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Tax Alert

News from EY Indonesia Tax Services

Updates on the reporting of Withholding Tax under Article 21 of the Income Tax Law

On 19 January 2024, the Directorate General of Taxation (“DGT”) released regulation PER - 2/PJ/2024 (“PER-2”). The regulation introduces new forms and procedures for the reporting of withholding tax on payments to individuals under Article 21 and Article 26 of the Income Tax Law (“WHT21/26”). PER-2 is effective from 1 January 2024 with some transition rules also applying. PER-2 revokes DGT regulation PER-14/PJ/2013. Some forms have been updated and a new form introduced as part of the mechanism update provided under PER-2. The changes to the forms are mainly to accommodate the change of WHT21 calculation based on the newly issued regulations, i.e. Government Regulation No.58/2023 and Minister of Finance Regulation No. 168/2023 (“PMK-168”), as well as the use of NIK as NPWP (i.e. the national ID number in lieu of tax ID number).

Newly introduced Form 1721-VIII

With the introduction of Form 1721-VIII, the requirement to provide withholding tax evidence to employees has now shifted to a monthly basis. This requirement applies for permanent employees, to whom employers are now required to provide Form 1721-VIII to each of the permanent employees with information of the gross income and the WHT21 of that employee each month.

Form 1721-VIII is required to be provided to the permanent employees by end of the month following the month of deduction with a transitional rule for the WHT21 for the month of January 2024, which can be provided by 31 March 2024 at the latest. Employers should review processes and systems in order to comply with the new requirements.

Form 1721-VI

Form 1721-VI is withholding tax slip for WHT21 that is **non-final** in nature, covering WHT21 for non-permanent employees or free-lancers, MLM distributors, insurance agents, merchants/retailers, professionals, compensation paid to non-employees, honorarium or compensation to members of commissioners or supervisory boards that are not permanent employees, certain payment to ex-employees, withdrawal of pension funds by employees, fees to event participant, and others. This form is also used as evidence of withholding tax on payments to foreigners under Article 26 of the Income Tax Law.

There are no major changes on the form - mainly an update on presentation of information. In addition, the form now provides a single category of tax code for non-employees (under the previous form there was a separation of tax code for non-employees receiving payments continuously and not continuously). This is consistent with PMK-168, which no longer differentiates tax calculations for non-employees.

Form 1721-VII

Form 1721-VII is withholding tax slip for WHT21 that is **final** in nature, which covers WHT21 on severance paid in full, pension benefit and old-age allowance paid in full.

There are also no major changes on the form, mainly an update on presentation of information.

Form 1721 A1

Form 1721-A1 is the annual withholding slip for WHT21 of permanent employees, recipients of pension, or recipients of routine old-age allowance. Modification to Form 1721-A1 were made to accommodate the recent developments of allowable deduction on zakat/compulsory religious donation. The new form has also been designed to accommodate any potential tax incentives on WHT 21 which, in the past, required separate reporting.

In conjunction with the monthly WHT21 deducted under the **TER** ("*Tarif Efektif Rata-rata*", or the effective tax rate introduced by PMK-168), the new Form 1721 A1 has section indicating the amounts already withheld prior to the year-end or the last working period, as evidenced by Form 1721-VIII. This will deduct the annual WHT21 to achieve the amount of annual tax payable. In summary, these new sections provide a breakdown of the employee's WHT21 throughout the year, considering both monthly WHT21 and the final adjustment of WHT21 for the year-end or the last working period. Given the nature of the monthly WHT21 is based on estimated tax rates, this will largely impact WHT21 at the year-end, or the last working period. We have seen potential scenarios that tax calculation at the year end, or the last working period, results in over-deduction of WHT21 and employers may need to return the money back to the employees. On the other hand, there can also be scenarios where companies may have to deduct higher tax at the year-end, or the last working period.

There is no change on the timing of the form. Form 1721-A1 is required to be provided to the employees at the end of January of the following year and, for employees ceasing employment in the middle of the year, the end of the month following the resignation.

Under PER-2, the withholding tax evidence (Form 1721-VI, Form 1721-VII, Form 1721-VIII and Form 1721-A1) is required to be prepared electronically using web-based application called *e-Bupot 21/26*, as part of the e-filing process at the DGT portal (<https://djponline.pajak.go.id/>). The use of *e-Bupot 21/26* is compulsory starting from WHT21/26 for the month of January 2024, although the use of paper-based forms is still permitted in certain cases where there are no more than 20 withholding tax slips for the form. While digital transformation is expected to optimize and improve the efficiency and ease of use of the tax reporting procedures, there have been concerns on confidentiality of personal and payroll information of employees. Taxpayers may have an expectation that the platform includes limits to the users that can have access to *e-Bupot 21/26*. From various events, we understand that the DGT is working on separating the access of users with preparation functionality, which would have the access to the detail information, from users with reporting functionality.

Impact on employers and next steps

PMK 168/2023 has significant implications for employers in terms of payroll systems and processes. Employers may need to communicate these changes to employees, ensuring they understand the new tax calculation process and the impact to their take home pay. More administrative work can also be expected, as employers now have the responsibility of providing Form 1721-VIII every month for permanent employees.

EY will continue to monitor the developments on the employee withholding tax regulations. If you have any questions, we encourage you to contact one of our Tax Professionals.

For additional information with respect to this Alert, please contact the following:

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