



## The Advantages and Disadvantages of E-Commerce Tax and Income Tax for the Indonesian Economy and the Welfare of MSMEs in Indonesia

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Received 02-08-2025 | Revised form 17-08-2025 | Accepted 26-12-2025

### Abstract

The rapid growth of the digital economy in Indonesia has shifted the transaction paradigm from conventional to *e-commerce* platforms, which brings new challenges to the national tax system. This article aims to analyze the advantages and disadvantages of implementing *e-commerce* taxes and Income Tax (PPh) on Indonesia's economic stability and their impact on the welfare of Micro, Small, and Medium Enterprises (MSMEs). Through a systematic literature review and descriptive analysis, this study found that imposing taxes on the digital sector can create a fair competition (*level playing field*) between online and offline businesses and significantly increase state revenue. However, on the other hand, administrative burdens and the potential for reduced competitiveness are major challenges for MSMEs still in the economic recovery phase. The study concludes that although tax policies are necessary for fiscal sustainability, the government needs to implement progressive tariff policies and simplify the tax bureaucracy to maintain a balance between state revenue targets and the sustainability of MSMEs as the backbone of the national economy.

**Keywords:** *E-commerce Tax, Income Tax (PPh), Indonesian Economy, MSME Welfare, Digital Economy.*

### Abstrak

Pertumbuhan pesat ekonomi digital di Indonesia telah mengubah paradigma transaksi dari platform konvensional ke platform *e-commerce*, yang membawa tantangan baru bagi sistem perpajakan nasional. Artikel ini bertujuan untuk menganalisis kelebihan dan kekurangan penerapan pajak *e-commerce* dan Pajak Penghasilan (PPh) terhadap stabilitas ekonomi Indonesia serta dampaknya terhadap kesejahteraan Usaha Mikro, Kecil, dan Menengah (UMKM). Melalui tinjauan literatur sistematis dan analisis deskriptif, studi ini menemukan bahwa penerapan pajak pada sektor digital dapat menciptakan persaingan yang adil (*level playing field*) antara bisnis online dan offline serta secara signifikan meningkatkan pendapatan negara. Namun, di sisi lain, beban administratif dan potensi penurunan daya saing menjadi tantangan utama bagi UMKM yang masih dalam fase pemulihan ekonomi. Studi ini menyimpulkan bahwa meskipun kebijakan pajak diperlukan untuk keberlanjutan fiskal, pemerintah perlu menerapkan kebijakan tarif progresif dan menyederhanakan birokrasi pajak untuk menjaga keseimbangan antara target pendapatan negara dan keberlanjutan UMKM sebagai tulang punggung ekonomi nasional.

**Kata kunci:** Pajak *E-commerce*, Pajak Penghasilan (PPh), Ekonomi Indonesia, Kesejahteraan UMKM, Ekonomi Digital

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## A. INTRODUCTION

Over the past decade, Indonesia has become one of the largest digital economy markets in Southeast Asia. According to the *e-Conomy SEA* report, Indonesia's digital economy is projected to continue growing exponentially, driven by increasing internet penetration and the widespread adoption of devices across all segments of society. This phenomenon has led to a shift in business models from brick-and-mortar stores to e-commerce platforms. While these platforms offer easier market access for Micro, Small, and Medium Enterprises (MSMEs), they also pose challenges for tax authorities in mapping potential state revenues that have so far been underutilized (Azizah 2022).

The Indonesian government, through the Ministry of Finance, has issued various regulations, such as the VAT levy on electronic commerce (PMSE) and the adjustment of the Final Income Tax rate for MSMEs to 0.5% in accordance with Government Regulation No. 23 of 2018 (which has now been updated in the HPP Law). This *e-commerce tax policy* was initiated to create a *level playing field* or equal treatment between conventional and digital businesses. Without clear tax regulations, brick-and-mortar businesses, bound by strict tax rules, will lose their competitiveness compared to online businesses, which were previously often exempt from fiscal oversight (Taxes 2023).

The primary benefit of imposing e-commerce taxes and income tax is an increased tax base. Amidst government efforts to finance infrastructure development and social protection, the digital sector offers massive revenue potential. Income tax collected from digital transactions ensures that wealth generated from economic activity in Indonesia continues to contribute to the state treasury. On a macro level, this strengthens Indonesia's fiscal resilience and reduces dependence on foreign debt (OECD 2020).

MSMEs are the largest contributors to Indonesia's Gross Domestic Product (GDP) and a major employer. However, the relationship between taxes and MSME welfare is paradoxical. On the one hand, well-managed taxes provide legal certainty and access to government capital assistance. On the other hand, high compliance costs, complex administrative systems, and additional tax burdens can squeeze MSMEs' typically thin profit margins. There are concerns that overly aggressive taxation in the e-commerce sector will trigger a "migration" of business actors to the informal sector or digital black markets to avoid taxes, which would actually harm long-term economic growth (Sugeng 2021).

One prominent shortcoming is the low level of tax literacy among digital MSMEs. Many small traders lack an understanding of online tax reporting mechanisms, so taxation is perceived as a daunting administrative burden rather than a civic obligation. Furthermore, weaknesses in data synchronization between e-commerce platform providers and the Directorate General of Taxes (DGT) continue to create loopholes for tax evasion. This demonstrates that tax policy requires not only low rates but also an integrated and user-friendly system (Zasfayyard 2023).

This article is important because of the need to evaluate the effectiveness of current tax policies. Are these policies aligned with the government's mission to "digitize MSMEs" or are they actually hindering MSMEs from "Going Digital"? This research will critically examine the advantages and disadvantages of taxation from a macroeconomic and microeconomic perspective, in order to provide moderate policy recommendations—one where the government continues to receive revenue, while MSMEs still have room to grow and prosper.

## **B. METODE**

This study uses a descriptive qualitative method with a library research approach to analyze in depth the advantages and disadvantages of e-commerce taxes and Income Tax (PPH) for the Indonesian economy and the welfare of MSMEs (Abdurahman 2016). Secondary data was collected systematically through documentary studies from various credible sources, including government regulations such as the HPP Law and PP No. 55 of 2022, institutional reports from the Directorate General of Taxes (DGT) and the OECD, and scientific journal articles from digital databases such as Google Scholar and SINTA for the period 2018–2025 (Sugiyono 2019). Data analysis was conducted using content analysis techniques following the Miles and Huberman interactive model, which includes data reduction, data presentation in a comparison matrix to contrast fiscal impacts, and drawing conclusions (Jonathan Sarwono 2016). This research framework focuses on a synthesis between macroeconomic perspectives related to fiscal efficiency and market fairness (*level playing field*) with micro perspectives regarding administrative burdens and MSME business sustainability in the digital ecosystem to provide balanced and integrative policy recommendations (Yuliatic and Fauzi 2020).

## **C. RESULTS AND DISCUSSIONS**

### **Background Analysis**

The word credit actually comes from the Latin "Credere" which means trust or "Credo" which means I believe. A combination of two words, namely "Cred" or "Do" which means trust. So another meaning of the word credit is that it contains the understanding of the existence of trust from the words of a person or body that is given, with a bond of agreement must fulfill all obligations that are promised to be fulfilled in due time (future) (Nur Fauziah 2019).

Definition of Credit According to Law No. 10 of 1998 concerning amendments to Law No. 7 of 1992 concerning banking in Adinugroho in his journal (Agustin 2022), provides a definition of credit, namely: "credit is the provision of money or bills that can be equated with it, based on the agreement and agreement of borrowing between the Bank and other parties". According to (Agustin 2022) in his book Basics of Banking (2006), he states that credit is all types of loans of money/goods that must be repaid with interest by the borrower in accordance with the agreed agreement.

According to (Anwar 2021) in Mac leod, in his book on general bank credit management, credit is a reputation that someone has, which allows him to obtain money, goods or labor/workforce, by exchanging it with a promise to pay it at a future time. Meanwhile, according

to , credit is the transfer of goods, services, or money from one party (Creditor/Lender) on the basis of trust to another party (Customer/Debtor/Borrower) with a promise to pay from the credit recipient to the credit provider on a date agreed upon by both parties.

Furthermore, according to (Heriyantho and Leon 2022), credit is a granting of achievement (reward) and it will be returned at a certain time in the future accompanied by a counter-performance (reward) in the form of interest. Based on the understanding and description above, it can be concluded that credit has an important purpose/function. The purpose of credit covers a very broad aspect, but according to (Suginam, Rahayu, and Purba 2021) there are 2 main functions that are interrelated, namely: 1. Profitability, the purpose of obtaining profit in the form of interest from the results of providing credit. 2. Safety, namely the security of the achievement or facilities provided is truly guaranteed so that profitability can be achieved without significant obstacles.

Meanwhile, based on the function of credit in trade and the economy in general according to (Kasmir 2018) in his book on banks and other financial institutions (2010), are: 1. Increasing the utility or usefulness of money. 2. Increasing the circulation and traffic of money. 3. Increasing the enthusiasm for doing business. 4. Being a bridge to increase national and personal income. 5. As a tool for economic stability. 6. As a means of connecting economic transactions.

Risky credit is the risk of loss due to the potential for a counterparty to fail to fulfill its obligations when due (Mukharomah, Kurniawan, and Noorbaiti 2023). In other words, credit risk is the risk that the borrower will not pay its obligations. Credit risk can usually occur due to two things, namely the loan amount that is too large and also the low value of the collateral. The larger the loan, the greater the credit exposure. The lower the collateral, the lower the quality of the exposure, which causes the risk to increase. Meanwhile, people who have the behavior of failing to fulfill their obligations when due are called Risky Credit Behavior

Based on the definition of Risky Credit Behavior above, researchers believe that Risky Credit Behavior can be influenced by Financial Self-Efficacy. Self-efficacy is personal initiative, the belief that a person can complete a given task, and is associated with self-confidence, motivation, optimism, and the ability to overcome life's challenges. Self-efficacy can be expressed through various elements of individual behavior. These factors include how much influence a person has on the information they receive, whether they have an optimistic or pessimistic attitude towards the future, or whether they think in a way that strengthens or weakens them or not (Sari 2021). Therefore, it is explained that individual involvement in financial behavior is a reflection of how well they manage their finances, are financially responsible and think about the future. This study is in line with research (Napitupulu 2025) which states that the Financial Self-Efficacy variable can have a positive relationship direction and a significant influence on Risky Credit Behavior. The difference between this study and research (Napitupulu 2025) lies in the object used.

### **Analysis of Advantages for the Economy and MSMEs**

The implementation of taxes in the *e-commerce* sector and adjustments to Income Tax (PPH) have had a significant positive impact on Indonesia's fiscal structure: 1). Expanding the Tax Base and State Revenue: Tax digitalization enables the government to reach previously undetected transactions. Based on PMSE (Electronic Trading System) data, tax revenues from the digital sector continue to increase, providing the government with greater fiscal space to finance digital infrastructure, ultimately benefiting businesses. 2). Creating a *Level Playing Field* : One of the biggest benefits is creating fair competition between online and offline merchants. Before strict regulations, brick-and-mortar merchants often felt pressured by low prices from online sellers who didn't pay taxes. This regulation balances market prices more healthily. 3). Financial Inclusion and MSME Legality: By paying Final Income Tax (0.5% for MSMEs with a turnover of less than IDR 4.8 billion), MSMEs have a more credible financial record. This makes it easier for them to access bank financing (*bankable*) for business expansion.

### **Analysis of Disadvantages and Challenges**

Despite its good intentions, the implementation of this policy has not escaped negative impacts felt by microeconomic actors: 1). Administrative and Compliance Burdens: Many MSMEs in Indonesia are "pop-up traders" with low financial literacy. Tax reporting obligations are perceived as a complex administrative hurdle, often consuming time that could be used for product development. 2). Pressure on Profit Margins: Amidst intense *e-commerce* competition and a focus on low prices, additional taxes (even small ones) can cut into already thin profit margins for MSMEs. This can reduce purchasing power if the tax burden is passed on to consumers in the form of price increases. 3). *Shadow Economy* Risk : The most concerning drawback is the potential shift of sellers from formal *e-commerce* platforms (such as Shopee/Tokopedia) to social media platforms (such as WhatsApp or Facebook groups), which are more difficult for tax authorities to monitor. This phenomenon could actually eliminate potential tax revenues and lower consumer protection standards.

### **DISCUSSION**

The research findings indicate a *trade-off* between the government's desire to increase revenue and the need for MSMEs to grow. The policy of limiting non-taxable gross turnover (PTKP) to Rp 500 million for individual MSMEs under the HPP Law is a smart discursive measure to protect ultra-micro businesses.

Further discussion revealed that the success of *e-commerce* taxation depends not only on tariffs but also on technological convenience. Integration of automated tax collection (*withholding tax*) systems by *e-commerce* platform providers is considered a solution to reduce the administrative burden on MSMEs. However, this requires strong cross-sectoral collaboration to avoid overlapping regulations that could confuse business actors.

**Table 1**

Summary of the Impact of Digital Taxation in Indonesia

Aspect	Advantages	Disadvantages
State Economy	Increasing <i>the Tax Ratio</i> and market fairness.	Potential capital flight to digital informal markets.
MSME Welfare	Business legality and access to bank credit.	Decreasing profit margins and bureaucratic burdens.
Administration System	Transparency of transaction data through the platform.	The complexity of reporting for ordinary business actors.

## CONCLUSION

E-commerce taxes and income tax are essential instruments in the modern economy. However, to safeguard the well-being of MSMEs, these policies must not be oppressive, but rather supportive. Incentives in the form of easier restitution or credit interest subsidies for tax-compliant MSMEs can effectively compensate for the tax burden they bear.

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