

TAX SYSTEM OPTIMIZATION: A COMPARATIVE ANALYSIS BETWEEN PERSONAL INCOME TAX AND CORPORATE INCOME TAX IN INDONESIA

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Abstract

This study adopts a qualitative approach to analyze the comparison between Personal Income Tax (PPh) and Corporate Income Tax (PPh Corporate) in Indonesia. Through literature studies and observations, this study explores the tariff structure, tax relief, and tax compliance level of the two tax systems. The economic implications of the implementation of Income Tax and Corporate Income Tax on economic growth, investment, and income distribution were also discussed. The findings show that tax reform, as stated in the Law on Harmonization of Tax Regulations (UU HPP), has a significant impact in improving the effectiveness and fairness of the tax system. The results of this study provide in-depth insights into the importance of appropriate tax policies to support inclusive and sustainable economic growth in Indonesia.

Keywords: Income tax, Income Tax, Corporate Income Tax, Tax Reform

Introduction

The tax system in Indonesia is a mechanism regulated by the government to collect revenue for the state through tax payments by citizens and business entities operating in the region (Kurnianingsih, 2022). As one of the main instruments in fiscal management, taxes have a strategic role in supporting the sustainability of the country's economy and providing funds to finance various development programs and public services. Indonesia's tax system consists of various types of taxes, including Income Tax, Value Added Tax (VAT), Sales Tax on Luxury Goods (PPnBM), Land and Building Tax (PBB), and various other regional taxes (Hidayat & Susilawati, 2022). Along with economic developments and fiscal policies, the tax system in Indonesia has undergone various changes and adjustments. This is reflected in the various tax reforms carried out by the government to improve efficiency and fairness in the tax system, as well as to respond to economic dynamics and global demands. Some of these reforms include simplifying tax rates, increasing transparency and accountability, and providing incentives to encourage investment and economic growth. In the global context, changes in the global economy and the impact of the Covid-19 pandemic have put additional pressure on the tax system in Indonesia. The weakening global economy and declining business activity led to a decline in tax revenues, while economic recovery efforts required greater fiscal support from the government. Therefore, evaluation of the existing tax system and appropriate reforms are essential to optimize the performance of Indonesia's tax system in facing future challenges and supporting sustainable economic growth (Ramadhan et al., 2022).

An in-depth understanding of Corporate Income Tax (PPh) is crucial. According to Article 1 of the Income Tax Law No. 7 of 1983, Corporate Income Tax is a tax imposed on income received or obtained by business entities during one tax year (Lubis & Dinanti, 2022). Thus, Corporate Income Tax is one of the main instruments in collecting state revenue through contributions from business entities operating within the country's territory. Corporate Income Tax has two types based on its nature, namely Final Corporate Income Tax and Non-Final Corporate Income Tax. Final Corporate Income Tax is an income tax that is imposed on a final basis on certain income received or obtained by business entities, as regulated in Government Regulation Number 23 of 2018. Meanwhile, Non-Final Corporate Income Tax is an income tax imposed on the income of a business entity based on provisions of Article 17 and Article 31E of Law Number 36 of 2008 concerning Income Tax. An in-depth understanding of Corporate Income Tax, including the difference between Final Corporate Income Tax and Non-Final Corporate Income Tax, is important in the context of analyzing the optimality of the tax system (Halik & Venanda, 2022). This is

because an efficient and effective tax system must consider various aspects, including the impact of various types of taxes on state revenue, socio-economic justice, and incentives for economic growth. Therefore, research that reviews Corporate Income Tax will provide a strong foundation for understanding the contribution and role of income tax in the context of Indonesia taxation as well as in the framework of comparative analysis with personal income tax.

In the context of the study of the optimization of the tax system, a comprehensive understanding of the subject of Personal Income Tax (PPh OP) is essential. According to the Income Tax Law (Income Tax Law), the subject of Income Tax is an individual or entity responsible for paying taxes on income earned or received in a Tax Year or part of a Tax Year. This individual or entity is officially referred to as a Taxpayer (WP) and is identified through a Taxpayer Identification Number (NPWP) (Minister of Finance of the Republic of Indonesia, 2023). However, it is important to note that the subject of Income Tax can be divided into two main categories. First, the subject of Domestic Income Tax, as regulated in the Job Creation Law Number 11 of 2020. This subject is an individual who is an Indonesia Citizen (WNI) or Foreign Citizen (WNA) who meets certain criteria, such as living in Indonesia for more than 183 days in a 12-month period or having the intention to live in Indonesia. Domestic Income Tax is imposed on taxpayers who have received or earned income that exceeds the limit of Non-Taxable Income (PTKP) (Minister of Finance of the Republic of Indonesia, 2023).

The difference between Personal Income Tax (PPh) and Corporate Income Tax (PPh Corporate) is fundamental in a country's taxation system. Income Tax is a tax imposed on individuals on the income they earn in a certain period. Meanwhile, Corporate Income Tax is a tax imposed on business entities on the income they earn in carrying out their business activities. The first fundamental difference lies in the tax subject (Khairani & Silalahi, 2022). Income Tax stipulates individuals as tax subjects, while Corporate Income Tax determines business entities as tax subjects. In addition, the difference between Income Tax and Corporate Income Tax is also found in the tax rate applied. Income tax rates are usually more progressive, with rates increasing as individual income increases (Anjarwati & Venny, 2021). This is aimed to provide tax justice by burdening individuals who have higher economic ability with higher tax rates. On the other hand, corporate income tax rates are usually fixed or flatter, although there are differences in rates between countries that implement corporate tax systems.

The difference between Income Tax and Corporate Income Tax is also reflected in the tax relief provided. Tax relief in income tax is usually more numerous and varied, depending on marital status, the number of dependents, and certain types of expenses that can be deducted from taxable income. On the other hand, tax relief in Corporate Income Tax is more limited and generally related to tax incentives given to certain sectors in order to encourage investment and economic growth. The difference between Income Tax and Corporate Income Tax also includes other aspects such as the treatment of passive income, deductible expenses, and different administrative requirements (Kurnianingsih, 2022). Understanding these differences is important in evaluating the fairness, efficiency, and effectiveness of the two tax systems, as well as in formulating fiscal policies that are in line with a country's economic development goals. Effective and efficient management of the tax system is an important focus in the context of a country's fiscal policy. In Indonesia, the comparison between Personal Income Tax (PPh) and Corporate Income Tax (PPh Corporate) is the main subject in an effort to understand the dynamics of national taxation. However, until now, there is still debate about the optimality and suitability of the two tax systems in achieving socio-economic goals, both in terms of state revenue and distribution justice. In addition, the formulation of the problem involves tracing the differences in tariff structures, tax reliefs, and tax compliance levels between Income Tax and Corporate Income Tax as well as the economic implications of the implementation of the two tax systems on economic growth, investment, and income distribution in Indonesia.

The formulation of this problem also underlies the need for a deeper understanding of the impact of tax reform, as reflected in the Law on Harmonization of Tax Regulations (UU HPP), on the optimality and efficiency of the tax system in Indonesia. Therefore, this study aims to explore how the implementation of taxation has an impact on economic growth, investment, and income distribution, as well as to evaluate whether there are policies or reforms that can be proposed to improve the optimization of the income tax system, both in terms of administrative efficiency and the achievement of socio-economic goals.

Methods

This research will adopt a qualitative approach that combines literature study and observation. The qualitative method is a research approach that aims to understand phenomena in depth through the collection, analysis, and interpretation of descriptive data (Assyakurrohim et al., 2022). In the qualitative method, the researcher focuses on understanding the context, meaning, and experience of the research subject, as well as paying attention to the complexity and diversity in the phenomenon being studied. Data

collection techniques in qualitative methods include interviews, observations, and analysis of documents, which are then analyzed inductively to identify emerging patterns, themes, and concepts. Qualitative methods are often used in social and behavioral research, as well as in contexts where researchers want to explore and understand the complex and multifaceted aspects of a phenomenon.

The qualitative approach was chosen because it allows researchers to explore the complexity of taxation phenomena, especially in the context of the comparison between Personal Income Tax (PPh) and Corporate Income Tax (PPh Corporate) in Indonesia, in depth and holistic. The literature study will be the core of this research methodology, where the researcher will compile, analyze, and synthesize various relevant sources of information. This includes but is not limited to legal documents, academic journals, research reports, and official publications related to the tax system in Indonesia. In addition to the literature study, observation will also be an important component of this methodology. Observations will be conducted to gain more direct and contextual insights into the implementation of tax practices, including the reporting process, tax compliance, and the implementation of tax policies by related parties. Through this observation, researchers will be able to see firsthand how Personal Income Tax and Corporate Income Tax are applied in practice, as well as what factors affect their implementation in the field.

The combination of qualitative approaches, literature studies, and observations is expected to provide a deep, contextual, and comprehensive understanding of the comparison between Personal Income Tax and Corporate Income Tax in Indonesia. This will allow researchers to identify patterns, trends, and dynamics associated with these two types of taxes, as well as understand the possible tax policy implications. Thus, this research is expected to make a significant contribution in improving the understanding of Indonesia's tax system and supporting the development of more effective and efficient tax policies in the future.

Results and Discussions

Tax System Reform and Optimization in Indonesia

On October 7, 2021, the Plenary Session of the House of Representatives of the Republic of Indonesia passed the Law on the Harmonization of Tax Regulations (UU HPP), which is an important part of tax reform efforts that began in the 1980s. The HPP Law, which continues various previous reforms, aims to optimize national tax performance through administrative and policy improvements. Administratively, the HPP Law aims to close various existing regulatory loopholes and adapt to the latest developments in business activities, especially with the increase in digital-based businesses triggered by advances in information technology (Ramadhan et al., 2022). Meanwhile, in terms of tax policy, the HPP Law is expected to strengthen the aspect of fairness in the distribution of tax burdens for taxpayers, as well as provide more significant support to strengthen the Micro, Small, and Medium Enterprises (MSMEs) sector, which is the backbone of the national economy.

The HPP Law reflects the Government's great commitment to implementing fiscal policy reforms as a whole. By making continuous improvements in the revenue sector, especially through strengthening tax regulations, the Government aims to build a strong foundation for sustainable economic growth (Dhyanasaridewi et al., 2023). The success of fiscal policy reforms is seen as a key element in facilitating various structural reforms in the health, education, and infrastructure sectors, which are key pillars in achieving the vision of Advanced Indonesia 2045. Therefore, the HPP Law is a strategic basis to create a more competitive investment and business climate, as well as strengthen Indonesia's economic foundation towards a more prosperous and sustainable future.

The HPP Law is expected to increase the effectiveness of the state budget function which includes the functions of allocation, distribution, and stabilization to achieve a just and prosperous society. These three functions will be carried out well if supported by strong state revenue, efficient state expenditure management, and innovative and sustainable financing management. The allocation function is related to the provision of public services such as education, health, security, and economic infrastructure. The distribution function aims to distribute development results evenly between residents and regions through social assistance programs and development of disadvantaged regions. The stabilization function involves measures to overcome the economic crisis, such as a rapid response to the Covid-19 pandemic. Taxation plays an important role in supporting state revenues, especially in developed countries where taxation is the main source of income. The success of tax reform is the main factor behind the high tax revenue to GDP ratio in developed countries. For example, the average tax ratio in OECD countries reached 15.87% of GDP based on World Bank World Development Indicators data in 2019. Therefore, tax reform in the HPP Law considers the best administrative practices and policies that have been successfully implemented in various countries, as well as following dynamic business developments (Minister of Finance of the Republic of Indonesia, 2023).

Tax reform through the HPP Law is based on the principles of fairness and partiality. In the context of income tax (PPh), these principles are reflected in various policies, such as support for MSMEs with a limit on gross non-taxable business turnover of IDR 500 million and a 50% income tax discount, improving the progressivity of Personal Income Tax (OP) by expanding the range of taxable income, expanding the tax base through the implementation of in-kind taxes, and maintaining a corporate income tax rate of 22% starting from the 2022 Tax Year (Felanda et al., 2021). For example, the income tax for the lowest rate layer of single OP taxpayers with an income of up to IDR 5 million per month is only subject to income tax of IDR 300 thousand a year, or 0.5% of their total income in a year. On the VAT side, justice and partiality are reflected in the protection of the community through VAT exemption on basic necessities, health services, education, and social services. This is in line with the significant budget allocation for education, health, and social protection in the 2022 State Budget. The HPP Law also targets VAT exemptions and facilities that are more targeted, as well as providing convenience for small entrepreneurs through the final rate for MSME Taxable Entrepreneurs. For example, MSME taxpayers will get a VAT rate waiver that is lower than the normal rate in accordance with the regulations that will be set (Hidayat & Susilawati, 2022).

Comparison Between Rate Structure, Tax Relief, and Tax Compliance Level In comparing Personal Income Tax (PPh) and Corporate Income Tax (Corporate Income Tax) in Indonesia, there are several significant differences in the rate structure, tax relief, and tax compliance level. First of all, in terms of tariff structure, Personal Income Tax generally applies a progressive rate that increases along with income, with a higher rate for larger income. On the other hand, Corporate Income Tax tends to apply a flat or fixed rate, although the amount of the rate may vary depending on the size of the company and the business category (Halik & Venanda, 2022). Second, related to tax relief, Personal Income Tax generally has more incentives and deductions that can be given to individuals, such as PTKP (Non-Taxable Income) deductions, tax deductions for education, health, and retirement expenses, as well as various other incentives. On the other hand, Corporate Income Tax tends to have more limited tax relief, with incentives that focus more on investment stimulus, research and development, as well as certain sectors that are considered strategic for economic growth.

Regarding tax compliance, Personal Income Tax is often faced with lower compliance challenges, especially in terms of informal income, self-assessment, and difficulties in monitoring individual income (Anjarwati & Venny, 2021). However, the government has made various efforts to improve individual tax compliance through the implementation of automated reporting systems and compliance incentives. On the other hand, Corporate Income Tax tends to have a higher level of compliance, mainly due to greater transparency in corporate financial reporting and the adoption of tax withholding systems by third parties, such as banks and financial institutions. In addition to the comparisons that have been mentioned, there are several additional aspects that can be considered in comparing Personal Income Tax (PPh) and Corporate Income Tax (PPh Corporate) in Indonesia. One of them is in terms of the use of income. Personal Income Tax tends to tax individual income from a variety of sources, including salaries, small business income, investments, and more. On the other hand, Corporate Income Tax is more focused on income earned by business entities from their business activities (Halik & Venanda, 2022).

Overall, the comparison between the rate structure, tax relief, and tax compliance level between Personal Income Tax and Corporate Income Tax reflects differences in the approach and characteristics of tax subjects. Although they both have the same goal of collecting revenue for the country, the implementation and effectiveness of both tax systems can be affected by a variety of external and internal factors.

Economic Implications of the Implementation of Both Tax Systems

The implementation of both tax systems, both Personal Income Tax (PPh) and Corporate Income Tax (PPh Corp.), has various implications for economic growth, investment, and income distribution in Indonesia. First of all, in the context of economic growth, the implementation of the right tax system can be an important factor in influencing the investment climate and overall economic activity (Felanda et al., 2021). Reasonable tax rates and appropriate reliefs can encourage productive economic activity, increase the competitiveness of companies, and stimulate the growth of sectors certain. However, if tax rates are too high or tax incentives are ineffective, this can hinder investment, reduce competitiveness, and hinder long-term economic growth. Second, in terms of investment, an effective tax system can provide the right incentives for investors, whether in the form of tax reductions, fiscal incentives, or other tax relief. Low corporate income tax or tax incentives for investments in certain sectors can encourage greater capital flows into the economy, increase innovation, and encourage growth in strategic sectors. However, inappropriate or inconsistent tax policies can reduce investor confidence and hinder capital flows into Indonesia (Anjarwati & Venny, 2021).

In relation to income distribution, the tax system can have a significant impact on socio-economic justice. Progressive and fair Personal Income Tax can help reduce income disparities between individuals and encourage social inclusion. On the other hand, proper Corporate Income Tax can be used to redistribute wealth and reduce economic inequality between large and small companies. However, tax policies that do not take into account proportionally can increase income inequality and hinder social mobility (Felanda et al., 2021). Furthermore, in the context of income distribution, the implementation of both tax systems also plays an important role in determining the level of equality and fairness of income distribution in society. Progressively applied Personal Income Tax can help reduce the income gap between individuals with high and low incomes. This can be done through the imposition of higher tax rates for higher incomes, as well as the adoption of tax reduction policies for the underprivileged. However, on the other hand, if tax relief for Personal Income Tax is not appropriate or if there is a gap in the tax system, it can strengthen economic and social inequality in society.

Corporate Income Tax can also affect the distribution of income in different ways. Well-designed tax policies for companies can help reduce economic inequality between large and small companies and encourage economic inclusion (Hidayat & Susilawati, 2022). However, improper policies can strengthen economic monopolies and wealth inequality between various business sectors. Therefore, a careful and measurable tax policy design needs to be considered to ensure a more equitable and equitable distribution of income in society. Thus, it is important for the government to consider the economic implications of the two tax systems in formulating effective and sustainable tax policies. Continuous evaluation-Continuous impact on the economy, investment, and income distribution from the implementation of these two tax systems needs to be carried out to ensure that the implemented tax system can support inclusive and sustainable economic growth and improve the welfare of the community as a whole.

Conclusion

In this study, it can be concluded that tax reform carried out through the Law on Harmonization of Tax Regulations (UU HPP) has a significant impact on the tax system in Indonesia. The HPP Law aims to bring national tax performance closer to its maximum potential through administrative and policy improvements, as well as strengthen aspects of fairness and partiality in the distribution of tax burdens to taxpayers. Through increasing the efficiency and effectiveness of the tax system, it is expected to increase state revenue, support inclusive economic growth, and reduce socio-economic inequality. In addition, a comparison between the tariff structure, tax relief, and tax compliance level between Personal Income Tax (PPh) and Corporate Income Tax (Corporate Income Tax) reveals differences in approaches and characteristics of tax subjects. Although they both have the same goal of collecting revenue for the country, the implementation and effectiveness of both tax systems can be affected by a variety of external and internal factors. Therefore, this study highlights the importance of considering the economic implications of the two tax systems in formulating effective and sustainable tax policies to support inclusive economic growth and improve the welfare of the community as a whole.

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