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Legal Liability of Parties to Lease Agreements Concerning Income Tax Withholding and Remittance under Law Number 7 of 2021 on the Harmonization of Tax Regulations

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Lease agreements create not only contractual rights and obligations between lessors and lessees but also taxation obligations, particularly those related to the withholding and remittance of Income Tax (PPh) on rental income. This study aims to analyze the legal responsibilities of parties to lease agreements concerning Income Tax withholding and remittance under Law Number 7 of 2021 on the Harmonization of Tax Regulations and to examine the legal consequences and forms of legal protection arising from non-compliance. This study employs a juridical-empirical legal research method using statutory and conceptual approaches. Data were obtained through literature review and interviews and were analyzed qualitatively using a descriptive-analytical method. The findings indicate that tax obligations arising from lease transactions are statutory obligations governed by mandatory public law and therefore cannot be excluded or transferred solely through contractual provisions. A party legally designated as a withholding agent remains responsible for withholding, remitting, reporting, and documenting Income Tax in accordance with applicable regulations. Failure to fulfill these obligations may result in administrative sanctions and, under certain circumstances, civil or criminal liability. Legal protection is provided through preventive and repressive mechanisms. The study concludes that synchronization between contractual arrangements and taxation regulations, supported by improved tax awareness, administrative capacity, and effective supervision, is essential to strengthen legal certainty and tax compliance in lease transactions.
Keywords: Legal Liability; Lease Agreement; Income Tax; Tax Withholding; Tax Remittance; Tax Harmonization Law

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1. Introduction

Lease agreements constitute one of the most common forms of legal transactions in everyday economic activities, ranging from transactions between individuals to large-scale commercial arrangements. Under a lease agreement, the lessee obtains the right to use goods, property, or services belonging to the lessor in exchange for an agreed rental payment. Such agreements establish reciprocal rights and obligations between the contracting parties. In addition to their contractual implications under private law, lease transactions may also give rise to taxation obligations, particularly those concerning the withholding and remittance of Income Tax (*Pajak Penghasilan* or PPh) on rental income. Consequently, compliance with tax obligations forms an important legal dimension of lease agreements that must be considered by both lessors and lessees.

The enactment of Law Number 7 of 2021 on the Harmonization of Tax Regulations (*Undang-Undang Harmonisasi Peraturan Perpajakan*, hereinafter referred to as the HPP Law) introduced significant reforms to Indonesia's taxation framework. These reforms affect various aspects of tax administration and compliance, including mechanisms relating to the withholding, collection, remittance, and reporting of taxes.

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Nevertheless, the implementation of these provisions may create practical difficulties where parties to lease agreements have insufficient understanding of their respective legal responsibilities concerning Income Tax withholding and remittance. This situation may lead to uncertainty regarding which party bears the statutory obligation to withhold, remit, and report the applicable tax.

The constitutional foundation of taxation in Indonesia is stipulated in Article 23A of the 1945 Constitution of the Republic of Indonesia, which provides that taxes and other compulsory levies required for state purposes shall be regulated by law. This provision demonstrates that taxation is not merely an economic instrument for generating state revenue but also constitutes a mandatory legal obligation established under public law. Tax revenue is closely connected with state finance and is therefore governed by various branches of public law, including constitutional and administrative law. At the same time, taxation serves broader public interests because the revenue collected by the state is ultimately used to finance public expenditure and promote societal welfare.

The mandatory nature of taxation creates legal consequences for taxpayers and other parties entrusted with tax-related obligations. Failure to properly perform Income Tax withholding and remittance obligations may expose the responsible parties to legal risks, including administrative sanctions and, under certain circumstances, other legal consequences prescribed by taxation legislation. In the context of lease agreements, the issue becomes particularly relevant because contractual arrangements between the lessor and lessee operate within the framework of private law, whereas tax obligations arise from mandatory provisions of public law. Therefore, contractual autonomy cannot be examined independently from the statutory tax obligations imposed upon the parties. This intersection between contractual obligations and taxation obligations provides an important basis for examining the legal liability of parties to lease agreements.

Taxation itself constitutes one of the primary sources of state revenue used to finance governmental activities and public interests. Tax revenue is utilized to support national development, finance public services, fund government administration, and provide various forms of assistance to society. In this respect, taxation represents a transfer of economic resources from the private sector to the public sector without providing taxpayers with a direct and individually measurable consideration. Nevertheless, the benefits derived from taxation are ultimately distributed through public services and development programs that can be enjoyed by society as a whole. Therefore, the authority of the state to collect taxes must be based on statutory provisions to ensure legality, accountability, and legal certainty.

The development of economic activities, particularly those facilitated by digital technology, has further increased the complexity of Indonesia's taxation system. Indonesia has substantial potential in the digital economy within the ASEAN region, as reflected in the increasing use of digital platforms for online shopping, entertainment services, and other paid digital activities. The rapid development of such transactions has required the government to adapt its taxation policies to emerging business models and transaction mechanisms. The HPP Law consequently forms part of Indonesia's broader effort to modernize the taxation system and respond to developments in both conventional and digital economic activities.

The HPP Law was also introduced as part of the government's taxation reform agenda following the economic disruption caused by the COVID-19 pandemic. The reform was intended to strengthen a tax system that is fair, effective, sound, and accountable while addressing limitations in tax administration and policy. Accordingly, the HPP Law encompasses not only formal provisions governing tax administration but also substantive provisions concerning taxation rights and obligations. The reform therefore strengthens the legal framework through which the government may designate certain parties to perform tax withholding, collection, remittance, and reporting obligations.

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One of the relevant provisions is Article 32A of the HPP Law, which authorizes the Minister of Finance to designate other parties to undertake the withholding, collection, remittance, and/or reporting of taxes in accordance with applicable laws and regulations. The designated parties may include persons or entities directly involved in, or facilitating, transactions between contracting parties. The provisions concerning tax assessment, collection, legal remedies, and sanctions applicable to taxpayers may also apply *mutatis mutandis* to such designated parties. Furthermore, where the designated party is an electronic system provider, failure to comply with the applicable tax obligations may result in sanctions, including access termination following a warning. Access may subsequently be restored once the relevant obligations have been fulfilled. These provisions demonstrate the government's efforts to strengthen tax compliance by extending certain tax responsibilities to parties participating in or facilitating economic transactions.

Within lease transactions, however, the allocation of tax responsibilities may become more complex because the parties' contractual arrangements do not necessarily determine their statutory tax obligations. A lease agreement may contain provisions allocating particular economic burdens between the lessor and lessee; however, such contractual provisions must remain consistent with mandatory taxation laws. The distinction between contractual liability and statutory tax liability is therefore crucial in determining the legal position of each party, particularly where the party legally required to withhold and remit Income Tax fails to perform such obligations. Such non-compliance may generate consequences not only under tax law but also within the contractual relationship between the parties.

Based on these considerations, an examination of the legal liability of parties to lease agreements concerning Income Tax withholding and remittance is necessary to clarify the relationship between contractual obligations and statutory taxation obligations. This study therefore focuses on analyzing the legal framework governing Income Tax withholding and remittance in lease agreements under Law Number 7 of 2021 on the Harmonization of Tax Regulations and examining the legal consequences and forms of legal protection available to the parties in the event of non-compliance with such obligations. The study is expected to contribute to a clearer understanding of the allocation of legal responsibility between lessors and lessees while strengthening legal certainty in the implementation of taxation obligations arising from lease transactions.

2. Literature Review And Problem Statement

Legal Concept of Agreements and Lease Agreements

An agreement constitutes a legal relationship through which one or more parties bind themselves to another party to perform a particular obligation. Referring to Subekti, an agreement gives rise to a legal relationship that creates reciprocal rights and obligations between the contracting parties. Under Indonesian civil law, the validity of an agreement is determined by the requirements stipulated in Article 1320 of the Indonesian Civil Code (*Kitab Undang-Undang Hukum Perdata*), namely consent of the parties, legal capacity, a specific subject matter, and a lawful cause. These requirements constitute the fundamental basis for determining whether a contractual relationship is legally valid and entitled to legal protection (Subekti, 2005).

Once these requirements have been fulfilled, the agreement becomes legally binding upon the parties. Article 1338 paragraph (1) of the Indonesian Civil Code embodies the principle of *pacta sunt servanda*, under which a legally concluded agreement binds the parties as if it were law. This provision is closely associated with the principle of freedom of contract, which allows contracting parties to determine the substance, form, and conditions of their contractual relationship. In a lease agreement, such contractual autonomy permits the lessor and lessee to determine matters such as rental payments, the duration of the

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lease, the use of the leased object, and the allocation of economic obligations arising from the transaction (Subekti, 2005).

Nevertheless, freedom of contract is not absolute. The study adopts the perspective of Mariam Darus Badrulzaman, according to which private autonomy must operate within the broader legal system. Contractual provisions may not violate mandatory laws, morality, or public order. Accordingly, although the lessor and lessee are generally free to determine their respective contractual rights and obligations, they cannot use contractual clauses to exclude statutory obligations imposed by public law, including taxation obligations. This limitation is particularly important in determining whether contractual arrangements concerning the allocation of tax burdens can legally modify the statutory responsibility for Income Tax withholding and remittance.

The relationship between the lessor and lessee is therefore characterized by reciprocal obligations. The lessor is generally required to provide the lessee with the right to use the leased object in accordance with the agreement, whereas the lessee is required to pay the agreed rental price and use the object according to its contractual purpose. Failure by either party to perform the agreed obligations may give rise to legal liability, including claims for performance, termination of the agreement, compensation, or other forms of legal remedy. The concept of legal liability is therefore essential when the contractual relationship intersects with statutory obligations imposed by the state, particularly taxation obligations.

Income Tax Obligations in Lease Agreements

From the perspective of tax law, income received from leasing activities may constitute an object of Income Tax. Consequently, a rental payment is not merely the performance of a private contractual obligation between the lessor and lessee but may simultaneously constitute a taxable event that gives rise to withholding, remittance, and reporting obligations under Indonesian taxation law. The study therefore positions lease transactions at the intersection between private contractual law and public taxation law.

Conceptually, Income Tax (*Pajak Penghasilan* or PPh) is imposed on income received by individuals or legal entities. Within a lease relationship, the income received by the owner or lessor from the lease may be subject to Income Tax. Tax withholding refers to the deduction of the applicable Income Tax from income received by the relevant taxpayer, while tax remittance refers to the payment of the tax that has been withheld to the state. The thesis conceptualizes these obligations as part of the legal responsibilities arising in lease transactions.

An important theoretical distinction arises from the different legal characteristics of contract law and tax law. Contract law is predominantly based on private autonomy and freedom of contract, whereas taxation law contains mandatory provisions (*dwingend recht*) that cannot simply be excluded by agreement between private parties. Thus, a rental payment constitutes contractual performance under civil law while simultaneously creating tax consequences under the Income Tax Law as amended through Law Number 7 of 2021 on the Harmonization of Tax Regulations.

This distinction has significant implications for the allocation of tax responsibilities. Although the parties may agree contractually on who economically bears a particular tax burden, such an agreement does not necessarily eliminate or transfer the statutory responsibility imposed by tax legislation. Therefore, the legal validity of a tax-related contractual clause must be examined not only from the perspective of freedom of contract but also from the perspective of mandatory tax provisions.

Legal Liability and Legal Protection

Legal liability in lease agreements concerns the obligation of each party to comply with both contractual commitments and applicable statutory provisions. In this study, legal liability is particularly associated with the fulfillment of Income Tax withholding and remittance obligations. Failure to comply with these

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obligations may result in consequences under taxation law while also potentially generating civil liability within the contractual relationship. The thesis consequently emphasizes that legal responsibility for Income Tax withholding and remittance is determined not solely by the contractual provisions agreed upon by the parties but also by mandatory taxation legislation.

Legal protection is equally important because lease transactions involve the interests of the lessor, the lessee, and the state. Drawing on the concept of legal protection developed by Philipus M. Hadjon, the study distinguishes between preventive legal protection and repressive legal protection. Preventive protection aims to prevent disputes or violations before they occur, whereas repressive protection operates after a violation has occurred through enforcement and dispute-resolution mechanisms.

In the context of Income Tax on lease transactions, preventive legal protection requires clear rules concerning the party responsible for withholding tax, the procedures for withholding and remittance, applicable deadlines, reporting requirements, and the obligation to provide evidence of tax withholding to the income recipient. Such regulatory clarity is essential to the principle of legal certainty because it provides both parties with identifiable standards for performing their tax obligations.

Problem Statement

The central legal issue addressed in this study originates from the interaction between contractual autonomy under civil law and mandatory obligations under taxation law. In practice, the parties to lease agreements may focus primarily on contractual rights and obligations while treating taxation as a separate administrative matter. Such an approach may create a discrepancy between what is legally required (*das sollen*) and what actually occurs in practice (*das sein*). The thesis identifies this interaction as particularly significant because tax obligations cannot be separated from the private legal relationship created through a lease agreement.

Several specific problems emerge from this situation. These include limited understanding of the parties' legal responsibilities for Income Tax withholding and remittance, uncertainty concerning the applicable taxation provisions, exposure to legal risks resulting from non-compliance, and a gap between taxation rules and their practical implementation. The study also identifies confusion regarding which party bears the primary withholding obligation, particularly where an individual lessee who is not a taxable entrepreneur (*Pengusaha Kena Pajak* or PKP) enters into a lease with an asset owner that is a legal entity. Another practical problem occurs when the lessor does not receive evidence of Income Tax withholding from the lessee, potentially creating difficulties in filing the annual tax return and the risk of an additional tax burden. Accordingly, this study addresses the following two research questions:

1. How is the legal obligation to withhold and remit Income Tax (PPh) in lease agreements regulated under Law Number 7 of 2021 on the Harmonization of Tax Regulations?
2. What are the legal consequences and forms of legal protection available to the parties when violations of Income Tax withholding and remittance obligations occur in lease agreements?

These questions position the study within the intersection of Indonesian contract law and tax law, with particular emphasis on determining the allocation of legal responsibility, the limits of contractual freedom in relation to mandatory taxation provisions, and the legal protection available to the parties when tax obligations arising from lease transactions are not properly fulfilled.

3. Methods

This study employed a juridical-empirical legal research method to examine the legal responsibilities of parties to lease agreements in relation to the withholding and remittance of Income Tax (*Pajak Penghasilan* or PPh). The juridical-empirical approach was selected because the study not only examines written legal

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norms governing taxation and contractual relationships but also considers how such provisions are implemented in actual legal practices. Accordingly, the research seeks to identify the relationship between applicable legal provisions and the factual conditions surrounding the implementation of tax obligations in lease transactions.

The study applied two principal research approaches: the statutory approach and the conceptual approach. The statutory approach was used to examine the legal provisions governing lease agreements, taxation obligations, Income Tax withholding and remittance, and the legal consequences arising from non-compliance. Meanwhile, the conceptual approach was applied to analyze relevant legal doctrines, principles, and concepts developed within civil law and tax law, particularly those concerning contractual obligations, legal responsibility, freedom of contract, and mandatory taxation provisions.

The research utilized both primary and secondary data. Primary data served as an important source for understanding the practical implementation of legal obligations related to Income Tax withholding and remittance. Secondary data were obtained through a review of legislation, legal literature, academic publications, and other relevant documentary materials. The legal materials examined included primary legal materials possessing binding legal authority and secondary legal materials that provide explanations, interpretations, and scholarly perspectives concerning the applicable legal provisions.

The primary legal materials consisted of the 1945 Constitution of the Republic of Indonesia, Law Number 7 of 2021 on the Harmonization of Tax Regulations, Law Number 6 of 1983 on General Provisions and Tax Procedures and its amendments, Law Number 7 of 1983 on Income Tax and its amendments, and other relevant taxation regulations. The study also considered implementing regulations related to tax collection, remittance, and reporting insofar as they were relevant to the legal issues analyzed.

Secondary legal materials included textbooks, scholarly legal writings, doctrines, academic opinions, and scientific journal articles concerning taxation law, civil law, contract law, Income Tax, and the legal responsibilities of parties to contractual relationships. These materials were used to interpret primary legal sources, strengthen the legal arguments developed in the study, and provide a theoretical basis for analyzing the interaction between contractual obligations and statutory taxation obligations.

Data were collected through library research and interviews. Library research was conducted by examining relevant legislation, official documents, books, academic literature, and previous legal studies related to lease agreements and taxation obligations. The study also employed interviews as a means of obtaining information concerning the practical application of Income Tax withholding and remittance obligations. The combination of documentary and field-based data was intended to provide a more comprehensive understanding of both the normative framework and its implementation.

The collected data were analyzed using a qualitative approach. The analytical process involved classifying, verifying, interpreting, and systematically examining the collected legal materials and empirical information. The analysis focused on identifying the conformity or discrepancy between statutory requirements and their implementation in practice, particularly regarding the allocation of responsibility between lessors and lessees. The results were subsequently presented using a descriptive-analytical method to provide a systematic explanation of the applicable legal framework, the legal consequences of non-compliance, and the forms of legal protection available to the parties.

4. Results And Discussion

Legal Framework Governing Income Tax Obligations in Lease Agreements

The findings indicate that lease agreements in Indonesia generate legal consequences that extend beyond the private relationship between the lessor and the lessee. A lease payment constitutes the performance of a contractual obligation under the Indonesian Civil Code; however, when the payment produces income for the lessor, the transaction may simultaneously give rise to Income Tax obligations. Accordingly, the legal relationship arising from a lease transaction must be examined through both civil law and tax law perspectives.

Under civil law, the parties enjoy contractual autonomy based on the principle of freedom of contract as reflected in Article 1338 of the Indonesian Civil Code. This principle allows the parties to determine the contents of their agreement, including the amount of rent, payment mechanisms, duration of the lease, allocation of expenses, and other rights and obligations. Nevertheless, the findings demonstrate that such contractual freedom cannot override tax obligations imposed by legislation. Tax law constitutes public law and contains mandatory provisions (*dwingend recht*). Therefore, even where the parties agree that a particular party will bear all taxation costs, such a clause cannot alter the party legally designated by taxation legislation as responsible for withholding, remitting, and reporting Income Tax.

This distinction is fundamental because contractual and taxation obligations arise from different legal sources. Contractual obligations arise from an agreement between the parties, whereas taxation obligations arise directly from legislation (*ex lege*). Consequently, performance of a contractual obligation does not automatically constitute fulfillment of the corresponding taxation obligation. A lessee may have fully paid the agreed rental consideration, but from a taxation perspective the transaction remains incomplete where the required withholding, remittance, or reporting has not been performed.

The study therefore identifies two legal relationships operating simultaneously in lease transactions. The first is a private legal relationship between the lessor and lessee, governed primarily by contract law. The second is a public legal relationship involving the state, arising from the taxation consequences of rental income. These two relationships have different legal characteristics but interact within the same economic transaction. The parties must therefore comply not only with the principle of *pacta sunt servanda* but also with mandatory taxation provisions.

Law Number 7 of 2021 on the Harmonization of Tax Regulations (the HPP Law) further strengthens this regulatory framework. The Law forms part of Indonesia's broader tax reform aimed at improving legal certainty, expanding the tax base, strengthening tax administration, encouraging voluntary compliance, and improving state revenue. The reform also reinforces the withholding tax mechanism by assigning particular parties responsibility for collecting taxes at the source of income.

The findings show that the main legal problem does not necessarily arise from the absence of statutory rules. Instead, it arises from the interaction between statutory obligations and contractual practice. Parties may incorrectly perceive taxation as an ancillary administrative matter that can be dealt with after the contractual payment has been completed. This understanding creates a discrepancy between the legal norm that should apply (*das sollen*) and its actual implementation (*das sein*).

In practical terms, the document identifies several recurrent issues: uncertainty regarding which party is required to withhold Income Tax, failure to withhold tax when rental payments are made, withholding without subsequent remittance to the state treasury, absence of clear tax clauses in lease agreements, and insufficient understanding of electronic tax administration. These issues demonstrate that synchronization between contract law and tax law remains necessary to ensure legal certainty and effective tax compliance.

Income Tax Withholding Obligations in Lease Transactions

The study finds that the withholding mechanism constitutes a central element of the Indonesian Income Tax system. Under the *withholding tax system*, the state delegates specific tax administration responsibilities to designated third parties. The party making the payment may therefore assume a dual

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position: as a private party performing a contractual payment and, where legally qualified, as a withholding agent carrying out a public-law obligation on behalf of the state.

The rationale underlying withholding at source is to ensure that taxation occurs when the taxable income is paid. Rather than relying entirely on the income recipient to calculate and pay the tax at a later stage, the system permits tax to be deducted when the payment occurs. This mechanism is intended to increase certainty of state revenue, strengthen compliance monitoring, and minimize potential delays or failures in tax payment.

In lease transactions, where a lessee qualifies as a withholding agent under the applicable tax provisions, the lessee must perform several interconnected obligations. These include calculating the relevant Income Tax, withholding the tax from the rental payment, remitting the withheld amount to the state treasury within the prescribed period, and reporting the withholding through the applicable tax return mechanism.

An important finding concerns the legal effect of contractual provisions that conflict with statutory withholding obligations. The parties may agree that rental payments will be made in full without any tax deduction. However, where taxation legislation requires the lessee to act as the withholding agent, such an agreement does not eliminate the statutory withholding obligation. Tax norms prevail because they arise from mandatory public law rather than the contractual consent of the parties.

This finding confirms that a lease agreement may regulate the economic allocation of the tax burden, but it cannot independently redefine the legal subject responsible for fulfilling the tax obligation. In other words, the contractual arrangement may determine which party ultimately bears an economic cost, but the statutory designation of a withholding agent continues to apply against the state.

The study identifies misunderstanding of the withholding system as one of the most significant practical problems. Some parties assume that Income Tax is exclusively the responsibility of the lessor because the lessor receives the rental income. However, the withholding tax mechanism may impose an administrative obligation on the payer of the income. Failure to understand this distinction contributes to rental transactions being completed without the required withholding.

Another problem concerns lease agreements that contain no taxation clause. The absence of tax provisions does not invalidate or remove taxation obligations, because those obligations continue to arise by operation of law. Nevertheless, from a contractual perspective, the absence of clear tax provisions can create disputes over the amount ultimately received by the lessor, the party responsible for administrative procedures, and the documentation required after withholding.

Therefore, the findings demonstrate that incorporating a clear taxation clause into a lease agreement remains important even though such a clause does not create the taxation obligation itself. A well-drafted tax clause performs a preventive function by clarifying the parties' understanding of their economic responsibilities and administrative duties while maintaining consistency with mandatory tax legislation.

Income Tax Remittance Obligations Following Withholding

The study further establishes that tax withholding and tax remittance constitute a continuous series of legal obligations rather than separate and optional administrative actions. Once Income Tax has been withheld, the withholding agent becomes legally obligated to transfer the withheld amount to the state treasury in accordance with the procedures and deadlines stipulated by tax legislation.

The legal status of the withheld funds is particularly important. Once Income Tax has been deducted from the rental payment, the amount is no longer treated as part of the economic entitlement of either the lessor or the lessee. Instead, it is regarded as an amount that must be transferred to the state. Accordingly, the withholding agent is not legally entitled to retain, utilize, or postpone the remittance of the funds for purposes unrelated to the tax obligation.

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From an administrative law perspective, this obligation represents a public obligation imposed directly by legislation. It is not based on the contractual intentions of the lessor and lessee. Accordingly, the remittance obligation cannot be modified, postponed, or abolished merely by inserting a provision into the lease agreement. A contractual clause conflicting with the mandatory remittance obligation cannot bind the state or prevent the tax authority from enforcing the statutory obligation.

The study also emphasizes the importance of electronic tax administration. Digital systems are intended to make remittance and reporting more transparent and improve the ability of the Directorate General of Taxes to supervise compliance. The modernization of tax administration therefore contributes not only to procedural efficiency but also to traceability and accountability in the withholding process.

Nevertheless, practical problems persist. According to the analysis in the document, there are circumstances in which tax has already been withheld from rental payments but is not immediately remitted to the state treasury. Several factors are identified as contributing to these problems, including corporate liquidity constraints, administrative errors, weaknesses in internal control systems, and insufficient legal awareness regarding taxation obligations.

A more serious problem occurs when tax funds that have already been withheld are temporarily used to finance company operations or other liquidity requirements. The document considers such conduct legally unjustifiable because the withheld tax is no longer the company's own asset. Using these funds for other purposes is inconsistent with the withholding agent's function as a party entrusted by the state to administer tax collection and is inconsistent with principles of accountability and good governance.

From the standpoint of legal certainty, the existence of rules concerning the party responsible for remittance, the applicable deadline, and the sanctions resulting from non-compliance provides a clear legal framework for withholding agents. However, the effectiveness of those rules is influenced by taxpayer compliance, organizational administrative capacity, the quality of electronic tax systems, and the effectiveness of supervision conducted by the Directorate General of Taxes.

Thus, the study demonstrates that successful implementation of the *withholding tax system* cannot be measured merely by whether the tax has been deducted. Effective compliance requires the complete sequence of withholding, remittance, reporting, and documentation to be performed in accordance with applicable legislation.

Interaction Between Private Law and Public Tax Law

One of the principal findings of this study is that lease transactions involving taxable rental income create what may be described as a mixed legal relationship. Initially, the relationship between lessor and lessee is governed by private law. The Indonesian Civil Code regulates lease agreements, particularly Articles 1548–1600, while Article 1338 establishes the binding force of agreements. However, once the transaction produces taxable income and activates withholding obligations, a public-law dimension is introduced into the contractual relationship.

The state enters this legal relationship not as a party to the lease agreement but as the holder of taxation authority. Consequently, tax obligations arise *by operation of law* and remain independent of the parties' contractual consent. The parties remain free to structure their contractual relationship, but their freedom is limited where the agreement would contradict mandatory taxation legislation.

This distinction explains why the settlement or termination of a lease agreement does not necessarily extinguish unresolved tax liabilities. The contractual relationship may have ended because the rent was fully paid or the lease period expired, while outstanding withholding or remittance obligations can continue to exist because they are based on public law rather than the continuing existence of the private agreement.

The findings therefore support the proposition that contractual compliance and tax compliance must be treated as complementary but legally distinct obligations. Proper implementation of a lease agreement requires compliance with both regimes. Contractual performance alone is insufficient when statutory tax obligations remain outstanding.

Legal Consequences of Failure to Withhold and Remit Income Tax

The second major area of analysis concerns the legal consequences arising when the designated withholding agent fails to perform Income Tax obligations. The findings show that the lessee, where legally designated as a withholding agent, occupies a dual legal capacity. The lessee acts first as a private-law subject responsible for paying rent under the lease agreement and, second, as a party entrusted with public-law tax administration obligations.

Accordingly, failure to perform the withholding and remittance obligations cannot always be characterized merely as a breach of contract. It may simultaneously constitute a violation of tax administration law. The consequences of non-compliance may therefore arise under different legal regimes.

The first consequence is administrative liability. A withholding agent that fails to perform the required taxation obligations may be subject to administrative sanctions, including interest, administrative penalties, tax collection measures, or other consequences in accordance with applicable taxation legislation. Such sanctions perform both corrective and compliance functions: they seek to restore state revenue and encourage taxpayers and withholding agents to comply with their statutory obligations.

The second consequence is the continued existence of the tax liability. Tax liability arises by virtue of law rather than contractual agreement. Therefore, even if the lease relationship has ended and the contractual payment has been completed, unresolved taxation obligations continue to bind the withholding agent until they have been properly fulfilled.

The third consequence concerns the unlawful retention or use of withheld tax funds. Once the tax has been withheld, the withholding agent does not have unrestricted authority over those funds. The document highlights cases in which businesses may temporarily use the withheld amounts to maintain liquidity or finance operational activities. Such practices represent a discrepancy between the statutory norm and actual implementation and indicate weaknesses in compliance and supervision.

The fourth consequence may involve criminal liability where the violation is committed intentionally and satisfies the statutory elements of a taxation offence. Where conduct involves intentional tax avoidance, concealment of tax obligations, or deliberate control of withheld funds belonging to the state, the matter may move beyond administrative non-compliance. However, the document emphasizes the principle of *ultimum remedium*, under which criminal enforcement constitutes a final legal measure where administrative mechanisms are insufficient.

A fifth potential consequence arises under civil law. If the lease agreement expressly allocates responsibilities relating to tax withholding, payment, documentation, or other obligations, failure to comply with those provisions may constitute a breach of contract (*wanprestasi*). The injured party may therefore pursue remedies including performance of the obligation, compensation for damages, cancellation of the agreement, or other remedies permitted under the Indonesian Civil Code.

Consequently, a single act of tax non-compliance may generate overlapping consequences. The withholding agent may face administrative responsibility toward the state while simultaneously facing civil liability toward the other contracting party. Criminal liability may also arise in more serious circumstances where the statutory requirements of a taxation offence are fulfilled.

Legal Protection for the Lessor, Lessee, and the State

The findings demonstrate that legal protection in the context of lease-related Income Tax obligations must encompass three interests: the interests of the state, the lessor, and the lessee. The state requires legal protection to ensure the collection of tax revenue. The lessor requires protection to ensure that any tax withheld from rental income is properly remitted and documented. Meanwhile, the lessee requires legal certainty concerning the withholding procedures and obligations necessary to avoid subsequent administrative sanctions or disputes.

Following Philipus M. Hadjon's theory of legal protection, the study distinguishes between preventive legal protection and repressive legal protection.

Preventive legal protection operates before a violation occurs. Within the taxation context, preventive protection is reflected in clear legal norms concerning who must withhold tax, the amount and mechanism of withholding, the applicable remittance procedures, reporting deadlines, and the requirement to issue evidence of withholding. Digital tax administration and transparent procedures also strengthen preventive protection because they provide taxpayers with mechanisms through which compliance can be documented and verified.

Preventive protection is particularly relevant to lease contracts. Although tax obligations arise by operation of law, the inclusion of a clear taxation clause in the agreement may prevent disputes by specifying the parties' understanding of tax deductions, gross or net rental amounts, responsibility for administrative processing, and the delivery of withholding documentation. Contractual clarity does not replace statutory rules, but it can improve coordination between the parties.

For the lessor, legal protection requires assurance that amounts withheld from rental payments are actually transferred to the state. Evidence of withholding is important because it enables the income recipient to substantiate tax treatment in the relevant tax reporting process. The document specifically emphasizes that proper remittance protects the lessor's right to use the withholding documentation in tax reporting, while proper compliance protects the lessee from administrative sanctions and future tax disputes.

Repressive legal protection becomes relevant after a violation has occurred. It includes administrative sanctions, tax audits, tax collection measures, tax dispute resolution procedures, civil remedies, and, where the legal elements are satisfied, criminal tax enforcement. These instruments are intended to restore legal order, enforce statutory obligations, and protect the rights of parties adversely affected by non-compliance.

From a civil-law perspective, where the parties have expressly incorporated tax responsibilities into the lease agreement, violation of those provisions may constitute *wanprestasi*. The aggrieved party may seek contractual remedies, including fulfillment of the obligation, compensation, termination of the agreement, or other relief in accordance with the applicable provisions of the Indonesian Civil Code.

From a taxation perspective, the Directorate General of Taxes possesses authority to undertake administrative supervision and enforcement, including examination, tax collection, and imposition of sanctions. Where deliberate misconduct satisfies the elements of a tax offence, criminal enforcement may also be applied. Thus, preventive and repressive mechanisms complement one another in protecting the legal interests of all parties.

Implementation Gap and Effectiveness of Tax Law

An important finding of this study is that the implementation problems surrounding Income Tax withholding and remittance cannot be attributed exclusively to deficiencies in the substantive law. The document identifies broader factors related to legal structure and legal culture, including limited taxpayer understanding, low levels of compliance, insufficient dissemination of tax regulations, weaknesses in

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administrative supervision, technical difficulties associated with electronic taxation systems, and inadequate internal administrative capacity.

This finding is consistent with the theoretical perspective on legal effectiveness used in the study. Effective implementation requires more than the existence of a legally valid statutory provision. Clear legal substance must be supported by capable institutions, adequate administrative facilities, effective law enforcement, taxpayer awareness, and a legal culture that encourages compliance.

The study specifically concludes that implementation problems are more strongly associated with the structure and culture of tax compliance than with the absence of statutory regulation. Limited taxpayer understanding, inadequate supervision, and weak legal awareness continue to reduce the effectiveness of the HPP Law in practice.

Digitalization can strengthen compliance by improving transparency, accessibility, and administrative monitoring. However, the findings also indicate that technological modernization alone does not eliminate non-compliance. Electronic withholding certificates, electronic tax payment systems, and online tax return filing require sufficient technical knowledge and administrative capacity. Therefore, modernization must be accompanied by taxpayer education and effective institutional support.

The effectiveness of lease-related Income Tax administration consequently depends on the interaction of several elements: regulatory clarity, proper contractual drafting, taxpayers' legal awareness, internal organizational controls, administrative digitalization, and consistent supervision by the tax authority. Strengthening only one component is unlikely to be sufficient.

Discussion

The findings demonstrate that the legal responsibility of parties to a lease agreement concerning Income Tax cannot be determined exclusively by referring to the contents of the contract. Although a valid lease agreement binds the lessor and lessee under the principle of *pacta sunt servanda*, taxation obligations derive directly from mandatory statutory provisions. Consequently, contractual clauses cannot extinguish, transfer, or otherwise override a taxation obligation that legislation assigns to a particular party. This constitutes the principal point of intersection between Indonesian civil law and tax law.

The analysis also demonstrates that the party designated as a withholding agent bears a complete chain of responsibilities comprising the calculation, withholding, remittance, reporting, and documentation of Income Tax. Failure at any stage may create legal consequences. Administrative liability represents the primary consequence of non-compliance, while civil liability may arise where such failure violates contractual obligations and causes loss to another party. More serious intentional violations may additionally trigger criminal tax provisions.

The findings further show that the effectiveness of the existing legal framework depends substantially on implementation. The substantive legal framework provides a basis for identifying the responsible party and enforcing tax obligations; nevertheless, practical uncertainty continues to arise because of insufficient understanding of the *withholding tax system*, incomplete contractual arrangements, administrative weaknesses, liquidity considerations, and deficiencies in compliance culture. These findings explain why legal certainty must be supported by both regulatory clarity and practical compliance mechanisms.

Accordingly, the legal responsibility arising from lease transactions should be understood as a combination of contractual responsibility and statutory tax responsibility. The former regulates the internal relationship between lessor and lessee, while the latter governs the relationship between the relevant taxpayer or withholding agent and the state. Proper coordination between these two dimensions is essential to prevent disputes, protect the parties' rights, ensure tax compliance, and secure state revenue.

The principal result of the study can therefore be summarized as follows: the party designated by taxation legislation as the Income Tax withholding agent remains legally responsible for withholding, remitting, and reporting the tax irrespective of contractual arrangements to the contrary. Failure to perform these obligations may result in administrative sanctions without eliminating potential civil liability arising from the lease agreement. Preventive and repressive legal protection must consequently operate together to ensure legal certainty for the lessor, lessee, and the state. This conclusion is consistent with the final findings stated in the research.

5. Conclusion

This study concludes that the legal responsibility of parties to lease agreements concerning the withholding and remittance of Income Tax (PPh) is determined not only by the contractual provisions agreed upon by the lessor and the lessee, but also by mandatory taxation laws. Although the parties are bound by the principles of freedom of contract and pacta sunt servanda, these principles cannot override public-law obligations arising directly from taxation legislation. Therefore, where a party is legally designated as an Income Tax withholding agent, that party remains responsible for calculating, withholding, remitting, and reporting the tax in accordance with the applicable statutory provisions, regardless of any contractual arrangement to the contrary.

Failure to perform these obligations gives rise to legal consequences under more than one legal regime. From the perspective of tax law, non-compliance may result in administrative sanctions and the continued existence of outstanding tax liabilities, while intentional violations may, under certain circumstances, lead to criminal liability. From the perspective of civil law, failure to comply with tax-related contractual clauses may constitute a breach of contract where such non-compliance causes loss to the other party. Thus, tax liability and contractual liability may arise simultaneously.

The study further concludes that legal protection for the parties must be implemented through both preventive and repressive mechanisms. Preventive protection requires clear taxation provisions, proper contractual drafting, transparent administrative procedures, and adequate understanding of withholding and remittance obligations. Repressive protection is provided through administrative sanctions, tax audits, collection procedures, civil remedies, dispute resolution mechanisms, and, where appropriate, criminal enforcement. These mechanisms are necessary to protect the interests of the lessor, the lessee, and the state simultaneously.

Finally, the effectiveness of Income Tax withholding and remittance in lease transactions depends not only on the clarity of the legal framework but also on taxpayer awareness, administrative capacity, internal control, digital tax administration, and consistent supervision by the tax authority. The main challenge identified in the study lies in the gap between the applicable legal norms and their implementation in practice. Therefore, stronger synchronization between contractual arrangements and taxation obligations, accompanied by improved tax literacy and administrative compliance, is essential to strengthen legal certainty, prevent disputes, and improve the effectiveness of Indonesia's taxation system.

6. References

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