Bank as a Value Added Tax (VAT) Collector: A Real-time Solution for Improving VAT Collection in Digital Economy - A Case Study in Indonesia

Hadining Kusumastuti
Tax Administration Laboratory, Vocational Education Program, Universitas Indonesia

Keywords: VAT Collector, Digital Economy, Ease of Administration

Abstract: The raising of digital economic transactions poses its challenges for the Government of Indonesia (GoI) in taxing digital transactions, especially in the Value Added Tax (VAT) collection mechanism. The sustainability of VAT as a valid source of income is very dependent on the ability of GoI to enforce the rules and collect VAT effectively on the transaction concerned or has the potential to be subject to VAT. Several studies have been conducted by involving Financial Institutions as third parties appointed as VAT Collectors by utilizing the development of technology platforms. This paper focuses on the study of the possibility of involving the bank as a Financial Institution acting as a VAT Collector in Indonesia involving digital transactions in terms of the ease of administration principle. The research methodology uses descriptive analysis, data collection obtained from documentation studies and literature reviews. The results of the discussion indicate that technology platform readiness is needed to facilitate the appointment of the Bank as VAT collector and the potential imposition of VAT collection fees on the bank's customers.

1 INTRODUCTION

The digital economy has revolutionized many aspects of our lives, and it is increasingly becoming the economy itself. One of the critical components of the digital economy is the electronic commerce (E-commerce) which is defined as "the sale or purchase of goods and services conducted over computer networks by methods specifically to receive or place of orders". The spread of the internet and digital payments, the number of digital buyers is progressively growing; e-commerce enables companies to establish their presence on the market at a national level and also to extend their business across borders. (Testa, 2016)

The development of the digital economy has raised numerous issues from a tax perspective. In particular, the increased businesses and consumers mobility, the development of new business models, the reliance of data, which are some of the characteristics of the digital economy, are challenging traditional tax systems. Action 1 of the base erosion and profit shifting (BEPS) project launched by the Organization for Economic Cooperation and Development (OECD) is aimed at addressing these challenges. According to the OECD, the growth of online B2C cross-border trade of goods and services is challenging the traditional VAT systems. (Testa, 2016)

Sourcing at least some e-commerce sales on a destination basis are problematic, and strong rule-based administrative efforts could generate new distortions. (David R. Agrawal, 2016) For example, defining the places of sale and use for digitized products can be difficult and e-commerce often shifts tax compliance from the vendor to the buyer, facilitating tax revenue leakages. The destination could be determined by the billing address of a credit card, but this is easily evaded with electronic cash and other mechanisms. Issues of cross-border shopping and mail-order catalogues have long challenged administration of indirect taxes on a destination basis. (Agrawal & Fox, 2016)

Based on this background, this paper focuses on the possibilities of involving Bank as VAT Collector, as intermediaries between supplier and consumer, for e-commerce transactions which are part of the growing digital transactions nowadays in terms of ease of administration principle. Study case in Indonesia by referring to current banking and tax regulations.

Kusumastuti, H.
Bank as a Value Added Tax (VAT) Collector: A Real-time Solution for Improving VAT Collection in Digital Economy - A Case Study in Indonesia.
DOI: 10.5220/0010026400002967
In *Proceedings of the 4th International Conference of Vocational Higher Education (ICVHE 2019) - Empowering Human Capital Towards Sustainable 4.0 Industry*, pages 9-13
ISBN: 978-989-758-530-2; ISSN: 2184-9870

2 RESEARCH QUESTIONS

The research questions of this paper are:

a. What is the background problem about the possibility appointed bank as VAT Collector?
b. How is the possibility involving bank as VAT Collector based on Indonesia's regulation?
c. What are the challenges Appointed Bank as VAT Collector in terms of Ease of Administration Principle?

3 RESEARCH URGENCY

This research has an urgency for some parties, namely:

a. Government

For the government, this study is expected to provide input about the possibilities to raise the GoI's revenue in VAT sector from digital economy transactions through a bank as one of the financial institutions.

b. Taxpayers

From this research is expected to provide knowledge tax arising in a digital economy transaction, especially VAT in e-commerce transactions.

4 LITERATURE

4.1 Digital Market

The defining characteristics of digital markets according to the OECD Model (OECD, 2015):

a. Direct network effects: In digital markets, utility from the consumption of a specific good or service is often dependent on the number of other end-users consuming the same good or service.
b. Indirect network effects: *indirect* network effects arise in the context of multi-sided markets. They occur when a specific group of end-users (e.g., users of a social network) benefit from interacting with another group of end-users (e.g., advertisers on a social network), for instance, via an online platform, for example, accommodation rental, transportation or peer-to-peer e-commerce.
c. Economies of scale: In many cases, the production of digital goods and services entails relatively higher fixed costs and lower variable costs. Software development, for instance, requires considerable investments in infrastructure and human labour; however, once the final program has been developed, it can be maintained, sold, or distributed at meagre marginal costs.
d. Switching costs and lock-in effects: Digital transactions can be carried out on different electronic devices; however, end-user devices often rely on different operating systems. As a result, customers may be locked-in to a particular operating system once they have acquired a specific device. This effect is due to psychological as well as monetary switching costs which end-users must incur to switch from one system to another.
e. Complementarity: Many of the goods and services traded in digital markets are complements; that is to say, customers derive more utility from consuming two (or more) complementary goods together.

4.2 Ease of Administration Principle

There are three basic principles in an ideal taxation system: Revenue Productivity, this principle is related to the interests of the government, which makes tax as a source of state revenue. Equity / Equality, this principle states that there must be fairness in every tax collection carried out by the government, it can be interpreted that the tax collected in accordance with the economic capabilities possessed by each taxpayer. Ease of Administration is an especially important principle in the tax collection system. This principle affects the level of public awareness in carrying out every tax obligation. There are several indicators in the principle of ease of administration: Certainty, stating that there must be certainty from taxpayers and tax authorities regarding tax subjects, tax objects, the basis of taxation, tariffs and how the taxation procedures are. Efficiency, in terms of Fiscus: The cost of conducting supervision and administration of taxpayers is relatively low. In terms of taxpayers: The cost of carrying out tax obligations is relatively low. The convenience of payment, taxes are collected at the right time (Pay As You Earn). Determination of the due date of tax payment. Payment procedure: Simplicity, easy to carry out and not complicated. These principles can be described simply as an equilateral triangle. (Arianty, 2017)

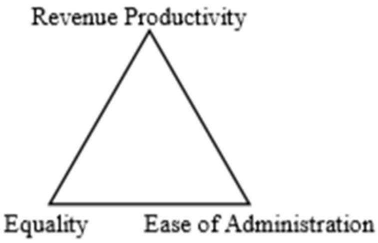

Figure 1: Principle in an ideal tax system (Rosdiana, 2012)

5 METHODOLOGY

The research method used is descriptive. The collection of data in the form of secondary data. The secondary data obtained through the search of various literature and documents.

6 RESULT AND DISCUSSION

The results of this research are discussed in the below paragraph:

6.1 The Background Problem about the Possibility Appointed Bank as VAT Collector

VAT is a general tax on consumption which means that in principle all supplies of goods or services made by taxable persons for consideration are subject to it. The tax must be charged at each stage in the production and distribution chain and generally the vendor is responsible for the correct calculation, collection, and remission of the VAT on his supplies (Vendor collection model). In contrary with e-commerce transaction, there are intermediaries between supplier and consumer, that is a marketplace (like Amazon, Alibaba, Asos, Bukalapak, Shoppee and Tokopedia).

Some of the VAT issues that international e-commerce raises include tax administration problems posed by e-commerce. A tax invoice is a primary instrument of a transaction that is liable to VAT. According to Rosenberg (2008), e-commerce brings with it a paperless environment, hence, many traders may not be issuing paper invoices and transactions may not be easily traceable. (Patel, 2014)

Existing VAT collection mechanisms are in dire need of modernization, in that they are inefficient and increasingly burdensome on revenue authorities and suppliers. Some observers have proposed the use of financial institutions as VAT collectors and technology to facilitate their task. The OECD conclusion that VAT collection by financial institutions is not a viable option is based on resistance and objections raised by financial institutions coupled with the general international perception of the banker-customer relationship as regards customer privacy when the proposal was considered. Doernberg and Hinnekens argue that withholding taxes by financial institutions should be a method of last resort if the registration of non-resident vendors turns out to be ineffective VAT accountability and collection too. Recent technological advances, and a shift in VAT collection trends at the local level, warrant further research into the viability of VAT collection by financial institutions in the case of cross-border digital trade. (Zyl & Schulze, 2014)

What was clear since the beginning was that online transactions, like those marketplaces, had to be subject to VAT in the same way as conventional supplies. This situation is ideal by the nature of VAT as a general tax on consumption, which means that all supplies of goods or services made by taxable persons for consideration should be subject to it. (Testa, 2016) However, taxing VAT to online transactions is hard to do. It is because online transactions are way different from conventional. Those marketplaces as intermediaries are coming from not only from Indonesia like Bukalapak, Shopee, and Tokopedia, but also coming from outside Indonesia like Amazon from the United States and Asos from the United Kingdom, so it is impossible for this marketplace appointed as VAT Collector because they are not Indonesian Tax Payer.

6.2 The Possibility Involving Bank as VAT Collector based on Indonesia's Regulation

The basis of this model is to collect VAT on each transaction through an electronic payment system at the point at which it is traded - for example, a credit card system - based on the location of the customer and the VAT rules applicable in that jurisdiction. In other words, the customer is immediately assessed when the transaction is entered, and the VAT payable is transferred to the relevant revenue authority without delay. This transaction is typically achieved when the supplier submits the customer's credit card or other payment details to the customer's bank or credit card company. The bank or company then identifies and locates the customer’s place of residence or establishment. Details of the transaction - the purchase price and type of supply - are transmitted to the financial institution to enable it correctly to assess the transaction based on the VAT rules applicable in the jurisdiction where the customer resides, is established, or has a permanent address. The amount payable by the customer is the final amount inclusive of VAT. A split-payment system separates the payment in two: the purchase price is transferred into the supplier’ s bank account while VAT is transferred to the relevant revenue authority. (Zyl & Schulze, 2014)

Based on Indonesia’s Banking Regulation Law No. 10 in 1997 about Banking, due to tax purpose, stated in article 41 verse 1. For tax purpose, the leadership of Bank Indonesia at the request of the Minister Finance has the authority to issue a written order to the bank to give a statement and show written evidence and letters concerning the financial condition of specific Depositing Customers to tax officials.”. This law reinforced by the issuance of Government Regulation on the successor to Law no.1 of 2017 about Access to Financial Information for Tax Purpose. Bank for tax purpose can request to state the financial condition of individual customers to tax officials, so there is a possibility to have engaged between DGT and Bank Institution to collect VAT Revenue from e-commerce transaction.

6.3 The Raising Challenges by Appointed Bank as VAT Collector in Terms of Ease of Administration Principle

Simplified VAT collection where the destination principle applies, financial institutions tasked with VAT collection, are only required to account for VAT in the jurisdiction where they are established. VAT collection is consequently simplified to the extent that the financial institution applies a single set of VAT rules. This rule should be contrasted against the registration method where suppliers, as VAT collectors, are required to register in multiple jurisdictions and are further required to apply multiple VAT rules. It should, however, be noted that a customer can hold a bank account with a financial institution not established in the jurisdiction in which he resides. In these cases, the financial institution would be required to apply a set of VAT rules that applies in the foreign country where the customer resides. This condition could place an additional administrative burden on the financial institution, which must then cooperate with various tax authorities. As VAT payments are automatically transferred to revenue authorities, financial institutions are not burdened with completing complicated VAT returns and manual payment systems. The automated payment system under the RT-VAT system simplifies the collection and remittance process, creating a VAT collection mechanism that places the least administrative burden on the financial institution. (Zyl & Schulze, 2014)

Under a credit system, financial institutions would not be required to verify the taxpayer’s status. All transactions are taxed in real-time when payment is facilitated, irrespective of the customer’s tax status. Where, because of the customer’s tax status, the transaction qualifies for an exemption or zero ratings, the customer can claim VAT levied and paid in real-time as input credits. Under a credit system, VAT collection by financial institutions can be simplified, VAT fraud issues eliminated, and the taxpayer’s privacy can be ensured. (Zyl & Schulze, 2014)

Under the registration and reverse-charge models, the taxable entity (the entity tasked to collect VAT) generally carries the administrative cost of collecting VAT on behalf of revenue authorities. Where the taxable entity develops systems to simplify the VAT collection and remittance burden, the taxable entity bears the cost of development and implementation of these systems. Some observers have proposed that this general practice cannot be applied in the case of VAT collection by financial institutions. It is suggested that the cost of developing and implementing were integrated with the real-time collection system. Revenue authorities should bear this integration as it is the focus that will ultimately benefit from the implementation.

7 FUTURE WORK

The Government of Indonesia needs to consider this possibility appointed Bank as VAT Collector due to the rapidly growing e-commerce transactions. Why this possibility to appointed Bank as VAT Collector to need to be concerned by the Government of Indonesia, especially Directorate General of Tax (DGT), as per data Tax Revenue 2018, the revenue from VAT generate around 43% from total revenue, with detail as follow:

Figure 2: e-commerce growth

a. The rapid growth of e-commerce transactions in Indonesia.
b. Due to the contribution of VAT revenue, Tax Revenue reached more than 40% of total tax revenue in 2018.
c. Need to simplify the credit method of VAT system to raise the tax revenue from VAT sector in e-commerce.

So based on these reasons, the future work that the GoI, especially DGT, need to be concerned are:

a. The research about the possibility appointed Bank as VAT Collector comparing to other countries.
b. Discuss with the Bank as Financial Institution to bridging the possibility to appointed Bank as VAT Collector due to general international perception of the banker-customer relationship as regard customer privacy.

8 CONCLUSIONS

The Conclusion of this paper detail as follows:

1. The background problem about the possibility to appoint the bank as VAT Collector is the raising e-commerce transaction. In the tax perspective, online transactions had to be subject to VAT in the same way as conventional supplies.
2. There is a possibility to involving Bank as VAT Collector as per Law No. 10 of 1998 about Banking and Government Regulation of the successor Law No. 01 of 2017 about Access to Financial Information for Tax Purpose.
3. The challenges Appointed Bank as VAT Collector in terms of Ease of Administration Principle:
   a. The resistance and objections raised by the bank, coupled with the general international perception of the banker-customer relationship as regards customer privacy.
   b. The financial institution would be required to apply a set of VAT rules that applies in the foreign country where the customer resides.
   c. This condition could place an additional administrative burden on the financial institution which must then cooperate with multiple tax authorities

ACKNOWLEDGEMENTS

We would like to express our gratitude to those involved in carrying out this research.

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