

Presumptive Tax Regimes for Employee Income: Opportunities for Tax Simplification and Challenges to Compliance and State Revenue in Indonesia

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This study explores the potential implementation of a final or presumptive tax regime for employee income in Indonesia as an effort to simplify tax administration and improve voluntary compliance. Under the current system, Income Tax Article 21 presents significant complexity, particularly for small-scale employers and employees with limited tax literacy. Drawing from international best practices and domestic MSME final tax success, the study employs a SWOT analysis to assess the strengths, weaknesses, opportunities, and threats of applying a simplified tax scheme for employee income. Findings suggest that a final tax regime may enhance administrative efficiency, reduce compliance costs, and broaden the tax base. However, it also poses challenges such as potential regressivity, loss of tax equity, and risks of system abuse. A microsimulation analysis reveals that lower-income earners may bear a heavier burden under a flat final tax compared to the existing progressive scheme, emphasizing the need for careful policy design. The study recommends a selective, data-driven approach to policy formulation, including minimum income thresholds, optional participation, and periodic evaluation mechanisms. While a final tax on employee income is not a panacea, it may serve as a transitional tool within a broader strategy for tax reform and inclusivity.

Keywords: Presumptive Tax, Final Tax, ITA 21, Tax Compliance, Tax Administration, Withholding

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Introduction

A. Background

Indonesia's tax system adheres to the principle of self-assessment, where taxpayers are given the confidence to calculate, deposit, and report their own tax obligations. However, this principle requires an administrative system that is simple and accessible to all levels of society. In practice, the calculation of Income Tax Article (ITA) 21 for employees is still considered complex, especially for small and medium-scale employers who do not have sufficient resources for tax administration [1].

Income Tax Article 21 recognises various layers of progressive rates, non-taxable income (PTKP), and certain deductible expenses, which require technical understanding from both taxpayers and tax withholders. This complexity often leads to calculation and reporting errors, and creates a high administrative burden [2].

In comparison, the government has enacted the Final Income Tax scheme for micro, small, and medium enterprises (MSMEs) through Government Regulation No. 23/2018, which offers a single rate and simple calculation of gross income. This scheme is proven to increase voluntary tax compliance and reduce administrative burden for MSME taxpayers [3]. A similar approach could be considered for employee income, especially for certain

segments that have fixed and relatively homogeneous income characteristics.

Simplification of taxation through a final system on employee income has the potential to provide benefits such as efficiency in employer withholding, predictability of employee tax burden, and increased voluntary compliance. However, this scheme also needs to be carefully assessed in terms of tax fairness, its impact on state revenue, and the potential for abuse of the system by certain parties [4].

Against this background, it is important to further examine the potential implementation of a final tax scheme on employee income in order to simplify tax administration and improve taxpayer compliance.

B. Problem Formulation

- Can the final tax scheme be applied to employee income in Indonesia?
- What is the potential impact of the policy on tax administration and employee tax compliance?

C. Research Objectives

This study aims to analyse the potential of implementing a final tax on employee income as an alternative to a simpler taxation scheme and to evaluate its impact on tax administration and tax compliance.

D. Benefits of Research

- Academically, it contributes to the literature on tax system reform, especially related to the simplification of the collection mechanism.
- Practically, it provides considerations for tax authorities in designing policies that encourage efficiency and compliance.
- In terms of policy, it is the initial reference for the trial or simulation of the implementation of the final tax on employee income.

Theoretical Framework and Hypothesis Development

A. Concept of Employee Income Tax and Final Tax

Employee Income Tax Theory of Tax Policy

Income Tax (PPh) on employee income is regulated in Law Number 7 of 1983 concerning Income Tax as amended several times, most recently by Law Number 7 of 2021 concerning Harmonisation of Tax Regulations (UU HPP). This tax is withheld by the employer and is progressive in accordance with Article 17 rates, which range from 5% to 35% depending on the amount of annual taxable income earned by the employee [5].

The calculation of Income Tax Article 21 for employees is based on gross income minus deduction components such as job expenses, pension contributions, and non-taxable income (PTKP). Although this system reflects the principles of vertical and horizontal equity, in practice it requires adequate technical understanding and administrative resources from both employers and employees [6].

The administration of Income Tax Article 21 withholding also requires accuracy in the classification of types of income, the application of different PTKP provisions based on family status, and reporting in the form of periodic tax returns. This complexity is often a burden, especially for small business entities that do not have tax experts [7].

Final Tax

Final tax is a form of taxation imposed directly on the tax object with a certain rate that is fixed and does not take into account deductible costs. In the context of Indonesian taxation, final tax is applied as a form of simplification of tax administration, especially for taxpayers with a certain economic scale, such as MSME players.

A concrete example is the implementation of Final Income Tax based on Government Regulation No. 23/2018, where MSMEs are subject to a rate of 0.5% of gross turnover without taking into account net profit or expenses [8]. This system is proven to reduce compliance barriers, increase tax revenue from the informal sector, and reduce administrative costs for both taxpayers and tax authorities [3].

The application of final tax has the main characteristics: (1) a flat rate, (2) imposition on gross income, (3) no recalculation at the end of the tax year, and (4) not creditable against annual tax. Despite offering convenience, final tax schemes are often perceived as not accurately reflecting taxpayers' ability to pay [4]. Therefore, the final

tax policy should be designed by considering aspects of efficiency, fairness, and potential tax avoidance.

B. Tax Compliance Theory

Tax compliance is a key element in the effectiveness of a self-assessment-based tax system. In this context, tax compliance is defined as the willingness of taxpayers to fulfil tax obligations in accordance with applicable regulations voluntarily [9]. The level of tax compliance is influenced by various factors, both economic, psychological, and administrative.

Economic Theory of Tax Compliance

This theory departs from the rational model that taxpayers will consider the benefits and risks in fulfilling their tax obligations. In the Allingham-Sandmo (1972) model, taxpayers are considered rational individuals who will comply if the costs of non-compliance (e.g. sanctions or audit risk) outweigh the benefits of tax avoidance. Thus, factors such as tax rates, audit probabilities, and the amount of penalties play an important role in influencing taxpayer compliance [10].

However, this theory does not fully explain compliance in countries with low levels of supervision but high levels of compliance. Therefore, other approaches are needed to complete the explanation.

Psychological and Social Theories of Tax Compliance

The psychological and social approaches view tax compliance as not solely based on economic calculations, but also on social norms, perceptions of fairness, and trust in the tax authority. The slippery slope framework theory developed by Kirchler, Hoelzl, and Wahl [11] explains that compliance is influenced by two main aspects: power of authority and trust in authority. Compliance will increase if the tax authority not only has the ability to force, but also gains legitimacy and trust from the public [11].

In the Indonesian context, this trust factor is particularly important given that the level of tax literacy is still low, and perceptions of tax administration complexity tend to be high [12]. Therefore, simplifying the tax system can be one of the strategies to increase positive perceptions of the system, which in turn has an impact on voluntary compliance.

Administrative Compliance Approach and Economic Foundations

This approach emphasises the importance of simplicity, certainty, and convenience in the tax administration system as determinants of compliance. The more complicated the tax reporting and payment process, the greater the likelihood of intentional or unintentional non-compliance [13]. In this case, the final tax offers convenience because the calculation is made on the basis of gross income without taking into account various deduction components.

Thus, the implementation of a simple and transparent tax system can improve administrative efficiency and strengthen tax compliance in a sustainable manner [14].

C. Regulatory Framework and Related Tax Policies

Tax regulations in Indonesia are continuously reformed to adjust to economic dynamics and fiscal administration needs. In the context of employee income taxation and the possibility of implementing a final scheme, there are several key regulations that are relevant.

Income Tax Law

Law Number 7 Year 1983 on Income Tax, as last amended by Law Number 7 Year 2021 on Harmonisation of Tax Regulations (HPP Law), regulates the legal basis for tax collection on individual and corporate income. Article 17 regulates the progressive rate of personal income tax, which is the basis for calculating the current employee income tax.

Regulations Related to Final Income Tax for MSMEs

The implementation of Final Income Tax is regulated in Government Regulation No. 23/2018, which provides an alternative tax imposition at a rate of 0.5% on gross turnover for small and micro businesses with certain gross turnover (maximum of IDR4.8 billion per year). The purpose of this policy is to encourage compliance through simplicity, while increasing revenue from the informal sector [8].

Tax Administration System (DGT Online and e-SPT)

Through the Directorate General of Taxes, the government continues to develop electronic systems to facilitate tax reporting and payment. However, the administration of Income Tax Article 21 withholding is still considered complicated by many small businesses because it requires individualised calculations of different types of allowances and deductions [6].

The Final Income Tax scheme on employee income has not been explicitly regulated, but it can be studied as a form of special tax regime policy based on simplification of collection and legal certainty, with reference to the principle of ease of administration as mandated in the HPP Law.

D. Previous Studies on Simplification and Final Taxes Table of Compliance Theory and its Implications in Indonesia

Previous studies have examined the effectiveness of tax simplification policies, including the application of final tax, in improving compliance and efficiency of tax administration. These studies provide an important empirical basis for analysing the possibility of expanding the final tax scheme, including to employee income.

Simplification of Tax Administration and Compliance

James and Alley [13] emphasise that an overly complex tax system not only burdens taxpayers, but also creates opportunities for unintentional non-compliance. They suggest that simplifying the tax system can reduce compliance costs and improve administrative efficiency. This is supported by research by Tran-Nam et al. [15] who found that tax complexity in developing countries is often a major impediment to compliance, particularly among small and medium economic actors.

In the Indonesian context, Rosdiana and Irianto [7] also stated that tax reform that focuses on the aspects of simplicity and legal certainty can expand the tax base and increase voluntary compliance.

Effectiveness of MSME Final Income Tax

Several studies examine the impact of the implementation of Final Income Tax on MSMEs in Indonesia as a form of simplification. Research by Nurhidayat and Oktaviani [3] shows that the

implementation of the Final Income Tax rate of 0.5% based on PP No. 23/2018 significantly encourages the level of compliance of MSME taxpayers, especially due to the ease of calculating and reporting taxes.

The same thing was revealed by Mustika [16], who found that the imposition of final tax increases the participation of MSME players in the formal tax system. However, this study also noted that the flat final tax rate does not take into account the real ability to pay, which may create an excessive burden on MSMEs with low profit margins.

Potential Final Tax Expansion

The study by Bird and Zolt [4] examined the implementation of final tax in developing countries and concluded that the scheme is effective in the short term to broaden the tax base and simplify compliance. However, they emphasise that the final tax should be used as a temporary or transitional solution towards a fairer net income-based tax system.

In relation to employee income, not many studies have explicitly evaluated the possibility of implementing a final tax. However, a study by Shome [17] suggests that a simplified withholding system for certain income groups could improve efficiency and reduce administrative burden for both tax authorities and employers.

E. Potential Decrease in Tax Revenue due to the Implementation of Final Tax on Employee

The introduction of a final tax on employee income may have the consequence of simplifying administration and improving tax compliance, but on the other hand, it also has the potential to reduce overall tax revenue, especially if the final tax rate is lower than the progressive rate in the current personal income tax scheme [4].

Potential Sources of Revenue Decline

Some of the causes of the decline in state revenue due to the implementation of the final tax include:

- Eliminate the element of progressivity: The final rate system is proportional (flat), so taxpayers with higher incomes pay less than if a progressive system was used.
- Substitution effect: Taxpayers may shift some income to final tax schemes to avoid progressive rates, as found in Keen's (2008) study on tax shifting.
- Imposition of low rates: To incentivise compliance, the final tax rate is usually lower than the normal rate, which directly reduces the revenue potential if not accompanied by tax base expansion.

Mitigation Strategy for Declining Tax Revenue

To reduce the negative impact on state revenue, several approaches have been developed in various countries and can be considered for Indonesia:

- Careful and data-driven final tax rate setting
The study by Toder and Viard [19] emphasises the importance of using microsimulation models to calculate a final tax rate that does not lead to fiscal losses. The rate is set based on income distribution and compliance elasticity.
- Limited application to certain segments

As in the Philippines and India, the final tax system only applies to employees or taxpayers with income below a certain threshold. This maintains fiscal equity and limits the impact on revenue.

F. Implications for Tax Policy in Indonesia

From the description above, it can be concluded that the application of final tax on employee income does carry the risk of reducing tax revenue, but this can be mitigated by designing policies that are data-based, selective, and accompanied by an evaluation system. In the Indonesian context, the successful implementation of the Final Income Tax on MSMEs is a foothold that can be expanded, while still paying attention to fiscal capacity and tax fairness.

G. International Case Studies on Income Tax Simplification and Final Taxes

In an effort to simplify income tax systems and improve compliance, some developing countries have adopted a final tax approach or presumptive tax regimes. The following case studies illustrate how this approach is applied in some countries and its implications for tax administration and taxpayer compliance.

Philippines: Optional Standard Deduction and MSME Final Tax

The Philippines offers Optional Standard Deduction (OSD) and Final Tax options for micro and small enterprises to avoid the burden of complex administration. This scheme is proven to increase the tax base of MSMEs and speed up tax reporting as the process is much easier compared to the comprehensive system. In addition, the withholding system on employee income has also been simplified so that taxpayers do not need to file annual returns, as long as the tax has been deducted correctly [22].

India: Presumptive Taxation Scheme for Small Taxpayers

India has a Presumptive Taxation Scheme (PTS) under Section 44AD of the Income Tax Act, which allows taxpayers with a turnover below INR 2 crore to be taxed based on a certain percentage of turnover, typically 6%-8%, without the need for full bookkeeping. This scheme is effectively like a final tax as it does not require a detailed calculation of net income.

According to India's Ministry of Finance [23], this policy has encouraged formalisation of the informal sector and increased the tax base. However, there are challenges in monitoring as the very simple nature of the scheme opens up opportunities for underreporting of turnover.

African and Asian Countries: Presumptive Tax Regimes

Many developing countries in Africa and Asia, such as Kenya, Uganda, Pakistan, and Bangladesh, have implemented presumptive tax regimes as a way to reach micro and informal sector taxpayers who are difficult to reach with the regular tax system. These regimes set taxes based on certain indicators (such as turnover, size of business premises, or type of activity) at predetermined rates.

According to the International Monetary Fund (2014), this system is effective in reducing tax administration costs for both authorities and taxpayers, as well as being a transitional tool towards a regular tax system. However, there is a need for periodic evaluation so that this scheme is not utilised as a permanent means of tax avoidance.

Georgia: Comprehensive Tax Reform and Electronification

Following the tax reforms of 2004-2006, Georgia simplified its tax system by reducing the number of tax types, lowering income tax rates, and adopting an automatic withholding system. One of the main innovations was the online tax reporting and withholding system for personal income. Based on a study by the OECD [24], Georgia recorded significant improvements in tax compliance and collection, without the need for a major expansion of collection resources.

Russia: Flat Rate Tax and Withholding System

Russia has since 2001 implemented a flat personal income tax of 13% through a system of direct employer withholding. According to a study by Ivanova, Keen, and Klemm [25], this change succeeded in increasing tax compliance and improving state revenue in the short term, as the system became simpler and more transparent. Although the system has been criticised for not being progressive enough, its implementation shows that simplifying rates and administration can have a positive impact on taxpayer compliance.

H. Relevance of International Studies to the Indonesian Context

International case studies show that simplification approaches such as final tax and presumptive tax regimes:

- Can improve voluntary compliance and tax ratios in the informal sector or lower middle income groups;
- Lower administrative burden and compliance costs for both taxpayers and tax authorities;
- This needs to be balanced with careful tariff policy design so as not to cause a significant decline in revenue.

The implementation of the MSME Final Income Tax in Indonesia has shown early success in these aspects. Therefore, a similar approach on certain employee incomes (e.g. non-permanent employees, or employees with low to medium income) could potentially provide similar benefits, as long as it is carefully and selectively designed.

Research Methodology

A. Type of Research

This research uses a qualitative approach with the SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis method to evaluate the potential implementation of final tax on employee income. SWOT analysis was chosen because it is able to identify and evaluate internal and external factors that can affect the success of employee income tax simplification policies.

B. Data Source

The data used in this research is secondary, obtained from:

- Literature and scientific journals related to income tax, final tax, and tax compliance;
- Tax laws and regulations in Indonesia;
- Official reports and documents of the Directorate General of Taxes (DGT);
- Relevant previous studies and research results.

C. Research Framework

This research departs from the understanding that a complex tax system has the potential to reduce the level of taxpayer compliance, especially for employees and small to medium-sized businesses [13]. The current concept of employee income tax uses an Income Tax Article 21 withholding mechanism that is quite complex, thus creating an administrative burden for employers and taxpayers [6].

Alternatively, Shome's [17] research suggests simplification through withholding and final tax systems, which can reduce compliance costs and improve administrative efficiency. Empirical studies in Indonesia also show that the implementation of Final Income Tax for MSMEs has successfully increased compliance due to the ease of reporting and clear rates [3].

Based on tax compliance theory [11] and the results of these studies, it can be formulated that simplifying the employee income tax withholding system through the application of the final tax has the potential to increase voluntary compliance by reducing administrative burdens and strengthening taxpayers' trust in the tax system.

Therefore, this research uses a SWOT analysis approach to identify strengths, weaknesses, opportunities, and threats in the implementation of final tax on employee income as an effort to simplify administration and improve tax compliance.

D. SWOT Analysis Procedure

The SWOT analysis procedure in this research includes stages:

1. Identification of Internal Factors
Includes an analysis of the strengths and weaknesses of the current employee income tax system and the potential for simplification using a final tax. Aspects analysed include ease of administration, compliance costs, and clarity of tax rates.
2. Identification of External Factors
Includes opportunities and threats originating from the external environment, such as fiscal policy developments, taxpayer compliance levels, and economic and social dynamics.
3. Evaluation and Synthesis
Combining the results of the analysis of internal and external factors to formulate an optimal strategy for implementing final tax on employee income that can improve administrative convenience and tax compliance.

E. Data Validity

To ensure data validity, this research uses triangulation of data sources by comparing various references, official documents, and results of previous studies. In addition, analyses were conducted systematically and based on relevant theories and conceptual frameworks.

Results and Discussion

A. Strengths of Final Tax Implementation for Employees

The implementation of final tax on employee income offers a series of strengths in terms of administration and collection effectiveness. Based on practices that have been implemented in the Final Income Tax for MSMEs, this system significantly reduces the burden of reporting and calculating taxes [3]. This is particularly relevant for small and medium-sized employers who have experienced difficulties

in calculating ITA 21 due to the complex calculation of components [6].

The final tax scheme also increases the predictability of the tax burden, which in turn can strengthen voluntary compliance. With a flat rate and simple procedures, employees can easily know the amount of tax levied on their income, without the risk of miscalculation that often occurs in progressive rate systems.

It also has the potential to reduce compliance costs for both taxpayers and tax administration, as emphasised by [13] and [9]. Simplification of the system means savings in time, resources, and reduced conflict between taxpayers and tax authorities.

B. Weaknesses of Final Tax Implementation for Employees

Despite its strengths, the final tax also presents a number of weaknesses that need to be scrutinised. The most significant is the loss of vertical equity, as the flat rate system does not differentiate between low- and high-income taxpayers [4]. This potentially leads to an uneven proportional burden, where low-income employees will pay the same percentage of tax as high income earners.

In addition, this scheme also does not take into account the subjective conditions of taxpayers such as family dependents or other deductible expenses that have been taken into account in the Income Tax Article 21 system. This may reduce the positive response from the community, especially if there is no alternative or compensation mechanism provided.

Another drawback is the potential for abuse, where entities or individuals with high income can change the income scheme to appear as if it falls under the final tax category to obtain a lower rate [25].

Furthermore, three additional weaknesses were identified:

1. Potential for a heavier burden on low incomes: If the final rates are set without a minimum income threshold, very low-income employees could pay higher taxes than under a progressive system that provides a personal allowance. This could lead to resistance from vulnerable groups.
2. Loss of incentives to report additional income: Under the final regime, there is no benefit for employees to report additional income as it does not affect their tax liability. This could reduce transparency and accountability.
3. Elimination of Social Deduction Components: The final tax system does not take into account family dependents, pension contributions, and other important expenses that are typically compensated under the ITA 21 system. This could create horizontal inequity.

C. Opportunities for Final Tax Implementation for Employees

Indonesia has a great opportunity to implement a final or presumptive tax regime for certain groups of employees. Case studies in India and the Philippines show that this approach can reach more taxpayers and promote significant tax base expansion [22].

With the high number of non-permanent and informal employees in Indonesia, a simple scheme can be a solution for segments that are difficult to reach with a complex formal tax system. Digitalisation of the DGT system also opens up opportunities for the implementation of automated and real-time withholding schemes, as successfully implemented in Georgia [24].

Another opportunity is the reinforcement of voluntary compliance, as described in the slippery slope theory [11]. When the system is perceived as fair, easy, and does not pose an excessive burden, the level of compliance tends to increase naturally without coercion.

D. Threats of Final Tax Implementation for Employees

The main threat of this policy is a decrease in tax revenue if the final rate is set too low or the tax base is not optimally expanded. A study by Toder & Viard [19] confirms that without data driven simulations and fiscal modelling, changes to the tariff structure can be costly in the long run.

In addition, tax fairness may be compromised, especially if there are no firm restrictions on the segment of taxpayers who are eligible to use the final scheme. This may trigger resistance from certain groups of society, as well as weaken the legitimacy of the tax system as a whole.

Another threat is the fragmentation of the tax system if there are too many special regimes without sufficient consistency and control. As noted by the IMF [21], many developing countries have failed to maintain efficient presumptive tax systems due to weak postimplementation evaluation and control.

This research also identifies several additional threats:

1. **Vulnerable middle class segmentation:** Middle-class employees with incomes slightly above the final tax threshold may be subject to double taxation if they are ineligible but lack the resources for regular tax administration.
2. **Potential tax arbitrage by employers:** Companies may convert permanent employees to non-permanent status to qualify for the final tax scheme with lower rates, thereby avoiding annual reporting obligations.
3. **Data gaps and audit capacity:** In the absence of robust data infrastructure, the risk of abuse of the final tax scheme increases as tax authorities struggle to verify the accuracy of status and actual income.

E. Strengthening and Mitigation Strategies

Based on the SWOT analysis above, suggested policy strategies include:

- **Segment restriction:** Application of the final scheme only to non-permanent employees or those earning below a certain threshold.
- **Optimal tariff determination:** Based on a simulation model of income distribution and its impact on state revenue.
- **Periodic evaluation and adjustment:** Ensure the scheme is not utilised for tax evasion or cause fiscal distortions.
- **Intensive education and socialisation:** Increase public understanding and acceptance of the new scheme.

F. Distributional Impact Simulation: Estimating the Burden Shift under Final Tax Regime

To strengthen the practical relevance of the proposed final tax scheme on employee income, a simple microsimulation was conducted to estimate the distributional impact across different income groups. Five representative income brackets were used: very low (IDR 40 million), low (IDR 60 million), middle (IDR 90 million), high (IDR 150 million), and very high (IDR 300 million)

annual gross income. The simulation compares the tax liability under the current progressive Article 21 regime (considering PTKP of IDR 54 million) and a proposed 3% flat final tax on gross income.

The results (Appendix A & B) indicate that the final tax scheme imposes a heavier burden on low-income employees, especially those whose incomes are currently below the PTKP threshold and thus pay no income tax under the progressive system. Conversely, high-income earners stand to benefit significantly from the simplified scheme due to the absence of progressive marginal rates and deductibility limits.

This suggests that applying a flat-rate final tax indiscriminately across all employee categories would result in a regressive burden, undermining vertical equity principles. The risk is particularly acute for very low-income earners who could be taxed under the final regime despite being exempt under the current structure.

Conclusions and Suggestions

A. Conclusions

This study finds that the implementation of a final tax regime on employee income in Indonesia holds considerable promise as a means of simplifying tax administration, reducing compliance costs, and expanding voluntary tax compliance, particularly for non-permanent and low-to-middle-income employees. Drawing from successful implementations in countries such as the Philippines, India, and Georgia, the key potential of such a system lies in its administrative efficiency and clarity.

However, the study also reveals significant challenges that require careful policy design. These include:

- **The risk of fiscal regressivity**, particularly for very low-income earners who may be worse off compared to the current progressive scheme with PTKP protections.
- **Loss of vertical and horizontal equity**, due to the elimination of family-based deductions and progressive marginal rates.
- **Administrative threats**, such as employer-driven tax arbitrage and risks of non-disclosure of income due to lack of incentive in the final tax design.
- **Audit and data limitations**, which pose risks of abuse if the system is implemented without robust monitoring mechanisms.

Simulation results indicate that while the final tax regime reduces burdens for high-income earners, it increases effective tax payments for lower-income groups—calling for policy safeguards to avoid unintended regressive effects.

Overall, a final tax scheme could serve as a transitional or segmented solution within a broader reform agenda, but must be applied selectively, guided by data, and coupled with ongoing evaluation mechanisms.

B. Suggestions

Based on the findings, the following recommendations are proposed:

1. **Minimum Income Threshold**
Establish a lower income limit (e.g., IDR 75 million/year) to ensure that low-income employees who are currently exempt under PTKP do not become unfairly taxed under the final scheme.
2. **Targeted Segmentation**

Limit the application of the final tax to specific employee segments, such as:

- Non-permanent or contract-based workers
- Employees without dependents or with simple tax profiles

3. Optional Final Tax Scheme

Allow taxpayers the option to choose between the final and regular ITA 21 schemes. This voluntary model can be enhanced by offering administrative incentives (e.g., exemption from annual tax returns).

4. Data-Driven Tariff Design

Use microsimulation models to calibrate a flat tax rate that balances equity and fiscal adequacy, referencing income distribution and compliance elasticity (as per Toder & Viard, 2016).

5. Periodic Evaluation and Adjustment

Implement a dynamic policy mechanism for reviewing rate structure and eligibility thresholds, ensuring that the scheme adapts to economic changes and taxpayer responses.

6. Strengthening of Digital Infrastructure and Oversight

Invest in DGT's digital capacity to enable real-time verification and reduce reliance on manual compliance. This also includes the development of selective audit strategies to counter abuse.

7. Extensive Socialisation and Guidance

Provide clear technical guidelines and targeted socialisation to ensure both employers and employees understand the structure, eligibility, and obligations under the final tax regime.

Implications and Limitations

This research is limited to analysing the potential implementation of final tax on employee income in Indonesia from the point of view of tax administration and compliance, without conducting primary data collection or direct surveys to taxpayers or related institutions.

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Appendices

Appendix A

Income Category	Gross Income (IDR)	PPh 21 (Progressive)	Final Tax (3%)	Difference	Lighter Scheme
Very Low	40,000,000	0	1,200,000	1,200,000	ITA 21
Low	60,000,000	300,000	1,800,000	1,500,000	ITA 21
Middle	90,000,000	1,800,000	2,700,000	900,000	ITA 21
High	150,000,000	8,400,000	4,500,000	-3,900,000	Final Tax
Very High	300,000,000	30,900,000	9,000,000	-21,900,000	Final Tax

Appendix B

