



Fringe Benefits in Tax Law: Matching Principle and Tax Justice Perspective

Heriantonius Silalahi¹, Budi Kurnia²
¹Directorate General of Taxes, Indonesia
²Padjajaran University, Indonesia
Correspondent: heri.silalahi@gmail.com¹

Received : August 12, 2023

Accepted : October 12, 2023

Published : October 31, 2023

Citation: Silalahi, H., Kurnia, B. (2023). Fringe Benefits in Tax Law: Matching Principle and Tax Justice Perspective. *Ijomata International Journal of Tax and Accounting*, 4(4), 684-702. <https://doi.org/10.52728/ijtc.v4i4.870>

ABSTRACT: This study addresses a significant issue within Indonesia's income tax policy, focusing on the taxation of fringe benefits and non-monetary compensations. Fringe benefits, being non-monetary rewards granted to employees, have gained prominence in various sectors' remuneration structures. The evolving landscape of in-kind taxation, encompassing natural elements, prompts inquiries into the determinants of tax imposition choices and their equity ramifications. The study aims to explore the income tax perspective on fringe benefits and non-monetary gains, emphasizing the applicability of the matching principle and its implications for equitable taxation. Despite the rising importance of fringe benefits, scholarly discourse on the alignment of conformity principles with in-kind taxes remains sparse. Therefore, this study offers a fresh contribution in comprehending this matter. Employing both a policy analysis and taxation approach, the study draws data from literature, tax statutes, and the latest economic reports. The findings underscore the significance of integrating the conformity principle in the taxation of fringe benefits and non-monetary rewards. This integration can augment the efficiency and transparency of state financial management, curbing detrimental tax avoidance practices that undercut state revenue. In summary, this study validates that adopting the conformity principle in taxing fringe benefits and non-monetary gains holds the potential to bolster state revenue and enhance fiscal management efficiency. The research's implications can guide policy makers in refining the national tax framework and fostering equitable taxation in Indonesia.

Keywords: Fringe Benefits, Matching Principle, Tax Justice, Financial Management



This is an open access article under the CC-BY 4.0 license.

INTRODUCTION

The imposition of taxes on fringe benefits has become a significant concern and debate in income tax policies in Indonesia. The concept of fringe benefits includes non-monetary compensation and

benefits received by employees or individuals, provided by employers or other entities. These benefits are often in the form of goods, services or other non-cash benefits, and have become an important part of employee remuneration packages in various industries.

In Indonesia, the treatment of fringe benefits for tax purposes has changed from time to time. Initially, fringe benefits are not subject to income tax for individuals, but also cannot be considered as a deductible expense for employers. However, with the introduction of the new regulation, fringe benefits are now included as an object of income subject to tax, reflecting the government's efforts to optimize tax revenue and ensure tax equity. The application of taxes on fringe benefits raises several questions and critical concerns, including the factors behind tax imposition decisions, the application of the matching principle, and the implications for tax equity. Understanding the factors that influence the taxation of fringe benefits is important for assessing the effectiveness of current tax policies in addressing potential loopholes and ensuring a fair and equitable tax system.

This study aims to explore the perspective of income tax on fringe benefits and pleasure in Indonesia, with a focus on exploring the basic principles of taxation, particularly the principle of conformity, and assessing their impact on tax equity. By investigating various aspects of taxation of fringe benefits and pleasure, this study seeks to provide valuable insights that can assist policy makers in making informed decisions to improve the country's tax system while promoting fairness and equity for all taxpayers. The application of the matching principle in the treatment of fringe benefits income tax can have a significant impact on global economic conditions which are currently facing severe challenges. The matching principle refers to the matching between income and expenses in the same time period to ensure compatibility and balance in tax payments.

In a situation of limited global economic growth and high inflation, the application of the matching principle can help reduce the fiscal burden on the government and help overcome the budget deficit. By matching income from taxes on fringe benefits received by the government with expenditures to finance various development programs and projects, the application of the matching principle can increase the efficiency and transparency of state financial management. In addition, the matching principle can also help prevent tax avoidance practices that can harm state revenues (Pu & Syu, 2023). By requiring companies to report tax appropriately and accurately fringe benefits given to employees, the application of the matching principle can prevent manipulation or abuse in tax reporting. However, it is also important to consider that applying the matching principle in fringe benefits taxes can also pose some challenges. One of the main challenges is the complexity in the process of matching income and expenses, especially if there are different types of fringe benefits provided to employees. An efficient and accurate reporting system is needed to properly implement the matching principle.

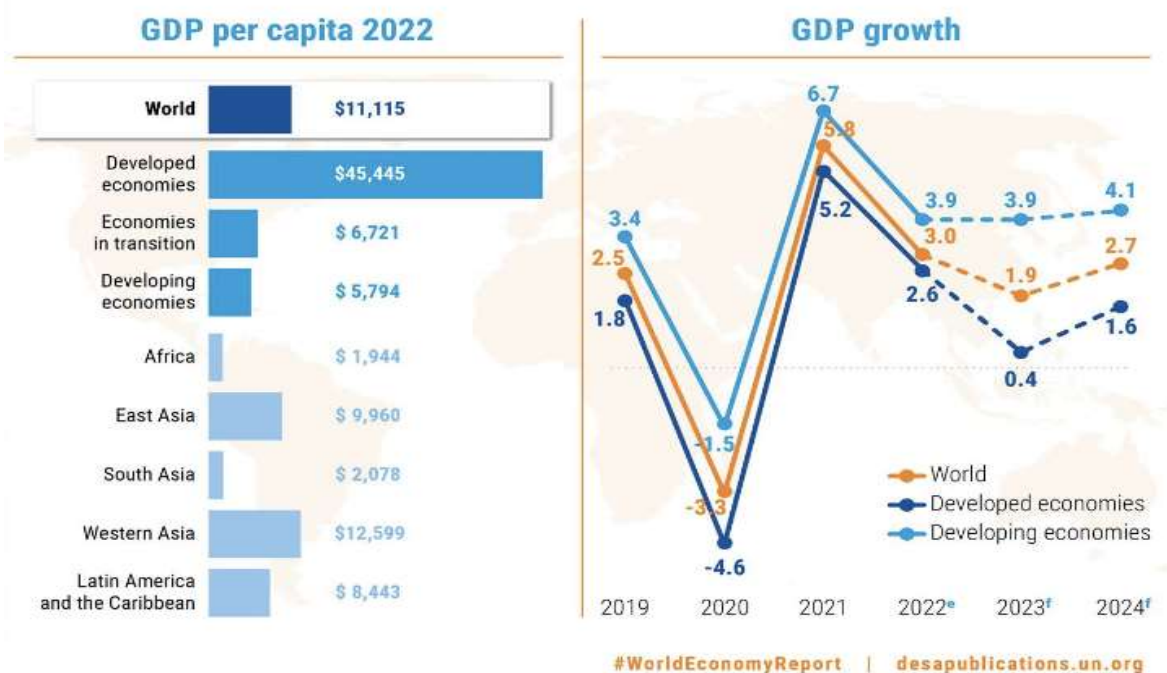
The global economy is projected to face a sluggish growth rate, comparable to historic downturns such as the 2007-2008 financial crisis and the height of the COVID-19 pandemic (Susila Adiyanta, 2020). Concerns over inflation and higher interest rates are expected to weaken private consumption and investment, possibly leading to mild recessions in certain countries before a forecasted growth recovery in the latter half of the year and into 2024. This economic outlook is set against a backdrop of ongoing challenges, including the pandemic, the conflict in Ukraine with resulting food and energy crises, surging inflation, debt tightening, and climate emergencies. The report highlights the urgent need for robust fiscal measures and warns of the potential impact on

achieving the 17 Sustainable Development Goals (SDGs) (Moghavvemi et al., 2023). Developing countries face slower job recoveries and persistent challenges, particularly in women's employment. The report calls for international collaboration, strategic investments in education, health, digital infrastructure, technology, and climate resilience, and emphasizes the necessity of urgent international commitment to mitigate the impact and promote sustainable global development (Iswahyudi, 2021).

The following shows a graph of the economic situation and its prospects based on the following data:

Graphic 1. World Economic Situation and Prospects 2023

World Economic Situation and Prospects 2023



Source : World Economy Report on <https://news.un.org>

In addition, in an economic situation that has not fully recovered from the impact of the COVID-19 pandemic, the application of the matching principle must be applied carefully so as not to create additional burdens for companies and employees who may still experience financial difficulties. When connected with the current global economic conditions, it is important to maintain economic stability. This year, both developed and developing countries face the threat of recession, it was reported. Growth momentum will weaken significantly in the United States, European Union and other developed economies in 2022. This will have a detrimental effect on the global economy as a whole. Tight global financial conditions coupled with the strengthening of the dollar exchange rate have resulted in increased fiscal and debt vulnerabilities in developing countries. Analysis shows that more than 85 percent of central banks worldwide have rapidly increased monetary policy and interest rates since late 2021 to control inflationary pressures and avoid a

recession. Global inflation, which hit its highest level in decades, around 9 percent in 2022, is projected to decline but remains high, around 6.5 percent in 2023.

Looking at the optimism of tax revenue, particularly Income Tax, we can observe a trend in the growth of state revenue in the income tax sector as shown in the following table:

Table 1. State Revenue Realization

Tax	State Revenue Realization (Billion Rupiah)				
	2018	2019	2020	2021	2022
Income Tax	749.977	772.265	594.033	696.676	895.101

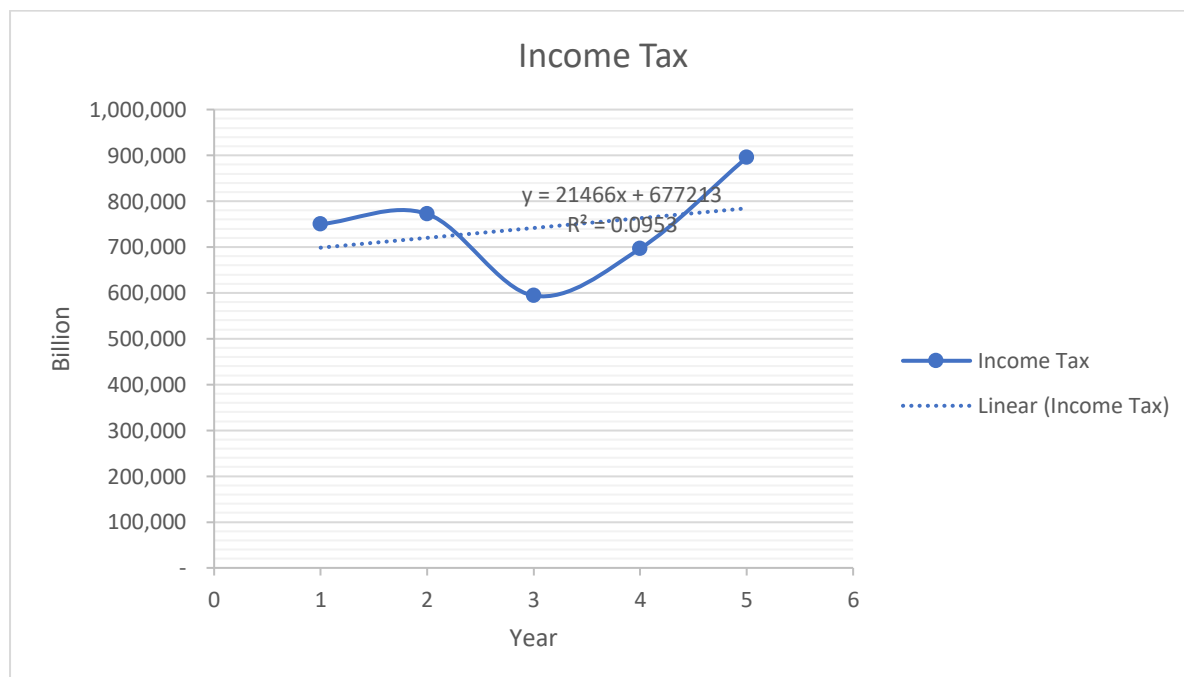
Source: Ministry of Finance Report 2022

This data reflects the fluctuation in income tax revenue over the given period. The revenue for the year 2020 appears lower, possibly due to the economic impact of the COVID-19 pandemic, but there was a significant increase in 2022. This trend mirrors the dynamics of the economy and changes in tax policy that affect the country's income tax revenue ([Ministry of Finance, 2022](#)).

A linear equation is a fundamental form in mathematics that describes a linear relationship between two variables. In the linear equation $y=mx+b$, y represents the dependent variable, x represents the independent variable, m represents the slope of the line, and b represents the intercept. The slope (m) indicates how much change in the dependent variable (y) is associated with a one-unit change in the independent variable (x). If m is positive, it means an increase in x is related to an increase in y , and conversely if m is negative ([R.P. Garcia, 2022](#)).

If depicted in a graph, it can be illustrated as follows:

Graphic 2. Figure of State Revenue Realization



Source: Modification of State Revenue Realization

The figures in the table can be correlated with the equation " $y = 21466x + 677213$ and $R^2 = 0.0953$ " in the context of analyzing the relationship between the years (x) and the state revenue realization from Income Tax (y). The equation suggests a linear model to predict the revenue based on the year. The positive coefficient (21466) indicates that there is an estimated increase of 21,466 billion Rupiah in revenue for each year. However, the low R-squared value (0.0953) suggests that the linear model doesn't explain a significant portion of the variation in revenue, implying that other factors beyond just the year might be influencing the revenue trends.

This visual representation showcases the fluctuating nature of income tax revenue over the years. The dip in 2020 could be attributed to the pandemic's economic impact, while the substantial increase in 2022 indicates a potential recovery and changes in tax policy. The graph provides a clear visual understanding of the trends in state revenue from income tax over the specified period.

Based on the description above, the problems of this study are focused on three main points:

1. Tax Imposition of Fringe benefits in Indonesia: This study will examine in depth how the taxation of fringe benefits in income tax policies in Indonesia. This includes identifying the concept and scope of fringe benefits as non-monetary compensation and benefits received by employees or individuals from employers or other entities.
2. The Matching Principle in Taxes in Fringe benefits and Its Impact on Tax Equity: This study will explore the matching principle and how its application to fringe benefits taxes can affect tax equity in Indonesia. Factors influencing tax imposition decisions and the implications of applying the matching principle to the efficiency and transparency of state financial management will also be analyzed.
3. Challenges and Implications of Applying the Matching Principle in Natura Taxes: This study will discuss the main challenges faced in implementing the matching principle in natural taxes, especially related to the complexity of matching income and expenses and their adaptation to the post-COVID-19 economic situation. In addition, this study will explore the implications of applying the matching principle to state revenues and more efficient financial management in Indonesia.

By focusing on these three points, this study is expected to provide valuable insights for policy decision makers in developing a tax system that is fair, efficient, and in line with the challenging global economic conditions. The application of the matching principle in the fringe benefits income tax can potentially have a positive impact on state revenues and more efficient financial management, but it also requires a careful approach and is adapted to current global economic conditions.

METHOD

The research method that will be used in this study involves a descriptive analysis approach, comprehensive literature research, comparative analysis, qualitative approach, and secondary data collection. Descriptive analysis approach will help us to describe and analyze in depth the concept of taxation of fringe benefits in Indonesia. This study will identify developments in tax regulations related to fringe benefits over time and analyze how the concept of fringe benefits has been applied in various industries. Literature research will be the main basis for gathering information on the

matching principle in the context of fringe benefits taxes, both within the framework of Indonesian taxation and international practices. This study will investigate studies and reports regarding the implementation of the matching principle in fringe benefits taxes and its effect on fiscal efficiency and transparency of state finances.

Through a comparative analysis, this study will compare the implementation of the matching principle in natura taxes in Indonesia with practices in other countries ([Nguyen-Hoang & Zhang, 2022](#)). This will give us insight into how this principle can be applied effectively in the Indonesian tax context. The research uses a qualitative approach to explore the challenges and implications of applying the matching principle. This study will cite with tax experts, industry practitioners and relevant government representatives to understand their views and experiences regarding the application of the matching principle in daily practice. The research collects secondary data from various sources such as the latest tax regulations, government reports, academic studies, and publications related to taxation and economics. These data will support our analysis and provide a solid basis for formulating conclusions. By combining these various methods, we hope to provide an in-depth insight into the taxation of fringe benefits in Indonesia, the conformity principle in fringe benefits tax, and its impact on tax efficiency and fairness.

RESULT AND DISCUSSION

1. Theoretical Framework

The theoretical framework of this study focuses on the tax concept of fringe benefits and the application of the conformity principle in taxation. This framework explores the concept of fringe benefits as a form of non-monetary compensation and privileges provided to employees by employers. By considering tax principles and policy objectives, this framework analyzes how the application of the conformity principle in tax fringe benefits can affect tax equity and efficiency. The challenges of implementing this principle and its adaptation to complex global economic conditions are also considered in this framework. Can be described as follows

Graphic 3. Theoretical Framework



Graphic 3 summaries some relevant previous studies other than studies already mentioned concerning tax amnesty and tax compliance, especially in Indonesia.

Table 2. Previous Research

No	Previous Research	Researcher	Year	Method	Conclusion
1	Incentive effects and the income tax treatment of employer-provided workplace benefits	Jan Voßmerbäumer	2013	Quantitative Analysis, Case Studies	Taxes on fringe benefits can affect tax efficiency (Voßmerbäumer, 2013)
2	The price of fringe benefits when formal and informal labor markets coexist	David and Jorge	2015	Econometric Analysis, Surveys	Taxes on non-monetary benefits have an impact on income distribution (Argente & García, 2015)
3	Optimal fringe benefit taxes: the implications of business use	Cullum Butler and Paul Calcot.	2017	Comparative Study, Legal Analysis	The principle of conformity in international taxation (Butler & Calcott, 2018)

4	Self-enforcing capital tax coordination	Thomas Eichner and Rudiger Petihg.	2018	Longitudinal Analysis, Economic Modeling	Changes in taxes on non-monetary income and their effects (Eichner & Pethig, 2018)
5	Effectiveness of tax reform on entrepreneurship	Chigozie Andy Ngwaba and SeyedSoroosh Azizi.	2019	Survey, Qualitative Interviews	The tax on employee enjoyment affects talent retention (Ngwaba & Azizi, 2020)
6	Accounting, tax compliance and New Zealand indigenous entrepreneurs: a Bourdieusian perspective	Sue Yong and Peni Fukofuka.	2017	Comparative Analysis, Literature Review	Tax practices on welfare benefits in developed countries (Yong & Fukofuka, 2023)
7	Natura dan Kenikmatan Sebelum dan Sesudah Undang-Undang Harmonisasi Peraturan Perpajakan	Firmansyah and Wijaya.	2022	Comparative Analysis	This regulatory change also presents a valuation challenge for the tax authorities (Firmansyah & Wijaya, 2022)

This study brings innovation by applying the principle of conformity in the context of taxes on fringe benefits in Indonesia. This is a new contribution to understanding how this principle can be applied to measuring non-monetary income and benefits, as well as the implications for tax equity and efficiency in the Indonesian tax system. In addition, this study analyzes the challenges of implementing the principles of conformity and adaptation in post-COVID-19 economic conditions, providing new perspectives in overcoming obstacles and maintaining national economic stability.

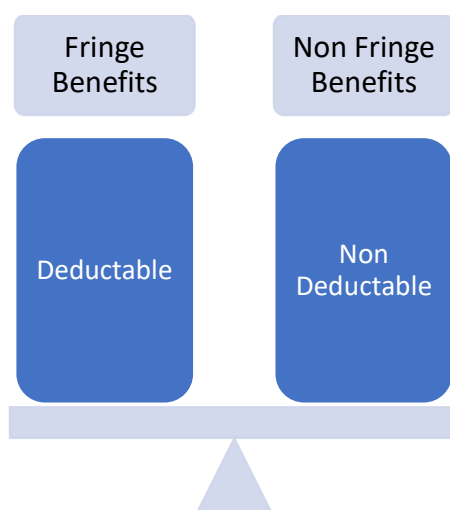
2. Fringe Benefits Concept

Based on Minister of Finance Regulation Number 66 of 2023, the concept of "fringe benefits" refers to goods or services provided by employers to their employees. This type of gift can be in the form of money, goods, services, rights or other benefits, but does not include income in the form of money received by employees on the basis of work or services performed. In this context, the definition of "fringe benefits" also includes various types of compensation or non-monetary benefits provided by the employer as part of remuneration or as a reward for services rendered by employees.

Furthermore, Article 2 in Minister of Finance Regulation Number 66 of 2023 outlines the treatment of reimbursement costs or rewards fringe benefits and/or benefits. This article explains that reimbursement costs or compensation given fringe benefits and/or benefits related to work or services have the potential to be deducted from the gross income of the employer or reward

provider. However, this deduction only applies if the costs are expenses related to efforts to obtain, collect and maintain income. The replacement costs or compensation related to work refer to expenses related to the employment relationship between employers and employees, while service relate costs refer to costs arising from service transactions between taxpayers (Lokanan, 2023). Furthermore, expenses for replacement costs or compensation fringe benefits and/or benefits that have a useful life of more than 1 year will be recognized through depreciation or amortization in accordance with the provisions of the Income Tax laws and regulations. However, if the expenditure is short term with a useful life of less than 1 year, then the expenditure will be recognized in the year it is incurred. The employer, giver of compensation, or reimbursement must report the cost of reimbursement or compensation fringe benefits and/or benefits along with information about employees or recipients of compensation in the Annual Income Tax Return. We can see on this illustration graphics:

Graphic 4. Fringe Benefits Concept



Therefore, it is important to remember that Minister of Finance Regulation Number 66 of 2023 has a significant impact on the calculation of income tax relating to fringe benefits gifts and/or benefits to employees. Since 1 July 2023, fringe benefits providers also have the obligation to deduct income tax on the value of compensation fringe benefits and/or benefits provided to employees. Even so, there are eleven types of fringe benefits that are not counted as Income Tax objects, such as providing food or drink for all employees at work, health facilities, and communal housing facilities. Even though the eleven types are not counted as Income Tax objects, the costs incurred for fringe benefits gifts cannot be considered as fiscal costs that can reduce taxable income. Therefore, employers need to deduct Income Tax from employees and at the same time recognize the cost of fringe benefits gifts and benefits as a fiscal cost, unless otherwise specified in the regulations. The correct classification regarding the type of fringe benefits and the benefits provided is very important, considering that an error in this classification can have an impact on calculating gross income, recording fiscal costs, and the amount of tax that must be paid and reported through the Income Tax Return. In this context, both companies and employees need to understand and comply with the provisions in Minister of Finance Regulation Number 66 of 2023 so that the process of calculating taxes and reporting taxes can be carried out correctly. The existence of this regulation also encourages transparency and accountability in the implementation

of reimbursement or compensation fringe benefits, so that the tax system can run more efficiently and in accordance with applicable law ([Pu & Syu, 2023](#)).

The following is a list of fringe benefits that is exempt from income tax objects based on Minister of Finance Regulation Number 66 of 2023:

Table 3. List of Fringe Benefits Based on Minister of Finance Regulation Number 66 of 2023

No.	Fringe benefits	Limitation
1	A gift from the employer in the context of a large religious treasure	- Food/drinks for all employees at work without any value limit
2	Gifts from employers other than in the context of religious celebrations	- Worth not more than IDR 3,000,000.00 per tax year for each employee
3	Equipment and work facilities from the employer	- Supporting employees at work
4	Health and medical service facilities from the employer	- In the context of handling work accidents, occupational diseases, etc
5	Sports facilities from the employer other than certain sports facilities	- Worth not more than IDR 1,500,000.00 per tax year for each employee
6	Communal living facilities from the employer	- Utilized together
7	Individual living facilities from the employer	- Utilization rights are held by individuals
8	Vehicle facilities from the employer	- Received by Employee
9	Pension fund contribution facility from the employer	- Borne by the employer for employees
10	Religious facilities (musala, mosque, chapel, temple)	- For worship activities
11	All fringe benefits and/or benefits are accepted in 2022	- All types of fringe benefits and/or enjoyment received by employees or service providers

3. Taxation Principles and Policies

In Indonesia, tax principles and policies have a central role in supporting the collection of state revenues fairly and efficiently. These principles reflect the government's goal of managing a taxation system that suits the country's economic and social conditions. Some of the main principles that form the basis of taxation in Indonesia include the principles of fairness, simplicity, efficiency, paying capacity, elasticity and incentives.

The principle of equity demands that the tax burden be distributed fairly, where individuals with higher economic ability are expected to contribute more. In addition, the principle of simplicity encourages the tax system to be easily understood by the public, avoiding complications that can make it difficult for taxpayers to report their obligations ([Crocker et al., 2022](#)).

Efficiency is one of the main foundations in designing an optimal tax system. This system should be able to collect and manage tax revenues efficiently, avoiding wastage of resources and excessive bureaucracy (Zhao, 2020). The principle of paying capacity refers to the consideration of an individual's economic ability to pay taxes, so that individuals with higher incomes make a greater contribution.

The principle of elasticity allows the government to adjust tax policies according to economic and social changes that occur. Tax incentive policies are used to encourage investment and economic growth by providing tax facilities to certain sectors (Downs & Stetson, 2014a). The Indonesian government is also committed to tackling unlawful tax evasion by implementing laws and regulations that protect the integrity of the tax system. Transparency in the collection and management of tax revenues is also an important focus, accompanied by strong law enforcement against tax violations (Avram & Popova, 2022).

4. Matching Principle in Taxation

The matching principle is one of the basic principles in the tax regulation framework which has an important role in determining cost deductibility. This principle bases itself on the substance of the transaction and relates it to the consequences arising from the transaction (Hsu & Liu, 2023a). The implementation of this principle is reflected in the Indonesian Income Tax Law, which regulates taxable income, deductible expense and non-deductible expense in Articles such as 4, 6 and 9. However, before the Law on Harmonization of Tax Regulations (HPP Law) came into effect, the application of the matching principle in Income Tax is not absolute and there are deviations from the application of regulations, such as in the fringe benefits aspects.

Prior to the HPP Law, the application of matching in the Income Tax Law was not always consistent with principles in several cases, especially with regard to fringe benefits. Article 4 paragraph (3) of the Income Tax Law previously stated that giving fringe benefits to employees is not a tax object, and Article 9 paragraph (1) letter e indicates that expenses for fringe benefits cannot be recognized as a deduction from gross income. However, Article 4 paragraph (3) also stipulates that certain fringe benefits may be subject to Income Tax. The HPP Law, which revokes several previous provisions, stipulates that fringe benefits are an object of Income Tax and in Article 6 paragraph (1) letter n it stipulates that reimbursement costs or rewards fringe benefits are a deduction from gross income. Although these changes indicate better consistency in the application of the matching principle, there are exceptions for certain types of fringe benefits that are not subject to tax. For example, the provision of food or drinks for all employees at work or fringe benefits in the context of carrying out work. These exemptions present variations in fringe benefits fiscal treatment. Although this inconsistency can be seen as a form of deviation from the matching principle, it is largely recognized as a rational measure to achieve a more just and efficient taxation goal.

The HPP Law reflects efforts to adjust regulations related to fringe benefits with the matching principle. The classification of fringe benefits as an object of Income Tax and the arrangement of its fiscal costs in the relevant Articles provide clarity and consistency in the application of this principle. Although there are certain exceptions, this regulation is more based on the substance of income and contributions in business processes, and provides better legal certainty in the context of taxation. This regulatory change also raises considerations regarding the matching principal

concept which cannot always be applied in every situation. Prior experience of the HPP Law and the implementation of exceptions for certain types of fringe benefits shows that there are cases where the taxable-deductible principle cannot be applied perfectly. For example, the provision of food and drink for all employees at work, even though it is excluded as a tax object, is recognized as a deduction from gross income. This is an example of how non-monetary aspects that are regulated in the context of the matching principle still have implications for reducing fiscal costs.

In tax regulations, the application of the matching principle is based on the principle that expenses must have a direct relationship with the income process. Therefore, tax regulations must consider both aspects of income recipients and providers of expenditure holistically. Although there are inconsistencies and exceptions, the steps towards harmonization of tax regulations and conformity with the matching principle are positive steps. In the midst of regulatory complexity and substantial changes in the HPP Law, the implementation of the matching principle in it remains a challenge. Harmonization between tax principles, economic goals, and tax policies is something that must be strived for. In this regard, improving regulations and increasing understanding of the basic principles of taxation are key in creating a fair, efficient and measurable tax framework.

It is important to remember that tax arrangements are dynamically evolving. While there are efforts to adhere to existing principles, regulations must also be responsive to developments in the economic and social environment. Therefore, sustainability in improving and harmonizing tax regulations, including aspects of tax imposition and fiscal charges related to fringe benefits, must be the main focus to achieve an optimal and fair tax system. The implementation of the matching principle in imposing fiscal costs fringe benefits in tax regulations is a complex effort and needs to be adapted to the dynamic tax context. Thus, steps to achieve harmony between the basic principles of taxation, economic goals, and tax policies will continue to be a challenge and a demand in developing an efficient and fair tax framework.

5. Impact on Tax Equity and Efficiency

The application of taxes on fringe benefits as well as the matching principle in the context of taxation has a significant impact on two important aspects: tax equity and tax efficiency. In terms of tax equity, the imposition of taxes on fringe benefits can contribute to a more equitable distribution of income. By imposing a tax on additional benefits such as company benefits or medical benefits, the gap between low- and high-income employees can be narrowed. In addition, the principle of conformity in the application of this tax also supports horizontal equity, by ensuring that individuals with similar situations and incomes are subject to a comparable tax burden. The existence of clarity in the application of taxes on fringe benefits can also increase public perceptions of fairness in the tax system. On the efficiency side of taxation, the implementation of taxes on fringe benefits needs to consider the impact on employee incentives and tax administration ([Saragih et al., 2022](#)). Taxes that are too high on fringe benefits can undermine incentives for employees to receive them, while moderate taxes can encourage the efficient use of this type of compensation. In addition, the principle of conformity requires careful administrative monitoring of additional payments, which can increase administrative complexity. Nonetheless, the application of sophisticated tax information technology and systems can help maintain administrative efficiency ([Kuhn et al., 2021](#)).

6. Challenges and Adaptations

Challenges in applying taxes on fringe benefits as well as the principle of conformity involve aspects of fairness, efficiency and adaptation. Determining the appropriate tax rate needs to consider employee incentives without neglecting income distribution. Administrative complexity can be overcome with technology and an integrated tax system. The potential for tax evasion requires close monitoring and collaboration with the private sector. Societal changes and technological developments require flexibility in the definition and types of fringe benefits. In addition, in a global context, cross-border cooperation is important to overcome the challenges of technology and global mobility in tax regulation. Can be explained in the following table:

Table 4. Challenges and Adaptation of Fringe Benefits

Challenge	Explanation	Adaptation
Tax Rate Determination	Determining appropriate tax rates for fringe benefits so as not to discourage incentives for employees	Adopt a tax differentiation approach based on the type of fringe benefits. Education on the benefits of equal distribution of income through a fair tax system.
Administrative Complexity	Taxes on fringe benefits can increase administrative complexity	Utilizing information technology and integrated systems to reduce administrative burden.
Potential Tax Avoidance	Risk of tax avoidance through setting up fringe benefits	Cooperation between tax authorities and the private sector in the development of strict guidelines and oversight.
Community Change	Changes in work patterns and employee preferences can affect the types of fringe benefits	Flexibility in adjusting the definition and types of fringe benefits according to the changing dynamics of society.
Technology and Globalization	The use of technology and global mobility can complicate tax administration	Develop cross-border cooperation in setting taxes on fringe benefits.

Source: Modification of Some Theories

All of these adaptations must be directed towards creating a tax system that is efficient, fair and responsive to the dynamics of the economic and social environment. The application of taxes on fringe benefits in the real world faces a number of challenges that need to be overcome with smart adaptations. One of the main challenges is to determine a tax rate that is fair and does not hinder employee motivation. Taxes that are too high can reduce incentives for employees to receive fringe benefits or additional income in non-monetary forms. In facing this challenge, the necessary adaptation is to adopt a tax differentiation approach based on the type of fringe benefits. For example, providing educational benefits to employees' children may be taxed less than luxury vacation benefits.

Administrative complexity is another challenge in applying taxes on fringe benefits. In contrast to ordinary monetary income, fringe benefits often have characteristics that are more complicated to calculate and report. To overcome this, the necessary adaptation is to utilize information technology and integrated systems in the taxation process. Automation of calculations and

reporting can reduce administrative burdens for both companies and tax authorities. Another serious challenge is the potential for tax evasion through the dishonest arrangement of fringe benefits. Employees or employers may try to manipulate the type or value of fringe benefits in order to reduce tax liability. To overcome this, adaptation is needed in the form of close cooperation between the tax authorities and the private sector. Clear guidelines and strict oversight of the arrangement of fringe benefits are important to prevent tax evasion.

In facing societal changes and technological developments, flexible adaptation is also needed ([Saragih et al., 2022](#)). The types of fringe benefits that are relevant and desired by employees may change over time. Therefore, the adaptation needed is flexibility in adjusting the definition and types of fringe benefits according to the changing dynamics of society. For example, by considering the types of incentives that are more in line with the lifestyle and needs of today's employees.

In the era of globalization, challenges are increasingly complex with labor mobility and cross-border transactions. This requires adaptation in the form of cross-border cooperation in regulating taxes on fringe benefits ([Lazear, 2018](#)). Countries need to work together to develop consistent guidelines and ensure that cross-border tax evasion does not harm national income. These challenges not only affect aspects of taxation, but also have an impact on the economic, social and welfare of society. Therefore, proper and planned adaptation is very important to ensure that the taxation system for fringe benefits remains efficient, fair, and relevant to the times.

7. Global Economic Contexts

In an era of increasingly connected globalization, the aspect of taxation has become an important element in responding to global economic challenges and opportunities. First of all, the phenomenon of tax shifts and fiscal competition between countries can influence how taxes on fringe benefits are applied. Countries tend to compete to attract investment and labor through more attractive tax policies, including fringe benefits incentives ([Maria Pavelea et al., 2022](#)). Therefore, this study can provide a deeper view of how countries can regulate taxes on fringe benefits in the context of fair and balanced global competition. Second, in facing the digital economy and changes in global work patterns, tax arrangements on fringe benefits incentives and pleasures also need to accommodate this new reality. Many workers work flexibly from a variety of locations, and the relevant fringe benefits incentives also change as technology evolves. This study can provide insights on how tax adaptations fringe benefits can be carried out to reflect an increasingly global and connected work environment. In the context of a rapidly changing global economy, income inequality and wealth distribution issues are a major concern. The application of taxes on fringe benefits can be a relevant instrument in efforts to reduce economic disparities ([Raihan, 2023](#)). This study has the potential to provide insight into how taxes on fringe benefits can be directed to promote redistribution that is more equitable and sustainable. In a situation where many multinational companies operate in different countries, this study can also address global issues such as tax suppression and tax evasion. Inconsistent regulation of taxes on fringe benefits and benefits between countries can create loopholes for tax avoidance that is detrimental to national income. Therefore, this study can explore how international cooperation can be enhanced to address this kind of global challenge ([Kraemer & Lehtimäki, 2023](#)). It can be said that this study is not only relevant in the national context, but also has important implications in dealing with the current global economic dynamics ([Hsu & Liu, 2023b](#)). By understanding how the imposition of taxes on fringe benefits impacts the global economy as a whole, countries can take

more appropriate steps in dealing with the challenges and opportunities that arise from the changing global economic context. Can be explained in the following table:

Table 5. Global Economic Contexts of Fringe Benefits

Challenge	Description	Impact on Research
Global Fiscal Competition	Countries compete to attract foreign investment by offering better tax incentives. In the case of taxes on fringe benefits, this could result in shifting lower taxes or exemptions, which in turn could hurt state revenues.	This study analyzes how global fiscal competition influences the application of taxes on fringe benefits and pleasures in various countries.
Digital Economy Change	The growth of the digital economy and remote work have changed the traditional way of working. Relevant fringe benefits incentives have also changed, such as incentives supporting remote workers.	This study can identify how changes in the digital economy have affected relevant fringe benefits incentives and how tax arrangements can adapt to these changes.
Economic Inequality	Taxes on fringe benefits can be used as a tool to reduce income and wealth inequalities by redirecting income from higher to lower.	This study can assess the extent to which taxes on fringe benefits have been used for redistribution purposes, and whether there is potential for increasing the role of taxes in reducing economic inequality globally.
Global Tax Avoidance	Multinational corporations can take advantage of differences in tax arrangements on fringe benefits in different countries to avoid tax globally.	This study can investigate how differences in tax arrangements on fringe benefits between countries have been exploited by companies for tax evasion, and propose steps to enhance international cooperation in addressing this challenge.

Source: Modification of some Theories

The table above illustrates how the challenges in applying taxes on fringe benefits relate to this study in the context of the global economy. Each challenge has a brief description of what the challenge represents, followed by how this study might impact and provide solutions to the challenge. Through this analysis, this study strengthens the relationship between taxation aspects and global economic dynamics that need to be considered in formulating relevant tax policies and adaptations.

CONCLUSION

The research findings show the importance of applying the conformity principle in the imposition of taxes on fringe benefits, which can increase the efficiency and transparency of state financial management and prevent tax avoidance practices that are detrimental to state revenues. In the context of taxation of fringe benefits and fringe benefits in Indonesia, this study has the main objective of providing a deeper understanding of this issue from an income tax perspective, taking into account the matching principle and tax fairness. The three focus points of this study are interrelated and provide a comprehensive view of the matter.

Taxation of Fringe Benefits in Indonesia is examining the taxation of fringe benefits, this study provides in-depth insight into how the concept of fringe benefits acts as a significant form of non-monetary compensation in the remuneration system. Identifying the scope of taxable fringe benefits becomes essential in this context ([Downs & Stetson, 2014b](#); [Min, 2022](#)).

The Matching Principle in Taxes in Fringe Benefits and Its Impact on Tax Equity is the application of the principle of conformity to taxes on fringe benefits, this study explores its impact on tax equity. By considering the factors that influence tax imposition decisions, it is important to understand that the application of this principle can make a positive contribution to the efficiency of state financial management and prevent detrimental tax avoidance practices.

Challenges and Implications of Applying the Matching Principle in Natura Taxes is identified the main challenges associated with implementing the matching principle in natura taxes, including the complexity in matching income and expenses. What's more, the adaptation of this principle in the economic context after the COVID-19 pandemic is an important thing to consider ([Barid & Wulandari, 2021](#)). The positive implications for state revenues and more efficient financial management can provide impetus for improving the tax system.

This study underscores the importance of considering the conformity principle in the imposition of taxes on fringe benefits. In examining this issue, this study has provided an in-depth analysis of the concept and scope of fringe benefits as non-monetary compensation in the remuneration system in Indonesia. In addition, this study also reviews the matching principle and the implications of its application for tax justice ([Pang, 2022](#)). In conclusion, the application of the conformity principle in the fringe benefits income tax has the potential to increase state revenues and more efficient financial management. Nevertheless, steps in implementing this principle need to be taken carefully to ensure that tax fairness is maintained and all taxpayers are treated equally. What's more, in a global economic situation that is still full of challenges, policy steps must be careful and directed. The results of this study have significant implications for policy decision makers. These implications can assist in formulating strategic steps to improve the state tax system, maintain fairness in taxation, and encourage efficiency in financial management in Indonesia. It is hoped that the results of this study will provide further insight regarding the importance of applying the conformity principle in the imposition of taxes on fringe benefits.

REFERENCE

- Argente, D., & García, J. L. (2015). The price of fringe benefits when formal and informal labor markets coexist. *IZA Journal of Labor Economics*, 4(1). <https://doi.org/10.1186/s40172-014-0014-0>
- Avram, S., & Popova, D. (2022). Do taxes and transfers reduce gender income inequality? Evidence from eight European welfare states. *Social Science Research*, 102. <https://doi.org/10.1016/j.ssresearch.2021.102644>
- Barid, F. M., & Wulandari, S. (2021). Praktik Penghindaran Pajak Sebelum dan Setelah Pandemi Covid – 19 di Indonesia. *Jurnal Riset Akuntansi & Perpajakan (JRAP)*, 8(02), 68–74. <https://doi.org/10.35838/jrap.2021.008.02.17>
- Butler, C., & Calcott, P. (2018). Optimal fringe benefit taxes: the implications of business use. *International Tax and Public Finance*, 25(3), 654–672. <https://doi.org/10.1007/s10797-017-9469-9>
- Crocker, M., Milte, R., Duff, G., Lawless, M., Corlis, M., & Ratcliffe, J. (2022). Are Australians willing to pay more tax to support wage increases for aged care workers? Findings from a national survey. *Australasian Journal on Ageing*, 41(4), 513–521. <https://doi.org/10.1111/ajag.13094>
- Downs, A., & Stetson, B. (2014a). Economic and Non-Economic Factors: An Analysis of Corporate Tax Compliance. In *Advances in Taxation* (Vol. 21, pp. 37–72). Emerald Group Publishing Limited. <https://doi.org/10.1108/S1058-749720140000021002>
- Downs, A., & Stetson, B. (2014b). Economic and Non-Economic Factors: An Analysis of Corporate Tax Compliance. In *Advances in Taxation* (Vol. 21, pp. 37–72). Emerald Group Publishing Limited. <https://doi.org/10.1108/S1058-749720140000021002>
- Eichner, T., & Pethig, R. (2018). Self-enforcing capital tax coordination. *Journal of Business Economics*, 88(7–8), 915–940. <https://doi.org/10.1007/s11573-018-0895-7>
- Firmansyah, R. A., & Wijaya, S. (2022). Natura dan Kenikmatan Sebelum dan Sesudah Undang-Undang Harmonisasi Peraturan Perpajakan. *Jurnal Pajak Dan Keuangan Negara*.
- Hsu, A., & Liu, S. (2023a). The effect of book-tax conformity on the information environment: from the analyst perspective. *Review of Quantitative Finance and Accounting*. <https://doi.org/10.1007/s11156-023-01160-5>
- Hsu, A., & Liu, S. (2023b). The effect of book-tax conformity on the information environment: from the analyst perspective. *Review of Quantitative Finance and Accounting*. <https://doi.org/10.1007/s11156-023-01160-5>
- Iswahyudi, H. (2021). THE PERSISTENT EFFECTS OF COVID-19 ON THE ECONOMY AND FISCAL CAPACITY OF INDONESIA. *Jurnal Ekonomi Dan Pembangunan*, 29(2), 113–130. <https://doi.org/10.14203/jep.29.2.2021.113-130>
- Kraemer, R., & Lehtimäki, J. (2023). Government debt, European Institutions and fiscal rules: a synthetic control approach. *International Tax and Public Finance*. <https://doi.org/10.1007/s10797-023-09791-z>

- Kuhn, K. M., Meijerink, J., & Keegan, A. (2021). Human Resource Management and the Gig Economy: Challenges and Opportunities at the Intersection between Organizational HR Decision-Makers and Digital Labor Platforms. In M. R. Buckley, A. R. Wheeler, J. E. Baur, & J. R. B. Halbesleben (Eds.), *Research in Personnel and Human Resources Management* (Vol. 39, pp. 1–46). Emerald Publishing Limited. <https://doi.org/10.1108/S0742-730120210000039001>
- Lazear, E. P. (2018). Compensation and incentives in the workplace. In *Journal of Economic Perspectives* (Vol. 32, Issue 3, pp. 195–214). American Economic Association. <https://doi.org/10.1257/jep.32.3.195>
- Lokanan, M. (2023). The morality and tax avoidance: A sentiment and position taking analysis. *PLoS ONE*, 18(7 July). <https://doi.org/10.1371/journal.pone.0287327>
- Maria Pavelea, A., Neamtu, B., Pavel, A., & Nijkamp, P. (2022). Economic Performance and Resilience in Romania: Balancing Traditional and Creative Class Policy Approaches. *Applied Spatial Analysis and Policy*. <https://doi.org/10.1007/s12061-022-09450-6>
- Min, H. (2022). Assessing the impact of a COVID-19 pandemic on supply chain transformation: an exploratory analysis. *Benchmarking*. <https://doi.org/10.1108/BIJ-04-2022-0260>
- Ministry of Finance. (2022). *Laporan Keuangan Pemerintah Pusat Tahun 2022*. <https://Djpb.Kemenkeu.Go.Id/Portal/Id/Data-Publikasi/Publikasi-Cetak/Laporan-Kuangan-Pemerintah-Pusat-Lkpp.Html>.
- Moghavvemi, S., Teng, L. S., & Mahmoud, H. (2023). The Gig Economy Ecosystem. In *Reshaping the Future: The Phenomenon of Gig Workers and Knowledge-Economy* (pp. 9–32). Emerald Publishing Limited. <https://doi.org/10.1108/978-1-83753-350-320231002>
- Nguyen-Hoang, P., & Zhang, P. (2022). CAP AND GAP: THE FISCAL EFFECTS OF PROPERTY TAX LEVY LIMITS IN NEW YORK. *Education Finance and Policy*, 17(1), 1–26. https://doi.org/10.1162/edfp_a_00327
- Ngwaba, C. A., & Azizi, S. S. (2020). Effectiveness of tax reform on entrepreneurship. *Journal of Entrepreneurship and Public Policy*, 9(1), 94–111. <https://doi.org/10.1108/JEPP-07-2019-0060>
- Pang, Y. (2022). A theory of fiscal policy response to an epidemic. *Health Economics (United Kingdom)*, 31(9), 2050–2071. <https://doi.org/10.1002/hec.4564>
- Pu, C., & Syu, H.-F. (2023). Effects of disability on income and income composition. *PLoS ONE*, 18(5 May). <https://doi.org/10.1371/journal.pone.0286462>
- Raihan, A. (2023). An econometric evaluation of the effects of economic growth, energy use, and agricultural value added on carbon dioxide emissions in Vietnam. *Asia-Pacific Journal of Regional Science*. <https://doi.org/10.1007/s41685-023-00278-7>
- R.P. Garcia. (2022). *Linear Models for Business and Finance*. McGraw-Hill Education.
- Saragih, A. H., Reyhani, Q., Setyowati, M. S., & Hendrawan, A. (2022). The potential of an artificial intelligence (AI) application for the tax administration system's modernization: the case of Indonesia. *Artificial Intelligence and Law*. <https://doi.org/10.1007/s10506-022-09321-y>
- Susila Adiyanta, F. C. (2020). Fleksibilitas Pajak sebagai Instrumen Kebijakan Fiskal untuk Mengantisipasi Krisis Ekonomi sebagai Akibat Dampak Pandemi Covid-19. In *Online*

Administrative Law & Governance Journal (Vol. 2, Issue 1).
<https://katadata.co.id/berita/2019/05/23/menko-darmin-semua-menderita-akibat-perang-dagang>

Voßmerbäumer, J. (2013). Incentive effects and the income tax treatment of employer-provided workplace benefits. *Review of Managerial Science*, 7(1), 61–84. <https://doi.org/10.1007/s11846-011-0074-5>

Yong, S., & Fukofuka, P. (2023). Accounting, tax compliance and New Zealand indigenous entrepreneurs: a Bourdieusian perspective. *Accounting, Auditing and Accountability Journal*, 36(5), 1350–1378. <https://doi.org/10.1108/AAAJ-12-2017-3273>

Zhao, Y. (2020). The influence and impact of the exchange rate on the economy. *E3S Web of Conferences*, 214. <https://doi.org/10.1051/e3sconf/202021403007>