

## The Impact of Changes in the Average Effective Rate (TER) on Income Tax Article 21 Withholding Errors at PT XXX

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### Abstract

The purpose of this study is to analyze the impact of the implementation of TER on the level and type of income tax withholding errors under article 21. The method used is a quantitative approach with a comparative descriptive method, which focuses on measuring and analyzing the level of error in withholding Income Tax (PPH) Article 21 before and after the implementation of the Average Effective Rate (TER). Data was collected through documentation of Article 21 Income Tax withholding data on the salaries of permanent employees, in-depth interviews with taxpayers, and the finance department as the deducting party, as well as data on changes in tax regulations. The analysis was carried out descriptively to gain an in-depth understanding of taxpayers' perceptions, experiences, and responses to the implementation of TER and comparatively to compare the differences before and after the implementation of TER. The results of the research on PT XXX show that changes in the policy/regulation of Article 21 Income Tax withholding through the implementation of the Average Effective Rate (TER) have a positive impact on the accuracy of tax withholding. Simplification of calculation methods has been proven to reduce errors that were previously often due to the complexity of legacy systems involving more than 400 calculation scenarios.

Keywords: PPH 21, Average Effective Rate (TER), Deduction

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### INTRODUCTION

Income tax is a tax imposed on individuals or entities on income received or earned in a tax year. Income in the context of taxation is defined as any additional economic capability received or earned by a taxpayer, whether originating from Indonesia or outside Indonesia, which can be used for consumption or to increase the taxpayer's wealth. Employee income that is the basis for imposing Article 21 Income Tax includes gross income consisting of basic salary, various types of allowances, honorariums, commissions, bonuses, overtime pay, and other compensation received in connection with work, services, or certain activities. This gross income is then reduced by Article 21 Income Tax withheld by the employer, resulting in the net income received by the employee. Therefore, the accuracy and precision of Article 21 Income Tax calculations are important aspects, not only for the state in guaranteeing tax revenue, but also for employees as taxpayers to avoid excess or insufficient tax deductions.

In practice, the Article 21 Income Tax withholding system prior to policy reforms was known to be quite complex. The Directorate General of Taxes (DGT) noted that there were more than 400 applicable Article 21 Income Tax calculation scenarios, adjusted for various variables such as employee type, tax status, income amount, and type of compensation

received. This complexity poses significant administrative challenges, both for taxpayers as the withholding party and for the finance or employer as the withholding party. This situation has the potential to lead to calculation errors, increase administrative burdens, and reduce tax compliance levels.

In response to these issues, the government implemented a new scheme for withholding Article 21 Income Tax, which applies to three types of taxpayers: permanent employees, non-permanent employees, and non-employees. This policy is regulated through Government Regulation Number 58 of 2023 and Minister of Finance Regulation Number 168 of 2023, which serve as the legal basis for the implementation of the Average Effective Rate (TER). The implementation of TER is a strategic step by the government to simplify tax administration with the aim of making it easier for taxpayers and withholding parties to calculate their monthly income tax obligations.

The Average Effective Rate (TER) is based on progressive Income Tax rates, taking into account the taxpayer's annual income and tax status. This approach averages the annual tax payable by the taxpayer into monthly deductions, simplifying and accelerating the calculation of Article 21 Income Tax. With TER, financial institutions or withholding parties no longer face complex monthly calculations; instead, they simply refer to the effective rate established for each income category and taxpayer status.

Despite its aim to simplify the system, the changes to the TER policy issued by the Directorate General of Taxes in recent years also pose challenges, particularly regarding the accuracy of tax deductions. This change in calculation mechanism requires administrative adjustments and adequate understanding from the finance department or tax withholding parties. If not properly understood and implemented, this policy has the potential to lead to withholding errors, either in the form of underpayments or overpayments. These errors can impact taxpayers' tax return (SPT) reporting obligations, the tax refund (restitution) process, and the level of fiscal compliance.

Nevertheless, from a taxpayer perspective, the implementation of the TER scheme was relatively well-received by employees. There were no significant protests against the change in the Article 21 Income Tax withholding mechanism. Employees understood that the TER implementation did not result in a significant difference in the amount of tax payable compared to the previous scheme. In fact, the TER-based implementation of Article 21 Income Tax was deemed to increase employee awareness and compliance with their tax obligations (Sari, 2025).

Previous research also shows that implementing an Average Effective Rate (TER), particularly for permanent employees, can reduce the amount of tax payable or provide tax savings for Individual Taxpayers (WPOP). Furthermore, the tax calculation process becomes simpler and less burdensome for taxpayers. With this ease of calculation and potential tax savings, it is hoped that the level of awareness and compliance of WPOPs in fulfilling their tax obligations will increase (Aryani, 2024). This simplification is important considering that the provisions for calculating Article 21 Income Tax previously varied greatly and tended to be difficult for taxpayers. Based on this description, it can be concluded that implementing an Average Effective Rate (TER) is a strategic government policy to simplify tax administration and improve taxpayer compliance.

PT XXX is a company engaged in the property sector, but the company is still classified as manual in its financial system, so that errors in tax reporting are often found. However, this policy change also has the potential to create new challenges for the company, especially related to the frequency and type of errors in withholding Income Tax Article 21. Therefore,

this study aims to further examine how changes in the implementation of TER impact errors in withholding Income Tax Article 21 at PT XXX as one of the private companies included in the work area of the Directorate General of Taxes Sulseibatra. The results of this study are expected to provide a deeper understanding of the impact of this tax policy, as well as serve as a reference for tax administrators in anticipating and minimizing income tax withholding errors in the future.

### Income Tax Article 21

Article 21 Income Tax (PPh) is a tax on income related to work, services, or activities received or obtained by domestic Individual Taxpayers. Article 21 Income Tax is deducted by employers, government finances, or other parties appointed as tax withholding agents in accordance with the provisions of tax laws and regulations. The objects of Article 21 Income Tax include income in the form of salaries, wages, honorariums, allowances, bonuses, commissions, overtime pay, and other remuneration in whatever name and form received by permanent employees, non-permanent employees, or non-employees. Thus, Article 21 Income Tax covers most of the income received by individuals working in the formal sector. The subject of Article 21 Income Tax is the Individual Taxpayer who receives or obtains the income, while the party obliged to make the deduction is the employer or other appointed party. This withholding system is known as the withholding tax system, where tax is collected when income is paid, thereby increasing the effectiveness and efficiency of tax collection. In line with the development of tax policies, the government applies the Average Effective Rate (TER) in calculating Article 21 Income Tax as regulated in Government Regulation Number 58 of 2023 and Regulation of the Minister of Finance Number 168 of 2023. The application of TER aims to simplify the process of calculating Article 21 Income Tax, reduce administrative complexity, and increase certainty and compliance of taxpayers in fulfilling their tax obligations.

The income tax deduction rate in Article 17 paragraph (1) letter a of the Income Tax Law uses a progressive tax rate based on the taxable income layer. For your information, previously the income subject to tax started from IDR 50 million per year with a progressive PPh 21 tax rate ranging from 5% to 30% for taxable income above IDR 500 million in the Income Tax Law 36/2008. Then, changes were made to the taxable income layer starting from IDR 60 million per year with a progressive rate of 5% to 35% for taxable income above IDR 5 billion through the HPP Law 7/2021. See the table of tariff layers in Article 17 paragraph (1) letter a of the Income Tax Law and its changes from the Income Tax Law No. 36/2008 to the HPP Law No. 7/2021 below:

**Table 1.** Progressive Article 21 Income Tax Rates

<b>Taxable Income Layers</b>	<b>Rates</b>
Up to Rp. 60,000,000	5%
Above Rp. 60,000,000 up to Rp. 250,000,000	15%
Above Rp. 250,000,000 up to Rp. 500,000,000	25%
Above Rp. 500,000,000 up to Rp. 5,000,000,000	30%
Above Rp. 5,000,000,000	35%

### Average Effective Rate (TER)

The government has re-regulated the withholding of Article 21 Income Tax as stipulated in Government Regulation (PP) No. 58 of 2023 concerning the Withholding Rate of Article 21 Income Tax on Income in Connection with Work, Services, or Activities of Individual Taxpayers.

The legal basis for the latest PPh 21 calculation scheme is in accordance with the provisions in Article 21 paragraph (5) of Law No. 36 of 2008 concerning Income Tax (PPh Law) as amended by Law No. 7 of 2021 concerning Harmonization of Tax Regulations (HPP), which states that: "The withholding rate for income as referred to in paragraph (1) is the tax rate as referred to in Article 17 paragraph (1) letter a, unless otherwise stipulated by Government Regulation." Then the government issued technical regulations as implementing regulations for PP 58/2023 through Regulation of the Minister of Finance No. 168 of 2023 concerning Guidelines for the Implementation of Tax Deductions on Income in Connection with Work, Services, or Activities of Individuals.

The main changes to the PPh 21 calculation scheme include:

- a) Changes to the entire PPh 21 calculation scheme, the calculation scheme for Article 21 income tax deducted for permanent employees (for tax periods other than the last tax period) and non-permanent employees has been changed.
- b) Expanding the scope of PPh Article 21 calculations, expanding the scope of PPh Article 21 calculations for pension program participants who are still employees and drawing pension funds. This expansion, which previously only covered Dapen, now also applies to BPJSTK, ASABRI, and TASPEN.
- c) Deduction of zakat/religious donations, Zakat/obligatory religious donations paid through the employer can be deducted from gross income PPh 21.
- d) Addition of exceptions to income subject to PPh 21 deductions, Adding exceptions to income subject to PPh 21 deductions, namely DTP.
- e) Combining all income in a tax period, Combining all income of permanent employees in 1 month or in a tax period.
- f) PPh 21 deduction for benefits in kind/benefits, PPh 21 deduction is made for benefits in kind and/or benefits for individual taxpayers.
- g) Then the PPh 21 TER calculation scheme according to PP 58/2023 consists of three effective rate categories.

## METHODOLOGY

This study uses a quantitative approach with a descriptive-comparative method. The quantitative approach is used to measure and analyze changes in the level of Income Tax (PPh) Article 21 withholding errors before and after the implementation of the Average Effective Rate (TER). The descriptive method aims to describe the conditions and characteristics of PPh Article 21 withholding errors, while the comparative method is used to compare the level and type of withholding errors before and after the TER policy change.

The types of data used in this research are quantitative data and supporting qualitative data in the form of:

- a. Quantitative data in the form of employee salary data for 2023 and 2024, data on Article 21 Income Tax deductions for 2023 before the implementation of TER, data on Article 21 Income Tax deductions for 2024 after the implementation of TER.
- b. Supporting qualitative data in the form of information from interviews with company finance and policy documents on changes to tax regulations.

The data analysis techniques used in this study are as follows:

- a. Descriptive Analysis, to describe the level and type of errors in withholding Article 21 Income Tax before and after the implementation of TER.
- b. Comparative Analysis, to compare the differences in the number and frequency of Article 21 Income Tax withholding errors between the periods before and after the implementation of TER.

## RESULTS AND DISCUSSION

### a. Calculation and Analysis of Income Tax Payable Based on the Rates in Article 17 of Law Number 7 of 2021

The calculation of income tax payable by individual taxpayers registered as permanent employees carried out by the finance department of PT XXX in January 2023 based on the rates in Article 17 of the Tax Harmonization Law Number 7 of 2021 which are presented in Table 2.

**Table 2.** Calculation of Income Tax Article 21 Based on the Rates of Article 17 of the HPP Law  
 (in thousands of Rupiah)

No	WP Name Initials	Status	Monthly Net Income	Income Net Annually	PTPK	PKP	Rate s	Annual Income Tax Payable	Monthly Income Tax Payable
1	AD	Kinde rgarte n 0	2,500	30,000	54,000	0	0	0	0
2	AI	Kinde rgarte n 0	3,000	36,000	54,000	0	0	0	0
3	AI	Kinde rgarte n 0	2,500	30,000	54,000	0	0	0	0
4	AM	K3	4,500	54,000	72,000	0	0	0	0
5	AT	K2	2,650	31,800	67,500	0	0	0	0
6	AU	K3	2,550	30,600	72,000	0	0	0	0
7	BM	K3	3,500	42,000	72,000	0	0	0	0
8	FI	Kinde rgarte n 0	2,500	30,000	54,000	0	0	0	0
9	FJR	Kinde rgarte n 0	2,500	30,000	54,000	0	0	0	0
10	GG	K0	12,500	150,000	58,500	91,500	5% 15%	7,725	643,750
11	GIG	K3	3,000	36,000	72,000	0	0	0	0
12	GT	K1	3,000	36,000	63,000	0	0	0	0
13	HA	K3	5,000	60,000	72,000	0	0	0	0
14	IM	K2	3,500	42,000	67,500	0	0	0	0
15	ISN	Kinde rgarte n 0	2,500	30,000	54,000	0	0	0	0
16	JR	K3	3,000	36,000	72,000	0	0	0	0
17	KDR	K2	2,650	31,800	67,500	0	0	0	0
18	KM	K2	3,000	36,000	67,500	0	0	0	0
19	MAR	K2	2,650	31,800	67,500	0	0	0	0

No	WP Name Initials	Status	Monthly Net Income	Income Net Annually	PTPK	PKP	Rates	Annual Income Tax Payable	Monthly Income Tax Payable
20	MCA	Kindergarten 0	9,000	108,000	54,000	54,000	5%	2,700	225
21	MI	K1	3,000	36,000	63,000	0	0	0	0
22	MRB	Kindergarten 0	3,500	42,000	54,000	0	0	0	0
23	MSE	K3	3,000	36,000	72,000	0	0	0	0
24	RA	K1	3,000	36,000	63,000	0	0	0	0
25	RG	K2	37,500	450,000	67,500	382.50	5% 15% 25%	58,625	4,885,417
26	RLN	K2	3,000	36,000	67,500	0	0	0	0
27	Hospital	K0	2,650	31,800	58,500	0	0	0	0
28	SI	K2	2,500	30,000	67,500	0	0	0	0
29	SJ	K1	2,650	31,800	63,000	0	0	0	0
30	SRD	K3	2,500	30,000	72,000	0	0	0	0
31	SRY	K1	3,000	36,000	63,000	0	0	0	0
32	SRY	K2	3,000	36,000	67,500	0	0	0	0
33	UN Public Relations	K3	3,000	36,000	72,000	0	0	0	0
34	WIL	Kindergarten 0	3,000	36,000	54,000	0	0	0	0
35	WW	Kindergarten 0	2,650	31,800	54,000	0	0	0	0
36	YF	K2	3,000	36,000	67,500	0	0	0	0
37	YNH	K3	22,500	270,000	72,000	198	5% 15%	23,700	1,975
			179,450	2,153,400	2,367,000	726		92,750	4,888,260

Based on Table 2, it can be explained that of the total of 37 permanent employees registered as Individual Taxpayers at PT XXX, there are only 4 employees who have income exceeding the Non-Taxable Income (PTKP) limit. This condition indicates that most employees are in a relatively low income group and therefore do not owe Article 21 Income Tax. For the 4 employees whose income has exceeded the PTKP, the company's finance department routinely calculates Article 21 Income Tax every month. The calculation process carried out by the finance department begins by calculating the monthly net income of each employee, namely by subtracting gross income from job costs and permitted contributions. Next, the monthly net income is annualized to obtain a year's net income, which is then reduced by the

PTKP according to each employee's tax status. From the results of this calculation, Taxable Income (PKP) is obtained which is then subject to progressive tax rates according to the PKP layer as regulated in the provisions of applicable tax laws and regulations.

Based on the calculation results, the total Article 21 Income Tax withheld by the company for 4 employees out of a total of 37 permanent employees was recorded at Rp92,750,000 in one tax year. Meanwhile, for the January 2023 tax period, the amount of Article 21 Income Tax owed and withheld by the company was Rp7,729,167. This figure reflects the tax obligations that must be fulfilled by employees who have met the requirements as subjects of Article 21 Income Tax payable. However, the complexity in the process of calculating Article 21 Income Tax often causes the company's finance department to make errors in calculating the tax payable for each employee. These errors generally occur due to the many calculation steps that must be carried out manually and the need for accuracy in applying applicable tax provisions.

The types of errors that occur include errors in determining the applicable tax rate layer. This error occurs when employee salary increases occur, but the finance department is not careful enough to adjust taxable income to the progressive rate layer that should be applied. Furthermore, errors also occur in determining Non-Taxable Income (PTKP) status. This is caused by a lack of updated information regarding employee status, such as changes in marital status or number of dependents, which affect the PTKP amount. This mismatch in PTKP status directly impacts the amount of tax withheld, potentially leading to errors in withholding Income Tax Article 21.

Errors in tax withholding can result in losses for taxpayers. If there is an overwithholding, employees will receive a lower net income than they should and must undergo a restitution or tax refund process. Conversely, if there is an underwithholding, employees risk being subject to administrative sanctions in the form of fines and interest because they are considered to have unpaid taxes. Therefore, accuracy in calculating and withholding Article 21 Income Tax is crucial to ensure fairness, compliance, and legal certainty for employees and companies as the tax withholding party.

### 5.1 Calculation and Analysis of Income Tax Payable Based on the Average Effective Rate (TER) According to PMK No. 168 of 2023

The calculation of income tax payable by individual taxpayers registered as permanent employees carried out by the finance department of PT XXX in January 2024 is based on the average effective rate (TER) presented in table 3.

**Table 3.** Calculation of Income Tax Article 21 based on the average effective rate (TER)  
(in thousands of rupiah)

No	WP Name Initials	Status	Gross Monthly Income	Category	TER rates	Monthly Income Payable	Tax
1	AA	K/3	3,500	C	0%		0
2	AH	Kindergarten/0	3,500	A	0%		0
3	AM	Kindergarten/0	3,500	A	0%		0
4	US	Kindergarten/0	3,500	A	0%		0

5	EP	Kindergarten/ 0	3,500	A	0%	0
6	FDS	Kindergarten/ 0	3,500	A	0%	0
7	GG	K/0	12,500	A	4%	500
8	IM	Kindergarten/ 0	3,500	A	0%	0
9	IU	Kindergarten/ 0	3,500	A	0%	0
10	KW	Kindergarten/ 0	3,500	A	0%	0
11	MAI	K/2	3,500	B	0%	0
12	MAI	Kindergarten/ 0	9,000	A	1.75 %	157.5
13	MD	Kindergarten/ 0	3,500	A	0%	0
14	ML	K/1	3,500	B	0%	0
15	MRB	Kindergarten/ 0	3,500	A	0%	0
16	MYM	Kindergarten/ 0	3,500	A	0%	0
17	RA	Kindergarten/ 0	3,500	A	0%	0
18	RG	K/3	37,500	C	14%	5,250
19	Republic of Indonesia	Kindergarten/ 0	3,500	A	0%	0
20	RM	Kindergarten/ 0	3,500	A	0%	0
21	RUG	Kindergarten/ 0	10,000	A	2%	200
22	RY	Kindergarten/ 0	3,500	A	0%	0
23	RZ	Kindergarten/ 0	3,500	A	0%	0
24	RZ Mechanic	Kindergarten/ 0	3,500	A	0%	0
25	SI	Kindergarten/ 0	3,500	A	0%	0
26	SK	Kindergarten/ 0	3,500	A	0%	0
27	SR	Kindergarten/ 0	3,500	A	0%	0
28	SY	Kindergarten/ 0	3,500	A	0%	0
29	YNH	K/3	22,500	C	8%	1,800
30	YW	Kindergarten/ 0	3,500	A	0%	0

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179,000

7,907.5

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Based on Table 3, the calculation of Article 21 Income Tax for Individual Taxpayers at PT XXX has been adjusted to the provisions of Minister of Finance Regulation Number 168 of 2023 through the application of the Average Effective Rate (TER). In this scheme, the tax payable is calculated by multiplying the employee's gross income by the effective rate determined according to the Non-Taxable Income (PTKP) category and the relevant income level. This method differs from the previous mechanism which required the calculation of net income, taxable income, and the application of progressive rates in layers, thus requiring more complex calculation stages.

Based on the calculation results using the TER scheme, of the total 30 permanent employees registered as Individual Taxpayers, there are 5 employees whose income exceeds the PTKP limit and therefore are subject to Article 21 Income Tax. For the January 2024 tax period, the total gross income received by all employees was recorded at IDR 179,000,000. By applying the appropriate average effective rate (TER), the total Article 21 Income Tax withheld by the company for the five employees was IDR 7,907,500.

The implementation of the TER rate significantly simplifies the calculation of tax payable by a company's finance department. With a single rate system categorized by income level, the risk of errors in determining progressive tax layers is minimized. Tax calculations are simplified because the finance department no longer has to perform step-by-step calculations for each taxable income layer, but instead simply multiplies gross income by a single rate determined by the TER provisions.

Thus, changes in the application of the Average Effective Rate (TER) have a positive impact on companies, especially in increasing the efficiency of tax administration and reducing the risk of errors in withholding Article 21 Income Tax. In addition, increased accuracy in tax calculations and reporting also has a direct impact on taxpayer protection, as it can prevent employees from the risk of excess or insufficient tax withholding that could potentially result in administrative sanctions. Therefore, the application of TER not only supports technical convenience for companies as tax withholding agents, but also increases compliance and legal certainty for Individual Taxpayers.

## CONCLUSION

Research at PT XXX shows that changes to the Article 21 Income Tax withholding policy through the implementation of the Average Effective Rate (TER) have had a positive impact on the accuracy of tax deductions. Simplification of the calculation method has been proven to reduce errors that were previously common due to the complexity of the old system, which involved more than 400 calculation scenarios. This finding supports the theory of tax administration, which states that a simple and easy-to-understand tax system will improve administrative accuracy and lower compliance costs. By reducing calculation complexity, tax withholding parties can focus more on administrative accuracy and compliance with applicable regulations.

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