

Payroll tax (WHT21)

Monthly calculation and withholding simplified

January 2024 will watch the calculation and withholding of monthly payroll tax (WHT21), especially for permanent employees, is much simplified, entirely different from the previous years'. For a year's months of January to November, you will need only to know the gross income of an employee and their marital status, which determine the non-taxable threshold (PTKP) of the employee. A specified tax rate for that amount, to be withdrawn from one of the three tables of monthly WHT21 rates, unofficially dubbed "TER", to mean "monthly average rate", can then be applied to that amount.

This is the main aim of Government Regulation 58/2023 (GR 58) released on 27 Dec 2023 regarding "WHT 21 Rates for income derived from occupation, services, and activities of individual taxpayers", which has an immediate effect from 1 January 2024.

Monthly WHT21 rates (TER)

GR 58 provides three sets of TER for permanent employees: TER A, TER B, and TER C.

TER A is set for employees with a marital status of:

- "unmarried with no dependent" (TK/0),
- "unmarried with one dependent" (TK/1), and
- "married with a single dependent" (K/0).

TER B is for those:

- "unmarried with two dependents" (TK/2),
- "unmarried with three dependents" (TK/3),
- "married with one dependent" (K/1), and
- "married with two dependents" (K/2).

TER C is specifically set for those "married with three dependents" (K/3).

How does the new WHT21 system work?

By way of example, a permanent employee with gross income of up to IDR5.4 million a month belonging to TER A has their WHT21 zero-rated. As their income grows exceeding the

threshold, the WHT rate moves upward from 0.25 percent for income up to IDR5.65 million to 34 percent if it exceeds IDR1.4 billion a month. A similar pattern applies for employees covered in TER B and TER C.

The range of WHT21 rates for all the TERs applicable for permanent employees is the same. However the gross income threshold for zero rated WHT21 differs: IDR5.4 million for TER A, IDR6.2 million for TER B, and IDR6.6 million for TER C. The top rate (34 percent) also applies to different amounts: TER A for above IDR1,400,000,000, TER B for above IDR1,405,000,000, and TER C for above IDR1,419,000,000.

Any change in the marital status within a year does not affect the WHT21 calculation as only the status at the start of the year counts. However, changes in the amount of gross income from month to month in a year may cause the WHT rate to move upwards or downwards within the same TER depending on the amount of the gross income.

GR 58 does not explicitly state whether the TER for permanent employees applies for all the months of a year. However, by way of example, it suggests that the TER applies only for January-November.

For December, it is a bit different. The actual tax due for the entire year should be determined first. This takes into account the gross income previously accounted for in January to November and that for December and other annual-basis factors such non-taxable income (PTKP), occupational allowances, and qualifying pension contributions. The WHT21 to be withheld and paid for December is derived from the entire year's actual tax due so determined minus the WHT21 paid throughout January-November of the same year.

Little is said in GR 58 about the TER for daily employees. However, it suggests in the appendix that a daily employee with gross income not more than IDR450,000 a day has their WHT21 zero-rated. As it grows larger but not exceeding IDR2,500,000 a day, they are subject to WHT21 at 0.5 percent.

It goes without saying that the gross income should cover any income provided by the employer in whatever names or forms supposed to be taxed on the hands of the employees. It includes, for example, salaries, allowances, and, with a few exceptions, any types of benefits in kind (BIK) and enjoyments.

Further implementing regulations

The Minister of Finance has issued Minister of Finance Regulation No 168 year 2023, which further regulates the provision in GR 58

Please contact us to get more insight about this matter.

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