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The Recent Development of Tax Accounting in Indonesia

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Abstract- This study has two objectives. The first aim is to reveal the development of tax accounting thoughts in Indonesia before and after the 2012 convergence of International Financial Reporting Standards (IFRS). The other objective is to provide options to tax policymakers to solve the book-tax difference because of IFRS convergence. This study is qualitative research adopting Foucauldian archaeology of knowledge, using documentary materials and collections of statements, and using in-depth interviews. This research concludes that the development of tax accounting thoughts is not separable from and depends on the development of accounting thoughts before the 2012 IFRS convergence. Before and after the IFRS convergence, the tax accounting thought keeps unchanged and under the industrial accounting paradigm with the following characteristics: rules-based, transaction-focused, historical cost accounting, matching cost against revenue, reliability-based. The shift of financial accounting paradigm from the industrial era to the information one does not bring about the change in the tax accounting thought since the relevant tax laws have not changed yet. Finally, the book-tax difference gets increased. The other conclusion is to decrease the book-tax gap requires two methods. First, conceptually tax policymakers and their stakeholders should perform joint discussions so that tax reconciliation will be insignificant automatically. Besides, the tax imposition must consider legal certainty and ability-to-pay tenet so that taxpayers' compliance can increase and compliance costs can decrease.

Index Terms- Financial accounting, tax accounting, book-tax gap, ability-to-pay principle, legal certainty.

I. INTRODUCTION

There have been many studies on the development of accounting in Indonesia. However, there is still little research on the development of tax accounting in Indonesia, although tax accounting constitutes one of the accounting sub-disciplines (Baker & Barbu, 2007, p. 273). Some researchers have published their articles on the development of accounting in Indonesia from various perspectives, as summarized below.

Sukoharsono & Gaffikin (1993a) examined the development of accounting and accounting professions in Indonesia during the 1800s to 1950s. Besides, Sukoharsono & Gaffikin (1993b) also studied the origin of accounting in Indonesia during the Dutch Colonialism in the early 17th century. Abdoelkadir & Yunus (1994) investigated the development of accounting since 1642 when the Governor-General of the Dutch East Indies ruled Batavia and Surabaya until 1994, including the development of accounting education. Sukoharsono (1995a) explored the historical genealogy of accounting in Indonesia in the economic, political, and social contexts. Sukoharsono (1995b) examined the history of accounting developments during the Dutch colonialism period during the mid to late 19th century.

Sukoharsono (1998) examined the history of accounting during the transition of the Hindu kingdom to the Islamic empire. Sukoharsono (2000) explored the development of accounting from the bookkeeping model to the accounting model whose transformation took place in universities. Yaya (2005) examined the influence of religious culture (Hinduism, Islam, and Christianity) on the development of accounting during the Hindu, Islamic, and Dutch colonialism empires. Sukoharsono & Qudsi (2008) examined the development of accounting during the Ancient Mataram period (7th to the 11th century AD).

Murwanto et al. (2011) studied the development of accounting before the 14th century up to the IFRS convergence in 2011. The development of the accounting role in building civilizations (Mesopotamia, Ancient Egypt, Ancient Greece & Rome, Arabic Islam, Renaissance in Italy, and Indonesia) becomes the focus of Kurohman & Maradonna (2012)'s research. Sukoharsono & Lutfillah (2013) researched the development of accounting during the heyday of Singosari (1222-1292). Rosyinadia et al. (2014) revealed the development of accounting during the reign of Gajah Mada in Majapahit. Similar to Rosyinadia et al. (2014), Lutfillah et al. (2015) examined the existence of accounting during the Majapahit kingdom (1293-1478). Budiasih et al. (2018) reviewed the development of accounting in Batavia during the Dutch colonialism.

According to Samuel et al. (2013, p. 173), tax accounting in many countries has developed dependently on financial accounting. Tax accounting generally starts from the notion of using financial accounting, and this matter refers to both theoretical and practical motives (p. 173). To understand the evolution of tax accounting and its recent development, a statement of Aristotle (a Greek philosopher) can

be the reference. As quoted by Higson (2003), Aristotle said, "if you wish to understand something, observe its beginnings and development" (p. 40).

Hendriksen (1965, p. 15) stipulated that the study of the history of accounting and accounting theory is a necessity because both have a relationship in the past. In all scientific disciplines, theories and concepts develop through continuous history (p. 15). One thought influences other thoughts, and what happened today depends on what happened yesterday (p. 15). His statement is also applicable to tax accounting as the sub-discipline of accounting. Current thoughts of accounting provide more than just a collection of ideas and ideas that have accumulated from the experiences of many people in the past (Littleton & Zimmerman, 1962, p. 271).

Based on the statement of Samuel et al. (2013, p. 173) above, studying the development of tax accounting in Indonesia can refer to the development of accounting. It is because Lamb (2009, p. 579) stipulates that the relationship between accounting and tax is intertwined. Therefore, this study has two objectives. The first is to reveal the development of tax accounting thoughts in Indonesia before and after the convergence of International Financial Reporting Standards (IFRS) in 2012. The second is to provide tax policymakers with options to solve the book-tax gap due to IFRS convergence. Because IFRS standards are mandatory for only publicly listed companies, financial institutions, and state-owned companies, we only analyze the development of tax accounting implemented by these companies.

II. Conceptual Framework

A. The Development of School of Accounting Thought

Accounting is "a process of becoming" (Littleton & Zimmerman, 1962, p. 271) because accounting is adaptive and persistent. Adaptive nature occurs because accounting can change, and tenacious kind happens because accounting does not change without cause (Edwards, 1989, p. 14). Therefore, the term "continuity & change" appeared to describe accounting developments that occur (Edwards, 1989, p. 14), such as the title of the book "*Accounting Theory: Continuity and Change*" by Littleton & Zimmerman (1962).

None of the literature is the same when exploring the development of accounting theory. Each author used a varied approach to explore how accounting developed with the development of the environment. However, Shortridge & Smith (2009, p. 15) stipulate that "*because accounting is a social science, the driver of change is the environment in which it operates...*". Hendriksen (1965) categorized the development of accounting thought into two major groups, namely: (a) before 1930 and (b) since 1930. Hendriksen (1965) used the 1930 boundary split based on the 1929 NYSE stock market crash. The development of accounting theory, according to Riahi-Belkaoui (2000, pp. 6-11) focused on the role of pressure groups so that the information from financial statements meet their information needs. Porwal (2001, p. 56) made the periodization of accounting developments based on his predictions.

The development of accounting theory, according to Godfrey et al. (2010, p. 5), referred to the efforts of accounting standard drafting to solve the problem of inconsistency in financial reporting. Wolk et al. (2013, p. 64) made a periodization of the development of particular accounting theory in the US-based on the fundamental question of whether accounting practices and financial reporting were sufficient to assess an investment. Meanwhile, Shortridge & Smith (2009, p. 15) developed an accounting paradigm based on an approach to economic development and its related information professionals, explored by Elliott & Jacobson (2002).

According to Coetsee (2010, p. 2), there are two schools of thought that can represent accounting theory. The first tradition deals with the development of accounting principles. The authors for this tradition, for example, are Hendriksen (1965) and Wolk et al. (2013). Hendriksen (1965, p. 1) defines accounting theory "...as logical reasoning in the form of a set of broad principles that (1) provide a general frame of reference that can evaluate the accounting practice, and (2) guide the development of new methods and procedures. Meanwhile, Wolk et al. (Wolk, Dodd, & Rozycki, 2013, p. 3) define accounting theory "...as the basic assumptions, definitions, principles and concepts —and how we derive them— that underlie accounting rulemaking by a legislative body".

Another school of thought explains accounting theory as an activity to explain and predict. For this second tradition, Coetsee (2010, p. 2) refers to definitions of accounting theory by Riahi- Belkauoi (1981), Watts & Zimmerman (1986), dan Wolk et al. (2013). Riahi-Belkauoi (1981, p. 8) states that "the primary objective of accounting theory is to provide a basis for the prediction and explanation of accounting behavior and events." Watts & Zimmerman (1986, p. 2) mentioned that "the objective of accounting theory is to explain and predict accounting practice." Wolk et al. (2013, p. 32) state that "theories attempt to explain relationships or predict phenomena."

Thus, the first school of thought above focuses on accounting principles, while the second one has a focus on evaluating accounting practices (Coetsee, 2010, p. 3). Both traditions started from two methodologies for the formulation of accounting theory, namely: the normative approach and the descriptive approach. Based on the process followed to develop a theory, the normative method constitutes a deductive process in formulating the accounting objectives. In contrast, the descriptive approach is an inductive process concentrating on the observations of the factual world (p. 3).

Through the normative approach, a significant debate occurred because various views emerged related to the ideal method to measuring and reporting accounting information (Godfrey, Hodgson, Tarca, Hamilton, & Holmes, 2010, p. 7). This normative theory adopts an ideal goal condition and specializes in how to achieve that perfect condition (p. 7). Therefore, in the Normative Period, accounting theory focused on "true income" (profit) for an accounting period and focused on a discussion of what types of accounting information were useful for decision making or decision usefulness (Godfrey, Hodgson, Tarca, Hamilton, & Holmes, 2010, p. 24).

With descriptive methods, several accounting practices are justified so that they are useful. An example of accounting theory research with a descriptive approach, according to Riahi-Belkaoui (2000, p. 67), is "Inventory of Generally Accepted Accounting Principles for Business Enterprises" (Grady, 1965), adopted into Indonesian Accounting Principles 1973 (IAI, 1973). Generally Accepted Accounting

Principles or GAAP are also examples of the application of inductive theory in financial accounting (Roslender, 1992, p. 118).

The latest developments in accounting theory exist in a mixed development period. Godfrey et al. (2010, p. 14) stipulate that in this period, there is a mixture of normative accounting theory and positive accounting theory. Godfrey et al. (2010, p. 13) state explicitly that "... these positive and normative theories are not incompatible ...". The development of accounting theory in this period leads back in line with developments in the previous period that were inductive and descriptive, but the approach varies. The accounting theory has shown the direction back to empirical methodology, often referred to as a positive methodology (p. 28). Positive accounting studies focus on "explaining" the reasons for current accounting practices and "predicting" the role of accounting information and other related information in the economic decisions of individuals, companies, or parties who have contributed to market and economic development (p. 28).

The main difference between normative accounting theory and positive accounting theory is that normative accounting theory is prescriptive, while positive accounting theory is descriptive, explanatory, or predictive (p. 28). Another feature of positive accounting theory is that it explains (1) how people behave; (2) how people behave, for example, to achieve the goal of maximizing company value or individual wealth; or (3) how predictions about what people have or will do. The explanation or prediction, according to positive methodologies, does not see whether the person's actions are correct or not (p. 28). When the research emphasis remains on the area of capital markets, agency theory, and behavioral impact, researchers were more inclined to use a normative approach, explicitly looking for normative theories to unify and uniform accounting practices (p. 13).

The mixed development of these accounting theories has results in a decision-usefulness theory initiated by Staubus (1954) through his doctoral dissertation (Previts & Flesher, 2015, p. 52). Furthermore, Staubus (1961) published his thesis under the title "*A Theory of Accounting to Investors*." The decision-usefulness theory is normative and deductive, and it focuses on the objectives of financial reporting because basically, the financial statement information prepared by management is to provide useful information in the decision making process.

The Mixed Development Era increased in May 2000. At that time, IOSCO (International Organization of Securities Commissions) recommended its members to allow multinational companies that trade their shares in various countries' capital markets to implement International Accounting Standards (IAS) (Zeff, 2012, p. 823). In June 2000, the European Commission issued a notice stating that publicly traded companies in the European Union needed to adopt IAS/IFRS for its consolidated financial statements starting from 2005 (Alexander & Nobes, 2010, p. 85; Zeff, 2012, p. 823). The European Commission announcement constitutes a strategy to gain confidence that shares were tradable on the European Union and international financial markets based on "a single set of financial reporting standards" (Zeff, 2012, p. 823).

Finally, based on the IFRS Foundation (2020), 166 jurisdictions have applied IFRS standards. The fair value paradigm now adopted by IFRS standards stems from the decision usefulness paradigm formulated in the conceptual framework (CF) project of the US Financial Accounting Standard Board (FASB). (Hitz, 2007, p. 328). Then, the International Accounting Standard Board or IASB, as the IFRS standard-setting body, also adopts the decision usefulness theory in its conceptual framework (CF 1989, CF 2010, and CF 2018). Those CFs become the primary reference, which the Indonesian Institute of Chartered Accountants or IAI use to publish a local conceptual framework and develop accounting standards applicable in Indonesia. The CF 2018 is still in the process of IAI's adoption in the form of an Exposure Draft.

B. The Development of School of Tax Accounting Thought

The development of tax accounting began when accounting theory and entity theory emerged, and the government imposed a tax on corporate income. From a historical perspective, the calculation of taxable income in the US came into force when Congress passed the first Income Tax Act in 1913. Starting that year and until the early 1940s, the companies used universal accounting practices (except for utilities) as a basis for determining tax liability. During that period, the income tax was relatively small and the distortion of the difference between accounting earnings and tax profits, if any, was not significant (Crawford, 1946, p. 756; Rayburn, 1986, p. 89; Schroeder, Clark, & Cathey, 2020, p. 415). Therefore, until the 1940s, the allocation of income tax at that time was not a big issue.

Accounting for income tax became a significant issue for the first time when the Internal Revenue Code (IRC) was under amendment during World War II (WW II). The IRC amendment allowed companies to make accelerated depreciation of emergency facility costs for tax purposes (Rayburn, 1986, p. 91; Schroeder, Clark, & Cathey, 2020, p. 415). Meanwhile, the accounting depreciation proceeded normally (Rayburn, 1986, p. 91). At that time, the tax policy was essential for companies in the US because there was still a war (Rayburn, 1986, p. 91; Schroeder, Clark, & Cathey, 2020, p. 415). During WW II (1939-1945), corporate income tax rates increased from 19% to 38% (Schultz & Johnson, 1998, p. 82). Such conditions caused taxable profits to fall and were lower than accounting profits, and the difference between accounting and tax increased.

The debate arising from the above conditions was whether the income tax payable and paid to the country was (1) an expense accrued in the income statement or (2) distribution of profits to the government (Carey, 1944a, p. 425; 1944b, p. 267; Rayburn, 1986, p. 91). The accountants' attention at that time was when crediting income tax, what account they had to debit (Schultz & Johnson, 1998, p. 83). If taxes are considered a burden, this opinion is consistent with the theory of ownership (proprietorship theory) because the tax treatment can be like interest payments, which are a burden on the company's operations (p. 83). If taxes are like a profit distribution, this opinion is in line with the theory of entities that position creditors and investors as providers of funds, and the taxes paid are treated as interest payments to creditors (p. 83).

In brief, based on the two options of income tax treatment above, there are some consequences. First, treating income tax as a company expense results in an accrual accounting concept to be applied, and the financial statements should present and disclose the impact of the temporary difference. Second, treating income tax as a distribution of profits to the government brings about the amount of income tax paid in each book year to be a portion of the profit not intended for business owners, and the determination of tax liability refers to the applicable law. In this context, there is no consequence of temporary differences between accounting and tax.

Finally, the Committee on Accounting Procedure (CAP) issued ARB No. 23: Accounting for Income Taxes (American Institute of Accountants, 1944). The CAP was the forerunner of the Accounting Principles Board (APB) and the Financial Accounting Standards Board (FASB) (Schultz & Johnson, 1998). ARB (Accounting Research Bulletin) No. 23 concludes that PPh is an expense presented in the income statement (American Institute of Accountants, 1944, p. 183). In the next stage of development, the principle of income tax as a burden was widely accepted (Shield, 1957, p. 53; Schultz & Johnson, 1998, p. 83). Based on ARB No. 23, accounting for income tax started to develop, and the accounting treated the impact of income tax due to temporary differences arising from differences in accounting and tax treatment or Book-Tax Difference (BTD).

Based on the accounting treatment for income tax, as described above, "...tax accounting refers to the recognition and measurement rules that a company applies in preparing its tax returns, i.e., in determining the taxable profit (tax loss) for the period" (Gielen & Hegarty, 2007, pp. 1-2). Under the 2018 Conceptual Framework (IASB, 2018, p. 5.1), recognition constitutes the process of capturing to include an item in the statement of financial position, or the statement(s) of financial performance provided that the item meets the definition of an asset, a liability, equity, income, or expenses as the elements of financial statements. In other words, the recognition process relates to the journal entry process using debit and credit account(s). Meanwhile, measurement refers to the monetary terms used to quantify element(s) recognized in financial statements (IASB, 2018, p. 6.1).

For tax purposes, the recognition and measurement process refers to the prevailing tax rules that regulate specific treatment. Otherwise, the process to recognize and measure adopts usual accounting rules. For accounting purposes, IFRS standards apply some measurement basis. The basis includes historical cost and current value (fair value, a value in use, and current cost) (IASB, 2018, pp. 6.4, 6.11), depending on which measurement basis provides the most useful information to the users of financial statements for decision making.

C. Qualitative Characteristics under Decision-Usefulness Theory

To meet the needs of financial statement users, information on financial statements must satisfy particular characteristics (Riahi-Belkauoi, 1981, p. 74). Trueblood Committee report under AICPA (1973, p. 13), which formulated the first CF in the world, included the concept of decision usefulness into its CF by explicitly mentioning that "the basic objective of financial statements is to provide useful information for making economic decisions" (p. 13). Trueblood Committee report calls particular characteristics as qualitative characteristics that should base mainly on the needs of users of the statements (AICPA, 1973, p. 60). Meanwhile, the Accounting Standards Board of Japan (2006) stipulates that "the most significant characteristic required in accounting information is the usefulness in achieving the objectives of providing accounting information." The CF calls this characteristic 'decision usefulness'" (Accounting Standards Board of Japan, 2006).

Along with economic development and economic globalization, the qualitative characteristics of financial statements has also transformed. Shortridge & Smith (2009) researched the shift of the qualitative characteristics of financial statements. Shortridge & Smith (2009), in their study, mentioned the change in the qualitative characteristics as part of the shift in the accounting paradigm. According to Shortridge & Smith (2009, p. 12), the implementation of IFRS around the world has moved the accounting paradigm from an industrial model to an information paradigm. Figure 1 depicts the accounting thoughts in an industrial era and an information era, respectively.

According to Shortridge & Smith (2009, pp. 12-15), referring to the economic development and its information specialists (Elliott & Jacobson, 2002), an industrial era existed during 1760-2002. In this period, corporations getting funds from the capital market dominated the form of business, and accountants became the primary information providers (Elliott & Jacobson, 2002, p. 73). Besides, the growth of machines created a surplus of production, the size of enterprises grew, a corporate organization developed and led to a separation between capital owners and the managers (Shortridge & Smith, 2009, p. 15), so that entity theory emerged and impacted on the information needs. The qualitative characteristics of accounting in the industrial era were relevant and reliable information used to allocate resources efficiently (p. 15). Reliability had a similar meaning to verifiability (p. 12).

The reliable information referred to historical cost enabling reliable measurement of industrial/manufacturing assets (i.e., machines, factories, and equipment) (p. 15). The rules-based approach in formulating accounting standards during the industrial economy resulted from evolutionary accounting changes as responses to new transactions in incremental steps and adopting piecemeal progression (p. 13). To measure a corporate performance depended on the delivery of goods instead of services and focused on transactions. Therefore, the enterprises required accounting based on matching costs against revenues. Such a condition reflected the orientation of financial reporting to the income statement approach.

Under the industrial era, there were no specific users of financial statements. According to the 1989 Conceptual Framework (IASC, 1989, p. 14) issued by International Accounting Standard Committee (IASC), the users of the financial statements included investors (present and potential), employees, suppliers, and other trade creditors, lenders, customers, governments and their agencies, and the public. In terms of governments and their agencies as the user, the information they require, among others, was to determine tax policies (p. 15). In other words, the interest of tax authority in financial statements was still part of the various users of financial statements during the industrial period.

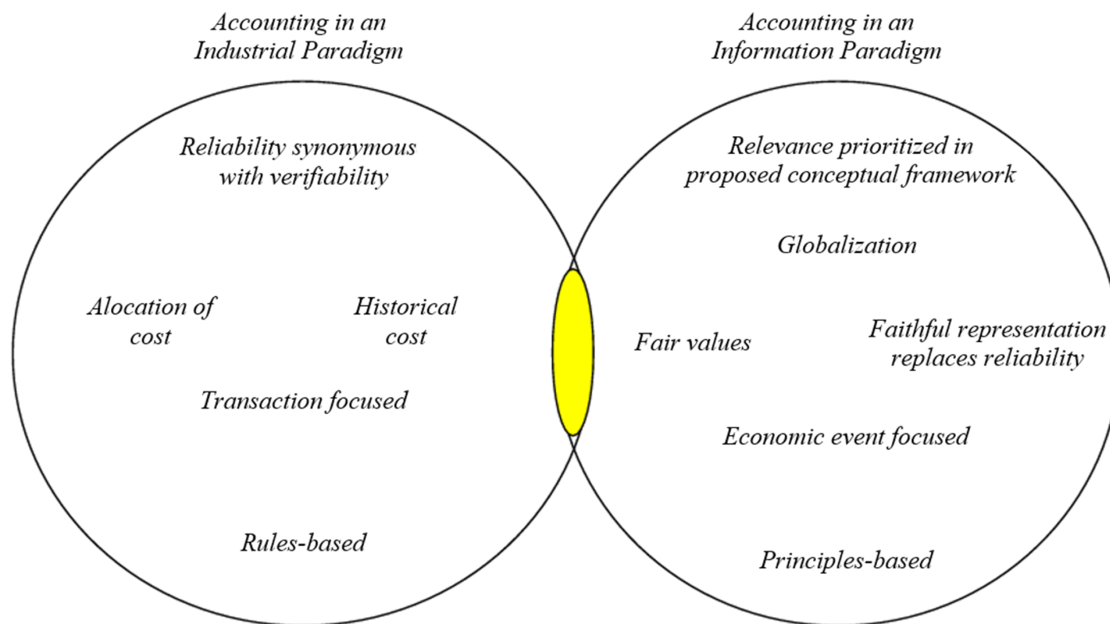

Figure 1: Accounting paradigm between industrial and information era

Notes: adapted from Shortridge & Smith (2009, p. 12). Based on the figure above, the main fundamentals of accounting thought has been undergoing a revolutionary change. However, an overlap still takes place, as seen from the slice between the two circles. This overlap means that the shift from the industrial era to the information era is incomplete so that during this transition period, some characteristics for the two paradigms are the same.

When economies develop, the need for information those economic development changes (Shortridge & Smith, 2009, p. 15). The increased use of technology and globalization make it easier to obtain more magnificent information. Therefore, Elliott & Jacobson (2002, p. 70) mention that recently, the era of the information economy has emerged. In most developed countries, knowledge work is the primary source of growth. Services play a significant role in this information era (p. 70). For instance, advertising is a form of knowledge work. In manufacturing companies, design, quality control, marketing, strategy, planning, and customer need identification are examples of knowledge work in the information economy (pp. 70-71). The center of this information paradigm is computers and telecommunication (p. 71).

In financial reporting, financial statements represent economic phenomena in numbers and words (IASB, 2018, p. 2.12). To obtain decision usefulness under the information era, the reporting entity must not only present relevant phenomena in the reports, but the information of financial statements must also represent the substance of the events faithfully. To get perfectly faithful representation must satisfy the following characteristics: (a) complete, (b) neutral, and (c) free from error (p. 2.13). Based on this characteristic under the information economy, there is a radical change from reliability to faithful representation. At the same time, the aspect of relevance remains unchanged in the industrial and information era.

International Accounting Standard Board or IASB (as the successor of the IASC) replaced the term reliability of 1989 CF (IASC, 1989, p. 14) by faithful representation in the 2010 CF (IASB, 2010) and the 2018 CF (2018) because of a lack of a common understanding of the term reliability. The attempts to explain what reliability means were not successful (IASB, 2010, p. BC3.24). Before finalizing 2010 CF, IASB (together with FASB) received many respondents' comments on the meaning of reliability. Anyhow, the respondents described the sense of reliability more closely resembling IASB's idea of verifiability than its concept of reliability (p. BC3.25). Finally, IASB decided to replace the term reliability with faithful representation.

Based on the decision-usefulness theory, IASB (2010, p. BC1.16) concluded that the most critical and immediate need for the information in financial statements belongs to the following users: (1) existing and potential investors, (2) lenders, and (3) other creditors. They cannot require the reporting entity to provide the information directly to them. Therefore, IASB (2010, p. BC1.16) call them as the primary users of financial statements. However, regulators and members of the public other than the three primary users do not become part of the primary users. They are not the parties to whom the reporting entity primarily provides general purpose financial reports under IFRS standards (pp. OB10, BC1.10).

Based on the primary users of financial reports above, to improve the quality of useful information can no longer use historical cost accounting (HCA) applied in the industrial paradigm. It is because HCA is unable to satisfy the needs of the primary users under the information era. Chambers (2006, pp. 101-102) stipulates that all past prices are a matter of history at any present time. Investors' concern is with value instead of costs so that fair value is preferable and justified to have a superior economic measure to historical price (Penman, 2007, p. 33). Historical cost is not relevant in assessing the current financial position of a reporting entity (p. 33). Fair value is a market-based measure and assumed to be "more relevant" (p. 33).

Finally, many IFRS standards adopt fair value accounting (FVA), which provides information about managements'stewardship and equity value by presenting assets and liabilities on a statement of financial position as their value to shareholders (p. 36). Besides, there is a shift from income statement orientation to balance sheet orientation so that a statement of financial position becomes the primary means for providing information to shareholders (p. 36).

Since IFRS is a single set of financial reporting standards with CF as a fundamental concept, the IFRS standards must adopt a principles-based approach, not a rules-based approach (Bullen & Crook, 2005, p. 1). The standards focus on economic events, not transactions, and can guide the reporting entity to represent economic phenomena faithfully in financial reports.

III. Methodology

This study is qualitative research, concerned with a particular method to look at the recent development of tax accounting in Indonesia. This research made an intelligent inquiry into some specific phenomena using Foucauldian archaeology of knowledge (Foucault, 1972), as adopted by Sukoharsono & Gaffikin (1993a; 1993b), Sukoharsono (1995a; 1995b; 1998). The Foucauldian method is a means to articulate a more comprehensive and coherent account of the transformation in the field of historical knowledge (Sukoharsono & Gaffikin, 1993b, p. 6). The inquiry started with documentary materials and collections of statements. To enrich this inquiry, we also applied an in-depth interview with five key resource persons who hold a Chartered Accountant (CA). Our interviewees are (1) Yon Arsal, S.E., Ak., CA, M.Ec., Ph.D. as a member of the Financial Accounting Standard Board of IAI and Expert Staff of the Minister of Finance in Tax Compliance; (2) Dr. Samingun, SE. Ak., CA, M.Ak as a lecturer of Faculty of Economics and Business at Universitas Indonesia; (3) Wahyu Santosa, SE., Ak., CA, M.Si as Head of Sub-directorate of Income Tax Regulations at Directorate General of Taxes (the Ministry of Finance); (4) Dr. Taufik Hendra Kusuma, SST, SH, MBA, Ak., CA, CPA, CPMA, AFP, BKP as a tax consultant; and (5) Kemal Iwan Dharmawan, SE, Ak., CA, CPA, MM, SH as a tax practitioner at PT Indosat Tbk (a public company). Our interview aims to understand the development of tax accounting after the convergence of IFRS based on the perspectives of policymaker, academic, tax consultant, and corporate practitioner.

IV. Result & Discussion

A. The Development of Accounting before IFRS Convergence

Based on Foo (1988), before 1973, there were no accounting theories, including tax accounting. However, bookkeeping methods developed by referring to the Dutch colonial legacy as stipulated under the Code of Commercial Law (1848) or "KUHD." Bookkeeping, according to KUHD, had the following characteristics: (1) not mandatory; (2) not specifying the form and content of the financial statements; and (3) not requiring an audit of financial statements (Foo, 1988, p. 134).

KUHD, ratified in 1848, is still valid now, although several laws have replaced some of the contents of KUHD. For example, KUHD became the legal basis for most company transactions in Indonesia until March 1996 before the Limited Liability Company Law (Law No. 1 of 1995) came into effect (Perera & Baydoun, 2007, p. 215).

In 1974 the inductive accounting theory began to develop along with the enactment of the 1973 Indonesian Accounting Principles or "PAI 1973" (IAI, 1973). Putri (2010, p. 41) stated that PAI 1973 became the first milestone in the development of accounting in Indonesia. This PAI 1973 referred to US GAAP (Grady, 1965), while US GAAP itself was an example of the application of inductive accounting theory (Roslender, 1992, p. 118). The codification of PAI 1973 became part of the government's efforts to prepare the capital market (Irmawan, 2010, p. 202). The codification did not arise from needs due to the complexity of business in Indonesia (p. 202). PAI 1973 also constituted a consequence of investment openness for foreign investors (Perera & Baydoun, 2007, p. 209). These foreign investors brought their accounting standards, along with their practices, according to their values, such as transparency (p. 209).

Two factors were underlying the US GAAP-based 1973 PAI codification (The Asian Development Bank, 2003, p. 97). First, the effect of US accounting on academics' thoughts in Indonesia was increasing at that time. Secondly, as a result of the cessation of trading in the shares of Dutch companies, the existing capital market was closed, even though the Government of Indonesia ("GoI") considered that the capital market was needed to invite foreign investment. To overcome this, GoI created a team to reactivate the capital market, including working with IAI to prepare Indonesian accounting standards (p. 97).

According to Foo (1988, p. 126), PAI 1973 adopted the US GAAP, of which most of the contents were outdated or irrelevant, and there was little effort to revise it. Besides, PAI 1973 could not be used for special accounting treatment because it was only a compilation of basic accounting principles, practices, and methods. PAI 1973 allowed companies or accountants to refer to other GAAP from other countries if PAI 1973 did not explicitly regulate the specific accounting treatment (Murwanto, Khanna, & Zijl, 2011, p. 155).

Finally, IAI (1984) then replaced PAI 1973 with the 1984 Indonesian Accounting Principles or "PAI 1984" by carrying out a significant revision of the old standards. According to Putri (2010, p. 41), PAI 1984 constituted the second milestone in the development of accounting in Indonesia. The issuance of PAI 1984 resulted from the Indonesian government's pressure to IAI because GoI just enacted new tax laws applying the self-assessment system (Murwanto, Khanna, & Zijl, 2011, p. 158). This event became a starting point for the development of tax accounting in Indonesia and will be on our more detailed discussion of tax accounting in Subsection B.

Some paragraphs below explain in more detail about PAI 1984 as its accounting concepts have formed the basis of tax accounting thoughts since the first enactment of the Income Tax Act or "UU PPh" (Law No. 7 of 1983) up to its fourth amendment in 2008. It is because of for tax purposes the definition of income that remains unchanged, including the concept of matching cost against revenue.

In the Introduction to PAI 1984 (IAI, 1984, p. xi), PAI 1984 is a set of principles, procedures, methods, and accounting techniques that govern the preparation of financial statements, especially those addressed to external users, such as shareholders, creditors, and tax authority. In other words, explicitly, the tax authority became part of financial statement users. Besides, PAI 1984 is general and discloses in broad outline only and does not cover accounting practices for specific industries, such as banking and insurance. For accounting principles that require further elaboration, IAI issued a particular statement of accounting principle (p. xi). PAI 1984 was still the U.S.-based accounting principles (Murwanto, Khanna, & Zijl, 2011, p. 158). In brief, PAI 1984 yet adopted inductive accounting theories and rules-based approach.

However, PAI 1984 (IAI, 1984, p. 1) also adopted deductive accounting theories by applying decision usefulness theory. Chapter 1 PAI 1984 concerning the basic concepts and limitations of financial statements explicitly states that financial accounting and financial statements aim to provide financial information about a business entity used by stakeholders as a material for consideration in economic decision making. According to PAI 1984 (pp. 2-3), to be useful, financial statements should meet the following qualitative characteristics. They are (1) relevance, (2) understandability, (3) verifiability, (4) neutral, (5) timeliness, (6) comparability, and (7) completeness.

Basic concepts of accounting under PAI 1984 includes (1) accounting entity, (2) going concern, (3) periodicity, (4) monetary unit measurement, (5) exchange price requiring to record financial transactions based on the exchange price (historical cost), (6) determination of expenses and revenues based on the accrual method (pp. 4-6). The nature and limitations of the financial statements, among others, include the following matters (p. 7). First, financial statements are historical. Second, financial statements are general and have no intention to meet the needs of particular parties. Third, financial statements are conservative. Fourth, financial statements emphasize substance over form.

The principles of income under PAI 1984, among others, cover the following items (p. 17). First, revenue is an increase in the number of assets and a decrease in liability of a business entity arising from the delivery of merchandise/services or other business activities in a period. Based on this definition, PAI 1984 adopted income statement orientation. Second, as a general rule, income is recognized at the time of its realization. In this case, PAI 1984 applied a realization doctrine for accounting purposes.

PAI 1984 further elaborated on the realization principle as described in the following (p. 18). First, a business entity recognized revenue from product sales transactions on the sale date, usually constituting the date of product delivery to the customer. Second, a service company recorded revenues from its services when having performed the service and issued the invoice. Third, the entity posted revenue from the use of its assets/economic resources by other parties (such as interest income, rent, and royalties) when time passed or when the parties used the entity's assets.

In some instances, under PAI 1984, the entity might make a deviation of revenue recognition based on the principle of realization (pp. 18-20). First, First, revenue recognition took place when production was complete. Second, revenue recognition referred to the percentage of completion method. Third, revenue recognition occurred when payments were received. Fourth, revenue was recognized when under a consignment agreement, a consignee sold goods to the customer.

In general, PAI 1984 described the principles of expenses as follows. First, costs recognized had to be in line with the period when revenue was recognized (e.g., cost of goods sold and sales commission expense). Second, expenditures were recorded based on systematic cost allocation throughout the period that produced benefits (for example, fixed asset depreciation and intangible asset amortization).

PAI 1984 explicitly regulated the calculation of income tax based on accounting profit or taxable profit at a rate according to tax regulations (p. 23). Besides, PAI 1984 also regulated accounting treatment for income taxes. The entity had to recognize deferred tax from temporary differences arising from the different treatment between accounting rules and tax rules (p. 24).

The third milestone in the development of accounting in Indonesia took place in 1994 (Putri, 2010, p. 41). At that time, IAI codified the Financial Accounting Standards ("SAK") per 1994, which referred to the International Accounting Standards ("IAS") issued by the IASC. The codification also included the 1989 Conceptual Framework (IASC, 1989) so that there was no difference between the IAI's 1994 conceptual framework (IAI, 1994) and IASC's 1989 conceptual framework. The term "SAK" replaced "PAI" because it aimed to avoid misunderstandings that could often occur and to name according to the meaning (IAI, 1994).

Under the 1994 Conceptual Framework (IAI, 1994), there are two underlying assumptions: (1) accrual basis, and (2) going concern. Specific for accrual basis, to meet the objectives of financial statements requires their preparation to refer to the accrual basis of accounting. Based on this basis, a reporting entity recognizes the effects of transactions and other events when they occur (and not as cash or its equivalent is received or paid). Besides, the company posts them in the accounting records and reports them in the financial statements of the periods to which they relate. Such accounting treatment depicts that the application of realization doctrine still existed even though IAI has shifted its accounting orientation from the US accounting standards to IAS. The occurrence of transactions became a prerequisite for accounting recognition.

According to Pramuka (1998, pp. 362-363), the total revision of accounting standards in 1994 was also due to several factors. First, the influence of accounting standards and practices from the United States declined. Second, many accounting academics graduated from universities outside the United States (for example, Australia and the United Kingdom). Third, IAI has also become a member of the IASC. Finally, IAI decided to adopt IAS in 1994 (pp. 362-363).

In subsequent years, SAK kept being revised continuously, both in the form of improvements and the addition of new standards since

1994 (p. 41) until finally, IAI adopted IFRS in 2012. Before IFRS convergence in 2012, IAI revised SAK seven times (1 October 1995, 1 June 1996, 1 June 1999, 1 April 2002, 1 October 2004, 1 September 2007, and 1 July 2009). IFRS convergence in Indonesia revised SAK as of 1 July 2009 (IAI, 2016a, p. 16) by referring to IFRS as of 1 January 2009.

Based on the discussion above, before IFRS convergence, the accounting paradigm in Indonesia was under the industrial era with the same characteristics as described by Shortridge & Smith (2009). The features were (a) a rules-based approach in the formulation of accounting standards, (b) income statement orientation in the measurement concept, and (c) HCA for the quality of the information in financial statements. However, FVA has begun replacing HCA for some Statements of Financial Accounting Standards issued by IAI in line with the adopted IAS.

B. The Development of Tax Accounting before IFRS Convergence

The development of tax accounting in Indonesia is inseparable from the tax laws, to which the accounting rules for tax purposes refer. Table 1 summarizes the provisions governing bookkeeping for tax purposes. Since the enactment of the Company Tax Ordinance in 1925 until now, the term used in the tax rules is bookkeeping, not accounting. According to Gunadi (2009, p. 4), the name “bookkeeping” has been widely well-known in the world of taxation. For taxation, the technical aspects of accounting in the form of recording transactions until financial statements (balance sheet and income statement) are considered sufficient to assist the process of calculating and determining the tax. Aspects other than bookkeeping in accounting do not constitute the taxation domain and are not in the place where the tax provisions govern them. Weygandt et al. (2013, p. 5) emphasize that the accounting process includes bookkeeping and bookkeeping usually only includes the recording of economic events. In other words, bookkeeping is part of accounting.

Table 1 describes that bookkeeping for tax purposes is deductive since it aims to enable taxpayers to calculate taxable income. According to Foo (1988, p. 32), although Company Tax Ordinance (1925) required financial reports as taxpayers’ basis to calculate corporate income tax, the calculation usually referred to negotiations between tax officers and taxpayers so that the tax assessment did not use information in financial statements. As seen in Table 1 (item 3 letter j & k), PAI 1973 did not become the reference for taxpayers to calculate corporate income tax since they referred to Company Tax Ordinance (1925). From 1984 until now, tax accounting arrangements were under two tax laws: UU KUP (Law No. 6 of 1983) and UU PPh (Law No. 7 of 1983) and their amendments.

Table 1: Comparative Bookkeeping Provisions for Tax Purposes

No	Description	(Company Tax Ordinance, 1925)	(Law No. 6 of 1983; Law No. 7 of 1983)	(Law No. 9 of 1994)	(Law No. 16 of 2000)	(Law No. 28 of 2007)
1.	The existence of bookkeeping definition	-	-	√	√	√
2.	The objective of bookkeeping is to compute taxable income	√	√	√	√	√
3.	The organization of bookkeeping					
a.	as an obligation	√	√	√	√	√
b.	performed in Indonesia	√	√	√	√	√
c.	based on good faith and reflecting the actual situation or business activities	-	√	√	√	√
d.	requiring the tax authority's approval of changes in accounting methods or fiscal years	-	-	√	√	√
e.	using the Indonesian currency, Indonesian language, Latin letters, and Arabic numbers	√	√	√	√	√
f.	using other languages as the language of instruction and other signs according to the Minister of Finance's permission	√	-	-	-	-
g.	using foreign languages and currencies other than Rupiah permitted by the Minister of Finance	-	√	√	√	√
h.	based on the consistency principle	-	√	√	√	√
i.	using a cash basis or accrual basis	-	-	√	√	√
j.	using a means or system commonly used in Indonesia, for example, based on PAI, unless tax legislation determines otherwise	-	√	√	-	-
k.	using a means or system commonly used in Indonesia, for example, based on SAK, unless tax legislation determines otherwise	-	-	-	√	√
4.	Bookkeeping contains:					
a.	regular records of cash, lists of debts, and receivables	√	-	-	-	-
b.	regular records of cash and banks, list of debts and inventory list	-	√	-	-	-

Table 1: Comparative Bookkeeping Provisions for Tax Purposes

No	Description	(Company Tax Ordinance, 1925)	(Law No. 6 of 1983; Law No. 7 of 1983)	(Law No. 9 of 1994)	(Law No. 16 of 2000)	(Law No. 28 of 2007)
c.	regular records of the condition of assets, liabilities or capital debt, income and expenses/costs, as well as the total acquisition and delivery price of goods or services, subject to value-added tax (10% or 0%) or sales tax on luxury goods.	-	-	√	-	-
d.	regular records of assets, liabilities, equities, income, and expenses/costs, as well as the total acquisition and delivery price of goods or services	-	-	-	√	√
6.	Elements of financial statements					
a.	List of income	√	-	-	-	-
b.	Profit loss calculation	-	√	√	-	-
c.	Income statement	-	-	-	√	√
d.	Balance sheet	√	√	√	√	√
7.	Obligation to keep accounting records					
a.	within ten years	√	√	√	√	√
b.	in Indonessia	-	-	√	√	√

Note: Summarized by the authors by referring to relevant tax laws, as mentioned in the table header above.

Before 1984 the bookkeeping provisions referred to Company Tax Ordinance (1925). Since 1984 until now, bookkeeping arrangements have been under Law on General Rules and Taxation Procedures or "UU KUP" (Law No. 6 of 1983), which had been amended three times in 1994 (Law No. 9 of 1994), 2000 (Law No. 16 of 2000), and 2007 (Law No. 28 of 2007). During 1984-1994, bookkeeping provisions were also under UU PPh (Law No. 7 of 1983). However, after 1994 bookkeeping rules were no more under UU PPh but merged into UU KUP (Law No. 9 of 1994; Law No. 16 of 2000; Law No. 28 of 2007). The abolition of bookkeeping provisions under UU PPh in its 1994 amendment aimed to make an orderly tax law structure between formal administrative provisions and substantive material provisions (Gunadi, 2016, p. 222). Therefore, UU PPh (Law No. 7 of 1983) and its amendments in 1991 (Law No. 7 of 1991), 1994 (Law No. 9 of 1994), 2000 (Law No. 17 of 2000), and 2008 (Law No. 36 of 2008) focus on substantive material provisions, such as tax subjects, tax objects, allowable deductions, taxable income, and tax rates.

UU PPh 1983 (Law No. 7 of 1983) and UU KUP 1994 (Law No. 9 of 1994) explicitly stipulate that bookkeeping must refer to PAI compiled by IAI unless tax legislation determines otherwise. Such an arrangement became the legal basis underlying taxpayers' bookkeeping to apply to PAI 1984. Then, starting from 2000 until now, UU KUP the parliament amended in 2000, and 2007 (Law No. 16 of 2000; Law No. 28 of 2007) explicitly stipulates that bookkeeping must apply SAK unless tax legislation determines otherwise.

Based on the phrase "... unless tax legislation determines otherwise" as stipulated under the elucidation of Article 28 paragraph (7) of the law (Law No. 16 of 2000; Law No. 28 of 2007), there are at least three possibilities that may occur in tax accounting. First, tax provisions do not have their own rules, so the tax accounting refers to financial accounting under SAK. This matter will not result in any differences. For example, the presentation of financial statements for tax purposes applies a certain accounting standard concerning how to present financial statements because no specific tax rules determine otherwise. Second, tax provisions have their own rules so that tax accounting is different from financial accounting. The various treatment will impact the gap between accounting income and taxable income. For instance, tax rules do not allow donation expenses accrued by the company. Third, the tax provisions have their arrangements, but these arrangements are the same as financial accounting regulations. For example, income tax law regulates a specific treatment for foreign exchange gain/loss. Nevertheless, the tax rule stipulates that tax treatment refers to accounting treatment so that tax accounting and financial accounting have the same treatment.

As described in Table 1 in each tax law amendment, a particular provision always explicitly mentions accounting standards to which taxpayers have to refer for performing bookkeeping for tax purposes. Such an arrangement implicates that tax accounting is dependent on the financial accounting system applied in a period.

SAK stipulated under UU KUP (Law No. 16 of 2000; Law No. 28 of 2007) does not refer to a specific standard. So, SAK, which UU KUP means, depends on IAI that has Financial Accounting Standard Body or "DSAK" as the standard-setting body. Before the 2012 IFRS convergence, IAI issued three accounting standards: (1) PSAK, (2) SAK ETAP, and (3) SAK Syariah. PSAK or Statement of Financial Accounting Standards are subject to IFRS adoption and then becomes the mandatory reference for only publicly listed companies, financial institutions, and state-owned companies. SAK ETAP is Financial Accounting Standards for Entities without Significant Accountability as a local GAAP not converged with IFRS. SAK Syariah is the standard for Islamic teaching-based transactions.

How taxpayers compute their income tax, do not refer to the above accounting standards. They apply UU PPh (Law No. 7 of 1983) and its amendments. To interpret these laws, GoI may issue implementation regulations in the form of government regulations, Minister of

Finance's regulations, or Director General of Taxes' rules, depending on its authority and the hierarchy of the Indonesian laws.

Based on UU PPh above, corporate taxpayers must compute their income tax liabilities based on their net income reported in their income statements. Their taxable income refers to their accounting/book income with some tax adjustments for non-taxable items and non-deductible expenses. This income tax computation method was under the self-assessment system so that the tax system necessitated an understanding of the implementation of acceptable accounting standards (Murwanto, Khanna, & Zijl, 2011, p. 158). Thus, from the beginning of the modern tax system under the self-assessment model in 1983, GoI pressured IAI to issue PAI 1984 for taxpayers' guidance in their keeping accounting records for tax purposes. Such a condition became the starting point for the development of tax accounting in Indonesia.

Referring to the analysis of Shortridge & Smith (2009), five characteristics of the accounting paradigm in the industrial era (see Figure 1) are also applicable to tax accounting thoughts adopted under UU KUP and UU PPh and their amendments. The first characteristic is the rules-based approach. UU PPh also applies this approach to provide legal certainty to all taxpayers. Putra (2014, p. 58) investigated the objectives of Indonesian tax reforms in 1983, 1994, 2000, and 2008. Putra stipulates that the principle of legal certainty always became one of the tax principles underlying income tax reforms (p. 58).

The certainty maxim originated from Adam Smith (1776). Based on the certainty principle, the formulation of tax regulations uses clear language so that taxpayers understand and know from the beginning (Iwin-Garzyńska, 2014, p. 62). Meanwhile, tax authorities can only act under clear tax regulations (p. 62). Seligman (1920, p. 291) places this certainty tenet into the group of administrative principles because it relates to the taxation system and implementation.

The second characteristic is transaction-focused, and it is in line with the accrual basis and the realization doctrine adopted under the definition of income. Article 4 paragraph (1) of UU PPh (Law No. 7 of 1983) formulated the definition of income consisting of five elements. They are (1) any additional economic capacity, (2) received or accrued by taxpayers, (3) both originating from Indonesia and from outside Indonesia, (4) usable for consumption or to add to the wealth of the Taxpayers concerned, and (5) by name and in any form.

The income definition above has never changed at all, although UU PPh was subject to four-time amendments (1991, 1994, 2000, and 2008) since its first enactment in 1983 (Law No. 7 of 1983). Of the five elements of income, as described above, there are two elements related to the concept of tax accounting that focuses on the calculation of taxable income. The first element is the addition of economic capabilities. The second is the accounting treatment, which refers to the accrual concept. Both aspects need further analysis to reveal tax accounting problems arising from IFRS convergence, and we analyze both in the following paragraphs.

The first, phrase "...any additional economic capacity...," in the income definition adopts the income concept from the S-H-S concept (Schanz-Haig-Simon) (Mansury, 1994, p. 24). However, according to Mansury (1994, p. 24), UU PPh (Law No. 7 of 1983) does not fully adopt the S-H-S concept of income. Most tax economists agree that the S-H-S idea is an ideal starting point for formulating income for tax purposes (Mansury R. , 1996a, p. 23). The S-H-S model has a central theme in the accretion theory of income. The accretion concept constitutes the only theory that produces the notion of income that enables the application of the "ability to pay principle" (Mansury R. , 2000, p. 39).

The reason for not fully adopting the S-H-S concept is the difficulty of calculating the actual income (Mansury R. , 1996a, p. 23) since the S-H-S model applies mark-to-market taxation (Weisbach, 1999, p. 95). and imposes a tax not only on realized gains but also on unrealized gains from increases of asset values (capital appreciation). The S-H-S system considers the rise in asset value as the additional purchasing power for the asset owner, although the owner only holds and does not sell the asset. According to Mansury (1994, p. 24), income becoming tax objects under UU PPh (Law No. 7 of 1983) includes only realized income, and the national tax policy-makers have agreed to this formulation.

Therefore, according to Mansury (1994, p. 31), to strengthen the application of the concept of income as an additional economic capability only covers realized income, the income definition put the following phrase "... received or accrued by taxpayers ...". This phrase becomes the second element necessitating further analysis. The phrase refers to the accounting concepts of cash basis and accrual basis (p. 31).

As described under Subsection A above, the accounting concept, which was in force when the Indonesian parliament enacted UU PPh in 1983, adopted to PAI 1973. Then, when UU PPh (Law No. 7 of 1983) came into force on 1 January 1984, the accounting concept of the accrual basis was based on PAI 1984. Both PAI 1973 and PAI 1984 referred to the U.S. accounting principles. Mansury (1994, p. 31) stipulated that the definition of income under UU PPh (Law No. 7 of 1983) applied the realization rules. Unfortunately, no elucidation of the law explicitly mentions the realization doctrine, even in all of its amendments.

Referring to the description under Subsection A, the concept of realization under UU PPh, which Mansury (1994, p. 31) meant above, is in line with the realization rule under PAI 1984. Two arguments underlie this matter. First, the elucidation of Article 13 paragraph (1) of UU PPh (Law No. 7 of 1983) stipulates that the tax accounting basis was Indonesian Accounting Principles compiled by IAI. At that time (from 1984 until 1994), only PAI 1984 became the reference for tax accounting. Second, from 1995 through 2000, tax accounting rules also referred to bookkeeping held in a way or system commonly used in Indonesia, for example, based on Indonesian Accounting Principles, unless tax legislation determined otherwise. This rule was under the elucidation of Article 28 paragraph (4) of UU KUP (Law No. 9 of 1994), The Indonesian Accounting Principles applicable in that period was only PAI 1984.

The third characteristic is the allocation of cost or matching costs with revenues. Article 6 paragraph (1) of UU PPh (Law No. 7 of 1983)

and its amendments states that allowable deductions must relate to the income definition under Article 4 paragraph (1) of UU PPh. Besides, one of the implementation regulations (Government Regulation No. 94 of 2010) explicitly mentions that the recognition of costs and income refers to the matching of the expenses against revenues. In the case of the costs capitalized into fixed assets, Article 11 of UU PPh also allows taxpayers to depreciate their assets used for obtaining, collecting, and securing income.

The fourth characteristic is the historical cost accounting (HCA). Article 10 of income tax law stipulates that measuring assets must refer to the cost of acquisition. Besides, Article 11 of income tax laws requires taxpayers to depreciate their fixed assets based on the acquisition costs of the assets. Taxpayers must also amortize their intangible assets based on the acquisition costs of the assets under Article 11A of the laws.

Some considerations underlie the use of HCA. First, HCA refers to the book value of assets, based on the price at the time of payment, as an element of financial statements (Greenberg, Helland, Clancy, & Dertouzos, 2013, p. xiii). HCA focuses on actual events that occurred in the past and uses the assumption of a stable monetary unit (Riahi-Belkaoui, 1999, p. 28). HCA applies the matching principle and the realization principle (p. 28), so that income statements arise from the matching process between revenue (the value obtained from the transactional exit price) and costs (the value derived from the transactional input price)

The fifth characteristic is reliability, which is synonymous with verifiability. Based on respondents' comments on the meaning of reliability, IASB (2010, p. BC3.25) concluded that what it means closely resembles its notion of verifiability. Financial statements are verifiable when divergent independent and knowledgeable observers could obtain consensus even though not complete agreement. To verify taxpayers' tax reporting, tax officers perform an audit as stipulated under Article 28 of UU KUP (Law No. 6 of 1983) and its amendments. Therefore, under the tax laws, taxpayers must report income tax returns clearly, correctly, and completely.

C. The Development of Tax Accounting after IFRS Convergence

Factually, the 2012 IFRS convergence in Indonesia has not led GoI and parliament to revise existing tax laws, including those relating to bookkeeping provisions. However, many researchers have stated that the IFRS implementation has increased taxation issues. Some of the authors are Saptono (2012), Samuel et al. (2013), Nengzih (2015), Herath & Melvin (2017), Kiryanto & Lestari (2018), and Wahidah & Ayem (2018). Some of the impacts are related to the characteristics underlying IFRS implementation. Even though the decision-usefulness theory adopted before the global IFRS adoption is still relevant to IFRS adoption/convergence, a revolutionary change in accounting fundamentals/thoughts has been happening. The features of the accounting paradigm under the information era, as Shortridge & Smith (2009) explain in Figure 1, are also applicable to analyze tax accounting issues after IFRS convergence in Indonesia.

The first tax issue is whether the formulation of taxation rules can adopt a principles-based approach because tax regulations require legal certainty and precise arrangements. However, unclear tax provisions due to the implementation of a principles-based model could lead to subjective professional judgments from taxpayers' perspectives and tax officers' views. Their divergent perspectives could increase potential tax disputes and compliance costs. The second tax problem focuses on economic events, instead of transactions, which the characteristic of representational faithfulness underlies. The potential problem is how taxpayers can provide evidence to the tax officers requiring supporting documents and finding difficulties in reconciling numbers in financial statements to the transaction evidence. The third tax matter relates to fair value accounting. The question is whether mark-to-market measurement under IFRS can replace HCA adopted by existing income tax regulations. The imposition of income tax on unrealized gains arising from the capital appreciation of holding financial, fixed, or intangible assets could conflict with the ability to pay principle.

To enhance the comprehensiveness of our analysis on the development of tax accounting thoughts after the IFRS convergence in Indonesia, we have carried out in-depth interviews with the resource persons. Based on our in-depth interviews, Arsal (2020), Samingun (2020), Santosa (2020), Dharmawan (2020), and Kusuma (2020) entirely agree to say that no significant development of tax accounting thoughts have occurred after IFRS convergence, while financial accounting thoughts have developed significantly. They also stipulate that the gap between financial accounting and tax accounting is increasing. Book-tax conformity is decreasing (Samingun, 2020). In practice, the increased difference results in increased adjustments in tax reconciliation (Kusuma, 2020; Dharmawan, 2020).

Santosa (2020), as a policymaker in DGT, is aware that the tax accounting application in Indonesia is not separable from UU KUP and UU PPh. Santosa (2020) understands that the existing laws have not changed after the IFRS implementation so that tax accounting in Indonesia has also not experienced significant changes. Anyway, although still applying the rules-based approach and HCA, Santosa (2020) states that UU KUP still allows tax accounting to adopt IFRS. It is because the elucidation of Article 28 paragraph (7) of UU KUP does not explicitly specify SAK, to which taxpayers must refer in their bookkeeping. As described in Subsection B, before IFRS convergence IAI issued three accounting standards, including PSAK converged with IFRS.

One example showing that tax rules adopt PSAK in line with IFRS, according to Santosa (2020), is the tax treatment for foreign exchange gains/losses that have to refer to the applicable Indonesian accounting standards. It means that tax treatment does not differ from accounting treatment before and after IFRS convergence, although tax rules remain unchanged.

In the information era, one tax accounting problem that makes it "complicated," according to Arsal (2020), is how to interpret the elucidation of Article 28 paragraph (7) of UU KUP (Law No. 28 of 2007). The formulation of the law took place before IFRS convergence and adopted accounting concepts under the industrial accounting paradigm. When facing economic transactions in the information period, tax officers will adopt tax rules enacted in the context of the industrial period. Potential tax disputes could emerge because of accounting paradigm conflicts between FVA versus HCA and economic event-focused versus transactions-focused.

What Arsal (2020) says about the complexity of legal interpretation above is in line with Dharmawan (2020). As a tax manager in a public company whose core business is in a global telecommunication operator, Dharmawan (2020) sometimes found different interpretations from tax officers in a tax audit for some unclear provisions.

To decrease the book-tax difference, as described above, Arsal (2020) says, "We need to have a bridge, and it is the policymakers' primary responsibility." Samingun (2020) also agrees with Arsal (2020). Arsal (2020) further proposes to Directorate General of Taxes ("DGT"), Fiscal Policy Agency (Ministry of Finance) or "BKF," and their stakeholders (IAI, accounting academics, tax consultants, and tax accounting practitioners) to jointly discuss and solve the current gap. Arsal (2020) states that if accounting rules and tax rules can get closer, the tax reconciliation will automatically be insignificant. If at any time the accounting report can be the basis for tax reporting without having to make very significant adjustments, the compliance cost will significantly decrease.

Anyhow, in the proposal of joint discussion between DGT and its stakeholders, Arsal (2020) recommends that tax provisions do not need to adopt accounting rules fully because the attempts to amend tax regulations will be massive. Besides, it could increase taxpayer compliance costs. Conversely, it will be impossible to make accounting rules adopting tax rules fully. However, some cases of the book-tax gap can be simplified when the level of risk is still relatively simple (Arsal, 2020).

For a practical solution, as a tax professional, Kusuma (2020) proposes DGT to issue technical guidance immediately. With this guidance, taxpayers can avoid the confusion resulting from the increased gap. In the next step to solving the increased difference because of IFRS, according to Kusuma (2020), it will better for tax rules to be able to adopt fair value concepts due to the changing world. As a tax practitioner, Dharmawan (2020) also supports Kusuma (2020)'s proposal above. Dharmawan (2020) proposes DGT issue implementation guidance concerning what accrual basis means based on UU PPh (Law No. 7 of 1983) in the context of the fair value accounting era. Therefore, according to Dharmawan (2020), tax authorities should consider issuing technical or implementation guidance for some grey areas of taxation rules. One of the examples is how to apply an accrual basis under the definition of income, as stipulated in Article 4 paragraph (1) of UU PPh. The policymakers formulated the accrual concept in the provision based on industrial accounting theories, while the recently accounting paradigm is under the information era.

According to Samingun (2020), to solve the income measurement under the FVA vs. HCA issue, tax authorities should firstly consider what tax principles they should apply. The three tax tenets relevant to this matter are legal certainty, ability-to-pay concept, and realization doctrine. However, Samingun (2020) says that DGT and BKF are recently performing internal discussions so that they have not come to the final decision. Before policymakers issue new tax rules to solve the increased book-tax difference, Samingun (2020) proposes taxpayers strengthen tax reconciliation. Unfortunately, Samingun (2020) is still afraid of tax officers' understanding of current income tax regulations. Their diverse knowledge could lead the increased tax disputes coming to the tax court.

Samingun (2020) and Santosa (2020), as the DGT officials, stipulate that both taxpayers and tax officers should understand the position of tax accounting concepts adopted by UU PPh. The act still applies the rules-based approach, the realization rules, and the ability-to-pay model. Tax laws have to implement the rules-based approach because it relates to tax compliance, and taxpayers must comply with prevailing tax regulations (Samingun, 2020). The realization concept is required because it is relevant to the ability-to-pay tenet underlying UU PPh. Taxpayers will have the ability to pay a tax if they can realize income, and the realized income refers to the values of transactions. Therefore, UU PPh adopts HCA to support the realization doctrine and the ability-to-pay concept.

As a consequence, any accrual resulting from the application of FVA under PSAK converged with IFRS will not impact tax imposition. In other words, unrealized income is not taxable yet, and unrealized loss/expense is not deductible for tax purposes. According to Samingun (2020), to increase certainty and ease of administration, DGT and IAI can make a tax reconciliation guidance. In this case, Samingun (2020) is concerned with the increased compliance cost because of no such technical guidelines.

As recently, GoI is performing the third tax reform; Arsal (2020), Samingun (2020), and Santosa (2020), as the DGT officials, have a specific query during their interviews. The question is whether the definition of income under UU PPh (Law No. 7 of 1983) is still relevant and applicable for the next income tax law. Arsal (2020), Samingun (2020), and Santosa (2020) agree to stipulate that tax policymakers must be careful to determine the notion of income according to the upcoming income tax law. Their precautionary attitude relates to the underlying tax principles. However, all interviewees agree that certainty principle and ability-to-pay concept must underlie the forthcoming income tax law because both are closely related to compliance costs.

Anyhow, the definition of income must relate to how the authorities will impose a tax on income. Based on academic literature, GoI and parliament have three options to implement income-based taxation: (1) mark-to-market taxation (Weisbach, 1999, p. 97); (2) realization taxation (p. 97); and (3) hybrid taxation (Schenk, 2004b, p. 503). Mark-to-market taxation means that DGT imposes a tax on unrealized gains arising from capital appreciation. Such a tax system is in line with mark-to-market accounting adopted by IFRS standards and becomes the ideal and pure system of income-based taxation under the S-H-S concept of taxation. Anyhow, Robert Haig, and Henry Simons —as the pioneers of the S-H-S model— each realized that the adoption of mark-to-market taxation is impossible (Kleinbard & Evans, 1997, p. 790). Besides, the big issue stems from the implementation of the ability-to-pay concept.

Realization taxation adopts the realization doctrine so that it will be in line with the ability-to-pay model. In this case, DGT only taxes realized gains, whereas capital appreciation is not taxable yet. Nevertheless, the pure realization taxation, according to Schenk (2004b, p. 355), is inapplicable as the doctrine of realization produces distortion and injustice.

Hybrid or mixed taxation combines mark-to-market taxation and realization taxation. It means that DGT and its stakeholders have to agree to some income subject to mark-to-market taxation and other income subject to realization taxation. Thus, a taxation system with

a hybrid system requires precise definition and line drawings to distinguish the rules (Weisbach, 1999, p. 97).

V. Conclusion

Based on the first objective of this study, this research concludes that before IFRS convergence in 2012, the development of tax accounting thoughts is inseparable from and dependent on the development of accounting thoughts. Since the first tax reform applying the modern tax system in the form of self-assessment concept in 1983, tax accounting under tax laws always has been referring to the prevailing accounting standards with some tax adjustments. Besides, before and after IFRS convergence, the tax accounting paradigm remains unchanged. It relates to the accounting paradigm in the industrial era with the following characteristics: (1) rules-based, (2) transaction-focused, (3) using historical cost accounting, (4) referring to the concept of matching cost against revenue, (5) reliability-based. The shift of financial accounting thoughts from the industrial paradigm to the information one does not result in the change of tax accounting paradigm since the tax laws, to which to the tax accounting concept refer, have not changed yet. Consequently, the difference between financial accounting rules and tax accounting rules gets increased.

The second conclusion is that to decrease the book-tax gap requires two approaches. First, conceptually, tax policymakers should perform joint discussions with their stakeholders to make a bridge so that financial accounting rules and tax accounting regulations can get closer, and tax reconciliation will be insignificant automatically. The bridge relates to how DGT imposes a tax on income based on mark-to-market taxation, realization taxation, or hybrid taxation. The tax imposition must apply the principle of legal certainty and the ability-to-pay tenet, increase taxpayers' compliance, and decrease taxpayers' compliance cost. Second, for a practical solution, DGT and IAI should jointly formulate technical guidelines concerning tax reconciliation as the response to the tax implication of IFRS convergence applying a principles-based approach and fair value accounting system.

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