

## **TAXATION OF FINANCIAL TECHNOLOGY AND THE TECHNOLOGY SECTOR IN INDONESIA: AN OVERVIEW OF TAX POLICY AND ITS ROLE IN SUPPORTING DIGITAL INNOVATION**

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### **Abstract**

The transformation of tax policy in Indonesia is crucial in responding to the rapid development of fintech and the digital economy. This article analyzes how Indonesia's tax regulations adapt to economic digitalization dynamics, highlighting government measures such as the imposition of VAT on Trade Through Electronic Systems (PMSE). Using a qualitative approach based on policy studies, this study combines interviews, policy documents, and academic literature to examine compliance, fiscal justice, and impact on innovation. The study results show that regulations are still partial and create uncertainty for business actors, while the government's main challenge is to balance state revenue with support for digital innovation. In conclusion, a more comprehensive, fair, and adaptive tax policy is needed as a fiscal instrument and catalyst for sustainable digital transformation in Indonesia.

**Keywords:** Digital Taxation; Fintech; Digital Economy; Tax Policy; Innovation; Indonesia.

### **Introduction**

The development of digital technology in the last two decades has changed the structure of the global economy, including Indonesia. Fintech and the digital economy have presented new opportunities in transaction efficiency, financial access, and market expansion. However, this development also presents a significant challenge for the national tax system. (Broome & Quirk, 2015; Li et al., 2024). The inconsistency between traditional tax regulations and digital business models poses the potential for tax leakage. As one of the sub-sectors of the digital economy, Fintech is growing rapidly in Indonesia. Digital payments, peer-to-peer lending, and insurtech are becoming increasingly popular. Bank Indonesia data shows that the growth in the value of digital transactions reaches hundreds of trillions of rupiah per year. This condition raises the need for an adaptive tax policy so that the state does not lose potential revenue. (Sutra & Mais, 2019).

The Government of Indonesia, through the Directorate General of Taxes (DGT), has taken various steps, such as the imposition of Value Added Tax (VAT) on Trade Through Electronic Systems (PMSE). However, there are still challenges regarding compliance, data

governance, and the affordability of regulations for small to medium-sized business actors. A key issue in the digital taxation discourse is balancing two goals: maintaining state revenue and encouraging digital innovation. Too onerous policies can hinder startup development, while too loose regulations can cause injustice to the conventional sector (Bulut et al., 2023; Zhang et al., 2024; Zuo et al., 2017).

The transformation of tax policy in Indonesia is essential to ensure fiscal justice. Fairness means not only equal treatment, but also the adaptability of regulations to changing economic realities. This is in line with the principle of inclusive and proportional tax justice. Therefore, this article aims to examine the transformation of tax policy in Indonesia in response to fintech developments and the digital economy. The focus is on policy dynamics, the role of the state in maintaining an innovation climate, and implementation challenges in the field (Barus, 2022; Zahid et al., 2023)

While the international literature has broadly discussed digital taxation, most of the focus is on developed countries or global frameworks such as the OECD BEPS. Research on the context of developing countries, especially Indonesia, is still relatively limited. The main gap found is the lack of studies that comprehensively analyze the transformation of tax policy in responding to fintech and the digital economy, not only the technical aspects of taxation, but also in relation to the climate of innovation and social justice. Novelty (Research Novelty): The novelty of this research lies in integrating fiscal policy analysis with the dynamics of digital innovation. This research reviews formal tax instruments such as PMSE VAT and examines how these policies impact the fintech ecosystem and financial inclusion. With a qualitative approach based on interviews and policy studies, this research presents a new perspective that connects the theory of tax justice, regulatory practice, and the reality of the digital industry in Indonesia. (Jan, 2021; Nomran, 2020; Saifurrahman & Kassim, 2024).

Some earlier studies, such as ADB (2020) and OECD (2019), have discussed the urgency of global policy adaptation, but have not explored Indonesia's specific context in depth. Meanwhile, local studies highlight aspects of digital taxpayer compliance or potential state revenues, without paying attention to the balance between fiscal regulation and innovation support. This shows that previous research tends to be partial and does not present a comprehensive analysis framework.

Academic Urgency, From the academic side, this research is essential to expand the study of digital taxation from the perspective of developing countries. As one of Southeast Asia's largest fintech markets, Indonesia needs a theoretical and practical base that is different from that of developed countries. This research makes a conceptual contribution by presenting policy analysis based on fiscal justice and inclusive development to enrich the tax literature and the digital economy.

Practical Urgency, From the practical side, the urgency of this research lies in the urgent need of the Indonesian government to strengthen digital tax regulations. Without clear and adaptive policies, countries risk losing significant potential tax revenues. Furthermore, disproportionate regulation can hinder fintech innovation, essential in

expanding financial inclusion. Therefore, this research is presented as a foundation for formulating policies that are more balanced, fair, and long-term oriented.

## **Literature Review**

International studies on digital taxation emphasize the need to reform the tax system to match the character of a technology-based economy. For example, the OECD (2019) introduced the Base Erosion and Profit Shifting (BEPS) initiative to address tax avoidance in the digital realm. Indonesia participated in this forum as part of the adaptation of global policy. (Gueydi, 2021; Zulkarnain & Amsianisa, 2025)

Fischer's (2010) research emphasizes the importance of public policy design that can follow the dynamics of innovation, while Partidário (2007) outlines the need for a strategic approach in the policy evaluation process. Both are relevant in digital taxation because tax policy must consider economic sustainability and regulatory flexibility. (Inamdar, 2024; Li et al., 2024) In the national context, several studies highlight the delay in Indonesia's tax regulation in anticipation of the development of the digital economy. An ADB study (2020) shows that rules are often reactive, only emerging after the market phenomenon has developed rapidly. This makes the potential for state revenue not optimal. IRENA (2017) highlights the importance of integrating regulation, technology, and sustainable economic development. Despite their focus on energy, the same approach can be applied to tax policy in the digital sector. Adaptive regulation increases state revenue and strengthens the industry's competitiveness.

The literature on fintech in Indonesia shows great potential in increasing financial inclusion. However, the lack of clarity in tax regulations often creates uncertainty for investors and business actors. WALHI (2019), for example, emphasizes the aspect of social justice in the development of digital economy policies (Chetty et al., 2018; Polyakov & Kovshun, 2021)

From the overall literature, it can be seen that the transformation of tax policy must accommodate a balance between fiscal aspects, innovation, and social justice. Thus, this review is the basis for understanding the need for further research related to tax policy in the digital era in Indonesia.

## **Research Methods**

This study uses a qualitative approach with a policy study method. This approach was chosen because the research focuses on an in-depth understanding of the process, context, and implications of tax policy in Indonesia. Primary data was obtained through in-depth interviews with officials of the Directorate General of Taxes, fintech players, industry associations, and academics. (Sugiyono, 2010). The interviews were conducted to explore their perceptions and experiences of digital taxation regulations.

Secondary data comes from official government policy documents, DGT annual reports, OECD publications, and previous research from national and international journals. The analysis was carried out by examining how tax policies are adapted in the

context of economic digitalization. The data analysis technique uses a thematic approach, grouping the main issues that arise, such as compliance, justice, fiscal sustainability, and impact on innovation. The validity of the data is strengthened by triangulation, which is the comparison of the results of interviews, official documents, and academic literature. This is to ensure that the research findings are highly reliable and accurate. This research is exploratory, so it does not attempt to produce broad generalizations. Instead, this study aims to provide an in-depth and reflective overview of the dynamics of tax policy in the face of fintech and the digital economy.

## Results and Discussion

**Current Policy Conditions:** The results of the study show that digital taxation policies in Indonesia are still in the transition stage. The imposition of VAT on Trade Through Electronic Systems (PMSE) is a significant first step, but its implementation is still limited to consumption. No special regulation regulates income tax in detail for fintech actors, so there is still a gap in state revenue, which is a challenge for business actors. From the side of fintech players, the interview findings indicate a relatively high level of regulatory uncertainty. Startups and digital service providers consider tax policy to emphasize the fiscal aspect more than supporting innovation. Unclear rules also have an impact on investor interest, especially for startups that are vulnerable to sudden regulatory changes. From the government's perspective, the tax officials interviewed stated that the government faces a big dilemma: on the one hand, the country needs additional tax revenue to support the state budget; on the other hand, overly strict regulations can weaken the growth of the digital economy. Therefore, the policies taken tend to be compromised, focusing on imposing consumption taxes before touching on more complex aspects. (Zouridis, 2021).

**Comparison with Global Practices,** Analysis of policy documents shows that Indonesia has not fully adopted international standards, such as taxation based on *significant economic presence*, launched by the OECD. As a result, there is a disparity between local tax-compliant businesses and global technology companies operating across borders. This raises the issue of fairness and the risk of *base erosion*. **Socio-Economic Implications** Socially, there is a potential for injustice between conventional and digital business actors. Conventional businesses feel more burdened with taxes compared to platform-based startups. This condition can cause policy resistance and widen the gap between the old and new sectors. Thus, the transformation of tax policy in Indonesia needs to be directed at increasing state revenue and creating an inclusive, fair, and globally competitive digital ecosystem.

The study results show that Indonesia's tax policy towards the digital economy is still in the transition stage. Efforts such as PMSE VAT have been a significant first step, but are still limited to consumption. Income tax for fintech players still does not have specific regulations. From the side of business actors, many fintechs complain about the unclear rules that cause business uncertainty. Some startups consider that tax regulations still

emphasize more on state revenue than support for innovation. Interviews with tax officials show that governments face a dilemma: on the one hand, there is an urgent need to increase state revenue; on the other, there is the need to keep the digital investment climate healthy. This makes policies tend to compromise.

Analysis of the literature and policy documents shows that Indonesia has not fully adopted the OECD's proposed principles of digital taxation. For example, the issue of taxation based on "significant economic presence" is still in the debate stage at the global and national levels.

From a social perspective, there is a risk of injustice between conventional and digital business actors. Conventional businesses consider that they are more burdened by taxes than digital startups. This can cause resistance in policy implementation. The main finding of this study is the need for a more holistic tax policy strategy. Policies must regulate collection procedures and include support for the digital ecosystem, consumer protection, and legal certainty for investors.

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## **Implications and Further Research**

### **Theoretical Implications**

This research contributes to the digital taxation literature by strengthening the understanding of how developing countries such as Indonesia respond to technology-based economic transformation. This study expands the discourse on fiscal policy adaptation in the context of digital innovation, while affirming the importance of a balance between state revenue and economic sustainability. Theoretically, this research also opens space to review tax justice models in a cross-border and platform-based digital economy.

### **Practical Implications**

From a practical perspective, the results of this research can be an input for policymakers in Indonesia. The government needs to formulate transparent, inclusive, and long-term-oriented tax regulations. In addition, policy implementation must consider the capacity of business actors, especially startups and digital MSMEs, so as not to cause excessive burdens. Adaptive regulations will create a conducive business climate while maintaining state revenue.

## Social and Economic Implications

The study also highlights the impact of tax policies on financial inclusion and innovation. Policies that are too strict can hinder the development of fintech, even though this sector has the potential to increase public access to formal financial services. Therefore, policy design must be social justice-oriented, considering the digital divide and the needs of low-income communities.

## Further Research Room

This study opens up further research opportunities on cross-border taxation mechanisms in the digital economy, especially on global platforms operating in Indonesia. Additional research can also explore the relationship between digital taxation and foreign investment and how regulations affect Indonesia's competitiveness in the worldwide economy. Future research suggests using quantitative approaches, such as fintech transaction data analysis or econometric modeling, to more measurably measure the impact of policies on tax revenues and digital sector growth. Combining qualitative and quantitative methods (mixed methods) can provide a more comprehensive picture. Policy Development Direction, Finally, further research is needed to expand the analysis on aspects of data governance, algorithm transparency, and consumer protection as part of digital taxation policy. Thus, tax policy is understood as a fiscal instrument and an essential pillar in developing a sustainable, inclusive, and highly competitive digital ecosystem.

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