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Marketplace Platform Providers as Income Tax Collectors: Proposal For Indonesia

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Abstract: This study proposes a policy to appoint marketplace platform providers as income tax (PPh) withholding agents. The proposed policy is designed and evaluated based on the OECD (2015) principles: Neutrality, Efficiency, Certainty & Simplicity, Effectiveness & Fairness, Flexibility, and Equity. The research uses a descriptive qualitative method with a case study approach. Data was collected through interviews and literature review. Interviewees included officials from the Directorate General of Taxes (DJP), the Fiscal Policy Agency (BKF), marketplace platform providers, and merchants.The results show that appointing marketplace platforms as income tax withholding agents reduces administrative and compliance costs for merchants, simplifies tax obligations, prevents calculation and payment errors, and increases taxpayer compliance. The policy is relevant to the current digital economy. Nevertheless, implementing the policy for transactions outside of marketplace platforms remains a challenge. Additionally, the policy needs to align with Government Regulation (PP) No. 55 of 2022 is essential to maintain fairness. Overall, the policy meets the OECD (2015) principles of Efficiency, Certainty & Simplicity, Effectiveness & Fairness, Flexibility, and Equity. It does not yet fulfill the principle of Neutrality.

Keywords: Withholding Tax, Income Tax, Marketplace Platform, OECD (2015)

INTRODUCTION

The development of digital technology has had a significant impact on people's commercial transaction patterns. Many people have begun shifting toward conducting transactions through e-commerce platforms. According to OECD (2011), e-commerce refers to the sale or purchase of goods and services carried out via computer networks using methods specifically designed to process orders. Data from the Ministry of Trade of Indonesia shows a consistent year-on-year increase in the value of e-commerce transactions. In 2020, the total transaction value reached IDR 266.3 trillion and is projected to rise to IDR 533 trillion by 2023 (Ministry of Trade, 2021; Ministry of Trade, 2024).

DJP divides electronic commerce transactions into two main categories: marketplace platforms and non-marketplace platforms (such as online retail, classified ads, daily deals, or social media). Article 2A of Taxes Circular Letter Number 06/PJ/2015 mentions that online marketplace is an activity that provides a business venue in the form of an internet store in an internet mall as a place for online marketplace merchants to sell goods and/or services. One way to measure the transaction value on a marketplace is through Gross Merchandise Value (GMV), which represents the gross sales value generated on online marketplace platforms (National Information and Communication Technology Council, 2024). GMV can also indicate the value of goods sold through the customer-to-customer marketplace model (Nurhayati & Wolff, 2023). The six largest marketplaces in Indonesia in 2022 were Shopee, Tokopedia, Lazada, Bukalapak, TikTok Shop, and Blibli (Goodstats, 2023).

The rapid growth in e-commerce transaction values, especially through marketplaces represents a significant opportunity for tax revenue. DJP must ensure that this potential is effectively captured. However, digital transactions come with unique challenges, such as the intangible nature of the business (Nugroho, 2023), difficulties in verifying the accuracy of transaction data (Fachrunissa, 2015; Zulma & Hizazi, 2020), low awareness among business operators about their tax obligations (Nugroho, 2023).

Marketplace play a crucial role not only by connecting buyers and sellers, but also by facilitating transactions and the flow of funds. Payments from buyers are held in an escrow account and only transferred to the seller once the goods are received without complaint (Nugraha, 2020). As a result, several studies recommend that marketplace providers be designated as income tax withholding agents (Nugroho, 2023; Zulma & Hizazi, 2020). Currently, marketplace operators withhold income tax on fees charged for the use of their platforms, but they do not yet withhold tax on the sale of goods or services conducted by sellers through the platform.

Under Article 32A, paragraphs (1) and (2) of the General Provisions and Tax Procedures Law (UU KUP), minister of finance has the authority to appoint third parties to withhold tax. This policy offers several benefits, including supporting the DJP in monitoring compliance and simplifying tax obligations for businesses (Nugroho, 2023). Ramadhanti & Ismail (2023) also note that this mechanism ensures all business operators including those without a physical presence in Indonesia, remain subject to tax on their transactions.

Several existing tax regulations such as Minister of Finance Regulation (PMK) No. 60/PMK.03/2022 on the use of intangible taxable goods and/or taxable services through electronic systems, and PMK No. 58/PMK.03/2022 on government procurement transactions, demonstrate that withholding tax mechanisms can be implemented in Indonesia. However, for transactions through marketplaces, merchants are still subject to a self-assessment system. Under this system, businesses with an annual turnover of up to IDR 500 million are exempt from income tax, while those with turnover up to IDR 4.8 billion are subject to a final MSME income tax rate of 0.5% (PP 55 of 2022). Businesses with annual turnover exceeding IDR 4.8 billion are required to calculate their tax obligations based on the rates in Article 17 of the Income Tax Law.

Several other countries have implemented similar policies. In India, e-commerce operators are required to withhold 1% income tax on all transactions conducted through digital platforms, as mandated by Section 194-O of the Income Tax Act of 1961 and Circular No. 20 of 2023. In the Philippines, a 1% income tax is withheld on funds transferred through e-marketplace operators and digital financial services platforms (Revenue Regulations No. 16-2023). Mexico mandates withholding of VAT and income tax by digital platforms based on the seller's tax status, applying different rates for individuals with or without tax identification numbers (Fonoa, 2023; International Trade Administration of the USA, 2023). Turkey has also enforced a 1% withholding tax on transactions facilitated by e-commerce platforms, effective January 1, 2025 (Ozmen, 2024).

Indonesia’s tax system use a self-assessment model, where taxpayers are responsible for calculating and fulfilling tax obligations. However, research by Kusumawati et al. (2021) indicates that voluntary compliance among e-commerce taxpayers remains low. To address this issue, DJP can support taxpayers through counseling to encourage better compliance (Hama, 2021). An alternative solution proposed by Nugroho (2023) involves appointing marketplace platforms as withholding agents through a split payment mechanism. This policy could streamline tax processes for taxpayers while improving supervision for tax authorities.

OECD (2015) has developed guidelines that can be used to formulate economic and fiscal policies, including: Neutrality, Efficiency, Certainty & Simplicity, Effectiveness & Fairness, Flexibility, and Equity. These principles provide a relevant framework for crafting fiscal policies that are responsive to the challenges in digital economy. Research by Hendo & Marfiana (2024) shows that VAT collection by electronic systems has demonstrated that appointing third parties as tax collectors can enhance compliance and efficiency.

This study aims to analyze the feasibility of implementing marketplace platform as income tax withholding agents based on the OECD (2015) principles, namely Neutrality, Efficiency, Certainty & Simplicity, Effectiveness & Fairness, Flexibility, and Equity?”

METHOD

This research adopts a qualitative approach using a case study method to explore the application of a policy concept. The study draws on both primary and secondary data, collected through literature review and field research. Field research was conducted through interviews with key stakeholders involved in the proposed policy of marketplace platforms as withholding tax agents. Interviewees included representatives from DJP, BKF, marketplace platform providers, and merchants.

The data were analyzed using a qualitative descriptive method. Findings from interviews and documentation were organized by themes related to the benefits and implementation of the policy concept. These themes were then evaluated using criteria from the OECD (2015) neutrality, efficiency, certainty and simplicity, effectiveness and fairness, flexibility, and equity.

RESULT AND DISCUSSION

Implementation Based on the Principle of Neutrality

According to OECD (2015), a tax system should not distort economic business decisions and should remain neutral and fair across different forms of commerce, whether conventional or digital (OECD, 1998). Nevertheless, the idea of designating marketplace platforms as income tax withholding agents appears to fall short of this standard. Some interviewees noted that the policy is limited to transactions carried out through marketplace platforms, excluding offline businesses and sellers who operate via social media channels like Facebook Marketplace and Instagram.

In addition, several interviewees indicated that this policy could influence the behavior of economic actors. Merchants may seek alternative sales channels that are not subject to the withholding obligation, with some potentially opting to create their own online stores. To mitigate this impact, there is a need to broaden the definition of a "marketplace."

From a pricing and market behavior perspective, the policy may lead to a slight increase in the prices of goods or services, as sellers might pass on the tax burden to consumers. While this price increase is expected to be minimal, there is concern that consumers could shift to other platforms or offline stores offering more competitive prices. This reinforces the view that the policy may not be entirely neutral in its impact on economic decision-making. As such, these findings suggest that the policy should be adjusted to be more inclusive and to prevent disparities between different digital distribution channels.

Implementation Based on the Principle of Efficiency

The principle of efficiency in tax collection, as outlined by the OECD (2015), emphasizes the importance of minimizing both taxpayer compliance cost and administrative costs for the government. Based on the findings, most interviewees agreed that appointing marketplace platforms as income tax withholding agents could reduce the compliance burden on merchants. The policy is seen as beneficial for marketplace merchants, as income tax is withheld automatically, eliminating the need for merchants to calculate and pay the tax themselves. On the other hand, for marketplace providers, the policy introduces additional compliance responsibilities and risks. These include potential reporting errors and the need to upgrade internal systems, which requires additional resources.

Nonetheless, the policy positively impacts administrative efficiency for the government. Tax supervision becomes more streamlined, as authorities can focus on tax collection through digital platform systems. This aligns with the OECD’s (2014) "tax compliance by design" approach, which advocates for the use of technology and third-party involvement to reduce overall compliance and administrative burdens.

A major challenge identified by interviewees is the need for effective education for both platform providers and business operators to ensure smooth implementation and avoid resistance. There was also discussion around the need for incentives for marketplace platforms as partners in tax collection. Some interviewees suggested that offering either fiscal or non-fiscal incentives would be an appropriate way to recognize the additional responsibilities they bear. Moreover, platforms may benefit from the temporary holding of collected taxes, potentially earning floating interest before the funds are remitted to the state.

All and all, marketplace merchants expressed readiness to comply with the policy, noting that discussions around appointing marketplaces as income tax withholding agents have been ongoing for some time. With adequate technological infrastructure and outreach, the implementation of this policy is considered capable of meeting the efficiency standards of a modern tax system.

Implementation Based on the Principles of Certainty & Simplicity

OECD (2015) emphasizes that tax rules should be clear and straightforward, allowing taxpayers to understand the tax implications of their transactions. Government representatives noted that Indonesia’s current self-assessment tax system already provides legal certainty through established regulations, such as applicable tax rates and penalties. However, there is currently no specific regulation addressing income tax withholding by marketplace platforms. As such, a new regulatory framework is needed to ensure legal clarity for all parties involved, particularly given that many merchants still lack a strong understanding of tax mechanisms.

The policy development process led by DJP should involve key stakeholders, including marketplace providers, industry associations, and other relevant institutions, to ensure the policy is implemented in a coordinated and effective manner. The government has already introduced Article 32A of the Tax Harmonization Law as a legal basis for the policy. Interviewees agreed that the policy’s implementation could simplify tax obligations for merchants by enabling automated withholding through digital platforms. This system eases the tax compliance process for merchants and is expected to boost overall compliance.

On the other hand, marketplace providers expressed concerns about the increasing complexity of their business operations. They will need to modify their systems to accommodate the new policy and any future changes in tax regulations. Nevertheless, as long as the technological infrastructure is in place, this mechanism could enhance transparency, accountability, and tax certainty for all stakeholders. This perspective aligns with the OECD (2014) and research by Fitriandi (2020), which found that third-party tax withholding systems promote simplicity and certainty in meeting tax obligations.

In conclusion, the policy of appointing marketplace platforms as income tax withholding agents aligns with the principle of Certainty & Simplicity.

Implementation Based on the Principles of Effectiveness & Fairness

OECD (2015) mentions that taxes should be collected in the correct amount and at the appropriate time. In a self-assessment system, effective administration and accurate transaction records are crucial. However, not all marketplace merchants maintain proper bookkeeping, leading to heavy reliance on marketplace-generated reports. This increases the risk of errors in tax calculation and reporting. Appointing marketplaces as income tax withholding agents is seen as a viable solution to address this issue. Automated tax withholding through marketplace systems helps ensure that the correct amount of tax is collected in accordance with regulations.

Interviewees noted that this mechanism facilitates timely and real-time tax payments, reducing the risk of late payments or tax arrears. This approach aligns with the concept of *convenience of payment*, where taxes are collected when cash flow is available. With automation in place, efficiency improves and taxpayer compliance is more likely to increase. Furthermore, this system has the potential to curb shadow economy practices and tax evasion, which tend to be more prevalent under tax declaration systems compared to withholding systems (Shimizu, 2021).

In addition the policy also promotes fairness. Tax authorities benefit from increased revenue and reduced supervision costs, while merchants gain from having their tax obligations automatically fulfilled, enhancing both compliance and the credibility of their businesses. By lowering the administrative cost and minimizing errors in tax payments at the taxpayer level, the system reinforces legal certainty. Based on input from interviewees and previous studies the policy effectively upholds the *Effectiveness & Fairness* principle of an ideal tax system.

Implementation Based on the Principle of Flexibility

OECD (2015) emphasizes that tax systems must be adaptable to technological advancements and changes in the business landscape. Most interviewees agreed that appointing marketplace platforms as income tax withholding agents reflects an effort to adapt to digital transformation, given the inherently digital nature of these platforms. The policy is seen as aligned with the increasingly digital direction of today's economy. Fitriandi (2020) also noted that this approach demonstrates the government's growing flexibility in responding to rapid technological and business developments.

Regarding diversity of business types, most interviewees believed that marketplace platforms are capable of broadly applying this policy to all merchants operating within them. However, concerns remain about potential inequities, particularly due to varying profit margins or the presence of merchants who may also act as tax withholders themselves. Additionally, the current policy does not cover transactions conducted outside of marketplace platforms, highlighting limitations in the system's flexibility to fully capture the broader digital economy.

To uphold the flexibility principle, it is essential to strengthen data infrastructure and broaden data-sharing collaborations with platforms beyond traditional marketplaces, such as social media and independent e-commerce sites. This approach aligns with the OECD's (2014) concept of "tax compliance by design," which emphasizes integrating tax compliance into business operations through the use of technology and third-party data. In this context, adopting a centralized data system becomes vital for tax authorities to effectively track developments and adjust policies in a timely and adaptive manner.

In summary, while appointing marketplace platforms as income tax withholding agents marks a step forward in achieving flexibility, additional regulatory actions are needed to fully capture and govern the broader digital economy.

Implementation Based on the Principle of Equity

OECD (2015) defines equity principle in taxation encompasses both horizontal equity (where taxpayers in similar economic circumstances are subject to the same tax burden) and vertical equity (where those with greater economic capacity are taxed more). Interviewees noted that horizontal equity can be achieved if the policy aligns with PP 55 of 2022, which governs tax treatment for MSMEs. Applying the same tax rate to businesses with similar revenue, whether operating through physical stores or online marketplaces, ensures fair treatment across channels. However, if the policy disregards PP 55 of 2022, small businesses may be burdened by additional administrative processes such as tax refunds, which can also strain the administrative capacity of DJP.

On the other hand, interviewees stressed that businesses with annual turnover exceeding IDR 4.8 billion should be subject to progressive tax rates. If not properly addressed, larger enterprises might benefit from flat tax rates that underrepresent their true economic capacity, leading to concerns about vertical equity. Therefore, incorporating progressive tax rates into the policy is crucial to ensure fairness across varying income levels. This view aligns with Karyadi et al. (2021) mentioned that matching tax obligations with taxpayer's ability to pay is a fundamental element of fiscal equity.

From an international equity perspective the policy aligns with OECD's Pillar One, which removes the requirement for physical presence in a taxing jurisdiction and replaces it with the concept of Significant Economic Presence (SEP). Interviewees indicated that appointing marketplace platforms as income tax withholding agents reflects the domestic application of this principle, especially for cross-border digital entities. This view is supported by Surono and Apriliasari (2022), who argue that OECD's Pillar One introduces a fairer allocation of taxing rights to source countries for digital income, a principle that is reinforced by national legal instruments such as Article 32A of the Harmonized Tax Law

All things considered, if the policy takes into account the provisions PP 55 of 2022, it effectively addresses the principle of tax equity across all three dimensions—horizontal, vertical, and international.

CONCLUSION

The introduction of marketplace platforms as income tax withholding agents constitutes a policy measure that aligns with the evolving landscape of the digital economy and addresses the growing challenges of tax collection in the context of digital transactions. As economic activities increasingly migrate to digital channels, conventional tax collection mechanisms have proven less effective in capturing the full revenue potential of this sector.

By leveraging the unique position of marketplaces—which possess direct access to sellers and detailed transaction data—this policy is intended to enhance administrative efficiency, legal certainty, simplicity, effectiveness, flexibility, and equity in the fulfillment of tax obligations. Marketplaces are well-positioned to serve as systematic withholding agents, thereby contributing to the expansion of the tax base, safeguarding state revenues, and promoting improved tax compliance.

The implementation of the policy reflects a broader effort to modernize the tax administration system in response to technological advancements and shifting market dynamics. In doing so, it supports the development of a more agile, inclusive, and forward-looking taxation framework capable of sustaining and increasing revenue in the digital age.

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