

Equitable Digital Taxation for Inclusive Revenue Mobilization

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Abstract

The rapid expansion of the digital economy had outpaced the capacity of traditional tax systems, particularly in developing countries. Although digital platforms generated substantial income, their contributions to public finance remained limited due to jurisdictional and structural gaps in existing tax regimes. This study aimed to explore digital taxation not solely as a fiscal mechanism, but as a strategic policy tool to enhance social inclusion. A qualitative doctrinal and comparative legal method was employed to analyze global digital taxation trends and compare them with national practices in selected developing countries, with a focus on Indonesia. The study proposed a framework that integrated digital tax policy with inclusive development goals, grounded in the theories of fiscal justice and inclusive governance. The findings revealed that aligning tax policy with the digitalization of the economy could enhance equity and state capacity in delivering public services. The research concluded with a normative-analytical model that could assist policymakers in designing fair, socially responsive, and development-oriented digital tax systems in an increasingly digital global landscape.

Keywords: *digital economy, digital taxation, equitable revenue, fiscal justice, social inclusion.*

INTRODUCTION

The global economy is undergoing a profound transformation driven by the accelerated expansion of digital technologies [1]. Digital platforms are not merely reshaping the way people communicate and consume content; they are revolutionizing global commerce, labor markets, public services, and fiscal systems. This seismic shift has redefined how economic value is generated, transferred, and monetized largely independent of geographic borders or traditional business presence [2]. In 2023, Indonesia saw a digital economy valued at over USD 82 billion, driven by widespread internet penetration, a burgeoning digital consumer class, and a proliferation of cross-border services [3].

However, while digital value chains continue to grow, the capacity of national tax systems particularly in developing countries to capture and redistribute this value remains limited. International tax rules, historically rooted in physical presence and tangible assets, are increasingly ill-suited to the borderless and intangible nature of the digital economy [4]. Multinational technology companies can generate significant profits from markets like Indonesia without meeting existing criteria for tax liability. This leads to a persistent gap between where digital economic activity occurs and where taxes are ultimately paid.

The inadequacy of existing tax frameworks in addressing digital economic activities has sparked global debate over fiscal sovereignty, equity, and modernization. As nations compete for digital investment, they also face the challenge of preventing profit shifting and base erosion by

multinational enterprises. This situation has underscored the urgent need for comprehensive tax reforms that reflect the realities of digital value creation. For Indonesia, the issue extends beyond revenue collection—it is about ensuring that taxation contributes to social justice, economic inclusivity, and sustainable development. Without an adaptive fiscal framework, the rapid growth of the digital economy risks deepening inequality between global technology giants and domestic economic actors who operate within conventional tax systems.

Furthermore, Indonesia's experience exemplifies a broader dilemma faced by emerging economies: balancing the promotion of digital innovation with the protection of the national tax base. The government's introduction of a value-added tax on foreign digital services represents an important step toward fiscal modernization, yet significant challenges remain in enforcement, data transparency, and cross-border coordination. Aligning domestic regulations with evolving international standards—such as the OECD's Pillar One and Pillar Two frameworks—is essential to ensure fair taxation of digital profits. Ultimately, strengthening Indonesia's digital tax regime is not only a matter of compliance or technical adjustment but a strategic move to secure fiscal resilience and uphold the principle that economic participation, whether physical or digital, should correspond to a fair contribution to public welfare.

In Indonesia, this mismatch has fiscal, legal, and social consequences. Although the imposition of Value-Added Tax (VAT) on foreign digital services since 2020 marked a significant regulatory milestone, the profit-based taxation of digital firms remains largely unresolved [5]. Enforcement is hindered by regulatory ambiguity, insufficient administrative capacity, and asymmetries in global digital power. As a result, revenue collection from large foreign platforms remains constrained, while smaller local digital actors continue to face compliance burdens without reciprocal access to public benefits.

The implications of this imbalance go beyond revenue shortfalls. The lack of equitable digital taxation undermines the state's ability to invest in inclusive development, exacerbates socio-economic divides, and leaves informal digital workers and rural entrepreneurs without adequate protection [6]. In this context, digital taxation is not only a technical issue, but a critical component of distributive justice and inclusive governance [7].

This research therefore positions digital taxation as a strategic policy lever for social equity. It proposes a rethinking of Indonesia's digital tax regime by examining legal, fiscal, and normative dimensions. Drawing from fiscal justice theory and inclusive governance frameworks, the study argues for a taxation approach that supports national development goals while ensuring fairness in the digital economy.

Methodologically, the study applies a qualitative doctrinal method supported by comparative legal analysis, policy evaluation, and normative inquiry. It investigates existing regulations, such as PMK No. 48/2020 and the Harmonized Tax Law, and evaluates peer approaches from countries like India and Chile [8]. Through this, the study seeks to develop a normative-analytical framework that not only enhances Indonesia's digital tax capacity but also aligns it with inclusive development strategies.

This research contributes original value by integrating digital taxation discourse with socio-political goals of equity and participation. The state-of-the-art lies in reframing tax policy as part of the social contract in a digitized world. By bridging gaps in enforcement, fairness, and fiscal justice, the study offers a timely and policy-relevant contribution to Indonesia's digital transformation journey.

METHOD

1. Research Method

This study applied a qualitative legal research design using a normative and comparative legal approach. The normative method was used to examine the coherence of Indonesia's legal framework on digital taxation with principles of fiscal justice and inclusive governance [9]. It aimed to assess the internal validity of tax regulations, their alignment with constitutional and developmental goals, and their adaptability to digital economic realities.

Simultaneously, the comparative legal approach focused on analyzing how peer countries specifically India and Chile have unilaterally addressed digital taxation challenges. This enabled the identification of legal innovations and regulatory practices that may be relevant to Indonesia.

In addition, the study integrated policy analysis and normative assessment to evaluate the redistributive function of tax instruments and their potential to support inclusive socio-economic outcomes.

2. Data Collection Techniques

The data for this research were primarily obtained from authoritative and verifiable documentary sources, categorized into three main groups. **First**, the primary legal sources included Indonesian statutory laws and ministerial regulations such as the Harmonized Tax Law and Minister of Finance Regulation No. 48/2020, along with international tax agreements and the OECD digital taxation frameworks under Pillars One and Two. Legal texts and regulatory instruments from comparative jurisdictions, namely India and Chile, were also examined. **Second**, the secondary sources comprised academic journals, legal commentaries, and policy briefs, as well as fiscal data published by Indonesia's Directorate General of Taxes and the Ministry of Finance. Additional materials were drawn from reports and databases provided by international institutions such as the OECD, IMF, and World Bank. **Third**, empirical descriptive data were incorporated when available, including revenue trends from VAT on foreign digital services (which reached approximately IDR 10.64 trillion in 2023), government budget allocations for inclusion programs such as *Kartu Prakerja*, and digital access indicators such as internet penetration and usage rates across income groups.

The analysis followed a structured methodological framework. **First**, a doctrinal legal analysis was conducted to interpret the scope, enforceability, and internal coherence of Indonesia's digital taxation provisions. This stage examined whether the laws clearly define a digital tax nexus, reflect international standards, and address regulatory gaps that may hinder equitable taxation. **Second**, a comparative legal analysis was applied to the frameworks of India and Chile to identify key structural similarities and differences, implementation challenges, and innovative practices that may offer lessons for Indonesia's fiscal system. **Third**, an evidence-based policy evaluation was undertaken to assess realized versus potential revenues from foreign digital services, the impact of digital taxation on public expenditure patterns, and the adequacy of redistributive mechanisms in reducing economic inequality. **Finally**, a normative-evaluative assessment was employed to interpret the findings through the principles of fiscal justice—equity and progressivity—and inclusive governance, emphasizing participation and transparency. Based on these assessments, a policy matrix was constructed to evaluate the extent to which Indonesia's digital tax framework aligns with broader developmental and distributive objectives.

RESULTS AND DISCUSSION

1. The Rise of Digital VAT in Indonesia: Revenue Trends and Structural Limits

The enactment of PMK No. 48/2020 on Value-Added Tax (VAT) collection for foreign digital services represents a critical regulatory milestone in Indonesia's digital taxation policy. The regulation mandated that foreign digital service providers without a permanent establishment in Indonesia must collect and remit VAT on their services consumed domestically. This move aligns Indonesia with global trends in asserting tax rights over cross-border digital transactions. Since mid-2020, the policy has resulted in notable revenue gains:

- IDR 0.73 trillion in 2020 (partial year)
- IDR 3.90 trillion in 2021
- IDR 5.51 trillion in 2022
- IDR 10.64 trillion in 2023

These figures demonstrate the increasing compliance and coverage of digital platforms such as Google, Facebook, Netflix, Amazon, and TikTok, all of which have been appointed as VAT collectors by the Directorate General of Taxes (DJP). As of December 2023, 157 foreign entities had been officially registered.

Despite this upward trend, the VAT system's structure presents several limitations. First, VAT taxes only consumption, not corporate profits. Thus, large-scale revenues accrued by these platforms often remain beyond Indonesia's taxing reach. Second, while VAT collection has increased, it remains a small proportion of the estimated USD 82 billion digital economy value, indicating significant uncollected potential.

The rapid rise in digital VAT revenue underscores Indonesia's progress in adapting its fiscal instruments to the dynamics of the digital economy. The steady increase in collections reflects both improved administrative capacity and growing awareness among multinational platforms of their tax obligations in Indonesia. Beyond its immediate fiscal benefits, the policy also signals the government's determination to assert digital sovereignty by ensuring that consumption within its borders contributes fairly to national revenue. However, sustaining this momentum will require continued investment in digital infrastructure, data analytics, and international cooperation to enhance monitoring and enforcement mechanisms. Without these institutional supports, the effectiveness of digital VAT as a long-term revenue source may be constrained by compliance gaps and the evolving complexity of digital business models.

Moreover, while VAT collection represents an important achievement, it also exposes the structural asymmetry between consumption-based taxation and value generation in the digital economy. The largest portion of profits from digital transactions still accrues to parent companies headquartered abroad, leaving Indonesia with limited fiscal returns relative to the scale of digital activity within its market. This imbalance reinforces the need for complementary measures—such as digital corporate income tax reform or participation in global tax frameworks—to capture a fairer share of cross-border digital value. Strengthening legal clarity, harmonizing domestic and international rules, and promoting transparency among digital service providers will be key to transforming VAT from a stopgap measure into a pillar of equitable digital taxation.

2. Legal Gaps and Jurisdictional Challenges

Indonesia's digital tax framework lacks crucial legal instruments that would empower more comprehensive and equitable taxation. Three core gaps have been identified:

- a. Absence of Digital Nexus or Significant Economic Presence Doctrine: Indonesia's Income Tax Law does not yet contain provisions recognizing digital presence as a basis for taxation. Without such a doctrine, corporate income from foreign digital services cannot be taxed unless a physical nexus exists.
- b. Over-reliance on Global Consensus: While Indonesia has supported OECD's Pillar One and Two initiatives, implementation depends on international agreements that are slow-moving and not enforceable domestically unless ratified.
- c. Ambiguity in Legal Terminology: Definitions of 'digital services' in Indonesian regulations are broad and imprecise, opening room for inconsistent interpretations and enforcement challenges.

These issues collectively undermine Indonesia's capacity to fully capture value from the digital economy and limit the development of equitable digital taxation policies that align with fiscal justice goals.

These legal shortcomings reveal deeper structural tensions between Indonesia's domestic tax sovereignty and the globalized nature of digital commerce. The absence of a clear digital nexus not only restricts Indonesia's ability to tax income derived from its digital markets but also creates loopholes that multinational corporations can exploit through complex corporate structuring and profit shifting. As digital businesses increasingly operate without physical presence, traditional jurisdictional principles grounded in territoriality become obsolete. Consequently, Indonesia faces the dual challenge of maintaining competitiveness in attracting digital investment while ensuring that its tax base is not eroded by untaxed digital value flows. A modernized legal framework that explicitly recognizes significant economic presence is essential to bridge this jurisdictional gap and strengthen the legitimacy of Indonesia's fiscal claims in the digital sphere.

Furthermore, the lack of harmonized terminology and legal precision weakens enforcement consistency across administrative levels. Ambiguous definitions of "digital services" create uncertainty not only for taxpayers but also for regulators tasked with implementation, potentially leading to disputes and selective compliance. While reliance on international frameworks like the OECD's Pillar One and Two offers alignment with global standards, Indonesia's dependence on external consensus also limits its policy autonomy. To overcome these challenges, Indonesia must pursue a proactive legal reform agenda—clarifying digital tax definitions, codifying the concept of digital nexus, and integrating international best practices into its national legislation. Such measures would enhance legal certainty, improve administrative efficiency, and ensure that digital taxation contributes meaningfully to the principles of fiscal justice and economic equity.

3. Comparative Lessons from India and Chile

The comparative legal analysis provides critical insights from peer economies:

- India introduced the Equalization Levy in 2016, initially targeting online advertising revenues. It expanded in 2020 to include a 2% tax on e-commerce operators for goods or services sold to Indian residents, regardless of the seller's physical location. India's unilateral move filled gaps left by global tax negotiations.
- Chile amended its VAT legislation in 2020 to include foreign digital services within its domestic tax net. Notably, Chile implemented simplified procedures for foreign firms and introduced payment-based collection via credit card operators.

These experiences demonstrate that decisive, context-sensitive policy actions can enhance tax

sovereignty. Both countries implemented clear legal definitions and administrative simplicity, reinforcing the feasibility of enforcing digital taxes without global consensus.

For Indonesia, this suggests two key lessons: (1) proactive legal reform can yield both fiscal and governance benefits, and (2) digital taxation policy must balance clarity, enforceability, and adaptability to evolving business models.

The experiences of India and Chile illustrate that strategic unilateral measures can effectively bridge the gap between national interests and slow-moving international tax negotiations. By adopting targeted legal reforms, both countries were able to safeguard their fiscal sovereignty while maintaining a conducive environment for digital commerce. India's Equalization Levy, for instance, represents a bold assertion of tax rights in the digital domain, proving that domestic policy innovation can precede and even influence global consensus. Chile's approach, emphasizing administrative simplicity through credit card-based VAT collection, demonstrates the importance of practicality and compliance efficiency in implementing cross-border tax measures. Together, these cases highlight that timely, well-calibrated reforms can produce tangible revenue outcomes while reinforcing state authority over digital transactions.

For Indonesia, these precedents offer a clear roadmap for reform. Rather than waiting for the full realization of OECD-led global tax frameworks, Indonesia can design its own context-specific model grounded in legal certainty, administrative feasibility, and technological readiness. Establishing precise definitions of digital activities, simplifying compliance mechanisms for foreign service providers, and strengthening digital transaction monitoring could enhance both revenue performance and investor confidence. More importantly, proactive reform would affirm Indonesia's commitment to fiscal equity—ensuring that digital enterprises contributing to domestic economic growth also share in the responsibility of supporting public welfare and national development.

4. Linking Digital Taxation to Social Inclusion: Missed Opportunities and Strategic Potential

The central theme of this research is the potential for digital taxation to serve as a redistributive mechanism that advances social inclusion. Despite significant VAT collection growth, Indonesia lacks a mechanism to directly channel these revenues into programs targeting digital inequality or social welfare.

Key opportunities for redistributive integration include:

- Digital Infrastructure for Remote Regions
- Gig Worker Protection
- Digital Literacy and Reskilling

Programs such as Kartu Prakerja, Desa Digital, and BLT UMKM provide existing platforms for integration. However, none are formally linked to digital tax revenues, and most operate under general fiscal budgets without long-term revenue streams. The lack of earmarking mechanisms and participatory oversight further limits the redistributive effectiveness of current digital tax policies.

The disconnect between digital tax revenue collection and social inclusion programs reflects a missed opportunity to translate fiscal innovation into tangible societal benefits. As digitalization reshapes labor markets and access to opportunity, taxation of the digital sector could serve as a tool to mitigate inequality rather than merely generate revenue. By linking a portion of digital

VAT or future digital income taxes to targeted programs—such as infrastructure development in remote areas or protections for gig economy workers—Indonesia could strengthen the social legitimacy of its tax system. Such integration would not only promote fairness but also foster a more inclusive digital transformation, ensuring that the benefits of technological progress extend beyond urban centers and high-income groups.

Establishing explicit linkages between digital tax policy and social inclusion initiatives would also enhance transparency and public trust in fiscal governance. Earmarking a share of digital tax receipts for programs like *Kartu Prakerja*, *Desa Digital*, or digital literacy initiatives could create a sustainable funding stream for long-term human capital development. Moreover, introducing participatory oversight mechanisms—such as public reporting on digital tax allocations—would align fiscal policy with principles of accountability and inclusive governance. By positioning digital taxation as both a fiscal and social instrument, Indonesia can transform its digital economy growth into a foundation for equitable development, closing the gap between revenue generation and social empowerment.

5. Toward an Inclusive and Just Digital Taxation Framework

To close the gap between digital taxation and inclusive development, this study proposes a normative policy framework rooted in two core principles: fiscal justice and inclusive governance. The framework consists of five pillars:

- a. Legal Reform and Economic Nexus Doctrine
- b. Revenue Earmarking for Inclusion
- c. Data and Inter-agency Integration
- d. Participatory Fiscal Governance
- e. Education and Institutional Capacity Building

These pillars collectively aim to shift digital taxation from a narrow technical concern to a transformative fiscal instrument. The ultimate goal is to build a taxation model that not only increases revenue but also enhances equity, strengthens institutional trust, and empowers citizens in the digital era.

The proposed framework emphasizes that digital taxation should serve not only as a fiscal tool but also as a driver of social transformation. Anchoring tax policy in the principles of fiscal justice ensures that the economic value generated within Indonesia's digital landscape contributes proportionally to the nation's development. Legal reform through the establishment of a digital economic nexus would provide the necessary foundation for equitable taxation, while revenue earmarking for inclusion would guarantee that digital tax proceeds directly support programs aimed at reducing inequality. Furthermore, the integration of data systems across government agencies would enable more accurate tracking of digital activities and enhance the efficiency of tax administration, creating a feedback loop between revenue generation and social outcomes.

Equally important is the need for participatory and capacity-building measures that reinforce the legitimacy and sustainability of digital tax governance. Encouraging citizen engagement in fiscal decision-making processes can strengthen accountability and public trust, ensuring that tax reforms reflect shared societal priorities. Investment in education and institutional capacity would prepare tax authorities, policymakers, and civil society to navigate the complexities of the digital economy effectively. Through these five pillars, Indonesia has the opportunity to reimagine its digital taxation system as a cornerstone of inclusive growth—transforming taxation from a

mechanism of revenue extraction into an instrument of empowerment, equity, and collective progress in the digital era.

CONCLUSION

This study concluded that while Indonesia has made significant progress in introducing digital taxation through VAT on foreign digital services, the current regime remains limited in its redistributive potential. Legal gaps, such as the absence of a digital economic nexus and ambiguous definitions, hinder the ability to fully capture value from cross-border digital transactions. The lack of earmarking mechanisms and integration with social inclusion programs further limits the transformative capacity of digital taxation.

Comparative analysis with India and Chile demonstrated that unilateral, well-defined legal reforms can be effective in enhancing fiscal sovereignty without waiting for global consensus. These examples also illustrated the importance of administrative simplicity and legal clarity in ensuring compliance and inclusivity.

This research proposed a five-pillar normative framework to transform digital taxation into a tool for inclusive development: legal reform, revenue earmarking, inter-agency integration, participatory governance, and institutional capacity building. These components align with the principles of fiscal justice and inclusive governance, offering a roadmap for systemic reform.

In terms of recommendation, the study encourages Indonesia to amend its income tax law to recognize digital presence, introduce earmarked funds for digital equity programs, and foster multi-stakeholder participation in policy design and revenue allocation. These steps are critical for bridging the gap between revenue generation and socio-economic justice.

The implication of this study extends beyond Indonesia. It contributes to the broader theoretical framework of fiscal justice in the digital economy and highlights the importance of inclusive tax governance as a development tool. Methodologically, it reinforces the utility of combining doctrinal, comparative, and evidence-based analysis in legal-political research.

Future studies may build on this research by exploring empirical impacts of digital taxation on income distribution, evaluating long-term outcomes of VAT reforms, or developing cross-country indices to measure the inclusivity of digital tax regimes. A multidisciplinary approach involving economics, law, and digital policy would further enhance the relevance and applicability of future research in this emerging field.

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