Readjustment of Income Tax Regulations under Government Regulation Number 20 of 2026

Tax2GO JOURNAL
26th Edition
6/5/2026

The Government of the Republic of Indonesia issued Government Regulation (PP) Number 20 of 2026 on April 22, 2026, which amended several provisions in Government Regulation Number 55 of 2022 concerning Adjustments to Regulations in the Income Tax Sector.

The issuance of Government Regulation 20/2026 aims at creating a tax system that provides legal certainty, prevents tax avoidance practices, and aligns national compliance standards with international standards set by the Organization for Economic Co-operation and Development (OECD). This regulation amends the period limitation for applying the 0.5% Final Income Tax (*PPh*), the method for calculating gross turnover, the criteria for eligible taxpayers, and the recognition of operational costs.

The following is a comprehensive breakdown of the key changes to serve as a reference for your company management:

A. Removal of the Period Limitation for Using the 0.5% Final Income Tax Rate for Individuals

This regulation provides long-term certainty for Individual Taxpayers regarding the use of the 0.5% Final Income Tax rate.

1. Removal of Maximum Period Limitation

Article 59 of the previous regulation, which limited the use of the 0.5% Final Income Tax rate for a maximum of seven years for individual taxpayers, has been officially removed. Now, individual taxpayers can use the 0.5% rate continuously without any annual restrictions, insofar as their gross turnover in a single tax year does not exceed IDR 4.8 billion.

2. Transitional Provisions for 2025 and 2026

For Individual Taxpayers whose 7-year facility usage period has ended in Tax Year 2024, the use of the 0.5% rate is declared to remain valid and legally valid for Tax Year 2025 and Tax Year 2026.

3. Implementation Starting in 2027

After the transition period ends, Individual Taxpayers will automatically follow the new rules starting from Tax Year 2027, and are entitled to continue using the 0.5% rate in subsequent years without any period limitation.

4. Sole Proprietorships and Cooperatives

For Individual Taxpayers and Individual Companies established by one person, whose period limitation ends in Tax Year 2025, the validity period of the facility is extended until the end of Tax Year 2026. For Cooperative Taxpayers registered and whose period limitation ends between the 2024 and 2029 Tax Years, the facility can be used until the 2029 Tax Year.

B. Gross Turnover Aggregation (Revenue Aggregation)

The method for calculating the maximum gross turnover limit of IDR 4.8 billion has been changed to prevent the practice of Taxpayers dividing their businesses into several entities in order to maintain the use of the 0.5% rate.

1. Merger Components

The maximum gross turnover limit of IDR 4.8 billion in one tax year is now calculated based on the sum of all income from:

1. Gross turnover of individual taxpayers' businesses.
2. Gross turnover of all individual companies established by the individual taxpayer.
3. Gross turnover of husband and wife's business, if there is no written agreement regarding the separation of assets and income.
4. Income from businesses owned by minors.
5. Gross turnover of all individual companies established by the husband and/or wife.

2. Calculation of Freelance Income

Income from freelance professions must be included and added up to test the maximum aggregate limit of IDR 4.8 billion, even though income from freelance work itself is not subject to the 0.5% Final Income Tax rate.

3. Impact of Exceeding the Limit

If the total gross turnover of all parties exceeds IDR 4.8 billion, then in the following tax year, all entities (both private businesses and all sole proprietorships will no longer be permitted to use the 0.5% final income tax rate. All are required to calculate their taxes using the general income tax rate mechanism based on Article 17 or Article 31E.

C. Limitation of Subjects of Bodies and Professions

This regulation sets out more specific criteria regarding parties permitted to use the 0.5% Final Income Tax rate.

1. Business Entity Exceptions

Currently, only cooperatives and sole proprietorships established by a single individual are permitted to use the 0.5% final income tax rate. Business entities such as limited partnerships (*CVs*), firms, regular limited liability companies (*PTs*), and village-owned enterprises (*BUMDes*) are no longer eligible for the new facility. These entities are only permitted to use the 0.5% rate until the remaining term of the old regulation expires, after which they are required to maintain bookkeeping at the general tax rate.

2. Digital Creator Profession Exceptions

This regulation adds the profession of content creator or creator for online media, such as influencers, Instagram celebrities, bloggers, and vloggers, to the list of freelance occupations. Income from these professions is not subject to the 0.5% final income tax rate and must be calculated using the general tax rate mechanism.

3. Exceptions for Sole Proprietorships by Experts

A Sole Proprietorship established by an Individual Taxpayer with specialized expertise and providing services similar to that individual's expertise is not permitted to use the 0.5% Final Income Tax rate. For example, a tax consultant who establishes a Sole Proprietorship to provide tax consulting services is required to use the general tax rate.

D. Prohibition on Charging Bribery Costs as a Tax Deduction

In order to meet international compliance standards (OECD), *PP* 20/2026 inserts Article 20A which regulates the recognition of company operational expenses.

1. Non-Deductible Expenses

Company expenses in the form of bribes, gratuities, or other gifts of any kind related to criminal acts of corruption cannot be recognized as costs for obtaining, collecting, or maintaining income. These expenses are prohibited from being deducted from the company's gross income.

2. The Intended Payment Recipients

This regulation specifically prohibits charging fees for payments made to, amongst others, officials, civil servants, state administrators, and foreign public officials. Companies are required to ensure that all operational expenses are based on a legitimate commercial transaction in accordance with applicable law.

E. Tax Object Exemption Facilities: Grants and Dividends

In addition to the provisions regarding Final Income Tax, tax regulations still regulate tax object exceptions for certain transactions.

1. Grants and Donations

Transfers of assets through gifts to biological relatives within one degree of direct lineage (for example, from a parent to a biological child) are not taxable. Grants are also not taxable if they are given to micro and small businesses with

a maximum net worth of IDR 500 million or a maximum gross turnover of IDR 2.5 billion per year. The main requirement for this exemption is that there is no business, employment, or ownership relationship between the giver and recipient.

2. Dividend

Dividend income can be excluded from income tax withholding if the funds are reinvested domestically. This reinvestment must be made in accordance with permitted instruments and within the time limits stipulated by law.

F. Recommended Follow-up Actions

Considering that this regulatory change affects the administration and calculation of Income Tax, we recommend that the management immediately implement the following actions:

1. Evaluating the Total Combined Gross Circulation

Calculate your projected total gross income for the current year by adding your personal gross income, your spouse's gross income (if there is no separation of assets agreement), the income of any minor children, and the gross income of all Sole Proprietorships you own. Carefully review whether the total could potentially exceed the Rp4.8 billion limit.

2. Checking Operational Expense Records

Review all company operational expenditures, especially international transactions. Ensure that no expenses are allocated as bribes or gratuities, as these are prohibited from being deducted from gross income.

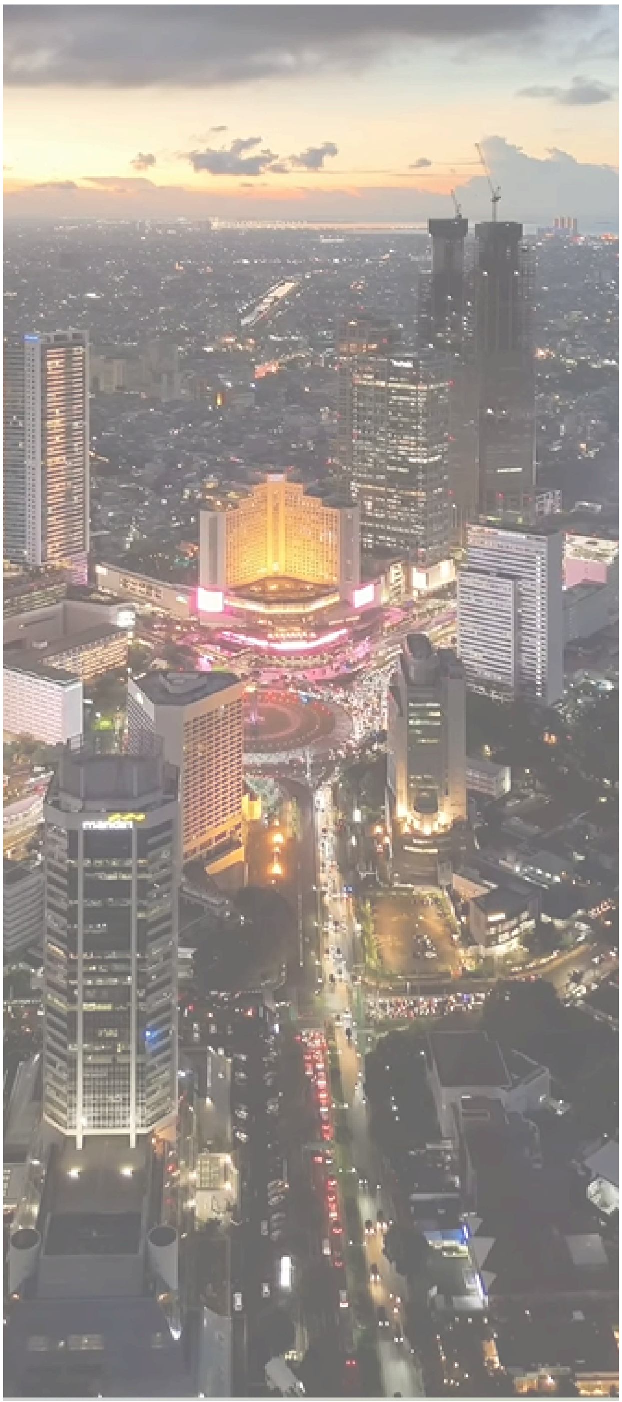
3. Checking the Status of Business Entity and Profession

If your company's operational activities are carried out using a *CV* or *Firma* legal entity, or if you earn income from freelance work and digital content creation, you need to prepare for changes in tax calculations using the general rate mechanism.

4. Preparing the Accounting System

If the results of the combined gross turnover calculation are projected to exceed the limit of IDR 4.8 billion, the company is required to prepare a standardized bookkeeping system to implement the calculation of general corporate income tax in the following tax year.

Tax planning and compliance with the laws and regulations are fundamental aspects of a company's operations. Compliance with tax administration in accordance with the latest regulations will reduce the risk of fiscal corrections in the future.



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