

Effect of The Application of the Final Income Tax Against State Revenue

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Abstract- State revenues from the tax sector have changed from year to year, the need for development from the tax sector is still the main source of supporting state development, whether state revenues from the final income tax are able to make a significant contribution to state revenues or actually create a tax gap or stagnate state revenues in the tax sector.

Index Terms- Income Tax, Final Income Tax, Tax Law, State Revenue

Government by authorizing the Minister of Finance to conduct collections as stipulated in the law. Information on the state budget and state budget is clearly detailed in the state budget which is published to the public through the information channel of the Ministry of Finance. Tax revenue is one of the sources of state revenue in supporting the availability of funds in the state treasury. The Minister of Finance in carrying out the task of collecting state revenue delegates the authority to collect taxes to the Directorate General of Taxes (DGT). In Indonesia, taxes are divided into two according to their authority, namely central taxes and regional taxes. Central tax is a type of tax that is collected and managed by the central government through the Directorate General of Taxes (DGT). Meanwhile, local tax is a type of tax that is collected and managed by local governments through the Regional Revenue Service or related agencies. Because of this difference, the central government can only collect taxes to which it is entitled. What are the types of taxes that are categorized as central taxes?

I. INTRODUCTION

Referring to Law Number 17 of 2003, state income is the right of the central government which is recognized as an increase in the value of net worth consisting of tax revenues, non-tax state revenues, and grant receipts. This state revenue is obtained by the

Types of central taxes	Information
Income Tax (Income Tax)	Taxes that an individual or entity bears on income received or earned in a tax year.
Value Added Tax (VAT)	Taxes apply to the consumption of taxable goods or services within the customs area.
Sales Tax on Luxury Goods (PPnBM)	Taxes that apply to goods that are not basic needs, consumed by certain people, consumed by high-income people, goods that show status, and can damage people's health and morals.
Stamp Duty	Taxes that apply to the use of documents, such as letters of agreement, notarial deeds, payment receipts, securities, and securities containing a nominal amount of money above a certain amount.
Land and Building Tax (PBB)	Taxes that apply to the ownership or utilization of land and buildings.

Income Tax

The definition of Income Tax or Income Tax is a tax charged on an income earned by a taxpayer, both from Indonesia and from abroad. The legal basis of income tax is Law (UU) Number 7 of 1983 concerning Income Tax. This law has undergone four changes, namely:

- Law Number 7 of 1991 concerning Amendments to Law No.7/1983 concerning Income Tax

- Law Number 10 of 1994 concerning the Second Amendment to Law No.7/1983 concerning Income Tax
- Law Number 17 of 2000 concerning the Third Amendment to Law No.7/1983 on Income Tax
- Law Number 36 of 2008 concerning the Fourth Amendment to Law No.7/1983 concerning Income Tax.

In addition, the latest regulation on income tax is also in the Job Creation Law No. 11 of 2020 and through the HPP Law Number 7 of 2021 concerning Harmonization of Tax Regulations.

Income Tax Categories

Income tax is divided into several categories, namely:

Income tax imposed on individual taxpayers, which is divided into employees and non-employees or entrepreneurs. Income tax charged on the income of a corporate or corporate taxpayer, up to the object subject to the income tax itself. Broadly speaking, the objects of income tax here are grouped into three categories, which will lead to the types of income tax that are the obligations of the taxpayer, namely:

a. Income as a Tax Object

The objects of income tax in the Income Tax Law are detailed as follows:

1. Reimbursement or remuneration with respect to work or services received or obtained including salaries, wages, benefits, honorariums, commissions, bonuses, gratuities, industry money, or other forms of remuneration, unless otherwise provided in this law.
2. Prizes from sweepstakes or jobs or activities, and awards
3. Operating profit
4. Profits due to the sale or due to the transfer of property include:

- Profits due to the transfer of assets to companies, partnerships, and other entities in lieu of shares or capital participation
- Profits due to the transfer of property to shareholders, allies, or members acquired by the company, partnerships, and other bodies
- Profits due to liquidation, merger, amalgamation, expansion, splitting, expropriation of a business, or reorganization under any name and in any form
- Profits due to the transfer of property in the form of grants, assistance, or donations, except those given to inbred families in a straight lineage of one degree and religious bodies, educational bodies, social bodies including industries, cooperatives, or private persons running micro and small enterprises, the provisions of which are further regulated by the Regulation of the Minister of Finance, so long as there is no connection with business, employment, ownership, or possession between the parties concerned
- Profits due to the sale or transfer of part or all of the mining rights, the sign of participation in financing, or capitalization within the mining company.

5. Re-receipt of tax payments that have been charged as fees and additional payment of tax refunds.
6. Interest including premiums, discounts, and rewards due to guaranteed debt repayment
7. Dividends, in name and in any form, including dividends from the insurance company to the policyholder, and the distribution of the remaining proceeds of the cooperative's business
8. Royalties or rewards for the use of rights
9. Rent and other income in connection with the use of property

10. Receipt or acquisition of periodic payments
11. Profits due to debt relief, except up to a certain amount stipulated by a Government Regulation
12. Foreign exchange difference profit
13. The difference is more due to the reassessment of assets
14. Insurance premiums
15. Dues received or obtained by the association from its members consisting of Taxpayers who carry on business or free work;
16. Additional net wealth derived from income that has not been taxed
17. Income from industry-based enterprises
18. Interest compensation as referred to in the Law governing the general provisions and procedures for taxation
19. Bank Indonesia Surplus.

b. Income Subject to Final Income Tax

While the income that can be subject to income tax is final are:

- Income in the form of interest on deposits and other savings, interest on bonds and government bonds, and interest on deposits paid by the cooperative to members of the cooperative of private persons
- Earnings in the form of raffle prizes
- Income from stock and other securities transactions, exchange-traded industrial transactions, and stock sales transactions or transfers of capital participation in its partner companies received by venture capital firms
- Income from property transfer transactions in the form of land and/or buildings, construction service businesses, real estate businesses, and land and/or building rentals
- Certain other incomes are regulated by or under a Government Regulation.

The definition of Income Tax Article 4 paragraph 2 or also called Final Income Tax is income tax that is imposed on several types of income earned and the withholding tax is final and cannot be credited with income tax owed.

The term 'Final' here means that the withholding of taxes is carried out only once in a tax period. This type of Income Tax Article 4 paragraph (2) or Final Income Tax is imposed on corporate taxpayers and personal taxpayers for several types of income they get and the withholding tax is final.

The collection of the type of Income Tax Article 4 paragraph (2) or Final Income Tax is carried out by the income earner in connection with the payment for a particular object.

The latest tax regulation in the HPP Law No. 7 of 2021, for taxpayers who use the Final Income Tax rate of 23/2018 and have a turnover below IDR 500,000,000 free of final income tax for MSMEs. The definition of Income Tax Article 15 is income tax imposed or collected from taxpayers engaged in certain industries stipulated in the Income Tax Law and subject to Final on Turnover or Business Circulation.

The definition of Income Tax Article 29 is income tax or Income Tax Underpayment listed in the Annual Income Tax Return, namely the rest of the income tax owed in the relevant tax year minus the income tax credit (type of Income Tax Article 21, type of Income Tax 22, type of Income Tax 23, type of Income Tax 24) and Income Tax Article 25.

Furthermore, along with the changes in the Income Tax Law, the proportion of the imposition of final income tax in

Indonesia is actually getting wider. Currently, both explicitly and implicitly, the final income tax is spread in several articles, such as Article 4 paragraph (2), Article 15, Article 17 paragraph (2c), Article 19, Article 21, Article 22, and Article 26.

Each type of final income tax has its own tax rules, and almost all of its taxation systems ranging from determining the basis for taxation, tax rates, to the mechanism for withholding or collecting them are delegated to rules outside the law.

II. THEORETICAL FOUNDATIONS

Based on Government Finance Statistics Manual released by the IMF - and adopted by the OECD -, there are six general categories of tax levies. The six categories include taxes on goods and services, wealth taxes, taxes on international transactions and trade, etc., which are then categorized as advanced subcategories. From the document search, the final Income Tax terminology was not found. That is, Income Tax final is not a particular type of tax that has certain characteristics and characteristics.

According to IBFD International Tax Glossary (2009), Income Tax finals are usually used to describe the income charged withholding tax and does not include income calculated in calculating taxes at progressive rates. Income Tax final is given a different treatment from Income Tax which is not final, so it has its own calculation. Outline, Income Tax final has a special tariff scheme for each type of income and the costs associated with that income cannot be a reduction in gross income. Simply put, Income Tax final is a tax that is levied on a certain rate and tax basis that is different from the general tax scheme on income received or obtained during the year. Payment, deduction or final Income Tax collection, both deducted and deposited, is not an advance payment for the outstanding Income Tax, but rather repayment. Accordingly, taxpayers who have been deducted or deposited their own Income Tax final payable are deemed to have paid their taxes. In addition, this final tax collection is considered 'streamlining' the ideal tax principle, especially the justice aspect (equality) and ability to pay (ability to pay) which should be applied in Income Tax. Income Tax final is also considered to be succumbing Income Tax as a subjective tax. On the other hand, given the final Income Tax which is part of the third party cutting system (withholding tax), the imposition of final Income Tax can also create administrative burdens for taxpayers who are given the obligation to make tax cuts (Thomas G. Vitez). Each country has the freedom to provide different tax treatment for certain tax subjects and / or income objects. Without an affirmation of the clear separation between special treatment (special regime) with generally applicable tax provisions (general regime), behavior will arise tax arbitrage. That is, clear separation is needed to prevent the behavior of exploiting weaknesses arising from the interactions of the two regimes. For example, avoiding regimes that have a higher tax burden through the characterization of types of income or transferring fiscal losses from one regime to another. In order to prevent this, a ring fencing. This term is often used in the banking, insurance, financial sector and public services areas. Concept ring fencing generally interpreted as an effort to clearly separate portfolios in order to prevent the spread of risks and responsibilities from one area to another. Concept ring fencing in the tax sector underlines the separation of (isolation) tax treatment of a transaction or certain

circumstances. Mixing between tax treatment that applies specifically to conditions or transactions that have been subject to generally accepted tax treatment is not permitted, as is the opposite. For example, compensation for losses on financial transactions (having a special tax regime) is only allowed for profits derived from these financial transactions in the future. Therefore, indirectly, the concept ring fencing also related to the principle of symmetry (symmetry principle) in the tax system. Income Tax final itself can be stated as one of the manifestations of ring fencing. In the event that a certain income is treated specifically, the calculation of the tax burden on that income may not be mixed / connected with the calculation of taxes on other income. However, it needs to be emphasized that application ring fencing it does not have to be followed by the imposition of final taxes (*B.Bawono Kristiaji and Awwaliatul Mukarromah*).

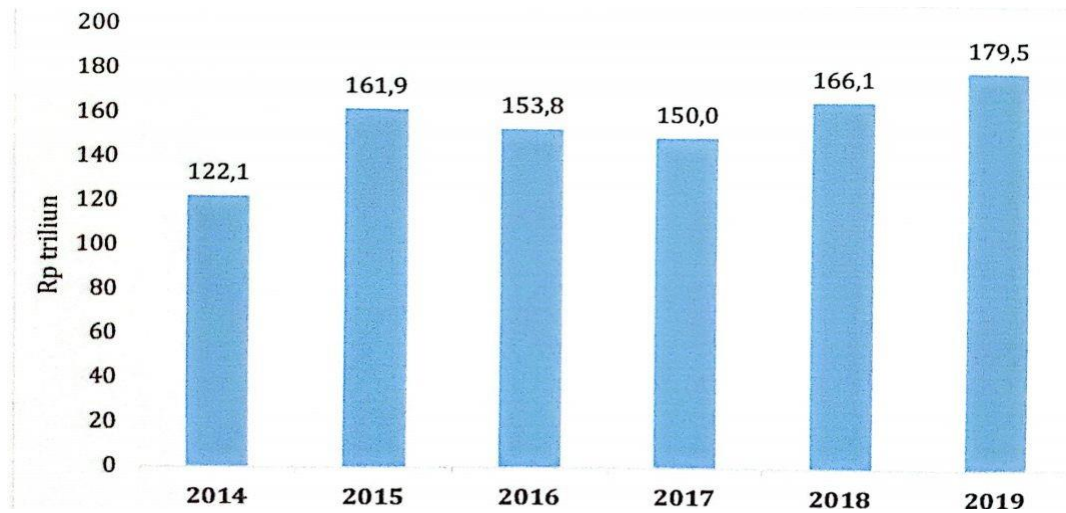
The final Income Tax in Indonesia is as strong as the consequences of the tax system adopted by Indonesia, viz schedular tax system, dual income tax, as well as family tax unit, as well as for certain policies that apply specifically, i.e presumptive tax and withholding tax. In terms of ensuring the implementation of the system and the policy, the final Income Tax is chosen as a solution. Thus, on the type and / or flow of income and / or characteristics of certain taxpayers, the taxation is different and **isolated** from the imposition of generally accepted Income Tax (ring fencing). Furthermore, the calculation and payment of the isolated Income Tax is carried out symmetrically, is considered to represent the final tax payable, and is less significant to be part of tax reporting. Whereas, if often associated with the collection mechanism withholding tax, Income Tax finals can also be collected through self-assessment. In short, it can be concluded that the final Income Tax is the solution chosen in the context of changing philosophies, systems and policies in the area of income tax. These changes are basically in nature aligning the Income Tax system in Indonesia with various challenges. As a solution, Income Tax final was chosen because it has administrative feasibility, if not necessarily reflect first-best policy.

III. PROBLEM ANALYSIS

Based on the explanation in the deep writing of this paper, it can be said that the Final Income Tax provides convenience from the tax administration, supervision and collection by third parties, but also has weaknesses, especially when viewed from the side of justice and ability to pay, so that from a few years back we can see changes to the rules that apply regarding this final Income Tax. Regarding the state acceptance of the Income Tax Final we can also see that the state receives cash flow faster so that it can be used in the management of the state, in addition also from the MSMEs side the Government through the HPP Law provides tax exemptions up to the circulation of Rp. 500,000,000 (Five Ratus Million Rupiah), and if it crosses the threshold it will be subject to a Final Income Tax Tariff of 0.5% and this still applies until the circulation of Rp.4.8 Billion. The aim is to broaden the basis of tax revenue, participation and compliance of business actors who are still outside the radar of the tax authority. In 2022 the Government also opened the Voluntary Disclosure Program where this is also a Final Income Tax scheme, where it is expected to increase state acceptance and also expand the scope of acquisition

of fixed assets which is expected to also be the basis for piracy in the future.

State Receipts from Final Income for 2014-2019 are as follows:



Source: DDTF Fiscal Research processed based on DGT Performance Report, 2014-2019

From the data above we can see Income Tax Final contributing around 13.45% in the past six years to State revenues when viewed from its proportion to tax revenue.

Through data processed by the Central Statistics Agency we can see State Acceptance for 2020-2022, as follows:

Sumber Penerimaan - Keuangan	Realisasi Pendapatan Negara (Milyar Rupiah)		
	2020	2021	2022
I. Penerimaan	1 628 950,53	1 733 042,80	1 845 556,80
Penerimaan Perpajakan	1 285 136,32	1 375 832,70	1 510 001,20
Pajak Dalam Negeri	1 248 415,11	1 324 660,00	1 468 920,00
Pajak Penghasilan	594 033,33	615 210,00	680 876,95
Pajak Pertambahan Nilai dan dan Pajak Penjualan atas Barang Mewah	450 328,06	501 780,00	554 383,14
Pajak Bumi dan Bangunan	20 953,61	14 830,00	18 358,48
Bea Perolehan Hak atas Tanah dan Bangunan	0,00	0,00	0,00
Cukai	176 309,31	182 200,00	203 920,00
Pajak Lainnya	6 790,79	10 640,00	11 381,43
Pajak Perdagangan Internasional	36 721,21	51 172,70	41 081,20
Bea Masuk	32 443,50	33 172,70	35 164,00
Pajak Ekspor	4 277,71	18 000,00	5 917,20
Penerimaan Bukan Pajak	343 814,21	357 210,10	335 555,62

From this data we can see the Income Tax has increased from the last three years, where the income tax includes the final income tax, to get a percentage of the Final income contribution in the paper this has not been able to find the prosentasian number. However, we should appreciate the steps taken by the Government in the deep expansion of the tax revenue base, which in addition to the Income Tax collection mechanism, the Voluntary Disclosure Program, Income Tax Final 0.5% MSMEs, Final VAT for certain businesses. From the Voluntary Disclosure Program sector until the end of May 2022, successful revenues were

collected by Rp. 10.3 Trillion with Assets reported as much as Rp. 103 Trillion. Through the Income Tax Final Mechanism which makes it easy for MSMEs and also tax exemptions up to the Rp turnover. 500,000,000,- are expected to stimulate MSMEs' participation to contribute to state revenues through tax payments, to date in accordance with the HPP Law which came into force in 2022, no acceptance has been found for the MSME Income Tax Final Mechanism, as well as the application of Final VAT for certain businesses.

Tax non-compliance is the biggest challenge for creating an optimal tax system. Many factors are the cause of non-compliance, for example shadow economy, low tax morale, lack of comparative information in order to oversee compliance are the cause, and so on. Many strategies can be done to overcome this, two of which are (i) methods remittance, namely the mechanism of withholding, collecting and / or depositing taxes by third parties which is often associated with the scheme withholding tax, as well as (ii) the often simplification method associated with presumptive tax. Both methods - withholding tax and presumptive tax- is an element that we can meet from the final Income Tax regime in Indonesia. How does this relate to compliance in Indonesia? First, mechanism withholding tax. Mechanism withholding tax considered effective in increasing the level of tax compliance, because taxes are directly collected or deducted by collection agencies or cutters. Martinez-Vazquez et al. states that the mechanism withholding tax automatically closes the possibility of a significant tax non-compliance practice. Besides being effective, this mechanism is also considered efficient because it reduces the cost of Income Tax collection for the government. According to Dušek and Bagchi, there are several studies that confirm that provide empirical evidence that withholding tax can improve government efficiency. On the other hand, mechanism withholding tax mechanism withholding tax. Mechanism withholding tax considered effective in increasing the level of tax compliance, because taxes are directly collected or deducted by collection agencies or cutters. Martinez-Vazquez et al. states that the mechanism withholding tax automatically closes the possibility of a significant tax non-compliance practice. Besides being effective, this mechanism is also considered efficient because it reduces the cost of Income Tax collection for the government. According to Dušek and Bagchi, there are several studies that confirm that provide empirical evidence that withholding tax can improve government efficiency. On the other hand, the withholding tax mechanism is considered complex and burdens the cash flow of the cutting/collecting party. From the side of the tax collector or withholding, this mechanism adds to the costs that must be incurred. Martinez-Vazquez et al. states that the mechanism withholding tax automatically closes the possibility of a significant tax non-compliance practice. Besides being effective, this mechanism is also considered efficient because it reduces the cost of Income Tax collection for the government. According to Dušek and Bagchi, there are several studies that confirm that provide empirical evidence that withholding tax can improve government efficiency. On the other hand, mechanism withholding tax withholding tax atas penghasilan pasif. This is subject to the flow of income imposed presumptive tax is income from business activities. In addition to convenience in tax administration, tax collection carried out by third parties, faster cash flow in state revenues, in addition to the taxpayer's non-compliance factor we can also see the Tax Gap that occurs against state revenue from the Final Income Tax side, we can see a revision of the regulations on MSMEs who have gross circulation up to Rp.4.8 Billion, which the Government currently provides an aspect of justice by providing tax exemptions on turnover up to Rp. 500,000,000.-. Then we can also see this Tax Gap from the shipping sector which was only given a Income Tax Final of 1.2% when compared to other business sectors if a percentage of Income Tax is owed with

an Turnover or Gross Circulation Business can have a Prosperity of more than 1.2%. Likewise from the construction sector, this can be seen from the minimal contribution made when compared to gross domestic product in which the sector contributes by 10.7% however, the contribution to state revenue through taxes is only 7.2%. Then from the land and building sector, the final tax is only obtained in the event of a transition, while the value of the building land assets has increased from year to year, in other words the taxation aspect of the final Income Tax of Land and Buildings does not take into account capital gains or increased profits on capital. From the previous section we see the phenomenon of the final Income Tax expansion in Indonesia. The application of the final Income Tax which is relatively easier and can guarantee acceptance has led to incentives for a government to continue to maintain and even expand objects. In fact, when compared to practice in other countries, the imposition of final Income Tax is not the main option of taxing. Most countries, especially developed countries, the imposition of final Income Tax is more aimed at the SPLN compared to SPDN and is limited to certain types of passive income (passive income), interest, royalties, rent. This is as applied in Singapore and Malaysia.

IV. CONCLUSION

The Final Income Tax has a stable contribution to state revenue, as well as ensuring the smooth flow of state revenue cash, and provide ease with the administration through the mechanism of withholding tax or not recalculating the corporate income tax owed which can lead to tax disputes or restitution that can disrupt the cash flow of state revenues. Reversed profits and excesses from the Final Income Tax can also lead to Tax Gap or Policy Gap, one of which is the solution is application capital gain tax. Enforcement of the Voluntary Disclosure Program, where this is also the application of the final income tax until the time this paper was made, the achievement of acceptance is still very far from expectations, where the potential for this program was initially expected to contribute as much as Rp. 110 – Rp.120 Trillion, but to date the acquisition is still around Rp. 10.3 Trillion, this can be due to the attractiveness of this Program which is not as attractive as Tax Amnesty Jilid I, both from the Tariff side and the circumstances after joining this program, because after the end of this program the Tax Service Office can still check even if it does not issue a tax decree. In the implementation of Income Tax Final MSMEs are also expected to provide assistance and participation in the country's acceptance, this can be seen by the enactment of the Population Parent Number in the transaction process related to taxation activities, from the state acceptance side, of course this expands the taxation base and seeks loopholes or potential taxpayers who have not been included in the taxation information system. Of course, socialization is needed and also reward to taxpayers who have participated in participating in state revenues, for example such as facilitating deep-minded banking access to loans for trying capital, or the Government can provide stimulus for loan disbursement for SMEs that are compliant and orderly in reporting their tax obligations.

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