



**UNIVERSITAS INDONESIA**

**THE CHALLENGES OF IMPLEMENTING VALUE-ADDED  
TAX ON E-COMMERCE TRANSACTIONS IN INDONESIA**

**Author:**

**ASTRID AMALIA SUNTORO**

**CHRISTINE TJEN**

**FACULTY OF ECONOMICS AND BUSINESS  
INTERNATIONAL UNDERGRADUATE PROGRAM  
UNIVERSITAS INDONESIA  
DEPOK  
JUNE 2017**

# **THE CHALLENGES OF IMPLEMENTING VALUE-ADDED TAX ON ECOMMERCE TRANSACTIONS IN INDONESIA**

Astrid Amalia Suntoro, Christine Tjen  
Universitas Indonesia

## **ABSTRACT**

E-commerce transactions show significant improvements from year to year. This raises the opportunity to impose Value-Added Tax (VAT) on the transactions. However, various challenges arise because the existing policy has not been able to accommodate the uniqueness of e-commerce transactions. This research discusses the challenges in implementing VAT on e-commerce transactions in Indonesia. Based on the research, the challenges faced by tax officers in implementing VAT on e-commerce transactions in Indonesia are identifying taxpayers engaged in e-commerce, determining taxpayers jurisdiction, incompleteness of records, identifying electronic and physical products, lack of audit trails, and lack of system controls. It is expected that the Directorate General of Tax can make specific rules related to e-commerce especially in creating the system and procedures for the imposition of VAT on e-commerce transactions.

Keywords: *Challenges; E-Commerce; VAT*

# CHAPTER 1

## INTRODUCTION

### 1.1 Background

The rapid development of information technology has given possibilities for human beings nowadays to achieve an effective and efficient life. Television, radio, telephone, computer, and Internet can provide access to abundant cross-border information in a timely manner. The most prevalent one is the usage of Internet. It solves difficulties in interchanging data across the border in no time. As a result, today nearly everything can be reached through our palms in just one click away. This particular circumstance brings out a fast paced lifestyle to the modern society where ample activities can be done instantly without having to leave the seats. One of the most visible activities that will be discussed in this research is the electronic commerce (e-commerce) activity.

E-commerce is the selling or purchasing activities held over the Internet by particular methods with the intention of receiving and delivering orders. Furthermore, it enables goods or services to be ordered and delivered by conventional channels (indirect or offline e-commerce) or through entirely electronic delivery systems (direct or on-line e-commerce). E-commerce makes transactions between one place and another possibly done without having physical interactions. This is how e-commerce currently becoming one of the most preferable ways to shop.

The development of information technology goes along with the development of e-commerce. The number of Indonesian Internet users shows a positive correlation with the number of Indonesian online shoppers. It indicates that there were 4.6 million e-commerce consumers in Indonesia and the number is predicted to go up until 8.7 million people or increased by 47% by 2016 (SP eCommerce, 2014). In addition, as the fourth world's biggest population, Indonesia, is expected to keep the number of e-commerce escalating in the future. These facts have led business players to shift their brick and mortar stores into the electronic ones in order to survive in the business and reap the potential market share.

Furthermore, in accordance with McKinsey & Co. (2016), e-commerce in Indonesia can add up to \$150 billion a year to gross domestic product by 2025 (Abraham, 2016). Initially before 1990's, the government depended on oil as Indonesia's main income (Sakti, 2014), however, as e-commerce now is seen as one of the powerful tools to boost the nation's economic growth, the government is trying to accelerate the development of e-commerce in Indonesia as it has a large potential revenue, particularly generated from the Value-Added Tax (VAT) imposition on the transactions. In 2015, it is shown in Directorate General of Tax's annual report that VAT & sales tax of luxury goods contribute 39.94% to the tax revenue, which is the second highest after non-oil & gas income tax (Directorate General of Tax, 2015).

In contrast, data from Ministry of Finance (2016) shows the VAT realization until December 31, 2016 is only amounted to Rp 410.5 trillion. Meanwhile, the realization of VAT in 2015 was recorded at Rp 423.7 trillion. It indicates that the VAT realization in 2016 falls to 3.12% compared with the previous year. This decline is the first time prior to the four consecutive years because during the period of 2012 to 2015, the VAT realization was always increasing. (Aeny, 2017). This fact is contradicted with the increasing number of e-commerce transactions in Indonesia annually. Supposedly such increase followed by a rise in VAT realization as well because most e-commerce transactions, except the exempted ones that are regulated in Law on VAT Article 4A No. 8 of 1983 on goods and services, are subject to VAT imposition.

Asosiasi Pengusaha Indonesia (2014) stated that the majority of purchasing and online-based sales or e-commerce in Indonesia do not pay taxes to the average value of approximately Rp 100 trillion per year (Febrianto, 2014). Capturing VAT on e-commerce transactions is quite complicated because they are unique compared with conventional transactions, thus in order to distinguish e-commerce transactions with the conventional ones, there are several models formulated in the implementation of the e-commerce transactions. According to the attachment from Director General of Tax number SE-62/PJ/2013, there are four models of e-commerce transactions; online marketplace, classified ads, daily deals, and online retail. The business activities and their VAT imposition on the

four business models of e-commerce transactions above are explained in the attachment (Sakti, 2014).

However, the execution of VAT imposition on e-commerce transactions is not as simple as in the models mentioned above. The various conveniences offered by e-commerce may become a drawback faced by tax authorities. The paperless environment provided by e-commerce makes the business players may not be issuing invoice and as a result the transactions may not be traceable (Rosenberg, 2008). According to Basu (2008) what makes it more complicated is the inadequate understanding of concepts of permanent establishment, sale points, and product classification that apply in taxation (Yapar et al, 2015). Thus, it is important to identify the root of problems in the VAT aspects of e-commerce in order to obtain the principal target that is to increase the national tax revenue. However, research regarding factors that hinder tax authorities in implementing an VAT on e-commerce transactions in Indonesia is still limited. Thus, in this study, the challenges of implementing VAT on e-commerce in Indonesia will be researched.

## **1.2 Research Question**

This research will be adapted from the previous study conducted by Shivani H. Patel (2014) regarding the challenges of value added tax on international e-commerce in electronic goods and services in Kenya. While the previous research analyzes the challenges of VAT implementation on international e-commerce in Kenya, this research will take a place in Indonesia. Therefore, in accordance with the previous study, the research question is what are the challenges in taxation issues that impact VAT implementation on e-commerce transactions in Indonesia?

## **1.3 Research Objectives**

The research aims to find out the challenges on implementing VAT on e-commerce transactions in Indonesia. Thus, the specific objective regarding this research is to analyze the challenges that impact VAT implementation on e-commerce transactions in Indonesia.

## **1.4 Research Benefits**

### **1. Academician**

This research is expected to gain knowledge and insights regarding VAT on e-commerce in Indonesia, which later can be used for further relevant research. Moreover, the evidence found in this research is aimed to be a reference for a learning material and consideration to conduct identical research topic in the future.

### **2. Government**

This research is aimed to be a deliberation for Indonesian government to develop taxation regulation on e-commerce in order to reap the potential tax revenue and minimize losses.

### **3. Tax Authorities**

This research is expected to be an evaluation for Indonesian tax authorities regarding their performance in dealing with e-commerce. Further, it is expected to be a reference for the responsible parties in Directorate General of Taxa to address what policies need to be improved and continued.

## **1.5 Research Coverage**

This research will examine VAT tax officers, namely account representatives, in KPP (Kantor Pelayanan Pajak) in DKI Jakarta. The reason of focusing on only KPP in DKI Jakarta is the author's time limitation in conducting research to expanded area in Indonesia. However, as DKI Jakarta is the capital city of Indonesia and it is the state's center of economy as well, the results obtained from KPP in DKI Jakarta would be representing enough to illustrate Indonesia's taxation e-commerce condition.

## **1.6 Writing Systematics**

The following system is the one to be used in segmenting the parts of the research paper:

**CHAPTER 1                    INTRODUCTION**

The first chapter will consist of background, problem statement, research objectives, research contribution, scope of research and writing systematic.

**CHAPTER 2                    LITERATURE REVIEW**

The second chapter will consist of the secondary data obtained. Through this chapter, theories, knowledge and literature studies will be explained to provide support for the research paper. Literature studies are obtained through journals, articles and books relevant with this research topic.

**CHAPTER 3                    RESEARCH METHODOLOGY**

The third chapter will focus one the phases in conducting this research, the chosen sample and criteria for choosing sample and how to use the research variables. This chapter also contains the research method used for processing the research data.

**CHAPTER 4                    ANALYSIS AND DISCUSSION**

The fourth chapter will focus on explaining the analysis results of all the research activities, data collected, and model that is used to answer the problem formulation that was previously created in the first chapter.

**CHAPTER 5                    CONCLUSION**

The last chapter will be discussing the conclusion of the research and what the researcher believes can be contributed to parties that can be used for good causes.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1. Definition of Tax**

According to Prof. Dr. Rochmat Soemitro, S.H. (1994), tax is people's contribution to the state treasury based on law that can be forced and it does not receive direct benefits in return, which then can be directly demonstrated and utilized to pay for general expenditures (Mardiasmo, 2011). Moreover, in accordance with Article 1 of KUP (Ketentuan Umum dan Tata Cara Perpajakan), tax is a mandatory contribution to the state owed by persons or entities that is enforceable under the law yet not getting direct rewards and it is used for the purposes of the state and the welfare of the people.

The followings are types of tax in general according to Directorate General of Tax (DGT) in Indonesia; income tax, property tax, stamp duty, value-added tax, tax on luxury goods, and tax on acquisition land or buildings (*Belajar Pajak*, 2012). In this research, the type of tax that will be examined is Value-Added Tax (VAT).

#### **2.2. Classification of Value-Added Tax (VAT)**

Based on taxation science, VAT falls into three categories; objective tax, tax on general consumptions within the country and indirect tax (Ikatan Akuntan Indonesia, 2014).

##### **1. VAT as Objective Tax**

According to a VAT expert, Untung Sukardji, objective tax is the type of tax that exists based on objective factor, called *taatbestand*. The term refers to circumstances, events or legal actions that can be taxed, which is also called as a tax object. VAT as an objective tax can be defined as consumers' obligation to pay tax and it does not correlate with their certain income level. Whoever consumes the goods and/or services, which are subject to VAT objects, will be treated equally and are obliged to pay VAT for their consumptions. Tax subjects in terms of objective tax are consumers who are the parties that responsible for the tax expenses. Objective tax does not take into account the subjectivity of consumers'



condition in determining any outstanding legal events or tax payments. Whoever the consumers, as long as the legal events are subject to VAT objects, they are required to pay the same amount of tax. In contrast with the subjective tax, such as income tax, in which the subjective conditions of parties who responsible to pay the tax can be taken into considerations in determining the amount of payable tax (Ikatan Akuntan Indonesia, 2014).

## 2. VAT as Tax of the Country's General Consumption

Besides functioning as an objective tax, VAT in Indonesia is categorized as a tax on consumption. It is the tax arising from legal events, which become consumers' expenses juridically and economically. In other words, those that are subject to VAT objects are goods and/or services, which can be directly consumed, not those who are still in the production process. As long as the goods are still in the cycle of production or distribution, the imposition of VAT on those periods is still temporary, which can be charged to the next buyers through the mechanism of crediting the input tax. Furthermore, Law on VAT states that VAT is a tax on consumption of goods and services in customs areas imposed through stages on each production and distribution lines (Ikatan Akuntan Indonesia, 2014).

## 3. VAT as Indirect Taxes

As an indirect tax, the tax expense is borne by consumers yet the parties in charge of depositing the VAT to the state treasury are the sellers. In other words, the VAT's collecting mechanism regulates that the parties, which are responsible for paying VAT and the parties in charge for depositing VAT to the state treasury are different. The sellers issue tax invoices as a proof of withholding of VAT payable when they deliver the taxable goods or services to the buyers. Furthermore, the sellers must deposit the VAT levied in each tax period to the state treasury. The buyers' obligation is to pay the VAT payable recorded in the tax invoice to the sellers. The tax invoice is a proof of the buyers' VAT payment. This is different with the mechanism of direct tax such as income tax, where taxpayers are required

to pay the tax and deposit it as well to the state treasury (Ikatan Akuntan Indonesia, 2014).

### **2.3 Overview of the Law on Value-Added Tax (VAT) of E-Commerce Transactions in Indonesia**

According to Surat Edaran Nomor: SE-62/PJ/2013 Directorate General of Tax, provisions in the Law on VAT in Indonesia and its implementing regulations also apply to taxpayers conducting e-commerce transactions. Entrepreneurs who deliver goods and/or services as referred in Article 4 paragraph (1) letter a, letter c, letter f, letter g and/or letter h of the Law on VAT, except for small entrepreneurs whose limits are stipulated by the Minister of Finance, shall report their business to be registered as taxable entrepreneurs. Moreover, entrepreneurs who have been registered, as taxable entrepreneurs shall collect, deposit and report the VAT. The depositing of VAT by taxable entrepreneurs shall be made at the end of the following month after the expiration of the tax period and before the *Surat Pemberitahuan Masa Pajak Pertambahan Nilai* is reported and it shall be reported no later than the end of the following month after the end of the tax period.

#### **2.3.1 Value-Added Tax Objects**

According to Article 4 Law on VAT of 2009, VAT is subject to these following activities:

1. Delivery of taxable goods and/or taxable services within the customs area by taxable entrepreneurs and entrepreneurs who should be registered as taxable persons but not yet registered;
2. Import of taxable goods;
3. Utilization of intangible taxable goods and/or taxable services from the outside of customs area within the customs area;
4. Export of tangible taxable goods, intangible taxable goods and/or taxable services by taxable entrepreneurs.

#### **2.3.2 Tax Procedure**

Article 7 paragraph (1) Law on VAT No. 42 of 2009 stipulates that VAT

rate is 10%, while paragraph (2) stipulates that VAT tariff on exported taxable goods is 0%. Moreover, Article 3A of paragraph (1) regulates that entrepreneurs who export taxable goods are required to:

1. Report the business activity to be confirmed as taxable entrepreneurs;
2. Collect the taxable VAT and VAT on luxury goods;
3. Deposit the VAT and VAT on luxury goods;
4. Report the taxable VAT and VAT on luxury goods through periodic tax return (*SPT Masa*).

## **2.4. E-Commerce**

### **2.4.1. Classification of E-Commerce**

David Baum (1999) states that e-commerce is a dynamic set of technologies, applications and business processes that link enterprises, consumers, and communities through electronic transactions and the electronic exchange of goods, services and information (*E-Commerce*, 2015). Basically e-commerce transactions are different from the conventional trading transactions. E-commerce transactions have several characteristics, including:

#### a. Unlimited Transactions

Through the use of Internet, e-commerce players can market their products internationally simply by creating a website or by advertising on internet sites indefinitely 24-hour, hence customers from all over the world can be able to access the sites and make the transactions online.

#### b. Anonymous Transactions

The sellers and buyers in e-commerce transactions do not interact face-to-face with each other. The sellers do not require the name of the buyers as long as the payment system provider has authorized the payments.

#### c. Digital and Non-Digital Products

Products such as computer software, music, and other digital products can be marketed electronically through downloads.

#### d. Intangible Products

Many companies engaged in the field of e-commerce offer intangible goods, such as software data and ideas sold through the Internet.

### **2.4.2 Overview of E-Commerce Models**

E-commerce transactions basically are divided into two categories, namely, Business to Business (B2B) and Business to Consumer (B2C) (Wahyu & Winardi, 2007).

a. Business to Business has characteristics:

- 1) Trading partners who already know each other and between them have established a relationship that lasts long enough.
- 2) The exchange of data is done repeatedly and periodically with the data format that has been agreed upon.
- 3) One of the players does not have to wait for their other colleagues to transmit data.
- 4) The commonly used model is peer to peer, where processing intelligence can be distributed across both businesses players.

b. Business to Consumer has characteristics:

- 1) Open to the public, where information is publicly disseminated as well.
- 2) The service used is general, thus many people can use it.
- 3) Service used upon request.
- 4) Client-server approach system is done frequently.

### **2.5 Reviews from the Previous Research**

This research will be adapted from the previous study conducted by Shivani H. Patel (2014) regarding the effectiveness challenges of value added tax on international e-commerce in electronic goods and services in Kenya. The study adopted a descriptive research design. The research findings revealed that the major challenges against an effective VAT system for international e-commerce in electronic goods and services in Kenya included the lack of attention to e-commerce as a unique industry in the VAT Act and the lack of unique policies to regulate the sector. From questions posed to the KRA (Kenya Revenue Authority) VAT officers, it emerged that there was a lack of proper and adequate resources, and their usage, within the taxation authority to monitor the industry.

Moreover, another previous research, Li (2000) points out that e-commerce challenge the existing tax principles that were by large conceived in an era that could not have foreseen the technological advances of the present. As most countries, tax systems link commercial activities to a particular area and e-commerce challenge this assumption, as it is inherently non-territorial. According to Oats & Fernandez (1999) there is difficulty in monitoring tax basis outside national borders (Low, Kabasunakatuba & Sharma, 2013). With e-commerce, Pienaar & Steyn (2010) stated that the extra factor is finding out how to reconcile fiscal boundaries with the borderless boundaries for Internet (Low, Kabasunakatuba & Sharma, 2013). In e-commerce transactions, according to Palil (2004), Basu (2008), Pienaar & Steyn (2010), Palil (2004), the geographical boundaries become virtual and obsolete, thus the traditional concepts have been questioned (Low, Kabasunakatuba & Sharma, 2013). Therefore, the first challenge is linking the concepts to tax, from its current interpretation, to the online environment.

Furthermore, according to Berman (2002) the given non-geographic type of e-commerce transaction, it may be impossible to resolve jurisdictional issues, distribute revenue or even collect sufficient revenues (Low, Kabasunakatuba & Sharma, 2013). Chen & Wang (2010) point out that after using the existing tax laws to tax e-commerce, the challenges that still remained for the tax authorities are as follow:

- a. Identification of the taxable entity;
- b. Audit of Sales Revenue – due to sales and relevant information being conducted electronically, identifying the correct amount of sales and the correct amount of sales revenue is a challenge (Low, Kabasunakatuba & Sharma, 2013).

In addition, Pinto (2005) identified ten major tax challenges to conducting business in cyberspace (Low, Kabasunakatuba & Sharma, 2013). These are as follows:

1. Establishing identity
2. Establishing location
3. Obtaining acceptable documentation of proof will become more difficult

4. Dematerialization of trade
5. The impact on wholesale sales tax and VAT/GST taxes
6. Impact of e-commerce on customs procedures
7. Disintermediation will remove taxing points
8. Tax havens and offshore banking facilities will become more accessible
9. A cashless society – use of electronic money
10. Income Tax Concepts:
  - a. Permanent establishment
  - b. Source and residence taxation
  - c. Transfer pricing (Pinto, 2005, p. 1-9)

Furthermore, the OECD has well documented the challenges of taxing e-commerce as well. These are highlighted by Hardy and Horner (1999) as follows:

1. How to identify taxpayers engaged in e-commerce?
2. How to determine the taxing jurisdiction of these tax payers?
3. How to ensure that appropriate records are created of business engaged in e-commerce?
4. How to collect taxes in the e-commerce environment?
5. How to ensure that any consumption tax are levied in the jurisdiction where the final consumption takes place?
6. How to apply international tax treaty issues such as permanent establishments or classification of income? (Low, Kabasunakatuba & Sharma, 2013)

## **CHAPTER 3**

### **RESEARCH METHOD**

#### **3.1. Research Method**

The primary data in this research is obtained through qualitative and quantitative approach. Quantitative methods emphasize on objective measurements and the statistical, mathematical, or numerical analysis of data collected through polls, questionnaires, and surveys or by manipulating pre-existing statistical data using computational techniques (Babbie, 2010). In other words, quantitative approach focuses on gathering numerical data and generalizing it across a group of people or to explain a particular phenomenon.

Furthermore, the second approach used in this research is qualitative approach. Qualitative approach is a research that intends to understand the phenomenon of what is experienced by research subjects such as behaviors, perceptions, motivations, actions, and others, holistically, and by the way of description in the form of words and language in a special context that is natural and by utilizing various scientific methods, such as group discussions, interviews and observations (Creswell, 1994).

This research is using both approach because merely relying on data collected from quantitative approach is not enough to create a strong analysis about the discussed topic. As a result, perspectives from parties who are relevant to this topic are needed to support and better understand the quantitative approach findings.

#### **3.2 Research Design**

##### **3.2.1 Purpose of the Study**

After examining the objectives of the study and realizing the lack of previous study and published literature on challenges of implementing Value-Added Tax (VAT) on e-commerce transactions in Indonesia, an exploratory descriptive research design is chosen by the researcher. An exploratory study is used when a researcher has little knowledge about the situation at hand and no information is available on how similar problems or research issues have been solved in the past. It embarks on investigating and finding the real nature of the

problem (Sekaran & Bougie, 2013). In addition, according to Richardson (2005) solution and new ideas could surface from this type of research (Harun, 2010).

### **3.2.2 Time Horizon**

Cross-sectional study is chosen by the researcher in data collecting method because this research is aimed to find out the prevalence of challenges on implementing VAT on e-commerce transactions in Indonesia by taking a snapshot or cross-section of the population. As a result, the research obtains an overall picture as it stands at the time of the study. A cross-sectional study is when the data are gathered just once, perhaps over a period of days or weeks or months, in order to answer the research questions (Sekaran & Bougie 2013). Thus, the quantitative and qualitative methods are conducted only once during the data-collecting period.

### **3.2.3. Sampling Design**

In this research, non-probability sampling is used as the sampling design. Non-probability sampling means that the elements in the population do not have any probabilities attached to their being chosen as sample subjects. Subjects in a non-probability sample are chosen by considering the researcher's accessibility and purposive personal judgment (Sekaran & Bougie, 2013). In this research, the population and sample for quantitative and qualitative approach are account representatives located in Kantor Pelayanan Pajak Pratama in DKI Jakarta and the head of VAT regulation division in Directorate General of Tax.

## **3.3. Data Collection Method**

### **3.3.1. Interviews**

In this research, the method used in the qualitative approach is structured interview. Interview is an alternative method of collecting data survey (Babbie, 2007) and a useful method of obtaining information and opinions from experts during the early stages of the research project (Walliman, 2006). They provide qualitative depth by allowing interviewees to talk about the subject in terms of their own frames of reference. In doing so, the method enables the interviewers to



maximize their understanding of the respondents' point of views (Henn, Weinstein and Foard, 2006).

Determining informants to be interviewed needs correct references, according to (Neuman, 2007) there are four criteria of good informants, namely:

1. The informant who is totally familiar with the culture;
2. The individual is currently involved in the field;
3. The person can spend time with the researcher;
4. Non analytic individuals make better informant.

Based on the above conditions, the in-depth interview will be conducted to the parties related to the research questions as follows:

1. Directorate General of Taxes, Rusdi Yanis (Head of VAT Regulation Division)

Interview with the party of Directorate General of Tax is conducted to obtain the perspectives from the policy makers of VAT regarding the challenges of implementing VAT on e-commerce transactions in Indonesia and the efforts to overcome the challenges.

2. Tax officer in Kantor Pelayanan Pajak Mampang Pratama, Jefri Marwan (Account Representative of PT. X)

Interview with the account representative is conducted to obtain the views from the tax officer itself as the party which directly dealing with taxable entrepreneurs regarding the problems they face in imposing VAT on their online business transactions.

### **3.3.2 Questionnaires**

The method used in this quantitative approach is questionnaires. The questionnaires are constructed using Google Docs and distributed through e-mail and personal visit to the respondents. Afterwards, a timeframe of approximately three weeks are given to respondents to complete the survey. From the point of view of researcher, online questionnaire is the most efficient way in terms of time and cost in collecting the data because the target of the respondents is located in several areas in DKI Jakarta.

Moreover, according to Mekar Satria Utama, Director of Counseling, Services and Public Relations in Directorate General of Taxation, the number of account representatives in each Kantor Pelayanan Pajak Pratama in Indonesia is amounted to 40 people on average (Kharismawati, 2015). The total number of Kantor Pelayanan Pajak Pratama in DKI Jakarta is 54, thus out of 2160 account representatives in Kantor Pelayanan Pajak Pratama in DKI Jakarta are identified as the population in this study. Account representatives are suitable to be the target population because their duties are compatible with the research objectives that the researcher would like to find out. According to Peraturan Menteri Keuangan Nomor 79/PMK.01/2015 account representatives' duties are consist of:

- a. Supervise taxpayers compliance obligations;
- b. Analyze taxpayers performance;
- c. Reconcile taxpayers' data in the framework of intensification and appeal to taxpayers.

The number of samples is determined according to Gay & Diehl (1992) that explained the minimum acceptable sample size would be 10% of population. Thus, a total of 216 account representatives are determined as the amount of target samples.

### **3.3.3. Questionnaire Design**

The first page of the questionnaire as referred to attachment 1, is an introductory statement regarding the profile of the researcher and the purpose of the questionnaire. It consists of name, education and contacts. In addition, the main objective, the purpose, the theme of this research and also the request statement from the researcher to the respondents to participate in this research is also stated in the beginning.

Furthermore, the respondents are asked regarding their qualifications to fill the questionnaires, which works as an account representative who deals with taxable entrepreneurs in e-commerce field. Dichotomous question is conducted in this section, where respondents have two alternative responses: yes or no.

In the main section, the respondents are given questions that refer from the previous study conducted by Patel (2014).

The questions in main section are as follows:

1. Identifying taxpayers engaged in e-commerce
2. Determining taxpayers taxing jurisdiction
3. Products – identify electronic vs. physical products
4. Lack of audit trails
5. Incompleteness of records
6. Lack of system controls
7. Payment system – monetary movements, e-cash

The questionnaire will use structured questions. In structured design, respondents will be presented alternative choices or answers and the questions will be scaled response questions. In the questionnaire, six-point Likert scale will be used.

In the last section, respondents are asked about their profile in the form of demographic data as follows:

1. Gender
2. Age
3. Working period as a tax officer
4. Latest education

Multiple-choice question is applied in this section, where respondents have more than two options to answer the questions mentioned above.

### **3.4 Data Analysis Method**

#### **3.4.1. Questionnaire Analysis**

Quantitative data analysis process in this research is conducted after the data from questionnaires are obtained and it is processed using Microsoft Excel. The conclusion is obtained from the category, which chosen the most by the respondents as strongly agree and somewhat agree based on the Google Docs result that is enclosed in attachment 2. The results are presented in graphs, charts, and tables in order to provide a clear picture of the research findings.

#### **3.4.2. Interview Analysis**

Qualitative data analysis process in this research as referred to attachment 3, is done from collecting raw data from Directorate General of

Taxation and Kantor Pelayanan Pajak Pratama Mampang Prapatan in the form of interview recordings which will be summarized and transcribed. Furthermore, the collected raw data is analyzed in accordance with the research questions. In the analysis process, literature review also helps to compare the findings from the raw data obtain to generate the final conclusions of the research.

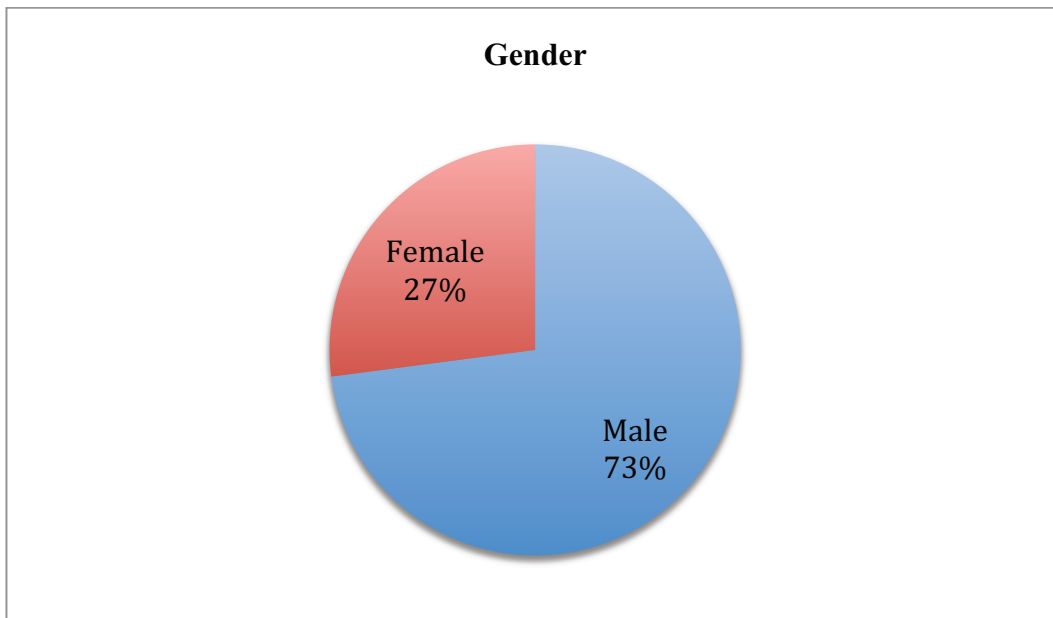
## CHAPTER 4

### DISCUSSION AND ANALYSIS

#### 4.1 Profile of Respondents

- **Gender**

The result shows that the majority of account representatives dealing with VAT on e-commerce transactions who fill the questionnaires is male with the percentage of 72.93% and the rest is female with the percentage of 27.07%. The ratio is similar with the demographic data of Directorate General of Tax's 2015 annual report, which shows that the percentage of male and female tax officers in Indonesia based on gender is 70.54% and 29.46% respectively. The result obtained is exhibited in this diagram below:

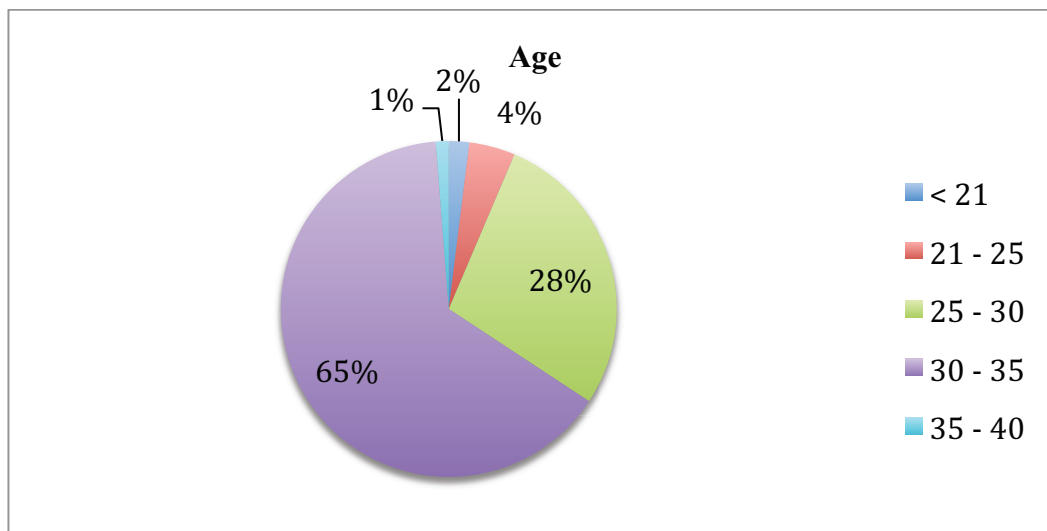


**Figure 4.1 Gender Categories**

Source: Compiled by Researcher

- **Age**

The age majority of account representatives dealing with VAT on e-commerce transactions who fill the questionnaires is 26 – 30 with the percentage of 51.83%. The result is in accordance with the demographic data of Directorate General of Tax's 2015 annual report, which shows that the majority of tax officers in Indonesia according to age is 26 – 30. The result obtained is summarized in this table below:

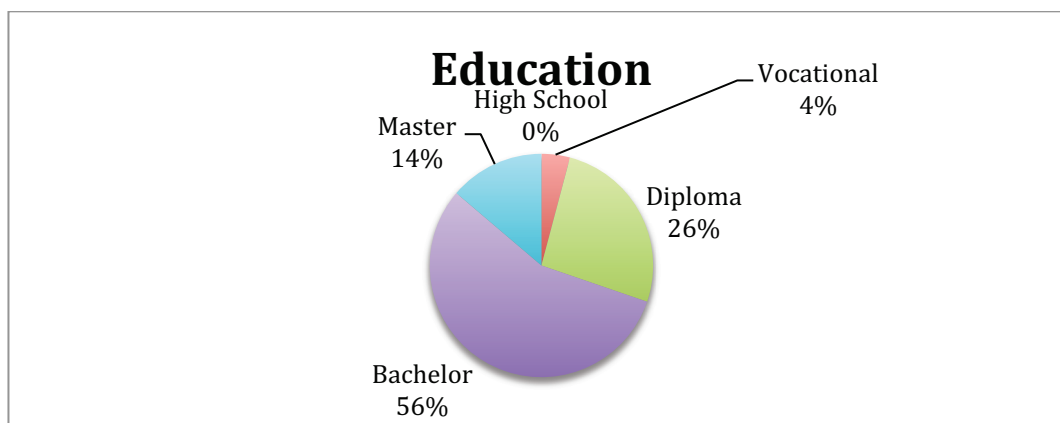


**Figure 4.2 Age Categories**

Source: Compiled by Researcher

- **Education**

According to Minister of Finance Regulation No. 79 of 2015, the minimum education requirement to be account representatives is high school. However, based on the findings, none of the respondents are high school graduates. The majority of account representatives dealing with VAT who fill the questionnaires attended their latest education on bachelor degree with the percentage of 55.96%. The result obtained is exhibited in this diagram below:



**Figure 4.1 Education Categories**

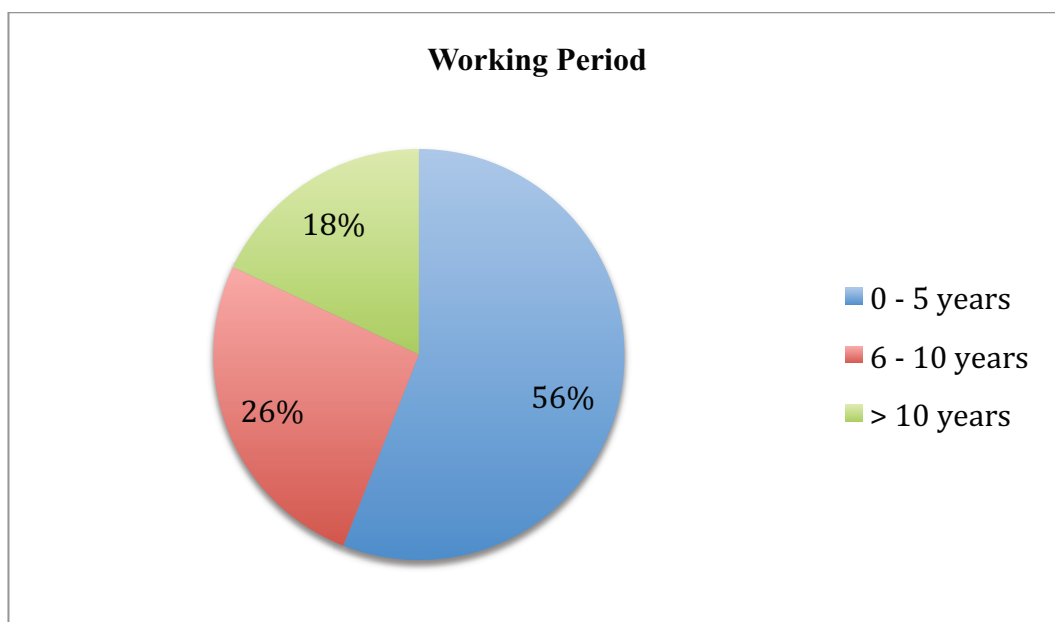
Source: Compiled by Researcher

- **Working Period**

Based on the working period, the result shows that the majority of account representatives dealing with VAT on e-commerce transactions who fill the questionnaires have mostly worked for 0 – 5 years with the percentage of 56%, followed by working period

of 6 – 10 years with the percentage of 26 % and above 10 years with the percentage of 18%.

The result is exhibited in this table below:



**Figure 4.2 Working Period Categories**

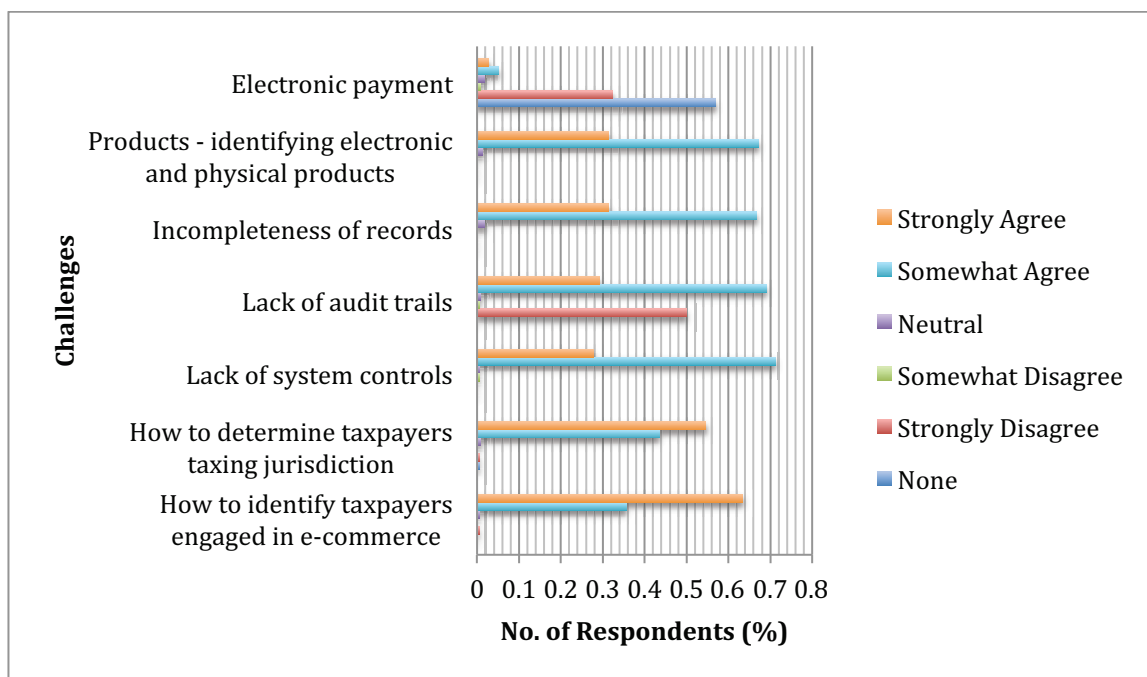
Source: Compiled by Researcher

**Table 4.1 Account Representatives' Opinion on Challenges of Implementing VAT on E-Commerce Transactions in Indonesia**

	None (%)	Strongly Disagree (%)	Somewhat Disagree (%)	Neutral (%)	Somewhat Agree (%)	Strongly Agree (%)	Total
How to identify taxpayers engaged in e-commerce	0	0.5	0	0.5	35.6	63.4	100
How to determine taxpayers taxing jurisdiction	0.5	0.5	0	0.9	43.5	54.6	100
Lack of system controls	0	0	0.5	0.5	71.3	27.8	100
Lack of audit trails	0	0.5	0.5	0.9	69	29.2	100
Incompleteness of records	0	0	0	1.9	66.7	31.5	100
Products – identifying electronic and physical products	0	0	0	1.4	67.1	31.5	100
Electronic payment	56.9	32.4	0.9	1.9	5.1	2.8	100

Source: Compiled by Researcher





**Figure 4.5 Challenges of E-Commerce on VAT**

From the table and figure above it can be seen that the biggest challenges of e-commerce on VAT, according to account representatives, respectively, are identifying taxpayers engaged in e-commerce, determining taxpayers jurisdiction, incompleteness of records, identifying electronic and physical products, lack of audit trails, and lack of system controls. However, electronic payment is the least challenge chosen by the respondents. Each of the challenges is explained in the following section.

## 4.2 Data Analysis

The analysis of the challenges of implementing VAT on e-commerce transactions in Indonesia is done through referring from the list of questions in the questionnaires and interview results obtained from the field while linking to the consumption tax laws applicable in Indonesia.

### 4.2.1 Identifying Taxpayers Engaged in E-Commerce

Identifying taxpayers engaged in e-commerce is how tax officers identify whether taxpayers run online business or conventional ones. According to the interview with Rusdi Yanis, head of VAT regulation division in Directorate General of Tax, in principle, VAT subjects of conventional nor e-commerce business players are the same. Therefore, there is no different tax treatment between both of them. It is stipulated in Article 4 and 16D Law on VAT No. 42 of 2009, VAT subjects can be grouped into two categories, namely:

## 1. Taxable Entrepreneurs

Provision that stipulates VAT subjects should be taxable entrepreneurs is Article 4 letter a, letter c, letter f, letter g, letter h and Article 16 D. Of those chapters are known that:

- a. Those who deliver taxable goods and/or services that can be imposed by VAT are taxable entrepreneurs.
- b. Those who export taxable goods that can be imposed by VAT are taxable entrepreneurs.
- c. Those who deliver assets which according to its original purpose is not to be traded are taxable entrepreneurs.
- d. Form of joint operations that, when delivering taxable goods and/or services are subject to VAT are taxable entrepreneurs.

## 2. Non-Taxable Entrepreneurs

VAT subjects should not always be taxable entrepreneurs, but non-taxable entrepreneurs can be the VAT subjects as set out in Article 4 letters b, d, and e and Article 16 C Law on VAT.

- a. Whoever imports taxable goods.
- b. Whoever utilizes intangible taxable goods and/or services from outside the customs area.
- c. Whoever builds themselves that are not related with the jobs.

However, based on the questionnaire result in table 4.1, 63.4% of the respondents are strongly agree that identifying taxpayers engaged in e-commerce transactions is a challenge. This happens because there is no specific rules related to registration system of online business players in Indonesia. Furthermore, tax authorities have trouble in detecting the real owners of the business since it is difficult to know the actual location, especially when most online business players who supposedly use domain .co.id but they use .com. In addition, e-commerce business players from abroad who run the business in Indonesia are still given the flexibility to not open a branch office in Indonesia, thus their transactions are difficult to be detected. As a result, tax authorities can hardly capture the VAT revenue from taxpayers engaged in e-commerce transactions.

### **4.2.2 Determining Taxpayers Taxing Jurisdiction**

Determining taxpayers taxing jurisdiction is how tax officers identifying which country taxpayers should follow VAT law. According to Rusdi Yanis, head of VAT

regulation division in Directorate General of Tax, although within the Directorate General of Tax's SE/62/PJ/2013 regarding provisions of taxation on e-commerce transactions, it is asserted that the taxation rules between e-commerce transactions and conventional transactions are the same. However, some characteristics of e-commerce transactions cannot be reached with the existing tax laws. With regard to jurisdictions, the arising problem is determining the VAT payment mechanism for the use of digital goods and/or services if they are produced by entities originating abroad. Under the Law on VAT, it is said that based on the principle of destination, VAT is charged in the place where the goods and/or services are consumed.

However, based on the questionnaire result in table 4.1, 54.6% of the respondents are strongly agree that determining taxpayers taxing jurisdiction is a challenge. This happens because according to the interview with Jefri Marwan, an account representative for PT. X in KPP Mampang Pratama, in practice, the imposition of VAT on digital content transactions from overseas e-commerce business players, which can be accessed through personal computer or smartphones for individual consumptions may become a drawback as the final consumers have no interest in making tax deductions and given the characteristics of interactions over the internet that enable the users using anonymous identity and location.

#### **4.2.3 Incompleteness of Record**

Incompleteness of record occurs when taxpayers do not completely fill the tax form during their tax collection. Based on the questionnaire result in table 4.1, 66.7% of the respondents are somewhat agree that incompleteness of record is a challenge. This happens because according to the interview with Jeffri Marwan, an account representative of PT. X in KPP Mampang Prapatan, incompleteness of records is one of the challenges in implementing VAT, not only in e-commerce transactions but also the conventional ones. Incomplete data reported by taxpayers would create difficulties in implementing VAT because tax officers will have difficulties in imposing the amount of VAT on the transactions. Moreover, Indonesia is adopting the self-assessment system in reporting tax, which makes the assumption that tax reporting is assessed correctly until the tax officers find new data or information that the report is not true. Therefore, based on the interview with Rusdi Yanis, head of VAT regulation division in Directorate General of Tax, DGT requires comparative data, in this case to recognize the number of turnover of the e-commerce business players correctly. The DGT itself has established a technical implementation unit to handle the receipt of tax data and

information from various government agencies, institutions, associations, and other such parties, namely Kantor Pengolahan Data Elektronik (KPDE). It is responsible for carrying out the receipt, scanning, and storage of tax documents, as well as data transfer related to taxation provided by government agencies, institutions, associations and other parties. After receiving data from other parties, KPDE will process the data through the process of receiving and collecting, researching and sorting data, data clarification, hardcopy scanning (physical document), data recording, data identification, data transfer, and data storage and borrowing. In addition, if the self-assessment system is not supported by other data then the DGT will find it difficult to find fraud because of system limitations.

Furthermore, the difficulties of incompleteness of records are compounded by the weakness in the detection of e-commerce transactions, which is the absence of access to detect such transactions. However, in searching for comparison data to detect the existence of e-commerce transactions, DGT has attempted to request data to Asperindo (Association of Express Delivery Companies, Post and Logistics Indonesia) to track the delivery of goods made by the e-commerce business players. However, the problem is Asperindo itself is not willing to provide such data on the grounds that they have their own laws to protect the confidentiality of their clients or customers' data. The limited availability of data, technological infrastructure and the lack of human resources in tax authorities that specifically handle taxation on e-commerce transactions are also one of the weaknesses of detecting e-commerce transactions.

#### **4.2.4 Products – Identifying Electronic and Physical Products**

Identifying electronic and physical products is how tax officers differentiate the form of the products sold over the Internet. E-commerce transactions as described previously are conducted through the Internet. The ordered goods can be in the form of tangible goods, digital goods, and/or services. Based on the questionnaire result in table 4.1, 67.1% of the respondents are somewhat agree that identifying electronic and physical products is a challenge. Based on the interview with Jefri Marwan, an account representative for PT. X in KPP Mampang Pratama, for the digital goods, Law on VAT of 2000 does not provide a clear definition. The term intangible goods are not explained in the law that is applicable as of 1<sup>st</sup> January 2001, however before 2001, Law on VAT No. 8 of 1983 provides description of the intangible goods as trademarks, patents, and copyrights. Based on Law on VAT of 2000, the definition of intangible goods can be defined to a maximum extent, hence digital goods are classified as intangible goods, which are subject to VAT. This lack of clarity regarding the

regulation of digital goods in terms of the definition of intangible goods, causing broad and far interpretation from the principle of legal certainty. Thus, it creates difficulties in implementing VAT on e-commerce transactions because digital goods may be uncaptured from VAT imposition.

However, from the point of view of fairness, the delivery of goods and/or services conducted by the e-commerce should get equal treatment with the regular delivery of goods or services. This means that if the goods purchased in the store are subject to VAT, the goods obtained from downloads should be imposed by VAT as well.

#### **4.2.5 Lack of Audit Trails**

Audit trails are how tax officers conduct examination regarding the taxpayers' business transactions. Based on the questionnaire result in table 4.1, 69% of the respondents are somewhat agree that lack of audit trails is a challenge. This happens because according to the interview with Jefri Marwan, an account representative for PT. X in KPP Mampang Pratama, lack of audit trails is a challenge for implementing value-added tax on e-commerce transactions because the transaction is paperless. Thus, it is difficult to conduct examination to the taxpayers. However, the examination can be conducted through a meeting between tax authorities and taxpayers. Furthermore, based on the interview with Rusdi Yanis, head of VAT regulation division in Directorate General of Tax, the Directorate General of Tax in the context of supervision of compliance with the fulfillment of tax obligations is authorized to conduct an examination to test compliance with taxpayers' tax obligations or for other purposes. Examination can be done at the office (office check) or place of the taxpayer (field inspection). In the provision of Article 29 paragraph (3) of Law Number 28 Year 2007 regarding the third Amendment to Law Number 6 Year 1983 regarding General Provisions and Procedures of Taxation (KUP) there is an obligation to give full access to tax inspectors in order to access and/or download data from records, documents and other documents related to taxpayer transactions. To the audit of e-commerce transactions, other documents or records referred to may be made through direct access to the website of the taxpayer.

Moreover, in the provision of Article 29 paragraph (3) of Law Number 28 Year 2007 regarding the third Amendment to Law Number 6 Year 1983 regarding General Provisions and Procedures of Taxation, there is an obligation to give full access to tax inspectors in order to access and/or download data from records, Documents and other documents related to Taxpayer transactions. To the audit of e-commerce transactions, other documents or records referred to may be made through direct access to the website of the taxpayer.

#### **4.2.6. Lack of System Controls in E-commerce**

System controls are how tax officers monitor the taxpayer's activities in conducting their business. Based on the questionnaire result in table 4.1, 71.3% of the respondents are somewhat agree that lack of system controls is a challenge. This happens so because according to the interview with Rusdi Yanis, head of VAT regulation division in Directorate General of Tax, system control becomes another issue for the DGT in business development of cyberspace due to the insufficient technology of DGT. The system control is important to capture the online business players who are still not registered as taxpayers. The business players should get a call for the on going taxation rules and the identities of the online business players must be owned by the DGT to ensure the ongoing transactions and their tax aspects.

Moreover, based on the interview with Jefri Marwan, an account representative for PT. X in KPP Mampang Prapatan, control from the account representatives has also been done in order to fulfill the tax obligations for the taxpayers of online business players. Comprehensive control to the taxpayers of online business players and supporting facilities systems from the DGT is able to increase the tax potential of e-commerce transactions. Such control is applicable in terms of monitoring the rampant of trading and shopping online. Generally, the control of tax authorities, especially account representatives, in handling the taxation issues in each region becomes benchmarks in the treatment of e-commerce. However, the efforts that have been done are still manual with access to available information, such as Internet, newspapers, and other information media.

#### **4.2.7 Electronic Payments**

Electronic payment system is a way of paying for goods or services electronically, instead of using cash or a check, in person or by mail. Based on the questionnaire, only 2.8% respondents are strongly agree that electronic payment is a challenge, meanwhile 56.9% respondents do not agree that electronic payments is a challenge. This happens because according to Jefri Marwan, an account representative for PT. X in KPP Mampang Pratama, the usage of electronic payments in e-commerce transactions does not necessarily acts as an obstacle in implementing VAT on e-commerce transactions. In contrast, it helps tax officers monitoring the transactions because in electronic payments every transaction is recorded in the bank accounts. However, according to Rusdi Yanis, tax authorities do not have jurisdiction over the banking, finance and payment system sectors of the economy, thus they should express their views to the appropriate bodies to ensure that features of electronic

payment systems do not exacerbate the challenges associated with the cash economy. For example, tax authorities might press the appropriate bodies to ensure that electronic payment system providers operate their systems in a way that enables the flows of funds to be properly accounted according to prevailing legislation.

## **CHAPTER 5**

### **CONCLUSIONS AND RECOMMENDATION**

#### **5.1 Conclusions**

From the result of analysis conducted in the previous chapters, it can be concluded that based on the interviews and questionnaire collected from the account representatives, the challenges of implementing VAT on e-commerce transactions in Indonesia are identifying taxpayers engaged in e-commerce, determining taxpayers jurisdiction, incompleteness of records, identifying electronic and physical products, lack of audit trails, and lack of system controls.

#### **5.2 Recommendation**

The characteristics of fast e-commerce transactions, crossing the boundaries of interstate jurisdiction create difficulties in identifying taxpayers engaged in e-commerce, determining taxpayers taxing jurisdiction, identifying electronic vs. physical products, lack of audit trails, lack of system controls, and electronic payment systems. These challenges require policy makers to not only focus on the national e-commerce business regulation but also the comprehensive digital taxation regulatory framework that responds to cross-country transactions, the pace of market changes, business models and consumer tastes. Since e-commerce and the digital economy are also under the jurisdiction of the supervision of several related sectors, it is necessary to coordinate and harmonize cross-ministerial legislation and policies in the process of drafting legislation that becomes the legal base for e-commerce activities in particular and facing the development of business models on the era of the digital economy in general.

Moreover, continuous intensive review and readiness of human resources in understanding the expanding concepts of tax and e-commerce business processes are increasingly needed for the future rules. The real e-commerce business is only a set of buying and selling intangible goods and services within the Internet. Without expertise of computer knowledge, it is almost impossible to obtain the tax from e-commerce business. Transactions data are mostly saved in the form of digital or electronic and paperless. Therefore, tax authorities need a more particular and specific tax knowledge of this kind of business.



### References

- Abraham, T.K. *Jack Ma in Indonesia Shows 'Explosive' Online Sales Growth*. October 4, 2016. *Bloomberg Online*.
- Aeny, S.N. *Pertama Kali Dalam 5 Tahun Realisasi PPN Turun*. January 5, 2017. DDTC News.
- Babbie, E.R. (2010). *The Practice of Social Research*. London: SAGE Publications.
- Baum, D. (1999). *Business Links*. Oracle Magazine Vol. XIII.
- Budi, Chandra. *Batasan Omzet Pengusaha Kecil Wajib PPN Dinaikkan*. January 3, 2014. Direktorat Jenderal Pajak Kementerian Keuangan.
- Creswell, J.W. (1994). *Research Design Qualitative & Quantitative Approaches*. California: SAGE Publications, Inc.
- Febrianto, V. *Kemendag Prioritaskan Penyelesaian Aturan E-Commerce Pada 2014*. April 12, 2014. Antara News.
- Gay, L.R., Diehl, P.L. (1992). *Research Methods for Business and Management*. New York: MacMillan Publishing Company.
- Henn, Matt., Weinstein, Mark and Foard, Nick. (2006). *Learning Orientation, Firm Innovation, and Firm Performance*. London: SAGE Publications.
- Harun, N.H. (2010). *Digital Libraries Initiatives in Malaysia: Readiness and Perceived Conditions for Future Growth*. Kuala Lumpur: University of Malaya.
- Ikatan Akuntan Indonesia. (2014). *Modul Pelatihan Pajak Terpadu Brevet AB*. Jakarta: Author.
- Indonesia's eCommerce Landscape 2014: Insights into One of Asia Pacific's Fastest Growing Markets. (2014). *SP eCommerce*.
- Kharismawati, M.E. *Jumlah Account Representative Pajak Sangat Minim*. April 27, 2015. Kontan Online.

- Low, Mary., Kabasunakatsuba, Lice L., Sharma, Umesh. (2013). *The Challenges to Taxing E-Commerce: A Comparative Analysis for the Pacific*. New Zealand: Waikato Management School.
- Lawrence, N. (2007). *Basics of Social Research: Qualitative and Quantitative Approaches*. Boston: Pearson Education Inc.
- Mardiasmo. (2011). *Perpajakan Edisi Revisi*. Yogyakarta: Penerbit Andi.
- Rosenberg, G. (2008). *Direct Taxation of E-Commerce Transactions in Israel*.
- Walliman, N. (2006). *Social Research Methods*. London: SAGE Publications, Inc.
- Winardi, & Wahyu. (2007). *Praktik Transfer Pricing dalam Transaksi E-Commerce*. Inside Tax.
- Yapar, Burcu K., Bayrakdar, Seda., Yapar, Mustafa. (2015). *The Role of Taxation Problems on the Development of E-Commerce*. Procedia – Social and Behavioral Sciences.
- Laporan Keuangan Tahunan Direktorat Jenderal Pajak. (2015). *Direktorat Jenderal Pajak Kementerian Keuangan*.