



Politics of tax law in supporting the progress of the digital economy

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ARTICLE INFO

Keywords:

Digital Economy;
Legal Politics;
Taxation

Article history:

Received May 17, 2025;
Revised Jun 02, 2025;
Accepted Jul 17, 2025;
Online Jul 30, 2025..

ABSTRACT

This research explores Indonesia's tax collection system, which operates on a self-assessment basis, relying on taxpayers' trust and responsibility to calculate, deposit, and report their taxes. With the rapid growth of the digital economy, regulatory gaps may arise, potentially leading to under-collection of taxes and affecting state revenue. The main issue addressed is whether current tax policies adequately support the advancement of the digital economy. The study employs normative juridical research, analyzing legal materials such as laws, regulations, and societal norms related to taxation. The findings indicate that some tax policies aim to facilitate the digital sector, including tax incentives for startups and micro, small, and medium enterprises (MSMEs). These incentives are intended to stimulate innovation and growth within the digital ecosystem. However, their implementation and effectiveness require periodic evaluation. The conclusion emphasizes that tax collection must adhere strictly to existing laws, ensuring that levies intended for state purposes are regulated legally. The study also recommends ongoing socialization efforts about e-commerce tax regulations, particularly whenever updates occur, not only for MSMEs utilizing marketplaces but also for cross-border e-commerce actors. Engaging relevant stakeholders, especially the Ministry of Finance, is crucial to ensure compliance and maximize revenue from the expanding digital economy.

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1. Introduction

The purpose of the establishment of the Indonesian state as stated in the Preamble to the Constitution of the Republic of Indonesia in 1945 is to protect the entire Indonesian nation and all Indonesian bloodshed, and to advance public welfare, educate the nation's life and participate in implementing world order and realizing social justice for all Indonesian people based on Pancasila and the 1945 Constitution (Putra, 2021). To achieve this goal, large funds are needed, where the source comes from the management of natural resources and human resources (Fauzi & Gunawan, 2022).

According to Article 1 Number 1 (Law Number 28 of 2007 Concerning General Provisions and Tax Procedures, n.d.), The definition of tax is a mandatory contribution to the state contained by individuals or entities that are coercive based on the law, by not receiving direct rewards and used for state purposes for the maximum prosperity of the people. According to Soeparman Soemahamidjaya, the definition of tax is a mandatory contribution in the form of money or goods, which is collected by the ruler based on legal norms to cover the cost of producing goods and services collectively in achieving public welfare (Ayuningtyas & Furqon, 2023).

Meanwhile, the tax collection system that applies in Indonesia is a *self-assessment system*, which is a system that provides trust and responsibility to calculate, deposit, and report the amount of tax owed by taxpayers (Rusnan et al., 2020). The government in this case is obliged to carry out guidance, research, and supervision of the fulfillment of tax obligations, especially on taxes on income obtained by entities, individuals and other forms of business.

Along with the development of technology and information, we are now entering the era of the digital economy, where various transactions of trade in goods or services can be carried out online (Musriko & Febriansyah, 2024). The development of *online* commerce is based on the ease for businesses to promote their merchandise and there is no extra cost required to open a physical store, like the general pattern of conventional trading. The number of *E-Commerce* or *online* businesses from various circles of Indonesian society that is growing far beyond conventional traders makes it even more prevalent because online trading has an unlimited number of markets.

From the results of an *e-commerce* survey in 2019 conducted (Badan Pusat Statistik, 2019), It was found that most of the businesses began to penetrate into *online sales*, which was between 45.31 percent of the total businesses in Indonesia from 2017 to 2018, with 13,485 *e-commerce* businesses and total sales of 17.21 trillion rupiah, obtained from 24.82 million transactions. Then it continues to grow until the *e-commerce* survey in 2023 with the number of *e-commerce* businesses in Indonesia in 2022 estimated to grow to 2,995,986 business actors (Badan Pusat Statistik, 2023). However, there is a fact that is quite astonishing where only 20.72 percent of *e-commerce* businesses in Indonesia have made financial reports (Syahirah & Muchlisoh, 2023).

Digital transformation widens the regulatory gap between conventional business actors and digital economy actors, especially in terms of taxation. Digital actors often operate across jurisdictions without a physical presence, making it difficult for the state to collect taxes. This inequality creates the potential for loss of state revenue. Therefore, the politics of tax law need to be directed to reform the tax system, create fair treatment, and adjust regulations to digital business models.

The breadth of the digital economy that continues to grow, it is very possible that there will be a gap in norms that occur in tax regulations in Indonesia. This can cause the potential taxation that the state should be able to get is not used effectively. To overcome this, it is necessary to have the right Legal Politics in overcoming this problem. In this study, we will discuss further the main questions, namely: How can the politics of tax law support the progress of the digital economy?

2. Method

The research method applied is normative juridical, which means normative juridical legal research (or often called doctrinal law research) can be briefly understood as research that

traces the existence of law in a particular jurisdiction. The researcher in this case seeks to collect and then analyze the legal regulations and related legal norms. This is usually done by reviewing other sources such as journal articles or other writings that comment on legal cases and laws and regulations (Tan, 2021). In addition to using a statute approach, this research also uses a conceptual approach that originates from doctrines and views that have developed in legal science.

3. Analysis and Results

3.1 Formulation of Tax Law Based on the Theory of Legal Objectives

Rapid technological change requires regulations that can adapt to the pace of technological development (Bahram, 2023). The government must be able to anticipate and follow technological changes to ensure that digital tax regulations, especially E-commerce taxes, remain relevant and effective. In addition, digital technologies that utilize the internet and electronic systems for business transactions have increased the complexity in tax supervision and collection. The government must be able to develop a more effective system to supervise and collect taxes from these digital transactions.

The increase in E-commerce in Indonesia is expected to continue to increase in line with the growing number of entrepreneurs and micro, small and medium enterprises (MSMEs) in the country (Jabat et al., 2022). The transformation of people's economic activities that involve trade transactions in it, the government is required to be able to answer the new challenges faced related to taxes on the digital economy. Unfortunately, the current tax regulations still have various problems ranging from the complexity of the characteristics of the digital economy, the lack of a level *playing field* between formal and informal transaction platforms, to the lack of socialization to the public. Organizing the tax system in the digital economy era is not an easy thing. However, the rapid shift in economic activities towards the digital economy also requires the government to immediately formulate the right tax system for online transactions. Considering that online transactions still have a fairly high complexity of problems from various sides, in its formulation the government needs to invite related parties to produce comprehensive and synchronized policies. The ministries and institutions include the Coordinating Ministry for Economic Affairs, the Ministry of Finance, the Ministry of Trade, the Ministry of Transportation, the Ministry of Communication and Information, the Investment Coordinating Board, the Financial Services Authority, Bank Indonesia, the Ministry of Cooperatives and SMEs, Pos Indonesia, Asperindo, IdEA, and others.

In the context of the state, a political system of law plays an important role in determining the sustainability and resilience of the national economy (Hofi & Wicaksono, 2023). If it is linked to the development of digitalization and the economic system, it is very important for interested state institutions as a manifestation of the legal political system to form the right legal products to support the optimization of digitalization developments to create a safe and useful digital economy. A legal political system that focuses on and cares about economic growth can certainly have a great desire in determining the direction, form and content of the law that can be used as a normative reference based on justice, usefulness and legal certainty.

Gustaf Radbruch, in the concept of the "Standard Priority Doctrine", put forward three basic legal ideas or three legal objectives, namely justice, usefulness and legal certainty. Justice is the main thing of the three things, but it does not mean that the other two elements can be ignored.

A good law is a law that is able to synergize these three elements for the welfare and prosperity of society (Halilah & Arif, 2021).

Gustav Radbruch stated his views on the concept of law. According to him, the law has three main aspects. First, the law exists to provide a structure and framework for human life to run smoothly and in an orderly manner. Second, the law also plays a role in realizing justice. And third, the law provides legal certainty (Hapsari, 2024). In his argument, Radbruch emphasized that law serves not only to achieve practical goals in social life but also to realize justice and provide certainty for individuals and society. This highlights the importance of considering these three aspects in creating and enforcing effective laws.

Gustav Radbruch argued that justice is justice in a narrow sense, namely equal rights for all people before the court. The usefulness of describing the content of the law is because the content of the law is indeed in accordance with the goals that the law wants to achieve, while legal certainty is interpreted with conditions where the law can function as a regulation that must be obeyed.

Laws and regulations as a written norm (law), in the context of the Indonesian legal state become the basis for the administration of the state and as a guideline for the administration of the government. Every product of laws and regulations and policies issued by the government must reflect the basic values of Pancasila and the Constitution.

3.2. E-Commerce Tax Policies That Can Support the Development of the Digital Economy

Electronic Transactions that occur so quickly and widely have similarities to the withdrawal and application of taxes as in conventional transactions. Therefore, the tax regulations issued by the Government are made so that the community and business actors feel fair and protected. Tax collection is intended to achieve justice for business actors who run their businesses (Mogi, 2021).

In reality, identifying the parties who transact in *E-Commerce* is more difficult than identifying the parties who conduct the transaction conventionally (Rahayu & Huda, 2023). Given the many obstacles faced by the government in identifying the parties involved. In response to matters such as the above, the Indonesian government has anticipated in ensuring legal certainty for electronic transactions in *online trade*, namely by issuing regulations, namely the Regulation of the Minister of Communication and Information Number: 29/PERM/M.KOMINFO/11/2018 concerning Guidelines for the Implementation of Electronic Certification.

The use of Electronic Certification is actually very helpful in determining the parties who participate in an electronic transaction so that it makes it easier for the Directorate General of Taxes to attract Taxpayers or Taxable Entrepreneurs, especially in the field of making Value Added Tax (VAT) Collection E-Invoices (Bagińska & Kowalik, 2023).

The implementation of digital taxes in Indonesia allows the Government to collect taxes from large international companies that previously did not make payments proportionally to the profits they get when selling goods digitally in Indonesia (Tambunan, 2021). This can certainly create a fairer environment for local companies that previously competed in an unbalanced market in Indonesia (Kurniawan et al., 2024).

Digital taxes target companies to ensure that they pay Value Added Tax (VAT) and potential Income Tax (PPH) as appropriate (Rebecca, 2021), in accordance with the income they earn from Indonesian consumers (Affardi, 2024). This will help create more equal conditions among local and foreign companies, correcting imbalances that previously hurt domestic businesses. This greater and fairer tax revenue can be used to finance public services and infrastructure, which in turn improves the quality of life of the people at large in Indonesia (Fauzan et al., 2023).

The implementation of digital corporate tax in Indonesia will not only create a direct impact on tax revenues and businesses, but will drive the need for updates and adjustments to the tax regulations available in Indonesia. This initiative aims to adapt a tax system that can handle the complexity of the digital economy that continues to grow in Indonesia. The implementation of digital corporate tax in Indonesia underscores the urgent need to update and adjust tax regulations. This is not only about increasing revenue but also ensuring fairness, efficiency, and compliance in the implementation of digital tax in Indonesia

In Indonesia, tax collection uses a *Self-Assessment System* where the taxpayer himself calculates and assesses the fulfillment of his tax obligations (Hapsari Putri Pramudya et al., 2022). This causes the ineffectiveness of fair income tax collection for every party in Indonesia. The government should make regulations that specifically regulate the imposition of taxes, both Income Tax and Value Added Tax for *E-Commerce* transactions and also for conventional transactions, so that justice for all Indonesian people can be created. Law enforcement factors also play an important role in this. Law enforcement must be firm and carry out regular supervision so that there is no gap for taxpayers to be negligent in their obligation to pay taxes in accordance with tax provisions in Indonesia (Santoso, 2022). Supervision of the government should also be increased so that it can reduce the potential for abuse of the taxes that have been collected.

The challenge of implementing digital tax policy in Indonesia is not only technically the implementation of digital taxes, but also informatively. The government needs to ensure that information on changes in tax regulations is effectively conveyed to all parties who are digital taxpayers in Indonesia. Lack of awareness and lack of understanding of the benefits and needs of digital taxes can lead to resistance among businesses and consumers, so this can become an additional burden without looking at the long-term benefits. There is a need for solutions to overcome this challenge, so the researchers recommend several strategic solutions that can be used, as follows: (a) Intensive education campaigns: The government together with related institutions need to carry out extensive information and education campaigns, using various media and platforms to reach all levels of society in Indonesia. (b) Collaboration with Stakeholders: Involving business associations, educational institutions, and the media in disseminating information about digital taxes in Indonesia. (c) Digital Tax Information Guide: Provides easy-to-understand guides and information materials to help the public understand what digital taxes are and how they are implemented in Indonesia. (d) Assistance and Consultation Services: Opening a hotline or tax consultation service that can be accessed by taxpayers who need assistance or clarification about digital taxes in Indonesia.

The implementation of digital taxes in Indonesia faces significant challenges related to the limitations of the existing technological infrastructure in Indonesia. This is a critical issue because the effectiveness of digital taxes relies heavily on the ability of technology to efficiently manage, process, and monitor digital transactions. The technological infrastructure used by tax authorities must be able to handle the enormous volumes of data from various digital

transactions that occur every day. This limited capacity can lead to system disruptions, data errors, or failures in transaction processing, all of which can reduce the effectiveness of digital tax collection in Indonesia.

Digital taxation requires integration between internal government systems and external platforms of digital companies, both local and international. Limitations in the integration of these systems can result in difficulties in accurately tracking and auditing digital transactions, which is critical to ensuring proper tax compliance in Indonesia. The challenge of implementing digital taxes in Indonesia, especially in remote rural areas, is the problem of unstable and unfast internet access. These limitations can hinder the ability of MSMEs and individuals to access digital tax systems, comply with new tax regulations, and manage their tax obligations online.

The implementation of digital taxes requires adequate training for tax staff and business people on how the new digital tax system works in Indonesia. Limitations in training and lack of skilled human resources in information technology can hinder the effective management of the digital tax system in Indonesia. This can certainly create a fairer environment for local companies that previously competed in an unbalanced market in Indonesia. As per Malaysia, Since 1 January 2020, Malaysia has imposed a digital services tax of 6% on digital services provided by foreign service providers to consumers in Malaysia, with an annual threshold of RM500,000 for registration requirements. In addition, **the implementation of e-Invoicing based on Continuous Transaction Control (CTC)** to improve tax administration efficiency and transparency in Malaysia also helps increase state revenue from the digital transaction tax sector.

According to one of the Indonesian economists who said that Indonesia has a society that has minimal awareness in fulfilling its tax obligations, this happens due to the lack of socialization from the government to the public on transaction activities carried out through *E-commerce*, limited space for tax authority officers to be able to access the *E-commerce* system. Because there is no supporting system and there are still not optimal regulations regarding *E-commerce* Tax in Indonesia, it can be concluded that there are still many people in Indonesia who are passive tax resistance, namely resistance to taxes that do not come from taxpayers, but come from the intellectual and behavioral development of the population in a country.

Indonesia's tax authorities themselves have issued several instruments to respond to the digital economy. One of them is the Regulation of the Minister of Finance Number 60/PMK.03/2022 concerning Procedures for the Appointment of Collection, Collection, Deposit, and Reporting of Value Added Tax on the Utilization of Intangible Taxable Goods and/or Taxable Services from Outside the Customs Area within the Customs Area through Trade through the Electronic System. This regulation was issued in order to create an equal level *playing field* between conventional business actors and digital economy business actors as well as between digital economy business actors at home and abroad. This regulation also provides legal certainty in collecting VAT on the use of Intangible BKP and/or JKP from outside the Customs Region within the Customs Territory through Trade Through Electronic Systems (PMSE), as well as optimizing tax revenue. Regulations issued by the government, in this case tax authorities, are limited to the use of Intangible BKP and/or JKP from outside the Customs Region within the Customs Area. The subjects appointed as PMSE VAT collectors are PMSE business actors consisting of Foreign Traders, Foreign Service Providers, Overseas PMSE Operators (PPMSE), and/or Domestic PPMSE. Value Added Tax (VAT) is imposed on the use of Intangible BKP and/or JKP from outside the Customs Region within the Customs Area through PMSE.

Although the tax authorities in Indonesia have issued Minister of Finance Regulation Number 60/PMK.03/2022, the regulation is still not enough to capture the tax potential of the digital economy. The regulation emphasizes the scope of Value Added Tax, there are no specific provisions for other types of taxes in terms of digital economy taxation. A more firm and specific policy is needed to capture the potential tax on the digital economy.

Tax rules should be able to spur the pace of national economic growth, so it is appropriate that regulations designed by the government can provide the greatest opportunities for business actors who are developing and developed. In order to create a national economic growth rate, it is necessary to have harmonious cooperation with taxpayers, both individuals and legal entities. In succeeding in the progress of economic growth, taxpayers are expected to be able to implement and comply with the obligations arising in the tax law that should be implemented.

4. Conclusion

Tax collection must be based on laws and regulations where taxes and other levies that are coercive for state purposes are regulated by law. In its development, the tax rules of the digital economy, especially E-commerce, have also adapted to the times, where in its development the E-commerce tax rules have undergone many changes. In encouraging an increase in state revenue from the tax sector, especially digital taxes, in this case E-commerce, the government continues to update laws and regulations, where the time gap of the change is not too far, it can trigger confusion for business actors in the field of E-commerce. The author argues that there should be a need for socialization to E-commerce business actors every time there is a change in E-commerce tax regulations, not only MSMEs that utilize marketplace facilities but also cross-border e-commerce business actors, by involving stakeholders ranging from the Ministry of Finance, the Director General of Taxes, the Ministry of Trade, the Ministry of Information and Telecommunications and Trade Organizers Through Electronic Systems, the lack of socialization can lead to low compliance level in paying taxes and can also hinder the growth of the digital economy in Indonesia. As a recommendation, the government needs to improve the existing technological infrastructure in Indonesia. This is a critical issue because the effectiveness of digital taxes relies heavily on the ability of technology to efficiently manage, process, and monitor digital transactions.

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