Quest Journals
Journal of Research in Business and Management
Volume 9 ~ Issue 5 (2021) pp: 48-54
ISSN(Online):2347-3002
www.questjournals.org

Research Paper

Taxation Management in the Digital Economic Era

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ABSTRACT
This study tries to find out how tax regulations in Indonesia related to trade transaction taxes through electronic systems can accelerate the application of digital tax practices to fund efforts to recover the Covid 19 pandemic. The discussion will emphasize more on the Digital Economy and the Application of Taxation Regulations in Indonesia related to the application of digital tax practices at the phase to accelerate economic recovery affected by the Covid pandemic 19
This study will put more emphasis on the literature study approach and provide feedback to stakeholders
KEYWORDS: *Digital Economy, International Tax Law, OECD, BEPS, and Covid 19 pandemic*

Received 26 April, 2021; Revised: 08 May, 2021; Accepted 10 May, 2021 © The author(s) 2021. Published with open access at www.questjournals.org

I. PRELIMINARY

Globalization is a process in which the world community becomes interconnected in various aspects of life, both in culture, economy, politics, technology and the environment (Lodge: 1995: 1), which is also marked by the emergence of changes in styles and patterns. Human life, as well as the very speed of technological development and very easily getting information from both inside and outside the country. This is what is happening throughout the world, not only in Indonesia, especially in developed countries such as the United States and also South Korea. In economics, the principle of comparative cost advantage results in the interdependence of various countries from one another to be more pronounced. The real thing that is currently being seen is the development of the digital economy.

It cannot be denied that the digital economy has changed the global economy, allowing small industries to become micro multinational industries with their elasticity and dynamics. This provides a higher chance for startups to be born globally, digitalization encourages competition because it enables innovative business models and allows companies to scale up quickly. Tens of millions of small and medium enterprises worldwide have turned into exporters and joined the e-commerce market, and can compete with the largest multinational companies.

The digital economy has grown exponentially over the past two decades, mainly as a result of significant technological advances and the availability of global internet connectivity. The development of new technology and diverse consumer demands have boosted today's digital retail industry. It also affects how buyers / consumers get the goods and services they want. Consumers are turning to e-commerce and mobile to make purchases that are usually physical. This change in shopping style is largely driven by the emergence of multiple market places and platforms. This change will also affect transaction taxation. Digital economy taxation is firmly placed on the agenda of governments in many countries, as leaders aim to create an equal playing field and maintain justice in maintaining open global trade. In fact, many countries have introduced and started implementing a series of unilateral tax policies to catch 'fish that have escaped the net'.

Indonesia already has tax regulations to answer the challenges of digital economy taxation, namely through regulation of the minister of finance of the republic of Indonesia number 210 / pmk. 010/2018 dated 31 december 2018 and came into force on 1 april 2019 concerning taxation treatment of trade transactions through the electronic system (e-commerce) which was later refined by regulation of the minister! finance of the republic of indonesia number 48 /pmk.03/2020 dated 5 may 2020 and comes into force on 5 may 2020 concerning procedures for appointing for collection, collection, and depositing, as well as reporting of value added taxes on the utilization of incorporated taxes and / or services taxes from outside of customs area in the customs area through trade considering through the electronic system.

Digital Economy
Definition
Digital Economy: is an economic activity or activity that focuses more on the use of digital means to have an impact on the economy that is more convenient, gets comfortable service, benefits, and is satisfaction for those who do it.
Digital Economy Characteristics:
a. Virtualization: physical things become virtual (virtual).
b. Disintermediations; there is no need for a physical intermediary;
Intermediaries through the internet or two-way direct WEB with access via a marketplace in the form of a virtual market, using delivery services, and a transfer payment system via e-banking (Reintermediarible).
c. Digital communications: all communications and transactions using digital means (internet or web technology).
The digital economy consists of e-commerce, application stores, online advertising, online payment services, could computing, and platforms (Juswanto and Simms 2017). E-commerce is the use of computers and communication networks to carry out business processes (McLeod 2007).
Section 4.3 of the OECD BEPS describes the following characteristics of the digital economy:
- “4.3 Key features of the digital economy.
There are a number of features that are increasingly prominent in the digital economy and are potentially relevant from a tax perspective. While these features may not all be present at the same time in a particular business, they are increasingly becoming a feature of the modern economy. These include:
- * Mobility, with respect to
(i) the intangibles on which the digital economy relies heavily,
(ii) users
(iii) business functions as a consequence of the reduced need for local personnel to perform certain functions as well as flexibility in many cases to choose server locations and other resources.
* Dependence on data, including in particular the use of so-called "big data".
* Network effects,
understood with reference to user participation, integration and synergy.
* Use of a multi-sided business model where both sides of the market may be in different jurisdictions.
* The tendency of monopoly or oligopoly in certain business models that are highly dependent on market influence.
* Volatility due to low barriers to entry and rapidly evolving technology

Digital Economy Types and Models

Digital development has given rise to many new business models that are increasingly diverse and adaptive. A good business model is one of the main factors in business success. These models often emerge from the adaptation of old adaptive business models in the digital age.

Brokerage / Marketplace

This business model is to connect sellers and buyers in one place. Brokerage or marketplaces will benefit from platform usage fees, sales commissions, or advertising services for sellers. This business model directs business efforts to gather as many sellers and buyers as possible. The most common examples in Indonesia are: Tokopedia, Shopee, Bukalapak, and so on.

Advertising

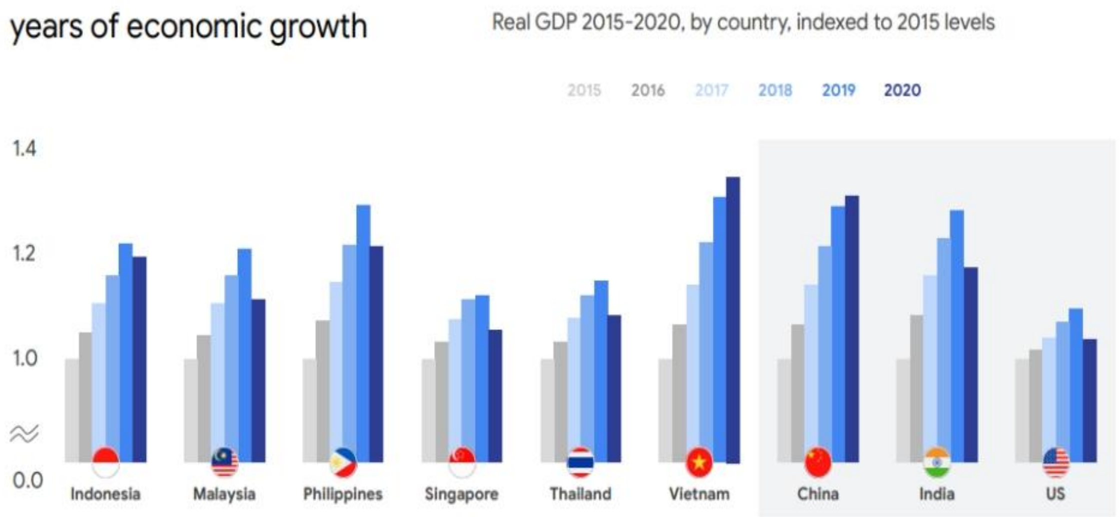
This business model connects advertisers with media owners. In digital, often media owners also have an advertising business model to provide direct advertising to their platforms. This business model benefits from a percentage of the commission selling ads, or the cost of advertising if you have a media platform. This model relies on the number of users that advertisers can provide advertisements with. Examples of companies that use this model are Google with Google Ads, Facebook and Instagram with Facebook Ads, and several marketplaces such as Shopee with Shopee Iklanku.

Infomediary

This business model connects consumers with the curation of specific and valuable information. This business model benefits from subscription fees or access fees. This model relies on the quality of the curated information provided, the more quality or useful the more expensive the price offered. Examples of companies using this business model are Kompas with kompas.id and Bloomberg with Bloomberg Terminal.

Merchant
This business model is the same as the business model that existed before the digital era, but the difference lies in the use of digital as a distribution and marketing channel. This business model benefits from the sale of the resulting product.
Manufacturer
This business model is the same as before, harnessing the power of digital to make business processes more efficient and effective. This business model benefits from selling the products it makes. Manufacturers can sell products directly to consumers or to their distributor network.
Affiliate
This business model offers products that are owned by other companies, with a profit in the form of a percentage of the profit in the event of a sale. This business model doesn't pay any commission if no sales or conversion occurs.
Community
This business model relies on an active community and high engagement to run its business. The way companies benefit from the community business model can be through subscription fees, advertising services, selling directly, or others.
Subscription
This business model charges consumers a certain fee in exchange for using the services offered. The more users you have, the more income you get. Examples of companies operating this business model are Netflix, Spotify and others.
Utility / On-demand
This business model charges fees according to the services used. We have seen a lot of this business model getting more effective with the many service offerings being offered. Examples of companies running this business model are Gojek and Grab.
In practice, these digital business models are often used simultaneously to strengthen the digital ecosystem they have. For example, community, infomediary and subscriptions are used to form the basis of the business model of modern media companies. In addition, this business model has also become very adaptive to developments to make consumers more comfortable.

Business in the Digital Economy Era
The development of the economic sector in Indonesia, which is entering the era of the digital economy, has also changed the existing business model. The business model has also changed from the old model, the new model or the new model that is currently running and the future model or future model.
Indonesia's Digital Economy Growth Data
The e-Conomy SEA report compiled by Google, Temasek, and Bain & Company reveals that the digital economy in Indonesia as a whole is estimated to reach US $ 44 billion, equivalent to Rp.624.2 trillion by 2020, and nearly tripled by 2025 to reach around US $ 124 billion (source: https://teknologi.bisnis.com/read/20201124/84/1321753/wow-nilai-ekonomi-digital-indonesia-2020-tentang-rp6242-trillion).



(source : e-Conomy SEA 2020 page 30)

Benefits of the Digital Economy
There are several impacts of the digital economy in Indonesia.
First: can create digital-based jobs.
Second: facilitate consumers by saving costs
Third: can bring in foreign investors to invest in Indonesia

The Role of E-commerce in the Digital Economy
The rapid advancement of digital technology has an impact on the development of e-commerce which also spurs the Indonesian economy.
Online commerce has created 4 million jobs and by 2022 it will jump to 26 million jobs. This indicates that the even distribution of the digital economy in Indonesia will soon be realized. E-commerce has a huge impact on business people, consumers and society in general (Suyanto, 2003). The benefits of using e-commerce for sellers are as a promotional medium in order to increase the number of sales, both online and not (Jauhari, 2010), to save operational costs in running his business, because it does not require a large physical space to display his merchandise (Widagdo, 2016), reduce delays in getting payments from consumers, accelerate service to consumers and service that is more responsive (Pratama, 2012).
Meanwhile, according to Suyanto (in Rahmidani, 2015), stated that the benefits of e-commerce for sellers are:

1. Expanding the market to the international market.
2. Minimizing the costs of producing, processing, distributing, storing, and retrieving paper-based information.
3. Minimizing telecommunication costs.
4. Allows reduced inventory and overhead.
5. Faster access to information.
6. Reduce the time between capital expenditures and receipt of products and services.

According to Suyanto (in Rahmidani, 2015) the benefits of e-commerce for consumers are:
1. Provide a means for buyers to exchange ideas and experiences.
2. Consumers can shop or make transactions for 24 hours and at almost any location with an internet connection.
3. Prompt product delivery.
4. Gives many choices in shopping.
5. Customers get the required information in detail in seconds.
6. Lots of discounts offered by e-commerce sites because of the intense competition in the e-commerce business.

Aspects of Digital Economy Taxation in Indonesia
Digital VAT Management
Value Added Tax has a long journey in the history of Indonesian taxation, where since its inception it has a flat rate of 10% with calculations following the indirect method. Value Added Tax is applied to the consumption of taxable goods or services that are taxable by adhering to the destination principle. Details of taxable goods and taxable services adhere to the negative list principle in the Value Added Tax Law. The current development of the business world creates a high distortion of business in terms of consumption of taxable goods or taxable services for the Indonesian people. Current consumption in massive amounts is carried out only through the internet, be it consumption of goods or consumption of services. In many cases, this consumption even involves cross-jurisdictional trade, which of course requires a more striking treatment of tax obligations by upholding the same principles of justice as conventional trade. In terms of cross-border digital consumption, it can be easily seen that in practice the price of a good or service from an online seller does not include Value Added Tax, which causes the same injustice for other types of trade. Therefore, the Indonesian government needs to arrange a treatment for the imposition of Value Added Tax that is more effective and fair for trade in digital products. The imposition of this Value Added Tax follows international trade standards that are generally accepted in many countries, both regional and global.

Starting July 1, 2020, Value Added Tax is imposed on sellers on digital platforms who sell taxable goods or taxable services to customers in Indonesia. Overseas sellers through digital platforms will be appointed as Value Added Tax collectors and have a responsibility not only limited to being a Value Added Tax collector, but also obliged to report, pay and record their trade transactions to the Directorate General of Taxes. Then for the buyer criteria for which Value Added Tax must be collected is to include buyers who on their digital platform provide their shipping address in Indonesia or their email address, second is Indonesian buyers who make digital payments through payment facilities provided by financial institutions in Indonesia, and the last is customers who make digital purchases via Indonesia's internet protocol (IP) address or through telephone conversations with the Indonesian country code. The imposition of Value Added Tax on this digital transaction, as previously stated, targets both taxable goods and digital taxable services. Digital goods referred to in the tax regulations include, but are not limited to

A. Film, music and all digital audio-visual products
B. Computer software, digital applications and games
C.E books, magazines and digital comics
Meanwhile, the digital services referred to in the tax regulation include, but are not limited to
A.Web hosting
B. Digital teleconference services
C. Other services used via computer networks or applications

In terms of sellers, who is obliged to collect Value Added Tax are sellers who meet several criteria and are appointed by the Directorate General of Taxes including, but not limited to, overseas merchants or online retailers who sell both digital goods and digital services, then online marketplace operators. overseas, Indonesian online marketplace operators that sell foreign products. The criteria referred to in the regulation are related to turnover limits, the number of daily visitors and the amount of online traffic that occurs. Meanwhile, online sellers who meet these criteria but have not been appointed as Value Added Tax collectors are expected by the Indonesian government to immediately report themselves to the Directorate General of Taxes to be determined as Value Added Tax collectors.

The enforcement of this Value Added Tax requires good guidance in terms of its application. Things that need to be understood are that the value added tax rate remains the same flat at ten percent. This Value Added Tax is payable from the point of sale which coincides with the due amount of a certain amount on the value of the goods prior to payment by the customer. Then the seller will add the selling price of the goods or services at a rate of 10% and must be shown separately the two components, namely the selling price and the amount of Value Added Tax, then the seller is required to issue a note or invoice for this Value Added Tax collection.

The entire value added tax collection in one month must be remitted to the State of Indonesia. The deadline for depositing follows the laws and regulations concerning Value Added Tax, which is no later than the last day of the following month. Payment can be made in rupiah, dollar or other currencies approved by the Directorate General of Taxes. As for reporting, the appointed seller has the obligation to report quarterly. The report includes data on, among others, the number of customers who purchased, the total turnover turnover, the amount of Value Added Tax collected and the amount of Value Added Tax paid. This report is due at the end of the month following the end of the quarter in question. In addition to the reports above, the Directorate General of Taxes still has one more authority related to reports from this digital Value Added Tax collector, namely it can request a Detailed Report covering all transactions in one full year with at least containing transaction numbers and Value Added Tax collection data, the amount of sales, the amount of Value Added Tax collected, the name and number of the customer's taxpayer if the npwp is submitted by the customer.

Tax management especially Value Added Tax should not be an additional tax burden for a company, because generally companies will easily recover this expense with the same tax they pay on their business inputs. The majority of countries in the world apply the same principle of Value Added Tax, which is the destination principle for business to business processes for digital products where with this principle customers in a country will fully bear Value Added Tax on the import of a good or service. However, it does not mean that it is completely without tax management, because this scheme still allows value added tax scouring through offshore efforts by establishing a business in which their field is a non-object exempted from the imposition of Value Added Tax from a country, for example for banking services. Meanwhile, for costs arising from all their business input processes which are subject to Value Added Tax, this Value Added Tax cannot be credited in general.

Digital Income Tax Management

In the practice of digital economy trading, both in the form of goods and services, it is often faced with events where a seller who is not a domestic tax subject of a country will make transactions with buyers in other countries far away through the internet without having the seller require himself to be present specific time in a country. In many cases, the majority of countries in the world require physical presence for a certain period of time before foreign tax subjects can become domestic tax subjects and are bound by their domestic tax laws. With regard to tax management, in article 5 and article 7 of the OECD tax convention model, it is stated that a company is considered a taxable subject in a country for its operating profits where it is not subject to domestic tax in that country only if it has a permanent establishment in that country. . This rule means that the seller in the digital market is not a tax subject in a country where he has many customers in that country.

The second transaction that may arise in digital transaction taxation management is that a foreign tax subject may establish a subsidiary or simply a permanent establishment that has very limited responsibility for economic activities in a country and is regulated in such a way as to generate a very small operating profit in a country. the country. The main goal in addition to minimizing profits, is to reduce asset and market risk, simply as a facility used for technical support or server maintenance so that customers can access faster to encourage sales of digital products to them. However, the parent company still has the advantage of claiming the said asset, including the intangible assets that can be generated by the activity.

The third practice that is common in income tax management in digital transactions when in the end there is a nexus in the form of a permanent business or a subsidiary in a country is an effort to maximize profit reduction in the form of fees to parties in other countries in a group that have the lowest tax rates through payment interest, royalties, management fees and so on. In general, multinational companies in income source countries with higher tax rates will try to optimize their business costs by collecting fees from one group company in the jurisdiction of another country.

Talking about digital economy taxation, as we know that rights to intangible assets and income that can be created with these intangible assets are often recognized and distributed among many cross-jurisdictional companies with little neglect of the arms length principle to minimize the overall tax burden for multinational companies. . This opens up a large space for tax planning and for a country will result in the risk of scouring the tax base (BEPS).

II. CONCLUSION

The large amount of digital economic activity has made the tax authorities in Indonesia, namely the tax directorate general (DGT), have to do their best to explore the taxation potential of this sector. Based on the draft work plan of the Ministry of Finance of the Republic of Indonesia, it can be seen that the government, in this case the DGT, is serious about dealing with this phenomenon by planning to form a special team called the Task Force for the Management of Digital Economy Players. This special task force will have two main functions, namely as an indicator of traffickers through an electronic system known as the PMSE, the second is monitoring influencer activities. These two main duties and functions will be carried out by utilizing internal data as well as external data that are owned or can be accessed in general. Regulations related to these two main functions will be covered by legal regulations so that DGT's steps will no longer be hindered by intervening efforts from outside parties. This task force is also expected to be able to create human resources in DGT who understand and master the technicalities of economic activities and digital taxes inherent in it. This needs to be done because it is not easy to optimize taxes from digital economy tax players because the amount of income, for example, by YouTubers or influencers, is difficult to know because the company that provides the income is not a domestic Indonesian taxpayer.

Tax management efforts that tend to shift or avoid a country's taxes by digital economy players also require further efforts. It is necessary to modify the criteria for the formation of a permanent establishment in line with the times that do not require physical presence anymore. It is necessary to create a new nexus in the form of a permanent business form, the criteria for a significant digital presence, then it is necessary to establish a virtual permanent business form in the form of a fixed place, agency or on-site business presence. From the income tax sector, an innovation is needed in the withholding tax as well as a threshold for Value Added Tax on imported goods in the form of restriction of value-added value free of value for goods with a certain value and the provision of certain cross-border services which are of course difficult to impose Value-added tax.

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