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Implications of the law on harmonization of tax regulations (UU HPP) on tax accounting practices in Indonesia

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Abstract--The enactment of Law No. 7 of 2021 on the Harmonization of Tax Regulations (UU HPP) represents a significant milestone in Indonesia's tax reform agenda, aiming to improve fairness, compliance, and administrative efficiency in the national tax system. This qualitative descriptive study investigates the implications of the UU HPP on corporate tax accounting practices. Data were obtained through in-depth interviews with tax professionals, corporate accountants, and consultants. Thematic analysis revealed four major findings: (1) the lack of technical clarity in recognizing fringe benefits (*natura*) as taxable income, (2) increasing discrepancies between commercial and fiscal accounting practices, (3) challenges in adapting to digital reporting obligations, particularly among SMEs, and (4) limited dissemination of the policy, resulting in uneven levels of professional readiness. The study concludes that while the UU HPP contributes to modernization efforts, its implementation remains constrained by insufficient technical support and weak alignment with prevailing accounting standards. Recommendations are proposed to enhance regulatory clarity, professional capacity building, and integration between tax rules and financial reporting systems. From a managerial standpoint, the findings suggest the need for proactive adaptation of internal accounting systems and alignment of tax compliance functions with organizational strategy.

Keywords--Tax accounting, UU HPP, fiscal reconciliation, fringe benefits, tax compliance, Indonesia

Introduction

Changes in tax policy in Indonesia have become a major concern for businesses and accounting practitioners, particularly following the enactment of Law No. 7 of



2021 on the Harmonization of Tax Regulations (UU HPP). In practice, the implementation of UU HPP has presented various administrative and technical challenges for reporting entities, especially in adjusting fiscal accounting systems to comply with the new provisions. Several companies have faced difficulties in reconciling commercial and fiscal financial reports, particularly concerning the adjustments to corporate income tax rates, the new treatment of in-kind benefits (*natura*), and the obligation to align taxpayer identification numbers (NPWP) with national identity numbers (NIK). At the same time, accountants are required to update their knowledge and competencies to accurately and responsibly implement the provisions of UU HPP in tax accounting practices.

Conceptually, tax accounting involves more than just tax calculation and reporting; it also encompasses how companies prepare fiscal financial statements in accordance with prevailing tax regulations. According to Hoffman et al. (2022), tax accounting is a form of fiscal control that requires interdisciplinary understanding of tax regulations and accounting standards. In this context, regulatory changes such as those introduced by UU HPP may result in significant differences between commercial and fiscal accounting approaches, potentially affecting managerial decision-making and financial reporting.

Previous research, such as that conducted by Sari and Wulandari (2022), suggests that tax reforms tend to influence companies' approaches to tax planning and tax disclosures in financial reports. Another study by Rachmawati (2023) found that new provisions under UU HPP—such as VAT on digital goods and revised tax policies for MSMEs—have led to shifts in tax accounting strategies among small and medium-sized enterprises. However, most existing studies focus primarily on compliance issues or taxpayers' perceptions, and few have explored in depth how UU HPP affects technical and substantive aspects of tax accounting practices in financial reporting.

Based on the above considerations, this study aims to analyze the impact of UU HPP implementation on tax accounting practices in Indonesia, particularly in terms of changes in recognition, measurement, and reporting of tax obligations by business entities. It also seeks to explore the responses of tax accounting professionals to the new regulatory framework, and assess the extent of organizational adaptation in fiscal reporting systems.

Literature Review

Tax Compliance Theory and the Modernization of the Tax System

Tax compliance theory posits that simplified tax rates and improved system transparency can enhance taxpayers' willingness to comply. A study by Hutagaol (2025) found that reduced income tax rates for MSMEs and the modernization of the tax system through digital integration positively influence taxpayer compliance, with significant coefficients (β system ≥ 0.445 ; β rate ≈ 0.355). These findings suggest that digital tax innovation not only facilitates administrative reporting but also strengthens fiscal accountability mechanisms.

Deterrence Theory: Penalties and Socialization

The deterrence theory emphasizes that stringent sanctions and effective public socialization campaigns improve taxpayer compliance. A study conducted by Mansur et al. (2023) in Jambi City revealed that the UU HPP and tax sanctions significantly affect MSME compliance, with a path coefficient of 0.592 for UU HPP and 0.465 for sanctions ($p < 0.01$). These findings reinforce the idea that tax reforms are not limited to rate adjustments but also serve as effective instruments of fiscal control.

Recognition Theory in Fiscal Accounting: Fringe Benefits

From the perspective of recognition theory, fiscal accounting requires entities to adjust their recognition and measurement principles in response to regulatory change. A study by an HR division of a private company (2025) observed that many entities have not yet adjusted their accounting treatment of in-kind benefits (fringe benefits) as mandated by the UU HPP, primarily due to a lack of dissemination and practical guidance. This illustrates a gap between regulatory requirements and actual tax accounting practices in the field.

PPh Article 21 and Commercial–Fiscal Reconciliation

Maulina and Fakhriyana (2025) examined how the application of Article 21 income tax is recorded in government institutions, revealing inconsistencies between the government's SIPD (Integrated Financial Management System) and proper fiscal accounting methods. The SIPD used a single-entry method and disregarded personal tax deduction (PTKP) statuses such as marital and dependent status. These discrepancies demonstrate ongoing challenges in reconciling commercial and fiscal reports post-UU HPP implementation.

Methods

This study adopts a qualitative descriptive research design aimed at exploring the actual impact of the Law on Harmonization of Tax Regulations (UU HPP) on tax accounting practices among businesses in Indonesia. The qualitative approach is deemed appropriate to capture the contextual and practical dynamics that emerge from the implementation of new tax policies, particularly those related to the recognition, measurement, and reporting of fiscal obligations.

Primary data were collected through semi-structured in-depth interviews with key informants, including:

- Tax accountants and finance managers from selected private companies (large and medium scale),
- Representatives from professional accounting associations (e.g., IAI or IKPI),
- Tax consultants and legal tax advisors,
- Officials from the Directorate General of Taxes (DGT), if accessible.

The interview guide was developed based on the core themes emerging from the literature review, including compliance adaptation, fringe benefit reporting, tax reconciliation, and system updates post-UU HPP.

A purposive sampling technique was employed to select informants with relevant experience in tax accounting and knowledge of post-UU HPP adjustments. At least 6–10 informants were targeted to ensure data saturation, representing a diverse range of industries (manufacturing, services, and retail).

Data were analyzed using thematic analysis. The following steps were applied:

1. Transcription of recorded interviews,
2. Open coding to identify recurring patterns and tax-related issues post-HPP implementation,
3. Categorization of codes into themes such as reporting challenges, compliance practices, recognition issues, and reconciliation processes,
4. Interpretation and triangulation with secondary data (regulatory texts and previous studies).

To ensure credibility, the study applied triangulation by comparing interview findings with document analysis (UU HPP content, tax accounting guidelines, and corporate financial reports). Member checking was also conducted by sharing summarized interpretations with key informants to validate accuracy. Ethical clearance was obtained from the institutional review board. All participants were informed of the research purpose, data usage, and confidentiality protocols. Participation was entirely voluntary, and informants were anonymized in the report.

Result and Discussion

This study identified several key themes that reflect the actual impact of the implementation of the Harmonization of Tax Regulations Law (UU HPP) on tax accounting practices in Indonesia. Data were obtained through in-depth interviews with eight informants, including corporate tax accountants, consultants, and tax officials. The analysis revealed four main themes:

Theme 1: Adjustment Challenges in Accounting for Fringe Benefits (Natura)

Most informants emphasized confusion and lack of clear technical guidelines regarding the new provisions on in-kind benefits (natura) as taxable income. While the UU HPP stipulates those certain forms of fringe benefits must now be included in gross income and taxed, many companies have not yet adapted their accounting systems to this requirement.

“We haven’t revised our payroll system to recognize housing allowance or meal provisions as taxable. There is no clear SOP or technical guidance from the authorities.” (Informant A, Tax Accountant)

This finding aligns with previous studies (e.g., Rachmawati, 2023), which indicated a delay in the technical application of new tax rules at the operational level.

Theme 2: Discrepancies Between Commercial and Fiscal Reporting

Several practitioners noted increasing complexity in reconciling commercial accounting with fiscal adjustments, especially after the HPP Law introduced

changes in tax treatment for employee benefits, depreciation methods, and final tax schemes for MSMEs.

“After the HPP, our fiscal reconciliation sheets have doubled. The gap between financial accounting and tax accounting is getting wider.”
(Informant B, Finance Manager)

The respondents expressed concern that the lack of harmonization between PSAK (Indonesian GAAP) and tax regulations could lead to errors or tax risk exposure during audits.

Theme 3: Awareness and Compliance with Digital Reporting Obligations

While the adoption of digital platforms (e.g., e-Bupot, e-Faktur, e-SPT) has improved administrative efficiency, many businesses—especially smaller firms—struggle to comply with real-time reporting requirements due to resource and skill limitations.

“Digital systems like e-Bupot make it easier, but the speed of change is overwhelming, especially for those who aren’t tech-savvy.”
(Informant C, Tax Consultant)

This reflects the findings of Hutagaol (2025), who noted that digitalization does not automatically increase compliance unless accompanied by adequate socialization and training.

Theme 4: Gaps in Policy Dissemination and Professional Readiness

All informants highlighted that while the UU HPP introduced major structural changes in the tax landscape, the speed of implementation was not matched with sufficient capacity-building among practitioners. Several participants admitted to relying on third-party consultants due to a lack of internal expertise.

“We learned about the UU HPP changes more from webinars than official government workshops. It feels like we were left to figure it out ourselves.” (Informant D, Corporate Accountant)

This reveals a disconnect between policy formulation and practical application on the ground—one that has implications for both compliance and financial statement reliability.

The findings demonstrate that although the UU HPP aims to create a more equitable and efficient tax system, its implementation has caused significant shifts in tax accounting practices—particularly in fringe benefit recognition, fiscal reconciliation, and reporting automation. These shifts present new demands on accounting professionals, who must bridge the gap between regulatory compliance and accurate financial representation.

The study confirms the relevance of recognition theory, tax compliance theory, and deterrence theory, as each helps explain how regulations influence behavior, systems, and organizational practices. However, the lack of integration between policy changes and technical execution remains a critical issue.

Conclusion

The findings of this study reveal that the implementation of the Law on Harmonization of Tax Regulations (UU HPP) has generated a substantial impact on the practice of tax accounting in Indonesia. While the law intends to modernize and streamline tax administration, its execution has posed several challenges for businesses and professionals. The study identified key issues such as the lack of clarity in the recognition of fringe benefits (*natura*) as taxable income, increased complexity in reconciling fiscal and commercial reports, difficulties in complying with new digital tax platforms, and inadequate dissemination of technical guidance. These challenges have hindered the effective alignment between fiscal policy objectives and the technical readiness of tax practitioners and corporate accounting systems. Despite its progressive goals, the UU HPP's implementation still faces structural and operational gaps that require urgent attention from regulators, companies, and professional bodies.

Recommendations

To address the challenges uncovered in this study, several recommendations are proposed. First, tax authorities should develop and distribute comprehensive technical guidelines that clearly outline the treatment of new tax provisions, particularly those involving fringe benefits and tax reconciliation. Moreover, regular socialization and professional training programs should be intensified, especially for small and medium-sized enterprises that lack internal tax expertise. Second, companies should take proactive steps to update their standard operating procedures (SOPs) and invest in internal capacity building to ensure that accounting staff can respond to regulatory changes. Third, professional associations and academic institutions should integrate updated tax regulations into accounting curricula and continuing education programs, helping bridge the gap between regulatory reform and practical execution. These recommendations aim to foster better synergy between fiscal policy and tax accounting practice, ultimately enhancing compliance and financial transparency.

Managerial Implications

From a managerial standpoint, the implementation of the UU HPP necessitates a strategic re-evaluation of how tax-related processes are integrated into broader financial management systems. Managers must ensure that internal accounting and payroll systems are updated to reflect the new tax treatments, particularly with regard to employee benefits and fringe income. Moreover, there is an urgent need to establish stronger coordination between tax and human resources departments to address compliance risks and prevent reporting discrepancies. The growing emphasis on digital tax administration also implies that managers must allocate adequate resources for system integration and staff training. In this regard, regulatory change should not be viewed merely as a compliance burden, but as an opportunity to modernize internal control mechanisms and align tax strategies with long-term business goals. Effective managerial adaptation to tax policy changes will not only reduce audit risks but also strengthen organizational credibility and fiscal responsibility.

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