

Analysis of Value Added Tax Application on Electronic Commerce Transaction in Digital Economy System in Indonesia

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ABSTRACT

This research discusses the implementation of Value Added Tax (VAT) on electronic commerce transactions in Indonesia, which faces major challenges related to the mismatch between existing tax regulations and the rapid development of the digital sector. Although the government has issued regulations such as Minister of Finance Regulation No. 48/PMK.03/2020 to regulate the imposition of VAT on electronic commerce, its implementation is still limited by the lack of understanding of business actors and supervision constraints on cross-border transactions. This research uses a normative juridical approach to explore the gap between legal theory and practice in the field. The results show that the existing tax system has not been able to keep pace with the development of the digital trade sector, especially in regulating cross-border transactions and simplifying the tax administration process. For this reason, improvements are needed in terms of regulation, supervision, and education to business actors so that the application of VAT on electronic commerce transactions can be more effective. The findings also provide recommendations for utilizing technology to improve tax monitoring and remittance systems, as well as the need for stricter regulations regarding digital platforms that operate across countries.

INTRODUCTION

The rapid development of information technology in the last two decades has brought significant changes in various aspects of life, including trade. Electronic trade transactions, which were previously limited to business interactions between countries or between large businesses, have now expanded to a broader realm, including trade between individuals and small and medium enterprises (Mardikaningsih & Arifin, 2021). This phenomenon requires adaptation in various sectors, including the taxation sector. One of the major challenges that arise is how to regulate and tax electronic transactions that are very dynamic and not limited by geographical boundaries (Lestari & Darmawan, 2023).

At the general level, tax is an important instrument in the country's economic system, which serves to fund various development programs and public services (Sinambela & Putra, 2021). The imposition of taxes on trade transactions that occur in the digital space, especially Value Added Tax (VAT), is a very relevant issue, considering that many transactions are not properly recorded in the traditional tax system (Masithoh & Mardikaningsih,

2022). Limited supervision of information technology-based trade causes the potential for state revenue through taxes not to be optimized (Lestari et al., 2021). Therefore, an in-depth study is needed related to the application of tax rules in the electronic commerce sector to achieve legal certainty and fiscal justice (Sudjai & Darmawan, 2021).

Indonesia as a developing country has its own challenges in implementing taxes on electronic transactions. Although the Indonesian government has attempted to regulate and supervise this sector through regulations such as the Minister of Finance Regulation (PMK) No. 48/PMK.03/2020 concerning Procedures for Imposing Value Added Tax on Trade through Electronic Systems, there are still a number of issues that hinder the effectiveness of this policy implementation. One of them is the mismatch between technological developments and the speed of updating existing regulations. Although the regulation already exists, its implementation has not been fully equitable, and many parties, both entrepreneurs and consumers, do not fully understand this tax obligation.

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Electronic commerce also involves a wide variety of internationally-based platforms, which of course has its own challenges in terms of tax collection and remittance. Many transactions are conducted abroad or through intermediaries that are not registered in Indonesia, making it difficult for tax authorities to monitor and collect taxes (Lestari & Darmawan, 2023). Meanwhile, local businesses may experience difficulties in fulfilling their tax obligations if there are no clear regulations regarding cross-border transactions. This results in unfairness in tax implementation, where local businesses may feel disadvantaged due to unequal treatment with international businesses that are not covered by national tax policies.

The first problem faced is the lack of alignment between the conventional taxation system and the dynamics of electronic commerce transactions. Digital trade that involves various types of goods and services with a very flexible model demands rapid adjustments to tax regulations. In fact, the current taxation system relies more on physical transactions and direct meetings between sellers and buyers. This mismatch has led to less than optimal tax collection on electronic transactions taking place in Indonesia.

The second problem lies in the inability of the tax system to supervise and monitor cross-border transactions. Many electronic transactions involve foreign parties or use platforms that are not registered in Indonesia, making it difficult for tax authorities to collect appropriate taxes. This is further complicated by the existence of various digital payment mechanisms that make tracking transactions even more difficult. In fact, transactions that are not taxed have the potential to harm state revenues derived from the tax sector.

There are obstacles related to the education and understanding of business actors on tax obligations in electronic commerce transactions. Although the government has issued regulations related to VAT on trade transactions through electronic systems, there are still many business actors who do not fully understand this obligation. This leads to non-compliance, whether intentional or not, which in turn harms state revenue. The lack of socialization regarding the applicable rules makes the application of these rules less effective, so that the goal of increasing state revenue through taxes is not achieved optimally.

Examining this issue is particularly important as the development of e-commerce in Indonesia shows increasing numbers every year, but the existing tax regulations have not been able to fully respond to

these changes. If this is not addressed, Indonesia could potentially lose out on huge tax revenues from this sector. In addition, unclear regulations can create inequities between local and international businesses. Therefore, a more in-depth study on the implementation of VAT tax on electronic transactions is needed to ensure that the tax system in Indonesia remains relevant and fair. How the application of Value Added Tax (VAT) to electronic commerce transactions in Indonesia can be optimized, given the mismatch of existing tax regulations with the growing dynamics of digital commerce.

This study aims to analyze how the implementation of Value Added Tax (VAT) on electronic commerce transactions in Indonesia can be optimized through an understanding of the existing regulations and the challenges faced in its implementation. The results of this study are expected to make a significant contribution in formulating a more appropriate and effective taxation policy in the face of rapid development in the digital trade sector in Indonesia.

RESEARCH METHOD

The research method used in this study is a literature study approach with a normative juridical approach. This approach aims to explore and analyze laws and regulations related to the imposition of Value Added Tax (VAT) on electronic commerce transactions in Indonesia, as well as previous studies relevant to this topic. The literature study allows researchers to utilize various legal sources, such as regulations, court decisions, as well as related academic writings, to analyze existing legal issues. Through a normative juridical approach, this research will focus on the applicable legal texts and compare them with their implementation in practice in the field, to identify any gaps or problems. This approach also allows the researcher to examine the legal norms regulated in the Indonesian legal system related to e-commerce and tax, to determine the extent to which these regulations can be effectively applied in an evolving context.

The literature includes the role of peers in children's social development, including their influence on attitude and behavior formation. Previous research focusing on peer group dynamics and the relationship between children and their families, as well as theories related to socialization, informed the analysis (Hartup, 1996). This research also explores various factors that influence the relationship between children and peers, such as the role of parents, environmental factors, and

socioeconomic conditions, which can enrich the understanding of how peer friendship shapes children's behavior within the family.

According to Soerjono Soekanto (2015), the normative juridical method is very relevant in legal studies that focus on the norms and regulations that apply in society. This research will include a study of various tax regulations, including Minister of Finance Regulation No. 48/PMK.03/2020, which regulates the procedures for imposing VAT on electronic commerce. By using this approach, it is hoped that researchers can dig deeper into the legal aspects governing electronic commerce transactions and see to what extent these arrangements meet the needs and challenges that arise in society. In addition, this approach will also pay attention to the relevance of legal theories in understanding the implementation of taxes on digital transactions, as well as portraying the obstacles faced by tax authorities in overseeing cross-border transactions (Rasyid, 2019).

RESULT AND DISCUSSION

The development of the digital economy in Indonesia is accelerating along with the increasing use of the internet and technology in various sectors of life. In an increasingly connected world, electronic commerce (e-commerce) is one of the fastest growing sectors, involving not only large companies but also small and medium enterprises and individuals (Sudja'i & Ernawati, 2021). The diversity of businesses involved, coupled with the wide variety of transaction types, shows that this sector is no longer a limited phenomenon, but has become part of the wider economy. Therefore, electronic commerce should be viewed as both a challenge and an opportunity for the taxation sector.

However, while this sector offers great tax revenue potential, the application of Value Added Tax (VAT) to e-commerce transactions still faces various obstacles. One of the main issues is the mismatch between existing tax regulations and the evolving nature of digital transactions. Many businesses, both local and international, conduct transactions online without physical meetings, making it difficult for tax authorities to collect taxes effectively. The limitations of regulations that have not been able to fully capture the dynamics of digital transactions create injustice, as there are parties who comply with the rules and others who are not affected by tax obligations.

To ensure that the implementation of VAT can run more effectively and efficiently, the Indonesian government needs to update the regulations that are

more in line with the development of technology and electronic commerce transactions. Not only that, efforts to simplify tax administration procedures and improve supervision are crucial so that all parties involved in e-commerce can fulfill their tax obligations. Thus, reforms in the existing tax system will be key in ensuring that the e-commerce sector can make an optimal contribution to the Indonesian economy.

Along with technological developments, e-commerce-based business models are increasingly varied (Sinambela & Mardikaningsih, 2020). For example, platforms such as marketplaces or digital-based applications that connect various parties, both sellers and buyers, without strict supervision from the country where they operate. In Indonesia, this creates an imbalance in the application of VAT, as transactions conducted by foreign businesses or through international platforms are often not registered or recorded by tax authorities. Therefore, the government needs to think of solutions that can overcome this problem, such as simplifying the tax collection mechanism and expanding the scope of regulations that cover all parties involved in digital transactions.

Current regulations, such as Minister of Finance Regulation (PMK) No. 48/PMK.03/2020, regulate the procedures for imposing VAT on trade through electronic systems. Then, it is explained again by Minister of Finance Regulation (PMK) No. 60/PMK.03/2022, which regulates the appointment of trading through electronic systems (PMSE) organizers operating in Indonesia, both domestic and foreign operations, to collect, remit, and report Value Added Tax (VAT) on transactions of goods and services carried out through digital platforms. This provision regulates the mechanization of VAT collection on PMSE using the mechanism of appointing foreign business actors to collect VAT (Agistiawan, & Suhartini, 2022). Taxation on digital transactions is imposed on the taxable value added by multiplying the DPP with the PMSE VAT rate according to the applicable regulations, then the tax value and the VAT value are summed up to produce the transaction value charged to the buyer or end consumer (Aji, 2022).

Law No. 42/2009 on Value Added Tax and Sales Tax on Luxury Goods underwent significant changes through Law No. 7/2021 on Harmonization of Tax Regulations, which includes an adjustment of the VAT rate from 10% to 11%, as well as the imposition of VAT on digital goods and services transactions, including those conducted through electronic commerce platforms. Although this regulation has

become an important step to overcome inequality, its implementation in the field still encounters many obstacles. One of them is the lack of understanding from business actors regarding their tax obligations. Many businesses on e-commerce platforms do not realize that they are also required to collect and remit VAT in accordance with applicable regulations. In addition, the existing system has not been able to fully handle cross-border transactions involving international platforms.

In addition, another problem that arises is the lack of clarity in tax arrangements for cross-border transactions (Hardyansah et al., 2023). Many digital transactions occur between consumers in Indonesia and providers of goods or services based abroad. Although Indonesia's tax regulations cover digital transactions, the implementation of VAT collection becomes more difficult for these cross-border transactions. International platforms, such as Amazon, eBay, or other digital platforms, often do not comply with Indonesian tax rules because they are not registered in Indonesia. In addition to maintaining cooperation with foreign and domestic PMSE providers, Indonesia also needs to coordinate with other countries, both regionally and globally, in developing digital tax policies (Widianto, & Puspita, 2020). Therefore, there needs to be a more concrete mechanism to force these international platforms to collect and deposit taxes on transactions that occur with Indonesian consumers.

The effective implementation of VAT is also hampered by shortcomings in the system of supervision and monitoring of digital transactions. Given the fast-paced nature of transactions that take place in very large quantities, monitoring electronic commerce is much more complicated than conventional transactions. The ever-evolving technology should be utilized to facilitate this supervision. However, the limited resources and infrastructure available at the Directorate General of Taxes (DGT) make monitoring efforts suboptimal.

In facing this challenge, it is important to create a more dynamic and flexible tax system. Technology-based approaches, such as the use of big data or artificial intelligence (AI), can be a solution to monitor transactions in real-time and detect transactions that may escape monitoring. In addition, there is a need for more detailed regulations governing VAT collection and remittance mechanisms by e-commerce platforms or digital service providers based overseas. This will ensure that all parties involved in e-commerce transactions, both local and international, fulfill their tax obligations fairly.

In addition to the technical aspects, it is also important to pay attention to the socialization of tax obligations in the digital world to business actors. Although many business actors are already aware of the importance of taxes in the conventional context, many of them do not fully understand their obligations in digital transactions. The provision of VAT imposition on electronic commerce actors should be made more massive briefings to the public, considering that the use of electronic commerce itself is almost carried out by the entire community. This is intended so that all levels of society understand that there are tax obligations in every online transaction they make (Ridho, 2021). Therefore, the government needs to increase education and socialization efforts regarding VAT regulations on e-commerce transactions, either through seminars, webinars, or other digital platforms. A good understanding of these tax obligations will help reduce non-compliance and increase tax awareness among business actors.

The VAT imposition procedure that can be applied to digital trade transactions in Indonesia is basically the same as the system and procedure for conventional transactions (Mardikaningsih et al., 2022), the difference is that this transaction uses digital documents (Sasana, 2019). Equally important is the improvement of the tax administration system. Complicated administrative processes are often an obstacle for businesses to fulfill their tax obligations properly. Therefore, the government must continue to strive to simplify tax administration procedures so that they can be easily accessed by all businesses, both large and small (Masithoh & Mardikaningsih, 2022). This simplification of procedures will make it easier for businesses to fulfill their tax obligations, while reducing the potential for tax leakage.

Given the huge potential of the e-commerce sector, especially in Indonesia, which is one of the fastest growing e-commerce countries in the world, optimizing the application of VAT in digital transactions will greatly affect the country's economy. State revenue from this sector, which should be maximized, will be an important resource in funding various development programs and public services. Therefore, optimizing the application of VAT in digital transactions is not only a legal and tax issue, but also an economic issue that has a long-term impact.

The Indonesian government has made positive initial steps by issuing regulations regarding VAT on electronic commerce. However, optimizing the implementation of this VAT requires cooperation between various parties, including the government,

business actors, and the community. The government needs to update and improve the existing regulations to be more adaptive to the rapid changes in the digital world. In addition, businesses must also play an active role in fulfilling their tax obligations and raise awareness of the importance of taxes in supporting the country's development.

The steps that need to be taken to optimize the implementation of Value Added Tax (VAT) on e-commerce transactions in Indonesia are crucial for the country's economic sustainability. By strengthening existing regulations and adapting them to the needs of the digital era, the government can create a more stable and fair environment for businesses. This will not only ensure that taxes are collected appropriately, but can also improve taxpayer compliance leading to better resource management. Therefore, regulatory clarity and a more responsive system are the first steps to take.

In addition to improving regulations, stricter supervision and a more efficient administrative system are also needed to support a more optimal VAT implementation. Technology can be a very effective tool in this regard, such as the utilization of big data and artificial intelligence to monitor transactions in real-time (Lestari, 2022). The government must invest in adequate infrastructure to support this monitoring, in order to quickly detect transactions that do not comply with tax provisions. With a more transparent and connected system, tax evasion can be minimized and business compliance can be improved.

Lastly, it is important to provide wider education to businesses regarding their tax obligations, especially in relation to digital transactions that are often overlooked. More intensive socialization will ensure that all businesses, both big and small, understand their role in supporting the country's tax system. Through these steps, Indonesia can create an e-commerce ecosystem that is not only beneficial to the economy, but also more fair and transparent in its tax management, bringing long-term benefits to the country and society.

CONCLUSION

The conclusion that can be drawn from this research is that the implementation of Value Added Tax (VAT) on electronic commerce transactions in Indonesia faces a number of significant challenges related to the mismatch of existing tax regulations with the evolving dynamics of digital commerce. Although the government has issued a regulation related to VAT on digital transactions through Minister of Finance Regulation No. 48/PMK.03/2020, its implementation is still limited

by the incomprehension of business actors, obstacles in supervision, and the inability of the tax system to handle cross-border transactions. Therefore, there is a need to update regulations and improve the tax administration system that is more responsive to the development of the digital economy.

The implication of these findings is that if these issues are not addressed, the e-commerce sector will continue to have the potential to generate tax leakages, which could further harm the country's economy. In addition, lack of clarity in regulation and supervision may create unfairness for local businesses that must comply with tax obligations, while foreign businesses operating in Indonesia may not be taxed in the same way. Therefore, improving tax regulations and enhancing the oversight system will have enormous implications for the sustainability of the digital economy and fiscal justice in Indonesia.

Suggestions that can be given are that the government needs to make improvements to tax regulations, especially regarding cross-border transactions, and increase socialization to business actors regarding tax obligations in digital transactions. Strengthening tax supervision and administration systems by utilizing technologies such as big data and artificial intelligence can be an effective step to improve tax collection. The government also needs to be more agile in responding to changes in the digital trade ecosystem to ensure that existing regulations remain relevant and effective.

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