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OPTIMIZING FAMILY TAXATION AND ITS LIMITS: THE FAMILY TAX UNIT, THE MSME REGIME, AND GENDER IN INDONESIA

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Abstract
Indonesia treats the family as a single economic unit for income tax under Article 8(1) of the Income Tax Law. With the Coretax administration system operational, this family tax unit is operationalised through the Family Unit Data (DUK) under PER-7/PJ/2025, while Government Regulation 20/2026 extends family-income aggregation into the final-tax regime for micro, small, and medium enterprises (MSMEs). Using a juridical-normative and policy-analysis approach supplemented by illustrative tax-burden simulations with sensitivity analysis, this study critically examines how PP 20/2026 operationalises family aggregation in the MSME regime and analyses its gendered implications. Three findings emerge. First, aggregating spouses' gross turnover under Article 58 can push a couple past the Rp4.8 billion threshold and strip the 0.5% final rate, so a household's tax burden can surge between 3.3 and 25.5 times (baseline 10.5 times) between years depending on net margins, while the same threshold is applied per individual for bookkeeping and the Rp500 million exemption, producing internal inconsistency. Second, because women manage most Indonesian MSMEs, this aggregation burdens women disproportionately: a wife's final-rate eligibility now depends on her husband's turnover, which she has no right to access, creating an information asymmetry that weakens self-assessment and, measured against optimal-tax theory, taxes the second earner precisely as the primary earner's income rises. Third, the DUK architecture centres the family on the husband, subordinating the wife as an equal tax subject. The study recommends replacing the distortive proportional mechanism with a binary choice and redesigning the DUK so that spouses are equal, independent subjects.
Keywords: Coretax; Family tax unit; Gender; MSME taxation; Secondary earner

INTRODUCTION

The question of who should bear the income-tax burden, the individual or the family, is one of the most fundamental choices in tax design. Aggregating family income can improve equity between households, but it tends to raise the rate on secondary earners and depress their labour-force participation (Apps & Rees, 1988; Boskin & Sheshinski, 1983; Kleven et al., 2009). In a family where several members earn, the secondary earner, who is statistically usually a woman, means that the choice of taxing unit indirectly carries real gender implications (Stotsky, 1997). Indonesia has adopted the family approach through Article 8(1) of the Income Tax Law, which treats the family as a single economic unit, whereby the income of all its members is aggregated and reported by the head of the family.

For years this provision was not supported by data adequate for consistent enforcement; weak enforcement is reflected in a tax ratio that fell from 10.07% of GDP in 2024 to 9.31% in 2025 (Ministry of Finance, 2026). The compliance gap is reflected in a tax gap estimated at roughly 6.4% of GDP, most of which stems from the compliance gap (World Bank, 2025). Individual-taxpayer compliance is low, and this is clear on the reporting side: the annual-return filing rate among non-employee individual taxpayers was only 27.96% in 2024, that is, 1.37 million of the 4.92 million required to file, down sharply from more than 60% in earlier years (Direktorat Jenderal Pajak, 2025). Reporting figures should not be affected by the exemption of turnover below Rp500 million, because the obligation to file a return still applies even where the tax due is nil. In addition, business actors have shown a tendency to hold turnover just below the Rp4.8 billion threshold to keep the lighter final rate (World Bank, 2025). It is this situation that forms the backdrop to the mid-2026 changes to the MSME final-tax rules.

Under the overarching tax administration framework of Minister of Finance Regulation No. 81 of 2024 (PMK 81/2024) and Director General of Taxes Regulation No. PER-11/PJ/2025

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on Coretax technical implementation, the Coretax administration system, linked to civil-registration data, automatically maps family relationships through civil-registration data. PER-7/PJ/2025 operationalises this concept under the Family Unit Data (DUK) menu, providing the administrative infrastructure for Coretax profile management. Article 58 of Government Regulation 20/2026, which amends PP 55/2022, extends family-income aggregation into the MSME final-tax regime through an anti-avoidance provision. This article examines how family aggregation is applied within the MSME regime, what inconsistencies it produces, and how its burden falls along gender lines, given that women manage most of Indonesia's micro and small enterprises.

Nuryanah and Sandy have examined the rate distortions faced by couples who file separately, together with their gender-equity dimension (Nuryanah & Sandy, 2024; Sandy & Nuryanah, 2025), but have not yet addressed the MSME final-tax regime under PP 20/2026 or its gendered implications. This study fills that gap by combining a critical analysis of MSME taxation with the literature on optimal taxation and gender bias. It poses two questions. First, how does PP 20/2026 apply family aggregation within the MSME final-tax regime, and are there inconsistencies between its implementation and the prevailing provisions? Second, are there gender implications in that design? The aim is to provide a critical analysis of MSME taxation under a family tax unit that is already in operation, and to identify an agenda for reform.

The discussion follows a single mechanism, namely the aggregation of family income and turnover now carried out through the Family Unit Data, and traces its effects on the wife, the minor child, and a spouse located abroad. The three are chosen not as a catalogue of cases but because they illustrate a common condition: burdens and legal consequences fall on a party that does not have full control over the tax imposed and does not hold an independent position in its computation. The discussion closes by assessing the coherence of the regime as a whole and comparing it with the practice of other countries. Positioned this way, the study is socio-legal, because it does not stop at the coherence of the norm but traces how a legal category operates in administrative practice and helps constitute a woman's standing as a tax subject.

LITERATURE REVIEW

The Family Tax Unit and Optimal Taxation

The family tax unit (FTU) treats the family, rather than the individual, as the unit of tax computation and reporting. Its forms range from pure individual taxation to full aggregation, with intermediate forms such as joint filing, income splitting, and the family quotient (quotient familial). Groves (1963) showed that the three goals of family taxation, namely equity between households, marriage neutrality, and progressivity, cannot be satisfied at once, so every FTU design is a compromise. This dilemma reveals an inherent contradiction in which policymakers can choose only two of the three goals of family taxation, necessarily sacrificing the third. For example, if a tax system applies progressivity and marriage neutrality through individual rates, then equity between households fails, because two families with the same total income will pay different tax depending on who works. Conversely, if progressivity is combined with equity between households through a family-income aggregation system, then marriage neutrality is sacrificed, because a married couple faces a higher rate bracket than they would while single (the marriage penalty).

Optimal-tax theory sharpens that choice. Boskin and Sheshinski (1983) and Kleven et al. (2009) show that the optimal rate on other earners within a family should be lower than that on the primary earner and should in fact fall as the primary earner's income rises. Full aggregation, which equalizes the spouses' rates, therefore conflicts with an optimal design. Alesina et al. (2011) draw a further implication from the same premise, namely that to achieve economic efficiency women should be taxed at a lower rate, because their labour supply is more

responsive to changes in the tax rate. Furthermore, from the perspective of optimal tax theory, highly rigid regulatory regimes can trap taxpayers in a deterministic equilibrium, wherein marginal adjustments in individual decisions are no longer strong enough to alter the effective tax burden independently (Rahardjo et al., 2026).

Gender and the Taxing Unit

Income aggregation carries an inherent gender bias. Because secondary earners are usually women, aggregation imposes a higher rate on their income (Alm et al., 1999; McCaffery, 1997; Stotsky, 1997) shows that this systematically depresses women's labour-force participation. Feminist legal theory locates the problem deeper than efficiency; in the way a facially neutral law produces inequality that is substantive in character. Olsen (1983) shows that placing the family in the private sphere naturalises women's subordination, so that when tax reaches into the family it enters not a neutral space but one already ordered by gender. A formal identical rule can therefore produce a substantively unequal burden (Grown & Valodia, 2010).

The premise underlying the family unit is also empirically fragile. The family unit assumes that spouses share resources as a single economic entity, but Kornhauser (2009), drawing on a body of empirical studies of resource allocation within households, shows that this sharing premise is often unmet: many couples do not pool all of their income, and the lower-earning wife often has no control over the husband's income. Conditioning a wife's tax eligibility on the husband's turnover therefore assumes an economic unity that may not exist, while the wife bears the consequences without access or control.

This perspective changes how the administrative system is understood. The critical tax theory literature rejects the assumption that tax law is neutral (Infanti & Crawford, 2009), Smart (1989) argues that law does not merely regulate subjects that already exist but helps constitute them through discourse. A data structure that determines who is the head of the family and who is a dependent therefore does not merely record the family but helps construct the legal standing of the woman within it. Reading a technical rule of this kind from the standpoint of the woman affected, as feminist legal method urges (Bartlett, 1990), surfaces a question that efficiency analysis misses, namely who holds an independent standing as a subject and who is reduced to a part of another subject. Cross-country evidence reinforces the stakes: joint taxation depresses women's participation while individual taxation raises it (Bick & Fuchs-Schündeln, 2018; LaLumia, 2008).

Comparative Models and Prior Research in Indonesia

Practice across countries presents varied designs. The United States applies joint filing with an option to file jointly or separately; France uses the family quotient (quotient familial); Germany applies income splitting; and Malaysia offers a pure choice between separate and joint assessment. Their common feature is a binary choice, without a proportional scheme that produces rate distortion. Among developing countries, South Africa moved to individual taxation with a unified rate table in 1995, ending the discriminatory higher rate previously imposed on wives (Stotsky, 1997). These two comparators are used further in the discussion, namely Malaysia for its design of choice and South Africa for its direction of change.

In Indonesia, scholarship on the position of the married woman within the taxing unit was pioneered long ago. Anggarsari (2011) compared Indonesia and Malaysia and concluded that a married woman's right to carry out her own tax obligations is limited, because it cannot be used by a married woman who is the head of the family for tax purposes. Sandy and Nuryanah (2025) simulated 16 combinations of spousal income and showed that the net-income-based proportional mechanism (PER-19/PJ/2014) produces overpayments and unequal effective rates, and proposed a proportionality based on taxable income.

The position of the child within the family unit has also long been questioned. Pudyatmoko (2017) shows that the personal-exemption limit for a child produces distributive injustice, because an earning child and a non-earning child are treated alike, so that a family whose child earns bears a heavier burden; Wijaya and Safira (2021) further highlight the uncertainty over to whom an adopted child's income is aggregated. On the gender side, Putri et al. (2025) find that the personal exemption is granted automatically only to the husband as head of the family, so that a married woman who becomes head of the family bears an additional administrative burden, and they judge this to fall short of the principles of the Convention on the Elimination of All Forms of Discrimination against Women. These works show that the problem of the family unit has been recognised, but none analyses the MSME final-tax regime under PP 20/2026 as an application of the FTU or traces its gendered implications, and that is the gap this study fills.

METHODS

This study uses a qualitative juridical-normative (doctrinal) method combined with policy analysis. The doctrinal method suits the object of study, namely the coherence of tax-law norms, while the policy analysis assesses their practical impact using the customary criteria for evaluating taxes, namely equity, efficiency or neutrality, and simplicity, as formulated in the OECD's tax-policy principles (OECD, 2014).

The data are secondary: primary legal materials (the Income Tax Law, Law No. 36 of 2008 as amended by Law No. 7 of 2021 and Law No. 6 of 2023; the General Tax Provisions Law; Government Regulation No. 46 of 2013; Government Regulation No. 23 of 2018; Government Regulation No. 55 of 2022; Government Regulation No. 20 of 2026; PER-17/PJ/2015; PER-19/PJ/2014; PER-7/PJ/2025; PER-11/PJ/2025; Minister of Finance Regulation No. 164 of 2023; and Minister of Finance Regulation No. 81 of 2024), academic literature, and official documents of the Directorate General of Taxes.

The analysis proceeds in four stages: content analysis of the regulations to map the norms and their inconsistencies; comparative analysis of the systems of developed countries, chosen to present a complete typology of FTU designs, together with countries structurally closer to Indonesia, namely Malaysia and South Africa, using a most similar systems design (Przeworski & Teune, 1970); a tax-burden simulation with a sensitivity analysis over the net margin (deemed-profit norm, NPPN); and an analysis of the hierarchy of norms. The simulation is deliberately illustrative rather than a fiscal estimate: it is built from the Article 17 rate parameters and publicly available thresholds so that anyone can replicate it, and its purpose is to show the direction and magnitude of the distortion that arises from the rule itself. Because what it shows is the operation of a rule that applies to every couple within the relevant range, its results are relevant across countries, and the sensitivity analysis confirms that the conclusions remain consistent and do not depend on a single assumption. Simple modelling of this kind is a customary tool in the literature on optimal taxation and the taxing unit (Apps & Rees, 1988; Boskin & Sheshinski, 1983).

The validity of this simulation rests on three points. First, its parameters are not the researcher's assumptions, but figures fixed by regulation, namely the Article 17 rates, the Rp4.8 billion threshold, the Rp500 million exemption, and the personal exemption, so that what is demonstrated is the operation of the rule and not taxpayer behaviour. Second, the sensitivity analysis in Table 2 shows that the direction and magnitude of the distortion remain the same across the entire range of customary margins, so that the conclusion does not depend on a single point of assumption. Third, the claims drawn from the simulation are confined to its mechanism, namely how the burden shifts and onto whom, and are not extended into an estimate of state revenue or of the number of taxpayers affected. Aggregate data from Statistics Indonesia are

used to show that the group affected by the mechanism is dominated by women, not to measure the size of the impact on each household.

Methodologically, this study is socio-legal, in the sense that it examines law not only as text but in its operation, namely how the category of the family unit is carried out through the Coretax system and the Family Unit Data together with its gendered effects. The doctrinal approach is combined with feminist legal method, namely reading a facially technical rule from the standpoint of the woman most affected (Bartlett, 1990), and with secondary data on women's economic participation as evidence of its social context. This study does not claim primary field data; it examines the social life of a legal form, namely the gap between a formally equal legal subject and an administratively unequal standing in practice.

RESULTS AND DISCUSSION

Operationalising the Family Tax Unit: The Status of a Working Wife

As a default, Article 8 of the Income Tax Law aggregates the income of the wife and minor children with that of the head of the family. Exceptions arise where the spouses live apart under a court judgment (HB), enter a separation of property (PH), or elect separate obligations (MT), which gives the wife her own active taxpayer identification number (PER-7/PJ/2025). In the aggregated status, the wife's identification number is recorded as a dependent in the husband's DUK and all income is reported on the husband's return; if she works for a single employer and that work is unconnected to the business of the husband or other family members, her employment income is treated as final. In PH and MT, spouses' net income is aggregated, the tax is computed on the total and then divided proportionally by the ratio of net income (Article 8(2)-(3) of the Income Tax Law, whose division formula is set out in Appendix II of the filing instructions for the individual annual return under PER-19/PJ/2014 and is quoted in the Appendix to this article). Because each spouse has already been subject to withholding, possibly at a different rate bracket, this proportional division often produces an underpayment and unequal effective rates (Sandy & Nuryanah, 2025).

The DUK carries out this logic of the family as one unit within Coretax, but the underlying proportional mechanism produces distortion. Table 1 illustrates the annual burden of one married MSME couple across the available options.

Table 1. Illustrative Simulation of the Annual Income-Tax Burden of One Married MSME Couple (Rp)

Scenario	Income tax, Taxpayer A	Income tax, Taxpayer B	Household total
1. Final 0.5%: assessed per individual (pre-PP 20/2026 logic)	12,500,000	7,500,000	20,000,000
2. Final 0.5%: PH/MT after PP 20/2026 (Rp5bn > Rp4.8bn)	Not eligible	Not eligible	Shifts to Article 17
3. Article 17: aggregated NPWP (reported by husband)	210,250,000	—	210,250,000
4. Article 17: PH/MT, proportional by net income (current)	126,150,000	84,100,000	210,250,000

Source: author's computation. Assumptions: Taxpayer A's turnover Rp3,000,000,000 (net Rp600,000,000); Taxpayer B's turnover Rp2,000,000,000 (net Rp400,000,000) at an illustrative net margin of 20% (NPPN, PER-17/PJ/2015); no dependents; aggregated personal exemption K/I/0 Rp112,500,000; Article 17 rates and the 0.5% final rate (PP 20/2026); Scenario 1 after the Rp500 million exemption per individual (Article 60(2) of PP 55/2022; PMK 164/2023).

Table 1 shows two things. First, the shift caused by PP 20/2026 is very large: a couple that previously paid only Rp20 million through the final rate (Scenario 1) loses that entitlement once its turnover is aggregated (Scenario 2) and falls to the general rate of Rp210.25 million (Scenarios 3 and 4). Second, the separation-of-property or elect-separate status turns out not to change the size of the household burden at all, being exactly the same as the aggregated status. What differs is only its division between husband and wife. In other words, what Article 8(2) of the Income Tax Law calls separate reporting is in fact still an aggregated computation, in which only the party billed is separated, not the computation.

It is that method of division that is problematic. Because the tax is computed on aggregated income and then divided by the ratio of net income, both spouses end up at the same effective rate (Scenario 4), even though their incomes differ greatly. Sandy and Nuryanah (2025) document this problem across 16 combinations of spousal income and find that the PER-19/PJ/2014 mechanism produces under- or overpayments and unequal effective rates, then propose a division based on taxable income so that progressivity is preserved.

Optimal-tax theory explains why a result like this is wrong, not merely untidy. Boskin and Sheshinski (1983) show that the labour supply of secondary earners is far more sensitive to the tax rate than that of the primary earner, so taxing both at the same rate creates an unnecessary efficiency loss; the optimal rate for the second party is in fact lower. Kleven et al. (2009) elaborate that the secondary earner's rate should not only be lower but should also fall as the primary earner's income rises; the net-based proportional mechanism in force in Indonesia does the opposite. The taxable-income-based proposal corrects part of this problem but does not reach its root, because the computation still begins from aggregated income.

MSME Taxation under PP 20/2026: Expanding the Concept of Gross Turnover

The MSME final-tax regime developed in stages. PP 46/2013 imposed a 1% rate on gross turnover with no exemption whatsoever. PP 23/2018 lowered the rate to 0.5% but limited the period of its use. The Law on the Harmonisation of Tax Regulations then inserted Article 7(2a) of the Income Tax Law, exempting gross turnover up to Rp500 million for individual taxpayers, and that exemption was implemented through Article 60(2) of PP 55/2022. It should be noted that this exemption was from the outset formulated per individual, not per family. One technical feature has persisted from the start: eligibility for the final rate in a tax year is tested based on the prior year's gross turnover (Article 58(1)(a)), so that a taxpayer's status is reassessed each year. Crucially, the transitional provisions under Article II of PP 20/2026 establish that the first year of combined turnover testing occurs in tax year 2026, wherein total aggregated gross turnover during tax year 2026 determines whether the final 0.5% regime remains available or is permanently revoked for tax year 2027 and subsequent tax years. The provisions of this regime lie in Articles 56 to 63 of PP 55/2022, amended by PP 20/2026. PP 20/2026 continues that direction while fundamentally changing it. The 0.5% final rate may now be used without a time limit by individual taxpayers and individual enterprises, with a gross-turnover threshold of Rp4.8 billion in a tax year. What must be noted is that Article 58 expands the concept of gross turnover: paragraph (1) covers all business and independent-professional turnover; paragraph (2) aggregates the gross turnover of spouses who file separately; and paragraph (3) adds the turnover of any individual enterprise they establish, while the Elucidation of paragraph (2) also draws in the business turnover of a minor child. This aggregation is in part a response to the tendency of business actors to hold turnover just below Rp4.8 billion in order to preserve the final regime (World Bank, 2025).

The government states its reason openly in the General Elucidation of PP 20/2026: in practice there are taxpayers who use the final rate for the purpose of tax avoidance, so the adjustment of the exception is made as an effort to prevent avoidance practices that run counter to the intent and purpose of the regulation, and at the same time to uphold the principles of

fairness and legal certainty. That reason carries weight: a household with aggregated turnover of Rp5 billion is not economically a micro enterprise and allowing it to keep a rate designed for small enterprises would violate equity between households and erode the tax base. The problem lies not with the aim of preventing the splitting of a business itself, but in the way the rule achieves it. Before PP 20/2026, spouses filing separately could assess the threshold individually and both keep the 0.5% rate, each after the Rp500 million exemption, with a total household burden of only Rp20 million (Table 1, Scenario 1). After PP 20/2026, aggregating turnover pushes the Rp5 billion total past the threshold and so extinguishes both spouses' entitlement (Scenario 2). The loss of entitlement is not retroactive but takes effect from the following year: in the year the threshold is exceeded, business income is still subject to the final rate until the end of that year, and then from the following tax year the household burden jumps from Rp20 million to Rp210.25 million at the general rate, more than tenfold on the same income component. The nature of that loss of entitlement must be traced historically, because it is here that the regime's anti-avoidance logic was formed.

Initially PP 46/2013 treated the threshold as a door that could still be reopened. Eligibility was tested on the prior year's gross turnover (Article 3(2)), and if turnover exceeded Rp4.8 billion, the final rate still applied until the end of that year, while the general rate was imposed only in the following tax year (Article 3(3) and (4)). Because its wording referred to a single following year while eligibility was still reassessed each year, a taxpayer whose turnover fell again could return to the final rate. That regime turned with the ups and downs of the business. PP 23/2018 closed that revolving door. Article 7 provides that a taxpayer whose gross turnover has exceeded Rp4.8 billion remains subject to the final rate until the end of the year in question, but income in the following tax years is subject to the general rate. That plural is no accident, for its Elucidation uses the example of a taxpayer subject to the general provisions from tax year 2020 onward. Since 2018, exceeding the threshold even once has closed the door to the final regime for good. PP 55/2022 retained that wording, and PP 20/2026 moved it to Article 57(2)(e) and locked it in paragraph (4), with an Elucidation that even closes off individual enterprises established afterward.

That permanent lock makes sense as an anti-avoidance tool. Without it, a taxpayer could steer turnover up and down around the threshold and switch regimes at will. What changed in PP 20/2026 is not its permanence but its trigger. Up to PP 55/2022, the trigger was the taxpayer's own turnover, so that an irreversible consequence arose from the taxpayer's own business decisions. Since PP 20/2026, the trigger is the aggregated turnover of the husband, the wife, any individual enterprise they establish, and a minor child. A consequence of equal severity can now be set off by another party's business decisions. It is at this point that the anti-avoidance tool changes character: it no longer merely closes the space for deliberate business-splitting but also imposes a permanent consequence on a party that does not control the trigger. This structural locking mechanism creates a severe 'administrative trap', wherein taxpayers become involuntarily trapped in the standard Article 17 regime due to combined spousal turnover beyond their individual control, unable to return even if business conditions deteriorate. Table 2 shows that this conclusion holds across a range of net margins from 10% to 40%, where the general-rate burden ranges from 3.3 to 25.5 times the final rate; high-margin activities, common in services, are the most disadvantaged. It should be noted that, because the final rate is imposed on turnover rather than on profit, the 0.5% regime itself is relatively burdensome for low-margin businesses, a feature that stands apart from the family problem but makes clear that the final rate is a blunt instrument.

Table 2. Sensitivity Analysis: General-Rate Burden across Net-Margin Variations (NPPN)

Net margin	Aggregated net income (Rp)	Article 17 tax (Rp)	Effective rate*	Ratio to final**
10%	500,000,000	65,875,000	1.32%	3.3×
15%	750,000,000	135,250,000	2.71%	6.8×
20% (base)	1,000,000,000	210,250,000	4.21%	10.5×
25%	1,250,000,000	285,250,000	5.71%	14.3×
30%	1,500,000,000	360,250,000	7.21%	18.0×
40%	2,000,000,000	510,250,000	10.21%	25.5×

Source: author's computation. *Against aggregated turnover of Rp5 billion. **Against a hypothetical final rate of Rp20 million had the couple remained eligible. Turnover, personal exemption, and rates as in Table 1; only the net margin is varied.

Four features aggravate this inconsistency. First, independent-professional income counts toward the threshold (Article 58(1)) even though it is excluded as an object of final tax (Article 56(3)(a)), so that a physician with Rp3 billion in professional turnover who also earns Rp2 billion from a pharmacy loses the final rate on the pharmacy income even though that business is itself below the threshold. Second, the same pattern recurs with foreign income: Article 58(1)(a) expressly includes gross turnover earned abroad in the threshold computation, while Article 56(3)(b) excludes foreign income whose tax is owed or has been paid abroad as an object of final tax. The threshold thus reaches the gross turnover of worldwide income, even though some of that income cannot be subject to the final rate. Third, because PP 20/2026 amends only part of PP 55/2022, the exemption of turnover up to Rp500 million remains in force and is granted to each individual (Article 60(2) of PP 55/2022 in conjunction with Article 7(2a) of the Income Tax Law), so that for spouses filing separately each obtains it, as also affirmed in Article 6(5) of PMK 164/2023; a couple that still qualifies thus has two exemptions worth Rp1 billion in total (because it is computed per tax subject), while the treatment of the aggregated status is left unregulated, a normative gap that can make the separate status more advantageous at the exemption point. Fourth, the principle of the family as a single economic unit is applied only partially: the Rp4.8 billion limit for the bookkeeping obligation (Article 28 of the General Tax Provisions Law) and the Rp500 million exemption apply per individual, whereas the threshold for final-rate eligibility (Article 58) is computed on an aggregated basis.

The Income of a Minor Child within the Family Unit

The minor child is the third pillar of the family unit, alongside the husband and wife, but the least discussed. Article 8(4) of the Income Tax Law provides that the income of a minor child is aggregated with that of the parents, and its Elucidation affirms that the aggregation applies to the child's income from whatever source and of whatever kind of work. Dewi (2020) shows that a child's income from social media has gone untouched by oversight and that self-assessment itself becomes an obstacle for a minor subject, so that a mapping of data on earning children is needed. That finding aligns with the problem discussed here, namely that the child is recognised by the system as an earning party without holding a standing to compute and report the obligation itself. A minor child is defined as one who is under 18 years of age and has never married, a limit used specifically by tax law and different from the age of majority of 21 under the Civil Code. Prior research in Indonesia has examined the collection of income tax on minor content creators (Syirat et al., 2024) and questioned the fairness of the personal-exemption limit for children (Pudyatmoko, 2017). Both show that the position of the child in tax collection has long been recognised as problematic, but both stop at the relationship between the child and the parents and do not connect it to the threshold of the MSME final-tax regime.

A comparison with the treatment of the wife reveals a striking asymmetry. The wife obtains an exception, her tax being final if she satisfies Article 8(1) of the Income Tax Law; a minor child obtains no exception whatsoever, and the phrase in the Elucidation of Article 8(4) quoted above expressly forecloses that possibility. Both incomes are earned from the person's own work yet are treated oppositely without a reason stated in the law. The aim of this provision is itself legitimate. Without aggregation, parents could shift assets or income to a child to exploit a lower rate bracket and an additional personal exemption. Other countries face the same problem but use a more targeted tool. The United States, through the kiddie tax introduced by the Tax Reform Act of 1986, taxes only a child's passive income, such as interest, dividends, and capital gains, at the parents' marginal rate, while income from the child's work has the child's own rate. Australia takes a similar path through Division 6AA of the Income Tax Assessment Act 1936, which imposes a penalty rate only on a child's passive income, while excluded income, including employment income, remains subject to the normal rate. Both separate passive income from a child's earned income. The current regulation in Indonesia does not recognise that separation and aggregates the two without distinction, so that its anti-avoidance tool reaches far beyond its intended target.

The Elucidation of Article 58(2) of PP 20/2026 draws the business turnover of a minor child into the Rp4.8 billion threshold computation. That Elucidation states that "included in the aggregation of the gross turnover of the husband and wife is the gross turnover from the income of a minor child in accordance with the provisions of the legislation in the field of Income Tax", and the accompanying example describes a couple with Rp3 billion in notarial-service turnover and Rp2 billion from a boutique who, after adding Rp500 million in turnover from their child as a young singer, lose the final rate in the following tax year because the aggregated total of Rp5.5 billion exceeds the threshold. Combined with the permanent lock in Article 57(2)(e) in conjunction with paragraph (4), a child's business income can extinguish the parents' entitlement to the 0.5% final rate. That risk is most acute for a child with substantial income as a content creator, a group known from the outset to be problematic in terms of collection and oversight (Dewi, 2020; Syirat et al., 2024). What is new here is that the consequence no longer stops for the child, for the family's economic scale, and hence the rate imposed on the parents can change solely because of the child's income. The problem is aggravated by its legal basis. Appendix II of Law No. 12 of 2011 on the Formation of Legislation provides that Elucidation may not contain new norms or expand the main body. Article 58 of PP 20/2026 mentions only spousal turnover in the main body and adds the child's turnover only in the Elucidation. That Elucidation's reference to existing Income Tax provisions is in truth merely an affirmation of Article 8(4) of the Income Tax Law, so it can be defended; but if read as adding an aggregated subject, the provision is vulnerable to challenge on validity. Raising it into the main body of the regulation, as spousal turnover is already formulated there, would remove that doubt and place the expansion of the subject at the level of norm where it belongs.

This problem is not merely a technical note. It concerns the principle of legality in taxation, namely that the imposition of tax must be based on statute, so that an expansion of the subject whose income is aggregated should sit in the main body of the regulation. As long as that expansion rests only on the Elucidation, its legal certainty depends on a choice of interpretation, and the taxpayer bears a permanent consequence on a basis that remains open to challenge.

The position of the child within the family tax unit reveals a sharp normative asymmetry compared with the status of the wife, in that Pudyatmoko (2017) explains that a family with an earning child bears a heavier tax burden than a family with a wife earning the same amount, owing to a highly unequal difference in the additional personal exemption. Pudyatmoko (2017) demonstrates this through two families with the same household income: in the first, the

additional income is earned by the wife; in the second, by the child. The first family obtains an additional personal exemption for a wife, while the second obtains nothing beyond the dependent allowance that already exists. Under the personal exemption in force, the difference reaches Rp54,000,000 of taxable income, so that a family whose child earns pays more tax than a family whose wife earns the same amount. The same income, both drawn into the family's computation, obtains a different relief solely because it is earned by the child and not by the wife. This policy is caught in an internal contradiction: the status of "dependent" conventionally requires the absence of income, yet Article 8(4) of the Income Tax Law still draws the child's income into the parents' computation without granting an independent tax-subject identity. That legal uncertainty extends to the status of an earning adopted child, which according to Wijaya and Safira (2021) still triggers overlapping views on whether the aggregation of its income should be directed to the biological or the adoptive parents. Administratively, the implementation of the Family Unit Data (DUK) under PER-7/PJ/2025 aggravates this by centring all of the child's tax rights and obligations on the head of the family, thus triggering reporting confusion for couples in the separation-of-property or elect-separate (PH/MT) status even though the child is listed in their data unit.

Gender Implications

Before turning to the data, it is worth stating first where the gendered harm lies, since the PP 20/2026 rule is neutral on its surface and its burden falls on the household. Scenarios 3 and 4 in Table 1 do show that the household total does not change, whether in the aggregated or the separate status. The distinctively gendered harm therefore lies not in overall household welfare but in three things that fall on the wife directly. First, allocation: the proportional mechanism raises the effective rate of the second earner to equal that of the first, whereas genuinely separate taxation would lower it. Second, information: her final-rate eligibility depends on data she has no right to access. Third, standing: every personal-exemption component related to her attaches to the family headed by the husband, not to herself. All three concern her own tax obligation, her incentive to work, and her standing as a subject, not the division of welfare within the household. The gender-taxation literature itself acknowledges that a burden of this kind is, in formulation, symmetric, because it would fall on the husband too were he the secondary earner; its gendered character arises from the empirical reality of who the secondary earner is, not from the text of the rule (Stotsky, 1997). With that qualification, these rules do not fall neutrally on the household.

Women play a dominant role in the grassroots economy: of some 4.4 million micro and small industry (IMK) enterprises in 2024, 41.15% were managed by a sole proprietor and 71.69% of those were run by women (Badan Pusat Statistik, 2025). This figure covers manufacturing only, so the claim drawn here is confined to micro and small enterprises and is not generalised to all MSMEs. As context for scale, according to current economic profile data from BPS and updated MSME statistics, micro enterprises continue to represent over 99% of all Indonesian business units, with female entrepreneurship predominantly concentrated in micro-scale operations (Badan Pusat Statistik, 2025). It is women's dominance in the micro and small segment that makes the turnover-aggregation mechanism touch women more often than men, even though the size of the impact on each household is not measured here. This characteristic places women in the vulnerable position of the secondary earner within the family-tax-unit structure, given that the female labour-force participation rate as of February 2026 was only 56.41%, well below the male rate of 84.57%, while the average wage of female workers was recorded at Rp2.80 million against Rp3.55 million for men, or about 79% (Badan Pusat Statistik, 2026). Because secondary earners are usually women, turnover aggregation burdens women disproportionately: for a wife who files separately and runs an MSME, final-rate eligibility now depends on the husband's turnover, including his independent-professional

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income. That burden appears suddenly, not gradually: once aggregated turnover crosses Rp4.8 billion, the rate leaps at once from 0.5% to the general rate, and it is this sudden jump that drives business actors to hold turnover just below the threshold (Kleven & Waseem, 2013). While Article 8(3) of the Income Tax Law and the individual return filing instructions (PER-19/PJ/2014) already required PH/MT spouses to disclose net income to compute proportional tax shares, meaning information exchange between spouses is not new, PP 20/2026 fundamentally alters the stakes. Previously, information asymmetry merely affected the annual division of tax liability; under PP 20/2026, information asymmetry regarding the spouse's turnover permanently terminates eligibility for the 0.5% final MSME regime. Self-assessment requires that a taxpayer be able to compute her own tax; here the wife cannot, so a distinctively gendered burden falls on the party most often affected by the aggregation rule.

That inequality is most clearly seen in the treatment of dependents. The Family Unit Data of a wife who files separately may recognise herself, her minor children, and blood and marital relatives in the direct line who are fully dependent, whether within the same family card or on another (PER-7/PJ/2025 Article 5). Yet the personal-exemption benefit for dependents does not follow that recording. Article 7(1)(d) of the Income Tax Law grants an additional Rp4,500,000 for each fully dependent family member, up to three persons per family. The key phrase is per family, not per taxpayer. A dependent is therefore a family benefit that attaches to the head of the family, not a right the wife can claim in her own name. In the PH/MT status, the personal exemption is not applied by each spouse but only once against the aggregated net income (Article 8(3) of the Income Tax Law), and only then is the tax divided. The wife never applies a personal exemption in her own name, and she cannot add a dependent component even though her DUK lists that dependent. The personal-exemption policy in the Income Tax Law remains insufficiently clear on the legal position of an earning wife. Article 7(1)(c) of the Income Tax Law regulates only the additional personal exemption for aggregation under Article 8(1), but neglects legal clarity for a tax subject in the separation-of-property or elect-separate status (Article 8(3)). This administrative uncertainty removes the wife's sovereignty as an independent tax subject, because the right to the personal-exemption benefit remains attached to the husband as head of the family.

That centring on the husband is not merely a practice but the very default rule of PER-7/PJ/2025. Article 4(1) provides that for a married woman who is not taxed separately and for a minor child, the exercise of tax rights and the fulfilment of tax obligations are aggregated with the husband as head of the family, while the wife's position as head of the family appears only as an exception for a married woman who holds that status under civil-registration provisions (Article 4(4)). The tax rule does not create that position but follows the designation of the head of the family on the family card (Articles 4-5), which rests on Article 31(3) of the 1974 Marriage Law, even though Article 31(1) of the same law declares the positions of husband and wife balanced; it is that tension which Nuryanah and Sandy (2024) connect to women's inequality in tax rights. Even though the separate-reporting option assumes the wife as an equal tax subject (Article 8(2) of the Income Tax Law), the computation still centres on the family headed by the husband. Crucially, the primary gender argument rests not merely on demographic proportion, but on the explicit normative text of Articles 4 and 5 of PER-7/PJ/2025, which structurally anchors the Family Unit Data (DUK) architecture around the husband as head of the family and primary tax subject. Carrying out the family tax unit through this legally mandated male-centered hierarchy structurally subordinates the wife as an equal tax subject, forming the central normative axis of gender distortion in Indonesian family taxation. The DUK ought to be designed as a relationship between equal members so that each spouse has a complete and independent computation.

Read through feminist legal theory, this architecture does more than arrange data. The Family Unit Data assumes the family to be a single economic entity that shares resources, whereas that premise is often unmet (Kornhauser, 2009), so the wife is bound to the husband's turnover, which she has no right to know or control. Further, a structure that places the husband as head and the wife as an aggregated part does not merely record an existing position but helps constitute it (Smart, 1989): when the family becomes visible to the tax administration precisely through data headed by the husband, the state helps reproduce a male-breadwinner model of the family rooted in the private sphere (Olsen, 1983). The technical neutrality of the DUK thus conceals a normative choice about who is recognised as an independent tax subject.

That husband-centred architecture also narrows the options when a woman becomes head of the family, for example because the husband is abroad or is a foreign tax subject. A married woman who is head of the family under civil-registration provisions must register for her own taxpayer identification number, and her income cannot be aggregated with her husband's (PER-7/PJ/2025 Article 4(4)). She is therefore not in a position to choose between aggregated and separate as an ordinary wife is, but is placed in one particular treatment. Putri et al. (2025) show that the personal-exemption component is granted automatically to the husband as head of the family, while a married woman who takes that position must first submit a certificate at least at the sub-district level, an additional requirement not imposed on the husband in the same position. They judge this to fall short of the principles of the Convention on the Elimination of All Forms of Discrimination against Women, unlike Singapore, which does not tie family tax relief to the position of head of the family. Anggarsari (2011) had shown a similar limitation long before Coretax, namely that a married woman's right to carry out her own tax obligations cannot be used by a woman who is head of the family for tax purposes. The underlying structure persists: the options available to a wife depend on her husband's position, not on her own.

Aggregation at the family level also produces behavioural consequences that have gone unnoticed. Because the threshold is now tested on aggregated turnover, two business actors each with turnover below Rp4.8 billion can lose the final rate precisely because they marry, whereas a couple not formally married is still assessed individually. This is a concrete form of the marriage neutrality sacrificed within the framework of Groves (1963), and the literature on the marriage penalty shows that a burden of this kind can affect the decision to marry and how a couple reports its status (Alm et al., 1999). With the permanent lock in Article 57(2)(e) in conjunction with paragraph (4), the stakes become far larger than a one-year rate difference, so that a rule designed to close off business-splitting may itself open a new gap for not registering a marriage or not registering a spouse.

Normative Consistency and the Autonomy of the Tax Subject

Analysis of the current regulatory framework reveals a theoretical tension in the application of the taxing-unit principle in Indonesia. There is a dualism in the treatment of the legal subject in which the authority uses the individual unit for the limit on the bookkeeping obligation (Article 28 of the General Tax Provisions Law) and the Rp500 million turnover exemption, yet at the same time applies the family unit for the threshold of final-rate eligibility (Article 58 of PP 20/2026). This phenomenon reflects a fragmentation of the legal subject that may trigger juridical uncertainty for taxpayers, given that economic capacity is measured collectively while administrative compliance is still imposed individually.

This normative indeterminacy is also evident in the terminological ambiguity of “separate reporting” in Article 8(2) of the Income Tax Law. Substantively, the mechanism for couples who elect to carry out their obligations separately (PH/MT) represents joint assessment with separate billing rather than pure separate assessment. This is because the tax computation is still based on the aggregation of net income, which is then divided proportionally. By

comparison, the Malaysian model offers a different discourse through the automatic application of separate assessment, which in the literature is seen as affording greater autonomy to the female tax subject in fulfilling her rights and obligations.

The wording of the article needs to be stated plainly. Article 8(3) of the Income Tax Law confines that method of computation specifically to paragraph (2)(b), separation of property, and (c), elect separate, so that only (a), living apart under a court judgment, is genuinely taxed separately. The term separate reporting is therefore misleading for the two statuses that are in fact most used.

This study finds a dynamic in data reach in the operationalisation of the Family Unit Data (DUK) within the Coretax system. Although the system provides a mechanism for self-updating of data through the taxpayer-profile menu, the effectiveness of this feature for taxpayers with cross-border family relationships is still limited by additional bureaucratic procedures. For a foreign-national (WNA) family member who has no resident identification number, the system requires prior registration of a tax identification number (NIP) so that their data can be entered manually into the family unit. This shows that even though a manual-entry path exists, Indonesia's digital tax architecture still places domestic civil-registration data as the primary anchor, so that a taxpayer with global mobility bears a higher burden of proof and compliance cost to verify the subjective right to a spouse's or child's personal-exemption component.

The inability to capture the cross-border family is therefore not a limitation of this study but a finding about the limit of the DUK model itself. Its tax base is worldwide through the worldwide-income principle, while its relief is confined to what is recorded in Indonesia's civil register. The family unit thus exists insofar as the data system can see it, and stops where the system cannot.

As part of a scholarly evaluation of the various policy alternatives, Table 3 below presents a comparison of the impact of different burden-sharing mechanisms.

Table 3. Comparison of Income-Tax Burden-Sharing Mechanisms for the Same Couple (Rp)

Mechanism	Income tax, Taxpayer A	Effective rate A	Income tax, Taxpayer B	Effective rate B
a. Proportional by net income (current)	126,150,000	21.0%	84,100,000	21.0%
b. Proportional by taxable income (Sandy & Nuryanah, 2025 proposal)	128,282,000	21.4%	81,968,000	20.5%
c. Binary choice (Malaysian model)	106,450,000	17.7%	55,500,000	13.9%

Source: author's computation, using the assumptions of Table 1. Household total: (a) and (b) are both Rp210,250,000, identical to the aggregated status; (c) Rp161,950,000. In (b) and (c), the personal exemption is allocated to each party (Taxpayer A K/0 Rp58,500,000; Taxpayer B TK/0 Rp54,000,000).

Table 3 clarifies where the problem lies. Mechanisms (a) and (b) both produce a household total of Rp210,250,000, exactly the same figure as the aggregated status, so that neither is in fact separate taxation but rather aggregated taxation with a different method of division. Only mechanism (c) genuinely separates the computation, and the result accords with theory, namely that the wife's effective rate falls to 13.9%, lower than the husband's 17.7%, because each enjoys its own rate bracket and personal exemption. The consequence for revenue is also visible, for in this example the household burden falls to Rp161,950,000, or about 23% lower. That figure applies to this illustrative couple and cannot be read as an estimate of national revenue loss, which depends on the distribution of spousal income. That difference offers one

plausible explanation of why the proportional mechanism is retained, namely that it keeps total revenue equal to full aggregation, even though that reason is not stated in the regulation. Maintaining that total is paid for by raising the effective rate of the second earner, who is usually a woman, so that the choice is not between tidy and untidy but between short-term revenue and gender neutrality.

Theoretically, although the taxable-income-based proportionality proposal can mitigate the effective-rate distortion, that model does not fully overcome the information-asymmetry constraint experienced by secondary earners. Under optimal-tax theory, the binary-choice model as applied in Malaysia offers stronger consistency because it allows a genuinely separate assessment in line with each individual's labour-supply elasticity. This analysis concludes that a transition from the proportional mechanism to a binary choice is a relevant improvement path to consider in order to realise a more gender-neutral tax system aligned with the reality of tax-subject autonomy in the digital-economy era.

The direction of change in other countries provides additional context. Malaysia provides separate assessment as a binary choice, and South Africa abandoned joint taxation in 1995 precisely to remove treatment that harmed wives (Stotsky, 1997). PP 20/2026 moves in the opposite direction by strengthening aggregation, and that strengthening is applied to a regime whose actors are in fact dominated by women.

This change also feels sudden because the earlier practice differed from its norm. Nuryanah and Sandy (2024) note that before Coretax many wives who filed separately did not aggregate their income, contrary to Article 8(3) of the Income Tax Law, without this being detected. Data integration now makes that pattern, including the splitting of turnover through several individual enterprises, visible. What has changed is therefore not only the content of the norm but also the capacity to enforce it, and for the taxpayer the two arrive together as a single shock.

CONCLUSION

This study concludes that the operationalisation of the family tax unit in Indonesia through the Family Unit Data (DUK) under PER-7/PJ/2025 and the aggregation of MSME turnover under PP 20/2026 has created an “administrative trap” that distorts the principles of economic efficiency and gender equity. Within the framework of Groves (1963), the current policy design prioritises equity between households at the expense of marriage neutrality through the imposition of a real marriage penalty. The simulation results show that aggregating spouses' turnover can trigger a jump in the tax burden of more than tenfold owing to the loss of the 0.5% final-rate entitlement, a burden that falls disproportionately on the wife as the secondary earner. Read through feminist legal theory, the problem is not merely a technical inconsistency but the way an administrative system constitutes the woman as a tax subject who is not independent.

This study has four limitations. First, its gender claim concerns who is burdened administratively and whose labour-force participation is depressed, not the final division of welfare within the household, which depends on how the household shares resources and is not modelled here. Second, the couple most directly affected, namely separately filing spouses who both run a business around the Rp4.8 billion threshold, is only part of the taxpayer population, so the significance of the finding lies in its precedent and direction of reform, not in its immediate revenue scale. Third, the analysis rests on illustrative and aggregate data, not administrative micro-data, so its behavioural impact has not been measured empirically. Fourth, the cross-border family is discussed only insofar as it reveals the limit of data reach, without examining its interaction with double-taxation treaties or the documentary standards for proving family status abroad, while the polygamous family is not discussed at all.

This study identifies a fundamental information asymmetry in which a wife's tax-rate eligibility depends on the husband's turnover data, which is legally beyond her control, thereby weakening a sound self-assessment principle. Further, there is a technical disconnect between the reach of civil-registration data in the DUK and the reach of the worldwide-income norm, which administratively marginalises a resident taxpayer with family members outside the national civil-registration system. Data integration within Coretax is thus not merely administrative digitisation but a crystallisation of a tax structure that subordinates the sovereignty of the woman as an independent tax subject.

Recommendations

The following recommendations are ordered by the legal instrument required, from the quickest to those demanding a change of statute. Affirmation through implementing regulations can be done most quickly; a change at the level of a Government Regulation is needed for matters concerning the formulation of norms in PP 20/2026; while replacing the burden-sharing mechanism touches Article 8 of the Income Tax Law and thus requires a change of statute and is a medium-term agenda.

The effectiveness of the Family Unit Data (DUK) can be improved by redesigning the data architecture to accommodate the relationship between family members equally and independently, rather than as a mere appendix to the head of the family. Providing a dedicated data field for verifying family relationships for cross-border taxpayers is crucial so that normative rights such as the personal exemption are preserved even when a family member is outside the national civil register.

At the level of implementing regulations, the normative gap concerning the exemption of gross turnover up to Rp500 million for couples in the aggregated status needs to be affirmed. Article 60(2) of PP 55/2022 grants that exemption to each individual and Article 6(5) of PMK 164/2023 affirms its grant to each of the spouses who file separately, while the treatment of couples in the aggregated status is unregulated. Without affirmation, the separate status can become more advantageous at the exemption point, a situation contrary to the aim of aggregation, which is precisely to close the space for splitting.

There is a pressing need to harmonise the treatment of the wife and the minor child within the MSME regime. Raising the status of the norm on aggregating a child's turnover from the Elucidation to the main body of the regulation is needed for the sake of legal certainty. In addition, adopting the international practice that separates a child's passive income (as an anti-avoidance instrument) from income from the child's own work (as protection of an economic right) is regarded as fairer in preserving the economic sovereignty of family members.

To address these administrative and normative hurdles without requiring immediate statutory overhaul, three concrete measures can be adopted: (a) restrict the permanent lock out of the final regime strictly to the spouse whose own individual business turnover exceeds the Rp4.8 billion threshold; (b) establish a statutory mechanism allowing a return to the 0.5% final regime if the combined household turnover drops below Rp4.8 billion for consecutive tax years (e.g., 2–3 consecutive years); and (c) introduce automated Coretax notification alerts sent directly to both spouses when their combined turnover approaches or exceeds the threshold, resolving spousal information asymmetry within the existing administrative architecture.

This study recommends considering the replacement of the distortive proportional mechanism in Article 8(3) of the Income Tax Law with a binary-choice system as in the Malaysian model. This step is projected to remove the systematic over- and underpayment problem and to ensure that the secondary earner's effective rate reflects her own economic capacity, in line with optimal-tax theory.

The risk of a revenue decline from the binary choice can be mitigated without restoring the proportional mechanism. Several parameters can be tested. The threshold for final-rate

eligibility can still be assessed on aggregated turnover to prevent business-splitting, while the rate is computed separately for each spouse, so that economic substance and rate equity are preserved at once. The right to elect separate assessment can also be limited to couples whose business turnover each exceeds a certain minimum, so that separation is available only for a business genuinely run by both parties and not a sham splitting of income. The level of the threshold and the minimum need to be calibrated with administrative data so that state revenue is preserved. The size of the mitigation required must still be computed separately with administrative data, given that the difference in Table 3 applies only to that illustrative couple.

The textual tension over the basis for granting the personal exemption in the separation-of-property and elect-separate statuses should also be resolved plainly. Article 7(1)(c) of the Income Tax Law requires aggregation as referred to in Article 8(1), whereas aggregation in the PH/MT status is in fact carried out under Article 8(3), so that the cross-reference needs to be broadened or affirmed in order that the personal-exemption component for PH/MT couples has a clear basis in the main body of the statute.

Future research is expected to test the labour-supply elasticity of women in the MSME sector after the implementation of turnover aggregation, using administrative micro-data. Mapping the treatment of the family unit for cross-border and polygamous family configurations is also a crucial area not yet accommodated in the current tax architecture.

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