

Relationship between Income Tax Withholding Article 23 and Fiscal Reconciliation Case Study at PT. SFM

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Abstract

This study investigates the relationship between the withholding of Income Tax Article 23 (PPh 23) and fiscal reconciliation at PT. SFM, a company operating in Indonesia. Withholding PPh 23 is a critical component of corporate tax compliance, particularly in service transactions. Failure to comply accurately may result in positive fiscal corrections and increase corporate tax liabilities. Utilizing a case study approach with descriptive quantitative methods, the research draws on primary data from interviews with tax and accounting personnel and secondary data from financial statements and withholding tax records for the 2023 fiscal year. The findings reveal significant inaccuracies in PPh 23 withholdings on service-related expenses, leading to a positive fiscal adjustment of IDR 470,000,000. This adjustment directly impacted taxable income and overall corporate tax obligations. Contributing factors include insufficient internal controls and limited staff comprehension of tax regulations. The study emphasizes the necessity for enhanced internal governance and staff capacity-building to ensure accurate tax compliance and mitigate fiscal risks.

Keywords: *Withholding Tax, Income Tax Article 23, Fiscal Reconciliation, Tax Compliance, Corporate Tax, Indonesia*

INTRODUCTION

Taxation is a primary source of state revenue used to finance government operations and national development. Within Indonesia's tax system, Income Tax (Pajak Penghasilan or PPh) plays a significant role, particularly through Article 23 of the Income Tax Law (PPh Article 23), which imposes tax on income derived from capital, services, prizes, and awards—excluding income already subject to withholding under PPh Article 21. The implementation of PPh Article 23 requires the income payer to withhold, deposit, and report the tax on payments made to resident taxpayers and permanent establishments (BUTs) (Lestari & Rahmawati, 2021).

In practice, however, the application of PPh Article 23 often encounters challenges, including misapplication of tax rates, delays in tax deposits, and errors in reporting (Michelle & Widjaja, 2023; Saraswati & Firmansyah, 2022). These issues are often attributed to insufficient understanding among staff or weak internal controls (Astuti & Kurniawati, 2020; Handayani & Putra, 2022). Improper withholding not only violates tax regulations but also increases the risk of fiscal adjustments and administrative penalties (Simanjuntak & Widagdo, 2017).

Another issue arises from the discrepancy between commercial and fiscal financial reporting. Commercial financial statements are prepared based on Financial Accounting Standards (SAK) for the purpose of informing stakeholders, while fiscal financial statements are prepared in accordance with prevailing tax regulations to determine corporate tax liabilities (Prasetyo & Fadhilah, 2020). This discrepancy necessitates fiscal reconciliation, a process of

adjusting commercial accounting profit to fiscal profit in order to calculate the Taxable Income (Penghasilan Kena Pajak or PKP) (Siregar & Harahap, 2023). Fiscal reconciliation is crucial, as incorrect withholding under PPh Article 23 may lead to either positive or negative fiscal corrections. Positive corrections occur when expenses recognized commercially are not deductible fiscally, thus increasing the PKP. Conversely, negative corrections arise when commercial revenues are not recognized fiscally, resulting in a lower PKP (Putri & Nugroho, 2019; Hidayat, 2020).

PT. SFM, a company engaged in services and trading, regularly conducts transactions subject to PPh Article 23. Nonetheless, the company has experienced challenges in implementing proper withholding procedures and conducting accurate fiscal reconciliation, both of which affect tax compliance and corporate tax liabilities (Kurniawan & Lestari, 2021; Rahayu, 2021).

This study aims to analyze the relationship between the withholding of PPh Article 23 and fiscal reconciliation at PT. SFM, and to identify the factors influencing the effectiveness of the company's tax compliance practices. By understanding this relationship, the company is expected to enhance its tax compliance and optimize tax management (Damayanti & Sari, 2019; Kurniawan, 2020).

RESEARCH METHODS

Type and Approach of Research

This study adopts a descriptive quantitative method with a case study approach. A case study is appropriate for investigating the tax compliance process and its fiscal impact in a specific corporate setting (Putri & Nugroho, 2019). The descriptive design is used to explain the relationship between the withholding of Income Tax Article 23 and fiscal reconciliation within PT. SFM's accounting practices, as similarly applied in previous taxation studies (Lestari & Rahmawati, 2021).

Object and Subjects of Research

The object of this research is the withholding tax process and fiscal reconciliation on service expenses at PT. SFM during the 2023 fiscal year. The research subjects are the tax and accounting personnel responsible for withholding tax administration and corporate tax reporting (Michelle & Widjaja, 2023).

Research Location and Period

The research was conducted at the head office of PT. SFM in South Jakarta. Data collection was carried out between December 2023 and February 2024, coinciding with the company's fiscal year-end closing and tax reporting period (Prasetyo & Fadhilah, 2020).

Types and Sources of Data

The data used in this study comprise both primary and secondary data. Primary data were collected through interviews and observations of internal tax operations, while secondary data include financial statements, tax slips, reconciliation records, and the company's Annual Corporate Income Tax Return (SPT). This triangulation method ensures the credibility and completeness of data used for fiscal analysis (Astuti & Kurniawati, 2020; Siregar & Harahap, 2023).

Data Collection Techniques

Data were gathered using three main techniques:

Semi-structured interviews, conducted with tax and accounting staff to understand internal processes and compliance behavior (Rahayu, 2021).

Documentation, which involved analyzing withholding slips, accounting journals, and tax reports to trace fiscal discrepancies (Handayani & Putra, 2022).

Direct observation, focusing on the company's workflow and tax recording system for service-based transactions subject to Article 23 withholding (Damayanti & Sari, 2019).

Data Analysis Techniques

The analysis employs both quantitative and qualitative methods. Quantitatively, the study calculates the amount of fiscal correction resulting from errors in PPh Article 23 withholding. Qualitatively, it explores the underlying reasons behind non-compliance, such as human error or inadequate system controls (Kurniawan & Lestari, 2021; Dewi & Permana, 2018).

Steps in the analysis include:

Identification of service transactions in 2023 subject to PPh Article 23.

Verification of withholding slips and reconciliation entries.

Calculation of fiscal corrections and their impact on taxable income.

Comparison with regulatory standards and prior fiscal performance (Kurniawan, 2020; Simanjuntak & Widagdo, 2017).

Validity and Reliability

To ensure validity, the study applies source triangulation and cross-checks between interview data, documentation, and observation (Saraswati & Firmansyah, 2022). Reliability is reinforced through consistency across commercial accounting, fiscal documentation, and official tax filings. This approach aligns with best practices in fiscal compliance studies (Hidayat, 2020).

RESULTS AND DISCUSSION

PPh Article 23 Withholding Practices at PT. SFM

The results indicate that PT. SFM encountered several inconsistencies in implementing Income Tax Article 23 during the 2023 fiscal year. Several transactions involving service providers, such as consulting and outsourced security, were not supported by proper withholding tax documentation. These omissions resulted in positive fiscal corrections, which directly increased the company's taxable income (Lestari & Rahmawati, 2021; Putri & Nugroho, 2019). This finding aligns with Michelle and Widjaja (2023), who observed that misapplication of withholding obligations often stems from weak administrative procedures and limited tax knowledge among accounting staff. Similarly, Astuti and Kurniawati (2020) emphasized that the effectiveness of withholding implementation largely depends on the tax literacy of personnel and clarity of internal guidelines.

Fiscal Reconciliation of Service Transactions

The reconciliation process at PT. SFM revealed discrepancies between commercial financial statements and the fiscal report, primarily due to unrecorded or incorrectly withheld PPh Article 23. These issues required positive fiscal adjustments totaling IDR 470,000,000. As a result, the company's taxable income increased, along with its corporate income tax liability. This outcome reinforces prior findings that proper withholding documentation is essential to prevent fiscal corrections (Saraswati & Firmansyah, 2022; Prasetyo & Fadhilah, 2020).

The types of corrections identified included services not subject to withholding, services with late remittance, and services that lacked supporting tax slips. These issues are common in Indonesian corporations lacking centralized tax governance, as highlighted by Handayani and Putra (2022).

Impact on Corporate Tax Liability

As shown in the analysis, fiscal corrections due to improper withholding have a significant financial impact. At PT. SFM, the IDR 470 million fiscal correction resulted in an estimated additional tax payable of IDR 103.4 million (at a 22% corporate tax rate). This supports the argument by Simanjuntak and Widagdo (2017), who stated that even small administrative oversights in withholding taxes can escalate into material tax liabilities.

Dewi and Permana (2018) further noted that companies without integrated tax reporting systems are more vulnerable to such risks, due to fragmented documentation and poor data tracking.

Comparison with Previous Studies

The results of this case study are consistent with earlier research emphasizing the importance of tax compliance and fiscal reconciliation in preventing penalties and audit disputes (Siregar & Harahap, 2023; Hidayat, 2020). Damayanti and Sari (2019) suggested that regular internal audits and staff training can significantly improve withholding accuracy and compliance with Article 23 obligations.

Moreover, Kurniawan and Lestari (2021) concluded that companies that invest in tax governance systems—such as internal SOPs, digital withholding modules, and audit monitoring—experience fewer fiscal discrepancies and better tax reporting outcomes.

CONCLUSION

This study investigated the relationship between the withholding of Income Tax Article 23 and fiscal reconciliation within the operational context of PT. SFM, a company engaged in services and trading. The analysis confirmed that the company encountered various challenges in withholding tax administration, particularly related to documentation accuracy, timeliness of tax remittance, and consistency in applying tax regulations. These issues resulted in significant positive fiscal corrections, which subsequently increased the company's taxable income and corporate tax payable for the 2023 fiscal year.

The results emphasize the importance of proper withholding practices in minimizing fiscal discrepancies and maintaining compliance with statutory obligations. When withholding procedures are not properly executed—such as failing to provide evidence of tax deductions or delaying tax payments—companies are exposed to material fiscal adjustments. These adjustments not only affect financial performance but also elevate the risk of administrative penalties and reputational damage in the event of tax audits. Moreover, the study underscores the critical function of fiscal reconciliation as a tool for aligning commercial accounting with fiscal reporting standards. Inaccuracies in this process, whether due to human error or systemic gaps, can undermine the reliability of corporate tax returns. Therefore, it is essential that companies treat tax compliance not merely as a regulatory burden but as an integral component of financial risk management and good governance.

From a managerial perspective, the findings highlight the urgent need for improvements in internal tax governance. Companies should implement clearly defined procedures for tax

withholding, supported by effective internal controls and periodic audits. Staff responsible for tax functions must be adequately trained and equipped with up-to-date knowledge of tax laws, procedures, and digital tools that can streamline compliance activities. The integration of automated tax systems can significantly reduce the likelihood of errors and support the consistency of tax reporting across financial periods.

This research also provides practical implications for policymakers. As businesses continue to face challenges in navigating complex tax rules, there is a pressing need for regulatory clarity, improved guidance, and accessible education on taxation for corporate taxpayers. Enhanced collaboration between tax authorities and businesses may foster a more transparent and efficient tax environment.

In conclusion, the accurate implementation of Income Tax Article 23 and an effective fiscal reconciliation process are indispensable for achieving comprehensive tax compliance. Companies that prioritize these aspects are more likely to minimize fiscal risk, improve financial integrity, and contribute more effectively to the nation's tax revenue. Future research may expand on this study by examining cross-industry comparisons, the impact of tax digitalization, or the long-term effects of fiscal reconciliation on corporate tax planning strategies.

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