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Article

Digital tax reform in Indonesia: Perspective on tax policy development

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Abstract: In Indonesia tax reform has undergone multiple revisions in recent years, all within a brief timeframe. Digital tax reform in Indonesia began with significant milestones in recent years to adapt to the digital economy's challenges. The specific start date for digital tax reform in Indonesia can be traced back to the passing of the Tax Regulations Harmonization Law on 7th October 2021, which officially became Law No 7/2021 on 29th October 2021. This law marked a crucial step in Indonesia's journey towards modernizing its tax system to address the implications of the digital economy. The provisions of this law have varying effective dates, such as for income tax purposes from the 2022 fiscal year and for VAT purposes from 1st April 2022. These changes under the Tax Regulations Harmonization Law are extensive and wide-reaching, signifying a pivotal moment in Indonesia's digital tax reform efforts. This shows that the Indonesian government intends to radically overhaul the tax system, yet there are inconsistent approaches to deciding on the long-term course of tax policy. It is critical to investigate the concept of tax legislation in Indonesia in order to provide legal clarity on digital tax reform. Normative juridical research methodology is employed, together with a qualitative research strategy and descriptive-analytical research specifications. The findings suggest that the Indonesian government's efforts to establish strict policies governing taxes on digital activity are inadequate and uneven. In order to apply to digital platform enterprises, the definition of permanent establishment as outlined in a number of national regulations must incorporate a substantial economic presence criterion. Legislative progress toward the establishment of a framework for digital tax collection is necessary to mitigate the possible income loss of states in this area, which could result from the rapid advancement of information technology. The OECD consensus is still in the process of drafting an international tax reform that will require adjustments from national tax reform. Therefore, it is imperative that the Indonesian government establish a thorough framework for tax regulation that can ensure robustness, economic efficiency, fairness, against motivation compatibility, administrative ease, and avoidance.

Keywords: tax reform; era industry 4.0; digitalization; tax regulation; tax harmonization

1. Introduction

Around the world, tax reform took place in the 1980s. During that time, New Zealand, Japan, Australia, Canada, the United States, Western European nations, and (Faeni, 2023) were among the nations that implemented tax reform. Changing the tax code to conform to market economy standards and boost competitiveness abroad is one of the main drivers of tax reform in many nations (Mahpudin et al., 2023). The National Taxation System Reform (PSPN), implemented in 1983 in Indonesia, brought in the concept of self-assessment, streamlined and reduced income tax rates, and Sales Tax with VAT (Value Added Tax).

Indonesia uses taxes as a means of funding its regular expenses, which makes them an important role of the tax system. One of the efforts by the Indonesian government to enhance state revenue from the tax sector is tax reform, which aims to modernize Indonesian tax legislation. Despite the vast opportunities presented by economic digitization, several tax reforms have failed to maximize state revenue, and the tools provided by Indonesia's tax laws have not been able to adapt to this new reality. National tax reform is necessary in this digital age, and this study explains why and how quickly it must happen.

Restructuring tax administration, enhancing tax laws, and broadening the tax base are all part of tax reform, which is a major and all-encompassing overhaul of the tax system (Minh Ha et al., 2022). The first and largest tax reform in Indonesia was implemented on 1 January 1984 (Soemitro, 1992). The rationale for this was that the laws passed by the Dutch Colonial Government at the time were no longer deemed appropriate given the state of society's growth (Mahpudin et al., 2023).

At the time, tax reform was also implemented in an effort to lessen reliance on income from non-renewable natural resources like oil and gas and to maintain the independence of the Indonesian state in funding national development by utilizing all of the nation's resources (Sackitey, 2023). Following that, there was another round of tax law change, which took place in 1994, 1997, 2000, and 2007–2009 (Mahpudin et al., 2023).

The circumstances that a nation faces influence how tax reform is implemented. Examples of tax reform include the introduction of new taxes, the elimination of old ones, changes to the tax base, changes to the composition of tax revenues, overhauls of tax administrative practices and procedures, and adjustments to various components of the tax system (Faeni, 2023).

Taxation, which has also become a major concern for practically all nations in the globe, can help to reduce the issue of economic competitiveness. The United States is the only nation that has unilateral control over internet globalization (Minh Ha et al., 2022). Google, Apple, Facebook, and Amazon are the oligopolistic ally controlling powers behind worldwide computerization and digitalization. Is there any tax paid if you use Google Adwords for advertising? To be more specific, is the payment made in the country where the advertiser is based, the country where Google is physically located, or the country where the Google Adwords app is registered? There are intricate legal matters at play here.

Taxes are a debt owed by members of society to one another (Safuan et al., 2022). This has to do with a nation's sovereignty and the substantial loss of prospective state revenue. The healthy rivalry between traditional media and over-the-top (OTT) companies will be impacted by taxation as well. While traditional media continues to be burdened with taxes and production costs, over-the-top (OTT) companies are able to charge lower advertising prices and hence generate more advertising revenue by not having to pay taxes. Since social media and search engines often only aggregate content from other sources and do not create any original content, they can function more effectively. They both have the same legal standing as media institutions.

It is considered that in order to accomplish community justice and stay in line with the political climate surrounding taxes, it is essential to alter national tax laws to make them more responsive and participatory in order to impose taxes on digital business operators (Mayasari and Narsa, 2020; Santosa and Sesung, 2021). The state has a poor position in the face of digitization and globalization, particularly in developing nations. The monopolistic, legally inaccessible, and America-centric global digital landscape could lead to a number of issues with national sovereignty. In order to tax its inhabitants who are both domestic residents and those who are nationals of another country, the state must exercise its fiscal sovereignty. Non-residents are only subject to taxes while they are physically connected to the state (Khan and Nuryanah, 2023).

The idea and trajectory of tax laws in Indonesia are the matters of law that necessitate investigation in order to provide clarity on digital tax reform. All parties impacted by Indonesia's tax legislation, including OTT businesses and both local and international taxpayers, would benefit from the type of tax reform proposed in this study. This conversation about the future of Indonesian taxation systems that follow the principles of equity, economic efficiency, administration simplicity, incentive harmony, and resistance to evasion should lead to a significant advancement in legal science, especially tax law.

2. In research methods

The type of research is a qualitative research methodology, specifically referring to social norms that emerge and persist in society as well as legal norms found in laws and regulations. Three positions in relation to our contribution: (1) to not define qualitative research; (2) to work with one definition for each study or approach of "qualitative research" which is predominantly left implicit; (3) to systematically define qualitative research (Patrik Aspers et al., 2021). While numerical data discovered and presented is meant to support or refine the analysis rather than be statistically evaluated, the analysis is offered in the form of descriptions.

It can be especially challenging utilizing qualitative research project to decide on a strategy and then align the topic, research questions, data collecting, and data analysis. One of the biggest obstacles we've seen as faculty members teaching introductory courses on qualitative research methodologies is to understand that there are diverse approaches to qualitative research and distinct sets of techniques for collecting and analyzing data (Gozalez et al., 2020).

Since the Electronic Transaction Tax instrument is governed by Indonesian law, this research was conducted utilizing a normative juridical method. The reason behind this is that the focus of the research is on the rules and regulations laid out in the law, while yet taking into account the actual facts found in the field.

In order to tackle the pressing need to establish tax regulations for cross-border electronic transactions in several areas of Indonesian tax legislation, this research used descriptive-analytical principles, which involve summarizing and evaluating secondary data backed by primary data. This research seeks to fill gaps in our understanding of Indonesian tax reform's historical trajectory prior to economic digitization and its current significance in the digital age by analyzing secondary sources. This research makes use of secondary data gathered through library research on statutes, rules, books, official papers, publications, and research results to conduct a literature review.

3. Results and discussions

3.1. Tax reform

In order to adapt the tax system to ever-changing political, social, and economic circumstances, nations undergo a process of constant modification. The modifications aim to enhance the way taxes work in order to accomplish the desired results (CBED, 2017). Lower tax rates, a simpler system, better accountability, clarity, and a more or less progressive tax system are all possible outcomes of tax reform. In an effort to promote more equitable and effective tax collection, tax reform is also implemented to lessen tax evasion and avoidance (Amarani, 2022).

Factors are what motivate most developing countries to implement tax reforms: first, their complex tax systems are challenging to administer and comply with. Second, the term “inelastic” refers to the tax system’s lack of adaptability to changes in the development and composition of the economy. Third, the tax system is thought to be ineffective, leading to significant economic distortions even if revenue increases are frequently minimal. Fourth, unfair practices include treating people and companies differently while they are in similar situations. Fifth, biased against those who can take advantage of the system, as seen by selective tax administration and enforcement (FitzRoy et al., 2021).

Redesigning tax administration, enhancing tax laws, modifying tax rates, streamlining the tax structure, and establishing a more transparent or responsible system are all examples of tax reform. These adjustments are influenced by economic considerations and the study of tax policymaking. The main goals of tax reform are to better administer taxes and to maximize the social and economic advantages that can be obtained through taxes. A nation’s public finances are impacted by one of them (Cram and Olbert, 2023).

Also, you shouldn’t confuse optimal tax design with optimal tax reform. Ideal tax reform hinges on the initial conditions, just as the current Tax Law could not have been created and approved so long ago. That aside, the best tax policy has always been context dependent (Feldstein, 1976). The problem with the problem as it appears in different tax publications is that it ignores the distinctions between them by repeatedly stating that tax reform is always dependent on some historical path (Feldstein, 1976; Vazquez, 2022).

However, according to the Indonesian government, tax law is a set of rules that govern how the public and government interact when it comes to collecting taxes (Khan and Nuryanah, 2023). Tax law provides explanations on a variety of topics, including tax subjects, taxpayer obligations to the government, taxable items, the formation and elimination of tax debts, collection procedures, objection procedures, and more. Tax accounting law reform entails updating tax laws to limit the government’s ability to seize an individual’s wealth and return it to the state treasury while also governing the rights and responsibilities of taxpayers. Building a national tax reform system that is fair, efficient, and founded on clear legal principles requires first establishing a system for accounting and collecting taxes.

3.2. Tax reform before Industrial Revolution 4.0

Indonesia implemented its tax reform in phases beginning in 1984. The current tax system will be made simpler by tax accounting reform, which will simplify tax rates, tax kinds, and tax payment procedures (Safuan et al., 2022). A larger number of taxpayers will be part of a more equitable and reasonable tax payment system. Moreover, tax reform also entails overhauling the tax system's policies, practices, workplace norms, and mindset. With this tax reform, there will be a more equitable and appropriate tax burden, which will both address the loopholes that have allowed individuals to evade taxes and encourage taxpayers to fulfill their commitments to pay taxes. A simple and easy-to-understand tax system based on principles of justice and fairness is being developed by the Indonesian government. This system will also provide every taxpayer with guarantees (Sackitey, 2023).

Indonesia shifted its fiscal stance after the tax reform of 1984. A mere 24% of total domestic revenue could be accounted for by tax receipts prior to 1984. Its contribution rose steadily following the tax change in 1984. This is supported by the results of Indonesia's tax ratio both prior to and following the change (Asyir, 2020).

The purpose and scope of taxes were confirmed and expanded upon in 2000 as part of tax reform. There was also a simplification and updating of the tax administration system. In an attempt to attract more taxpayers and raise tax income, some levies were removed. There was a shift in the income tax rate structure, and it was made clear which levies and taxes are under the purview of the Regional Government Levels I and II. During 2007–2009, tax reform was driven by the need to achieve effective, fair, and competitive revenue planning in order to attract foreign investment, boost economic growth for micro, small, and medium-sized enterprises, and ensure the continued support of special and major taxpayers.

3.3. National Tax Reform is an absolute necessity in this Digital Age

The rise in the economy of the nation where a digital company is based is greatly impacted by the entry of American digital giants like Google, Microsoft, Amazon, and Facebook. In response to the expansion of economically oriented activities that have transitioned to digital platforms, nations, including Indonesia, are being encouraged by the phenomena of digital company penetration to restructure their tax laws for digital enterprises operating within their borders. Out of seven Southeast Asian countries, Indonesia's digital economy is growing at a faster rate. Indonesia's vast geographical circumstances and large population, which includes a substantial number of internet users, are factors that contribute to its growth (Khan and Nuryanah, 2023).

Tax revenue is a dependable source of funding for the Indonesian government. Over 70% of the state's revenue is derived from taxes, as demonstrated (Indonesia Ministry of Finance, 2024). **Figure 1** below shows the state's tax revenue and income tax revenue for the years 2010–2023.

Figure 1. Tax revenue in Indonesia 2010–2023 (in Trillion Rupiah).

Source: Ministry of Finance, 2024.

Foreign tax subjects, including individuals, entities, and permanent establishments (in the case that OTT has representation in Indonesia), must be considered by Indonesia when the country formulates efficient and effective regulations to control digital taxes. This is because Indonesia is a sovereign nation whose primary source of income is taxes. In reality, there are two methods used by nations worldwide to levy taxes on trade transactions involving computerized cross-border systems. Initially, they enact national laws governing cross-border electronic trade transactions (unilateral measures). Secondly, by creating a worldwide agreement among nations to levy taxes on commercial transactions via electronic cross-border systems (global consensus) (Kurniawan, 2020).

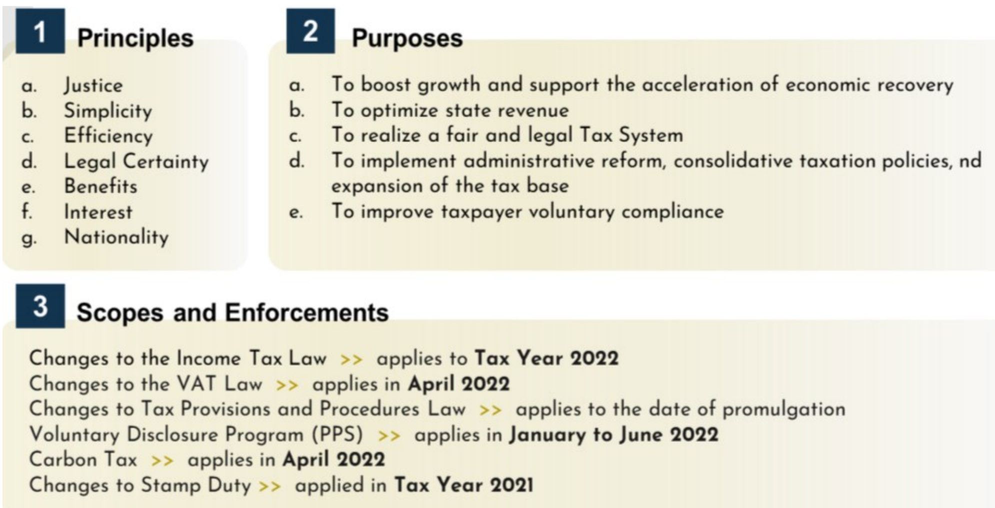

Figure 2. Principles, purposes and scope and enforcements.

Source: Ministry of Finance, 2021.

As stated in **Figure 2**, regarding principles, purposes and scope and enforcements there are as stipulated in the figures that there must be a new type of tax reform to regulate digitalization tax as its not yet covered in the tax law. Under the unilateral measures approach, global digital platforms such as OTT providers may be subject to two different kinds of taxes: direct taxes and indirect taxes. One option to impose direct taxes is to apply income tax on payments made to international digital platforms located in countries including Turkey, Thailand, Taiwan, Slovakia, Pakistan, Mexico, and Malaysia (Kurniawan, 2020).

Second, the government may create laws to broaden the definition of "permanent establishment," adopting the definition used by Nigeria, Israel, and India as a model. Under this proposal, the state would ditch the antiquated idea of physical presence in favor of more modern standards for Permanent Establishment, such as a sizable economic footprint or a sizable digital footprint as determined by the volume of sales, website traffic, and active users on the platform of the OTT service provider (Kurniawan, 2020).

Thirdly, by developing a policy similar to those of Belgium, Australia, Brazil, and Canada on the Digital Service Tax. The government will pass laws pertaining to Digital Service Tax apart from income tax so that it can levy taxes on business dealings conducted over international computer networks. The Digital Service Tax provision is seen as the most relevant for tax collection on foreign electronic trade transactions since it is not covered by tax treaty rules that aim to prevent double taxation (Kurniawan, 2020).

Another option to execute the unilateral measures method is through the use of indirect taxes like the Goods and Services Tax (GST) or Value Added Tax (VAT) (Muttaqin et al., 2021). Goods and services, real and virtual, are subject to value-added tax in the country where the global digital platform is hosted. So, using the VAT is not that complicated (Febrianti et al., 2021).

The Consensus/G20 Inclusive Framework, an international agreement among governments and jurisdictions to tax digital economic activities, has 137 member states, Indonesia included. According to Kurniawan (2020), the Global Consensus is another potential framework for imposing a tax on international internet commerce.

If you are concerned about international tax concerns, you should familiarize yourself with the Income Tax Law. This law is constituted of Law Number 36, 2008 on the Fourth Amendment to Law Number 7 of 1983 on Income Tax. The Income Tax Law, which serves as the foundation for income tax collection in Indonesia, has undergone numerous alterations in a short amount of time; the following is an organized list of these revisions:

a) Tax Regulation No. 2 of 2020.

The Income Tax Law has been significantly impacted by Law Number 2 of 2020, even though it does not clearly declare it. Permanent establishment, a significant economic presence, and other important and basic issues are regulated by this phrase. The term "consolidated gross turnover of business groups up to a certain amount," "sales in Indonesia up to a certain amount," and/or "active users of digital media in Indonesia up to a certain amount" are also used to describe the significant economic impact mentioned in Article 6. Foreign companies that meet the requirements for a considerable economic presence, such as merchants, service providers, and operators of electronic commerce, may be liable to income tax.

The term of permanent establishment, which before solely needed physical presence, is naturally expanded by the idea of significant economic presence. When determining the source country's taxes rights over income from non-residents' economic operations, the permanent establishment requirement is a crucial factor. A source country can lawfully tax income from transnational (cross-border) enterprises (and professions) once they reach a certain threshold or meet certain standards (Eka, 2019).

b) Tax Regulation No. 11 of 2020.

The Income Tax Law, the Law on Value Added Tax on Goods and Services, the Sales Tax on Luxury Goods, and the Accounting Law on General Provisions and Tax Procedures are all changed by the Job Creation Law. In November 2021, the Constitutional Court issued Decision Number 91/PUU-XVIII/2020, declaring the Job Creation Law null and void and meaningless unless "no improvement is made within two years of the decision being pronounced." This ruling was based on the 1945 Constitution.

The Job Creation Law will be deemed permanently unlawful and all legislation it amended or repealed will be reinstated once the change deadline has elapsed. In addition to prohibiting the issue of any implementing rules relevant to the Job Creation Law, the Constitutional Court ordered the government to suspend any strategic effort or action having far-reaching consequences. The Job Creation Law has not yet been formally recognized as law, but it is still in effect.

The Government Regulation on Job Creation, which was published in lieu of Law Number 2 of 2022 but was later deemed unconstitutional and void, has been re-enacted as Law Number 6 of 2023. However, the Job Creation Law does mandate a physical presence in order to create a permanent establishment.

c) Tax Law No. 7 of 2021.

Revenue tax, value-added tax on products and services, sales tax on luxury items, and general provisions and processes of taxation are all subject to amendment by the Taxation Harmonization Law, which, like the Job Creation Law, modifies existing legislation. All three measures are impacted by this law. Furthermore, the Taxation Harmonization Law stipulates that actual presence is necessary for permanent establishment.

In order to produce money, engage in business, or carry out other activities, non-resident taxpayers are considered to have a permanent establishment in Indonesia if they hire an agent of a foreign corporation (Safuan et al., 2022). Anyone who does not meet the requirements for residency, major activity center, site of habitual practice, tax subject status, or any of the other items listed in Article 2, Paragraph 5 of Law Number 36 of 2008 is prohibited from operating a permanent establishment as a business. All foreign nationals and Indonesian citizens who travel abroad for more than 183 days in a calendar year are subject to this.

Law 36 of 2008, which amends Law 7 of 1983, which deals with income taxes, does not alter the conditions for permanent establishments as outlined in this section. To further regulate "the provisions of the Income Tax Law on permanent establishment, the Minister of Finance of the Republic of Indonesia issued Regulation Number PMK-35/PMK.03/2019 about the Determination of Permanent Establishment."

The Permanent Establishment Regulation of the Minister of Finance primarily addresses the following points:

This section retains the same permanent establishment criteria as "Law Number 36 Year 2008 on the Fourth Amendment to Law Number 7 Year 1983 on Income Tax". To further regulate the provisions of the Income Tax Law on permanent establishment, the Minister of Finance issued "Regulation Number PMK-35/PMK.03/2019 about the Determination of Permanent Establishment."

a) The definition and criteria for permanent establishment are maintained. Permanent establishments include all businesses in Indonesia that are operated by foreign corporations or individuals and meet the requirements for a permanent place of business. A location where space, facilities, installations, apparatus, or equipment used to conduct business in Indonesia is consistently occupied and situated is sufficient to qualify as a place of business. On the contrary, a designated permanent site of business is one that is not subject to change.
b) Additionally, a company is considered a permanent establishment if it accommodates foreign visitors or organizations for an extended period of time. However, a location that is inaccessible to external entities or individuals and is solely utilized for the management or storage of electronic data cannot be considered a permanent institution.
c) Unattended installation that lasts forever. Although firms do not satisfy the criteria for a permanent place of business or limited accessibility, they can still be classified as permanent establishments under the following four circumstances: projects that involve installation, assembly, or construction; agents who are not independent organizations or individuals; projects that extend for a minimum of 60 days annually; and agents or employees of an unincorporated, non-domestic insurance firm that accepts insurance premiums or undertakes insurance transactions.
d) If a foreign person or entity has full access to the place of business but their business activities are only auxiliary or preparatory, they are not considered to have a permanent establishment for the purposes of the tax treaty, even though they help facilitate essential and significant activities. Important and crucial tasks are enumerated in this provision: directly benefiting foreign persons or organizations financially; making heavy use of valuable resources (both human and otherwise); and playing a crucial role in the main enterprise.

Trade organizers whose operations begin outside of Indonesia's borders but are subject to income tax must maintain a physical presence at a permanent establishment within Indonesian territory. Consequently, the vast majority of global digital platforms disregard these regulations (Oktavianus and Ramadhan, 2020).

Proposals to tax online marketplaces are intricately related to clauses about the worldwide agreement on taxes. The purpose of these rules is to get ready for the binding force of many international accords, like BEPS and GLOBE, which would affect the way multinational taxpayers use tax vacations and special deductions (Directorate General of Taxation, 2021).

The Indonesian government can create and execute tax treaties and agreements with other governments using legally binding instruments called 'lex specialis'. These treaties and agreements can be bilateral or multilateral in nature. Such pacts can resolve issues related to tax cooperation, such as double taxation, profit shifting, tax base erosion, information exchange, assistance with tax collection, and more (Safuan et al., 2022).

When it comes to taxation, the Directorate General of Taxes is the go-to guy for enforcing agreements with other countries' or jurisdictions' tax agencies. Upon meeting the requirements outlined in a digital tax treaty or agreement, multinational enterprises are deemed to have fulfilled their objective and subjective tax obligations and are subsequently subject to taxation in Indonesia. The tax obligations resulting from economic digitization are to be regulated by the Ministry of Finance in compliance with the existing agreement or agreements (Safuan et al., 2022).

Indonesian law shall govern tax provisions deriving from economic digitalization in accordance with the agreement or agreements. In 2023, the global agreement will be further regulated in regulations set by the government or the finance minister. In 2022, jurisdictions that agree to it will sign it, and this rule is being prepared to prepare for its implementation.

The national tax policy of Indonesia is influenced by both internal dynamics and developments and modifications in the international tax system. Three attributes of extensively digitalized business models are analyzed in the interim report: enormous scale devoid of physical presence, substantial reliance on intangible assets, and the significance of data, user engagement, and intangible asset synergy.

Aligned with the Interim Report, the Inclusive Framework intensified its endeavors and pursued consensus. In both 2019 and 2020, the discourse pertaining to these issues underwent additional development. As outlined in the 2015 Base Erosion and Profit Shifting Action 1 Report (presently referred to as the Action 1 Report), the OECD/G20 Base Erosion and Profit Shifting project placed significant emphasis on tax concerns arising from the digitization of economies. As stated in the Action 1 Report, it will be challenging to rein in the digital economy because the entire economy is migrating online. Assessments for both income taxes and VAT (goods and services tax) are documented in the Action 1 Report. As per the Action 1 Report, digitization exacerbates various tax challenges, including but not limited to "nexus, data, and characterization," and exacerbates problems associated with profit shifting and base erosion.

The issue at hand transcends the realms of profit shifting and base erosion; rather, it pertains to the allocation of tax rights on earnings derived from international activities in the era of digitalization. Despite discussing several potential approaches, the Action 1 Report was unable to reach a resolution. The Action 1 Report states that in order to monitor the progress of digitization, this agreement must be upheld for the coming years.

Regarding the allocation of taxing rights, base erosion, and profit shifting, the compilation of proposals did not compromise the position or sovereignty of any nation or international borders. The strategy comprises two elements that may function as a foundation for reaching a consensus. Priority One of Pillar One is the equitable distribution of taxing authority among nations that are anticipated to enter digital marketplaces for goods and services. It is the purpose of the second pillar to guarantee that MNEs pay the least amount of tax feasible in each country where they conduct business. Given the interdependence of the two pillars and the need for solutions capable of effectively managing both as mutually reinforcing initiatives, it is agreed upon by the Inclusive Framework that they ought to be addressed concurrently.

On 1 July 2021, the Inclusive Framework devised two-pillar solutions to tackle the tax challenges that arise from the digitalization of the economy (OECD, 2018). In addition to the considerable technical obstacles that lay ahead, the political support and participation of the numerous nations comprising the Inclusive Framework are of the utmost importance. Established and developing nations, large and small, across jurisdictions, will have their income and administrative rights distributed equitably under the terms of this agreement, which is founded on sound economic and intellectual principles. The two pillars concept was adopted by 134 countries in total on 31 August 2021. The agreement states that the majority of nations, including Indonesia, are committed to developing digital tax systems.

The primary cause of the current tax legislation' difficulty spreading to digital platforms is the advancement of information technology. Only predicting tax difficulties on traditional media is compatible with the present Income Tax Law. Due to this scenario, there is debate concerning the government's inability to collect income tax for business transactions carried out in different nations by digital platform corporations like Google, Amazon, Facebook, and so forth, leading to inequity. Taxes are due to the state for each advertising transaction in traditional media, including radio, television, newspapers, and online journalism. Conversely, even while the advertising transaction takes place in Indonesia, this is not always the case with every transaction involving international e-commerce sites, search engines, and social media (Safuan et al., 2022).

Globally, it appears that tax law and media legislation do not extend to the digital sphere. State sovereignty is severely hampered by the digital sphere's legal inaccessibility. International providers of digital platforms profit disproportionately from the digitalization trend, failing to assume responsibility for its domestic repercussions or contribute significantly to tax revenue (Safuan et al., 2022).

The law's inherently conservative function is to uphold the status quo and even encourage the community's desired process of change. In Indonesia, laws play a more significant role in the process of legal reform than, say, in the United States, where jurisprudence—particularly Supreme Court rulings—is given more weight (Khan and Nuryanah, 2023).

Regarding the goal and operation of the state, Jacobsen and Lipman contended that a tax collecting system is a vital component, that is, a function required for the state to exist or continue. In addition to being required, citizens have the right to pay taxes so that they can take part in national development and state funding. Thus, the implementation of each citizen's rights and obligations depends in large part on the creation of sound tax legislation.

Principles refer to a set of truths that assume the status of normative authority and a fundamental tenet or pedestal of thought in the development of tax legislation and tax collection (Juhaeni, 2011).

The idea is then developed further in consideration of how the ever-present nature of information technology impacts not only the taxing industry but also people's everyday lives. In 1998, there were five criteria for taxation that should be applied to internet commerce: flexibility, effectiveness and fairness, certainty and simplicity, efficiency, and neutrality. Electronic Commerce: Taxation Framework Conditions was the title of the report published by the OECD in 2011. Devereux et al. (2021) said that international taxation that lays out five important criteria for international corporate profit taxation: equity, efficiency, resistance to avoidance, simplicity of administration, and compatibility with incentives.

In order to ensure the fairness of a global tax on business profits, three conditions must be met: firstly, all income, including business profits, must be subject to the same taxes as citizens of that nation; secondly, nations must receive an adequate portion of the funds generated from profits taxes to finance public goods and services; and thirdly, businesses operating in the same market must be able to compete in an equitable manner. Promoting fair competition among corporate participants in the same market requires that administrative and compliance expenses for taxpayers and tax authorities be reduced so as to maintain economic efficiency.

Efficacy and fairness should underpin any disparities in taxation, and a continuity approach is essential for designing a system that taxes comparable incomes uniformly (Devereux, 2021). Since many taxpayers try to minimize their tax liabilities by avoiding paying taxes, robustness to avoidance is a necessary condition.

Administrative simplification, or the belief that taxes should be levied with minimal initial expenditure for both the state and its citizens. The typical costs associated with preparing, reviewing, auditing, collecting, and resolving tax returns are covered by these expenditures. Economic actors can maximize their performance while complying with the rules set out by the legal framework in which their firm functions, according to the concept of incentive compatibility. If a certain tax system is adopted by one or more countries, it will encourage other nations to do the same. Countries using the same system shouldn't be incentivized to set lower rates than other countries using the same system (Devereux 2021).

Regarding tax imposition initiatives, these concepts serve as the foundation for the development of tax law regulations in the age of economic digitization. While it is possible to elucidate the theoretical underpinnings of contemporary legislative and legal policies in Indonesia through the lens of Western terminology and theories, the practical legal understanding of Indonesia was ultimately formed by its citizens in reaction to pressing circumstances and historical considerations (Safuan et al., 2022).

Within the purview of the rule are the foreign online media outlets with an office in Indonesia. The vast scope, intricate architecture, and ever-evolving character of the digital ecosystem make the urgent need for a tax law concept that manages these issues holistically all the more pressing (Mahpudin et al., 2022).

4. Conclusions

These circumstances show how urgent it is to change Indonesia's national tax code right now. In conclusion, there are two main reasons why the country's tax laws need updating. Firstly, the government has shown its intent to overhaul the system by passing new laws at a rapid pace. The legislation that has been enacted thus far serves as evidence of the government's indecisiveness and inconsistent methodology in shaping tax policy for the medium and long term. Furthermore, new tax rules are created on the fly, which results in numerous adjustments to the same concerns within a short period of time. Because they completely and imperfectly govern matters, such modifications produce legal uncertainty.

Second, the inclusion of a significant digital presence as a prerequisite for permanent establishment demonstrates that the government is attempting to levy taxes on digital platform companies. ensuring legal clarity by harmonizing the definition and concept of permanent establishment as outlined in Law Number 2 of 2020 with that of the Income Tax Law.

Third, legal developments must keep pace with the quick advancement of information technology. It is understood that the role of law will always have a place as long as the desired changes in society are implemented in an orderly manner (Eka, 2019). The goal of the tax law is to reduce the amount of money that the state may otherwise get from the digital tax industry.

Fourth, in order to adapt to the ongoing worldwide tax reforms being created by the Organization for Economic Cooperation and Development Consensus, national tax reforms are required. Since Pillar One will go into effect in 2024, national legal requirements will need to be adjusted in order to carry out these obligations.

Based on the reasoning provided earlier, the Indonesian government needs to conduct a comprehensive study and draw up a plan for the country's tax regulations in the medium to long term if it wants to establish tax laws and regulations that are fair, efficient, easy to administer, resistant to avoidance, and compatible with incentives for both domestic and foreign taxpayers. Many believe that this tax reform will help Indonesia achieve tax sovereignty and lessen the chances of disputes with foreign countries over taxes (Mayasari et al., 2020).

For Indonesia, taxes serve a crucial purpose since they provide the money needed to pay for regular national expenses. Occasionally, the Indonesian government endeavors to enhance state revenue from the tax domain by diverse measures, such as enacting tax reforms on tax regulations to accommodate evolving demands. Regrettably, despite several tax reforms, there has been insufficient growth in state revenue. Moreover, the mechanisms established by Indonesia's tax legislation have failed to effectively accommodate the swift progression of economic digitalization, notwithstanding the immense potential that digital activity presents that warrants complete exploitation. This study clarifies the need for national tax reform in the digital age as well as the history of tax reform prior to this period (Eka, 2019).

In light of the economy's digital transformation, these essentially antiquated tax laws now need to be updated (Mahpudin et al., 2022).

The way individuals use technology has changed fundamentally in the modern era due to advancements in information and communication technologies. It is the interdependence of the digital and physical realms that distinguishes the Fourth Industrial Revolution from its predecessors (Safuan et al., 2022). The characteristic of the 4.0 Industrial Revolution, as it pertains to the development of human knowledge, is the borderless style of mind (Harnad, 1991). As a result of the societal and economic shifts brought about by digitization, over-the-top (OTT) services have grown at a rapid pace (OECD, 2019a).

Through platforms including communication services, creative content outlets, app stores, social media, search engines, and marketplaces, OTT makes it easier to offer goods or services to consumers who were not previously aware of them in traditional corporate structures (OECD, 2019b).

OTT has gained immense popularity globally because to its ability to simplify a great deal of people's daily tasks. OTT is frequently likened to a public facility that is offered without charge to all users. All throughout the world, people can now take advantage of the over-the-top (OTT) provider's free technology and data storage capabilities. The more users an OTT has, the more data they collect on user behavior, which benefits them unknowingly. After that moment, the OTT company's potential earnings are directly proportional to the sophistication of their AI algorithms and products (Bornflight).

Online video services (OTT) use a variety of business models to generate money. Users pay for downloaded products in a variety of models, including those that rely on advertisements, subscriptions, and digital content providers (OECD, 2015). As an illustration, Google Adwords is the source of the company's largest revenue (Sudibyo, 2021). What makes Google Adwords possible is Google's ability to develop a crowd. A crowd consists of people who use Google as a search engine to find news, data, or information. Google primarily compiles this news, information, and data from other sources, such national online journalistic media sites, rather than producing it itself. Thanks to Google, everyone can access big data (Faeni, 2023).

Under these terms, Google can obliquely alter news reports authored by journalists and editors from other media while maintaining its editorial framework and not having to pay them. In a similar vein, Facebook does not require journalists because all of its "journalists" are regular users of Facebook profiles that actively distribute content via them. This technique of aggregation occurs automatically, without any agreements with content proprietors.

In this regard, the OTT industry has altered the trajectory of a nation's national news medium. Google gains more revenue the more people use its services to obtain information because information access generates traffic, which is subsequently turned into revenue by selling online user behavior data to marketers and other businesses (Faeni, 2023).

Global trends indicate that social media and search engines generate enormous profits, substantially undermining the earnings of traditional journalism, which also supports the search engine and social media businesses. According to certain data, over 70% of internet users first use search engines to indirectly access news portals. Search engines, on the other hand, rely on the daily news production output of journalistic media. However, as media businesses, both parties compete with one another for popularity and advertising. Search engine companies have won the majority of this rivalry.

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