FULFILLING THE PRINCIPLES OF FAIRNESS AND EQUITY IN THE IMPLEMENTATION OF OECD PILLAR ONE (UNIFIED APPROACH) IN INDONESIA

Catur Anggoro Putro[1]
Universitas Trisakti, Jakarta, Indonesia
123012211024@std.trisakti.ac.id

Helmi Rizal[2]
Universitas Trisakti, Jakarta, Indonesia
123012211042@std.trisakti.ac.id

Sekar Mayangsari[3]
Universitas Trisakti, Jakarta, Indonesia
sekar_mayangsari@trisakti.ac.id

Abstract

This research aims to analyze how Indonesian tax regulations implement the OECD's Pillar One (Unified Approach) in terms of the principles of fairness and equity. The data collection techniques used in this research are literature studies and field research through interviews with key informants, namely people who are competent in understanding the problems discussed in this research. The research results show that the two-pillar design provides certainty of equality and justice in the international taxation framework in Indonesia. Pillar One is here to provide concessions that can be accepted by all parties actively involved and eliminate regulatory disharmony so that there is a common approach in overcoming the influence of the digital economy. The proposed Pillar 1 (Unified Approach) is an ideal level but is difficult to implement because there are so many challenges in it, Indonesia must minimize every obstacle that has been identified from the start to start implementing Pillar 1 and immediately align it with business processes at the Directorate General of Taxes related to reporting administration, law enforcement, supervision, and inspection. Indonesia must be able to adapt to the development of the digital economy in the world, especially regarding international tax regulations which have not been accommodated by the current regulations.

Keywords: Pillar One, Fairness; Equity, Digital Economy

INTRODUCTION

OECD data for 2019 shows significant growth in e-commerce transactions in the Asia and Pacific region, which increased from 23% to 37% (OECD 2019a). This growth reflects the rapid digitalization experienced by the region since 2013. According to the OECD, “digital transformation spurs innovation, generates efficiencies and improves services while driving more inclusive and sustainable growth and improving prosperity”. Although an increase in digitalization has a positive economic impact, but it also poses various challenges for policymakers and administrators. This relates to the central question of how tax rights on income generated from cross-border activities in the digital era should be allocated between countries (OECD 2015: 18–19).

In traditional tax administration systems, digital business models cannot be easily taxed on their income in countries, where they do not have a physical presence. At the same time, it also cannot be easily taxed by its home country on income generated from sales abroad. These conditions create opportunities for base erosion and profit shifting (BEPS) practices.

The Asian Development Bank Institute and Routledge in a publication entitled "Taxation in the Digital Economy" (New Models in Asia and the Pacific), present a critical review of the status of the taxation system in Asia and the Pacific in the digital economy era as follows:

1. How countries can maximize the mobilization of their domestic resources in facing the challenges generated by digitalization
2. How they can best utilize or utilize aspects of digitalization to meet their own needs.

According to Chris Evans et al (Pricewater house Coopers and World Bank Group 2020: Effective digitalization is a major challenge for the tax system because it allows businesses to operate across jurisdictions without requiring a physical presence. In the 2015 BEPS (Base Erosion and Profit Shifting) Action Report 1, the OECD identified three major challenges to existing tax systems raised by digitalization: nexus, data and characterization. These all relate to the question of how tax rights on income generated from cross-border activities in the digital era should be allocated among countries (OECD 2015: 18–19).

Digital Economy in OECD/G20 BEPS Action 1: 2015 Final Report includes e-business and also e-commerce. Furthermore, the digital economy is described as an interaction between 3 (three) parties, namely the government), business/private (business) and consumers (consumer) in the form of providing information/goods and/services to other parties.

Table 1.
Digital Economy Map

	Pemerintah	Bisnis/Swasta	Konsumen
Pemerintah	G2G (co-ordination)	G2B (information)	G2C (information)
Bisnis/ Swasta	B2G (procurement)	B2B (e-commerce)	B2C (e-commerce)
Konsumen	C2G (tax compliance)	C2B (price comparison)	C2C (auction markets)

The digital economy is developing by maximizing the internet network, this means that Multinational Enterprises (MNEs) as companies operating in various countries will also take advantage of it. Physical presence is not needed in this business, as stated by Darussalam & Septriadi (2017) that with the emergence of new technology in communication, physical presence is no longer needed in business activities between countries, for example buying and selling online. Law Number 2 of 2020 has expanded the definition of BUT and the imposition of tax on Trading Through Electronic Systems (PMSE). PMSE actors who meet the criteria for significant economic presence will be required to collect Income Tax or electronic transaction tax (Government of Indonesia, 2020). Several countries in the world have expanded the concept and model of indirect taxes in the form of VAT (Value Add Tax) and GST (Goods and Service Tax) to the sale of electronic/digital services by providers and online platforms to consumers. Electronic services are defined here varyingly across jurisdictions, including revenue from the sale of: streaming media and games; electronic books; software; application; web hosting and other cloud services; subscribe to a membership site; online newspapers and journals; and online gambling.

Indonesia itself has developed several digital taxation alternatives that can be implemented, including using the concept of Income Tax (PPh), Value Added Tax (VAT), or adding a new type of tax specifically regulating taxes on digital economic transactions. The first regulation issued was Minister of Finance Regulation number 210/PMK.010/2018 concerning Tax Treatment of Trade Transactions via Electronic Systems (E-Commerce). This regulation is aimed at creating equality or balance in the trade business sector between conventional entrepreneurs and entrepreneurs operating in the digital economic sector (E-Commerce). However, in 2019 this regulation was officially revoked and declared invalid, after various conflicts emerged among E-Commerce entrepreneurs themselves. Indonesia's efforts continue to carry out taxation in the digital economic sector, so that in 2020 the Government Regulation in Lieu of Law (PERPU) Number 1 of 2020 was issued which was stipulated as Law number 2 of 2020. It regulates the tax treatment of trading activities through the system. Electronic (PMSE) in the form of imposition of Value Added Tax (VAT PMSE) and Income Tax on Electronic Transactions (PTE).

PMSE VAT has been effectively implemented by the government since July 1 2020 through Minister of Finance Regulation Number 48/PMK.03/2020 which contains procedures for appointing collectors, depositing, collecting and reporting VAT on the Utilization of Intangible Taxable Goods (BKP) or Taxable Services. Tax (JKP) from outside and inside the customs area via PMSE. PMSE VAT is imposed on the use of intangible taxable goods or taxable services originating from outside the customs area within the Indonesian customs area. By adhering to the destination principle, tax objects in the form of intangible taxable goods such as digital products will be subject to VAT. The imposition of PMSE VAT itself is in accordance with the VAT principle, namely "equal treatment", so that taxable goods and taxable services consumed domestically will be subject to VAT, including those obtained from digital transactions. PMSE business actors consist of Foreign Traders, Foreign Service Providers, Overseas PMSE Organizers and/or Domestic PMSE Organizers. However, different conditions occur in the provisions for the imposition of PPh PMSE, which have not yet been implemented. Expert Staff to the Minister of Finance for Tax Compliance, Yon Arsal, in an interview on May 11 2023, said that the implementation of PPh PMSE would follow the two pillars of the global consensus on international taxation.

The main problem in cross-border PMSE taxation is how to make tax regulations not only acceptable to PMSE actors but also not give rise to tax conflicts leading to tariff wars and trade wars which ultimately harm the economy as a whole and have the potential to cause base erosion and profit shifts. (BEPS). Regarding this matter, the OECD has held various joint discussions with the leaders of the G-20 countries, and member countries of the OECD/G-20 Inclusive Framework (IF). So an agreement was reached on July 9 2021 in the meeting forum of finance ministers and central bank governors of the G-20 under the Italian Presidency through a solution to the 2 main pillars of the taxation foundation of the digital economy (Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalization of the Economy).

This research aims to examine Indonesian tax regulations if they agree to implement the OECD's Pillar One (Unified Approach) in Indonesia in terms of the principles of fairness and equity, as well as the implications of implementing unilateral measures and global consensus. It is hoped that the results of this research will provide benefits in the form of input to tax regulators in Indonesia regarding tax regulations for digital economic transactions, especially those related to cross-border transactions.

REVIEW OF LITERATURE

Tax Avoidance and Base Erosion Profit Shifting (BEPS)

Several definitions of Tax Avoidance according to experts are as follows:

a. Reddy (quoted in Lathifa, 2019)
   Call tax avoidance the art of avoiding taxes without breaking the law.
b. Slamet (2007, quoted in Darussalam & Septriadi, 2017)
   Tax avoidance is an action that is contrary to the intention of the rule makers (bona fide adequate and consideration), even though it is still within the legal corridor.

It can be concluded that tax avoidance is a method of tax avoidance that takes advantage of loopholes in the tax regulations of a jurisdiction. The indication that a transaction is classified as tax avoidance is if there are aspects described by Ronen (2008, quoted in Rahayu, 2010).

a. Taxes paid by taxpayers are sought to be less by utilizing legal interpretation.
b. The tax charged is not on the profits earned.
   Postponement of payment is attempted by the taxpayer.

Due to the rise of tax avoidance, the OECD launched the Base Erosion and Shifting (BEPS) Report project to prevent tax avoidance by multinational companies (Darussalam &

Septriadi, 2017). One of the factors causing this issue is that international tax principles are unable to keep pace with developing business models and technology. The BEPS issue is tax planning which attacks regulatory weaknesses by eliminating or diverting company profits to other countries where taxes are lower or tax-free (Rakhmindyarto, 2014). BEPS are two different but closely related meanings. Base erosion focuses on the negative influence of eroding the tax base on domestic tax revenues, and sovereignty, as well as harming the principles of tax justice (Isabel Lamers, et al in Darussalam, 2017).

OECD Pillar 1 (Unified Approach)

The international tax system is currently facing increasing challenges, with the main issue being the allocation of tax rights on income generated from cross-border activities in the digital era between countries (OECD 2015: 18–19). The current international tax system is considered obsolete because its origins were based on an agreement from the 1920s. The development of business models and globalization means that these provisions can no longer accommodate international taxation on cross-jurisdictional economic activities which are increasingly digitalized. Although the OECD/G20 Base Erosion and Profit Shifting (BEPS) project represents an unprecedented multilateral effort to address profit shifting, many questions regarding the allocation of tax rights remain unresolved. Digitalization and globalization have highlighted certain weaknesses in the existing framework, which allocates taxation rights primarily based on physical presence. In addition, there are still several BEPS problems. In this context, an increasing number of jurisdictions are taking uncoordinated and unilateral actions, thereby contributing to an increase in tax and trade disputes, as well as increased tax uncertainty. The COVID-19 crisis is exacerbating these tensions by accelerating the digitalization of the economy and increasing pressure on public finances.

Against this backdrop, the OECD/G20 Inclusive Framework on BEPS (Inclusive Framework), consisting of 137 member jurisdictions, is discussing proposals for consensus-based reform of international tax regulations to address tax challenges arising from tax digitalization. economy. These proposals are outlined in the Pillar One and Pillar Two Blueprint reports (OECD, 2020). As part of the Work Program approved by the Inclusive Framework in May 2019 (OECD/G20 Inclusive Framework on BEPS, 2019) and approved by G20 Ministers and Finance Leaders in June 2019, the OECD Secretariat was mandated to conduct an economic analysis and impact assessment of the proposals the. An agreement was finally reached on July 9 2021 in a meeting forum of finance ministers and central bank governors of the G-20 under the Italian Presidency through a solution to the 2 main pillars of the taxation foundation of the digital economy (Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalization of the Economy).

Pillar One seeks to adapt the international corporate tax system to the digital era through significant changes to the rules applicable to business profits, to ensure that the allocation of taxation rights on business profits is no longer determined exclusively by reference to physical presence. This aims to expand the taxation rights of a market jurisdiction if there is significant and ongoing participation of a company in that jurisdiction's economy, both physically and remotely. It also aims to increase tax certainty by introducing better dispute prevention and resolution mechanisms.

Previously, tax revenues from companies in the digital sector were considered to be not optimal because there were no regulations that gave taxation rights to market jurisdictions if the company was not a Permanent Business Establishment (BUT). Meanwhile, tax provisions in Indonesia only have taxation rights if the company is a BUT, this will hinder the imposition of tax for most multinational companies or MNEs in Indonesia. Implementing Pillar One, it helps Indonesia expand its tax base through taxation rights for multinational companies that make Indonesia a market country, whether they are BUT companies or just representative offices. As long as they meet the criteria mentioned previously, multinational companies must provide a share of their profits to Indonesia. In short, Pillar 1 is believed to make digital taxation easier for Indonesia, which in turn can increase state revenues because it is easier to tax income earned by digital companies such as Google, Facebook, and Twitter.

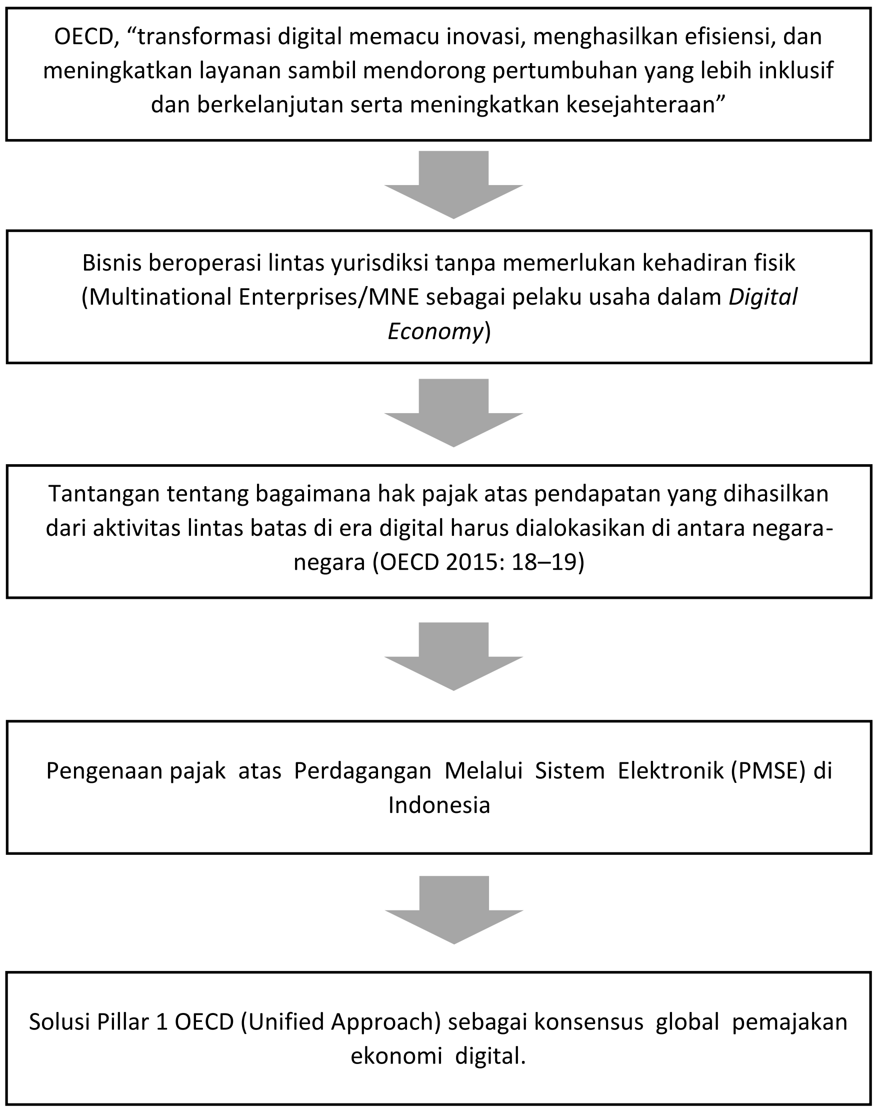
Pillar 1 As a Result of Global Consensus

The global consensus on taxation of the digital economy is contained in a proposal that is part of the two-pillar solution proposed by the OECD/G20. One of the pillars aimed at addressing the issue of taxation of the digital economy is Pillar 1 which focuses on the allocation of taxation rights on MNE profits, especially in the case of digital transactions (OECD, 2021). However, new rules under Pillar 1 will affect more companies in many industries, not just digital companies (Bauer, 2020). Due to this, the challenge is how to ensure the taxation rights of the source country and which income can be taxed (Kristiaji, 2021). Pillar One seeks to adapt international tax systems to new business models through a coherent and concurrent review of profit allocation and relationship rules. It aims to expand the taxation rights of market jurisdictions where there is active and ongoing participation of a business in that jurisdiction's economy through activities within, or remotely. directed to that jurisdiction. Pillar One also aims to significantly increase tax certainty by introducing innovative dispute prevention and resolution mechanisms. The key elements of Pillar One can be grouped into three components:

1. New taxation rights for market jurisdictions on a share of residual profits calculated at the Multinational Enterprise group level (Amount A).
2. Fixed returns for certain basic marketing and distribution activities performed physically in the market jurisdiction, in line with the arm's length principle (Amount B).

Improving the tax certainty process to increase tax certainty through innovative dispute prevention and resolution mechanisms (Tax certainty component). Amount A will cause the reallocation of part of the tax base of the group or Multinational Enterprise (MNE) which falls within the scope of the jurisdiction where the remainder of the MNE group's profits are currently located, to the market jurisdiction. Not all MNE groups will be affected by this reallocation, as it is assumed that this reallocation will only apply to relatively large and profitable MNE groups (i.e. MNE groups with revenues above a certain global revenue threshold, and profitability above a profitability threshold percentage). Although subject to political approval, for current purposes this work has proceeded based on a technical proposal to define activities within its scope as Automated Digital Services and Consumer Facing Businesses.

Pillar One targets multinational companies globally that have gross turnover above 20 billion euros and a profit level of 10%. When the multinational company has a profit of at least 1 million euros from the jurisdiction where the company obtains, then they (the multinational company) must share the profits with the jurisdictional country. Based on the July 2021 G20/BEPS agreement, the allocation rate charged will be around 25% according to sales to each jurisdiction. From a regulatory aspect, with the approval of Pillar I of the OECD, it indicates that Law number 2 of 2020 which regulates taxation for trading via electronic systems (PMSE), is no longer relevant. The law was initially designed to anticipate the uncertainty of the global digital tax consensus. On the other hand, Pillar One will expand the digital tax collection base for Indonesia which will certainly benefit Indonesia. To understand the relationship between the dimensions studied, the research framework can be described as follows:



Fairness Principle

The application of the Fairness principle in tax collection emphasizes equal treatment for all taxpayers who are in a similar position. This means that individuals or companies in the same situation should be subject to comparable tax burdens. The principle of equality and fairness according to Hamdani in the book Good Corporate Governance

(2016, 76) is a principle that contains elements of justice, which guarantees that every decision & policy taken is in the interests of all interested parties, including customers, suppliers, shareholders, investors, as well as the wider community. The basic principle of equality (Fairness) in carrying out its activities must always pay attention to the interests of other parties based on the principle of equality. This equality principle is intended to overcome problems arising from the existence of a contractual relationship between owners and managers because the two parties have different interests (conflict of interest). The principle of Fairness or equality can be concluded to mean that there is equal treatment of all stakeholders.

Equity Principle

The principle of equity in tax collection must be proportional to each taxpayer's ability to pay and receive appropriate benefits from the state. This principle of justice includes horizontal equity, namely that every taxpayer who has the same additional economic capacity will be subject to the same tax burden, and vertical equity, namely that taxpayers who have different additional economic capabilities will be treated unequally. This principle states that in terms of tax collection, the state must adapt to the capabilities and income earned or received from the taxpayer. The state may not act discriminatory or at will in collecting taxes on taxpayers. So, this principle implies that for taxpayers who have more capabilities and have a lot of assets, then the tax collection charged to them is also at a high rate adjusted to their economic capabilities. The principle of justice can be realized through a progressive approach, where tax rates increase as individual or company income increases. The principle of justice also involves fair treatment of all taxpayers and avoidance of tax abuse.

RESEARCH METHOD

This research is qualitative in nature using descriptive research methods. Qualitative research is a research method that uses descriptive data in the form of written or spoken data from people and actors who can be observed. In the process, this research begins with the development of basic assumptions, then they are linked to the principles of thought used in the research. Saryono (2010) stated that qualitative studies are designed to investigate, discover, explain and explain the qualities or features of social impacts that cannot be explained, measured or explained using a quantitative approach, namely research.

This research uses primary data and secondary data which are then processed using a triangulation approach, namely by combining data from various sources to increase the validity and reliability of a study and reduce the potential for bias that can arise from using one method or source. Primary data comes from interviews with several sources, while secondary data comes from library observations of journals, articles, books and regulations studied in print and electronic media.

In this research, data collection techniques were used by viewing, observing, studying notes and reports in depth, as well as interviews with policy makers at the Directorate General of Taxes and academics in accordance with the topics studied. The topics in question include, how Indonesian tax regulations if they agree to implement the OECD's Pillar One (Unified Approach) in Indonesia will be reviewed from the principles of fairness and equity, as well as the implications of implementing unilateral measures and global consensus. The following is the approach used for data collection in this research.

RESULTS AND DISCUSSION

Development of the Digital Economy

The development of the world's digital economy is currently very rapid, especially after the COVID-19 pandemic, where there has been a change in people's transaction habits from conventional to electronic. Indonesia has large digital economic transactions, with a total value reaching USD 77 billion and projected growth of up to USD 220-360 billion in 2025 according to research by Google, Temasek, and Bain & Company (2022). Digitalization has had a huge impact on the economy and people's lives throughout the world, this is reflected in the many changes in company business models which no longer require physical presence in market countries as well as changes in people's consumption behavior styles that no longer shop through physical markets but prefer online shopping platform (e-commerce). The influence of digitalization has become more complex due to globalization where the world has become interconnected, without borders, so that transactions between countries have increased in intensity.

These changes are moving more quickly and have not been accommodated in the current international tax rules, resulting in multinational companies using this regulatory loophole to pay no or little tax even though their profits are very large. For example, G Corp reports consolidated financial reports (Financial Reports in the country of domicile and financial reports of subsidiaries abroad) with a turnover of 80 trillion while the taxes paid are only 100 billion, of which 100 billion comes from taxes paid in the country of domicile as a whole and taxes paid abroad is little or nil due to various reasons (low tax rates, facilities, etc.). On the other hand, countries with large markets such as the countries that are members of the BRICS (Brazil, Russia, India, China, and South Africa) view their unique, large market conditions are a specialty that must get a certain share of profits from multinational company profits. that big one. This has spurred tax authorities around the world (both developed/domicile countries and market countries) to work together through the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (Inclusive Framework) to tackle this problem.

Global Consensus (Pillar 1) Solution to Disharmonization of Taxation Systems between Countries

The existence of a global consensus on pillar one, which was initially intended to address issues related to the taxation of non-residents, can certainly prevent disharmony between countries. However, if we consider the current conditions where several countries are starting to withdraw from the Pillar 1 commitment, then if Pillar 1 does not cover most of the important countries where multinational companies are located, it is feared that this goal will not be achieved. In general, Uniformity in Global Markets will provide more fairness and certainty for countries in the world and MNEs than uncoordinated unilateral measures. Unilateral measures, for example, the imposition of digital services tax and significant subscriber tax, etc., which are implemented in many countries, give rise to diversity in how to tax these companies, so that there is no uniformity in attitudes and create disharmony in the taxation system between countries and a high compliance burden for MNCs. Global Consensus, Pillar 1 is here to provide concessions that can be accepted by all parties actively involved in the work team (140 countries) and eliminate regulatory disharmony so that there is a common approach in overcoming the influence of the digital economy. There is no doubt that mutual concessions will eliminate these problems.

The Two Pillar Solution Provides Certainty of Justice in the International Tax Framework in Indonesia

The two-pillar solution provides a level playing field between foreign and domestic business actors who both have businesses and gain profits from businesses in Indonesia. If seen from the perspective of reallocating taxation rights, fairness can be achieved. However, in detail on the concept of Pillar 1, several studies show that market countries only get a small portion of reallocated MNE profits, considering that only 25% of residual/excess profits will be received by market countries, and this is still minus the Marketing & Distribution Safe Harbor (MDSH) and Elimination of Double Taxation (EoDT). For Pillar 2, we can assess fairness from considering the impact of Pillar 2 on the country's competitiveness to attract Foreign Direct Investment (FDI) and the direct impact on tax revenues. In particular, from the implementation of the Qualified Domestic Minimum Top-up Tax (QDMTT) or the clause which is the basis for jurisdictions to impose a domestic minimum tax of 15%. What is meant by "fairness" here is that every company pays tax (PPh) on the profits it earns. In the example above, G Corp's overseas subsidiaries are not subject to tax or are subject to minimal tax. This violates the principle of justice where other companies and even individuals pay tax on the profits they earn at high rates while multinational companies with all the tax resources can make the tax they pay at an effective rate very low.

In this context, the implementation of the global minimum tax and income inclusion rule which will tax profits that are not taxed abroad will provide a sense of justice for all taxpayers and all eligible countries. This will probably provide huge benefits for countries that have global digital companies such as the USA which has Google, Amazon, Facebook, and others. Where they will get additional tax from the subsidiary's profits abroad if the subsidiary's profits abroad are not taxed or are taxed at a low rate (below 15%). Indonesian digital companies such as Tokopedia, Gojek, and others are not yet global so it could be said that Indonesia does not yet have this issue, but it is important to adopt this provision by considering that there is the potential for Indonesian digital companies to become large and global so they need to be protected by this provision as a preventive measure. .

Two Pillars Provide Certainty of Equality in the International Taxation Framework in Indonesia

A two-pillar solution can provide equality to market countries where a portion of profits will be allocated to market countries without considering the existence of companies in that country. In Pillar One, equality can be seen from the treatment of domestic businesses and foreign business actors who do not/have a physical presence in Indonesia and operate remotely from offshore. Pillar One can increase the level playing field between domestic-foreign and conventional-digital businesses. In Pillar Two, equity can be seen from uniform tax competition, regardless of other aspects that businesses consider when investing. The context of equality here is that each country gets the right to share in the tax on the "value" it owns. Indonesia, as a country with a large market, has not yet obtained its rights to residual profits generated by MNCs, so through A pillar one amount it is hoped that Indonesia can obtain these rights.

In this way, the country of domicile (generally developing countries that own the "value" of intangible properties) will receive a share of tax from the profits of overseas subsidiaries through GMT and IIR while Indonesia (as the owner of the "value" of the market country will receive a share of tax from residual profits through the amount A pillar one. As far as observations are concerned, this condition provides sufficient certainty of equality based on this value.

Pillar 1 (Unified Approach) Provides Solutions to Guarantee Taxation Rights and a Fairer Tax Base in the Context of the Digital Economy

Pillar 1 (Unified Approach) in general can provide the best solution in guaranteeing taxation rights and a fairer tax base in the context of the digital economy. However, compliance testing of digital economy actors is an issue in itself considering that only digital economy business actors have data and information related to their digital transactions. Conceptually, it can be the best solution, such as the concept of revenue sourcing, a mechanism to eliminate double counting and double tax. However, once again, the ultimate revenue outcome problem for market countries is not significant compared to its complexity. Pillar 1 (Unified Approach) already gives market countries the right to obtain taxation rights and the tax base from the residual profit portion. It's just that you need to think about how to provide a clear picture of the amount or portion of the residual profit. Pillar 1 (Unified Approach) uses an ideal approach where data from parent and subsidiary companies is opened to find out how much profit the Ultimate Parent Entity (UPE) company makes on a consolidated basis and how much residual profit there is. This solution provides accurate distribution of tax rights and an accurate tax base, because all parent company and subsidiary company data will be opened, but on the other hand, this solution requires more effort and imposes high compliance costs on taxpayers. Indonesia as a market country, most of its MNCs are subsidiary companies where such data does not exist and only depends on whether or not there is data disclosure from the parent company. Without this data, this approach is difficult to implement. This will be the biggest challenge of this approach.

Simplicity vs Complexity in the Implementation of Pillar 1 (Unified Approach)

One of the factors that support digital economy tax policies is the simplicity of tax regulations for digital economy business actors. Especially for multinational business actors where companies must understand and prepare a system that can adapt to domestic tax regulations in each country. In terms of implementing pillar 1, simplicity is not only useful for increasing business actor compliance but is also related to the effectiveness of compliance monitoring by tax officers. Simplicity will be the opposite of fairness. The simpler it is, the ideal concept will be trimmed or sacrificed. It needs to be understood that a two-pillar approach is taken to divide Income Tax taxation rights due to gaps in international tax regulations in digital international economic transactions which are utilized by taxpayers to minimize their tax burden and are not related to VAT which is more attached to domestic regulations. So, if we give an example in the case of VAT, PMSE is not directly related to this approach. PMSE VAT is the imposition of VAT based on considerations of equality between digital transactions and conventional transactions. In the sense that if transactions for the same goods or services in conventional transactions are subject to VAT, digital transactions are also subject to VAT. MSE VAT is different from unilateral measures such as digital services tax in other countries, because digital services tax is the imposition of tax (not PPh and not VAT) as a substitute for PPh which is not obtained by the market country due to the absence of physical presence which is a condition for the imposition of PPh in accordance with international tax provisions. recently.

The challenge is that the unified approach is less simple because it uses a two-sided approach (parent data and child data) so in practice you will encounter several obstacles, such as using the profit split method, which in practice in Indonesia is very difficult to implement due to the absence of head office data (UPE). The indirect influence on PMSE VAT is whether the portion of the residual profit that will be given to the market country, in this case, Indonesia, will also be subject to VAT and what is the imposition mechanism because the additional price of this residual profit will only be known at a later date, namely after the transaction occurs.

Tax Administration System Design in Indonesia in Implementing Pillar 1 (Unified Approach)

Pillar 1 (Unified Approach) is the result of global consensus so that when Indonesia has stated its commitment to participate in implementing it, it must follow the agreed arrangements. However, before implementing Pillar 1 (Unified Approach), Indonesia's interests as a very large market country must continue to be fought for through an active role in every discussion at the international level. The ideal system in Indonesian tax administration should follow the model of the final rules in the Multilateral Convention (MLC), because when we ratify the MLC, the detailed provisions of the MLC must be adopted in domestic regulations without exception. Remember that the Unified Approach is coordinated action at the global level. The challenge is to align with business processes at the Directorate General of Taxes related to reporting administration, law enforcement, supervision, and audit. Will Pillar 1 (Unified Approach) become a new type of tax in Indonesia? Is the reporting system incorporated into the Annual SPT or is it separate like the SPT rules in the Global anti-Base Erosion Rules (GloBE) which will be applied to Pillar 2?

These questions will be a challenge in aligning with tax reform by the Tax Administration Core System Update (PSIAP) related to the new tax system. However, the component of Pillar 1, namely tax certainty, uses arbitration, whereas so far, we are not familiar with the arbitration system in our international taxation (except in the Double Taxation Avoidance Agreement (P3B) with Mexico, although in practice it is still rarely found). At this time, we cannot judge that the proposed unified approach is an ideal level but is difficult to apply due to limited data. However, proposing another approach also feels difficult due to data limitations. Therefore, based on the experience of the OECD transfer pricing guidelines, which at the beginning of their emergence greatly glorified the Comparable Uncontrolled Price (CUP) method and the traditional method, however, in current conditions, they have equated the use of the transaction method with the traditional method with various considerations including practicality. The author hopes that from the experience of implementing the unified approach in the coming year, experience will be gained about the costs and benefits of this approach and that later it will be known what the average percentage share of profits can be distributed to the market countries so that one day the one-sided approach can be applied by adding a percentage the average share of these profits in routine profits to obtain company profits in market countries. This is of course based on low-capacity considerations which are a problem in developing countries.

CONCLUSION

Based on analysis originating from tax theory, the OECD/G20 Pillar One (Unified Approach) proposal, facts on the ground, and the opinions of key informants in interviews that have been conducted, the following conclusions can be drawn:

1) Indonesia must be able to adapt to the development of the digital economy in the world, especially regarding international tax regulations which have not been accommodated by the current regulations.
2) The Two Pillar Design Provides Certainty of Equality and Justice in the International Taxation Framework in Indonesia.
3) Pillar 1 is here to provide concessions that can be accepted by all parties actively involved and eliminate regulatory disharmony so that there is a common approach in overcoming the influence of the digital economy.
4) The potential for digital companies in Indonesia which are getting bigger and more global needs to be protected with provisions on two pillars as a preventive measure against all tax evasion efforts.
5) The Simplicity factor cannot be met in the design of pillar 1 considering the complexity that exists in the overall tax allocation scheme. Complexity is a consequence of digital company business models and the impact of efforts to realize aspects of justice.

The proposed Pillar 1 (Unified Approach) is an ideal level but is difficult to implement because there are so many challenges in it, Indonesia must minimize every obstacle that has been identified from the start to start implementing Pillar 1 and immediately align it with business processes at the Directorate General of Taxes related to reporting administration, law enforcement, supervision, and inspection.

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