tax indicates liabilities based on ability to pay over one year. Conversely, monthly deductions indicate the time when employee cash decreases. Two methods can generate the same annual tax but different take-home pay patterns.

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RESEARCH METHODS

This research uses a qualitative descriptive approach with literature study methods and normative analysis. Primary sources consist of the Income Tax Law as last amended by Law Number 7 of 2021, Government Regulation Number 58 of 2023, Minister of Finance Regulation Number 168 of 2023, PER-2/PJ/2024, Minister of Finance Regulation Number 81 of 2024 and its amendments, and PER-11/PJ/2025. Secondary sources consist of official DGT guidelines and scientific articles discussing the implementation of TER.

The analysis technique was carried out in four stages. First, identifying changes in the business process of withholding Article 21 Income Tax. Second, comparing the formulas before and after the TER. Third, simulating fixed income and irregular income. Fourth, evaluating the results based on the accuracy of calculations, employee cash expenses, and employer administration. The validity of the analysis was maintained by matching regulatory provisions with calculation examples and official guidelines from the DGT.

The simulation uses the gross method, where Article 21 Income Tax is borne by employees through salary deductions. Therefore, changes in withholding times are directly visible in take-home pay. If a company uses the net or gross-up method, the economic impact can shift partially or entirely to the company.

RESULTS AND DISCUSSION

Changes in the Calculation Mechanism

Period January to November: Article 21 Income Tax = Monthly gross income × monthly TER

The last tax period for Article 21 Income Tax = Annual Income Tax according to Article 17 - Withheld Income Tax

The most important change lies in the basis of monthly calculations. In periods other than the last tax period, job expenses, pension contributions, PTKP, and progressive rates are not calculated one by one each month. These elements are already reflected in the TER table design. In December or the last month worked, the annual income is recalculated normally. Net income is obtained after the allowed deduction, then the PTKP is deducted. PKP is rounded according to the provisions and subject to the progressive rate in Article 17.

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Table 2 Comparison of Mechanisms Before and After TER

Aspects	Provisions before TER	TER Terms	Implications
Monthly policy	Estimated net income and annual PKP	Actual gross income for the current month	Shorter routine calculations
Monthly rates	Progressive rate Article 17 after annualization	Table rates A, B, or C	The risk of choosing the wrong category must be controlled
THR or bonus	Calculated as irregular income with annualization	Combined to gross in the month of payment	Monthly payment deductions can surge
The last period	A year of reconciliation	Still a one-year reconciliation with Article 17	Total annual liabilities remain adjusted
Key data	PTKP status, deductions, years of service, income	Plus TER category mapping and deduction accumulation	Master data quality is the main factor

Source: Minister of Finance Regulation Number 168 of 2023 and Directorate General of Taxes, processed.

Analysis of Calculation Accuracy

Procedurally, TER can reduce errors during routine periods because the formula only requires two main inputs: gross income and TER categories. Companies do not need to repeat annualization, job costs, PTKP, and progressive rates for each employee every month. These findings align with Faisol et al. (2024) and Hertiana et al. (2025), who stated that using a single rate for each income layer simplifies the work of withholders.

However, simple does not always automatically mean it is correct. Incorrect input of marital or dependent status will place employees in the wrong category. Misclassification of income components, such as taxable benefits in kind, tax allowances, bonuses, or back payment payments, also directly change gross income and TER rates. Because tables are

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tiered, small income differences around the layer limits can change the rates on the entire gross income of that month.

Annual accuracy can only be assessed after the last reconciliation period. At this stage, the company must still master full calculations: accumulating gross income, calculating maximum job expenses, accounting for pension contributions or other legitimate deductions, determining PTKP, rounding PKP, applying progressive rates, and subtracting all previous deductions. Thus, TER shifts some complexity from the monthly process to the annual reconciliation process; TER does not eliminate the need for tax competence.

Fixed Income Simulation

The first simulation uses an official example from the DGT. An employee with K/0 status receives a salary of Rp10,000,000 per month and pays a pension contribution of Rp100,000 per month. There is no THR or bonus. K/0 status falls under TER category A.

Table 3 Calculation of Article 21 Income Tax Per Year

Description	Calculation	Total
Annual gross income	12 × Rp10,000,000	Rp120,000,000
Job Fees	5 percent × Rp120,000,000 with a maximum limit	Rp6,000,000
Pension contributions	12 × Rp100,000	Rp1,200,000
Net annual income	Rp120,000,000 - Rp7,200,000	Rp112,800,000
PTKP K/0	According to the status at the beginning of the year	Rp58,500,000
PKP	Rp112,800,000 - Rp58,500,000	Rp54,300,000
Article 21 Income Tax per year	5 percent × Rp54,300,000	Rp2,715,000

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Source: Directorate General of Taxes, socialization material of PMK Number 168 of 2023, processed.

Table 4 Comparison of Cutting Time

Period	Method before TER	TER Method	TER Cut Difference
January to November per month	Rp226,250	2 percent × Rp10,000,000 = Rp200,000	Lower by Rp26,250
December	Rp226,250	Rp2,715,000 - Rp2,200,000 = Rp515,000	Higher Rp288,750
Total one year	Rp2,715,000	Rp2,715,000	No difference

Source: Directorate General of Taxes, socialization material of PMK Number 168 of 2023, processed.

The simulation shows that the annual tax amount does not change. Employees receive a take-home pay of Rp26,250 higher each month from January to November, but experience an additional Rp288,750 deduction in December compared to the old method. Therefore, the statement that TER raised taxes is inaccurate if it is based solely on one month's deduction. What changes is the distribution of withholding time.

Simulation of Irregular Income and Employee Cash Expense

The second simulation uses K/0 employees with a salary of Rp4,500,000 per month and a holiday allowance (THR) of Rp4,500,000. In regular months, gross income is still at the 0 percent rate category A. In the month of THR payment, the gross income becomes Rp9,000,000 and falls under the 1.75 percent rate.

Table 5 Impact of TER on Employees with THR

Description	Calculation	Total
Annual salary	12 × Rp4,500,000	Rp54,000,000

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Description	Calculation	Total
THR	1 × Rp4,500,000	Rp4,500,000
Annual gross income	Rp54,000,000 + Rp4,500,000	Rp58,500,000
Income Tax for THR month	1.75 percent × Rp9,000,000	Rp157,500
Net annual income	Rp58,500,000 - position fee Rp2,925,000	Rp55,575,000
PTKP K/0	According to status	Rp58,500,000
Annual income tax	Net income does not exceed PTKP	Rp0
Last time adjustment	Rp0 - Rp157,500	Refund Rp157,500

Source: Directorate General of Taxes, 2025, processed with the assumption that there are no other deductions.

On an annual basis, the employee does not have Article 21 Income Tax payable. However, there is a temporary withholding of Rp157,500 in the THR month. Employers are required to refund the excess withholding in the last tax period according to PMK Number 168 of 2023. This example shows that TER can cause temporary liquidity burden for relatively low-income employees when receiving irregular income.

In higher income groups, the opposite condition can also occur. Deductions from January to November can be lower than annual taxes, so December results in a large deduction. This impact is not a new tax addition, but can disrupt employee cash planning if the company does not provide simulations before the year-end payroll.

The economic impact also depends on company policies. In the gross method, changes in deductions are borne by the employee. In the net method, the company bears taxes, so changes in withholding times affect the company's expenses. In the gross-up method, tax allowances become part of gross income, so payroll needs to calculate allowances accurately so that the net amount and taxes comply with remuneration policy.

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Impact on Tax Administration

From the monthly administration side, TER provides real benefits. The number of calculation steps is reduced and automation is easier. The payroll system only needs to read the PTKP status, determine categories, find the gross income layer, and multiply the rates. Integration with electronic withholding slips also strengthens the audit trail. PER-2/PJ/2024 introduces monthly withholding slips for permanent employees, while within the Coretax environment, administration continues through Monthly Withholding Slips for Permanent Employees and annual withholding slips according to PMK Number 81 of 2024 and PER-11/PJ/2025.

Nevertheless, administrative burdens are not completely eliminated. Companies must ensure that data on NIK or NPWP, PTKP status, withholding units or NITKU, work period, and income components are correct. Companies must also create withholding slips even if the tax is zero under the required conditions, reconcile payroll with the ledger, handle corrections, and return excess withholding to employees. In the event that employees change employers, income and withholding data from the previous employer need to be managed so that the annual withholding slip does not cause duplicate calculations or lack of information.

Table 6 Recommended Administrative and Control Risks

Risk areas	Impact	Recommended controls
PTKP status is not up to date	TER category and miscut-ting	Confirm status at the beginning of the year and save supporting documents
Incomplete gross components	TER too low or too high	Payroll reconciliation, allowances, benefits in kind, bonuses, and payments outside payroll
Wrong tariff layer	Mass errors among many employees	Use controlled rate tables, version control, and sample testing
Officers enter or leave	The last tax period is not calculated correctly	Use offboarding checklists and final calcula-tions before proof of deduction

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Risk areas	Impact	Recommended controls
Changing employ-ers	Incomplete cumulative data	Request previous withholding evidence and validation of data merge options
More cuts	Delayed employee rights and problematic company reconciliation	Identify early, prepare refund funds, and document compensation
Payroll and Coretax integration	Difference between with-holding evidence and ledger	Three-way reconciliation between payroll, general ledger, and periodic tax returns
Lack of communi-cation	Employees consider TER as a tax increase	Provide THR simulation, bonuses, and esti-mated final period adjustments

Source: The author's analysis is based on Government Regulation Number 58 of 2023, Minister of Finance Regulation Number 168 of 2023, and related administrative provisions.

Integrated Evaluation

In terms of calculation accuracy, TER is superior for routine transactions because it reduces the number of variables calculated each month. However, this advantage depends on the quality of the input. Errors in the PTKP or gross income category will result in calculations that are consistent but still incorrect. Therefore, system accuracy cannot be separated from controlling master data and testing payroll changes.

Viewed from the employee tax burden, TER is basically neutral annually, but not always monthly-neutral. Differences in deduction times affect take-home pay and can create perceptions of unfairness, especially if THR deductions increase or the December correction is significant. Transparency of payslips and communication that December is a reconciliation period are important parts of implementation.

From a tax administration perspective, TER changes the type of work, not eliminates it. The routine calculation load decreases, but the burden of data management, reconciliation, withholding slip, and dispute resolution becomes more prominent. These findings support Roziq and Harjo (2025), who emphasize the need for education and system adaptation, as well as Melfianti and Abbas (2025), who see that there is still room for improvement in terms of administrative comfort and efficiency.

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Table 7 Summary of Analysis Results

Dimensions	Main benefits	Main risks	Assessment
Calculation accuracy	Monthly formulas are simpler and easier to validate	Incorrect category or gross as well as inappropriate final reconciliation	Improve if data and controls are adequate
Employee tax burden	The total annual tax remains unchanged because Article 17 remains	Fluctuations in deductions and temporary cash expenses	Yearly neutral but not always monthly neutral
Tax administration	Easier to automate and integrate	Data load, withholding evidence, refunds, and reconciliations	More efficient in routine processes, more critical at the end of the year

Source: Author's analysis results.

PRACTICAL IMPLICATIONS

To ensure the implementation of TER remains accurate and does not cause problems at the end of the year, companies should take the following steps:

1. Confirming PTKP status at the beginning of each year and locking changes only based on accountable documents;
2. To list all income components that count as gross income, including payments outside payroll, taxable benefits in kind, THR, bonuses, back payment, and tax allowances;
3. Testing TER tables in payroll systems using lower bound and upper bound cases of each rate layer;
4. Conducting monthly reconciliation between payroll, accounting journals, withholding slips, tax payments, and periodic tax returns;
5. Preparing annual Article 21 Income Tax projections no later than October or November so that potential December deductions or refunds can be known earlier;
6. Establishing special procedures for incoming employees, resigning employees, transfer employees, workers with more than one employer, and foreign currency earners;

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7. Explain to employees that changes in monthly deductions do not automatically mean an annual tax increase; and
8. Document the return of excess withholding and ensure employee rights are resolved within the deadline.

For regulators, improvements can be directed towards providing more understandable simulations, strengthening PTKP status validation, notifications of potential over- or under-withholding, and reconciliation facilities between payroll data and withholding slips. The goal is not to change rates, but to reduce cash shocks and administrative errors in the last tax period.

CONCLUSION

The implementation of TER for Article 21 Income Tax successfully simplifies monthly calculations because employers only need to multiply gross income by the rate according to the PTKP category. From an accuracy perspective, this mechanism can reduce routine calculation errors. However, accuracy still depends on PTKP status, completeness of gross income, selection of rate layers, and reconciliation in the last tax period.

TER does not change the annual tax burden because the annual Article 21 Income Tax is still calculated using the progressive rate in Article 17 of the Income Tax Law. The impact on employees mainly comes in the form of changes in the withholding time. In the THR or bonus month, deductions may increase, while in December additional deductions or refunds may occur. Therefore, the assessment of TER is inaccurate if it only compares one month.

Administratively, TER reduces routine calculation burdens but increases the importance of data quality, payroll integration, reconciliation, withholding evidence, and over-withholding management. Companies need to integrate automation with internal control and communication with employees. With this approach, TER can achieve simplification goals without reducing accuracy and protection of employee rights.

RESEARCH LIMITATIONS AND SUGGESTIONS

This study uses a normative and simulation approach so it has not measured administrative working hours, system implementation costs, actual errors, or employee perceptions in a particular company. Future research can use real payroll data before and after TER, compare companies based on the number of employees and tax burden methods, and test the influence of TER and Coretax on compliance, administrative costs, and employee satisfaction.

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