

Effectiveness of Regulations for Collecting Income Tax From E-Commerce Transactions Through Social Media Tax Fairness For MSMEs

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ABSTRACT

The information technology revolution has changed the face of global trade, including in Indonesia. Rapid advances in digital technology have had a significant impact on the national trading system, where buying and selling activities are no longer limited to conventional trade but have developed into electronic-based trade transactions. This study analyzes the effectiveness of regulations on the collection of income tax from e-commerce transactions via social media on tax fairness for MSMEs in Indonesia. The evolution of e-commerce tax regulations shows a gradual development from the 2021 HPP Law to PMK 37/2025, but there are still significant legal gaps in the regulation of transactions via social media platforms such as Instagram, Facebook, and WhatsApp Business. Using a normative legal research method with a legislative and conceptual approach, this study applies Soerjono Soekanto's theory of legal effectiveness and John Rawls' theory of justice as analytical tools. The findings indicate that PMK 37/2025 is ineffective in reaching social media transactions due to the informal characteristics of these platforms that enable transactions without formal registration, payments through personal transfers, and communication via private chats. This regulatory gap creates distributive injustice that disadvantages traditional MSMEs, who are bound by strict tax obligations while competitors on social media can avoid tax burdens. Soekanto's theoretical analysis shows the regulation fails to meet the implementability criteria for the social media segment, while Rawls' theory identifies violations of equality and reasonableness principles that create unfair competition. The study concludes that comprehensive regulation combining technological automation with procedural simplification is necessary to achieve equitable competitive conditions for all business actors.

Keywords: E-Commerce Tax, Social Media, Tax Fairness

Introduction

Taxes are compulsory contributions from individuals or business entities, imposed by law, without direct compensation, and intended for the benefit of the state and for the welfare of the wider community (Putri, AK, & Taun, T,2023). The majority of state revenue in Indonesia comes from taxes, which constitute one of the largest contributors to national income. The obligation to pay taxes reflects the responsibility of citizens and the active participation of taxpayers (WP) in supporting state financing and national development. More than just an obligation, paying taxes is a right for every citizen to contribute to the needs of the state and national development efforts (Cucumandalin, GO, & Arsadi, IMSW,2021). The tax philosophy emphasizes that paying taxes is not only a legal obligation but also a concrete manifestation of public participation in supporting and advancing the national economy (Karta, HS, & Yunita, E,2022). As an integral part of the state's financial structure, tax collection plays a central role in ensuring the necessary funding to support various development programs and public services.

Tax collection is not merely an administrative activity but also a vital instrument in supporting economic sustainability and public welfare. Taxes in Indonesia are divided into

two main types: Income Tax (PPh) and Value Added Tax (VAT), both of which play a strategic role in supporting national development (Rangkuti, NK, Jauharani, NI, & Putri, IM, 2024). As a form of public participation in state financing, every individual who meets certain criteria is required to fulfill their tax obligations, including Individual Taxpayers (WP OP) (Cahyonowati, N, 2011). Fulfilling these obligations, particularly related to the obligation to pay and deposit taxes, is a crucial aspect in maintaining the continuity and sustainability of state finances. One of the main obligations that must be fulfilled by every Individual Taxpayer is the obligation to report and pay taxes in accordance with applicable regulations. This tax payment not only serves as a contribution to development but also a form of compliance with applicable laws. In this regard, the existence of a sound and transparent tax administration system is essential to ensure that Taxpayers can fulfill their obligations in a timely manner and in accordance with existing provisions.

The information technology revolution has transformed the face of global trade, including in Indonesia. The rapid advancement of digital technology has had a significant impact on the national trade system, where buying and selling activities are no longer limited to conventional commerce but have evolved into electronic-based commerce transactions. The rise of trade transactions through digital platforms poses new challenges in terms of regulations that serve as the legal umbrella for online commerce in Indonesia. As a nation governed by the rule of law, Indonesia has an obligation to respond appropriately to the development of information technology used as a means of conducting electronic commerce transactions. (Lukito, I, 2017) Electronic commerce (*e-commerce*) is defined as the use of electronic systems to conduct business transactions between organizations and individuals. This trading system makes it easier for consumers to shop without having to visit physical stores in person, but on the other hand, it creates vulnerability to income tax evasion practices because the amount of income is difficult to detect.

E-commerce transactions are highly attractive to businesses because they offer a variety of competitive advantages. These advantages include the ability to expand a global network of business partners, a broader marketing reach without geographical limitations, a higher level of physical transaction security, high operational effectiveness and efficiency, and flexibility in running a business (Agit, A., Wildayanti, W., & Oktavianti, O, 2024). However, the profits earned by online entrepreneurs must be balanced with the obligation to pay taxes to the state on income received from electronic commerce activities. *E-commerce businesses* with large incomes have the potential to contribute significantly to state revenue. Reality shows that trade transactions through electronic systems have significant potential to be subject to income tax in accordance with applicable tax regulations. The use of the internet is no longer limited to a means of communication or a source of information, but has evolved into the most effective medium for conducting business relationships and trade transactions.

Indonesia has demonstrated tremendous potential in the e-commerce sector and has the potential to become the largest tax contributor in Southeast Asia. Based on data released by Google and Temasek in October 2019, Indonesia ranks first in terms of e-commerce transaction value in Southeast Asia, reaching US\$21 billion (Kata Data, 2019). Future projections indicate that the value of Indonesian e-commerce transactions is predicted to experience exponential growth to US\$82 billion by 2025. The latest data shows that the value of *e-commerce transactions* in 2024 is estimated to reach US\$65 billion and is projected to exceed US\$150 billion by 2030 (Tempo.com, 2024). This very significant growth indicates the potential for significant tax revenue if taxation can be implemented optimally. However, to date there are no comprehensive regulations regarding the collection of income tax on entrepreneurs who earn income from transactions through social media, thus creating a significant legal vacuum.

The Indonesian government has attempted to accommodate e-commerce tax collection through various strategic regulations and policies. This effort began with the issuance of Presidential Regulation Number 74 of 2017 concerning the Roadmap for the National Electronic-Based Trading System (*E-commerce Roadmap*) for the 2017-2019 period, one of the programs of which is equal tax treatment by developing regulations that support the imposition of taxes on foreign and local e-commerce entrepreneurs. The implementation of this *roadmap* was realized through the issuance of Minister of Finance Regulation Number 210/PMK.010/2018 concerning Tax Treatment of Trading Through Electronic Systems (PMK 210/2018). However, unfortunately, this Minister of Finance regulation caused controversy and was ultimately revoked due to strong opposition from the Indonesian E-commerce Association (idEA). According to the *e-commerce association*, PMK 210/2018 did not include provisions related to trading transactions through social media and was deemed not ready for comprehensive implementation (Online Law, 2019). The revocation of this regulation created a prolonged legal vacuum in the regulation of *e-commerce tax collection*.

The regulatory vacuum that emerged after the revocation of PMK 210/2018 created a disparity in tax treatment that undermines the principle of fairness. This situation creates a significant gap between the tax obligations imposed on traditional MSMEs and *e-commerce entrepreneurs*, particularly those operating through social media platforms. Traditional MSMEs operating conventionally can easily be confirmed and audited by the Directorate General of Taxes, in contrast to e-commerce entrepreneurs whose presence and business activities are difficult to physically detect. This gap can lead to a mass migration of entrepreneurs from regulated marketplaces to social media platforms that lack clear tax regulations. The *self-assessment tax payment* system adopted by Indonesia creates a loophole for entrepreneurs conducting electronic transactions to evade tax payments. The Directorate General of Taxes' limited tax database for detecting potential entrepreneurs operating on social media further exacerbates this situation (Widodo, AA, & Sriwidodo, J, 2023).

The government's latest effort to address this legal gap is realized through the issuance of Minister of Finance Regulation Number 37 of 2025 concerning the Appointment of Other Parties as Income Tax Collectors and Procedures for Collecting, Remitting, and Reporting Income Tax Collected by Other Parties on Income Received or Obtained by Domestic Traders Through Electronic Trading Mechanisms (PMK 37/2025). The regulation, signed by Minister of Finance Sri Mulyani Indrawati on June 11, 2025, regulates the procedures for collecting, remitting, and reporting income tax collected by other parties on the income of domestic traders through electronic trading mechanisms (BBC Indonesia, 2025). The planned implementation of an automatic tax deduction of 0.5% of the income of e-commerce sellers with a turnover criteria of between IDR 500 million and IDR 4.8 billion per year is a strategic step to expand the digital tax base (Online Law, 2025). Although raising concerns regarding administrative and technical costs from industry players, this policy is expected to close the gap between the digital and conventional economies while strengthening state revenues in the long term. E-commerce platforms such as TikTok Shop, Tokopedia, Shopee, Lazada, Blibli, and Bukalapak will be the designated tax collectors under this mechanism.

Reality shows that state revenues have experienced significant pressure in recent periods. Ministry of Finance data shows that from January to May 2025, state revenues decreased by approximately 11.4% to IDR 995.3 trillion compared to the same period the previous year. This decline was caused by various factors, including low commodity prices, slowing economic growth, and disruptions to the tax administration system (Ministry of Finance, 2025). Meanwhile, Indonesia's digital economy continues to experience rapid growth, with the estimated value of merchandise reaching astronomical figures. The contrast between declining state revenues and the exponential growth of the digital economy

demonstrates the urgency of implementing effective and comprehensive e-commerce tax regulations. Many online sellers still fail to fulfill their tax rights and obligations, creating a significant gap between online and offline sellers. This situation demands regulations that can create fair and equal conditions for all business actors, both operating conventionally and digitally, to achieve true tax justice.

The problem of e-commerce tax collection requires a comprehensive theoretical approach to analyze the effectiveness of existing regulations. The theory of legal effectiveness proposed by Soerjono Soekanto provides an evaluation framework for the extent to which a group can achieve its goals, where a law is said to be effective if it is able to produce positive legal consequences in directing or changing human behavior into lawful behavior (Orlando, G., 2022). The effectiveness of law in the context of e-commerce taxation can be measured by the regulation's ability to regulate and enforce tax compliance among digital business actors, as well as how optimally the determining factors of the law's influence work in achieving the goal of fair tax collection. Furthermore, the concept of "*justice as fairness*" serves as a basis for analyzing disparities in tax treatment between traditional MSMEs and e-commerce entrepreneurs, where fairness is understood as an agreement that is acceptable and supported by all groups who have equal freedom without intimidation or pressure from certain parties. The principles of rationality, public sanity, freedom, and equality required by Rawls serve as parameters for evaluating whether existing e-commerce tax regulations have created true distributive justice (Handayani, I., Syara, SN, Garnita, S., & Fisailillah, L, 2025).

An analysis of the effectiveness of e-commerce tax collection on traditional MSMEs will utilize a justice theory framework to assess whether disparities in tax treatment have created systemic injustice that undermines the principles of *equality* and *equity* in taxation. This comprehensive theoretical approach can be applied to income tax collection on income received by entrepreneurs from sales on social media, ensuring an effective and comprehensive *e-commerce tax system*.

Methods Research

This research, also known as doctrinal research, focuses on the concept of law as regulated in legislation or as norms and rules that serve as guidelines in determining human behavior that is considered appropriate (Amiruddin & Zainal A, 2006). The research method used is the normative legal research method focused on the interpretation and analysis of legislation (*law in books*) which functions as a guideline for socially acceptable human behavior. This research is often known as theoretical legal research, where law is often interpreted as what is stated in the written legal framework (*law in books*) or as a normative guideline that serves as a reference in human behavior that is considered appropriate.

In this study, the author uses several approaches, namely the Statute Approach and the Conceptual Approach. Peter Mahmud explains that the statute approach is a method that utilizes legislation and regulations to understand relevant legal aspects and answer the legal issues being studied. This approach emphasizes the analysis and interpretation of laws and regulations related to the research topic, which aims to obtain a comprehensive understanding of the legal issues being discussed (Peter Mahmud Marzuki, 2014). The use of the Conceptual Approach in this study is carried out by examining, explaining and describing the principles that are inventoried and identified based on statutory regulations, then an analysis is carried out on related cases. By studying the views and doctrines in legal science, researchers will find ideas that give rise to legal definitions, legal concepts, and legal principles that are relevant to the issues being faced.

Results and Discussion

The Evolution of E-Commerce Tax Regulations in Indonesia

Tax regulations for the e-commerce sector in Indonesia have undergone significant transformation since the issuance of Law Number 7 of 2021 concerning the Harmonization of Tax Regulations (HPP Law). The HPP Law serves as the main foundation for strengthening digital economy tax regulations by establishing provisions regarding Income Tax (PPh) and Value Added Tax (VAT) applicable to e-commerce businesses. This regulation has the strategic objective of reaching foreign businesses that earn income from consumers in Indonesia, even if they do not have offices or business entities in the country. Strengthening aspects of digital taxation through the HPP Law demonstrates the government's commitment to ensuring that all businesses benefiting from the Indonesian market contribute to state tax revenue. It is important to note that the HPP Law was designed in response to the tax challenges of the digital era that could not be optimally addressed by previous conventional tax regulations.

The implementation of the HPP Law's mandate in the context of e-commerce is strengthened by the presence of Government Regulation Number 80 of 2019 concerning Trade Through Electronic Systems (PP 80/2019), which provides an operational basis for the implementation of digital commerce in Indonesia. PP 80/2019 is a legal instrument that comprehensively regulates various aspects of e-commerce, from definitions and transaction mechanisms to the obligations of parties involved in the digital commerce ecosystem (Putri, NTP, Saputra, R., Rachmat, LA, & Alfarizi, RS, 2022). This regulation provides legal certainty for e-commerce businesses by establishing a clear and measurable regulatory framework for conducting trade activities through electronic platforms. PP 80/2019 also serves as the legal basis for the government to supervise and control the increasingly massive e-commerce activity in Indonesia. The existence of this regulation is very strategic in creating a digital commerce ecosystem that is orderly and safe and provides protection to all parties involved.

The regulatory substance in PP 80/2019 provides a comprehensive definition and scope regarding electronic commerce, as then referred to in PMK 37/2025 Article 1 number 7 which states that:

"Trading Through Electronic Systems is trading where transactions are carried out through a series of electronic devices and procedures."

This provision provides clear boundaries regarding the scope of e-commerce, encompassing the entire transaction process, from bidding and negotiation to payment, conducted digitally. Government Regulation 80/2019 also regulates e-commerce providers, defined as business actors providing electronic communication facilities for trade transactions. Regulations regarding registration and licensing requirements for e-commerce providers are crucial aspects of this regulation. The oversight and control mechanisms established in Government Regulation 80/2019 authorize the government to monitor e-commerce activities for the benefit of consumer protection and national economic stability.

The taxation aspect of e-commerce is also expressly regulated in Article 8 of Government Regulation 80/2019, which states that "PMSE business activities are subject to tax provisions and mechanisms in accordance with statutory regulations." This provision provides a strong legal basis for the application of tax obligations to all e-commerce players, regardless of the platform or media used. Furthermore, Article 20 of Government Regulation 80/2019 regulates the obligations of business actors, including:

"Domestic traders and foreign traders who carry out PMSE using facilities owned by domestic PPMSE and/or foreign PPMSE are required to fulfill the terms and conditions of PPMSE in accordance with agreed service quality standards and provisions of laws and regulations."

These provisions cover the obligation to register as a taxpayer, submit a Tax Return (SPT), and pay taxes owed in accordance with the types and amounts stipulated in tax regulations. Government Regulation 80/2019 also regulates the obligation to store and report transaction data that can be used as a basis for calculating tax obligations. Regulations regarding administrative and criminal sanctions for perpetrators who violate tax provisions are also an integral part of this regulation to ensure compliance with tax obligations (Ramadayanti, E., Ramli, TS, & Muttaqin, Z, 2022). Therefore, Government Regulation 80/2019 provides a clear definition and scope of e-commerce, while specific tax regulations such as PMK 210/2018, which was later revoked, regulate the technical aspects of taxation.

The implementation of the mandate of the HPP Law in the context of electronic commerce was then formulated through other derivative regulations, starting with the issuance of Minister of Finance Regulation Number 210/PMK.010/2018 concerning Tax Treatment of Trade Through Electronic Systems (E-Commerce). PMK 210/2018 is the government's first concrete effort to regulate specific tax provisions related to e-commerce transactions, scheduled to take effect on April 1, 2019. The main objective of this regulation is to ensure equal treatment between conventional businesses and e-commerce businesses in terms of tax obligations. The regulation is designed to oversee marketplace platforms and covers all product and service vendors operating in the electronic commerce system (Cokorda Gede Budha Hary Baskara, 2024). The presence of PMK 210/2018 is essentially a strategic step to create a fair level playing field between traditional and digital businesses.

The implementation of PMK 210/2018 encountered serious obstacles that led to the regulation's revocation before its effective date. This revocation was triggered by strong resistance from the public and industry players, particularly the Indonesian E-commerce Association (idEA), which believed the regulation would result in the imposition of additional tariffs that would burden consumers. Growing public opinion stated that PMK 210/2018 would increase e-commerce transaction costs and reduce the competitiveness of domestic products. Suboptimal coordination between relevant ministries and institutions also hampered the regulation's implementation. On March 29, 2019, the Directorate General of Taxes issued PMK Number 31/PMK.010/2019, which officially revoked PMK 210/2018 to alleviate public confusion. This revocation created a prolonged legal vacuum in e-commerce taxation regulations.

The COVID-19 pandemic has become a catalyst for accelerating e-commerce tax regulations through the issuance of Government Regulation in Lieu of Law No. 2 of 2020 concerning Financial System Stability. The decline in state revenue due to the pandemic's impact prompted the government to optimize the potential for tax revenue from the digital sector, which experienced rapid growth during that period. This Perppu was then elaborated on through Minister of Finance Regulation No. 48/PMK.03/2020, which regulates the imposition of VAT on Electronic System Trading (PMSE). This regulation represents the government's effort to collect taxes on e-commerce transactions in response to the decline in state revenue and increased state spending due to the pandemic. PMK 48/2020 marks the beginning of a new era in Indonesia's digital taxation, focusing on the imposition of VAT on cross-border electronic transactions.

Data on the growth of Indonesian e-commerce transactions shows a dramatic acceleration in line with the issuance of Minister of Finance Regulation (PMK) 48/2020 as a fiscal policy response to the pandemic. Transaction value surged from IDR 205.5 trillion in 2019 to IDR 266.3 trillion in 2020, representing 29.6% growth, confirming the government's hypothesis that the digital sector is a potential source of tax revenue amidst the conventional economic contraction (Bank Indonesia, 2025). The spectacular surge in 2021, reaching IDR 401.1 trillion, representing 50.7% growth, demonstrates that lockdown policies and mobility

restrictions have accelerated the digital transformation of Indonesian trade. This momentum creates an opportunity for the implementation of PMK 48/2020, which targets optimizing VAT revenue from cross-border electronic transactions. Analysis of Soerjono Soekanto's legal effectiveness theory suggests that the timing of the issuance of e-commerce tax regulations, coinciding with the surge in digital transactions, creates ideal conditions for achieving the goal of increasing state revenue through transforming business behavior toward tax compliance.

The massive digitalization of MSMEs, reaching 30%, or 20.24 million business units, in 2022 indicates a structural shift in the Indonesian economy toward digital platforms, requiring fundamental adjustments to the tax framework. The transformation of 22% of MSMEs to the digital realm in early 2022, which then increased to 30% within eight months, represents an increase in technology adoption not anticipated by Minister of Finance Regulation 48/2020 or its successor, Minister of Finance Regulation 60/2022. This data confirms that most domestic e-commerce businesses operate outside the scope of existing tax regulations, as both PMKs focus on cross-border transactions, while the majority of digital MSMEs serve the domestic market.

The next evolution occurred with the issuance of Minister of Finance Regulation Number 60/PMK.03/2022, which replaced Minister of Finance Regulation 48/PMK.03/2020 after its expiry date. PMK 60/2022 is a refinement of the previous regulation, adapting to the dynamics of digital economic development and lessons learned from the implementation of PMK 48/2020. This change demonstrates the government's continued efforts to adapt tax regulations to the characteristics and needs of the evolving e-commerce sector. This regulation specifically addresses the exchange of Taxable Services (JKP) and Intangible Taxable Goods (BKP) between domestic and foreign vendors. The relatively short timeframe for the changes, just two years, indicates that the government is still in the process of finding the right formula for effective and equitable e-commerce taxation.

The latest development in the evolution of e-commerce tax regulations is marked by the issuance of Minister of Finance Regulation Number 37 of 2025 concerning the Appointment of Other Parties as Income Tax Collectors. This regulation, signed by Minister of Finance Sri Mulyani Indrawati on June 11, 2025, regulates the procedures for collecting, depositing, and reporting income tax collected by other parties on the income of domestic traders through electronic systems. PMK 37/2025 implements an automatic tax deduction mechanism of 0.5% of e-commerce seller revenue with the criteria of turnover between IDR 500 million and IDR 4.8 billion per year. This regulation is a strategic step to expand the digital tax base by appointing e-commerce platforms such as TikTok Shop, Tokopedia, Shopee, Lazada, Blibli, and Bukalapak as tax collectors. This approach demonstrates a paradigm shift from a self-assessment system to a withholding tax system in e-commerce taxation.

The evolution of e-commerce tax regulations in Indonesia demonstrates a dynamic pattern of adaptation to implementation challenges and resistance from various stakeholders. The transition from the revoked Ministerial Regulation (PMK) 210/2018 to the current PMK 37/2025 illustrates the government's learning process in designing regulations that are acceptable to the public and industry players. The shift in focus from comprehensive regulations to a phased approach through the separate imposition of VAT and Income Tax demonstrates the strategy in implementing digital tax policy. This evolution also reflects the government's efforts to strike a balance between increasing state revenues and maintaining a favorable investment climate and the competitiveness of the digital economy. The complexity of this regulatory evolution underscores the importance of effective coordination between institutions and constructive dialogue with all stakeholders to achieve effective and equitable e-commerce tax regulations.

The entire evolutionary journey of e-commerce tax regulations in Indonesia, from the 2021 HPP Law to PMK 37/2025, demonstrates the transformation of the tax paradigm from a conventional approach to comprehensive digitalization. This evolutionary process reflects the government's ongoing learning in addressing the challenges of digital-era taxation, ranging from social resistance and institutional coordination to the need for adequate legal certainty. The implementation of PMK 37/2025 as the latest regulation is expected to address the prolonged legal vacuum and create a stable and sustainable e-commerce tax framework. This evolution also demonstrates the government's commitment to continuously adapting regulations in accordance with the dynamics of technological developments and the needs of the national economy. The successful implementation of PMK 37/2025 will be an important indicator of the effectiveness of the evolution of Indonesia's e-commerce tax regulations in achieving the goals of increasing state revenue and tax fairness.

The Effectiveness of E-Commerce Tax Collection on Traditional MSMEs

Taxation in the digital era presents a fundamental challenge to realizing distributive justice, as conceptualized by John Rawls, that the distribution of resources and burdens in society must be structured to provide the greatest benefit to the least advantaged. Rawls emphasized that social and economic inequality can only be justified if it benefits the weakest in society and is open to all under conditions of equal opportunity. The difference in tax treatment between traditional MSMEs and e-commerce entrepreneurs reflects a structural imbalance that contradicts the principles of equality and reasonableness, the foundations of Rawlsian justice. Traditional MSMEs operating physically face easy identification and oversight by tax authorities, while e-commerce entrepreneurs transacting through social media have a competitive advantage in the form of difficult detection and minimal systematic oversight. This inequality creates conditions that do not meet the requirements of a fair agreement because not all parties are on equal footing in fulfilling their tax obligations. The current implementation of PMK 37/2025 is a corrective effort to address this systemic injustice through an automatic withholding mechanism that reduces loopholes for tax avoidance in the digital sector. The presence of this regulation marks a transformation of the taxation paradigm from a self-assessment approach that is vulnerable to manipulation to a withholding tax system that is more reliable in ensuring taxpayer compliance.

PMK 37/2025 presents a legal framework that theoretically fulfills most of the criteria for legal effectiveness according to Soerjono Soekanto, particularly in terms of clarity of substance and the ability to implement it as an enforceable law. Article 3 paragraph (1) of PMK 37/2025 firmly states that:

"Other parties appointed as Article 22 Income Tax Collectors are required to collect Article 22 Income Tax on income received or obtained by Traders in the context of PMSE."

This provision provides legal certainty regarding the subjects and objects of tax collection which previously experienced a regulatory vacuum. Article 4 paragraph (1) further regulates the technical mechanism by stating that:

"Article 22 Income Tax is collected by deducting 0.5% (zero point five percent) from the gross income received or obtained by Traders."

The precision in formulating tariffs and collection mechanisms reflects the regulator's efforts to create rules that can be consistently implemented. Reliability in implementation is guaranteed through Article 8, which stipulates monthly reporting obligations by collectors, thus creating a measurable control system. This regulation also demonstrates its feasibility for compliance, as the 0.5% tariff is relatively modest compared to the administrative burden faced by businesses under the self-assessment system.

An analysis of the effectiveness of the determinants of legal influence in PMK 37/2025 shows the potential for success in changing the behavior of e-commerce business actors towards higher tax compliance. The withholding tax mechanism regulated in Article 4 creates an automation of collection that reduces dependence on subjective taxpayer awareness, an approach that aligns with Soekanto's theory of effectiveness, which emphasizes the importance of external determinants in achieving legal objectives. The designation of e-commerce platforms as state revenue through Article 2 paragraph (2) which states "The Appointment of Other Parties as Collectors of Article 22 Income Tax is stipulated by a Ministerial Decree" provides flexibility for the government to expand the scope of collection in accordance with the dynamics of digital platform developments. Regulatory efficiency is reflected in its ability to overcome the fundamental weaknesses of the self-assessment system that allow tax avoidance through underreporting or non-reporting of income. The implementation of PMK 37/2025 is expected to increase the tax compliance ratio of the e-commerce sector which was previously below 50% to a level comparable to the conventional sector. The success of this regulation in achieving the goal of increasing tax revenue will be a key indicator of the effectiveness of Indonesia's digital tax law.

The impact of PMK 37/2025 on digital MSMEs demonstrates a duality between administrative simplification and financial pressure that requires a thorough evaluation from a Rawlsian justice perspective. The automatic deduction of Article 22 Income Tax of 0.5% reduces sellers cash flow because the tax is deducted before funds are deposited into their accounts, but provides administrative convenience because traders no longer need to pay final income tax independently each month. GNV Consulting Senior Tax Manager Terananda Prastiti Anggaraita emphasized that unpreparedness among MSMEs and marketplaces can reduce the effectiveness of tax collection and lead to suboptimal state revenue targets (Pajak.com, 2025). Mistakes in payment have the potential to result in administrative sanctions that can impact the continuity of MSME businesses, especially for those who do not fully understand the mechanism for collecting Article 22 Income Tax. DGT data shows that in 2024, only around 653,000 of the 1.6 million MSME taxpayers paid final income tax, indicating that more than 900,000 online businesses have not contributed to the state budget despite their massive economic activity. PMK 37/2025 is expected to improve compliance through a more systematic tax withholding mechanism, thereby creating fairer conditions between digital and conventional businesses in fulfilling their tax obligations.

Although PMK 37/2025 represents significant progress in digital taxation, its implementation faces fundamental challenges in reaching trade transactions through social media, which in fact constitute the biggest loophole for income tax avoidance. This regulation only covers formal e-commerce platforms with integrated payment systems, such as Tokopedia, Shopee, and Lazada, while transactions through Instagram, Facebook Marketplace, WhatsApp Business, and live streaming on TikTok remain outside the scope of tax oversight. Using Soekanto's theory of legal effectiveness, PMK 37/2025 fails to meet the criteria of "applicability as an enforceable law" for the social media segment because it cannot cover the majority of digital transactions occurring on these platforms. The unique characteristics of social media transactions involving personal accounts, off-platform payments via direct bank transfers or e-wallets, and communication via direct messages create oversight complexities not anticipated in PMK 37/2025.

This gap in social media tax regulations creates systemic injustice that harms traditional MSMEs, according to Rawls's theory of justice. Traditional MSMEs that sell offline or through formal marketplaces are bound by strict tax obligations and are now subject to automatic deductions under PMK 37/2025, while their competitors who switch to social media can avoid the tax burden entirely. The principle of equality in Rawls's theory is violated

when two groups of business actors with the same economic capacity receive different tax treatment simply because of the differences in the platforms they use. Small sellers may have switched from marketplaces to Instagram and WhatsApp Business to avoid various costs, including taxes, creating unfair competition where tax-compliant traditional MSMEs must compete with social media businesses that can offer more competitive prices because they are not burdened by tax obligations.

The ease of transactions on social media is actually a major challenge in tax collection due to its informal nature and direct connection to sellers without a registration process. For example, through Facebook, buyers can directly chat with sellers through their regular personal accounts, bargain via Messenger, then pay via ATM transfer or meet in person for COD (Cash on Delivery), and no one knows whether this is a business transaction or not. Furthermore, using WhatsApp Business is even simpler: sellers simply change their status to “business,” create a catalog, then broadcast to all contacts, and buyers simply chat, agree on a price, transfer to the seller’s personal account, and done. Instagram is the same: sellers post product photos in Stories or their regular feed, buyers comment or DM, negotiate the price in private chat, and pay directly to a personal account. All of this happens without a formal recording system, without invoices, without sales reports, and most importantly, without the need to register as an “official seller” like on Tokopedia or Shopee, which require uploading ID cards and business documents.

Addressing the limitations of PMK 37/2025 in addressing social media transactions requires regulations that meet the criteria for legal effectiveness according to Soekanto’s theory. Effectiveness theory emphasizes that effective laws must have clear substance, consistency without internal contradictions, and enforceability. Social media regulations must be designed with a collection mechanism that does not depend on the subjective awareness of taxpayers, given the personal and distributed nature of social media transactions. The determinants of legal influence in this context must be able to operate automatically without the need for integrated platform infrastructure such as formal marketplaces. Reliability of implementation is key, as regulations must be able to operate even if transactions are conducted through various channels such as direct messages, personal bank transfers, or off-platform payment systems.

From the perspective of Rawls’s theory of justice, social media regulation must meet the principle of justice as fairness by creating agreements acceptable to all parties without platform discrimination. The principle of equality requires that all business actors with the same economic capacity receive identical tax treatment, regardless of the transaction medium used. Fair regulations must apply rates and mechanisms proportional to the economic capacity of business actors, not based on the sophistication of the platform used. The principle of rationality demands that regulations be designed based on objective economic considerations, where administrative burdens and compliance costs must not exceed the benefits obtained. Public sanity (reasonableness) requires that collection mechanisms be understandable and implementable by small business actors who generally dominate social media transactions.

Implementing regulations that meet both theoretical frameworks requires an approach that combines technological automation with procedural simplification. Soekanto’s effectiveness theory suggests that regulations must have a strong external influence to shift the behavior of social media businesses toward tax compliance. This can be achieved through a system integrated with existing digital financial infrastructure, allowing for automated collection without relying on the social media platforms themselves. Meanwhile, Rawls’s theory of justice emphasizes that regulations must create conditions where traditional MSMEs and social media businesses are on equal competitive footing. The success of these regulations

is measured not only by increased tax revenue but also by the creation of equal competitive conditions that allow all businesses to compete fairly regardless of the platform or transaction medium used.

Conclusion

The evolution of e-commerce tax regulations in Indonesia shows gradual progress but is not yet comprehensive in covering the entire digital commerce ecosystem. The journey from the 2021 HPP Law, Government Regulation 80/2019, the revoked Minister of Finance Regulation 210/2018, to PMK 37/2025 reflects the government's efforts to respond to the dynamics of the digital economy. However, significant gaps remain in regulating transactions via social media. PMK 37/2025, as the latest regulation, successfully regulates formal e-commerce platforms like Tokopedia and Shopee with a 0.5% withholding tax mechanism, but fails to address the unique characteristics of social media platforms like Instagram, Facebook, and WhatsApp Business, which enable informal transactions without formal registration. This legal vacuum creates a systematic loophole where millions of businesses can transact through personal chats, personal bank transfers, and cash-on-delivery (COD) without a digital footprint that can be monitored by tax authorities.

The effectiveness of e-commerce tax collection currently creates distributive injustice that is detrimental to traditional MSMEs, where those operating offline or through formal marketplaces are bound by strict tax obligations while competitors on social media can avoid the tax burden entirely. Based on Soekanto's effectiveness theory analysis, existing regulations do not meet the criteria of implementability for the social media segment because they lack the determinants of influence capable of changing the behavior of informal business actors. Meanwhile, Rawls's theory of justice shows that this disparity in tax treatment violates the principles of equality and reasonableness, creating unfair competition where tax-compliant traditional MSMEs must compete with social media businesses that can offer more competitive prices. To achieve true tax justice, comprehensive regulations are needed that combine technological automation with procedural simplification, so that equal competitive conditions are achieved for all business actors regardless of the platform or transaction media used.

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