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Maintaining Progresiveness of Personal Income Tax Rates in The Indonesian Income Tax Law

Suwardi
Center of State Revenue Policy, Fiscal Policy Agency, Ministry of Finance of Republic of Indonesia
Dr. Wahidin Sudirohusodo Road No. 1, Jakarta, Indonesia

Abstract

This research is related to the argumentation of the plans of several tax authorities, including the Indonesian authorities, to increase the personal income tax rate. The imposition of taxes through increased individual tax rates is one way for post-Covid-19 funding. The increase in tax rates is considered not to pose a risk to consumption or the principle of tax equity. This study uses a descriptive quantitative research method that tries to explain the planned increase in tax rates by the Indonesian tax authorities is by international trends or practices, the principle of justice, and taxpayer behavior. The comparison of the taxable lower limit, rate, GDP Per Capita, PKP Upper Limit, Number of Taxable Layers, and the impact of changes in individual tax rates are used to explain this research. The G-20 and ASEAN countries were selected based on the GDP per Capita scheme and geographical proximity. This study aims to answer the relevance of the implication of imposing progressive rates with Indonesian conditions, the plan to increase tax rates for Personal Income Tax and increase the number of taxable layers. The review of the threshold of taxable income also gets a portion of this research as well. This study also reviewed the rate mantaing from 30% to return to the 35% rate. The results of the study show that the wishes of the Indonesian tax authorities are in line with trends in state financing after the Covid-19 pandemic. This rate increase is not without risk. This rate increase will have implications for changes in the behavior of individual taxpayers who are affected by regulatory changes. The plan to change the individual tax structure should also consider the principles of fairness, progressiveness, general principles of tax reform, and changes in the behavior of taxpayers who are affected by regulatory changes. Changes in tax rates should increase taxpayer voluntary compliance.

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Corresponding Author:
Email:
suwardibkf@kemenkeu.go.id

INTRODUCTION

The increase in rates for personal income tax is again being looked at for an increase. This contrasts with the Corporate Income Tax where tax authorities in both OECD and non-OECD countries are competing to lower rates. In this pandemic era, European countries are starting to look for new fiscal financing after the Covid-19 pandemic ends or the recovery period. One of them is the increase in the rate of personal income tax. Worldwide individual tax rates fall into three categories. There are tax authorities that charge a flat tax rate or at a progressive rate. This imposition depends on each country. But some authorities do not impose taxes at all for individuals.

This study is to see the comparison of the personal income tax imposition system with a progressive system whose scheme is changed in the proposed draft regulation of the type of income tax. The proposal is under discussion between the Government and the House of Representatives in 2021. The proposed amendment is to increase the rate of personal income tax starting in the 2022 fiscal year.

If you look at the history of setting individual income tax rates in the income tax law, it can be seen in Table 1. The setting of individual income tax rates includes the tax rate, the number of taxable layers, the lower limit of taxable income, and the taxable layer that is subject to the highest rate.

Table 1. History of Indonesian Personal Income Tax Rate Settings

No	Variable	*UU 7 Tahun 1983*	*UU Tahun 1994*	*UU 17 Tahun 2000*	*UU 36 Tahun 2008*	*UU 7 Tahun 2021*
1	Tax Year Period	1984 -1994	1995 -2000	2001-2008	2009 -2021	2022-now
2	Duration (years)	11	6	8	13	Now (start from 2022)
3	Rate	15%, 25%, 35%	10%, 15% dan 30%	5%, 10%, 15%, 25%, 35%	5%, 15%, 25%, 30%	5%, 15%, 25%, 30%,35%
4	Rate Type	Progresive	Progresive	Progresive	Progresive	Progresive
5	Number of Layers of Taxable Income	3	3	5	4	5
6	Lower limit nominal (IDR)	10 million	25 million	25 million	50 million	60 million
7	Upper limit nominal (IDR)	50 million	50 million	200 million	250 million	5 billion

If you look at table 1, Indonesia has imposed the lowest layer of taxable income from 1984 to 2000, namely 3 layers of taxable income. Then it changed to five layers starting in 2001 tax year. In 2009 taxable layers changed again to 4 layers. Especially for the same tax rate, Indonesia has imposed a tax rate of 35% in 1984-1994, 2001-2008 and 2022 until now. The highest rate fell to 30% in the period 1995-2000 and 2009-2021. The biggest change in personal income tax revenue (the highest personal income) is influenced by many employees. This income comes from the middle-income layer of workers. This is suitable for the application of a progressive tax rate.

LITERATURE REVIEW

Fairness

The norm of tax is the principle that the overall tax burden is shared with all resident's contrary to the principles, theories, or ideologies regarding the ratio of government revenue to GDP, government objectives, and the general theory of social justice. Tax justice norms deal with different issues from tax legitimacy and government in general.

Tax fairness in this study is measured by using measurements that include vertical equity and horizontal equity. The principle of justice will have an impact on increasing tax compliance behavior if the tax authorities manage to do good and fair treatment in taxation activities. Then the perception of tax justice will increase the trust of taxpayers in tax authorities and ultimately increase tax compliance behavior. This suggests that tax equity and perceived trustworthiness are important factors in encouraging better voluntary compliance among taxpayers.

Progressive Rates

The imposition of taxes with progressive and regressive methods is a taxation scheme based on a monetary base such as income, consumption, and wealth where the amount of tax paid increases proportionally from the tax base. A characteristic of tax imposition with progressive and regressive methods is a pattern of tax imposition for high-income and low-income people. Thus, classifying taxes as progressive or regressive according to the relative rates at which they charge the rich and the poor seems at first to be a simple matter. Unfortunately, when one wants to understand the effective progressiveness of taxation schemes and their redistributive nature, and especially to compare the relative progressivity or regression rates of alternative taxes, some problems arise. Before formalizing the notion of progressivity, let us take a brief look at this issue.

Progressive taxes are levied at a rate that increases with the amount of the tax base. In Australia, income tax is an example of a progressive tax where individuals pay income tax at an increasing rate depending on the amount of their taxable income. Progressive income tax is usually defined as the relationship between the taxpayer's income and the income tax rate. In the case of progressive income tax, taxpayers with a larger base of taxable income generally pay taxes on this income at a higher rate. Thus, progressive taxation is considered an adjustment to the calculation of tax liability. Progressive taxes are often designed to obtain a greater proportion of tax revenue from the rich to the poor (relatively), thereby reducing the inequality of spendable income compared to taxable income.

However, as governments increase the structural progressiveness or tax rates that the rich face relative to the poor, individuals can respond by taking steps to reduce their taxable income. Reducing taxable income is achieved by working less (productivity response) or only reporting a smaller share of actual income (tax avoidance/evasion response). While both behavioral responses tend to reduce income inequality, they can have a differential effect on actual income inequality. While we would expect a productivity response from more progressive taxes to reduce actual inequality, the avoidance response could increase the actual disposable income of the rich (because no tax is paid on the hidden income) and thereby increase inequality in actual net income.

Progressive tax procedures could improve the current system of activity-based rules to prevent non-compliance more effectively by the upper class of taxpayers and counter resource mismatches among taxpayers. Progressive procedures will narrow the gap between the substantive tax and the actual tax paid by the top taxable layer taxpayer. Progressive taxation procedures are highly desired by tax authorities pursuing progressive tax reforms. This formation will be beneficial for state revenue.

Rates

There is no scientific research as a basis for determining the optimal amount of Personal Income Tax (PIT) rates. Different rates do not automatically make PIT progressive. The number of progressive rates is used to ensure that the progressive rate does not fade too quickly as income increases and vertical equity becomes the main focus of imposing progressive rates. An adequate level of progress can usually be achieved with only a few positive levels. In addition, keeping the number of rates low will also facilitate administration.

Range of Rates

The top PIT rate at a reasonable rate is generally considered to be below 50%. Another important consideration in setting this rate concerns the difference between the top PIT rate and the Corporate Income Tax rate. The lowest PIT level can be 0%. If the exemption threshold is determined separately, then the choice of the lowest PIT rate with a certain percentage will depend on several things, namely depending on the desired taxable layer and the amount of the rates.

Tax Reform

A tax reform framework by imposing different types of income consistently by expanding the tax base can improve equity and economic efficiency at the same time. High-income tax subjects cannot easily use the weaknesses of the tax system to reduce tax payments and taxes will be the last consideration for business or investment decisions. Thus tax reform can generate the same income at a lower tax rate or more income if the tax rate remains the same.

Personal income tax reform should pursue 5 main objectives: (1) Income sufficiency: Tax reform can increase tax revenue in proportion to GDP (gross domestic product); (2) Equity: Tax reforms increase income according to an individual's ability to pay with a stronger personal income tax system using progressive taxation. Reforms should increase overall tax revenues, especially those with high incomes or those with the greatest ability to pay compared to the income received by individual tax subjects with low and middle incomes; (3) Economic efficiency: Tax reform is aimed at eliminating economically detrimental biases; (4) Simplicity and sustainability. Reforms will reduce compliance costs and create a culture of tax avoidance.

Tax reform is a significant and comprehensive change in the taxation system that includes reforming tax administration, improving tax regulations, and increasing the tax base. Reforms for personal income tax rates and brackets can be justified from the paradigm of the need to reformulate the taxable layer (bracket creep) and ease the tax burden on personal income taxpayers relative to ASEAN neighbors.
The handling of Covid-19 has also forced countries to provide concessions in tax collection at the beginning of the Covid-19 pandemic. However, this policy cannot be carried out continuously. The tax authorities must make policy improvements by providing a stimulus to the economy. Even some countries in 2021 have started to increase tax rates for certain types of income. The increase in taxes for the survival of the state is carried out with 5 types of taxes. One of them is the increase in the rate of personal income tax.

Table 2. Typology of Tax Measures Introduced in Response to the COVID-19

	Relief	Recovery-Oriented Stimulus	Tax Increases
Objectives of policies	Tax deferrals	Tax incentives for investment	Increase in top personal income tax rates
Main types of tax measures	Tax-filing extensions	Reduced corporate or other business tax	Health excise tax increase
	Accelerated tax refund	Tax incentives for employment	Environmental tax increases
	Loss-carry back provisions	Temporary VAT rate reductions	Property tax increases
	Temporary tax waivers	Lower property transaction	Business tax increases
	Temporary tax rate reductions		

Several countries increasing tax rates and introducing new types of taxes. In OECD countries some countries increase CIT rates, other business taxes, PITs, net wealth taxes, taxes on transactions, environmental taxes, and health-related taxes. Especially environmental taxes, health taxes, other business taxes, and taxes on PIT are the types of taxes that have the highest rate of increase.

Benchmarks and strategies for progressive tax reform: (1) Overall tax revenues will increase (in proportion to GDP) as the population ages; (2) Various types of income must be taxed more consistently so that people contribute to meeting the needs of the community according to their ability to pay. Opportunities for taxpayers (taxpayers) to avoid paying taxes at an appropriate level of marginal tax should be kept to a minimum; (3) The share of tax revenues from those with high income (high-income earners) than the taxpayers with low and middle income (low and middle-income earners). For example, the highest tax rate may not be reduced unless lost income is recovered by closing tax shelters; (4) The share of total tax revenue from taxes on income and investment assets should not be reduced. This implies that the share of income derived from taxes on income should not decrease and the share of consumption taxes should not increase; (5) The overall level of income from corporate and business income taxes should increase (and at least not decrease). This means that the corporate tax rate may not be reduced unless loss income is recovered by expanding the tax base and/or increasing tax revenues on foreign investor income, and opportunities for pooling personal income in private companies are limited.

Based on the two studies, this paper will examine things that have not been studied by previous researchers or clarify previous research, namely: (1) Will the Indonesian tax authorities continue to maintain progressive rates by the conditions in 1984-2021?; (2) Is the proposed increase in tax rates for Personal Income Tax made by the Indonesian tax authorities by the trend of the tax authorities of other countries?; and (3) Can the amount of taxable layer be increased?

METHODOLOGY

This study uses non-experimental quantitative methods, namely research that uses numbers that are processed in the form of tables which are then explained descriptively. This study explains the pattern of determining the taxable limits and rates for individual income tax so that it can answer why the Indonesian tax authorities want to change the structure of the imposition of personal income tax rates.

Data collection was obtained from secondary data from previous studies and reliable data sources. This research also takes data from the scientific literature that are used to help complete the research analysis. The data analysis technique used is data processing in the form of tables, percentages, and comparisons between one data and another. Comparisons make it easier for researchers to analyze and clarify so that researchers can conclude research results.

To facilitate the calculation and analysis, the currency used is USD with the exchange rate as of December 31, 2020. The study also uses USD as a medium of comparison to converting currencies from Indonesia, Argentina, Brazil, India, Thailand, Vietnam, and Turkey. The study took samples (selected countries) of data from ASEAN, namely countries. This study also selected members of the G-20 as the research sample. However, not all the G-20 and ASEAN countries were used as research objects, but only took a sample of a few countries. The main considerations for sampling are 4 G-20 member countries and 2 ASEAN countries with consideration of GDP per capita between USD 1,900 to USD 9,000. A sampling of GDP per capita is carried out on two countries whose GDP is below Indonesia (India and Vietnam) and 4 countries whose GDP is above Indonesia, namely Argentina, Brazil, Thailand, and Turkey. GDP considerations are important because Indonesia's GDP per capita position in 2020 is USD 3,917 per capita. An additional consideration for ASEAN countries is the reason for geographical proximity.

Selection of countries based on comparison of GDP per capita data. In addition, the selection of countries also considers their economic conditions that are on par with Indonesia. Therefore, the G-20 member countries were chosen, namely Argentina (8,433 USD), Brazil (6,819 USD), India (1,947 USD), and Turkey (8,599 USD). Specifically for the ASEAN region, Thailand (7,597 USD) and Vietnam (2,779 USD) were selected.

ANALYSIS AND DISCUSSION

ANALYSIS

The study of the layers of taxable income and individual income tax rates between Indonesia and 6 comparison countries was carried out by comparing the variables studied.

Table 3. Comparison of GDP Per Capita with Lower Limit of Taxable Income

Country	Currency	GDP Per Capita	Lower Limit of Taxable Income	Lower Limit of Taxable Income
Indonesia (IDR)	ID	3,917.09	3,475.00	100.00%
Argentina (ARS)	ARS	8,433.32	664.69	19.13%
Brazil	BRL	6,819.97	4,333.05	124.69%
India (<60 y.o.)	IN	1,947.42	3,365.00	96.83%
(between 60-79 y.o)	IN	1,947.42	4,038.00	116.20%
above 80 y.o.	IN	1,947.42	6,730.00	193.67%
Thailand	THE	7,597.61	4,498.51	129.45%
Vietnam	VND	2,779.00	216.24	6.22%
Turkey	GVK	8,599.26	2,807.05	80.78%

Determination of non-taxable limits or taxable thresholds is important for the authorities of each country. The lower limit will have a direct impact on the level of consumption by the community. If the lower limit is increased, it will have an impact on increasing consumption, increasing VAT, but at the same time, it will have an impact on decreasing personal income tax receipts. Conversely, if the taxable threshold is lowered, it will be positively correlated to an increase in the tax base but will reduce consumption and decrease VAT revenue. The tax authorities of each country must consider the impact of determining this taxable threshold. Countries that apply a taxable income threshold below GDP per capita are Indonesia (88.71%), Brazil (63.53%), Thailand (59.21%), Turkey (32.64%), Argentina (7, 88%), and Vietnam (7.78%). Meanwhile, the only countries that apply a threshold above GDP per capita are India's tax authorities.

Nominally, there are two countries, namely Argentina and Vietnam which have the lowest taxable lower threshold, namely Argentina (664 USD) and Vietnam (216 USD). In nominal terms, the highest thresholds are applied by Thailand (4,498 USD), Brazil (4,333 USD), and India (3,365 USD). The Indonesian tax authorities set a threshold of 3,475 USD or 88.71% of GDP Per capita. Indonesia is the only country whose PKP threshold is close to GDP per capita.

Table 4. Comparison of PKP Lower Limit with GDP Per Capita

Country	Currency	Lower Limit pf Taxable Income	GDP Per Capita	Proportion
Indonesia (IDR)	ID	3,475.00	3,917.09	88.71%
Argentina (ARS)	ARS	664.69	8,433.32	7.88%
Brazil	BRL	4,333.05	6,819.97	63.53%
India (<60 y.o.)	IN	3,365.00	1,947.42	172.79%
(between 60-79 y.o)	IN	4,038.00	1,947.42	207.35%
above 80 y.o.	IN	6,730.00	1,947.42	345.59%
Thailand	THE	4,498.51	7,597.61	59.21%
Vietnam	VND	216.24	2,779.00	7.78%
Turkey	GVK	2,807.05	8,599.26	32.64%

The upper threshold of taxable income is also important for research to ascertain the impact of high income on the taxes they will pay. Especially the upper limit will not affect their consumption patterns but will affect tax planning and investment decisions.

The comparison table for the upper limit of the PKP will determine the group of income recipients who will be charged the highest rate. The comparison shows that countries have different upper limit policies. In nominal terms Thailand (149,950 USD), Turkey (76,024 USD), Indonesia (34,750 USD), India (13,460 USD), Argentina (10,635 USD), Brazil (10,615 USD) and Vietnam (9,297 USD).

Table 5. Comparison of PKP Lower Limit with GDP Per Capita

Country	Currency	Lower Limit pf Taxable Income	GDP Per Capita	Proportion
Indonesia (IDR)	ID	3,475.00	3,917.09	88.71%
Argentina (ARS)	ARS	664.69	8,433.32	7.88%
Brazil	BRL	4,333.05	6,819.97	63.53%
India (<60 y.o.)	IN	3,365.00	1,947.42	172.79%
(between 60-79 y.o)	IN	4,038.00	1,947.42	207.35%
above 80 y.o.	IN	6,730.00	1,947.42	345.59%
Thailand	THE	4,498.51	7,597.61	59.21%
Vietnam	VND	216.24	2,779.00	7.78%
Turkey	GVK	2,807.05	8,599.26	32.64%

Increasing the threshold for taxable income layers is a form of expansionary fiscal policy, namely tax policy by reducing tax revenues aimed at increasing aggregate demand. Meanwhile, changes in the number of taxable layers can have an impact on increasing or decreasing tax revenues depending on the impact of changes in the number of taxable layers on changes in tax revenues.

Meanwhile, the increase in tax rates is a contractionary policy that will have an impact on decreasing aggregate demand in the economy. Therefore, changes in tax rates for individuals should be able to eliminate the aggregate impact in this economy. One way is to increase the tax rate only to certain layers that have the least impact on aggregate demand.

Table 6. Comparison of the Number of Layers of Taxable Income

Country	Note	Number of Layers
Indonesia (IDR)		5 layers
Argentina (ARS)		9 Layers
Brazil		5 Layers
India	< 60 y.o.	4 Layers
	60 < x < 79 y.o.	4 Layers
	> 80 y.o.	3 Layers
Thailand		8 Layers
Vietnam		7 Layers
Turkey		5 Layers

The highest number of taxable layers (tiers) are Argentina (9 layers), Thailand (8 layers), and Vietnam (7 layers). While other countries relatively choose the number of layers between 3-5 layers. Considerations related to the comparison of the quantity of small or large number of layers are simplicity, the number of tax subjects that will be imposed in each layer, and the impact of tax revenues that will be received or subsidized.

The data analysis technique is prioritized using the comparison of the research object variables between the research object countries and the tax regulations issued by the Indonesian tax authorities. The comparison of the research variables is then compared so that an easier picture can be obtained in concluding.

Comparative research was conducted by comparing the lower limit of taxable income, the upper limit of taxable income, the number of taxable layers, and the tax rate on individual income in the countries studied. It is important to examine the comparison of the lowest and highest rates to see the pattern of the proposed increase in the personal income tax rate by the Indonesian tax authorities.

Lowest Rate and the Highest Rate

Changes in tax rates in tax laws and regulations have encouraged high-income taxpayers to review their components of income and assets. High-income people have long-term plans for the income they earn. Naturally, everyone will avoid their tax obligations in the long run. The tax authorities of each country must be able to balance the interests of the economy with the investment behavior of high-income people.

Table 7. Impact of Changes in Individual Tax Rates

No	Variable	Economy	Changes in tax structure (rate cut or increase)
1	Impact of Changes in Personal Income Tax	Affect long-term economic growth	Cutting tax rates can encourage individuals to work, save and invest
2	Effect of overall tax rate and changes in tax structure	Changes in the tax structure have a significant effect on the growth	The shift from income to consumption and property taxes leads to a positive and significant effect on growth rates while the shift from consumption and property taxes to income taxes has a positive effect on low-income countries.
3	High-income taxpayer	Allocate portfolio back into tax-preferred investments and income types. The effects of tax reform on investment, labor supply, and other real economic activities are difficult to separate from macroeconomic changes	Consistently respond to changes in tax rates to limit their tax liability. Taxpayers respond differently to tax increases and tax decreases.
4	Effect on GDP	Influence is long term	1% reduction in the tax rate would increase real GDP by 0.78%

Existing research is mostly about the impact of lowering tax rates. However, it is rare to test related to the increase in tax rates. A reduction in tax rates is more difficult to prove than an increase in tax rates.

Tax reforms through reducing tax rates aimed at spurring long-term growth are likely to have a positive impact on economic growth. A tax reduction for personal income tax will also reduce long-run output and have only a slight positive effect on production in the first 10 years.

In many OECD countries, a shift towards a flatter personal income tax schedule has occurred, with one of the most notable changes in personal income tax being a reduction in the highest statutory income tax rate. Reductions in personal income tax rates have been accompanied by cuts in corporate income tax rates, partly financed by broadening the base in many countries.
In practical policy terms, a larger income shift might be achievable to a consumption tax. However, with consumption taxes being less progressive than personal income taxes, or even regressive, shifting the tax structure from personal income taxes to consumption taxes will reduce progressivity.

Table 8. Lowest and Highest Tax Rate Comparison

Country	Note	Lowest	Highest	Compared to Indonesia
Indonesia (IDR)		5%	35%	Base line
Argentina (ARS)		5%	35%	Same
Brazil		7,50%	27,50%	Lower
India	< 60 y.o.	5%	30%	Lower
	60 < x < 79 y.o.	5%	30%	Lower
	> 80 y.o.	20%	30%	Lower
Thailand		5%	35%	Same
Vietnam		5%	35%	Same
Turkey		15%	40%	Higher

Overview of Indonesia's Taxable Layer

Five factors that influence the behavior of taxpayers are fairness and trust in tax administration, the impact of norms on behavior, deterrence effects, the complexity of the tax system, broader economic and social factors, interactions between factors, and principles of influence. Deterrence Effects are the main element of taxpayer compliance as well as Fairness and Trust in Tax Administration. Most taxpayers consider tax avoidance unacceptable.
Research shows that the use of a progressive rate system for personal income tax has a positive and significant effect on the level of tax avoidance in Indonesia. Changes in tax rates and taxable income classes also contribute to Indonesian tax evasion. Higher-income brackets encourage tax evasive individuals to avoid

higher tax rates at the next level. Economic factors can be in the form of motivational factors and situational factors, and both can influence compliance behavior. The economic factor that gets a lot of attention is the amount of tax to be paid or the tax rate.

The Indonesian tax authorities have reformed the individual income tax rate four times. The shortest fare usage period is 6 years and the longest is 13 years. Tax reform in the last 20 years was carried out by reducing the tax rate for the lowest layer to 5%. The reduction in tax rates during this period had a positive impact on consumption and long-term tax revenues.

Meanwhile, the tax authorities have also imposed the highest tax rate of 35% for the period 1984-1994 (for 11 years), 2001-2008 (for 8 years), and 2022 until now (2 for 2 years). If the tax authorities repeat the increase in the highest tax rate, then it will certainly not affect consumption but will affect tax planning and investment decisions. This is because the income layer of this group is relatively small compared to other groups. Tax planning will be carried out by this group of income recipients because the gap between the corporate income tax rate 22% and the personal income tax rate (35%) is widening.

DISCUSSION

Based on the theories and empirical data carried out in the comparison of tax authorities presented above, the research results can be obtained:

Maintaining the Taxable Threshold

Indonesian tax authorities can maintain the taxable threshold. The proportion of Indonesia's threshold is almost the same as Income per Capita. The Indonesian tax authority has set a threshold that is not too far from GDP per capita, which is 88.71%. Testing the comparison of the taxable threshold with GDP per capita is easy to argue with, but the GDP per capita data is real data that is owned by each country and is easy to compare. Determining the high or low threshold is important to see the impact of expanding the tax base of each country. Involved that the Indonesian tax authorities prioritize the principle of justice rather than the expansion of the tax base.

Indonesia Must Maintain the Consistency of Taxation Progressively

Based on historical data considerations, the imposition of progressive tax rates for Indonesian individual income types has been imposed since January 1, 1984, until now. Progressive tax rates have been imposed in 4 amendments to the Income Tax Law in 1991, 2000, 2008, and 2021.

The imposition of progressive tax rates is also by most practices carried out by the tax authorities of other countries. Rates other than progressive are only carried out by a few countries in this world. Most tax authorities prefer the imposition of progressive tax rates for this type of personal income tax.

The imposition of progressive tax rates also reflects fairness because the weight of the tax paid is commensurate with the income received. The higher the income, the more progressive the income that is taxed. This is different from the regressive (flat) tax rate imposed on corporate income tax. Almost all tax authorities charge a flat rate of tax. The imposition of corporate income tax rates tends to be flat, and each taxing authority is competing to lower tax rates to attract investment and increase competitiveness with other countries.

To Mantain the Rate of Personal Income Tax By Trends in Other Countries

After the Covid-19 pandemic, tax authorities in the world must immediately look for new financing that can finance their fiscal. The proposal to increase the individual tax rate is a rational proposal that can be accepted by all tax authorities. The increase in tax rates is still in line with historical tax rates imposed by world tax authorities. So, the proposed increase in the individual tax rate by the Indonesian tax authorities is acceptable. This increase in tax rates reflects the principle of progressiveness, namely the highest income will be subject to progressively commensurate tax rates.

The Number of Taxable Layers Can Be Maintained

The taxable layers of world practice are between 4 and 9 layers. So that if the Indonesian state tax authority wants to increase the number of layers of taxable income added, it will not affect consumption. The effect of the number of layers will have an impact on consumption if the increase targets the income of the lowest layer. The proposal of the Indonesian tax authorities to make changes at a high level. Changes in the overall layer scheme must be calculated carefully so that it will increase direct tax revenue in the form of an increase in personal income tax.

CONCLUSION

The plan to maintain the personal income tax rate, tax reform carried out by the Indonesian tax authorities considers the history of progressive tax rates attached to the income tax law. If you look at history, keeping the 35 percent tariffs is a reasonable proposal because Indonesia has imposed similar tax rates in the previous period.

The plan to change the individual tax structure should also consider the principle of fairness, the principle of progressiveness, general rules of tax reform, and changes in the behavior of taxpayers who are affected by regulatory changes. Changes in tax rates should increase taxpayer voluntary compliance.

The considerations that can be taken by the Indonesian tax authorities are the comparison of the lower limit of non-taxable income, the upper limit of taxable income, the number of taxable layers, and the lowest/highest rate. Especially for the lower limit of non-taxable, the Indonesian tax authority is proposed to maintain the limit.

Consideration of the short-term and long-term economic impacts is the concern of every authority in raising or lowering income tax rates. Consideration of changes in taxpayers, especially the behavior of high-level income, is a challenge in keeping the 35 percent tariffs. The behavior of high-level income tends to create a portfolio in an investment scheme. These tax subjects also tend to make long-term tax planning.
Based on the contradiction above, the plan to change the layer structure or tariffs in tax regulations in Indonesia will only target high-level income. Changes in the tariff structure will not significantly affect the increase or decrease in demand. Changes in the individual tax structure will affect long-term tax planning and investment schemes carried out by taxpayers in the high-level income category.

This study recommends that the Indonesian tax authorities can increase the rate of taxable income. Tariffs can be increased from 30% to 35% - 40%. If the authority keeps tariff of 35%, it will return to the scheme of UU No. 17 Tahun 2000 or UU 17 Tahun 2021.
In addition, the authority can also keep the number of layers of taxable income from the original 4 layers of taxable income to 5 layers of taxable income or more. If we keep to the 5-layer scheme, it will consistent with the scheme or UU 7 Tahun 2021.

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