

# Revisiting Justice in Income Tax Article 23 Withholding and Corporate Income Recognition

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### Abstract

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Taxpayers operating as corporations are required to maintain proper bookkeeping, which mandates that every transaction be recorded in accordance with the period in which it occurs. Corporations engaged in service provision are subject to withholding of Income Tax (PPh) Article 23 by the income provider at the time of payment for the services rendered. The Withholding Tax Evidence (BUPOT) for PPh Article 23 serves as a tax credit that can be accounted for in the Annual Corporate Income Tax Return (SPT Tahunan PPh Badan). This study aims to examine the legal inconsistencies regarding the withholding period of PPh 23 in relation to the income recognition of corporate taxpayers from the perspective of fairness, while also proposing solutions to address the issues arising from these discrepancies. The methodology employed in this research is a normative legal approach utilizing the statute approach. The findings indicate that the withholding of PPh Article 23 for corporate taxpayers in the service sector can lead to significant overpayment or underpayment of taxes each fiscal year, particularly when gross revenue fluctuates from year to year. Additionally, this study identifies several potential solutions that could be implemented to resolve the various challenges encountered.

## 1. Introduction

Taxation is a fundamental component of national financing, serving to support the implementation of national development and the provision of public services. Article 23 concerning the Withholding Tax on Income (PPh) within the Indonesian tax system, as outlined in Law Number 36 of 2008 concerning the Fourth Amendment to Law Number 7 of 1983 concerning Income Tax (Law No. 36/2008), which was most recently amended by Law Number 7 of 2021 concerning Harmonization of Tax Regulations (Law No. 7/2021), plays a vital role in ensuring that tax obligations on specific income received by corporate taxpayers are fulfilled. According to Article 23, Paragraph 1 of the Law No. 36/2008, income in the form of dividends, interest, royalties, prizes, service fees, and other earnings received by domestic taxpayers or permanent establishments may be subject to withholding tax. The purpose of this withholding is to ensure that the state secures its rights to the income generated from such transactions<sup>1</sup>. In accordance with Regulation of the Minister of Finance Number 141/PMK.03/2015 of 2015 concerning Other Types of Services as Referred to in Article 23 Paragraph (1) Letter C Number 2 of Law Number 7 of 1983 concerning Income Tax as Amended Several Times, Most Recently by Law Number 36 of 2008 (PMK No.

<sup>1</sup> Inas Syadza Wafikhoh, "Pengecualian Objek Pajak Penghasilan Wajib Pajak Badan Atas Dividen," *Jurist-Diction* 5, no. 2 (March 31, 2022): 537–50, doi:10.20473/jd.v5i2.34893; Gede Sastrawan and Ida Ayu Putu Indah Wahyoni, "Pengenaan Pajak Penghasilan Di Indonesia (Pasal 21 Undang-Undang Nomor 36 Tahun 2008 Tentang Pajak Penghasilan)," *Jurnal Locus Delicti* 2, no. 1 (July 1, 2021): 24–35, doi:10.23887/jld.v2i1.456.

141/PMK.03/2015), it is stated that tax withholding occurs at the time the income is paid, made available for payment, or when the payment is due.<sup>2</sup>

On the other hand, Article 28 of the Law No. 36/2008 mandates that corporate taxpayers are required to maintain bookkeeping. This bookkeeping or record-keeping must be conducted "carefully, in accordance with the principles of compliance, consistency, and using either an accrual basis or a cash basis system." The records should at least include details regarding assets, liabilities, equity, income, expenses, as well as sales and purchases, enabling the calculation of the income tax owed. The accrual principle, as outlined in the Financial Accounting Standards Statement, commonly referred to as PSAK Number 23, is typically employed by corporate taxpayers in their bookkeeping practices. In this context, revenue is recognized when goods or services have been delivered to customers or buyers.<sup>3</sup>

The withholding period for Article 23 Law No. 36/2008 occurs at the time of payment, while the recognition of income by corporate taxpayers takes place when the services are rendered.<sup>4</sup> This inconsistency can lead to differing periods, potentially affecting different tax years. Furthermore, the withholding tax under Article 23 of Law No. 36/2008 can only be credited in the Annual Tax Return corresponding to the tax year indicated on the Withholding Tax Receipt. This often results in discrepancies in financial reports and tax obligations, which can subsequently impact the tax liabilities that corporate taxpayers must settle. The consequences may include significant underpayment or overpayment of tax credits in that tax year, particularly if income fluctuates between years. In cases of underpayment of tax credits, the corporate taxpayer is required to settle the deficiency, whereas in instances of overpayment, the taxpayer must file for a refund or restitution.

Both solutions, of course, disadvantage corporate taxpayers. In the event of a tax credit shortfall, the taxpayer is required to pay the deficiency, which can disrupt cash flow. Conversely, if there is an excess of tax credits, the taxpayer must apply for a refund, which will trigger an audit by the tax authority. The outcome of this audit may not guarantee that the refund amount will be accepted as claimed, and it is often subject to adjustments that can lead to underpayment and penalties.

This issue is significant as it contradicts the principle of fairness in taxation, which demands alignment between the timing of tax payments and the economic capacity of the taxpayer. John Rawls, in his theory of justice, posits that justice entails a fair distribution of burdens and benefits within society.<sup>5</sup> In the context of taxation, this principle is interpreted as

<sup>2</sup> R. Soerjatno and Levi Martantina, "Analisis Pelaksanaan Peraturan Pemerintah Nomor 23 Tahun 2018 Dan Peraturan Menteri Keuangan Nomor 215/PMK.03/2018," *Jurnal Bisnis Terapan* 3, no. 01 (June 29, 2019): 99–109, doi:10.24123/jbt.v3i01.1988.

<sup>3</sup> Achmad Fauzi, "Perhitungan PSAK 23 (Pendapatan Operasional , Non Operasional) Dan Pelaporan Keuangan Perusahaan Pada PT Jasa Marga (Persero) Tbk," *Cakrawala Management Business Journal* 1, no. 1 (July 4, 2019): 102, doi:10.30862/cm-bj.v1i1.7.

<sup>4</sup> Yustinus Khristiandri and Susi Dwimulyani, "Analisis Kepatuhan Finansial Dan Non Finansial PPh Pasal 23 Dan Pasal 25," *Jurnal Informasi, Perpajakan, Akuntansi, Dan Keuangan Publik* 12, no. 2 (July 29, 2019): 121–42, doi:10.25105/jipak.v12i2.5115.

<sup>5</sup> J. E. J. Altham, "Rawls's Difference Principle," *Philosophy* 48, no. 183 (January 25, 1973): 75–78, doi:10.1017/S0031819100060447; Sunaryo Sunaryo, "Konsep Fairness John Rawls, Kritik Dan Relevansinya," *Jurnal Konstitusi* 19, no. 1 (March 28, 2022): 001, doi:10.31078/jk1911; A. Khudori Soleh, "Mencermati Teori Keadilan Sosial John Rawls," *ULUL ALBAB Jurnal Studi Islam* 5, no. 1 (2018),

the obligation to pay taxes in a balanced manner that does not impose undue hardship, both materially and temporally. The inconsistency between the withholding period of Article 23 of Law No. 36/2008 and the recognition of corporate taxpayer income threatens to undermine this principle. Such inconsistency also diminishes taxpayer confidence in the tax system, as they perceive that their tax burden does not accurately reflect their real economic conditions. Furthermore, this uncertainty can create inequities among taxpayers, where some entities may face higher or lower tax burdens depending on the timing of the withholding applied. This situation poses a risk to fiscal fairness and may lead to dissatisfaction among taxpayers. In the international context, the principle of fairness in taxation has also been addressed by the OECD, which emphasizes the importance of coherence between income recognition and tax obligations in its tax guidelines.

In this study, the author aims to conduct a thorough examination of the inconsistencies in the regulation of the withholding period for Article 23 Law No. 36/2008 in relation to the income recognition of taxpayers according to their accounting records. Additionally, the research seeks to explore the fairness of the withholding of Article 23 Law No. 36/2008 in conjunction with taxpayer income recognition. By analyzing these two key issues, the study aspires to provide a foundation for tax reform in Indonesia. Furthermore, this analysis is highly relevant not only for legal and tax academics but also for taxpayers, practitioners, and policymakers in their efforts to establish a tax system that is more equitable, accountable, and transparent. The author has not identified any similar research; thus, this study possesses originality in its approach, emphasizing legal inconsistencies and fairness as primary focuses while proposing more comprehensive regulatory solutions.

## 2. Methods

In this study, the author employs a normative legal research method utilizing a statute approach, commonly referred to as a statute approach, to analyze data based on legal norms found within statutory regulations, in alignment with the issues or problems that are the focus of the study. The normative legal approach involves conducting legal research primarily through the examination of literature or secondary data as the main source for analysis, which includes the review of regulations, laws, and relevant literature. In this research, the investigator collects primary data through interviews with representatives from PT X. This data provides practical insights regarding the impact of the implementation of Article 23 of Law No. 36/2008 on corporate taxpayers engaged in the service sector. This study aims to examine the impact of inconsistencies in the regulation of the withholding period for Article 23 Income Tax in relation to the recognition of taxpayer income, while also seeking to explore the fairness of the withholding of Article 23 Income Tax in conjunction with the recognition of taxpayer income.

## 3. Results and Discussion

### 3.1. Tax Timing Mismatch: Article 23 Withholding and the Accrual Basis Dilemma

According to Law No. 36/2008, which was subsequently updated through Law No. 7/2021, income providers acting as Withholding Agents are required to perform withholding under Article 23 of Law No. 36/2008. This withholding occurs at the time the income is paid,

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doi:10.18860/ua.v5i1.6152; Iqbal Hasanuddin, "Keadilan Sosial: Telaah Atas Filsafat Politik John Rawls," *Refleksi* 17, no. 2 (2018), doi:10.15408/ref.v17i2.10205.

made available for payment, or when the payment due date arrives, depending on which event occurs first. The Withholding Tax Evidence for Article 23 Law No. 36/2008 must be prepared no later than the end of the month in which the withholding takes place. This provision indicates that the Article 23 withholding system follows a cash-based approach.<sup>6</sup>

Article 28 Law Number 6 of 1983 concerning General Provisions and Tax Procedures (Law No. 6/1983), along with Article 2 Regulation of the Minister of Finance Number 54/PMK.03/2021 of 2021 concerning Procedures for Recording and Certain Criteria and Procedures for Maintaining Bookkeeping for Tax Purposes (PMK No. 54/PMK.03/2021), has established obligations for individual taxpayers engaged in business activities or freelance work, as well as corporate taxpayers located in Indonesia, to maintain bookkeeping. The purpose of this bookkeeping is to systematically record and report all transactions related to the business activities conducted, for tax purposes.<sup>7</sup> The bookkeeping must adhere to the Financial Accounting Standards (SAK), which stipulate that income is recognized based on the accrual basis method. This means that income is recognized when the right to receive the revenue has occurred, even if payment has not yet been received.

The period for withholding Article 23 Law No. 36/2008 using the cash basis method, alongside the income recognition period employing the accrual basis method, reveals a gap between these two regulations, indicating a legal inconsistency. This discrepancy may lead to misalignments in tax reporting, potentially resulting in errors in the calculation of tax obligations.<sup>8</sup> Corporate taxpayers that maintain accounting records typically adhere to accrual-based accounting principles.<sup>9</sup> Under this method, revenues and expenses are recognized or recorded at the time transactions occur, rather than when cash is received or paid. This means that the recognition of income and expenses takes place when obligations or rights arise, regardless of the associated cash flow. This approach impacts the balance sheet by recording assets and liabilities (debts) resulting from these transactions. Consequently, accrual-based recording is not influenced by the timing of cash receipts or payments, but rather by the timing of the relevant transactions.

The inconsistency between the timing of withholding Article 23 Law No. 36/2008 by the income provider and the income recognition by the corporate taxpayer receiving the income presents a challenge during the calculation of tax credits on the Annual Tax Return (SPT) for corporate income tax.<sup>10</sup> As stipulated in Article 16 Government Regulation Number 94 of 2010

<sup>6</sup> Mardawati Mardawati, "Analisis Perhitungan PPh Pasal 21 Karyawan Berdasarkan UU No.36 Tahun 2008 Dan UU Harmonisasi Peraturan Perpajakan UU No.7 Tahun 2021," *Restitusi: Jurnal Riset Perpajakan* 3, no. 1 (February 10, 2024): 27–35, doi:10.33096/restitusi.v3i1.1107.

<sup>7</sup> Bella Fransiska and Tituk Diah Widajantie, "Penerapan Pajak Penghasilan Pasal 23 Terhadap Kepatuhan Wajib Pajak," *Economic Reviews Journal* 3, no. 4 (December 1, 2024): 1249–58, doi:10.56709/mrj.v3i4.412.

<sup>8</sup> Puan Indri Hazimah Indri Hazimah and Ferry Irawan, "Kontradiksi Dasar Pengenaan Pajak Peraturan Pemerintah Nomor 46 Tahun 2013," *KEBERLANJUTAN* 3, no. 1 (July 30, 2018): 786, doi:10.32493/keberlanjutan.v3i1.y2018.p786-801.

<sup>9</sup> Rebaz Mohammed Hussein Mohammed, "Accrual Accounting Basis and Cash Flow Future Predictions," *Journal of Global Economics and Business* 3, no. 10 (July 1, 2022): 121–33, doi:10.31039/jgeb.v3i10.52.

<sup>10</sup> Yopy Ratna Dewanti et al., "Penyusunan SPT Tahunan UMKM Pasca UU HPP," *SEPAKAT: Sesi Pengabdian Pada Masyarakat* 3, no. 2 (December 24, 2023): 57–65, doi:10.56371/sepakat.v3i2.206.

concerning Calculation of Taxable Income and Payment of Income Tax in the Current Year (Government Regulation No. 94/2010), the crediting of the Withholding Tax Certificate for Article 23 Law No. 36/2008 is conducted in accordance with the Tax Year indicated on the certificate. As an example experienced by PT X, a company engaged in outsourcing services where all transactions are subject to Article 23 Income Tax withholding, Ms. AT reported that in the 2021 Tax Year, significant transactions were occurring towards the end of the year. The withholding tax certificates under Article 23 were issued by the withholding agent in 2022, as the payments were made in that year. Consequently, these certificates could not be credited in the Corporate Income Tax Return for the 2021 Tax Year. This situation resulted in the Corporate Income Tax Return reflecting an underpayment of a larger amount. Additionally, the calculation of the Article 25 Income Tax installments due in 2022 was also increased. In the case of PT X, the year 2022 was adversely affected by the Covid-19 pandemic, leading to a drastic decline in revenue and profits, which resulted in a lower tax liability in the Corporate Income Tax Return for 2022. The tax owed for 2022, after deducting the Article 25 Income Tax installments and the Article 23 withholding tax certificates – including those from transactions of the previous year – resulted in a significant overpayment. The situation faced by PT X can be illustrated in the following table:

**Table 1. Withholding Tax Article 23**

	Year 2021	Year 2022
Income	10.000.000.000	6.000.000.000
Article 23 Law No. 36/2008 is deducted at a rate of 2%.	200.000.000	120.000.000
Deductions occur in the current year.	140.000.000	90.000.000
Deductions are applied in the following year.	60.000.000	30.000.000

**Table 2. Income Tax Credit under Article 23**

	Year 2021	Year 2022
Fiscal Profit	1.800.000.000	1.100.000.000
Tax Payable	300.960.000	145.200.000
Tax Credit:	140.000.000	150.000.000
		120.719.997
Article 23 Income Tax	160.960.000	125.519.997
Insufficient Payment		Extra Payment

Note:

- Income is recorded based on the occurrence of service delivery to the Tax Withholder, while Article 23 Law No. 36/2008 is credited according to the Tax Year indicated in the Withholding Certificate.
- The payable Income Tax is calculated using the facility for Small and Medium Enterprises (SMEs) =  $50\% \times \text{Corporate Income Tax rate} \times (4.8 \text{ billion} / \text{gross revenue} \times \text{Fiscal Profit}) + \text{Corporate Income Tax rate} \times (\text{gross revenue} - 4.8\text{M}) / \text{gross revenue} \times \text{Fiscal Profit}$ .

- c) The Tax Credit for Article 23 Law No. 36/2008 for the year 2022 = Article 23 Income Tax from income in 2021 + Article 23 Law No. 36/2008 from income in 2022 =  $60,000,000 + 90,000,000 = 150,000,000$ .
- d) The Article 25 Law No. 36/2008 for the year 2022/month = Payable Income Tax for 2021 – Article 23 Law No. 36/2008 for 2021/12 =  $13,413,333$ .
- e) The Article 25 Law No. 36/2008 paid in 2022 (April – December) =  $9 \times 13,413,333 = 120,719,997$ .

The illustration above indicates that PT X is experiencing a situation that is disproportionate to its actual tax obligations, both at the time of crediting Article 23 Law No. 36/2008, which results in underpayment and overpayment. Due to this inconsistency, the regulations in the Law No. 7/2021 and the Law No. 36/2008 must be adhered to; one cannot be selectively ignored. Ignoring one of the regulations could lead to conflicts between taxpayers and tax authorities, resulting in legal uncertainty. In tax law, the existence of specific regulations (Law No. 36/2008) does not automatically override general regulations (Law No. 28/2007); rather, they must be integrated to create harmony and legal certainty. However, it is essential to ensure that the implementation does not compromise fairness for taxpayers. Therefore, matters related to bookkeeping must remain subject to Law No. 7/2021, while issues concerning the crediting of Article 23 Law No. 36/2008 must adhere to Law No. 28/2007 as the specific regulation.

### 3.2. When Fairness Fails: Timing Mismatches in Article 23 Withholding Tax

The principle of fairness in taxation is a fundamental pillar in establishing an effective and efficient tax system. In the context of Article 23 Law No. 36/2008, the principle of fairness extends beyond the equitable fulfillment of obligations between the income provider and the income recipient; it also encompasses the mechanism for crediting the withheld tax.<sup>11</sup> In the case involving PT X, the party responsible for withholding PPh Article 23, as the service user, and PT X, as the service provider, both parties have fulfilled their obligations in accordance with applicable regulations. The withholding party has complied with its duty by deducting PPh Article 23 as stipulated in Law No. 36/2008 at the time of payment, while PT X, as a corporate taxpayer, has also met its obligations by maintaining accounting records that accurately reflect income recognition at the time of transaction occurrence. However, for PT X, which has duly fulfilled its tax obligations, a situation arises that contradicts the principle of fairness. The crediting of the withheld PPh Article 23 is only permitted in the tax year corresponding to the period in which the withholding certificate was issued, leading to a disproportionate calculation of underpayment or overpayment of PPh in the Corporate Income Tax Return relative to the income for the relevant tax year.

Tax collection must satisfy several criteria to avoid creating obstacles or resistance, namely: (1) it must be fair (Fairness Requirement), (2) it must be based on existing laws (Legal Requirement), (3) it should not disrupt the economy (Economic Requirement), (4) it must be effective (Financial Requirement), and (5) the tax collection system should be straightforward. The manner in which the government collects taxes can reflect the implementation of the

<sup>11</sup> Made Dwi Surya Suasa, I Made Arjaya, and I Putu Gede Seputra, "Asas Keadilan Pemungutan Pajak Dalam Peraturan Pemerintah No 23 Tahun 2018 Tentang Pajak Penghasilan," *Jurnal Preferensi Hukum* 2, no. 1 (March 19, 2021): 6–10, doi:10.22225/jph.2.1.3042.6-10.

principle of justice for taxpayers.<sup>12</sup> This principle of justice refers to the notion that taxes should be levied fairly and equitably in accordance with the taxpayers' ability to pay.<sup>13</sup> The requirement for fairness in tax collection aligns with the legal objective of achieving justice.<sup>14</sup> In the context of legislation, justice entails imposing taxes uniformly and in accordance with the individual capacities of each taxpayer. This principle of justice must be upheld both in legal theory and in its practical application. Therefore, this requirement should be a primary concern for the state in managing tax collection, as well as a fundamental principle upheld by tax lawmakers and government officials responsible for its enforcement.

Several principles of justice must be considered, such as horizontal equity, which stipulates that taxpayers with the same income should be subjected to the same tax rates.<sup>15</sup> This principle is crucial in order to prevent discrimination in tax collection. Horizontal equity pertains to the equal treatment of taxpayers who hold the same position regarding their tax obligations. In the case of Company X, where the timing of tax credits shifts from the period of income acquisition, the company faces a disadvantage in the calculation of underpayment or overpayment in its Corporate Income Tax Return. Conversely, it is possible that other taxpayers with identical income, but differing tax credit situations, do not encounter the same issues as Company X. For instance, if their sales are entirely cash-based, the recognition of income and the timing of tax credits would align. Although the tax liability is the same for both, the requirement for tax credit documentation to correspond with the period of withholding results in differing circumstances for the two taxpayers during the preparation of the Corporate Income Tax Return. This discrepancy highlights an inequity among taxpayers. In this context, the crediting of Article 23 Law No. 36/2008 should be conducted proportionally to the recognition of income, ensuring that taxpayers with equivalent earnings can also credit the same amount of tax.<sup>16</sup>

Vertical equity is the principle that taxpayers with higher incomes should contribute a larger share of their income in taxes compared to those with lower incomes. This principle underscores the notion that tax obligations should be proportional to an individual's ability to pay. Vertical equity involves treating taxpayers differently based on their economic capacity, such as large corporations with substantial gross revenues versus small businesses with limited gross revenues.<sup>17</sup> In practice, the withholding of Article 23 Law No. 36/2008 should take into account the taxpayer's ability to fulfill their tax obligations. This presents a unique

<sup>12</sup> Dietmar von der Pfordten, "Justice, Equality and Taxation," 2015, 47–65, doi:10.1007/978-3-319-13458-1\_4.

<sup>13</sup> Sonja Dusarduijn and Hans Gribnau, "Balancing Conflicting Conceptions of Justice in Taxation," *SSRN Electronic Journal*, 2020, doi:10.2139/ssrn.3749951; Rasji Rasji and Farrell David Trawocoadji, "Settlement of Tax Disputes Through the Application of the Principle of Equity," *JILPR Journal Indonesia Law and Policy Review* 5, no. 1 (October 31, 2023): 254–64, doi:10.56371/jirpl.v5i1.209.

<sup>14</sup> Suasa, Arjaya, and Seputra, "Asas Keadilan Pemungutan Pajak Dalam Peraturan Pemerintah No 23 Tahun 2018 Tentang Pajak Penghasilan."

<sup>15</sup> Ira K. Lindsay, "Tax Fairness by Convention: A Defense of Horizontal Equity," *Florida Tax Review* 19, no. 2 (May 16, 2018), doi:10.5744/ftr.2016.1000.

<sup>16</sup> Rasji and Trawocoadji, "Settlement of Tax Disputes Through the Application of the Principle of Equity."

<sup>17</sup> Rami Obeid, "A Theoretical Study on the Application of the 'Vertical Tax Equity,'" *Journal of Business Management and Economic Research* 2, no. 11 (December 20, 2018): 16–23, doi:10.29226/TR1001.2018.76.

challenge within the tax system, as tax burdens are often imposed without adequate consideration of the taxpayer's fiscal capacity or ability to pay. A notable example of inequity arises when income tax liabilities are calculated at the time income is recognized, while the related tax credits can only be claimed in accordance with the tax period in which the withholding certificate is issued, typically at the time of payment. This situation can lead to taxpayers bearing a tax burden that exceeds what they should rightfully owe.

One of the primary issues concerning equity in Article 23 Law No. 36/2008 is the discrepancy in timing between the tax withholding and the recognition of income by the recipient. The withholding of Article 23 Law No. 36/2008 occurs at the time of payment, provision for payment, or when the income is due, whereas the income recognition by the recipient often employs a more flexible accrual method.<sup>18</sup> This timing inconsistency can lead to an imbalance between the tax obligations withheld and the income recognized by the recipient. For instance, if the income received by the taxpayer falls in a different tax year than the withholding period, it may result in either an overpayment or underpayment of taxes that must be addressed in the SPT. If not managed through a fair and efficient system, the potential for overpayment or underpayment of taxes could pose challenges for taxpayers.

In Law No. 36/2008, the provisions regarding Article 23 withholding explicitly state that income received by domestic taxpayers from certain types of income must be withheld by the income provider.<sup>19</sup> This underscores the obligation of the withholding agent to ensure that tax collection is equitable and does not impose excessive burdens on the income recipient. Through this regulation, improvements to the tax withholding mechanism, including Article 23, are aimed at clarifying and enhancing the tax system to make it more transparent and fair. One of the updates stipulated is the separation of withholding and tax reporting obligations, which is designed to be more stringent and timely.

Furthermore, there exists the principle of Commutative Justice, which emphasizes fairness in the reciprocal relationship between the state and taxpayers. The state is obligated to provide benefits or services that are commensurate with the tax contributions made by the public. In the case of PT X, which has experienced significant fluctuations in income from year to year, it is evident that inconsistencies in the periods of withholding under Article 23 of Law No. 36/2008 and the periods of income recognition have led to disproportionate overpayments or underpayments of income tax relative to actual obligations.<sup>20</sup> Despite the taxpayer adhering to the bookkeeping regulations stipulated in the Taxation General Provisions and Procedures Law, there remains a disconnect with the implementation carried out by the Directorate General of Taxes (DJP) regarding the withholding of Article 23 Law No. 36/2008, which is based on Government Regulation No. 94/2010. The application of this withholding results in a shifting of payment burdens from year to year. This situation is particularly detrimental to taxpayers, considering that annual income is not always consistent. The inconsistencies in

<sup>18</sup> Vincensia Rena Dirapuspita and Dwi Suhartini, "Evaluasi Perhitungan, Penyetoran, Dan Pelaporan Pajak Penghasilan Pasal 23 Pada CV XYZ," *Akuntansi* 3, no. 4 (November 22, 2024): 41–50, doi:10.55606/akuntansi.v3i4.2359.

<sup>19</sup> Ibid.

<sup>20</sup> Charoline Cheisviyanny, Herlina Helmy, and Sany Dwita, "Studi Kasus PT X: Telaah Atas Beberapa Permasalahan Terkait Hak Dan Kewajiban Wajib Pajak," *Jurnal Akuntansi Dan Governance Andalas* 2, no. 2 (March 19, 2020): 122–34, doi:10.25077/jaga.v2i2.16.

these regulations may lead taxpayers to perceive a lack of fairness in the taxation system in Indonesia. This sentiment was experienced by PT X when faced with underpayment, resulting in the taxpayer being required to make additional payments, which disrupts the company's cash flow and affects its financial stability. Conversely, in cases of overpayment, the taxpayer is compelled to apply for a refund, which subjects them to an audit by the DJP, a process that is time-consuming and often results in the overpayment being adjusted to a lesser amount.

### **3.3. Improving Fairness in Indonesian Taxation: Alternatives for Reconciling Withholding and Income Recognition**

In this study, the author identified several alternatives that can be pursued to minimize the impact of the discrepancies between the period of withholding tax under Article 23 and the period of income recognition. The tax authority should consider revising Article 16 Government Regulation No. 94/2010, to state: "In cases where the withholding of Income Tax Article 23 of the Law No. 36/2008 or Article 26 of Law No. 36/2008, as stipulated in Article 15, occurs in a tax year different from the year of income recognition, the withheld Income Tax may be credited in the tax year in which the withholding took place or in the year of income recognition." This revision would provide taxpayers with the option to choose the tax year in which to apply the credit for Article 23 Income Tax, thereby ensuring a sense of fairness for the taxpayers. However, if the changes mentioned in point 1 above have not been implemented, the taxpayer receiving income may take the following steps:

- a) To minimize the likelihood of a tax credit shortfall, it is advisable to align the withholding period of Article 23 Law No. 36/2008 by coordinating with the withholding agent to ensure that the withholding certificate is issued in the same tax year as the income recognition.
- b) Closely monitor the current year's income; if there is a significant indication of a drastic decline in income, promptly submit a request for a reduction in the installment payments of Article 25 Law No. 36/2008 to prevent overpayment in the Corporate Income Tax Return (SPT PPh Badan).
- c) If, upon preparing the Corporate Income Tax Return, it is discovered that there is an excess of tax credit, the taxpayer may consider not claiming the Article 23 Law No. 36/2008 credit to avoid an audit by the tax authority. However, if the overpayment is substantial and material, a request for restitution can be submitted, and it is essential to prepare the necessary supporting documents to prevent adjustments to the profit and loss statement by the auditor.

It is anticipated that the proposed initiative will enable the authorities to better address the sense of justice among taxpayers. Furthermore, taxpayers will have alternative options to achieve fairness in fulfilling their tax obligations proportionally, without causing detriment to either the taxpayers or the state. In January 2025, the government launched the Coretax Administration System (CTAS), also known as the Sistem Inti Administrasi Perpajakan (SIAP). This integrated tax administration system aims to provide taxpayers with services that are Easy, Reliable, Integrated, Accurate, and Certain (MANTAP). The objective of this system is to enhance transparency, fairness, and efficiency in tax administration. With the implementation of SIAP, taxpayers will find it easier to monitor the Withholding Tax Evidence under Article 23 Law No. 36/2008 issued by income providers, as the data regarding this

evidence will be available in real-time. This will allow taxpayers to proactively anticipate potential losses.

#### 4. Conclusions

The inconsistency between the withholding period of Article 23 Law No. 36/2008 and the recognition of income by taxpayers presents a significant challenge, particularly for corporate taxpayers operating within the service sector. This discrepancy can lead to a range of issues that complicate tax compliance and financial planning for these businesses. For corporate taxpayers, the withholding of Article 23 Law No. 36/2008 by income providers can create a scenario where there is a substantial mismatch between the taxes withheld and the actual income earned during a given fiscal year. This misalignment can result in either significant overpayment or underpayment of taxes, which can have serious financial implications for businesses. Overpayment can tie up valuable cash flow that could otherwise be reinvested in operations, while underpayment can lead to penalties, interest charges, and potential legal complications with tax authorities.

The situation is exacerbated by the inherent variability in gross revenue that many service sector companies experience from year to year. Fluctuations in demand, seasonal trends, and changes in client contracts can all contribute to unpredictable income streams. When income providers withhold taxes based on prior year earnings or estimated projections, it can lead to a situation where the actual tax liability diverges significantly from the amount withheld. This can create a cycle of uncertainty and financial strain, as companies must navigate the complexities of tax reconciliation and potential adjustments. Moreover, the lack of synchronization between income recognition and tax withholding can hinder effective financial forecasting and budgeting. Corporate taxpayers may find it challenging to accurately predict their tax obligations, which can complicate strategic planning and resource allocation. This uncertainty can also affect investor confidence and overall business stability, as stakeholders may be wary of the potential for unexpected tax liabilities. In light of these challenges, policymakers need to consider reforms that address the inconsistencies between withholding practices and income recognition. Streamlining the withholding process, providing clearer guidelines for income providers, and allowing for more flexible adjustments based on actual income could help mitigate the issues faced by corporate taxpayers in the service sector. By fostering a more equitable and predictable tax environment, businesses can better manage their financial obligations and focus on growth and innovation. Ultimately, addressing these inconsistencies will not only benefit corporate taxpayers but also contribute to a more efficient and effective tax system overall.

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