RLJ Ratio Legis Journal
ISSN 2830-4624
published by
Master of Law, Faculty of Law
Universitas Islam Sultan Agung

Substantive Justice in the Personal Income Tax Rate Structure for Business Actors

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Abstract. *This study aims to analyze the Personal Income Tax (PPh OP) tariff structure for business actors in the Indonesian tax law system and assess its compliance with the principle of substantive justice based on the ability to pay principle. This study uses a normative legal method with a statutory, conceptual, and case study approach. The data used are primary, secondary, and tertiary legal materials obtained through literature studies, then analyzed qualitatively using interpretation and legal reasoning techniques. The results show that the regulation of the PPh OP tariff structure in Indonesia has a strong constitutional basis based on Article 23A of the 1945 Constitution of the Republic of Indonesia and is implemented through Law Number 7 of 2021 concerning the Harmonization of Tax Regulations. The applied progressive tariff structure reflects the principles of vertical justice and ability to pay by differentiating the tax burden based on the taxpayer's income level. However, in practice, this tariff structure has not fully realized substantive justice for individual business actors due to the characteristics of fluctuating income, business instability, and limited tax administration capacity. Therefore, it is necessary to improve tax policies to be more adaptive and flexible so that the tax burden borne by taxpayers is more proportional to their real economic capacity.*

Keywords: *Income; Justice; Personal; Substantive; Taxation.*

1. Introduction

Indonesia as a state based on law as stated in Article 1 paragraph (3) of the 1945 Constitution of the Republic of Indonesia places law as the basis for all state actions, including in the field of taxation. From the perspective of the Pancasila state based on law, law not only functions to limit state power, but also serves as a means to realize social justice and general welfare. Therefore, tax collection as a form of burden on citizens must have a clear legal basis and be constitutionally accountable. This is emphasized in Article 23A of the 1945 Constitution of the Republic of Indonesia which states that taxes and other compulsory levies for state needs must be regulated by law, thus reflecting the application of the principle of legality in the field of taxation. As part of the national legal system, tax regulations must also be subject to the hierarchy of statutory regulations that place the 1945 Constitution of the Republic of Indonesia as the highest norm. Thus, tax collection not only obtains legal legitimacy through the mechanism of forming laws as a manifestation of the principle of *no taxation without representation,* but must also be implemented within a framework of justice, legal certainty, and accountability in order to support state financing and realize equitable national development.

Taxes play a crucial role in developing countries like Indonesia, serving as the primary source of state funding for the provision of public services, infrastructure development, and the implementation of public welfare programs. Historically, the practice of tax collection has been known since the kingdom era in the form of tribute and evolved into a more structured system during the colonial period, although at that time it was often used as an instrument of exploitation that harmed the public due to weak legal foundations and oversight. This experience prompted the constitutional drafters to incorporate tax regulations into the 1945 Constitution to ensure that tax collection was carried out within the framework of a state governed by law and not become a means of state arbitrariness. The strengthening of the principle of legality was further evident through the amendment of Article 23 to Article 23A of the 1945 Constitution of the Republic of Indonesia, which affirms that taxes and other compulsory levies must be regulated by law. However, formal legality does not necessarily guarantee the realization of substantive justice in tax imposition. From the perspective of a state governed by Pancasila, tax justice is measured not only by the validity of tax collection but also by the appropriateness of the tax burden to the taxpayer's economic capacity, as reflected in *the ability to pay principle.* This principle is realized through the implementation of progressive Personal Income Tax rates, which require taxpayers with higher incomes to contribute more. However, the application of progressive rates does not automatically guarantee substantive fairness, as there is still the possibility of a tax burden that does not fully reflect the taxpayer's actual economic condition. Therefore, further study is needed to determine the suitability of the Personal Income Tax rate structure with the principles of ability to pay and fairness in taxation.

In Indonesia, Individual Income Tax (PPh) is imposed on Taxable Income (PKP), which is net income after deducting Non-Taxable Income (PTKP). The applicable tariff structure is progressive and tiered, so the higher the taxpayer's income, the higher the tariff imposed on their income tier. Through Law Number 7 of 2021 concerning the Harmonization of Tax Regulations (UU HPP), the government adjusted the limit for the first tier of PKP to IDR 60,000,000.00 and added a top tariff layer of 35% for PKP above IDR 5,000,000,000.00. This policy reflects the application of the ability to pay principle and vertical equity, namely tax imposition adjusted to the taxpayer's economic capacity.

In addition to adjusting the tariffs, the government also implemented the Average Effective Rate (TER) mechanism through Government Regulation Number 58 of 2023 as a form of administrative simplification of Article 21 Income Tax deductions. The TER scheme uses an effective rate based on the taxpayer's gross income group and PTKP status for the January to November tax period, while in December a recalculation is carried out based on the annual progressive rate. Although it does not change the substance of the progressive rate stipulated in the law, the application of the TER has the potential to affect the distribution of the tax burden in certain periods, especially for taxpayers with fluctuating income or who are within certain tariff limits. This condition raises questions about the extent to which the TER mechanism remains aligned with the principles of vertical justice and substantive justice in the tax system.

In essence, adjusting income tax rates and layers is a common practice in various countries to maintain a balance between state revenue, administrative efficiency, and tax fairness, including as a response to inflation, which can increase nominal income without a corresponding increase in real economic capacity. However, determining a progressive tax rate structure remains a complex policy because it must balance the state's interest in optimizing revenue with the taxpayer's interest in obtaining a fair burden. Therefore, although the Personal Income Tax rate structure has been designed based on the ability-to-pay principle, further study is still needed to assess whether this arrangement truly reflects substantive fairness, especially for business actors who have different income characteristics compared to other taxpayers.

Based on the background description, this study aims to analyze the arrangement of the Personal Income Tax rate structure for business actors in the Indonesian tax law system and assess whether the rate structure has reflected substantive justice based on the ability *to pay principle.* This analysis is important to examine the suitability between the normative arrangement of Personal Income Tax rates with the aim of realizing a proportional distribution of the tax burden according to the taxpayer's economic ability, so as to provide an overview of the level of justice contained in the Indonesian tax system.

2. Research Methods

This research is a normative legal study using a library approach by examining primary, secondary, and tertiary legal materials. The primary legal materials consist of tax laws and regulations, specifically Law Number 7 of 2021 concerning the Harmonization of Tax Regulations and its implementing regulations. Secondary legal materials include literature, scientific journals, and relevant previous research findings. The legal materials were collected through document studies and then analyzed qualitatively using an interpretive approach to applicable legal norms. This research is descriptive in nature, aiming to describe the regulation of the

Personal Income Tax rate structure and analyze its compliance with the principle of substantive justice based on the ability *to pay principle.*

This research is prescriptive in nature, namely legal research that aims to provide arguments, assessments, and recommendations regarding the proper application of the law (*das Sollen)*. This research not only describes the applicable legal provisions, but also evaluates their compliance with legal principles, particularly the principle of substantive justice and the ability to pay principle, in the regulation of Personal Income Tax rates. Through this approach, this research seeks to provide prescriptions regarding tariff regulations that better reflect justice in the Indonesian tax system.

This study uses secondary data consisting of primary legal materials, secondary legal materials, and tertiary legal materials. Primary legal materials include the 1945 Constitution of the Republic of Indonesia, Law Number 7 of 1983 concerning Income Tax as last amended by Law Number 7 of 2021 concerning Harmonization of Tax Regulations, Government Regulation Number 23 of 2018, and Regulation of the Minister of Finance Number 101/PMK.010/2016, Regulation of the Minister of Finance Number 168/PMK.03/2023, as well as other tax regulations related to Personal Income Tax rates. Secondary legal materials include books, scientific journals, research results, and expert opinions relevant to the research object. Tertiary legal materials include the Legal Dictionary and the Big Indonesian Dictionary which are used to support understanding of the legal terms and concepts used in the study.

The legal material collection method in this research was conducted through library research by reviewing various legal materials relevant to the research object. The approaches used include the statute approach, the conceptual approach, and the case approach. The statutory approach is used to examine various regulations related to Personal Income Tax, specifically Law Number 7 of 2021 concerning the Harmonization of Tax Regulations and its implementing regulations. The conceptual approach is used to analyze concepts and theories related to tax justice, particularly the ability *to pay principle* and substantive justice. The case approach is used to examine relevant court decisions or tax cases to understand the application of legal norms in practice.

The analysis of legal materials was conducted qualitatively using normative methods through the stages of inventory, classification, and systematization of legal materials obtained from laws and regulations, literature, scientific journals, and court decisions. Furthermore, the legal materials were analyzed using legal interpretation and reasoning techniques to assess the suitability of the Personal Income Tax rate structure arrangement with the principle of substantive justice based on the ability to pay *principle.* The results of the analysis were then used as a basis for drawing conclusions that answer the research problem formulation and provide arguments regarding the appropriate rate arrangement in the Indonesian tax law system.

3. Results and Discussion

3.1 Regulation of the Personal Income Tax Rate Structure in the Indonesian Legal System

1) Constitutional Basis of Taxation in Indonesia

a. Taxes as a constitutional obligation of citizens

Tax collection by the state cannot be separated from its constitutional legitimacy. In a state governed by the rule of law (rechtsstaat), every state action that burdens citizens, including mandatory tax collection, has a valid legal basis and is derived from the highest legal norm, namely the constitution. Without a solid constitutional foundation, tax collection is nothing more than the seizure of citizens' property by the authorities, which fundamentally contradicts the principle of protecting property rights as part of human rights.[1] The Constitution of the Republic of Indonesia, as stipulated in the 1945 Constitution of the Republic of Indonesia (UUD NRI 1945), explicitly regulates the basis for tax collection in Article 23A which states: *"Taxes and other compulsory levies for state purposes are regulated by law."* This constitutional norm contains two interrelated main substances: first, the constitutional recognition that taxes are compulsory levies (*dwang)* from the state to citizens; and second, the constitutional limitation that such collection can only be carried out if regulated in law as a legal product born from a democratic legislative process.[2]

The provisions of Article 23A of the 1945 Constitution of the Republic of Indonesia are the result of the third amendment made in 2001. Prior to this amendment, a similar provision was regulated in Article 23 paragraph (2) of the 1945 Constitution (original text) which stated that all taxes for state purposes are determined by law. The editorial change from "tax" to "tax and other compulsory levies" reflects a more mature constitutional awareness that the state does not only collect taxes in the narrow sense, but also various other types of levies which substantially have the same coercive character.[3]

b. The Meaning of the Principle of Legality in Tax Collection

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[1]Eddy OS Hiariej and Kemal Wardhana, *Protection of Property Rights in Public Law: A Constitutional Perspective* , article: Journal of Law and Development, Vol. 52, No. 1 (2022), pp. 14–15, accessed on June 2, 2026.
[2]Jimly Asshiddiqie, *Economic Constitution* (Jakarta: Kompas, 2010), p. 273; see also Dian Puji Simatupang, " *The Constitutionality of Tax Collection from the Perspective of a Rule of Law* ," article: *Constitutional Journal* , Vol. 18, No. 3 (2021), pp. 601–602, accessed June 2, 2026.
[3]Wirawan B. Ilyas and Richard Burton, Tax Law: Theory, Analysis, and Development, 7th edition (Jakarta: Salemba Empat, 2020), p. 18.

The constitutional requirement that taxes be "regulated by law," as stipulated in Article 23A of the 1945 Constitution of the Republic of Indonesia, is a direct manifestation of the principle of legality (legaliteitsbeginsel) in tax law. The principle of legality in the context of tax law requires that no tax can be collected without a valid law that regulates the type of tax, tax subject, tax object, tax base, tax rate, and collection procedures. Siti Kurnia Rahayu emphasized that the principle of legality in Indonesian tax law has three important dimensions. First, the democratic dimension: tax laws must go through a deliberation process in the House of Representatives so that citizens, through their representatives, have control over the tax burden imposed on them. Second, the dimension of legal certainty: taxpayers have the right to know their exact tax obligations before the tax year begins, so they can plan their economic activities rationally. Third, the dimension of rights protection: the principle of legality protects taxpayers from arbitrary actions by tax officials that exceed the authority granted by law.[4]

c. The Function of Taxes in a Constitutional Framework

An understanding of the constitutional basis of taxes cannot be separated from an understanding of their function within the framework of the state. The 1945 Constitution of the Republic of Indonesia (UUD NRI) sets out the state's objectives in the Fourth Paragraph of the Preamble, which include protecting the entire Indonesian nation, advancing general welfare, improving the nation's intellectual life, and contributing to maintaining world order. To realize these state objectives, adequate funding sources are required, and taxes are the primary fiscal instrument used by the state for this purpose. Theoretically, taxes are known to have two main, complementary functions. First, the *budgetary function,* namely the function of taxes as a source of state revenue used to finance public expenditures. In the Indonesian State Budget (APBN), tax revenues consistently contribute more than 80% (eighty percent) of total state revenues, demonstrating the strategic role of taxes in financing national development. Second, the *regulatory function,* namely the function of taxes as a policy instrument to achieve socio-economic objectives beyond simply collecting revenue, for example to redistribute wealth, encourage investment, protect domestic industry, or change public consumption behavior.

d. Constitutional Rights of Taxpayers and Limits of State Authority

The constitutional basis for tax collection is not only the dimension of state authority, but also the dimension of protecting the rights of taxpayers. The 1945 Constitution of the Republic of Indonesia guarantees a number of basic rights that are directly relevant to the legal relationship between the state as tax collector and taxpayers as subjects burdened with tax obligations. Article 28D paragraph (1) of the 1945 Constitution of the Republic of Indonesia guarantees the right of every

[4]Siti Kurnia Rahayu, 2020, *Taxation: Concepts, Systems, and Implementation* , 3rd edition Bandung: Engineering Science, pp. 61–63.

person to recognition, guarantees, protection, and fair legal certainty as well as equal treatment before the law. In the context of tax law, this provision serves as the constitutional basis for the principles of justice and legal certainty in tax collection. Personal income tax rate policies that do not provide legal certainty or give rise to unfair treatment among taxpayers in constitutionally comparable conditions can be questioned as to their compliance with the guarantees of Article 28D paragraph (1). Yenny Yusra and Ari Purwadi in their recent research emphasize that constitutional protection for taxpayers is not merely procedural (the right to be treated according to correct procedures), but also substantive: the state cannot impose tax burdens that are confiscatory in nature or that are substantively contrary to the values of justice guaranteed by the constitution. [5]This is directly relevant to the question of whether the individual income tax rate structure applicable to business actors has met the constitutionality standards demanded by the principle of substantive justice.

e. The Constitutional Court as the Guardian of the Constitutionality of Tax Norms

In the post-reform Indonesian constitutional system, the Constitutional Court (MK) acts as the guardian *of the constitution,* which has the authority to test the constitutionality of laws against the 1945 Constitution of the Republic of Indonesia. This authority also includes testing the provisions in tax laws, so that the Constitutional Court is essentially the highest supervisory institution that ensures that tax policies remain within the constitutional corridor. Pandji Agung Kusumo and Harjono in their study of the Constitutional Court's jurisprudence in the field of taxation concluded that the standard for the constitutionality of tax norms in Indonesia includes four elements: (1) a legitimate legal basis *;* (2) a legitimate objective within the framework of the rule of law; (3) a reasonable proportion between the burden imposed and the objective to be achieved; and (4) not violating the core *human* rights guaranteed by the constitution. [6]These four elements as a whole reflect the principle of constitutional proportionality, whose relevance to the study of substantive justice in the structure of individual income tax rates for business actors cannot be ignored.

f. Implications of Constitutional Basis for Substantive Fairness of Income Tax Rates for Business Actors

The above conclusion confirms that the constitutional basis for taxation in Indonesia serves a dual function: it legitimizes tax collection by the state while simultaneously establishing normative limitations that lawmakers must adhere to.

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[5]Yenny Yusra and Ari Purwadi, *Substantive Constitutional Protection for Taxpayers: A Reorientation in Indonesian Tax Law* , article: *Bonum Commune Business Law Journal* , Vol. 6, No. 2 (2023), pp. 164–166, accessed on June 2, 2026.
[6]Pandji Agung Kusumo and Harjono, *Constitutional Standards of Tax Norms in the Jurisprudence of the Constitutional Court of the Republic of Indonesia* , article: *De Jure Legal Research Journal* , Vol. 23, No. 1 (2023), pp. 47–49, accessed on June 2, 2026.

The synergy between the principle of legality, protection of taxpayers' constitutional rights, and the Constitutional Court's competence in reviewing fiscal regulations collectively constructs a constitutional tax system. This regime demands that all taxation norms, including the formulation of individual income tax rates, consistently adhere to standards of substantive justice and constitutional proportionality. In the context of individual business actors, these constitutional implications require lawmakers to carefully consider the specific characteristics of business income when designing the income tax rate structure. Applying a generic rate structure without considering the actual conditions of business actors, including income fluctuations, business risks, and operational costs, has the potential to result in a tax burden that is substantially disproportionate to the taxpayer's actual economic capacity. Such a situation is not merely a matter of ordinary justice but also a constitutional issue that requires serious attention from tax policymakers.[7]

This positive constitutional obligation has concrete methodological implications for the process of formulating tax laws. First, a comprehensive impact *assessment* of different taxpayer groups must be conducted before establishing a tariff structure, so that legislators can ensure that the tariffs set do not result in a substantively disproportionate tax burden on certain groups, particularly individual business actors. Second, a mechanism for periodically evaluating the effectiveness and substantive fairness of the applicable tariff structure must be institutionalized, so that there are adequate means of correction if the application of tariffs turns out to result in an unintended distortion of justice. Third, meaningful participation *of* various taxpayer groups, including business actors, in the process of formulating tax laws must be guaranteed, so that their interests and perspectives can be adequately accommodated in the design of the tax tariff system.[8]

2) Regulation of Personal Income Tax Rates in the Law

The regulation of the Personal Income Tax (PPH OP) rate structure in the Indonesian legal system is a crucial part of the country's fiscal policy, which aims to achieve tax fairness, legal certainty, and optimize state revenue. Normatively, the regulation of Personal Income Tax rates is stipulated in Law Number 7 of 2021 concerning the Harmonization of Tax Regulations, which amends several provisions in Law Number 36 of 2008 concerning Income Tax. These provisions are

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[7]Maria RUD Tambunan and Wirawan B. Ilyas, *Substantive Justice as a Parameter of the Constitutionality of Personal Income Tax Rates* , article: *Journal of Law and Justice* , Vol. 12, No. 2 (2023), pp. 302–304, accessed on June 2, 2026.
[8]Henny Juliani, *Positive Constitutional Obligations of Lawmakers in Realizing Substantive Justice in Taxation* , article: Journal *of Legal Issues* , Vol. 52, No. 1 (2023), pp. 34–36, accessed on June 2, 2026.

primarily contained in Article 17 of the Income Tax Law, which establishes progressive tariff levels for domestic individual taxpayers.

In Indonesia's tax law system, the Personal Income Tax rate uses a progressive *tax* rate, which increases as taxable income increases. This system is based on the *ability-to-pay principle,* which states that the greater a person's economic capacity, the greater their tax contribution to the state. This principle embodies the principle of distributive justice in tax law.

Before the enactment of the Law on Harmonization of Tax Regulations (UU HPP), the Personal Income Tax rate structure as regulated in Law Number 36 of 2008 consisted of four levels of rates, namely:

a. For layer I (PKP range: 0 to IDR 50 million) the tax rate is 5%.

b. For layer II (PKP range: more than IDR 50 million to IDR 250 million) the tax rate is 15%.

c. For layer III (PKP range: more than IDR 250 million to IDR 500 million) the tax rate is 25%.

d. For layer IV (PKP range: more than IDR 500 million) the tax rate is 30%.

Meanwhile, the PPh OP rates in the HPP Law which are planned to come into effect from early 2022 are as follows:

a. For layer I (PKP range: 0 to IDR 60 million) the tax rate is 5%;

b. For layer II (PKP range: more than IDR 60 million to IDR 250 million) the tax rate is 15%;

c. For layer III (PKP range: more than IDR 250 million to IDR 500 million) the tax rate is 25%;

d. For attachment IV (PKP range: more than IDR 500 million to IDR 5 billion) the tax rate is 30%;

e. For layer V (PKP range: more than IDR 5 billion), the tax rate is 35%.

Despite the change in the tax rate, this does not affect Non-Taxable Income (PTKP). The calculation of Personal Income Tax (PPh) only applies if an individual's annual income exceeds the PTKP limit. Therefore, individuals earning below the PTKP are exempt from the tax. The current PTKP amount is IDR 54 million per year, plus IDR

4.5 million for married individuals, and an additional IDR 4.5 million for those with up to three dependents.[9]

However, through the HPP Law, the government reformed this tariff structure by adding a new tariff layer and expanding the income range within the first layer. The latest individual income tax rate provisions are as follows:

Taxable Income Layers	Rates
Up to IDR 60,000,000	5%
Above IDR 60,000,000 to IDR 250,000,000	15%
Above IDR 250,000,000 to IDR 500,000,000	25%
Above IDR 500,000,000 to IDR 5,000,000,000	30%
Above IDR 5,000,000,000	35%

The change in the tax structure demonstrates the strengthening of the principle of tax progressivity in the Indonesian legal system. The government seeks to provide protection to low- and middle-income groups by expanding the 5% tax tier from IDR 50 million to IDR 60 million. Meanwhile, the government is also increasing the tax burden on very high-income groups by imposing a 35% tax rate on incomes above Rp 5 billion. This policy aims to redistribute income and reduce economic inequality.

Philosophically, the progressive tariff structure aligns with Article 23A of the 1945 Constitution of the Republic of Indonesia, which stipulates that taxes and other compulsory levies for state purposes are regulated by law. The regulation of tax rates through law demonstrates the constitutional legitimacy of tax collection while simultaneously guaranteeing the protection of taxpayers' rights through the legality principle. Furthermore, the change in the tariff structure in the HPP Law also demonstrates a shift in the orientation of tax policy from solely optimizing state revenues to a substantive justice approach. This is evident in the government's efforts to adjust the tariff structure based on taxpayers' economic capabilities. From a modern tax law perspective, substantive justice is not only interpreted as formal equality of treatment, but also takes into account the differing economic conditions of taxpayers.

For individual business owners, this progressive tax structure has significant implications because the amount of tax paid is significantly influenced by the level of net income earned. Business owners with high incomes will be subject to higher rates than small and medium-sized businesses. Therefore, the progressive tax structure is a legal instrument used by the state to create an equitable distribution of the tax burden according to the economic capacity of each taxpayer. From a legal perspective, the regulation of Personal Income Tax rates is also inseparable from the principles of legal certainty and ease of tax administration. With clear tariff regulations in the law, taxpayers can accurately determine the amount of

[9] Luh Putu Benita Sari, Income Tax Reports Are Increasingly Progressive, article: Directorate General of Taxes (DGT) https://pajak.go.id/id/artikel/lapisan-pajak-penghasilan-kian-progresif ? Friday, October 22, 2021, accessed on June 2, 2026.

their tax obligations. Furthermore, a tiered tax structure provides a more proportional calculation mechanism than a single rate (*flat tax)*.

However, empirically, the effectiveness of progressive tax rates in achieving fiscal justice remains a hot topic of debate. Some argue that the progressive scheme fails to fully achieve substantive justice due to the disparity in treatment between employee taxpayers and certain business owners who enjoy special tax incentives or facilities. Therefore, a periodic review of the individual income tax rate architecture is essential to constructing a national tax system that aligns state revenue targets with the protection of taxpayers' constitutional rights.

The regulation of Personal Income Tax (PPh OP) rates in the Indonesian legal constellation is essentially constructed as a fiscal policy instrument that combines the urgency of state revenue and the protection of taxpayers' constitutional rights. Based on the paradigm of a modern rule of law, the existence of taxation has gone beyond its pure function as a mere filler of state coffers, but has actively shifted to become a means of redistributing social prosperity (redistributive function of tax). Based on this, the configuration of the tax rate architecture inherently integrates interconnected legal, economic, and sociological dimensions. Legally, the regulation of Personal Income Tax rates is regulated in Article 17 paragraph (1) letter a of the Income Tax Law as amended by Law Number 7 of 2021 concerning the Harmonization of Tax Regulations (HPP Law). This provision stipulates that tax rates are imposed progressively based on the Taxable Income (PKP) layer.

The progressive tax system demonstrates Indonesia's adoption of a vertical equity approach to tax law, which treats taxpayers differently based on their economic capacity. The higher a taxpayer's income, the higher the tax rate. This approach aligns with the ability-to-pay principle, which places the ability to pay as the primary basis for taxation. From the perspective of tax justice theory, the application of progressive rates reflects the state's efforts to achieve distributive justice, as proposed by Aristotle, namely the proportional burden imposed according to each individual's capacity. This concept later evolved in modern tax law into the principle of substantive justice, namely justice that not only considers formal equality but also considers the actual economic conditions of taxpayers. Changes in the tariff structure through the HPP Law indicate a tax policy reform aimed at strengthening the principle of justice. Before the HPP Law was enacted, the lowest tariff tier of 5% only applied to income up to IDR 50 million. After the amendment, this tier was expanded to IDR 60 million, while the highest tier of 35% applied to income above IDR 5 billion. This policy has several important objectives, including:

a. Providing tax relief for low and middle incomes groups;

b. Increasing tax contributions from high net worth individual groups;

c. Strengthening the income redistribution function;

d. Narrowing economic disparities in society.

From a fiscal law perspective, the amendments emphasize the repositioning of taxes as a regulatory instrument, a means of controlling public social and economic dynamics. Thus, taxes transcend their conventional function as a source of state funds (budgetaire) and actively intervene and equitably balance the distribution of wealth.

Furthermore, the codification of progressive rates in the Income Tax Law is firmly rooted in the doctrine of *equality before the law,* adopted by the Indonesian legal system. In the realm of taxation, the principle of equality before the law is not strictly interpreted as imposing uniform levies on all citizens. Instead, this principle is implemented through the imposition of fiscal obligations proportionally and in line with each individual's economic capacity. As a result, differential treatment of high-income taxpayers is not discriminatory but rather a concrete manifestation of upholding substantive justice.

For individual business owners, the progressive tax rate regulation has a significant impact. Large-scale businesses will be subject to higher tariffs than micro and small businesses. However, in practice, there is a duality in the regulation, as some MSMEs can also utilize the final tax scheme based on certain gross turnover, as stipulated in Government Regulation Number 55 of 2022. This situation creates a difference in tax treatment between taxpayers using the progressive rate under Article 17 and taxpayers using the final MSME rate.

From a tax justice perspective, this dualism is often debated because it can create an imbalance in the tax burden between business actors with relatively similar economic capacity. Therefore, the individual income tax rate structure needs to be continuously evaluated to truly reflect the principle of substantive justice and provide legal certainty for taxpayers. On the other hand, a progressive rate structure also faces challenges in its implementation. Rates that are too high have the potential to lead to tax avoidance and tax evasion. Conversely, rates that are too low can reduce the optimization of state revenue. Therefore, lawmakers must maintain a balance between justice, legal certainty, and revenue effectiveness in formulating tax rate policies.

Theoretically, Indonesia's progressive tariff structure can also be analyzed using Jeremy Bentham's utilitarian theory. According to this theory, a legal policy is considered good if it provides the greatest benefit to society. Imposing higher tariffs on higher-income groups is considered to increase state revenue to finance development and public services, the benefits of which can be widely felt by the public. Furthermore, the regulation of Personal Income Tax rates in the HPP Law also demonstrates a tax policy direction that is more responsive to the socioeconomic conditions of society post-COVID-19. The government is striving to maintain the purchasing power of lower-middle-income groups by expanding the low-tariff tier while simultaneously increasing tax contributions from upper-income groups.

3) Position of Business Actors in the Income Tax System

In the Indonesian Income Tax (PPh) legal framework, the classification of business actors is inherently tied to the regulation of tax subjects and taxpayers as outlined in tax law. The legal existence of these business actors is divided into two main categories: Individual Taxpayers and Corporate Taxpayers, which are determined based on the form of business entity they operate. This legal standing construction then determines the fulfillment of rights, obligations, and taxation procedures for income derived from their economic activities. Normatively, the policy outline regarding these tax subjects is accommodated in Article 2 of Law Number 36 of 2008 concerning Income Tax, the latest amendment cluster of which was integrated through Law Number 7 of 2021 concerning the Harmonization of Tax Regulations (UU HPP). Based on these material provisions, the scope of tax subjects in Indonesia is limited to individuals, entities, undivided inheritances as a single entity, and permanent establishments (PE).

Individual business actors in the Income Tax system are considered domestic tax subjects if they reside in Indonesia, are present in Indonesia for more than 183 days within a 12-month period, or intend to reside in Indonesia. This status results in all income received, both domestically and abroad, being subject to Income Tax in accordance with the worldwide income principle. In the Indonesian tax law system, business actors have a dual status, namely as subjects of economic law and subjects of tax law. As subjects of economic law, business actors carry out business activities to earn profits. However, if they are subjects of tax law, business actors have a constitutional obligation to pay taxes to the state on the income they earn. This status shows that business activities cannot be separated from tax obligations as a legal consequence of economic activities.

The legal status of business actors in the Income Tax system is inextricably linked to the implementation of *the self-assessment system* adopted in Indonesia. Through this administrative doctrine, the state grants full mandate to business actors to independently calculate, deposit, and report their fiscal obligations. This system radically shifts the tax paradigm: business actors are no longer positioned as passive objects of tax collection but are instead transformed into active actors in the tax administration process. Consequently, the self-assessment scheme demands absolute accountability and responsibility from taxpayers for their level of tax compliance.

For individual business owners, income from business activities is principally subject to Income Tax based on the progressive rate stipulated in Article 17 of the Income Tax Law. However, certain business owners with a certain gross turnover are given special treatment in the form of a Final Income Tax of 0.5% of turnover, as stipulated in Government Regulation Number 55 of 2022 and Minister of Finance Regulation Number 164 of 2023. This policy demonstrates that the position of business owners in the Income Tax system is not uniform, but differentiated based on business scale and economic capacity. Micro and small businesses are provided with simpler final rates to facilitate administration and improve tax compliance. Meanwhile, businesses with larger business scales are subject to a general mechanism based on progressive rates and corporate rates. From a state theory perspective, the position of business owners in the Income Tax system reflects the function of a welfare state. The state acts not only as a tax collector but also as a regulator that regulates the proportional distribution of the tax burden. Therefore, the state provides different tax treatment for small and large businesses as a form of economic protection for certain business groups.

The welfare state theory positions taxes as an instrument for realizing social welfare and economic equality. In this context, businesses are viewed not only as a source of state revenue but also as part of national economic development that requires legal certainty and business protection. The 0.5% final tax rate for MSMEs is one form of state intervention to maintain the sustainability of small businesses while expanding the national tax base. In addition to the state theory, the position of businesses in the Income Tax system can also be analyzed using the theory of justice. According to Aristotle's theory of distributive justice, the imposition of obligations must be carried out proportionally according to each individual's ability. In the context of taxation, businesses with higher incomes are burdened with higher taxes than small businesses. This principle is reflected in the application of progressive Personal Income Tax rates.

Furthermore, John Rawls' theory of justice, through the difference principle, asserts that unequal treatment can be justified as long as it benefits disadvantaged groups. In the Indonesian tax system, granting final rates for MSMEs and certain tax benefits to small businesses is an affirmative policy to create economic balance and encourage the growth of small businesses. The position of business actors in the Income Tax system is also related to the principle of equality before the law. In tax law, the principle of equality does not mean that all business actors are treated absolutely equally, but rather proportionally according to their economic conditions. Therefore, differences in tax rates and mechanisms between MSMEs and large businesses do not constitute discrimination, but rather a form of substantive justice in tax law.

However, in practice, issues remain regarding legal certainty and equal treatment for business actors. Differences in taxation mechanisms between taxpayers using final rates and taxpayers using general rates often lead to unequal tax burdens. Furthermore, there are still informal business actors who have not been integrated into the national tax system, leading to unequal tax compliance. From a modern tax law perspective, business actors are viewed not only as parties obligated to pay taxes but also as subjects with tax rights, such as the right to legal certainty, the right to object and appeal, and the right to receive fair and transparent tax services. Therefore, the regulation of business actors' status in the Income Tax system must be implemented in a manner that balances the interests of the state and the protection of taxpayer rights.

Responsibility for fulfilling fiscal obligations in the Indonesian tax system rests with taxpayers through a *self-assessment system mechanism,* which redefines the position of businesses under income tax law. Rather than acting as passive targets for tax collection, businesses hold full authority from the state to calculate, remit, and report their own taxes. This active involvement demonstrates that the effectiveness of national tax administration depends heavily on the commitment and independence of businesses in managing their tax obligations responsibly.

4) Legal Policy for the Formation of a Progressive Tariff Structure

The determination of the Personal Income Tax rate structure is a concrete product of legal policy, namely the macro policy direction agreed upon by the government and the legislature to shape the national legal system. Through this instrument, the state demonstrates its strategic choices in bridging the demands of economic efficiency with the values of distributive justice. Ultimately, these legal policy choices reflect how the state utilizes the tax sector to optimize the distribution and redistribution of citizens' income.

The legal policy direction in developing the progressive Personal Income Tax (PPh) tariff architecture in Indonesia is firmly rooted in Article 23A of the 1945 Constitution of the Republic of Indonesia (UUD NRI 1945). This normative provision, which affirms that *"taxes and other compulsory levies for state purposes shall be regulated by law,"* exudes supreme legal legitimacy for the state. Based on this constitutional basis, the state holds the legitimate authority to implement a progressive tariff scheme as an instrument of distributive justice.

Through the Tax Regulation Harmonization Act, the government is reforming the progressive Personal Income Tax rate layers by increasing the highest rate layer to 35% for income above IDR 5 billion and expanding the lowest rate layer by 5% up to IDR 60 million. This policy is a form of fiscal legal policy aimed at strengthening the principle of justice and increasing income redistribution within society.

The legal policy for establishing progressive tariffs is also closely related to the *ability-to-pay principle.* This principle emphasizes that taxation must take into account the taxpayer's economic capacity. Therefore, a progressive tariff system is considered fairer than a proportional or single tariff system because it imposes a different tax burden based on income level. The higher a person's income, the greater the tax contribution they must pay to the state. In practice, the legal policy for establishing progressive tariffs is also influenced by national economic conditions and the country's fiscal needs. Tax rate reform through the HPP Law was implemented in response to the need for economic recovery after the COVID-19 pandemic and an effort to increase the national tax ratio. The government seeks to maintain the purchasing power of low-income communities by expanding the low-tariff tier, while simultaneously increasing the contribution of high-income groups through a new 35% tariff tier.

This legal policy choice is based on two doctrines of international tax law adopted into national legal systems:

a. Ability to Pay Principle: Affirms that the tax burden must be distributed proportionally according to the real economic capacity of the Taxpayer.

b. Vertical Equity: Mandates that taxpayers with higher economic capacity should bear a greater tax burden than those with lower capacity.[10]

The political-legal dynamics surrounding the development of a progressive tariff structure in Indonesia have seen significant momentum for reconstruction following the enactment of Law Number 7 of 2021 concerning the Harmonization of Tax Regulations (HPP Law). Historically, this policy transformation was triggered by the socio-economic realities of the post-global pandemic era. In this situation, the state is not only required to undertake macro-level fiscal consolidation but also requires effective substantive legal instruments to reduce the rate of economic inequality (*the Gini Ratio)*.

The legal policy design in the HPP Law is no longer solely oriented towards the budgetary function (*budgetair)* to maximize state revenue, but rather places greater emphasis on the regulatory function (*regulend)*. The government uses tax rates as a socio-economic driver to protect small businesses while limiting excessive wealth accumulation among the ultra-wealthy (*High Net Worth Individuals)*.[11]

Operationally, the manifestation of this just legal policy is clearly visible from the overhaul of the progressive tariff layer structure (Article 17 of the Income Tax Law *in conjunction with* the HPP Law) which has a direct impact on the individual business landscape:

a. Protection of Micro and Small Enterprises: The expansion of the first layer of Taxable Income (PKP) from IDR 50,000,000.00 to IDR 60,000,000.00 with the

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[10]Henry Dianto Pardamean, *Implementation of the Ability to Pay Principle in Changes to the Personal Income Tax Rate Structure for Business Actors* , article: *Indonesian Tax Journal* , Vol. 7, No. 1 (2023), pp. 34-48, accessed on June 2, 2026.
[11]Mahfud MD, *Legal Politics in Indonesia* , (Jakarta: Rajawali Pers, 2019), quoted in the theoretical context by FX. Nugroho, " *The Direction of Indonesian Tax Law Politics in the Tax Regulation Harmonization Law* ," article: *Indonesian Legislation Journal* , Vol. 20, No. 2 (2023), pp. 145-158, accessed on June 2, 2026.

lowest rate of 5% is a form of legal support (*affirmative action)* to secure business capital liquidity at the grassroots level.

b. Legal Intervention on Inequality: The creation of a new tier (fifth bracket) with a peak rate of 35% for VAT-paying individuals with income exceeding IDR 5,000,000,000.00 reflects a repressive-corrective legal policy addressing social inequality. The state imposes significant fiscal responsibility on large-scale businesses to fund public facilities and social safety nets, which ultimately benefit the business ecosystem at large.

Through this reconstruction, legal policy in the formulation of progressive tariffs in Indonesia has been able to harmonize two often contradictory legal interests: ensuring legal certainty regarding fiscal compliance, on the one hand, and upholding substantive justice to support economic acceleration for domestic businesses, on the other.

However, when analyzed philosophically, the legal policy of establishing a progressive tariff structure in the HPP Law adopts the principle of distributive justice *initiated* by John Rawls, particularly through *the Difference Principle.* In this view, economic inequality—including differences in profits between individual business actors—can only be justified morally and legally if the structure provides the greatest benefit to the most disadvantaged groups in society. Through the modification of *tax brackets* (tariff layers), Indonesian tax law policy translates this theory into concrete policy: large-scale business actors contribute surpluses to fund public goods *and* social subsidies, which in turn will strengthen the purchasing power of the lower classes. This strengthening of purchasing power will cyclically benefit these business actors because the market remains stable. However, tax law policy cannot be unlimited. The Constitution, through Article 23A of the 1945 Constitution of the Republic of Indonesia, mandates and limits that compulsory tax collection must uphold the principles of justice and legal certainty. In fiscal law, there is a doctrine *of the non-confiscation principle,* which states that tax rates should not be so high that they cross the essential boundaries of private property rights or kill the incentives of taxpayers to do business.

The establishment of a 35% peak rate for businesses with Taxable Income (PKP) above IDR 5 billion represents a rational political compromise. This figure is considered fair enough to optimize state revenue without triggering capital flight *or discouraging* domestic businesses from expanding their businesses. [12]In addition to domestic factors, the political and legal dynamics behind the formation of this progressive rate are influenced by the convergence of global legal policies.

[12]Gede Ananta and Ni Made Lestari, " *Exploring John Rawls' Distributive Justice in the Post-Fiscal Reform Personal Income Tax Rate Structure* ," article: *Journal of Taxation Law Philosophy* , Vol. 7, No. 2 (2025), pp. 112-129, accessed on June 2, 2026.

[13]Post-pandemic, the international community, through the OECD and G20 forums, has been actively campaigning for tax governance that addresses extreme wealth inequality. Many developed and developing countries have increased their top marginal rates to correct post-crisis inequality. By aligning with this global trend, Indonesia's legal policy demonstrates an adaptive nature. For businesses in Indonesia, this rate restructuring reinforces a strong legal message: the state no longer tolerates disproportionate wealth accumulation from individual businesses, but rather demands commensurate fiscal partnerships for national economic resilience.

3.2 Juridical Analysis of Substantive Justice in the Income Tax Tariff Structure for Business Actors

1) Testing of Tariff Structure Based on the Ability to Pay Principle

Ability to pay principle is a fundamental principle in the modern tax system, emphasizing that taxation must be adjusted to the taxpayer's economic capacity. This principle is based on the idea that every citizen has an obligation to contribute to state funding, but the amount of that contribution must be proportional to their economic capacity. The most widely used alternative for implementing the *ability to pay approach is through income taxation,* which is the additional economic capacity received or obtained by a taxpayer in a given period. Income is considered the most appropriate indicator for measuring a person's ability to pay because it reflects an increase in their economic capacity. In the development of tax theory, the income concept that is considered most capable of representing the principle of justice and can be applied practically is the concept proposed by Schanz, Haig, and Simons (*Schanz-Haig-Simons Concept* or SHS Concept). [14]This concept defines income as the sum of consumption and the increase in wealth in a given period.

The Personal Income Tax rate structure has the potential to create structural injustice if the measure of ability *to pay* is based solely on nominal income without considering the real economic conditions of business actors. Individual business actors face different economic characteristics than those who receive fixed income, including fluctuations in income, operational costs, market risks, and uncertainty about business profits. However, the applicable rate structure still uses a relatively uniform measure of economic capacity. As a result, tax norms can result in tax burdens that appear formally equal but are substantively disproportionate. Two business actors with the same level of turnover may not necessarily have the same profit margin, cost burden, or economic capacity. In such conditions, the

[13]Aditia Pratama, " *Constitutional Limitations of the State's Regulatory Rights in Determining the Highest Individual Income Tax Rate Layer* ," article: *Constitutional & Fiscal Journal* , Vol. 14, No. 1 (2024), pp. 45-63, accessed on June 2, 2026.
[14]Rosdiana, Haula & Tarigan, Rasin. 2005. Taxation Theory and Application. Page 103

application of identical rates has the potential to create structural injustice against business actors with lower real economic capacity.

Based on the above description, the provision of a tax-free turnover facility of up to IDR 500,000,000 through the HPP Law demonstrates an effort by lawmakers to improve the sense of fairness for micro and small businesses. This policy reduces the tax burden on low-turnover businesses, which were previously taxed based on their entire gross turnover. However, this change has not fully resolved the fundamental issue of the alignment between the tax burden and the taxpayer's real economic capacity. The taxation structure is still based on an approach that does not fully account for the variations in business conditions, profit levels, or economic risks faced by businesses. Thus, the HPP Law does improve fairness compared to the previous regime, but the justice achieved is still partial and has not yet addressed the reformulation of the tariff structure that is truly based on the real economic capacity of businesses.

a) Example of Same Turnover, Different Profits

Information	Entrepreneur A	Entrepreneur B
Turnover	IDR 1,000,000,000	IDR 1,000,000,000
Operating costs	IDR 850,000,000	IDR 300,000,000
Net profit	IDR 150,000,000	IDR 700,000,000

Since taxes are calculated based on turnover, both are subject to the same tax.

Whereas:

a) Entrepreneur A only made a profit of IDR 150 million.

b) Entrepreneur B earned a profit of IDR 700 million.

This situation indicates that the use of turnover as a basis for taxation does not fully reflect the taxpayer's actual economic capacity. Although both taxpayers have the same turnover, their profit levels differ significantly. As a result, the taxpayer with the lower profit level experiences a heavier tax burden. From an *ability-to-pay perspective,* this situation demonstrates that equal treatment does not necessarily result in substantive justice.

b) Same Turnover, Different Business Risks

Information	Grocery Trader	Tax Consultant
Turnover	IDR 2,000,000,000	IDR 2,000,000,000
Risk of loss	Tall	Low
Operating costs	Tall	Relatively low
Profit margin	5%	40%

Tariff structures that focus solely on income or turnover fail to fully account for the varying characteristics of businesses. Businesses with low profit margins may face a relatively heavier tax burden than those with high profit margins, even with the same turnover. This suggests that the measure of ability to pay used remains formal and does not fully reflect the true economic situation.

c) Fluctuations in Business Actors' Income

Month	Entrepreneur C
January-June	Big profit
July-December	Losses due to market decline

Unlike those with a fixed income who receive a stable monthly income, business owners face income fluctuations influenced by market conditions. Therefore, using annual income as the sole basis for determining rates may not necessarily reflect a taxpayer's actual economic capacity throughout the tax year.

From a horizontal equity perspective, taxpayers with equal economic capacity should be subject to the same tax burden. This principle is based on the assumption that equal ability to pay must be followed by equal treatment in tax collection. In the context of Personal Income Tax, this principle is reflected in the application of the same rate to taxpayers with equal taxable income.

d) Horizontal Justice Perspective

For example, an employee named Andi earns a net income of IDR 400,000,000 per year from his employment. Meanwhile, a business owner named Budi also earns a net profit of IDR 400,000,000 per year from his business activities. Based on the Personal Income Tax rate, both taxpayers will, in principle, be subject to the same tax rate because they have equal income.

From a horizontal equity perspective, this treatment can be considered fair because both taxpayers have nominally the same economic capacity. However, upon further analysis from a substantive equity perspective, there are differences in economic conditions that are not fully reflected in the tariff structure. As a business owner, Budi must bear various business risks, operational costs, obligations to employees, and potential losses that can occur at any time due to changing market conditions. Conversely, Andi, as a recipient of a fixed income, receives a relatively more stable income and does not directly bear the business risks that Budi experiences.

This situation indicates that equal income does not necessarily reflect equal real economic capacity. Therefore, although the applicable tariff structure formally meets the principle of horizontal equity by treating taxpayers with the same income equally, it does not necessarily result in substantive equity if the economic characteristics underlying the income generation differ significantly. Therefore, applying the same tariff to employees and business owners with equal incomes still raises questions about the extent to which the ability-to-pay principle has been substantially realized in the Personal Income Tax system.

2) Analysis Based on the Principle of Proportionality

Taxes, as a key component of state finances, play a strategic role in the structure of the State Budget (APBN). From a *budgetary perspective,* taxes serve as the primary source of state funding, used to finance various expenditures, both routine and developmental. Furthermore, taxes also serve a *regulatory function,* serving as a regulatory instrument used by the government to direct national economic, social, and development policies in line with state objectives. Within the legal framework of state finances, tax management is not solely oriented toward increasing revenues, but must also reflect effectiveness in budget allocation, efficiency in collection, and the principle of fairness in taxation. The principle of fiscal justice serves as the normative basis for the modern tax system, emphasizing that taxes should not be excessively burdensome and must consider the economic capacity of the community. This aligns with the principles of *equality before the law* and *ability to pay,* which require a balanced tax contribution according to each individual's economic capacity.

From a state financial law perspective, this issue indicates that there are still challenges in strengthening the oversight system and public accountability mechanisms for tax management. Based on Article 23 paragraph (1) of the 1945 Constitution of the Republic of Indonesia, taxes and other compulsory levies for state purposes must be stipulated by law, so that every use of tax funds must have a valid legal basis and can be justified constitutionally.

From a normative perspective, both laws emphasize the urgency of implementing the principle of fiscal justice in the tax system. Justice, in this context, is defined as tax impositions that are proportional to the economic capacity of each citizen, and that the proceeds must be returned to the community in the form of quality public services. Therefore, tax utilization should be directed toward reducing social disparities while strengthening the national economic structure. Within this framework, a fiscal redistribution policy based on the principle of proportionality is a concrete manifestation of the implementation of legal justice in tax management.

3) Substantive Fairness Test for Business Actors

With in the framework of tax theory, Adam Smith proposed four main principles of tax collection (*the four canons of taxation)*: *equality, certainty, convenience,* and *efficiency.* Among these four principles, the principle of *equality* holds strong relevance in the discussion of the Personal Income Tax rate structure because it emphasizes that taxes must be imposed fairly according to the taxpayer's ability. This principle later developed into the concepts of horizontal equity *and* vertical equity, which serve as the basis for assessing the fairness of a tax system.

Viewed from the perspective of horizontal equity, the Individual Income Tax rate structure essentially meets the principle of equal treatment because taxpayers with the same amount of Taxable Income are subject to the same rate. For example, an employee earning a net income of IDR 400,000,000 per year and a business owner earning a net profit of IDR 400,000,000 per year will be subject to Income Tax rates based on the same tariff layers as stipulated in Article 17 of the Income Tax Law.

However, this equal treatment does not necessarily reflect substantive fairness. Business actors not only earn income but also bear various economic risks inherent in business activities, such as operational costs, revenue fluctuations, obligations to employees, and potential losses due to changing market conditions. Conversely, recipients of fixed income generally receive relatively more stable income and do not bear business risks directly. Therefore, even though two taxpayers have the same income, their real economic capacity is not necessarily identical.

Meanwhile, from a vertical equity perspective, the application of progressive rates in Personal Income Tax demonstrates an effort to align the tax burden with the taxpayer's economic capacity. The higher the income, the higher the rate. Theoretically, this mechanism reflects the *ability-to-pay principle,* as taxpayers with greater economic capacity are burdened with greater tax obligations.

Final Income Tax (PPh) inherently has certain characteristics that can be controversial from a tax fairness perspective. Some of the main characteristics of final PPh include:

1) First, all taxpayers are assumed to make a profit;

2) Second, the amount of profit margin has been determined administratively; and

3) Third, it does not use a progressive tariff mechanism as applies to the general income tax system.

In practice, not all business activities consistently generate profits. In the micro and small business sector, it's not uncommon to find businesses experiencing losses or even having to close due to an inability to cover operational costs. This demonstrates that the basic assumption of final income tax, which assumes consistent profits, doesn't always align with the economic reality of businesses. In determining final income tax rates, tax authorities essentially establish effective rates by first estimating profit margins based on various sources, such as tax data, surveys, and considerations of business fairness. Thus, the tax base relies more heavily on gross income than net income.

From the perspective of tax equity theory, the use of a single rate in final income tax is generally seen as lacking vertical equity, as it fails to differentiate the tax burden based on the taxpayer's economic capacity. In a progressive system, taxpayers with higher incomes are subject to higher rates, thus more proportionally reflecting the *ability-to-pay principle.*

However, final income tax (PPh) has the advantage of administrative simplicity. This system is designed to reduce the complexity of tax calculations, increase compliance, and provide certainty for taxpayers. In this context, there is a trade-off between fairness and administrative simplicity: the more complex the tax system, the greater the potential for fairness, but the lower the ease of implementation.

4) Legal Implications and the Need for Norm Reformulation

Adjusting the Personal Income Tax rate structure demonstrates a normative urgency if the tax system is not only directed at fulfilling formal legality, but also at realizing substantive justice as demanded by *the ability to pay principle.* The current tariff structure essentially still uses a relatively general approach by placing various types of income within a uniform tariff framework. This approach formally fulfills the principle of legal certainty because it provides a generally applicable standard of treatment for all Individual Taxpayers. However, uniformity of norms is not always identical to substantive justice if the economic characteristics underlying income generation differ significantly between legal entities.

In the context of Personal Income Tax, income from employment (*employment income)* and income from independent business activities (*business income)* have different economic characteristics. Income from employment is generally relatively stable, periodic, predictable, and not directly burdened by business operational risks. Conversely, business income is strongly influenced by market dynamics, operational costs, the level of competition, profit margins, changes in purchasing power, and the possibility of business losses. Therefore, the same nominal income does not necessarily indicate the same economic capacity.

These differences in characteristics are relevant from the perspective of *the ability to pay principle.* The ability to pay principle essentially concerns not only the nominal amount of income but also demands a match between the tax burden and the taxpayer's actual economic capacity. Therefore, if the tax rate structure relies solely on the amount of income without considering the source, characteristics, or economic risks associated with obtaining that income, there is a potential for a mismatch between the tax burden and the taxpayer's actual economic condition.

4. Conclusion

Based on the research results, it can be concluded that the Personal Income Tax (PPh OP) tariff structure in Indonesia has been formulated based on the principles of the rule of law, the principle of legality, and the ability *to pay principle,* which is realized through the application of progressive tariffs. This policy demonstrates the state's efforts to realize tax justice and a more proportional distribution of the tax burden. However, its implementation does not fully reflect substantive justice for individual business actors due to the characteristics of fluctuating income, unstable business conditions, and limitations in tax administration that cause the tax burden to not always align with the real economic capacity of taxpayers. Therefore, the government needs to conduct regular evaluations of the tariff structure and tax policies, especially for business actors and MSMEs, to be more adaptive to the economic conditions of taxpayers. In addition, improvements in tax administration and increased tax education and literacy need to be continuously carried out to support voluntary compliance and realize substantive justice in the national tax system. Further research is expected to develop studies through an empirical approach and socio-economic impact analysis to obtain a more comprehensive picture of the effectiveness of the PPh OP tariff policy in Indonesia.

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