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Abstracting The Debate over Fair Value Measurement and Arm's Length Principle: Implications for Tax Purposes

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Abstract
Purposes: The requirement for a transaction price measurement system that accurately reflects actual value is becoming increasingly urgent as firms expand globally. The argument over the applicability of fair value (FV) and arm's length principle (ALP) arose since both are applicable concurrently due to their broad confluence. This study analyzes and synthesizes the similarities and distinctions, as well as the impact of FV and ALP on tax purposes.
Methods: The study is descriptive qualitative in nature. We gathered data through document analysis and in-depth interviews. Five informants from academics, policymakers, and tax practitioners were involved in the study. Before the interview, we familiarized the outline to decrease the random error, and all informants gave verbatim consent.
Findings: An outline of the relationship between FV and ALP and their origins is provided. The direction in which the two procedures are designated is crucial, even though they can be employed concurrently to accomplish the entity's objectives, one for financial reporting and the other for transfer pricing. The narrative describing the similarities and contrasts between the two methods also plays a role in the analysis. It discusses the significance of the long-established ALP regime to FV, which has recently gained much attention even though it appears to be new. Finally, prudence in taking policies related to the harmonization of FV and ALP is an emphasis on considering the consequences for tax purposes. ALP is more often acknowledged by tax administration than FV. Implementing FV for tax purposes is discussed, along with related considerations.
Novelty: The contribution of this work is a more brief and straightforward understanding of the business environment and the literature regarding FV and ALP. In contrast to the overarching goal of prior works, the current study analyzes the impact of FV and ALP adoption on taxation.

Keywords*:*
Fair value, Arm's length price, Transfer pricing, Taxation

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INTRODUCTION

Measurement is undoubtedly the most contentious issue in the academic literature and accounting profession over the last few decades. Many private-sector disputes have already concerned what constitutes "acceptable" accounting measurements (Anderson et al., 2015). The

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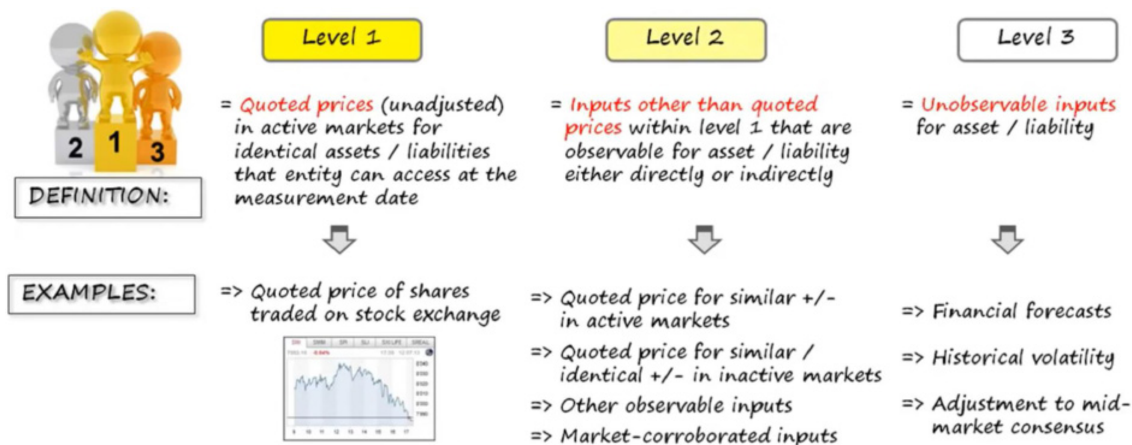

Figure 1. Fair Value Hierarchy
Source: CPD-box (2013)

most significant issue is the debate over the appropriateness of certain measuring bases, such as fair value (FV). For example, the use of the FV concept, which in 2011 was extensively established by the International Accounting Standards Board (IASB) through IFRS 13 Fair Value Measurement adoption, has attracted considerable scholarly attention (Conrath-Hargreaves et al., 2021).

Motivated by the IASB's post-implementation evaluation of IFRS 13 (i.e., level 1, level 2, and level 3), Filip et al. (2021) analyze the value relevance of the FV measurement hierarchy (Figure 1). Most likely, a learning impact among significant participants (such as top management, auditors, and accounting staff) is to account for the apparent increase in value relevance across the three FV levels, although it is also likely caused by the regulation effect. Their findings indicate significant technological breakthroughs and understanding of FV levels have occurred throughout time, which is reflected in capital markets' level of trust accorded to FV levels.

According to Whittington (2015), there are three significant ambiguities in the early concept of "fair value," which has a lengthy history in accounting and dates at least to the late nineteenth century. First, it does not specify whether transaction costs are included because it refers to the amount rather than the price. For instance, if the object in question is real estate, professional fees, registration costs, and transfer duties will likely need to be paid in addition to the nominal price in order to exchange the asset, resulting in a transaction with a total cost that exceeds the price. Second, the definition fails to specify whether the transaction is assumed to be from the standpoint of a buyer or a seller (an entry value or an exit value). The purchase cost (entry value) would be more than the value that could be realized from a sale if transaction costs were included in "the amount" (exit value). Third, there is no specification of the market to be utilized as the reference in the definition. This may be the best price offered anywhere, the best price offered to the particular asset's holder, or the price in the market where the holder is expected to trade (Figure 1).

The measurement issue grew far more complicated when the International Public Sector Accounting Standards Board (IPSASB) adopted the concept of market value in its Conceptual Framework (CF) publication (IPSASB, 2014). To that purpose, Conrath-Hargreaves et al. (2021) attempted to disentangle the question of FV and market value within that case. Given that the measurement objective was only established after the discovery of the measurement bases, the uncertainty seems to be caused by a mismatch between the measurement objective and the measurement bases. The IPSASB then argues for the adoption of fair value using the current IFRS 13 definition. In contrast, market value should be either renamed, its definition altered (emphasizing entry value), or deleted entirely from the IPSASB IPS CF.

It has also been a problem for a long time, with the main concern being international profit shifting through transfer pricing and tax evasion in intra-firm trades. Accounting standards conceal a great deal of information about transfer prices, maintain confidentiality, and facilitate

the adoption of controlled prices (Ylönen & Teivainen, 2018). Due to the ubiquity of administered price setting, a substantial portion of international trade cannot be analyzed adequately as market transactions. To that end, IAS 24 requires firms to disclose that related party transactions were conducted on terms comparable to those used in arm's length transactions (Ignat & Feleagă, 2019). This sort of disclosure may significantly impact investor confidence since the companies' financial statements would be much affected if related party transactions disobey the arm's length principle (ALP). To make a sound investment decision, investors need to know how their funds will be managed, and misleading financial statements can harm the quality of this information (Tjen et al., 2020).

ALP serves as a benchmark for determining transfer pricing for related parties. This approach was introduced in 1933 (Wittendorff, 2011), although its origins date backed to the 1920s (Phionesgo, 2015). However, it is debatable how valuations based on alternative standards, such as fair market value, can be considered fair in intercompany sales. Since both standards operate on very distinct concepts, a discrepancy exists between them, resulting in inconsistent findings (Heidecke, 2021). Meanwhile, corporations in Indonesia, particularly those listed on the stock exchange, are required to apply FV in accordance with financial accounting standards, and ALP for tax purposes. This situation demands more adequate support from academics to enable the use of both measurements in industrial practice.

Several previous works appear to have addressed the FV and ALP issues. Heidecke (2021), for example, draws attention to the gap between the two standards and recommends prospective modifications to existing valuations that could assist to bridge the gap. Additionally, the differences and connections between the two standards have been explored (Halligan, 2015; Wittendorff, 2011). The significant gap within the industrial context of Indonesia, however, is the tax issues that may emerge from both standards. While reviewing the difference between FV and historical costs, Man et al. (2011) and Jaijairam (2013) may have laid the groundwork for later tax-related discussion, albeit there is no explicit direction for the latter. Based on the prior literature, we suggest that FV and ALP debates must be easily managed, particularly in terms of tax purposes. Hence, the purpose of this study is to entail a more in-depth analysis of the similarities, distinctions, and implementations between FV and ALP. In addition, it explores their impacts on tax purposes for Indonesian context.

METHODS

This study employed a qualitative methodology with a descriptive approach. Its materials were gathered through document analysis and in-depth interviews. The analysis of documents and archives is designed to describe developmental discourses on FV and ALP. The meticulous and critical document collection and interpretation can be helpful in qualitative research since document analysis can reveal a great deal about a social setting (Coffey, 2014). The intended documents were the IASB and IAI Conceptual Framework for Financial Reporting; PSAK published by IAI; income tax law and its implementing rules; and other relevant documents. To further examine the developing inquiries, we review such documents through a qualitative meta-synthesis approach of current published articles and reports on this topic. Meta-synthesis aims to enhance understanding based on current qualitative research to gain new or more complete knowledge of the phenomenon (Aspfors & Fransson, 2015). Instead of comparing study findings, qualitative meta-synthesis always produces an integration of them (Sandelowski & Barroso, 2007). It might also give a thorough account of a phenomenon and pinpoint its defining characteristics or fundamental ideas (Timulak, 2007).

In comparison to a meta-analysis, the size of the sample employed for meta-synthesis is tiny. As a result, researchers can treat each study with more concentrated attention and allow each one to stand alone as a different component of the research when they are directed by strategies that assist prevent bias (Sandelowski & Barroso, 2007). Each publication's findings were treated as 'data' with the most important aspects and conclusions arranged in a table (country context,

Table 1. Meta-synthesis documents

Subject	Document
Accounting	a. Conceptual Framework for the Financial Reporting (IAI, 2016; IASB, 2010, 2018; IPSASB, 2014)
	b. Statement of Financial Accounting Standards (IAI, 2014; IASB, 2013)
	c. books and scholarly publications pertaining to study aims (Alibhai et al., 2020; Halligan, 2015; Mora et al., 2019; Phionesgo, 2015; Whittington, 2015; Wittendorff, 2011).
Tax	a. books and scholarly publications pertaining to study aims (Avi-Yonah et al., 2008; Greenberg et al., 2013; Jaijairam, 2013; Man et al., 2011; Maroun, 2015; Martins et al., 2022)
	b. The body of income tax law and its implementing regulations.

data source, and finding summary). These results were then subjected to thematic analysis (Braun & Clarke, 2021). In determining the selection of previously published materials, we consider the appropriateness of the research aim dand focus, evaluate the studies' quality, decide on an analytical approach, and synthesise and present findings from these studies. Table 1 summarizes the publications included in the meta-synthesis of the current study.

We also conducted semi-structured in-depth interviews to gain an in-depth understanding of current debates on FV and ALP. We conducted interviews purposively with several informants ranging from officials within the Directorate General of Taxes (DGT), taxpayers of go-public companies, tax consultants, and academics. We went over the interview guide with the interviewees beforehand to make sure they were prepared. As a result, there was notably less chance of error. As a knowledgeable expert in the field, the informants are counted upon to provide comprehensive and in-depth analysis of the issues. The informants gave informed confirmation on the verbatim. The list of informants involved in this study is provided in Table 2.The data analysis in this research, following Creswell (2013), consists of several activities. We broke down the material we gathered into various categories, then constructed narratives or explanations of what we found. Codes and themes helped us categorize the vast amount of field study data we gathered into numerous patterns and groups, then we used accounting standards to interpret it. Results from one interview were compared to those from other interviews, which were then compared to documents. We employ these methods to ensure that any conclusions in this study are substantiated and reliable.

RESULTS AND DISCUSSION

Fair Value and Arm's Length Principle in Comparison

The ALP concept in the tax treaty model is an assessment standard applied to multinational corporations' transfer pricing issues in compliance with domestic and international tax legislation. Although ALP has been in effect since 1933, the fundamental notion of ALP and its present transfer pricing situations frequently become a source of contention. One of the primary points of contention is whether ALP is synonymous with fair value (FV) as defined by financial reporting standards (Heidecke, 2021).

ALP and FV are well-established international assessment standards. According to an assessment of transfer pricing valuation standards, domestic tax authorities often employ at least ALP and FV guidelines (Wittendorff, 2011). ALP was first used in international taxes in "the League of Nations 1933 Draft Convention on the Allocation of Business Income Between States for the Purpose of Taxation" (Wittendorff, 2011). Meanwhile, Phionesgo (2015) notes that the ALP gained recognition in the 1920s by the introduction of the "League of Nations Model Tax

Table 2. Information of interview samples

Interviewee's Institution	Main interviewee's position	Education	Code
Ministry of Finance	Director of Tax Revenue and Compliance	Doctor	G1
Faculty of Economics & Business, University of Indonesia	Lecturer	Doctor	A1
KAP Gatot Permadi, Azwir & Abimail	Non-assurance & Tax Partner	Doctor	P1
PT Indosat Tbk	General Manager of Taxation	Master	P1
Directorate General of Taxes	Corporate Income Tax Policy Formulator	Master	G1

Conventions." Subsequently, the notion of ALP was introduced into Article 9 of the OECD Model Tax Convention in 1963 and the UN Model Double Taxation in 1980.

The OECD's Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations include an ALP translation (OECD, 2010). It offers a widely accepted interpretation of the ALP principles as they are applied in numerous nations. The OECD published its first transfer pricing guidelines in 1979 and then amended them in 1995, 2010, and 2015 (OECD, 2015a). The description for the 2015 edition may be found in the "OECD/G20 Base Erosion and Profit Shifting Project" (OECD, 2015a, 2015b).

Table 3. Overview of Similarities and Differences between ALP and FV

No.	Description	ALP	FV
1.	Affiliate transactions occur in a systematic manner	√	√
2.	Transactions involving referrals must meet the following criteria:		
a.	Independent transaction	√	√
b.	Comparability, which include:		
	Objects according to the *ex-ante* basis	Actual	Actual
	▪ Form of transaction	Actual	Hypothetical
	▪ The parties to the transaction	Actual	Hypothetical
	▪ Market	Actual	Hypothetical
3.	Valuation		
a.	Perspective valuation based on affiliated parties	Two-sided	One-sided
b.	Criteria underlying the aggregation of multiple transactions	Broad commercial criterion	Narrow commercial criterion
c.	Valuation principle used	Arm's length range	Highest and best use principle
d.	Best method rule	√	√
e.	Profit maximization	√	√
4.	End result	Subjective, entity-specific value	Objective, market-based value

Source: Adapted from Wittendorff (2011, p. 226) and Halligan (2015, p. 30)

Meanwhile, IFRS 13 Fair Value Measurement defines FV (IASB, 2013). The standard encourages the use of observable prices (market-based) as the recommended inputs for anchoring FV. However, the lack of benchmarks for every arm's length transaction is something that many authorities are also aware of (Martins et al., 2022). As a result, IFRS 13 establishes a technique hierarchy (three levels) for applying FV.

FV may be regarded as relevant and faithful as asset prices are derived from quoted prices in active markets (level 1). However, when FV is based either on prices of comparable transactions (level 2) or unobservable inputs (level 3), the subjectivism that is inherent in financial indicators possibly impact the quality of financial information and cause investors to make poor decisions (Mora et al., 2019). Mark-to-model estimates the present value of anticipated future cash flows and is used to assess an asset's fair value at level 3. When estimating the present value of an asset, a discount rate and other future-related assumptions are taken into consideration. In order to declare FV at a desired level, managers might modify the discount rate alongside other assumptions, which would lead to incorrect info (He et al., 2021). Therefore, the lack of predefined values and mechanisms for monitoring encourages managers to determine discount rates on purpose (He, 2020).

At first glance, ALP and FV are similar in focusing on the price that should be agreed upon in a non-affiliated transaction. However, according to Wittendorff's (2011) study, ALP and FV have significantly different assessment requirements. The similarities and differences between ALP and FV are summarized in Table 3. It compares in detail the key similarities and differences between ALP as defined in Article 9 paragraph (1) of the tax convention model and fair value using the following parameters: 1) affiliated transactions (controlled transactions); 2) reference transactions; 3) assessment; and 4) end result.

According to Wittendorff (2011), the application of ALP and FV both apply to structured associated transactions. Both ALP and FV require independent parties to conduct reference transactions, which serve as comparability requirements. The following factors are compared: the object, the transaction type, the parties to the transaction (participants), and the market. The extent of the difference between ALP and FV is situation-dependent (Heidecke, 2021).

Based on the ALP perspective, the elements being compared are the parties' real business activities. From the FV perspective, the comparison object is real, but the transaction is a hypothetical or "orderly transaction." According to IFRS 13, which has been implemented into PSAK 68 (IAI, 2014), FV assessment presupposes that the exchange transaction occurs in an orderly way on the principal market or, if not, in the most advantageous market. An orderly transaction assumes market exposure over the period preceding the measurement date to allow for customary and general marketing activity associated with asset or liability exchanges. It should be noted that the transaction is not a forced transaction (e.g., a distress sale or forced liquidation) (Alibhai et al., 2020).

Additionally, the parties to the transaction in FV accounting are believed to have enough information and awareness of the transactions. According to FV, the market being compared is a hypothetical market because it is based on the assumption of the most advantageous market. The latter expression refers to the method of maximizing the amount received for selling assets or minimizing the amount paid to transfer liabilities after transaction and transportation costs are considered. (IAI, 2014; IASB, 2013).

In terms of valuation, ALP is applied from the perspectives of parties conducting affiliated transactions (dual perspective), whereas FV is applied from the seller's perspective (one-sided perspective). The ALP valuation is on a per-transaction basis to achieve optimal conditions. However, ALP valuation follows the aggregation of multiple transactions based on broad commercial criteria for practical purposes. In terms of FV, the aggregating conditions are more sophisticated and specific.

The valuation principle used for ALP is the arm's length range, while for FV, it is the highest and best use principle. According to PSAK 68, the phrase "highest and best use" refers to "the use

Table 4. Overview of the SA/ALP System Weaknesses

No.	Weaknesses	Description
1.	The SA system's core principles contradict reality, and ALP cannot yield rational results	▪ SA's key premise is the "arm's length concept," which asserts that each affiliated transaction is regarded identically to an independent transaction (uncontrolled comparables). ▪ Indeed, multinational enterprises expand in size due to organizational and internalization benefits (intra-firm trade). It is in contrast to independent enterprises that conduct business with other parties. Multinational Enterprises (MNEs) benefited from this advantage since earnings are made by internalizing transactions within the business group. As a result, applying ALP to affiliated transactions inside a genuinely integrated global corporation is illogical.
2.	Profit shifting practices to the low tax jurisdiction	▪ The current SA/ALP system encourages MNEs to shift the profit to low-tax countries by allocating their real economic activities. ▪ The literature consistently demonstrates that MNEs are sensitive to country-by-country changes in income tax rates.
3.	AS/ALP is a complex, complicated and confusing system	The regulations are less consistent and may serve contradictory ends. These circumstances have spawned a sizable industry of attorneys, accountants, and economists who advise several MNEs in formulating and implementing their transfer pricing strategies.
4.	AS/ALP contributes to reducing tax revenue in countries with high tax rates	There are various probable explanations for the fall in tax collections in countries with high tax rates. These causes are an increased reliance on corporate tax shelters, a smaller tax base, and stronger tax avoidance incentives.
5.	Not all intra-firm trades have comparable independent transactions.	The AS/ALP system's problem is not in the regulations but in a fundamental notion that independent transactions sufficiently equivalent to affiliated transactions may be identified and utilized as a valid benchmark for tax compliance.

Source: Adapted from Avi-Yonah (2009) and Avi-Yonah et al. (2008)

of non-financial assets by market players that maximizes the value of the assets or groupings of assets and liabilities (for example, a firm) for which these assets will be utilized" (IAI, 2014).

Both ALP and FV employ the best strategy and make assumptions to maximize profit. The end result of the ALP valuation will be subjective and unique to each affiliate, but the ultimate results of the FV valuation will be objective and market-based (Heidecke, 2021). As Wittendorff (2011) stated, ALP is designed to avoid profit shifting, erosion of the tax base, and double taxation. Meanwhile, FV is meant to offer readers of financial statements information on the value of the assets and liabilities included in the financial statements. Rizani (2017) encourages prospective investors to use FV to minimize financial losses or payments to benefit them at a higher cost.

Impact of Using ALP and FV on Tax Purposes

ALP has two primary purposes. First, through tax treaties, ALP makes it easier for each country involved in cross-border transactions to assert its taxing rights. Second, ALP clarifies how

Table 5. Basis for Measurement of Assets in the Income Tax Law and Indonesian Accounting Principles 1984

No.	Transactions	Income Tax Law	PAI 1984
1.	Sale and purchase of assets that are not affected by related party transactions as referred to in Article 18 paragraph (4) of the Income Tax Law	The acquisition/exchange price is the amount actually issued or received	In accordance with the Asset Principle (Principle 1.2)
2.	Sale and purchase of assets affected by related party transactions as referred to in Article 18 paragraph (4) of the Income Tax Law	An amount that should be issued or received	-
3.	Exchange of assets	Amount that should be issued or received based on market price	In accordance with the Asset Principle (Principles 1.4 and 4.2.3)
4.	Transfer of assets due to liquidation, merger, consolidation, expansion, split or takeover of business	▪ The amount that should have been issued or received based on the market price (purchase method), or ▪ Based on the determination of the Minister of Finance (book value or pooling of interest method)	Following the Principles of Financial Statements (Principles 10.2 and 10.3), but only regulates business combinations
5.	Transfer of assets in the form of donations as long as the donor and recipient of the transfer do not have a business relationship, work, ownership, or control	▪ The remaining book value of the party making the transfer, or ▪ The value determined by the Director General of Taxes	-
6.	The transfer of assets in the form of donations as long as the donor and the recipient of the transfer have a business relationship, work, ownership, or control	Market value of the asset transferred	Following the Assets Principle (Principle 4.2.5), but no requirement reads: "... as long as the giver and transferee have a business relationship, employment, ownership, or control"
7.	Transfer of grant assets	Market value of the asset transferred	-
8.	Transfer of assets as a substitute for shares or as a substitute for equity participation	Market value of the property transferred	Following the Capital Principle (Principle 1.3)
9.	Inventory and use of inventory for calculating the cost of goods sold (FIFO or average method)	Historical cost (FIFO or average method)	Following the Asset Principle (Principle 2.4.3), the method consists of FIFO, LIFO, and average.

to calculate the transfer price in the event of an affiliate transaction. ALP is also the core premise of transfer pricing laws, which govern how much revenue, cost, or profit must be reported for tax purposes when an affiliate transaction happens (Phionesgo, 2015).

On an ALP basis, profits must be allocated using a separate accounting (SA) mechanism, such as by reference to each transaction (on a transaction by transaction basis). It means that taxpayers must submit separate financial statements with their tax returns (separate accounts). The attachment to the financial report clearly illustrates the profit earned by taxpayers in that jurisdiction. This poses complications when it comes to establishing transfer prices for affiliate transactions. These issues stem from high compliance costs and the possibility of double taxation (EC, 2002).

Numerous experts oppose the SA/ALP system, even though OECD members continue to utilize it. McLure (2004), Avi-Yonah et al. (2008), Mahoney (2010), Durst (2011), Picciotto (2012), and Phionesgo (2015) are among those who criticize the SA/ALP system. According to Phionesgo (2015), the use of SA/ALP is regarded as a failure to distribute multinational firms' revenue to the nations from where it originates. McLure (2004) states that the SA/ALP technique also has a significant drawback as economic integration continues to grow. He outlines in greater depth the issues resulting from the application of the SA/ALP method in the setting of the European Union, which has established a single market. Phionesgo (2015) and Mahoney (2010) assert that the SA/ALP approach is complex, increasingly unsuitable for multinational corporations, causes ambiguity, and imposes administrative costs on taxpayers and tax authorities. The SA/ALP method has several limitations, as shown in Table 4.

However, despite its high cost, many MNEs prefer to utilize the SA method (Picciotto, 2012). The primary reason for such decision is that it enables them to design their internal structures and take advantage of international tax avoidance opportunities. The trick is to take advantage of tax havens and offshore secrecy jurisdictions (Table 4).

OECD members and other nations still use the ALP. The OECD (2010) details several primary factors. First, the ALP strikes a favorable tax balance between members of multinational business groups and independent businesses. Second, the ALP system equalizes the tax treatment of affiliated and independent firms. Thirdly, the ALP system promotes international commerce and investment growth. Fourth, the ALP approach is also effective in the majority of circumstances.

The OECD still maintains the ALP approach to analyze transfer prices in intra-group transactions in light of the preceding. The ALP makes theoretical sense because it approximates how open markets work when tangible, intangible, or service assets are traded across related parties. While the ALP system is not always straightforward to apply in practice, it often results in acceptable income levels for members of multinational corporate groupings. Additionally, tax authorities may accept ALP. This reflects the economic realities of associated companies' facts and situations, and ALP uses normal market conditions as a benchmark (OECD, 2010).

FV has not, however, gotten the best support for tax purposes. Serious questions arise regarding whether it should either be approved for tax purposes or consigned to the periphery of taxation, resulting in a greater separation between accounting and taxation (Martins et al., 2022). When dealing with level 3 FV, accounting variables have considerable subjectivism. Calculating the cost of capital and growth rates is necessary for forecasting cash flows, where this is a highly arbitrary process that is easily manipulated (Table 5).

In the framework of Indonesian tax law, Article 10 of the Income Tax Law (Law No. 10/1994) governs how assets are valued to determine revenue. These procedures pertain to the company's use of assets, the calculation of profits or losses for the sale or disposal of assets, and the computation of income from merchandise sales. According to Article 10 of the Income Tax Law, Table 5 highlights the forms of asset transactions and the grounds for evaluating assets. Following Article 28 paragraph (4) of the General Provisions and Tax Procedures Law (UU No. 9/1994), the provisions of Article 10 of the Income Tax Law (Law No. 10/1994) above still refer to the 1984 Indonesian Accounting Principles (PAI) (IAI, 1984). There are no more details about

the definition of assets according to Article 10 of the Income Tax Law, where according to the explanation of Article 28 paragraph (7) of Law No. 28/2007, the scope of assets refers to the coverage of assets in the accounting standard.

After initial recognition of tangible assets, measurement relates to their fluctuating value. A comprehensive and ideal income tax system requires the revaluation of all assets to recognise profit or loss from the revaluation result (Gordon, 1998). According to Gordon (1998), most tax accounting systems allow or require companies to periodically estimate profits or losses for certain types of assets. The most common example for estimated loss is depreciation and an example for measurement after the initial recognition of tangible property is revaluation. Article 9 paragraph (1) letter e, Article 11 and Article 19 of the Income Tax Law are a concrete manifestation that the income tax system in Indonesia also applies a tax accounting system widely adopted worldwide.

Following the concept of matching cost against revenue, which is applied in the Income Tax Law, depreciation is a method of cost allocation and not just a matter of valuation (Kieso et al., 2014). Depreciable assets are usually used to generate taxable income (Gordon, 1998). If losses due to asset impairment in the form of depreciation expense are not permitted, there will be a mismatch between income and expenses. Gross income deductions from depreciation are usually limited to assets used to generate taxable income. Fixed assets that are not impaired are not depreciated. These provisions are also adopted in Article 6 paragraph (1) letter b and Article 11 of the Income Tax Law.

For impairment of assets that must be measured at fair value, PSAK 68 and PSAK 71 refer to it as an allowance adjustment. PSAK 68 and PSAK 71 are interrelated because the measurement of financial assets regulated in PSAK 71 must use fair value whose measurement hierarchy refers to PSAK 68. When financial assets, such as loans provided by banking institutions, have the potential to be impaired due to the COVID pandemic 19, the reporting entity must apply PSAK 71 to reassess the expected credit losses (ECLs). As a result, the value of credit assets can decrease due to the ECLs, and there will be costs. Article 9 paragraph (1) letter c of the Income Tax Law (UU No. 36/2008) does not allow costs that are still in the form of provisions/reserves/allowances, unless those are which the terms and conditions stipulated in the Minister of Finance Regulation No. 81/PMK.03/2009; Minister of Finance Regulation No. 219/PMK.011/2012.

Another factor to consider when implementing an FV for tax purposes is the administrative burden that the company may bear. One of the most contentious aspects of financial accounting is the use of historical cost or FV to evaluate assets (Martins et al., 2022). Gains would not be included in taxable income until changes in the fair value of equity instruments held by another entity were realized (Maroun, 2015). The fair value may appear to be an expensive way to obtain information unless for level 1 FV where prices are observable (Mora et al., 2019). The limited human resource skills in calculating fair value will most likely be the challenging elements that raise the administrative cost (Farida & Shauki, 2022). One of our informants highlighted the administrative costs that could result from implementing FV for tax purposes (A1). We would also like to conclude by quoting remarks from our sources for stakeholder meetings to establish a compromise because the legal status of the implementation of FV is still up for debate.

"Let's take a look at the advantages and disadvantages since we can't necessarily adopt the fair value entirely. In my view, the introduction of FV will automatically create a burden on the taxpayer for proofing. How can they prove that specific fair value/price, especially if the assets are overseas? Wouldn't the compliance cost be even greater?" (interview with G1)

With historical costs, the advantage for DGT is that at least we can stick to the old basis, even though it would be invalid. The value will be more appropriate if the taxpayer does, for example, revaluation of fixed assets. Historical cost, in my opinion, is too old-fashioned, whereas we are not ready to implement fair value directly. Even if we are ready, the proof may be hampered later. Well, in the end, maybe we'll need to look for an intermediate option." (interview with G2)

CONCLUSIONS

The purpose of this study is to simplify the essence of the debate over Fair Value and the Arm's Length Principle. FV, which is mandated by IFRS 13, and ALP, which the OECD TP Guidelines now authorize, have given an interesting debate on the disclosure of agreed-upon transaction prices. While FV and ALP may share a bridge, their discourse inevitably leads to inescapable disagreements. The extent to which this difference happens will be determined by specific facts and situations we previously mentioned in the discussion.

Due to the preponderance of related party interests, subjectivity will remain associated with the ALP. Despite various complications and high costs associated with the ALP approach, MNEs continue to prefer it due to its organisational flexibility. This is further reinforced by the OECD's endorsement of the ALP in determining intra-firm trade transfer prices. Otherwise, the market base on FV maintains the assessment's objectivity only at level 1, while subjectivism still tends to stick to level 2 and level 3. FV becomes less relevant to corporate tax issues, including the potential for an increase in administrative burdens.

This study contributes to the existing of literature by connecting the dots in the FV and ALP debate over tax obligations. For the industry as a taxpayer, it contributes in compliance with the application of the two standards in accordance with the requirements of each industry. For policymakers, meanwhile, the proposal to harmonize the interests of the industries with regard to measuring the FV for taxation is highly prioritized, particularly to eliminate administrative burdens. Regardless of the results of this study, additional research is required to complete it. Exploration of the extent of political efforts in the convergence of accounting and tax is possible, particularly in light of the recent tax reforms that did not address proper accounting aspects. Empirical studies employing panel data, if any, to investigate the relationship of FV and ALP adoption to corporate tax compliance are also highly encouraged.

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