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Implementation of the Average Effective Income Tax Rate for PKWT Employees at the Security Outsourcing Company PT TFN

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ABSTRACT

This study aims to analyze the application of the Average Effective Rate (TER) in calculating Article 21 Income Tax (PPh) for employees with a Fixed-Term Employment Agreement (PKWT) pattern at the security outsourcing service company PT TFN. The application of TER is compared with the progressive rate of Article 17, especially after the enactment of the Minister of Finance Regulation (PMK) Number 168 of 2023 concerning Guidelines for the Implementation of Tax Withholdings on Income in Connection with Work, Services, or Activities of Individuals. The study uses a qualitative approach with triangulation techniques through in-depth interviews, field observations, and document analysis, including simulations of PPh 21 calculations using the progressive method and TER for PKWT employees for the period January–December 2024 with various dependent statuses (TK/0, K/0, K/1, K/2, K/3). The results show that TER simplifies the calculation and reporting of PPh 21 and increases administrative efficiency by around 40–50 percent compared to the progressive rate. However, from a fiscal perspective, TER tends to result in potential underpayments of around 30–40 percent on annual tax returns, especially for employees with variable incomes and multiple dependents (K/2 and K/3). This finding confirms the trade-off between administrative efficiency and tax fairness and suggests that the principle of vertical fairness has not been fully achieved. The study recommends increasing TER socialization, tax education for PKWT employees, and strengthening the integration of digital tax systems to minimize the risk of underpayments and future tax disputes.

Keywords: Income Tax (PPh 21), Average Effective Rate (TER), Progressive Rate, PKWT Employees, Outsourcing Security.

1. INTRODUCTION

Security outsourcing companies, including PT TFN, are among the business sectors that rely heavily on workers under Fixed-Term Employment Agreements (PKWT). These companies are required to comply with tax regulations, particularly regarding Article 21 Income Tax (PPh) deductions from employee earnings.

Until now, PPh 21 has generally been calculated using a progressive rate based on Article 17 of the Income Tax Law (UU PPh). However, the fluctuating nature of fixed-term employee income, the tendency for short-term employment contracts, and the presence of a variable income component present challenges in implementing this progressive rate.

Applying a progressive monthly rate often results in a discrepancy between the tax withheld during the year and the tax due when calculating the annual cumulative tax return. This can lead to overpayments or underpayments when employees file their annual tax returns, particularly for those who have only worked for a few months or experienced significant changes in income during the tax year.

In response to the administrative complexity and the need to simplify the calculation of PPh 21, the government issued PMK Number 168 of 2023 which introduced the use of the Average Effective Rate (TER) as an alternative method for calculating PPh 21. The TER method is intended to simplify the calculation and deduction of taxes by employers, especially for employees with irregular incomes such as PKWT employees in outsourcing companies.

However, the practical application of TER has given rise to a new phenomenon. From a company perspective, TER is seen as simplifying administration and saving calculation time. However, from an employee and fiscal perspective, it creates the potential for underpayment or overpayment when filing annual tax returns, raising questions about tax fairness and its compliance with the principles of horizontal and vertical equity in tax equity theory.

Previous research has discussed many technical aspects of calculating PPh 21, the use of spreadsheet models, tax planning strategies (gross, net, gross-up), and the implementation of TER for permanent employees.

However, studies that specifically focus on PKWT employees in the security outsourcing sector are still limited, even though this segment has unique characteristics in terms of employment relationships, income patterns, and tax compliance risks.

Based on this background, this study aims to: (1) analyze and compare the calculation of PPh 21 using progressive rates and TER for PKWT employees at PT TFN; and (2) evaluate the implementation of TER from the perspective of the company and employees, both in terms of fiscal burden and administrative efficiency.

2. LITERATURE REVIEW

2.1 Tax Equity Theory

The theory of tax equity emphasizes that taxes should be levied based on ability to pay, so that taxpayers with higher incomes bear a greater tax burden (vertical equity), and taxpayers with the same ability are treated equally (horizontal equity).

The thoughts of Adam Smith and John Stuart Mill became the initial foundation for fairness in the tax system, which was later adopted in the design of the progressive PPh 21 rate. In the context of TER, the issue of fairness arises when the simplified average rate does not fully reflect the variations in annual income and family conditions of taxpayers.

2.2 Optimal Taxation Theory

Tax optimization theory seeks to balance state revenue, economic efficiency, and the fair distribution of the tax burden. James Mirrlees asserts that tax rate structures should be designed to minimize distortions to economic decisions without compromising distributive justice.

The implementation of TER can be seen as an effort towards a simpler and more efficient system, but it needs to be tested whether this simplicity does not sacrifice the fairness of the tax burden for PKWT employees.

2.3 Tax Compliance and Administration Theory

Tax compliance describes the extent to which taxpayers fulfill their material and formal obligations in accordance with statutory provisions. Factors such as understanding the regulations, perceptions of fairness, and ease of administration influence the level of compliance.

Tax Administration Theory and Tax Administration Efficiency emphasize the importance of a simple, clear, and unburdensome process, both for the authorities and the tax collectors (companies), so that calculation errors and compliance costs can be reduced.

TER is designed to reduce calculation complexity and encourage administrative compliance.

2.4 PPh 21 Rate and Average Effective Rate (TER)

HPP Law No. 7 of 2021 regulates the progressive rate structure for individual income tax (5%, 15%, 25%, 30%, and 35%) based on the taxable income layer.
PMK No. 168 of 2023 then introduced the monthly and daily Average Effective Rates (TER) which are divided into categories A, B, and C according to PTKP status and income levels.
TER aims to simplify the calculation of PPh 21 by simply multiplying gross income by the effective rate according to category, without detailing deductions such as job costs or pension contributions at the monthly deduction stage.

2.5 Previous Research

Previous research shows that: (1) a spreadsheet model can assist in calculating PPh 21 in accordance with PP 58/2023; (2) the TER method is more practical but has the potential to cause surprise deductions during THR and requires annual reconciliation; (3) there is confusion regarding the division of deduction responsibilities between outsourcing companies and users; and (4) the implementation of PMK 168/2023 in several companies shows an increase in administrative ease but still leaves questions regarding the accuracy of reporting Annual Tax Returns.
These studies generally focus on permanent employees or the technical aspects of calculation and reporting. This study's contribution is focusing on fixed-term employees in the security outsourcing sector, using a simulation approach comparing progressive versus TER over a single tax year, linked to the perspectives of tax fairness and administrative efficiency.

3. RESEARCH METHOD

This study employed a qualitative research approach with a triangulation strategy to ensure data validity and reliability. The research used a case study design conducted at PT TFN, focusing on the implementation of withholding and calculation procedures of Income Tax Article 21 (PPh 21) for PKWT employees.

Data were collected from both primary and secondary sources. Primary data were obtained through in-depth interviews with management representatives, tax staff, and PKWT employees, as well as through direct observation of the PPh 21 calculation and withholding processes. Secondary data were gathered from internal company documents, payroll records, and relevant tax regulations issued by the Indonesian Directorate General of Taxes.

Data analysis followed a thematic analysis technique, consisting of data reduction, data display, and conclusion drawing/verification. To strengthen the findings, the study also conducted a comparative quantitative analysis of PPh 21 calculations using progressive rate formulas and the TER (Take-Home Pay Effective Rate) method for the period January–December 2024. Triangulation was applied across sources, methods, and data types to enhance analytical rigor.

4. RESULTS AND ANALYSIS

4.1. Simulation Results of Comparison of Progressive Tariffs and TER

The simulation results demonstrate a clear difference in withholding outcomes between progressive tariff calculations and the TER (Take-Home Pay Effective Rate) method. The use of TER provides greater stability in monthly tax deductions, ensuring predictable take-home pay for employees throughout the year. This stability is beneficial particularly for workforce planning and personal budgeting, as fluctuations in monthly mandatory deductions often create financial uncertainty. Therefore, from a payroll management perspective, TER represents a more practical alternative for monthly withholding implementation.

However, the analysis also reveals that TER does not accurately capture the cumulative nature of annual income brackets mandated by progressive taxation. For employees categorized under K/2 and K/3 marital status, the simulation indicated a 30–40% tax underpayment during the annual tax return (SPT) reconciliation. This discrepancy emerges because TER spreads deductions evenly every month without adjusting for increasing taxable income layers. Consequently, reliance on TER alone may distort tax liability accuracy and lead to additional payments at year-end, which disrupts employee planning and challenges the principle of compliance fairness.

4.2. Company Perspective

From the company's viewpoint, the adoption of TER is seen as an operational advantage due to its administrative simplicity. TER reduces complexity in tax withholding calculations and decreases the time required to process payroll by up to 50%, particularly in organizations with a large number of PKWT employees. The method also lowers the potential for human error and data discrepancies, especially when payroll systems have not been fully digitized. Thus, TER aligns with the organizational objective of improving administrative efficiency and workflow automation.

Nonetheless, tax officials and corporate finance teams emphasize the need for careful annual reconciliation to ensure alignment between TER results and statutory progressive rates. Without periodic evaluation and data validation, discrepancies may accumulate and become financially burdensome both for employees and the company as withholding agent. This challenge highlights the importance of strong internal tax governance and suggests that TER should complement rather than replace progressive calculations. Therefore, while operationally attractive, TER implementation still requires a structured control mechanism to prevent compliance risks and stakeholder dissatisfaction.

4.3 Employee Perspective

From the employee perspective, TER is considered more transparent and easier to understand due to consistent and predictable monthly deductions. Employees express greater comfort with steady withholding amounts because it simplifies personal financial planning and creates a perception of fairness in month-to-month budgeting. The reduction of volatility in monthly deductions also supports psychological and financial well-being, particularly for lower-income workers who experience tight disposable income margins.

However, the study found that employees perceive unfairness when annual reconciliation results in substantial tax underpayment. The burden of paying a large lump-sum addition diminishes the perceived benefits of fixed monthly deductions and generates negative sentiment toward tax policy implementation. This perception indicates that the principle of vertical equity, which emphasizes proportionality based on income capacity, has not been fully achieved under the TER approach. When employees feel that their contribution does not reflect their income level accurately, trust in the withholding system decreases, which can affect tax morale and compliance motivation.

4.4 Relation to Theory

The findings support theoretical perspectives from both Tax Equity Theory and Administrative Efficiency Theory. According to the Tax Equity Theory, fairness in taxation is achieved when individuals contribute proportionally based on their economic capacity. The shortcomings of TER in maintaining accurate annual proportion demonstrate that tax systems emphasizing administrative convenience may compromise vertical equity. This aligns with previous theoretical assertions that tax fairness cannot be separated from accurate income assessment throughout the tax period.

Conversely, the results affirm the value of Administrative Efficiency Theory, which highlights the importance of minimizing compliance costs and procedural complexity. The administrative speed and accuracy improvements experienced by the company illustrate how simplification strategies can enhance resource use and organizational performance. However, the trade-off between efficiency and fairness suggests that an ideal system should integrate both principles—potentially through hybrid withholding models combining TER for monthly stability and progressive calculations for periodic validation. This balance can enhance trust and credibility in tax administration while maintaining compliance integrity.

5. CONCLUSION

The study concludes that the implementation of TER (Take-Home Pay Effective Rate) at PT TFN significantly enhances administrative efficiency, reducing calculation time by up to 50% and minimizing input errors in the withholding of Income Tax Article 21. However, despite its operational benefits, TER presents a notable risk of tax underpayment for PKWT employees, particularly those with multiple dependents, due to its inability to fully accommodate cumulative annual income layers. As a result, the principle of vertical justice has not been entirely achieved, as the tax burden under TER does not consistently reflect employees' proportional income capacity. These findings indicate the need for improved understanding and management of TER implementation, supported by stronger reconciliation mechanisms and clearer communication between tax administrators and employees.

Suggestions

Based on these findings, it is recommended that PT TFN continues to utilize TER while strengthening routine monitoring and ensuring accurate year-end reconciliation to prevent substantial tax discrepancies. The Directorate General of Taxes is advised to enhance digital system integration and expand technical socialization to improve taxpayer understanding of TER operations and obligations. Additionally, employees must increase their awareness and knowledge regarding the implications of TER, particularly in preparing and reporting their Annual Tax Returns, to avoid unexpected underpayment during tax settlement.

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