

The Growth of Online Shop and Endorsement at Social Media Support Tax Avoidance: Indonesia Case

Arum Puspita Prihandika and Yofi Rosameliana

Abstract— Smartphone phenomenon affect all aspect of human being. Having many accounts of social media is a necessity. Users' purchasing power are increasing significantly through social media activities, such as online shop and endorsement. In Indonesia, online shop and endorsement are boosting demand of new various goods and services for example at LINE and Instagram. In result, the main function of social media has changed into virtual market. It is a great chance which stimulate ongoing economics era called digital economy. However, it is a huge loophole in the tax avoidance. Users could avoid reporting their income easily because most of them are informal sectors. The government itself has not enough capacity in tracing and controlling them. It results in potential loss of government income. Indonesia's case related to the backward effect of online shop and endorsement in the tax revenue will be discussed furthermore in this paper.

Index Terms— Online shop, Social media, Tax avoidance.

I. INTRODUCTION

Improvement in information and communication technology has lead us to the borderless era called globalization. Most of people are using smartphone and social media to attend globalization. Social media help people to communicate with the others and express themself. There are many kinds of social media which are used by people all over the world, such as Facebook, Twitter, Line, Instagram, etc. On January 2016, 27% of world's total population actively used their smartphone to access social media (Kemp, 2016).

Indonesia is one of 30 countries who has the most users of social media in the world. They are 30% of total population or 66 million users (Kemp, 2016). That means Indonesia's society actively enough response to the development of technology. Instagram got the second place as the most visited social media after Facebook (Polling Indonesia, 2016). According to eMarketer, the growth level of Instagram users is the highest among others which is 15.1% in 2016.

Despite of communication and self-expression function, social media is a large market for business activities such as, selling, buying, and promoting products. Society use Instagram as online shopping. It provides special feature for business activities. Artists and celebrities can provide endorsement service by utilizing their followers. This fact shows that Instagram is a very potential market for businessman

Arum Puspita Prihandika and Yofi Rosameliana, are with Universitas Indonesia, Indonesia

Business activities in Instagram give many advantages for the growth of economics. It should increase tax revenue. The Directorate General of Taxation has less control of online shopping and endorsement growth, thus some people do tax avoidance. Therefore, we are interested to analyse further about the relationship between online shop and endorsement with tax avoidance.

II. BASIC VIEW OF TAX AVOIDANCE

An old widely-known quotes from Benjamin Franklin said that in the world nothing is certain but death and taxes. Then, the idea of tax avoidance has come up. People define tax avoidance differently because there is no legal definition about tax avoidance. The non-payment of tax is legal refer to tax avoidance (Dowling, 2014). Tax avoidance is a term used to describe the legal arrangements of tax fair's affairs so as to reduce his tax liability. Avoidance is as lawful as opposed to criminal conduct, because it is carried out in the genuine belief that the tax advantage in question can be obtained within the rules, for example by exploiting a loophole or other defect in the legislation. Second, tax avoidance is a form of tax planning, but planning becomes avoidance when the taxpayer seeks to obtain the tax advantage in question in way that is contrary to the intention of the legislature (Murray & Posser, 2012). Since people know how to go against the tax authorities, we could say that tax avoidance is a consciously action. At the end, it is all about ethics as sense of purpose as human being and simply as a citizen. Carroll's Pyramid of Corporate Social Responsibility claims that the concept such as responsibility will be accepted by a conscientious businessperson consist of four responsibilities, economical, legal, ethics, and philanthropic (Sexty, 2011). Although ethics is not the top of pyramid but who did tax avoidance was the tax payer on the legal stage, one stage below ethics responsibilities. Therefore, we can assume that people who did tax avoidance have not fulfilled the ethics responsibilities yet (Nastiti, 2016).

III. E-COMMERCE IN DIGITAL ECONOMY ERA

The digital economy is the result of a transformative process brought by information, and communication technology (OECD-Primary, 2015). New commercial and trade method has been created, e-commerce for example. E-commerce has been growing significantly for two decades globally. E-commerce refers to the conduct of business involving an

exchange of value over an electronic medium. E-commerce is the process of not only buying and selling goods and services over internet but extends to other functions as well, for example, production, development, corporate infrastructure, and production management (Sharma, 2015). Technology as the main support system of e-commerce has improved a lot. Better and faster respond on sophisticated market has achieved by businessman. The digital economy and its business model are in a continuous evolution and development. Unless government monitor and evaluate their characteristic on tax regulation, the tax revenue earned would be less than it should be.

A. *The Growth of Online Shopping in Indonesia*

E-commerce is growing significantly in global market. Its growth is 18% in 2015 globally. The average growth of online retail in ASEAN countries is 25% each year (Kearney, 2014). In Indonesia, based on Online Shopping Outlook 2015, the amount of online transaction is twenty one trillion rupiah in 2014. In 2013, 20% of total 74.6 billion internet users are online shoppers. In 2016, 48% of total 88.1 billion internet users in Indonesia is daily users of online shopping (Indonesian Internet Service Providers Association (APJII); Communications Research Centre of Universitas Indonesia, 2015). Assumed that on 2016 the percentage of online shoppers from total internet users are 20% so it is estimated that online shoppers in 2016 are 17.62 billion users. Main factors that make online shopping in Indonesia grow rapidly are look at product online before purchasing in-store, read online review prior to purchasing product, and research product online prior to purchasing (Lubis, 2014). Top three social media which are driving e-commerce are Instagram, Facebook, and Twitter. Instagram Online Shop Transaction

Online transactions of business over Instagram is very high. 53% of the Instagram users' activities in Indonesia are used to explore the online shopping accounts (eMarketer, 2016). Instagram is the first e-commerce platform in Indonesia and the most attractive one. The unique characteristics of Instagram compared to Facebook and Twitter are sharing behind-the-scenes photos, show casting new products and looks, photo styling, celebrity endorsements, showing office culture, and contest. Instagram focus is high quality photos with hashtags, short descriptions, and @ mentions as support. It results on brand awareness and consumer brand relationship (Safitri, 2015). Instagram is one of effective marketing media as market changes frequently. More than 50% of product sold on Instagram is fashion product. Instagram competitive advantage in high quality photos and high trend of fashion mode stimulate Instagram as the e-commerce king of fashion. 32.98% of seller in Instagram have used Instagram for 2-3 years. In addition, the growth of Instagram users is the highest compare to others social media in 2016. Sellers could do market analysis on Instagram. 73.88% sellers reply customers' comments immediately after receiving notification. At this perspective, seller could watch intensively consumer's

behaviour, wants, and needs. When sellers know the demand of their products, they could produce new products based on market trend. Seller upload new photo and promote directly when new product is available. These system is really good at responding sophisticated market and it is boosting new demand products. Wide variety of products and fast services from seller in Instagram has made consumer happy and consumptive as well. Overall, it increase online sales, income, and purchasing power.

Based on observations on some online shop accounts, the average of online shop turnover per year has reached hundreds of millions of rupiah, even billions, they are categorized as small and medium enterprises (SMEs) whose tax rate is 1%. The rapid growth of online sellers in Instagram has begun to attract the attention of the Directorate General of Taxation. They have started to monitor the online shop accounts which have already became high-profitability business and huge gross profit as a tax target. The Directorate General of Taxation supposed to browse the sales turnover of each account based on the information provided by each online shop account itself. It is not difficult as shop accounts mention the price of their inventory and the orders amount of each item, so that the average of sales turnover could be calculated.

B. *The Growth of Endorsement in Indonesia*

Sellers' three favourite methods to promote their Instagram accounts are giving hashtags on their photos, endorsement, and Spam for Spam. The Directorate General of Taxation pay attention on endorsement. Since it is one of innovation in marketing strategies, there is lack of appropriate legal framework. Everyone can be an endorsee and endorser in Instagram. Not just celebrities, an anonymous people can be endorser and get a high fee. The fee is starting from Rp 50.000,00 to Rp 25.000.000,00 for each posting. The main concern on choosing the favourable endorser is number of followers and influence in their target market. Tracing the impact of endorsement on sales is not easy but sellers keep using this method. 85% celebrities who have followers more than 10K endorse goods and services twice every day. It proves that there is high demand of endorsement in Instagram. The subject matter is endorsement as new paid promotion have less monitor and control from the government as tax collector. Many endorsers didn't report their material income from endorsement even though the endorsee was not authorized as tax debtors because they are not taxable enterprise.

IV. *INDONESIAN TAXATION CONDITION*

Indonesia is the fourth largest population country but the tax revenue is low-under the government expectation. The tax revenue rate in Indonesia is 11% as a middle income country. It illustrates the weakness of Indonesia in managing their tax system (Mulyani, 2016). The Secretary General of the Organization for Economic Co-Operation and Development (OECD), Angela Gurria, said that the tax ratio in Indonesia is too small compared with other countries which have an average tax base at the level of 15% (Adityowati, 2016). Central

Statistics Agency Indonesia (BPS) has released national income and government budget data for the last three years and they showed that the percentage tax revenue rate keeps declining. In 2015, the total Indonesia's tax revenues reached Rp 1,235.8 trillion, or 83% of the tax revenues target (Ministry of Finance of Republic of Indonesia, 2016). The reason of unfavourable tax revenue in Indonesia is the low tax compliance to report and pay tax (Kementerian Keuangan Republik Indonesia, 2016). Based on General Directorate of Taxation in 2015, the level of tax compliance is 56.36%. It was decreasing from the previous year which is 59.88% (Kontan, 2016). Therefore, a further action to encourage tax payer to know their liability is needed in order to increase tax revenue on the following year. Based on data from the Central Statistics Agency Indonesia, there are 29.4% employee personal tax payers who are registered as taxpayer. Meanwhile, there was only 60.72% or 10,945,567 taxpayer who report their tax bill (Directorate General of Taxation, 2016).

Number of online shoppers in Indonesia in 2015 is 22.2 million, 23% of population (Statista, 2016). It was 23% of Indonesia population in 2015. The nominal transaction on online shopping is estimated at 13 billion US dollars (Republika, 2016). Those amount came from 14% of internet users transactions in Indonesia and it was big enough contribution on Gross Domestic Product Indonesia (Indonesian Internet Service Providers Association (APJII); Communications Research Centre of Universitas Indonesia, 2015). The high value of the online transaction or e-commerce indicate potential tax. This is an opportunity for the Directorate General of Taxation to set new goals on increasing tax revenue. Most of e-commerce actors do not pay taxes even though their average value of transactions reached 100 trillion per year (Febrianto, 2014). In addition, there are 28 different categories of e-commerce transactions that can be charged for VAT according to the OECD (The Technical Advisory Group (TAG), 2001). According to the Directorate General of Taxation's invention, there are only 1000 of tax identification number (NPWP) registered of 1500 taxpayer data related to e-commerce and only 50% reported their tax bill (Mukarromah, 2014).

V. NEW INDONESIA REGULATION ON E-COMMERCE TRANSACTION

Government had begun adjusting their policy due to the current business development. Since 2013 the Directorate General of Taxation has formed a special team to conduct research and study on these online business activities. According to the Director of Potential, Compliance and Tax Filing of Directorate General of Taxation, Yon Arsal, E-commerce is not a new tax object, but the efforts to earn an income in a new way. In accordance with Law No. 36 Year 2008 on Income Tax, earning is defined as any additional economic capability which is received or accrued by the taxpayer, whether it is generated from Indonesia or from outside Indonesia, which can be used to consume or to increase

the wealth of the taxpayer, the name and in any form (Law of the Republic of Indonesia No. 36 Year 2008, 2008). The income derived from online business activities is also an object of tax and the tax equal to transactions in general (Arsal, 2016).

A. SE-62/PJ/2013

Director General of Taxation, A. Fuad Rahmany, issued a new regulation about e-commerce transaction No. SE-62/PJ/2013 about Tax Regulation Confirmation on E-commerce Transaction. The regulation classifies e-commerce into four business model which are online marketplace, classified ads, daily deals, and online retailer. Instagram Online Shop as Online Retailer

Online retail is an activity of selling or buying in virtual market using internet applications. Two parties in these context are the seller which is the one who have an online shopping platform and the buyer. They are subject to VAT and income tax. Thus, we stated that the characteristics of online shop in Instagram are classified as online retailer.

Endorsement as Classified Ads

Classified ads is a marketing activity which provide time and place to display any digital advertisements materials from external parties (digital advertising services), for example: endorsement. The one who is selected to be a model might organize her/his stuff itself but she/he might hire a manager to manage the schedule and transaction fee on classified ads. And the manager itself might have many clients. Owner of business or people who use these services had to make an agreement in order to express their engagement. Those three parties subject to income tax and VAT.

E-commerce is just different method which deals with buying and selling goods and services, the core business or activities are the same as the manual transaction. In view of the canon of neutrality of tax, it is desirable that electronic transactions be subjected to tax jurisdiction the same way as are the traditional transactions (Sharma, 2015). The tax rate of online retailer and classified ads are the same as manual transaction in Indonesia, 10% for VAT and progressive income tax started from 5%.

B. The 14th Jokowi's Economic Program about Road Map E-Commerce

Minister of Economic Coordinator Indonesia in 2016, Darmin Nasution, published the economic program which regulate e-commerce. It consists of eight aspects of road map e-commerce. They are financing, taxation, consumer protection, education and human resources, logistics, communication infrastructure, cyber security, and management. Three pronouncement in taxation part are tax reduction for local investor who invested in start-up business, final tax income for start-up commerce is 1%, and an equality tax treatment for both domestic and foreign e-commerce (Jordan, 2016). Those tax incentives are implemented to minimise tax avoidance and increase awareness of businessman to do tax self-assessment.

C. Challenges for Indonesian Directorate General of Taxation

Directorate General of Taxation has to endure the difficulties to find an effective way to impose a tax on e-commerce transactions. Although the Directorate General of Taxation has classified the e-commerce transactions into four models, the transactions are not as simple as those four models. There are several conditions which make the e-commerce transactions are difficult to be taxed. First, e-commerce transactions are able to penetrate the geographical boundaries between countries. E-commerce taxation has lack of control and monitor because government is only focusing on domestic sales activities. Second, there are many types of goods or services on sale in e-commerce. They are not only physical item but also digital format, such as computer software, e-books, music, etc. And the last, e-commerce transactions has occurred aggressively around the world in a short time (Budi). Therefore, the Directorate General of Taxation has to find a special rule which will be able to cover these conditions. The Directorate General of Taxation should improve cooperation with other institutions, such as the Ministry of Communications and Information Technology and the Ministry of Trade to establish an integrated regulation.

The Directorate General of Taxation applies the self-assessment system, in which they compare the tax bill reported by taxpayers with real data in the field. In overseeing activities of online shopping and endorsement, the most crucial thing that is required to be done soon by the Directorate General of Taxation is comparing data to ensure that the taxpayer statements are true or false. (Arsal, 2016). It is a challenge for the Directorate General of Taxation, where they should monitor the activities of online seller and celebgram on Instagram to determine the turnover and transactions they have done. Actually, searching of the data is easier than doing tax census on physical business, because the Directorate General of Taxation could check directly every online seller and celebgram account on Instagram. According to the Chief of Change Management Officer I of the Central Transformation Office (CTO) General Secretariat, Nufransa Wira Sakti, the Directorate General of Taxation has attempted to ask the data of online seller who send their inventory to the Association of Freight Express, Post and Logistics Indonesia (Asperindo), but they have regulation to protect their customer data, so they won't to provide these data for Directorate General of Taxation. Then, some associations also disagree with the taxation of e-commerce transactions. (Mukarromah, 2014). In addition, the disclosure of the banking data still refers to Bank Indonesia Regulation No. 2/19/2000 on the Procedures for Granting Command or Written Permission to Unlock the Bank's Secrets where to get information about the bank's client, Directorate General of Taxation should first obtain command or written permission from the leader of Bank Indonesia based on the written request of the Minister of Finance. (Bank Indonesia Regulation No. 2/ 19/ PBI/ 2000, 2000).

VI. CONCLUSION

E-commerce taxation is not a new tax. The growth of e-commerce transaction keeps increasing rapidly. The big deal issue about Instagram online shopping and endorsement tax should be considered comprehensively by Directorate General of Taxation. The government decision to adjust a new tax rate for e-commerce transaction which is 1% final tax have to socialize immediately. However, many virtual SMEs are not taxable enterprise. They do not have responsibility to do bookkeeping and report financial statements as they are personal enterprise according to Indonesia accounting and tax framework. Therefore, government should encourage the compliance of shoppers to obey the regulation such as e-taxation. Unless government monitor and evaluate the new regulation on e-commerce taxation, the tax revenue earned would be less than it should be.

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