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Tax Justice in Indonesia's Digital Economy: Assessing VAT Compliance Obligations for Foreign Digital Service Providers

Bagas Jaya Saputra*
Universitas Airlangga, Surabaya, Indonesia
bagasjayasaputra@gmail.com

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*Corresponding Author

Abstract

The rapid expansion of Indonesia's digital economy has created significant challenges for traditional tax administration and raised questions concerning the equitable taxation of domestic and foreign digital businesses. Indonesia has introduced mechanisms requiring foreign digital service providers to collect and remit value-added tax on digital transactions involving Indonesian consumers. This article examines the tax justice implications of these obligations, focusing on horizontal equity between domestic businesses and foreign digital service providers. Using normative juridical research and tax policy analysis, the study evaluates the legal framework governing VAT collection, registration, compliance, enforcement, and consumer-facing digital transactions. The article argues that digital taxation should ensure a level playing field without imposing disproportionate compliance burdens on smaller domestic businesses or creating unjustified advantages for large multinational platforms. The study proposes a tax justice framework based on neutrality, proportionality, transparency, administrative simplicity, and effective enforcement. Particular attention is given to the capacity of Indonesian tax authorities to monitor cross-border digital transactions and ensure consistent compliance. The article concludes that the taxation of foreign digital service providers should be designed not merely to increase state revenue but also to strengthen fairness within Indonesia's evolving digital economy.

[*Perkembangan pesat ekonomi digital Indonesia telah menciptakan tantangan signifikan bagi administrasi pajak tradisional dan menimbulkan pertanyaan mengenai perpajakan yang adil bagi bisnis digital domestik dan asing. Indonesia telah memperkenalkan mekanisme yang mewajibkan penyedia layanan digital asing untuk memungut dan menyetor PPN atas transaksi digital yang melibatkan konsumen Indonesia. Artikel ini mengkaji implikasi keadilan pajak dari kewajiban tersebut, dengan fokus pada kesetaraan horizontal antara bisnis domestik dan penyedia layanan digital asing. Dengan menggunakan riset yuridis normatif dan analisis kebijakan pajak, studi ini* *mengevaluasi kerangka hukum yang mengatur pemungutan, pendaftaran, kepatuhan, penegakan PPN, dan transaksi digital yang berhadapan dengan konsumen. Artikel ini berpendapat bahwa perpajakan digital harus memastikan persaingan yang adil tanpa membebankan beban kepatuhan yang tidak proporsional pada bisnis domestik yang lebih kecil atau menciptakan keuntungan yang tidak adil bagi platform multinasional besar. Studi ini mengusulkan kerangka keadilan pajak berdasarkan netralitas, proporsionalitas, transparansi, kesederhanaan administrasi, dan penegakan yang efektif. Perhatian khusus diberikan pada kapasitas otoritas pajak Indonesia untuk memantau transaksi digital lintas batas dan memastikan kepatuhan yang konsisten. Artikel ini menyimpulkan bahwa pengenaan pajak terhadap penyedia layanan digital asing seharusnya dirancang tidak hanya untuk meningkatkan pendapatan negara, tetapi juga untuk memperkuat keadilan dalam ekonomi digital Indonesia yang terus berkembang.*]

Keywords: Digital taxation, VAT, tax justice, digital economy, Indonesia

Introduction

The digitalisation of economic activity has fundamentally altered the relationship between market participation and physical presence. Foreign enterprises can now supply streaming, cloud computing, software, online advertising, gaming, and other digital services to consumers in Indonesia without maintaining branches, offices, employees, or other conventional business infrastructure within Indonesian territory. This transformation creates a structural challenge for consumption taxation because the traditional administrative assumption that taxable activity can be identified through physical presence becomes increasingly unreliable. The problem is not merely technological but distributive. When an Indonesian business and a foreign digital provider supply economically comparable services to Indonesian consumers, different VAT consequences may distort competition and weaken the perceived legitimacy of the tax system. The OECD therefore treats cross-border digital supplies as a significant VAT challenge and recommends mechanisms that connect taxation to the jurisdiction where consumption occurs rather than to the location of the supplier (OECD 2017, 15–18).

The Indonesian government has responded by developing a specific framework for VAT collection on cross-border digital transactions. PMK No. 48/PMK.03/2020 initially introduced a mechanism for appointing foreign digital businesses as VAT collectors on the utilisation of intangible taxable goods and taxable services from outside the customs territory through electronic systems. This framework was subsequently replaced by PMK No. 60/PMK.03/2022, which refined the procedures for appointment, collection, remittance, and reporting. Importantly, PMK No. 60/PMK.03/2022 was not simply a revenue instrument; its preamble expressly referred to legal certainty and fairness as policy considerations. The regulation was later revoked effective January 1, 2025, by PMK No. 81 of 2024 as part of the implementation of Indonesia's Core Tax Administration System (Ministry of Finance of Indonesia 2022; Ministry of Finance of Indonesia 2024a).

The subsequent regulatory development demonstrates that the fundamental policy objective has not been abandoned. PMK No. 131 of 2024, effective January 1, 2025, regulates VAT treatment for imports, supplies of taxable goods and services, and the utilisation of intangible taxable goods and taxable services from outside the customs territory. Its explanatory basis expressly identifies fairness as a consideration in determining VAT treatment, thereby placing equity within the normative rationale of the regulation itself (Ministry of Finance of Indonesia 2024b). The regulatory transition is significant because it shows that digital VAT should not be understood as a temporary tax imposed exclusively on foreign technology companies. Instead, it forms part of a broader attempt to ensure that consumption occurring in Indonesia is taxed consistently regardless of whether the supplier operates through a conventional domestic business model or a cross-border digital model.

The central problem, however, is whether extending VAT obligations to foreign digital service providers actually produces tax justice. The answer cannot be determined solely by establishing that the Indonesian state possesses legal authority to impose VAT. Tax justice requires an assessment of both substantive tax treatment and the administrative burdens necessary to comply with that treatment. A foreign supplier may be economically comparable to a domestic supplier while facing very different compliance circumstances because it has no Indonesian tax infrastructure or personnel. Conversely, exempting such foreign suppliers merely because they lack physical presence would create an unjustifiable competitive advantage. The appropriate analytical question is therefore whether Indonesia's system achieves substantive neutrality while keeping compliance obligations proportionate. This article argues that the imposition of VAT on qualifying foreign digital service providers is justified under horizontal equity and the destination principle, but its legitimacy ultimately depends on administrative simplicity, proportionality, transparency, and effective enforcement.

The argument is particularly important because VAT is fundamentally a tax on consumption rather than a tax on the location of business establishment. Under the destination principle, international supplies should ultimately bear VAT in the jurisdiction where final consumption occurs. The OECD considers this principle preferable because it prevents the tax burden from being determined by the geographical structure of production and instead allocates VAT revenue to the jurisdiction of consumption (OECD 2017, 15–17). If Indonesia allowed foreign digital suppliers to escape VAT simply because their servers, employees, or headquarters were located abroad, the tax system would effectively convert physical presence into an unintended tax preference. Such an outcome would be inconsistent with neutrality because businesses could obtain different VAT treatment for economically similar supplies merely by selecting a cross-border digital delivery model. Digitalisation should change the mechanism of collection, not the underlying destination of consumption.

The tax-justice dimension becomes clearer when horizontal equity is applied to the digital economy. Musgrave argues that horizontal equity should be regarded as an independent normative objective of tax policy rather than merely as a consequence of vertical equity (Musgrave 1990, 113–14). The principle implies that taxpayers who are materially comparable should not experience unjustified differences in taxation. In the digital context, the relevant comparison is not whether two businesses possess identical corporate structures but whether they participate in comparable taxable consumption markets. A domestic software provider and a foreign software platform may differ dramatically in ownership, geography, and organisational structure, yet they may compete directly for the same Indonesian consumers. If only the domestic provider bears VAT collection obligations, the difference becomes economically significant. Therefore, requiring foreign digital suppliers to collect Indonesian VAT can be understood not as discriminatory taxation of foreign businesses but as an attempt to remove a discriminatory advantage created by physical-presence limitations.

This article consequently evaluates Indonesia's digital VAT regime through a tax-justice framework combining horizontal equity, destination-based taxation, neutrality, proportionality, administrative simplicity, and enforcement effectiveness. The analysis is normative rather than empirical and focuses on whether the legal and administrative structure can be justified in principle. The article does not argue that identical treatment of domestic and foreign suppliers is always necessary. On the contrary, procedural differentiation may be necessary to achieve substantive equality because foreign businesses operate under different administrative circumstances. The central proposition is that Indonesia should distinguish between equality of tax consequences and uniformity of compliance procedures. Equivalent consumption should produce equivalent VAT consequences, but the administrative mechanism for achieving that result should reflect the characteristics and compliance capacity of foreign suppliers. Such an approach would allow Indonesia to protect revenue and competition without turning digital VAT into a disproportionately burdensome regulatory regime.

Literature Review and Research Gap

The international literature on VAT and digitalisation establishes the destination principle as the principal normative foundation for taxing cross-border consumption. The OECD International VAT/GST Guidelines explain that the destination principle ensures that the total VAT burden on a supply is determined by the jurisdiction in which consumption occurs, while exports are relieved from VAT and imports are taxed on the same basis as domestic supplies (OECD 2017, 15–16). This framework is especially relevant to digital services because digital delivery weakens the connection between the supplier's physical location and the consumer's location. The resulting problem is therefore not that digital services are inherently difficult to tax, but that traditional enforcement mechanisms are poorly adapted to identifying the jurisdiction of consumption. The literature consequently supports a shift from supplier-location-based administration toward consumer-location-based mechanisms. For Indonesia, this theoretical position provides a strong basis for imposing VAT on qualifying foreign digital supplies consumed domestically, because the relevant economic event is consumption within Indonesia rather than physical establishment within Indonesia.

The literature further demonstrates that neutrality is essential to the legitimacy of VAT. VAT is intended to tax final consumption while minimising distortions in business organisation and commercial channels. When comparable products or services receive different tax treatment because one is supplied digitally and the other conventionally, the tax system can influence consumer and business choices for reasons unrelated to economic efficiency. The OECD's analysis of digital platforms therefore emphasises the importance of consistent VAT/GST treatment across online transactions and recognises that platforms can play an important role in addressing collection problems associated with digital trade (OECD 2019, 11–17). The implication for Indonesia is substantial: foreign digital service providers should not be viewed as exceptional taxpayers simply because they operate through electronic channels. If the service is consumed in Indonesia and is otherwise within the scope of VAT, digital delivery should not by itself create a tax advantage.

The tax-justice literature provides an additional normative basis for evaluating this approach. Musgrave's analysis of horizontal equity challenges the assumption that equality in taxation can be assessed only through aggregate distributional outcomes. He argues that horizontal equity has independent normative significance because similarly situated taxpayers should not be treated differently without sufficient justification (Musgrave 1990, 113–22). Applied to digital taxation, the principle suggests that physical presence cannot automatically constitute a sufficient justification for different VAT treatment. What matters is whether the distinction corresponds to a relevant difference in the taxable circumstances. A foreign digital platform supplying Indonesian consumers and a domestic enterprise supplying the same consumers may have different administrative profiles, but their consumption-side economic activity can be substantially equivalent. Consequently, a tax system that exempts the foreign supplier while taxing the domestic supplier would risk transforming an administrative distinction into an unjustified substantive advantage.

Recent Indonesian scholarship has begun to examine whether VAT is an appropriate instrument for taxing the digital economy. Putra argues that VAT provides a practical response to several challenges arising from remote digital services, while also identifying continuing concerns regarding collection costs, legal certainty, compliance, enforcement, complexity, and fairness (Putra 2024, 184–202). This literature is important because it demonstrates that the effectiveness of digital VAT cannot be evaluated solely through the amount of revenue collected.

Nevertheless, the existing discussion tends to frame fairness as one consideration among several policy outcomes rather than as the central normative criterion for evaluating foreign supplier obligations. Earlier Indonesian research similarly identifies difficulties associated with enforcing digital taxation against foreign enterprises without physical presence and highlights the importance of VAT as an instrument for addressing these difficulties (Suwardi et al. 2020).

The existing literature therefore leaves an analytical gap concerning the relationship between horizontal equity and compliance proportionality. If foreign digital suppliers are required to collect VAT in order to create competitive neutrality, the next question is whether the administrative obligations imposed upon them are proportionate to that objective. Conversely, if administrative simplification is prioritised excessively, the system may become ineffective and recreate competitive disparities. This tension has not been sufficiently developed in the Indonesian literature as a question of tax justice. The present article addresses that gap by arguing that substantive equality and procedural proportionality must operate together. The state should not confuse equal taxation with identical administration. A foreign supplier may legitimately face the same VAT liability as a domestic supplier while being permitted to satisfy that liability through simplified registration, electronic payment, and reporting mechanisms. This distinction provides a more sophisticated understanding of tax justice in the digital economy.

The OECD's work on digital platforms further strengthens the research gap. Its 2019 report explains that digital platforms can improve VAT/GST collection because they frequently possess information concerning transactions and occupy a central position in online supply chains (OECD 2019, 9–15). This suggests that effective digital VAT enforcement does not necessarily require traditional tax-administration techniques to be imposed upon every foreign supplier. Instead, governments can redesign collection mechanisms around the technological architecture of digital markets. The Indonesian debate has therefore moved beyond the initial question of whether foreign digital suppliers should be taxed and toward the more difficult question of how they should be administered. The present study contributes by connecting that administrative question to horizontal equity: a collection mechanism is just only if it simultaneously protects equivalent VAT treatment, minimises unnecessary compliance costs, and provides the tax authority with sufficient information to prevent systematic non-compliance.

Method

This study employs a normative juridical research method combined with descriptive, argumentative, and analytical policy analysis. The normative juridical approach is appropriate because the research examines the legal principles, statutory provisions, ministerial regulations, and administrative mechanisms governing VAT on cross-border digital services in Indonesia. Rather than measuring taxpayer behaviour statistically, the study interprets primary legal materials and evaluates them against established principles of tax justice and international VAT policy. The analytical framework is constructed around six interrelated principles: destination-based taxation, horizontal equity, neutrality, proportionality, administrative simplicity, and enforcement effectiveness. These principles are not treated as isolated criteria. Instead, they are examined as potentially complementary but sometimes competing requirements. The central methodological question is whether Indonesia's legal framework creates an appropriate balance between ensuring that foreign digital consumption contributes to Indonesian VAT revenue and preventing compliance requirements from becoming unnecessarily burdensome for non-resident businesses.

The primary legal materials include Indonesia's VAT legislation and relevant Minister of Finance regulations concerning digital transactions. Particular attention is given to PMK No. 48/PMK.03/2020 and PMK No. 60/PMK.03/2022 because they established the modern administrative framework for collecting VAT from foreign digital suppliers. PMK No. 60/PMK.03/2022 is analysed as a historical regulatory stage rather than as the current legal basis because it was revoked effective January 1, 2025, by PMK No. 81 of 2024. The current framework is considered through PMK No. 81 of 2024 and PMK No. 131 of 2024, particularly their relationship to the integration of VAT administration and the utilisation of taxable intangible goods and services from outside the customs territory. The regulatory history is important because assessing tax justice requires understanding not only the current rules but also the institutional direction of Indonesian VAT administration.

The secondary materials consist principally of OECD publications and peer-reviewed or academically published literature concerning VAT, digital taxation, tax administration, and equity. The OECD International VAT/GST Guidelines provide the theoretical basis for the destination principle and VAT neutrality, while the OECD's analysis of digital platforms provides a framework for evaluating collection mechanisms, administrative burdens, information access, and enforcement. Musgrave's work provides the principal theoretical foundation for horizontal equity. Indonesian academic literature is used to identify existing debates regarding the effectiveness, fairness, complexity, and enforceability of digital VAT. The use of international sources is not intended to replace Indonesian legal analysis but to establish a normative benchmark against which Indonesian policy can be assessed. This approach allows the research to distinguish between what Indonesia is legally permitted to do and what would constitute a more defensible design from the perspective of tax justice.

The analysis is conducted through structured legal interpretation and normative comparison. First, the study identifies the legal basis for imposing VAT on cross-border digital consumption and determines whether the destination principle supports that jurisdictional claim. Second, it examines whether the treatment of foreign digital suppliers promotes horizontal equity and competitive neutrality in comparison with domestic suppliers. Third, it evaluates whether compliance obligations are proportionate to the economic circumstances of non-resident suppliers. Finally, it considers whether digital platforms and integrated tax-administration systems can strengthen enforcement without generating excessive compliance costs. The resulting analysis is argumentative rather than merely descriptive. It does not assume that higher compliance automatically means greater justice. Instead, it argues that the legitimacy of digital VAT depends on whether the state can achieve equivalent tax consequences through administratively proportionate mechanisms. This methodology therefore treats tax justice as both a substantive and institutional requirement.

Analysis and Discussion

A. The Destination Principle as the Foundation of Indonesia's Digital VAT Regime

The strongest legal and normative justification for imposing VAT on foreign digital service providers is the destination principle. VAT is fundamentally designed as a tax on consumption, meaning that the jurisdiction entitled to the revenue should ordinarily be the jurisdiction in which final consumption occurs. The OECD International VAT/GST Guidelines explain that the destination principle promotes neutrality because imports are taxed on the same basis as domestic supplies while exports are relieved from VAT (OECD 2017, 15–16). This principle is particularly compelling for digital services because the geographical location of production has become increasingly disconnected from the geographical location of consumption. A streaming subscription supplied by a foreign enterprise may be produced through servers and employees located outside Indonesia, yet the service is consumed by an Indonesian resident in Indonesia. The absence of a physical establishment therefore does not eliminate Indonesia's consumption-based jurisdiction. It merely makes conventional collection methods less effective.

The application of the destination principle also resolves an important conceptual problem concerning physical presence. Traditional tax administration often relied on physical presence as a practical proxy for economic connection. Digitalisation has weakened that proxy without eliminating the underlying economic relationship between supplier and market. If physical presence were treated as a necessary condition for VAT liability, foreign digital businesses could systematically avoid Indonesian consumption tax by structuring their operations offshore. Such a rule would create an artificial distinction between equivalent supplies and encourage tax-driven business structuring. The OECD explicitly recognises that digital trade can create risks of unintended non-taxation when VAT systems are not coordinated effectively (OECD 2017, 12–18). Indonesia's digital VAT regime therefore represents an attempt to preserve the substantive logic of VAT in an environment where the administrative indicators of economic activity have changed. The policy is justified because digitalisation should not transform non-residence into a permanent VAT exemption.

Indonesia's regulatory evolution confirms this destination-based rationale. PMK No. 60/PMK.03/2022 specifically regulated VAT on the utilisation of intangible taxable goods and taxable services from outside the customs territory through electronic systems and established procedures for appointing VAT collectors, collecting VAT, remitting it, and reporting it. The regulation expressly stated that greater legal certainty and fairness were among the considerations supporting the regulatory framework (Ministry of Finance of Indonesia 2022). Although the regulation was revoked on January 1, 2025, by PMK No. 81 of 2024, its repeal should not be interpreted as the abandonment of digital VAT. Rather, it reflects administrative consolidation within the Core Tax Administration System. The continuing regulatory framework under PMK No. 131 of 2024 retains VAT treatment for the utilisation of intangible taxable goods and taxable services from outside the customs territory (Ministry of Finance of Indonesia 2024a, 2024b).

From a tax-justice perspective, destination-based taxation is preferable because it connects the tax obligation to an economically meaningful circumstance rather than to formal corporate geography. A foreign digital provider selling to Indonesian consumers participates in the Indonesian consumption market even if it does not maintain a physical establishment in Indonesia. Taxing that consumption therefore does not constitute an arbitrary extension of Indonesian jurisdiction. Instead, it reflects the basic architecture of VAT as a destination-based consumption tax. The more serious equity problem would arise if the same consumption escaped VAT because the supplier used a digital delivery mechanism. Such an exemption would shift the tax burden toward domestic suppliers and potentially toward consumers purchasing through conventional channels. The justice rationale for foreign digital VAT is consequently strongest when the policy is framed as correcting a structural neutrality problem rather than as imposing an exceptional tax on foreign enterprises.

B. Horizontal Equity and Competitive Neutrality between Domestic and Foreign Suppliers

Horizontal equity provides the strongest normative argument for treating comparable digital and conventional supplies similarly. Musgrave's analysis establishes horizontal equity as an independent principle requiring attention to the treatment of taxpayers who are similarly situated (Musgrave 1990, 113–22). In the Indonesian digital economy, the relevant comparison should focus on the economic substance of the supply rather than the nationality or physical location of the supplier. A domestic enterprise selling software subscriptions to Indonesian consumers and a foreign enterprise selling an economically equivalent subscription may operate under completely different corporate structures, but their relationship with the Indonesian consumer market is substantially comparable. If the domestic enterprise must account for VAT while the foreign supplier does not, the difference is not merely administrative. It affects prices, competition, and the allocation of market opportunities.

The competitive consequences of unequal VAT treatment can be significant. Suppose a domestic digital service provider incorporates VAT into its pricing while a foreign platform providing a comparable service is able to sell without an equivalent VAT charge. Even if the nominal difference appears modest, the cumulative effect across millions of transactions can influence consumer choice and supplier competitiveness. The tax system would then favour the foreign supplier not because it is more efficient or innovative but because its business model allows it to avoid the domestic tax collection mechanism. Such a result contradicts VAT neutrality. The OECD's digital-platform framework emphasises that effective VAT administration should address the risks arising from online trade precisely because digital transactions can otherwise produce significant collection gaps (OECD 2019, 9–17). VAT policy should therefore neutralise the tax consequences of delivery channels rather than reward cross-border digital structuring.

The argument for horizontal equity does not mean that domestic and foreign suppliers must be subject to identical administrative procedures. This distinction is essential. Equality in tax consequences is not synonymous with uniformity in compliance mechanisms. A domestic company may have a local accounting department, tax identification infrastructure, Indonesian banking arrangements, and employees familiar with Indonesian reporting requirements. A foreign provider may possess none of these resources. Requiring both businesses to comply through exactly the same procedures could therefore produce unequal real burdens. The appropriate principle is substantive neutrality: economically comparable consumption should produce comparable VAT consequences, while administrative procedures may be differentiated when such differentiation reduces unnecessary compliance costs without weakening tax collection. This interpretation reconciles Musgrave's horizontal-equity principle with the OECD's emphasis on simplicity and effective administration (Musgrave 1990; OECD 2019).

The distinction between substantive and procedural equality also strengthens the legitimacy of Indonesia's foreign digital VAT regime. Critics may argue that requiring non-resident businesses to register, collect, remit, and report Indonesian VAT imposes disproportionate obligations on businesses that have no physical establishment in Indonesia. That criticism is persuasive only if the compliance burden is considered independently of the substantive tax obligation. If Indonesian consumers are the final consumers of the service, the foreign supplier is participating in the same taxable consumption market as domestic businesses. The relevant policy question is therefore not whether the foreign supplier should contribute to Indonesian VAT, but whether the method of collecting that VAT is proportionate. The state should preserve equal tax consequences while avoiding unnecessary duplication, complex filing requirements, or procedural demands that exceed what is necessary to secure compliance.

C. Proportionality and Administrative Simplicity in Foreign Supplier Compliance

Proportionality is necessary because a legitimate tax objective does not automatically justify unlimited administrative requirements. Foreign digital service providers may vary enormously in size, transaction volume, organisational complexity, and Indonesian market exposure. A multinational platform serving millions of Indonesian consumers has a very different compliance capacity from a small foreign software developer serving a limited number of Indonesian customers. Treating both suppliers as though they presented identical revenue and compliance risks could create unnecessary regulatory burdens. The tax authority therefore needs a system capable of distinguishing substantive VAT liability from the intensity of administrative supervision. This is consistent with the OECD's emphasis on efficient VAT administration and the need to design mechanisms that allow governments to collect tax effectively without imposing disproportionate costs on taxpayers and administrations (OECD 2019, 21–29).

Administrative simplicity is particularly important because foreign suppliers may operate across numerous jurisdictions simultaneously. A multinational digital business may be required to comply with VAT or GST obligations in multiple countries, each with different registration thresholds, filing periods, invoice requirements, currencies, and reporting systems. If every jurisdiction adopts highly complex procedures, the aggregate compliance burden can become significant even where each individual obligation appears reasonable. The OECD's digital VAT work therefore supports simplified approaches for non-resident suppliers and emphasises the importance of making compliance sufficiently straightforward to encourage voluntary compliance (OECD 2019, 35–42). Indonesia's digital VAT regime should be assessed according to the same logic. A system that is simple, predictable, and technologically accessible is more likely to achieve compliance than one that relies primarily on complex procedural enforcement.

The principle of proportionality also requires the government to distinguish between the amount of tax at stake and the administrative resources required to collect it. Excessive compliance costs can undermine tax justice in two directions. First, they can discourage legitimate foreign suppliers from entering or remaining in the Indonesian market, potentially reducing consumer choice and competition. Second, they can encourage businesses to restructure transactions or route supplies through intermediaries in order to avoid regulatory obligations. Neither outcome serves the objective of VAT neutrality. A more defensible approach is to maintain the underlying VAT obligation while calibrating administrative requirements according to materiality and risk. This approach is consistent with the broader OECD vision of digital tax administration, which seeks to make taxation increasingly seamless and less burdensome through the integration of digital systems and taxpayer-facing processes (OECD 2020, 9–16).

The Indonesian transition toward the Core Tax Administration System creates an opportunity to implement this principle more effectively. PMK No. 81 of 2024 consolidated numerous tax-administration provisions and revoked PMK No. 60/PMK.03/2022 as of January 1, 2025 (Ministry of Finance of Indonesia 2024a). This institutional transition matters because the long-term effectiveness of digital VAT depends not only on substantive rules but also on the quality of the administrative infrastructure through which those rules are implemented. Digital registration, electronic payment, automated reporting, and integrated data systems can reduce the marginal cost of compliance for foreign suppliers while simultaneously increasing the government's capacity to monitor transactions. The appropriate objective is therefore not simply to impose more obligations but to design an administrative environment in which compliance becomes technologically easier than non-compliance. Such a model would align tax justice with administrative efficiency rather than treating them as competing objectives.

D. Enforcement, Digital Platforms, and Tax Justice

Effective enforcement is indispensable to horizontal equity because unequal enforcement can recreate the very competitive distortion that the digital VAT regime seeks to eliminate. If some foreign digital providers comply with VAT obligations while others operating under comparable conditions do not, compliant businesses bear a greater effective tax burden than non-compliant competitors. The problem is particularly acute in cross-border digital markets because foreign suppliers may have limited physical assets or personnel in Indonesia, making conventional enforcement methods less effective. The OECD therefore identifies digital platforms and transaction intermediaries as potentially important collection points because they possess information concerning online transactions and can process large volumes of sales (OECD 2019, 45–53). Indonesia's enforcement strategy should consequently focus not only on individual suppliers but also on the digital infrastructure through which taxable transactions are facilitated.

Platform-based enforcement, however, must be designed carefully. Not every digital platform performs the same economic or technological function. Some platforms merely provide infrastructure, while others determine prices, process payments, connect suppliers with consumers, or control the transaction environment. The OECD therefore recommends that the role and functions of platforms be considered when determining whether they should bear VAT/GST collection responsibilities (OECD 2019, 55–64). This functional approach is particularly relevant for Indonesia because imposing comprehensive tax responsibilities on every intermediary could produce disproportionate compliance costs and discourage smaller digital enterprises from participating in the market. A tax-justice approach requires the state to allocate compliance responsibilities to actors that are technically and economically capable of performing them efficiently. The objective should be effective collection, not the indiscriminate transfer of tax-administration responsibilities from government to private businesses.

Digital administration can also improve transparency and reduce information asymmetry between the tax authority and foreign suppliers. Traditional tax administration often depends on taxpayer declarations and physical audits, whereas digital commerce generates transaction data that can potentially be analysed electronically. The OECD's Tax Administration 3.0 framework emphasises the transformation of tax administration toward more seamless, integrated, and taxpayer-centred systems (OECD 2020, 9–20). Such an approach is particularly appropriate for digital VAT because the transactions themselves are generated through digital systems. If properly governed, transaction data can assist the tax authority in identifying significant suppliers, assessing compliance risk, and reducing reliance on intrusive conventional audits. However, greater access to information must remain subject to appropriate legal safeguards, transparency, and proportionality. Digital enforcement should strengthen compliance without transforming tax administration into an unlimited system of data extraction.

Indonesia should therefore adopt a risk-based enforcement philosophy in administering foreign digital VAT. Major suppliers with substantial Indonesian consumer activity and significant VAT exposure warrant stronger monitoring than small suppliers whose activities generate minimal tax risk. Such differentiation does not undermine equality; it strengthens it by directing enforcement resources toward situations where non-compliance could materially distort competition or reduce revenue. The objective should be consistent enforcement of substantive VAT obligations rather than identical surveillance of every taxpayer. This approach is compatible with the OECD's understanding of effective digital tax administration, where data, technology, and risk management are used to make tax administration more efficient and less burdensome (OECD 2020, 21–30). A risk-based system would also allow Indonesia to address the central tax-justice problem more effectively: ensuring that businesses competing in the same consumer market face comparable VAT consequences.

Conclusion

Indonesia's obligation for qualifying foreign digital service providers to collect VAT is normatively justified by the destination principle and horizontal equity. The fundamental tax-justice problem is not that foreign digital businesses are being subjected to Indonesian VAT, but that digitalisation could otherwise allow comparable consumption to receive different tax treatment solely because the supplier operates without physical presence in Indonesia. The OECD's destination principle establishes that VAT should accrue to the jurisdiction where final consumption occurs, while Musgrave's conception of horizontal equity supports the proposition that materially comparable taxpayers should not face unjustified differences in taxation (OECD 2017, 15–18; Musgrave 1990, 113–22). Indonesia's regulatory development from PMK No. 48/PMK.03/2020 and PMK No. 60/PMK.03/2022 toward the broader administrative framework introduced through PMK No. 81 of 2024 and PMK No. 131 of 2024 reflects an effort to preserve this principle in a digital environment. The policy is therefore defensible not merely as a revenue measure but as an instrument of competitive neutrality.

Nevertheless, tax justice requires more than imposing an equivalent substantive tax obligation. Indonesia must ensure that compliance obligations imposed on foreign digital service providers are proportionate, predictable, technologically accessible, and administratively efficient. The distinction between substantive equality and procedural uniformity is therefore critical. Foreign suppliers should not be exempted from VAT merely because they lack physical presence, but they should not be subjected to unnecessary administrative burdens merely because they are foreign. Indonesia's future policy should consequently combine simplified electronic compliance, risk-based enforcement, effective use of digital-platform information, and transparent administrative procedures. The integration of VAT administration into the Core Tax Administration System provides an institutional basis for this approach. Ultimately, a just digital VAT regime should pursue five interconnected objectives: equivalent VAT treatment for equivalent consumption, competitive neutrality between domestic and foreign suppliers, proportional compliance costs, transparent administration, and effective enforcement. Such a framework would strengthen both the fiscal capacity and legitimacy of Indonesia's tax system in an increasingly borderless digital economy.

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