Other Comprehensive Income and Its Tax Implications in Indonesia

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Abstract- The purpose of this study is to analyze the ability to pay principles related to the components of other comprehensive income (OCI). As the Income Tax Law adopts the ability to pay principles in fulfilling equality principles, we elaborate the data on hand to understand the suitable tax imposition on OCI for the Indonesian context. Hence, this study's other output is to serve recommendations to tax authorities in Indonesia regarding tax options finding. We applied qualitative methods, using documentary materials, collection of statements, and in-depth interviews. The primary interviewees were policymakers, constituents of financial accounting standards (Standar Akuntansi Keuangan; SAK), academic scholars, tax consultants, and taxpayers. Our findings are that the different nature of the components of OCI requires different treatment to ensure the principle of equality performs properly. This study concludes that the income tax imposition on the components of OCI in Indonesia needs to be distinctly regulated based on mark-to-market, realization, or hybrid taxation. The tax policy option for the gains and losses of financial statements for overseas business activities is realization taxation. It is better to choose hybrid taxation for unrealized gains and losses of the changes in revaluation surplus of fixed assets and intangible assets. A mark-to-market taxation approach prevails only if the tax authority issued approval for the revaluation. It remains for realization taxation if there is no approval. We should also impose realization taxation for the remaining components. These are our recommendations.

Index Terms- other comprehensive income, income tax, tax imposition, mark-to-market, realization, hybrid

I. Introduction

Regulations regarding other comprehensive income (OCI) in Indonesia are under the Indonesian Financial Accounting Standards (Pernyataan Standar Akuntansi Keuangan; PSAK) 1, which is already convergent with IAS 1: *Presentation of Financial Statements*. Under PSAK 1, OCI contains income and expenses, including reclassification adjustments, which are not recognized in profit or loss as required or permitted by financial accounting standards (SAK). In Indonesia, starting in 2012, the income statement refers to the convergence of IFRS and is based on fair value accounting. However, tax accounting to calculate income tax still refers to the General Provisions and Procedures Law and the Income Tax Law, which still uses historical cost accounting.

Problems arise when we compare the understanding of OCI with the scope of the definition of income according to Article 4 paragraph (1) of the Income Tax Law. The provision stipulates that income has five components. The first component is "any additional economic capability," which refers to the "accretion concept of income." The second component is "received or obtained," which refers to the timing of recognition (cash accounting concept & accrual accounting concept). The third component of income is "originating from Indonesia and outside Indonesia," which refers to the global taxation system. The fourth component is "for consumption or to increase the taxpayer's wealth," adopting the S-H-S model. The fifth is "in any name and in any form," which refers to the concept of "substance over form." According to Mansury (1994), the article adopts the S-H-S (Schanz-Haig-Simon) concept, which allows the concept of the ability-to-pay approach.

Based on the five components of income in the Income Tax Law, the components of OCI can be an object of income tax even though it is still an unrealized gain. If the unrealized gain is considered taxable income, it will not be appropriate with the ability-to-pay principle. It is because the taxpayer must pay tax on income that is still unrealized. Likewise, when there is recognition of unrealized losses at OCI, these expenses do not meet the concept of matching cost against revenue adopted in Article 6 paragraph (1) of the Income Tax Law. Based on these problems, this study aims to explore the concept of taxation on the components of OCI that fulfill the element of justice, especially the ability to pay principle. The second objective is to provide recommendations for tax authorities in Indonesia regarding the regulation of income tax on OCI.

II. Conceptual Framework

A. The Concept of Income: Accounting versus Taxation Perspectives

From a conceptual perspective, disparities in income treatment between accounting and tax are closely related to the concept of measuring income. For accounting arrangements, PSAK, which has converged with IFRS, uses the Hicksian concept of income. According to Hicks (1975, p. 172), income is the maximum value that persons can consume without reducing the wealth of those who consume it. In other words, income is a change in wealth. Although accounting often used the Hicksian concept of income, the focus from measuring income in accounting has become more developed until later on the concept of incremental economic capability. In paragraph 4.25 of the 2010 revision of the Conceptual Framework (CF), the International Accounting Standards Board (IASB) defines income as:

> *"increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.*" (IASB, 2010)

The income definition in the CF 2010 has not significantly changed from the revised CF 2001. Likewise, the income scope in CF 2010 also includes both revenue and gains (Saito & Fukui, 2019, p. 2). Based on paragraph 4.29 CF 2010, revenue arises in an entity's ordinary operations and is referred to by a range of different terms, including sales, fees, interest, dividends, royalties, and rent. While gains reflect other items that meet the definition of income, they may or may not arise in an entity's ordinary activities, for example, those arising on the disposal of non-current assets. Although the terms revenue and gains seem different, they are both additional economic capabilities so that they are not separate elements. (McCann & Holmes, 2011, p. 14).

The income definition then changed when IASB published the Conceptual Framework for Financial Reporting (IASB, 2018) (CF 2018). The change in the definition of income in CF 2018 reflects the change in the definition of assets and liabilities. According to paragraph 4.68 CF 2018, income is increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims. If we compare it to the previous framework's definition, the sentence "increases in economic benefits during the accounting period" is omitted. Thus, the meaning of income in CF 2018 only focuses on increasing assets and decreasing liabilities. Besides, the income definition since CF 2010 revision is growing with the inclusion of "unrealized gains" (Bala, 2012, p. 18). In accounting developments, changes in net assets' fair value in the statement of financial position/balance sheet have generated income (Nissim & Penman, 2008, p. 13; Penman, 2007, p. 33). In contrast, the income statement presents "economic income" because it merely provides the change in value over a period (Penman, 2007, p. 36). FVA makes the statement of financial position/balance sheet as the primary means of presenting information to shareholders (Penman, 2007, p. 36) and refers to assets and liabilities according to current market conditions (Jaijairam, 2013, p. 5).

For tax regulation, the income definition in Article 4 paragraph (1) of the Income Tax Law, according to Mansury (1994, p. 24), adopts the concept of S-H-S (Schanz-Haig-Simon), but not entirely. In the formulation of the national tax policy on income selection for the 1984 Income Tax Law, the government and the People's Representative Council (DPR) agreed that the taxable income is every realized increment to the economic capability (Mansury, 1994, p. 24). The central theme of the S-H-S concept of "the accretion theory of income" as the only theory that produces the concept of income, which allows the application of the concept of "ability to pay approach" (Mansury, 2000, p. 39). The S-H-S income formulation comes from Simons (1938), who defined income based on the definition made by Schanz (1896) and Haig (1921). The S-H-S concept stands for Schanz-Haig-Simon.

B. The Concept of OCI

Many studies have tried to focus on Other Comprehensive Income (OCI) that is part of the comprehensive income statement. Some examples are Kubota, Suda, and Takehara (2011), Jones and Smith (2011), Rees and Shane (2012), Detzen (2016), Black (2016), Bradbury (2016), Mulford and Babinets (2018), Graham and Lin (2018), and Park (2018). OCI originates from historical debates about performance reports in most of the 20th century (Rees & Shane, 2012, p. 790). In this regard, Paton and Littleton (1940, p. 102) state the matter of an "all-inclusive income statement" (also known as "clean-surplus"), as quoted below. Further, US GAAP followed up Paton and Littleton (1940, p. 102) statement. As well as US GAAP, IFRSs also acknowledge the "all-inclusive" concept of income.

> "*... all determinants of income in the broadest sense —including unusual and irregular factors— should be reported in the income statement before the net results are passed to the stock-equity section of the balance sheet*" (Paton & Littleton, 1940, p. 102).

The concept of an "all-inclusive income statement" implies that the record of all income, expenses, gains, and losses are in the income statement (Detzen, 2016, p. 762). According to Park (2018, p. 12), this concept is considered more useful for market players' economic decision-making than the current operating performance. However, the concept of "all-inclusive income statement" is in contrast to the concept of income that excludes such items from net income, such as exceptional and non-recurring items called "current operating results" or "dirty-surplus" (Bellandi, 2012, p. 247). Income reporting is at the core of performance measurement to become the core of accounting (Bradbury, 2016, p. 47). Net income is the primary performance indicator in the income statement (Detzen, 2016, p. 762). However, analysts and investors see that net income has not yet provided a complete story about a company's financial performance (Mulford & Babinets, 2018, p. 213). Therefore, OCI appears to be part of comprehensive income.

The position of OCI is outside of the items that generate net income. It becomes a repository that accommodates transactions for one reason or another, excluded from the profit and loss accounts (Detzen, 2016, p. 762). The composition of OCI continues to develop as a result of macroeconomic conditions (global economy) and microeconomics (internal company) (Black, 2016, p. 41; Rees & Shane, 2012, p. 811). In general, the component of OCI consists of unrealized gains/losses from fluctuations in the value of the company's assets and liabilities (Park, 2018, p. 2). If there has been a realization of gains/losses, the profit/loss position is no longer in OCI but enters the profit and loss section (Jones & Smith, 2011, p. 2047).

The earnings concept has been widely accepted in financial markets for years, which excludes unrealized transactions from comprehensive income. However, these unrealized gains/losses concluded on OCI, so these must be recycled to earnings once realized (Saito & Fukui, 2019, p. 8). OCI does not indicate wealth realization (Graham & Lin, 2018). From a conceptual perspective, the conceptual framework published by the IASB does not address the basic concepts for other comprehensive income (Bradbury, 2016, p. 54). OCI is a compromise result from the use of the measurement basis for current values in the balance sheet/statement of financial position (Detzen, 2016, p. 761). In 1997, it was the first time for FASB to include OCI as part of comprehensive income, but it was not a concept. It is a compromise practice where the later institutionalization is without clarity of meaning (p. 2).

In the same year, FASB issued several Statements of Financial Accounting Standards (SFAS), which require to present unrealized gains/losses in the income statement (Rees & Shane, 2012, p. 791); one of them is SFAS 130 Reporting Comprehensive Income. Within the SFAS, there are three OCI presentation options: (1) OCI is presented at the bottom of the comprehensive income statement; (2) OCI is reported separately from the comprehensive income statement; or (3) OCI is combined with a statement of changes in equity (p. 791). FASB rationale refers to the inherent uncertainty about the relationship between unrealized gains/losses and the future cash flows that are ultimately realized (p. 791). Finally, the FASB step in SFAS 130 was followed by the IASB through an amendment to the IAS 1 Presentation of Financial Statements. PSAK 1 Presentation of Financial Statements then adopted it in September 2007. However, IASB only adopted the first or second option in SFAS 130 (p. 791).

According to Alibhai et al. (2020, p. 81), OCI is income and expense (including reclassification adjustments), which the recognition is not in profit or loss as required or permitted by other IFRS. The components of OCI include (1) changes in revaluation surplus under IAS 16 and 38; (2) actuarial gains and losses on defined benefit plans under IAS 19; (3) translation gains and losses (IAS 21); (4) gains and losses on remeasuring of equity instrument financial assets under IFRS 9; and (5) the effective portion of gains and losses on hedging instruments in a cash flow hedge under IFRS 9 (p. 81).

C. The Concept of Income-Based Taxation

In evaluating the tax regulations that become policy products, we need several criteria to serve as benchmarks. According to Spengel and Oestreicher (2007) and Hyman (2010), we can use existing tax principles as evaluation criteria. One of the tax principles that is broadly accepted is equality (also known as equity or fairness) (p.3). Musgrave and Musgrave (1989, p. 231) distinguish the analysis of the criteria of equality into two traditions: (1) the benefit principle; and (2) the ability-to-pay principle. Many researchers show an interest in evaluating taxes based on the "ability to pay" approach (p. 16). When taxes are collected using the ability to pay principle, it underlies the recognition of income for tax purposes. In this case, a realization principle appears to affect bookkeeping time and recognition of income because taxable income will lead to the firm's financial expenses (Gunadi, 2009, p. 28).

When discussing the realization principle for tax purposes, there are three possibilities for implementing the realization rules: mark-to-market taxation, hybrid taxation, and realization taxation. Those three options are related to the accrual accounting concept, emphasizing the timing of recognizing income and expenses (Holmes, 2000, p. 291). The first option is mark-to-market taxation, also known as accrual taxation (Shakow, 1986, p. 1111) or accretion taxation (Knoll, 1996). This taxation model is an ideal income-based tax concept adapted from the S-H-S model (Weisbach, 1999, p. 95), and there is no realization doctrine. Shakow (1986) states that this option does not apply the concept of realization at all. Chorvat (2003, p. 8) states that the definition of income according to the S-H-S model that adopts accrual taxation is contrary to the realization doctrine.

The second option is a partial mark-to-market taxation system that imposes income tax with a hybrid system or hybrid taxation (Schenk, 2004a, p. 503) or a mixed system (Weisbach, 1999, p. 97). Certain types of income are taxed on a very different basis, mark-to-market taxation versus realization taxation (p. 97). Therefore, a taxation system with a hybrid system requires precise definition and line drawings to distinguish the rules (p. 97). Besides, the valuation and liquidity factors consider why hybrid taxation is needed (p. 96). Many financial and commodity assets can be measured easily based on market prices and are highly liquid. Meanwhile, some assets have an illiquid character and are not easy to measure based on market prices. Weisbach (1999) asserts that the principle of efficiency (cost & benefit analysis) is used as a basis for consideration in determining a mixed taxation system.

The third option is pure realization taxation. According to Schenk (2004b, p. 355), it is an unworkable tax system. Schenk (2004b) states that the doctrine of realization produces distortion and injustice. However, this option is in line with the ability-to-pay principle and the concept of wherewithal to pay. We consider three important factors when income has been realized (1965, p. 313) based on industrial paradigm accounting. The factors are that (1) the company receives the asset, (2) there is a market transaction, and (3) the company has provided services. However, it is not easy for companies to precisely apply the concept of realization if related to how the practice is (p. 313).

III. Research Method

This study is qualitative research, concerned with a particular method to understand OCI and its tax implication in Indonesia. To achieve the research objectives that we have designed, we conduct a descriptive analysis of textual data related to the principle of ability to pay and the realization principle, which is still relevant. The principle of ability to pay has been adopted into the Income Tax system in Indonesia (Mansury, 2000), so it is essential to cut deeper into this principle. The reason is that the chosen principle has been used as a source of law to set policy objectives and as a practical guideline/postulate when designing and making more technical regulations (Freedman & Macdonald, 2008, p. 3; Wagner, 1883, p. 10). Therefore, in this study, we analyzed documentary materials and collections of statements according to Grady's document analysis method. According to Grady (1998, p. 24), document analysis's main advantage is accuracy since the records are clear and available.

Our research data to comply with our objectives are accounting and tax documents. Accounting documents consist of the Financial Reporting Conceptual Framework published by IASB and Institute of Indonesia Chartered Accountants (IAI), PSAK published by IAI, books, thesis/dissertation research results, and scientific journals research objectives and topics in various countries. Meanwhile, taxation documents consist of books and scientific journals related to tax accounting and taxation laws and Indonesian regulations. Apart from the document analysis, Grady (1998, p. 22) also states that the power of research is magnificent for a combination of observations and interviews or document analysis. According to Sale, Lohfeld, and Brazil (2002, p. 45), although the in-depth interview research technique does not represent the large population, the in-depth interview's key informants can provide important and useful information for the research. Therefore, we also applied an in-depth interview with five key resource persons who hold a Chartered Accountant (CA). They come from different backgrounds, such as policymakers, constituents of financial accounting standards (SAK), academic scholars, tax consultants, and taxpayers. Our interview aims to understand the tax implications on the components of OCI after the convergence of IFRS.

IV. Result & Discussion

After the convergence of IFRS, one of the income statement components is Other Comprehensive Income (OCI). OCI is regulated explicitly in the Indonesian Financial Accounting Standards (PSAK) 1: *Presentation of Financial Statements*. The following sections describe the comparison of OCI under accounting and tax treatments. PSAK 1 produces OCI items, which are part of the comprehensive income statement where unrealized gain and unrealized loss appear at OCI.

Currently, for implementing OCI in Indonesia, the components of OCI contain part of the entity's comprehensive income from associations and joint ventures under the equity method. OCI also has different components that will not be further reclassified to profit or loss and will be further reclassified to profit or loss if they meet certain conditions. Other components in OCI consist of income or expenses that the recognition is not in the profit or loss are following other SAK (Mirza & Ankarath, 2013, p. 20). As quoted from Elliott & Elliott (2017, p. 40), an example of another component of OCI is the unrealized gain/loss component that comes from changes in the fair value of assets/liabilities. Some concrete examples of these other OCI components are:

a) unrealized gain/loss component of changes in fair value of fixed assets under PSAK 16 Fixed Assets;
b) unrealized gain/loss component of changes in fair value of intangible assets under PSAK 19 Intangible Assets;
c) the unrealized gain/loss component of the change in the revaluation of equity investment based on fair value under PSAK 55 Financial Instruments: Recognition and Measurement, which is replaced by PSAK 71 Financial Instruments starting 2020;
d) the profit/loss component of the actuarial calculation for defined benefit contributions under PSAK 24 Employee Benefits; and
e) components of financial statement translation gain/loss on foreign business activities under PSAK 10 Effects of Changes in Foreign Exchange Rates.

The unrealized gains/losses component under PSAK 16, PSAK 19, and PSAK 71 refers to the measurement after the initial recognition of fixed assets (PSAK 16), intangible assets (PSAK 19), and financial instruments (PSAK 71), as will be discussed in the discussion below. These components are measured based on fair value, where the measurement methodology refers to the PSAK 68 Fair Value Measurement (IAI, 2014). PSAK 68 is the adoption of IFRS 13 Fair Value Measurement. PSAK 68 aims to define fair value, provides a framework for measuring fair value if other PSAK regulates the measurement of financial statement components based on fair value, and makes disclosure requirements under Notes to Financial Statements (Catatan Atas Laporan Keuagan; CALK). The definition and guidelines for measuring fair value before IFRS implementation are only in the Income Tax Law, while PSAK has not regulated it. After implementing IFRS, the definition and guidance for measuring fair value between accounting differ because the purposes of using fair value are different. Accordingly, the objective of measuring fair value under PSAK 68 is different from the tax objective. The measurements based on fair value, fixed assets, and intangible assets can use the cost model measurements. In this case, the use of the cost model has no implications for OCI.

Unrealized Gains/Losses under PSAK 16

The definition of fixed assets under PSAK 16 is tangible assets, which have two criteria. First, these held assets are in the production or supply of goods or services for sale to other parties or administrative purposes. Second, the useful time expectation for the asset is more than one period. Recognition of fixed assets refers to accruals and matching concepts because the expenditure is capitalized and depreciated over its useful life (Elliott & Elliott, 2017, p. 410). The initial measurement of fixed assets refers to the acquisition cost, while the subsequent measurements refer to two models: (a) the cost model; and (b) the revaluation model. The basis for consideration in using the revaluation model is the price level changes due to inflation (Alibhai et al., 2020, p. 171). Suppose depreciation expense against income is determined based on the historical cost of assets acquired in a much earlier period. In that case, profit will be overstated and will not reflect the costs of maintaining the entity's asset base (p. 172). The result of applying the revaluation model in the form of unrealized gains/losses is the recognition shift to the post of OCI.

Unrealized Gains/Losses under PSAK 19

The definition of intangible assets under PSAK 19 is identifiable non-monetary assets without a physical form. The term "identifiable" means: (a) can be separated or distinguished from the entity and can be sold, transferred, licensed, leased, or exchanged; and (b) arises from other contractual or legal rights. The measurement model after initial recognition in PSAK 19 is the same as PSAK 16, which consists of a cost model and a revaluation model (Alibhai et al., 2020, p. 210). When using the revaluation model, the recognition of revaluation output in the form of unrealized gains/losses are in the post of OCI. The revaluation model's use is as long as there is an active market price (paragraph 81). If there is no active market price, the record of intangible assets is at cost minus accumulated amortization and accumulated impairment losses (par. 81). In the absence of an active market comparison to calculate the fair value of an intangible asset, the intangible asset's carrying value shall, at the last revaluation date, apply to the revalued sum based on the active market comparison minus accumulated depreciation and accumulated impairment losses. (par. 82).

Unrealized Gains/Losses under PSAK 71

The definition of financial instruments is not explained in PSAK 71 but described in PSAK 50 Financial Instruments: Presentation (IAI, 2010). It says: "any contract that adds value to the entity's financial assets and financial liabilities or other entity's equity instruments." Examples of financial assets are cash, cash in banks, accounts receivable, loans, notes receivable, stock investments, and debt investments. Examples of financial liabilities are loans, loans received, and notes payable. Examples of equity instruments are common stock and preferred stock.

Financial instruments' accounting arrangements' fundamental concept is whether financial instruments' presentation in the financial statements is according to cost or fair price. For financial assets/liabilities, some financial statement users agree that these financial instruments' presentation uses the fair value following the decision usefulness theory. In other words, it only uses one measurement basis. However, some others disagree. The intention to hold several numbers of investments is not for trade but only for earning income as long as they own the investment, is among the reasons for consideration. Therefore, the most appropriate measurement basis is cost, including amortized cost (Kieso, Weygandt, & Warfield, 2014, p. 814).

PSAK 71 then adopted the two measurement bases above (fair value & amortized cost), and the following descriptions are the explanations. The classification of financial assets depends on these two measurement bases and refers to the below valuation criteria:

a) Valuation of the business model: Is the objective of the entity managing financial assets to (i) obtain contractual cash flows or (ii) sell them back?
b) Assessment of the characteristics of the financial asset's contractual cash flows: Is the contractual cash flow from the financial asset only payments of principal and interest on the principal amount outstanding?

Unrealized Gains/Losses under PSAK 24

This PSAK deals with the obligation of employing entities to provide post-employment benefits or pension schemes for their employees. Therefore, the pension provision for employees is an integral part of the remuneration package that the employer must prepare. Under the concept of matching costs against revenue, we need to compare pension costs with labor services as long as they help the employer generate company profits (Elliott & Elliott, 2017, p. 360).

There are two main issues in PSAK 24 relating to the requirements for recognition of employee benefits. The first issue is how an entity recognizes a liability when the employee has rendered service and is entitled to receive employee benefits that the payment is in the future. While the second is how an entity recognizes an expense when the entity enjoys the economic benefits that result from the services provided by employees who are entitled to receive employee benefits. For the short-term employee benefits program provided while employees are still working, no accounting problems arise because no discount calculation is required. For the post-employment benefits program under the Financial Services Authority (Otoritas Jasa Keuangan; OJK), there are two programs, the Defined Contribution Pension Program (Program Pensiun Iuran Pasti; PPIP) and the Defined Benefit Pension Program (Program Pensiun Manfaat Pasti; PPMP). PPIP is a pension program in which pension contributions are determined at the beginning and recorded in each participant's accounts. The pension benefit rights of participants are the accumulated contributions and development results. This PPIP does not raise accounting issues because there is no uncertainty about the number of benefits paid to employees after employees retire.

PPMP raises accounting problems related to the number of pension contributions that must be recognized periodically in the financial statements. PPMP is a pension program whose pension benefits basis is a predetermined formula. The pension benefit formula is generally related to years of service so that it requires the work of a competent expert, namely an actuary. Actuaries are defined by the Indonesian Actuary Association (PAI, 2018) as "an expert who can apply mathematical theory, probability and statistics, as well as economics and finance to solve actual problems in a business, especially those related to risk." Therefore, PPMP requires actuarial calculations that measure post-employment benefits and obligations periodically. From these actuarial calculations, there is a possibility that actuarial gains and losses (unrealized gain/loss) may arise because the measurement of liabilities is on a discounted basis. The defined benefit obligation is only resolvable several years after the employee has rendered service. Under PSAK 1 and PSAK 24, the record of unrealized gain/loss is in the post of OCI.

Unrealized Gains/Losses under PSAK 10

The increasing globalization of business has made payment transactions in foreign currencies more common. When currency exchange rate fluctuations occur, the exchange rates on the billing date, payment date, or period ending balance may differ, resulting in exchange differences. These differences affect the cash flow, which the record is as foreign exchange gain/loss. On the other hand, where this is the second view, business globalization also fosters business activities abroad (foreign operations) with different currencies. The form of operations abroad can be in the form of subsidiaries, branches, or divisions. In consolidating or merging, the reporting entity's domestic financial statements based on currency presentation ought to translate foreign operations' functional currency into the presentation currency. Due to differences in exchange rates used between balance sheet items/statements of financial position, unrealized gains/losses arise.

The discussion of two illustrations above that cause foreign exchange gains and losses are in PSAK 10, which refers to the functional currency concept. This functional currency is a significant issue for foreign exchange accounting (Beams, Anthony, Bettinghaus, & Smith, 2012, p. 465). The definition of functional currency is "... the currency in the main economic environment in which an entity operates" (IAI, 2010). The critical issue of functional currency relates to: (1) how to include transactions with foreign currencies and foreign business activities in the entity's financial statements (the functional currency), and (2) how to translate financial statements into a presentation currency (the presentation currency). For the first-mentioned foreign exchange differences case above, PSAK 10 regulates the recognition of foreign exchange realized/unrealized gains/losses in the profit or loss section. For the second case, PSAK 10 requires recognizing foreign exchange unrealized gains/losses at the post of OCI.

For the context of tax implication on the components of OCI, there is no regulation because the income statement only includes income and expenses according to Article 28 paragraph (7) of the 2007 KUP Law. The term of income refers to Article 4 of the 2008 Income Tax Law, while the term cost or reduction of gross income refers to Article 6 paragraph (1) and Article 9 paragraph (1) of the 2008 Income Tax Law. Based on the above analysis, the main problem is recognizing unrealized gain/loss under PSAK 10, PSAK 16, PSAK 19, PSAK 24, and PSAK 71. The basic ideas of OCI are the concept of the all-inclusive income statement from Paton and Littleton (1940, p. 102), Staubus' decision-usefulness theory (1954), and the accretion concept (Simons, 1938). As far as taxation is concerned, the consequence is whether or not the income in OCI is taxable. Further, the question also continues to whether the expense at OCI is already deductible expenses. However, as Alm (2018, p. 388) states, the S-H-S concept needs to be more designed to align taxpayer income with the taxpayer's ability to pay, including adjustments designed to define income more accurately measure the ability to pay.

To enhance our analysis's comprehensiveness on the tax implications regarding OCI, we have carried out in-depth interviews with the resource persons. Based on our in-depth interviews, Arsal (2020), Santosa (2020), Samingun (2020), Dharmawan (2020), and Kusuma (2020) entirely agree to say that we need more apparent tax arrangements concerning OCI. Furthermore, according to Arsal (2020), the Income Tax Law has accommodated OCI because the definition of income criteria by Article 4 paragraph (1) of the Income Tax Law (Law No. 36/2008) have fulfilled unrealized gains. Therefore, unrealized gains are taxed based on the mark-to-market taxation model. Even so, Arsal (2020) admits that debates and discussions are still going on for unrealized gain/loss issues in OCI.

Unlike Arsal (2020), to determine whether OCI is a tax object or not, according to Santosa (2020), it must first be determined wherefrom the unrealized gain/loss comes. Not all unrealized gains are an additional economic capability. For example, revaluation of fixed assets under Article 19 of the Income Tax Law and its implementing regulations will generate income even though the benefits from revaluation are still in the form of unrealized gain. Another example is the unrealized gain that comes from fair value recognition. The measurement of fair value in accounting must first refer to Article 10 of the Income Tax Law. Article 10 of the Income Tax Law provisions stipulate the fair value if a transaction involves a special relationship. The principle of measurement in Article 10 of the Income Tax Law refers to the acquisition price unless there is a related party transaction (Santosa, 2020).

Meanwhile, as a middle ground between the pros and cons regarding OCI taxation, Samingun (2020) first emphasizes the need for an official stance from the government or tax authorities in written regulations. This provision is vital to minimize differences in interpretation between tax authorities and taxpayers to decrease tax disputes. Samingun (2020) himself still doubts whether OCI is included (as an income tax object) or not due to the absence of any implementing provisions. That implementing provisions are mainly related to the additional criteria for economic capacity received or obtained under Article 4 paragraph (1) of the Income Tax Law. However, while these implementing regulations do not yet exist, Samingun (2020) suggests that the debate on OCI returns to the conceptual order in the Income Tax Law. Because Indonesian taxation still adheres to cost or realization, OCI, which is still unrealized or fair value, is not yet taxable. Likewise, with unrealized loss, Samingun (2020) consistently views it as non-deductible expenses. Therefore, if the government decides to impose taxes on OCI, they have to deduct the unrealized loss as expenses.

In line with Samingun (2020), Kusuma (2020) also believes that the current taxation regulations can not impose taxes on OCI. Since the nature of tax (income) imposition in Indonesia is the realization concept, it would be unfair if something that is still unrealized, whether it be a gain or loss, must be taxed. Similarly, Dharmawan (2020) also stated that since OCI is still an unrealized gain, it is not feasible if treated as an additional economic capability (income). The undeniable reason is that it is still unrealized; it means that taxpayers have not received it. Likewise, Dharmawan (2020), a public company tax practitioner, believes that we cannot recognize unrealized losses as a tax deduction.

Back to the conceptual framework under the formal norm, the terms of income under Article 4 of the Income Tax Law are adopting realization criterion or wherewithal to pay concept (Madeo, Anderson, & Jackson, 1994, p. 117; Sommerfeld, Anderson, & Brock, 1972, p. 139). If we refer to that concept, unrealized gain in OCI does not meet the income criteria as additional economic capability received or earned. The phrase "... received or obtained by the taxpayer ..." in Article 4 of the Income Tax Law is the basis for the recognition of income for tax purposes (Gunadi, 2009, p. 150; 2013, p. 18). This recognition indicates when to report income (revenues and profits) in the Annual Tax Report as taxable income is (Gunadi, 2009, p. 153).

The phrase "... received or obtained by the Taxpayer ..." in Article 4 of the Income Tax Law limits the imposition of taxes on any additional economic capacity as long as it has become a realization. The definition of realization refers to the accounting concept according to the cash basis or accrual basis concept (Mansury, 1996a, p. 67). Based on the realization criteria, the definition of income under the Income Tax Law does not include any income that is still in the form of capital appreciation. Therefore, the phrase used is "… additional economic capability received or obtained by the taxpayer…" (Mansury, 1996b, p. 31). Emphasis on the realization criteria is based on considerations of objectivity and certainty when calculating taxes. If we ignore the realization criteria, any subjectivity will emerge, so we need personal judgment in calculating tax. As a result, there have been many litigation and tax disputes, so that for tax authorities, it has become an "administrative nightmare" (Sommerfeld et al., 1972, pp. 140-141).

The concept that underlies the definition of income in Article 4 paragraph (1) of the Income Tax Law includes the accretion concept, which becomes a component of the definition of income under the phrase "... obtained by the Taxpayer ...". Initially, the concept was modified by referring to the doctrine of realization under PAI 1984. However, the 1983 Income Tax Law and its amendments now apply a modified accretion concept based on three types (accrual taxation, realization taxation, and hybrid taxation). The basis for considering the choice of taxation types according to the main issues concerning the components of OCI is as summarized in Table 1.

Table 1 Summary of Proposed Taxation Models for Other Comprehensive Income

No.	Main Issues	Tax Imposition Options		
		Mark-to-market	Realization	Hybrid
1.	Translation gains and losses of financial statements for overseas business activities based on the functional currency under PSAK 10	-	√	-
2.	Unrealized gains and losses of the changes in revaluation surplus of fixed assets under PSAK 16	-	-	√
	a. There is approval from the tax authorities	√	-	-
	b. Without approval from the tax authorities	-	√	-
3.	Unrealized gains and losses of the changes in revaluation surplus of intangible assets under PSAK 19	-	-	√
	a. There is approval from the tax authorities	√	-	-
	b. Without approval from the tax authorities	-	√	-
4.	Actuarial gains and losses on defined benefit plans under PSAK 24	-	√	-
5.	Gains and losses on remeasuring of equity instrument financial assets under PSAK 71	-	√	-

Source: processed by researchers

First, the imposition of income tax on foreign exchange gains/losses from translation of the financial statements of business activities abroad into the financial statements of investor entities recognized in the post of OCI refers more precisely to the realization of taxation under the principle of ability to pay. Such translation does not result in the merger of separate entities, and the merger only occurs in two financial statements that use different currencies. Following the basic concept of entity postulate adopted into the tax subject under Article 1, Article 2, and Article 3 of the Income Tax Law, tax imposition on investors is separate from investees abroad, and taxation of the head office also separated from its foreign branch offices. A merger or consolidation of financial statements is for presentation purposes only without the merger of two or more accounting entities.

Second, taxation of the profit from the difference in fixed asset revaluation because the implementation of the revaluation model under PSAK 16 is more appropriate to use the existing approach under Article 4 paragraph 1 letter m and Article 19 of the Income Tax Law and its implementing regulations (Minister of Finance Regulation No.79/PMK.03/2008). In this study, taxation of the difference in fixed asset revaluation can be hybrid taxation because there are two different tax treatments. So, when there is no request from the taxpayer and approval from the tax authority, the unrealized gain from the revaluation of fixed assets, which is only for accounting purposes, is not yet an income tax object. In that case, the tax imposition refers to the realization of taxation. However, suppose there is approval from the tax authorities for the taxpayer to revaluate fixed assets for tax purposes. In that case, we apply mark-to-market taxation so that the revaluation difference is an income tax object. The basis for fiscal depreciation after revaluation refers to the carrying value after revaluation.

Third, taxation of the gain on the difference in the revaluation of intangible assets because applying the revaluation model under PSAK 19 is more appropriate to use hybrid taxation, the same as tax arrangements for revaluation of fixed assets. The basis for the underlying consideration is the equal tax treatment between fixed assets and intangible assets because the accounting treatment of intangible assets (PSAK 16) generally refers to fixed assets (PSAK 16). Thus, as long as there is no tax authorities' approval, unrealized gains from applying the intangible asset revaluation model under PSAK 19 are not yet an object of income tax. Thus, the unrealized loss is also a non-deductible expense, and the basis for fiscal depreciation still refers to the value before revaluation.

Fourth, taxation of the actuarial gains/losses in the defined benefit contribution, according to PSAK 24, refers more precisely to the realization of tax. The actuarial calculation is still in the form of a calculation based on the time value of money with the results on a discounted basis. Under Article 9 paragraph (1) letter c of the Income Tax Law, the provision/allowance for employee benefits is a non-deductible expense so that unrealized gains under this PSAK 24 are not yet an object of income tax.

Fifth, taxation of unrealized gain/loss recognized in OCI and derived from the measurement of financial instruments under PSAK 71 refers more precisely to tax realization. Examples of financial instruments are (a) investment in shares that are not for trading; (b) debt investment results in payment of principal and interest and is resold. The basis for considering the application of realization taxation is the principle of ability to pay and wherewithal to pay.

V. Conclusion

The tax imposition concept that fulfills the fairness element for OCI consists of three: accrual, realization, and hybrid taxation. The principle of ability to pay plays an essential role in determining the most appropriate taxation for each component of OCI. By referring to the ability to pay principle adopted in the Income Tax Law, the taxation option for the first component, translation gains and losses of financial statements for overseas business activities, is pure realization taxation. For the component of OCI in the form of unrealized gains and losses of the changes in revaluation surplus of fixed assets and intangible assets, the tax imposition option is better under hybrid taxation. The tax imposition should be mark-to-market taxation if there is approval from the tax authority and should be realization taxation if the approval does not exist. The actuarial gains and losses on defined benefit plans and unrealized gains and losses on remeasuring of equity instrument financial assets are also better in the form of realization taxation. Finally, we recommend the Indonesian tax authority to consider distinct regulations based on those tax imposition options on the components of OCI.

Appendix

Appendixes, if needed, appear before the acknowledgment.

Acknowledgment

The preferred spelling of the word "acknowledgment" in American English is without an "e" after the "g." Use the singular heading even if you have many acknowledgments.

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