



Single Tariff of Income Tax, The Principle of Fairness And Business Competitiveness Advantage

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ABSTRACT: The purpose of this research is to find out and gain an understanding of the single tax rate and the principle of justice. This research is a literature study related to the tax system in Indonesia, tax regulations, taxation principles, describe and explain their relationship and impact on the business world. The conclusion is that the government continues to strive to facilitate and pay attention to the sense of justice for taxpayers. Progressive rates or single rates, corporate taxpayers still get a sense of justice. The single rate does not reflect vertical justice, but horizontal justice will still be met. The implementation of a single and final tax rate is expected to fulfill the aspects of simplicity, elements of justice, and the principles of social justice as much as possible for the welfare of the people. Support for the business world, such as the provision of tax incentives can increase the productivity and competitiveness of MSMEs

Keywords: Single Tax Rate, Principles of Justice, Business Competitiveness, MSME

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INTRODUCTION

Tax is one of the sources of state revenue to finance and run the wheels of government as well as a source for Indonesia's development. The current state of taxes is also beneficial in restoring the Indonesia economy due to the impact of the COVID-19 pandemic. The challenges of economic uncertainty due to the COVID-19 pandemic and post-pandemic have made the Indonesia economy still face various fundamental challenges to increase productivity and competitiveness. In the future, economic recovery after the COVID 19 pandemic is determined from the awareness of taxpayers in paying taxes and the effectiveness and efficiency of tax collections carried out by the government. The burden and responsibility for realizing state revenues originating from tax revenues require the Directorate General of Taxation to reform the regulations in the field of taxation according to societal developments. One of the policies is to change the progressive income tax rate to a single tax rate.

The Indonesian corporate income tax rate has changed several times. In 2008 the progressive income tax rate used ranged from 10%-30%. In early 2009 the single tax rate was applied at a rate of 28%, and in early 2010 it was reduced to 25%. Even with several tax incentives, such as for companies listed on the Indonesia Stock Exchange, where the public owns 40% of the shares, there is a tax reduction of 5%. Meanwhile, corporations with less than IDR 50 billion in sales will receive a tax reduction, even with the lowest tax rate of 12% (Mulyadi et al., 2013).

Furthermore, based on government regulation number 46 of 2013, effective July 1, 2013, concerning income tax on income from business received or obtained by taxpayers with an inevitable gross turnover. Individuals and entities with a gross turnover of up to IDR 4,800,000,000 in one tax year are subject to a final tax of 1% of the monthly gross turnover (Wulandari & Budiaji, 2017). The latest government regulation no 23/2018 even subject to a final tax of 0.5%.

One of the reasons why the level of awareness of paying taxes is high in relatively developed countries is because they believe that the taxes collected by the government are fair. Prabowo (2017) states that a good and quality public expenditure should be supported by a fairer tax system design to improve people's welfare. Thus, the government should reform the current tax regulations, because it has not yet reached the potential tax revenue and the actual welfare of the Indonesian people for the last 15 years.

With a single income tax rate for this entity, does it meet the aspect of fairness? While this single tariff policy is one of them so that Indonesia business entities are superior in business competitiveness, especially in the post-covid19 pandemic, because it is believed that the tax burden will decrease so that production costs will also decrease. What are the advantages and disadvantages with single tariff? What about Law no. 7 of 2021 concerning the Harmonization of Tax Regulations, will it continue to support a single tax rate or will be returned to a progressive policy? This is interesting to be studied further by raising the topic: Single Tariff of Income Tax, Principles of Fairness and Competitive Advantage of Business.

LITERATURE REVIEW

Tax Collection Principles

Anggoro and Aprilian (2019) state that basically there are four principles of tax collection which are applied in every taxation system, namely: The *certainty*, tax regulations must determine when taxes must be paid, how taxes must be paid, and how much to be paid. One's tax obligations must be certain and not cause confusion. This certainty is important for the tax system as it helps to improve tax compliance and to improve compliance with the system. Assurance generally comes from clear laws and appropriate and understandable administrative instructions for taxpayers.

The principle of *convenience of payment*, this principle states that taxes are collected at the right time and in the most possible way or the best time to be collected for the convenience of the taxpayer. For example, when a new taxpayer receives his income or when the taxpayer receives a gift. Convenience of payment is important in helping to ensure taxpayer compliance with the tax system.

The principle of *efficiency*, this principle emphasizes that the costs of fulfilling tax obligations are expected to be kept to a minimum. And finally, the principle of *equality* or justice, this principle states that the same situation of taxpayers, both in terms of ability and income, must be subject to the same tax. This means that no discriminatory action is allowed against taxpayers.

According to the principle of justice, taxes must be fair and equitable. Taxes are imposed on individuals in proportion to their ability to pay the tax and also according to the benefits they receive from the state. The tax burden is said to be fair, if the taxpayer contributes an amount to be used for government spending in proportion to his interests and the benefits he receives from the government. Furthermore, Husen *et al* (2021) state that fair regulation is a balance between the protection of interests, where everyone gets as much of their share as possible, this justice does not mean that everyone gets the same

share. In the application of income tax, the imposition of taxes must be fair, lest this actually benefits the rich and burdens the lower class.

Probow (2017), states that in most countries, tax policy plays an important role in reducing injustice. Meanwhile, revenue in taxation and progressive tax is an essential factor in reducing income inequality. The purpose of Article 23 paragraph (2) of Law No. 36 of 2008 in conjunction with Law No. 11/2020 concerning Income Tax is to improve justice in the imposition of taxes further and provide convenience for taxpayers. The material for the Income Tax Law adheres to tax principles that are universally adopted, namely the values of justice, comfort, administrative efficiency, wandering, and optimizing state revenues while maintaining a *self-assessment system*, which demands an active role from taxpayers in fulfilling their tax obligations.

There are two principles of justice in the taxation system, namely the principle of horizontal and vertical justice (Husen *et al.*, 2021). Horizontal justice, in this case, is that taxpayers with the same ability or income condition must be subject to the same amount of tax. Meanwhile, vertical justice means that the higher the economic capacity of the taxpayer, the higher the tax burden imposed. Taxes are said to be vertically fair if taxpayers with additional economic power are treated unequally. On the other hand, horizontal justice is fulfilled if taxpayers are equally treated in the sense of equal treatment for equality. Thus the government, in making tax regulations, must meet the concept of justice vertically and horizontally.

This concept underlies the imposition of progressive taxes, namely, the average tax rate will increase by the increase in income as adopted by the income tax regime in Indonesia with progressive rate according to the provisions of Article 17 of the Income Tax Law. It aims to achieve justice for taxpayers where taxpayers who earn high incomes will bear a higher tax burden than taxpayers who earn low incomes. Delestre et al (2022) conclude that the progressive tax system as implemented in the UK meets the principle of horizontal justice, which will reduce *benefits* received for certain taxpayers. The average tax rate differs significantly for high incomes and depends on how the payment is received. For example, income derived from business ownership and investment is taxed at a lower rate than income derived from employment.

Taxes and Business Competitiveness

Taxes are not only an instrument for collecting state revenues but also for safeguarding the business world. Since the Covid-19 pandemic, the government has provided various tax incentives to business actors, ranging from Income Tax (PPH) 21, PPh article 22 imports, and PPh article 25. These incentives are also included in the National Economic Recovery program (Suahasil, <https://m>

oney.kompas.com/read/2022/01/21/171434826/wamenkeu-sebut-tajak-jadi-alat-to-jaga-dunia-usaha). The government is aware that business actors need support during the Covid-19 pandemic. This tax incentive is expected to have a propagation effect on the supporting industries. This makes the wheels of the economy move again.

Taxes must be fair. People who have income above non-taxable income must pay taxes. Meanwhile, the poor are assisted with various social assistance, and one of the budgets is also from taxes. On the other hand, taxes must also be simple, efficient, and provide legal certainty. Therefore, the government offers assistance in tax incentives during the Covid-19 pandemic so the economy can get back on its feet. The state must use tax money responsibly to ensure the ultimate welfare. Thus the tax system must be reliable. Taxes are the backbone of the state budget in handling the pandemic and economic recovery. Amid economic uncertainty, the Government helps MSME actors with tax incentives so that the economy can recover and return to normal (Yustinus, <https://www.kemenkeu.go.id/publikasi/berita/insentif-perpajakan-didesign-for-menolong-Masyarakat-dan-dunia-usaha/>).

Furthermore, the results of research by Altfalah et al. (2021), stated that in African and Middle Eastern countries, most tax system efforts were focused on contributing to the economy. The results of research by Wulandari et al. (2022) conclude that tax incentives and relaxation and provision of tax incentives provide various benefits for MSMEs, namely being more productive and can support national economic recovery.

METHODOLOGY

This research is a literature study related to taxation systems and regulations in Indonesia, the principles of taxation, especially the principles of justice, describe and explain their relationship and impact on the business world.

DISCUSSION

In the use of progressive rates as a tool to calculate income tax payable, one of them is influenced by the principle of vertical justice. Where the taxpayer is applied differently according to the income received. So that taxpayers always pay their tax obligations by paying taxes according to their abilities. Prominent entrepreneurs will be charged with the highest tariff layer according to the income, earned and similarly, small entrepreneurs or SMEs with small payments will be charged the lowest rates. So that there is a difference for large and small entrepreneurs who are adjusted to the income received. Taxpayers will feel that the government is fair to the calculation of the tax payable to calculate the amount of tax that must be paid by the taxpayer.

In contrast, a single rate is applied to corporate taxpayers and applies equally to all corporate taxpayers. Judging from the concept of justice in taxes, the imposition of single and/or final PPH rates is not in accordance with justice because it does not reflect the ability to pay. A single rate is a form of tariff in which the percentage of the rate is fixed even though the number of tax objects varies. A single rate does not reflect vertical equity because high-income taxpayers and low income taxpayers are taxed at the same rate. However, horizontal justice will still be fulfilled, where it is seen that every corporate taxpayer will pay taxes on their profits at the same rate. Justice in the imposition of taxes will be achieved because in a single rate, the *marginal rate* will still increase along with the amount of income a person has. Corporate taxpayers who earn higher profits will pay more taxes than those with lower profits.

Domestic corporate taxpayers and permanent establishments, the applicable rate is a single rate of 28% (twenty eight percent). With the enactment of Law Number 36 of 2008 concerning Income Tax which has been effective since January 1, 2009 there has been a change in the income tax rate. According to Article 17 paragraph (2a) the income tax rate for domestic corporate taxpayers and permanent establishments since 2010 has changed to 25% (twenty five percent). Finally, in the tax harmonization law no. 7 of 2017 the single rate for domestic corporate taxpayers and permanent establishments is 22% (twenty two percent) which will come into effect in the fiscal year 2022 (article 17 1b).

In government regulation number 46 of 2013 which was replaced with government regulation no. 23 of 2018 final income tax at a rate of 1% to 0.5% is calculated directly from gross circulation. So the imposition of taxes is not in accordance with the concept of vertical justice. It is better to consider the basis for the imposition of net income, after deducting the allowed gross income deduction costs according to the applicable tax provisions. A fair tax imposition is that the greater the income, the greater the tax paid.

However, a single tariff, which has a fixed rate percentage even though the number of tax objects varies, has the advantage of simplicity and ease of application. In addition, the single rate eliminates exceptions except for personal exceptions and loopholes that can be used to minimize taxes and single taxes will be more fair, accelerate economic growth, be globally competitive, can improve tax collection efficiency, facilitate and save time on the existence of taxpayers, and will stop corruption by related parties.

The application of a single rate is imposed on net income, meaning income earned after deducting the cost of goods, costs arising from compensation for losses. The single rate applies to all taxpayers, meaning that there is no difference between taxpayers belonging to the large category and

taxpayers on a small scale or Small and Medium Enterprises. On the other hand, progressive tax is a tax collection rate with a percentage that increases with the increasing amount used as the tax base, and the percentage increases for each certain amount each time it increases. The imposition of taxes based on progressive rates is expected to realize vertical justice. The principle of vertical justice is fulfilled if taxpayers who have additional different economic capacities are treated unequally. The tax burden is progressive where the greater the *ability to pay*, the greater the tax burden borne. To get the amount of tax owed, the taxpayer must go through several layers of rates that are adjusted to the amount of taxable income. This tends to be convoluted and reduces the practicality of calculations. Thus it cannot fulfill the aspect of simplicity in principle.

Meanwhile, the single rate is practical and simple in calculating the tax payable. Ease of calculating taxes, taxpayers can accurately and quickly calculate the profit on a project or business to be carried out. Taxpayers no longer need to use tariff layers in calculating the amount of tax owed. The government provides convenience in calculating the income tax payable so that taxpayers can pay taxes on time according to the amount of tax payable. Errors in calculating the amount of tax payable can be minimized because taxpayers only use one layer of tariffs. With a reduction in rates, taxpayers will find tax rates that are not too high where high rates will distort someone to keep trying. With the thought that the results of his hard work to earn income are mostly not for his own enjoyment but for the country. This shows that the single rate is practical and simple in calculating the tax payable so that it is expected to bring an increase in income tax revenues.

For small business actors, the use of a single tariff is considered unrealistic if small SME entrepreneurs and large entrepreneurs apply the same tariff because it will only benefit big entrepreneurs. Because SMEs are one of the pillars of the national economy whose existence is needed by the government in income tax revenues. In the implementation of a single income tax rate policy, of course there are pros and cons. Opponents say that the single rate is unfair because the burden on corporate taxpayers has fallen. Meanwhile, those who say this single tariff has fulfilled the principle of justice because the government provides incentives to reduce tariffs of up to 50% for MSMEs. Even turnover with a certain business circulation (Rp 4.8 billion) minus Rp 500,000,000 is only subject to 0.5% (PP no. 23 of 2018), and tax write-off if the turnover is below Rp 500,000,000. This is an effort by the government by imposing special or final tariffs in order to provide relief for small entrepreneurs in paying taxes owed.

The government continues to strive to implement tax policies with the principle of social justice as much as possible for the prosperity of the people, support for the business world such as providing tax incentives for MSMEs so that the business sector can have room to move and even increase productivity and competitiveness. As well as being able to support the recovery of the national economy in the midst of the current Covid-19 pandemic. Through various programs and tactical steps taken by the government, it is hoped that economic growth will be maintained and the spread of Covid-19 can be controlled quickly. The COVID-19 pandemic is still a factor holding back the direction of the domestic economic recovery, and economic performance will still face various fundamental challenges, such as issues of low productivity and competitiveness. For this reason, the government is expected to continue to push for policy steps to accelerate the recovery process in line with the implementation of the structural reform agenda to increase productivity and competitiveness of the business world.

The government has stipulated Minister of Finance Regulation number 82/PMK.03/2021 concerning Amendments to Minister of Finance Regulation Number 9/PMK.03/2021 concerning Tax Incentives for Taxpayers Affected by the 2019 Corona Virus Disease Pandemic. The existence of PMK-82, the public, and the business world can take advantage of incentives until December 2021. Tax incentives that can be utilized include 0.5% MSME final PPh borne by the government, final PPh from P3-TGAI construction services run by the government, PPh 22 imports, PPh 25 installment incentives, incentives for VAT refunds of up to an amount more pay a maximum of IDR 5 billion. By taking advantage of this tax incentive, MSMEs and the business world will be helped, will be supported, and businesses will also be better so that they can rise together for a strong Indonesia, a growing Indonesia.

CONCLUSIONS AND RECOMMENDATIONS

The government seeks to improve tax provisions that are expected to be beneficial for the life of the nation and state towards mutual prosperity and justice. On the one hand, tax revenue will increase, but it is also possible on the other hand, it will result in the community of small entrepreneurs being lazy to do business because they will be subject to higher rates. This is because a single rate does not reflect vertical equity because high-income taxpayers and low-income taxpayers are taxed at the same rate. However, horizontal justice will still be fulfilled, where it is seen that every corporate taxpayer will pay taxes on their profits at the same rate.

The implementation of a single and final tax rate is expected to fulfill the aspects of simplicity and fairness even though it is still felt by other parties to be unfair and accelerate economic and competitive growth in the business world, both nationally and globally. The single rate is expected to provide convenience in tax calculations, so taxpayers can accurately and quickly calculate the profit on a project or business. Contrary to the results of research which concludes that the tax system in Canada is complex and creates an unfair impact on most taxpayers, it requires consultants both in accounting and taxation to plan and minimize taxes (Loblaw, 2022).

The government has made efforts to make it easier for taxpayers to make tax payments so that taxpayers do not find it difficult to pay taxes. Agree with Lian (2022) that the effective tax rate positively correlates with sustainable business performance. This is of course, to give mutual appreciation to taxpayers who have complied with tax regulations by paying taxes.

The government still pays attention to the sense of justice for corporate taxpayers, but not with vertical justice. A vertical judge doesn't apply to single tariffs. The government replaces it with horizontal righteousness. Where corporate taxpayers will be subject to the same rate of tax payable. The point is, whether it is a progressive rate or a single rate, corporate taxpayers will still find a sense of justice for the government's tax levies. The purpose of justice received by the taxpayer will be fulfilled if the taxpayer contributes an amount to be used for government expenditures in proportion to his interests and with the benefits received by the taxpayer from the government.

Tax policy is constantly pursued by the government with the principle of social justice as much as possible for the prosperity of the people, support for the business world such as providing tax incentives for MSMEs so that the business sector can have room to move and even increase productivity and competitiveness so that they can rise and be more productive and can support national economic recovery.

FUTURE RESEARCH

For further research, quantitative research with secondary data can be carried out so that more accurate comparative data can be obtained, the benefits for business actors, especially MSMEs, between single, progressive, and mixed tax rate policies.

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