

## **IS THE APPLICATION OF DIGITAL TAX APPROPRIATE? : CONSIDERING THE POTENTIAL AND CHALLENGES OF DIGITAL TAX IMPLEMENTATION IN THE MIDDLE OF A PANDEMIC**

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### **ABSTRACT**

There is a change in the consumption pattern of the Indonesian people from purchasing products offline to being online. Items such as people's needs, clothes, cellphones, and beauty products are the people's favorite items. So it is not surprising that Indonesia is a country with the largest digital economic potential in the ASEAN region. In Indonesia itself, the digital economy is growing rapidly every year, even during the pandemic, Google, Temasek, and Bain (2020) in the E-Economy SEA 2020 report stated that there was an additional 37 percent of consumers using digital services in Indonesia and the second highest in the country. Southeast Asia after Vietnam. In addition, Indonesian people also shop online twice as much in 2020-2021 as before the pandemic. The purpose of this activity is to be able to understand the potential and challenges of implementing digital taxes in the midst of a pandemic. The implementation methods used are 1). Exposure and counseling methods; used to convey material in the form of theory. 2). Question and answer method; used to provide opportunities for participants who are not clear in their understanding. The result of the implementation of this activity is the understanding of the participants on the potential and challenges of implementing digital taxes in Indonesia with recommendations for digital taxation policies that need to be reviewed by evaluating various important aspects, including the bilateral economic aspect with certain countries. Another aspect is the accuracy of transaction data as the main measuring instrument for the validity of state tax revenues.

**Keywords:** digital tax, digital tax potential, digital tax implementation challenges

### **1. BACKGROUND**

The industrial revolution 4.0 has ushered countries in the world into advancing technological innovation, including the economic sector. Digital economy services are considered to be one of the sources of new economic growth in a country. In Indonesia itself, the digital economy is growing rapidly every year, even during the pandemic, Google, Temasek, and Bain (2020) in the E-Economy SEA 2020 report stated that there was an increase in consumers using digital services in Indonesia as much as 37 percent and the second highest in the country. Southeast Asia after Vietnam. In addition, Indonesian people also shop online twice as much in 2020-2021 as before the pandemic

There is a change in the consumption pattern of the Indonesian people from purchasing products offline to being online. Items such as people's needs, clothes, cellphones, and beauty products are the people's favorite items. So it is not surprising that Indonesia is a country with the largest digital economic potential in the ASEAN region. In Indonesia itself, the digital economy is growing rapidly every year, even during the pandemic, Google, Temasek, and Bain (2020) in the E-Economy SEA 2020 report stated that there was an additional 37 percent of consumers using digital services in Indonesia and the second highest in the country. Southeast Asia after Vietnam. In addition, Indonesian people also shop online twice as much in 2020-2021 as before the pandemic. (Nailul, 2022)

However, problems arise when the digital economy begins to explore the market in Indonesia with a different level of playing field between digital and conventional sectors. So far, the conventional economic sector is required to pay taxes with the criteria of a Permanent Business Entity (BUT) that is physically present in a country, but the digital economy that conducts cross-border transactions without the need for a physical presence implies that there is no state obligation to impose taxes. (Ahmedov, 2020). This is considered to be an injustice that occurs and a policy from the government is needed to harmonize the rules in the digital and conventional sectors. One of them is through tax regulations

The tax instrument is one of the government's ways to adjust the state of the budget posture during the Covid-19 pandemic. Various government tax policy plans, such as the increase in Value Added Tax (VAT), changes to personal and corporate Income Tax (PPh) and tax amnesty have been discussed. One sector that is currently of concern is the digital economy industry. The imposition of taxes on digital products and services is considered a potential to increase state revenue. However, this also faces challenges, especially from regulations targeting tax revenues from foreign companies operating in Indonesia. Law 2/2020 mandates the imposition of three taxes that can be carried out during

the pandemic, namely Value Added Tax (VAT) on PMSE transactions, Corporate Income Tax (PPH) through redefinition of Permanent Business Forms (BUT), and Electronic Transaction Tax (PTE) or taxes. additional if the Corporate Income Tax cannot be imposed due to a tax treaty between countries. (Rizky, 2022)

The phenomenon and fact is that Indonesia is inconsistent with international tax principles, especially in the application of income tax (PPH), electronic transaction tax (PTE), and trade tax through the electronic system (PMSE). According to USTR, the inconsistent principles include the principle of a permanent establishment, income-based taxes, so that later there is a risk of double taxation. USTR is concerned that DST will burden or restrict American trade in Indonesia in three ways: by creating an additional tax burden for American companies, spending more resources on complying with tax and reporting requirements, and imposing double taxation (Rizky, 2022).

Based on his description above, it is deemed necessary to hold outreach and education to the community as follows:

- a. What is the potential for digital taxes in Indonesia?
- b. How to apply digital tax?

After participating in socialization and education activities to the community Regarding the potential and application of digital taxes in the midst of a pandemic, participants are expected to be able to:

- a. Understanding the potential of digital taxes in Indonesia,
- b. Implementing the application of digital taxes in the midst of a pandemic

Community service in this case is to provide socialization and education regarding Is the Application of Digital Tax Right?, as well as considering the potential and challenges of implementing digital taxes in the midst of a pandemic.

## 2. METHOD

The strategic targets in this community service are students, lecturers, MSME actors and the general public through the online and offline webinar activity "BUSINESS SUCCESS IN THE DIGITAL ERA. Prof. Moestopo (Religious), preferably MSME actors and students who want to understand more deeply the study of Digital Taxes in Indonesia.

The implementation method used is by way of lectures, discussions and tutorials on practical questions via Offline or Teleconference with the Online Meeting Application. The material provided includes a discussion of:

- a. Presentation on the potential of digital tax in Indonesia and the application of digital tax
- b. Directions to observe the potential of digital taxes in Indonesia and the application of digital taxes.
- c. The implementation of digital tax potential in Indonesia and the application of digital taxes.
- d. Education on the potential of digital taxes in Indonesia and the application of digital taxes provide motivating directions for the public to understand them better

## 3. RESULTS AND DISCUSSION

This Community Service Program is carried out in the following forms:

- a. Counseling; convey material in the form of theory.
- b. Question and answer; provide opportunities for participants who are not clear in their understanding;

The flow of activities are:

- a. The preparation stage, which consists of the following stages:
  - 1) preparation of materials in accordance with the needs of the implementation of activities,
  - 2) coordinate with Dian Nusantara University in collaboration with Dr. Prof. Moestopo (Religious),
  - 3) prepare activity theory material, and
  - 4) prepare a schedule of activities for 1 effective day.
- b. The implementation stage, which consists of:
  - 1) Provide socialization and education regarding Is the Application of Digital Tax Appropriate?, and Considering the Potential and Challenges of Digital Tax Implementation in the Midst of a Pandemic,
  - 2) Provide opportunity for question and answer for participants who are not clear in their understanding.
- c. Evaluation stage, which consists of:
  - 1) Increased understanding of Is the Application of Digital Tax Appropriate?, and Considering the Potential and Challenges of Digital Tax Implementation in the Midst of a Pandemic,
  - 2) Implementation of Digital Tax Implementation Amid the Pandemic.

In this Community Service, our team is more focused on understanding about Is the Application of Digital Tax?

Appropriate?, as well as considering the potential and challenges of implementing digital taxes in the midst of a pandemic and providing socialization and education to the general public through the webinar activity "Business Success in the Digital Era" in collaboration with Dian Nusantara University and Dr. Prof. Moestopo (Religious) was

given socialization and education regarding Is the Application of Digital Tax Appropriate?, as well as considering the potentials and challenges of implementing digital taxes in the midst of a pandemic, including:

- a. G20 Agrees on Digital Tax Mechanism, Targeted to Apply 2023
- b. Finance Minister Sri Mulyani Indrawati said that G20 member countries would ensure the implementation of the two pillars of digital taxation that had been agreed in 2021.
- c. The agreement includes 2 pillars, namely:
  - 1) First, the unified approach is related to taxes in the digital economist sector.
  - 2) Second, global anti-base erosion rules, as an effort to avoid tax avoidance practices.

Explanation:

- a. Pillar 2, how to avoid the global anti-base erosion model, can be implemented as an operation or an effective policy in 2023,
- b. Pillar 1 which requires multilateral agreement is expected to be agreed and implemented in 2023,

This community service activity with Digital Tax Material Explanation Activities to the public by educating the potential of digital taxes in Indonesia and the application of digital taxes provide motivating directions for the public to understand them better.

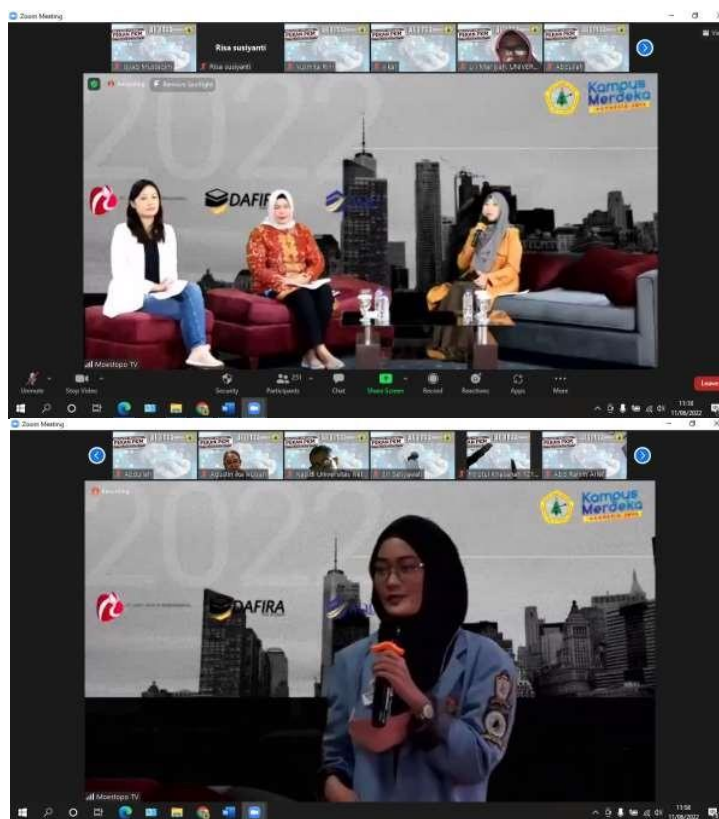


Figure 1. Activities Explanation of Digital Tax Materials

The next Digital Tax Community Service activity is a briefing to look at the potential of digital taxes in Indonesia and the application of digital taxes so that people in their implementation understand more about the application of digital taxes.

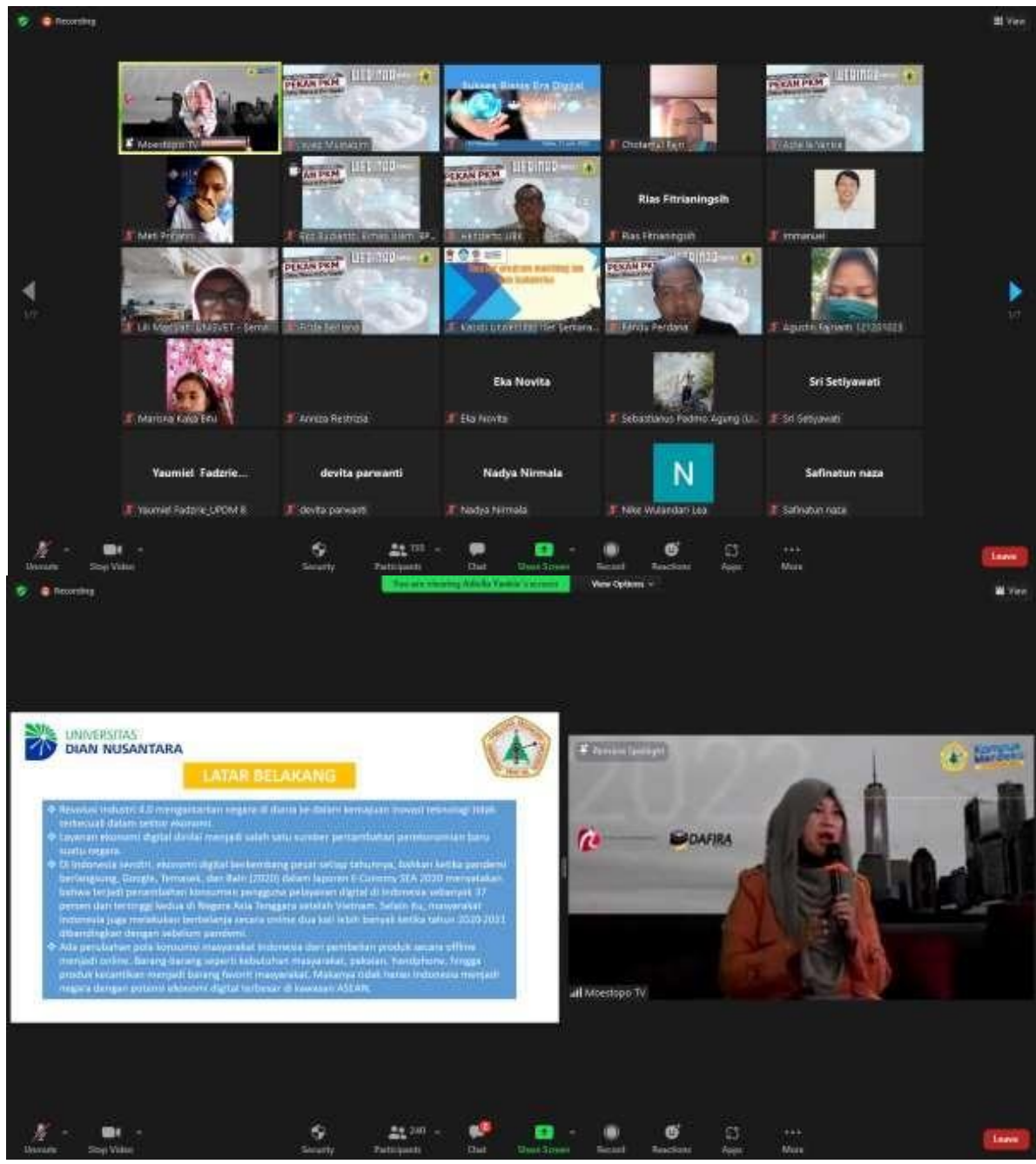


Figure 2. Digital Tax Community Service Activities

#### 4. CONCLUSIONS AND RECOMMENDATIONS

The conclusions from this activity are:

- a. Socialization and education regarding Is the Application of Digital Tax Appropriate?, as well as considering the potential and challenges of implementing digital taxes in the midst of this pandemic that we have been able to provide additional knowledge to the general public, especially students and SMEs regarding the application of digital taxes in Indonesia.
- b. This activity was responded very positively by the participants, as seen from their enthusiasm by asking many questions about the Potential and Challenges of Digital Tax Implementation. The participants requested that this understanding and education be continued and held in the coming semester by leading to the implementation process of the Indonesian Digital Taxation Law.

This activity should be carried out continuously for the same participants until they understand the implementation of digital tax implementation. Seeing the benefits of this activity which is quite large, the target audience should be expanded again on a regular basis.

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