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The Tax Strategy for E-Commerce Companies is based on Developments in Indonesia

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Abstract

The purpose of this study is to discover the tax approach used by Indonesian e-commerce enterprises and examine how it impacts the growth of the country's e-commerce sector. The research method used is a literature study that collects and analyzes sources of information from various sources such as journals, books, and articles related to this topic. The study's findings indicate that in order to ensure good tax compliance and maximize their business performance, e-commerce companies in Indonesia need to pay attention to a number of appropriate tax strategies. Some of the recommended strategies include understanding applicable tax regulations, using e-commerce platforms registered in Indonesia, paying attention to import taxes, utilizing tax facilities provided by the government, managing and monitoring expenditures, and paying attention to changes in tax regulations. This research shows that the compliance of e-commerce companies with the applicable tax regulations in Indonesia is important for maintaining business continuity and ensuring equal competition in the e-commerce industry. To encourage the expansion of Indonesia's e-commerce sector, the government must also continue to update tax laws and offer suitable tax facilities.

Keywords: *Tax Strategy; E-Commerce Companies; Business Performance*

Introduction

Along with the rapid advancement of technology and the expansion of internet access across Indonesia, e-commerce is developing in Indonesia at a rapid rate. As a result, the e-commerce industry becomes increasingly well-known and in high demand. E-commerce businesses still need to be aware of tax considerations while managing their operations.

The Indonesian government is working to strengthen oversight and control of taxes in this business as it develops along with e-commerce. To guarantee compliance with applicable tax requirements by e-commerce companies, a number of tax legislation have been passed. For instance, a new tax regulation mandated by the Indonesian government in 2019 mandates that e-commerce companies calculate and pay Value Added Tax (VAT) for transactions that take place on their platforms.

Since the seller obtains additional economic capacity as a result of the buyer's payments, income tax (PPh) arises in the context of online transactions, whereas value added tax and luxury tax (PPnBM) arise when the offered items are taxable goods (Anditya, 2016). Electronic commerce can be distinguished from traditional trade by a number of factors. Specifically, electronic commerce creates a worldwide market where traditional geographic barriers are completely meaningless and are not ignored (Mansur & Gultom, 2005).

Therefore, in order to achieve effective tax compliance and maximize their commercial success in Indonesia, e-commerce enterprises need to pay attention to the appropriate tax strategy. E-commerce businesses can minimize tax expenses that must be paid, avoid penalties or fines from the government, and assure future business success by applying the proper tax strategy. Here are a few instances of how tax methods change from year to year in e-commerce businesses.

In 2019, the digital economy of Indonesia was estimated to be worth $40 billion. The value of the digital economy increased state tax revenue in a good way. As a result, the government started imposing the Digital Tax on digital firms in 2020 (Kharisma, 2020).

Government Regulation, rather than Law (Perppu) Number 1 of 2020, which was later stipulated by Law Number 2 of 2020 regulating various amended and new policies to stabilize state finances, is one of the government's solutions to the Covid-19 pandemic's effects on the national economy, which mandates the imposition of 3 taxes that can be implemented during the pandemic, namely Value Added Tax (PPN) on E-commerce transactions, Corporate Income Tax (PPh) through the redefinition of Permanent Establishments and Electronic Transaction Tax (PTE) or additional tax if the Corporate Income Tax cannot be imposed due to a tax treaty between countries.

Following that, the Indonesian government issued another regulation, namely Law Number 11 of 2020 on Job Creation, which reaffirmed the imposition of E-commerce taxes on VAT and PPh for ecommerce business actors, both producers as providers of goods and/or services and consumers as users of goods and/or services, through Article 111. The use of digital products in the form of intangible goods and services by domestic consumers are officially subject to Value Added Tax (VAT) since July 2020, where the systematics used in collecting, depositing, and reporting VAT on digital products are handed over to e-commerce business actors.

The increase in state revenue from the Digital Tax is significant. In 2015, the European Union reported EUR 3 billion in state income, which grew to EUR 4.5 billion in 2018. In the first two years, Australia reported state revenues of AUD 728 million, far exceeding the original target of AUD 348 million for the first year. As a result, on July 1, 2020, the Indonesian government started levying a Digital Tax for businesses that provide digital services/goods but do not have a Permanent Establishment in Indonesia.

From these developments, it can be concluded that the tax strategy of e-commerce companies in Indonesia continues to grow and experience changes following the development of the e-commerce industry. E-commerce companies need to pay attention to and follow the latest applicable rules and regulations to maintain good tax compliance and ensure the continuity of their business in Indonesia.

Literature Review

According to Pereira's definition from 2016, an e-business model is a set of procedures and exchanges that take place on a digital platform and involve all of the company's technologies. Because all transactions are tracked through that digital platform, this type of business allows for more control over corporate operations, but it excludes commercial transactions because they involve an exchange of values within the organization's boundaries. In order to be clear, Nogueira (2018) explains that e-business is the management of relationships with customers, suppliers, and other stakeholders through the use of online platforms that are accessible via the Internet. These processes include organizational communication, cooperation, and integration of all activities.

According to these definitions, e-business is a very complex system where daily business operations are carried out using electronic supports. It can include any aspect of a company's operations, including production, product design and engineering, purchasing, price manipulation, customer management, marketing, sales, online stores, invoicing and packaging, payment operations, order management, shipping and drop shipping, etc. It can be said that e-business is not just for technology-related goods and services, so it can help all kinds of businesses by enhancing customer management, communication, and support while reducing costs and transaction times. This enables businesses to compete globally.

The term "e-Commerce" is not universally understood. Salvador (2013), for instance, defines online commerce or electronic commerce, or simply e-Commerce, as a business transaction in which goods, services, or information are exchanged through electronic equipment. According to Albertin (1999), who takes a broader perspective, e-commerce is the fulfillment of the complete value chain of business activities in an electronic setting through the extensive application of communication and information technology to achieve business goals.

In order to accomplish organizational goals, Gunasekaran et al. (2002) emphasize the importance of e-Commerce as a key factor in business success. They define e-Commerce as an electronic business process used for the negotiation, sale, and acquisition of goods or services through Internet platforms between different entities. In a similar vein, Pereira (2016) views e-Commerce as a business activity centered on commercial exchanges between people and organizations, in which the purchasing and selling of things that have been technologically integrated is engaged.

These definitions of e-commerce demonstrate that there aren't many significant distinctions between online and offline transactions. The main distinction between traditional and electronic commerce is found in the areas of technology and information management, which are today essential to a project's success. Businesses must adapt the most effective marketing methods in the Web environment while still adhering to some old techniques to affect decision-making power in order to create distinctive experiences and build products and services that are appealing to their target audiences.

A few components that go beyond the conventional understanding of the marketing mix and its 4 Ps are now necessary for marketers to combine (Constantinides et al., 2010). In comparison to the conventional purchase-sale procedure, the post-sales phase of the customer buying process acquires an even higher significance in e-Commerce. As a result, the Internet has developed into a powerful ally of the consumer since it is a tool that makes it possible to gather different details about the purchasing process in a way that is accessible to all customers, even those who are less experienced with the use of tools and computer equipment (Gosling et al., 2020).

There are a number of advantages to e-Commerce that have been found by Niranjanaurth et al. (2013) and Turban et al. (2015). These advantages can be categorized into three levels: consumers, organizations, and society. The availability of a wide range of sellers and products, the ability to buy whenever you want, no matter where you are, the prices of the products, which are more accessible due to high competition and the ease with which the consumer can compare them, the ability to buy from and sell to other consumers, and finally the accessibility are all considered to be the main advantages of e-Commerce at the consumer level.

The main advantages at the organizational level, according to Niranjanaurth et al. (2013), are: access to the global market, which gives suppliers and consumers a global level with low associated costs; reduction of costs related to product processing, physical storage, and distribution; reduction of the number of employees, specifically the sales team; and flexibility of schedules. One of the main advantages is that e-Commerce may be built using new business models, and that the startup costs are inexpensive. The existence of more public services thanks to e-government platforms and an improvement in quality of life as a result of reduced prices were the benefits cited for society.

Along with the many advantages of e-commerce at the consumer, organizational, and societal levels, there are also a number of limitations, both technological and non-technological in nature, that should be taken into account when developing an e-commerce strategy. The main non-technological constraints, according to Niranjanaurth et al. (2013), Turban et al. (2015), and Miyazaki and Fernandez (2018), are the absence of physical contact with the product, resistance to change, a lack of collaboration in the value chain, and the fact that a significant amount of money is invested in security and privacy of the information transmitted by customers in e-Commerce, viruses, password spying, and phony stores.

Additionally, according to those researchers, the main technological constraints are the need to develop global norms for quality, security, and dependability; the use of specialized platforms; a high reliance on website uptime; and the critical requirement for B2C businesses to use automated warehouses in order to respond to customer orders. The advantages and drawbacks of e-Commerce adoption are typically related to the setting in which this type of activity is carried out: the Internet. Therefore, we shall explain how e-Commerce and the Internet are related in the part that follows.

Public policies are actions that governments undertake to set goal(s) and utilize means or tools to achieve such goal(s) (Howlett and Cashore 2020). Public policymaking is a dynamic process that is usually the result of a set of interrelated decisions that cumulatively contribute to an outcome (Howlett and Cashore 2014). In an international business context, policy refers to a change government intentionally make to shape the decision-making and behavior of frms within the international business domain (Clegg 2019; Lundan 2018). Through public policies, governments can decide – within their capacity – whether to act to change or maintain some aspect of the status quo (Birkland 2019; Howlett and Cashore 2014). Governments, for example, can design and implement policies to prioritize the allocation of resources toward the development of a specifc sector (Georgallis et al. 2021).

Research Methods

To examine the taxation strategy of e-commerce companies, this study uses various research methods. One of them is case study. Where researchers conduct case studies on certain e-commerce companies to analyze the tax strategies they apply. Researchers conducted interviews with tax managers or company officials to gain insight into the tax decisions taken, the factors considered, and their impact on the company. In addition, a comprehensive literature review was used to study various tax strategies used by e-commerce companies.

A literature review involves collecting and analyzing research articles, books, industry reports, and other sources of information relevant to the research topic. Another research approach is using document analysis by analyzing official documents such as financial reports, tax documents, company policies, and other tax documents to understand the tax strategy used by e-commerce companies.

Document analysis can provide an in-depth picture of the tax decisions taken and the purpose behind them. In addition to these methods, it is also important to consider research ethics and compliance with privacy and copyright regulations in data collection and analysis. The researcher must also ensure that the research is relevant to the research objectives and takes into account the legal context and tax regulations that apply in Indonesia.

Results and Discussion

In Indonesia, e-commerce has enormous growth potential. According to data from the BPS, We are Social, and Hootsuite Digital in 2018 Report, of Indonesia's 265 million people, 130 million use the internet and social media regularly in 2018. 178 million individuals own mobile phones, and 120 million of them use social media on their phones regularly. Comparing this result to the prior year, a sharp increase is seen. In 2018, there will be a 23% increase in active social media users online and a 30% increase in active social media users on mobile devices. Under India, the US, and Brazil in terms of the total number of internet platform users, Indonesia ranks fourth globally for Facebook users in 2018 and third globally for Instagram users. Indonesia ranks third in the world, behind China and India, for the number of mobile social media users.

More than 28 million of Indonesia's 265 million residents use a computer or smartphone to make online purchases. Given that this figure now represents less than 10% of Indonesia's population and that the potential growth of e-commerce consumers can reach 13% annually based on growth in 2017, the growth potential of this number is very high. The fast increase in smartphone internet connection capabilities has also led to the rise in Indonesian online purchases.

According to Ward & Sipior (2004), proponents of a tax-free internet contend that imposing internet connection taxes and fees on consumers will burden society with increased costs and hinder the expansion of internet use and e-commerce. Additionally, these advocates argue against requiring remote e-commerce merchants to collect and pay transactional taxes because doing so would add significantly to the cost of compliance, whereas social media platforms, which are also used for sales and transactions, are exempt from such requirements. Small, new e-businesses regard this expense of compliance as a barrier to entry into the market.

The Indonesian government's proposal to accept the responsibility of collecting and remitting taxes on remote e-commerce vendors is rejected by the country's current online local marketplace operators because they view this fee as a significant burden. According to them, tax officials, not them, should be responsible for tax collection and remittance. Taking on the role will make it more difficult for them to run their business because their online vendors will relocate to older social media platforms like Facebook and Instagram, which are not obligated to collect taxes from merchants and sellers on reported online purchases.

If it is taxed, the issue is whether this regulation won't simply deter and shut down Indonesia's rapidly expanding e-commerce sector. If it occurs, it indicates that Indonesia's tax system is not effectively regulating the country's economy. Many micro, small, and medium-sized enterprises simply begin selling their goods online because they are relieved not to have to worry about high operational expenses and store rent. The majority of Indonesian e-commerce start-ups fall under the category of "infant industries," which must compete with global e-commerce giants like Amazon, AliBaba, eBay, and Paypal that have joined the domestic market.

The permanent establishment principle, which has been the established consensus on the taxes of foreign enterprise, is being tested by the aforementioned complexity (Akcaoglu, 2002). Until the borderless internet era arrives, the permanent establishment is a good concept and solution to fix the problem of identifying taxable jurisdiction among several countries in the globalization period when multinational corporations invest and operate everywhere. The Indonesian government has asked any global corporations planning to offer goods or services in Indonesia to establish permanent offices there. We recall that the long-running tax dispute between the Indonesian government and Google on Google's tax obligations in 2015 had its roots in the issue of Google's permanent presence not being in Indonesia. According to Indonesian tax officials, the issue makes it difficult to levie the Google commercial profit from its operations in Indonesia. Many governments continue to have serious concerns about the application of permanent establishment for taxing the commercial profits of e-commerce enterprises, particularly those whose nations were regrettably not chosen by a significant e-commerce company as the permanent establishment location. In order to close the tax gap that is now impossible to fill, taxing e-commerce business profits requires a different idea and level of agreement than permanent establishment.

In order to collect sales taxes in this new era of the internet and e-commerce, the Indonesian government cannot rely solely on permanent establishments. Borders are less significant in today's information era, and intangibles and services account for a higher share of GDP than they did previously. Major worldwide e-commerce enterprises may have their web servers located anywhere, but they may not have a permanent presence in Indonesia if they wish to sell their goods there (Akcaoglu, 2002). For instance, despite making significant revenues from Indonesian customers, Google created its regional office in Singapore and only opened a representative office, which is not a permanent establishment, in Indonesia. Representative offices merely sell their items; they do not actually make any sales. Although the transaction and income are generated in Indonesia, those transaction and income recognition is conducted by Google regional office (Google Inc's Asia Pacific headquarters) in Singapore.

Since Indonesia has occasionally had current account and trade deficits, import restriction regulations are crucial. Tax legislation can be used to control the economy and close the current account deficit. The introduction of sales tax at an appropriate rate on such online purchases will be able to limit online imports that eventually may significantly contribute to the current account deficit if the purchase of online imports coming from Amazon and Alibaba's international marketplace has been excessive.

The impact of imports from online purchases on tax revenue losses will be significant in the long run if the government permits e-commerce to continue to operate without being taxed at this time. For the US example study, Goolsbee (2001) predicted that it will occur 15 years after the year 1999. According to the principle of neutrality, the imposition of e-commerce taxes (via VAT and import income tax) on online purchases made from foreign online retailers will probably stop local consumers from making large shifts from domestic offline and online retailers to foreign online retailers for certain products. If so, it will lessen the need for USD and preserve Indonesia's foreign exchange reserves. Taxing e-commerce should also be applied to all e-commerce platforms, including social media platforms that are used for marketplace for e-commerce transactions, suchan as Facebook and Instagram.

Customers returning to the former e-commerce model, which leverages social networking platforms but has no specialized marketplace, won't affect the expressly developed platform for marketplace that is presently developing. The ideals of equality and fairness should be taken into account when imposing taxes on e-commerce. It is not necessary for business participants to pay the same tax rate, but the rate should be changed to take into account taxpayers' financial situation. Because of this, (1) the tax rate does not have to be the same for online and offline retailers, (2) online platforms with varying levels of turnover, and (3) large vendors and small- to medium-sized businesses who use marketplace platforms.

Conclusion

The tax strategy used by e-commerce companies is an important aspect of the discussion. On tax optimization can be examined the line between legitimate tax optimization, which involves using available legal channels to minimize tax liability, and fulfilling tax obligations. This allows for overcoming ethical considerations and pushing the boundaries of tax planning strategies and their potential impact on tax revenues and public services. E-commerce companies rely on the public's trust and support for their operations. The discussion can highlight the importance of public perception of tax practices. It considers the potential consequences of negative public perceptions when companies are perceived as not making a fair tax contribution so it is important to maintain transparency and address public issues. Regulatory compliance requires authority over the importance of compliance with regulations and the role of the tax authority. The ethical responsibility of e-commerce companies to comply with tax laws and regulations in each jurisdiction where they operate. An exploration of the potential consequences of non-compliance and the need for companies to actively engage in transparent and cooperative relationships with tax authorities. Overall, any discussion of the ethical implications of the tax strategy used by e-commerce companies should consider the balance between tax optimization, corporate social responsibility, public perception, and adherence to ethical business practices. It should emphasize the importance of companies making fair tax contributions and engaging in transparent and responsible tax practices to maintain public trust and uphold ethical standards.

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